



## ***ENERGY RISK MANAGEMENT***

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### **NATURAL GAS & POWER MARKET REPORT FOR AUGUST 17, 2010**

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

The remnants of Tropical Depression 5 moved back ashore early Tuesday morning and as a result removed even a remote threat in the near term to US Gulf production facilities. While this afternoon the National Hurricane Center noted a very weak tropical wave over the central Caribbean Sea was demonstrating some increase in shower and thunderstorm activity from earlier today, it still has not seen any significant declines in surface pressures. As a result forecasters assigned it a less than 10% chance it could post tropical cyclone development in the next 48 hours. But the various global forecasting models all seem to be pointing to at least one and possibly two tropical cyclones will form in the next 7-10 days in the Tropical Atlantic. The first potential system is a tropical wave currently near the Cape Verde Islands and the other is expected to emerge off the coast of West Africa later this week. Currently though while most forecasting models have these two systems system potentially forming into either two distinct powerful tropical systems or merging into one, the track guidance appears to point at this time to being a threat to U.S. East Coast or Bermuda rather than the Gulf Coast.

#### **Generator Problems**

**MAPP-** Exelon confirmed that its two 1,178 Mw Braidwood nuclear units tripped off line yesterday, prompted by a generator lockout relay actuation in Unit #2. No restart date has been given as operators continue to look into the disruption.

**SERC** – TVA's 1123 Mw Watts Bar #1 nuclear unit returned to full power early Tuesday from just 15% power on Monday.

**PJM** – Exelon's 786 Mw Unit #1 at the Three Mile Island nuclear plant dropped to 56% power this morning from full power recorded yesterday.

**NPCC-** OPG's 490 Mw coal fired Unit #2 at the Nanticoke coal fired power plant returned to service early Tuesday. The unit was shut Monday for maintenance work.

Dominion's 1145 Mw Millstone #3 nuclear unit has exited its recent outage and was at 17% power this morning. The unit had been shut on August 14<sup>th</sup> to fix a small reactor coolant leak.

Entergy's 852 Mw FitzPatrick nuclear plant dropped to 37% power this morning, down 62% from yesterday. The unit dropped to as low as 24% Monday afternoon as operators began repairs to a reactor recirculation pump.

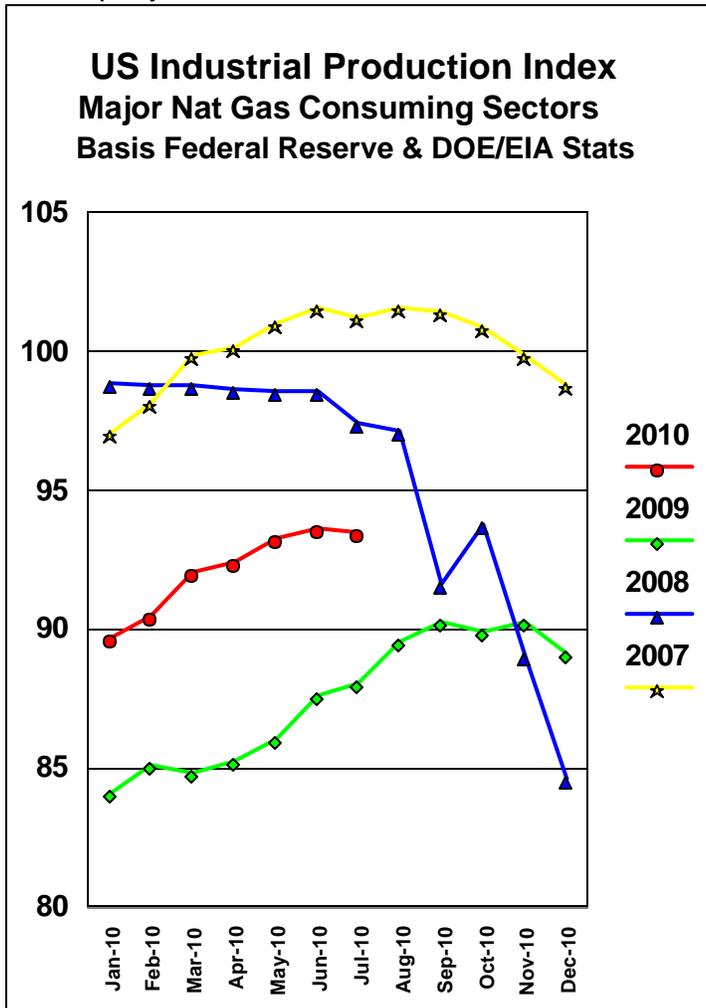
**The NRC reported this morning that some 91,570 Mw of nuclear generation was operating today, up 0.3% from yesterday and down 5% from the same day a year ago.**

Natural gas production from the Sable Offshore Energy Project returned to normal levels as of Monday, Spectra Energy confirmed today. The production had been reduced over the weekend.

A maintenance shutdown planned to start from Wednesday at Norway's Kaarstoe gas processing plant will last for 22 days, one day longer than originally planned, Gasco reported today. The company said it was hard to say when exactly gas exports from Norway would restart again.

Russia's second largest gas producer, Novatek said today that it expects its production levels in 2011 to increase by 12%. This year's production is expected to reach the upper end of its projected production target of 36-38 bcm. The company said it would make a final decision on participating with Gazprom on building the proposed Yamal LNG facility by the end of 2012.

Japan's Saibu Gas Company reported that it has taken its first delivery of a cargo of LNG from Russia's Sakhalin II export project. The delivery though was relatively small with just 8500 cubic meters. The company is contracted to buy 8500 tonnes of LNG a year for 24 years from the project starting in 2010. The company has a much bigger contract with Malaysia for LNG of some 350,000 tonnes per year.



Bulgaria and Azerbaijan reportedly are closing in on a deal that would allow Azeri gas deliveries of some 2 bcm of gas per year to Bulgaria starting at the end of 2013, Bulgaria's state gas company, Bulgartransgaz said Tuesday. Bulgaria has been seeking to decrease its near total dependence on Russian natural gas supplies, since the 2009 dispute between Russia and Ukraine left it without gas supplies for weeks. Under the potential deal the gas would be transported via a pipeline to Georgia then compressed and shipped by tanker to the Black sea port of Varna. If this project moves forward it would provide up to 50% of Bulgaria's natural gas needs.

**PIPELINE MAINTENANCE**

Southern Natural Gas said it has experienced an unscheduled engine outage at the Albany Compressor Station in south central Georgia. The company does not anticipate the unit returning to service before August 20<sup>th</sup>. As a result the company warned that its ability to service customers downstream of the Albany Compressor in excess of their hourly entitlements may be limited. The company also noted that due to weather related delays, the maintenance work for its Main Pass section was delayed by 48 hours and is

now expected to begin August 18<sup>th</sup> and last through August 24<sup>th</sup>. This work will shut in pipeline points 016100 and 651000.

Gulf South Pipeline said it has rescheduled Destin Compressor Station unit maintenance from August 12<sup>th</sup> to August 19<sup>th</sup>. The work is expected to take eight hours.

**PIPELINE RESTRICTIONS**

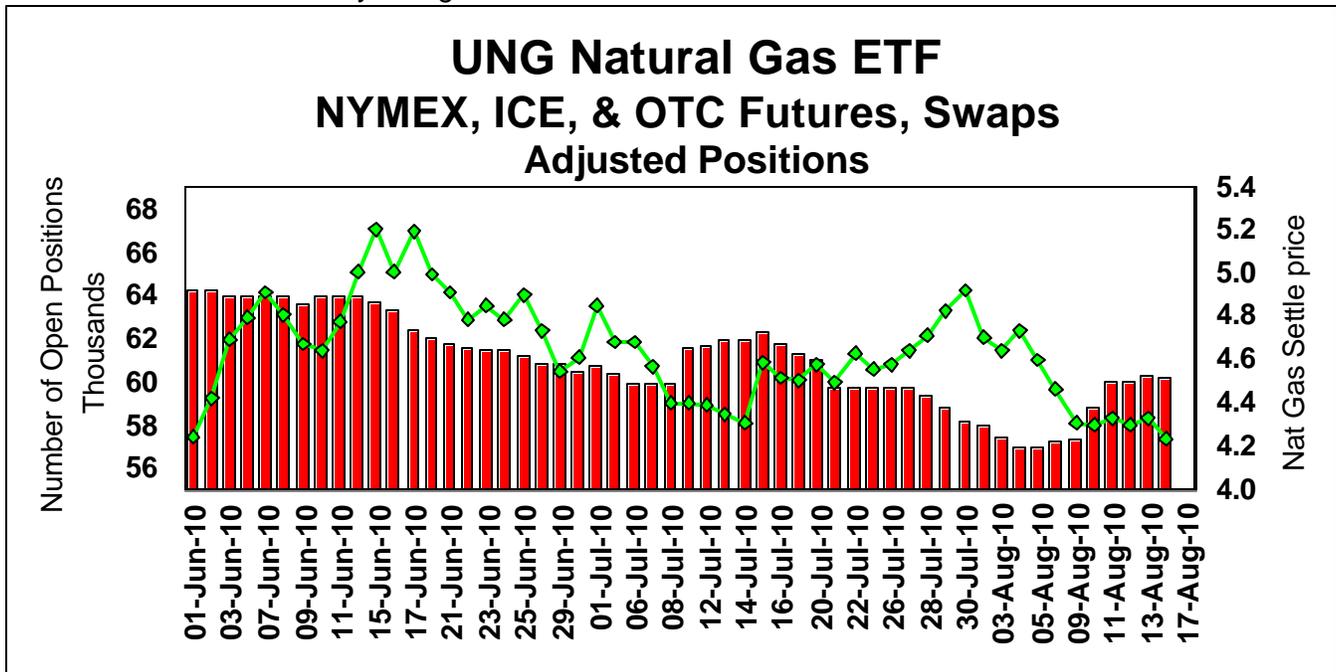
FGT announced it has issued an overage alert day with a 15% tolerance for August 17<sup>th</sup> due to high temperatures forecasted today for Florida.

Tennessee Gas Pipeline reported that effective for today, due to reduced nominations it will be able to accept nomination increases of 3500 Dth at the Leidy Delivery meters and 67,000 Dth at Station 245. It also looks for testing to be completed and unit 2A at Station 325 in Liberty, New Jersey to return to service by August 18<sup>th</sup>.

**ELECTRIC MARKET NEWS**

The NRC said it has concluded there were no environmental impacts that would preclude license renewal for an additional 20 years of operation on the 770 Mw Cooper nuclear plant. The license is due to expire currently in January 2014.

Genscape reported today that it estimates coal stockpiles at U.S. power plants fell 1.4% this week and were 19.2% smaller than a year ago.



**ECONOMIC NEWS**

The U.S. Labor Department reported this morning that U.S. producer prices rose in July for the first time in four months, pulled higher by higher prices for food and consumer goods. This increase was in line with market expectations after dropping 0.5% in June. But when stripping out food and energy prices, core producer prices were up 0.3% slightly higher than the 0.1% the market had been looking for in recent days.

The Federal Reserve reported this morning that U.S. industrial production last month jumped more than expected, increasing by 1% after falling 0.1% in June. The auto sector led the expansion increasing output by 9.9% after seasonal adjustment. But when looking at the industrial sectors that are the main consumers of natural gas one finds that this group saw a minor contraction in July from June on a non-seasonally adjusted basis of 0.2%. Year on year though this group has still seen improvement, growing by 6.23% but not the growth rate recorded over the first six months of this year. The primary metals sector continues to show the greatest year on year growth expanding by 29.4%. Other strong gainers were the oil-refining sector, which grew by 6.4% year on year, with the paper and food sectors expanding by 5.6% and 5.4% respectively. While the chemical sector showed the smallest year on year gain of just 1.7% the sub sector within the chemical industry, the fertilizer sector expanded by 6.6 year on year.

**MARKET COMMENTARY**

The natural gas market posted an inside trading session today. Despite starting out this morning in negative territory, the release of a the supportive industrial production numbers by the Federal Reserve appeared to at least momentarily lift the economic gloom in the market and lent support not only to the natural gas market but the oil and equity markets as well. But nearly 50% of the day's gains off this morning's lows were erased in the final 20-30 minutes of trading prior to the close as the near term tropical forecasts continue to see little or no immediate threat to the Gulf of Mexico.

This market could very well see a volatile trading session tomorrow given that today was an inside trading session. As a result we would look for there to be a greater likelihood that the bears will control price direction tomorrow given the lack of tropical threats and the storage report and the Baker Hughes report still 1-2 days away. If the bears have their way we should see an attempt to retest Monday's lows at \$4.182. Additional support we would see \$4.15-\$4.14, followed by \$3.986 and \$3.855. Resistance we see at \$4.322 followed by \$4.376, \$4.497, \$4.595 and \$4.692.

While we usually like to be bearish on the natural gas market we feel that this market is extremely oversold as judging by technical indicators such as the daily stochastics which are currently in the low teens and fast approaching single digits. Given that this time of year the markets are at risk to volatile quick price swings given limited market participation, we would look to remain on the sidelines and look for any quick price spike downward towards the \$4.00 price level as an opportunity to either buy calls or sell out of the money puts in the October contract, which would give us coverage through the heart of the hurricane season. As a point of reference we would look to sell the October \$3.50 or \$3.75 puts, which tonight settled at 3.5 and 7.6 cents respectively and or buy the October \$4.50 call which tonight settled at 18.5 cents but on a dip of 25 cents in the underlying futures could be some 6-7 cents cheaper.

The speculative bullish interest in this market also appears to be recording a quiet uptick in recent days as the natural gas ETF, UNG has seen its open interests in the futures markets and swaps increase by over 3000 lots (10,000 Mmbtu lot size) in the past week.

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