



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR OCTOBER 14, 2011

#### NATURAL GAS MARKET NEWS

##### North America

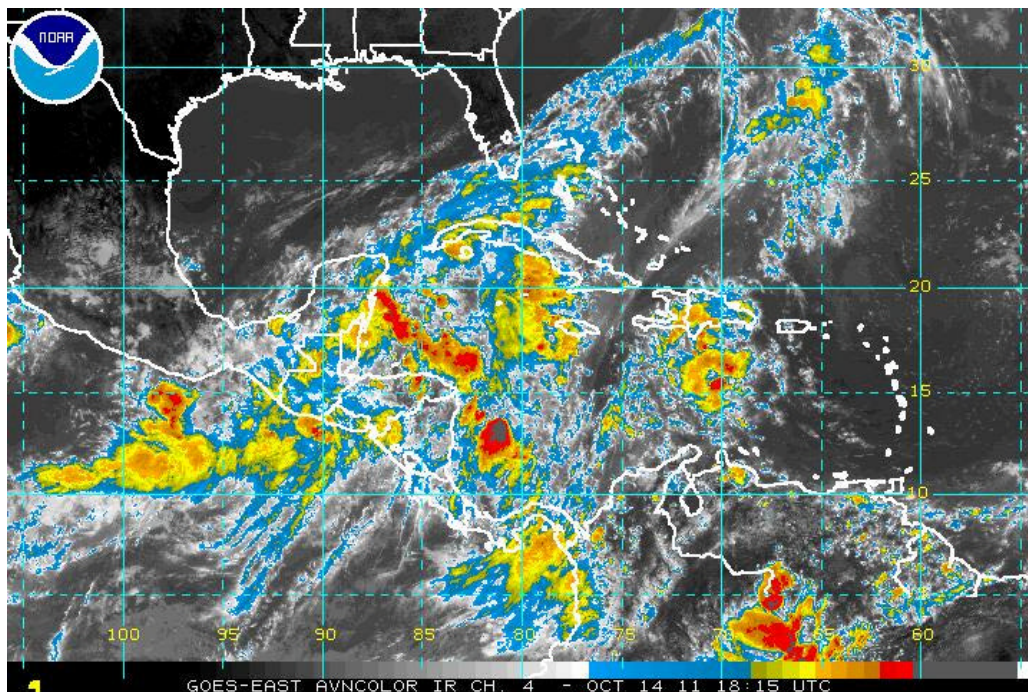
An area of low pressure is starting to develop in the western Caribbean and may become a tropical storm over the weekend. The storm is expected to stay near the Yucatan Peninsula for the next few days. From there the path is uncertain but current projections do not have the storm going through the production region in the Gulf of Mexico. Elsewhere an invest was moving north well of the coast of Florida. The system is not expected to develop. Lastly, there are tropical waves in the central Atlantic and eastern Atlantic.

##### Generation Outages

**NPCC**- Constellation Energy Nuclear Group's Ginna nuclear power plant automatic shutdown on Tuesday was caused by a leak on piping in its turbine control oil system. Repairs are currently underway and the company has not released an estimate of when the plant may reopen.

**PJM**- Exelon Corp's Unit 3 at the Peach Bottom nuclear power plant started to exit a scheduled refueling outage and ramped up to 17% early on Friday. The plant had been shut since September 11<sup>th</sup>.

**The NRC reported this morning that some 79,180 Mw of nuclear generation was online, up 0.3% from yesterday but of 1.9% from the same day a year ago.**



Canada's National Energy Board has given Kitimat LNG a 20-year export license. The LNG export facility will receive gas from a 463km underground line that will connect with the Spectra Energy transmission pipeline system.

##### International

Japan's 10 utilities consumed 9% less coal in September than a year ago while consuming 23% more LNG. The utilities also used

21% more fuel oil and 10% more crude oil despite the worst annual decrease in power production in September.

Russia's President Medvedev went to the country's Security Council to discuss recent gas-trouble for state-run Gazprom with the European Union. Medvedev said the EU's probe into Gazprom could be

seen as a potential threat so the government and Russian energy companies need to rethink their strategy for gas exports to Europe.

Iran expects all phases of the South Pars gas field to be online by October 2015. Managing director of the Pars Oil and Gas Company also said that he expects one phase to come online every six months if \$15 billion is invested in the project annually.

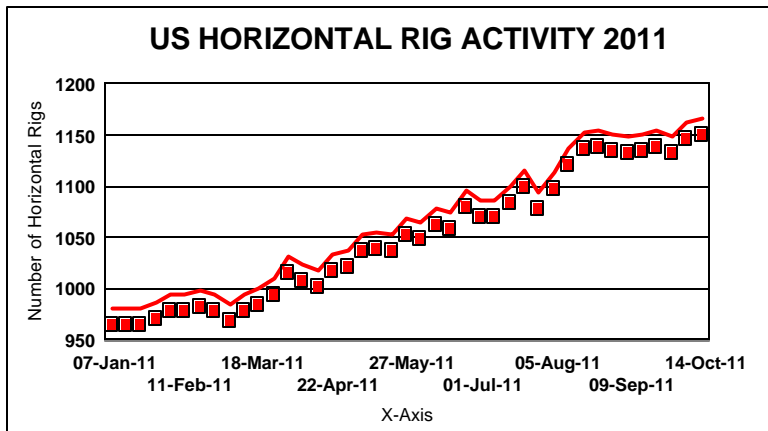
Iran says that Turkey has requested additional shipments of natural gas. Iran has been supplying Turkey with an average of 24 million cubic meters a day this year but has the capability to increase exports to an average between 36 and 40 million cubic meters a day.

Overseas Private Investment Corporation (OPIC) and Pakistan Gasport Limited (PGP) have signed a \$166 million deal to construct the first LNG import facility in

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	1,004,600	\$3.485	\$0.061	(\$0.228)	(\$0.142)	(\$0.161)
Chicago City Gate	831,600	\$3.523	\$0.074	(\$0.190)	(\$0.099)	(\$0.104)
NGPL- TX/OK	836,000	\$3.441	\$0.084	(\$0.272)	(\$0.089)	(\$0.184)
SoCal	519,000	\$3.438	(\$0.003)	(\$0.275)	(\$0.176)	(\$0.151)
PG&E Citygate	779,100	\$3.587	\$0.001	(\$0.126)	(\$0.173)	\$0.013
Dominion-South	537,800	\$3.481	\$0.038	(\$0.233)	(\$0.135)	(\$0.081)
USTrade Weighted	18,725,800	\$3.432	\$0.031	(\$0.281)	(\$0.14)	(\$0.161)

Pakistan. The facility is expected to begin construction in January of 2012 and will take approximately a year to complete. The plant will have a capacity between 400-500 million cubic feet.

The European lobby of gas companies, Eurogas, said natural gas in the EU will peak in 2030 and the share of gas in total energy consumption will exceed today's levels despite gas demand in absolute terms in 2050 falling below today's demand. The reason for the decline can be attributed to newer homes with better insulation and a greater public desire to conserve energy.



The Transitgas pipeline that transports gas from Switzerland to Italy will not open until Tuesday at the earliest. Pipeline operators will not announce when the pipeline will reopen until inspections on the pipeline are expected concluded on October 18<sup>th</sup>.

The Al Thakhira LNG tanker is expected to deliver a shipment to Belgium's Zeebrugge terminal on October 28<sup>th</sup> from Qatar.

### ELECTRIC MARKET NEWS

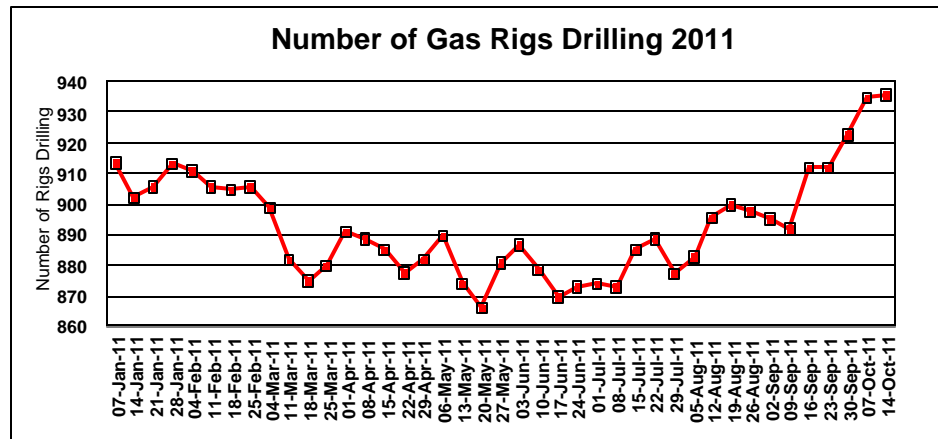
US nuclear power generators plan on shutting fewer reactors in the spring of 2012 than they did in the record-breaking spring of 2011. In 2011 outages peaked at 32,800mw due to a larger than normal number of units closing for refueling in addition to unplanned events like tornados, floods, fires, and broken turbines.

US COAL CONSUMPTION				
		National	East	West
This week	10/13/11	16.62	14.24	2.28
Last Week	10/6/11	16.08	13.53	2.4
Last Year	10/14/10	17.59	15.05	2.28

The number of rigs drilling for natural gas increased by 1 to 936 from a week earlier while the number of rigs drilling was down thirty for the same week last year. The number of horizontal rigs increased by 5 from last week to a record high 1,153.

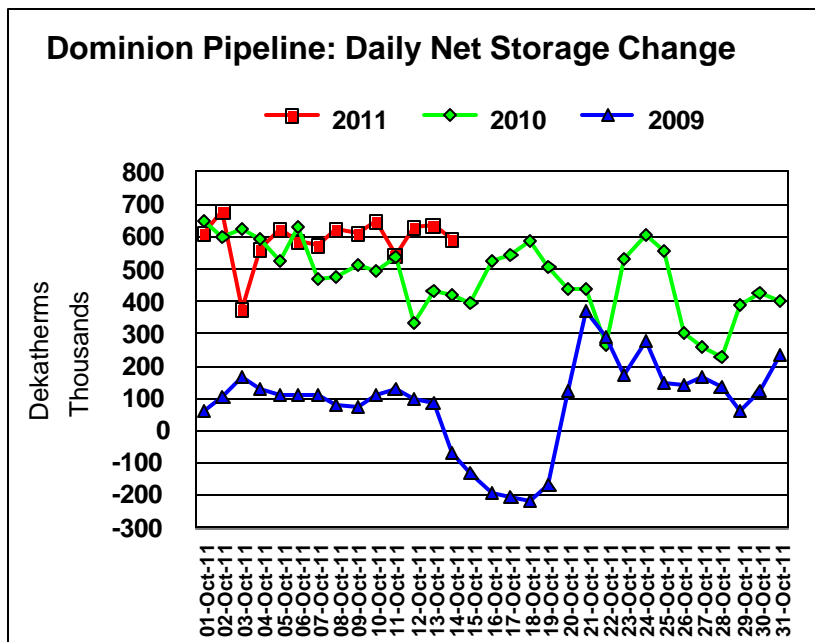
**ECONOMIC NEWS**

The US Commerce Department said US retail sales increased more than expected in September. It reported that retail and food services sales in September increased by 1.1% on the month to an adjusted \$395.47 billion. August retail sales were revised up to a 0.3% gain from an initial estimate that sales were flat.



The US Commerce Department also reported that US business inventories increased slightly more than expected in August. Inventories in August increased 0.5% in August, matching the pace of growth in July that was initially estimated at 0.4%. Meanwhile, sales increased 0.3% to a seasonally adjusted \$1.201 trillion, down from a 0.7% gain in July. The ratio between business inventories and sales was unchanged at 1.28.

The US Labor Department said US import prices increased in September amid higher petroleum and food costs, pointing to inflation pressures that could limit the Fed's ability to provide more stimulus. It reported that the price of goods imported to the US increased by 0.3% on the month, the highest level since April. This followed an increase of 0.2% in August. Petroleum import prices increased by 0.3% in September compared with the prior month. The price was up 45.9% from the year earlier.



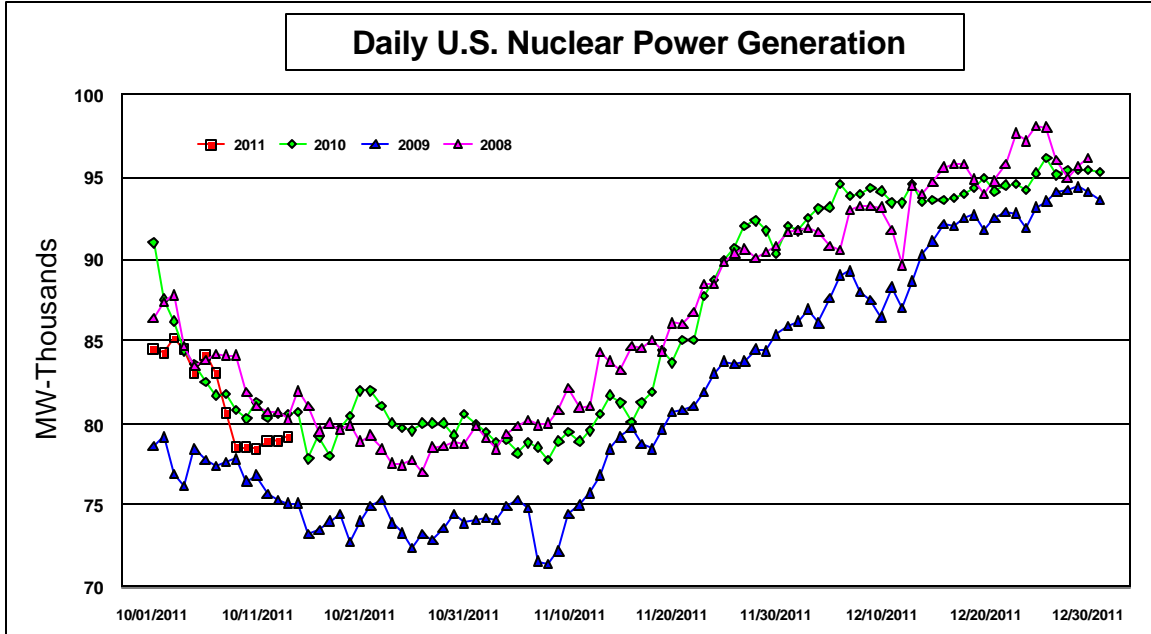
US consumer sentiment unexpectedly fell in early October as concerns over declining incomes pushed consumer expectations back down to the lowest level in more than 30 years. The Thomson Reuters/University of Michigan's preliminary reading on the overall index on consumer sentiment fell to 57.5 in October from 59.4 in September. Consumers' outlook also deteriorated with the index of consumer expectations falling to 47 from 49.4. Its index of current economic conditions fell to 73.8 from 74.9.

The Economic Cycle Research Institute said its Weekly Leading Index fell to 120.2 in the week ending October 7<sup>th</sup> from a revised 120.5 the previous week, which was originally reported as 121.2. The index's annualized growth rate fell to minus 9.6% from minus 8.7% a week earlier.

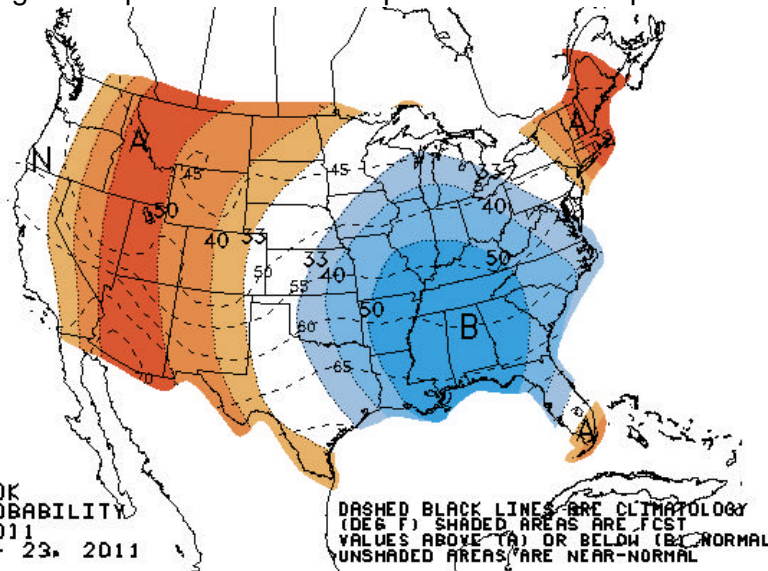
**Market Commentary**

As weather forecasters issued more supportive temperature outlooks today, especially for the 6-10 day period, the bears appeared to run for the exits in front of the weekend. The jump in oil prices and the equity markets on positive economic news also did not hurt the bull's cause today either in natural gas. As a result the spot futures contract posted its widest daily trading range since June 9<sup>th</sup> and largest one-day gain in price outside of an expiration period since early January.

Background fundamentals though continue to be less bullish than traders excitement over an October temperature forecast. Storage builds continued this week at a rather good pace and this



afternoon's Baker Hughes report continued to reflect an unwillingness of natural gas producers to cut back on their drilling and exploration efforts despite the recent low prices.



While there may be some additional follow through short covering early next week but we would look for this rally to run out of steam and see prices stall out once again. We would look for the daily stochastics to cross back over and point to the downside though before thinking about selling into this rally. We see resistance at \$3.743, \$3.811, \$3.896

and \$3.926. Support we see at \$3.578, \$3.50, \$3.446 and \$3.391.

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