



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR MARCH 11, 2011

#### NATURAL GAS MARKET NEWS

##### North American

Baker Hughes reported this afternoon that for the current week, the number of natural gas drilling rigs operating in the United States stood at 882 rigs, down 17 rigs on the week. This was the lowest level of activity in 13 months. Baker Hughes also reported the number of horizontal rigs operating in the United States stood at 981, up 11 from the prior week. This was the first weekly gain in three weeks. It is estimated that approximately two-thirds of the horizontal rigs operating in the United States are searching for natural gas.

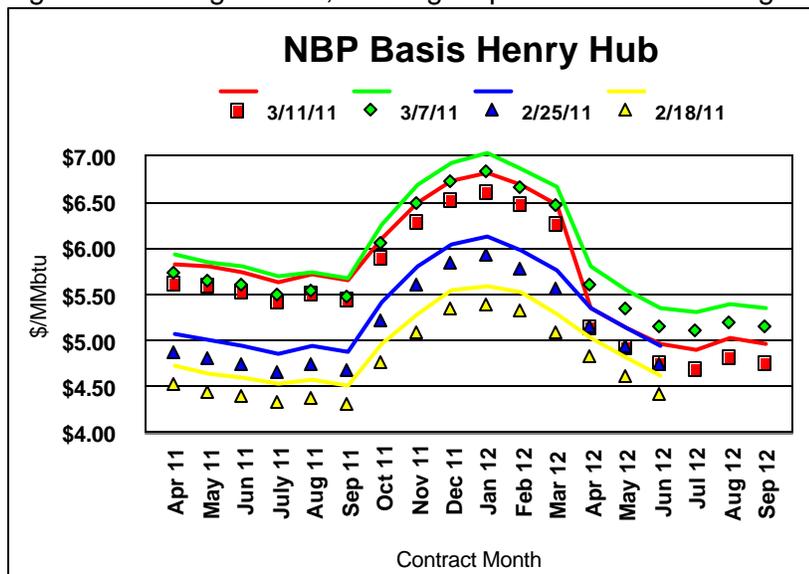
##### Generation Outages

The NRC reported this morning that some 85,109 Mw of nuclear generation capacity is online, up 0.2% from yesterday and some 2.2% higher than the same day a year ago.

##### International

The Asian spot market for LNG was bracing for a surge in demand from Japan in coming days as Japanese utilities potentially seek more gas to make up for nuclear generation that could possibly be offline for extended periods of time due to damage from today's earthquake. Wire reports show three nuclear facilities were shut down, accounting for 21% of nuclear generation of 11 GW of power capacity. Given the history of Japanese safety checks needed before restarting facilities, these nuclear facilities may be off line for an extended period of time. The full impact of the quake on Shinminato LNG terminal which is located at the port Sendai, which was slammed by the tsunami is still unclear.

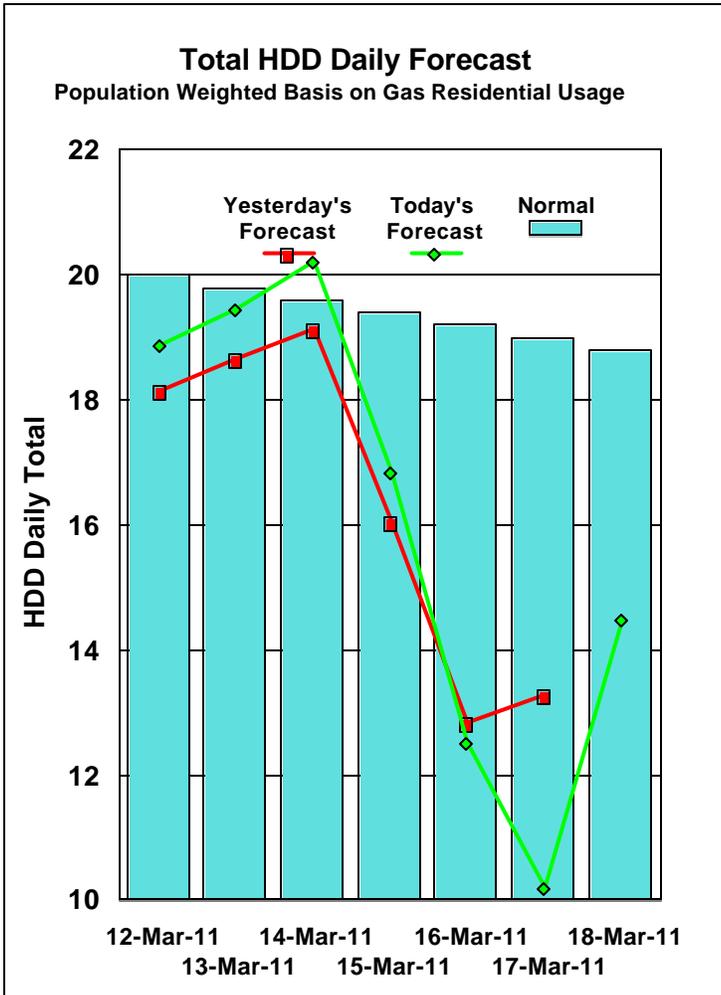
Statoil's CEO said today that without the Norwegian government approval of new exploration area and big new oil and gas finds, Norwegian production will fall "significantly" after 2020.



The French Prime Minister today extended a moratorium on research and drilling for shale oil and gas in that country until mid-June. The government is awaiting the results of reports it had commissioned to evaluate the impact to the environment from these drilling activities. The moratorium had been scheduled to expire on April 15<sup>th</sup>. France is the only European country to be considering a ban on shale drilling at this time.

#### ELECTRIC MARKET NEWS

PG&E declared an "unusual event" at



the Diablo Canyon nuclear plant this morning due to a tsunamia warning. Both units though continued to operate at normal levels.

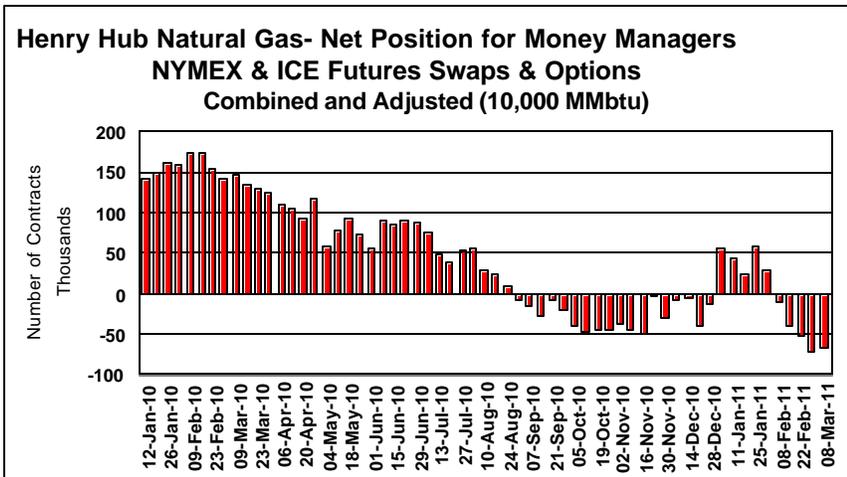
Genscape reported that U.S. coal consumption this week fell at U.S. power plants by 2% from the prior week and was down 5% from the same week a year ago.

The EIA reported late yesterday that U.S. coal production for the week ending March 5<sup>th</sup> stood at 21.761 million short tons down 0.1% from the prior week but 0.3% better than the same week a year ago. Year to date production has been running 2.7% higher than the same week a year.

### ECONOMIC NEWS

The US Commerce Department said US retail sales increased at the fastest rate in four months during February. US retail and food services sales in February increased by 1% on the month to \$387.12 billion. Sales for January were revised up to an increase of 0.7% from a previously estimated 0.3%.

US business sales increased in January by the largest amount in 10 months, while inventories increased more than expected. Sales by businesses in the US increased by 2% in January to \$1.178 trillion while inventories increased by 0.9% to \$1.453 trillion. The inventory to sales ratio fell to 1.23 from 1.25 in December.



### MARKET COMMENTARY

The natural gas market appeared to find some spill over support from the international natural gas market. As news spread across the marketplace of the potential long-term disruptions to the Japanese nuclear industry, LNG values began to escalate, as demand for this generating fuel by Japanese utilities will mostly likely be strong for months and attract LNG cargoes away from the Atlantic basin. In addition there

appeared to be additional fundamental strength from the Baker Hughes report that continued to show declining drilling activity for natural gas in the United States. While short covering helped to drive this market back towards the highs of the past several days there was not enough follow through to break this market out to the upside. We continue to look for this market to remain overall on the defensive over the next several weeks.

This afternoon's Commitment of Traders Report showed that hedge funds remain relatively committed to the short side of this market.

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