



## ***ENERGY RISK MANAGEMENT***

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### **NATURAL GAS & POWER MARKET REPORT FOR MARCH 16, 2011**

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

##### **International**

Japan, the world's biggest importer of LNG, has already started negotiations for more short and longer-term supplies. Estimates are that Japan could buy up to 5 million tons of additional LNG this year in an effort to offset the loss of nearly 10 gigawatts of nuclear power output. It is still uncertain as to when and how much capacity of the nuclear and thermal power units will be brought back on line. According to FACTS Global Energy in Singapore, if Japan were to replace the loss of nuclear power output with LNG, an additional 10 – 11 million tons of LNG would be needed.

Two cargoes of liquefied natural gas are heading to Japan. The Al Rayyan LNG tanker was expected at the Kawagoe terminal on March 29<sup>th</sup> and the Al Jasra tanker was expected at the Yokkaichi terminal on March 26<sup>th</sup>. Each tanker can hold up to 135,000 cubic meters of LNG.

The National Development and Reform Commission said on Wednesday that China's gas imports in February increased 130% on the year, totaling 1.65 billion cubic meters.

Fourteen LNG tankers are expected to arrive at the Dragon and South Hook LNG terminals in the U.K. during the month of March. The Isle of Grain terminal has capacity to import 9.8 metric tons of LNG a year and during 2009 the terminals were fully commissioned. Total supply capacity is set at 30% of the U.K.'s gas requirement.

According to knowledgeable sources, Argentina is set to pay a hefty fee for LNG imports for its new Puerto Escobar plant. The sum is said to be double the price for U.S. imports. The undisclosed source said that the delivered price would be about \$10.70 per million BTU's. Figures for June delivery are said to be at \$4.146 per mmBtu. Argentina will also pay above the \$7.62 per mmBtu for piped natural gas imports from Bolivia.

Russia's Deputy Prime Minister Igor Sechin said that no agreement has been reached with Turkey on the South Stream pipeline that is planned to cross its territorial waters.

#### **ELECTRIC MARKET NEWS**

##### **Generation Outages**

**PJM** – Constellation Energy Nuclear's 872 Mw Calvert Cliffs nuclear unit 2 ramped up to 56% of capacity by early Wednesday from 10% on Tuesday.

**MAPP** – Entergy Corp's 778 Mw Palisades nuclear unit cut its operations to 52% of capacity on Wednesday from full power on Tuesday.

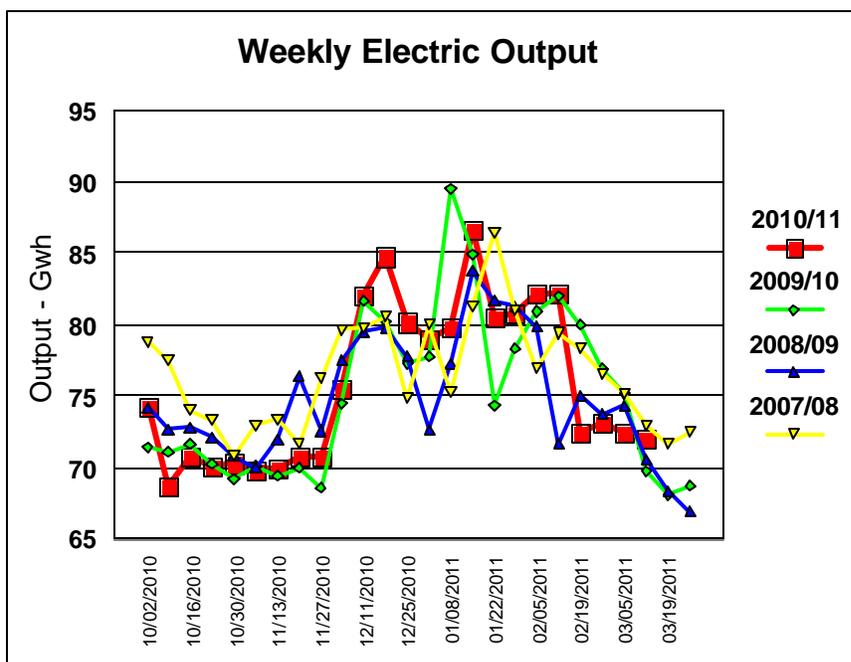
**FRCC** – NextEra Energy's 693 Mw Turkey Point 3 nuclear unit ramped up to full power on Wednesday from 60% on Tuesday.

**ERCOT** – Luminant's 750 Mw Martin Lake coal fired unit 1 is expected to shutdown on March 16-17 for a scheduled outage.

**The NRC reported this morning that some 84,129 Mw of nuclear generation capacity is online, up 0.29% from yesterday and some 1.13% higher than the same day a year ago.**

The Edison Electric Institute said power production in the US for the week ending March 12<sup>th</sup> increased by 3.3% on the year to 72,073 Gwh. For the first 11 weeks of the year, power production totaled 861,687 Gwh, down 0.9% from last year.

US Energy Secretary Steven Chu said that federal regulators will learn from what happened in Japan's nuclear crisis and check if safety measures need to be boosted at current and proposed US nuclear reactors. He later stated that he believes a partial meltdown occurred at the plant in Japan where explosions and malfunctions in the wake of last week's earthquake have raised concerns about radiation leaks. He however added that Japan's Fukushima Daiichi nuclear power plant has containment systems to prevent leaks and that a partial meltdown does not mean the containment system will fail.



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Japan military may be called upon to help pump water to the No. 3 reactor and into a spent-fuel pool at the No. 4 reactor of a quake-stricken nuclear plant. The military had made a previous helicopter attempt to dump water on the No. 3 reactor but the mission failed. It was uncertain whether another attempt would be made. According to the U.S. NRC Chairman, a spent fuel pool at Japan's troubled reactor 4 has no water and radiation levels "are extremely high."

### ECONOMIC NEWS

The US Labor Department said US wholesale prices increased in February mainly due to higher energy and food prices. The Producer Price Index increased by a seasonally adjusted 1.6% in February following a 0.8% increase in January. A 3.3% increase in energy prices and a 3.9% increase in food prices drove the greater than expected increase. The core PPI increased by 0.2% in February following a 0.5% increase in January.

The Commerce Department said the US current account deficit narrowed in the fourth quarter. The deficit fell to \$113.3 billion or 3.1% of US GDP in the last quarter of 2010. It is down from a revised third quarter deficit of \$125.5 billion and the lowest current account gap since the first quarter of 2010.

The US Commerce Department said home construction in the US fell by the largest amount in nearly 27 years in February and new building permits set a record low. Construction of new homes and apartments in February fell 22.5% from a month earlier to a seasonally adjusted annual rate of 479,000 from an upwardly revised 618,000 in January. It was the lowest level for housing starts since April 2009 and the largest monthly decline since March 1984. Building permits fell by 8.2% on the month to an annual rate of 517,000.

The Mortgage Bankers Association said its seasonally adjusted index of mortgage application activity fell by 0.7% in the week ending March 11<sup>th</sup>. Its seasonally adjusted index of refinancing applications increased 0.9%. The MBA's gauge of loan requests for home purchases fell 4%.

### MARKET COMMENTARY

The natural gas market continued to trade higher early this morning after the market came back late yesterday. The market was supported by expectations that LNG imports to Japan would increase significantly as the country seeks to replace its lost nuclear generation following last week's earthquake and subsequent nuclear crisis. The market rallied to a high of \$4.015. It however gave up its gains and sold off to a low of \$3.902 in afternoon trading as milder weather outlooks seemed to outweigh concerns over increased Asian LNG imports. The market also traded lower ahead of tomorrow's release of the natural gas storage report. The natural gas market settled down 3 points at \$3.938.

Market expectations for Thursday's storage report range from a draw of 32 bcf to 59 bcf, with most centered around a draw of about 45 bcf. Natural gas stocks fell by an adjusted 25 bcf during the same week last year while the five year average draw was 58 bcf.

The natural gas market's gains will remain limited as seen in today's session, with the mild weather forecasts. The market is seen finding resistance at \$3.97, \$4.001, its high of \$4.015 followed by \$4.053, \$4.065 and \$4.114. Support is seen at \$3.93, \$3.902, \$3.888, \$3.839, \$3.775.