



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR OCTOBER 11, 2011

#### NATURAL GAS MARKET NEWS

##### North America

The Atlantic is currently quiet as the storm system we were tracking yesterday was scattered across the southeast early on Tuesday. There are no other systems that mention monitoring in the Gulf of Mexico, Caribbean or Atlantic.

Enterprise Products Partners opened a binding commitment period that runs until November 10<sup>th</sup> for a proposed ethane pipeline from the Marcellus and Utica shale deposits to Mont Belvieu, Texas. The pipeline expects to be approximately 1,230 miles long and start commercial operation in the first quarter in 2014. The Mont Belvieu hub plans to have direct or indirect access to every ethylene plant in the United States.

##### International

Despite reports on Monday that Russian Prime Minister Putin would not discuss a gas deal with the Chinese while in China Putin announced on Tuesday that Moscow and Beijing are very close to a long-term deal for Russia to supply natural gas to China. The agreement is currently being held up by disagreements over pricing.

Iran has suspended its contract with Chinese company National Petroleum Corporation International (CNCPI) for the development of the North Pars gas field. Iran has indefinitely halted CNCPI's involvement in the North Pars gas field because they believe the

company has not fulfilled its commitment to the South Pars gas field. The move comes after foreign companies have already pulled out of projects in the country do to fear of sanctions. Iran's Oil Minister does not see the need for foreign investment and believes the country can produce the gas itself.

Estimates for Turkemistan's South blatan and Yashlar gas fields may increase as more data is released. It is currently estimated that South lolotan may be the world's second largest reservoir of fuel and hold between 13.1tcm and 21.2tcm and Yashlar may hold between 1.45tcm and 5.0tcm.

#### Generation Outages

**MRO** - Unit 2 at Exleon Corp's Byron power station started to exit an outage and was operating at 25% power early on Tuesday. The unit had been shut since September 18<sup>th</sup> for planned refueling.

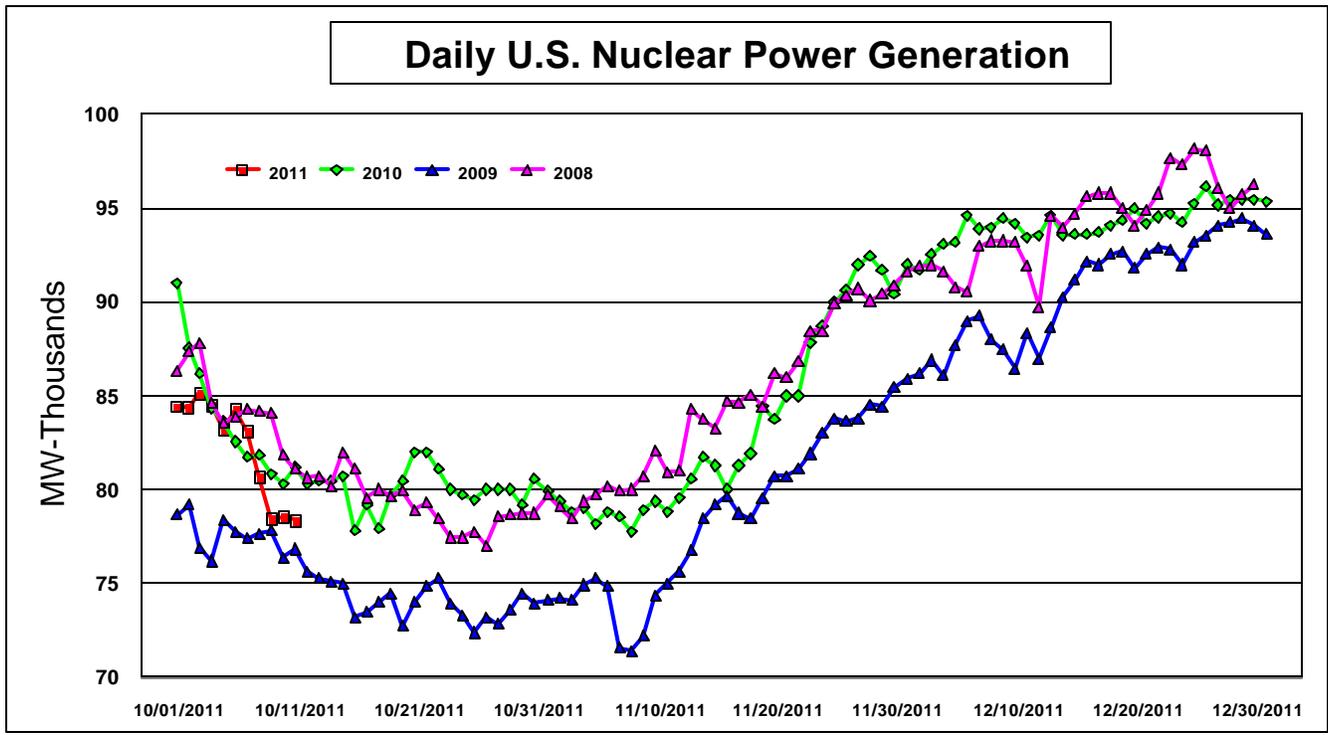
**WECC** - PG&E's Unit 1 at the Diablo Canyon nuclear power plant was lowered to 67% power on Tuesday from 95% power on Monday.

The NRC reported this morning that some 78,415 Mw of nuclear generation was online, down 0.2% from yesterday and some 2.4% less than the same day a year ago.

#### Natural Gas Cash Market

ICE Next Day Cash Market

	Volume	Avg	Change	Basis	Change	Basis 5-Day
<u>Location</u>	<u>Traded</u>	<u>Price</u>		(As of 12:30 PM)		<u>Moving Avg</u>
Henry Hub	884,500	\$3.523	\$0.113	(\$0.078)	\$0.051	(\$0.139)
Chicago City Gate	855,200	\$3.508	\$0.136	(\$0.094)	\$0.079	(\$0.103)
NGPL- TX/OK	774,700	\$3.431	\$0.112	(\$0.170)	\$0.055	(\$0.172)
SoCal	471,400	\$3.417	\$0.064	(\$0.184)	\$0.007	(\$0.124)
PG&E Citygate	550,100	\$3.624	\$0.112	\$0.023	\$0.055	\$0.089
Dominion-South	411,800	\$3.575	\$0.148	(\$0.026)	\$0.091	(\$0.040)
USTRade Weighted	19,763,500	\$3.446	\$0.108	(\$0.155)	\$0.05	(\$0.139)



KOGAS sold the gas equivalent of 1.95 million tonnes of LNG domestically in September up 15.8% from a year earlier. In addition the company's LNG inventory stood at 3 million tonnes as of Tuesday and plans to build a 3.5 million tonnes inventory by mid-November for winter demand.

Azerbaijan hopes to raise production to 28.3bcm in 2012 from 25.3bcm in 2011. The 25.3bcm of gas the country produced in 2011 was lower than its estimate of 28bcm. The country has recently cut its forecast for economic growth this year from 2% to 0.9% because of a decline in oil and gas production.

The date the Nabucco gas pipeline was scheduled to come online has been delayed from 2017 to 2018. The pipeline has been delayed several times before, as the company has struggled to find supplies. The pipeline is scheduled to begin construction in 2013 to bring gas to Europe via the Caspian region.

Spain plans to re-export LNG cargoes to Asia as gas demand fell 3.3% in the first six months this year as coal-power generation increased. The economic crisis in Spain and imports from the Medgaz pipeline has left Spain oversupplied. The country has plans to re-export four shipments to Asia this month.

The Switzerland-Italy Transitgas pipeline has suspended gas flows due to heavy rain that caused snowmelt forcing the closure of the southern leg. The pipeline operator is already inspecting the pipeline for damage trying to determine when the pipeline can reopen.

**ELECTRIC MARKET NEWS**

Projected water runoff at the Dalles Dam on the Columbia River in Oregon fell to 97 percent of normal for January- July from 100 percent of normal last week. The actual runoff in the 2011 water year was 133 percent of the thirty-year average.

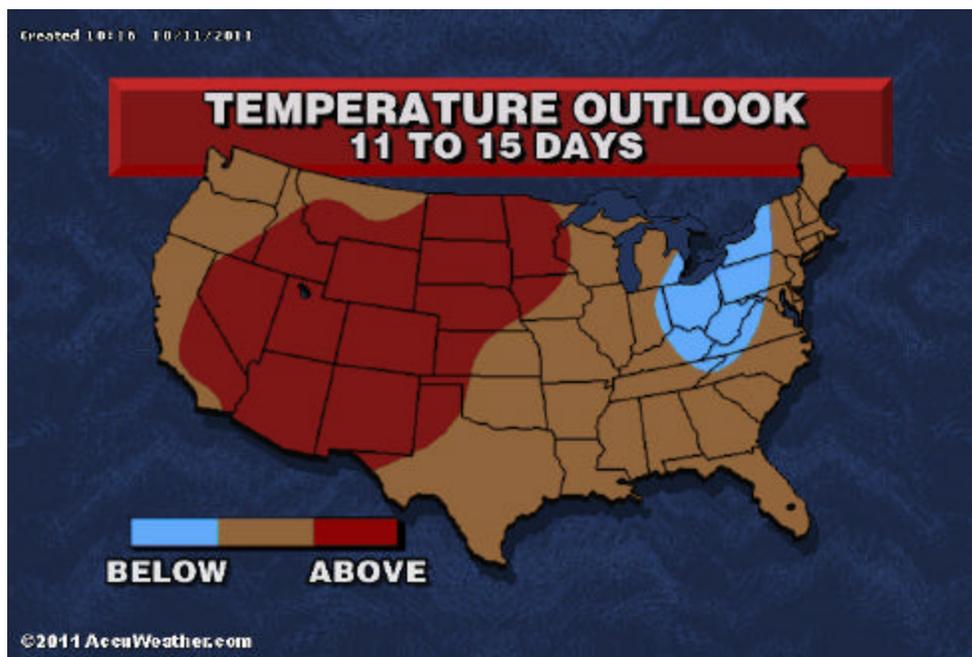
Exelon and Constellation Energy took another step forward toward their planned merger following a settlement with PJM grid operators that includes the divestiture of three power plants in Maryland. For

the merger to occur the companies would not only need approval from the Federal Energy Regulatory Commission but also from Maryland Public Service Commission.

The U.S. EPA said today that it was committed to finalizing a standard on mercury emissions by November 16<sup>th</sup> after 25 states urged a court to force the agency to delay the rule. The agency said it was on track to finalize the rule, which targets older, inefficient power plants fired by coal and oil, as expected by November 16<sup>th</sup>. The agency is under court order to finalize the rule. The 25 states, which filed a brief with the court on Monday urging a delay, are seeking a delay in the finalization of the rule until November 16, 2012. The EPA said that more than half of all coal-fired power plants have already deployed the pollution control technologies that allow them to meet the new standards.

## **ECONOMIC NEWS**

The International Council of Shopping Centers and Goldman Sachs reported that US chain store sales in the week ending October 8<sup>th</sup> fell by 0.1% on the week but increased by 2.8% on the year to 516.3.



Large companies that handle financing for securities and derivatives markets said there was little change in credit terms being offered in the June-August period but noted that came after a lengthy period of easing. The Fed survey showed that clients' willingness to take on risks had decreased somewhat, on net, over the past three months.

The US Federal Reserve released for public comment the Volcker

rule proposal that would restrict Wall Street's ability to trade for its own profit in stocks and other financial instruments. The Volcker provision aims to prevent banks from recklessly engaging in risky trades by prohibiting them from short term trading for their own profit in securities, derivatives and other financial products. It would also prohibit banks from investing in or sponsoring, hedge funds or private equity funds.

The CFTC Commissioner Scott O'Malia said it could cost the financial industry more than \$100 million to comply with the new position limits plan being proposed by the CFTC. Separately, the chairman of the US Commodity Futures Trading Commission said regulators of the US and United Kingdom this week are expected to discuss the idea of formally registering high speed electronic trading firms. Such a move could give regulators a better idea of the identities of the firms that use computer driven strategies to power a large portion of the day's trades in stocks, futures and options markets. He said the suggestion would be on the table when he joins counterparts for two days of meetings in London later this week.

## **Market Commentary**

The natural gas market today finished higher for the second day in a row as higher oil prices coupled with declining nuclear generation levels appeared to help support both the natural gas cash market

and futures market. These price gains though were confined primarily to the front end of the curve, with the next winter (2012/13) actually finishing lower for the third session in a row. This mixed settlement continues to suggest to us that this market is seeking to post a price retracement but that the overall bearish trend still is not over without the establishment of a prolonged cold wave to kick off the heating season.

We look for key resistance tomorrow at \$3.618-\$3.627. If this is breached then we would look prices in the November contract to make a run for the resistance at the 38% retracement of the past three week down move at \$3.73. This would be the area where we would look to start to be a scale up seller for a short-term play to see a retest of yesterday's lows. Additional resistance we see at \$3.815 and \$3.91-\$3.926. Support we see at \$3.571 followed by \$3.513 and \$3.455. More distant support we see at \$3.391 and \$3.212.

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