



## ***ENERGY RISK MANAGEMENT***

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

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

##### **North America**

The U.S. Climate Prediction Center said today that the equatorial Pacific Ocean should not experience an El Nino or La Nina weather anomaly in the summer of 2011. This will be the first time since 2009 when conditions for this region will be neutral. Meanwhile the National Hurricane Center noted that the remnants of Invest 94-L were being battered by strong upper levels winds that were shearing apart the system. Otherwise the tropical Atlantic Basin remains very quiet at this time.

##### **Generation Outages**

**NPCC** – OPG's 494 Lambton #4 coal fired power plant was shutdown yesterday.

OPG's 490 Mw Nanticoke #1 coal fired unit was shutdown late Wednesday. Meanwhile operators brought Unit #1 back into service.

**SERC** – Duke Energy's 1129 Mw Catawba #1 nuclear unit ramped up to 54% power on Thursday morning, up from 15% power on Wednesday morning.

**The NRC reported this morning that some 85,637 Mw of nuclear generation was online, up 1.1% from yesterday and 4.8% below levels recorded a year ago.**

ExxonMobil Corp, the nation's largest onshore natural gas producer, has acquired another 317,000 net acres in Marcellus Shale, which nearly doubles its leasehold in the play. The Irving, Tx-based supermajor confirmed that it paid \$1.69 billion earlier this month to acquire privately held Phillips Resources Inc and TWP Inc, which are related companies based in Warrendale, PA. The mergers give ExxonMobil an estimated 700,000 net acres in the Marcellus Shale, mostly in the prolific southwestern corner of Pennsylvania according to a company spokesman. ExxonMobil's newest assets currently

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

	06/03/2011	05/27/2011	Change	06/03/2011
<b>Producing Region</b>	938	920	18	892
<b>Consuming East</b>	960	911	49	1140
<b>Consuming West</b>	289	276	13	409
<b>Total US</b>	2187	2107	80	2442

\*storage figures in Bcf

produce about 50 MMcf/d net in the Marcellus and have proved reserves of about 228 Bcfe. In addition the producers also have prospective acreage in Michigan, Ohio and West Virginia.

##### **Canadian Gas Association**

##### **Weekly Storage Report**

	03-Jun-11	27-May-11	04-Jun-10
<b>East</b>	101.3	91.6	121
<b>West</b>	215.5	202.2	270.7
<b>Total</b>	316.8	293.8	391.8

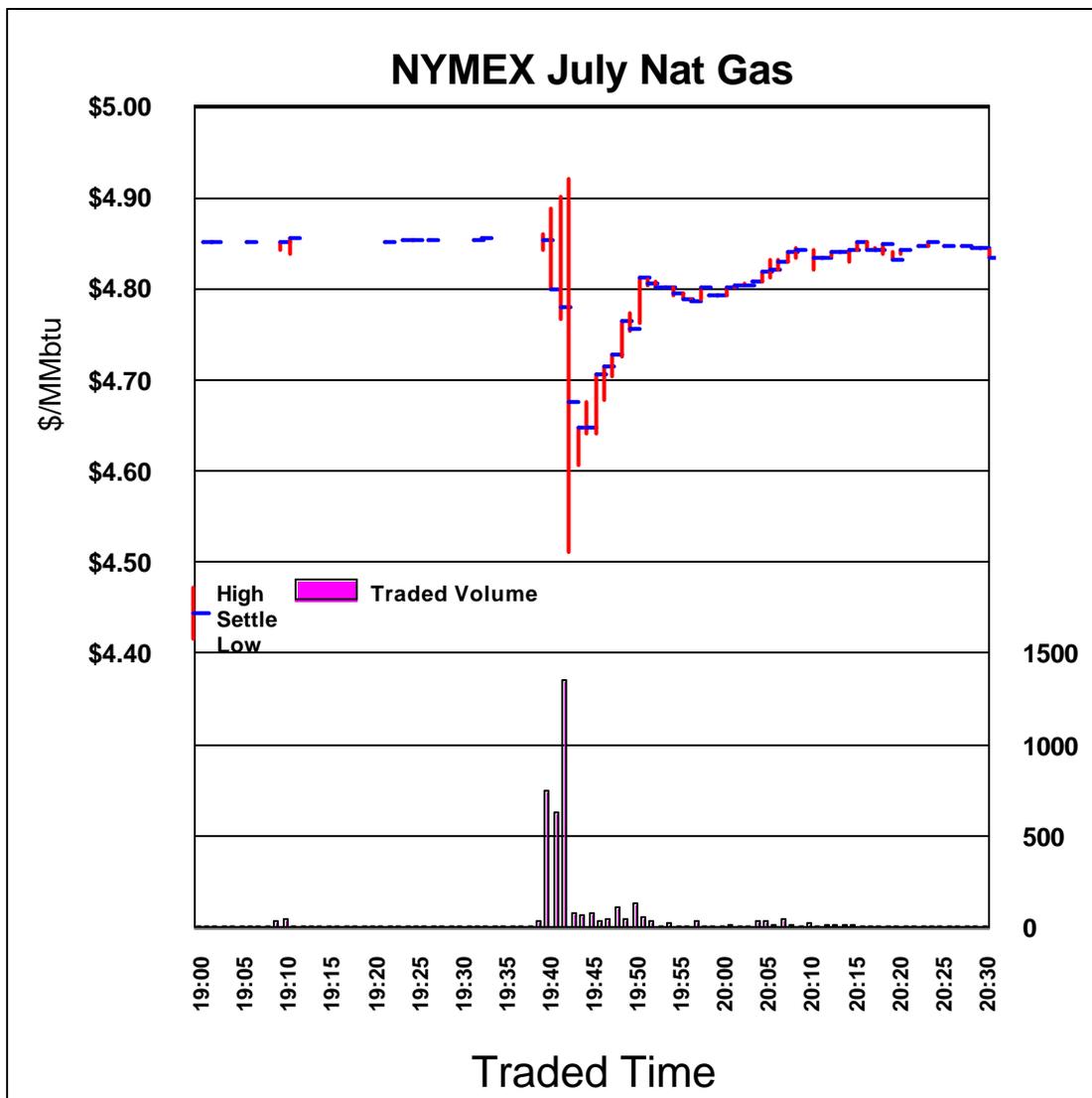
storage figures are in Bcf

The NYMEX natural gas futures market experienced a minor "flash crash" last night when in the manner of a minute, prices in the spot contract tumbled over 40 cents or 8% in just 15 seconds and volume spiked over the following 15 minutes of trading before prices fully recovered to their prior trading levels. While no specifics were confirmed in the market place it appeared to have been an algorithmic computer model driving the price move or an order entry mistake. The CME noted there had been no glitch in their Globex trading system and as a result no trades were cancelled. Meanwhile the head of the CFTC said that it was too early to analyze what exactly was behind the sharp drop in natural gas futures last night. He went on to say "I think

regulators have to stay abreast of these things and evolve, and regulations need to evolve. Algorithmic trading and high frequency trading is now a feature of our markets.”

### International

Japanese trading house Mitsui & Co said on Thursday that it has agreed to acquire a stake in shale gas fields in Poland from Marathon Oil. A unit of the company will take a 9 percent stake pending



approval from Poland’s government, Mitsui said in a statement, but did not comment on the financial terms of the deals.

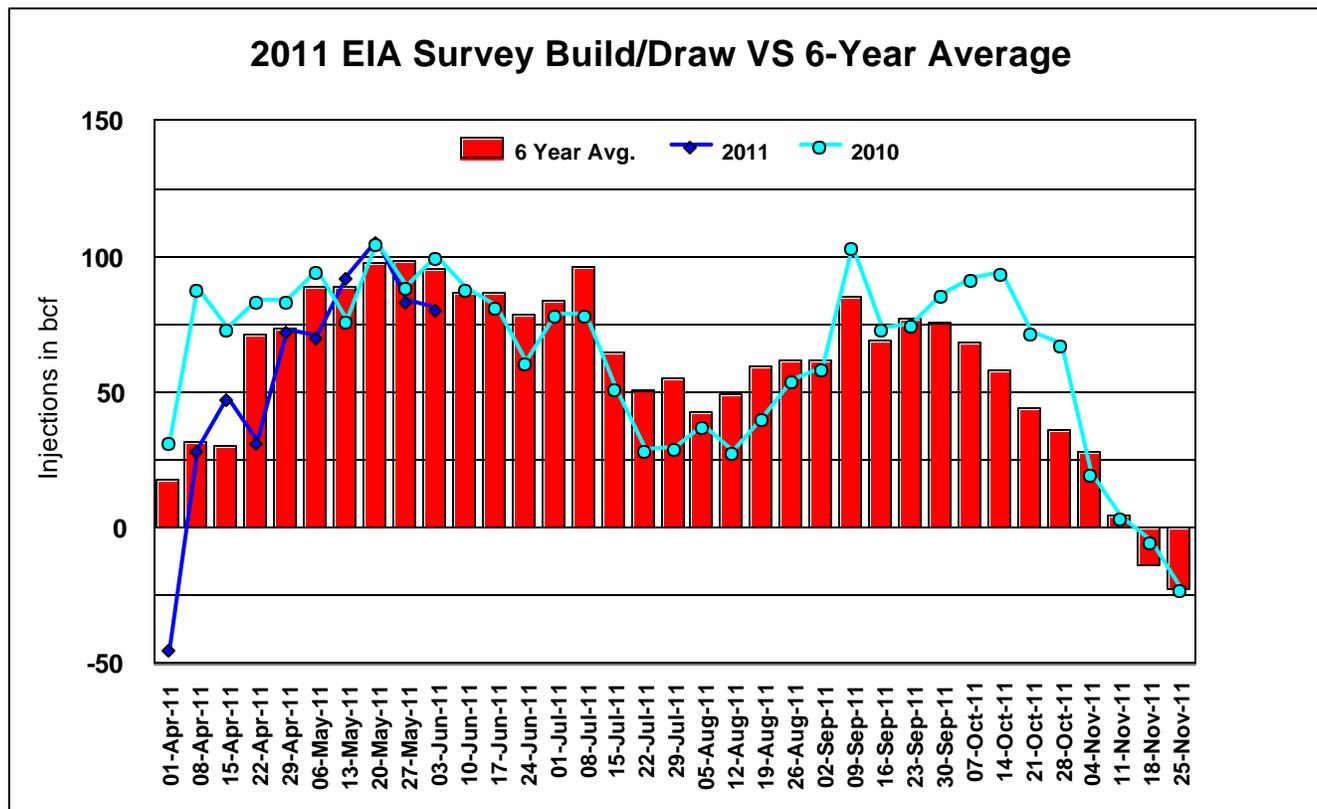
Russia’s state-controlled gas export monopoly Gazprom invited China’s CNPC to continue talks on a major gas supply deal in Moscow next Tuesday, the company said on Thursday. This week, the head of Gazprom’s export division, Alexander Medvedev, and officials from both Russia and China

discussed plans for Russia to export 68 billion cubic meters of natural gas to China each year for 30 years starting in 2014-2015.

The Al Khattiya LNG tanker is en route to a port in

Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
Location	Traded	Price		(As of 12:30 PM)		Moving Avg
Henry Hub	900,000	\$4.920	\$0.091	\$0.225	\$0.072	\$0.093
Chicago City Gate	662,800	\$5.007	\$0.088	\$0.312	\$0.204	\$0.171
NGPL- TX/OK	805,400	\$4.819	\$0.100	\$0.124	\$0.216	(\$0.048)
SoCal	777,100	\$4.823	\$0.091	\$0.128	\$0.207	(\$0.039)
PG&E Citygate	1,029,800	\$5.052	\$0.090	\$0.357	\$0.205	\$0.217
Dominion-South	761,900	\$5.124	(\$0.007)	\$0.429	\$0.109	\$0.246
USTrade Weighted	20,337,800	\$4.928	(\$0.044)	\$0.233	\$0.07	\$0.093

Britain, according to AIS Live ship tracking data on Reuters. The Qatari vessel, which can carry up to 210,000 cubic meters of super-cooled natural gas, is set to arrive on June 22.



### **ELECTRIC MARKET NEWS**

Hokkaido Electric Power Co, which serves Japan's northernmost island, said on Thursday it may face a power supply crunch this winter as well as increased fuel costs if it cannot restart two nuclear reactors taken down for maintenance. The utility, whose customers include steel and machinery makers, has said the 579 MW No. 1 reactor at its sole Tomari nuclear plant would finish repair work and be ready to restart by early September, while the 579 MW No. 2 reactor is scheduled to be shut for regular checks from late August. But there is a chance, industry executives and regulators have said, that restarts in Hokkaido and elsewhere could be delayed by safety concerns among local authorities after the March 11 quake and tsunami triggered a nuclear crisis at Tokyo Electric Power plant in Fukushima, north of Tokyo. If the two reactors at Hokkaido's three-unit Tomari plant remain shut, power supplies would be significantly curbed during the northern utility's peak demand season from November to February, leaving little power to share with other utilities, said Katsuhiko Kawai, Hokkaido Electric's executive vice president.

American Electric Power said Thursday it plans to retire nearly 6,000 megawatts of coal-fueled power generation as part of its efforts to comply with regulations proposed by the US Environmental Protection Agency. AEP also plans to upgrade or install new advanced emissions reduction equipment on another 10,100 MW, convert 1,070 MW of coal generation into 932 MW of natural gas capacity and build 1,220 MW of natural gas-fueled generation. The company expects its compliance plan would require capital investments of \$6 billion to \$8 billion through the end of the decade.

Tucson, Arizona's power company warned it may have to impose rolling blackouts if the giant fire in the eastern part of the state knocks out two big transmission lines that provide much of the city's energy supply. Tucson Electric said on its website the Wallow Fire in the White Mountains of eastern Arizona was threatening two 345-kilovolt (kV) lines and could reach the grasslands near its 1,200-

megawatt Springerville coal-fired power plant. Despite the fact that Tucson is located away from the fire in south central Arizona about 200 miles southwest of Springerville, the power lines are one of the city's primary sources of energy. In the event of power outages, Tucson Electric, the principal subsidiary of Unisource Energy has brought additional local generation plants online and have begun coordinating with other utilities in preparation for that possibility. If the transmission lines do go out of service, however, the utility warned it would be more vulnerable to other unanticipated problems like the loss of other power lines or plants that could lead to service interruptions. If a power shortage does occur, the utility said it has plans to maintain service for police, firefighters, hospitals and other critical providers while interrupting power to enough customers to match demand with the available resources.

## **ECONOMIC NEWS**

The US Labor Department said initial unemployment benefits claims unexpectedly increased by 1,000 to a seasonally adjusted 427,000 in the week ending June 4<sup>th</sup>. The prior week's figure was revised to 426,000 from an originally reported 422,000. The four-week moving average of new claims fell by 2,750 to 424,000 in the week ending June 4<sup>th</sup>. It reported that the number of continuing unemployment benefit claims fell by 71,000 to 3,676,000 in the week ending May 28<sup>th</sup>. The unemployment rate for workers with unemployment insurance was 2.9% in the week ending May 28<sup>th</sup>, down from 3% a week earlier.

The Commerce Department reported that the US trade deficit in international trade of goods and services fell by 6.7% to \$43.68 billion in April from a downwardly revised \$46.82 billion in March. The March trade gap was originally reported at \$48.18 billion. The report showed that the average price of imported crude oil increased by \$9.42 to \$103.18/barrel in April. The trade deficit with China increased 19.4% to \$21.6 billion in April.

The US Commerce Department said US wholesale inventories and sales slowed in April. The inventories of US wholesalers increased by 0.8% to a seasonally adjusted \$447.21 billion, less than March's 1.3% increase. Sales of wholesalers increased 0.3% to \$393.51 billion following a 3% gain in March.

According to the Federal Reserve, US household wealth increased by \$943 billion in the first quarter, less than half the revised \$2.4 trillion increase in the previous quarter. It said gains from stocks and other investments increased household net worth to \$58.1 trillion.

The Bloomberg Consumer Comfort Index increased to minus 45.9 in the week ending June 5 from the prior week's minus 47.1.

An economist, Robert Shiller said recent housing and employment data suggests the US economy is at a tipping point where a double dip recession is possible and home prices could have much further to fall. He said if unemployment continues to increase in the coming months, it could suggest another recession.

China's Foreign Ministry said the country has urged the US to take action on its debt crisis after a third rating agency issued a warning over a possible US debt default. Ratings agency Fitch warned on Wednesday that the US could lose its sterling credit rating if it failed to increase its debt ceiling to avoid defaulting on loans. It was the third of the three big ratings houses to issue such a warning.

European Central Bank President Jean-Claude Trichet said the ECB is in strong vigilance mode over inflation pressures, indicating an interest rate increase is probably a month away.

Japan's Cabinet Office confirmed that the country's economy fell into a recession after the March earthquake, tsunami and the crisis at a nuclear plant. Revised data showed Japan's GDP fell 0.9% in the first quarter. On an annualized basis, the economy contracted a revised 3.5%.

### **MARKET COMMENTARY**

The natural gas market appears to have reached an exhaustion top today as prices prior to the release of the storage report made an assault on the \$5.00 price level once again as the East Coast was sweltering under an early season heat wave. The spot futures contract has not reached these lofty levels since August of last year. But with the release of the EIA storage report, which came in a few bcf higher than most market expectations, and the continued quiet return of nuclear generation and expectations for some moderation in temperatures across much of the nation in the next several days, the sellers rushed back into the market knocking prices down by 15-20 cents rather quickly. As a result the contract finished down by over 17 cents on the day, with the July contract settling at its lowest level since June 1<sup>st</sup>.

With today's price action we also found the daily stochastics have finally rolled over for the first time since May 20<sup>th</sup> when the July contract finished the session at \$4.29. While following this indicator one would have given up on some potential 30 cents of today's sell off, we feel that this indicator has worked so well over the last few months that it still bears close consideration into trading decisions. We continue to look to hold our shorts in this market and would look for next's moderate weather conditions, with little expectations for tropical activity and rebounding nuclear generation to help pressure prices. We see initial support at \$4.661, \$4.562, \$4.505 and \$4.462. Additional support we see at \$4.357 and 44.207. Resistance we see at \$4.81 followed by \$4.985 and \$5.018.

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