



# ENERGY RISK MANAGEMENT

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## NATURAL GAS & POWER MARKET REPORT FOR SEPTEMBER 1, 2011

### NATURAL GAS MARKET NEWS

#### North America

There is a tropical wave over the southern and eastern Gulf of Mexico that has a 70% of developing into a tropical cyclone in the next 48 hours. The system is expected to move into more favorable conditions causing some to expect this to become the 13<sup>th</sup> named storm of the year by Saturday. It is very difficult to track the path of this system but it is expected to stroll through the northern Gulf of Mexico for several days before becoming a hurricane. This weather

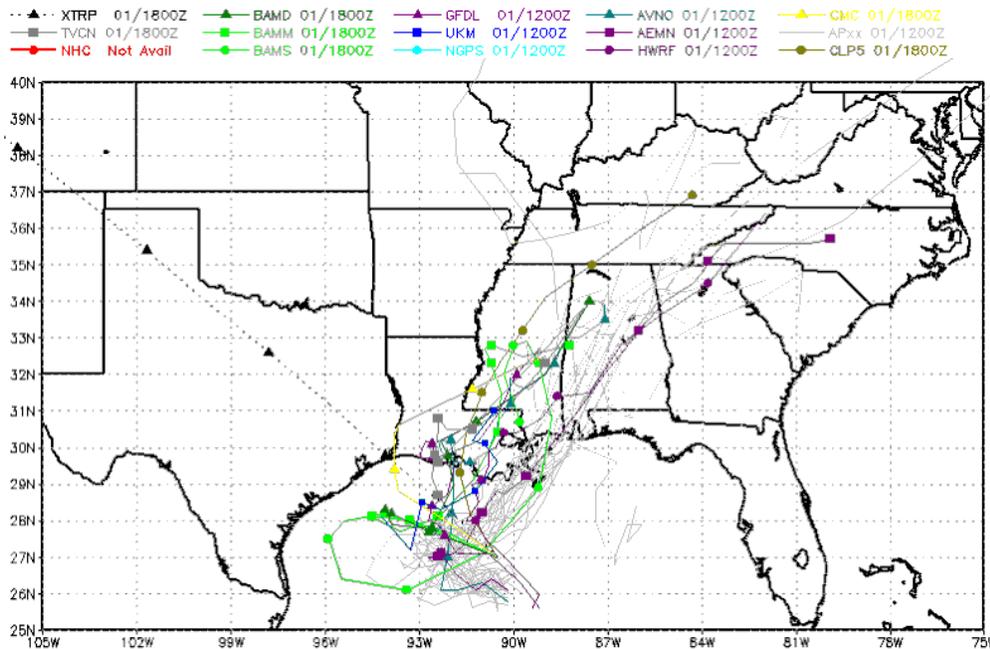
#### Generation Outages

**PJM**- Constellation Energy Nuclear group finished exiting an outage early on Thursday at its 878mw Unit 1 at the Calvert Cliffs nuclear power plant in Maryland.

The NRC reported this morning that some 92,519 Mw of nuclear generation was operating this morning, some 0.4% less than yesterday 4.1% less than the same day a year ago.

system has the potential to cause tidal flooding in Texas and the Floridian panhandle.

Katia was upgraded to a hurricane today as the winds intensified. It will take the storm 7-10 days before it can pose a threat to New England and Canada but many models show the storm turning north and staying at sea.



In response to the impending storm in the Gulf Coast of Mexico BP is shutting at production in all eight of its oil and natural gas platforms in the region. The workers at Mad Dog, Holstein, Atlantis, Nakika, Pompano, Horn Mountain, Marlin and Thunder Horse platforms are being evacuated but BP declined to say how this will affect production. BP has also issued a force majeure on the Destine Pipeline.

#### EIA Weekly Report

	08/26/2011	08/19/2011	Change	08/26/2010
Producing Region	957	960	-3	955
Consuming East	1578	1524	54	1669
Consuming West	426	422	4	474
Total US	2961	2906	55	3098

\*storage figures in Bcf

Enbridge's Garben Banks gas pipeline has removed personnel from its South Marsh Island 76 platform and warned that shippers may experience pressures outside of normal operating parameters. The company also pulled workers from its Ship Shoal 207 and Ship Shoal 332 platforms on the Manta Ray system. The Mississippi Canyon and Nautilus pipeline systems have yet to evacuate workers but are monitoring the storm system.

As companies shut platforms and evacuate workers in front of the incoming tropical disturbance in the Gulf of Mexico 127 Mmcf/d or 2.4% of natural gas production was shut on Thursday and 79.989 bpd about 5.7% of gas production was also shut.

**Canadian Gas Association**

**Weekly Storage Report**

	26-Aug-11	19-Aug-11	27-Aug-10
<b>East</b>	176.6	169	181.1
<b>West</b>	349.3	339.4(R)	354.2
<b>Total</b>	525.9	508.4(R)	535.3

storage figures are in Bcf

**International**

Poland's energy regulator, URE, hopes to partially free up the natural gas market by 2012. The current industry is monopolized by state controlled PGiNG. The government hopes to set up a wholesale market by forcing PGiNG to put some of its gas on the open market, which they hope will allow access

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	671,600	\$4.180	\$0.208	\$0.203	\$0.233	\$0.077
Chicago City Gate	637,800	\$4.269	\$0.184	\$0.292	\$0.231	\$0.109
NGPL- TX/OK	815,500	\$4.103	\$0.173	\$0.126	\$0.220	(\$0.024)
SoCal	604,600	\$4.384	\$0.196	\$0.407	\$0.243	\$0.244
PG&E Citygate	717,500	\$4.580	\$0.159	\$0.603	\$0.206	\$0.393
Dominion-South	774,200	\$4.243	\$0.217	\$0.266	\$0.264	\$0.080
USTrade Weighted	20,193,700	\$4.209	\$0.186	\$0.232	\$0.23	\$0.077

for new players into the market.

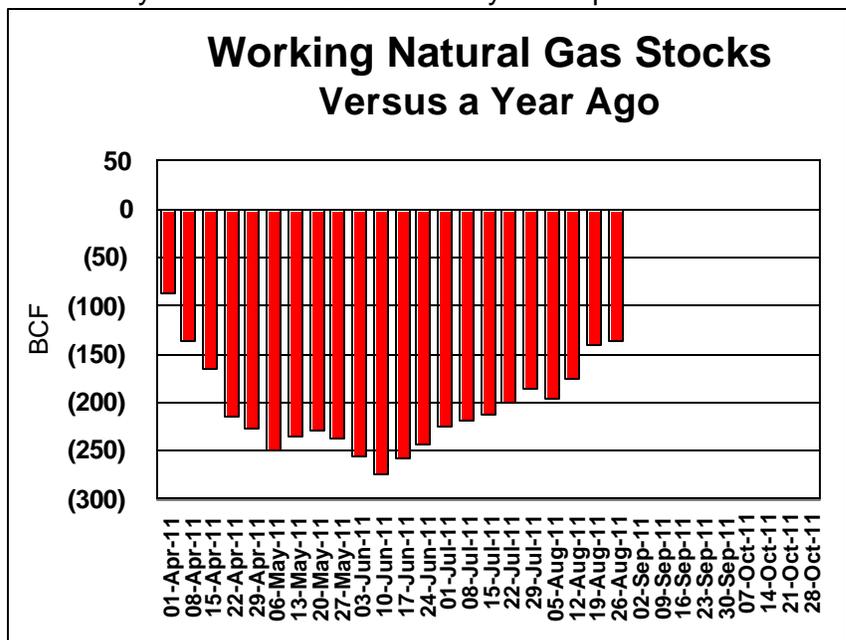
Ukraine will give Russia one last chance to rework their current gas agreement before going to court. The deal was signed under a now disposed Ukrainian leader who is facing

charges for abusing her power when she signed the gas deal.

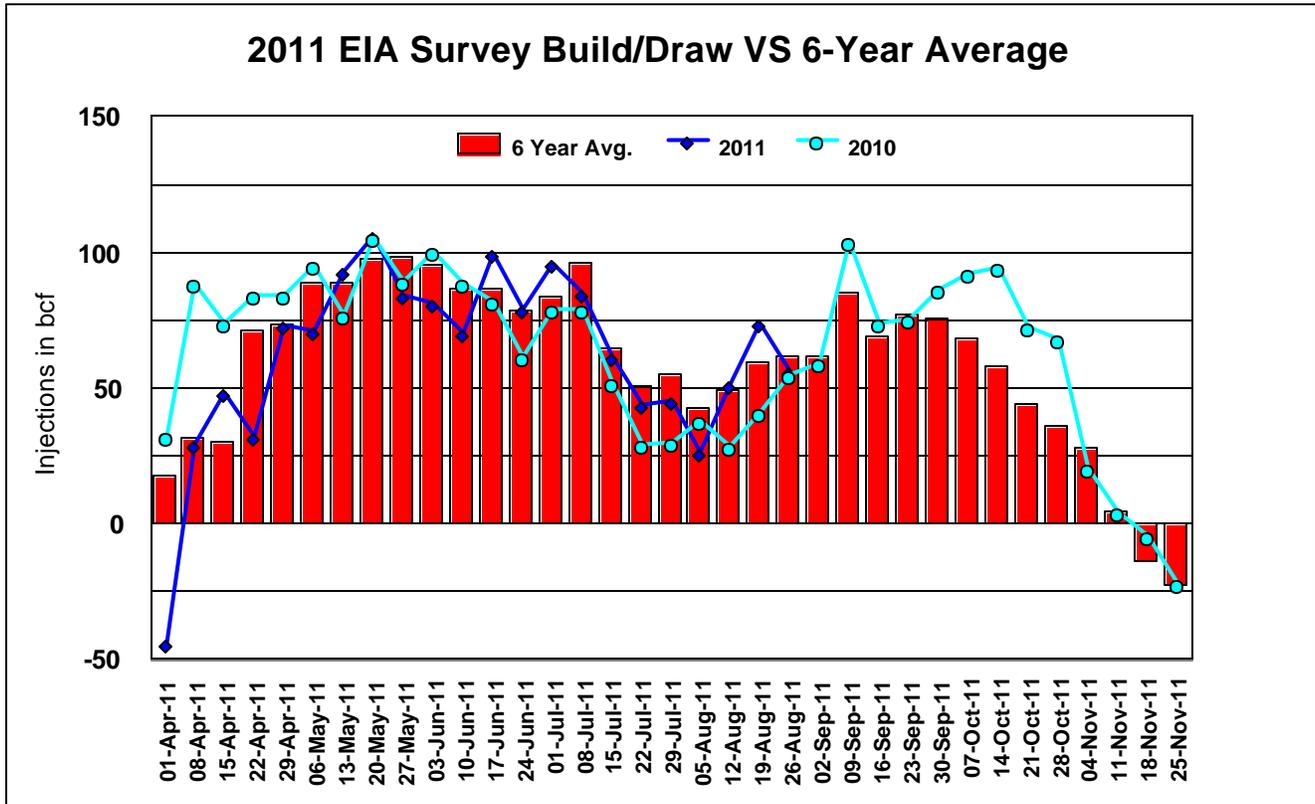
Ukraine announced that it has awarded its first shale gas exploration to Shell for \$800 million. Although there have been no official estimates it is widely believed that Ukraine may hold up to 1.5 trillion cubic meters of new energy sources.

Ukraine hopes to raise between \$5 and \$10 billion from an IPO of a state-run natural gas exploration company that is currently a part of Naftogaz. Ukraine plans to use the money to develop other aspects of the company, increase production and to upgrade their gas shipping industry.

Russia's Gazprom hopes to sign a new gas supply contract with Belarus in early December before the current deal expires. Russia hopes to acquire a 50% share in Belarus' gas pipeline network Beltransgaz as part of the new deal. Russia currently exports 20% of its gas to Europe through Belarus.



Tokyo Gas has come to a preliminary agreement with Saibu Gas Co. to supply the company with 300,000 cubic tones of LNG per year for 16 year starting in March 2014. Saibu Gas Co. plans to distribute gas to the southwest island of Kyushu.

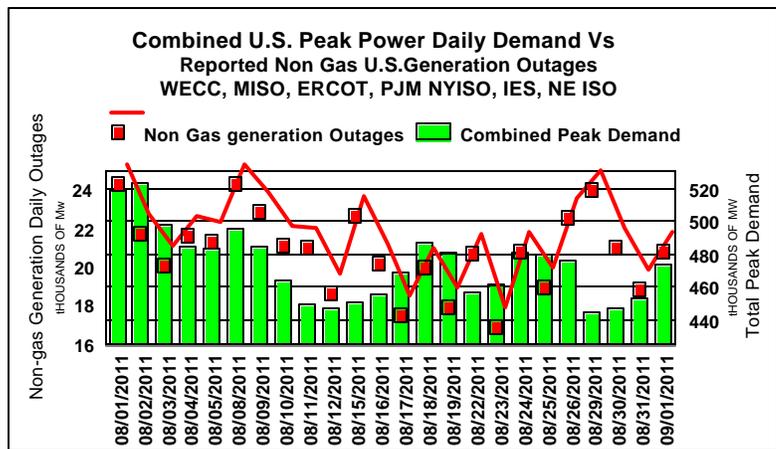


Shell announced that it hopes to invest \$200 million for shale gas exploration in the semi-arid Karoo region of South Africa. The plan faces tough opposition from farmers and environmentalists who fear the negative environmental effects of fracking. In addition, the government has placed a moratorium on oil and gas exploration in the region.

Petrobras of Brazil is expecting to sell its first natural gas from a key deep-water oil field next week as a pipeline from the Lula pre-salt oil field to the Mexilhao platform began to pressurize. The startup will allow Petrobras to increase production in the Lula field from the current 30,000 barrels of oil per day.

### **ELECTRIC MARKET NEWS**

The earthquake that occurred on the east coast last week moved casks holding radioactive nuclear waste at a Dominion owned Virginia plant as much as 4.5 in. Despite the movement there was no damage to the casks or the fuel. The NRC has begun conducting a special review of the plant because the earthquake exceeded the plant's design rating.



There are approximately 1.1 million homes and businesses on the east coast without power down from 1.7 million customers on Wednesday. Connecticut (16%) and Rhode Island (14%) have the largest percentages of population without power.

The Cross-State Air Pollution Rule will force coal-fired plants in Texas to reduce their hours of operation. The states power supply is expected to shrink by 1,200 to 6,000 megawatts depending on the season.

Cooling degree days (CDD) for the June through August period were the highest on record. July ranked as the hottest month ever recorded. Parts of Texas and Oklahoma averaged more than 8 degrees higher than their historical averages this year.

### **ECONOMIC NEWS**

The CME Group has announced that it will launch two new over the counter thermal coal swap future contracts. China coal swap futures and Coal Newcastle FOB will each have lot sizes of 1,000 tonnes, and be financially settled. Trading on the new contracts will start on September 12<sup>th</sup>.

The US Labor Department said initial unemployment benefit claims fell by 12,000 to a seasonally adjusted 409,000 in the week ending August 27<sup>th</sup>. Claims filed in the previous week were revised to 421,000 from an originally reported 417,000. The four week moving average of new claims increased by 1,750 to 410,250. The report showed the number of continuing unemployment benefit claims fell by 18,000 to 3,735,000 in the week ending August 20<sup>th</sup>. The unemployment rate for workers with unemployment insurance for the week ending August 20<sup>th</sup> was unchanged at 3%.

The Labor Department also reported that labor costs increased last spring even more than initially reported as worker productivity fell. Nonfarm business productivity fell at a 0.7% annual rate in the second quarter, revised down from a previously estimated decrease of 0.3%. The second quarter decline of 0.7% followed the first quarter unrevised drop of 0.6% amid the economy's sharp slowdown. The revision to the second quarter number was caused by the government's earlier downward adjustment to economic growth. Unit labor costs climbed at a 3.3% annual rate in the second quarter, revised up from an originally reported increase of 2.2%.

The Institute for Supply Management said its index of national factory activity fell to 50.6 in August from 50.9 in July. Its new orders index increased to 49.6 from 49.2 while the employment index fell to 51.8 from 53.5.

According to the Royal Bank of Canada, US consumers remain pessimistic about the economy. Its consumer outlook index increased up to 40.2 in September from 40.1 in August, which was the lowest reading since November 2009. The RBC current conditions index fell to 28.2 from 28.8. The expectations index increased to 50.6 from 49.4. It also reported that its inflation index fell to 71.9 this month from 75.1 in August.

US retailers reported mixed sales results for August. Based on reports from 23 retailers, sales at stores open at least a year increased 4.4% in August, down from the 4.6% increase analysts expected. Chains were evenly split between those that beat expectations and those that missed.

HSBC reported that China's August PMI stood at 49.9, up from a preliminary estimate of 49.8 and up from July's 49.3 level.

British manufacturing activity fell at its fastest pace in over two years in August. The Markit/CIPS manufacturing PMI headline activity index fell to 49 in August from an upwardly revised 49.4 in July. Manufacturing output contracted for the first time since May 2009.

## **Market Commentary**

While the natural gas market received a relatively supportive EIA Storage Report this morning and news that some production shut ins across the Gulf of Mexico were being initiated this afternoon, the market failed to maintain a bullish trend over the trading session and in fact settled slightly lower on the day. It appeared the relatively moderate weather forecasts coupled with the continued loss of power demand from some 1.1 million customers acted as a brake on further gains for the natural gas market, especially in the wake of yesterday's large upside move.

Technically this market rallied quickly after the release of the storage report and approached the 40 day moving average before selling off and some long profit taking took the market down to the lows of the day. The market nearly retraced 50% of the past three-day rally before finding support and clawing its way back to nearly unchanged for the day.

We would look to the tropical weather forecast tomorrow morning to provide the key for the direction of prices tomorrow. If it appears that Invest 93 will in fact develop into a tropical storm or hurricane and linger for a prolonged period of time in the Gulf of Mexico before it moves ashore then we would expect traders to look to go into the holiday weekend with limited shorts and or a bit long and thus this market should finish a bit stronger. We see resistance at \$4.13-\$4.159, \$4.19 and \$4.287. Support we see at \$3.996, \$3.955 and \$3.914. More distant support we see at \$3.78 and \$3.731.

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