



# ENERGY RISK MANAGEMENT

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## NATURAL GAS & POWER MARKET REPORT FOR SEPTEMBER 21, 2011

### NATURAL GAS MARKET NEWS

#### North America

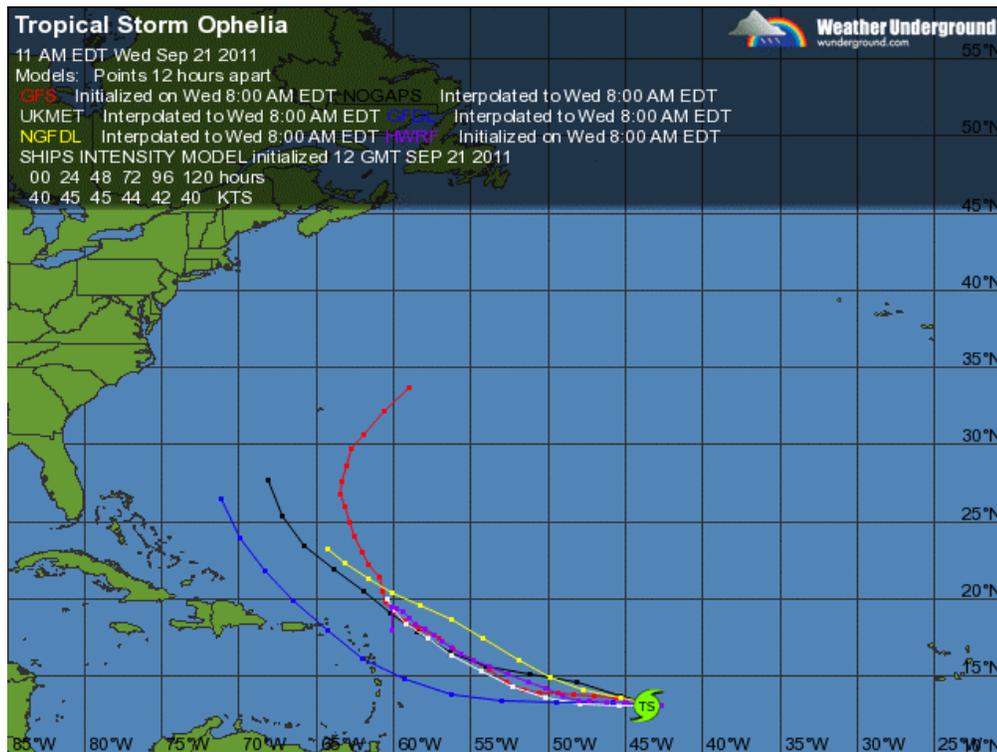
Invest 98L was upgraded to Tropical Storm Ophelia early on Wednesday. The storm is currently tracking westward at 10-15MPH. The storm is expected to strengthen in the next couple of days but is not expected to become a hurricane. It is projected to weaken over weekend as it passes over the Caribbean. The trajectory of the storm shows it will not make landfall in the United States.

#### Generation Outages

**SERC** - Southern Co's Unit 1 at the Hatch nuclear power plant in Georgia increased to 98% on Wednesday from 54% power on Tuesday. The Georgia plant reported Unit 2 operating at 91% early on Wednesday. Edwin I Hatch, another Southern Co owned plant increased power overnight to 91% capacity. Clinton, owned by Exelon, started to power down overnight and was operating at 91% early on Wednesday.

**MRO** - The Palisades nuclear power plant in Michigan exited an outage and increase power from 2% on Tuesday to 72% by early on Wednesday. The reactor was shut on Friday do to a primary system leakage.

The NRC reported this morning that some 88,308 Mw of nuclear generation was operating this morning, up 0.43% from yesterday and off some 3.94% from the same day a year ago.



Sand mining has emerged as another possible health risk associated with fracking. Sand mining requires the removing of the top layer of earth over sandstone deposits. Then large amounts of water and heavy equipment are used to produce fine grains. Some environmentalists in affected areas have started saying that the process is affecting air and water quality.

A natural gas well owned by a unit of Patterson-UTI Energy Inc. exploded and

caught fire 70 miles northwest of Oklahoma City has stopped burning. Officials have started the process of capping the well and trying to determine what happened.

EQT has received federal clearance to begin construction on a Marcellus shale pipeline in West Virginia and Pennsylvania. The Sunrise project will add approximately 45 miles to the existing mainline transmission system and is expected to be online before the summer of 2012.

Destine Pipeline operators released a statement on Wednesday saying that repairs on the Pascagoula natural gas processing plant were complete and it plans to lift the force majeure on Friday. The plant will begin processing gas on Friday after being shut since Tropical Storm Lee.

Cheniere Energy Inc's Sabine Pass LNG terminal in Louisiana is expecting the Seri Balqis LNG tanker to arrive October 9<sup>th</sup>. The LNG tanker has a maximum carrying load of 3.4 bcm of gas.

**International**

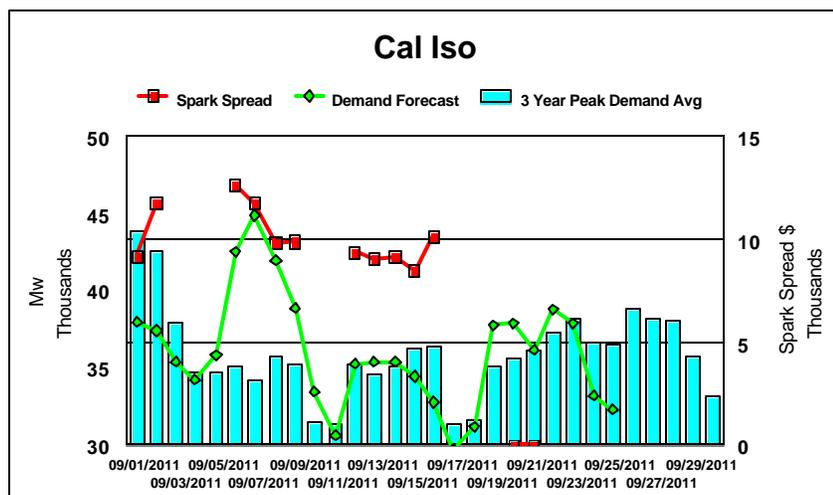
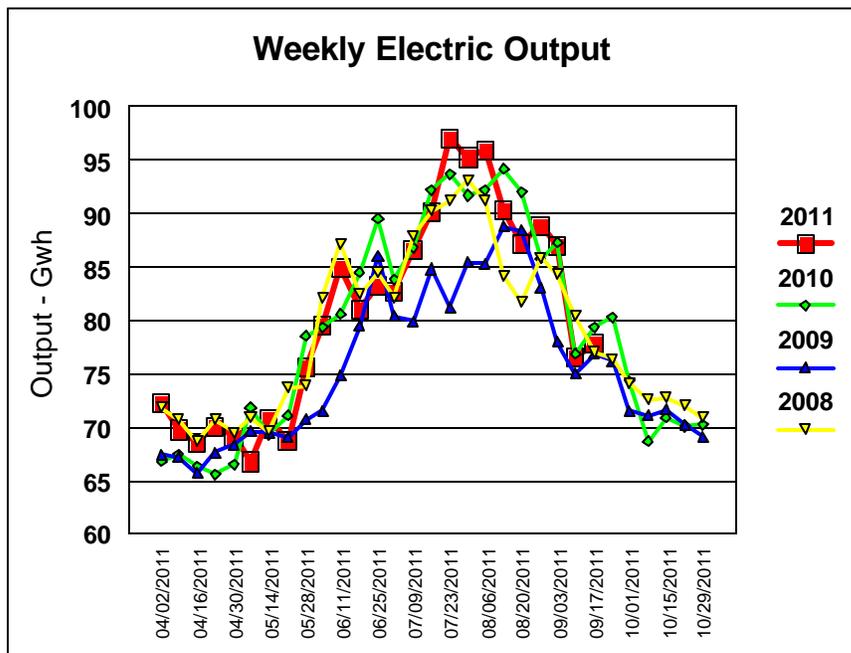
India's junior oil minister released a statement saying that India is looking for long-term LNG purchase deals with Australia, Malaysia, and Indonesia. The search for new deals comes as India hopes to double its regasification capacity by 2016 and secure an energy supply that is not exposed to global price fluctuations.

South Korea, the world's second largest LNG importer, may see demand increase by as much as 40% in the next decade due to rising industrial and consumer needs. The increase in demand may lead to South Korea importing as much as 44 million tonnes within 13 years.

Qatargas is hoping to extend the short-term boost it received after the Fukushima disaster into long-term contracts in Asia. The company wants to double its long-term LNG contracts from its current 11 million tonnes to more than 20 million tonnes.

The Iranian Gas Export Company (NIGEC) said that Iran's gas export pipeline would be able to provide Europe with 15 to 20 percent of its long-term gas needs. The pipeline, which is currently undergoing a construction study, will be able to provide 110 million cubic meters per day and travel through Iraq, Syria, Lebanon and the Mediterranean.

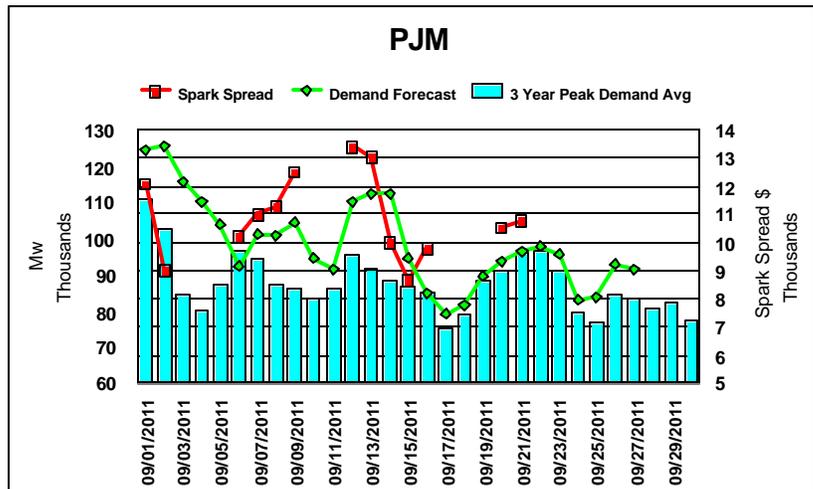
Azerbaijan will be able to supply Europe with 10 bcm/y of natural gas by 2016-2017 from the Shah Deniz field. Currently the country can only supply Europe with 2 bcm/y. In order to move the gas to Europe Azerbaijan is currently in negotiations with Turkey to transport the gas through the country. Both sides have said that they may reach an agreement by the end of September.



Yemen LNG exports have yet to be affected by violence throughout the country. The country has not changed its estimates of exporting 7.6 million tonnes of LNG this year and does not plan to change estimates in light of recent events.

The Gazprom led Nord Stream pipeline will start gas shipments to Europe in October. The pipeline was designed to circumvent transit countries like Ukraine and goes from Russia through the Baltic Sea to Germany. The pipeline is expected to have a capacity of 75 Mmcf/d.

Gas producer BG is experiencing problems with its CATS gas pipeline which is affecting the restart of its Everest and Lomond gas platforms in the North Sea. This may affect BP's plan to re-open its UK Teesside gas terminal that receives gas from the CATS pipeline. A BP spokesman said that plant is scheduled to reopen "the weekend following maintenance" but could be put off for longer if CATS cannot come back online.



Apache Corp plans to acquire North Sea Beryl field and other assets from ExxonMobil Corp for \$1.75 billion to expand its presence in the region. The purchase will boost Apache's North Sea production 54% and proved reserves by 44%. The deal is expected close by the end of the year and Apache is expected to pay for the purchase with cash.

Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume	Avg	Change	Basis	Change	Basis 5-Day
	Traded	Price		(As of 12:30 PM)		Moving Avg
Henry Hub	980,400	\$3.783	(\$0.053)	\$0.033	\$0.011	\$0.067
Chicago City Gate	377,700	\$3.879	(\$0.034)	\$0.129	\$0.033	\$0.105
NGPL- TX/OK	895,900	\$3.713	(\$0.065)	(\$0.037)	\$0.002	(\$0.044)
SoCal	856,200	\$4.017	(\$0.071)	\$0.267	(\$0.004)	\$0.248
PG&E Citygate	668,700	\$4.186	(\$0.031)	\$0.436	\$0.036	\$0.410
Dominion-South	814,200	\$3.888	(\$0.091)	\$0.138	(\$0.024)	\$0.150
USTRade Weighted	20,405,100	\$3.828	(\$0.056)	\$0.078	\$0.01	\$0.067

The UK's Cuadrilla Resources gas company may be able to sell shale gas from its Lancashire project by mid-2013. The company has claimed the amount of shale gas in place at 200 trillion cubic feet.

The Seabrook LNG terminal in Belgium is expecting the Maerk Marib LNG tanker to arrive on September 27<sup>th</sup> from Balhaf, Yemen and the Simaisma LNG tanker to arrive on October 6<sup>th</sup> from Qatar.

**ELECTRIC MARKET NEWS**

US weekly power for the week ending on September 17<sup>th</sup> fell 1.7% when compared to the same week last year. Weekly power output fell in 6 of the 9 regions in the United States and overall power production is down .1% this year.

The Saudi Electric Company signed a deal to build a 4000MW gas fired plant to keep up with Saudi Arabia's growing demand for power. The \$2.85 billion plant will burn 600 mcf/d.

**ECONOMIC NEWS**

The Mortgage Bankers Association said applications for US home mortgages increased slightly last week as an increase in refinancing activity was offset by a lack of demand for purchases. It said its seasonally adjusted index of mortgage application activity, which includes both refinancing and home purchase demand, increase 0.6% in the week ending September 16<sup>th</sup>. The MBA's seasonally adjusted index of refinancing applications increased 2.2% while the index of loan requests for home purchases fell 4.7%.

The National Association of Realtors said existing home sales increased more than expected in August to the fastest annual pace since March as falling prices and low interest rates drew more buyers into the market. Sales increased 7.7% on the month to an annual rate of 5.03 million units.

The Federal Open Market Committee said economic growth remains slow. Recent indicators point to continuing weakness in overall labor market conditions and the unemployment rate remains elevated. It said household spending has increased at a modest pace in recent months despite some recovery in sales of motor vehicles as supply chain disruptions eased. Investment in nonresidential structures is still weak and the housing sector remains depressed. Inflation appears to have moderated since earlier in the year as prices of energy and some commodities have declined from their peaks. Longer term inflation expectations have remained stable. The committee said it seeks to foster maximum employment and price stability. It continues to expect some increase in the pace of recovery over coming quarters but anticipates that the unemployment rate will decline only gradually toward levels that the Committee judges to be consistent with its dual mandate.

### **Market Commentary**

The natural gas market continued to trade lower today and sold off to a low not seen since mid-November amid the lack of any supportive fundamentals. The market traded mostly sideways in overnight trading before it breached its previous low in early morning trading and never looked back. It sold off throughout the session to a low of \$3.727 ahead of the close. The natural gas market settled down 6.8 cents at \$3.73. It remained pressured in late afternoon trading and posted a low of \$3.718 as moderating temperatures limited any demand for heating or cooling.

Market expectations for the EIA's natural gas report are centered around a 91 bcf build, with a range from 78 bcf to 97 bcf. Natural gas inventories increased an adjusted 78 bcf in the same week last year while the five year average build for the week is 72 bcf.

The natural gas market will trade sideways ahead of the release of the EIA report. However it is seen remaining pressured with a large build expected in inventories. The market is seen finding support at its low of \$3.717, \$3.705, \$3.68 and \$3.633. Resistance is seen at \$3.755, \$3.777, \$3.799, \$3.824, \$3.849 and \$3.859.