



# ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,  
& Karen Palladino

(212) 624-1132 (888) 885-6100

[www.e-windham.com](http://www.e-windham.com)

## NATURAL GAS & POWER MARKET REPORT FOR SEPTEMBER 16, 2011

### NATURAL GAS MARKET NEWS

#### North America

A tropical disturbance was located west of the Cape Verde Islands but it was poorly organized as of Friday morning. There is only a small chance that this disturbance may develop over the weekend and into next week. Forecasters have backed down on their predictions of development in the western Caribbean next week and are now saying that there may be some tropical development in 6 to 10 days.

#### Generation Outages

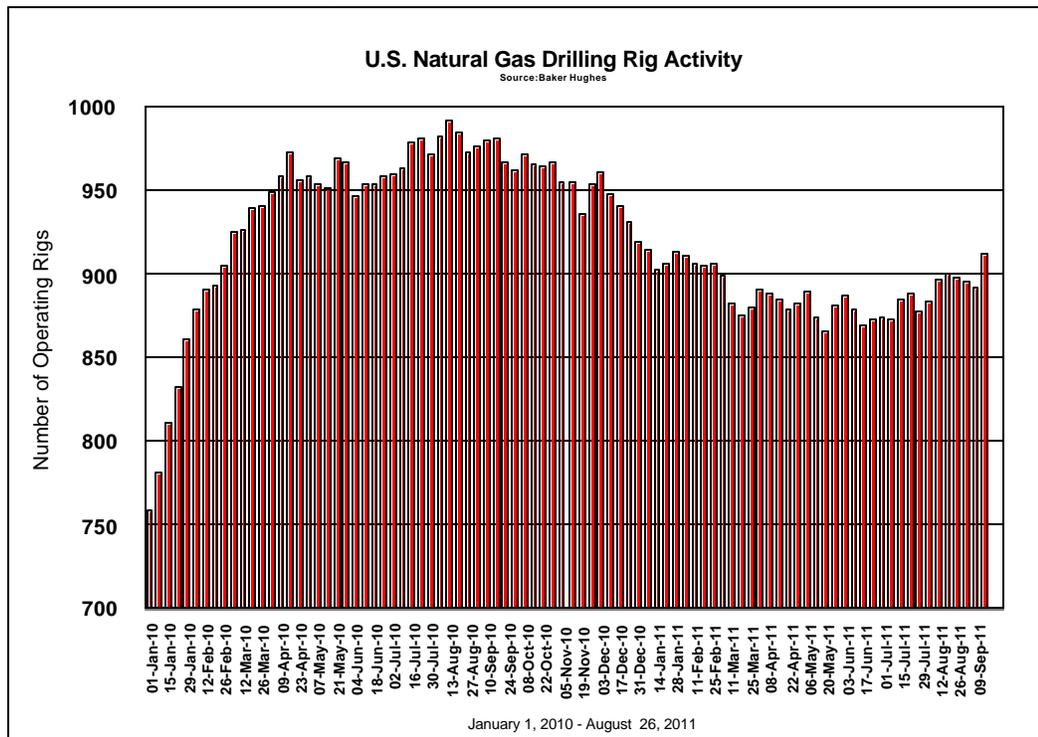
**RFC-** Duke Energy Corporation's J M Stuart powered down over Thursday night. Bruce Mansfield, owned by First Energy, ramped up power on Friday after powering down on Thursday. PSE&G's Keystone coal plant powered down on Thursday and was running near 1070mw of the 1884mw capacity.

**MRO-** Dominion's Kewaunee nuclear facility powered down overnight and was running near 78% capacity early on Friday.

The NRC reported this morning that some 91,252 Mw of nuclear generation was operating this morning, down 0.2% from yesterday and off some 3.4% the same day a year ago.

Cheniere Energy LNG plans to sell natural gas exports from the United States at a \$2 premium as Asian gas prices continue to rise.

Rigs drilling for natural gas in the United States increased by 20 this week to 912, an eight-month high, as reported by Baker Hughes this afternoon.



#### International

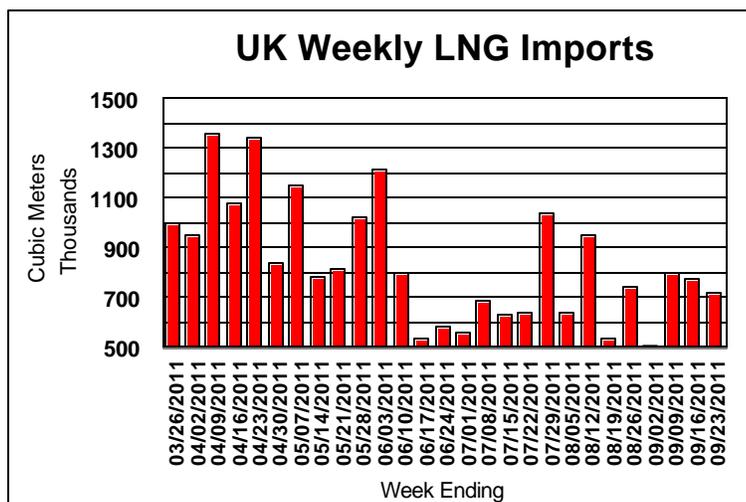
Gazprom (50%), Eni (20%), BASF (15%), and EDF (15%) have come to an agreement on ownership shares in the South Stream pipeline. The agreement strikes a blow to European countries that were supportive of the Nabucco project. South Stream will secure Russian control over gas supplies from Central Asia to Europe and provide new export

opportunities. In addition the planned path of the pipeline avoids transit countries like Ukraine, which is currently in a dispute with Russia over gas prices. The estimated cost of the project is \$10 billion.

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	1,143,800	\$3.842	(\$0.195)	\$0.020	(\$0.128)	\$0.066
Chicago City Gate	492,000	\$3.879	(\$0.233)	\$0.057	(\$0.148)	\$0.105
NGPL- TX/OK	847,100	\$3.756	(\$0.189)	(\$0.066)	(\$0.104)	(\$0.043)
SoCal	802,800	\$3.997	(\$0.252)	\$0.175	(\$0.167)	\$0.227
PG&E Citygate	974,400	\$4.192	(\$0.207)	\$0.370	(\$0.122)	\$0.369
Dominion-South	1,034,200	\$3.923	(\$0.237)	\$0.101	(\$0.152)	\$0.131
UTrade Weighted	20,976,300	\$3.852	(\$0.213)	\$0.030	(\$0.13)	\$0.066

The operators of Poland's first LNG terminal, Polskie LNG, plan to start a tender to book 35% of the terminal's capacity. PGNiG already booked 65% of the plants 5-bcm import capacity. The terminal is scheduled to come online in 2014 and will help reduce Poland's gas dependence on Russia.

In response to a planned outage at the Troll A platform for scheduled maintenance Norwegian gas plant Kollsnes will see its power level reduced from September 24-27.



In response to pressure from the IMF the Ukrainian President plans to raise domestic gas prices for households over time by removing subsidies that have helped to keep prices low.

The United Nations has released a statement calling for a peaceful resolution to the growing dispute around natural gas exploration off Cyprus with Turkey.

Azerbaijan is on the verge of signing a gas transit deal with Turkey to ship exports from its Shah Deniz field to Europe. Both parties have already agreed on the volume but are still negotiating the price of transit.

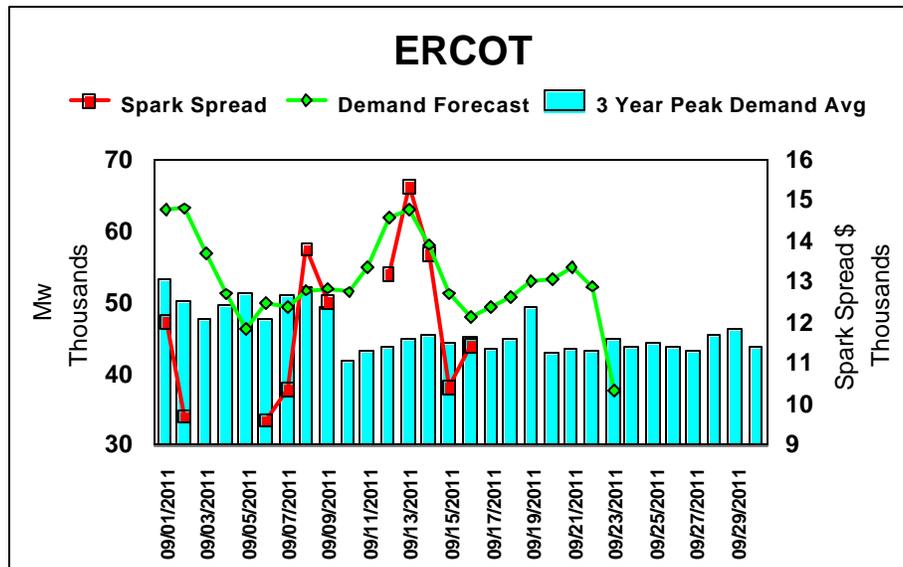
Azerbaijan expects the deal to be signed by the end of September or early October.

Israel has decided that Hadera is the best offshore site for a LNG buoy to close the gap between Yam Tethys and the Tamar gas field to the grid. In addition the Interior Ministry announced it had approved an underwater pipeline for gas transmission between Tamar and the Ashdod port that could come online in February 2013.

Asian demand is expected to pull up UK gas prices above its current level of \$11 MMBtu in order to compete with the increase in demand from South Korea and Japan.

Indonesia has already exceeded its natural gas production target for 2011 by nearly 9% due to higher output by major energy companies. The country's production reached 8,460 mmbcf in September ahead of the government's 7,769 mmbcf projection for the entire year.

Australia's Reserve Bank is forecasting Australian LNG sales to triple in five years. The bank based its estimate on the \$120 billion worth of current LNG projects that could come online in the next few years and the doubling of global trade within the last ten years.



Chevron Corp signed an agreement with Japan's Kyushu Electric Power Co. to supply 700,000 metric tons of LNG annually for up to 20 years with Chevron providing the volumes through Apache Corp and Kuwait Foreign Petroleum Exploration Co.

Japanese utilities are expecting power supply conditions to be tight this winter unless nuclear reactors come online.

UK's South Hook LNG terminal is expecting the Mekaines LNG tanker to arrive from Qatar on September 22<sup>nd</sup>.

**ELECTRIC MARKET NEWS**

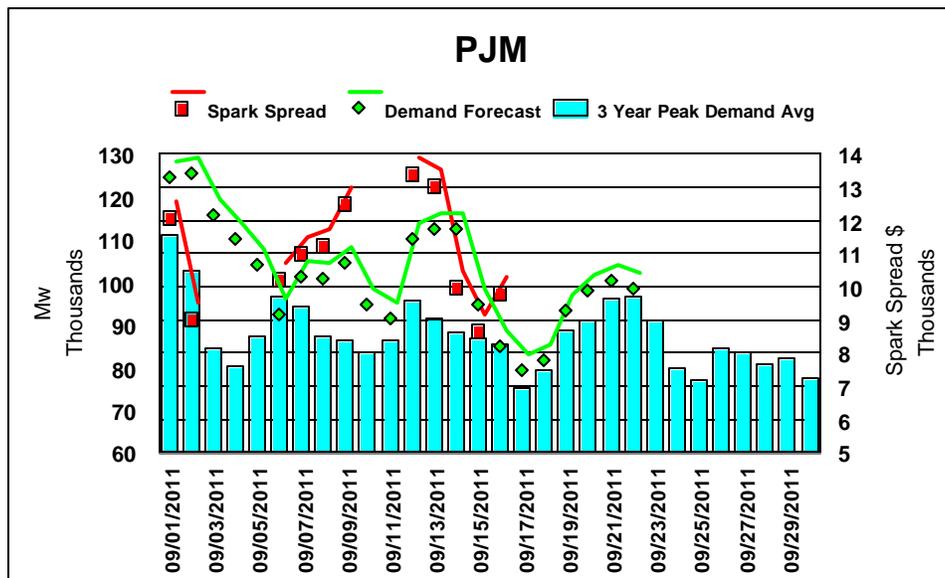
New federal environmental regulations will force Kentucky power companies Louisville Gas and Electric and Kentucky Utilities to retire three coal-fired plants. In order to make up for the lack of supply the companies are asking the Kentucky utility regulators for permission to build a 640mw natural gas-fired combined cycle power plant. The companies are also trying to buy three smaller natural gas-fired turbines.

For the second time in two weeks the EPA will delay plans to curb greenhouse gas emissions. The head of the agency said it needs more time to create a plan to limit carbon dioxide emissions from power plants.

US coal consumption increased by 4% from the previous week.

**ECONOMIC NEWS**

A Reuters poll today of 50 European economists found that Greece will likely default on its sovereign debt within a year after it exhausts the patience of its euro zone partners, but that there is only a 20% chance the country would leave the 17-nation euro zone.

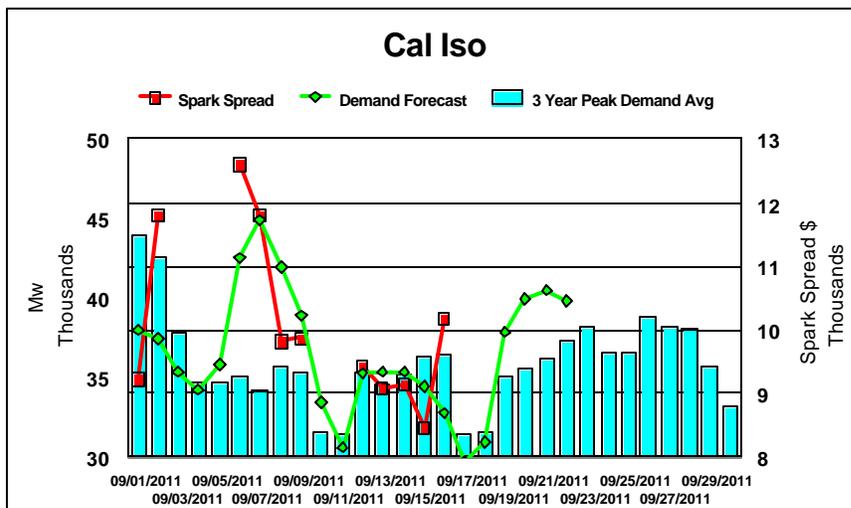


The EU reported today that the euro zone had higher than expected trade surplus in July showing a surplus of 4.3 billion euros in July versus a surplus of 4.7 billion euros in July 2010.

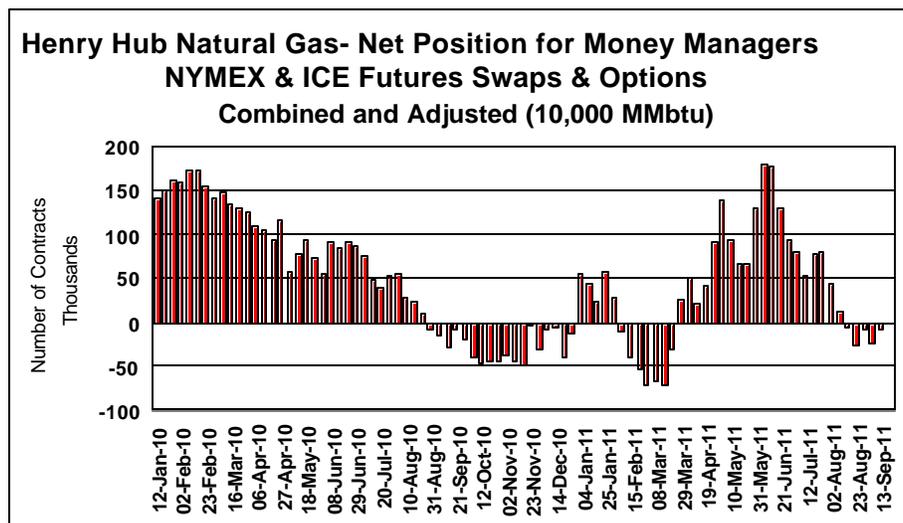
Thomson Reuters/University of Michigan's preliminary reading on the overall index on consumer sentiment for September edged up to 57.8 from the 55.7 reading in August, which had been the lowest since November 2008. Market expectations had been for the index to reach just 56.5.

### Market Commentary

The natural gas market remained on the defensive for the second day in a row as the bulls remained absent from the market given the lack of any tropical threats to the Gulf of Mexico on the horizon as well as seeing a bearish report from Baker Hughes today. In addition with temperatures expected to moderate in Texas resulting in lower power demand in ERCOT coupled with the rebound expected in temperatures in the Midwest and Northeast, any early heating demand appears will be short lived as well.



Technically this market, which started out the week in a bullish mindset, surely ended the week with a 180 degree turn in market perspective. The daily stochastics, which had been pointing toward an upwardly trending market, finished the week calling for the establishment of a bearish move. Prices finished the week settling at its lowest level in the spot contract since March 4<sup>th</sup> after challenging late in the afternoon major support at \$3.78.



Without a serious tropical threat in the cards to start next week, it would not surprise us to see this market test support early on. We see initial support at \$3.78 followed by \$3.731, \$3.696 and \$3.575. Resistance we see to start at \$3.895-\$3.909, \$3.945 and \$3.981. More significant resistance we see at \$4.061, \$4.099-\$4.107, \$4.159 and \$4.19.

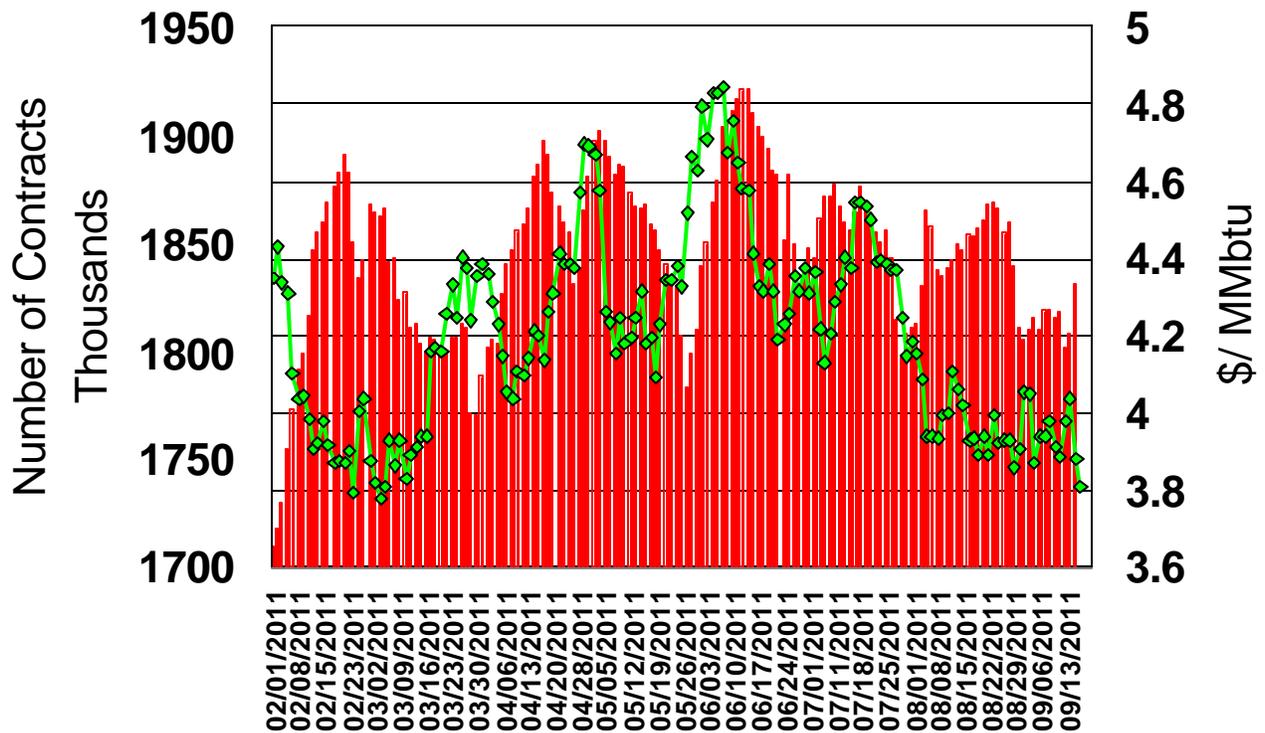
Meanwhile the UK spot natural gas market plunged lower today by 30% as supplies far outpaced demand. LNG imports remained strong and coupled with the return of Dutch supplies with the resumption of the BBL import pipeline following completions on maintenance work, natural gas supplies were more than ample in the UK.. With the export potential from the UK market to Belgium restricted due to pipeline maintenance work coupled with the start of a two week maintenance outage at Britain's largest storage site, Rough at a time when seasonal demand was less than normal spot prices had only one direction to go, lower.

This afternoon's Commitment of Traders Report showed that the commodity funds for the week ending September 13<sup>th</sup> had reduced their net short position by 13,335 contracts on a combined and adjusted basis. Their buying interest though appears to have disappeared in the last several couple of days and in fact yesterday saw open interest in the NYMEX Henry Hub futures and swaps jump by a combined and adjusted basis of over 22,000 lots yesterday in what has to be seen as new short coming into the market.

# NYMEX Henry Hub Natural Gas

## Adjusted Open Interest of Futures and Swaps Versus Spot Settlement Price 2011

■ Combined Open Interest     
 ◆ Settle Price



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