



## ***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 MAY 5, 2011**

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

##### **North America**

The Canaport LNG import terminal in New Brunswick, Canada was shut this week for planned maintenance and is expected to return to service by June. The maintenance work is expected to help restore the terminal's maximum send out capacity back to 1.2 bcf/d.

Energy Transfer Equity LP announced today it would build a 100,000 b/d NGL fractionation plant at Mt. Belvieu. The \$350-\$375 million plant is expected to be completed by the first quarter of 2013.

The CEO of El Paso Corporation said today he expects U.S. natural gas exports to Mexico will double in the coming years as Mexico increases its demand for the fuel as a generating fuel. The company expects to complete an expansion of its EPNG pipeline in Arizona to supply two new gas fired power plants in the Mexican state of Sonora by 2013. The plants would add 185-million cf/d to the pipeline.

Petrohawk Energy reached agreement to sell its 50% stake in Haynesville shale midstream joint venture to partner Kinder Morgan Energy for \$855 million. Kinder Morgan will assume \$65 million of Petrohawk's debt as part of the deal. This move continues in a pattern of the company's sell off natural gas assets in order to free up capital to expand its investments in oil and liquids rich regions like Bakken shale, Eagle Ford, Permian Basin and Niobrara shale. The company looks for its production this year to average 940-960 MMcfe/d, an increase of about 41%. The company expects to finish 2011 with 16% liquid content, almost quadruple of last year.

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

	04/29/2011	04/22/2011	Change	04/29/2010
<b>Producing Region</b>	817	793	24	755
<b>Consuming East</b>	707	666	41	900
<b>Consuming West</b>	233	226	7	328
<b>Total US</b>	1757	1685	72	1819

\*storage figures in Bcf

Britain's Easington Dimlington terminal stopped operations on Thursday after a minor problem was reported in its communication system. Gas flows from the terminal dropped to zero from around 8 million cubic meters.

India's Reliance Industries said today that it is investing \$12 billion in the chemicals business.

The Chinese press reported that China may introduce a resource tax between 5-10% on the domestic sales of crude oil and natural gas as part of the country's overall tax reform.

##### **Generation Outages**

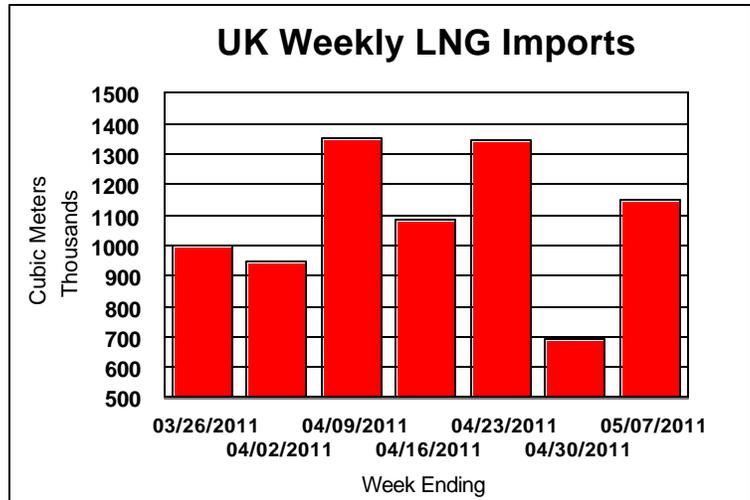
**ERCOT** Unit #3 at the coal fired Harrington power plant was expected to shut down for maintenance work that is expected to last possibly until May 23<sup>rd</sup>.

**SERC** – Southern's 883 Mw Hatch #2 nuclear unit was shut this morning, down from 52% power from yesterday. The shut down was to facilitate maintenance on its feed water pumps.

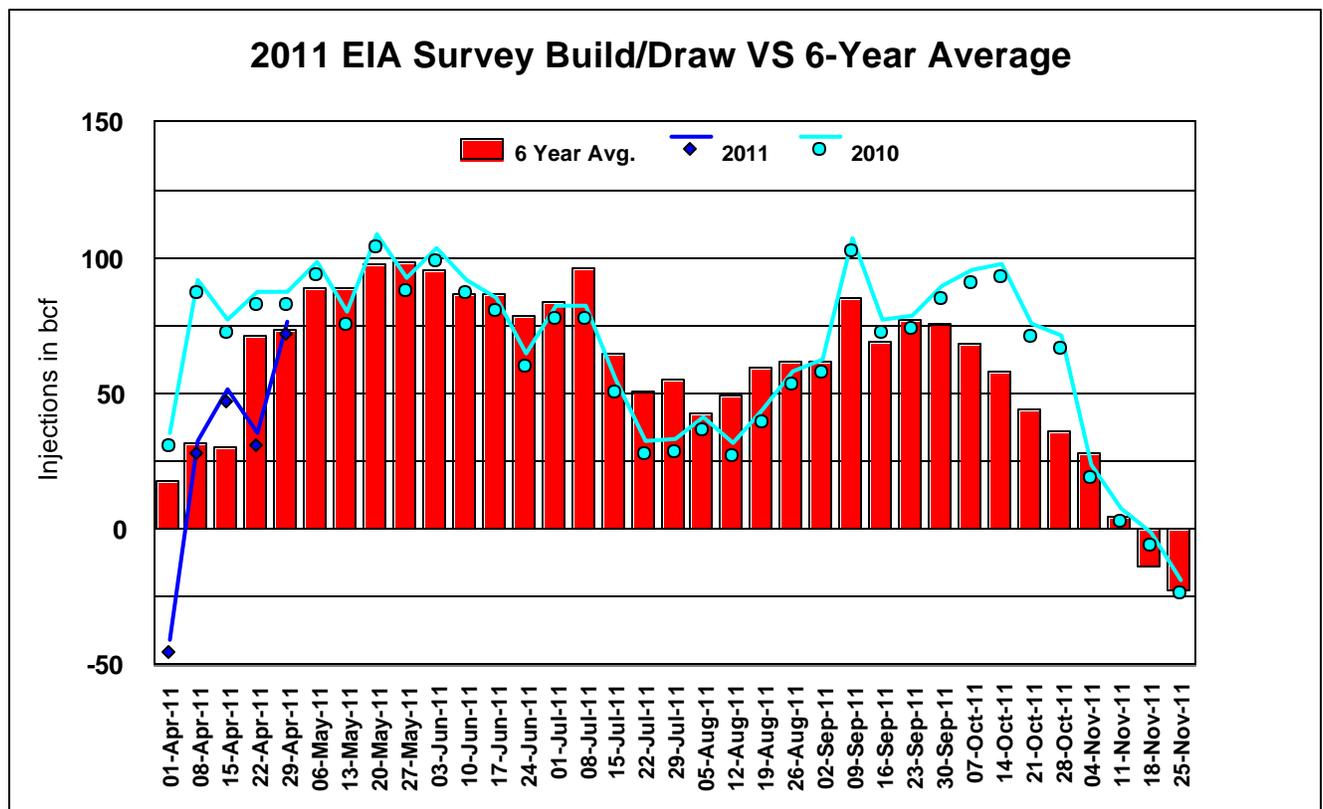
**The NRC reported this morning that some 68,639 Mw of nuclear generation was online, down 1.5% from yesterday and 18.9% below levels recorded a year ago.**

The Al Dafna LNG tanker is expected to arrive at the Isle of Grain terminal on May 7<sup>th</sup>.

Reuters reported today that the projected investment in the Nabucco gas pipeline has been revised up to \$18-22 billion up some 50-90% from earlier estimates. As a result some partners in the project are opposed to meeting the revised cost projections and seeking a cost reassessment. As a result the final investment decision could be delayed until 2012. The pipeline consortium though later claimed such estimates were speculation and cost estimates were currently under review.



Shell reported that its North Sea Shearwater oil and gas field is closed for a planned short duration maintenance shutdown. The field produces gas to export via the Elgin/Franklin pipeline to Bacton and oil to export through the Forties pipeline.



**ELECTRIC MARKET NEWS**

Local Japanese government officials warned today that strict safety measures may prevent Chubu Electric Power from restarting two reactors at its Hamaoka nuclear plant after they were shut for regular maintenance. The one unit which had been shut since November of last year was originally

expected back in service by July of this year, while another two reactors were expected to under go maintenance shortly and their restart is also questionable.

## **ECONOMIC NEWS**

The US Labor Department reported that initial unemployment claims increased by 43,000 to a seasonally adjusted 474,000 in the week ending April 30<sup>th</sup>. The prior week's level was revised to 431,000 from an originally reported 429,000. The four-week moving average of new claims increased by 22,250 to 431,250 in the week ending April 30<sup>th</sup>. The report showed that the number of continuing unemployment claims increased by 74,000 to 3,733,000 in the week ending April 23<sup>rd</sup>. The unemployment rate for workers with unemployment insurance was 3% in the week ending April 23<sup>rd</sup> compared with 2.9% a week earlier.

The Labor Department also reported that US productivity slowed in the first quarter. Nonfarm business productivity increased at a 1.6% annual rate in January through March after increasing by 2.9% in the final three months of 2010. The fourth quarter level was revised up from an originally reported 2.6% increase. It reported that nonfarm business output increased 3.1% during the first quarter, down from a 4.4% increase in the fourth quarter.

Federal Reserve Chairman Ben Bernanke said regulators are strengthening their ability to spot fault lines in the financial system rather than focusing exclusively on specific companies.

Federal Reserve Bank of Atlanta President Dennis Lockhart said the Federal Reserve plans to end its \$600 billion bond buying as scheduled in June and will set a high bar for another potential round. He said no further stimulus would be added but could not speculate about what accommodations may be needed. He added that he saw very little chance of a double dip recession that could harm the US economy.

A CFTC commissioner Scott O'Malia said the CFTC has proposed rules that would increase costs for power companies, airlines and major manufacturers. He renewed his concern that the agency's proposal defining a swap dealer is too broad and could end up including businesses that use swaps primarily to hedge their risks, increasing costs.

S&P Indices said it launched the S&P 500 Oil Hedged Index, which seeks to reduce the effects of a rise in inflation as reflected in higher oil prices or against declines in the value of the US dollar by simulating the returns of an investment strategy that is long the S&P 500 and hedged against changes in the US dollar, as measured by oil prices. The hedge uses NYMEX crude oil and ICE Brent crude oil futures as a hedge.

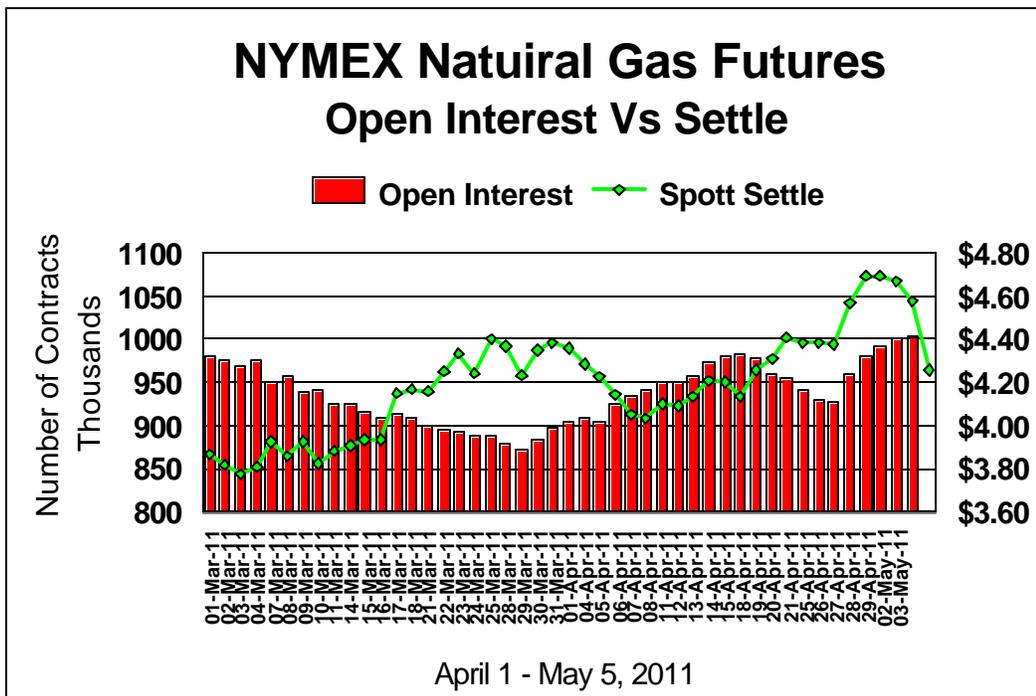
Major European banks took less risk in commodity trading in the first quarter in contrast to US banks and despite a commodity price rally. European banks increased their investment in credit spreads and interest rates. First quarter data showed the largest risk tankers in commodities trading in Europe, Deutsche Bank and Credit Suisse both cut their exposure quarter on quarter. Deutsche Bank's Value at Risk in commodities fell to 11.8 million euros or \$17.5 million from 12.7 million euros while Credit Suisse's VaR fell to 8 million Swiss francs from 16 million Swiss francs or \$9.3 million from \$18.6 million. Meanwhile UBS said its total VaR increased to 73 million Swiss francs from 66 million Swiss francs in the previous quarter. BNP Paribas's VaR increased to 6 million euros from 4 million euros and Societe Generale cut its VaR to 4 million euros from 5 million euros.

Britain's service sector grew less than expected in April. The Markit/CIPS headline services PMI index fell to 54.3 in April from 57.1 in March.

## **MARKET COMMENTARY**

The natural gas market did not escape the general commodity bulls stampede for the exits today as natural gas futures prices dropped by over 30 cents today. While natural gas was performing better than most commodity markets earlier this morning, the release of a slightly bearish inventory report appeared to unlock the flood gates and allowed prices to drop by over 25 cents over the following few

hours of trading. By the end of the day the market found itself back at levels not since mid April.



The CME reported at midday that its NYMEX natural gas contract on Wednesday saw its open interest set yet another new record high for the third consecutive day and the fifth time this year, as reported open interest reached

1,003,241

contracts. This gain though was the

smallest in the last five trading sessions growing by only 1,380 lots. Judging by the late sell off yesterday, much of this new open interest may have been generated by the trading in the morning.

While there is nothing more than a good sell off for a 'bear' to enjoy we believe that this sell off might have gotten ahead of itself and thus would look to take profits and await another rebound before establishing new shorts. We feel that the storage report was not a significant bearish event given that the injection rate last week was only 2-3 bcf more than most market expectations. This coupled with the fact that U.S. nuclear generation levels are still significantly below normal levels and in fact back slid today, we look at this sell off as being in sympathy with the general commodity sell off and some liquidation by weak nervous longs that had flooded into this market over the past week, as open interest has gone by over 77,200 contracts.

We see support tomorrow at \$4.205-\$4.187, followed by \$4.112, \$4.056 and \$3.99. Resistance we see at \$4.405, \$4.46-\$4.47, \$4.529 and \$4.682. Additional resistance we see at \$4.72-\$4.729 and \$4.791. The flat price sell off today appears to have contracted some spreads as well, as the March-April 2012 spread traded down to 12.7 cents at one point today, basically back down to support levels from the middle of last month. If this price pressure returns tomorrow we would look for this spread to potentially be a buying opportunity for the near term from 12 to 11 cents looking for a return back to the 15-16 cent level.

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.