



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR JANUARY 21, 2011

#### NATURAL GAS MARKET NEWS

The U.S. Climate Prediction Center today said it looks for U.S. heating demand for the current week to reach 231 HDD on a gas home heating customer weighted basis. This would be 4% colder than normal and 13.7% colder than the same week a year ago. For the week ending January 22, 2010 the center estimated there were 231 HDD, some 2.6% more than normal and 28.3% colder than the same week a year ago.

Private weather forecaster Commodity Weather Group released their latest long-term temperature outlooks today. For February it is calling for most of the nation to experience below normal temperatures with the north central part of the nation seeing much below normal temperatures. The forecaster sees overall heating demand for natural gas in February should be some 9.7% colder than normal. For March it sees most of the northern third of the nation, especially west of the Mississippi should see below normal temperatures. In April below normal temperatures are seen for the West Coast, the Pacific North West and Northern Plains. For this upcoming summer it sees a hotter than normal temperatures from Texas up into the Midwest, but expects for the nation as a whole this summer to be cooler than the "impressively" hot summer of 2010. The group also sees a combination of likely reduced wind shear and re-warming of the Tropical Atlantic waters should point to a potentially hyperactive hurricane season this year, with the potential for even more storms than last year. Meanwhile private forecaster WSI said it expects colder than normal

#### Generation Update

**NPCC** – OPG's 490 Mw Nanticoke #7 coal fired power unit, which shut late Thursday, was back in operation late Friday. Its 494 Mw #3 Lambton coal-fired power station shut late Friday.

**PJM** – Exelon's 619 Mw Oyster Creek nuclear unit was at 100% power by early Sunday. The unit had been at 70% early Friday.

**ECAR**- Entergy's 778 Mw Palisades nuclear power station was shut Sunday due to a loss of generator load. It was at full power on Friday.

**WSCC**- APS's 1,317 Mw #3 nuclear unit at the Palo Verde nuclear power plant exited an outage and ramped up to full power by early Monday.

**SERC** - Southern Co's 876 Mw # 1 at the Hatch nuclear power plant increased to 87%, while the 883 Mw #2 fell to 75% power from full power early Monday.

The NRC reported today that 9,183 Mw of generating capacity was online today, up 1.5 % from yesterday and 3.6 % higher than the same day a year ago.

#### Natural Gas Cash Market

ICE Next Day Cash Market

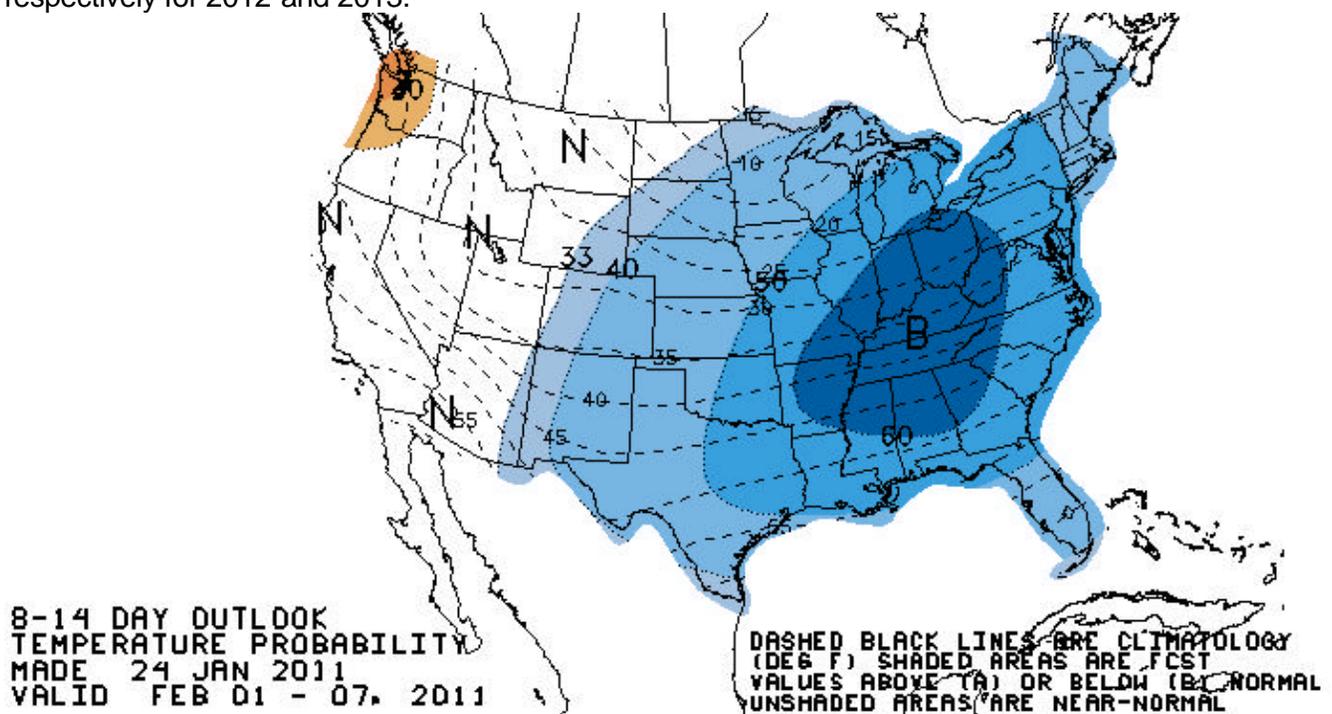
Location	Volume	Avg	Change	Basis	Change	Basis 5-Day
	Traded	Price		(As of 12:30 PM)		Moving Avg
Henry Hub	642,200	\$4.717	(\$0.007)	\$0.089	(\$0.325)	\$0.245
Chicago City Gate	613,400	\$4.877	(\$0.058)	\$0.249	\$0.055	\$0.222
NGPL- TX/OK	681,500	\$4.593	(\$0.014)	(\$0.035)	\$0.099	(\$0.113)
SoCal	321,600	\$4.435	\$0.021	(\$0.193)	\$0.133	(\$0.229)
PG&E Citygate	1,210,300	\$4.580	\$0.029	(\$0.048)	\$0.141	(\$0.102)
Dominion-South	400,900	\$4.856	(\$0.152)	\$0.228	(\$0.040)	\$0.214
USTRade Weighted	22,299,500	\$4.797	(\$0.438)	\$0.169	(\$0.32)	\$0.245

temperatures in the northern and western United States will increase natural gas heating demand for February through April by 7% when compared to last year and some 2-

3% over the 30 year average.

Halliburton released their fourth quarter and 2010 results today. It noted that its horizontal drilling and activity in liquids rich plays continued to drive service intensity leading to the highest United States revenue in the company's history, a 10% increase over 2009 levels. For the New Year, the company expects unconventional resource plays will remain a focus of their activities. The company reported that in 2010 there were 3200 wells uncompleted in the United States and it expects that number will rise in 2011.

Exco Resources today reported that its fourth quarter production reached 350 Mmcf per day which was a 70% increase over 2009. Its production in East Texas and North Louisiana increased by 82.8% over a year ago, while production in Appalachia was up 7.8% and 11.2% in Permian and other basins. The company estimates its production in 2011 will average 520-580 mmcf/e with year-end production reaching 600 Mmcf/e per day. The company noted that it is currently operating 22 rigs and plans to maintain this activity level throughout 2011. The company noted that for 2011 it has entered into 86,635,000 Mmbtus of derivatives to hedge their 2011 production at an average of \$5.30 Mmbtu. The company reported that it has also hedged 53,070,000 and 5,475,000 Mmbtus of production respectively for 2012 and 2013.



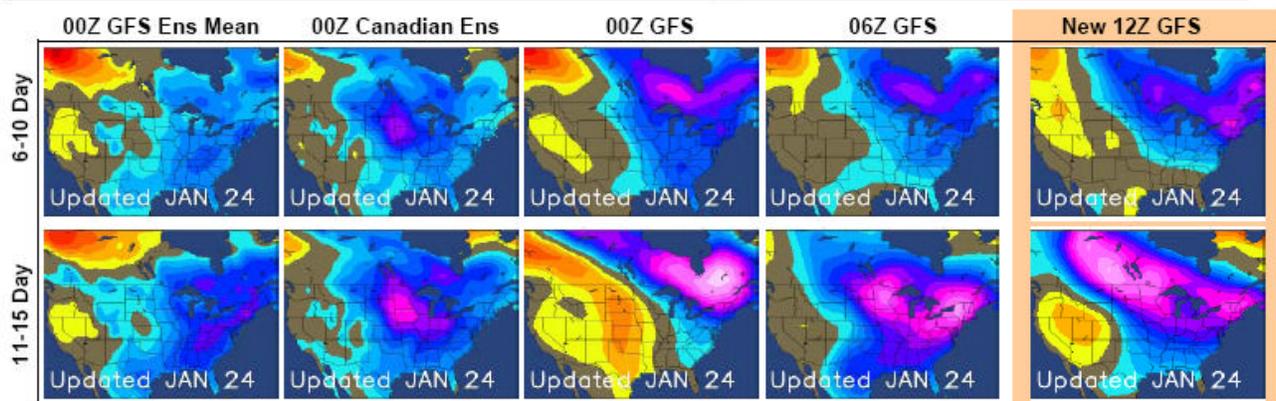
Gassco reported today that the Norwegian Kollsnes gas processing plant has returned to full capacity of 143 mcm. The unit had been ramping up its operations since last Thursday when electrical problems on the Norwegian grid triggered an automatic shutdown of the plant.

Mitsubishi Corp, Japan's largest trading house, has decided to go into a joint venture worth \$2.8 billion with Indonesia. This venture will secure 2 million tons of LNG a year from 2014, supplementing a decline in LNG exports from Indonesia. Mitsubishi will hold 45 percent stake in this joint venture instead of the original 51 percent. This will allow for a third partner, Korea Gas Corp. who will hold a 15 percent share in the joint venture.

A deal has been signed between Chevron and Kyushu Electric, under which Kyushu Electric will receive 0.3 million tons per annum. The agreement will include the delivery of LNG for up to 20 years from the Gorgon project. Gorgon, which is currently under construction, is expected to be producing its first gas in 2014.

Qatar's LNG tanker, The Al Karaana is expected to arrive at the UK's South Hook LNG terminal on Jan. 30.

### Forecast Model Comparison



### 10 Day Observed U.S. Population Weighted Temperature Anomalies and 15 Day Ensemble Forecast



Comstock Resources has announced that its proved oil and gas reserves for 2010 increased 45% over that for 2009, with production up by 12% on the year. Production for 2010 was said to be at 73.3 billion cubic feet of natural gas equivalent.

Azerbaijan's reported that its gas output rose by 11.2% in 2010 over 2009 as it reached 26.2 bcm.

The Turkish government said today that it has no plans to increase natural gas prices domestically.

### ECONOMIC NEWS

The IMF expects global economic growth in 2011 to be slightly lower than last year's rate of 4.75%. The IMF First Deputy Managing Director John Lipsky warned that despite the pace of growth, future economic expansion faced three downside risks. He said the links between financial stresses and financial sustainability, especially in the euro area, have the potential to undermine growth. He also stated that the lack of progress in formulating credible medium term fiscal consolidation plans in many advanced economies and high commodity and food prices, that could undermine macroeconomic stability and trigger social and political strains in developing countries.

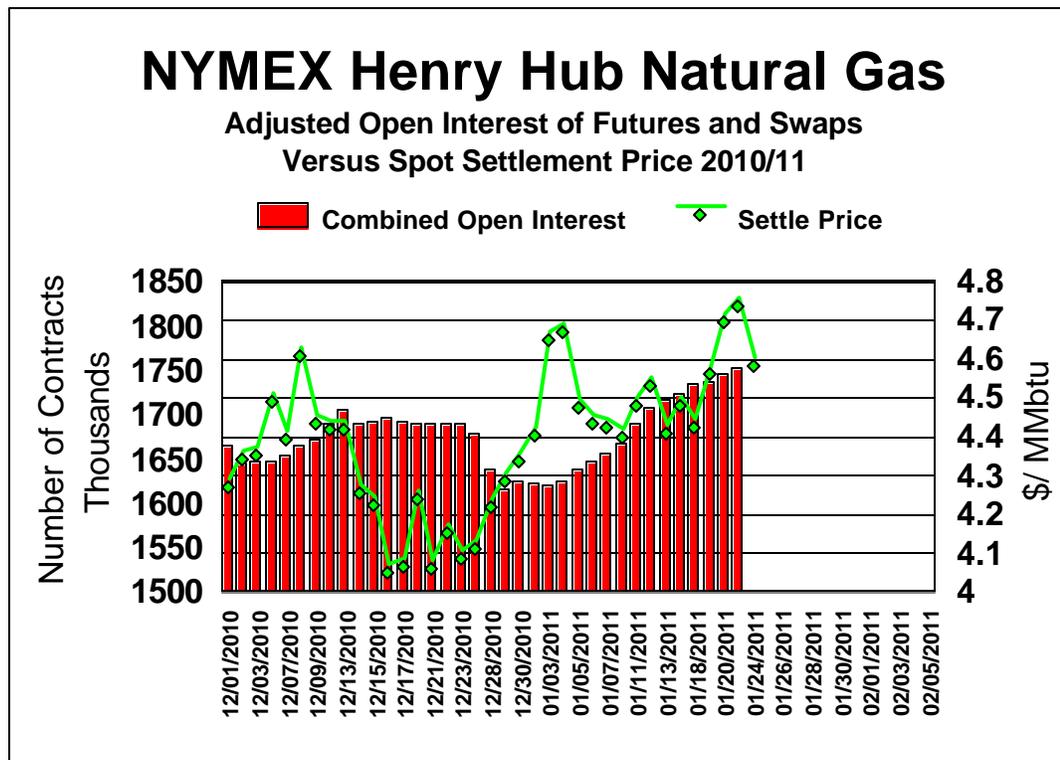
Markit's Eurozone Flash Services Purchasing Managers' Index increased to 55.2 from 54.2 in December. It is the 17<sup>th</sup> consecutive month that the index was above the 50 level that divides growth from contraction while its new business index reached a 39 month high of 55.4, up from December's 53.9. Growth in Germany helped the euro zone's services sector expand faster in January.

France called for commodities to be regulated like any other financial market to curb speculation that is impacting global economic growth. French President Nicolas Sarkozy said France would review how

the poorest countries could use financial tools to hedge themselves against sharp increases in agricultural prices or bad harvests. Policymakers are concerned that if unchecked, rising food prices could stoke inflation, protectionism and unrest.

**MARKET COMMENTARY**

The natural gas market while starting out the session Sunday evening stronger, saw prices erode throughout the session as new and updated computer forecasting models for the next two weeks appeared to moderate a bit, not being quite as cold as weekend model runs had shown. Even with the bullish outlooks for February from private weather forecasting services, this market appeared to see a wave of selling this morning once prices fell back below Friday’s high of \$4.777. This selling continued throughout the day, in what appears to be profit taking on the rally from the last week, especially in front of the February contract’s expiration on Thursday. Open interest in the Henry Hub futures and swaps has increased for 13 straight sessions through Friday and this would seem to support the possibility of profit taking on longs today. By the end of the day prices had retraced nearly 38% of the rally from December 17<sup>th</sup> through today’s overnight highs.



While we have been generally bearish on this market, we feel the outlook for good heating demand for the next couple of weeks should begin to stabilize prices once again in the next day or two. As a result we feel bulls could find a relatively low risk trade in buying the March–April spread once again as this spread fell back to near parity once again today,

settling at a March premium of just \$0.006. The expectation for strong draws in the levels of working gas storage levels over the next several weeks should help support this spread in coming days.

We see support in the February contract tomorrow to be found at \$4.557-\$4.537, \$4.432, \$4.39 and \$4.327-\$4.322. More distant support we see at \$3.985. Resistance we see at \$4.879, \$4.908, \$5.007, \$5.11 and \$5.194.

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