



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR JUNE 10, 2011

#### NATURAL GAS MARKET NEWS

##### North America

The CME reported this morning that the NYMEX Henry Hub futures contract set a new all time volume record on Thursday reaching 553,738 contracts, eclipsing the prior record of 546,752 lots set back on April 7, 2011. Preliminary open interest data released by the exchange showed that open interest had also set a new record, but revised data released later in the day showed that open interest had in fact declined by 337 lots to 1,001,658 contracts, shy of the all time record of 1,004,801 set on May 4<sup>th</sup>.

Baker Hughes reported this afternoon that the number of natural gas drilling rigs operating in the United States dropped on the current week by 8 from the prior week to 879 rigs. This was the first weekly decline out of the last three reporting weeks.

**Generation Outages**

**NPCC** – Constellation Energy’s 498 Mw Ginna nuclear unit exited its refueling outage and was at 42% power this morning.

OPG’s 494 Mw Lambton #3 coal fired power plant shut late Thursday.

OPG’s 535 Mw Lennox #1 oil and gas unit was shut Friday morning.

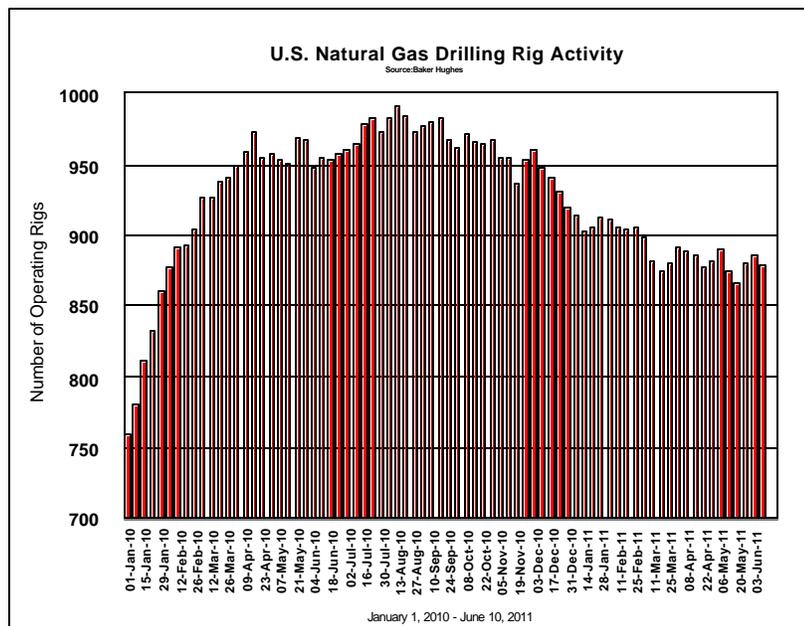
**SERC** – TVA’s 1104 Mw Browns Ferry #2 nuclear unit ramped up to 93% power this morning, up from 23% power on Thursday morning.

Duke Energy’s 1129 Mw Catawba #1 nuclear power unit was up to 95% power this morning, some 41% better than yesterday.

Duke Energy’s 846 Mw Oconee #1 nuclear unit was returned to service and was at 36% power this morning. The unit is returning from a refueling outage that began on April 2<sup>nd</sup>.

**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.**

The number of horizontal drilling rigs operating in the United States though set another new record with 14 more operating on the week at 1065 rigs.

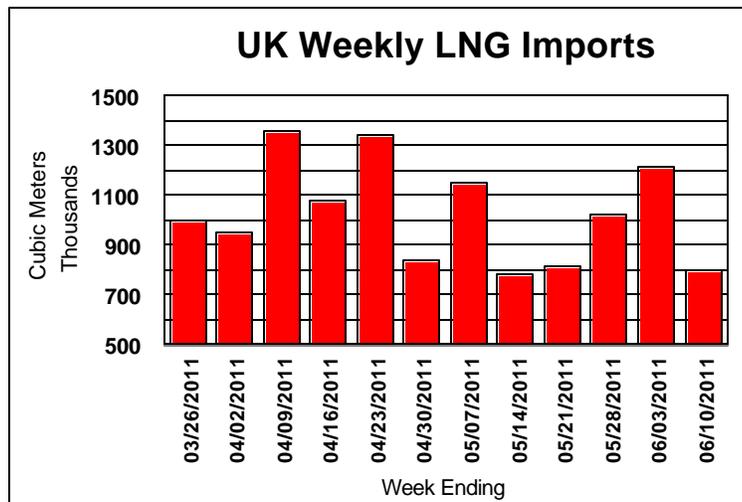
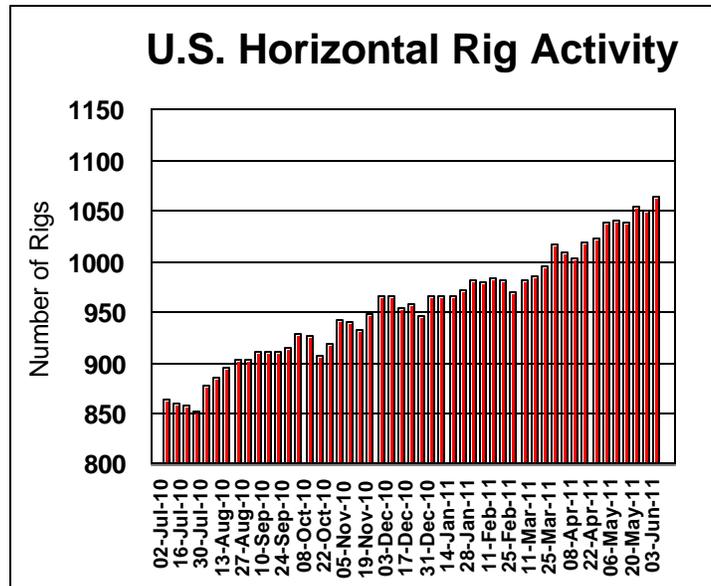


Forecasters at the National Hurricane Center that thought Invest 94-L had died yesterday were wrong, the system is back from the dead. The system, which currently is an elongated low-pressure system, stretches from the northwestern Caribbean into the Bahamas. While limited further development is expected as it moves toward the northeast. It still is a rainmaker that has warranted some interest by forecasters. But besides this system though the tropical Atlantic basin area is expected to remain quiet for the next several days.

## International

The Maersk Qatar LNG tanker is scheduled to unload at Belgium's Zeebrugge terminal on June 26, the port authority website showed on Friday.

Egypt resumed pumping natural gas to Israel on Friday after supplies were halted in April following an attack on a pipeline, Israel media reports said. Experimental testing on the pumping of gas to Israel and Jordan began on Tuesday after repairs were made to the pipeline that was attacked in April, Ampal-American Israel Corp said. Israel gets up to 45 percent of its gas from Egypt. Supplies were stopped after the blasts on Egypt's side of the pipeline in the wake of political turmoil following the ousting of Egyptian president Hosni Mubarak. Egypt said in April it would review its gas contracts with other states including Israel and Jordan. The exports have been a contentious issue in Egypt, with the media and ordinary Egyptians accusing Mubarak's government of selling as too cheaply to Israel.



Thailand's LNG receiving terminal, the first in Southeast Asia, is on track to begin commercial operations in July after a successful test run, an executive at owner and operator PTT Pcl said on Friday. Thailand is among a growing number of new LNG buyers in Asia as imports of the cleaner-burning fuel allow countries to diversify away from oil and coal. State-controlled PTT received 60,000 tonnes of LNG from Qatar in the spot market on May 31 for the trial run at the \$880 million

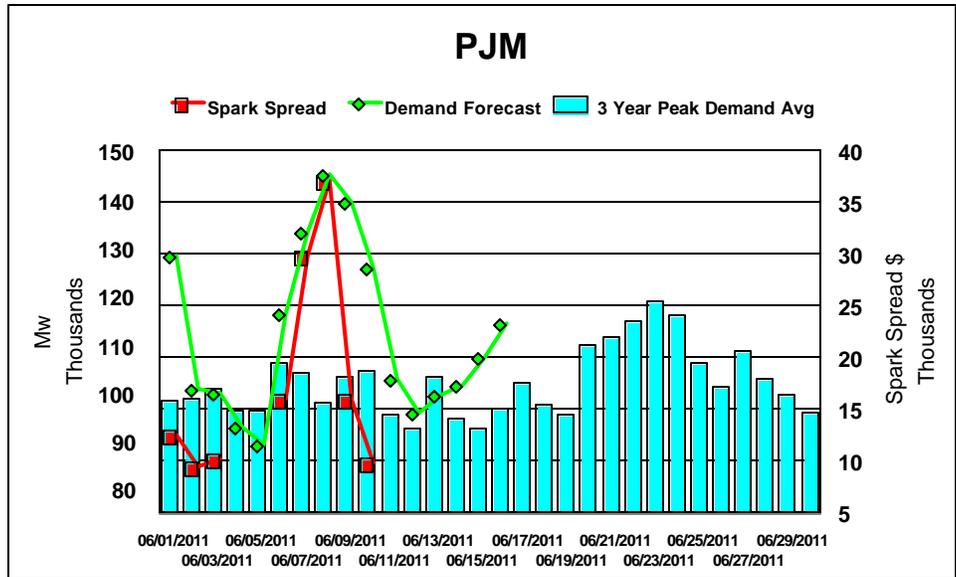
terminal in eastern Thailand, said Wichai Pornkeratiwat, senior executive vice-president for its gas business. PTT, the country's top energy firm, plans to import another lot of LNG for further testing before the commercial run starts, Wichai told reporters. The firm has been in talks with several LNG suppliers and signed a deal to buy 1 million tonnes of LNG a year from Qatar from late 2011. LNG imports are expected to grow to 2 million tonnes per year (tpy) by 2013 and 3 million tpy

| 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                | 1,021,900  | \$4.720 | (\$0.200) | \$0.007          | (\$0.261) | \$0.103     |
| Chicago City Gate        | 703,300    | \$4.774 | (\$0.233) | \$0.061          | (\$0.251) | \$0.172     |
| NGPL- TX/OK              | 782,000    | \$4.612 | (\$0.207) | (\$0.101)        | (\$0.225) | (\$0.039)   |
| SoCal                    | 693,700    | \$4.630 | (\$0.193) | (\$0.083)        | (\$0.211) | (\$0.020)   |
| PG&E Citygate            | 849,900    | \$4.908 | (\$0.144) | \$0.195          | (\$0.162) | \$0.219     |
| Dominion-South           | 799,900    | \$4.805 | (\$0.319) | \$0.092          | (\$0.337) | \$0.255     |
| UTrade Weighted          | 19,614,500 | \$4.686 | (\$0.243) | (\$0.027)        | (\$0.26)  | \$0.103     |

by 2017, according to Bernstein Research estimates. The terminal facilities, located in Rayong province, comprise one jetty and two storage tanks that together can handle up to 5 million tpy of LNG, the amount which Thailand plans to gradually import after 2011.

**ELECTRIC MARKET NEWS**

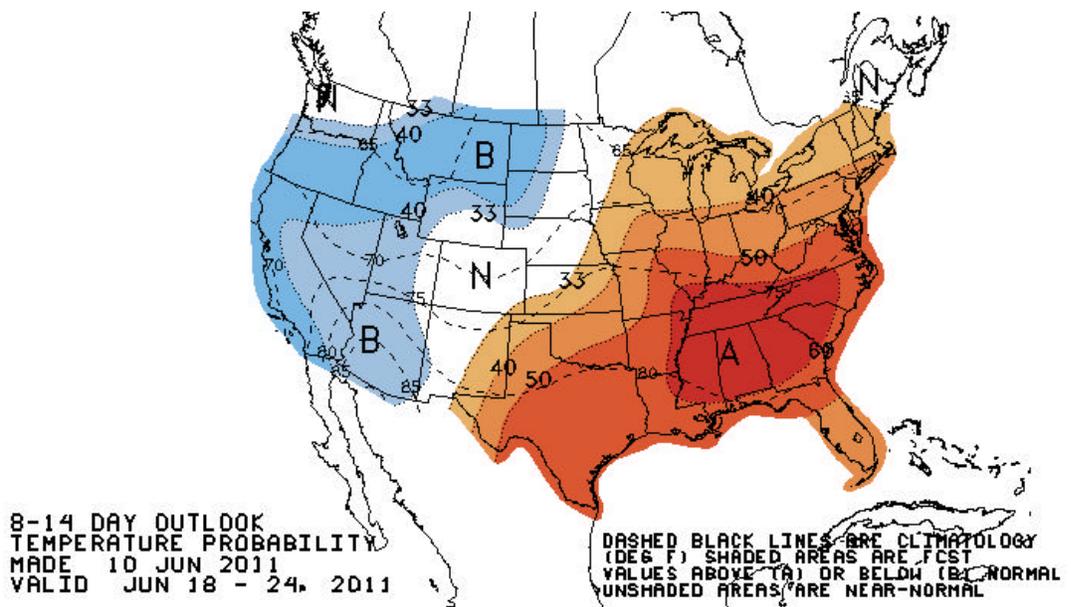
Japan's Kansai Electric Power Co said on Friday it will need to procure more oil and LNG, equivalent to 300,000 tonnes of LNG, to meet summer power demand amid uncertainty on when it will restart several reactors under maintenance. Kansai, Japan's second-biggest utility, said the additional fuel would be needed on top of oil and LNG, equivalent to 1.3 million tonnes of LNG, it has already secured.



**ECONOMIC NEWS**

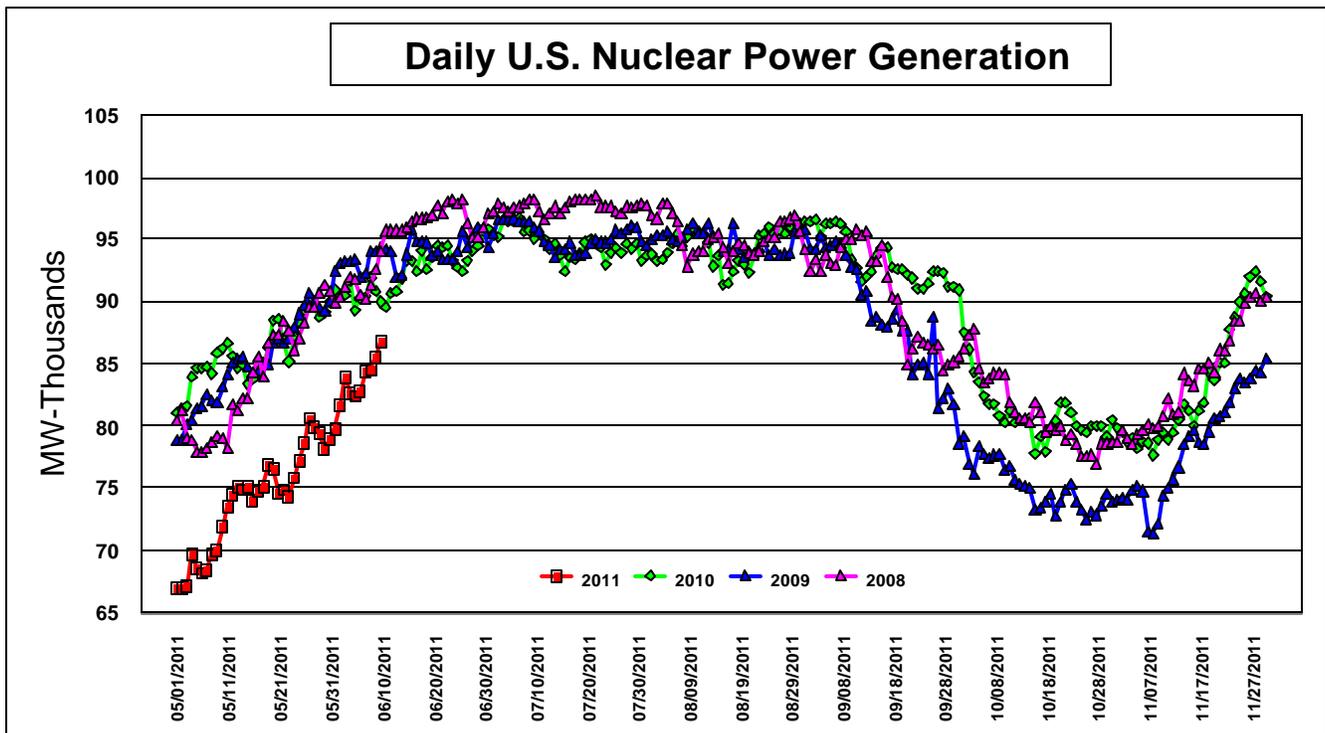
The US Labor Department said the price of goods imported to the US in May increased 0.2% on the month. It was the eighth consecutive gain following a 2.1% increase in April. Year on year, import prices are up 12.5%, the largest annual increase since September 2008.

Federal Reserve Bank of New York President William Dudley said the US economy should continue to grow as it moves into the second half of the year. He said the US economy would regain some momentum in the second half of 2011. While he declined to comment on the monetary policy outlook, he suggested some level of Fed support for the economy was still needed, noting that there was still a considerable way to go to meet the Fed's mandate of full employment and price stability.



China's National Development and Reform Commission said the country is likely to face a power shortage of 30 million kilowatts this summer. Daily electricity output is likely to reach or surpass 15.5

billion kilowatt hours when it peaks around late July to early August, up 11% or more from last year's peak.



The Maryland State Retirement and Pension System plans to increase its commodities exposure to about \$1.5 billion over the next year, doubling an inflation hedge that would make it one of the country's largest investors in the sector. It plans to increase its commodities share to as much as 4.5% of its total \$37 billion. It is up from about 2% or \$760 million.

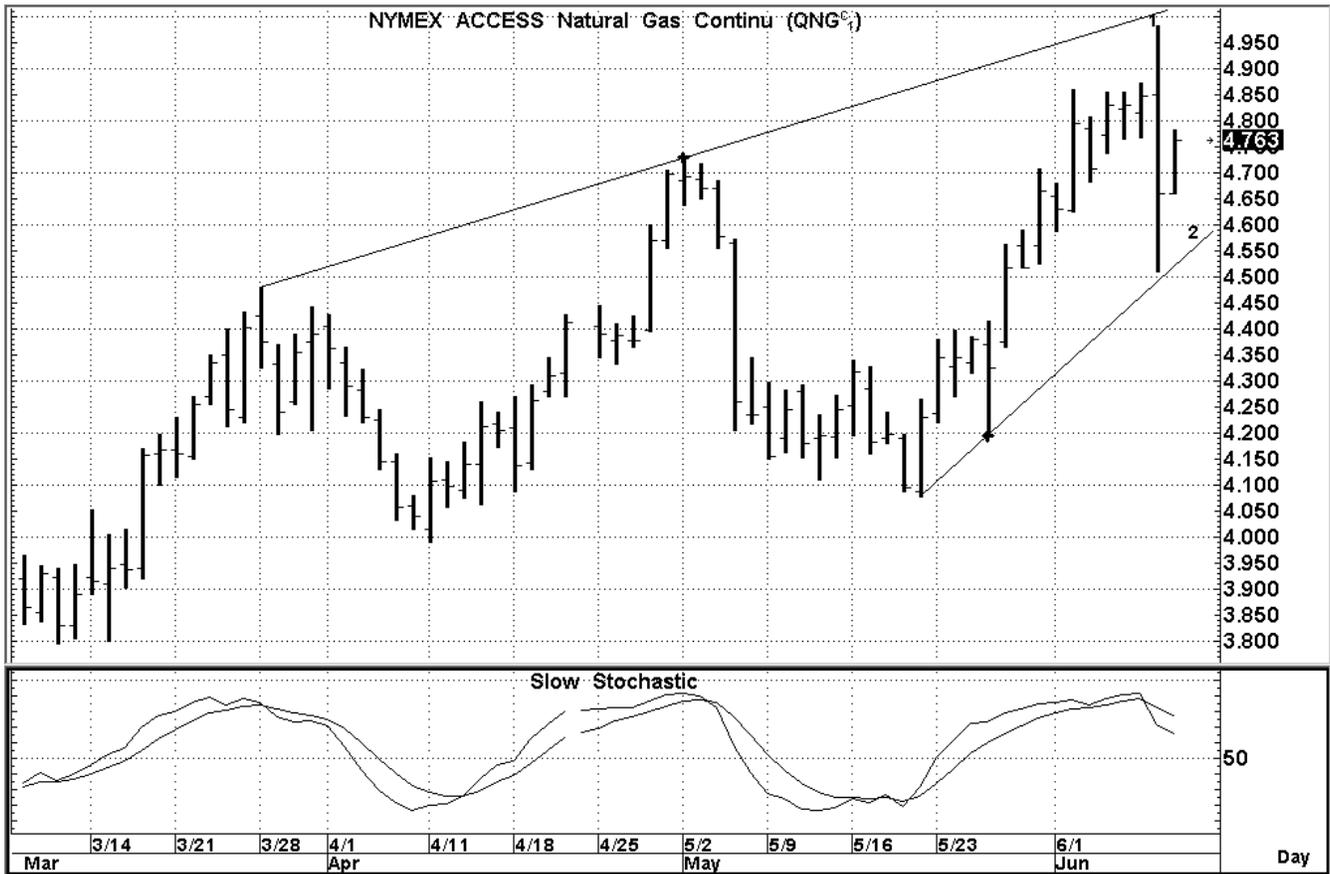
India's industrial output growth fell in April, the latest sign that rising cost of credit and inflation are slowing the economy. The annual 6.3% expansion in production at factories, mines and utilities compares with 8.8% in March and was the slowest in three months.

### **MARKET COMMENTARY**

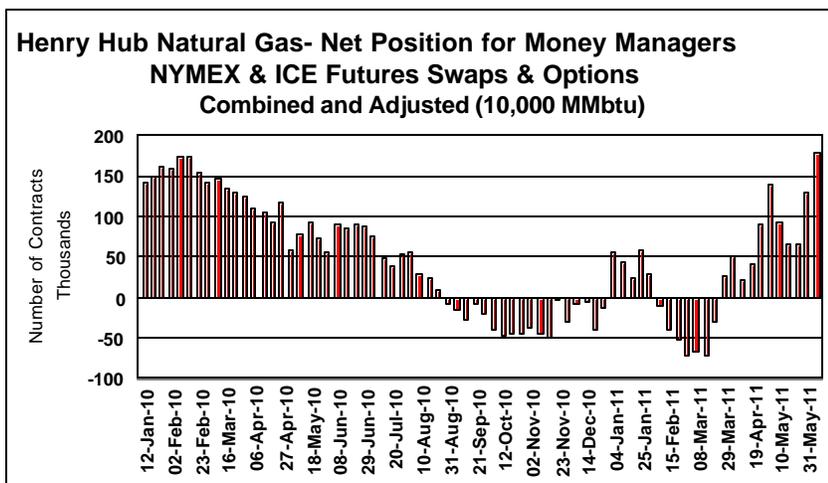
The natural gas market to no one's surprise posted an inside trading today, as is typical for a Friday in the summer season. Prices quietly drifted higher today finishing some 8-9 cents higher as prices nearly completed at 62% retracement of yesterday's wild price move. But probably more important, prices were gravitating back towards price levels that were traded at earlier in the week. This afternoon's Baker Hughes Report probably lent some small comfort to the bulls as the number of natural gas drilling rigs dropped for the first time in three weeks, while today's temperature forecasts seems to be a bit warmer than yesterday's outlook.

But moving into next week we feel that the principal driving forces for the market price will be weather and nuclear generation levels. Nuclear generation levels continued to march higher this week, with today's levels up some 1.4% from yesterday and now seeing total generation levels in the U.S. at levels not seen since early March. The year on year deficit in nuclear generation levels dropped to only 3.1% the smallest deficit since April 10<sup>th</sup>. As for weather the tropics appear will remain quiet for the near term while cooling demand could again see an upswing next week and into the following week. As a result while we feel that the probable near term highs are in place for this market, we see the bearishness of rebounding nuclear generation being balanced or offset by a return for higher than normal cooling demand, and that a significant move to the downside is probably not in the cards until

the weather forecast changes to seeing normal or cooler than normal temperatures returning for much of the nation. Technically the daily stochastics remaining pointing downward and as a result we feel comfortable in holding onto our short position and being patient for the downward move.



We see resistance next week starting at \$4.782-\$4.806 followed by \$4.854, \$4.927, \$4.983, and \$5.028. Support we see at \$4.685, \$4,637, \$4.549, \$4.53, \$4.51 and \$4.423.



This afternoon's Commitment of Traders Report showed that for the week ending June 7<sup>th</sup>, commodity funds continued to build their net long position in natural gas through futures swaps and options to a new two year high, increasing net longs on the week by nearly 50,000 contracts on an adjusted and combined basis between NYMEX and ICE. It appears that this group of traders has built this position in front of the hurricane season. While this group may not be prompted to sell off this position for the next

several months, one has to wonder how much more fresh buying will be coming into this market to keep supporting it.

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