



## ***ENERGY RISK MANAGEMENT***

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### **NATURAL GAS & POWER MARKET REPORT FOR JANUARY 10, 2011**

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#### **NATURAL GAS MARKET NEWS**

NGI's Shale Daily reported today that overall drilling in U.S. shale basins has increased 38% from a year ago, led by 100-200% jumps in oil and liquids rich natural gas plays such as the Niobrara in Colorado and southern Wyoming (200%), the Eagle Ford in South Texas (126%) and the Bakken in North Dakota and Montana (105%). U.S. shale and tight sands rigs at work overall increased to 942 rigs versus 684 rigs a year ago.

Belgian port officials reported today that the Qatari 145,000 cubic meter LNG tanker, the Al Jassasiya was scheduled to unload at the Zeebrugge terminal on January 23<sup>rd</sup>.

Reuters reported that according to shipping data, the Nigerian LNG Lokoja tanker should arrive at the Milford Haven terminal on January 19<sup>th</sup>. The ship has a capacity of 148,500 cubic meters of LNG. It was also reported that the Gemmata LNG tanker was due to arrive in Britain from the U.S. Sabine Pass terminal around January 24<sup>th</sup>. The vessel has a capacity of 130,000 cubic meters. Meanwhile port officials at the South Hook terminal said they expect the arrival of two large Qatari shipments over the weekend. The Bu Samra 266,000 cubic meter LNG tanker and the 268,000 cubic meter Rasheeda LNG tanker are slated to arrive on January 15<sup>th</sup> and January 17<sup>th</sup>.

South Korea's state owned Korea Gas Corp said today that it sold 4.1 million tones of LNG in December, up 12% from a year earlier. Of the total sales some 2.4 million tones went for household and commercial consumption with the remainder headed to power generation.

Day ahead natural gas prices in the UK today dropped to seven week lows as moderating weather forecasts and ample LNG imports weighed on prices. Temperatures were seen averaging above normal for much of the next week while LNG imports were accounting for over 25% of total natural gas supply.

#### **Generation Update**

**NPCC** – OPG's 515 Mw Picjering #1 nuclear unit has exited its recent outage and was back in service early Sunday morning. The unit had been taken off line back on January 6<sup>th</sup>.

**SERC** – Duke Energy's 846 Mw Unit #1 at the Oconee nuclear power station was shut on January 8<sup>th</sup> due to a problem with a letdown line isolation valve during testing.

**TVA**'s 1105 Mw Unit #3 at the Browns Ferry nuclear unit ramped up to 98% power this morning. The unit which had exited an outage last week had been at 43% power on Friday.

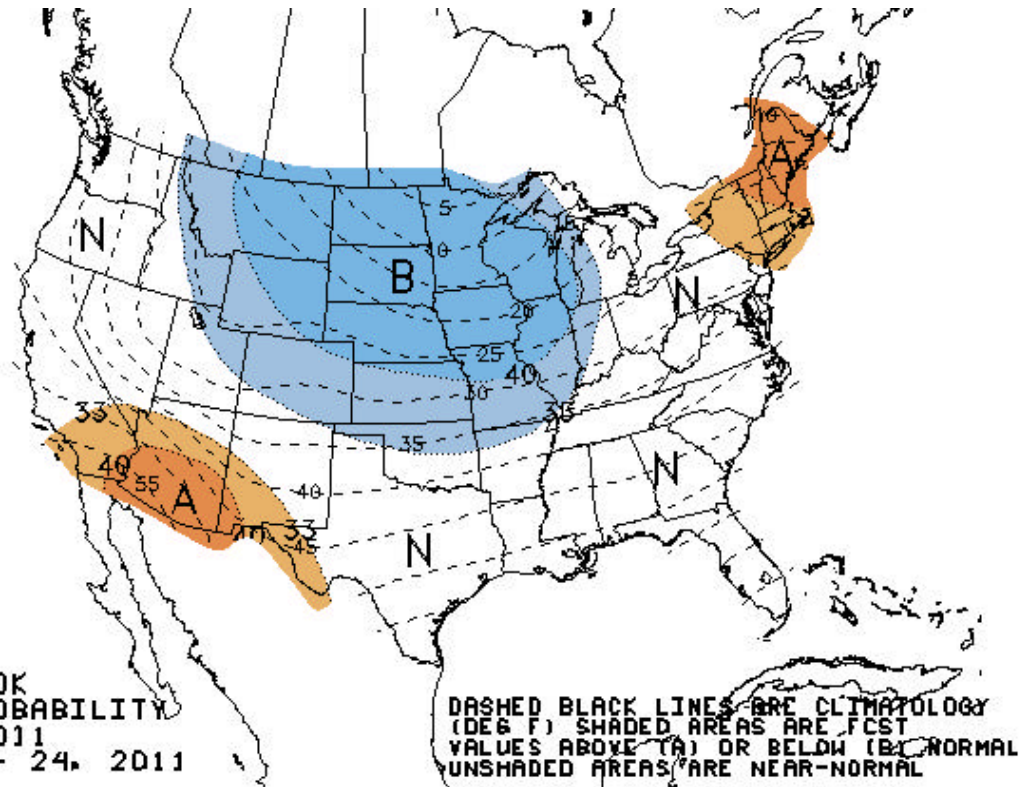
**ERCOT** – Luminant's 568 Mw coal fired Unit #4 at the Sandow power plant has restarted the unit after it tripped due to a turbine control issue.

**MISO** – Entergy's 778 Mw Palisades nuclear unit dropped to 55% power on Saturday due to a non-safety related bus breaker that resulted in a loss of a cooling tower.

**SPP** – Entergy's 1268 Mw Grand Gulf nuclear power plant dropped to 69% power early Monday. The unit had been at full power on Friday.

**The NRC reported today that 93,003 Mw of generating capacity was online today, up 0.5% from yesterday and 1.9% higher than the same day a year ago.**

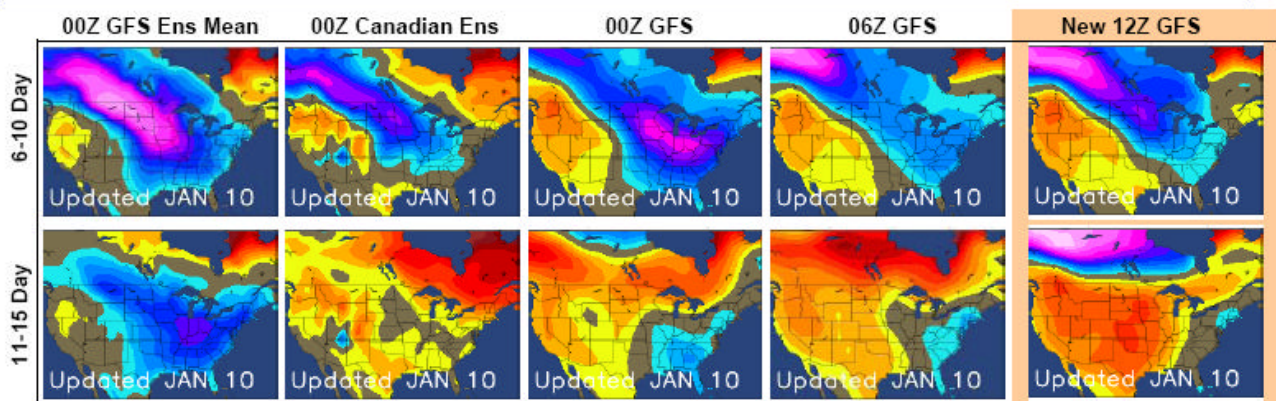
Ukraine's Ukrtransgas transport monopoly said today that the volume of Russian gas transported through the Ukraine onto Europe rose about 2.8% year on year to 95.4 bcm in 2010. Meanwhile the Ukrainian news agency reported that the price for Russian gas imported into the Ukraine will rise by



4.7% in the first quarter of 2011.

Enerco Energy, a Turkish gas importer part owned by Austria's OMV said it is interested in acquiring natural gas import contracts the government has promised to privatize. The company said it is looking acquire at least 6 bcm of import contracts. The government has committed itself to reduce its control of import contracts from 80% of the market to only 20% of the market over the next year.

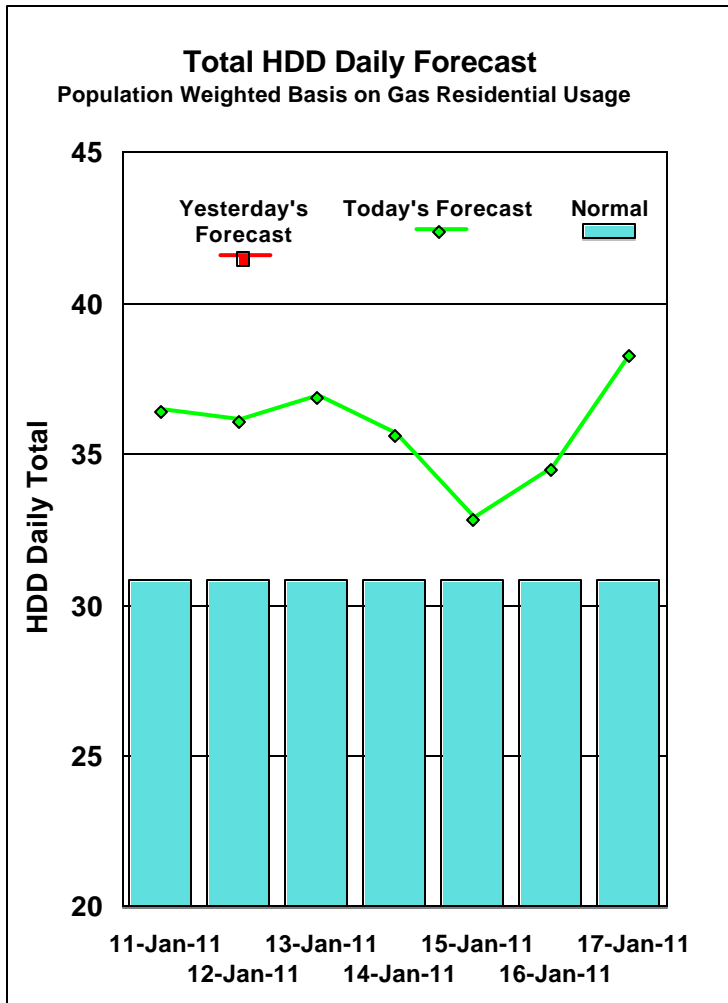
### Forecast Model Comparison



### ELECTRIC MARKET NEWS

Australia's Gladstone Ports Corporation reported that it has not received any coal supplies for export since early last week due to flooding and heavy rains in the region. The port is Queensland's second largest coal export port. Loadings have been continuing from existing stockpiles, but stockpiles are seen reaching low critical levels by the end of the week. Mine stockpiles are also running low as mines

in the region are struggling to ramp up production as the poor weather continues. Some analysts have estimated that the recent rains have knocked out about 155 million tones or 42% of Australia's annual coal supply.



Duke Energy announced today that it had agreed to buy Progress Energy for \$13.7 billion in stock. This would create the largest U.S. power company if it wins regulatory approval. The new company would have 7.1 million power customers in six states with 57,000 Mw of generating capacity.

Genscape reported today that it estimated U.S power output for the week ending January 6<sup>th</sup> fell 3.1% and was 10% less than the same week last year.

**ECONOMIC NEWS**

Business activity in the US Midwest expanded less than expected in December. The Institute for Supply Management-Chicago said December's revised business barometer index reading registered 66.8, less than the 68.6 it originally reported last month. The ISM-Chicago said its employment index was 58.4 in December, below the 60.2 previously reported. New orders registered a revised 68.7 compared with the 73.6 reported earlier.

According to ShopperTrak, US retail sales increased by 4% in the 2010 holiday season and should increase 2.2% in the first

quarter. It stated that despite the overall sales increase, shopper traffic in November and December was flat as shoppers made fewer trips to malls but spent more on each visit. It expects shopper traffic to increase 2.8% in the first quarter.

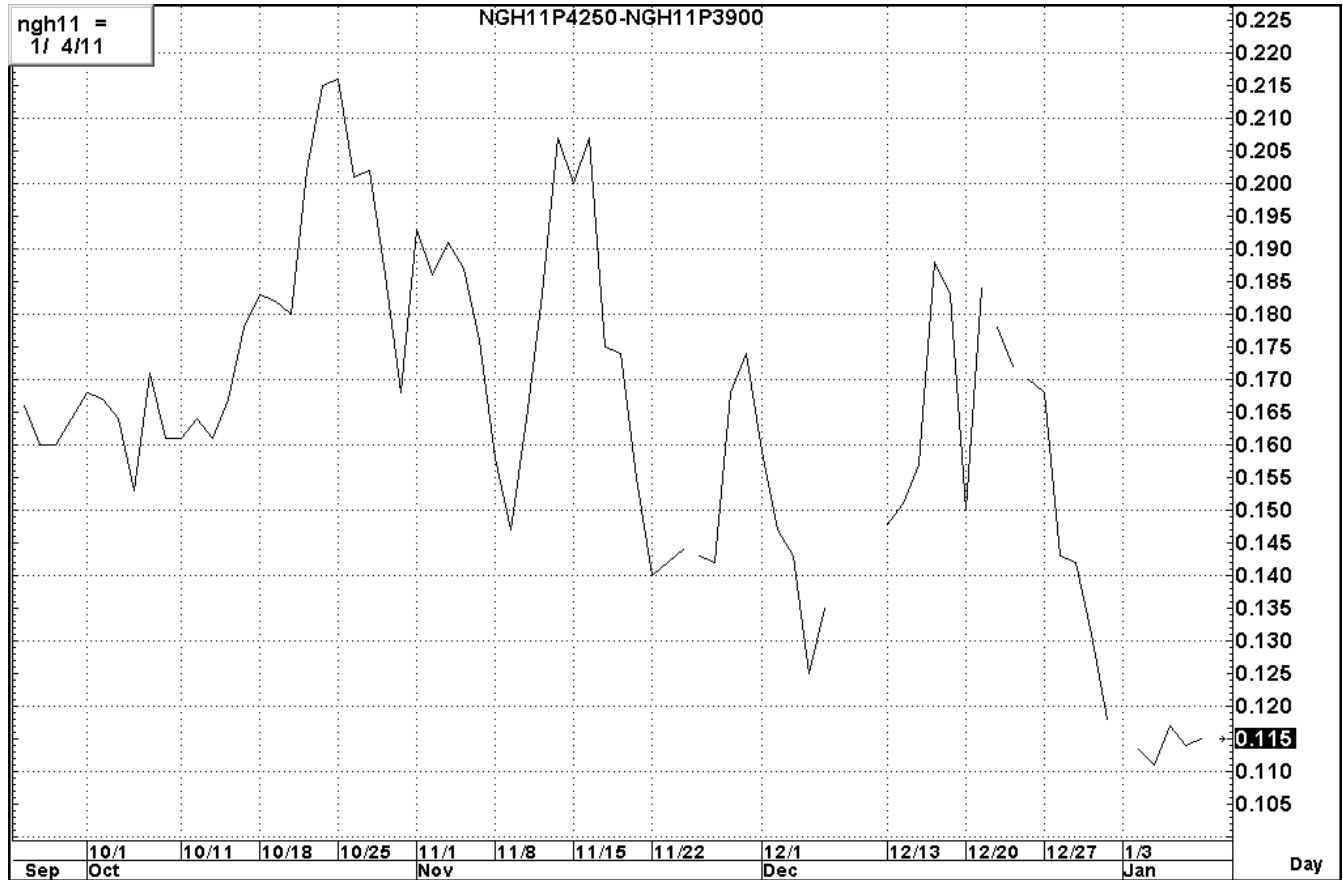
The US Federal Reserve's \$600 billion bond buying program launched last year helped solidify an economic recovery. Atlanta Federal Reserve Bank President Dennis Lockhart said he remained comfortable with his decision early in November to support the quantitative easing program.

There is currently up to \$100 billion invested in commodities funds, a level last seen three years ago before the financial crisis. As of the end of September, about \$85 billion to \$90 billion was estimated to have been invested in commodity funds and strategies tracking the index. The rally in commodities prices during the fourth quarter increased the value of those investments by at least 10%, bringing them to between \$90 billion and \$100 billion by the end of the year. The S&P Goldman Sachs Commodity Index finished up 50% in 2010. Its crude oil component however increased by just 15%.

**MARKET COMMENTARY**

While weather forecasts for the next seven days appeared to remain colder than normal, this bullish support appeared to be offset by the eight to 15 day forecast which continued to moderate throughout the day. As a result the natural gas market failed to gain any traction throughout the day as the today's trading range nearly matched Friday's trading range. Volume was also subdued today with the spot

contract recording just over 100,000 lots traded, the smallest trading volume since the light holiday period of December 31<sup>st</sup>. Given the continued erosion in the March-April natural gas spread, this market appears to be slowly losing hope that a cold winter will resolve the overhang of excess stocks on the supply demand balance for natural gas. While we still feel it is not prudent to sell calls at this point of the winter heating season, it does not though rule out a more prudent examination of put spreads. We would look at buying the March \$4.25-\$3.90 put spread which today settled at 11.5 cents.



Flat price we see the February contract looking to break out of its past two day trading range of \$4.429-\$4.302. Additional resistance we see at \$4.469, \$4.515, and \$4.56. More distant resistance we see at \$4.80 and \$5.02. Support we see at \$4.24, \$4.17-\$4.15 followed by \$3.98 and \$3.81.

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