



## ***ENERGY RISK MANAGEMENT***

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### **NATURAL GAS & POWER MARKET REPORT FOR FEBRUARY 26, 2010**

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

The EIA reported this morning in its monthly Natural Gas Gross Production Report that gross natural gas production in December fell by 0.7% from November. The agency reported that it had lowered its estimates for wet production in December to 62.82 bcf/d, down 0.46 bcf/d from an upwardly revised November output of 63.28 bcf/d. The report showed that the largest percentage decline in output occurred in New Mexico due to frozen wellheads. Louisiana output though increased during the month by 0.8%, its 12<sup>th</sup> consecutively monthly increase due to strong output from the Haynesville shale. Production in the Gulf of Mexico also rose by 0.8% as operations were restored after Tropical Storm Ida.

Baker Hughes reported today that for the week ending February 26<sup>th</sup>, the number of natural gas drilling rigs searching for gas in the U.S. stood at 905 rigs, up 12 from the previous week. This was the highest weekly rig count since the first week of March 2009.

An analyst with Wood Mackenzie said yesterday that due to the global economic slowdown, coupled with the rapid increase in LNG production globally, LNG producers have been forced to turn their attention to the U.S. market to export their production, if for no other reason than the amount of storage available in the United States. This situation has made an even bigger impact on prices as a result of shale natural gas production, which has effectively placed a "cap" on U.S. natural gas prices. The company is looking for a spike in LNG imports into the United States over the next two or three years, before the global supply picture for LNG begins to tighten once again.

Mississippi Hub LLC has proposed an expansion that would double its capacity by building two new 11.05 bcf salt dome storage caverns, each with a working capacity of 7.5 bcf. The facility is located in Simpson and Jefferson Davis counties in Mississippi.

#### **Generator Problems**

**NPCC** – Dominion Resources 2022 Mw Millstone nuclear power station was shut Friday morning.

OPG'S 494 Mw Lambton #4 coal fired power station returned to service early Friday. The unit had been shut since February 23<sup>rd</sup>.

**ERCOT & SPP** – AEP's 528 Mw Welsh #2 coal fired power plant was expected to be taken off line today for repairs on auxiliary equipment. The unit is expected to remain offline until March 2<sup>nd</sup>.

**WSCC** – PG&E's 1122 Mw Diablo Canyon #1 nuclear unit ramped up to 96% power early Friday morning. The unit had been down to half power at midweek to allow operators to clean the ocean water intake tunnels.

**SERC** – Progress Energy's 938 Mw Brunswick #1 nuclear unit reportedly is scheduled to be shut on February 28<sup>th</sup> for planned maintenance and refueling. The unit was at 95% power this morning.

TVA's 1100 Mw Browns Ferry #3 nuclear unit was expected to enter into a refueling and maintenance outage starting on February 27<sup>th</sup>.

Southern Nuclear's 900 Mw Farley #1 nuclear unit was at 85% power this morning, down 15% from yesterday.

**The NRC reported that there was some 92,707 Mw of nuclear power generated today, up 0.4% from yesterday and 3.3% higher than a year ago.**

Ukraine's Naftogaz said it expects its gas output to fall 2.6% on the year to 18.8 billion cubic meters in 2010.

The US Commerce Department reported that the US economy grew faster than initially thought in the fourth quarter as businesses drew down inventories at a much slower pace and increased investment. It said GDP in the fourth quarter grew by a 5.9% annual rate, up from its previous estimate of 5.7%. It was still the fastest pace since the third quarter of 2003. The economy expanded at a 2.2% annual rate in the third quarter. It reported that business inventories fell by \$16.9 billion in the fourth quarter instead of \$33.5 billion estimated last month. In the final three months of 2009, consumer spending increased at a 1.7% rate, rather than the 2% pace reported in January.

According to the Thomson Reuters/University of Michigan's Surveys of Consumers, US consumer sentiment was weaker in February. Overall index of consumer sentiment was at 73.6 in February, down from 74.4 in January and below the 74 forecast by analysts. The preliminary February reading was 73.7. The survey's barometer of consumer expectations weakened to 68.4 in February from 70.1 in January. The index of consumers' 12-month economic outlook fell to 80 from 84 in January.

The National Association of Realtors said sales of previously owned homes in the US fell by 7.2% on the month in January to an annual rate of 5.05 million units, below market expectations of a 5.5 million unit pace. December sales were revised slightly lower to 5.44 million units from 5.45 million units. The median sales price was unchanged from a year earlier at \$164,700.

### **PIPELINE RESTRICTIONS**

FGT on Friday issued the la shipper alert this morning. The overage alert with a 15% tolerance was called as a result of below normal line pack levels as a result of low temperatures across its service territory.

Northern Natural Gas Pipeline said it has resolved the force majeure event at the NNG Mills compressor station.

PG&E has issued a system wide OFO for February 27<sup>th</sup> due to high inventory. Tolerance was set at 8%.

CIG said the force majeure in effect at the Lost Cabin Compressor would remain in effect through March 3<sup>rd</sup>, as the company extended the period to complete the required repairs. During the outage, capacity through LLC will continue to be reduced from 115 to 90 MMcf/d.

Tennessee Gas Pipeline said today it will accept nomination increases at STA 25, 321 and MLV 336.

### **PIPELINE MAINTENANCE**

Gulf South Pipeline said it has completed the pipeline maintenance on Index 817 in DeSoto Parish, Louisiana that began on Thursday.

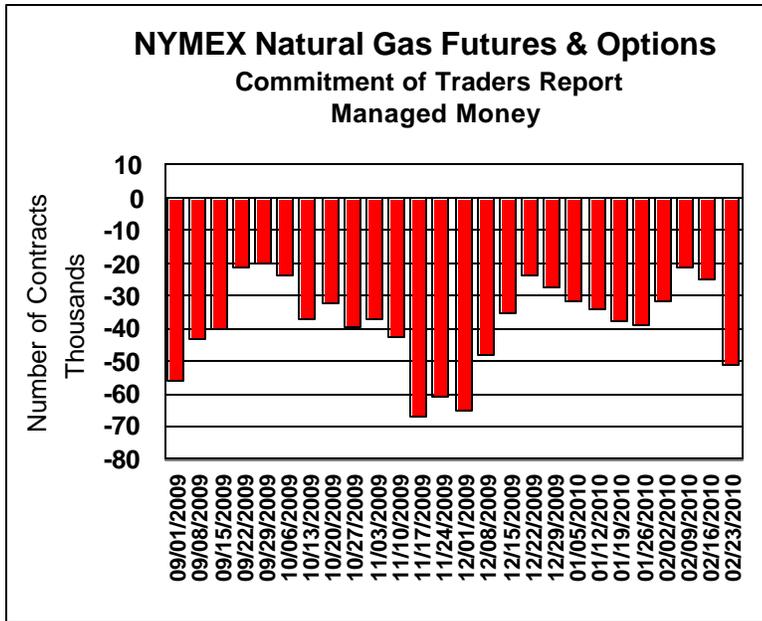
### **ELECTRIC MARKET NEWS**

Genscape reported today that it estimates U.S coal use fell 3% last week from the week before. Compared with the same week a year ago U.S. coal use was up 2% for the week ending Thursday.

The EIA reported that U.S. coal production totaled approximately 20.8 million short tons for the week of February 19<sup>th</sup>, some 3.8% higher than the prior week but 8.4% lower than the same week a year ago.

### **MARKET COMMENTARY**

While the natural gas market this morning appeared to find comfort in the Commerce Department's stronger than expected revision in fourth quarter GDP report, rallying by over 10 cents of the session's



lows. The rally though was stopped in its tracks as less supportive Chicago PMI report was released at mid morning and it showed a decline from January. As a result the market remained bracketed between these two events and remained in the downward channel of this week's trading pattern. We would look for this market to remain on the defensive next week with traders looking to test support at this week's low of \$4.739 followed by \$4.59-\$4.57 and \$4.432. Resistance we see at \$4.97-\$5.01 followed by \$5.05, \$5.15 and \$5.22-\$5.24.

This afternoon's Commitment of Traders Report for the period ending Tuesday, February 23<sup>rd</sup>, showed that the driving force lower in the market appears to have been the hedge funds, which

dramatically increased their net short position by over 25,000 contracts for the week.

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