



## ***ENERGY RISK MANAGEMENT***

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### **NATURAL GAS & POWER MARKET REPORT FOR OCTOBER 14, 2010**

#### **NATURAL GAS MARKET NEWS**

Hurricane Paula was downgraded to a tropical storm late this morning as the storm began to encounter strong upper level wind shear as well as the storm experiencing the unfavorable effect of the Cuban terrain. It appears that the storm will continue to weaken possibly at a faster rate than anticipated earlier and could become just a remnant low within 48 hours and totally dissipate within 96 hours. Meanwhile forecasters continued to watch the southwestern Caribbean for yet another storm to develop. As of this morning the GFS, NAM and NOGAPS models were forecasting development next week in this area but other models were pointing to no development at all. The GFS model has this storm then heading eastward and away from the Gulf of Mexico, but confidence in this forecast remains relatively low.

The NRC reported this morning that some 80,502 Mw of generating output was on line this morning, basically unchanged from yesterday and some 7.2% higher than the same time a year ago.

Reuters reported that Norway's Arctic Voyager LNG tanker is scheduled to make a rare delivery of LNG to the Cove Point import terminal late Thursday. The ship which can hold 145,000 cubic meters of LNG is coming from the LNG production plant at Snoevit. This will be the first tanker to deliver at the facility since April when a cargo was delivered from Trinidad.

#### **EIA Weekly Report**

	10/08/2010	10/01/2010	Change	10/08/2009
<b>Producing Region</b>	1124	1082	42	1180
<b>Consuming East</b>	1963	1920	43	2025
<b>Consuming West</b>	503	497	6	503
<b>Total US</b>	3590	3499	91	3708

\*storage figures in Bcf

French trade union officials reported this afternoon that striking workers at the French LNG terminal at the port of Montoir will block the arrival of an incoming LNG tanker scheduled for October 15-16<sup>th</sup>.

Workers at the port voted to extend their strike over pensions to Monday October 18<sup>th</sup>. Gas supply from the port to the grid will stop on October 18<sup>th</sup> because of very low reserves at the terminal and the absence of supply from the incoming tanker.

Algeria' energy minister said today that Algeria's LNG production should return to normal in a few months after an "incident" cut capacity by up to 20%. He said Algeria's LNG production capacity had been cut by 5-6 bcm a year from its normal capacity of 30 bcm but declined to say when the problem developed.

#### **Canadian Gas Association**

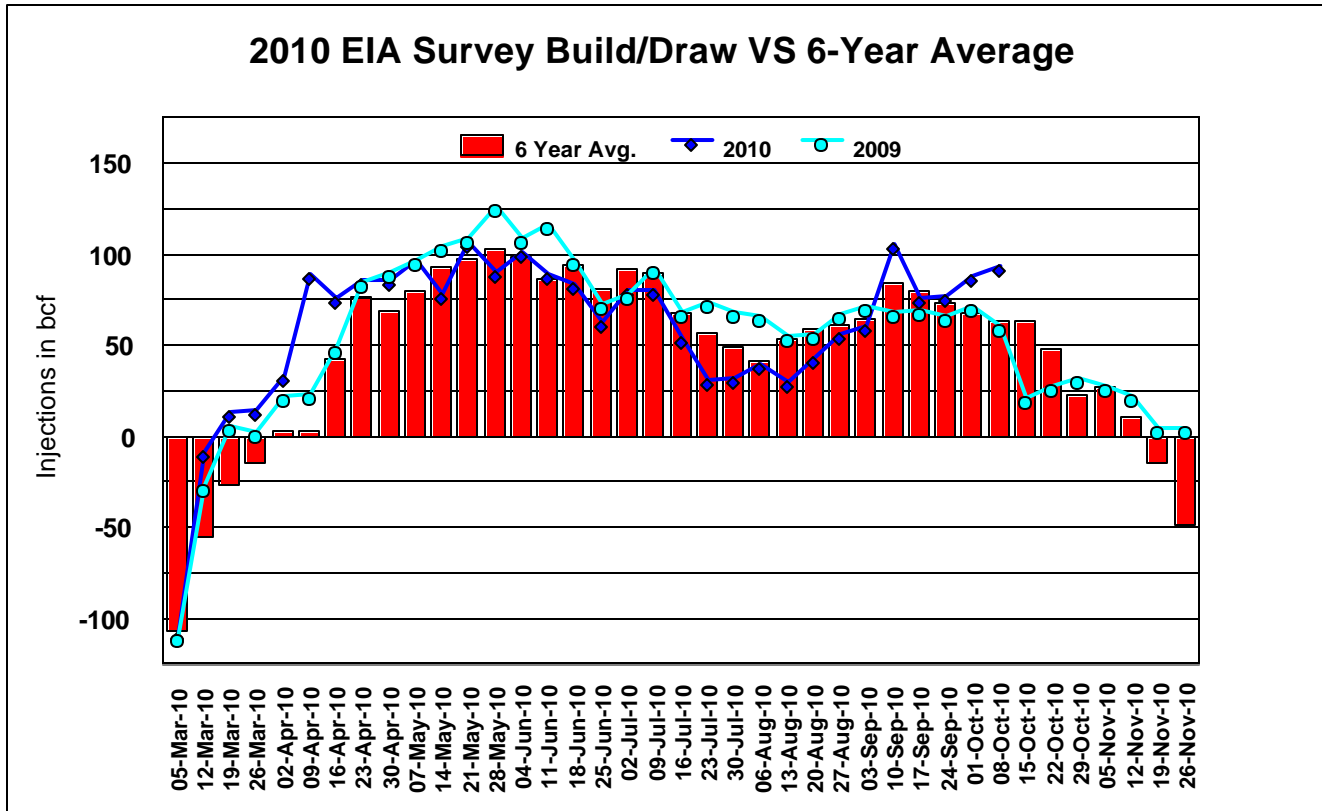
##### **Weekly Storage Report**

	08-Oct-10	01-Oct-10	09-Oct-09
<b>East</b>	232.8	212.3	233.2
<b>West</b>	390.4	383.5	361.2
<b>Total</b>	623.2	595.8	594.4

storage figures are in Bcf

Norway's Kollsnes gas processing plant remains at limited operating capacity. The operator, Gassco said "it will still take some more days" to restore the plant to full capacity. Since September 27<sup>th</sup> some 23 mcm/day of capacity has been lost due to maintenance work.

The trade body, UK Gas Forum, said today that Britain's gas market can deliver secure supplies, even during harsh winters, and the government should not fundamentally change the market structure. The trade group is concerned about government plans aimed at increasing supply security after problems at a Norwegian gas field last winter set off a gas-balancing alert in Britain. The trade group warned that government intervention in the UK's competitive gas market is not required and it could increase the risk of supply interruptions in the future. The group called on the gas interruptions regime, where gas customers agree to curtail gas use for compensation, should be reinstated.



China National Offshore Oil Corporation said it plans to have six more LNG receiving terminal operating along Chinese coastal area, in the near future. The company already has three terminals operating. The company also plans to build 15 LNG filling stations for automobiles, as part of efforts to increase the use of the cleaner burning fuel.

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	898,900	\$3.580	(\$0.001)	(\$0.128)	(\$0.028)	(\$0.166)
Chicago City Gate	630,700	\$3.668	\$0.042	(\$0.040)	\$0.039	(\$0.134)
NGPL- TX/OK	749,100	\$3.513	(\$0.014)	(\$0.195)	(\$0.017)	(\$0.253)
SoCal	468,900	\$3.632	(\$0.049)	(\$0.076)	(\$0.052)	(\$0.152)
PG&E Citygate	701,100	\$3.894	(\$0.154)	\$0.186	(\$0.157)	\$0.213
Dominion-South	621,800	\$3.819	(\$0.011)	\$0.111	(\$0.014)	\$0.013
USTRade Weighted	21,172,500	\$3.611	(\$0.025)	(\$0.097)	(\$0.03)	(\$0.166)

Turkey's energy minister said today that state owned Turkiye Petrolleri (TPAO) is keen to win the rights to operate an Iraqi gas field at an auction this month because of the commercial

and strategic value. The Iraqi government plans to tender contracts for the gas fields at Akkas in the western desert, Mansuriyah near the Iranian border and Siba in the southern oil hub of Basra. The three fields have a combined estimated reserve of 11.23 tcm. Winning bidders will be allowed to export surplus gas.

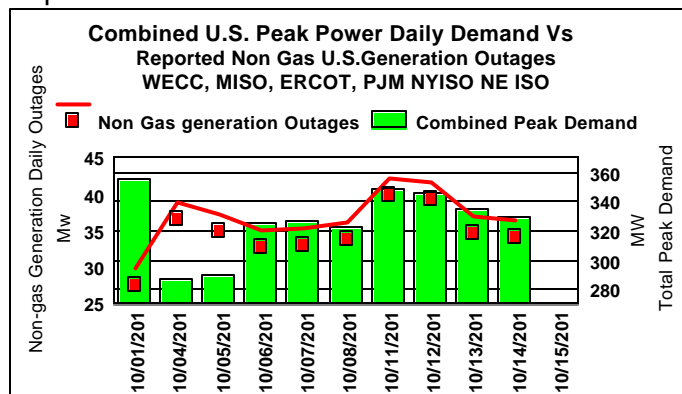
Gazprom warned the European Union on Thursday that proceeding with its gas sector initiatives and reforms would mean the end of stable supplies as Russia will be forced to move more gas to Asia. The EU legislation requires pipelines to be open to all companies, which would threaten Gazprom's position in countries such as Poland where it is a dominant supplier via its Yamal pipeline.

The Peruvian state energy company Perupetro said today that it estimates Block 76 being explored by Hunt Oil holds potential natural gas reserves of 11 tcf. If this projection becomes reality it would boost the countries natural gas proven reserves by more than 68%.

## **ECONOMIC NEWS**

The US Labor Department reported that the number of US workers filing initial claims for unemployment benefits increased by 13,000 to 462,000 in the week ending October 9<sup>th</sup>. New claims for the previous week ending October 2<sup>nd</sup> was revised upwards to 449,000 from 445,000. The four week moving average of new claims increased by 2,250 to 459,000 from the prior week's revised average of 456,750. It reported that the number of continuing claims in the week ending October 2<sup>nd</sup> fell by 112,000 to 4,399,000 from the preceding week's revised level of 4,511,000. The unemployment rate for workers with unemployment insurance in the week ending October 2<sup>nd</sup> was 3.5%, down 0.1% on the week.

The US Labor Department reported that US producer prices increased for the third consecutive month in September due to higher food prices. The Producer Price Index increased by a seasonally adjusted 0.4% for finished goods in September. This followed a 0.4% increase in August and a 0.2% increase in July. The core Producer Price Index, excluding food and energy prices, increased by just 0.1% in September. For the 12 months ended in September, the Producer Price Index increased by 4%, accelerating from a 3.1% annual increase in August. The report showed food prices increased by 1.2% in September after falling by 0.3% in August while energy prices increased by 0.5% in September.



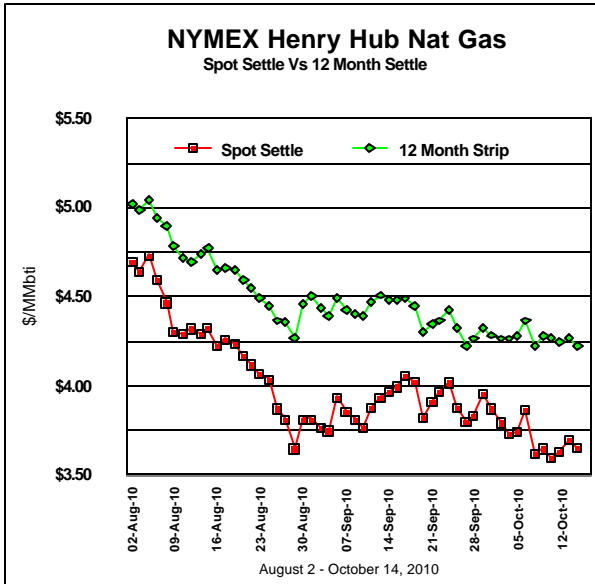
The National Grain and Feed Association today urged the CFTC to make changes to its new swaps regulations so swap dealers are not exempt from position limits. The group also called for the CFTC to keep its agricultural position limits. They called on government regulators to make sure speculative investors do not circumvent limits by trading coordinated positions through separate entities.

A CFTC official said US regulators should be able to hold traders responsible for algorithms that cause harm to markets. The official said it could be difficult for the agency to regulate computer-generated violations because it has to prove traders intended to harm markets.

## **MARKET COMMENTARY**

The natural gas market today despite posting its widest trading range in a week, basically found itself finishing the day back where it started the trading session. Surprisingly the market this morning spiked higher moving off the lows of the day just prior to the release of the report, to setting the day's high, following the release of the EIA Storage Report. While this report came in slightly larger than most market estimates, it appeared that spec buyers had held off entering their buy orders until after the release of the report. But this market spent the afternoon giving back the morning's gains as it appeared the weakness in the underlying cash market and the fundamental fact that this market continues to exceed the pace of injections recorded last year as well as the five-year average. Current

working gas storage levels are now only 118 bcf behind last year's record levels and some 247 bcf above the five-year seasonal average. With the outlook for moderate temperatures to continue to be enjoyed by most areas through the end of the month appears to point that injections will remain strong to finish out the injection season.



We see resistance tomorrow in the November contract at \$3.765 followed by \$3.833, \$3.922 and \$4.01. More significant resistance we see at \$4.09 and \$4.298. Support we see at \$3.59-\$3.58 followed by \$3.545, \$3.50 and \$3.41.

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