



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR JULY 14, 2011

#### NATURAL GAS MARKET NEWS

##### North America

Two environmental groups, the Pembina Institute and the David Suzuki Foundation called on Canada to limit approvals for new natural gas projects and step up environmental enforcement of shale gas developments. A joint report released by the two groups noted that rising natural gas production is not consistent with government promises to lower emissions of greenhouse gases. While natural gas is cleaner than coal, meeting targeted cuts will require more renewable power. The group also noted that the development of shale based natural gas production has a much higher environmental cost than conventional gas production. Among other recommendations the report made were to have the government require the disclosure of the chemicals used in fracturing fluids as well as mandating the instillation of carbon capturing equipment at gas processing plants.

##### Generation Outages

**RFC** – Two 610 Mw coal fired power units at the 2440 Mw Stuart Power Station in Aberdeen, Ohio were forced to perform unplanned maintenance and taken off line.

The NRC reported this morning that some 93,452 Mw of nuclear generation was online, down 0.75% from yesterday and 0.3% below levels recorded a year ago.

##### EIA Weekly Report

	07/08/2011	07/01/2011	Change	07/08/2011
<b>Producing Region</b>	1001	987	14	983
<b>Consuming East</b>	1248	1189	59	1378
<b>Consuming West</b>	362	351	11	468
<b>Total US</b>	2611	2527	84	2829

\*storage figures in Bcf

the week ending July 8<sup>th</sup>. The number of rigs targeting both oil and gas fell by 20 to 1104. The number of rigs search for gas fell by 4 to 657 rigs. The Forth Worth basin lost seven rigs, while Fayetteville and Haynesville lost five and four rigs respectively.

RigData reported that for the week ending July 8<sup>th</sup> the number of active rigs operating in the U.S. fell by 19 to 2318 during the

Williams Cos raised its offer to buy Southern Union by nearly 13% to \$5.5 billion on Thursday, as the company continues in its bidding war against Energy Transfer Equity over the pipeline operator. Southern Union owns and runs more than 20,000 miles of pipelines in the U.S. Southeast, Midwest and Great Lakes regions as well as in Texas and New Mexico. It also owns and operates local gas distribution companies in Missouri and Massachusetts that serve over 500,000 customers.

##### Canadian Gas Association

##### Weekly Storage Report

	08-Jul-11	01-Jul-11	09-Jul-10
<b>East</b>	150.9	143.6	154.1
<b>West</b>	275.3	263.5	316.3
<b>Total</b>	426.2	407.1	470.7

storage figures are in Bcf

##### International

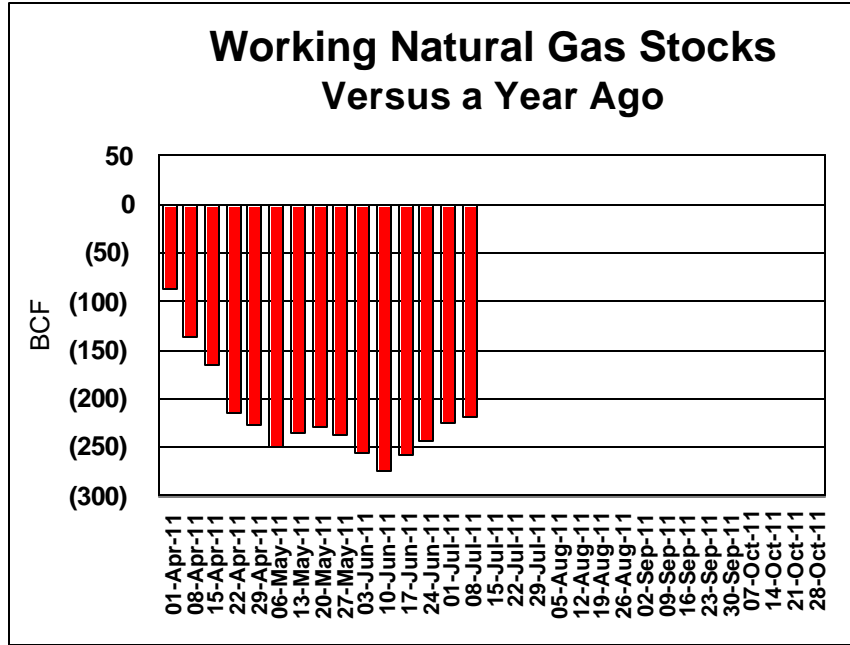
Azerbaijan's reported that natural gas production for the first half of this year in the country fell 2.1% versus a year ago as it reached only 12.9 bcm. The government gave no reason for the decline but the state energy company SOCAR blamed the "revision" of drilling requirements for security. The country in 2010 had seen an 11% year on year gain. The government has been forecasting production in 2011 will reach between 28-29 bcm.

German Chancellor Merkel said today that Germany would increase its involvement in Nigeria's LNG industry.

**ELECTRIC MARKET NEWS**

ERCOT today called on residents and businesses to limit power use amid high temperatures expected across the state again today along with one of the state’s four nuclear reactors being off line. ERCOT was estimating that power demand there would peak today at 65,550 Mw. Demand through much of the first half of the day had been running slightly higher than expected or forecasted. Yesterday ERCOT set a new July power demand record with over 64,751 Mw recorded. Meanwhile MISO raised its estimate for Monday’s peak power demand up to 101,000 Mw from just over 98,000 Mw.

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	641,700	\$4.422	(\$0.009)	\$0.053	(\$0.010)	\$0.061
Chicago City Gate	617,000	\$4.455	(\$0.029)	\$0.086	(\$0.009)	\$0.103
NGPL- TX/OK	764,500	\$4.347	(\$0.018)	(\$0.022)	\$0.003	(\$0.011)
SoCal	622,300	\$4.304	(\$0.073)	(\$0.065)	(\$0.053)	\$0.037
PG&E Citygate	663,900	\$4.583	(\$0.038)	\$0.214	(\$0.018)	\$0.254
Dominion-South	826,400	\$4.495	(\$0.022)	\$0.126	(\$0.002)	\$0.159
UStade Weighted	19,699,100	\$4.378	(\$0.030)	\$0.009	(\$0.01)	\$0.061



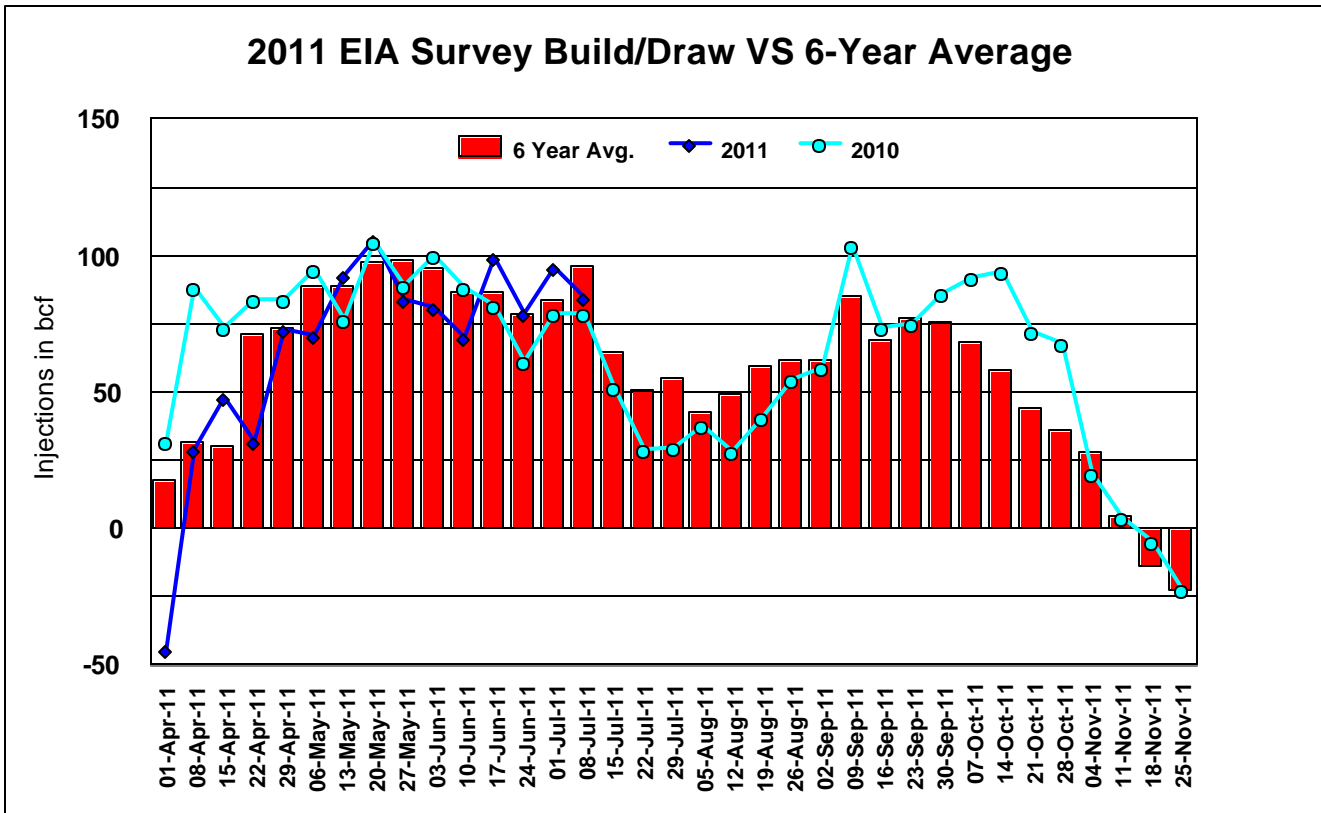
AEP said Thursday that it was putting on hold plans to commercialize carbon dioxide capture and storage technology, thus ending an agreement with the Department of Energy. The company noted that the uncertainty in the direction of U.S. climate policy and a weak economy were the main factors in its decision. In 2009 the company had been chosen by the Department of Energy to receive upwards of \$334 million in funding towards the development and installation of a commercial-scale carbon capture and storage system at AEP’s Mountaineer coal fired power plant in West Virginia. The system was designed to capture at least 90 %

of the carbon dioxide from 235 Mw of generating capacity at the 1,300 Mw power plant. It was estimated that 1.5 million metric tons per year would be captured, treated and compressed, then injected into rock formations in four phases, with commercial operation starting in 2015. AEP told the Department of Energy that the company would complete the first phase of the project, including front-end engineering and design and development of an environmental impact statement, but not move onto the second phase. The company and its partner have been testing the technology at the site since October 2009.

Kyushu Electric power said today that it will delay the planned restart in late July of its 890 Mw Reactor #1 at the Sendai nuclear power plant. The company did not give a time for the new restart date. The unit has been off line since May 10<sup>th</sup> for maintenance.

**ECONOMIC NEWS**

Cycles Research Investments said today that it sees oil and natural gas prices rising this summer before a downward correction follows in 2012, after which energy prices should level out at higher

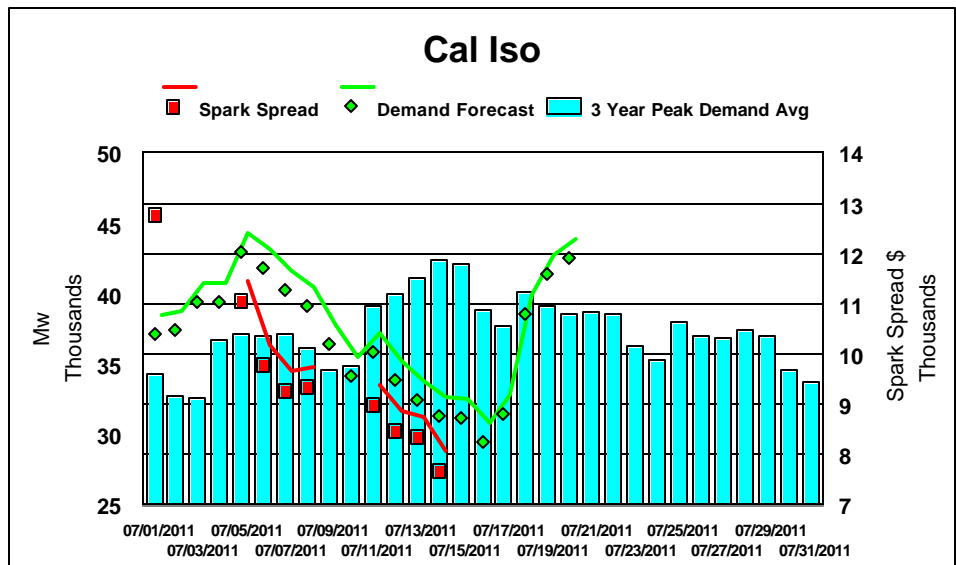


levels. The research company expects oil prices to reach a high of around \$125 per barrel by November and then there is a 75-80% chance of a strong downward correction by the end of the year. The company sees prices then stabilizing at fairly high levels afterwards as the industrialized world settles in for years of low growth. Meanwhile natural gas prices will begin to move higher in late July and early August followed by a correction after that.

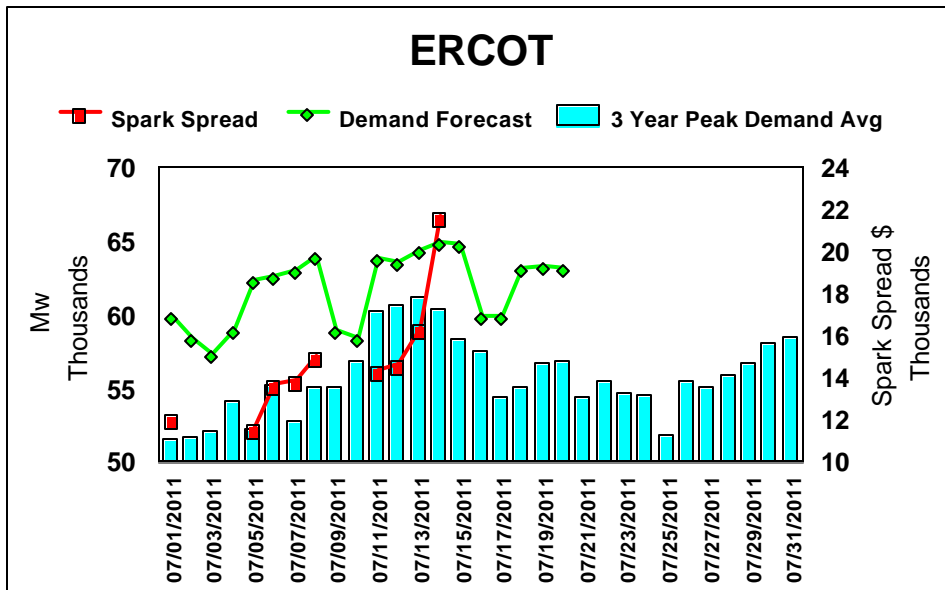
The US Labor Department said the number of initial claims for unemployment benefits fell by 22,000 to 405,000 in the week ending July 9<sup>th</sup>. The four week moving average of new claims fell by 3,750 to 423,250. The Labor Department said the number of continuing unemployment benefit claims increased by 15,000 to 3.73 million in the week ending July 2<sup>nd</sup>. The unemployment rate for workers with unemployment insurance remained at 3% in the week ending July 2<sup>nd</sup>.

The US Labor Department also reported that the Producer Price Index in June fell 0.4% following an increase of 0.2% in May. Core prices increased 0.3% in June following a 0.2% in May.

The US Commerce Department said US retail sales increased 0.1% in



June to \$3.87.79 billion after falling 0.1% in May. Sales excluding gasoline rebounded 0.3% after falling 0.2% in May. The US Commerce Department also stated that US business inventories increased more than expected in May as sales record their first decline in almost a year. It said inventories increased 1% to \$1.51 trillion after increasing by an upwardly revised 1% in April. Sales fell 0.1% in May following an increase of 0.1% in April.

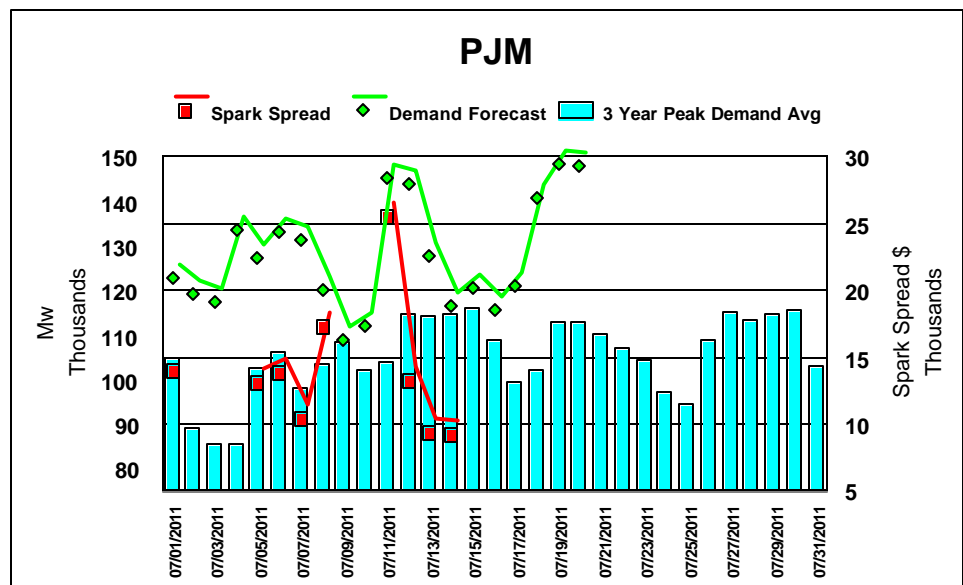


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Federal Reserve Chairman Ben Bernanke reiterated that the Federal Reserve would be ready to inject more money into the system should the US economy worsen. However he told a US Senate Committee that the time had not come yet and noted inflation had

increased since late 2010.

The White House said President Barack Obama may summon Republicans and Democrats to Camp David to break a budget deadlock that is threatening the US' credit rating. However US congressional leaders said they were not interested. House Democratic leader Nancy Pelosi said a Camp David trip could delay immediate progress at daily White House talks. There is pressure to reach a deal that would allow Congress to raise the \$14.3 trillion debt limit before the Treasury Department runs out of money to cover the country's bills on August 2<sup>nd</sup>.



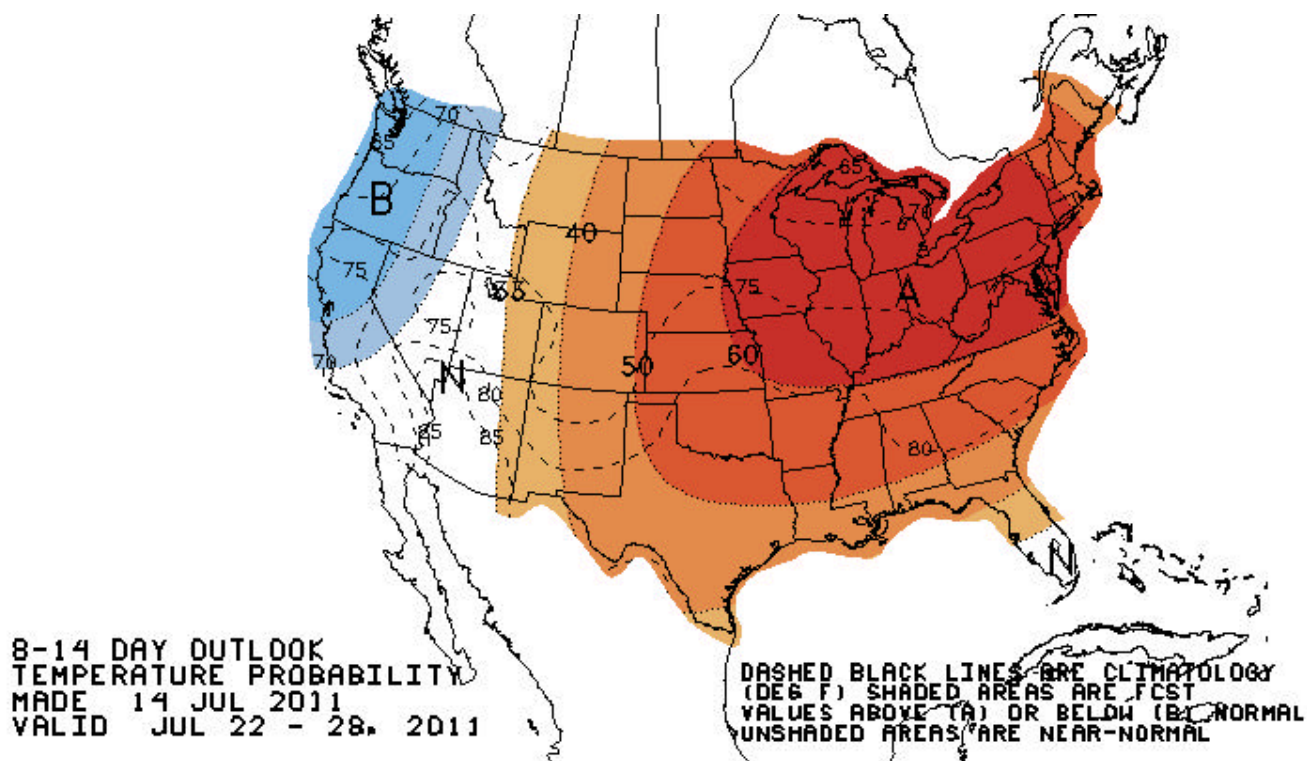
Standard & Poor's has warned US lawmakers privately that it would downgrade the country's debt if the Treasury Department is forced to prioritize payments because Congress does not raise the debt limit.

JPMorgan Chase & Co's commodities trading risk increased by 23% in the second quarter compared with the first quarter as energy, metals and agricultural prices fell. JPMorgan's value-at-Risk for commodities stood at \$16 million in the second quarter compared with \$13 million in the first quarter.

## **MARKET COMMENTARY**

The natural gas market did not receive the bullish storage report that we had suspected would be in the cards. Instead the EIA released a storage stock report that came in some 8-10 bcf higher than expected and posted the fourth consecutive weekly storage report that came in higher than a year ago that helped to continue to close the storage deficit from a year ago. While prices quickly sold off immediately following the report, buyers returned and prices not only erased the morning sell off but by the time Globex finished trading this afternoon had basically returned to yesterday's settlement values. The buyers appeared to find comfort in the higher demand expected not only this week in ERCOT but the return of strong air conditioning demand next week in not only ERCOT but in MISO and PJM as well. This demand coupled with a slight pull back in nuclear generating levels, especially in ERCOT has helped to support cash values as well.

We feel though the rather steady rebuilding of storage levels helped in part by strong domestic production will act as a break on further rallies in this market. We also would look towards any rebound in nuclear generation levels as a potential damping in buyers interest as well.



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