



## ***ENERGY RISK MANAGEMENT***

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### **NATURAL GAS & POWER MARKET REPORT FOR MARCH 2, 2010**

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

The U.S. EPA has been approached by dozens of environmental groups to study the hydraulic fracturing technique of extracting natural gas, amid concern that it contaminates drinking water with toxic chemicals. The groups have called on the agency to expand its current probe of coal bed methane extraction to include hydraulic fracturing.

El Paso announced today that Southern Natural was placing its Elba Island LNG terminal expansion and Elba Island Express Pipeline into service. The company noted these two projects accounted for some \$900 million in investment. The Elba Island terminal now has a send out capacity of 1.75 bcf/d. The facility will also by this summer be increasing its storage capacity to 4.2 bcf/d. The Elba Express Pipeline is a 190-mile pipeline that has a total capacity of 945 MMcf/d.

Statoil said today that it has entered into agreements to deliver natural gas produced in the Northern Marcellus shale gas area of Pennsylvania to New Jersey and New York City areas. The deals with Tennessee Gas Pipeline and Texas Eastern Transmission ensures Statoil the right to transport up to 2 bcm of gas per year or 200,000 mcf per day. The transportation capacity contracts are expected to commence in November 2013.

Waterborne Energy noted that the pace of U.S. LNG imports for Q1 2010 has proven to be very strong, as imports are up 23% from last year and up nearly 30% from a year 2008. Waterborne is looking for the first Qatari sourced LNG cargo to arrive on the U.S. East Coast within the next month or so. The company also reported that the GDF Suez Neptune has arrived at the Neptune LNG off-shore terminal in Massachusetts Bay and is expected to be the first commissioning cargo, offloading procedures will not commence until the first part of March.

The head of Exxon Mobil's European gas marketing said today that the company sees good potential for unconventional natural gas supplies such as shale gas in Europe. He said tight gas resources and coal bed methane would also be sought after. The company plans to focus its first shale exploration in Germany and Poland. He noted that industrial demand in Europe has been slow to pick up so far this

#### **Generator Problems**

**NPCC** – OPG's 494 Mw Lambton #2 coal fired power plant returned to service by early Tuesday. The unit had been shut on March 1<sup>st</sup>.

Dominion Resources 866 Mw Millstone #2 nuclear unit was at 98% power this morning, up 38% from Monday, as operators continued to ramp the unit back up from an unplanned outage on February 26<sup>th</sup>.

**PJM** – PPL Corp shut its 1149 Mw Susquehanna nuclear power station for planned refueling and maintenance on early Tuesday morning.

Constellation Energy's 878 Mw Calvert Cliffs #2 nuclear unit was operating at full power today, up 5% from Monday.

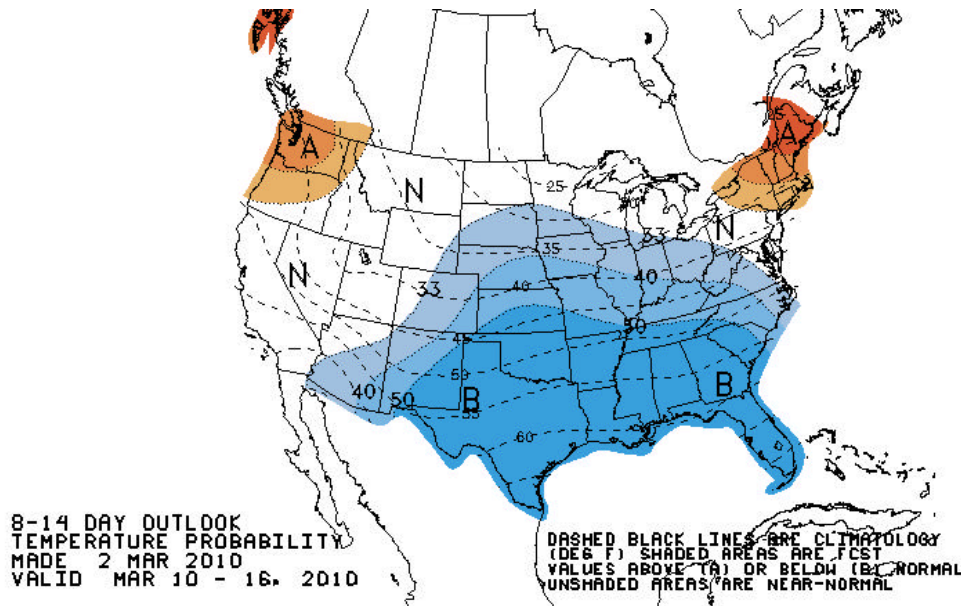
**SERC** – Southern Nuclear's 1149 Mw Vogtle #2 nuclear unit was at 99% power this morning, but the unit was expect to coast down to a planned refueling outage by March 7<sup>th</sup>.

**The NRC reported that there was some 89,002 Mw of nuclear power generated today, down 0.6% from yesterday and 0.8% lower than a year ago.**

year but commercial and residential demand has been off to a good start in 2010 due to cold weather. He expects that imports of natural gas to make up 70% of Europe's gas supplies by 2030.

BP said it has secured a position in the Eagle Ford Shale in Texas with an estimated 5 TCF of natural gas resources. Terms of the agreement though were not released.

The gas export project in Papua New Guinea has sealed a binding gas sales agreement with Taiwan's CPC Corp, making the project fully contracted and clearing the way for a financial close. CPC will buy 1.2 million tones of LNG a year from ExxonMobil led project for a period of 20 years.



Russian gas production in February reached a new all time high for the second straight month, as production reached 2.07 bcm per day, up from January's level of 2.06 bcm per day. This production increase came as a result of non-state gas producers raised their production levels to offset the minor drop in Gazprom production on the month. Russian exports of natural gas were seen up 114% from a year

ago reaching 17.10 bcm. Russian domestic demand for gas was estimated at 49.35 bcm in February up 8.1% from a year ago.

Anadarko Petroleum said today that it plans to boost spending by as much as 22% in 2010 on offshore deepwater discoveries and U.S. shale gas acreage. The company said that "we are going to see shale become a larger and larger part of what we do". The company sees its oil and gas output grow by 7-9% annually over the next five years. The company which holds over 600,000 net acres in the Marcellus, Haynesville, Eagle Ford and Pearsall shale plays said it will earmark 10% of its budget to these plays.

Kuwaiti officials said the country is expecting to make more gas discoveries that should help boost the country's non-associated gas production by 1.5 bcf/d to 2.5 bcf/d by 2025. Officials said that according to recent seismic surveys, there should be more discoveries coming over the near term once drilling starts at these areas.

A poll of European gas executives attending an Amsterdam conference this week showed that more than half of the executives expect demand for natural gas to remain the same or grow by up to 10% by 2020 versus 2008 levels. About 24% of the respondents expect demand should grow by 11-20%, with only 5% expecting demand would increase by more than 20%. Fifteen percent of the respondents said they expect demand to remain flat or actually decrease over the period. Sixty-six percent of the respondents though said decisions on gas storage projects had become more difficult, and 50% of the respondents did not expect European long-term gas contract prices would decouple from oil prices and be determined by spot and future prices until after 2015.

CFTC Commissioner Michael Dunn said today that Congress should not create blanket exemptions from new rules designed to make trading of OTC derivatives more transparent. He said the CFTC should be given the authority to exempt end users, companies that rely on hedging to spread their financial risk, from requirements to trade and clear standardized derivatives on a case-by-case basis. He felt that exempting a large class of transactions would mean dealers would have more risk on their books. If these dealers fail, this risk could affect the entire financial system.

### **PIPELINE RESTRICTIONS**

CIG said it expects its repairs to the Lost Cabin Compressor will be completed on March 4<sup>th</sup>, at which time it will cancel its current force majeure event. Upon completion of the repairs, the capacity will be returned to 115 MMcf/d

### **PIPELINE MAINTENANCE**

Gulf South said it would begin maintenance at the Kiln compressor maintenance beginning March 23<sup>rd</sup> and last for 48 hours. Capacity at the station could be reduced by as much as 125,000 Dth during this maintenance.

### **ELECTRIC MARKET NEWS**

PG&E announced yesterday the company plans to spend between \$7 billion and \$10 billion over the next two years, on its electric and natural gas distribution systems, building new transmission and generation facilities, installing smart meters and other projects. Some of the projects funding will depend on receiving regulatory approval, including a \$1 billion rate hike that has been currently requested.

Genscape reported that coal stocks at U.S. power plants fell 0.4% this week but remained 1.1% larger than the same week last year.

BP's CEO said today that he sees his company's U.S. wind power business to be cash flow positive in 2010.

The U.S. Northwest River Forecast Center on Tuesday said its outlook for water run off at the Dalles Dam on the Columbia River for the April through September period will be at 71% of normal, unchanged from last week's forecast. Water flow at the Grand Coulee Dam is expected to be 74% of normal up 1% from last week's forecast.

U.S. Senator Kerry said today that he hopes a new climate bill cobbled together this month. Senator Graham though said they are still weeks away from producing a new compromise climate change bill.

ISO New England said wholesale electricity prices and the annual demand for electricity in New England both fell last year to their lowest levels since at least 2003. Year over year, the average price of wholesale power fell 48% in 2009. The decline last year was largely due to a sharp decline in the average price of natural gas, which is the predominant fuel used to generate the region's power.

### **MARKET COMMENTARY**

Despite stronger oil prices today the natural gas market saw a relative tranquil trading session. While the price challenged yesterday's lows at mid morning, the market failed to find any fresh follow through selling and prices bounced off this level and remained in a sideways 10 cent trading range for much of the rest of the day. The market though was able to settle higher on the day; marking only the third time out the last eleven trading sessions it was able to remain positive by the end of the day.

Open interest in the natural gas futures, reported at midday, showed that open interest increased just under 5500 lots yesterday, and posting the third consecutive day of gains. Over the last three trading sessions open interest has grown by just under 30,000 contracts. This has to be seen as a wave of

new shorts coming into this market. Given the extremely oversold technical condition of this market, with the 9 day daily stochastics in single digits and the 9 day RSI in the teens, we would not recommend selling at these lows but rather on the look out for a short term corrective bounce in prices possibly back to the \$5.00-\$5.10 level. Additional resistance we see at \$5.196 and \$5.5412. Support we see at \$4.66-\$4.655 followed by \$4.595 and \$4.432.

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