



# ENERGY RISK MANAGEMENT

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## NATURAL GAS & POWER MARKET REPORT FOR JANUARY 7, 2011

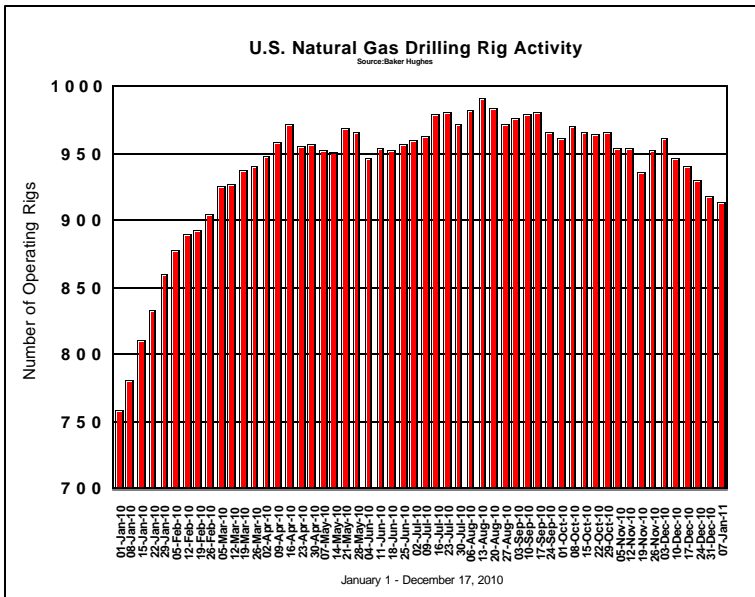
### NATURAL GAS MARKET NEWS

Baker Hughes reported today that the number of drilling rigs searching for natural gas in the United States fell by 5 this week to 914 rigs. This was the fifth consecutive week of declines in the natural gas rig count and a 10-month low. But the company reported that the number of horizontal rigs operating on the week rose by 19 and returned to all time highs once again.

### Generation Update

The NRC reported today that 94,852 Mw of generating capacity was online today, up 0.6% from yesterday and 1.6% higher than the same day a year ago.

National Grid reported that the Al Aamriya LNG tanker berthed at the Isle of Grain regassification terminal on Friday.



The Norwegian Petroleum Safety Authority said on Friday that about 22,000 cubic meters of gas were released into the air from Shell's Ormen Lange gas processing facility on December 31<sup>st</sup>, after a power failure. The gas was forced to be released when a low pressure flaring system failed. The company said that the issue was resolved that night and returned to operation.

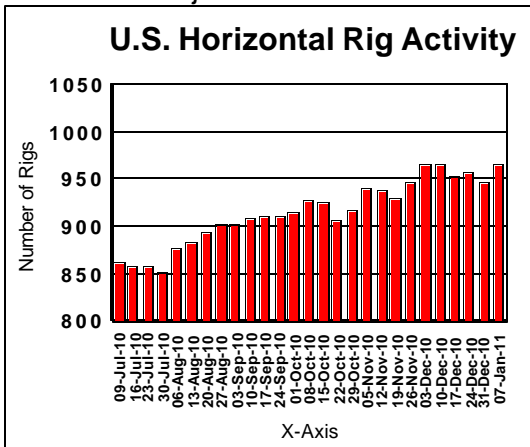
The Turkish government said today that it will move forward with plans to transfer to the private sector some 6 bcm of natural gas contracts from the state energy company Botas. The transfer is expected to take place in 1 bcm blocks.

The Turkish Energy Minister Yildiz is scheduled to visit Iran on Saturday for talks that will include the potential reduction in the price Turkey pays for Iranian natural gas. The Turkish energy minister confirmed again that the Turkish government is not planning any near term domestic price hikes for natural gas or electricity.

### ELECTRIC MARKET NEWS

New Jersey's largest utility, PSEG warned that legislation before that state's legislature to subsidize the construction of new power plants through guaranteed long term payments would cost ratepayers

more than \$1 billion. The state government is looking for ways to encourage energy companies to build more power plants in the state, especially base load power plants, to help reduce power prices as well as create jobs.



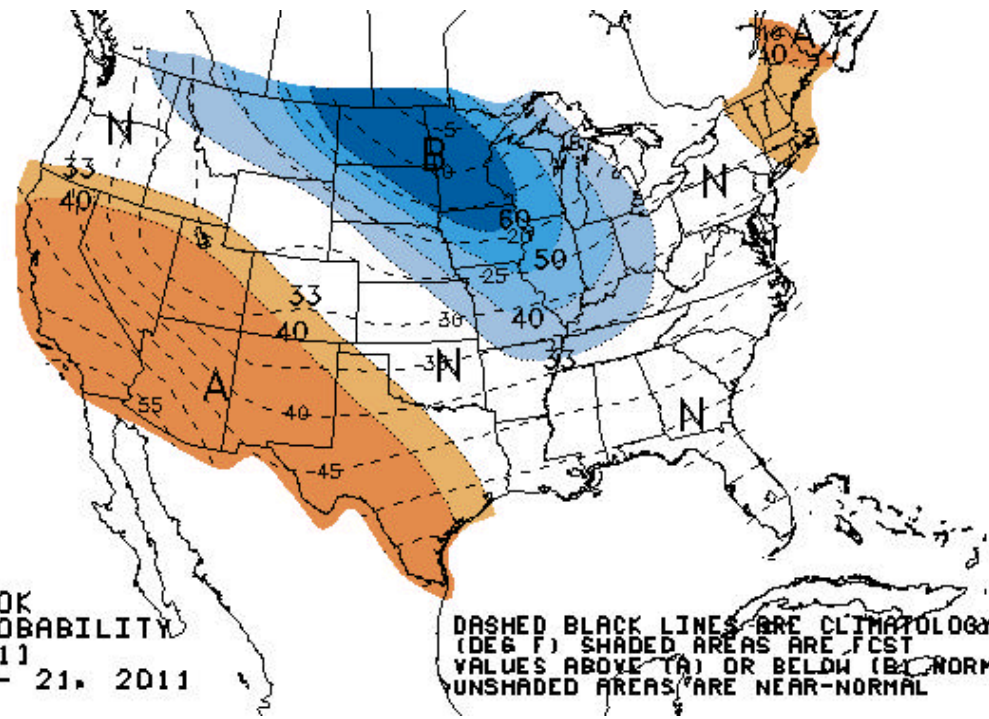
U.S. coal consumption at U.S. power plants this week reported has fallen this week by 4% from the previous week and was 12% less than the same week a year ago, according to Genscape.

**ECONOMIC NEWS**

The US economy created fewer jobs than expected in December however the unemployment rate fell to its lowest level in more than 1-1/2 years. The Labor Department said non-farm payrolls increased by 103,000 below an expected increase of 175,000. Private hiring increased by 113,000 while government employment fell by 10,000. However overall employment for October and November was revised to show 70,000 more job gains than previously reported.

The unemployment rate fell to 9.4%, the lowest level since May 2009, from 9.8% in November.

The European Union’s Statistics office Eurostat said the unemployment rate in the Euro zone was unchanged at 10.1% in November while the unemployment rate for the European Union was also unchanged at 9.6%. Eurostat also reported that third quarter GDP growth in the euro zone was 0.3%, up from a previously reported 0.4% while third quarter GDP growth in the European Union was 0.5%.



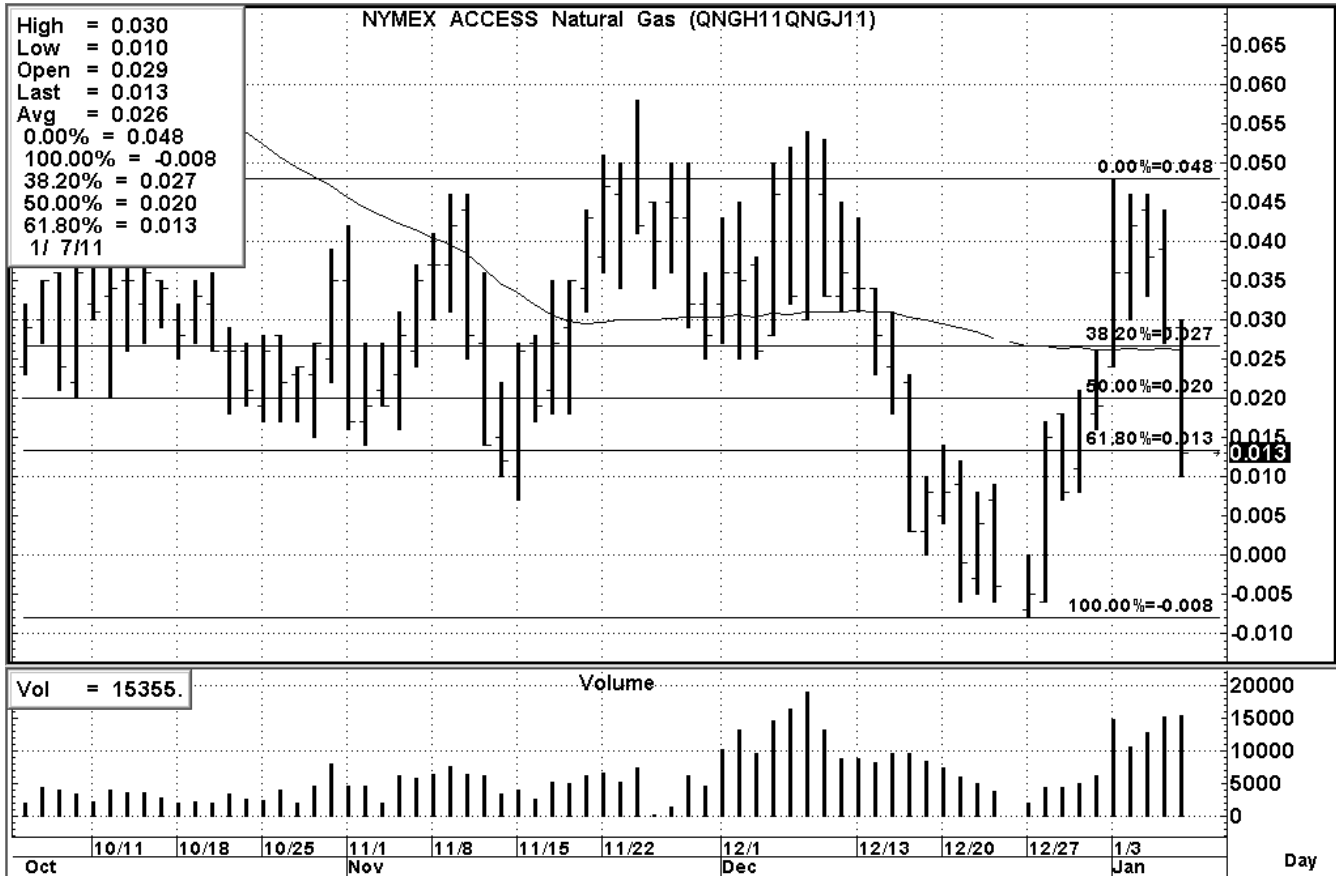
8-14 DAY OUTLOOK  
TEMPERATURE PROBABILITY  
MADE 7 JAN 2011  
VALID JAN 15 - 21, 2011

DASHED BLACK LINES ARE CLIMATOLOGY (DEG F) SHADED AREAS ARE FCST VALUES ABOVE (A) OR BELOW (B) NORMAL UNSHADED AREAS ARE NEAR-NORMAL

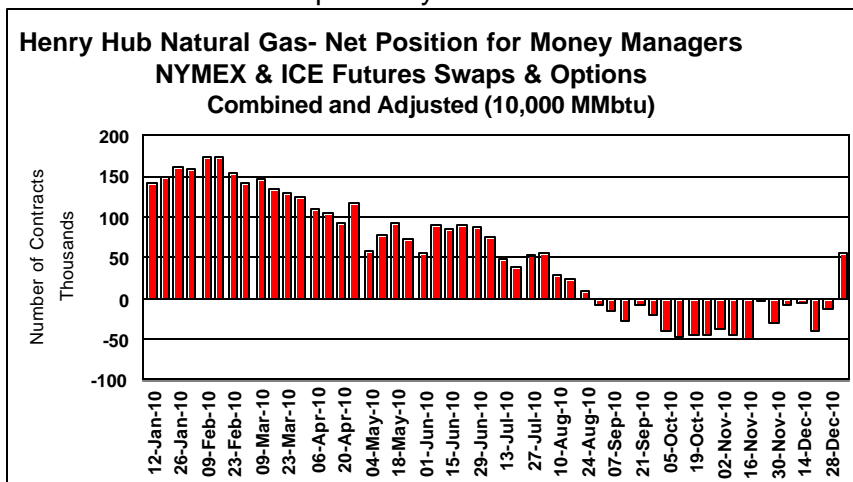
Federal Reserve Governor Elizabeth Duke said she is encouraged by signs that economic recovery is starting to gain traction and believes market expectations for a stronger recovery have recently bid up interest rates. She believes the recovery is gaining momentum but that inflation expectations will remain subdued. She said sustained gains in consumer spending and business investment along with an easing of credit conditions will reinforce each other, increasing confidence and reinforcing a recovery that will gradually reduce unemployment over time.

**MARKET COMMENTARY**

The natural gas market today saw a relatively light trading session as the spot contract posted its smallest trading range since December 29<sup>th</sup>. Once again the 11-15 day temperature outlook continued to flip flop. While yesterday private weather forecasters were warning a severe arctic outbreak was in the making, by midday today some were noting a significant warm-up over much of the country was possible, especially over the 11-15 day period. As a result prices tumbled 20 cents following the release of a less than bullish forecast model at midday today. Prices never really recovered from this midday sell off and as a result settled lower for the third day in a row.



The March-April spread today appeared to show that the bears have abandoned this market at least for the weekend. This spread which held above the 40 day moving average and the 38% retracement level of its late December rally, today broke down and fell to levels not seen since Dec 29<sup>th</sup>, retracing over 50 and 62% of the prior rally.



Tonight's Commitment of Traders Report clearly defines the participants behind the buying in the natural gas market over the past two weeks. For the period ending Tuesday January 4<sup>th</sup>, commodity funds held a net long position of 55,346 contracts (when combining and adjusting for contract size) between the NYMEX and ICE Henry Hub futures, options and swaps. Just two weeks ago this group of

traders held a net short position of 39,537 lots. This is the largest net long position that this group has held since the start of the hurricane season. Given an outlook for a moderation in weather this buying spree may well stall out we feel if it has not already done so.

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