



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR FEBRUARY 28, 2011

#### NATURAL GAS MARKET NEWS

##### North American

The Climate Prediction Center this morning reported that it expects the nation will see some 156 HDD for the current week on a gas home heating customer weighted basis. This would be 9.3% less than average and some 13.8% less than the same week a year ago.

The EIA released their latest Natural Gas Monthly report today and it showed that in December the agency estimated U.S. dry gas natural production increased for the second month in a row and the fifth time out of the last six months, standing at 61.0 bcf/d a new record. The agency also revised higher its November estimate from 60.6 bcf/d to 60.8 bcf/d. The production gains year on year continue to be found in Louisiana which recorded a jump in production of 48.9% while "Other States" which includes the states where the Marcellus Shale are located saw a gain of 21.1%. Federal Gulf of Mexico waters saw a decline of 8.9% from December 2009. Net imports were estimated at 5.8 bcf/d, while up over 26% from November, it was still some 23.1% less than the same month a year earlier. LNG imports were estimated at only 0.93 bcf/d the second lowest monthly level in 2010. Consumption in December was estimated at 87.9 bcf/d, up 8.7% from the same month a year ago. Residential and

#### Generation Outages

**SERC** – TVA's 1104 Mw Browns Ferry #2 nuclear unit was shut down on Saturday for a refueling outage. The unit had been at full power on Friday.

Duke Energy's 1100 Mw McGuire #2 nuclear unit was shut early Sunday. The unit had been at 98% power on Friday. The shutdown was for a scheduled refueling outage.

**MISO** – Dominion's 556 Mw Kewaunee nuclear unit was shut down on Sunday. The unit had been at just 7% power on Saturday and was at full power on Friday.

**NPCC** – Entergy's 1025 Mw Unit #3 at the Indian Point nuclear plant ramped back to full power this morning. The unit had been at just 2% power on Friday. The unit had been taken out of service on February 22<sup>nd</sup> due to a pipe leak.

**PJM** - Exelon's 1134 Mw Limerick #2 nuclear unit was at 20% power this morning, down from 99% power recorded on Friday. The unit was shut on Saturday after a recirculation pump tripped and then restarted on Sunday when it was at 2% power.

**The NRC reported this morning that some 89,953 Mw of nuclear generation capacity is online, up from 1.3% yesterday and some 0.5% higher than the same day a year ago.**

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	405,500	\$3.926	\$0.119	(\$0.160)	\$0.079	\$0.146
Chicago City Gate	820,600	\$4.104	\$0.155	\$0.018	\$0.076	\$0.105
NGPL- TX/OK	916,400	\$3.839	\$0.132	(\$0.247)	\$0.053	(\$0.157)
SoCal	378,800	\$3.919	\$0.034	(\$0.167)	(\$0.045)	(\$0.009)
PG&E Citygate	1,169,100	\$4.141	\$0.084	\$0.055	\$0.005	\$0.166
Dominion-South	496,300	\$4.126	\$0.168	\$0.040	\$0.089	\$0.080
USTRade Weighted	20,667,400	\$4.048	\$0.158	(\$0.038)	\$0.08	\$0.146

commercial demand showed the largest year on year gains growing by 14% and 11.7% respectively, while industrial and electric utility demand was up 4% and 8.5%. Working gas

inventories at the end of December were estimated at 3.107 tcf, some 10 bcf higher than the estimate from the weekly inventory report.

Gastar Exploration announced it and its joint venture partner, Antinum Marcellus have leased an additional 3,300 acres in the Marcellus Shale area of West Virginia. The company said it would pay 45% of the lease acquisition cost for a 50% interest. The company expects to begin drilling during the second half of 2011. It said it has indentified as many as 30 locations to be drilled over the next several years.

TransCanada said today that it has finally begun repairs on a portion of its main gas pipeline after it ruptured back on February 19<sup>th</sup>. The company said repairs could take until next Monday to complete. However the company said it now has the capacity to handle all spot and contracted natural gas shipments on Lines 1 and 3, while repairs to the ruptured Line 2 are completed. The company reported that Line 3 returned to service over the weekend, boosting capacity on the two lines to 3.2 bcf/d, more than the 2.9 bcf/d the system was transporting prior to the accident.

### **International**

Protests flared over the weekend in gas producer Oman, with protest continuing for a third straight day today. One protester was confirmed to have been killed Sunday as security forces used tear gas and rubber bullets to disperse hundreds of demonstrators in the second largest port city of Sohar. The Sultan of the country in an attempt to placate protesters on Sunday ordered 50,000 new state positions to be created with a monthly stipend of \$390 for job seekers. This follows a day earlier when he replaced six cabinet members. Oman exported nearly 12 bcm of LNG in 2009. Its two LNG plants though are hundreds of miles south of Sohar.

According port officials at South Hook LNG terminal, the Al Ghashaamiya LNG tanker from Qatar is expected to arrive there on March 7<sup>th</sup>. Reuters reported today that according to ship tracking services, it appears the LNG tanker, the LNG Ondo is expected to arrive at Milford Haven on March 10<sup>th</sup>.

The CEO of Eni said today that he thought two thirds of Libyan oil and gas output has been halted as a result of the civil unrest in that country. While natural gas imports via the Greenstream pipeline into Italy from Libya remain off line since February 23<sup>rd</sup>, Gazprom reportedly has increased its gas supply to Italy from 30 mcm to 48 mcm to help make up for some of the supply shortfall.

Petrobras said Monday that it is planning to install a third LNG terminal in Bahia as a result of surging domestic demand by the industrial sector for natural gas. The terminal will have a 14 mcm/d capacity. Construction of the terminal will begin in 2012 with completion expected by August 2013.

Australia's Woodside restarted production at its Enfield oil field off the coast of western Australia after Cyclone Carlos passed. Production from its Cossack Pioneer floating, production, storage and offloading vessel on the North West Shelf remains shut.

Apache said its Varanus Island gas processing hub off the coast of western Australia is operating at 80% of capacity and its Stag oil field is fully operational at 9,000 bpd after they were both shut due to Cyclone Carlos. It expects production at the Van Gogh oil field to restart soon.

The Australian Bureau of Agriculture and Resource Economics and Sciences said today that it expects Australia's exports of LNG to more than double by 2015/16. The increase for the most part will be driven by several new projects including the 15 million tonne per annum Gorgon project, which should come on line in 2014/15 and the 7.8 mtpa Gladstone LNG and 8.5 mtpa Curtis LNG, both due to be online in 2014/15.

### **ELECTRIC MARKET NEWS**

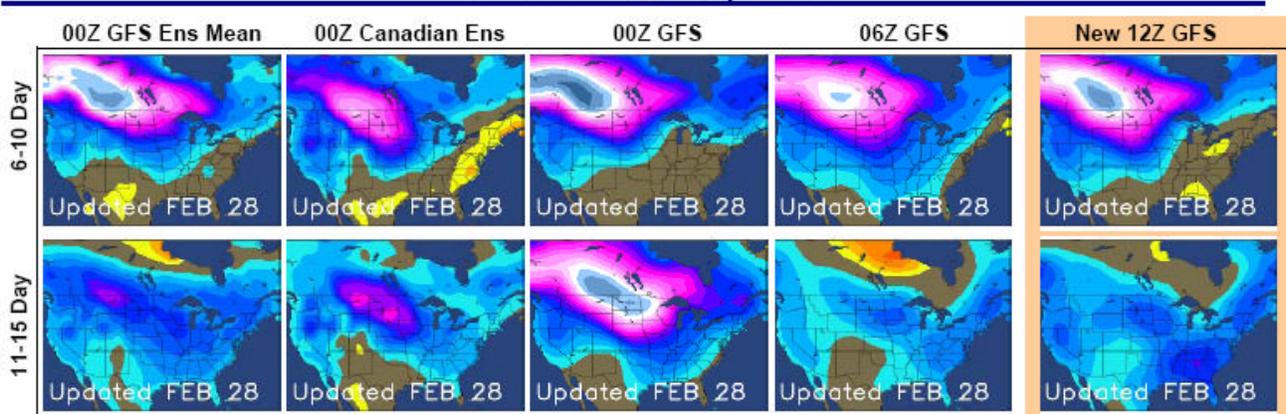
Genscape reported to day that U.S. power output for the week ending February 24<sup>th</sup> fell 3.4% from the prior week and was 3.4% lower than the same week a year ago.

Old Dominion Electric Cooperative, which owns an 11.67% stake in the existing North Anna nuclear reactors said today that it will withdraw from Dominion Resources planned expansion of the North Anna project with the construction of the #3 nuclear unit.

**ECONOMIC NEWS**

The US Commerce Department reported that US consumer spending increased less than expected in January. Consumer spending increased by 0.2%, the smallest increase in seven consecutive months of gains following an upwardly revised 0.5% increase in December. It reported that the personal consumption expenditures price index, excluding food and energy, increased 0.1% in January. In the 12 months through January, the core PCE index increased by 0.8%.

**Forecast Model Comparison**



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



The National Association of Realtors Pending Home Sales Index fell by 2.8% to 88.9 in January from a downwardly revised index of 91.5 in December. It is the second consecutive decline and the slowest pace since October.

The IMF warned that global economic growth could suffer if the price of oil remained at its current high level for an extended period.

China's National Bureau of Statistics reported that the country's energy consumption in 2010 increased by 5.9% to 3.25 billion tons of standard coal.

India's GDP grew at a slower than expected 8.2% in October-December.

Germany's IFO business climate index increased to 111.2 in February from 110.3 in January. However business confidence in France, Italy and the Netherlands fell slightly in February.

## **MARKET COMMENTARY**

The natural gas market continued to rebound for the second day in a row today as the seasonal decline in nuclear generation has begun coupled with colder temperature forecasts for the 6-10 and 11-15 day periods. This appeared to help prompt some further short covering in a technically over sold market. We remain committed to looking at any price rally as an opportunity to being a scale up seller of this market. This bearish belief found comfort in the EIA natural gas production estimates released today which showed continued gains in domestic production levels. We see resistance tomorrow at the \$4.10 level followed by \$4.197, \$4.274-\$4.287, \$4.328 and \$4.458. Initial minor support we see at \$3.994, \$3.961 and \$3.928, with more significant support at \$3.882, \$3.776, \$3.71, \$3.656 and \$3.41.

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