



## ***ENERGY RISK MANAGEMENT***

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### **NATURAL GAS & POWER MARKET REPORT FOR APRIL 1, 2011**

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

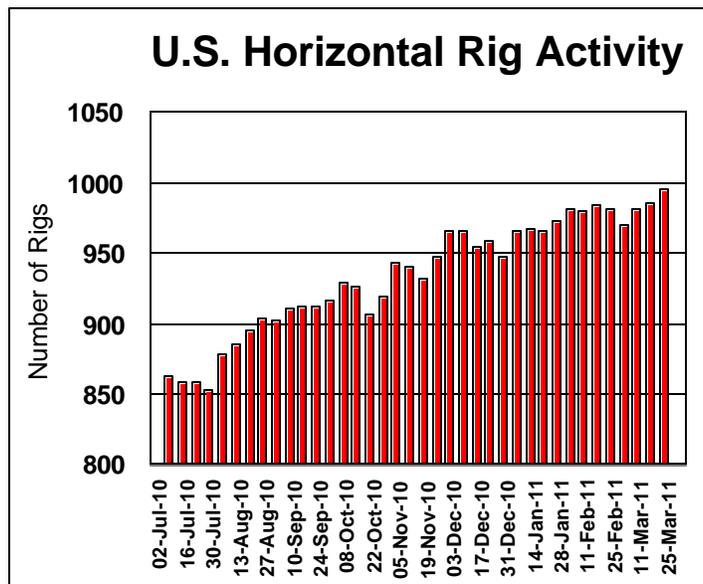
##### **North America**

Baker Hughes reported this afternoon that the number of drilling rigs searching for natural gas this week rose by 11 to 891. This was the second consecutive weekly gain. The number of horizontal rigs operating increased 22 to yet another all time high at 1017 rigs.

The U.S. Department of Energy reported today that U.S. imports of LNG in February dropped by 30% year on year to 32 bcf. In January imports reached 40 bcf. In February out of the 13 cargoes that were delivered, eight were delivered to the Everett terminal, with the Cove Point and Elba Island terminals each receiving two cargoes a piece. The Freeport terminal received one cargo.

The FERC yesterday issued a favorable environmental assessment on Dominion Transmission's Appalachian Gateway Project, which seeks to provide additional capacity to deliver a mix of natural gas from the Marcellus Shale in southwestern Pennsylvania and West Virginia's conventional gas to

the market. The project calls for the construction of about 110 miles of 20, 24 and 30 inch diameter pipelines between West Virginia and Pennsylvania as well as four new compression facilities, which would add an additional 484,260 Dth/d of gas to markets in the northeast and mid-Atlantic states.



##### **Generation Outages**

**SERC** – Southern's 1150 Mw Vogtle #1 nuclear unit began to return from its recent outage which began back on March 7<sup>th</sup>.

**NPCC** – NextEra Energy's 1295 Mw Seabrook nuclear power plant was shut today, believed to be the start of a scheduled refueling outage. The unit had been at full power on Thursday.

**WECC** – PG&E's 1118 Mw Diablo Canyon #2 nuclear unit exited its recent outage and was up to 35% power this morning.

**PJM** – PSEG's 1,100 Mw Salem 1 nuclear unit returned to full power on Thursday from 90% on Wednesday. Its 1,100 Mw Salem 2 nuclear unit ramped up to 90% of capacity from 86% on Wednesday.

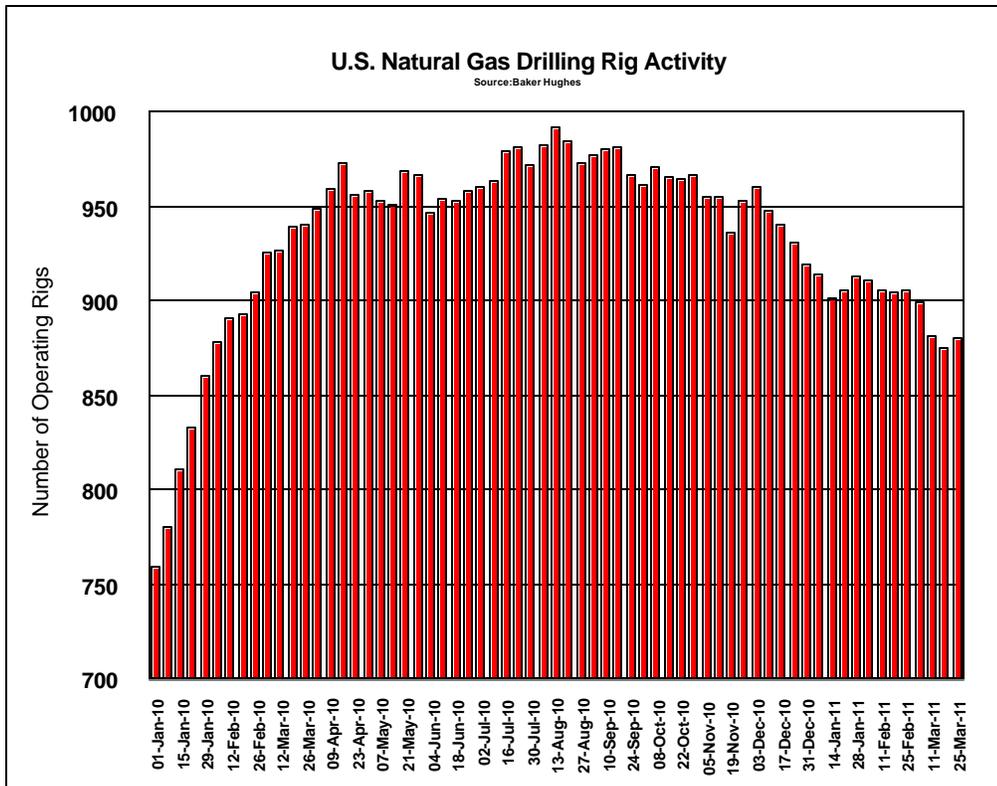
**The NRC reported this morning that some 80,766 Mw of nuclear generation capacity is online, down 0.9% from yesterday and basically unchanged for a year ago.**

##### **International**

Algeria's news agency reported today that commercial operations at the Medgaz natural gas pipeline, linking Algeria to Spain are set to start today. The pipeline had originally been scheduled to begin operations over a year ago but had been delayed due to technical problems. Sonatrach has signed accords with its Spanish partners, Cepsa, GDF Suez and Iberdrola to supply 8 bcm of

gas annual for 20 years.

PetroChina's Rudong terminal in Jiangsu province is due to receive its first LNG cargo on April 26<sup>th</sup> and begin commercial operations by the end of June. PetroChina has secured a 25 year supply pact with Qatar for supply for the terminal.



Gassco reported today that the Norwegian Kaarstoe gas processing plant began maintenance work early Friday as planned and the unit had been shutdown. While some modest 10 mcm of production was still being processed versus a normal capacity of 88 mcm per day. Some test work is scheduled for Saturday, but the bulk of the maintenance work was expected to be completed by Friday. Output is expected to rebound gradually beginning Saturday.

### **ELECTRIC MARKET NEWS**

Genscape reported today that it estimates U.S. coal consumption this week jumped by 7% from the prior week and was 5% higher than the same week a year ago.

Japan's prime minister said today that he was ready for a long battle to bring the quake hit Fukushima nuclear plant under control. He said while the plant has to be stabilized he believed it will be, but could not give a time frame for it to be completed.

Dominion Virginia Power said it is planning on converting three coal fired power plants in Virginia to biomass. The three units in Altavista, Hopewell and Southampton Counties are all identical and went into operation in 1992. The fuel switch, which the company claims, will generate \$350 million for their local economies over the next 30 years. The majority of the biomass product to be used will be wood slash, a product that normally goes to waste from timbering operations. Currently each power unit produces 63 Mw of peaking power.

### **ECONOMIC NEWS**

The US Labor Department reported that nonfarm payrolls in March increased by 216,000 as the private sector added 230,000 jobs. The nonfarm payrolls for February were revised to show an increase of 194,000 jobs from a previously estimated gain of 192,000. The unemployment rate fell to 8.8% in March, the lowest level since March 2009. It reported that the hourly earnings were unchanged at \$22.87.

The National Federation of Independent Business said its survey of 811 businesses found that job creation in March was steady on the month. However the net percent of owners planning to create new jobs lost 3 points, falling to a net 2% of all firms.

The US Commerce Department said spending on construction projects in the US unexpectedly fell to the lowest level in more than 11 years in February. Construction spending fell by 1.4% to a seasonally adjusted annual rate of \$760.56 billion compared to the prior month. It was the third consecutive decline and the lowest level since October 1999.

The Institute for Supply Management's index of national factory activity fell to 61.2 in March from 61.4 in February. It reported that its prices paid component increased to 85 from 82 while the employment index fell to 63 in March from February's 64.5. The ISM's reading of new orders fell to 63.3 from 68 the month before. Exports also fell to 56 from 62.5.

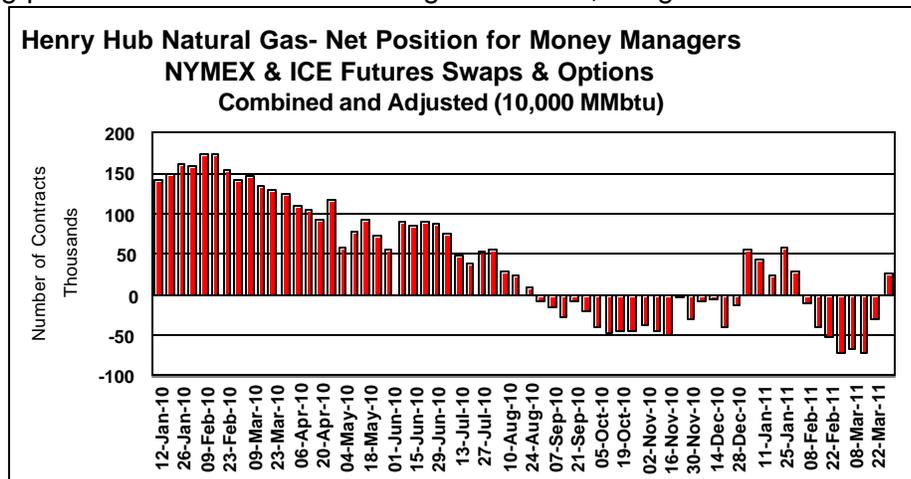
Global manufacturing activity expanded at a slower rate in March. The Global Manufacturing PMI, compiled by JP Morgan, fell to 55.8 in March from 57.4 in February. It was above the 50 level for the 21<sup>st</sup> consecutive month.

New York Federal Reserve Bank President William Dudley said it would be a surprise if the US Federal Reserve did not complete its \$600 billion in bond purchases. He said the benefits of further quantitative easing have diminished because of the risk of deflation. He said the Fed has the tools to eventually reverse course.

**MARKET COMMENTARY**

The natural gas market posted a typical Friday inside trading day today. The market though did end lower and posted the lowest settlement in the May contract since March 24<sup>th</sup> as forecasts finally are pointing to temperatures beginning to moderate in coming weeks as well as the market finding little positive news in this week's Baker Hughes drilling report.

The Commitment of Traders Report released this afternoon appears to show the reason behind the rally in natural gas over the past two weeks, the movement of the hedge funds from a large net short position to now a modest net long position. Over the week ending March 29<sup>th</sup>, hedge funds saw a net buying of over 55,000 contracts and over the last two weeks seen buying of over 97,000 lots. Hedge funds now hold their largest net long position in the combined futures, options and swaps markets on the NYMEX and ICE since the week ending February 1<sup>st</sup>.



We continue to feel that once the buying spree comes to an end in the natural gas market by the hedge funds, **who** will be the new buyers to hold this market up? We thus feel comfortable in holding our shorts and remain committed to adding to these shorts on a scale up basis. We see resistance at \$4.42-\$4.45 followed by \$4.48-\$4.51 and \$4.822-\$4.879. Support we see at \$4.286 followed by \$4.182, \$4.093, and \$3.98. We would begin to lighten positions on a move below \$3.98 with additional support seen at \$3.855, \$3.80 and \$3.731.

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