



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR OCTOBER 1, 2010

#### NATURAL GAS MARKET NEWS

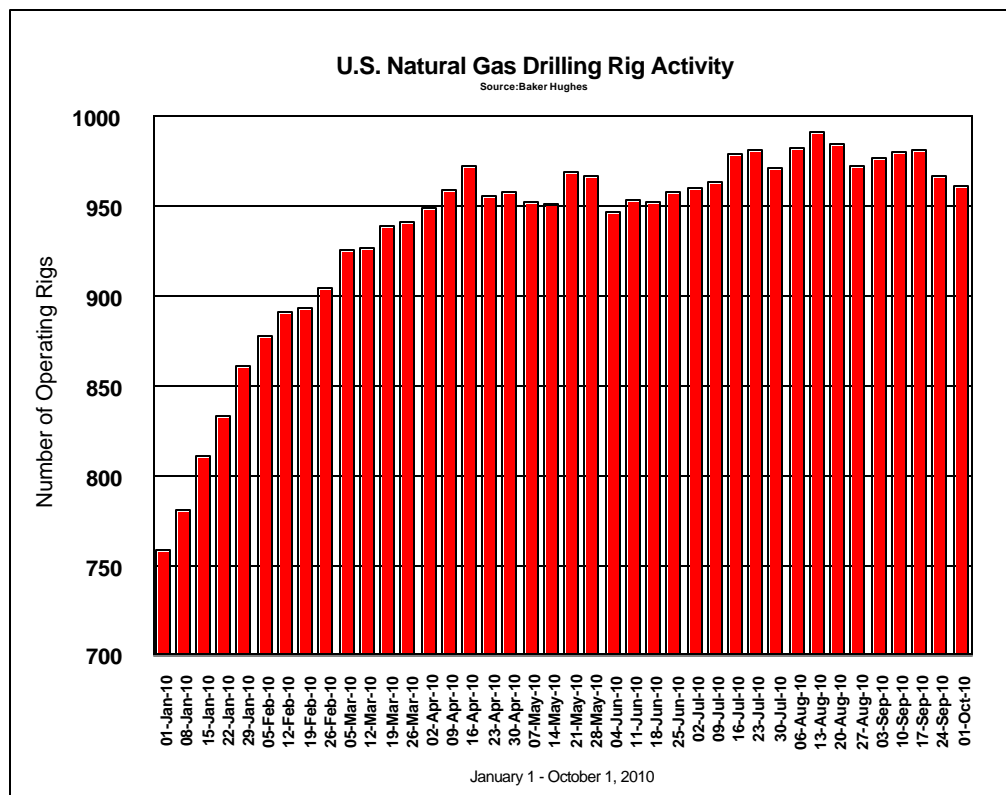
The National Hurricane Center today was watching Invest 97, an area of disturbed weather associated with two tropical waves some 800 miles east of the Leeward Islands. Forecasters had raised their chances of this system developing into a tropical depression over the next 48 hours to a 40% chance, only to lower that probability to just 30% by midday. The agency continued to watch a low-pressure system in the northern Caribbean but saw less than a 10% chance that this system could develop into a tropical depression. Both these systems appear to pose little risk to the Gulf of Mexico at this time.

#### Generator Problems

The NRC reported this morning that some 90,992 Mw of U.S. nuclear generation capacity was online this morning down 0.3% from yesterday and some 15% higher than the same time a year ago.

The Pennsylvania Department of Environmental Protection said Friday that it has found no evidence that the chemicals used in shale gas drilling process known as hydraulic fracturing contaminate water supplies. The officials though have noted that the cases of water contamination have been caused by

spills and leaks of drilling materials on the surface of so-called "fracking" drilling operations. The agency noted that Cabot Oil & gas though has drilled faulty wells around Dimock, PA that has led to methane migration into private water wells. Cabot Oil & Gas said today though its operations are safe and environmentally responsible and its operations did not cause methane gas to migrate into water supplies.



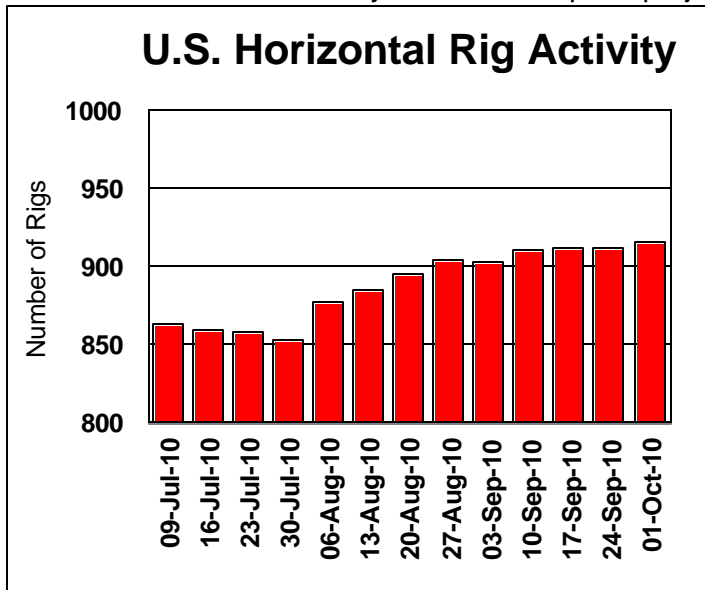
Baker Hughes reported today that

the number of natural gas drilling rigs searching for natural gas in the United States fell for the second week in a row to 962 rigs, down 5 from last week. But the number of horizontal drill rigs operating, those most often used to extract gas from shale, rose by 4 rigs to a new records high of 916.

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	1,048,400	\$3.668	(\$0.177)	(\$0.130)	(\$0.159)	(\$0.140)
Chicago City Gate	413,200	\$3.672	(\$0.198)	(\$0.126)	(\$0.171)	(\$0.073)
NGPL- TX/OK	790,900	\$3.530	(\$0.153)	(\$0.268)	(\$0.126)	(\$0.229)
SoCal	608,600	\$3.550	(\$0.214)	(\$0.248)	(\$0.187)	(\$0.134)
PG&E Citygate	843,100	\$3.856	(\$0.210)	\$0.058	(\$0.183)	\$0.172
Dominion-South	473,800	\$3.760	(\$0.166)	(\$0.038)	(\$0.139)	(\$0.005)
USTrade Weighted	21,557,500	\$3.592	(\$0.186)	(\$0.206)	(\$0.16)	(\$0.140)

Gazprom reportedly is moving two \$1 billion drilling rigs from the Shtokman natural gas project in the Barents Sea to its Sakhalin-3 project in the Far East. Drilling in the Sakhalin-3 Kirinsky block is expected to begin in May of next year. The company hopes to begin production from this block in 2014. Reserves at the Sakhalin-3 project are estimated at 1.4 tcm, of which 71% are in the Kirinsky block.

Dow Jones reported today that talks between Exxon Mobil and Gazprom have become deadlocked over who should buy the gas that is produced at the Sakhalin-1 project. Gazprom is seeking to buy all the gas from the project to fill its own pipeline to the Pacific near the Chinese border, but Exxon Mobil says Gazprom's offer price for the gas is too low to justify the project investment. Exxon Mobil is seeking to reach an agreement with China national Petroleum Corp to export the gas directly to China. Exxon said it would take six years to develop the project.



National Grid reported today that the LNG tanker Al Shamal has berthed at its Isle of Grain terminal on Thursday. Meanwhile port officials were reporting that the Qatari LNG tanker, Ejanan is scheduled to arrive at the Zeebrugge terminal on October 17<sup>th</sup>.

The IEA said on Friday that European gas demand was picking up quicker than expected and could come back to its pre-recession levels in 2012 rather than 2013 as it forecasted earlier this summer. Analysts noted two major factors on this future demand will be how European economies perform in coming months and how the gas demand in the power sector is behaving. British gas prices are seen hovering in the bottom

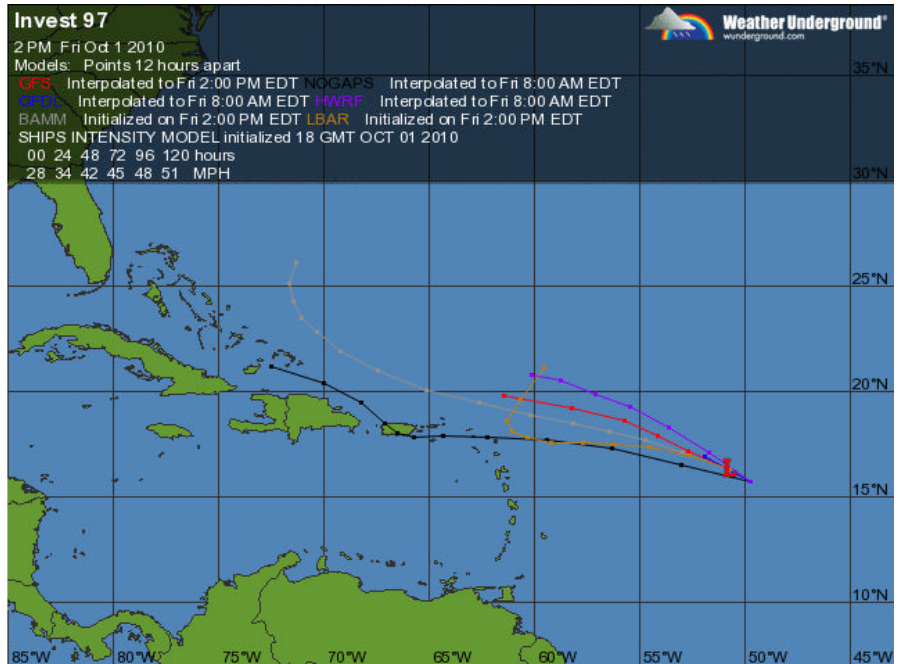
range of \$4-\$5 per Mmbtu to a top range of \$8-\$10 per Mmbtu. For Japan natural gas prices are seen rising slightly over the next 6-12 months.

Analysts at IEA said today the new sanctions imposed by Western powers on Iran are starting to make a larger impact on Iranian oil and gas development projects.

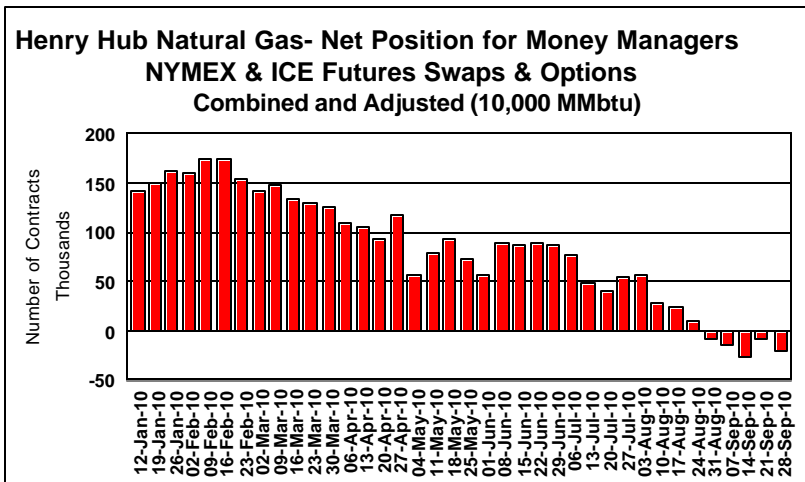
The deputy prime minister of Belarus said today that he expects his nation to see higher natural gas prices in 2011, as its cost for Russian gas will rise from the current \$184 to \$210 per 1000 cubic meters, as a result of its discounted price arrangement with Gazprom is set to expire.

## ELECTRIC MARKET NEWS

A seven-month study done for the FERC found that the savings that could be gained if Entergy Corp utilities transmission joined the SPP might exceed \$1.2 billion over a 10-year period. The study found that putting the transmission lines under SPP oversight would offset \$138 million in additional staff and regulatory charges associated with membership in SPP. Entergy has been opposing calls for it to relinquish control of its grid since it warned that it wanted to avoid costly transmission projects that might not benefit its customers. Opponents have claimed Entergy has been avoiding upgrading its transmission lines to protect its old, inefficient power plants from competition with newer natural gas fired power plants.



Genscape reported that coal use in the U.S. fell 4% this week from the previous week, but was up 2% from consumption from a year ago.



The EIA reported late Thursday that coal production stood at 21.453 million tones for the week ending September 25<sup>th</sup> down 0.4% from the prior week but some 8.7% above the same week a year ago. Year to date production is some 1.3% less than a year ago.

## MARKET COMMENTARY

The natural gas market today remained under pressure, as there appeared to be little if any near term threat to Gulf producing area. But the market did not breach yesterday's lows and as a result posted an inside trading session, its first in two weeks. We feel though that this market without a tropical threat to start the week on Monday will resume its assault on this week's contract lows and will breach this level. We see support starting at \$3.78 followed by \$3.73-\$3.70 and \$3.62. Resistance we see at \$4.012, \$4.13-\$4.14 and \$4.183. More distant resistance we see at \$4.298 and \$4.40.

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