



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR OCTOBER 19, 2011

#### NATURAL GAS MARKET NEWS

##### North America

Invest 95L will continue to move across Florida and up the east coast after it met with a cold front advancing across the Gulf of Mexico. The system no longer poses any threat for tropical development. The only other activity in the Atlantic is a few of waves moving westward across the central Atlantic but both are still fairly disorganized with no development expected to take place for the next couple of days.

The API reported today that oil well drilling activity continued to increase on the third quarter of 2011. The group estimated that 6,379 oil wells were completed in the third quarter 2011, a 16% increase from a year ago. The API reported that 3,188 natural gas wells were completed during the period, this though was a decline of 28.1% from the 3Q2010.

##### International

Golar LNG of Norway has rented its Golar Grand tanker for three years starting in March of 2012 to a major energy firm. It is estimated that the rental rate for Golar Grand is approximately \$125,000 per day.

PGNiG will attempt to renegotiate its long-term gas deal with Gazprom until the end of October. If PGNiG fails to secure a new deal the company plans to look for arbitrage opportunities. The company believes that spot prices despite peak winter demand months coming will cost the company less than buying gas from Gazprom under its current contract.

Russia and Belarus are getting closer to securing a new energy deal, which is vital to maintain steady energy supplies to Europe because Russia sends approximately 20% of its gas exports to Europe via Belarus. A new agreement is expected to be signed in November

#### Generation Outages

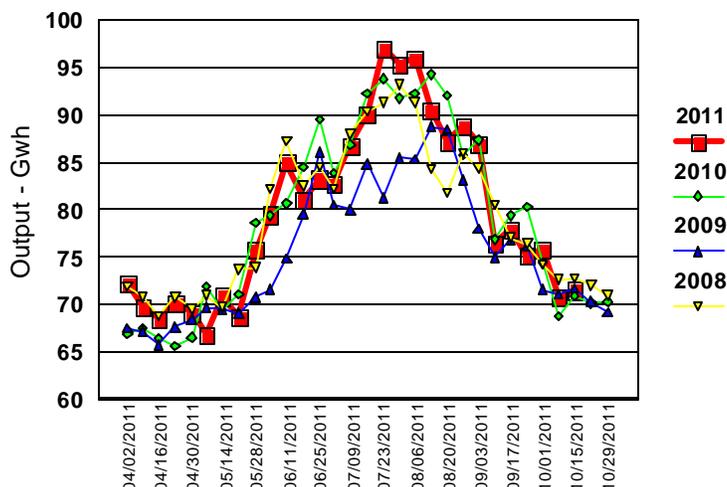
**NPCC-** NextEra Energy Inc.'s Seabrook nuclear power plant stayed offline on Wednesday despite ramping up to 16% power on Tuesday. The plant was operating at 3% power on Wednesday morning. A company spokesman said the plant will not go back online until all start up activities are complete but did not give a timetable of when he expects that to happen.

**MRO-** The 1,245mw Perry nuclear power plant began to exit an outage and increased power to 5% on Wednesday. The reactor has been shut since October 3<sup>rd</sup> to repair a startup transformer.

**WECC-** The Panoche Energy Center in California shut for planned and unplanned reasons on Tuesday afternoon.

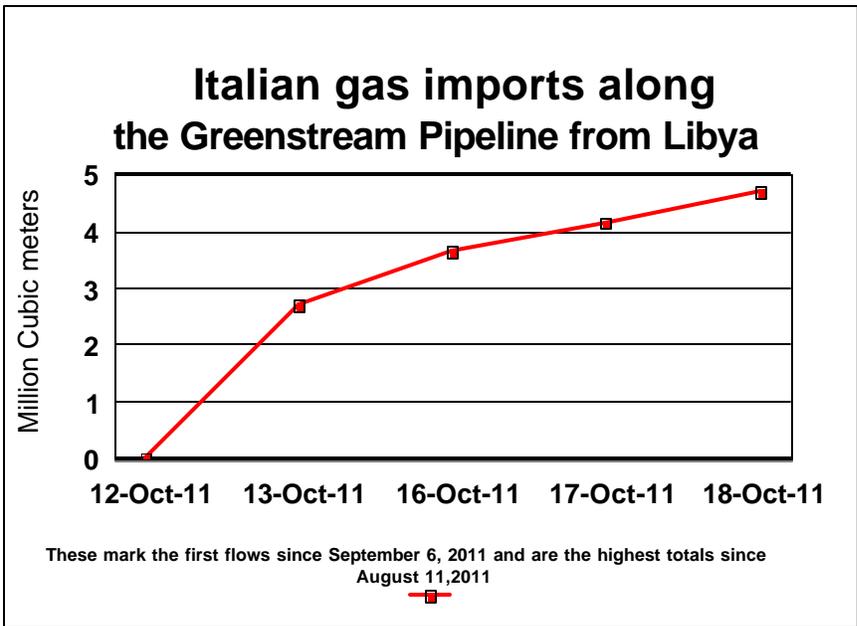
The NRC reported this morning that some 81,589 Mw of nuclear generation was online, up 0.2% from yesterday and some 1.4% higher than the same day a year ago.

Weekly Electric Output



before the current gas deal expires on December 31<sup>st</sup>. Parts of the deal include the purchase of Belarusian pipeline network, Beltransgaz, and Belarus joining a custom union with Russia. Belarus currently pays the lowest price for gas among countries purchasing gas from Russia.

The Third Energy Package in Europe, which requires production, transportation and sale of energy to be separated, has caused Russia to diversify its gas exports to Asia. Russia has been seeking for a special exemption to the rule because it believes that the Third Energy Package contradicts contracts that Russia has signed with several EU member states.



An Iranian official said on Tuesday that the country's LNG projects have not been abandoned and foreign partners are unwilling to cancel there contracts. Both the Pars and the Persian LNG projects have recently been temporarily halted. It would cost investors more to cancel the projects then place a temporary halt on them.

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	722,300	\$3.585	(\$0.042)	(\$0.040)	(\$0.052)	(\$0.083)
Chicago City Gate	1,000,600	\$3.827	\$0.059	\$0.202	\$0.022	\$0.049
NGPL- TX/OK	463,300	\$3.524	(\$0.040)	(\$0.101)	(\$0.077)	(\$0.119)
SoCal	597,800	\$3.598	(\$0.138)	(\$0.027)	(\$0.175)	(\$0.050)
PG&E Citygate	1,249,800	\$3.747	\$0.013	\$0.122	(\$0.024)	\$0.063
Dominion-South	581,200	\$3.656	(\$0.000)	\$0.031	(\$0.037)	(\$0.020)
USTRade Weighted	20,249,500	\$3.592	(\$0.015)	(\$0.033)	(\$0.05)	(\$0.083)

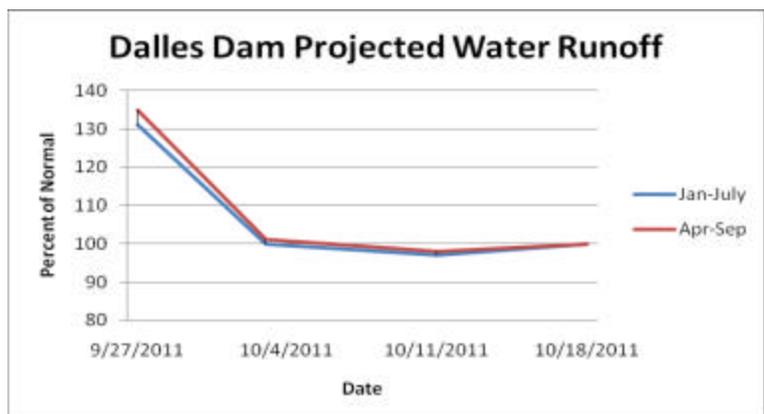
Petronet LNG of India is in negotiation to acquire capacity at LNG terminals in the United States and Australia. Indian domestic gas output has been falling in recent years so Petronet and GAIL India are looking to gain capacity abroad in order to supply the domestic market.

The South Korean shipbuilder, Daewoo Shipbuilding & Marine Engineering Co, won a contract on Wednesday from Sweden's Stena Bulk to build two LNG vessels with a capacity of 170,000 by the end of 2014.

Japan's Mitsubishi Corp and Mitsui & Co. or China may be interested in purchasing part of the remaining 24% stakes in Royal Dutch Shell Plc's at Australia's Woodside Petroleum Ltd according to JPMorgan Chase & Co. Last year Shell sold a 10% stake for \$3.35 billion.

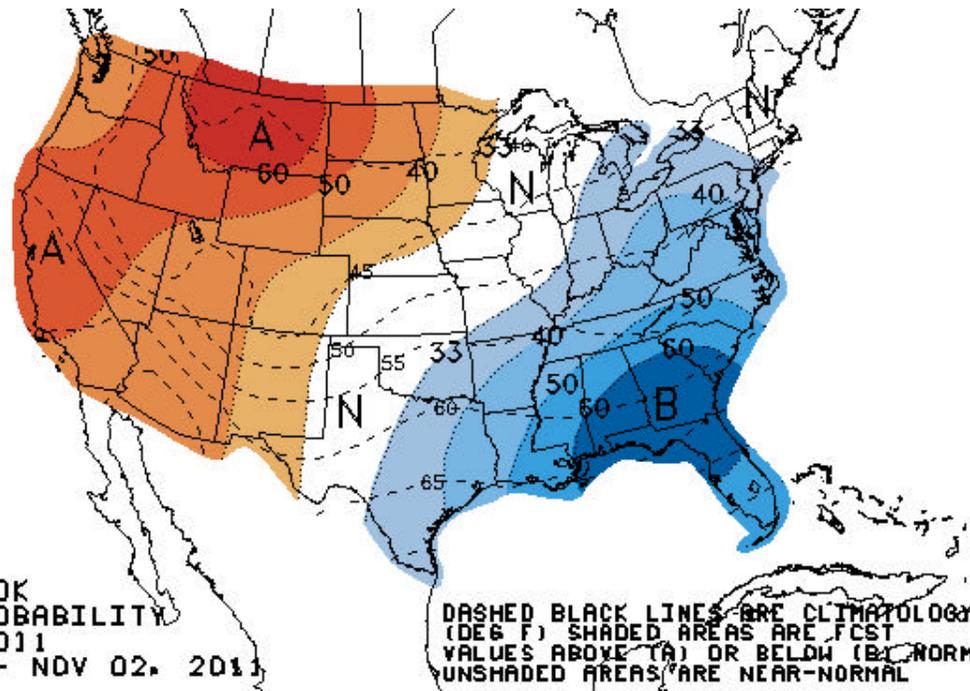
### **ELECTRIC MARKET NEWS**

Power output for the week ending on October 15<sup>th</sup> increased by 0.9% from a year earlier to 71,490GWh. Five of the



nine regions showed year-on-year output increased but Total US power production is still down 0.1% for the year so far.

This year's summer drought in Texas may limit electric output from power plants next summer. Texas, Oklahoma and parts of Louisiana, Arkansas, New Mexico, and Kansas are under extreme drought conditions and without more rain generating units may be curtailed due to a lack of adequate cooling water. Currently only a small 24mw generating unit is offline in Texas but the number of offline



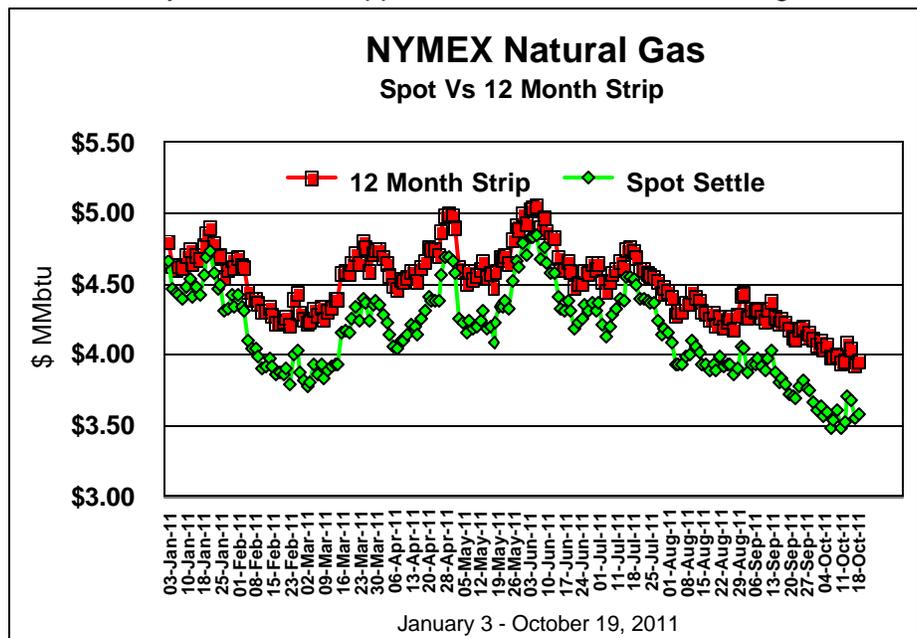
generation capacity could rise to 3,000mw next summer.

The FERC has given conditional approval despite opposition from consumer groups, state utility regulators, and some US Congressman for rate incentives for Midwest power companies for a proposed \$1.6 billion power line in Indiana and Illinois that would help connect wind farms that are expected to be built over the next several years. Those opposed believe the FERC has granted the developers too many incentives to build new projects, which are eventually paid for by the ratepayers.

The Dalles Dam's projected water runoff was 100 percent of normal. In the 2011 water year from January to July was 133 percent of normal on the Columbia River dam.

**ECONOMIC NEWS**

According to a Federal Reserve survey of conditions, the US economy kept growing slightly in September however



prospects for the future appeared to be weakening. It said consumer spending increased slightly in most districts in September, led by car sales and tourism. The Fed saw a slight improvement in construction but residential and commercial real estate activity was weak. It expects prices of commodities, including oil, industrial materials to fall.

The US Labor Department said the cost of living in the US kept rising in September, led by continued increases in food and energy prices. Consumer prices in September increased a seasonally adjusted 0.3% on the month, the third consecutive monthly increase. Prices were up 0.4% and 0.5% in August and July, respectively. The core CPI, excluding food and energy, increased 0.1% in September. Energy prices were up by 2% in September after a 1.2% increase in August.

The US Commerce Department said US housing starts in September increased to the highest level in 17 months. Home construction in September increased 15% on the month to a seasonally adjusted annual rate of 658,000. Housing starts for August were revised upward slightly to an annualized pace of 572,000. Newly issued building permits fell 5% on the month to an annual rate of 594,000, the lowest level in five months.

The Mortgage Bankers Association said applications for US home mortgages fell last week as demand for both refinancing and purchases declined. It said its seasonally adjusted index of mortgage application activity fell 14.9% in the week ending October 14<sup>th</sup>. Its seasonally adjusted index of refinancing applications fell 16.6% while the index of loan requests for home purchases fell by 8.8%.

Morgan Stanley said its commodities trading risk increased in the third quarter amid strong sales and revenues from the sector. Value at Risk for commodities averaged \$32 million per day in the third quarter compared with \$29 million in the second quarter and \$30 million in the third quarter of 2010. Morgan Stanley said its combined revenue from fixed income, currencies and commodities increased to \$3.9 billion in the third quarter from \$2.1 billion in the second quarter and \$847 million a year ago.

### **Market Commentary**

The natural gas futures market posted an inside trading session today as it appeared traders were moving to the sidelines as they awaited tomorrow's storage report. Despite late session decline in the equities, forex and oil markets, natural gas values remained relatively stable and actually finished up on the day for the first time this week.

Market expectations for tomorrow's storage report is running between 105-110 bcf build in working gas stocks. For the same week a year ago stocks rose an adjusted 93 bcf with the five year seasonal average showing a build of just 58 bcf.

Minor resistance tomorrow is seen at \$3.626, \$3.655 and \$3.683, with more significant resistance found at \$3.765, \$3.845, and \$3.922. Support we see \$3.532, \$3.446, \$3.391 and \$3.36.

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