



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR FEBRUARY 16, 2011

#### NATURAL GAS MARKET NEWS

Tennessee Gas Pipeline said today that there is no service interruption in Ohio after last week's pipeline explosion. Service on a second line damaged in the fire is expected to return by early next week. The company declared a force majeure on the pipeline last Friday after one segment of the four lines at the pipeline station erupted and exploded.

Williams Cos said Wednesday that it plans to split the company's pipeline and exploration businesses into two separately publically traded entities.

Devon Energy reported today that its North American natural gas production in the fourth quarter reached 233.2 bcf, some 3.3% more than the same quarter a year ago and 0.4% more than the 3Q2010 results.

#### Generation Update

**NPCC** – The Vermont Yankee nuclear unit returned to full power today, up 6% from Tuesday.

OPG's 494 Mw coal fired Lambton #4 power plant was taken off line today for short-term maintenance.

**MISO** - DTE's Fermi #2 nuclear unit ramped up to 57% power this morning, up 37% from yesterday.

**ERCOT** – Luminant has restarted its 750 Mw Unit #3 at the coal fired Martin Lake power plant late Tuesday after a fire at the boiler forced a shutdown.

Luminant reported that due to a loss of vacuum in the condenser at its 575 Mw Unit #2 at the Big Brown coal fired power plant the unit was shut down. Operators hoped to return the unit to service as soon as safety checks are completed.

The NRC reported today that 91,782 Mw of generating capacity was online today, up 0.6% from yesterday and 2.2% down than the same day a year ago.

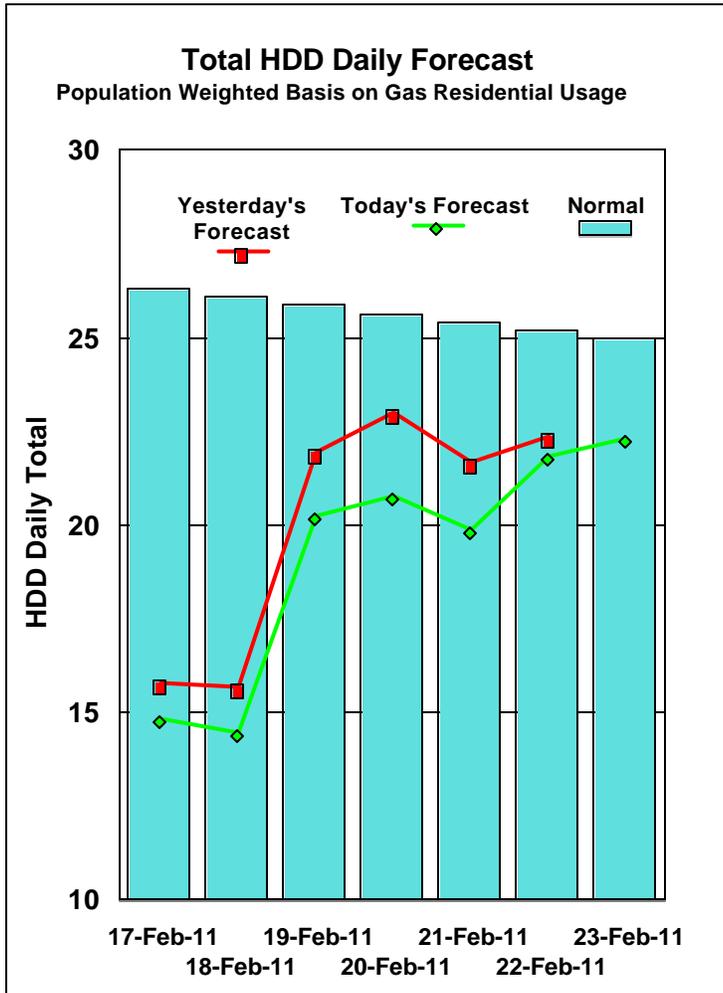
Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
Location	Traded	Price		(As of 12:30 PM)		Moving Avg
Henry Hub	579,100	\$3.934	\$0.012	(\$0.035)	\$0.012	\$0.039
Chicago City Gate	751,600	\$4.052	\$0.004	\$0.083	\$0.013	\$0.120
NGPL- TX/OK	864,600	\$3.825	(\$0.003)	(\$0.144)	\$0.006	(\$0.093)
SoCal	491,700	\$3.933	\$0.047	(\$0.036)	\$0.056	(\$0.051)
PG&E Citygate	1,013,300	\$4.102	\$0.057	\$0.133	\$0.066	\$0.089
Dominion-South	589,900	\$4.020	(\$0.013)	\$0.051	(\$0.004)	\$0.117
USTrade Weighted	21,189,400	\$3.960	\$0.003	(\$0.009)	\$0.01	\$0.039

Gassco said the Kaarstoe gas plant in Norway experienced new problems overnight and it had forced flows down to just 40 mcm/day. The company said it was not

experiencing any other infrastructure problems beyond Kaarstoe plant and later in the day the plant was back to normal operations. Production from the Troll field was also ramping up the day following a brief shutdown yesterday.

German natural gas imports reached \$28.6 billion in 2010, or 2.9% higher than 2009, while the volume of imports stood at 3.709 TJ up 4.5% from a year ago.

PetroChina said today that it plans to boost its annual coal bed methane gas output 12 fold to 4 bcm per year by 2015. Last year's production was just 0.3 bcm. The company is looking to produce 4 bcm by 2015.



According to Ukrainian officials, the price for Russian gas the country will pay in the second quarter of this year will rise to \$280 per tcm. The price paid in the first quarter was \$264 and \$252 during the 4Q10.

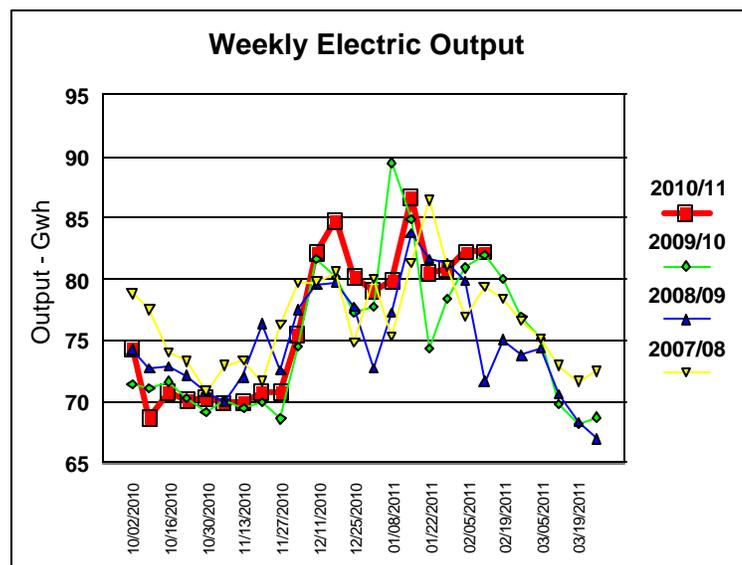
Total SA said Wednesday that it is in talks with Russian independent gas producer OAO Novatek to take a 25% stake in the Yamal LNG project. The Russian company is expected to take a foreign partner, with production slated to begin in the second half of this decade. Total is already a tentative partner along with Statoil and Gazprom in the Arctic Shtokman development, which is expected to have a final planned investment decision next month.

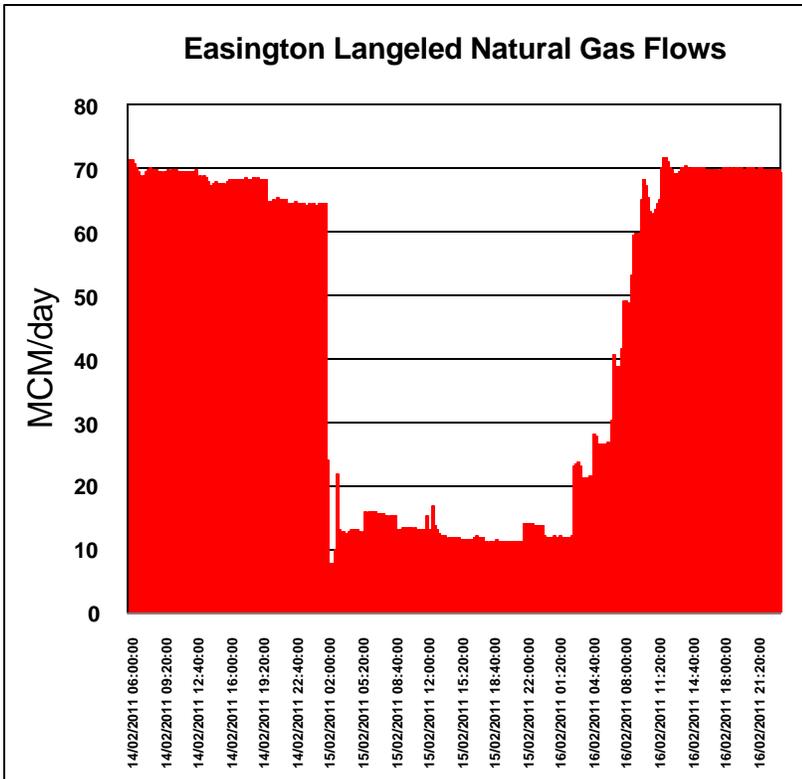
Indonesia said it expects to begin producing gas from coal bed methane projects in May of this year. The first production will come from the West Sangatta 1 area and produce at a rate of 1 million cf/d. Four other coal bed methane working areas are expected to start operating this year producing a total of 5.5 million cf/d. The country has already awarded 23 coal bed methane projects and plans to offer another 13 this year.

Petronet LNG said it will likely delay the

commissioning of its second LNG terminal in India by three months, and will now open the Kochi facility in October 2012, as the company seeks to double capacity of the terminal before it opens, thus avoiding any construction once the terminal opens. The terminal originally planned to open with a 2.5 million ton capacity and will now open with 5 million ton capacity. The company is also considering expanding the capacity at its already operating 10 million ton LNG receiving terminal Dahej, by 3 million tons and that this would be online by the second half of 2014.

Noble Energy said it would expedite plans to drill for natural gas off of Cyprus, possibly beginning drilling by the fourth





quarter of 2011. The company believes there is sizeable quantities southeast of the island. This follows in the wake of the company posting major finds offshore of Israel over the past two years.

An Italian official warned today that the changing political situation in Tunisia has elevated the risk of higher gas transit prices.

#### ELECTRIC MARKET NEWS

Edison Electric Institute reported that power production for the week ending February 12<sup>th</sup> in the United States reached 82,185 Gwh. This was basically unchanged from the prior week and only 0.2% greater than the same week a year ago.

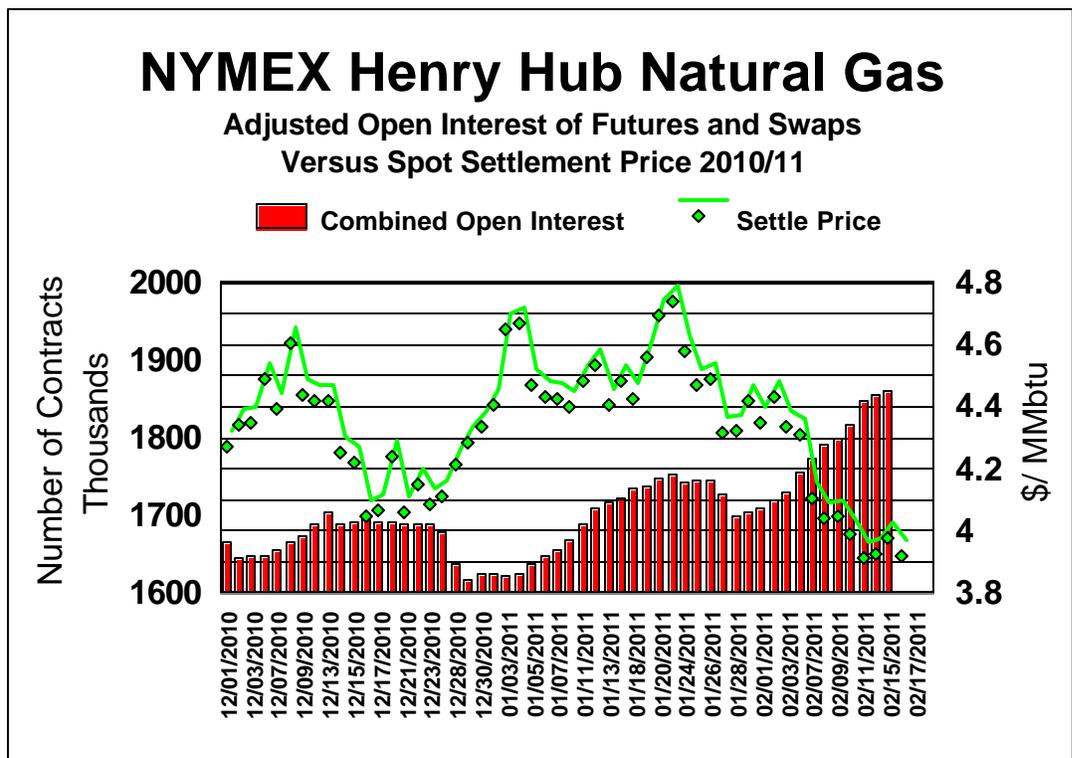
A study by Harvard University found that the United States' reliance on coal to generate nearly half of its electricity, costs the economy some

\$345 billion a year in hidden expenses not borne by miners or utilities, including health problems in mining communities and pollution around power plants.

#### ECONOMIC NEWS

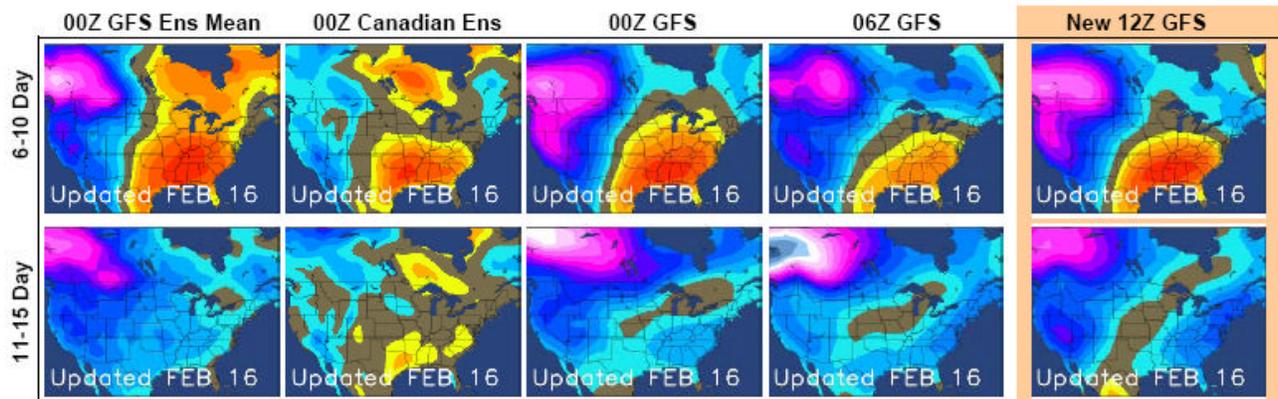
The US Labor Department said wholesale prices in the US increased during January to their highest level in more than two years. The Producer Price Index increased by a seasonally adjusted 0.8% in January following a revised increase of 0.9% in December. The Core Producer Price Index increased by 0.5% in January following an increase of 0.2% in December.

The Federal Reserve reported that US industries unexpectedly cut production in



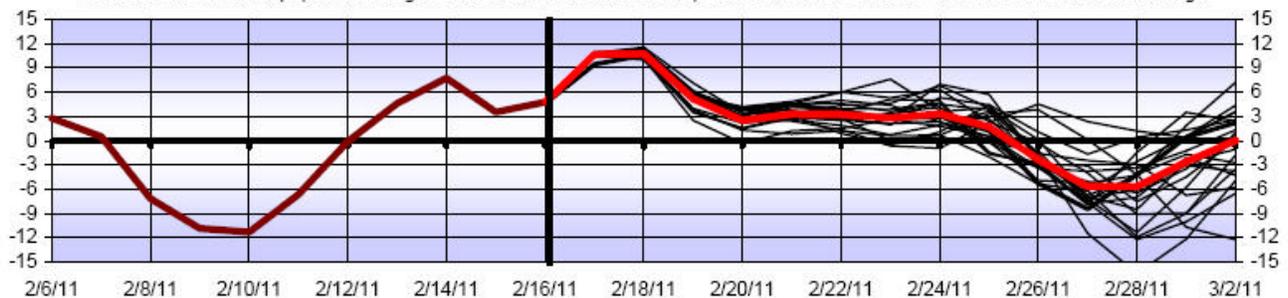
January as more seasonable weather reduced demand from utilities. Industrial production last month fell by 0.1%. December's output was revised to a 1.2% gain from an initial estimate of a 0.8% gain. Capacity utilization also fell slightly, falling to 76.1% in January from a revised 76.2% in December. The output of utilities fell 1.6% in January following a 4.1% increase in December. In those industrial

### 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.



sectors that are natural gas intensive, January saw a 0.1% decline from December, but 4.7% higher than the same time a year ago. The two sectors that showed the strongest gains were the Ag Chemicals sector and the primary metals sector, up 4.2% and 4.7% from a month ago respectively. These two sectors also showed the best gains from January a year ago up over 11% each.

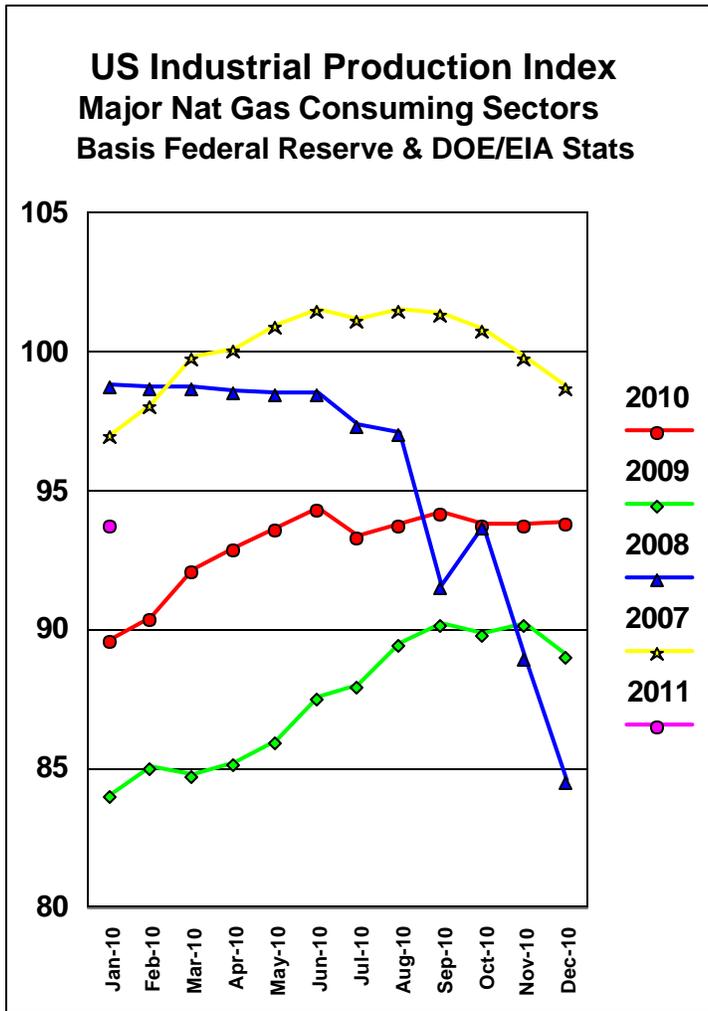
The Commerce Department said construction of homes and apartments increased 14.6% in January to a seasonally adjusted annual rate of 596,000 from a downwardly revised 520,000 in December. New building permits fell by 10.4% to an annual rate of 562,000. Construction of single family homes fell by 1% in January following a decline of 8.4% in December.

### MARKET COMMENTARY

The natural gas market today posted an inside trading session as traders appeared unwilling to commit further to this market in either direction in front of Thursday's storage report. With the next seven days appearing to be a bit milder than expected as of yesterday, the cash market posted a relatively stagnant session today with the futures market basically erasing yesterday's minor gains. But this afternoon forecasts for the 11-15 day period appeared to be trending a bit cooler but early signs are that this cooling off period may be just a short term event.

Despite the minor price rebound earlier this week, the open interest in the Henry Hub futures and swaps still has not declined. While the pace of additions to open interest in these instruments has slowed on a combined and adjusted basis, it still has not recorded a daily decline this month. This continues to signal to us that a short covering period still remains in the cards.

While flat price declined, the March-April spread continued to rebound today, finishing higher for the third straight session and finishing the day retracing nearly 38% of the sell off in the spread since mid-January.



Market expectations for tomorrow's EIA Storage Report appear to be running between a 210-260 bcf decline, with most centered on a 233-235 bcf decline. The same week a year ago saw a 190 bcf draw down while the five-year seasonal average is for a 150 bcf decline.

We continue to look for a price rebound before considering establishment of any short position. We look for initial resistance tomorrow at \$3.997 followed by \$4.017 and \$4.087. More significant resistance we see at \$4.228, \$4.342 and \$4.445. Support we see at \$3.86 followed by \$3.71, \$3.656 and \$3.582.

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