



## ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,  
& Karen Palladino

(212) 624-1132 (888) 885-6100

[www.e-windham.com](http://www.e-windham.com)

### NATURAL GAS & POWER MARKET REPORT FOR MARCH 28, 2011

#### NATURAL GAS MARKET NEWS

##### North America

The CEO of Apache Corporation said today that he expects U.S. natural gas prices to remain near current levels for a number of years. He did note though that the recent disaster in Japan will likely boost demand for LNG from western Canada and makes the Kitimat LNG export terminal a more interesting project.

The U.S. Climate Prediction Center reported today that it sees gas demand this week, on a gas home heating customer weighted basis reaching 133 HDD some 10.8% higher than normal and 46% greater than the same week a year ago.

Congressman Larson today said he would reintroduce NAT GAS Act which seeks to reduce U.S. dependence on foreign oil by incentivizing American manufactures to produce vehicles that run on American natural gas and encouraging American business and consumers to buy them. The bill, which never reached a vote in the last Congress was co-sponsored by 146 members.

#### Generation Outages

**ERCOT** – Luminant said it plans to restart Unit #3 at the Martin Lake coal fired power plant later on Monday. The unit has been shut since March 4th.

**SPP** – Entergy 995 Mw Arkansas Nuclear 2 power reactor exited its outage and ramped up to 80%. The unit had been shut since February 22nd for refueling.

**SERC** – Southern's 883 Mw Hatch #2 nuclear was at 1% power this morning, down from 97% power recorded on Friday. The unit is slated to enter into a refueling outage this week.

**PJM** – Exelon's 1134 Mw Limerick #2 nuclear unit was shut early Monday, down from 90% power on Friday. The unit is scheduled to enter a refueling outage this weekend.

**MISO** – Dominion's 556 Mw Kewaunee nuclear power plant has exited its recent outage and ramped up and was at 30% power.

**WSCC** – APS 1311 Mw Palo Verde #1 nuclear unit ramped back to full power early Sunday, up 60% from Friday.

**The NRC reported this morning that some 81,079 Mw of nuclear generation capacity is online, down 1% from yesterday but some 1.5% higher than the same day a year ago.**

Credit Suisse analysts in a research note said their early assessment of natural gas supply-demand

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	496,200	\$4.345	\$0.213	(\$0.082)	(\$0.004)	\$0.027
Chicago City Gate	707,100	\$4.609	\$0.178	\$0.182	\$0.017	\$0.142
NGPL- TX/OK	1,033,900	\$4.292	\$0.207	(\$0.135)	\$0.046	(\$0.154)
SoCal	412,100	\$4.316	\$0.187	(\$0.111)	\$0.026	(\$0.069)
PG&E Citygate	917,300	\$4.581	\$0.098	\$0.154	(\$0.063)	\$0.224
Dominion-South	424,500	\$4.609	\$0.135	\$0.182	(\$0.026)	\$0.202
UTrade Weighted	19,168,500	\$4.444	\$0.157	\$0.017	(\$0.00)	\$0.027

balances suggests there will be limited opportunities for natural gas prices to rally this summer. They see relatively stable supplies based on domestic production

continuing to set records despite low prices. They see production currently running 7% above year ago levels. This is compounded by expectations for normal weather patterns and abundant supplies of hydropower in the Pacific Northwest. They also noted that the expectations for a relatively moderate outages for nuclear refueling this spring, coupled with just 1.5-2.0 bcf/d of incremental coal to gas fuel switching should keep natural gas prices relatively soft this summer.

The CEP of Chesapeake Energy said today that U.S. natural gas production might finally peak this year and help prices to stabilize. He said that natural gas will need to be around \$7-\$8 per mcf to draw rigs back from current oil expiration activity.

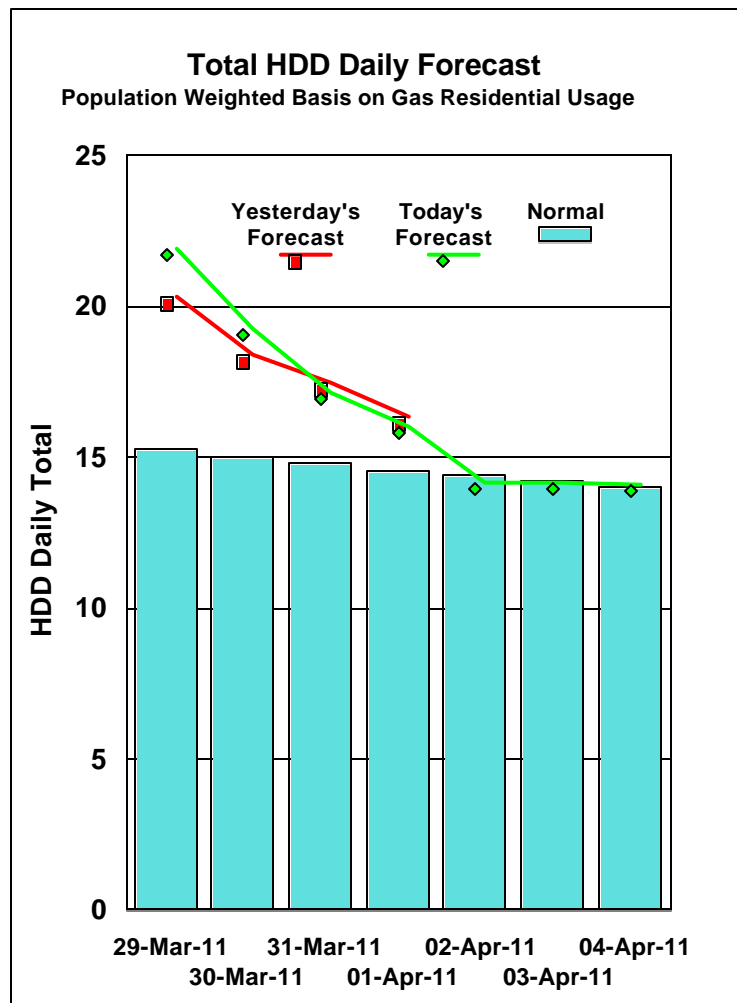
### International

Pan Eurasian analysts noted today that LNG supply from Qatar to Atlantic Basin buyers is still on the rise in recent days despite increased demand coming from Japan following the March 11<sup>th</sup> earthquake. The analysts noted that most of this increased Japanese demand appears being met by Pacific Basin suppliers. As a result of these supplies still heading to Britain, growing LNG stocks there have thrown cold water on the front end of the British gas curve, after their rally following the Japanese quake. Meanwhile Waterborne LNG analysts predict that Qatar LNG exports to the U.S. in March will reach 14 bcf ithe highest level in a year

Columbia's state oil company Ecopetrol reported today that rebels appear to have been responsible for bombing a gas pipeline that exports gas to Venezuela over the weekend. The line normal handles 150-200 mmcf/d of natural gas.

The chairman of the Nabucco pipeline steering committee said today that rising demand for gas in Western Europe should persuade reluctant would be suppliers, such as Azerbaijan and Turkmenistan to commit volumes for the pipeline now. The six consortium companies look to make a final investment decision this year on the project with construction beginning next year, The EU Commission is looking for European gas demand to rise from 500 bcm this year to 600-700 bcm over the next decade. The EU energy commissioner again said today that the Nabucco and South Stream natural gas pipelines are not competing with each other. He noted that Nabucco is slated to transport gas from previously undeveloped fields in the Caspian region to Europe. South Stream pipeline would transport Russian gas via a different route to European consumers.

Total said it continues to produce LNG in Yemen near normal levels today despite the ongoing political crisis in that nation.



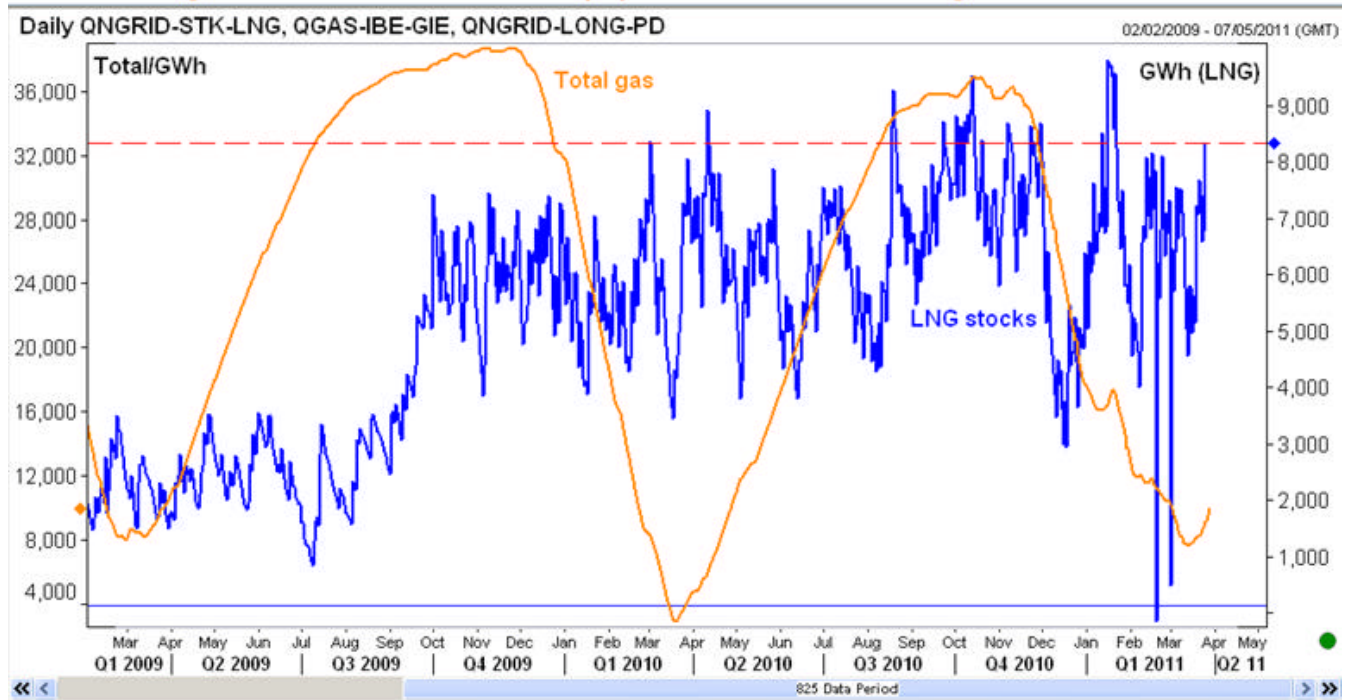
Algeria's Berge Arzew LNG tanker is expected to arrive at the Isle of Grain terminal on April 1st. The ship has a capacity of 138,000 cubic meters. Reuters reported this morning that the Galea LNG tanker was expected to arrive at the Dragon LNG terminal on April 2<sup>nd</sup>. Meanwhile Qatar's Al Ghariya LNG tanker is slated to arrive at the Milford Haven terminal on April 5th.

Sonatrach reportedly has temporarily stopped production at its LNG export plant in Skikda because of a problem with water supplies.

Iraq's oil ministry said today that it has completed a review of the \$12 billion natural gas deal with Shell and Mitsubishi and resubmitted it to the cabinet's energy committee for approval.

India's upstream regulator said Reliance Industries may not reach the 80 mcm a day output target from its east coast deep water block by April 2012 from current levels of 61.88 mcm per day. The regulator noted that Reliance has reported that output from the key D1 and D3 fields in the main producing KG-D6 block may decline by 10% over the next year.

## Britain's gas stocks rise sharply after LNG deluge



Sources: National Grid/Daniel Fineren

### **ELECTRIC MARKET NEWS**

The IAEA said it is seeking to hold a high level conference, possibly in June to discuss questions about nuclear safety following the Japanese disaster. The Director General of the agency said the situation at Japan's stricken nuclear plant was "very serious" and said he was concerned about radiation levels registered in food and water there.

Genscape reported today that for the week ending March 24<sup>th</sup> power output in the United States rose by 2.5% from the prior week and was 4.6% greater than the same week a year ago.

### **ECONOMIC NEWS**

Cargill said in a letter to the CFTC that the agency's position limit proposal would undermine efficiency of the markets for hedgers, cut liquidity and disrupt well-functioning markets. The company noted that position limits place "artificial restrictions" on traders who have sufficient funds and interest in a trade

but can not execute it because of regulatory constraints. The trading company called on the CFTC to conduct additional studies before making decisions on limits in swaps.

The US Commerce Department said US consumer spending increased by 0.7% in February. The increase was the largest since October and the eighth consecutive increase. The increase in spending came as personal income increased by 0.3%. The saving rate, meanwhile, fell to 5.8%. It reported that income increased by 1.2% in January, up from a 1% gain. Spending increased 0.3%, revised up from a 0.2% increase.

The National Association of Realtors' index for pending sales of existing homes increased 2.1% to 90.8. The rise comes after pending sales had declined sharply in January, falling by an unrevised 2.8%. It said year over year, sales fell by 8.2% on the year.

Atlanta Federal Reserve Bank President Dennis Lockhart said he expects the US central bank to complete its full \$600 billion in bond purchases by the end of June as planned. He also stated that the rally in commodity and energy prices is primarily a product of supply/demand and should level off.

### **MARKET COMMENTARY**

The April contract remained in its upward channel again today and despite a relatively sideways trading pattern this morning at midday it appeared that traders, possibly at hedge funds, attempted to drive the market higher towards the \$4.50 level in an attempt to trigger some option call short covering on expiration. Prices though failed to be maintained at this level and by expiration the futures had settled back at \$4.374, down 2.9 cents.

With the April futures set to expire tomorrow we could see a relatively volatile trading session given the level of open interest remaining in the April contract as reported at midday by the exchange. The spot contract coming into this morning had the highest level of open interest for a spot contract since the expiration of the July contract last June for the same time prior to expiration. Last June saw the spot contract jump nearly 20 cents on expiration day with prices settling a dime higher. While we do not feel the fundamentals support this rally, we feel their may be another attempt to retest the upper limits of the upward trading channel. We feel though that this may be an opportunity to become a more aggressive scale up seller of the May contract tomorrow especially as the daily stochastics appear on the verge of rolling over for the first time since the first week of March. We see minor resistance starting tomorrow at \$4.462, \$4.481 and \$4.499, with more significant resistance at \$4.559 and \$4.615. Support we see at \$4.402, \$4.328, \$4.294, \$4.212 and \$4.13.

The information contained in this letter is taken from sources, which we believe to be reliable, but is not guaranteed by us as to accuracy or completeness and is sent to you for information purposes only. The Windham Group bases its market recommendations solely on the judgment of its personnel. Reproduction in whole or part or other use without written permission is prohibited.