



## ***ENERGY RISK MANAGEMENT***

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### **NATURAL GAS & POWER MARKET REPORT FOR JUNE 24, 2011**

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

##### **North America**

The number of rigs drilling for natural gas in the United States rose by three this week to 873, the first gain in three weeks, according to data from oil services firm Baker Hughes. Horizontal rigs—the type most often used to extract oil or gas from shale—also gained ground jumping by 20 to a record high of 1,081.

##### **Generation Outages**

**NPCC** – Dominion Resources 877 Mw Millstone #2 nuclear unit was at full power this morning, up from 18% from yesterday.

**PJM** – Constellation Energy's 872 Mw Calvert Cliffs #2 nuclear unit ramped up to full power this morning, up from just 30% power yesterday morning.

**MRO** – Xcel Energy 572 Mw Monticello nuclear unit dropped to 20% power on Friday. The unit had been at 99% power yesterday

**The NRC reported this morning that some 90,915 Mw of nuclear generation was online, up 1.42% from yesterday and 1.9% below levels recorded a year ago.**

##### **International**

BP said Friday that output from its offshore Shah Deniz field in Azerbaijan will be completely restored Friday after disruptions caused by power generation problems. The power generations occurred at 1530 local time. The field produced between 600 million and 650 million cubic feet of gas a day before the power problems, according to a BP spokeswoman.

Impex Corp said Friday it expects to sell all the planned annual output of 8.4 million metric tons of LNG from its Ichthys LNG project in Australia. Ichthys is among about a dozen LNG projects planned or under development around Australia's coastline by major international energy companies, who are eyeing energy-hungry countries like Japan, South Korea and India as future customers.

Russian joint venture TNK-BP Ltd. Plans to invest \$1.8 billion in unconventional gas projects in Ukraine over the next six to seven years, the company's vice president for gas and power supply Mikhail Slobodin. Investing \$1.8 billion into six Ukrainian shale deposits until 2017 or 2018 will allow TNK-BP to produce up to 3 billion cubic meters of gas a year, with initial production lower than that according to Slobodin. Unconventional gas sources such as shale gas, which has shaken up the US gas market in the past two years, have caught the interest of major players on the European market. US oil major Chevron Corp has recently acquired gas acreage in Poland and Romania.

The Murwab LNG tanker, which is currently entering the Suez Canal, is expected to arrive in the UK on July 2, according to AIS Live ship tracking data on Reuters. It has a 210,000 cubic meter capacity.

#### **ELECTRIC MARKET NEWS**

US coal consumption rose 4 percent in the past week, Genscape said Friday, as warm weather and nuclear plant outages raised demand for coal-fired power. Use of coal for the week ended Thursday fell 9 percent from the same week in 2010, the power industry data monitor said. Natural gas prices are lower than the same week last year. In the populous East, including the coal-dependent Midwest

and Southeast, coal use rose 4 percent from the previous week but was 10 percent less than the same week last year. In the less populous West, which was cooler and has fewer coal-fired power plants, coal use was up 8 percent week-to-week and up 1 percent from the year-earlier level. In the East, including coal-dependent Atlantic Coast and South, weather was intermittently hot, WSI Corp weather service said. That fed a rise in power demand for air-conditioning. Lower natural gas prices than the same time last year have boosted the use of gas-fired generation rather than coal-fired power plants. Nuclear plant maintenance outages, 47 percent greater than a year ago and 55 percent above the five-year average, have boosted coal-fired plant use.

### **ECONOMIC NEWS**

The US Commerce Department said the US economy expanded slightly more than previously thought in the first quarter. GDP grew at an inflation adjusted annual rate of 1.9% in the first quarter of 2011 compared with a previous estimate of a 1.8% growth rate. It reported that the price index for personal consumption expenditures increased by an annual 3.9% above the 3.8% gain reported previously. The Commerce Department also reported that orders for US durable goods rebounded in May, indicating the factor sector is continuing to grow despite weakness in the overall economy. Manufacturers' orders for durable goods increased 1.9% to a seasonally adjusted \$195.57 billion. The larger than expected gain in May followed a 2.7% drop in April.

The Economic Cycle Research Institute said its Weekly Leading Index fell to 127 in the week ending June 17<sup>th</sup> from a revised 127.7 the previous week, originally reported at 127.8. The index's annualized growth rate fell to 2.9% from 3.6% a week earlier, which was revised from 3.7.

### **MARKET COMMENTARY**

The natural gas market traded off 30 day lows on profit taking and expectations that demand-inducing heat would return next week to many US markets. The market which posted an inside trading day, posted a low of \$4.171 in early morning trading before it bounced higher and retraced little more than 50% of Thursday's losses. The market posted a high of \$4.248 ahead of the weekend and settled up 3.6 cents at \$4.229. The market's retracement appeared to be book squaring ahead of the weekend, with traders taking some profits following the recent sell off. The market seemed buoyed by the private weather forecasts calling for temperatures in the mid 90s in the Midwest, with the potential for temperatures to exceed 100 degrees Fahrenheit from St. Louis south to the Gulf Coast and into Texas next week.

The natural gas market is seen remaining supported next week amid the expected higher cooling demand. Technically, the market is seen finding support at \$4.20, \$4.184, its low of \$4.171, \$4.154, \$4.139 and \$4.107. Resistance is seen at its high of \$4.248, \$4.266, \$4.293, \$4.335 followed by \$4.449 and \$4.595.

The Commitment of Traders disaggregated futures and options report showed that managed money funds switched their position from a net long position of 14,760 to a net short position of 44,224 contracts in the week ending July 21<sup>st</sup>. The funds have added to their net short position since then, given the market's sell off in recent days.