



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR MARCH 24, 2010

#### NATURAL GAS MARKET NEWS

Excelerate Energy, the terminal operator of the U.S. Northeast Gateway LNG terminal said that the terminal has received seven LNG cargoes this winter. A cargo was delivered approximately every 10 days since November. The imported cargoes were sourced from Egypt, Trinidad and Qatar.

Russian President Putin said today that the Gas Exporting Countries Forum, the producers group that has been dubbed by some, as the “gas OPEC” should play a role in governing global gas markets. He said “Russia is interested in this forum becoming an effective instrument of coordination on the gas market.” Russia and Qatar, two of the founding members of the forum hold collectively 70% of the world’s proven reserves of natural gas.

Gazprom said today that Qatar has expressed interest in working with Gazprom in developing the gas fields on the Yamal peninsula in the Russian Arctic, including the development of a LNG project.

China National Offshore Oil Corp and BG Group announced they have reached agreement on a 20-year deal for the production and sale of LNG from Australia. This agreement marks the largest export deal for Australia in LNG calling for the export of 3.6 million metric tons of LNG annually starting in

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	789,200	\$4.023	(\$0.061)	(\$0.087)	(\$0.051)	(\$0.018)
Chicago City Gate	491,500	\$4.149	(\$0.081)	\$0.039	(\$0.066)	\$0.090
NGPL- TX/OK	928,700	\$3.925	(\$0.071)	(\$0.185)	(\$0.056)	(\$0.133)
SoCal	461,200	\$4.107	(\$0.045)	(\$0.003)	(\$0.030)	\$0.034
PG&E Citygate	1,013,600	\$4.517	(\$0.023)	\$0.407	(\$0.008)	\$0.426
Dominion-South	745,000	\$4.151	(\$0.044)	\$0.041	(\$0.029)	\$0.053
USTrade Weighted	20,316,300	\$4.054	(\$0.066)	(\$0.056)	(\$0.05)	(\$0.018)

2014. The pricing of LNG would be tied to the price of crude oil. The two companies are also creating a joint venture to build two LNG carriers in China.

ConocoPhillips said today that it

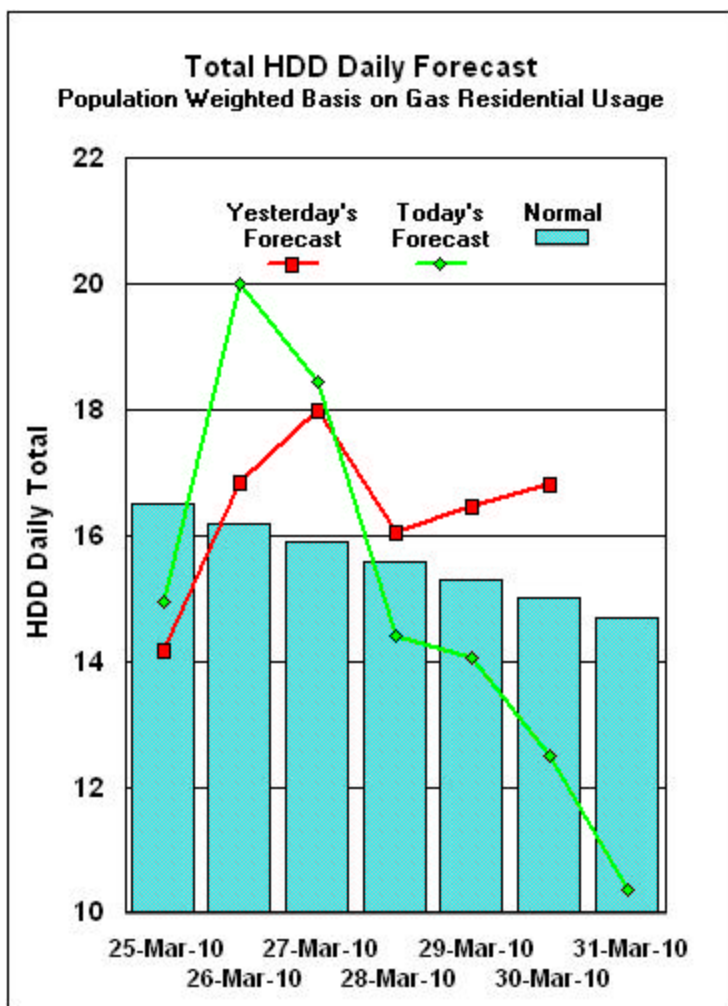
is still analyzing the total cost of the Shah sour gas project in Abu Dhabi, but company officials expect to sanction the project shortly. The project has an estimated cost of \$10 billion.

China National Offshore Oil Corp said today that it expects to import over eight million tons or 10 bcm of LNG in 2010.

Tokyo Gas Company, Japan's biggest natural gas utility said today that it plans to buy 500,000 tonnes of LNG from Indonesia. The company also said it has signed a basic agreement with Australia's Energy World Corp to discuss details of participation in that firm's LNG Sengkang project.

Oman plans to increase gas production by nearly 44% by 2015 according to that country's oil and gas minister. Average output was approximately 3 bcf/d in 2009. The cost of extracting gas in 2009 in Oman rose to 73 cents for every mcf versus just 27 cents per mcf in 2000.

While Japanese demand for oil lagged behind year ago levels in February, the government reported that LNG demand and coal rose in February as the Japanese economy appeared to be showing signs of recovering. Japan's LNG imports rose 15% on a year-to-year basis to 6 million metric tons while coal imports were up 4.6%. Oil imports though were down 5.7%. Japanese industrial activity in February was reported to be up 3.8%.



The CEO of Devon Energy yesterday chastised the natural gas industry for over drilling and contributing to a supply glut.

Suncor Energy, Canada's largest oil and gas company announced today that it has sold a collection of Alberta natural gas properties for \$230 million as it disposes of surplus assets following its acquisition of PetroCanada last year. The company sold its Rosevear and Pine creek properties to an unnamed buyer. The fields produce a combined 20.5 million cf/d.

Midcontinent Express Pipeline said it currently anticipates its pre-approved expansion capacity in Zone 1 of 100,000 Dth/d to be in service around May 1<sup>st</sup>. The pre-approved expansion capacity in Zone 2 of 200,000 Dth/d is expected to be in service around June 1<sup>st</sup>.

Private weather forecasting service, Commodity Weather Group earlier this week released their summer temperature outlook. It has shifted its five month cooling season forecast for May through September to be 6.2% warmer than last summer based on a population weighted basis. While they see a cool start to the cooling season, their warmer forecast shift was the result of their

expectations for even warmer temperatures during August and September as they see the potential for a shift toward a La Nina condition by late summer. The regions that they see that are most likely for a hot summer overall include the South Central U.S., especially Texas and the Pacific Northwest. The private weather forecasting service also released their hurricane season forecast. They noted that based on analog years, water temperatures and wind shear expectations, the number of storms this season has been increased by three named storms to 14 named storms. Last year saw 9 named storms versus a seasonal average of 10 storms. The group sees 8 of these storms becoming a

hurricane versus only three last year and 6 basis the seasonal average. The group noted that the tropical North Atlantic index for February was the warmest that has ever been recorded for that month.

The Commerce Department reported that durable goods orders increased a third consecutive month in February by 0.5% to a seasonally adjusted \$178.12 billion. Economists had expected a 0.7% increase in February. Overall January durables increased 3.9%, revised from a previously reported 2.6% increase.

The Commerce Department also reported that sales of new homes in the US fell in February, primarily due to snowstorms and layoffs. Demand for single family homes fell by 2.2% on the month to a seasonally adjusted annual rate of 308,000, a new record low. Year over year, sales were down 13% despite the government tax credit. The month's supply at the current sales rate increased to 9.2 from a revised 8.9 in January. It reported that the median price for a new home increased year on year in February by 5.2% to \$220,500 from \$209,700 in February 2009.

The Senate's Agriculture Committee's chairman Blanche Lincoln said US financial reform should require the reporting of all trades in the swaps market and mandatory clearing for some standardized swaps. She however said not all swaps or swap users should face the same degree of regulation. She said the bill likely will not seek to force all routine swaps to be routed through central clearinghouses. She said she sympathizes with companies that fear a move to clearing could prove too costly because clearinghouses would force them to post cash collateral. She said the committee hopes to release a bipartisan draft discussion bill in April on regulation for over the counter derivatives, which could move to the Senate floor this summer.

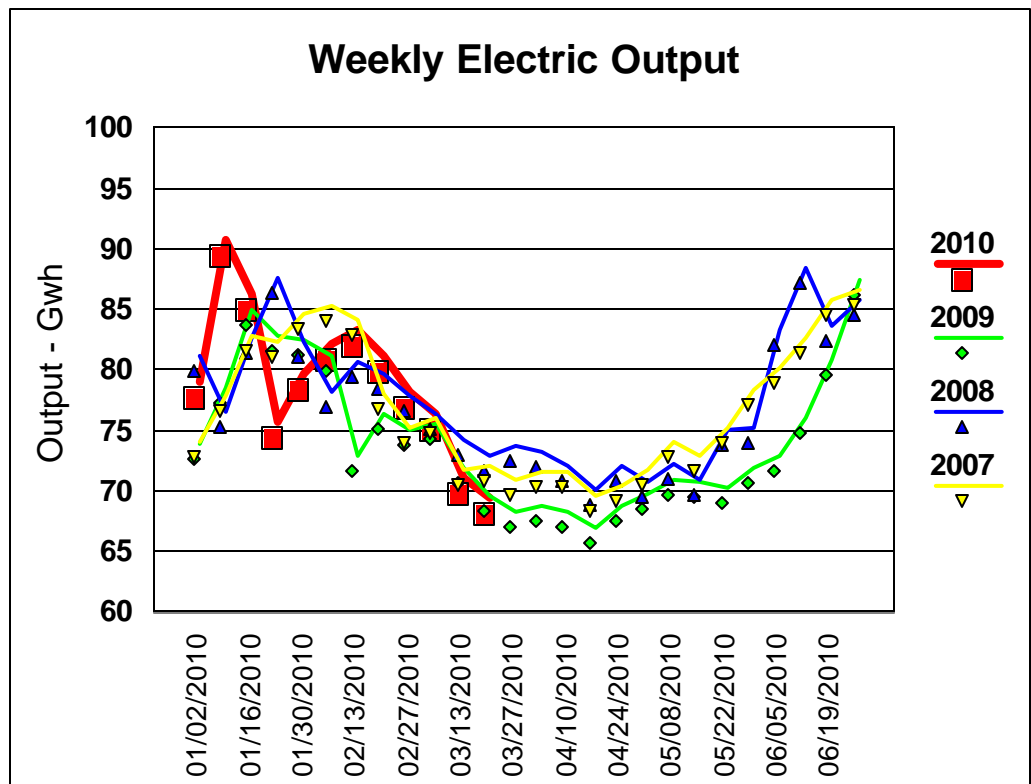
**PIPELINE MAINTENANCE**

Rockies Express Pipeline Co said that due to unforeseen circumstances, the maintenance at the Lost Creek booster station will be extended through March 25<sup>th</sup>. The available capacity at the Lost Creek Sweetwater receipt point will be limited to 100,000 Dth/d.

Gulf South completed the maintenance work at its Marksville Compressor Station, in Avoyelles Parish, Louisiana.

**PIPELINE RESTRICTIONS**

Colorado Interstate Gas has declared a force majeure due to an unexpected outage at the Cheyenne Plains Jumper Compressor Station for gas day March 25 and continuing for the duration of the outage. The compressor unit is expected to be out of service through



March 31<sup>st</sup> to repair a bent compressor crankshaft.

### **ELECTRIC MARKET NEWS**

California regulators said that its new market analysis shows that new climate change policies that are proposed for California to follow will allow for continued job growth and the expectation that the annualized growth rate through 2020 would remain unchanged due to its proposed climate change policies.

The Edison Electric Institute reported that power production for the week ending March 20<sup>th</sup> stood at 68,170 Gwh, down 2.3% from the prior week and off some 0.3% from the same week a year ago.

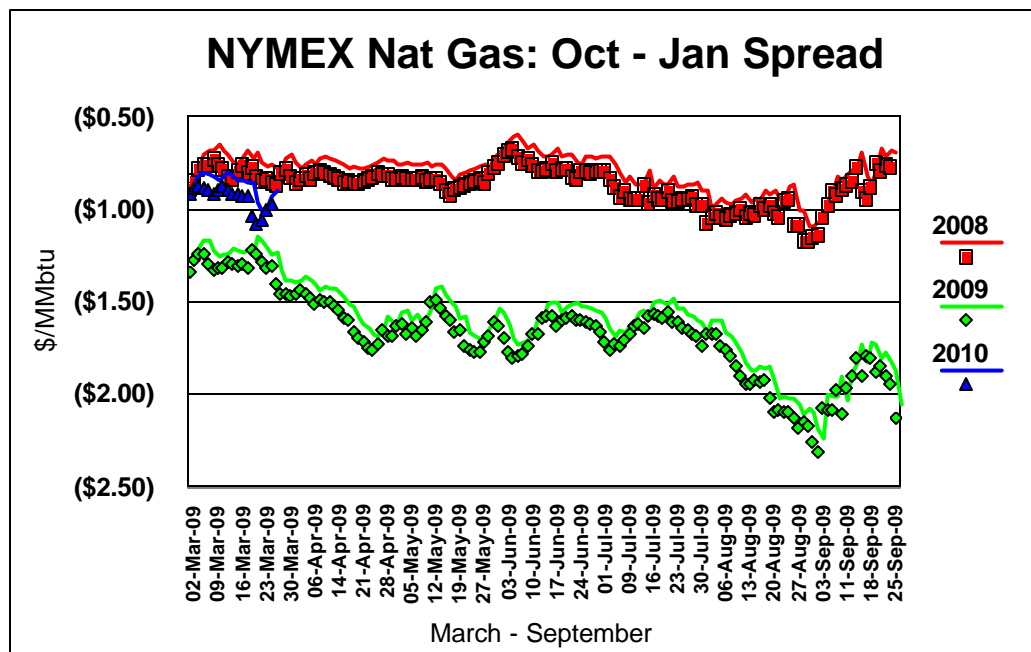
The Canadian province of New Brunswick said it is canceling the sale of its electric utility, NB Power Holding Corp to Hydro-Quebec. New Brunswick canceled the sale as a result of Hydro-Quebec seeking to propose changes to the sales agreement that New Brunswick found unacceptable. The province is now looking at other alternatives to stabilize its electric supply situation.

### **MARKET COMMENTARY**

While the near term weather forecast appears to have moderated significantly from yesterday, thus placing natural gas prices back on the defensive today, the natural gas market basically remained mired in a trading range that has been established since Friday that of \$4.175-\$4.036. Volume remained light to moderate with the April spot contract trading less than 70,000 contracts for the fourth consecutive session. Traders appear comfortable remaining on the sidelines until after tomorrow's storage report.

Market expectations for tomorrow's storage report appear to be running between a 10 bcf draw down to a 20 bcf build with the consensus average expectation looking for a 10 bcf build. The same week a year ago saw a 1 bcf draw down with the five-year seasonal average showing a 37-bcf draw down.

While we are relatively bearish on this market over the next couple of months, we feel that this market is ripe for a price correction and still would look for a bearish storage report tomorrow as the potential trigger for a breach of the \$4.00 support level and a push toward the next support level of \$3.822. It would be this quick and hard sell off we feel could be a short term buying opportunity looking for a price rebound back to the \$4.20-\$4.50 area.



It is interesting to note that despite the relative lack of traction in the spot contract over the last week following last week's bearish storage report, the October-January contract has been crawling its way

back off from last week's sell off, bouncing back 12 cents from last week's lows, with improving traded volumes. While conceptually we think that this spread could be an interesting bull spread play, buying the October and selling the January contract given the outlook for a more active hurricane season, a warmer summer compounded by lower hydro generation expectations for this summer in the West, we feel it is too early to enter into this spread especially at the current price levels. Instead we would look to be a buyer of the spread at the later half of next month ideally looking for the October contract to slip to a \$1.40-\$1.60 discount to the January contract.

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