



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR SEPTEMBER 30, 2011

#### NATURAL GAS MARKET NEWS

##### North America

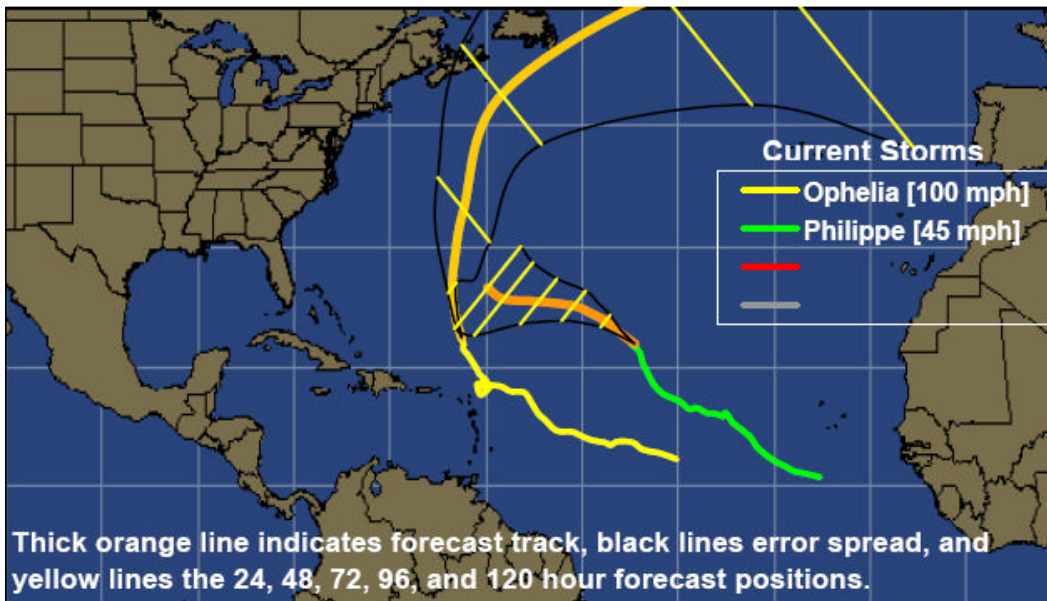
Hurricane Ophelia strengthened to a Category 3 on Friday with wind speeds of 100mph and gusts reaching 120mph. The storm was located about 500 nautical miles south of Bermuda early on Friday. The estimated trajectory still shows the center of the storm going east of Bermuda but Bermuda is expected to experience inclement weather over the weekend. Tropical Storm Philippe was located about 1000 nautical miles north-northeast of the Leeward Islands moving northwest at 11mph. The storm was generating winds of 45 mph with gusts up to 50mph. Neither storm is expected to pose a threat to the mainland of the United States over the weekend.

##### Generation Outages

**SERC** - Progress Energy Inc's Unit 2 at the Robinson nuclear power plant started to exit an outage early on Friday. The South Carolina plant was operating at 18% at 8:30AM. The plant shut on Monday after suffering an automatic reactor trip. Tennessee Valley Authority's Unit 3 at Browns Ferry nuclear power plant in Alabama started to exit an outage and increased power to 12% early on Friday. The reactor was shut on Wednesday from a turbine trip.

**WECC** - Arizona Public Service's Unit 1 reactor at the Palo Verde nuclear power plant was lower to 39% early on Friday from 85% Thursday.

The NRC reported this morning that some 85,636 Mw of nuclear generation was operating this morning, down 0.2% from yesterday off some 5.9% from the same day a year ago.



The Baker Hughes report for US Horizontal Drilling Rigs fell by 5 to 1,135 after tying the record high last week. The total number of rigs drilling for natural gas increased by 11 to a nine month high of 923. It is the third time in the last two weeks that the overall number increased and it is currently at its highest level since December 22,

2010..

##### International

ExxonMobil has signed a preliminary agreement with Ukraine's Naftogaz to explore and develop shale gas deposits in the Ukraine. It is estimated that Ukraine holds the world's fourth largest shale gas

reserves at 42 tcf. Ukraine is trying to increase domestic gas output in an attempt to reduce dependence on Russia.

Chevron has committed \$29 billion into its LNG project in Western Australia's Pilbara region.

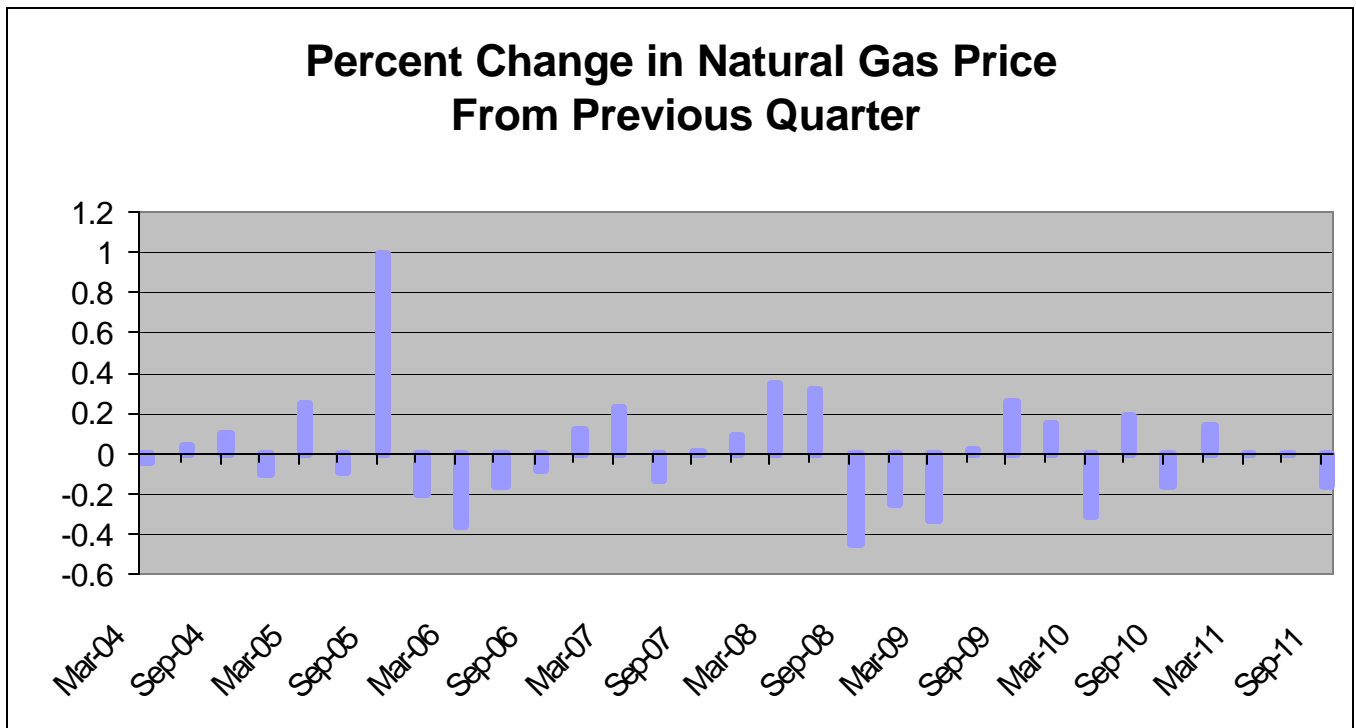
Italy will increase gas prices for small companies and households in the fourth quarter by 5.5% but will leave electric power prices unchanged. Gas prices will rise due to high oil prices and a recent increase in Italian value added tax to 21%.

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	991,300	\$3.681	(\$0.086)	(\$0.027)	(\$0.040)	\$0.056
Chicago City Gate	647,100	\$3.729	(\$0.113)	\$0.021	(\$0.019)	\$0.102
NGPL- TX/OK	906,700	\$3.596	(\$0.090)	(\$0.112)	\$0.004	(\$0.043)
SoCal	471,300	\$3.763	(\$0.204)	\$0.055	(\$0.110)	\$0.196
PG&E Citygate	1,099,400	\$3.999	(\$0.101)	\$0.291	(\$0.007)	\$0.363
Dominion-South	650,800	\$3.714	(\$0.126)	\$0.006	(\$0.032)	\$0.114
USTrade Weighted	21,679,000	\$3.663	(\$0.134)	(\$0.045)	(\$0.04)	\$0.056

Cyrus accused Turkey of creating a controversy over offshore drilling as a pretext for "expansionist designs." Turkey claims that the Greek Cypriot government has no rights to the reserves because they belong to Turkish Cypriot. Turkey is the only country in the world to recognize the breakaway republic.

Iran has resumed gas exports to Turkey after an eight-day stoppage to inspect the pipeline transporting the gas. Iran has made demands that Turkey pay for the prolonged outage of gas flows.

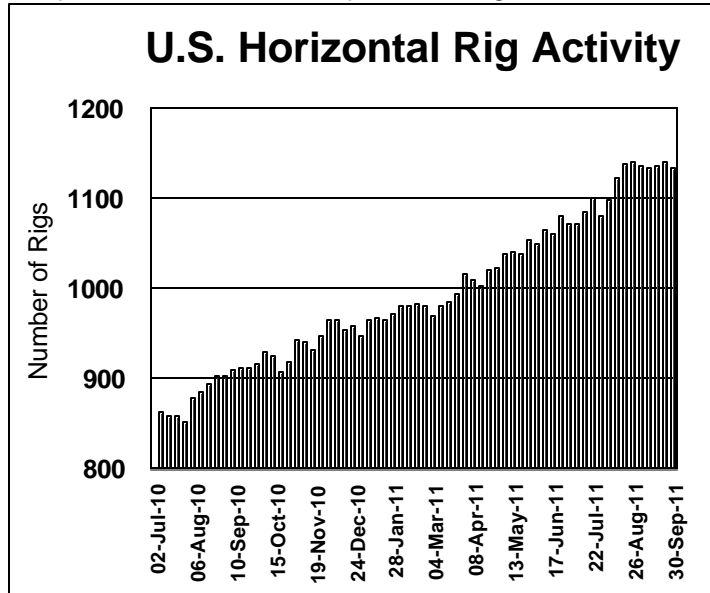
Japan's Hokuriku Electric Power Co. plans to spend more than \$260 million to build safety enhancements to its Shika nuclear power plant. The company plans to build a 15-meter high wall to protect the building from tsunamis. The company said that the plant could safely resume operations at the plant prior to the completion of the new measures in March 2013.



Japan's Tepco believes that they will have an ample supply of power over the winter months. The company is expecting the ability to produce 53,000-54,000mw of power. Tepco expects demand to peak at 50,000mw so the company will have 6-8 percent leeway during high demand periods.

**ELECTRIC MARKET NEWS**

The NRC has sent a letter to Dominion Resources listing all the requirements its North Anna plant must meet before the plant is allowed to restart. The plant will remain closed until the NRC is satisfied the plant has made all required changes and the NRC makes additional onsite inspections. The plant has been closed since a 5.8 magnitude earthquake struck the east coast in late August.



US coal consumption increased by 3% last week when compared to the prior week.

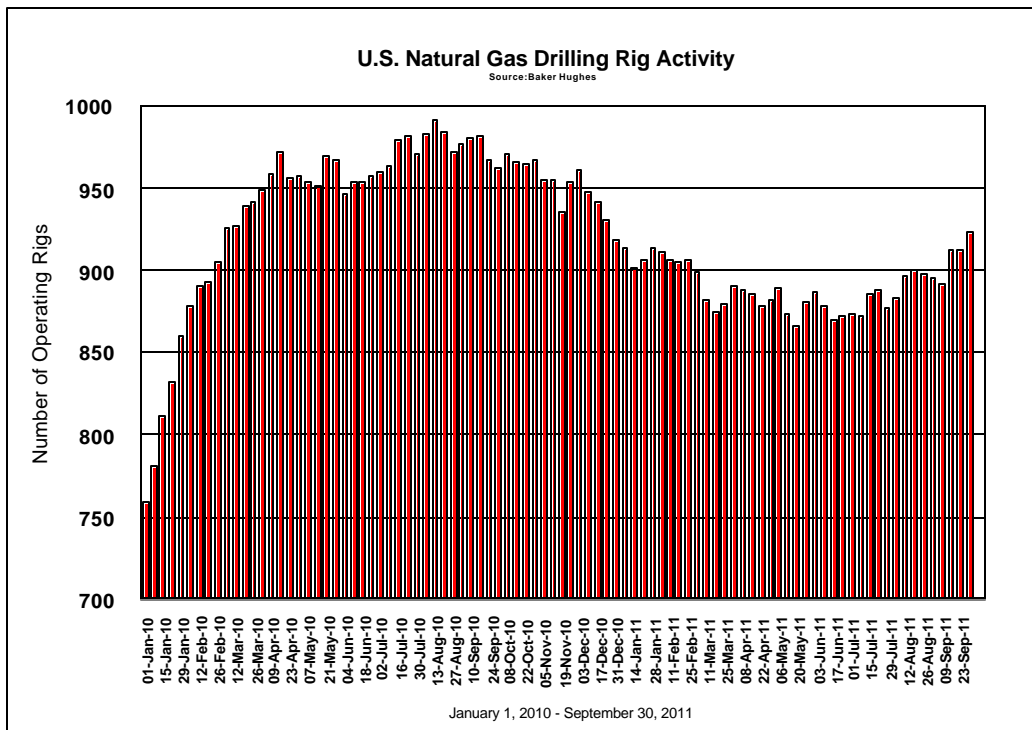
**ECONOMIC NEWS**

Japanese industrial production in August rose for the fifth consecutive month, increasing by a seasonally adjusted 0.8% from the previous month. While the trade ministry reported that industrial production has now almost completely recovered from the earthquake and tsunami, the gain in August was still less than the 1.5% gain expected by the market.

HSBC's China Purchasing Managers' Index showed the Chinese factory sector contracted slightly for a third consecutive month in September due to weaker global demand. The bank though noted the index reflected the lagged effects of credit tightening but at this time did not fear a sharp slowdown. The bank did report that factory inflation in China quickened markedly in September, with the sub-index for input prices climbing to a four month high of 59.5 in September from 55.9 in August. The Chinese Central Bank said today that curbing inflation remains the top priority for Chinese policy makers even though price pressures have eased.

The Chinese stock market dropped 0.3% on Friday to its lowest level in two and a half years, finishing the third quarter down with a 14.6% loss.

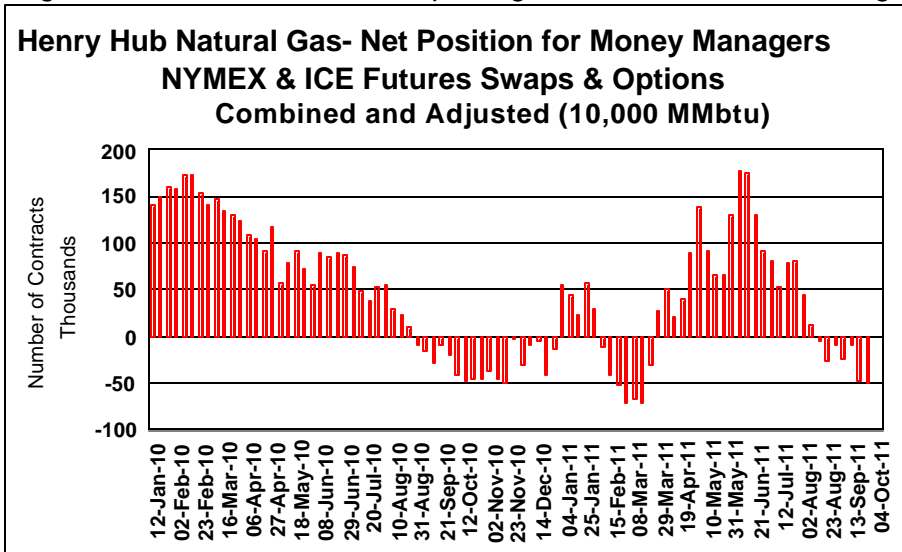
Euro zone annual consumer prices rose unexpectedly in September by 3.0% Eurostat reported today, up from 2.5% increase recorded in August. Market expectations had been for a 2.5% increase. European unemployment for



August remained unchanged from July at 10% and down slightly from 10.3% in the same month a year ago.

The U.S. Commerce Department reported today that consumer spending which accounts for 70% of U.S. economic activity was unchanged in August after rising by 0.4% in July after being adjusted for inflation. Personal income slipped by 0.1%, the first decline since October 2009.

The Institute for Supply management-Chicago said its business baramoter rose to 60.4 from 56.5 in August. Economists had been expecting a decline to 55.5. A reading above 50 indicates expansion.



German retail sales reportedly fell at their fastest pace in more than four years, dropping by 2.9% on a monthly basis and far outpacing the 0.5% expected by economists.

### **Market Commentary**

With global equity and commodity markets on the defensive today, given the weakness in the Euro and the reported stagnation in Chinese manufacturing last month, the natural gas market

followed suit and remained on the defensive for much of the day. The bulls found little to take comfort in as both the weather forecasts and the Baker Hughes report provided a dampening effect on the market. As a result the natural gas market finished down over eight cents and finished the third quarter down 16.2% from the prior quarter and off 16.8% from the start of the year.

This afternoon's Commitment of Traders Report showed that non-commercials net position in the Henry Hub futures, swaps and options posted its smallest change in two months, as it increased by only slightly more than 3200 lots on a combined and adjusted basis.

We look for next week to start off with the market looking to test recent support levels, but judging on last year's COT report there may be limited risk appetite by the commodity to increase their net short position in this market, especially at this time of year, and as a result the downside potential for this market may be limited. We see support at \$3.667-\$3.656, \$3.622, \$3.578, \$3.493 and \$3.391. Resistance we see at \$3.75, \$3.836-\$3.853, \$3.88, and \$3.932. Additional resistance we see at \$4.01 and \$4.144.

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