



## ***ENERGY RISK MANAGEMENT***

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### **NATURAL GAS & POWER MARKET REPORT FOR MAY 9, 2011**

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

##### **North America**

The FERC and North American Electric Reliability Corporation said today that they will join forces to investigate the causes of power outages and natural gas delivery disruptions in the Southwest during the bitter cold outbreak in February. The two regulators had been sharing information but conducting separate inquiries into the matter up to this point.

Chesapeake Energy said today it still has no date for resuming its fracking operations in Pennsylvania, since it suspended the operations three weeks ago following a well blow out.

El Paso Corp is monitoring possible flooding from the Mississippi River around its Southern Natural Gas pipeline. It said facilities and points on Southern's North Main System in west central Mississippi as well as southwest Louisiana upstream of White Castle Compressor Station could be impacted. The pipeline can carry 3,700 mmcf/day of gas from producing areas in Texas, Louisiana, Mississippi, Alabama and the Gulf of Mexico to consuming areas in Louisiana, Mississippi and other southeastern states.

Southern Union and BG Group have filed an application with the US Department of Energy to export 2 billion cubic feet/day of liquefied natural gas from the US. The joint venture plans to export domestically produced natural gas from the existing LNG import terminal at Lake Charles, Louisiana.

Stephanie Rae Roqumore was sentenced to six years in federal prison and a \$7.8 million fine on Monday for defrauding Occidental, Shell, Cargill, Hess Corp and 10 other firms by providing false lines of credit over an eight year period and trading with these firms.

Mitsubishi announced today that it was forming a consortium with Tokyo Gas, Osaka Gas and Chubu Electric Power along with Japan Oil, Gas and Metals Nation Corp to partner in Penn West Exploration's shale gas project in northeastern British Columbia. The consortium plans to study

#### **Generation Outages**

**NPCC** – Entergy's 852 Mw FitzPatrick nuclear power plant dropped to 59% capacity early Monday after being at full power on Friday.

**PJM** – Exelon Corp's 619 Mw Oyster Creek nuclear unit exited an outage and ramped up to full power by early Sunday.

**MISO** – NPPD's 770 Mw Cooper nuclear power plant began to exit its recent refueling outage and was up to 17% power this morning. The unit has been shut since March 13 for scheduled refueling.

Exelon's 867 Mw Quad Cities #1 nuclear unit was shut early Monday for scheduled refueling. The unit had been at full power last week.

Exelon's 1120 Mw LaSalle #2 nuclear unit ramped up to full power on Monday.

Xcel Energy's 545 Mw Prairie Island #2 nuclear unit reported tripped off line early Monday morning, possible due to a thunderstorm in the area.

**ERCOT** – STP Nuclear Operating Co's 1,280 Mw South Texas 1 nuclear unit exited its refueling outage by early Saturday and ramped up to 56% by early Monday.

**FRCC** – NextEra Energy 838 Mw Unit #2 at the Saint Lucie nuclear power plant was at 45% power this morning up 35% from Friday's levels. The unit began returning to the grid on May 5<sup>th</sup> after completing a refueling outage.

**WSCC** – Arizona Public Service's 1,314 Mw Palo Verde 2 nuclear unit ramped up to 69% of capacity early Monday from 2% on Friday.

**The NRC reported this morning that some 70,065 Mw of nuclear generation was online, up 2.65% from Friday and 18.76% below levels recorded a year ago.**

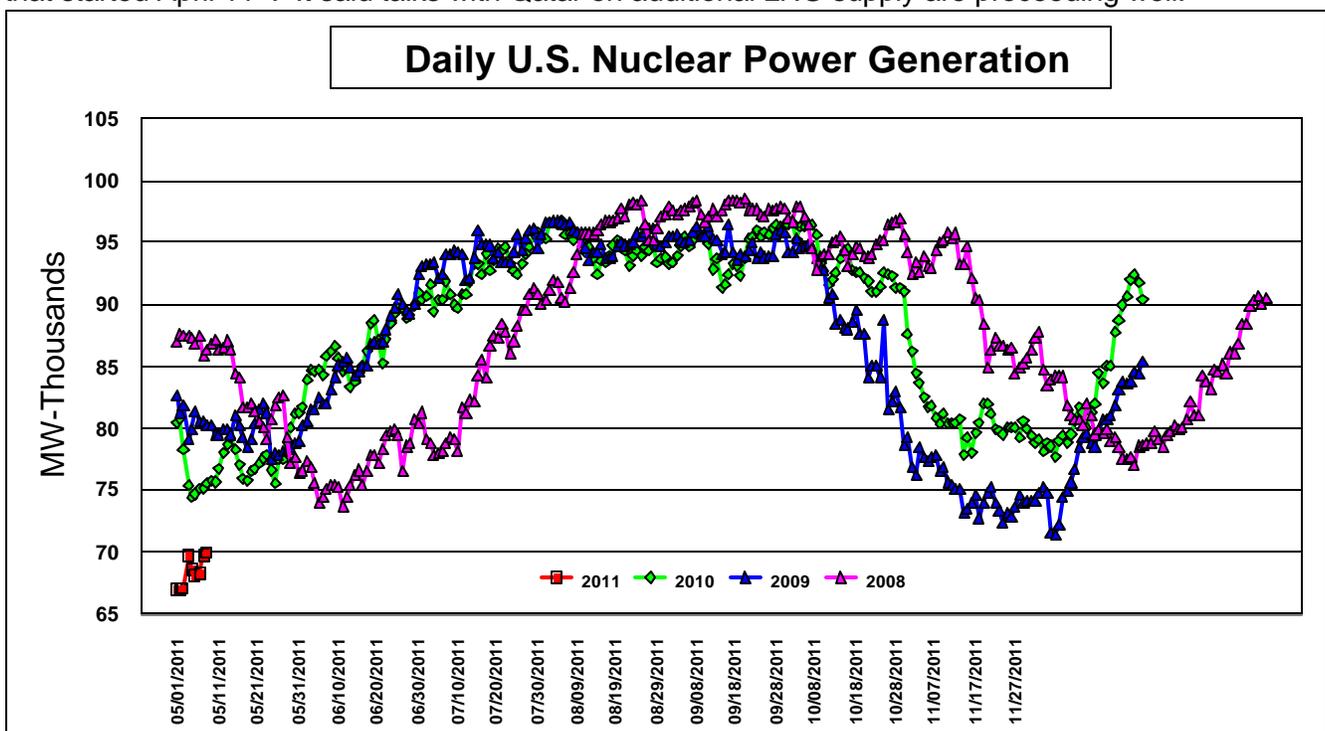
exporting shale gas production to Japan as LNG. Penn West is looking to raise daily production to about 500 MMcf/d by 2014, which Mitsubishi would receive around 3.5 million tons per year of LNG equivalent. The project is estimated to hold 5-8 tcf.

The acting secretary of the Department of Conservation and Natural Resources told a State Senate committee earlier this month that removing a moratorium on new drilling in Pennsylvania state forests is not a priority, rather the department is focusing on protecting the surface impact and updating monitoring of drilling by these companies.

**International**

Chubu Electric said today that it has agreed to a request from Japan’s prime minister and decided to temporarily shut its Hamaoka nuclear plant. The company said it would halt the #4 and #5 reactors at the plant as soon as possible and that the reactor #3 would remain shut.

Qatar’s Oil Minister Mohammed Bin Saleh Al-Sada said the country is in talks to supply more liquefied natural gas to Japan beyond the additional 4 million tons it agreed to last month. Meanwhile, Japan’s Chubu Electric Power Co is the latest firm seeking more LNG than originally planned for the fiscal year that started April 11<sup>th</sup>. It said talks with Qatar on additional LNG supply are proceeding well.



**ELECTRIC MARKET NEWS**

The U.N.’s Intergovernmental Panel on Climate Exchange released a study today and it found that renewable energies such as solar, wind and geothermal power could surge to supply almost 80% of the world’s demand by 2050 if backed by the right governmental policies.

PJM said the region has more than enough generation to meet summer power demand. It said the overall demand for power this summer would be higher than its all time record but only because of the addition of new members to the grid. FirstEnergy Corp’s American Transmission System power customers in Ohio and Pennsylvania and Cleveland Public Power in Ohio are expected to join PJM on June 1<sup>st</sup>, increasing the grid’s total peak usage to 148,940 Mw this summer, well above its previous record of 144,644 Mw set in 2006.

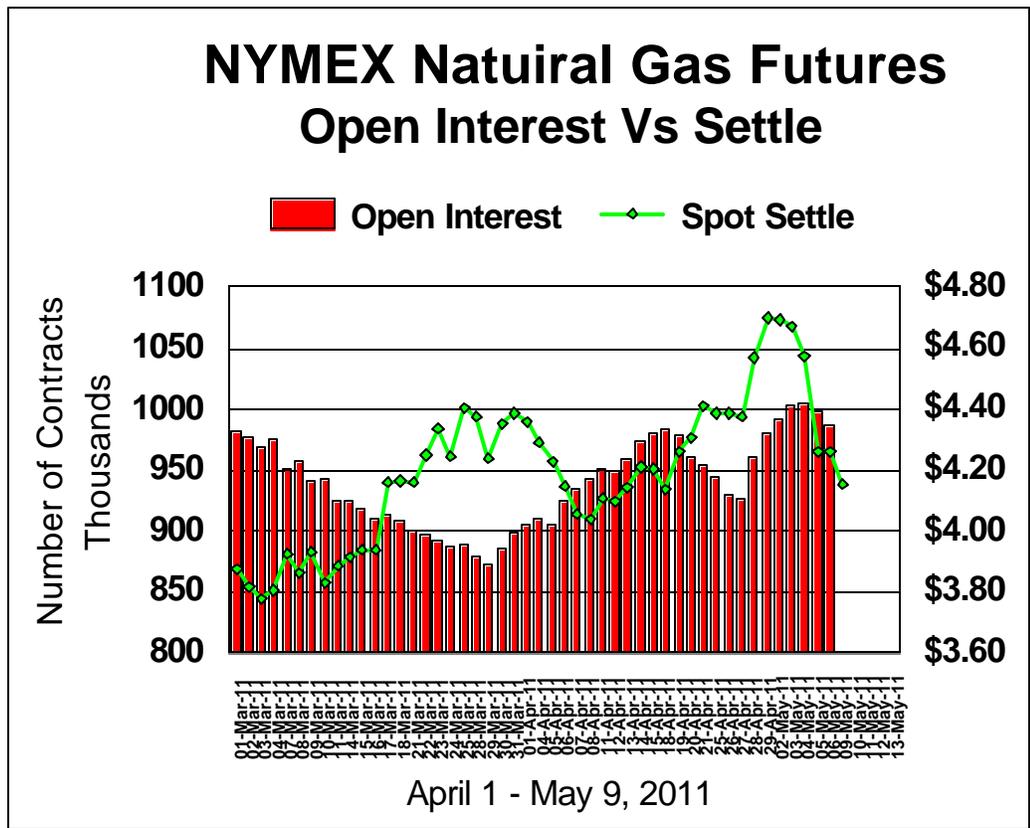
**ECONOMIC NEWS**

The Organization for Economic Cooperation and Development said its composite leading indicator for member countries increased to 103.2 points in March from 103 in February. The index showed regained momentum in economic activity in China and Canada while the US, Germany and Russia were also in the midst of above trend expansion. The indicator for countries in the Group of Seven wealthy countries, excluding Iran, increased to 103.6 in March from 103.4 in February. For the euro zone, the indicator fell to 103.1 from 103.2.

Central bankers voiced concern about the recent volatility in commodity markets, saying they needed to better understand its impact on inflation at a time when some emerging economies may be overheating. Jean-Claude Trichet, speaking as chair of talks at a Bank for International Settlements meeting also said policymakers had not discussed in depth Greece's fiscal problems but said there

was an agreement that some advanced economies needed to improve their finances.

Reuters reported today that it appears several large hedge funds have suffered double-digit losses last week as oil fell by a near record \$16 per barrels. Astenbeck II a \$2.6 billion fund run by Andrew Hall was one such fund reportedly posted 12% losses last week while other funds such as BlueGold, Clive Capital, and Transtrend were also linked to large losses.



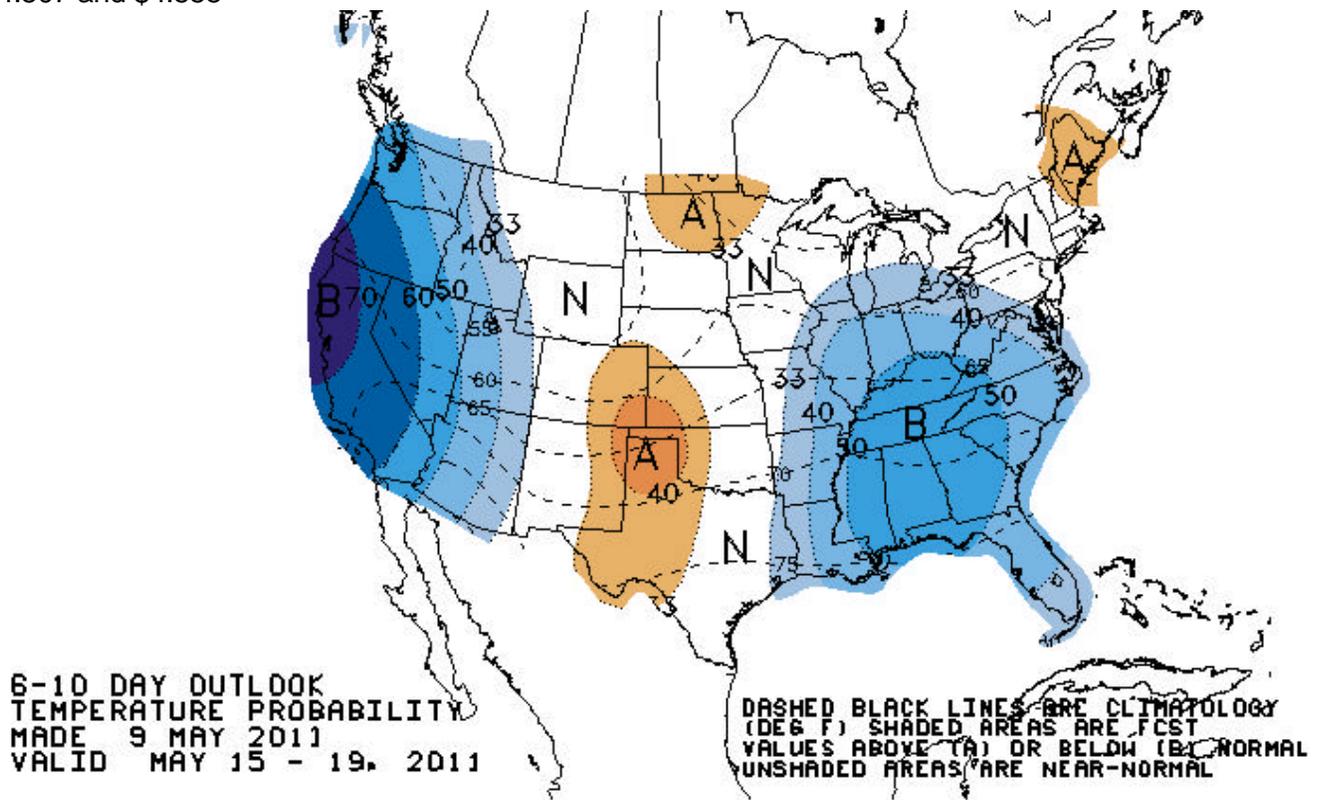
**MARKET COMMENTARY**

The natural gas market finished lower for the sixth trading session in a row as rebounding nuclear generation coupled a bearish natural gas rig count from last week kept this market from following other commodities higher this morning. The natural gas market also saw a technical breakdown at midday when the lows from the prior two sessions were breached and prices backslid through the afternoon approaching the lows and support from an area of congested trading from mid April at \$4.15-\$4.12.

It appears that the hedge fund buying of this market over the past month, which was the driving force behind the price rally may have come to a halt, at least for the near term. Open interest in the NYMEX Henry Hub futures on Thursday and Friday declined both days and probably declined again today as some of these new longs moved to the sidelines.

We feel though that given a general neutral weather picture for the next two weeks and having nuclear generation levels still lagging behind seasonal levels we do not feel that this market is going to

continue to post significant losses, or at least there is limited downside potential for the risks of some rebounding prices especially if the rest of the commodity complex continues to rally. We would rather wait to see a price rebound before establishing new shorts We see support in the June natural gas at \$4.15-\$4.112 followed by \$4.056 and \$3.99, \$3.877 and \$3.731. Resistance we see at \$4.371, \$4.439, \$4.507 and \$4.555



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