



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR MAY 4, 2011

#### NATURAL GAS MARKET NEWS

##### North America

Chevron said it would buy 228,000 acres in the Marcellus Shale region from Chief Oil & Gas and Tug Hill. The acreage in southwestern Pennsylvania will give Chevron an estimated 5 tcf of natural gas. While the purchase price was not disclosed it was believed the cost per acre would be around \$14,000 per acre.

Devon Energy said today that it has leased 250,000 net acres in the emerging Tuscaloosa Marine Shale of southwestern Mississippi and central Louisiana for a cost of \$180 per acre. The company is looking to drill the first two horizontal wells this year. The company is projecting this play to be equal to the Eagle Ford play but deeper.

#### Generation Outages

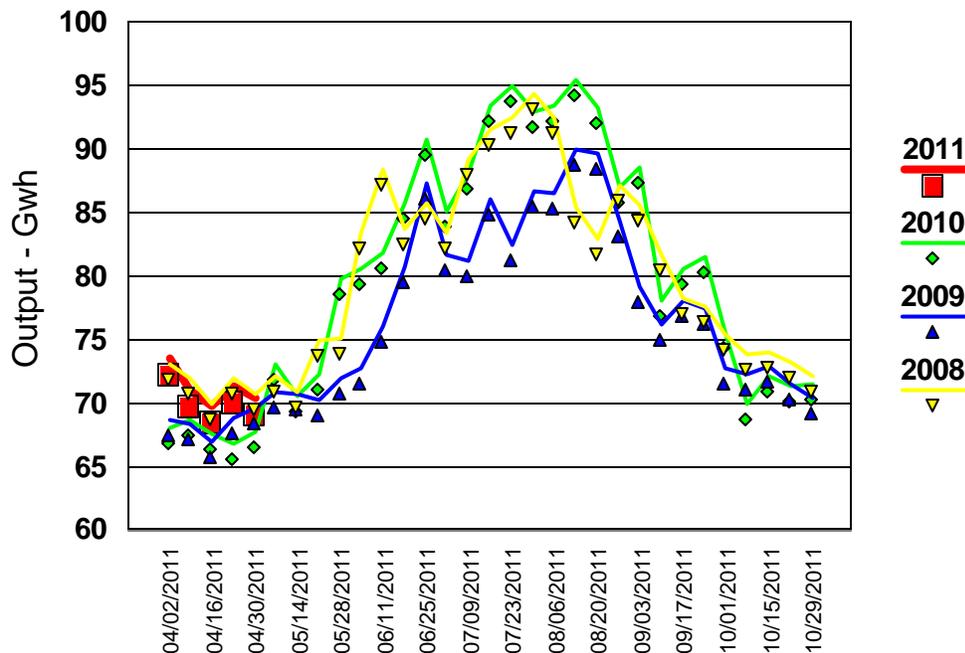
**NPCC** – Dominion 877 Mw Millstone #2 nuclear unit has exited its refueling outage and has ramped up to 66% power. The unit had been at only 18% yesterday.

**PJM** – PSEG's 1174 Mw Salem #1 nuclear unit ramped up to 88% of power Wednesday, up 80% from a day before.

**SERC** – Southern's 883 Mw Hatch #2 nuclear unit ramped up to 52% power today, up some 29%

The NRC reported this morning that some 69,678 Mw of nuclear generation was online, up 3.7% from Tuesday but 17.74% below levels recorded a year ago.

#### Weekly Electric Output



The CEO of the American Petroleum Institute said today that the regulation of the nation's shale gas plays would be best handled by state government and cautioned against involvement by the U.S EPA.. The API also noted it supports three energy bills introduced by Congressman Hastings and expects that they will pass the House of Representatives. The first bill, the "Restarting

American Offshore Leasing Now Act" is reportedly scheduled for a floor vote Thursday seeks to require the federal government to conduct oil and gas lease sales in the Gulf of Mexico and off the coast of Virginia. Also up for consideration is HR 1229 which calls for ending the de facto moratorium on drilling in the Gulf of Mexico and requires the Interior Department to act on a permit to drill within 30 days of receiving an application as well as 30 days to restart permits that were approved before May 27, 2010. HR 1231 would open new coastal waters to offshore drilling.

### **International**

Nord Stream said it should finish laying its first gas pipeline on Thursday and is on schedule for commercial operations to begin in October. The first pipeline is designed to have a capacity of 55 bcm per year.

### **ELECTRIC MARKET NEWS**

The U.S. NRC said today that Japanese authorities continue to struggle to control the damaged Fukushima Daiichi nuclear plant and the agency termed the status at the site as "static".

Exports of natural gas from Britain to Belgium via the Interconnector pipeline has risen as maintenance at the Kollsnes restricted Norwegian gas exports to Britain.

The Edison Electric Institute reported that they estimated U.S. power production during the week ending April 30<sup>th</sup> stood at 69,187 Gwh down 1.4% from the prior week and some 3.8% higher than the same week a year ago.

Standard & Poors said in a conference call today that the industry is on the cusp of starting construction on four new nuclear plants in the United States, as U.S. regulators are expected to approve their construction later this year. But the accident at Tokyo Electric Power's Fukushima plant in March coupled with the low cost for natural gas and high construction costs for a nuclear unit will stall the construction of other units for the near term.

### **ECONOMIC NEWS**

The ADP Employer Services report showed that US private employers added 179,000 jobs in April while payrolls in March were revised up to an increase of 207,000 from a previously reported increase of 201,000.

According to a report from consultants Challenger, Gray & Christmas Inc, the number of planned layoffs at US firms fell in April by 12% to 36,490 from 41,528 in March. It is the lowest monthly amount for the year so far. Job cuts were down about 5% from year ago planned layoffs of 38,326.

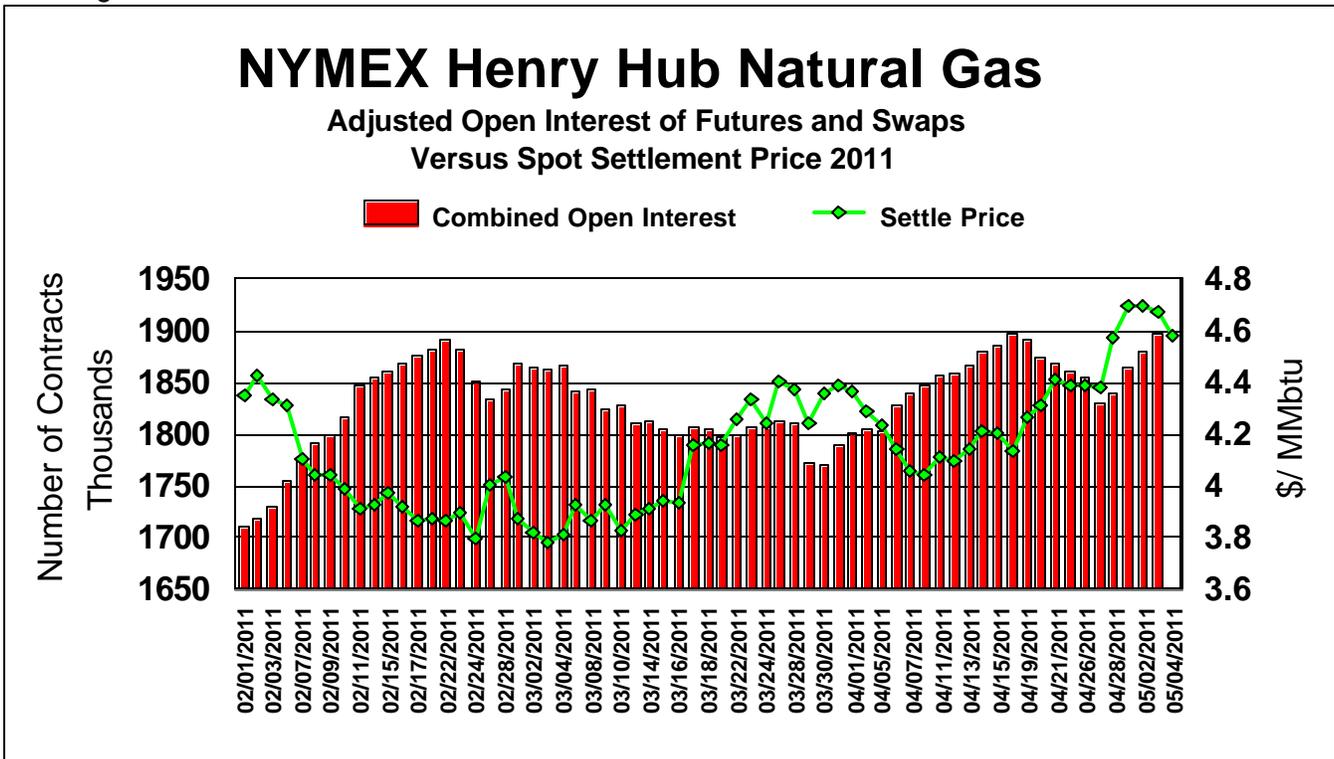
The Mortgage Bankers Association said applications for US home mortgages increased last week. Its seasonally adjusted index of mortgage application activity, which includes both refinancing and home purchase demand, increased 4% in the week ending April 29<sup>th</sup>. Its seasonally adjusted index of refinancing applications increased 6% while the index of loan requests for home purchases increased 0.3%.

The ISM's nonmanufacturing purchasing managers' index fell to 52.8 in April from 57.3 in March. It said the business activity/production index fell to 53.7 from 59.7 in March while the new orders index slowed sharply to 52.7 from 64.1. The ISM employment index fell to 51.9 in April from 53.7 in March.

San Francisco Fed President John Williams said the US is not facing a sustained bout of high inflation despite a recent surge in energy and food prices that is sparking fears of price increases seen in the 1970s. He said that while sharp commodities price increases are a serious concern prices of some such as sugar and cotton are starting to decline and added that slow wage growth is acting as a brake on broader inflation.

House Republicans voted to advance legislation to delay new derivatives regulations for 18 months, in one of two committee votes needed to move the bill to the House floor. The House Financial Services Committee must also approve the bill because the two committees share oversight of the Dodd-Frank financial overhaul law. It may vote on the bill next week. The bill would delay until December 31, 2012, most of the derivatives rules required under Dodd-Frank. It would keep the deadline for this July for swaps traders to report their deals to regulators and for regulators to define who is covered by the law.

The CFTC created an advisory panel that would help it implement portions of the new Dodd-Frank law that gives the government more oversight of the derivatives market. The special panel would focus on standardizing the reference data used to describe and value derivatives that are traded on regulated exchanges and in the over-the-counter market.



**MARKET COMMENTARY**

The natural gas futures market saw a late session sell off, as it appeared some bulls were looking to take profits and move to the sidelines in front of tomorrow’s natural gas storage reports. The market finished down over 9 cents today, posting the largest single day decline since March 29<sup>th</sup>. The sell off in prices also moved the daily stochastics to roll over and point downward for the first time since April 12<sup>th</sup>, back when the recent buying spree started. Fundamentally the market saw nuclear generation rebound this morning posting its highest level of output since April 27<sup>th</sup>. While this is still significantly below year ago levels it was a gain of 3.7% from prior day levels.

Open interest reported at midday showed that another new record level of open interest was set in the Henry Hub futures as total open contracts increased by nearly 11,000 lots and moved over 1 million contracts basis Tuesday’s trading. The combined and adjusted futures and swaps also saw a strong gain on the day growing by over 16,000 (10,000 Mmbtu sized) contracts.

Market expectations for tomorrow’s storage report appear to be running between a 68-72 bcf build in stocks. Storage levels rose an adjusted 83 bcf for the same week a year ago while the five year seasonal average is for a 78 bcf build.

If nuclear generation levels continue to rebound tomorrow coupled with a rather neutral storage report we would begin to look to be a seller of this market now that the daily stochastics have rolled over. We see minor resistance starting tomorrow at \$4.622, \$4.643 and \$4.663. More significant resistance we see at \$4.729, \$4.879 and \$5.012. Support we see at \$4.554, \$4.472 and \$4.392. Additional support we see at \$4.373, \$4.313 and \$4.128.

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