



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR JULY 13, 2011

#### NATURAL GAS MARKET NEWS

##### North America

Forecasters at the National Hurricane Center were watching a low-pressure system over the southern Bay of Campeche this morning that was moving westward at 15 miles per hour and was showing some signs of development but by this afternoon the system had moved ashore in Mexico and was no longer a threat. While some forecasting models continue to look for a potential tropical system to develop by the end of this week in the southern Caribbean, any such system that did develop does not appear would be a threat to the Gulf of Mexico since it would most likely track westward and move across Panama and into the Pacific. Otherwise the tropical Atlantic basin remains quiet.

##### Generation Outages

**SERC** – Southern 883 mw Hatch #2 nuclear unit say power output cut to just 60% of capacity Wednesday morning, down 30% from yesterday.

The NRC reported this morning that some 94,154 Mw of nuclear generation was online, down 1.4% from yesterday and 0.5% above levels recorded a year ago.

Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	699,100	\$4.432	\$0.057	\$0.043	(\$0.064)	\$0.086
Chicago City Gate	607,100	\$4.485	\$0.034	\$0.096	(\$0.020)	\$0.120
NGPL- TX/OK	907,500	\$4.364	\$0.036	(\$0.025)	(\$0.018)	\$0.006
SoCal	604,300	\$4.377	(\$0.011)	(\$0.012)	(\$0.065)	\$0.103
PG&E Citygate	842,900	\$4.620	\$0.018	\$0.231	(\$0.036)	\$0.292
Dominion-South	748,300	\$4.516	\$0.000	\$0.127	(\$0.054)	\$0.172
USTrade Weighted	20,402,700	\$4.408	(\$0.010)	\$0.019	(\$0.06)	\$0.086

##### International

Chinese natural gas production in June reached 8.16 bcm up 9.7% from a year ago. Year to date production for the first six months of the year has reached 51.38

bcm, up 7.3% from a year ago.

Reuters reported that two minor gas pipelines in eastern Syria were bombed early today, in what appears to be the first attack on energy infrastructure since the four month uprising against the government began.

The fourth major attack on an Egyptian pipeline in the Sinai Peninsula has created doubts about the country's future exports. Egypt has tried to renegotiate a 20-year oil deal it signed in 2005 with Israel to increase revenue by \$672 million. As a result Israel will likely expedite its exploration of the recently discovered offshore gas reserves but will face opposition from Lebanon who claims that part of the reserve is located within its boarder.

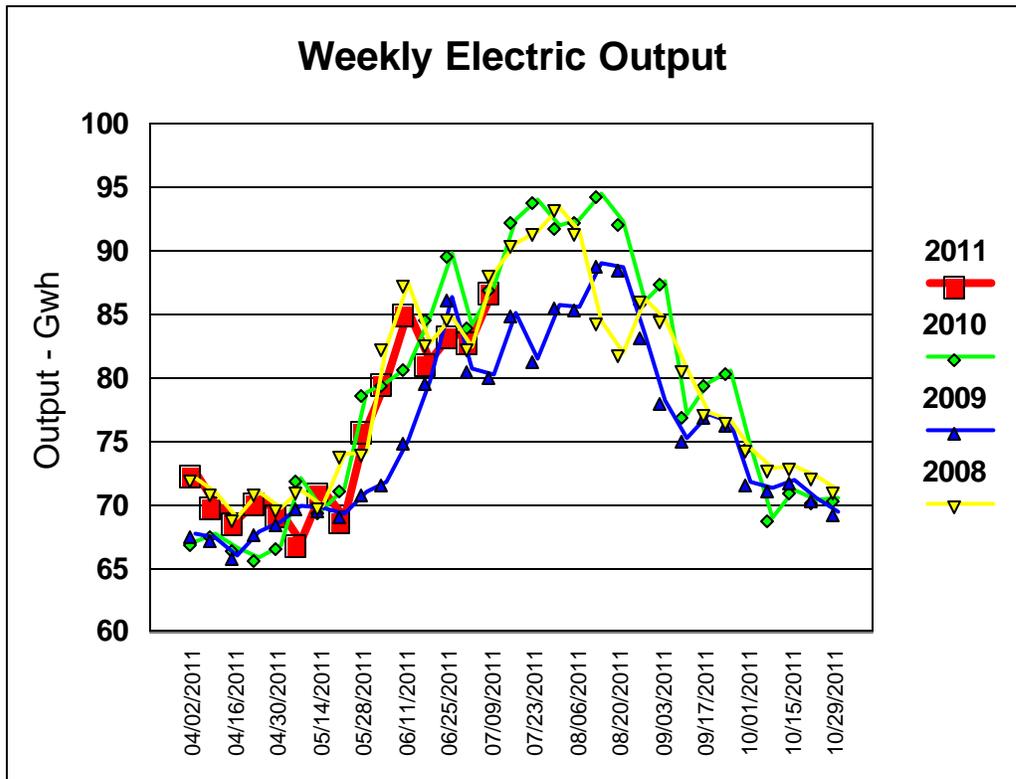
UK's South Hook LNG terminal is expecting the Bu Samra LNG tanker to arrive from Qatar on July 17.

Dana Gas, a U.A.E based company and its partners are planning on increasing gas output from the current 200 million cubic feet per day in Khor Mor in the Kurdistan region of Iraq.

## ELECTRIC MARKET NEWS

The Edison Electric Institute reported that it estimates U.S. power production for the week ending July 9<sup>th</sup> was 86,686 Gwh, up 4.7% from the week before but 0.3% less than the same week a year ago.

A task force recently completed a review of the United States' 104 nuclear reactors in wake of Japan's Fukushima disaster. The review said that the Nuclear Regulatory Committee (NRC) needs to change how it plans for catastrophes and recommended the use of Toshiba-Shaw's



Westinghouse AP1000 reactor and GE-Hitachi's Economic Simplified Boiling Water Reactor (ESBWR). The NRC now must decide how to proceed after receiving the 34-recommendation report.

ERCOT estimated its power usage Wednesday would reach a new high for this summer at just under 65,000 Mw, but still a little below the all time record of 65,776 Mw. Originally the grid operator had called for a peak demand this summer would only reach 63,800 Mw. Meanwhile MISO was estimating its power usage, which earlier this week posted two days of over 90,000 Mw, would once again see demand levels early next week reaching over 98,000 MW.

## ECONOMIC NEWS

The US Labor Department said US import prices fell last month for the first time in a year as global energy prices fell from their peak. The price of goods imported to the US in June fell 0.5% on the month. The decline in prices was less than expected, with economists expecting a 0.7% monthly decline in import prices. May import prices increased 0.1%, revised from an initially estimated 0.2% gain. Year on year, import prices increased 13.6%, the largest annual increase since August 2008.

Federal Reserve Chairman Ben Bernanke said the central bank is ready to ease monetary policy further if the economy weakens and inflation falls. He held to the view that recent weakness was due in part to temporary factors like high energy costs and the effects on global industry from Japan's earthquake and tsunami. However he acknowledged the labor market remained weaker than the Fed would like.

According to a European Union quarterly report, euro zone economic growth is improving but is expected to slow. It warned that while fiscal consolidation is underway, countries must take further efforts, including the introduction of new laws, to address their debt challenges and meet next year's

public balance targets. Separately, the European Union's statistics office, Eurostat said industrial production in the 17 countries increased 0.1% on the month for a 4% year on year gain.

The International Monetary Fund said a temporary Greek default may be unavoidable if private bondholders participate in a new financing program for the country. It said Greece should continue its fiscal reform and privatization agenda in a timely manner in order to bring its debt back to sustainable levels. It said any deviation from policy conditions Greece has promised to implement would likely mean failure.

China's National Bureau of Statistics reported that second quarter GDP increased 9.5% on the year, exceeding market expectations of a 9.4% growth rate. It is up from 9.7% reported for the first quarter.

Chinese workers are getting a larger share of the country's economic gains. Post tax urban income increased by 14% in the first half despite moderating GDP growth. However higher wages will make inflation worse and as workers begin to demand more increases to keep up with higher prices, a wage price spiral could be the result.

China's power generation in June increased by 16.2% on the year to 396.82 billion kilowatt hours.

### **MARKET COMMENTARY**

Strong utility demand for natural gas especially in ERCOT, appeared to help boost cash and futures values again today as the futures market settled higher for the fourth consecutive trading session. Trading volume was moderate as there appeared to be little indication that traders were moving to the sidelines in front of the release tomorrow morning of the EIA Working Gas Storage Report.

Market expectations for tomorrow's EIA storage report appear to be running between a 70-85 bcf build with most estimates centered around a 75-76 bcf build on the week ending July 8<sup>th</sup>. For the same week a year ago stocks rose an adjusted 78 bcf, while the five-year average build for the same week is 88 bcf.

While we still feel that this market will remain firmly in a sideways trading pattern, we feel that the report tomorrow morning may spark a quick burst to the upside, seeing that in recent weeks we have seemed to have been following a pattern in which the EIA alternates between exceeding or falling short of market expectations for the storage report. With last week's storage levels being possibly overstated, we feel that given a higher power generation levels this week's report may come in a bit less than 75 bcf, which could spark a quick burst to the upside, which should be seen as a selling opportunity. We would look to be a seller of the August contract for a short-term trade if values moved up to the \$4.48-\$4.53 level. We see additional resistance at \$4.642. Support we see at \$4.329 followed by \$4.283, \$4.241 and \$4.199. Additional support we see at \$4.064 and \$3.99.

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