



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR AUGUST 23, 2011

#### NATURAL GAS MARKET NEWS

##### North America

Hurricane Irene was upgraded to a Category 2 storm early on Tuesday having winds of 100MPH. As Irene moves away from Hispaniola it will face a favorable environment for strengthening. Forecasts predict the storm will become a major hurricane with the potential to become a Category 4. The threat to Florida continues to diminish and it is becoming more likely that the storm system will make landfall over North Carolina before heading

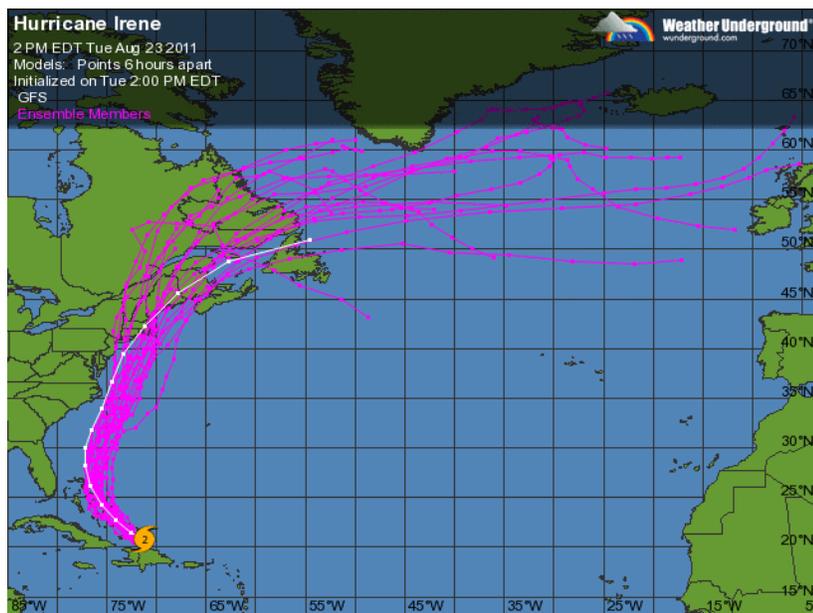
along the coast to New England. In other news there are two storm systems located west of the Cape Verde Islands but neither pose a threat to the Gulf Coast nor the US' east coast.

##### Generation Outages

**RFC-** Unit 2 at LaSalle owned by Exelon Generation Company, was returned to full power overnight. First Energy's Davis Besse was powered down on Monday but has since resumed operating at full power. Hunterstown, a property of GenOn Energy was shut down on Monday.

**WECC-** PacifiCorp East's Wyodak increased power to generators overnight and is now running near 670mw of the 844mw capacity. Moss Landing owned by Dynegy put generators back online Monday and was running near 310mw early on Tuesday. Tenaksa Power Fund L.P.'s High Desert ramped up generators on Monday and was running near 380mw of 852mw early on Monday.

**NRC reported that as of this morning there was some 92,833 Mw of nuclear generation online, down 0.9% from yesterday and some 2.8% less than the same day a year ago.**



Southern Union Co. has plans to build a \$235 million natural gas processing plant in the Permian Basin in Texas. In addition it will construct 60 miles of pipeline to deliver Lone Star NGL LLC with 20,000 barrels per day for 15 years starting in mid-2013.

The West Virginia Department of Environmental Protection has created an emergency set of provisional rules for extracting gas from the Marcellus Shale. The rules call for plant operators to include public advertisements 30 days prior to drilling as part of the application process and operators must release their erosion, sediment, and water management plans.

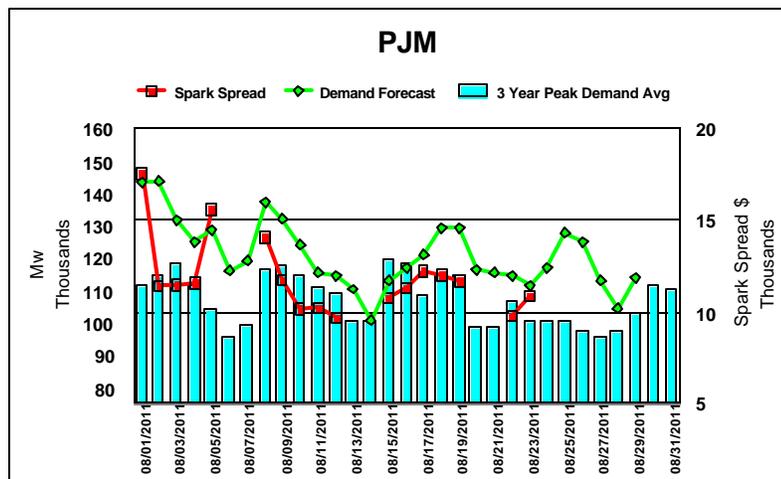
The Millennium and Columbia natural gas pipelines were still operating and there was no visible damage reported to Dominion's Cove Point LNG facility despite the earthquake in Virginia on Tuesday.

## International

Shell and Mitsubishi are likely to face long delays with its \$17 billion gas deal with Iraq. Shell will be forced to build their facilities from the ground up while dealing with rivals who already have infrastructure. Another problem is Iraq does not have modern gas and oil laws so it is currently uncertain how much gas can be exported.

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	667,000	\$4.009	\$0.036	\$0.040	(\$0.060)	\$0.092
Chicago City Gate	681,900	\$4.076	\$0.036	\$0.107	(\$0.048)	\$0.122
NGPL- TX/OK	710,200	\$3.966	\$0.023	(\$0.003)	(\$0.061)	\$0.011
SoCal	600,100	\$4.151	\$0.010	\$0.182	(\$0.074)	\$0.214
PG&E Citygate	879,600	\$4.273	\$0.014	\$0.304	(\$0.070)	\$0.348
Dominion-South	999,500	\$4.049	\$0.034	\$0.080	(\$0.050)	\$0.094
UTrade Weighted	20,288,400	\$4.046	\$0.024	\$0.077	(\$0.06)	\$0.092

The Japan Bank for International Cooperation (JCBIC) will loan Chubu Electric Power Co. \$1.3 billion to finance the purchase of LNG. Chubu Electric Power Co. sought the low-interest loan because it needs to buy more LNG to bolster output from its plants after it closed its Hamaoka nuclear power plant after the Fukushima disaster earlier this year.



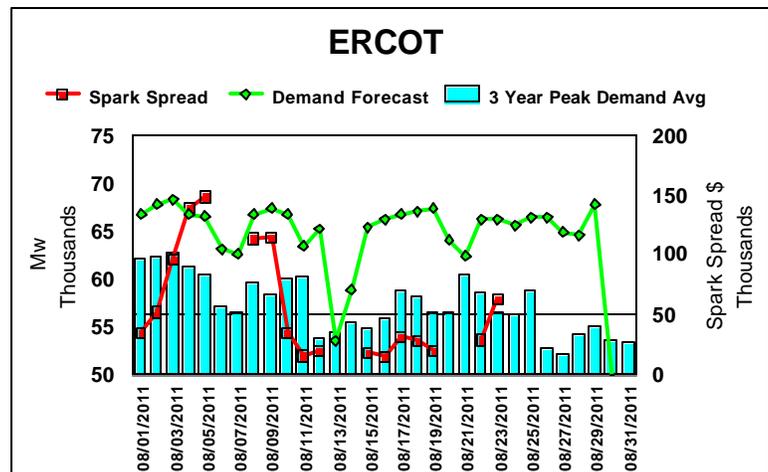
Malaysia's state owned Petronas plans to develop a \$5.1 billion gas project off Malaysia's east coast within two years. The project has been undertaken due to a slowing of output due to frequent maintenance shutdowns and a growing power demand. Petronas will extract gas from nine newly discovered fields about 300km off the coast and will build a 200km pipeline to transport the gas to Terengganu.

Abu Dhabi's National Gas Shipping Company (NGSCO) has received a delivery of high performance CCTV systems from Kongsberg Maritime. The eight-ship fleet had two vessels refitted in April, one in July, and the company plans to refit the other five in the upcoming months.

Romania increased natural gas consumption over the first half of 2011 by 3.5% to 81.5 million megawatt hours. Imports accounted for about a quarter of consumption.

Ukraine will reduce natural gas imports from Russia to 12 bcm by 2016. Ukraine will increase coal consumption and increase energy efficiency. It also plans to increase gas production by 35% to 27 bcm/y by 2017.

Ukraine's State Investment and National Projects Management Agency said it has



received bids from nine companies for conducting a study for a planned LNG terminal on Ukraine's Black Sea coast.

LNG TANKER	CAPACITY (Cubic meters)	Expected Arrival	From	Destination
Al Mafyar	266,000	August 22, 2011 (A)	Qatar	South Hook, Britain
Lusail	146,000	August 22, 2011 (A)	Qatar	Zeebrugge, Belgium
Castillo De Vilalba		August 23, 2011	Nigeria	Dahej, India
Al Aamriya	210,000	August 23, 2011	Qatar	Isle of Grain, Britain
Al Mayeda	266,000	August 25, 2011 (D)	Qatar	South Hook, Britain
N/A	266,000	September 1, 2011	Qatar	Rotterdam, Netherlands
Simaisma	145,000	September 2, 2011	Qatar	Zeebrugge, Belgium

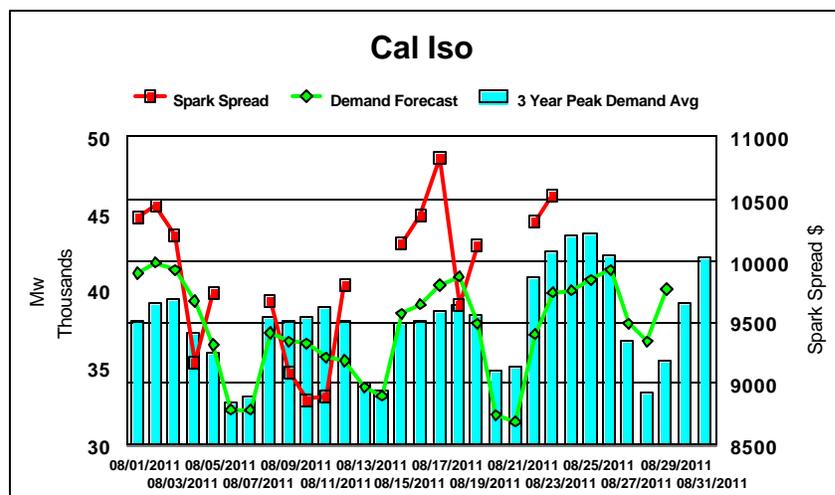
(A) Arrived (D) Delayed

### **ELECTRIC MARKET NEWS**

Dominion Resources shut two nuclear reactors at its North Anna nuclear power plant in Virginia due to the 5.9 magnitude earthquake on Tuesday. The plants lost off-site power, but diesel generators remained operating.

As for 2:30 PM EST the Indian Point nuclear power plant in New York was still operating despite the earthquake in Virginia.

Texas based utility, Xcel Energy, has asked customers in north Texas and eastern New Mexico to restrict energy use during the current heat wave so the company can turn off power to a plant for scheduled maintenance.



Japanese utility Kyushu Electric Power Co. was forced to shut its 600mw Unit 4 at its Shin-Kokura power plant. The gas-powered plant was forced to close the unit after an emergency shutdown of a steam turbine was activated.

### **ECONOMIC NEWS**

The US Commerce Department said new home sales fell during July to the lowest level in five months. New homes sales fell by 0.7% on the month to a seasonally adjusted annual rate of 298,000, the lowest level since February. Sales in June were revised to a 2.9% decline to 300,000 from a previously reported 1% decline to 312,000. The median price in July for a new home was \$222,000.

A gauge of factory output on the US eastern seaboard fell further into negative territory in August on slower growth in new orders and shipments. The Federal Reserve Bank of Richmond said its composite index of factory activity in its district fell to -10 from -1 in July.

Economic growth is stagnating in Europe. Markit's composite euro zone PMI for August, a measure of private sector activity which combines services and manufacturing, was flat from the previous month at

51.1. The euro zone's services PMI fell to 51.5 this month from 51.6 in July. The PMI for the euro zone's manufacturing sector fell to 49.7 from 50.4.

The preliminary HSBC China Manufacturing Purchasing Managers Index increased to a two month high of 49.8 in August from a final reading of 49.3 in July. The manufacturing output sub-index, meanwhile increased to a two month high of 49.4 from a 28 month low of 47.2 in July.

Senator Bernie Sanders is demanding the US CFTC hold an emergency meeting to implement its plan for position limits. He said evidence shows that excessive speculation increased oil and gasoline prices. He rejected claims that the CFTC cannot impose strict position limits because it lacks sufficient information and encouraged the agency to hold an emergency meeting to implement the new safeguards.

### **Market Commentary**

The natural gas market basically worked higher throughout the day, as it appeared some traders were covering shorts ahead of this week's storage numbers. The market appeared to gain a technical boost at mid-morning as prices breached a month old resistance line at \$3.955. While the cash market was a bit firmer on the back of slightly lower nuclear generation levels, there did not appear to be sufficient fundamental news to justify futures settling more than 10 cents higher on the day and posting its widest trading range since August 4<sup>th</sup>. The news of an earthquake in Virginia appeared to provide a 5-cent boost to prices but these gains appear may be short lived given no reports of infrastructure to either regional pipelines nor nuclear power plants. But with the prospects of some minor damage to commercial and industrial sites demand may in fact be reduced over the next several days in the mid-Atlantic region.

It appears to us that the natural gas market may be stuck within a trading range of \$3.85-\$4.15 and will look for tropical weather or the lack of such storms to be the deciding factor in moving this market out of this trading range over the next four weeks. We see resistance tomorrow at \$4.048-\$4.05 followed by \$4.127-\$4.143, \$4.215-\$4.234 and \$4.302. Support we see at \$3.95, \$3.927 and \$3.843-\$3.837.

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