



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR SEPTEMBER 28, 2011

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#### NATURAL GAS MARKET NEWS

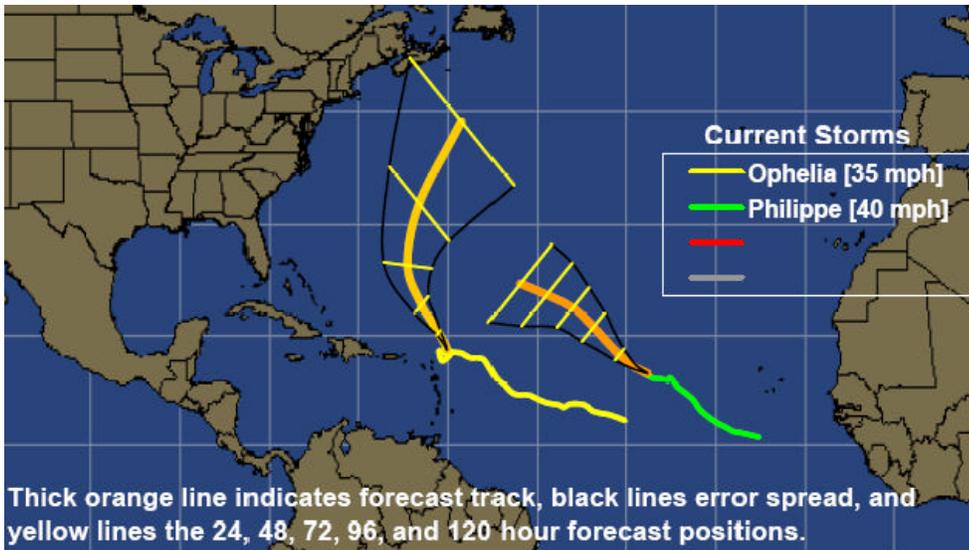
##### North America

Tropical Depression Ophelia has become better-organized Wednesday morning due to deeper convection. The system is moving at a rate of 3mph north-northwest and is expected to pass east of Bermuda. The current trajectory of Ophelia shows that it will meet favorable conditions and is expected to strengthen into a tropical storm on Thursday and may reach the strength of a category 1 hurricane Friday night or Saturday morning. Tropical Storm Philippe is currently producing winds of 40mph with little change expected over the next several days. The storm is expected to move west into cooler water but should not pose a threat to the United States. Elsewhere in the Atlantic there are no systems being monitored.

#### Generation Outages

WECC- Energy Northwest's 1121MW Columbia nuclear power plant in Washington started to exit an outage and reconnected to the Northwest power grid. The plant had been shut since early April for a condenser replacement and its biennial refueling. Columbia was only supposed to be offline for 80 days but the outage was extended to 175 days due to contractor delays. The company invested \$170 million in the facility in order to keep it operating until 2043. The plant was operating at 20% power early on Wednesday.

The NRC reported this morning that some 87,126 Mw of nuclear generation was operating this morning, up 0.2% from yesterday off some 4.6% from the same day a year ago.



BENTEK is reporting that takeaway capacity from the Marcellus Shale will increase by about 1bcf/d in November. The expansion of the Tennessee Gas Pipeline's 300 Line is expected to come online in late October and provide an additional 0.5bcf/d of takeaway capacity. In addition, Empire's Tioga Project and National Fuel's Line N Phase 1 will combine

to add another 0.5bcf/d of Marcellus takeaway capacity in late October. Due to the pipeline expansions BENTEK is projecting that US dry gas to increase by 0.7bcf/d by the end of November.

Canadian maker of natural gas powered engines, Westport Innovations Inc, entered a supply agreement on Wednesday with Ford motor company to supply the company with its new bi-fuel natural gas power system (WiNG). Ford is planning to have the WiNG system available on its F-250 and F-350 by the second quarter of 2012.

## International

BP announced that it expects gas output from Reliance Industries D6 blocks off India's east coast to rise from 2014. BP bought a 30% stake in 21 gas and oil blocks earlier this year from Reliance for \$7.2 billion.

India's biggest natural gas distributor, GAIL India Ltd, is in talks to buy stakes in as many as three US LNG terminals. The company is also in talks to acquire shares in gas projects in Brunei because the company believes it will be easier to get long-term LNG supply contracts if it owns a stake in the terminals. It is projected that GAIL is willing to spend as much as \$2 billion on acquisitions including

Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis	Change	Basis 5-Day
				(As of 12:30 PM)		Moving Avg
Henry Hub	527,900	\$3.879	(\$0.037)	\$0.118	(\$0.029)	\$0.080
Chicago City Gate	503,600	\$3.913	(\$0.068)	\$0.152	(\$0.031)	\$0.125
NGPL- TX/OK	631,900	\$3.780	(\$0.053)	\$0.019	(\$0.016)	(\$0.017)
SoCal	969,800	\$4.019	(\$0.063)	\$0.258	(\$0.026)	\$0.239
PG&E Citygate	856,000	\$4.170	(\$0.064)	\$0.409	(\$0.027)	\$0.403
Dominion-South	534,200	\$3.950	(\$0.082)	\$0.189	(\$0.045)	\$0.143
USTrade Weighted	19,312,700	\$3.882	(\$0.066)	\$0.121	(\$0.03)	\$0.080

shale gas assets in Australia and the US. The decision can be attributed to falling gas output for nine straight months in India.

Iran could export its first LNG cargo in the first quarter of 2013.

Despite sanctions that prevent western liquefaction technology from being supplied to Iran the plant is currently approximately 53-54 percent completed.

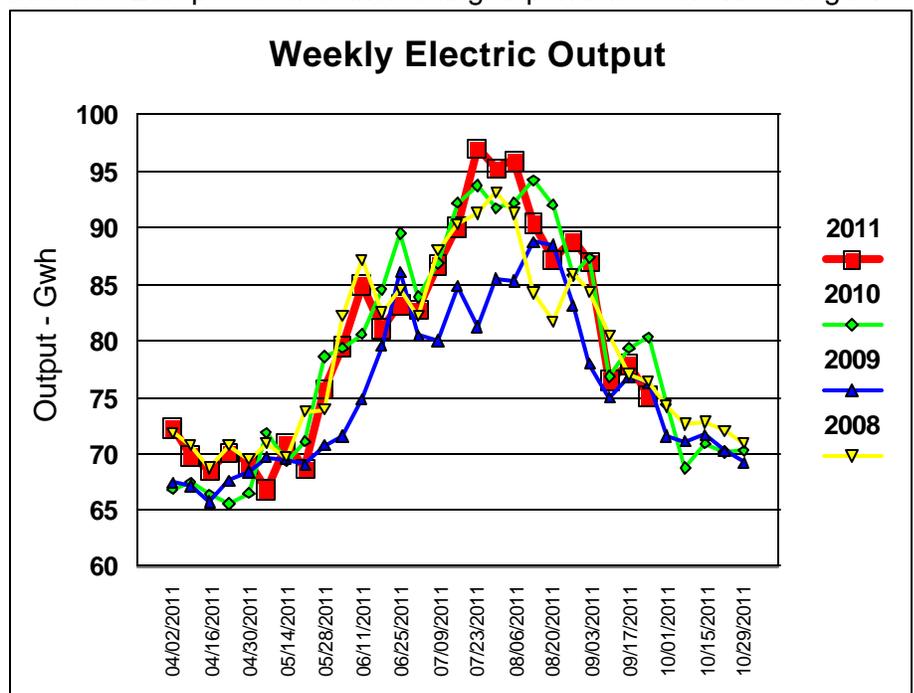
The Iraqi cabinet announced that its deal with KOGAS to develop the Akkas gas field will be signed on October 13<sup>th</sup>.

Gazprom has agreed to cooperate with the EU competition investigation of its units. Both sides have acknowledged that the source of tension is Europe's fear of increasing dependence on Russian gas.

The European Commission raided firms in central and eastern European states that are involved in supply, storage, and transmission of natural gas over suspicions of anti-competitive practices.

Russia's only LNG plant will continue to ship additional volumes to Japan next year. The Sakhalin LNG plant that is controlled by Gazprom has been operating beyond its full capacity of 9.6 million tons per year. Since March Japan has received 325,000 tons of additional LNG shipments from Russia.

Venezuela has halted LNG exporting projects do to a fall in the commodity's price. The country still plans to increase production in order to reduce its 500Mmcf deficit. The country plans to invest \$55 billion into gas projects through 2017 in hopes of cutting imports and begin exporting by 2014.



## **ELECTRIC MARKET NEWS**

US power output for the week ending on September 24 fell 6.5% from the same week last year. The Southeast region had the largest year on year decline of 11.7% and the Pacific Southwest had the largest year on year increase of 6.3%. For the first 39 weeks of 2011 power production is down .2% compared to last year but for the 52 weeks ended Sept 24 production was up by .1% when compared to the same period in 2010.

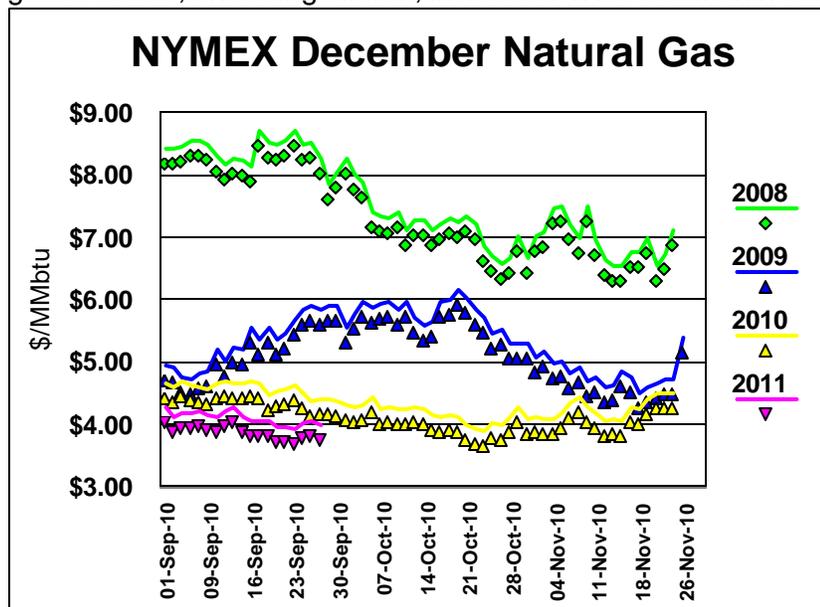
The US Energy Department said it had finalized a \$337 million loan guarantee to Sempra Energy for a 150mw photovoltaic solar power project in Maricopa County, Arizona. In addition, the San Diego based company has taken steps toward exporting natural gas from the United States. The company owns LNG import terminals and Louisiana and Baja California.

The EPA has opened itself up to criticism from Republicans by taking a shortcut in laying the groundwork to regulate greenhouse gas emissions. The EPA relied on science conducted by the National Academy of Sciences, the National Research Council and other sources instead of conducting their own research. Republican Senator Jim Inhofe of the Senate's environment panel said "the very foundation of President Obama's job-destroying regulatory agenda, was rushed, biased, and flawed."

Projected water runoff at the Dalles Dam increased to 135 percent of normal for the April through September time period. Runoff projections for the dam on the Columbia River in Oregon were 134 percent of normal in the previous estimate.

## **ECONOMIC NEWS**

The US Commerce Department said orders for durable goods unexpectedly fell during August, the second decline in three months. Durable goods orders in August fell by 0.1% on the month to \$201.76 billion. The decline followed a 4.1% increase in July and a 1.1% decline in June. Non-defense capital goods orders, excluding aircraft, increased 1.1% last month following a revised 0.2% fall in July.



### **Market Commentary**

The natural gas market saw a rather orderly expiration for the October contract today, but prices erased most of the gains recorded over the prior two trading sessions as the global economic mood again turned sour and oil, currencies and equities all moved back to being on the defensive today. Traders also appeared a bit apprehensive in front of tomorrow's storage report, which could show only the second triple digit weekly gain in storage levels this injection season and the first one since the week ending May 20<sup>th</sup>. Most market expectations appear to be falling between a 100-105 bcf

build. For the same week a year ago stocks rose by an adjusted 73 bcf and the five-year season average is for an increase of 71 bcf. If this 100 bcf+ build in stocks is realized it would result in the year on year deficit falling to its lowest level since the start of the injection season.

We continue to look for the natural gas market to trend lower and retest recent lows but do not look for a total collapse in price though as traders historically are reluctant to dramatically sell the natural gas market on the eve or at start of the new winter heating season, especially like last year when there had not been a hurricane inspired rally in September or October. But given the sizable working gas stock levels, and the prospects of even more supply coming on line at the end of October from the Marcellus Shale region we do not feel that this market will be able to initially take off even with some early heating demand. As a result we would feel comfortable in selling the December \$3.60 put and \$4.50 call and collecting 10-11 cents.

Flat price we look for the November contract to have support tomorrow at \$3.75-\$3.742 followed by \$3.662, \$3.50 and \$3.39. Resistance we see at \$3.881, \$3.926, \$3.959, \$4.01-\$4.03 and \$4.153.

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