



## ***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 JUNE 7, 2011**

---

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

##### **North America**

The EIA released their latest Short Term Energy Outlook today and it sharply raised its estimate for domestic natural gas production growth for 2011. The agency is now expecting total output this year to be 4.5% higher than 2010 levels. In May the agency had been calling for 2011 production to be 63.23 bcf/d but now expects this to be closer to 64.61 bcf/d. Despite recent mixed economic signals the EIA also raised its projections for demand in 2011 and 2012. It now looks for natural gas consumption to reach 67.06 bcf/d in 2011 and 67.24 bcf/d in 2012, up 0.9% and 0.4% respectively from last month's estimates. Broken down by sectors, the EIA raised its demand estimates for 2011 from last month by the following: residential +1.6%; commercial +0.9% and industrial +1.2%. The agency is now projecting Henry Hub spot prices to average \$4.38 in 2011, up a penny from last month's estimate, with 2012 prices averaging \$4.72, down 7 cents from last month's estimate.

##### **Generation Outages**

**NPCC** – NextEra 1245 Mw Seabrook nuclear power was back at full power this morning.

All four natural gas fired units at Calpine's Greenfield 1153 Mw generating plant were shut early Tuesday.

OPG's 494 Mw Lambton #4 coal fired power plant returned to service today. The unit had been off line since May 24<sup>th</sup>.

OPG's 535 Mw Lennox oil and gas fired Units #1 and #2 were shut late Monday. The units though were not operating at the time of the shut down as demand for power in the province was low.

**PJM** – Exelon's 1130 Mw Limerick #1 nuclear unit ramped up to 73% power this morning, up some 53% from yesterday.

**FRCC** – NextEra Energy's 839 Mw Unit #2 at the St Lucie nuclear power plant began to exit its outage and was at 11% power this morning. The reactor tripped off line on Monday while operators were performing tests on reactor protection system logic matrix.

**ERCOT** – Luminant's 575 Mw Big Brown #2 coal fired power plant is expected to be restarted following completion of tube leak repairs

**The NRC reported this morning that some 84,453 Mw of nuclear generation was online, up 2% from yesterday and 8.1% below levels recorded a year ago.**

The EIA said that it expects an active 2011-hurricane season and as a result expects to see some 19 million barrels of U.S. crude oil production in the Gulf of Mexico to be shut in as well as 53 bcf of natural gas production.

Forecasters concerns over the development of Invest 94-L diminished overnight and through the day, today. While last night forecasters had been raising the probability of this system in the northwestern Caribbean could become a tropical depression within hours if not a day, but by this morning with the prospects of unfavorable upper levels winds preventing development of this system, the chances for a tropical depression forming had been dropped to just 10%. While there is poor model guidance on the path of this system, it appears whether it moves northwest through the Yucatan Channel or northward over Cuba towards the Bahamas, strong wind shear winds over the southeastern Gulf of Mexico will prevent this system from strengthening and being nothing more than a heavy rain maker.

Sempra Energy said it is looking at plans to build a U.S. natural gas export plant. A spokesman for the company said "Sempra LNG would consider building a liquefaction facility for those who have a long

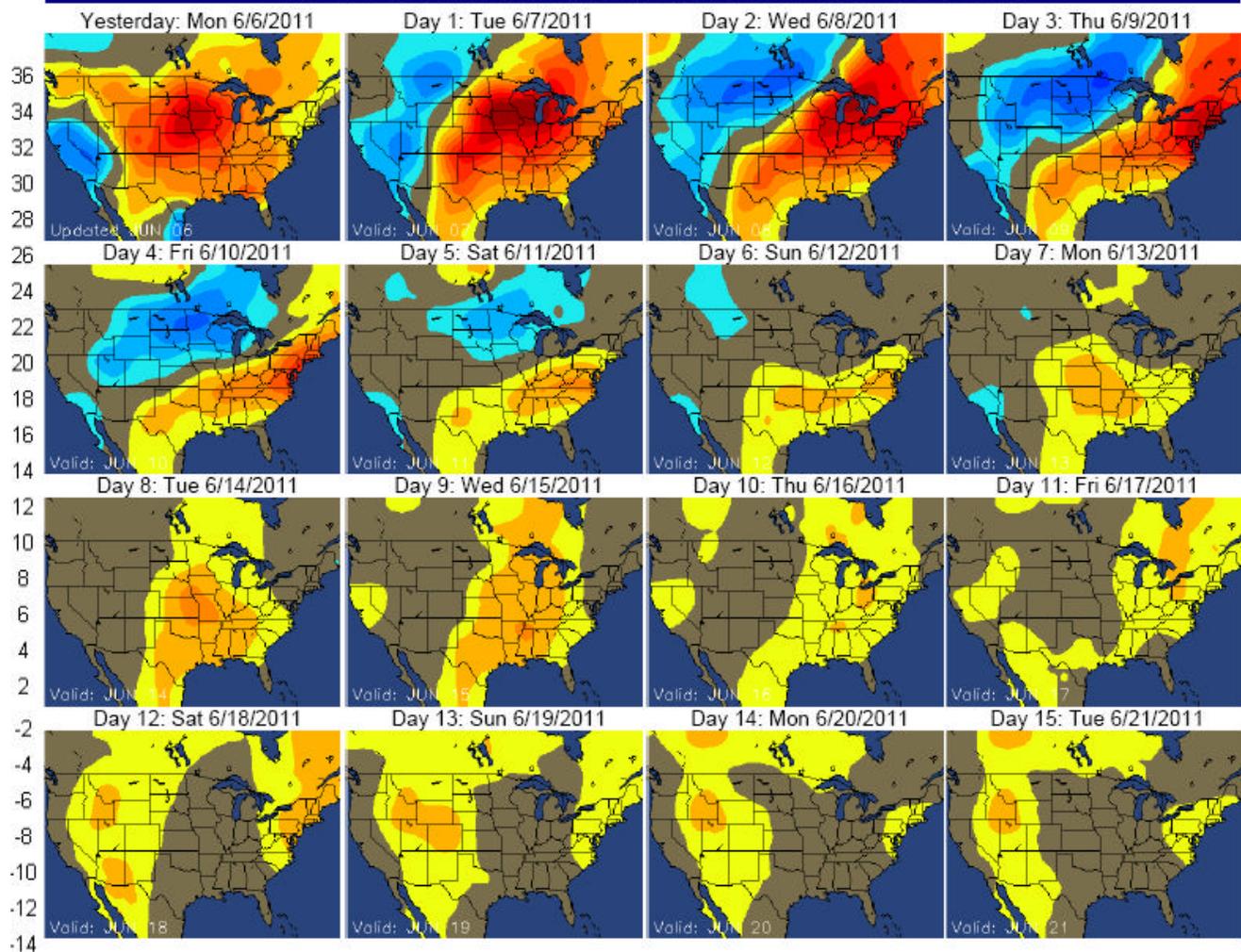
term view of the U.S. gas market, as long as they are willing to shoulder the market risks.” Sempra though declined to comment whether the company was in discussions with third parties interested in export.

### **International**

The Chinese Assistant Foreign Minister said today that China hopes for a “major breakthrough” in its gas talks with Russia ahead of Chinese President Hu Jintao’s visit to Russia next week.

Statoil said it has reached an agreement to provide gas for 10 years to Scottish and Southern Energy’s Peterhead gas power plant in Scotland. Deliveries are due to start in the final quarter of 2012 with annual volume of 500 mcm of gas. This would be 33% of the annual needs for the power station. Meanwhile the company called on the British government to publically support the future use of gas in the UK energy mix in order to sooth investor concerns.

### **Daily Temperature Anomaly Outlook (2 Deg F Intervals)**



Maintenance on BG Group’s UK Armada platform is scheduled to begin on June 23<sup>rd</sup> and to last 45 days. The facility was initially expected to shut for maintenance in late May, but work has been pushed back to late June in order to accommodate additional work.

A senior executive at Australian gas producer Santos said today that Asian LNG prices are likely to remain linked to oil and stay at a premium to European and U.S. LNG price levels. He sees “Asia’s

demand for secure supplies from neighboring sources will preserve the oil linked prices for the foreseeable future.”

Royal Dutch Shell said it expects its joint venture gas-to liquids project in Qatar to start in a “matter of weeks”

The Zarga LNG tanker is expected to arrive at South Hook terminal from Qatar on June 14<sup>th</sup> according to local port officials.

Officials from the Iraqi government and Royal Dutch Shell are slated to meet next week in hopes of finalizing the \$12 billion joint venture, Basrah Gas Company. The project will process associated gas produced from the supergiant Iraqi fields, Rumaila, West Qurna 1 and Zubair, all located around Basra. In total the three fields produce 1.05 bcf/d of natural gas but only 450 mcf/d are utilized while the rest is flared. The Iraq government is looking at capturing this gas to supply electric generating units as well as constructing a LNG export terminal.

Apache Corp said today that it is seeking to sell to Asia around 85% of the 5 million tones of annual LNG exports from its first plant at its Kitimat project in Canada. The LNG would be sold on Japan Crude Cocktail (JCC) prices Sales agreements are expected to be completed by the end of the year and the first LNG cargo is expected to be exported by 2015 A final investment decision on the \$3 billion project is expected to be made either by the end of this year or early in 2012.

Total said it is selling its stake in the Gassled gas pipeline network off Norway for nearly \$900 million to a European investment fund.

Japan’s trade ministry said Tuesday that it has sold a 62% stake in a Papua New Guinea LNG venture to JX Nippon Oil and Gas for \$237 million. This brings JX’s stake in the venture to 98.4%. The sale is part of the government’s policy to divest upstream energy assets held by the now abolished Japan National Oil Corporation.

A senior Total SA executive said today that Britain may introduce incentives to promote offshore gas exploration and production after companies protested against the introduction of extra taxes on oil and gas activities. Back in March Britain increased a tax on North Sea oil and gas producers to 32% from 20% to offset lower fuel duty for motorists. Since that time Statoil suspended \$10 billion worth of projects off Britain and Centrica said it may shut a gas field.

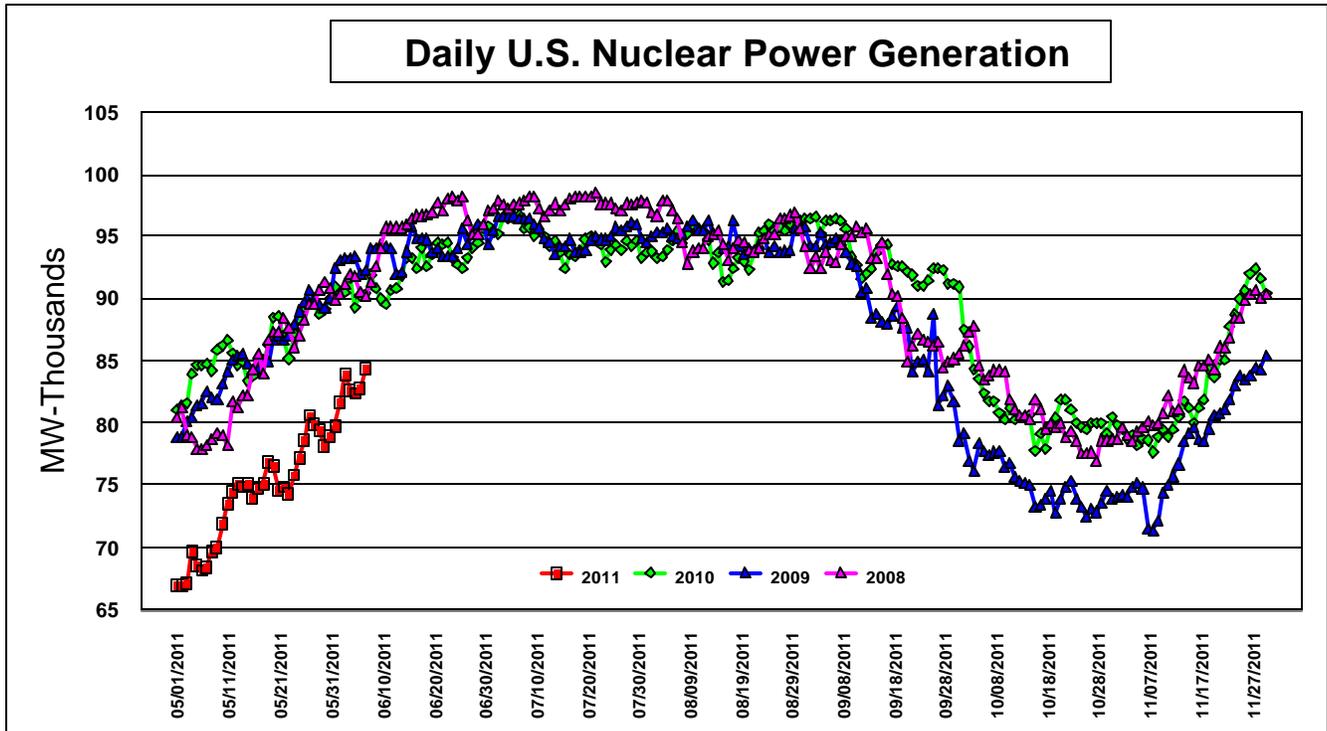
Azerbaijan’s state energy firm SOCAR said today that it expects to sign a transit agreement for new gas from the Shah Deniz field by September or October. Azerbaijan has been in negotiating to sell Turkey some 6 bcm of natural gas per year and to ship 10 bcm to European customers via Turkey.

## **ELECTRIC MARKET NEWS**

Longview Power’s 695 Mw coal fired power plant in West Virginia is in the final stages of construction and is expected to enter service this summer. The plant has already received a commercial delivery of coal and achieved its first fire on coal on May 3<sup>d</sup> and synchronized to the power grid for the first time on May 6<sup>th</sup>.

Tohoku Electric Power said on Thursday it plans a trial run of a new gas fired generating unit at its Niigata plant in early June. The 109 Mw unit’s launch is a key step in demonstrating the utility’s ability to make up for the short fall in generation following last March’s earthquake. The utility is looking to place into service full time the unit in July. It is also looking to restart the once mothballed gas and fuel oil fired 350 Mw Minato #1 generating unit at its Higashi Niigata plant in early June.

In today's EIA Short Term Energy Outlook, the agency continues to forecast little change in total U.S. electricity consumption between 2010 and 2011. The agency is basing its forecast on the expectation for cooling degree days during 2011 will be 14% lower than last year, which should equate to a 2.5% decline in retail power sales to the residential sector. Improved economic conditions should lead to a 3.6% increase in sales to the industrial sector, while commercial sector power sales should show little change. During 2012 the EIA is looking for power demand to grow by 2%.



The U.S. Northwest River Forecast center reported this afternoon that it estimates water flows at the Dalles Dam this year for the April – September period should run 132% of normal, down 3% from last week's estimate but still 53% higher than last year's levels.

### **ECONOMIC NEWS**

The US Labor Department said US job openings fell in April as private sector hiring fell. There were 3.97 million open positions in April, down from 4.07 million in March. The hiring rate fell to 3% from 3.1%. Private sector hires fell to 3.781 million from 3.81 million.

Federal Reserve Bank of Dallas President Richard Fisher said he expects stronger US growth in the second half of the year. He maintained his assertion that more stimulus was not needed to help stimulate the US economy once the current \$600 billion Fed program ends, as expected at the end of this month.

The European Union's statistics office Eurostat said retail sales in the euro zone increased 0.9% on the month in April for a 1.1% year on year gain.

The Securities Industry and Financial Markets Association plans to formally ask the Securities and Exchange Commission to delay implementing most derivatives provisions in the Dodd-Frank law that are due to go into effect automatically on July 16<sup>th</sup>. It raised concerns about at least 50 provisions that would technically become effective even though regulators are still finalizing the rules.

In an article posted on the website of the China Finance 40 Forum, a Beijing based think tank, a senior Chinese currency regulator said China must be alert to the risk of holding too many dollars as the US is pursuing loose monetary and fiscal policies. The dollar fell against the euro as a result.

### **MARKET COMMENTARY**

The natural gas market today posted an inside trading session as rebounding nuclear generation levels helped to offset short term bullish weather demand as a heat wave took hold in the eastern half of the nation for the next several days. The natural gas market in fact has for the last three trading sessions seen declining volatility and has been contained within the trading range of last Thursday. It appears that the chance that prices tomorrow will break out of this trading pattern is relatively low as in all likelihood traders will increasingly move to the sidelines in front of Thursday's storage report. We still have not seen the confirmation in our mind that the top has been put in as the daily stochastics still have not rolled over to the downside. We would look for key resistance at \$4.854-\$4.859 followed by \$4.915 , \$5.007 and \$5.197. Minor support we see at \$4.779, \$4.726 and \$4.689, with more significant support we see at \$4.534, \$4.499 and \$4.415,

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 permission is prohibited.