



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR NOVEMBER 3, 2009

#### NATURAL GAS MARKET NEWS

The National Hurricane Center continued to watch an area of low pressure in the extreme southwestern section of the Caribbean Sea today. The low is expected to remain nearly stationary over the next day or two in an area where upper level winds are relatively favorable for some additional development of the system. As a result this evening the NHC raised the probability of this system becoming a tropical cyclone within the next 48 hours to 30-50%. Currently there is wide disagreement on the eventual direction of this tropical system from moving into Central America to moving across the Yucatan or moving toward the Grand Cayman Islands.

Chesapeake Energy Corporation reported Monday afternoon that in the third quarter its hedging activities resulted in gain of \$687 million and helped the company to report an adjusted net income of \$440 million. The company reported that its natural gas

#### Generator Problems

**PJM** – FirstEnergy's 1231 Mw Perry nuclear unit remains off line but was up to 18% power this morning.

**NPCC** – OPG's 515 Mw Pickering #8 nuclear unit returned to service by early Tuesday. The unit was shut on October 26<sup>th</sup> for switchyard work.

Entergy's 1020 Mw Unit #2 Indian Point nuclear plant was shut early Tuesday from full power on Monday. Operators hoped to restart the unit within a few days.

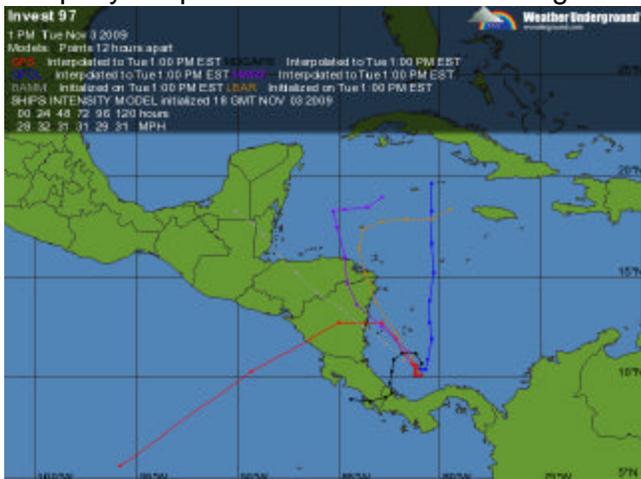
**MISO** – Exelon's 1166 Mw Braidwood #2 nuclear unit was at 86% power this morning, up 14% from yesterday.

**SERC** - TVA's 1100 Mw Browns Ferry #3 nuclear unit was back to full power this morning up 8% from Monday.

**ERCOT & SPP** – Luminant's 1150 Mw Unit #2 at the Comanche Peak nuclear unit ramped up to 77% power this morning, up 49% from Monday.

Unit #4 at the Sandow coal fired power plant was taken down for maintenance this morning and was expected to return to normal operations on Thursday afternoon.

**The NRC reported this morning that total U.S. nuclear generation stood at 74,134 Mw down 0.1% from yesterday and down 5.4% from a year ago.**



production in the third quarter reached 210.3 bcf up, 2.9% from the second quarter and was some 6.9% higher than a year ago. The company sees its production levels continuing to grow by 8-10% in 2010 and 12-14% in 2011. The company noted that at the start of November it had hedged 53% of its estimated 4Q2009 production with swaps at \$6.85, with 14% of its estimated 2010 production hedged at \$9.53. The company noted that only 2% of its estimated 2011 production had been hedged with swaps so far at an average price level of \$9.86. The company also reported that 25% of its 4Q2009 production has been hedged via natural gas collar with a floor price of \$7.34 and a ceiling price of \$8.88. In 2010 8% of its production has

been hedged with a collar with a \$6.75 floor and a \$9.03 ceiling.

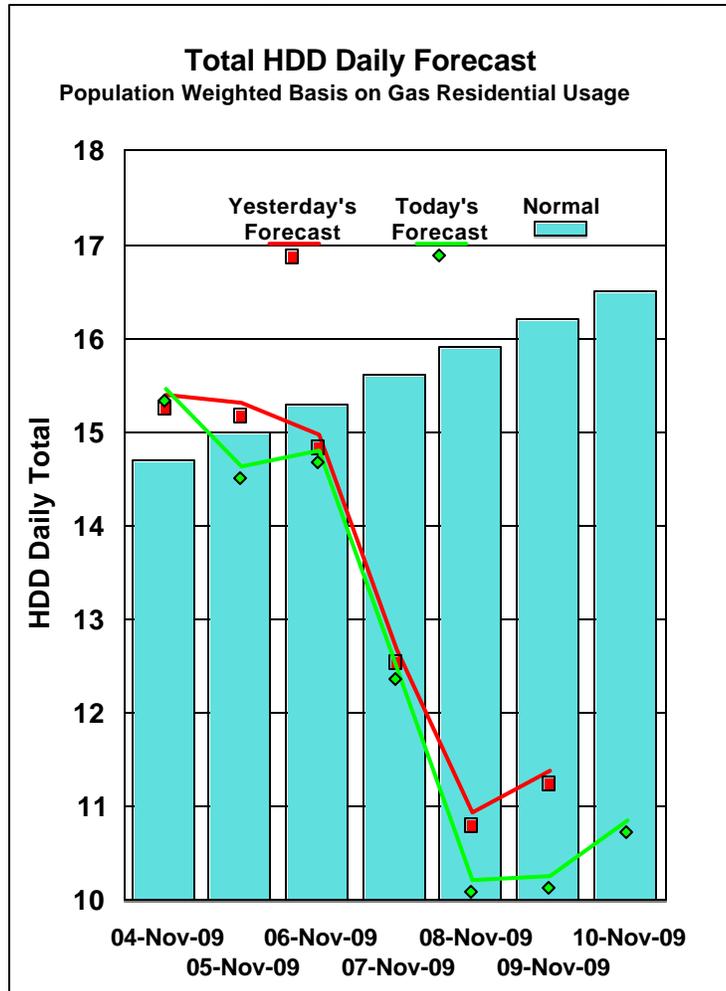
The CEO of Chesapeake Energy said today he expects U.S. natural gas production declines to show up in the fourth quarter as the brisk pull back in drilling activity from earlier in the year finally begins to show up.

Anadarko Petroleum reported yesterday afternoon that its 3Q2009 production of natural gas in the United States reached 2.144 bcf/d, down 8.2%

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	1,117,000	\$4.319	\$0.213	(\$0.578)	\$0.354	(\$0.337)
Chicago City Gate	1,275,600	\$4.515	\$0.152	(\$0.382)	\$0.334	(\$0.246)
NGPL- TX/OK	661,100	\$4.277	\$0.218	(\$0.620)	\$0.400	(\$0.519)
SoCal	631,200	\$4.535	\$0.216	(\$0.362)	\$0.398	(\$0.254)
PG&E Citygate	533,200	\$4.751	(\$0.322)	(\$0.146)	(\$0.140)	\$0.375
Dominion-South	351,200	\$4.624	\$0.186	(\$0.273)	\$0.368	(\$0.230)
UTrade Weighted	22,564,800	\$4.427	\$0.172	(\$0.470)	\$0.35	(\$0.337)

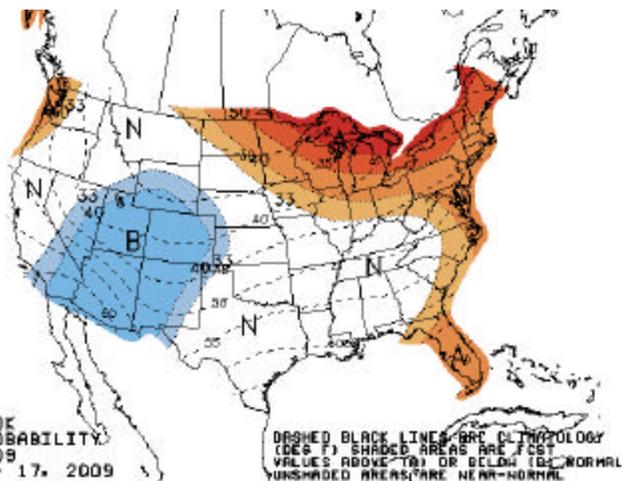
from the second quarter but 7.5% higher than the same period a year ago. The company reported that at the start of this month it still had 530,000 MmBtu/d production volume hedged using a three-way collar. The floor sold was \$5.45, the floor purchased was \$7.50 and the ceiling sold \$11.25. In 2010 some 1,630,000 MmBtu/d has been hedged using a three-way collar. The floor sold was at \$4.22, the floor purchased \$5.59 and the ceiling sold \$8.23. In 2011 and 2012 some 480,000 and 500,000 MmBtu/d of natural gas production has been hedged respectively. With the floor sold in both years at

\$5.00 and the floor purchased was \$6.50. The ceiling sold in 2011 was \$8.23 and \$9.03 in 2012. The firm also noted that it had hedged basis hedges for the Gulf Coast, Midcontinent and Rocky Mountain regions.



Bill Barrett Corporation reported that its natural gas production in the third quarter was 22 Bcfe, up 16% from the prior year and up 3% sequentially. It remains most active in the Piceance Basin and expects production to continue to grow there with production growing by 8% by the end of the year. The company reported that it had hedges in place for 72% of its natural gas production volumes and 56% of its oil production. As a result of the hedges the company realized \$3.06 Mcfe more in higher revenue. For the fourth quarter of 2009, the company has approximately 69%-73% of projected production hedged at a weighted average blended floor price of \$7.46 per Mcfe. For 2010 approximately 55.9 Bcfe is hedged at a weighted average blended floor price of \$7.43 per Mcfe. For 2011, approximately 32.4 Bcfe are hedged at a weighted average blended floor price of \$6.71 per Mcfe.

Dominion Resources said it does not plan to drill for natural gas on its Marcellus Shale acreage. Instead it will look to selling the land or farming it out. The company hopes to take the money raised to eliminate or reduce the need for additional equity.



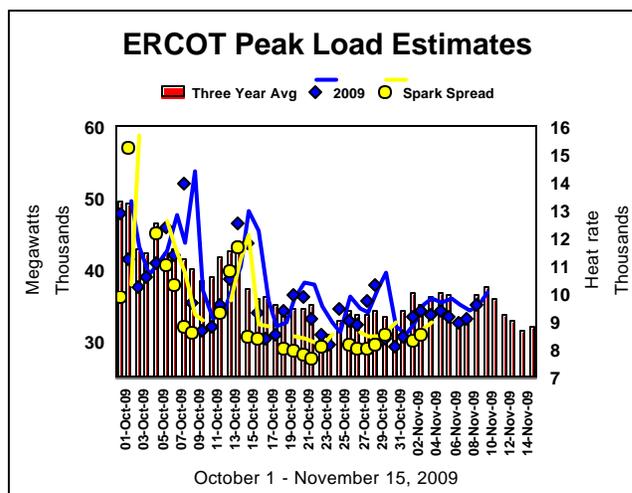
Talisman Energy said today that it has substantially increased its holdings in the Marcellus Shale in Pennsylvania and the Montney Shale in British Columbia. It said it plans to increase its unconventional natural gas development programs across North America in the coming year.

Tennessee Gas Pipeline has filed a request with the FERC proposing that the company can revise a portion of its 300 Line project in New Jersey

after discovering that its original cost estimates for installing three crossing has exceeded initial cost estimates of \$26.8 million. The company is seeking to eliminate the HDD crossing of the Monkville Reservoir which would save \$4.4 million but would reduce the length of Loop 325 by 1.3 miles, but would not adversely affect to provide the 350,000 Dth per day of firm transportation service, despite resulting in a slightly pressure drop.

Clean Water Action, a nonprofit environmental group, is challenging the proposed construction of a water treatment plant that would process waste water from natural gas drilling sites in Pennsylvania's Marcellus Shale field. The group claims the plant would discharge drilling waste into the Monongahela River in southwestern Pennsylvania without testing for most of the toxic chemicals that form part of the fluid.

Yemen will export its first cargo of LNG on November 7<sup>th</sup> from the LNG plant in Balhaf on the Arabian Sea and reportedly will be headed towards South Korea. The \$4.5 billion project started production on October 15<sup>th</sup> and is slated to produce 6.7 million tones of LNG per year when it becomes fully operational.

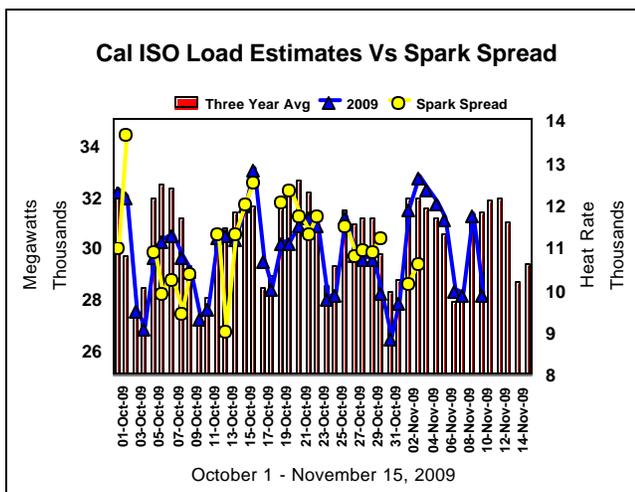


The new gas deal between Poland's gas monopoly and Gazprom did not change the prices at which Poland imports gas from Russia.

The Al Oraiq LNG tanker is expected to arrive at the Cameron LNG terminal from Qatar on November 25<sup>th</sup>.

The UK-Belgium Interconnector gas pipeline has removed caps on nominations in the opposite direction to the physical flow during low flow periods. The removal of caps means Interconnector will manage the timing of physical flow direction changes to ensure nominations are not disrupted.

The Al Jassasiya LNG tanker is expected to arrive at Belgium's Zeebrugge terminal on November 7<sup>th</sup>. Meanwhile the Bu Samra and British Ruby LNG tankers were due to arrive on November 3<sup>d</sup> and November 7<sup>th</sup> respectively at the Milford Haven port.

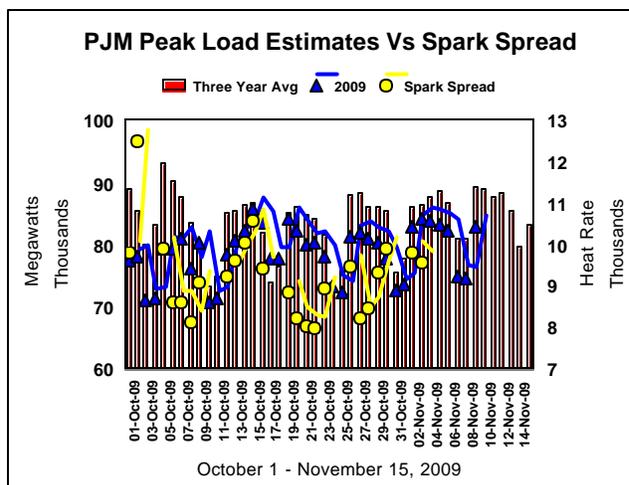


Sinopec announced it has started operating its Songnan oil field in northeastern China on Sunday. The field is seen supplying the provincial capital city for both residential and industrial demand. The field is slated to have a capacity of 1 bcm annually. Meanwhile the Chinese media reported that China is likely to raise the well head natural gas price by 20-30% under a new pricing regime expected to be put in place in January. This is expected to result in retail consumer prices growing by 10%. Chinese wellhead prices were last changed in November 2007. Since 2005 natural gas prices have been linked to coal and crude oil prices.

Statoil ASA said Tuesday that its Snoehvit gas field is on schedule to restart in the first half of November, after a three-month shutdown.

Chevron's Escravos Gas Plant 3A in Nigeria will begin producing in the first quarter of 2010. The plant is designed to increase daily processing capacity from 285 million to 680 million cubic feet.

Venezuela's PDVSA reportedly has paid ConocoPhillips between \$70 and \$80 million for the company's share of the Deltana natural gas platform. PDVSA said it would develop the field in a joint venture with Chevron. Meanwhile Gazprom said it has discovered "a big accumulation" of natural gas off Venezuela's northwest coast, marking what may be the second major find in the area in two months. Repsol just in September estimated it had discovered as much as 8 tcf of natural gas in the Cardon IV offshore field



The U.S. Commerce Department reported this morning that orders for U.S. manufactured goods climbed to a seasonally adjusted 0.9% in September. This was slightly better than market expectations. This was the fifth time out of the last six months that growth was recorded.

### **PIPELINE MAINTENANCE**

Gulf South said it would be performing pigging operations on Index 430 (Longview-Waskom 8-inch and 10-inch lines) from November 11<sup>th</sup>- 12<sup>th</sup>. Several locations will be shut in and unavailable for the duration of the maintenance.

### **PIPELINE RESTRICTIONS**

NGPL said that effective for today and continuing until further notice it has capacity available from northbound flow through Compressor Station 309 (Segment 27) and westbound through Segment 15 (CS #801). Interruptible transportation services/authorized overrun and secondary out-of-path Firm transports will be scheduled.

## **ELECTRIC MARKET NEWS**

Exelon said today the company will stage its planned \$3.5 billion output additions at its nuclear fleet to take advantage of economic and power price conditions. The company has proposed adding 1300-1500 Mw of output at its reactors.

Constellation Energy said it plans to use funding from the sale of nearly half of its nuclear generation business to EDF to fund power plant acquisition.

Coal supplies at U.S. power plants shrank 0.18% this week from last as shippers slowed deliveries, but stockpiles are still some 16% greater than the same week of 2008. These stocks equate to 70 days of supply of coal assuming typical burn rates.

The FERC said today that its audit of ISO-NE found the RTO is in compliance with both the commission's independence requirements and the RTO's own independence procedures. The FERC staff though still recommended changes that the grid operator has already agreed to implement, including the RTO revise its code of conduct regarding prohibitions on accepting gifts, code of conduct training policy and annual certification forms. The grid operator also agreed to develop better controls for its compliance staff review of annual certifications and review the New England Power Pool participant technical committee by laws to ensure that they are consistent with changes in the ISO-NE operations.

Calpine Corp said late last week it and PG&E entered into a replacement contract under which PG&E will enjoy greater dispatch flexibility for Calpine's 11 peaking units through 2017 and for seven Bay Area units through 2021.

The four remaining utilities in the Big Stone II ownership group said late yesterday that they are dropping their plans for the \$1.6 billion coal fired power plant in South Dakota and related transmission lines.

Progress Energy said it would need to build about 12 nuclear units by 2050 to comply with the emissions limits called for in climate legislation before Congress.

Entergy Corp's CEO said Tuesday that his company is unlikely to pursue construction of new nuclear plant in the Southeast U.S.

## **MARKET COMMENTARY**

The natural gas market today saw two price rallies. The first rally was sparked by the rapid price explosion in the gold and then the oil market at mid morning, while the second rally came in the afternoon as the midday weather model updates showed the prospects for colder than normal temperatures moving into the western half of the nation on the 11-15 day period. As a result prices were able to post their first higher close in six trading sessions and only the second out of the last ten trading sessions. It appears to us that this market could be ripe for a further technical price correction, especially given the relative oversold nature of this market, as stochastics are in the teens and looking like they are ready to bottom and cross back to the upside. We feel a technical rebound could gain some legs if the resistance line at \$4.963 can be significantly breached tomorrow. We see additional resistance at \$4.988, \$5.503 and \$5.167. Additional major resistance points we see at \$5.23 \$5.375 and the gap at \$5.458-\$5.473. Support we see \$4.761 followed by \$4.695 and \$4.63. More distant support we see at \$4.34.

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