



## ***ENERGY RISK MANAGEMENT***

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### **NATURAL GAS & POWER MARKET REPORT FOR JUNE 28, 2011**

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

##### **North America**

The National Hurricane Center continues to watch closely a broad area of low pressure over the Bay of Campeche. The NHC has designated the system as 95-L. While the system showed little change in organization overnight, forecasters continue to look for future development in this system and even raised its chances for this system to turn into a tropical cyclone to 50% over the next 48 hours this morning and then upped its estimate to a 90% chance by late this afternoon. Forecast models still show this system making a landfall along the central Mexican Gulf coast.

##### **Generation Outages**

**PJM** – Dominion’s 799 Mw Surry #2 nuclear unit ramped up to 97% power this morning, up 27% from Monday.

PPL’s 1149 Mw Susquehanna #1 nuclear unit ramped up to 75% power early Tuesday, up 45% from Monday. The sister unit, Unit #2 which was restarted on Monday was at 3% power this morning.

**SERC** – TVA’s 1148 Sequoyah #1 nuclear unit has exited its recent outage and was at 15% power this morning. The unit was shut on Sunday after valves used to control the flow of steam to the turbines inadvertently closed.

**MRO** – Xcel Energy’s 572 Mw Monticello nuclear unit has exited its recent outage and was at 2% power early Tuesday. The unit had been shut on June 24<sup>th</sup> to replace a safety relief valve.

**The NRC reported this morning that some 90,600 Mw of nuclear generation was online, up 1.2% from yesterday and 4.2% below levels recorded a year ago.**

Penn Virginia Corp said today that it expects to test the eastern portion of its Marcellus Shale acreage during the second half of this year.

Independent energy producer Chief Oil & Gas was fined \$180,000 by Pennsylvania regulators for environmental violations in the Marcellus Shale region. The fines were related to a hydraulic oil spill

and the failure to maintain a drill pit at a natural gas well in Somerset County, last summer.

<b>Natural Gas Cash Market</b>						
<b>ICE Next Day Cash Market</b>						
<b>Location</b>	<b>Volume Traded</b>	<b>Avg Price</b>	<b>Change</b>	<b>Basis</b>	<b>Change</b>	<b>Basis 5-Day Moving Avg</b>
				(As of 12:30 PM)		
Henry Hub	873,000	\$4.341	\$0.091	(\$0.008)	(\$0.025)	\$0.073
Chicago City Gate	515,100	\$4.430	\$0.086	\$0.081	(\$0.017)	\$0.122
NGPL- TXOK	768,200	\$4.297	\$0.089	(\$0.052)	(\$0.014)	(\$0.016)
SoCal	753,100	\$4.438	\$0.020	\$0.089	(\$0.083)	\$0.155
PG&E Citygate	961,200	\$4.604	\$0.061	\$0.255	(\$0.042)	\$0.313
Dominion-South	920,500	\$4.422	\$0.087	\$0.073	(\$0.016)	\$0.132
USTrade Weighted	21,122,400	\$4.382	\$0.078	\$0.033	(\$0.02)	\$0.073

**International**  
China National Petroleum said it has started

drilling an exploration well at the Sulige South gas field. The Sulige South gas project, in northern Inner Mongolia, a joint venture project with Total SA had originally been slated to start operations in 2012. Some 450 wells are expected to be drilled before production at the field could reach 3 bcm per year.

China this week has issued its first shale gas exploration tender with an offer of four blocks to a group of Chinese energy companies. The awarding of the tender is expected to be announced in July. The blocks in the tender are mostly in the southwestern Chongqing municipality and Guizhou province and cover an area of 11,000 square kilometers.

Polish gas monopoly PGNiG and FX Energy announced that starting in August it will start test drills on a local gas field in Poland that the companies feel could double the country's gas reserves. Preliminary estimates are that the field could hold upward of 100 bcm in reserves. Poland currently uses 14 bcm of gas annually.

The Australian government today gave environmental approval to IPEX Corp's LNG project. This moves the project forward and now will await final investment decision by IPEX if it will move forward with the \$30 billion project. The project aims to develop the Ichthys field in the Browse Basin off northwest Australia looking to produce 8.4 million tones of LNG per year. Some 70% of the project's output would be destined for Japan starting in 2017.



Norway's Kollsnes natural gas processing plant was restarting operations this morning after a partial shutdown at the plant was caused by a power supply failure early in the day. Gassco the operator of the plant said that there was not a complete shutdown, only a partial one, and that by this afternoon the plant had returned to normal operations.

Reuters reported that the Alsahla LNG tanker is slated to arrive at the Isle of Grain terminal from Qatar on July 3<sup>rd</sup>. Meanwhile the LNG tanker, the Arctic Voyager is slated to arrive at Zeebrugge terminal on July

3<sup>rd</sup>, which will load a LNG cargo and then transport it to Rotterdam to deliver the second commissioning cargo to the newly completed Rotterdam LNG Terminal.

Chubu Electric Power said on Tuesday it now expects to secure all of its additional fossil fuel needs for the current business year, which ends on March 2012. The company is looking to secure an additional 3.2 million tones of LNG and 1.3 million kiloliters of oil that it will require to make up for the closure of its Hamaoka nuclear plant. The company repeated that its power supplies would be tight this summer, even though it boosted power supplies by up to 430 Mw for this summer and has asked customers to conserve power, especially from Mondays to Wednesdays, when auto factories will operate. Meanwhile Japan's Kyushu Electric Power said today that it will need to procure another 4.4 million barrels of oil and LNG over the July-September period to boost power output.

The French energy minister confirmed today that France would lift state-set gas tariffs for businesses by 3.2% while tariffs for households will be frozen from July 1<sup>st</sup>.

## **ELECTRIC MARKET NEWS**

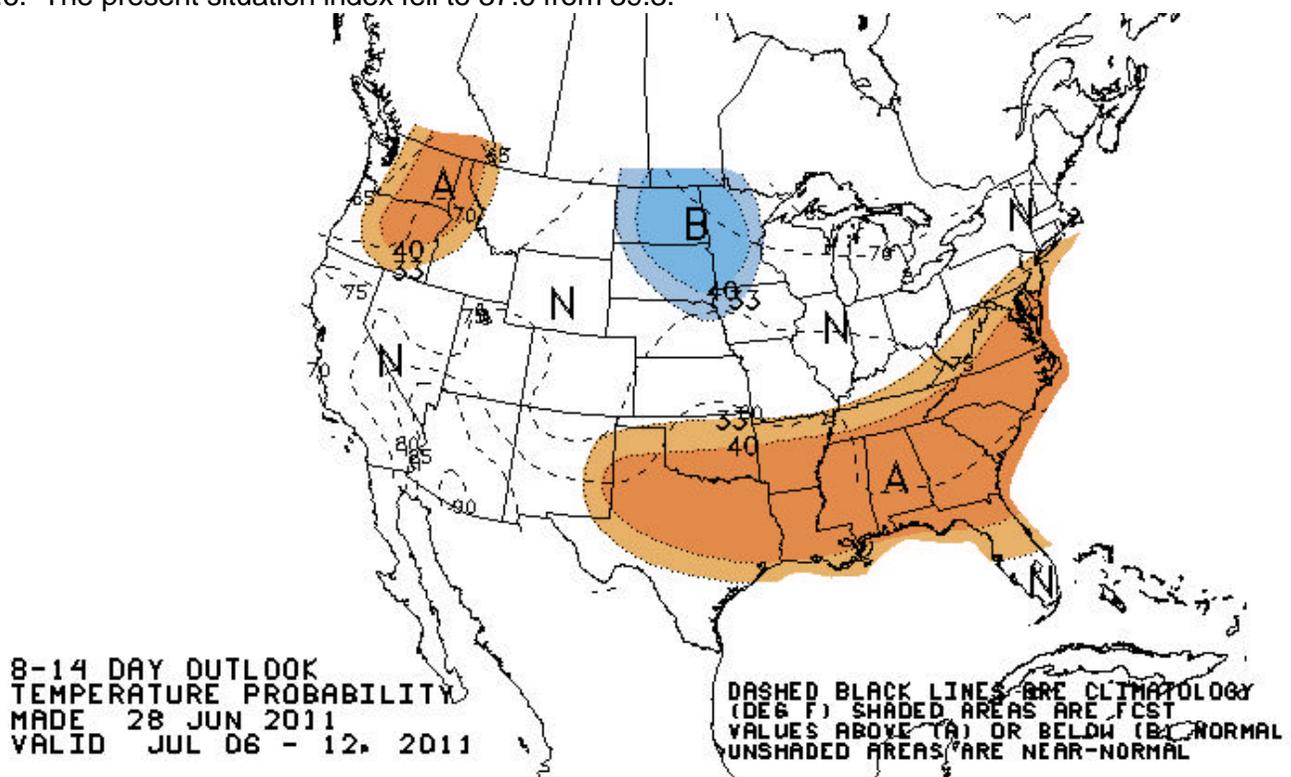
Due to the large snowpack this year in the Pacific Northwest, BPA has curtailed sizable amounts of wind and gas generation levels in the region during periods of lower demand in order to take advantage of its very low cost hydro generation. By the end of May BPA reported that it has curtailed a total of 5,810 Mwh of fossil generation in its control area, with these curtailments jumping to 10,336 Mwh by the middle of June. Wind generation shut in totals were even greater by the middle of this month with some 79,119 Mwh being curtailed.

The U.S. NRC announced today that it has renewed the operating license for Xcel Energy's Prairie nuclear power station for an additional 20 years.

Dominion Resources is seeking regulatory approval to convert coal-fired power stations to biomass-fueled units. The company said the fuel switch could increase renewable generation by 150 Mw and would cost some \$165 million or \$55 million per station. The units that would be converted have primarily been peaking power units, which operate only 25% of the time. But if the conversions take place the company expects to run the units 90% of the time.

### **ECONOMIC NEWS**

According to the Conference Board, its index of consumer attitudes fell to 58.5 in June from a revised 61.7 in May. The expectations index fell to 72.4 from a May reading of 76.7, up from 75.2. Consumers' expectations for inflation in the coming 12 months fell to 6 from 6.5, revised down from 6.6. The present situation index fell to 37.6 from 39.3.



The S&P/Case-Shiller composite index of single family homes in 20 metropolitan areas fell by 0.1% in April on a seasonally adjusted basis. On a non-seasonally adjusted basis, however, the index increased 0.7%. The 20 city composite index increased to 138.84 in April from 138.16 in March.

Dallas Federal Reserve President Richard Fisher said he expects US economic growth in the second half of the year to be stronger than in the first half of the year, possibly registering an inflation adjusted 4% pace. He said the time has not yet come for the US Federal Reserve to start withdrawing its

monetary accommodation. He said the Federal Reserve had done enough on the monetary front and that Congress needed to do its part.

The Reuters-Jeffries CRB Index was on its way to its largest gain in six weeks on Tuesday as hopes of a resolution to eurozone debts increased the competitive advantage of commodities.

UBS said commodities are due to be weak over the next several months, having completed about half of an expected 20% correction as investors unwind positions built up during stimulus programs.

The US Commodity Futures Trading Commission said US long index investment in commodity markets fell \$21.7 billion to \$336.7 billion in May while US short index investment in commodities fell \$7.4 billion to \$95.3 billion in May. The US long index investment in the oil market stood at \$68.9 billion in May while the short index investment in the oil market stood at \$19.5 billion. In natural gas the index funds decreased their net length by 9,000 contracts, but still hold over 361,000 net longs in natural gas.

### **MARKET COMMENTARY**

With the July contract expiring today natural gas prices finished up for the third trading session in a row. The natural gas market received a boost to start the day on the news of Goldman Sachs was urging its customers to close out their short positions that it had recommended establishing back on June 12<sup>th</sup>. This change in outlook appears to have been spurred by stronger coal prices helping to support natural gas values along with the return of some weather related cooling demand. Technically the market appeared to receive a boost by opening above the downward trend line of the past month and using that resistance line as a new basis of support.

We see the August contract possibly grinding higher over the coming week with resistance tomorrow starting at \$4.38 followed by \$4.44-\$4.45, followed by \$4.497, \$4.593 and \$4.689. Support we see at \$4.25, \$4.185, \$4.161-\$4.154, 44.077 and \$3.99

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