



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR JUNE 3, 2011

#### NATURAL GAS MARKET NEWS

##### North America

The National Hurricane Center continued to watch an area of broad low-pressure located just south-southwest of Jamaica. The low-pressure system continues to produce a large region of disorganized cloudiness and showers and any development is likely to be slow. In fact forecasters are looking at this system possibly remaining in the region for at least a week, with it possibly moving north or northeastward by the middle of next week. Forecasters were also looking at a small area of low pressure located in the western Gulf of Mexico, which is producing limited shower activity. This system though appears to have little or no chance of development as it moves westwards at about 10-15 mph.

##### Generation Outages

**PJM** – Exelon’s 1134 Mw Limerick #2 nuclear unit was up to 90% power this morning. The unit had been only at 20% power on Thursday morning.

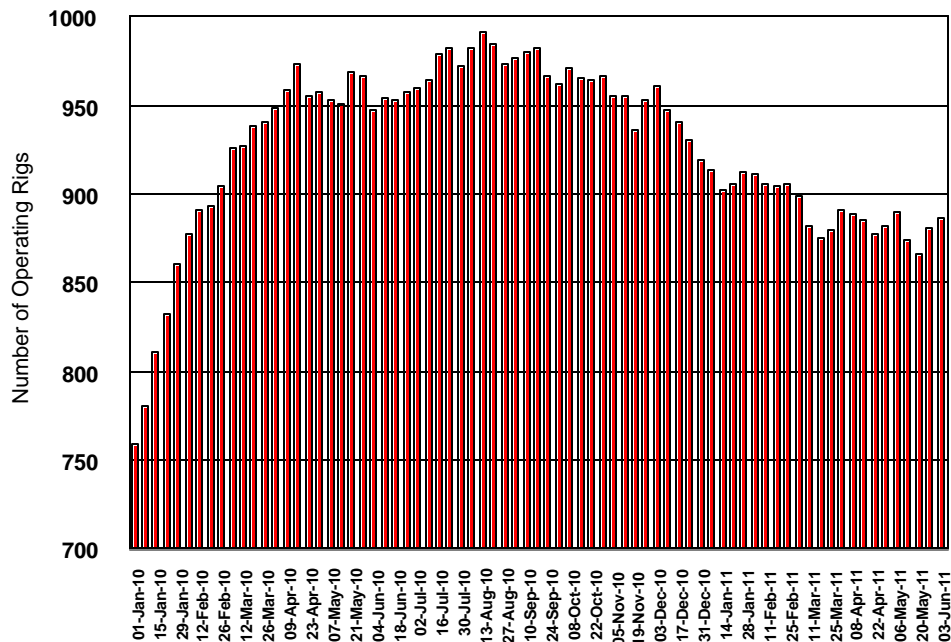
**SERC** - Duke Energy’s 846 Mw Oconee #2 nuclear unit was up to 99% power Friday morning, up 79% from yesterday.

TVA’s 1105 Mw Browns Ferry #3 nuclear unit ramped up over night and was at 99% power this morning, up 59% from Thursday.

The NRC reported this morning that some 83,924 Mw of nuclear generation was online, up 2.6% from yesterday and 8.4% below levels recorded a year ago.

U.S. Natural Gas Drilling Rig Activity

Source: Baker Hughes

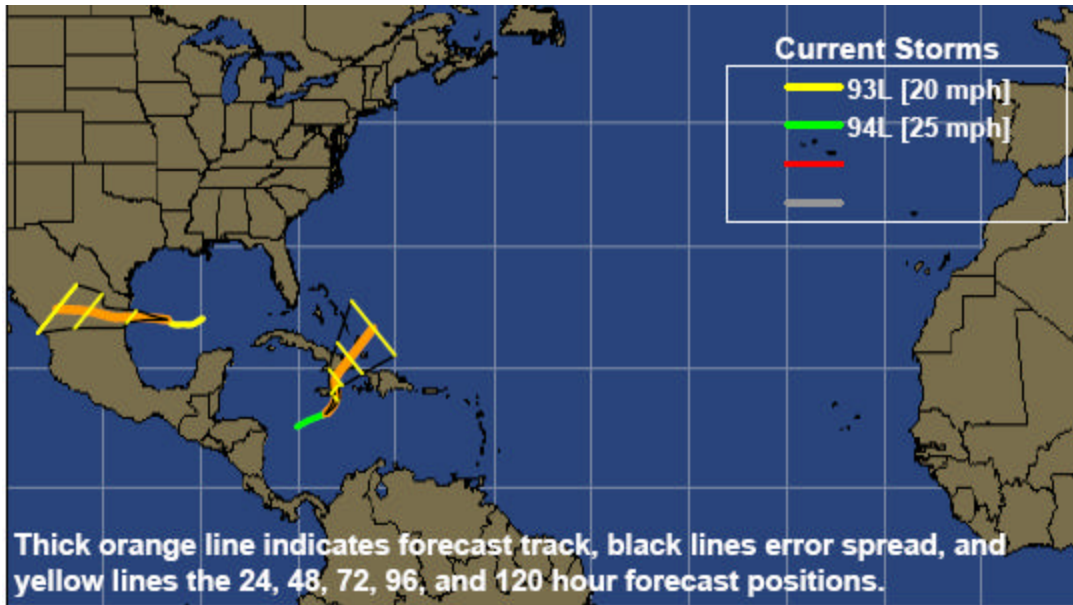


January 1, 2010 - June 3, 2011

Baker Hughes reported this afternoon that the number of drilling rigs searching for natural gas in the United States this week rose by 6 rigs to 887. The number of horizontal rigs working in the U.S. dropped by three to 1051 rigs after hitting a record high last week. Some 58% of horizontal rigs are estimated to be searching for natural gas in shale areas.

The Aux Sable Liquid Products LP, Enbridge Veresen and Williams Partners announced

that Sable NGL, an affiliate of Aux Sable, has executed an agreement with a wholly owned subsidiary of EOG Resources to acquire key assets in the Bakken Shale area of North Dakota for some \$185



million with the deal closing by July 2011. The purchase is for the Stanley Condensate Recovery Plant and the Prairie Rose Pipeline. The Prairie Rose Pipeline connects the Stanley Plant to the Alliance Pipeline, which delivers high-energy dense phase gas to Aux Sable's

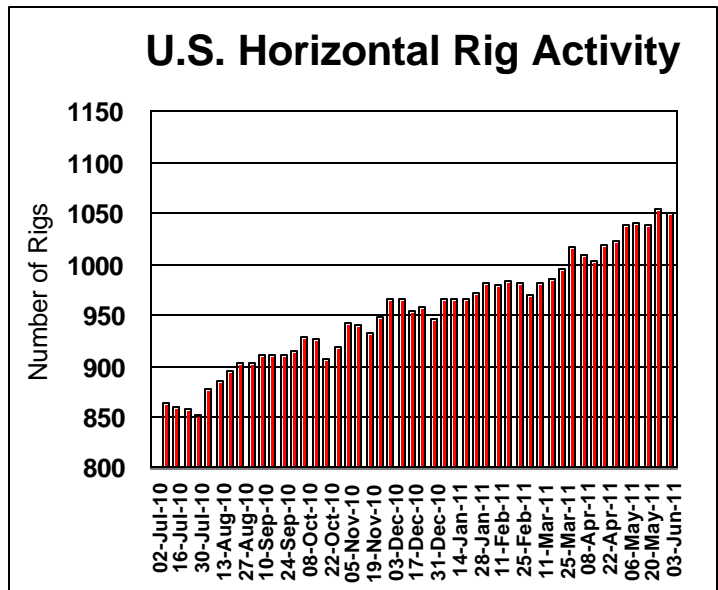
Channahon, Illinois Plant for processing. The Stanley Plant commenced operation in February 2010 and will have a capacity of 80 MMcf/d when the current expansion is completed later this month. The 12 inch 83 mile Prairie Rose Pipeline has a capacity of 110 MMcf/d.

Regency Energy Partners LP said it would spend about \$450 million to construct a wellhead gathering system and other infrastructure in order to serve an undisclosed producer in the Eagle Ford Shale with gas and condensate gathering. Once the project is finished, Regency's entire South Texas system will be capable of gathering, compressing treating and transporting up to 1 bcf/d of natural gas and 26,500 b/d of condensate to downstream outlets.

Montana's Department of Natural Resources and Conservation is reportedly considering new rules to regulate hydraulic fracturing activities in the state and has scheduled a public hearing on proposed rules for June 15<sup>th</sup>. The state is looking to require producers/operators to include "processes, anticipated volumes and types of materials planned for use" in frack jobs in well permit applications. For wildcat or exploratory wells, written approval fro fracking would need to be obtained in advance of well stimulation by at least 24 hours.

**International**

The chairman of Reliance Industries in speaking before shareholders failed to indicate why or when the company will increase its natural gas production from India's largest gas deposit. He only said that Reliance and BP will jointly asses "technical issues in ramping up production" at the KG=D6 field after getting governmental approval for their partnership. Gas output from the field, which is off India's east coast, has dropped 17% from a peak of 60 mcm a day recorded a year ago. Production is currently about 50 mcm/d. It has been rumored that falling production is the result of declining pressure at the reservoir.

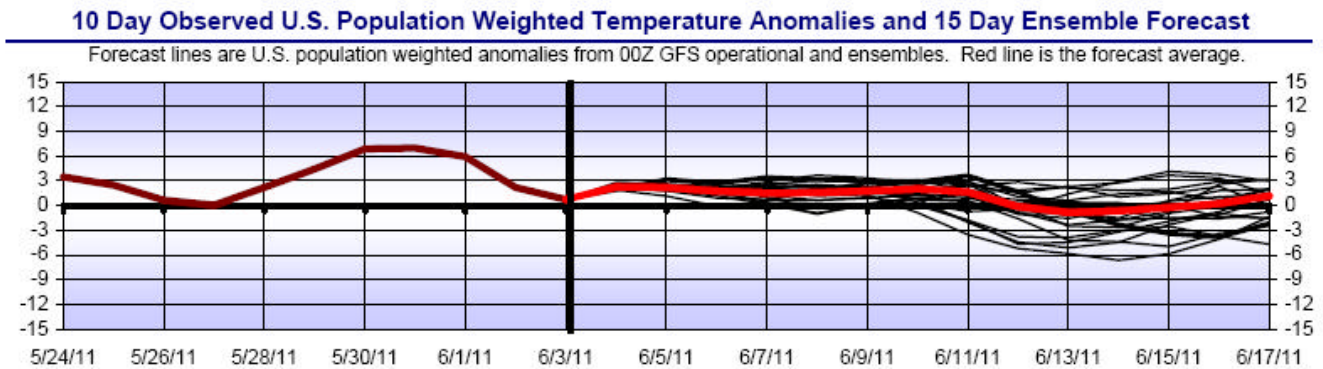


Japanese engineering and construction firm Chiyoda Corp and Italy's Saipem announced today that they have agreed to cooperate in developing onshore LNG and upstream projects.

Reuters reported today that the British Trader LNG tanker is expected to arrive near the English Channel on June 13<sup>th</sup> from Trinidad. It is uncertain if the ship will either dock in Britain or Belgium.

### **ELECTRIC MARKET NEWS**

The U.S. Northwest River Forecast Center on Thursday released their latest water run off projects for the April – September period. It is projecting that water flows through the Dalles Dam will be 127% of normal, up 1% from its forecast two weeks ago. A year ago water flows through this dam were only 79% of normal.



Japan's Tohoku Electric Power Company said Friday that it has purchased 800,000 tonnes of spot LNG and plans to buy more to fill any additional requirements to offset lost output from two nuclear plants after March's earthquake. The purchases were from Qatar, Indonesia, Australia and Russia's Sakhalin in addition to 2.9 million tonnes in purchases this business year under long-term contracts from Qatar, Indonesia, Australia, Russia and Malaysia. The company also has secured unspecified additional volumes of oil for power generation and has now secured enough fuel for power generation until the end of September, to cover peak summer demand. The company's 2174 Mw Onagawa nuclear plant has been shut since the March quake, while its 1100 Mw Higashidori nuclear plant has been in maintenance since February, with no scheduled restart date.

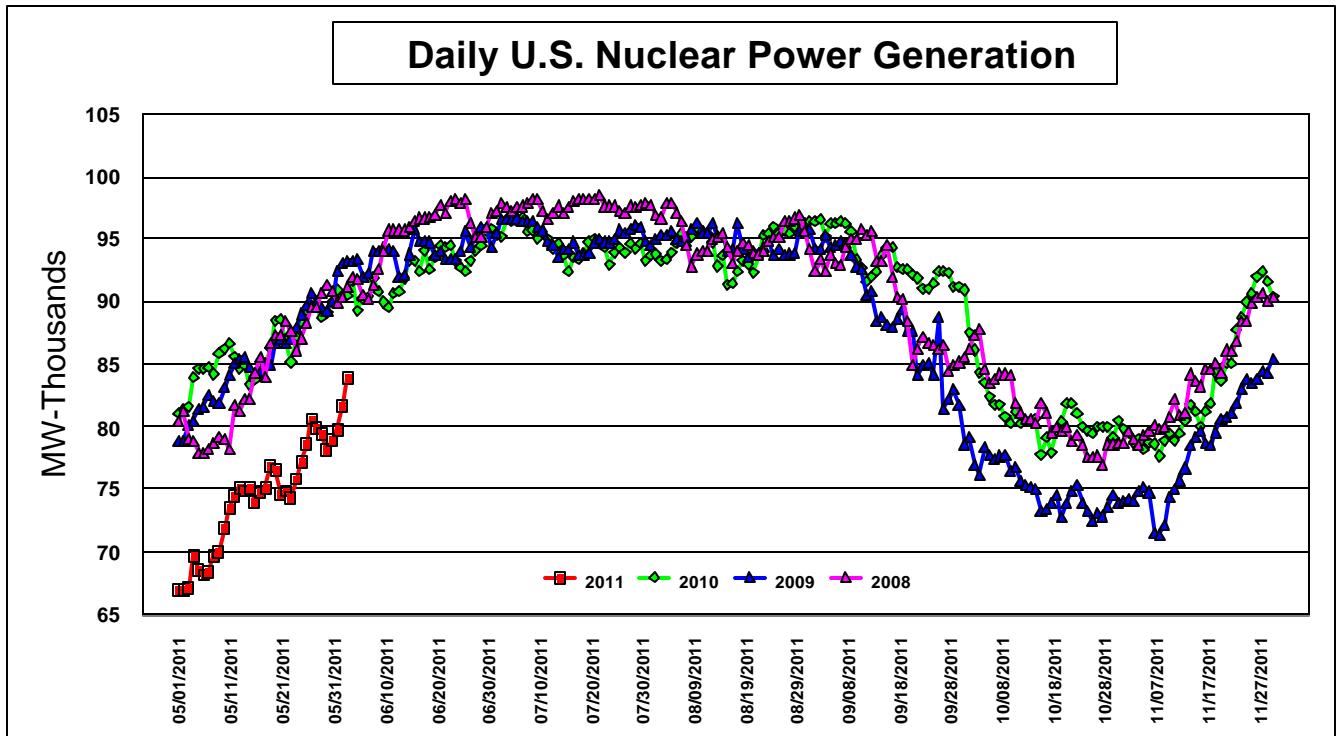
Reuters reported today that according to unnamed sources, the U.S. EPA will likely delay proposing rules to cut greenhouse gas emissions from power plants by at least a month. The rules had been expected to be released by the end of July. The EPA has said it would release GHG rules for oil refineries by December.

### **ECONOMIC NEWS**

The US Labor Department reported that hiring by US companies slowed in May and the unemployment rate continued to increase. It reported that nonfarm payrolls increased by 54,000 in May as the private sector posted the smallest job gain in nearly a year. Payroll data for the previous two months were revised down by a total of 39,000 to show an increase of 232,000 jobs in April and 194,000 jobs in March. The unemployment rate unexpectedly increased to 9.1% in May from 9% in April.

The Institute for Supply Management's non-manufacturing purchasing managers' index increased to 54.6 in May from 52.8 in April. Its business activity/production index fell slightly to 53.6 from 53.7 in April while the new orders index increased to 56.8 from 52.7. The ISM employment index increased to 54 in May from 51.9 in April.

The Markit Eurozone Services PMI fell in May to 56 from 56.7 in April. It was revised up from the preliminary May reading of 55.4.

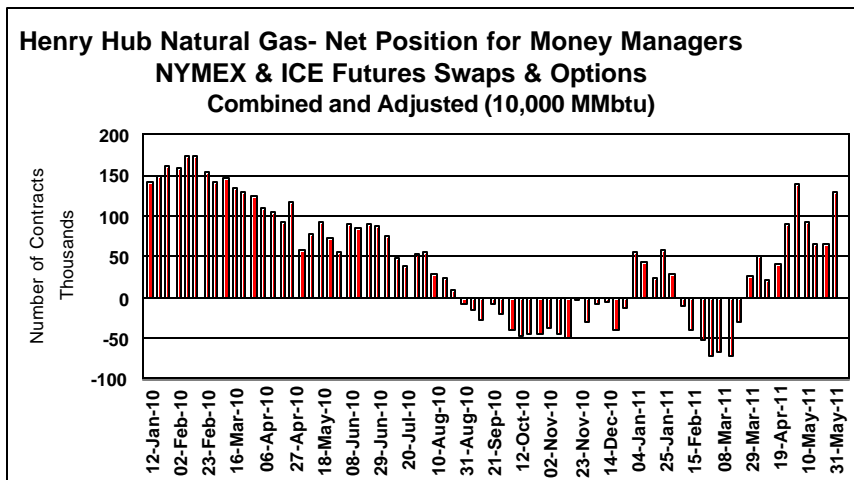


Britain's service sector grew at its slowest pace for three months. The Markit/CIPS headline services PMI index fell to 53.8 last month from 54.3 in April, the lowest level since February.

### MARKET COMMENTARY

The natural gas market posted an inside trading session, which should not be a surprise for a Friday on the eve of the summer season. Prices slid downward today and back towards levels recorded earlier this week before the release of yesterday's bullish storage report. Pressure on prices appeared to come from some technical profit taking on recent longs as well as mildly bearish fundamentals of moderating temperatures coupled with lightly bearish drilling report and rebounding nuclear generation levels.

This afternoon's Commitment of Traders Report showed that commodity funds nearly doubled their net

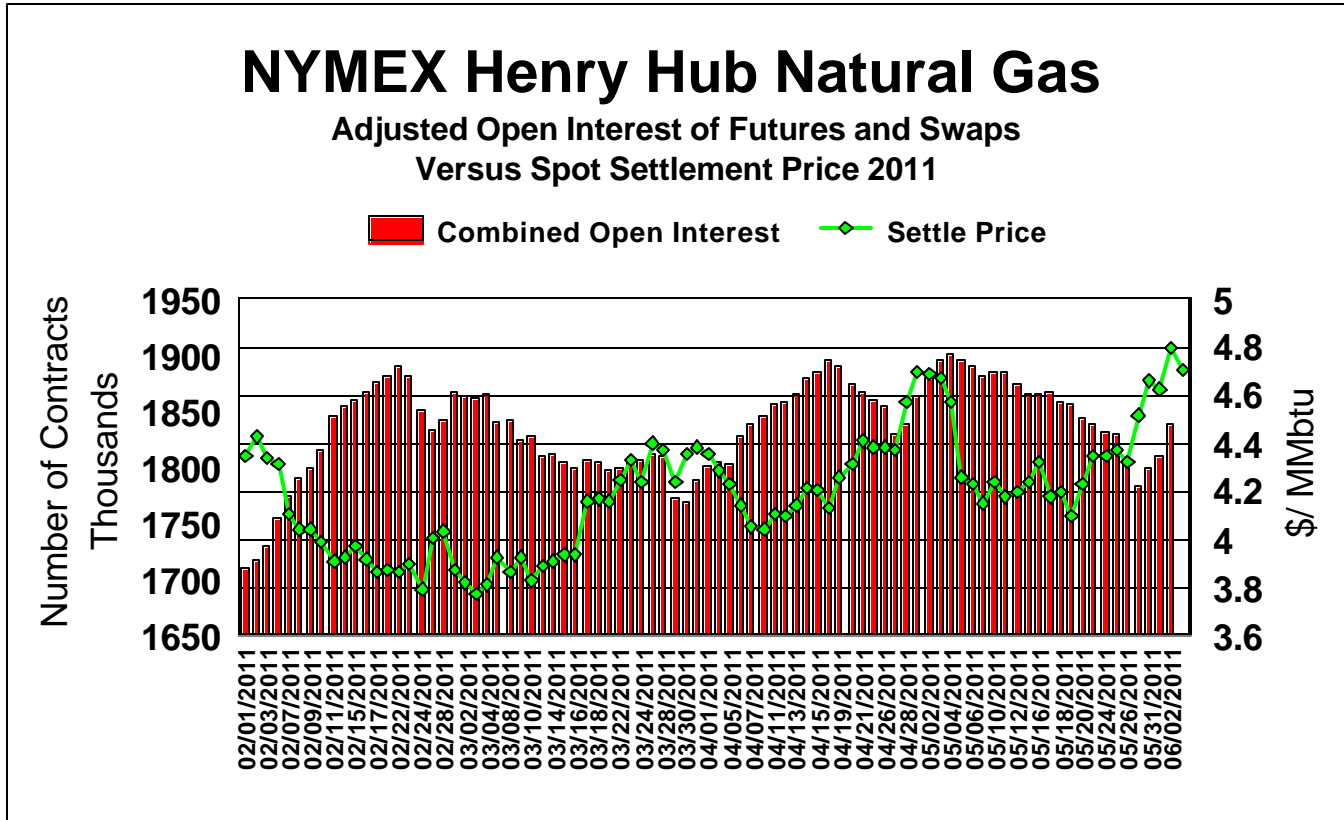


length on the week as this group of traders added over 63,000 net longs for the week ending May 31<sup>st</sup> via futures, swaps and options on a combined and adjusted basis. Given the increase in open interest by another 40,000 contracts since Tuesday it would appear that this group has added to their net length and as a result makes us wonder just how much more this group has left in the tank to buy.

We would look for two keys to this

market next week, nuclear generation levels and near term temperature forecasts. If temperatures for the next two weeks appear to be moderating from current levels and nuclear generation continues to rebound this market could return to the defensive. The market may be on the verge of getting some technical pressure as well, as the daily stochastics appear to be on the verge of rolling over and pointing downward for the first time since May 19<sup>th</sup>, back when the July contracts was trading between \$4.15-\$4.25. It is interesting to note that the 9 day slow stochastic indicators has caught the last four major trend moves in natural gas.

We would look for resistance next week at \$4.859-\$4.879, \$4.908, \$4.93 and \$5.17. Initial support we see at \$4.662, \$4.616 and \$4.584. Additional support we see at \$4.499 and \$4.415 with more distant support at \$4.1768 and \$4.094.



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