



# ENERGY RISK MANAGEMENT

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## NATURAL GAS & POWER MARKET REPORT FOR AUGUST 25, 2011

### NATURAL GAS MARKET NEWS

#### North America

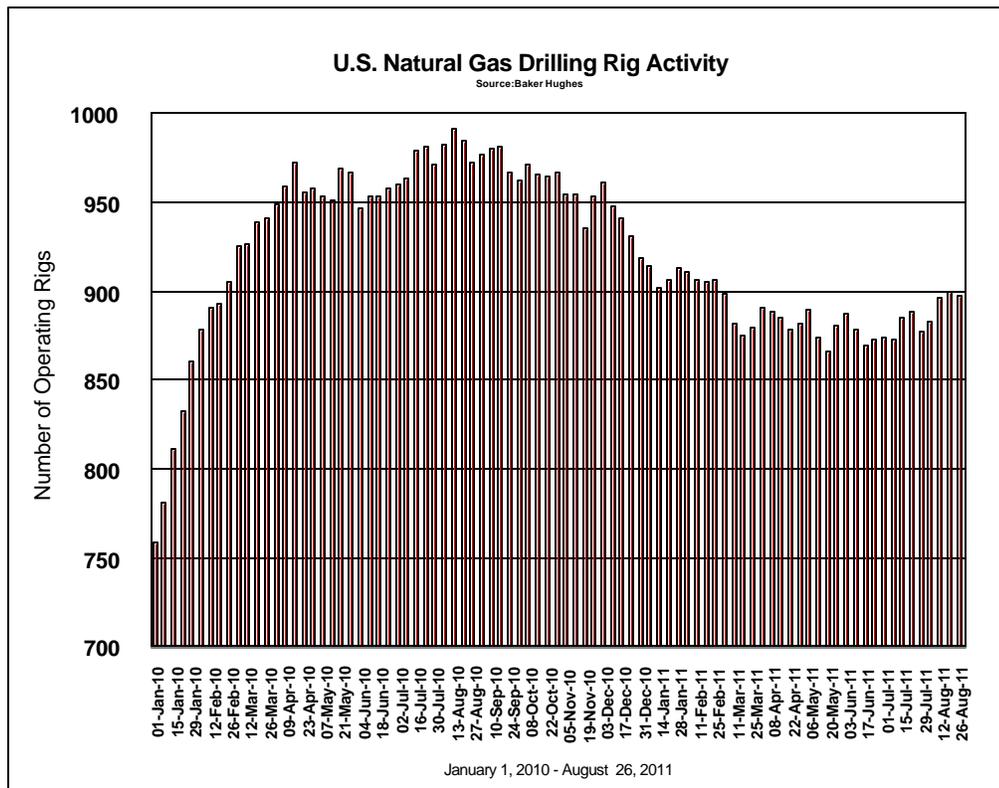
Hurricane Irene's winds have lessened to 110 mph but hurricane force winds extend 90 miles from the center of the storm and tropical storm force winds extend upwards of 290 miles from the center of the storm. The storm continues to move north at 14 mph as it approaches the coast of North Carolina tonight as a category 2 or 3 hurricane. It is expected to move northward and

#### Generation Outages

**ERCOT** Luminant's 617mw Unit 1 at Big Brown plans to shut the Texas coal-fired power plant on Friday to fix a boiler tube leak. The Unit is expected to come online August 28.

**PJM** Oyster Creek nuclear power plant, owned by Exelon Corp resumed full power early on Friday from 70% power on Thursday. The New Jersey plant had power reduced on Tuesday for scheduled maintenance on a feed water pump.

The NRC reported this morning that there was some 93,445 Mw of generating capacity online this morning, up 0.7% from yesterday but off some 2.5% from the same day a year ago



make landfall over the tri-state area on Sunday as a category 1 or 2 after passing along the New Jersey coast. Meanwhile the tropics could show some additional new activity next week. Satellite imagery shows that there will be three tropical disturbances that will most likely emerge off the West African coast next week and move into the Atlantic Basin. The latest GFS and European model guidance are showing that possibly two of these systems could show development as early as middle part of next week and could

become a threat to the Lesser Antilles by the end of next week. In addition the European model is hinting at some sort of tropical development in the northern Gulf of Mexico by next weekend and given the warm water temperatures in the region development could come quickly.

Baker Hughes reported today that for the current week the number of rigs drilling for natural gas in the United States decreased by 2 this week to 898. This marks the first drop in four weeks and is down 9.5% from its 2010 peak of 992 in August.

The Pennsylvania Department of Environmental Protection and Cabot Oil & Gas are trying to determine if Marcellus Shale drilling is responsible for causing possible methane gas migration that impacted private drinking water wells in Susquehanna County and to find the source of the gas seeping into a local pond.

### **International**

Asian gas pipelines are expected to almost double by 2015 from 30 bcm in 2012. Central Asia Gas Co plans to put two new pipelines into operation next year. In addition the company hopes to have 7000 km of pipelines throughout Asia in 2015 from the 2000 km that currently exist.

Qatargas will reduce output in October for scheduled maintenance. Three LNG trains will undergo production from mid-September until early November. Repairs will take at least two weeks at each train. As a result of this announcement gas prices for autumn and winter shot up on Friday.

The Norwegian government will think about extending its North Sea gas pipeline infrastructure further north to the Barents Sea if it discovers enough gas to pay for the project.

Poland's, PGNiG has cut its oil production target to 460,000 tonnes from 480,000 tonnes this year. Gas output levels remained constant at 4.3 bcm.

Petronas announced that its first quarter profits increased 57% from a year ago to 19.4 ringgit (\$6.5 billion). The company anticipates that its LNG regasification facilities in Melaka will be completed by July of next year. Lastly, Petronas

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	573,800	\$3.961	(\$0.045)	\$0.013	(\$0.024)	\$0.095
Chicago City Gate	464,900	\$3.981	(\$0.073)	\$0.033	(\$0.050)	\$0.121
NGPL- TX/OK	649,100	\$3.875	(\$0.055)	(\$0.073)	(\$0.032)	\$0.008
SoCal	887,100	\$4.096	(\$0.040)	\$0.148	(\$0.017)	\$0.207
PG&E Citygate	979,800	\$4.216	(\$0.015)	\$0.268	\$0.008	\$0.318
Dominion-South	1,181,000	\$3.980	(\$0.083)	\$0.032	(\$0.060)	\$0.109
USTRade Weighted	19,709,200	\$3.977	(\$0.047)	\$0.029	(\$0.02)	\$0.095

expects supplies to domestic customers to remain tight due to the closing of facilities for maintenance but if the government slowly removes subsidies it could help ease demand pressure.

BP will start natural gas production from the Serrette field of the coast of Trinidad and Tobago. The platform is expected to average 400 million standard cubic feet a day from five wells. The gas will be supplying the US, Europe and domestic markets.

The Royal Dutch company has resumed operation at the Utorogu Gas Plant in Nigeria following a shutdown on August 24<sup>th</sup> caused by a pipeline leak.

India's natural gas production fell 8.2% in July to 4.14 bcm from 4.51bcm from a year earlier.

Trafigura has signed a deal with the South Hook Gas Company that gives Trafigura the ability to purchase spare import capacity at Europe's biggest LNG terminal.

Due to warmer weather Tepco plans to reduce its cured and fuel oil purchases by over 50% to 1.57 million barrels in September. Tepco does not plan to change its LNG delivery schedule

LNG TANKER	CAPACITY (Cubic meters)	Expected Arrival	From	Destination
Al Mayeda	266,000	August 26, 2011	Qatar	South Hook, Britain
N/A	266,000	September 1, 2011	Qatar	Rotterdam, Netherlands
Al Oraiq	206,000	September 1, 2011	Qatar	Dragon, Britain
Simaisma	145,000	September 2, 2011	Qatar	Zeebrugge, Belgium
Zarga	266,000	September 2, 2011	Qatar	South Hook, Britain
Shnohvit LNG	N/A	September 10, 2011	Norway	Oita LNG terminal, Japan

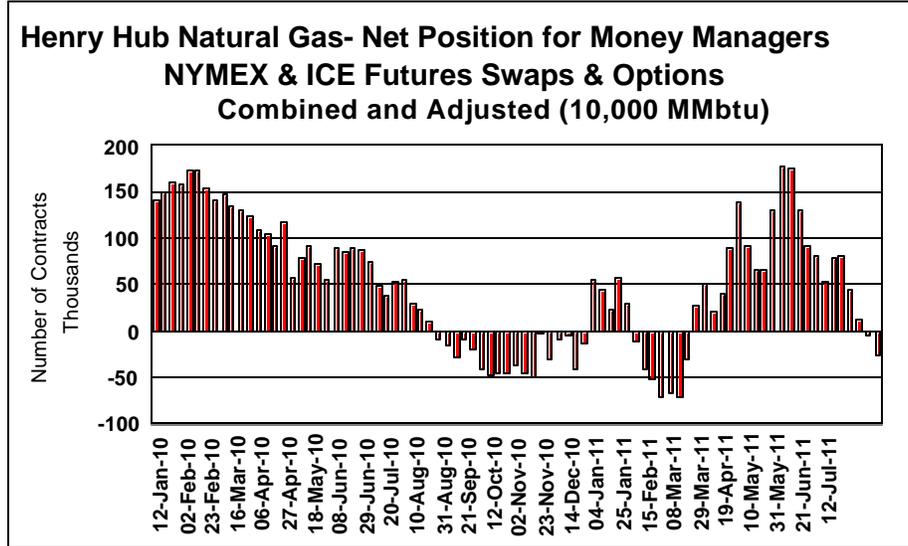
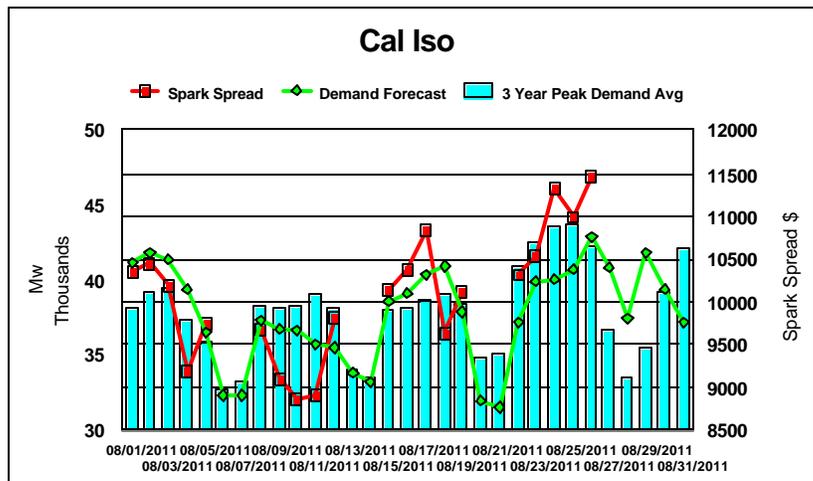
(A) Arrived (D) Delayed

### ELECTRIC MARKET NEWS

Genscape reported today that it estimated U.S. coal consumption was up 3% in the past week from the prior week as cooling demand pushed up power demand especially in the coal dependent Southeast and Midwest. Coal demand was some 4% higher than the same week a year ago. California carbon allowances (CCAs) for 2013 that will be delivered in December 2012 were valued at \$17/t this week, a \$0.50 increase over last week.

Tokyo Electric Power believes it can avoid rolling blackouts despite the closure of two nuclear power plants. The Japanese company hopes to secure supplies of 54,200-56,100mw through the end of September to meet peak demand.

The FirstEnergy Corp's Perry nuclear power plant in Ohio was found to have violated low to moderate safety standards by the NRC. The plant failed for inadequate preparations for retracting a radioactive source range monitor from the reactor core. This could have resulted in workers being exposed to radiation.



### ECONOMIC NEWS

U.S. consumer sentiment basis the Thomson Reuters/University of Michigan's final survey for August, while rebounding slightly from a preliminary mid August reading of 54.9 was still down for the month at 55.7. It was only slightly better than the lowest level since May 1980.

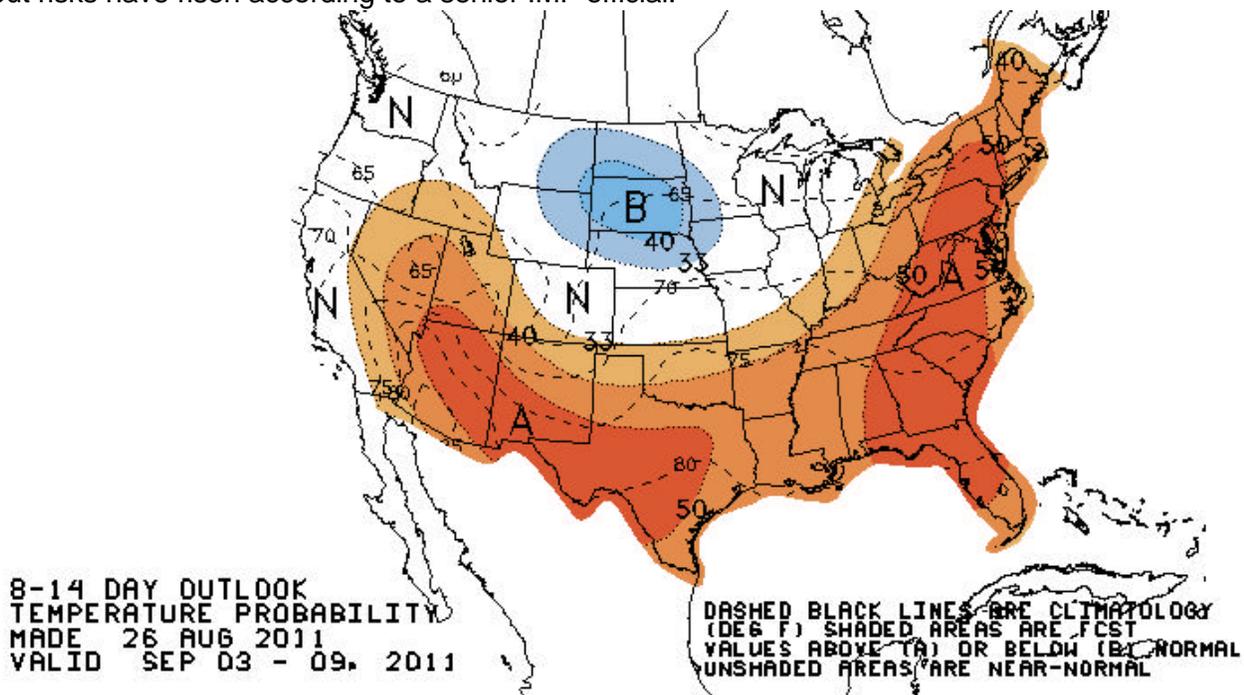
The U.S. Commerce Department reported this morning that the U.S. economy grew a meager 1%

rate in the second quarter of this year, slightly less than market expectations for a 1.1% expansion.

Federal Reserve Chairman Bernanke spoke today at the Fed's annual conference. He noted that the central bank has lowered its outlook for U.S. economic growth and it remains critical for the economy's health to reduce unemployment. But he stopped short of signaling further action to boost the U.S. recovery. He also noted that most of the burden for ensuring a solid foundation for long-term growth lay at the feet of the White House and Congress. He noted that the economy's recovery has been damaged by investor concerns over Europe's debt and political fights on the U.S. budget. Meanwhile the president of the Philadelphia Federal Reserve Bank, a noted inflation hawk, said further bond purchases by the Fed would do the economy little good.

The head of the OECD said Bernanke's speech was "very sobering". He called on global fiscal authorities to turn to structural changes to fix problems.

The IMF's economic forecast to be released next month reportedly will not foresee a global recession but risks have risen according to a senior IMF official.



The CFTC reported this afternoon that U.S Long Index investment in commodity markets rose \$7.1 billion to \$329 billion in July, while short index investment in commodities fell \$2.7 billion to \$91.5 billion

### **Market Commentary**

The natural gas futures market posted an inside trading session Friday as the expiration of natural gas options posed little or no impact on the direction of futures values. But futures values held steady for the second day in a row, as it appeared that much of the nation would see warmer than normal temperatures for much of the next couple of weeks as well as the tropics beginning to spring to life. Given that the daily stochastics appear to be trending higher, this market could begin to trend higher as we enter into the peak tropical period.

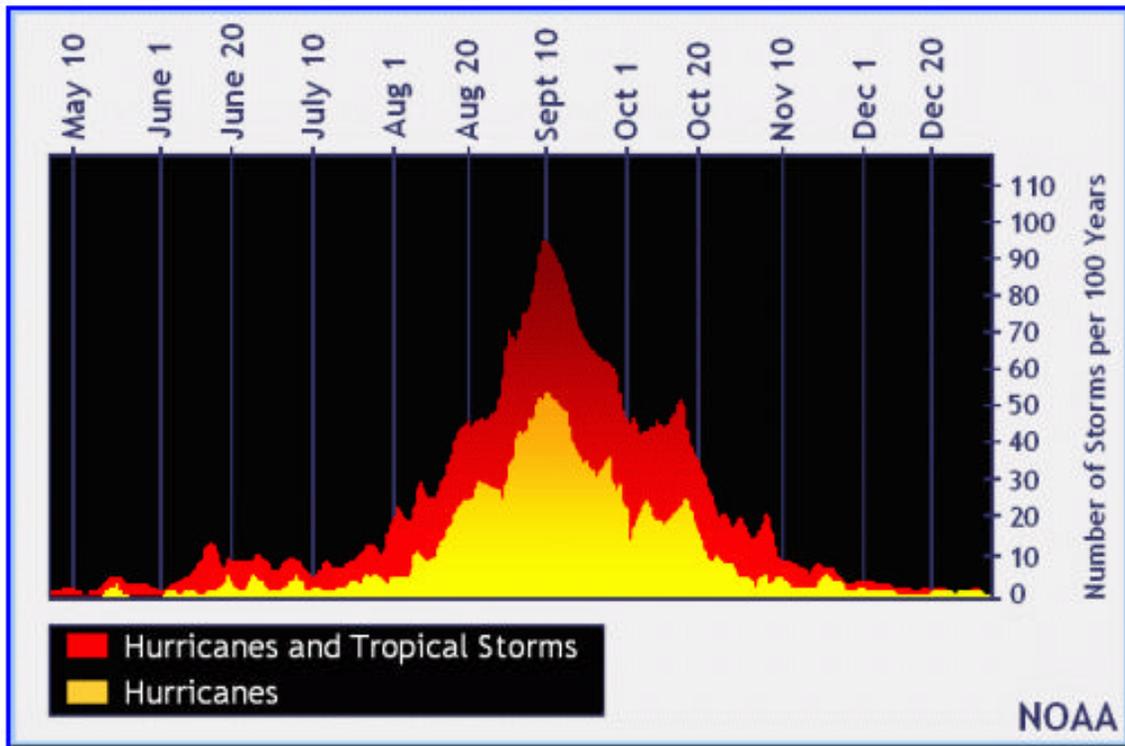
This afternoon's Commitment of Traders Report showed that the commodity funds built on their net short position in natural gas on a combined and adjusted basis for Henry Hub futures swaps and options on the NYMEX and ICE. For the week ending August 23<sup>rd</sup>, this group added more than 18,000 net futures positions over the period. This is now the largest net short position by this group since the week ending March 29<sup>th</sup>.

We do not expect expiration day Monday for the September contract to be a particularly volatile trading session given the absence of many traders potentially from the market in the Northeast region. We

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### Number of Tropical Cyclones per 100 Years

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would look for the September contract to most likely end the session around the \$4.00 price level. We would look for initial resistance Monday at \$4.00-\$4.016 with additional resistance at \$4.048, \$4.127-\$4.143 and \$4.215. Support we see at \$3.90 followed by \$3.881 and \$3.843-\$3.832. More distant support we see at \$3.795 and \$3.731.

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