



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta,  
& Karen Palladino

(212) 624-1132 (888) 885-6100

**www.e-windham.com**

### **NATURAL GAS & POWER MARKET REPORT FOR FEBRUARY 3, 2011**

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

The Department of Energy reported this afternoon that the United States imported 431.3 bcf of LNG in 2010, down from 452 bcf imported in 2009. Of the total imports, some 34.5 bcf was re-exported to markets in Europe, Asia and South America.

Spectra Energy reported today that it had halted additional natural gas withdrawals from its Moss Bluff and Egan storage facilities today due to high demand.

Bentek Energy reported today that cold weather continuing across the U.S. Southwest has forced at least 2.7 bcf/d of production offline as wells froze off and problems at natural gas processing plants halted operations.

Yemen LNG, operated by Total, said the plant nor production fields or pipelines feeding the plant, have not been impacted by protests in that country on Thursday. The plant is operating with full personnel, and shipping operations were normal in the Gulf of Aden and in the Suez. Tens of thousands of Yemenis marched in street demonstrations today in support and in opposition to the government during an opposition-led "Day of Rage."

Royal Dutch Shell announced today that the first gas was fed into the Qatargas' LNG Train #7 in January and the first LNG cargoes should load within weeks.

#### **Canadian Gas Association**

##### **Weekly Storage Report**

	28-Jan-11	21-Jan-11	29-Jan-10
<b>East</b>	120.8	138.4	143
<b>West</b>	259.9	273	235.2
<b>Total</b>	380.7	411.4	378.2

storage figures are in Bcf

The European Union's energy commissioner said today that stakeholders in the Nabucco gas pipeline must be bold and press ahead with the \$11 billion project since it has been determined that there will be enough natural gas supplies from potential suppliers like Azerbaijan and Turkmenistan to supply the line. He said he was sure that the consortium would make a final investment decision on the pipeline this year. But he

prodded the group by saying "it is clear there is a certain risk. But if you want to try and make profits

#### **Generation Update**

**NPCC** – OPG's 494 Mw Lambton #3 coal fired power plant was shut late Wednesday.

OPG's 535 Mw Unit #4 at the Lennox oil and natural gas fired power plant was shut early Thursday.

Constellation Energy's 621 Mw Nine Mile Point #1 nuclear unit returned to full power on early Thursday, up from 60% power early Wednesday.

**ERCOT** – NRG Energy's 831 Mw Limestone #1 coal fired unit returned to service. The unit had dropped off line on Wednesday when a phase disconnect malfunctioned.

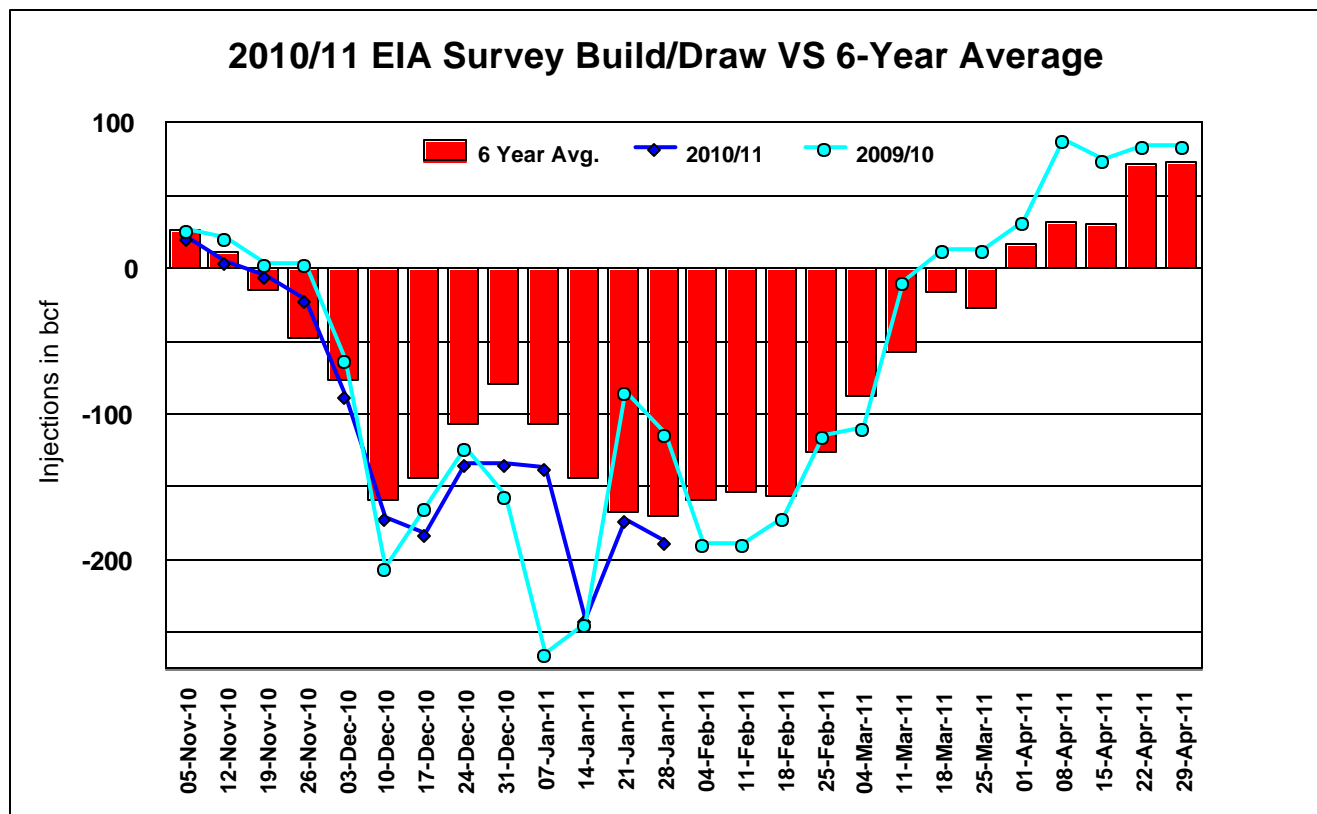
**The NRC reported today that 92,118 Mw of generating capacity was online today, down 0.6% from yesterday and 1.2% less than the same day a year ago.**

#### **EIA Weekly Report**

	01/21/2011	01/21/2011	Change	01/21/2010
<b>Producing Region</b>	856	912	-56	798
<b>Consuming East</b>	1165	1280	-115	1263
<b>Consuming West</b>	332	350	-18	362
<b>Total US</b>	2353	2542	-189	2422

\*storage figures in Bcf

without risk, well that does not work". The project has a 2015 start up target with construction beginning in 2012.



Fluxys, the operator of the Belgian Zeebrugge LNG terminal, proposed today to expand the LNG capacity, storage and re-exporting facilities at the port by 2014-2016. The company plans to construct additional storage tank capacity of 160,000 cubic meters and 450,000 cubic meters per hour of extra re-export capacity in 2016. The company invited companies interested in securing capacity at the terminal expansion to express their interest by March 11.

An IEA official said today that shale natural gas production will exert downward pressure on gas and oil prices in the coming months/years. He outlined that the IEA will release a special report on the "Golden Age of Gas" in Washington D.C this coming June.

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	879,500	\$4.695	\$0.141	\$0.321	\$0.133	\$0.490
Chicago City Gate	1,053,900	\$5.075	(\$0.125)	\$0.701	(\$0.122)	\$0.490
NGPL- TX/OK	1,145,800	\$5.011	\$0.447	\$0.637	\$0.450	\$0.158
SoCal	572,100	\$6.013	\$0.449	\$1.639	\$0.452	\$0.577
PG&E Citygate	739,700	\$4.497	(\$0.047)	\$0.123	(\$0.044)	\$0.093
Dominion-South	586,900	\$5.002	(\$0.093)	\$0.628	(\$0.090)	\$0.446
USTrade Weighted	28,420,300	\$5.267	\$0.130	\$0.893	\$0.13	\$0.490

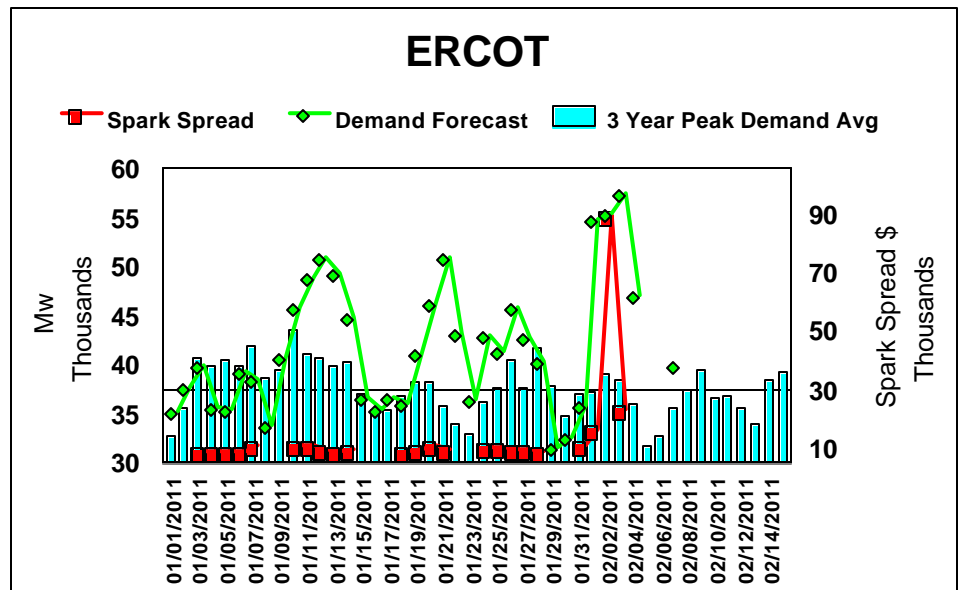
**ELECTRIC MARKET NEWS**

ERCOT this morning said immediate concerns of rotating blackouts were reduced Thursday morning as some generation returned to service overnight. But the grid operator expected the morning peak to set a winter record for power demand this morning, and thus continued to urge consumers to cut back on their energy usage. ERCOT said that about 3000 Mw of generation remained out of service due to

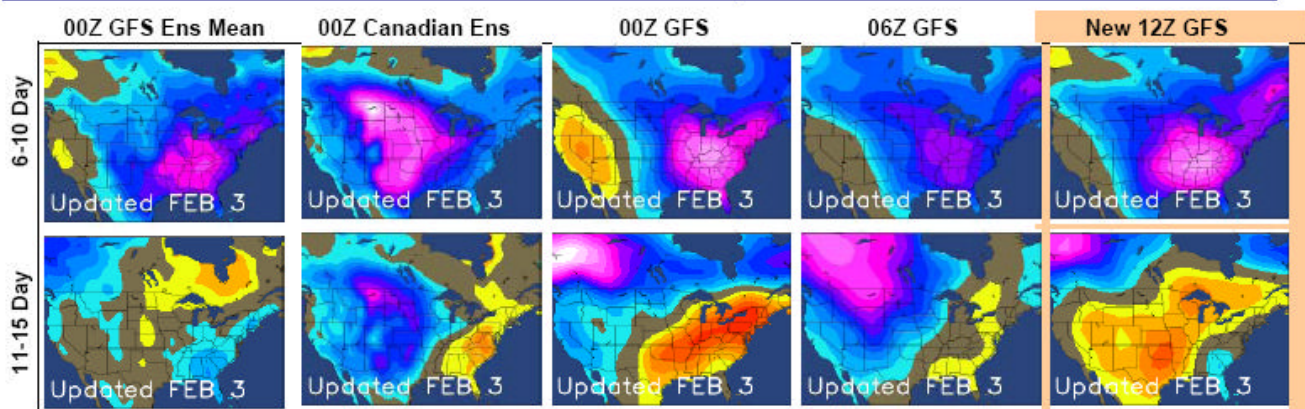
extreme cold and additional unexpected major plant shutdowns could force the grid operator to re-impose the rolling outages of Wednesday morning.

The NERC said today that it will investigate why more than 50 power generating units in Texas failed due to cold weather on Wednesday. The NERC said it will be investigating the adequacy of preparations for the extremely cold weather and what improvements are necessary.

More than 150,000 electrical customers were reportedly still without power early Thursday from Texas to New England as a result of this week's winter storm. The storm knocked out power to more than 2.1 million customers. Most of the remaining customers without power were expected to have their power restored by the end of the day Thursday.

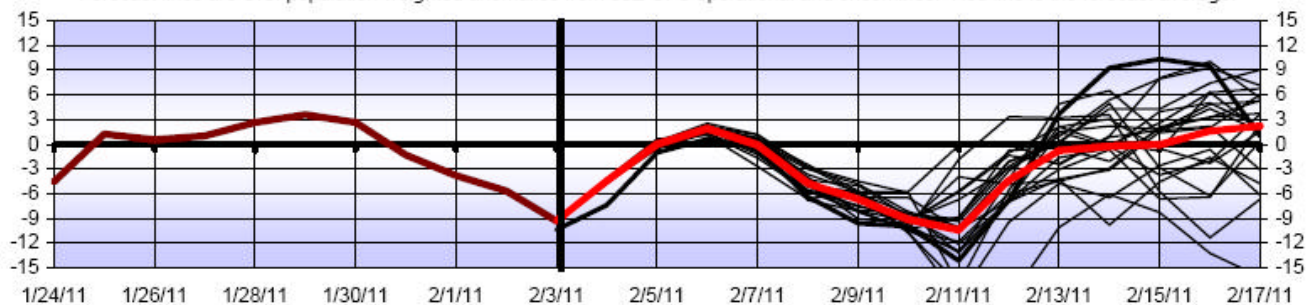


### Forecast Model Comparison



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

Forecast lines are U.S. population weighted anomalies from 00Z GFS operational and ensembles. Red line is the forecast average.



The Commerce Department said new orders received by US factories increased in December and shipments of finished products were stronger. It said total factory orders increased 0.2% to a seasonally adjusted \$426.8 billion, contrary to forecasts for a 0.5% decline.

The US Labor Department reported that US productivity posted its second consecutive gain in the final quarter of 2010. Nonfarm business productivity increased at a 2.6% annual rate in the fourth quarter after increasing by a revised 2.4% in the third quarter. The report showed that unit labor costs fell at a 0.6% annual rate in the fourth quarter compared with a 0.1% decline in the third quarter.

The US Labor Department also reported that the number of US workers filing initial claims for unemployment benefits fell by 42,000 to 415,000 in the week ending January 29<sup>th</sup>. The previous week's figures were revised to 457,000 from 454,000. It reported that the number of continuing claims fell to 3,925,000 in the week ending January 22<sup>nd</sup>, down 84,000 on the week. The unemployment rate for workers with unemployment insurance was 3.1% in the week ending January 22<sup>nd</sup>, down 0.1% on the week.

The Institute for Supply Management said the US services sector grew in January at its fastest pace since August 2005. Its index of national non-manufacturing activity increased to 59.4 in January from 57.1 in December. Its prices paid component increased to 72.1 from 69.5 while new orders increased to 64.9 from 61.4. The employment component increased to 54.5 from 52.6.

The China Federation of Logistics and Purchasing said China's purchasing managers index for the non-manufacturing sector eased to 56.4 in January from 56.5 in December. The new order sub-index for the property sector fell for the fourth consecutive month to 42 in January.

### **MARKET COMMENTARY**

While the 6-10 day forecast this morning was trending a bit colder than prior forecasts helping the market to move slightly higher in front of the EIA storage report, the release of the report at mid morning sent prices tumbling 10-12 cents as the size of the decline in working gas stocks was some 5-7 bcf less than expected. With midday forecast models showing a significant warm up potentially for the U.S. for the 11-15 day period prices were unable to gain any traction to retrace the morning's losses and as a result kept prices in a rather modest 5-6 sideways trading session for the afternoon. Prices finished the day down 8-9 cents, with the March contract posting the lowest settlement for the week. Volume was excellent for the day, as expected for a storage report day, with nearly 139,000 lots traded on Globex in the March contract.

With the March contract posting an outside trading session today it would seem to us that the probability for a much more restrained trading session in front of the weekend is a distinct possibility. We continue to feel that this market remains solidly contained in its 6 week sideways trading pattern. We continue to see support at \$4.297, \$4.265-\$4.259, and \$4.111. More distant support we see at \$4.067 and \$3.875. Resistance we see at \$4.496, \$4.538-\$4.566, \$4.605-\$4.639. More distant resistance we see at \$4.823, \$4.879 and \$4.983.

The March-April spread also posted an outside trading session and was able to break through the recent triple bottom at a 2-cent March discount momentarily at midday. But buying returned pushing the spread back above this level and defending the 2-cent discount for the remainder of the trading day. But if weather forecasts tomorrow continue to move towards a large consensus for a warm up across much of the nation starting February 14<sup>th</sup> then this support level could very well evaporate tomorrow with initial support found at 2.2 cent discount followed by a 2.5. This spread a year ago finished at a March discount of 4.9 cents. Volume was excellent with over 28,000 lots traded basis Globex on the day.

The April-October spread also posted a wide trading range today of 3.6 cents with decent volume of 4715 lots recorded on Globex. This spread finished the day at 22.5 cent April discount to the October contract, the lowest settlement since January 17<sup>th</sup>. This spread continues in our mind to retrace looking ultimately to test a major trend line support at 28 cents.

The information contained in this letter is taken from sources, which we believe to be reliable, but is not guaranteed by us as to accuracy or completeness and is sent to you for information purposes only. The Windham Group bases its market recommendations solely on the judgment of its personnel. Reproduction in whole or part or other use without written permission is prohibited.