



## ***ENERGY RISK MANAGEMENT***

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### **NATURAL GAS & POWER MARKET REPORT FOR MARCH 22, 2011**

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

##### **North America**

Tennessee Gas Pipeline lifted its force majeure over the weekend after completing repairs on a section of its gas pipeline system near Heidelberg, Mississippi. The force majeure was declared back on March 15<sup>th</sup> after a leak was discovered on a small line that connects to a main line near rural Jasper County.

Private weather forecaster WSI Corp said today that they are looking for temperatures across most of the eastern and southern United States will average above normal over the next three months, while the northwestern U.S. and North Central regions can expect cooler than normal temperatures. They base this forecast on the fact that the current La Nina event continues to diminish. Just for April the private weather forecasting service is calling for temperatures to average warmer than normal in the East and South Central, with colder than normal temperatures across the rest of the country.

Trinidad's ambassador to the United States said yesterday that his nation, which is the largest exporter of LNG to the United States, is looking to expand its exports to other countries while it seeks foreign investment in facilities that would produce downstream products. The country has recently been expanding into the markets of Chile, Brazil and Canada.

The task force set up by the Bipartisan Policy Center and the American Clean Skies Foundation, released a report on Monday that noted the expansion of shale gas

production in the United States makes a strong case for the expanded use of commodity price management, such as hedging and long term contracts to "reduce the susceptibility of gas markets to price instability and provide an opportunity to expand the efficient use of natural gas in the United States." The report calls on government to "encourage the development of domestic natural gas

#### **Generation Outages**

**NPCC** – Entergy's 852 Mw FitzPatrick nuclear unit was at 55% power this morning, off from full power recorded yesterday morning.

**OPG's** 515 Mw Pickering #4 nuclear unit has exited its outage, which began back on February 24<sup>th</sup> and returned to service.

**PJM** – PSEG said its 1161 Mw Hope Creek nuclear unit ramped up to 64% this morning up 60% from yesterday. The unit had been taken off line late Friday as part of a planned maintenance outage.

**The NRC reported this morning that some 82,169 Mw of nuclear generation capacity is online, up 0.8% from yesterday and some 0.42% higher than the same day a year ago.**

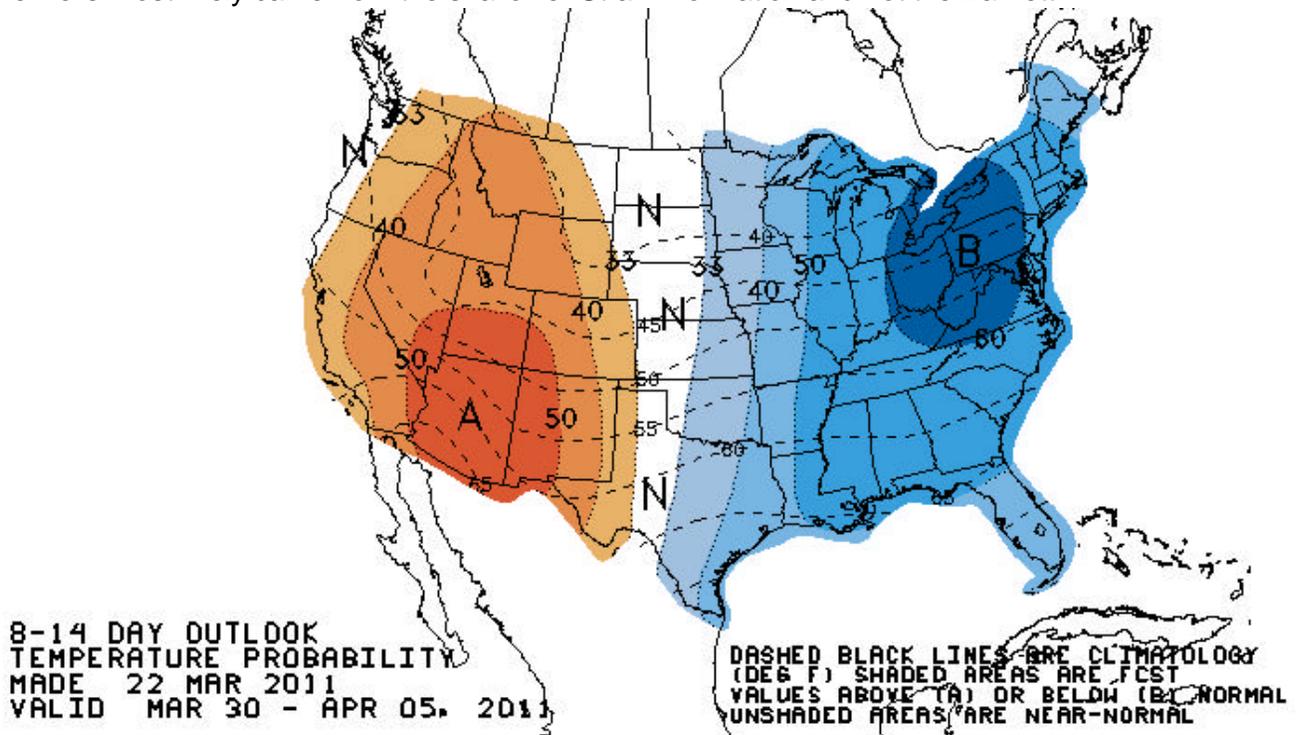
#### **Natural Gas Cash Market**

##### ICE Next Day Cash Market

<b>Location</b>	<b>Volume Traded</b>	<b>Avg Price</b>	<b>Change</b>	<b>Basis</b> <small>(As of 12:30 PM)</small>	<b>Change</b>	<b>Basis 5-Day Moving Avg</b>
Henry Hub	490,400	\$4.053	\$0.067	(\$0.134)	\$0.089	(\$0.142)
Chicago City Gate	786,300	\$4.219	\$0.115	\$0.032	\$0.097	(\$0.079)
NGPL- TX/OK	812,000	\$3.976	\$0.103	(\$0.211)	\$0.085	(\$0.280)
SoCal	545,000	\$4.122	\$0.084	(\$0.065)	\$0.066	(\$0.190)
PG&E Citygate	1,167,600	\$4.420	\$0.060	\$0.233	\$0.042	\$0.129
Dominion-South	555,000	\$4.311	\$0.146	\$0.124	\$0.128	(\$0.007)
<b>USTrade Weighted</b>	<b>21,142,300</b>	<b>\$4.144</b>	<b>\$0.107</b>	<b>(\$0.043)</b>	<b>\$0.09</b>	<b>(\$0.142)</b>

resources” since it has the potential to reduce harmful air emissions, enhance energy security and improve the prospects of U.S. based energy intensive industries.

Range Resources Corporation on Tuesday was cleared by the Texas Railroad Commission of a claim it had fouled the water in two North Texas wells with natural gas. The commission found that the gas in the wells most likely came from the shallower Strawn formation and not the Barnett.



Pipeline flows reported by Bentek Energy show that Louisiana’s Haynesville Shale region has surpassed the volumes flowing from the Fort Worth/ Barnett Shale region in North Texas.

The Maryland House of Delegates are expected to vote this week on a bill that would freeze the permitting of Marcellus Shale drilling, at least temporarily, while state agencies review the results of various studies into Marcellus development and hydraulic fracturing, including the one being currently undertaken by the U.S. EPA.

### International

The Ormen Lange gas field was restarted Tuesday evening after a power failure Tuesday briefly halted production. Power dips on the national grid caused the problem. Operators hoped to have normal production restored within 24 hours

Royal Dutch Shell said Tuesday that it has made eight extra shipments of LNG to Japan last week. Two shipments were sourced from Sakhalin and six were from Brunei. A company official said there was “more than enough” supply for extra shipments to Japan and although there are currently “limited flexibility” more uncommitted cargoes are available beyond three months.

Transitgas confirmed it will halt gas flows on its Swiss-Italian pipeline for approximately five days in late April or early May to transfer gas flows to the newly built section of the line that was built following damage to a section from landslides last summer.

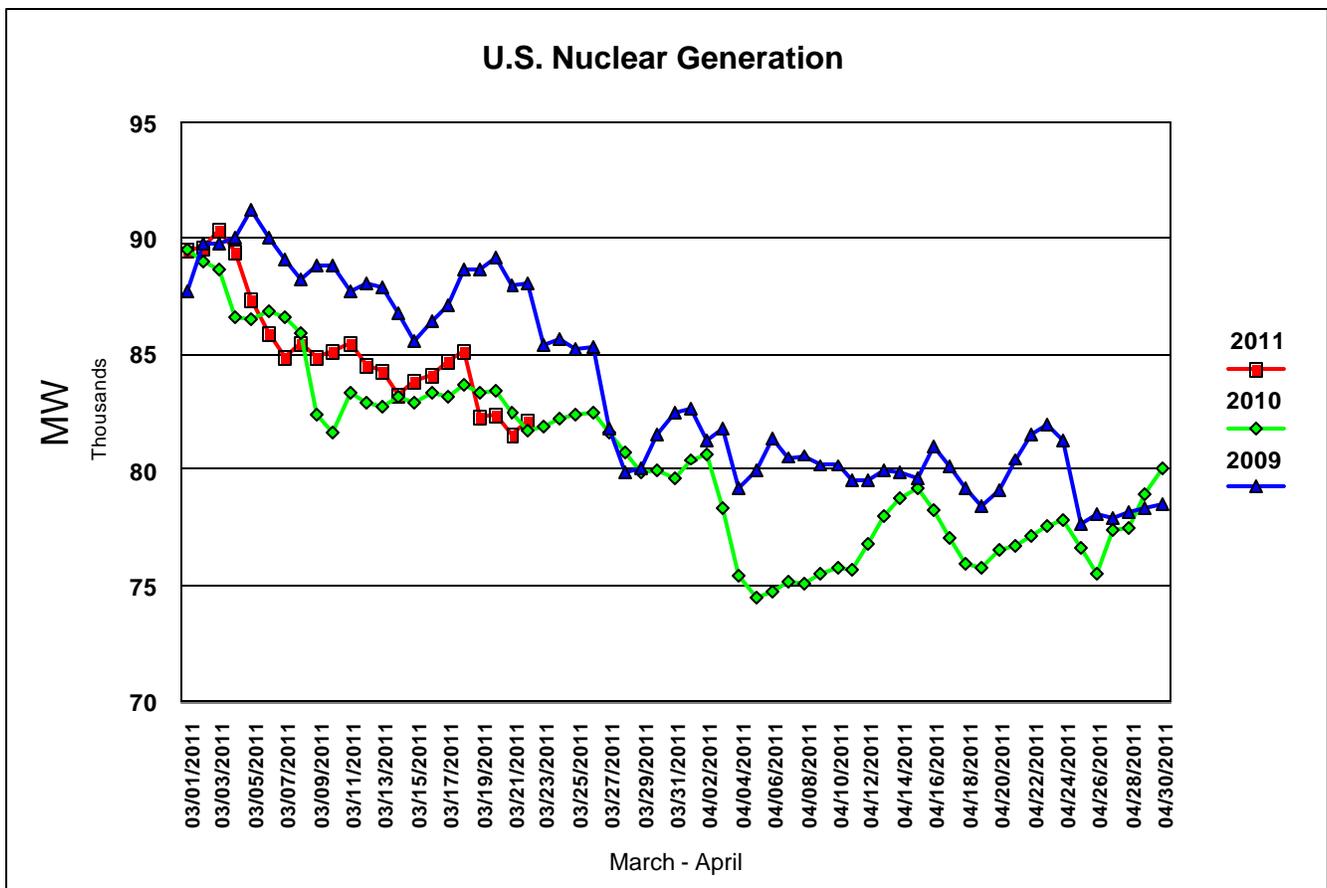
The Aamira LNG tanker from Qatar is scheduled to arrive at the South Hook LNG terminal on March 23<sup>rd</sup>. The Al Hamla LNG tanker is slated to arrive at the South Hook terminal on March 26<sup>th</sup> from Qatar.

Iraq's oil minister said today that Iraq will hold its fourth bidding round in November for international firms interested in gas exploration contracts. The fourth round is expected to find some 29 tcf of natural gas.

A spokeswoman for Total said today that Yemen LNG has notified customers that unrest in that country could lead to supply disruptions and a possible declaration of force majeure. While operations and deliveries have not yet not been affected, explosions on oil pipelines last week by disgruntled tribesman has raised concerns about future gas supplies. Total is the project leader of Yemen LNG with a 39.62% stake in the operation.

Russia's Deputy Prime Minister Sechin said today that Russia may double its exports of oil to Japan this year as well as increasing its coal exports by 3-4 million tons. Russia may also invite Japan to participate in the Chayanda and Kovykta gas projects.

Gazprom and Slovenia's Geoplin Plinovodi on Tuesday signed an agreement to build a South Stream gas pipeline link in Slovenia.



**ELECTRIC MARKET NEWS**

Tokyo Electric Power Company reportedly lost about 20% of its operating thermal and nuclear generation in this month's earthquake and tsunami and is expected not to be able to return sufficient generating assets in time to meet its usual levels of peak demand this summer, especially if it turns out to be warmer than normal. The utility's service territory accounts for 40% of the country's GDP and as a result could result in intermittent rolling blackouts this summer. Given the fact that Japan's power grid is rather fragmented, with the eastern part of the nation running at 50 hertz frequency and the western half of the country at 60 hertz experts note it will be hugely expensive to unify the grid, given the different standards for electric motors and appliances. The capacity for linkage between the west and

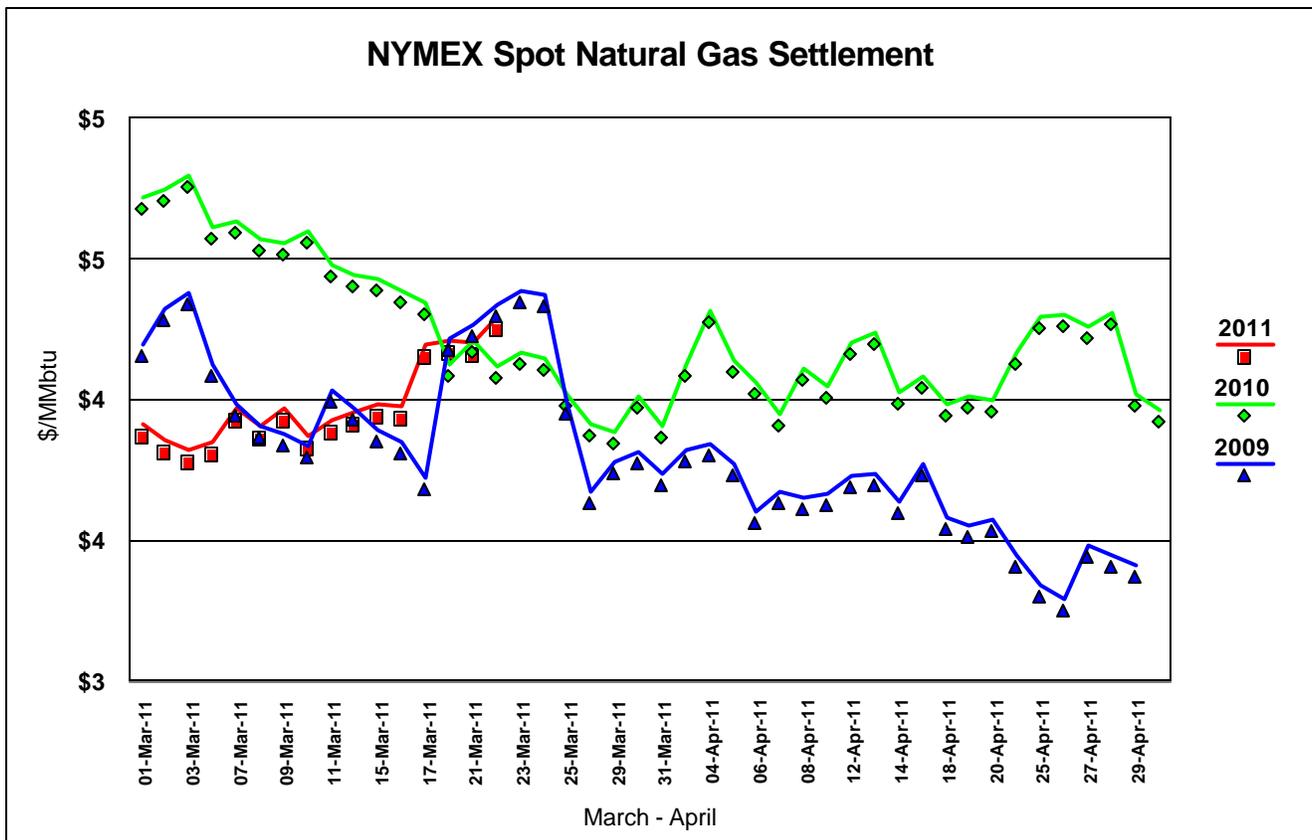
east is only 1000Mw currently and would take 2-3 years to just double or triple that capacity. Tokyo Electric resumed rolling blackouts on Tuesday. The utility expects these rolling blackouts could continue until the end of April.

The IAEA said today that radiation is continuing to be emitted from Japans' damaged reactors but it is unclear exactly what the source of the leakage is coming from.

Fitch Ratings said today that they believe the near to intermediate term impacts to credit quality in the U.S. power and utility industry from the ongoing Japanese nuclear crisis is likely to be manageable and should not impact current rating levels, since it believes the U.S. regulatory response will not significantly reduce nuclear power output in the near term. However they noted that over the longer term, the cost of potential safety related nuclear plant upgrades or shutdowns, could pressure credit ratings for owners of nuclear power facilities.

German Chancellor Merkel said today she could not judge whether seven older nuclear plants in Germany, which she ordered closed last week, would be reopened when a three-month moratorium expires in June. A large chunk of base load power in Germany now needs to be made up from oil or gas generating resources.

The Czech carbon registry is scheduled to reopen on Thursday following the suspension of trading after a theft of emission allowances stopped trading back in January.



**ECONOMIC NEWS**

The Federal Housing Finance Agency's monthly home price index fell 0.3% on a seasonally adjusted basis from December to January. January's index value was 186.5. US home prices fell for the third straight month in January.

Statistics Canada reported that retail sales fell by 0.3% in January from December. It was the second consecutive decline. Separately, Canada's composite leading indicator increased 0.8% in February from January, in part due to renewed strength in the manufacturing sector. In manufacturing, new orders for durable goods increased by 1% following three straight declines.

The chairman of the CFTC, Gary Gensler said preventing another financial crisis similar to the one that occurred in 2008 requires a global effort and cannot be done by one nation alone. He said that even though it has been more than two years since the financial crisis exposed flaws in global financial and regulatory systems around the world uncertainty still remains. He said effective reform would require a comprehensive, international response. The CFTC is currently writing dozens of regulations to implement the Dodd-Frank law, which was enacted last July and gives the agency some oversight of the \$600 trillion global swaps market. However most rules have not been finalized.

Britain's Financial Services Authority said a proposal by the US CFTC to force clearinghouses to accept more members could inadvertently increase risk in the financial system. The CFTC proposed a measure that would prohibit clearinghouses from setting a minimum capital requirement above \$50 million for those interested in becoming a member to clear swaps. The chairman of the CFTC has complained that swaps clearinghouses acted like exclusive clubs and have unnecessarily kept out smaller players.

### **MARKET COMMENTARY**

The natural gas market continued in its upward trending channel today, as the prospects for the international LNG market remained bullish as Japanese demand is expected to remain strong coupled with the news that Yemen LNG production is at risk of being disrupted in coming weeks. Domestically the outlook for below normal temperatures in the final days of the 2010/11 heating season with non-gas generating maintenance activities being underway has bulls still in control of this market. The April natural gas futures contract while not keeping pace with cash market values still was up over nine cents today finishing the day up on its highs and retracing 50% of the previous down move from late January through early March.

The charts above show that seasonally the natural gas market does get a short term bullish bump from the down turn in nuclear generation output as those units go into seasonal scheduled maintenance outages. It is for this reason coupled with comfortable storage levels that we are not a believer in this market remaining in a long-term bullish trend. We remain committed to being a scale up seller of this market and becoming more aggressive once the daily stochastics turn over to the downside. We see resistance tomorrow at \$4.265 followed by \$4.371-\$4.392, \$4.42-\$4.44. We see support at \$4.068, \$4.00, \$3.937 and \$3.731.

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