



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR JULY 18, 2011

#### NATURAL GAS MARKET NEWS

##### North America

The National Hurricane Center today was watching Tropical Storm Brett which was located some 100 miles north of Great Abaco Island in the northwest Bahamas. This system while expected to slowly strengthen over the next 24 hours with winds expected to peak out around 65 to 70 miles per hour before winds begin to diminish thereafter. The system is expected to track north-northeastward and then northeastward and out to sea and not a threat to the U.S. But forecasters are keeping an eye on a tropical wave located currently out in the eastern Atlantic. The European model continues to see this system developing into a tropical cyclone near the southeastern Bahamas next Monday and then track northwestward just off the coast of eastern Florida during the middle part of next week. The earlier computer run had this system becoming a developing into a tropical depression or storm by next Tuesday in the southeastern Gulf of Mexico.

##### Generation Outages

**SERC** - Southern's 883 Mw Hatch #2 nuclear unit ramped up to full power this morning. The unit had been at only 62% power on Friday, as operators had reduced power to facilitate repairs on a feed water pump.

The 754 Mw Brunswick #2 nuclear unit which had dropped down to 85% capacity on Sunday, saw power returned to 99% capacity this morning.

The NRC reported this morning that some 93,662 Mw of nuclear generation was online, up 0.1% from yesterday and some 1.3% better than levels recorded a year ago.

A public commission established earlier this year has recommended that Pennsylvania consider enacting an impact fee on natural gas drillers and review conservation statutes that include forced pooling along with some 96 other recommendations.

Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
<u>Location</u>	<u>Traded</u>	<u>Price</u>		<small>(As of 12:30 PM)</small>		<u>Moving Avg</u>
Henry Hub	891,600	\$4.595	\$0.109	\$0.009	\$0.099	\$0.014
Chicago City Gate	667,200	\$4.672	\$0.122	\$0.086	\$0.050	\$0.084
NGPL- TX/OK	873,500	\$4.514	\$0.103	(\$0.072)	\$0.031	(\$0.046)
SoCal	618,100	\$4.532	\$0.204	(\$0.054)	\$0.132	(\$0.052)
PG&E Citygate	685,300	\$4.709	\$0.090	\$0.123	\$0.018	\$0.188
Dominion-South	840,200	\$4.784	\$0.229	\$0.198	\$0.157	\$0.134
USTrade Weighted	22,694,900	\$4.615	\$0.171	\$0.029	\$0.10	\$0.014

##### International

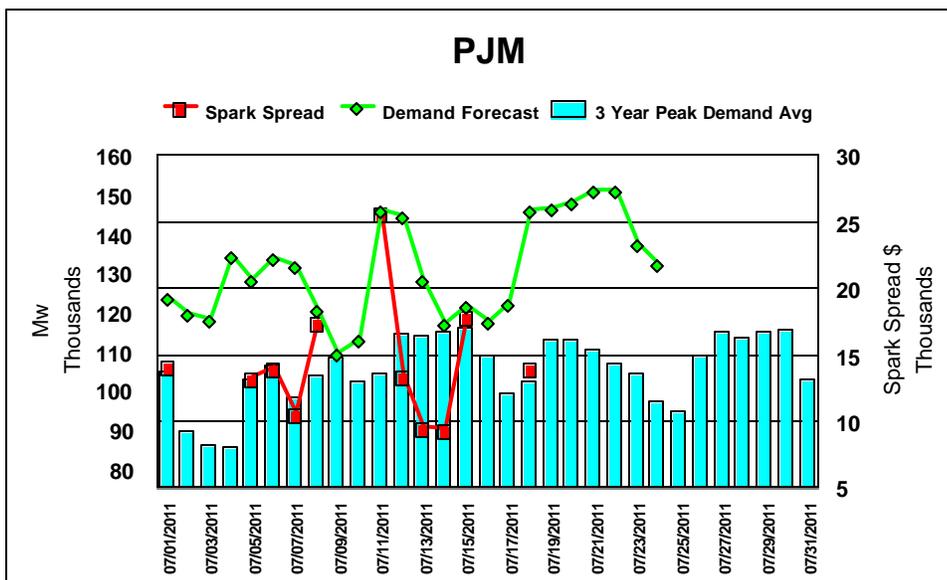
In reaction to a new carbon tax by the Australian government Santos Ltd. agreed to buy Easter Star Gas Ltd. for \$868 million to increase its gas

reserves and LNG exports. The acquisition gives Santos Ltd. the biggest gas reserves in New South Wales and can supply local demand and export markets.

Belgium's Zeebrugge LNG terminal is expecting the Simaisma LNG to arrive on August 1<sup>st</sup> from Qatar.

Statoli's Snoehvit LNG plant is scheduled to reopen after suffering from technical problems that forced the LNG plant to stop receiving shipments from the Shoehvit field. The plant usually produces 5.76

billion cubic feet per year. The plant reportedly was restarted on Saturday and is expected to load a LNG tanker within the next several days. The cargo is expected to be delivered into the European market.



Britain's energy network operator has asked Centrica to reopen its Peterborough and Kings Lynn gas plants for 4-5 weeks while power network maintenance will create a shortage of power in the area. The two plants will produce 230 megawatts while the construction occurs between July 25 and September 2.

Saudi Arabia's goal of producing new forms of

gas that are not linked to oil production took a step forward when Saudi Aramco started producing gas from Karan last week. The original goal was to have production reach 400-450 cfd by the end of this summer and reach full capacity of 2.6 bcf by April 2013. South Korea's Hyundai Engineering and Construction are building the onshore parts with Britain's Petrofac and McDermott International is building the offshore platforms and a sub sea pipeline to the Khursanijah plant onshore.

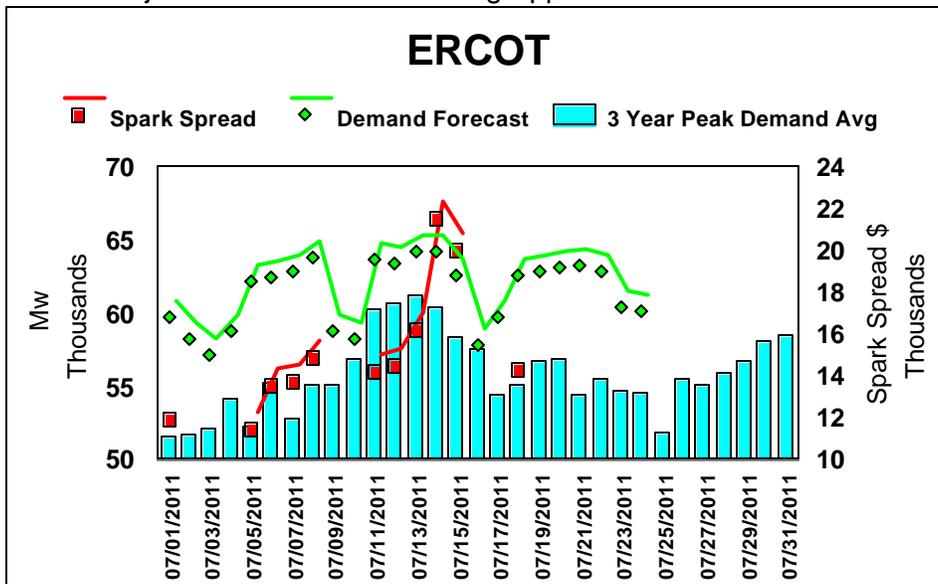
### ELECTRIC MARKET NEWS

The US nuclear safety regulator will provide new guidelines within 90 days on what measures need to be taken in reaction to Japan's Fukushima disaster. In addition Gregory Jaczko, chairman of the Nuclear Regulatory Commission has stated that he wants all new changes implemented within five years. The new guidelines will be a major factor when considering applications to build new nuclear facilities.

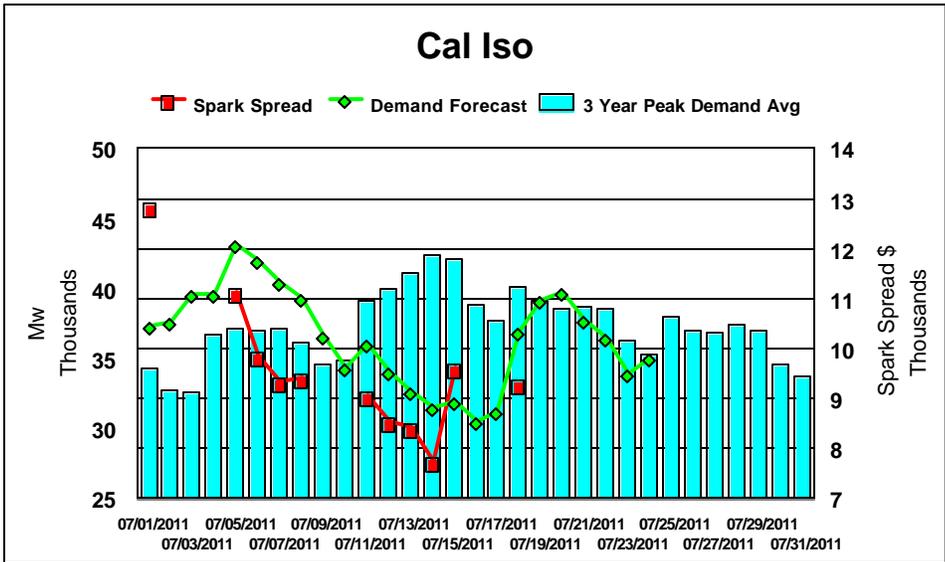
PSEG announced the sale of its Odessa gas fired facility today for about \$335 million to Odessa Power LLC, a subsidiary of Energy Capital Partners II, LP.

GreenX said it will begin to trade in California carbon futures contracts in September, making it the first exchange to commence trading on what could become North America's largest carbon

market. The contracts will be for 1,000 allowances that will expire in December 2012, 2013 and 2014. GreenX will also publish an end of trading day settlement price for all listed contract months and clear the OTC market on this market as well. So far the majority of OTC trade in the market has been



through Barclays Capital's California forward trade agreement (Cafta). Last week this market was valued around \$16.75/\$17.25.

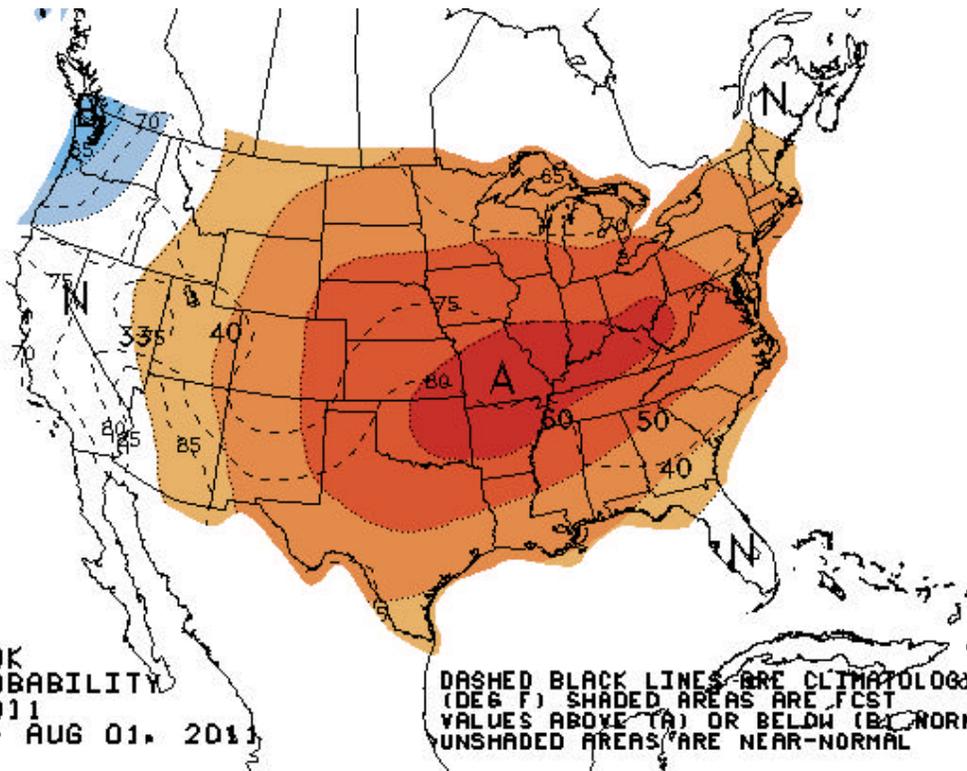


**ECONOMIC NEWS**

The National Association of Home Builders said US home builder sentiment increased more than expected in July but remained near historic lows. The NAHB/Wells Fargo Housing Market index increased to 15 in July after falling to a nine month low of 13 in June.

Goldman Sachs has cut its forecast for US second quarter growth to 1.5%

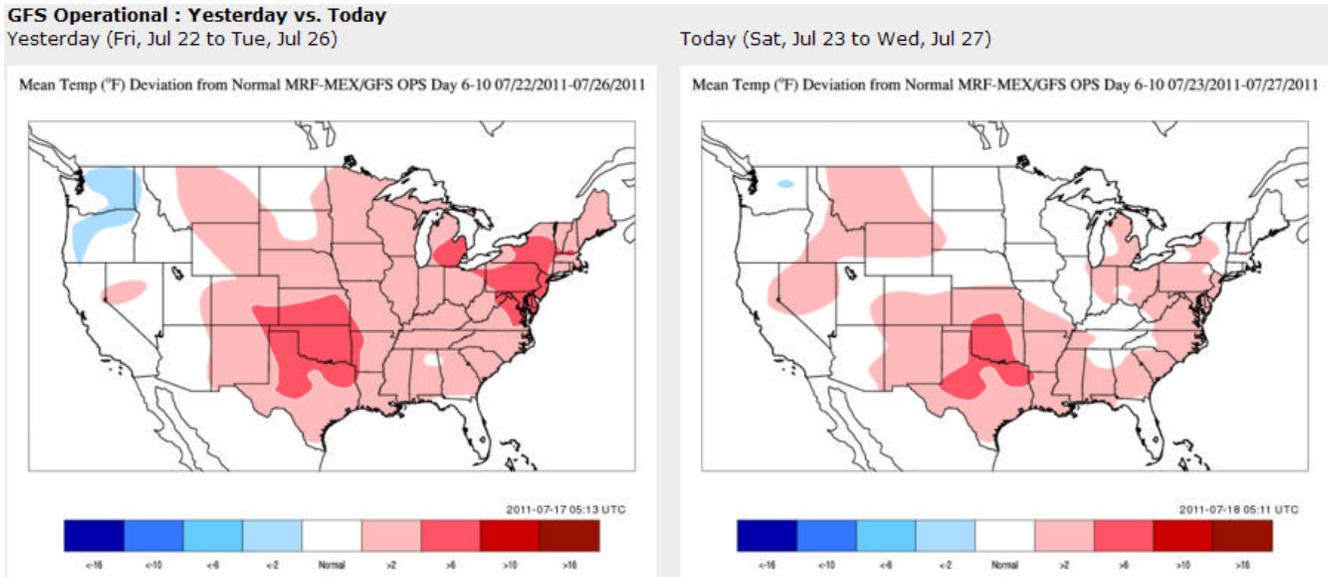
from 2% due to weak consumer spending. Goldman Sachs also cut its third quarter growth forecast to 2.5% from 3.25%. Meanwhile Bank of America Merrill Lynch and BNP Paribas also cut their estimates for second quarter GDP. Bank of America Merrill Lynch expects second quarter GDP to increase at a 1.5% annual rate rather than 2% while BNP Paribas cut its GDP estimate for the April-June quarter to a 1% rate from 1.5%.



**MARKET COMMENTARY**

While the current heat wave across much of the U.S. and Canada helped to boost spot natural gas prices by double digits at many pricing points today, the futures market basically finished the day near unchanged levels as it appeared the futures market was taking a pause after getting ahead of itself on

Friday. In addition while temperatures were seen remaining above normal for much of the eastern two thirds of the nation for the next two weeks, there was a bit of moderation in this forecast. In ERCOT the estimated power demand forecasted for early this week were scaled back a bit while some private weather forecasting services appeared to show a bit of moderation in their 6-10 day outlooks from yesterday.



Judging by today's volume, which was off noticeably from Thursday and Friday, it appears the flood of short covering that occurred over the final two days last week, in which over 30,000 NYMEX natural gas futures were closed out, slowed today. While the lack of a strong follow through in short covering may limit the further upside of this market, it appears that this market will not have sufficient sellers returning to the market place until the heat wave breaks or is forecast to break. As a result we see resistance at \$4.612 and \$4.632-\$4.642 followed by \$4.81-\$4.843 and \$4.983-\$5.00. Support we see at \$4.482, \$4.42-\$4.40, \$4.365, \$4.338 and \$4.273.

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