



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR OCTOBER 27, 2011

#### NATURAL GAS MARKET NEWS

##### North America

Rina has continued to weaken since yesterday and was downgraded to a Tropical Storm at 2PM EST. Further weakening is expected as the storm moves inland Thursday night and Friday morning. Experts are now predicting that the storm will not reach Florida. Instead, the storm is

expected to meander in the Caribbean until it fully dissipates. Elsewhere, 97L is currently near Central America and is unlikely to develop. Another tropical system in the central Atlantic is not expected to develop over the next several days but should be monitored moving forward.



#### Generation Outages

**SERC** - The 1,065MW Unit 1 at the Browns Ferry nuclear power plant ramped up to full power on Thursday from 40% power on Wednesday. The unit was offline for repairs on a component related to the pump motor.

The NRC reported this morning that some 80,091Mw of nuclear generation was online, up 1% from yesterday and up some 0.1% the same day a year ago.

Shell plans to look into becoming a major gas exporter from the United States and Canada. The company has been in the process of reviewing whether to build an LNG export facility in British Columbia. Shell hopes to capitalize on the gas that is cheaper in the United States than in other parts of the world.

GE Energy Financial Services and El Paso Corporation have opened their co-owned regasification and LNG storage facility on time and on budget. The facility in Pascagoula Mississippi has two 166,000 cubic meter storage tanks and a total capacity of 6.6 bcf.

A Reuters survey of energy analysts found that most had trimmed their U.S. natural gas price estimates for 2011 and 2012 again due to rising gas shale supplies. The quarterly poll put the consensus forecast for the average spot price this year at Henry Hub at \$4.21 per Mmbtu, down 3.2% from last quarter's estimate. The group looks for 2012 prices to be 6.9% higher at \$4.50, but this estimate is down 6.8% from the previous poll.

#### **EIA Weekly Report**

	10/21/2011	10/14/2011	Change	10/21/2011
<b>Producing Region</b>	1181	1140	41	1188
<b>Consuming East</b>	2037	1993	44	2043
<b>Consuming West</b>	498	491	7	513
<b>Total US</b>	3716	3624	92	3744

\*storage figures in Bcf

**International**

Eni's gas discovery in Mozambique may be 50% larger than originally believed. The Mamba South area in Mozambique's offshore Area 4 was originally thought to hold 425 bcm of gas on October 20<sup>th</sup> but new reports show the area may contain up to 637.5 bcm of gas.

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	733,000	\$3.588	(\$0.057)	\$0.018	(\$0.038)	\$0.035
Chicago City Gate	876,600	\$3.916	(\$0.081)	\$0.346	(\$0.074)	\$0.260
NGPL- TX/OK	454,200	\$3.525	(\$0.043)	(\$0.045)	(\$0.035)	(\$0.073)
SoCal	397,800	\$3.608	(\$0.093)	\$0.038	(\$0.086)	\$0.025
PG&E Citygate	622,200	\$3.854	(\$0.070)	\$0.284	(\$0.063)	\$0.233
Dominion-South	582,000	\$3.820	(\$0.020)	\$0.250	(\$0.013)	\$0.128
UTrade Weighted	21,841,800	\$3.694	(\$0.045)	\$0.124	(\$0.04)	\$0.035

Eni's CFO said that the company is close to reaching a gas contract renegotiation with Algeria's Sonatrach.

**Canadian Gas Association**

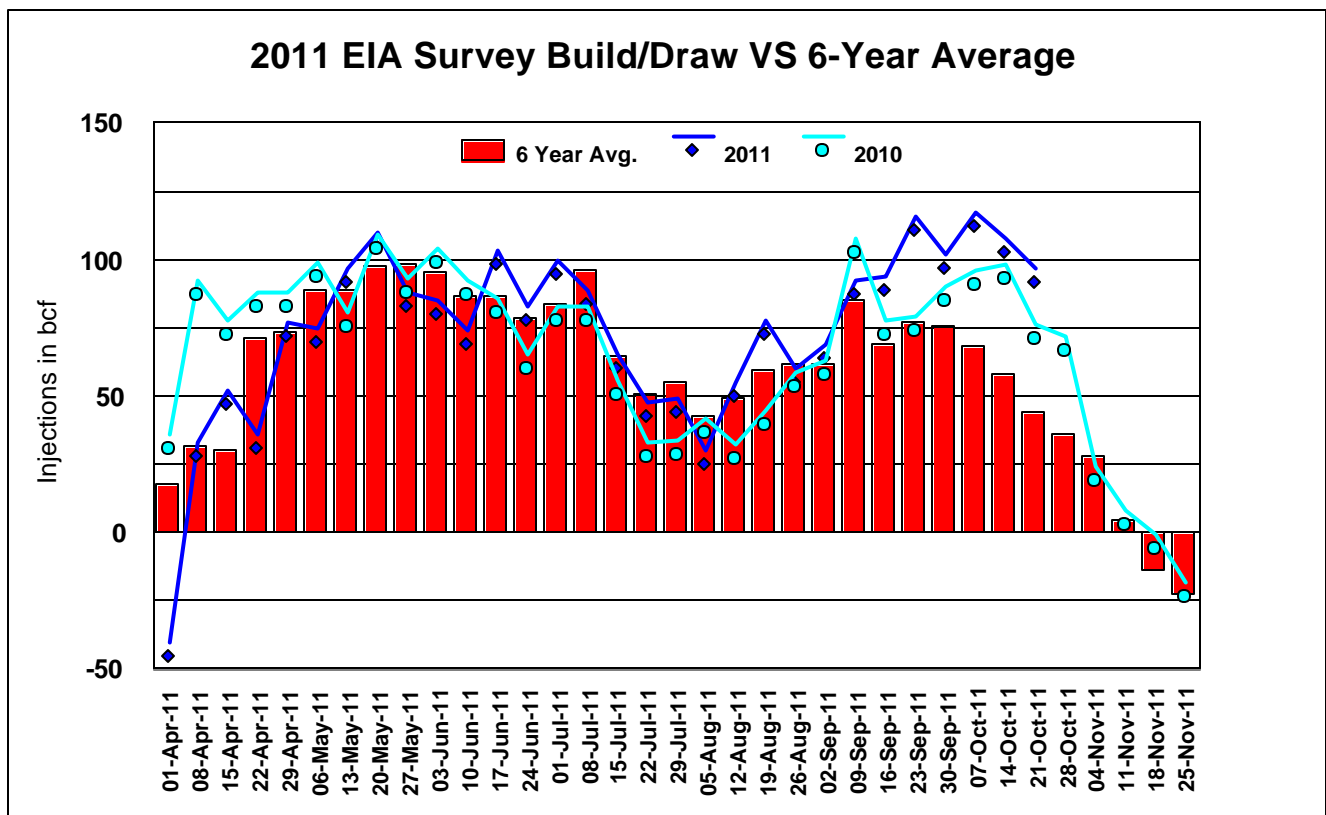
**Weekly Storage Report**

	21-Oct-11	14-Oct-11	22-Oct-10
East	239.7	239	229.8
West	432.6	428.3	398.4
Total	672.3	667.3	628.1

storage figures are in Bcf

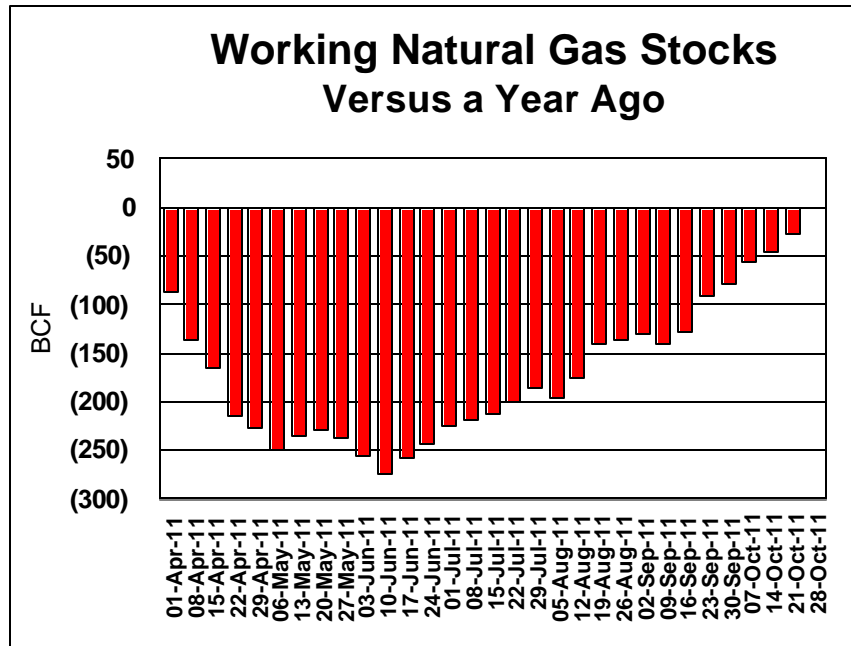
Russian oil company Lukoil Holdings plans to increase the share of natural gas in its total hydrocarbon production from its current level of 20% to 35% in 2021. Lukoil plans to produce the majority of its gas in Uzbekistan.

The Japan gas association has set an ambitious goal of increasing gas usage including boosting up cogeneration units sixfold by 2030 and increasing LNG imports by 74%.

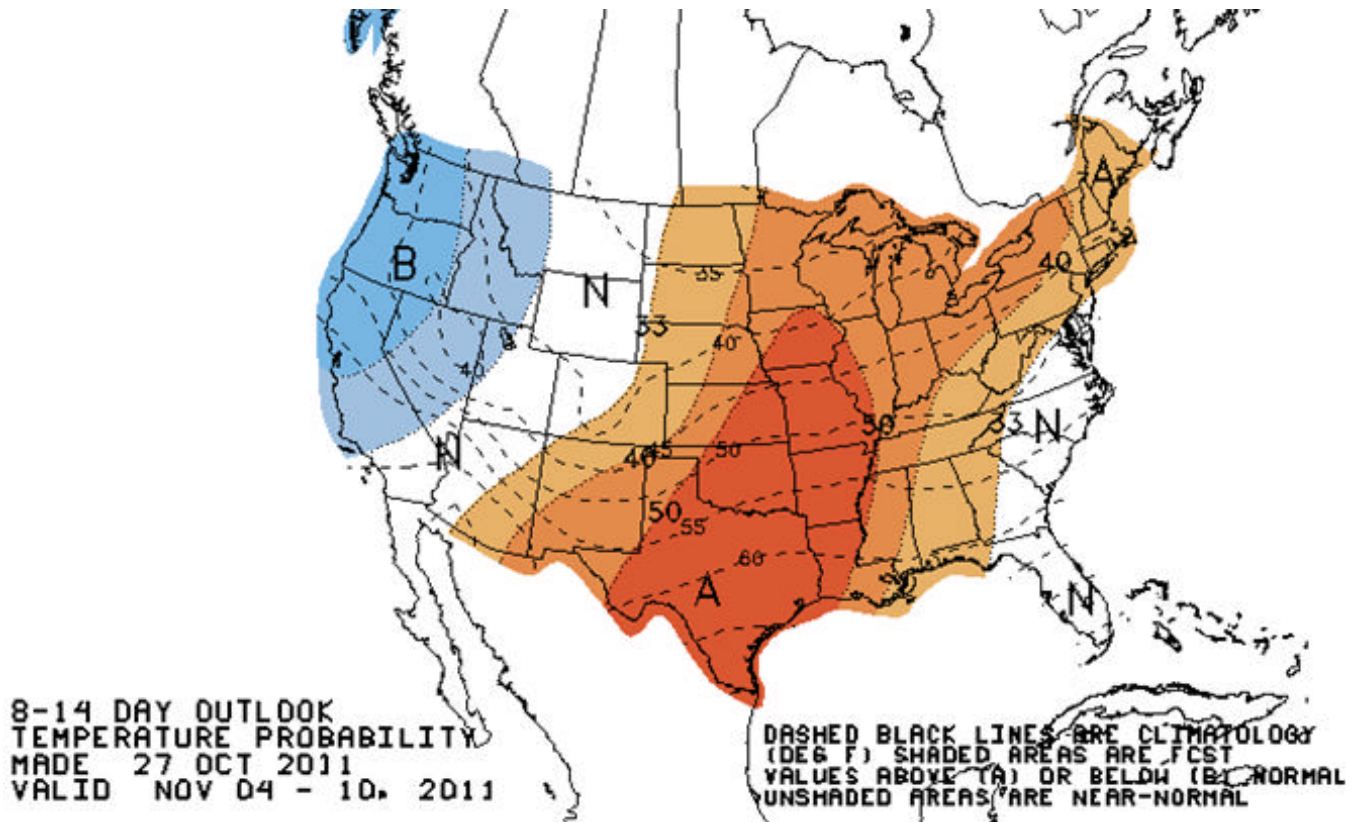


**ECONOMIC NEWS**

The US Labor Department said initial claims for unemployment benefits fell by 2,000 to a seasonally adjusted 402,000 in the week ending October 22<sup>nd</sup>. In the prior week, jobless claims fell by 7,000 to 404,000. The four week moving average of new claims increased by 1,750 to 405,500 in the latest week. The report showed the number of continuing unemployment benefits totaled 3,645,000 in the week ending October 15<sup>th</sup>, down 96,000 on the week. The unemployment rate for workers with unemployment insurance was 2.9% for the week ending October 15<sup>th</sup>, down 0.1% on the week.



The Commerce Department reported that US economic growth accelerated in the third quarter as consumers and businesses increased spending. GDP in the third quarter grew at an inflation adjusted annual rate of 2.5%, the strongest performance in a year. The economy grew by 0.4% in the first quarter and 1.3% in the second quarter. The core inflation rate increased by 2.1% from the previous quarter. The overall price index for personal consumption expenditures increased by 2.4% in the third quarter compared with a 3.3% increase in the second quarter.



The Chicago Midwest Manufacturing Index increased to 85.2 in September from a revised 84.8 in August.

The Federal Reserve Bank of Kansas City's monthly manufacturing index increased to 8 in October from 6 in September.

The National Association of Realtors Pending Home Sales Index fell for the third consecutive month in September by 4.6% to 84.5. The index was however above its level in September 2010 of 79.4.

Euro zone economic sentiment eased marginally in October. The European Commission's monthly sentiment survey showed the sentiment index at 94.8 in October against 95 in September. It also showed the inflation expectations eased among consumers to 24 points from 25.3 and companies' inflation expectations fell to 5 from 6.9.

The Bank of Japan cut its economic forecast for the current and following fiscal years on slowing global growth. It however stated that the country was still on track for a moderate economic recovery. It estimates the country's real GDP growth in fiscal year 2011/12 at +0.3, down from its previous forecast of +0.4% while real GDP growth in fiscal year 2012/13 is estimated at +2.2%, down from a previous forecast of +2.9%.

### **Market Commentary**

The natural gas futures market posted a rather uninspiring expiration day. While the November contract sold off following the release of a larger than expected build in working gas stocks, and again during the final 30 minutes of trading going into the expiration after recovering at midday, the back months held relatively firm and nearly unchanged from yesterday's values. This was a bit surprising to us given the fact that the longer range forecasts appear to be a bit less supportive than they were a couple of days ago and that the deficit in working gas stocks from a year ago looks like it will be closed by next week's report. This seems to point to us that many traders have priced in the current stock situation and that the market is rather in neutral awaiting the start of the heating season next month to take its direction. As a result a warmer than normal November would result in this market heading to test the recent spot lows of \$3.446 while a colder than normal start of the heating season could prompt the December contract to reach up to the \$4.00-\$4.10 area.

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