



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta,  
& Karen Palladino

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

**www.e-windham.com**

---

### **NATURAL GAS & POWER MARKET REPORT FOR APRIL 13, 2011**

---

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

##### **North America**

The Maryland Senate ended its 2011 legislative session without voting on a bill that would have frozen the permitting of Marcellus Shale drilling until 2013 while state agencies reviewed the results of various studies into Marcellus development and hydrofracking. The lower chamber had approved the bill last month and it had the support of the state's governor.

##### **Generation Outages**

**PJM** – FirstEnergy's 846 Mw Beaver Valley #2 nuclear unit ramped up to 87% power early Wednesday, up from 61% power recorded on Tuesday morning.

**The NRC reported this morning that some 75,588 Mw of nuclear generation capacity is online, up 0.6% from yesterday and down 4% from a year ago.**

The U.S. Bureau of Land management announced Wednesday a new multi-state environmental impact review on oil shale and tar sands plans in Colorado, Utah and Wyoming. The government said a new planning process will allow the federal agency "to take a fresh look" at what public lands are best suited for oil shale and tar sands development while commercial development of oil shale is still several years away. Final land use decisions will be made in light of any new information about potential resources needs and impacts and technological innovations.

The CEO of Devon Energy said thousands of undrilled oil and natural gas locations onshore in North America are in development by the company and some "new play types" may be unveiled later this year. The CEO also noted that while it has drilled 4600 producing wells in the Barnett Shale it continues to see potential in the play, as it has an estimated 7,000 more drilling locations. The company that drilled 460 wells in the region last year is looking to drill 325 more wells this year. The company is producing 1.2 bcf/d in the play.

##### **International**

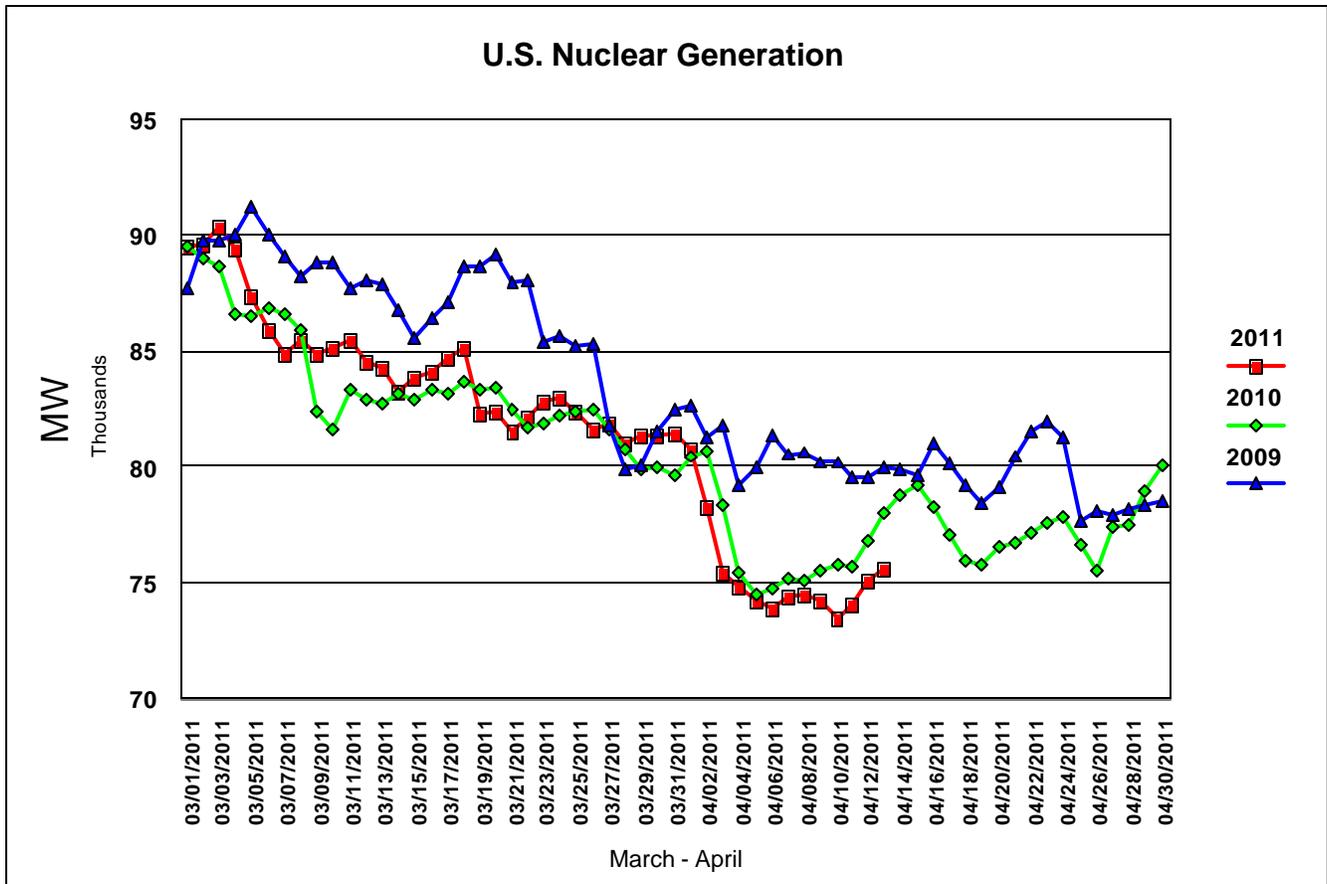
Gazprom, Total and Statoil, the partners in the Shtokman Development, confirmed they would start pumping gas from the Barents Sea field in 2016 for pipeline shipments and LNG exports would start in 2017. But the companies still delayed their final investment decision on the project until the end of the year. The companies said they are in the process of preparing the final investment decision.

The head of Total's upstream operations said today that his company is still awaiting Chinese government approval for its multi-billion dollar joint venture project to develop a huge gas reserve in northern China with the China National Petroleum Corporation. The company hopes to begin production by 2012 at the South Sulgie gas field and reach capacity of 3 bcm per year by 2015. The company is also in talks with several Chinese companies to jointly develop shale gas assets in China.

An official at China National Petroleum Corporation said today China's natural gas shortage may end from 2015 when sizable imports begin to flow into the country. He estimated that China would import some 66 bcm of pipeline gas and 43 bcm of LNG in 2015, and will more than double those quantities

by 2020. The forecast though could be altered by gas prices. The official noted that demand for gas could be restricted if gas selling prices become dramatically uncompetitive. CNPC reportedly suffered a loss in selling Turkmenistan gas in China and that shortfall could widen this year as import levels increase and Turkmenistan gas prices rise in line with oil prices under a quarterly price adjustment scheme. In addition there have been reports that CNOOC faced difficulties in selling Qatari gas in southern China recently due to high import costs.

OMV AG announced today that the company has made one of its largest natural gas discoveries ever. The company noted that it exploration well some 100 km off the coast of Western Australia on the North West Shelf.



Gas flow along the Swiss-Italian Transgas pipeline will be stopped from April 26 - May 2 as the operator plans to integrate a new part of the pipeline according to Transgas' technical director. But Eni said today it has received no notification on the gas pipeline closure date.

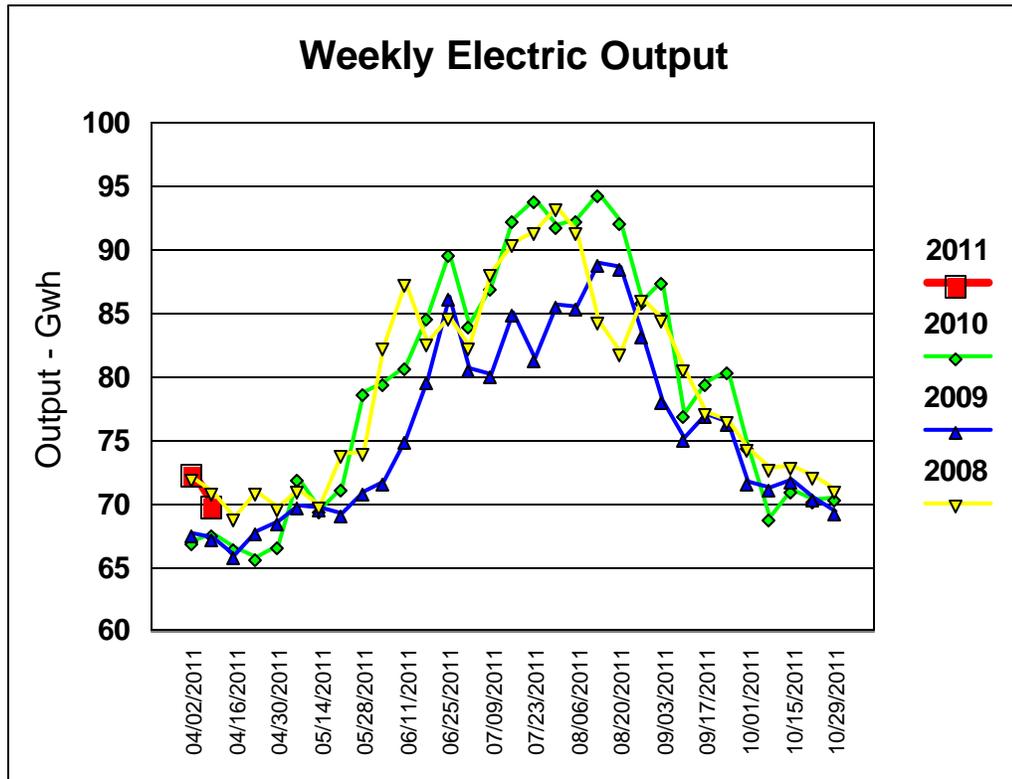
Tokyo Electric Power said it has procured gas oil and LNG for use in gas turbines in April and May to make up for some of the short fall in power generation from the loss of the Fukushima. The company said its purchases for April and May have been completed and it is doing "its utmost for the future." The company also reported that it had purchased a record 2.138 million tones of LNG in March.

The Ukrainian Prime Minister said today that his country would renew attempts later this month to try to persuade Russia to review a 2009 gas supply agreement and secure cheaper natural gas.

Italy's natural gas grid operator Snam Rete Gas said it was interested in acquiring the Italian gas network operated by France's GDF Suez.

**ELECTRIC MARKET NEWS**

NRG Energy's CEO said the Fukushima nuclear accident in Japan has created a substantial setback for the company's plan to build two new reactors in Texas. He noted the project's "odds of success



have dropped substantially." The company has cut spending on this expansion plan and currently is only spending money to obtain a construction and operating license from the U.S. Nuclear Regulatory Commission and to get a loan from the Department of Energy.

TEPCO said Wednesday it was still working on a detailed plan to end the nuclear crisis at its crippled nuclear power plant. While radiation levels in Tokyo from the

crippled plant have fallen to pre-disaster levels on Tuesday, according to the science ministry, the latest tests showed radiation levels nearly doubled last week to 23 times above legal limits, in the sea off Minamisoma city near the plant.

Edison Electric Institute reported that for the week ending April 9<sup>th</sup> power production in the United States declined by 3.4% from the prior week but was 3.4% higher than the same week a year ago.

South Carolina Electric and Gas confirmed today that it would take its Unit #1 at the Sumner nuclear plant out of service for maintenance starting on April 15<sup>th</sup>.

California Governor Brown yesterday signed legislation that places a goal of having 33% of the state's electricity coming from renewable resources by 2020. The governor said he sees the 33% goal as a floor not as a ceiling for generation by 2020, and that the 40% goal is a doable target in a reasonable time frame. The governor though despite signing the legislation noted that the law had some language problems and thus called on the legislature to immediately begin to work on revising it.

**ECONOMIC NEWS**

The US Commerce Department said retail sales increased modestly in March by 0.4%, the smallest gain in nine months after rising 1.1% in February. US retail and food services sales increased to \$389.32 billion in March. Receipts at gasoline stations, which accounted for about 10.7% of overall retail sales last month, increased 2.6% after rising 2.4% in February. Excluding gasoline, retail sales increased by 0.1% in March following a 0.9% increase the prior month. Consumer spending, which accounts for 70% of US economic activity, is expected to slow after growing at a 4% annual rate in the fourth quarter. Separately, the Commerce Department said US business inventories increased to their highest level in more than two years in February. It reported that business inventories increased by

0.5% to \$1.458 trillion, the highest level since December 2008. The inventories to sales ratio held steady at 1.24.

The Chicago Federal Reserve said that its new weekly National Financial Conditions Index suggests financial conditions in the US were looser than would be expected at the current stage of the economic cycle. It said its index fell to -0.63 for the week ending April 8<sup>th</sup>.

The European Union's Eurostat agency said industrial production in the euro zone increased less than expected in February as strong growth in Germany and Italy was partly offset by sharp declines in Ireland and Greece. Growth in industrial output was impacted by a decline in energy production for the second consecutive month. Euro zone industrial output in February increased 0.4% from January and was 7.3% stronger than in February last year.

JPMorgan Chase said its value at Risk for commodities stood at \$13 million in the first quarter compared with \$14 million in the fourth quarter of 2010 and \$15 million a year ago.

The IMF warned that the world's bank face \$3.6 trillion of maturing debt in the next two years and would have to compete with debt laden governments to secure financing. In its Global Financial Stability Report, the IMF said many European banks need larger capital cushions to restore market confidence and added that some banks will need to close. The IMF said overall global financial stability has improved over the past six months. It added that the most pressing challenges in the coming months will be funding of banks and sovereigns, particularly in vulnerable euro area countries.

CFTC chairman Gary Gensler said the new rules for the swaps market, including margin requirements proposed on Tuesday, benefit end users and the real economy. He defended the idea of requiring users of derivatives to post margin or collateral on deals, saying that margin requirements help prevent one financial entity's failure from spreading to other financial entities and the broader economy.

## **MARKET COMMENTARY**

The natural gas market finished higher for only the second time out of the last nine trading sessions as it appeared some traders were exiting shorts in front of an expected supportive storage report tomorrow. While a burst of buying at the start of the day session lifted prices to the highs of the day, as the highs of the past few sessions were breached, there was not significant follow through buying and as a result the market moved into a sideways pattern with some slight price erosion for the remainder of the session.

Market expectations for tomorrow's storage report appear to be running between 30-40 bcf decline in inventories. Stocks for the same week a year ago rose an adjusted 79 bcf while the five-year seasonal average is for a build of 28 bcf.

While it appears technically the sell off has stalled for now, a bearish inventory report tomorrow could push this market down once again. We see support at \$4.08-\$4.05 followed by \$4.012-\$3.99, \$3.855 and \$3.80. Resistance we see at \$4.151, \$4.182, \$4.207, \$4.275 and \$4.342. Additional resistance we see at \$4.453 and \$4.56.

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.