



## ***ENERGY RISK MANAGEMENT***

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### **NATURAL GAS & POWER MARKET REPORT FOR OCTOBER 20, 2010**

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

The National Hurricane Center continued to watch Invest 99L, a low-pressure system in the northwestern Caribbean. Forecasters have increased their probabilities that this could strengthen into a tropical depression over the next two days this morning by 70%. While the forecast models are mixed in their potential forecasted direction of the storm, they are in agreement that the storm remains no risk to the northern Gulf of Mexico.

Due to striking French workers, the injection of natural gas into the network from three of the twelve storage sites, including the largest has been halted. The combined storage capacity of the three sites accounts for 60% of the nation's storage capacity. Supply to consumers were not threatened at this point, as additional supplies were expected to be secured from the North Sea and Russia.

Iraq has awarded its Siba natural gas field to Kuwait Energy, choosing this consortium over Kazakhstan's KazMunai Gas. Siba is the second of two natural gas fields up for leasing in Iraq. The Kuwait Energy consortium has made an offer to produce as much as 100 million cubic feet of natural gas a day at a remuneration rate of \$7.50 per barrel. Kuwait Energy shares the consortium with Turkish Petroleum Int'l, who has 60% vested interest. Separately, Korea Gas Corp won the first of three natural gas bidding rounds, offering to produce a maximum of 400 million cubic feet of natural gas a day, at the cost of \$5.50 a barrel.

Meanwhile, Iraq's Prime Minister Nuri al-Maliki said Iraq is considering connecting a gas pipeline running from Egypt through other Arab countries as a way to export its gas. The Arab Gas Pipeline is aimed at supplying customers in Jordan, Syria, Lebanon and Turkey and potentially Europe through Egypt.

Construction on a CNY11.3 billion LNG terminal in China's Zhuhai city began on Wednesday. The terminal will have an annual LNG receiving capacity of 3.5 million metric tons, which will be eventually ramped up to 12 million tons.

#### **ELECTRIC MARKET NEWS**

U.S. power production for the week ended Oct. 16 fell to 70,858 gigawatt hours, this is down 1.1 percent from the same period last year. The largest year on year decline was seen in the Pacific

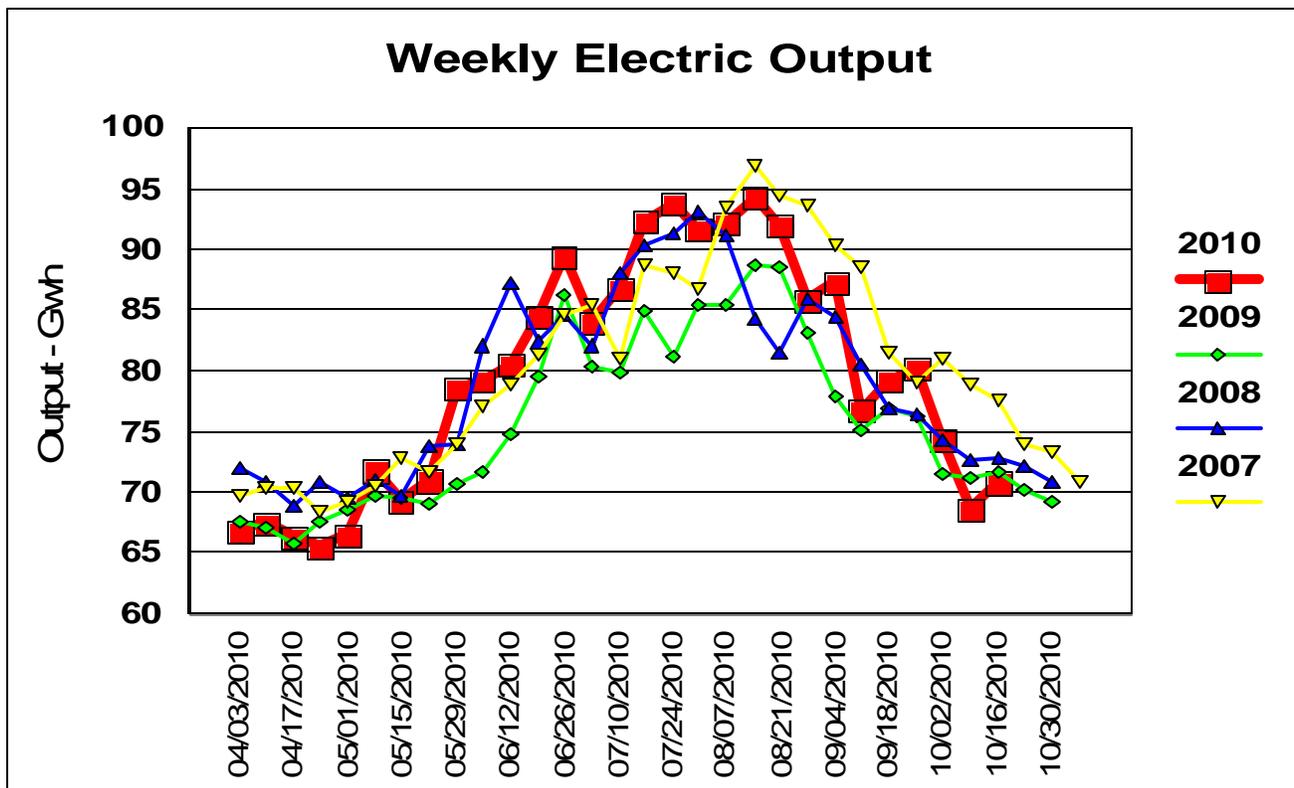
**NPCC** – OPG's 535 Mw Unit 3 fired power plant in Ontario exited an outage late Tues. The unit shut by Oct. 18.

**MAAC** – PSE&G' 1,158 Mw Unit 2 nuclear power plant in NJ exited an outage and ramped up to 36% power by early Wed. from 2% Tues. The 1,174 Mw Unit 1 slipped to 55% power early Wed from full power Tues.

**SERC** – Dominion's 903 Mw Unit 2 nuclear power plant in VA ramped up to 98% by early Wed, up from 30% Tues.

**The NRC reported this morning that some 80,451 Mw of generating output was on line this morning, up 0.95% from yesterday and some 8.72% higher than the same time a year ago.**

Northwest region, where production fell 5.8 percent to 2,852 Gwh. The Pacific Southwest region had the largest year on year gain, gaining 6.1 percent to 5,946 Gwh.



#### **MARKET COMMENTARY**

The natural gas market ended the session in positive territory for the second consecutive session, supported by firmer cash prices and follow through buying ahead of Thursday's weekly natural gas stock report. The market retraced more than 50% of its move from a high of \$3.777 to a low of \$3.395 as it rallied to a high of \$3.613 in afternoon trading. The market later erased some of its gains and sold off to a low of \$3.507 at the close. The market settled up 2.6 cents at \$3.539.

U.S. natural gas storage levels are expected to increase by 89 bcf, on average. Stocks increased by an adjusted 23 bcf last year while the five year average gain for the week was 54 bcf. Should storage levels increase by the expected 89 bcf, the yearly deficit to last year, would sharply narrow to just 52 bcf and widen the five-year surplus average to approximately 282-bcf.

While the market has rebounded, the market will likely remain on the defensive. Technically, the natural gas market is still seen finding resistance at \$3.597, \$3.631 followed by \$3.654 and \$3.678. Support is however seen at \$3.507, \$3.498 followed by \$3.456, \$3.399-\$3.395 and \$3.341-\$3.321.

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