



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR AUGUST 9, 2011

#### NATURAL GAS MARKET NEWS

##### North America

The US Energy Information Administration (EIA) raised its estimate for domestic natural gas production growth in 2011 by 6% over 2010 levels. The EIA raised its short-term energy outlook for August believing that marketed natural gas production can rise by 3.68 bcf/d to a record 65.51 bcf/d. The EIA lowered its estimation on consumption growth from 67.43 bcf/d to 67.35 bcf/d but still anticipates a 1.8% increase over 2010 levels. Consumption is estimated to rise an additional .7% in 2012 to 67.83 bcf/d. Lastly, the EIA expects a decline in imports in 2012 due to an increase in demand in Japan and other Asian countries which will increase the price by 4% or \$.17 to \$4.41.

##### Generation Outages

**NPCC-** The Lambton 3 is scheduled to resume operating on Tuesday after being shut since Aug. 2. Bruce 6 is scheduled to resume operation on August 12<sup>th</sup> and Lennox 1, Lennox 2, and Nine Mile Pt. 2 are planning to restart operation on August 13<sup>th</sup>.

**WECC-** Arizona's nuclear facility Palo Verde 1 is scheduled to resume service on August 13<sup>th</sup> after being shut down on August 2<sup>nd</sup>.

**The NRC reported this morning that about 93,346 Mw of nuclear generation was online, up 0.23% from yesterday and down 2.38% from a year ago.**

Sempra Energy said the company would evaluate whether to build a liquefaction facility to export natural gas out of its gas import terminal in Louisiana if the company is able to find one or more long-term customers.

ConocoPhillips will continue producing LNG at its Kenai LNG export plant in Alaska into October when it plans to close the plant. It was decided to close the 40-year-old plant when it did not renew long-standing contracts with the Japanese.

##### International

India's Larsen & Toubro Ltd. was awarded a turnkey project worth \$189 million from UAE's Abu Dhabi Gas Industries Ltd. The Habahan-Ruwais-Shuweihat gas pipeline will supply gas to Abu Dhabi Oil Refining Company's refinery expansion at Ruwais and to the Abu Dhabi Water and Electricity authority in Shuweihat. The project is expected to take 24 to 26 months and will more than double Ruwais

refinery's capacity to 900,000 barrels per day by the end of 2013.

Japan's Tokyo Electric Power Co. (Tepco) increased its use of natural gas for the fifth straight month reaching a new high for almost the past four years. Tepco used 5.289

Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	645,300	\$4.064	\$0.055	\$0.060	\$0.017	\$0.167
Chicago City Gate	644,500	\$4.201	\$0.066	\$0.197	\$0.022	\$0.229
NGPL- TX/OK	789,500	\$4.038	\$0.058	\$0.034	\$0.014	\$0.092
SoCal	672,700	\$4.167	\$0.066	\$0.163	\$0.022	\$0.219
PG&E Citygate	761,400	\$4.249	\$0.040	\$0.245	(\$0.004)	\$0.310
Dominion-South	885,800	\$4.152	\$0.104	\$0.148	\$0.060	\$0.195
USTrade Weighted	20,630,300	\$4.119	\$0.061	\$0.115	\$0.02	\$0.167

million tons in the second quarter buying 1.2 million tons on the spot market a significant increase from the 300,000 tons they bought on the spot market over the same period last year.

China's Investment Corp. has agreed to pay over \$2.8 billion to acquire a 30% share of French company's GDF Suez gas exploration and production unit. The move will help China as it seeks to increase its ability to gain access to western oil fields and it will help GDF Suez finance projects in Asia.

Eni will make up to \$1.3 billion on the sale of stake in the TENP and Transitgas pipelines to Fluxys of Belgium. The acquisition of the pipelines would give Fluxys pipelines from Belgium to Italy through Germany and Switzerland giving them a much larger market share in European natural gas.

The ruling by the top Dutch court on Monday will prevent the Bergermeer storage project from being completed on time in 2014. The delay has been caused by environmentalists who fear injections may increase the likelihood for earth tremors. Despite the ruling cushion gas continues to be injected because it is necessary to maintain a certain level of pressure at the facility.

Petrobras, registered a 24% increase in natural gas production in the first six months of 2011, producing 31.7 mcf/d. Petrogas has increased production using new platforms to meet rising demand from Brazil's rising economy.

UK's South Hook terminal is expecting two LNG tankers to arrive later this week. The Mekaines LNG tanker is scheduled to arrive on August 11<sup>th</sup> and the Shagra LNG tanker is scheduled to arrive on August 14<sup>th</sup>.

### **ELECTRIC MARKET NEWS**

Constellation Energy Nuclear Group's repair of the 1,148mw Unit 2 at the Nine Mile nuclear facility in New York has been completed following an unidentified leakage greater than 10 gallons per minute in the drywell. Post maintenance tests are currently being run and the plant is expected to open on August 13<sup>th</sup>.

Tennessee Valley Authority's Watts Bar 2 reactor in Tennessee has pushed the expected startup date from 2012 to 2013 because of licensing issues, the pace of construction, and modifying safety regulations to incorporate what was learned in the Fukushima disaster.

### **ECONOMIC NEWS**

The US Federal Reserve signaled it planned to keep its short term interest rate close to zero for at least two years as it downgraded its view of the US economy. Fed officials said economic growth this year so far has been considerably slower than expected.

The US Labor Department said US productivity fell in the second quarter as the economic recovery remained tepid and labor costs continued to increase. Nonfarm business productivity fell at a 0.3% annual rate in April through June after falling by 0.6% in the first three months of 2011. The first quarter figure was revised down sharply from an originally reported 1.8% increase. The economy grew at a 1.3% annual rate in the second quarter following a 0.4% increase during the first quarter. It reported that unit labor costs increased at a 2.2% annual rate in the second quarter following a 4.8% increase in the first quarter of the year.

The International Council of Shopping Centers and Goldman Sachs reported that US chain store retail sales fell 0.5% to 532.8 in the week ending August 6<sup>th</sup>.

According to a Reuters survey, the US faces a one in four odds of falling back into recession and a weaker economic outlook is increasing the likelihood the Federal Reserve will soon do more to support growth.

### **Market Commentary**

Unlike the rest of the energy complex, the natural gas market ended the session in positive territory as the market continues to retrace some of its recent losses. The market posted a low of \$3.888 in overnight trading but quickly bounced off that level and rallied higher. It retraced almost 50% of its move from a high of \$4.234 to a low of \$3.855 as it posted a high of \$4.04 by mid-day. The market later settled in a sideways pattern and settled up 5.9 cents at \$3.994. The market remained buoyed by technical buying as the market was due for a bounce after falling over 12% in the last three weeks.

Given the market's ability to hold its own while the oil complex continues to trend lower, the natural gas market is seen holding its support. While Northeast and Midwest temperatures are expected to remain near normal to slightly below normal for the next week, the regions may see warmer temperatures in the next 10-15 day time frame which could lend some support to the market. However its gains will be limited. Technically, support is seen at \$3.94, \$3.888, \$3.855, \$3.822 and \$3.756. Resistance is seen at \$4.045, \$4.06, \$4.119, \$4.126, \$4.18, \$4.212 and \$4.234.