



# ENERGY RISK MANAGEMENT

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## NATURAL GAS & POWER MARKET REPORT FOR OCTOBER 24, 2011

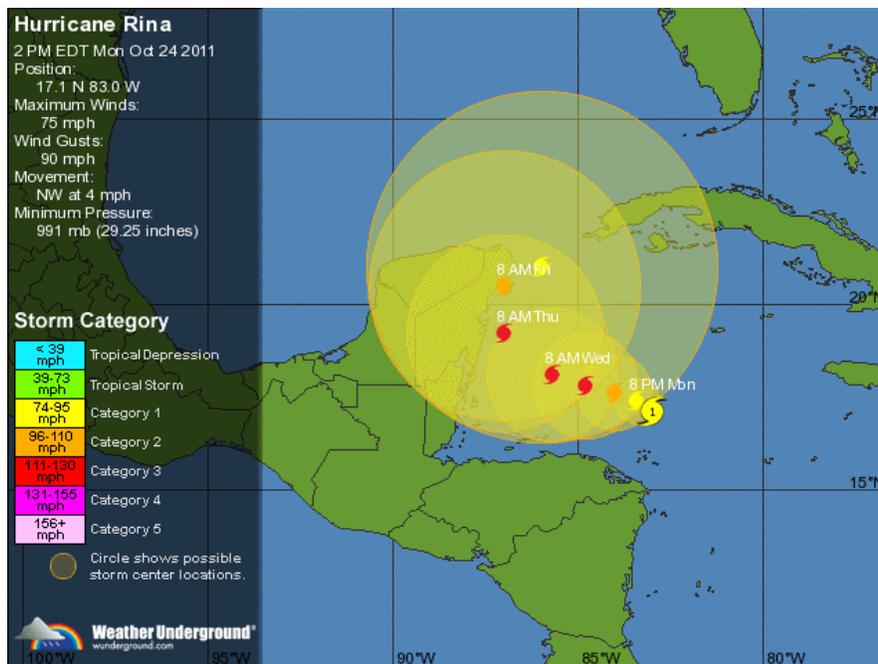
### NATURAL GAS MARKET NEWS

#### North America

Hurricane Rina was upgraded to a Category 1 Hurricane at about 2 PM on Monday. The storm was measured with winds of 70mph and gusts of 90mph. The storm is expected to move slowly westward into warmer water Tuesday and Wednesday before reaching the Northeast Yucatan on Thursday night or Friday morning as a Category 3 storm. The storm is then expected to track east and reach the southern coast Florida as a Category 1 or weak Category 2 over the weekend.

Kinder Morgan will attempt to grow its natural gas treatment business by acquiring Southtex Treaters for \$155 million. The Amine plants range in size from 5 to 1,200 gallons per minute of treating capacity. Kinder Morgan said the deal is likely to close in the fourth quarter of this year.

Units of GE and LP have announced that they have teamed up to make a strategic investment in the LNG market.



#### Generation Outages

**SERC** - Duke Energy Corp's Unit 2 at the Oconee nuclear power plant was shut as planned on Saturday for refueling. The unit is expected to remain offline for approximately for a month. Unit 2 at the Hatch nuclear power plant shut on Saturday from 91% power on Friday. The Southern Co owned plant has kept its Unit 1 operating at full power.

**PJM** - The Three Mile Island nuclear power plant lowered power to 4% on Monday from full power on Friday for planned refueling. PSE&G shut its Salem 1 unit at the Hope Creek-Salem nuclear power plant for planned refueling. The refueling at both plants is expected to last for approximately one month.

**MRO** - The 1,245MW Perry nuclear power plant in Ohio ramped up to full power on Sunday from 70% power on Friday.

**The NRC reported this morning that some 80,918 Mw of nuclear generation was online, down 1.12% from yesterday and some 0.22% below the same day a year ago.**

#### International

Egypt has resumed pumping gas to Israel and Jordan after an attack on the pipeline caused flows to be stopped. As gas flows resumed Egypt doubled the price it is charging Jordan for the same quantity of gas.

Yemen LNG plans to resume operations at the end of the month after an attack on a pipeline stopped supplies to the plant's LNG export terminal and forced the plants operators to declare force majeure. The LNG export terminal can produce 6.7 mtpa.

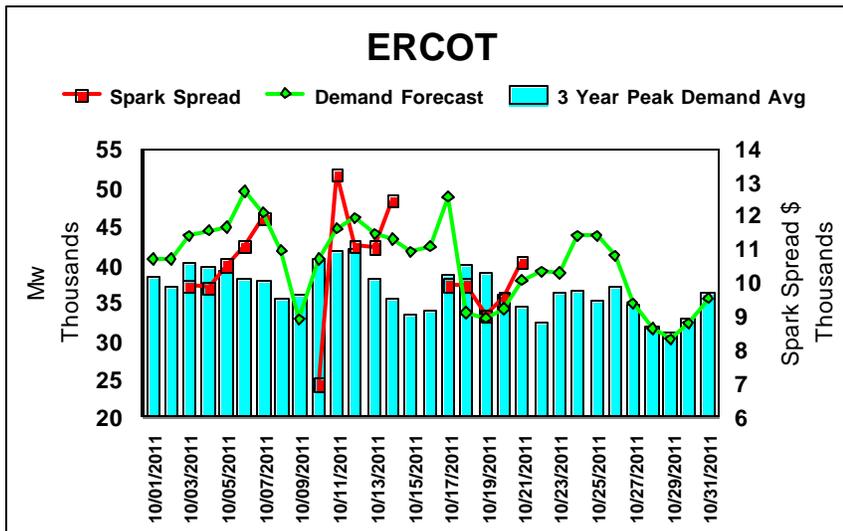
A delegation from Russia has gone to South Korea for a meeting to discuss building a pipeline from Russia to South Korea via North Korea in addition to discussion intergovernmental commission.

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	818,200	\$3.608	\$0.069	\$0.007	\$0.121	(\$0.033)
Chicago City Gate	792,600	\$3.786	\$0.064	\$0.185	\$0.070	\$0.174
NGPL- TX/OK	431,300	\$3.533	\$0.069	(\$0.068)	\$0.075	(\$0.091)
SoCal	498,000	\$3.745	\$0.331	\$0.144	\$0.337	\$0.000
PG&E Citygate	1,038,700	\$3.815	\$0.113	\$0.214	\$0.119	\$0.139
Dominion-South	422,700	\$3.672	\$0.078	\$0.071	\$0.084	\$0.039
USTrade Weighted	19,388,300	\$3.607	\$0.115	\$0.006	\$0.12	(\$0.033)

Two people with direct knowledge of the deal have said Gazprom is seeking an \$800 million loan. Mizuho Corporate Bank Ltd. Sumitomo Mitsui Financial Group Inc, and Bank of Tokyo-Mitsubishi are among lenders that have joined the self-arranged club deal.

Chevron Corporation's Thailand unit has begun to produce natural gas from the Platong II project in the Gulf of Thailand. The project will have an initial capacity of 330 mmscf/d and a maximum capacity of 420 mmscf/d. The Platong II will increase Thailand's domestic production by over 10% and increase Chevron's natural gas output from the Gulf of Thailand by more than 20%.

The Philippines Lopez-led First Gen Corp has begun the process of trying to secure new sources of natural gas abroad to replace the supply contracts at the Sta. Rita and the San Lorenzo facilities in Batangas that are set to expire in 10 to 12 years.



PetroChina's Dalian LNG terminal, the fifth terminal in China, is expected to begin receiving shipments around mid-November, four months later than original expected. PetroChina plans to start pumping gas through pipelines to local consumers before the end of the year.

Chinese LNG imports averaged 38,386 tonnes per day in September, the highest rate since China started to ship the fuel in 2006. Total LNG increased 17.6% from a year earlier to 1.15 million tonnes the second highest-level in

history, just below the monthly record high of 1.18 million tonnes in July.

Kansai Electric of Japan imported about four times as much LNG from Trinidad and Tobago this year when compared to last year. Over the January through August 2011 period Kansai had received 216,696 mt of LNG in 2011 compared to 58,240 mt of LNG in 2010.

**ELECTRIC MARKET NEWS**

The US grid operator that provides power to the six New England states, ISO New England, has issued a statement that they see energy consumption growing at 1.1% annually for the next ten years. ISO also said that they have enough resources to meet demand through 2015 but the possible closure of the Vermont Yankee plant in 2012 may cause reliability problems for Vermont and New Hampshire.

Snow melt has washed away the demand for coal from power generation markets. From January through September 2011 coal usage is off by 0.3% of last years level and coal used for power generation fell by 4% of last years level while natural gas-fired generation was up 3% of last years level.

US COAL CONSUMPTION				
		National	East	West
This week	10/20/2011	16.1	13.62	2.23
Last Week	10/13/2011	16.62	14.24	2.28
Last Year	10/21/2010	17.82	15.3	2.45

US power output fell 2.33% for the week ending October 20<sup>th</sup> compared to the previous week. When compared to the same week last year output fell 1.5%.

The forecast on October 23<sup>rd</sup> for water runoff at The Dalles Dam on the Columbia River in Oregon remained unchanged from the previous estimate on October 20<sup>th</sup> at 98 percent of normal.

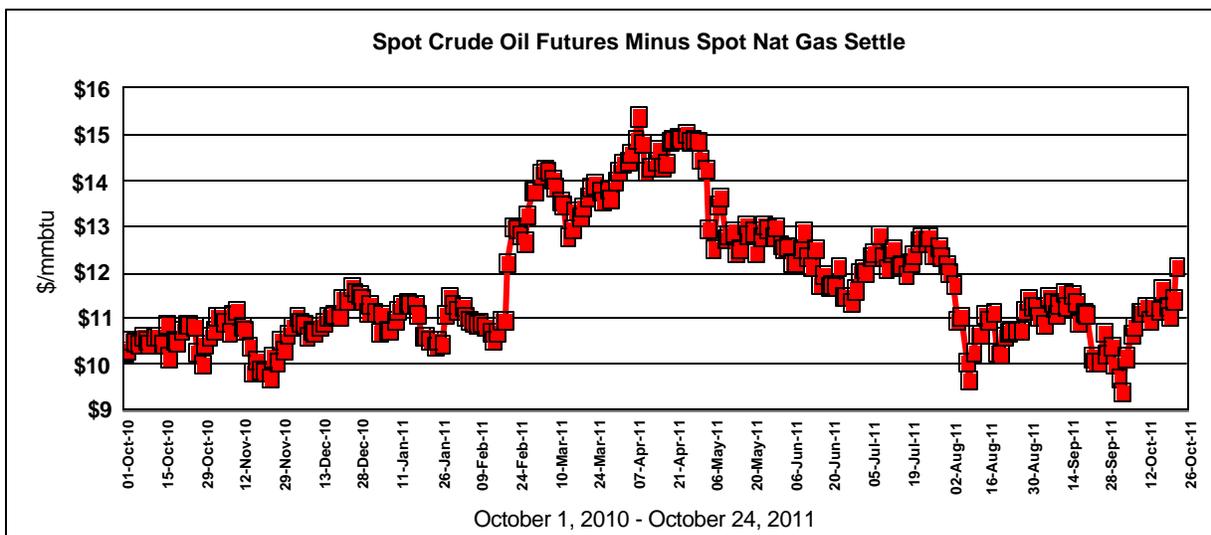
### ECONOMIC NEWS

The Federal Reserve Bank of Chicago's National Activity Index was -0.22 in September compared with -0.59 in August.

HSBC's China Flash PMI showed that China's manufacturing sector increased in October following a three month contraction as both new orders and new export orders strengthened. The Purchasing Managers' Index increased to 51.1 in October from September's final reading of 49.9.

### Market Commentary

One would have expected that the natural gas futures market would have ended the day stronger today as firmer spot market values coupled with stronger oil and equity markets all should have supported this futures market. But this theory was quickly dispelled after the floor session got underway, and the highs for the trading session were never challenged for the remainder of the day. While crude oil moved higher throughout the session the natural gas futures market saw its values in fact erode and by the time prices settled, crude oil's premium to natural gas on a BTU basis had broken through recent resistance and moved to levels not seen since August 1<sup>st</sup>. It appears that this market continues to find the \$3.60-\$3.65 as its comfort zone and without a significant change to the current supply/demand balance such as sustained cold (or warm spell) or a tropical disruption to production that traders feel reluctant to move outside of this price zone.



We see near term resistance at \$3.671-\$3.678, \$3.724, \$3.777, \$3.802 and \$3.849. Support we see at \$3.549-\$3.532, followed by \$3.512 and \$3.446.

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