



## ***ENERGY RISK MANAGEMENT***

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### **NATURAL GAS & POWER MARKET REPORT FOR APRIL 21, 2011**

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

##### **North America**

Chesapeake Energy said today it has suspended all well completion operations in Pennsylvania following yesterday's well blowout in Bradford County, Pennsylvania, which caused the well to spill hydraulic fracturing fluid into the environment. The company "voluntarily" suspended all completion operations in the state as they evaluate the incident. The company said at midday that it plans to seal the blowout natural gas well on Thursday afternoon. The company reported this morning that the well was in stable condition with little or no drilling fluid escaping.

The FERC said Thursday that it has ordered former Amaranth trader Brian Hunter to pay a \$30 million fine for manipulating the natural gas market.

##### **EIA Weekly Report**

	04/15/2011	04/08/2011	Change	04/08/2010
<b>Producing Region</b>	780	763	17	692
<b>Consuming East</b>	652	623	29	824
<b>Consuming West</b>	222	221	1	303
<b>Total US</b>	1654	1607	47	1819

\*storage figures in Bcf

the capacity of its processing plant in Jackson County to 600 MMcfd with the potential for further expansion to 800 MMcfd.

Dow Chemical said today it plans to increase ethylene and propylene production as it looks to take advantage of growing supplies of NGL's from U.S. shale gas production. As part of its expansion plan, Dow said it was planning a long-term ethane supply agreement with Range Resources. Dow will take gas liquids from Range's Marcellus Shale operations in Pennsylvania and process them in Louisiana. Dow said it also intends to restart its ethylene cracker by the end of 2012 and construct an ethylene production plant on the U.S. Gulf Coast that would be operational by 2017.

##### **Generation Outages**

**NPCC** – Constellation Energy's 621 Mw Nine Mile Point nuclear unit ramped back to full power on Thursday. The unit had been at 34% power on Wednesday.

**SERC** – Southern's 1150 Mw Vogtle #1 nuclear unit was shut early Thursday. The unit had been operating at full power on Wednesday.

Progress Energy's 920 Mw Brunswick #2 nuclear unit has exited its outage and ramped up to 22% power early this morning. The unit had exited its refueling outage back on April 14<sup>th</sup>.

**The NRC reported this morning that some 69,985 Mw of nuclear generation capacity is online, down 1% from yesterday and down 9.3% from a year ago.**

Energy Transfer Partners announced it was expanding its Eagle Ford shale activities. The company will expand volume commitments in excess of 540,000 Mmbtu per day of natural gas. It will also expand

##### **Canadian Gas Association**

##### **Weekly Storage Report**

	15-Apr-11	08-Apr-11	16-Apr-10
<b>East</b>	59.1	55.4	86.1
<b>West</b>	150.8	143.2	225.5
<b>Total</b>	209.9	198.5	311.6

storage figures are in Bcf

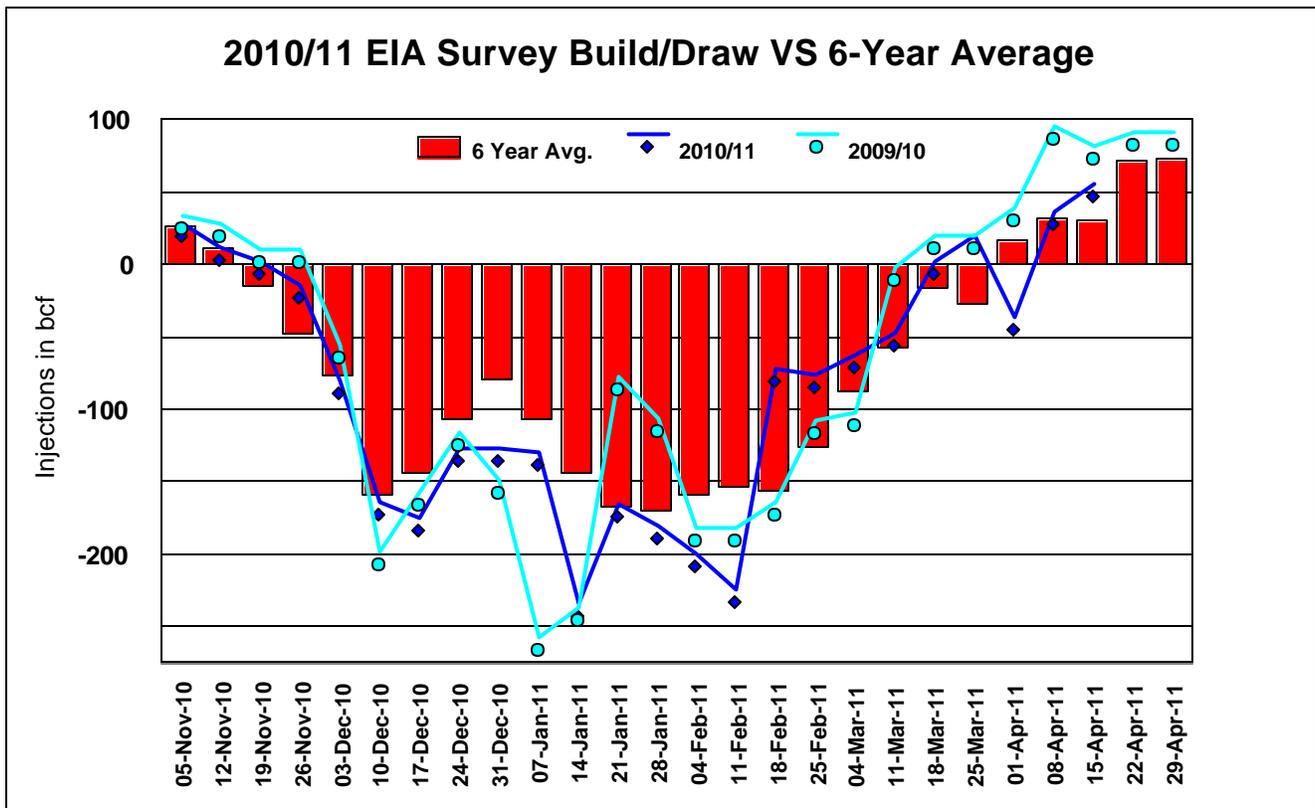
The U.S. National Weather Service said today that La Nina influenced weather conditions in the United States should begin to diminish by June. The NWS sees temperatures being below normal for the May through July period in the Pacific Northwest eastward across the northern Rockies through the Great Lakes region and into the mid-Atlantic states. Precipitation during the period will likely be above normal in the northern sections of the United States and below normal across the south central U.S., particularly in Texas and Louisiana.

Baker Hughes reported today that the number of drilling rigs search for gas in the United States stood at 878 rigs, down seven from the prior week. This was the third weekly decline. Meanwhile it reported the number of horizontal rigs operating in the United States increased by 17 rigs on the week reaching a new record high of 1020. Some 60% of these rigs are believed to be search for natural gas.

**International**

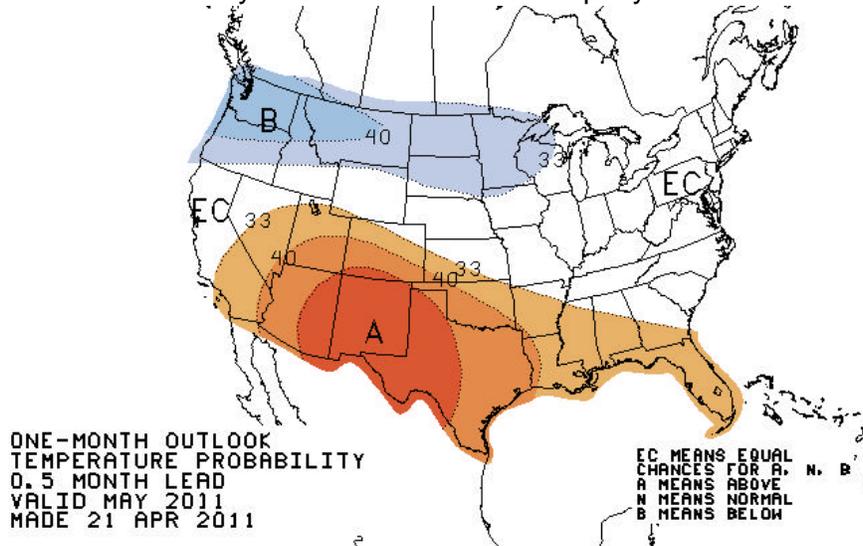
The junior Italian industry minister said today that Italy will return to having natural gas as the center of its national energy policy after shelving its plans to revive its nuclear industry in the wake of the Japanese nuclear accident. He noted the country's objective is to increase its capacity to handle LNG imports up to 30-40 bcm a year. The country will see a new LNG regasification plant opened at the northern port of Livorno shortly.

Sinopec signed a binding agreement today to buy 4.3 million tones a year of LNG from Origin Energy and ConocoPhillips joint project in Australia. This was China's second largest gas purchase agreement, worth around \$85 billion over 20 years. Sinopec will also take a 15% stake in the project.



Uzbekistan and China signed investment deals worth more than \$5 billion and agreed to expand natural gas supplies. Under the agreements signed will include the construction of the Uzbek spur of the Central Asia-China natural gas pipeline, which will allow Uzbekistan to supply an extra 25 bcm of gas annually to China

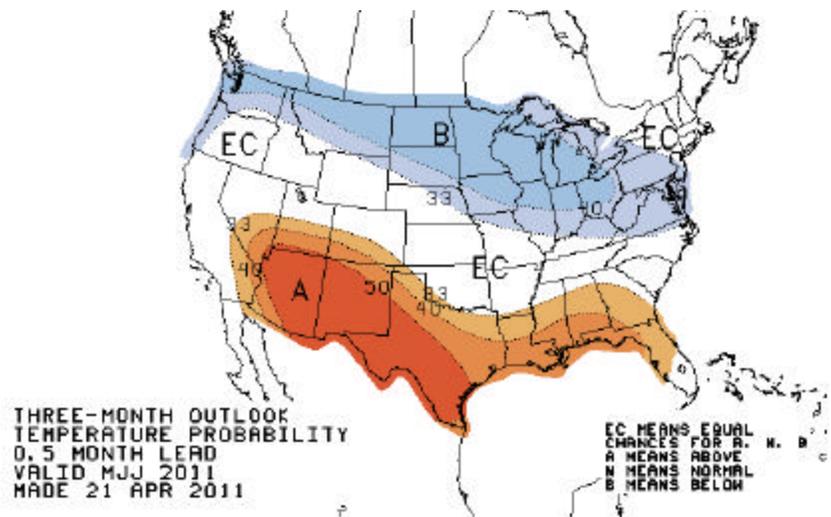
India's Reliance Industries current production of natural gas from the D6 block in Krishna-Godavari basin is 50 Mmscmd. This was less than the 53 Mmscmd produced last month and less than the 60 Mmscmd produced last year. The company's production levels are far below the 69.8 mmscmd target that was set with the government under the field development plan. The company is also lagging behind in the field development. The plan had called for 22 wells to already have been drilled in the field, but only 18 have been completed so far. Government officials declined to say if penalties would be assessed but they would meet with the company next month to discuss the problems.



The Chinese National Energy Administration said today that the government might cap energy consumption in 2015 at 4.1 billion tones of standard coal. That level of consumption would correspond to around a 8.5% of annual GDP growth in the coming five years. An alternative target would be for a 4.2 billion tones of standard coal that would equate to a 9% of annual GDP growth over the period.

The Ukrainian president said today that the Ukraine could pay for Russian gas imports in rubbles if Moscow reduces its selling price for the gas first. Currently the Ukraine pays for the gas in dollars. The Ukraine is currently paying \$313 per thousand cubic meters for the Russian gas, with prices, which are linked to oil to likely rise in coming months.

South Africa's cabinet placed a moratorium on Thursday on oil and gas exploration licenses in the semi-arid and environmentally sensitive Karoo region. The Department of Minerals had requested the moratorium as a result of the potential use of fracking in the area. The government will launch a multi-departmental task force to explore the implications of fracking. While no timeline was given for the conclusion of the study, government officials only said the moratorium would remain in place until "there is conclusive evidence that there will be no unintended consequences on the environment".



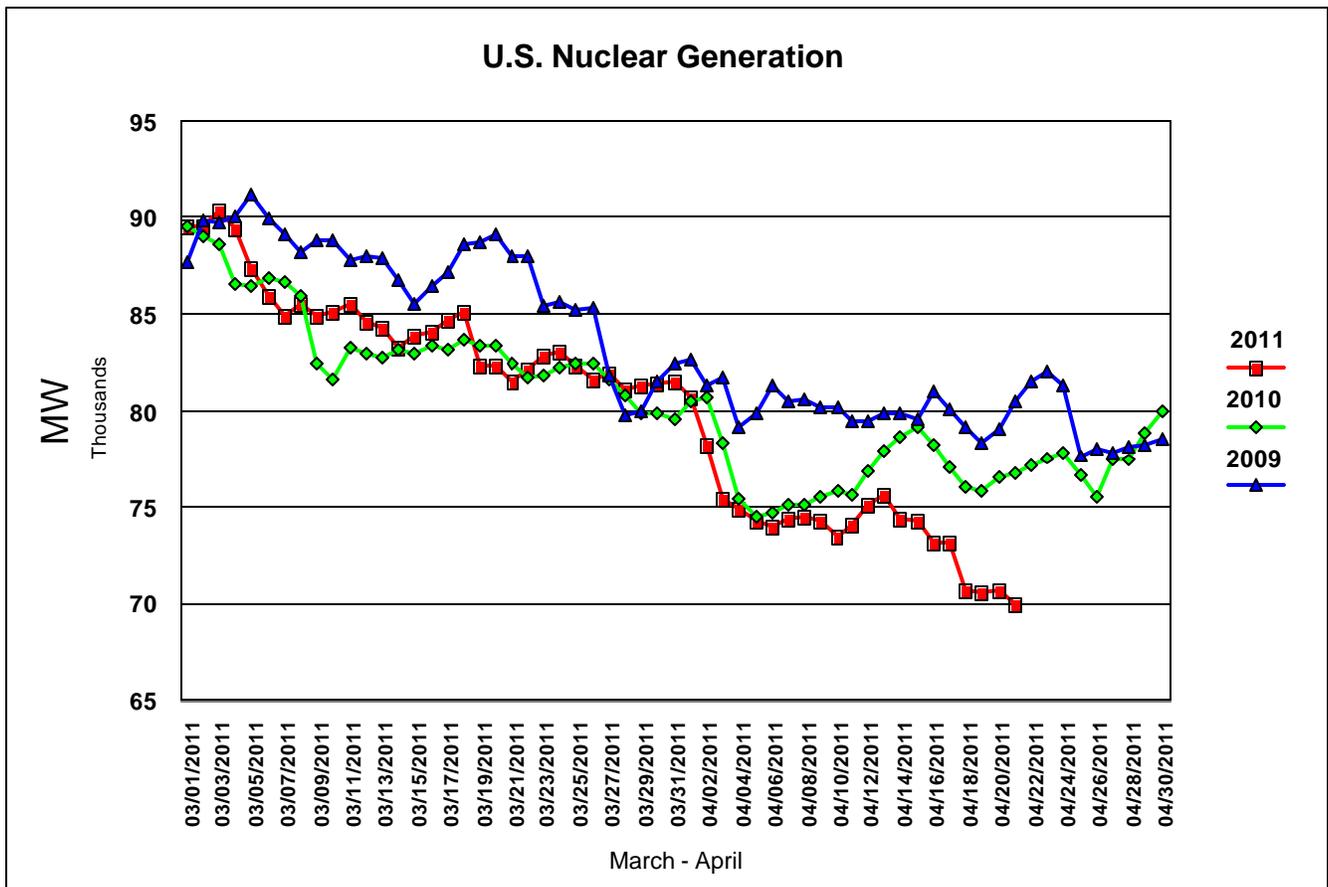
### **ELECTRIC MARKET NEWS**

Tohoku Electric Power said Thursday it plans to begin a trial run of its new gas unit at its Nigata plant in early July, in its attempt to make up for the loss of nuclear generation following last month's earthquake. The 1090 Mw unit is key to the company's plans to secure 12,100 Mw of supply for the summer, when at least 7020 Mw of existing capacity will remain offline after last month's earthquake.

The U.S. Northwest River Center said Thursday that it looks for water flows at the Dalles Dam during the April – September period to average 121% of normal, this was some 13% higher than the its previous forecast released on April 7<sup>th</sup> and much higher than the 84% of normal levels register last year.

**ECONOMIC NEWS**

The Obama administration said today that it was forming a new working group to focus on rising energy prices and the potential for fraud in the energy markets. The U.S. Attorney General said today that the government “will be vigilant in monitoring the oil and gas markets for any wrongdoings so that customers can be confident they are not paying higher prices as a result of illegal activity.” The members of the group will include representatives from the CFTC, SEC, FTC, Federal Reserve,



Energy Department and Treasury Department.

The US Labor Department said the number of initial claims for unemployment benefits fell by 13,000 to a seasonally adjusted 403,000 in the week ending April 16<sup>th</sup>. The prior week’s figures were revised up to 416,000 from an originally reported 412,000. The four week moving average of new claims increased by 2,250 to 399,000 in the week ending April 16<sup>th</sup>. The Labor Department reported that the number of continuing claims fell by 7,000 to 3,695,000 in the week ending April 9<sup>h</sup>, the lowest level since September 2008. The unemployment rate for workers with unemployment insurance was 2.9% in the week ending April 9<sup>th</sup>, unchanged from the prior week.

The Conference Board’s Leading Economic Index increased for the ninth consecutive month by 0.4% in March to 114.1. The coincident index also increased by 0.2% in March while the lagging index also increased 0.3%.

The Economic Cycle Research Institute said its Weekly Leading Index increased to 131.6 in the week ending April 15<sup>th</sup> from 130.5 in the previous week. The index's annualized growth rate increased to 7.7% from 6.7% a week earlier.

Factory activity in the US Mid-Atlantic region fell far more than expected in April. The Philadelphia Federal Reserve Bank said its business activity index fell to 18.5 in April from 43.4 in March.

### **MARKET COMMENTARY**

The natural gas market remained in a relatively static and sideways trading pattern prior to the release of the EIA's storage report. But following the release of the report, the smaller than expected build in stocks coupled with nuclear generation levels that continue to lag significantly below normal seasonal levels triggered fresh buying to enter the market and drove prices up to levels not seen since the end of March.

This market will take its lead next week from the level of nuclear generation in the United States we believe. If current restricted output continues next week then we feel this market will continue to grind higher and challenge last month's highs. But if nuclear generation does begin to snap back and return to more seasonal levels then this market may begin to top out, especially if other commodity markets begin to see some profit taking. We look for initial resistance Monday to be found at \$4.428 followed by \$4.48, \$4.56 and \$4.879. Support we see at \$4.261, \$4.209 and \$4.165-\$4.157.

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