



## ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,  
& Karen Palladino

(212) 624-1132 (888) 885-6100

[www.e-windham.com](http://www.e-windham.com)

### NATURAL GAS & POWER MARKET REPORT FOR OCTOBER 17, 2011

#### NATURAL GAS MARKET NEWS

##### North America

Invest 95L continued to become more organized this morning with deep convection in the Yucatan Channel and the southeast Gulf of Mexico. The storm is currently producing tropical storm winds in the region moving slowly toward the southeast Gulf of Mexico. Several forecasters are predicting the system to be upgraded to Tropical Storm Rita late on Monday or early Tuesday morning. The system is expected to track over Florida on Wednesday before heading up the east coast later in the week.

Kinder Morgan's CEO has stated that he does not expect antitrust issues to be a problem in the company's acquisition of El Paso. Kinder Morgan plans to sell El Paso's exploration and production

#### Generation Outages

**FRCC**- NextEra Energy's 693mw Unit 3 at Turkey point stated to exit an outage on Sunday and had increased power to 55% by early Monday. The unit had been shut since October 4<sup>th</sup>.

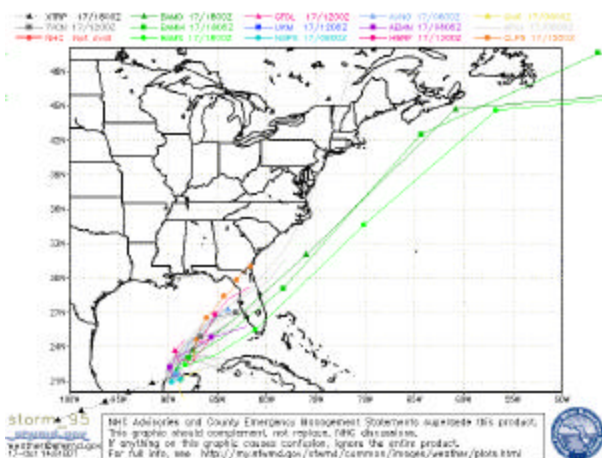
**SERC** - Unit 1 at the Watts Bar nuclear power plant in Tennessee started to exit an outage on Saturday and had increased power to 95% by early Monday. The Tennessee Valley Authority's 1,123mw unit had been shut since October 8<sup>th</sup> for planned maintenance. Southern Co's Vogtle nuclear plant finished exiting a fueling outage and was operating at 100% power early on Monday. Duke Energy Corporation's Unit 1 at the McGuire nuclear plant started to exit an outage on Saturday after being shut since September 19<sup>th</sup>. The 1,100mw unit was operating near 54% early on Monday. Another Duke owned facility, Catawba, increased its Unit 2 to full power early on Monday from 46% power on Friday. Ameren Corp shut its Callaway nuclear power plant in Missouri for scheduled refueling on Sunday. The plant is expected to be offline for about a month. Entergy Corporation's Arkansas Nuclear 1 power reactor shut on Monday from 76% power on Sunday.

**PJM**- Exelon Corp had the Unit 3 at the Peach Bottom nuclear power plant return to service on Saturday morning. The plant was operating at 68% power early on Monday. The reactor had been shut since September 11<sup>th</sup> to replace about a third of the plants nuclear fuel and workers performed approximately 15,000 inspections and maintenance checks on various apparatuses throughout the plant. The R.E. Ginna nuclear power plant started to exit an outage on Monday. The Constellation Energy Nuclear Group owned plant shut last Tuesday after a turbine control valve oil signal caused the turbine to trip.

**MRO** - Exelon Corp shut the Unit 2 at the Dresden nuclear power station on Monday from full 99% power on Sunday. Unit 3 has remained operating at full power.

**ERCOT** Luminant plans to restart the Unit 3 at its Monticello coal-fired power plant on Monday after completing repairs to a boiler tube leak. The startup is expected to take place on Monday and Tuesday.

**The NRC reported this morning that some 80,289 of nuclear generation was online, down 0.6% from yesterday but 3% higher from the same day a year ago.**



businesses as a whole to help pay down the acquisition bank debt.

Boardwalk Pipeline Partners has agreed to buy Enterprise Products Partners Mississippi natural gas storage facilities for \$550 million. The Mississippi properties, Petal Gas Storage and Hattiesburg Gas Storage Co., own about 29bcf of total storage capacity and 105 miles of pipeline that connect with several major natural gas pipelines. The transaction is expected to close in the fourth quarter of 2011.

The Climate Prediction Center this morning reported that it calculated for the week ending October 15<sup>th</sup>, the nation on a population weighted basis saw only

31 heating degree days, some 50% less than normal. For the current week the CPC sees a much higher demand with 66 HDD, but this would still be some 15% less than normal.

### International

The maritime cleantech market insight firm MEC Intelligence is estimating that 5% of the world's maritime fleet will use LNG for propulsion by 2020. The increase is expected to occur because new ships will be built using new LNG technology due to stricter environmental regulations and the use of LNG is expected to cost less than diesel, lowering ship operating costs.

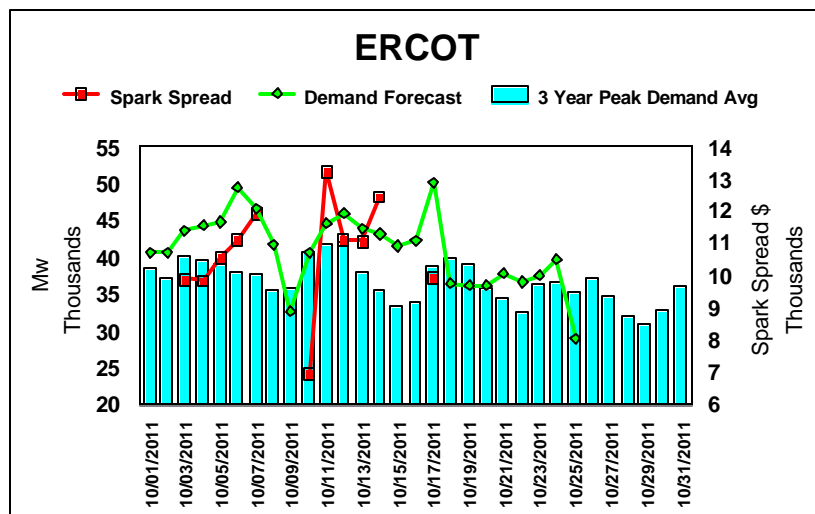
The Wingate gas production platform in the British North Sea is expected to initially produce 1.5 million cubic meters per day of gas with the ability to increase production with a second well to 3 million cubic meters per day next year. Germany's Wintershall has said the gas will be piped onshore via the Netherlands through the GDF Suez platform.

Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	943,500	\$3.721	\$0.236	\$0.054	\$0.301	(\$0.116)
Chicago City Gate	1,007,500	\$3.813	\$0.290	\$0.146	\$0.336	(\$0.041)
NGPL- TX/OK	813,900	\$3.654	\$0.213	(\$0.013)	\$0.259	(\$0.141)
SoCal	299,400	\$3.672	\$0.234	\$0.005	\$0.280	(\$0.112)
PG&E Citygate	1,341,200	\$3.793	\$0.205	\$0.126	\$0.251	\$0.045
Dominion-South	528,900	\$3.796	\$0.315	\$0.129	\$0.361	(\$0.032)
USTrade Weighted	20,164,600	\$3.687	\$0.255	\$0.020	\$0.30	(\$0.116)

Chinese natural gas imports increased to 22.5 bcm in the January-September period, an 89% increase for the same period last year. China's top economic planner said that the sharp raise in imports could be attributed to higher demand caused by higher temperatures. Consumption in China also increased to 93.7 bcm between January and September, a 20% increase over last year's level for the same period. China also injected 1.96 bcm of gas into storage tanks, a 200 million cubic meter increase over last year.

Japan's LNG demand for power generation is expected to be approximately 56 million mt, a 12 million mt increase from a year ago for the fiscal year ending March 2012. The increase in estimates is due to

Japan only using 18% of its nuclear capacity forcing Japan's major power utilities to buy an all time high of 26.16 million mt of LNG from April to September.



India's Reliance Industries plans to suspend oil and gas drilling pending an internal valuation. Growth outlook and market value have decreased significantly due to falling gas output from its gas fields in eastern India.

### ELECTRIC MARKET NEWS

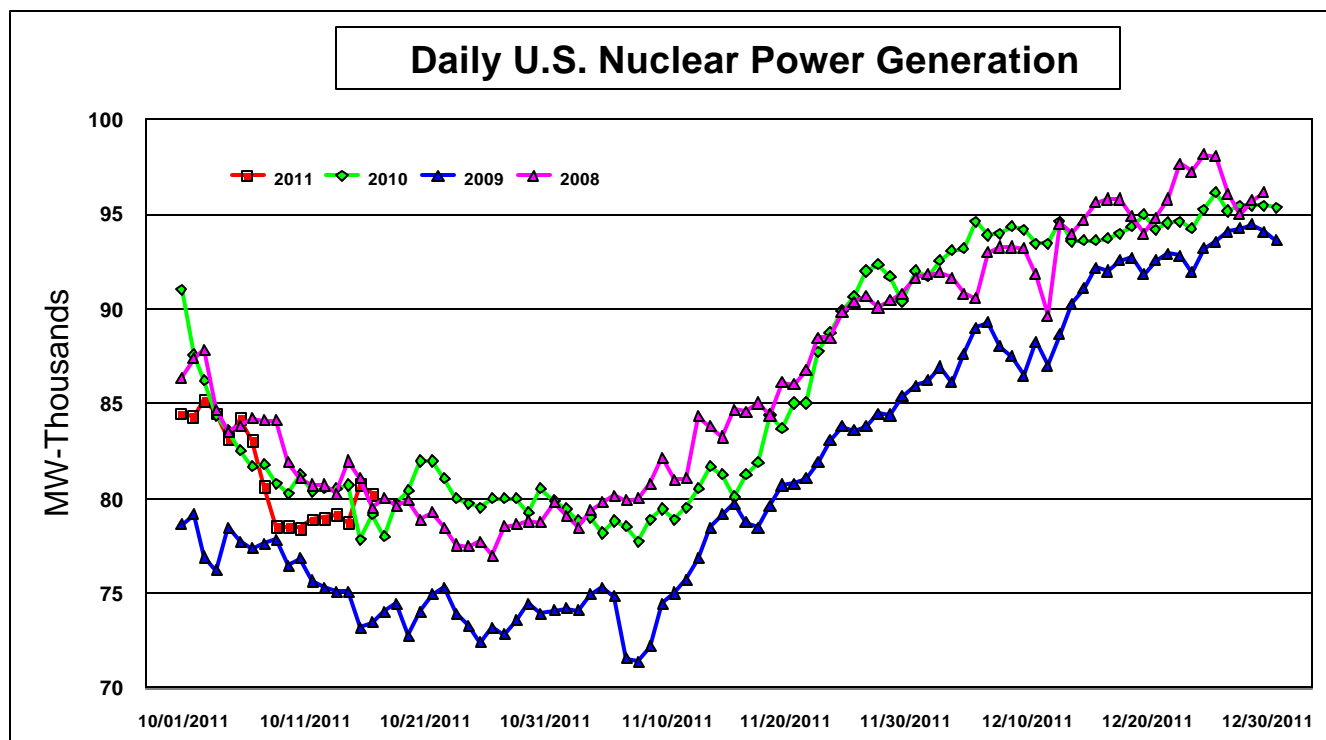
FirstEnergy has discovered 'microcracks' in the concrete shield building surrounding the containment structure at its Davis-Besse nuclear power plant in Ohio. The discovery took place while the plant was shut for another reactor head replacement. Plant engineers have been inspecting the cracks and their report is expected later in the week. FirstEnergy has said this is different from the structural damage Progress Energy's Crystal River Florida plant and will not require the same maintenance time frame. Crystal River has shut since September 2009 and is not expected to reopen until at least 2014.

US power output rose 0.56% for the week ending on October 13<sup>th</sup> compared to the prior week. Output also increased by 2.63% when compared to the same week last year.

### **ECONOMIC NEWS**

The Federal Reserve reported that US industrial production increased by 0.2% in September, with a modest gain in manufacturing and a sharp decline in utilities caused by moderating weather. The report showed that overall production was flat in August, revised down from a previously estimated 0.2% increase. The Fed data showed that industries used 77.4% of their capacity last month, up from 77.3% in August.

The New York Fed's Empire State general business conditions index was relatively unchanged in October at minus 8.48 from minus 8.82 in September. New order increased to 0.16 from minus 8 while inventories increased to minus 8.99 from minus 11.96.

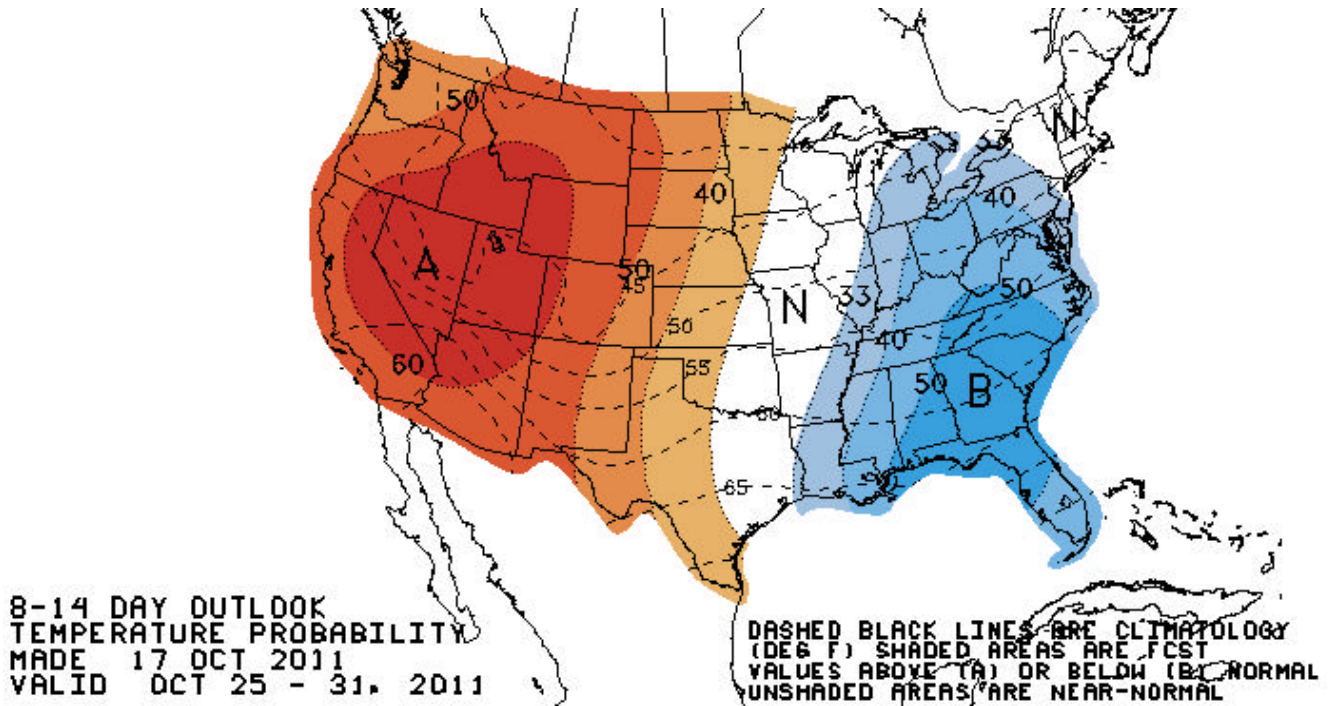


Germany's Finance Minister Wolfgang Schaeuble warned against unrealistic expectations that this weekend's European Union summit can come up with a definitive solution to the euro zone's sovereign debt crisis. Expectations of the October 23<sup>rd</sup> summit have steadily built up since Chancellor Angela Merkel and France's Nicolas Sarkozy promised in bilateral talks on October 9<sup>th</sup> to unveil a comprehensive new euro zone crisis package, including an agreement on how to recapitalize Europe's banks.

### **Market Commentary**

The natural gas cash market this morning was up strongly across the board as heating demand began to kick in to start the week off. The spill over of the price strength from the cash to the futures market helped to push the November futures contract up to levels not seen since the end of September. But as the oil and equities market turned lower this morning on traders disillusionment following the German finance minister's remarks, the natural gas futures market was pulled lower as well as prices quickly deflated by a dime in just 30 minutes of trading as the floor session got under way. The quick sell off in the futures market resulted in slightly more than a 38% retracement of the price upswing off of Thursday's lows. But prices at mid morning did stabilize and entered into a relatively sideways 5 cent trading range for the remainder of the morning.

As long as this evening's supportive temperature outlook holds for the next several days then we would not expect this market to seriously challenge the lows from last week, without a complete collapse in the oil and equity markets. Based on today's price action it appeared the market was willing to retrace some of its recent up move but unwilling to abandon its overall trend direction. Judging by such trend indicators as the daily stochastics, there is technically no reason for the bulls to run for the exits just yet. We see resistance tomorrow starting at \$3.70 followed by \$3.811, \$3.897-\$3.905 and \$4.094. Support we see at \$3.641, \$3.612 and \$3.572. Additional support we see at \$3.446, \$3.391 and \$3.212.



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