



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR NOVEMBER 10, 2009

#### NATURAL GAS MARKET NEWS

The National Hurricane Center reported this morning that Tropical Storm Ida which had moved ashore overnight had been downgraded to a tropical depression as it moved over the Alabama coastline. Meanwhile the National Hurricane Center was watching a low pressure system located several hundred miles north-northwest of the northern Leeward Islands. This system is expected to possibly merge later this week with the remnants of Tropical Depression Ida and threaten the southeastern Atlantic coast.

Most offshore oil and gas producers announced this morning that they were beginning to return workers to its production platforms in the eastern Gulf of Mexico on either Tuesday or Wednesday. No damage to any facilities have been reported. Enterprise Products Partners said it was redeploying workers to its Viosca Knoll and West Delta 68 platforms. Anadarko, BP, ExxonMobil, Chevron, Marathon, Murphy and Shell also announced they were returning workers and starting up production.

#### Generator Problems

**NPCC** – NextEra Energy Resources 1245 Mw Seabrook nuclear unit started to exit its refueling outage and ramped up to 20% power by early Tuesday. The unit had been shut on October 1<sup>st</sup>.

Sithe Global Power's 880 Mw Goreway natural gas fired power plant in Ontario was shut early Tuesday once again.

**MISO** – Exelon's 867 Mw Dresden #3 nuclear unit ramped up to 95% power from 18% on Monday.

NPDD 791 Mw Cooper nuclear unit exited its outage and was at 53% power this morning up 50% from yesterday.

**ERCOT** – AEP planned to restart the 690 Mw Oklaunion coal fired power plant over November 10-12<sup>th</sup>. The unit was shut at the end of October for boiler inspection and repairs.

**SERC** – Southern's 860 Mw Farley #2 nuclear unit returned to full power this morning. The unit had been taken off line back on November 5<sup>th</sup> to fix a transformer in the plant's low voltage switchyard.

Progress Energy's 714 Mw Robinson nuclear plant returned to full power, up from 66% power recorded yesterday.

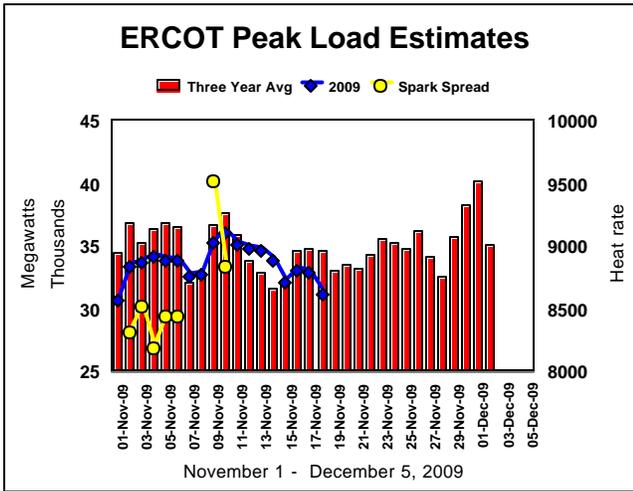
**The NRC reported this morning that total U.S. nuclear generation stood at 74,438 Mw up 3.1% from yesterday but down 9.37% from a year ago.**

The U.S. MMS reported this afternoon that more than 43% of Gulf of Mexico oil production and nearly

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	1,221,500	\$3.755	(\$0.021)	(\$0.721)	\$0.082	(\$0.608)
Chicago City Gate	605,700	\$3.719	(\$0.007)	(\$0.757)	\$0.095	(\$0.549)
NGPL- TX/OK	636,600	\$3.541	(\$0.043)	(\$0.936)	\$0.059	(\$0.728)
SoCal	412,400	\$3.615	(\$0.036)	(\$0.861)	\$0.066	(\$0.652)
PG&E Citygate	470,200	\$4.325	(\$0.021)	(\$0.152)	\$0.081	(\$0.122)
Dominion-South	386,200	\$3.847	(\$0.045)	(\$0.629)	\$0.057	(\$0.394)
UTrade Weighted	19,724,600	\$3.704	(\$0.020)	(\$0.772)	\$0.08	(\$0.608)

28% of natural gas output remained shut as of 11:30 CST. This output disruption was some 175,557 b/d and 32 MMcf/d of production more than yesterday's report.

Transco reported that its Mobile Bay processing plant was shut due to a loss of production associated with Tropical Depression Ida. The unit was expected back in service late Tuesday.



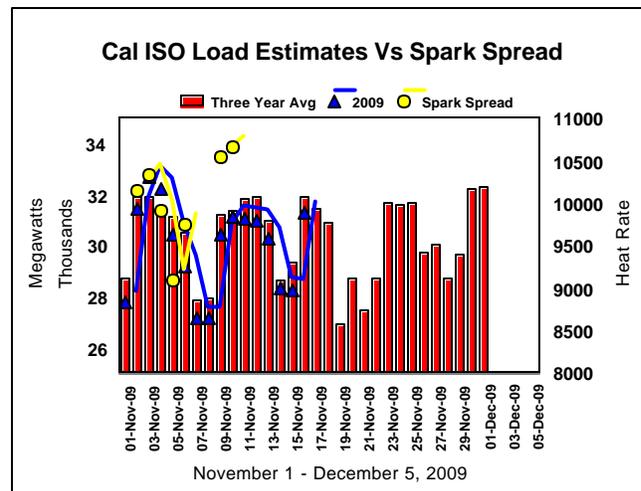
El Paso said its natural gas pipelines, Tennessee and Southern, while losing flows due to gas producers shutting in production, suffered no damage and it hoped to fully restore operations by the end of Tuesday. But the company noted the speed of restoration depends on well operators.

ANR Pipeline said while it was experiencing a 30 MMcf/d loss of supply that it expected flow levels to return to normal by Wednesday

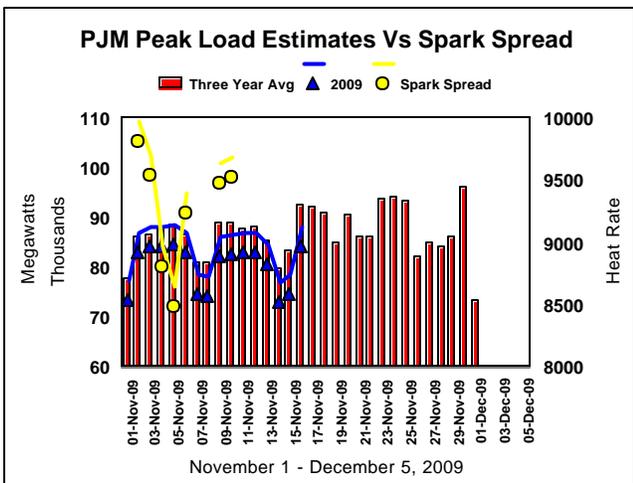
BP said this morning it had lifted its force majeure on the offshore portion of its Destin pipeline in the Gulf of Mexico

it expects to see a big jump in U.S. LNG imports this month or in December as new liquefaction facilities come online around the world and as imports into Europe and India drop back to normal levels. The bank noted that original expectations had been for an acceleration in these imports in July, but due to delays in new facilities coming on line, supply disruptions and higher than expected imports in Europe and India this did not become a reality. But they noted these outstanding issues are nearing resolution and thus expect imports to ramp up over the coming weeks. It expects approximately 4-6 bcf/d of LNG imports into the U.S by the end of the year. In 2010 RBC expects global demand will snap back and as a result this should soak up 1-2 bcf/d of excess supply. They see LNG imports into the U.S. averaging 3-5 bcf/d in 2010. Beyond 2011, RBC said it does not believe additional LNG supplies are sufficient to keep pace with escalating world demand.

RBC Capital Markets said in a research report that

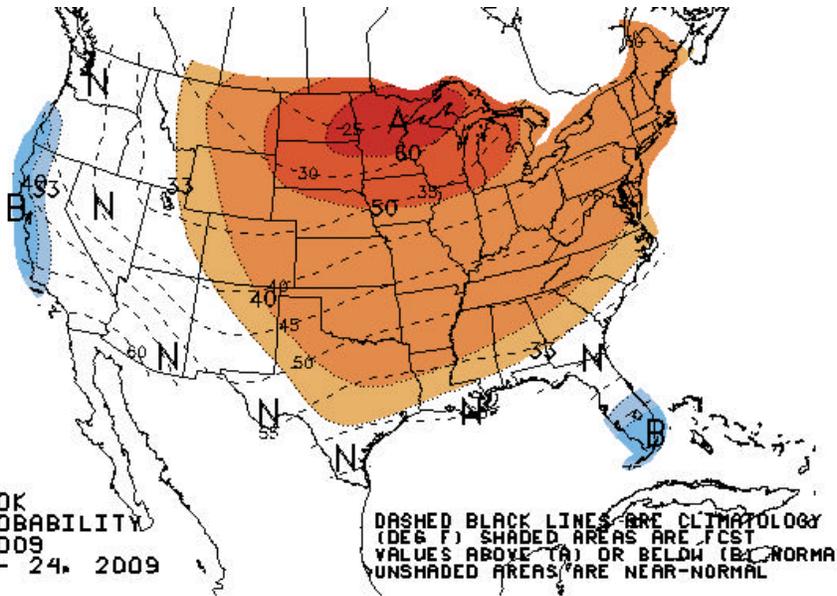


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The NOAA reported today that October 2009 was the third coldest October on record in the United States with an average temperature of 50.8 F some 4 degrees below the average of the past 100 years'

The EIA today released their latest Short Term Energy Outlook. The agency raised its estimate for demand in the fourth quarter by 20,000 MMcf/d to 63.63 bcf/d but lowered their outlook for demand in 2010 by 54,000 MMcf/d from last month's estimate to 61.49 bcf/d. Dry gas production in the United States in the fourth quarter is estimated will average 55.54 bcf/d some 88,000 MMcf/d higher



than last month's estimate. In 2010 the EIA sees domestic dry gas production will drop down to 54.97 bcf/d a decline of 3.9% from all of 2009 but an upward revision from last month's forecast by 0.4%. The biggest change in EIA forecast comes on its

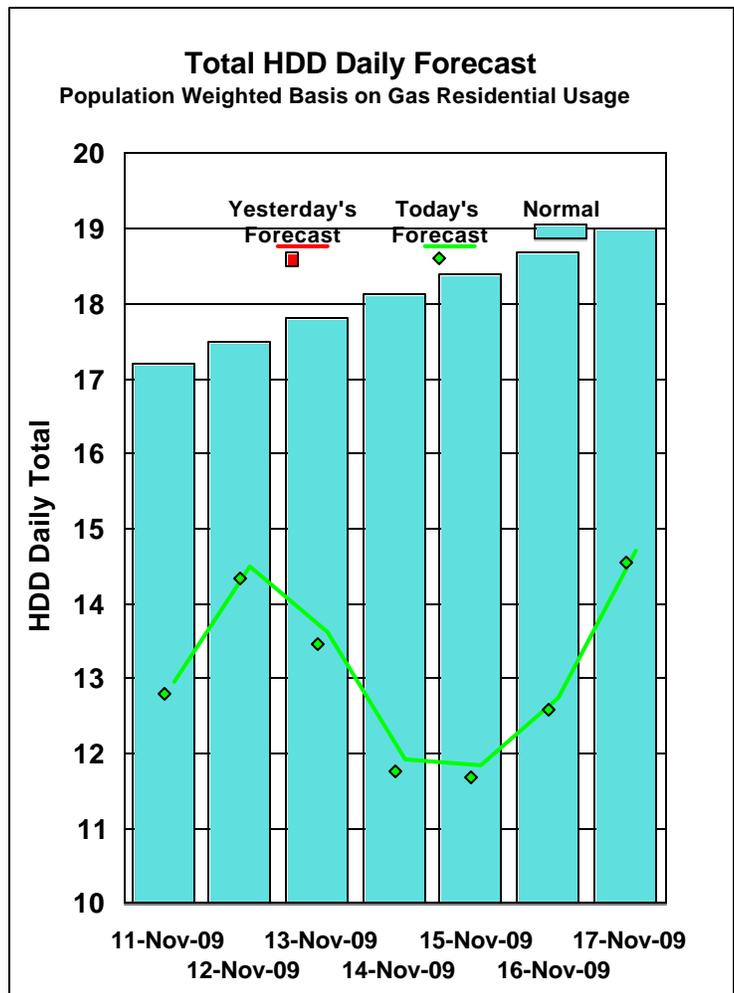
estimates for net imports which in the 4Q2009 it sees averaging 6.02 bcf/d and in 2010 averaging 7 bcf/d. These two estimates were lowered by 19% for the fourth quarter and by 11% in 2010 from just last month's report. The EIA raised its Henry Hub spot gas price outlook for the 4Q2009 by 70 cents to \$4.33 and in 2010 it sees prices averaging \$5.01 a penny lower than its estimate for 2010 released last month.

Williams' Northwest Pipeline said it has received authorization from the FERC to place its 24-inch Colorado Hub Connection pipeline into service. The line will provide 360,000 Dth/d of firm transportation service to delivery points as far south as Ignacio, Colorado

Pennsylvania's Department of Conservation said Monday it is making nearly 32,000 acres of additional state forest land available for natural gas leasing.

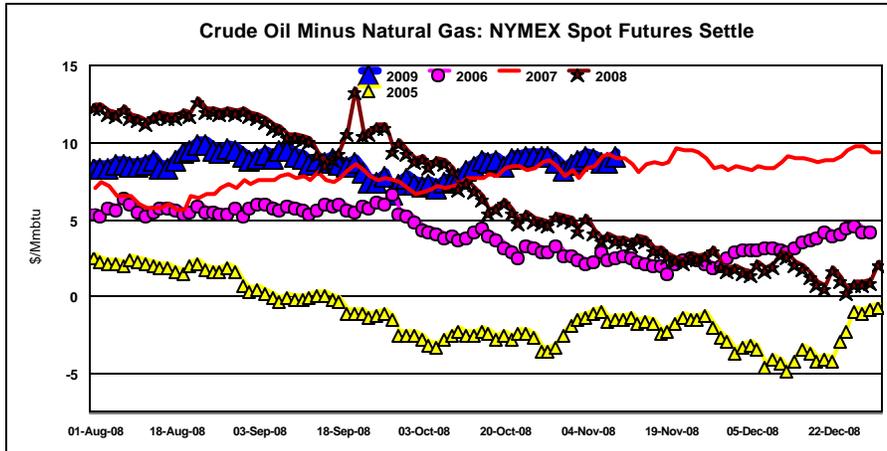
Algeria's energy minister today said that the Gas Exporting Countries Forum should operate like OPEC in defending its members against low gas prices. He noted that gas prices today were too low and called on member countries to reach agreement on a strategy for obtaining fair price for gas. He said members of the forum were "failing to share data on supply contracts" especially long term gas sales. The group is slated to hold its next meeting December 9<sup>th</sup>.

The IEA said today that the world faces an



acute glut of natural gas supply of around 200 billion cubic meters of gas by 2012 to 2015 following an unexpected boom in U.S. unconventional gas production and a drop in demand during the recession. The agency expects global unconventional output to rise to 629 billion cubic meters by 2030 with the U.S and Canada leading the growth. This supply growth they feel will discourage addition development of LNG import facilities. Worldwide demand for natural gas is expected to fall this year but begin to recover next year with demand rising to around 4.3 trillion cubic meters by 2030, driven by growing

demand from countries outside of the OECD and those especially in the Middle East.



Goldman Sachs said today that returns from commodities are expected to remain strong for possibly another two years as prices for raw materials such as crude oil, copper and corn rise further from supply deficits that they see emerging for these key commodities. Goldman sees natural gas prices at \$6.50 in three

months, \$7.70 in six months and in 12 months also at \$7.50. It also is projecting returns of 17.5% over a 12-month period for the S&P GSCI Commodity Index.

Brad Chilton one of the five CFTC commissioners said the CFTC is moving toward adopting a proposal in early December that would rein in excessive speculation in energy markets by setting hard limits on positions investor entities can hold in a contract.

JP Morgan in a research note today said it estimates the reweighting of the S&P GSCI and the Dow Jones-UBS commodity indexes could lead to combined inflows of \$104 billion next year. It said the S&P GSCI reweighting would command \$66 billion with the largest change being made for WTI crude. The bank estimated the "rebalancing of both indices will result in \$2.8 billion selling of WTI, \$1.5 billion buying in natural gas, \$1.3 billion selling in copper and \$1.25 billion buying in corn.

### **PIPELINE MAINTENANCE**

Gulf South said it was awaiting notice from North Terrebonne gas plant that it has suspended processing due to unplanned maintenance and started plant bypass mode expected to continue for a week. As a result said several locations will be required to shut in production during the plant bypass operations.

MEP said it is currently running a smart pig within Zone 1. No impact was anticipated to shippers. However due to resulting operating conditions on the pipeline, the Sonat delivery interconnect located in Smith County, Mississippi is not able to flow.

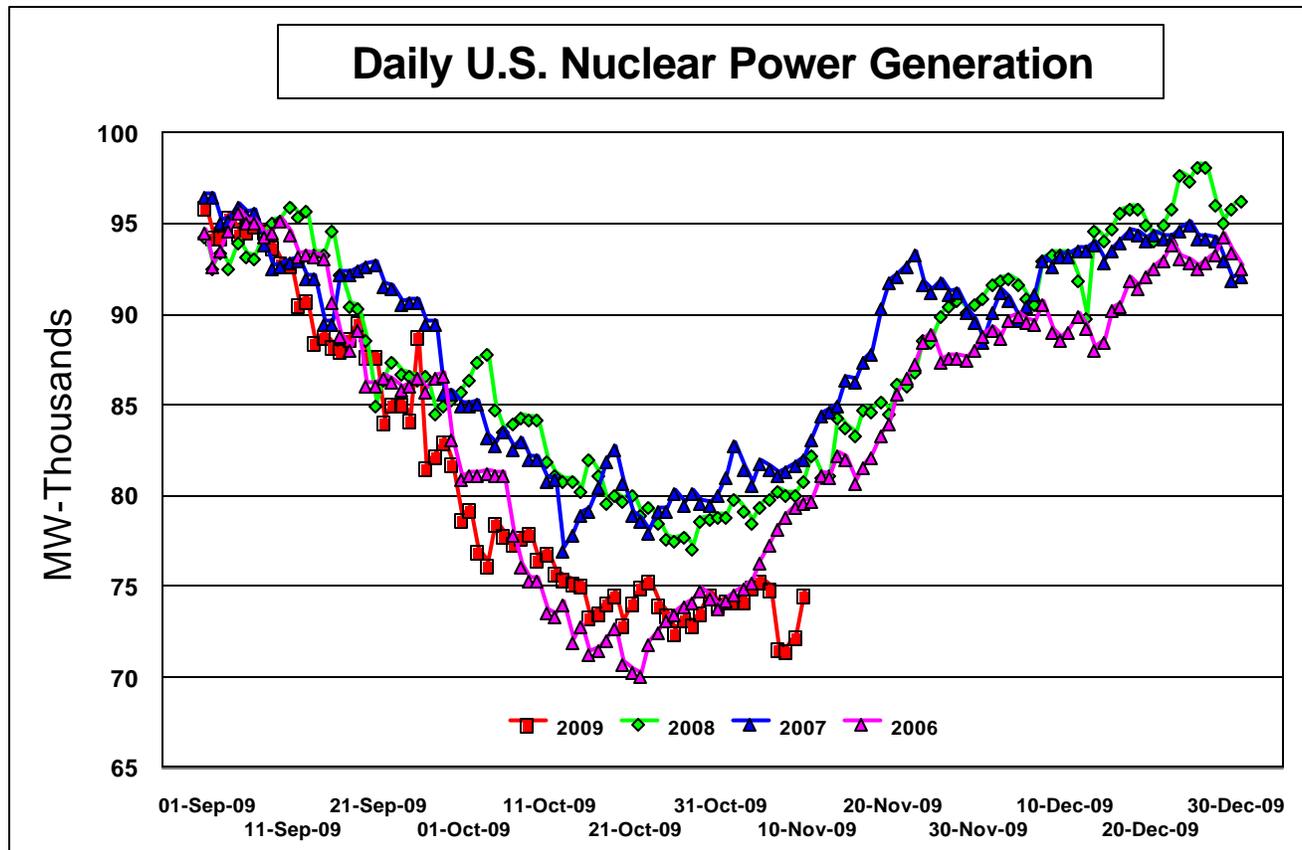
### **PIPELINE RESTRICTIONS**

NGPL said that effective for today and until further notice, ANR South Joliet #2 is at capacity for deliveries. Interruptible transportation service/authorized overrun and secondary firm transports are at risk of not being fully scheduled.

El Paso Natural Gas said that the probability of declaring a strained operating condition or critical operating condition has been set to high due to high line pack condition.

Rockies Express Pipeline said the final commissioning, purging and packing has commenced on the last section of the REX East pipeline from Deer creek to Clarington. The line is expected to be activated on November 12<sup>th</sup>.

Colorado Interstate Gas said it has cancelled the strained operating condition effective for the Timely Cycle for November 10<sup>th</sup>. The condition had been declared back on November 6<sup>th</sup>.



**ELECTRIC MARKET NEWS**

The IEA said that if governments make no changes to existing energy policies to combat climate change, global coal demand is seen rising by an average of 1.9% per year through 2030, as power generation demand is seen growing by 2.5%. Under this scenario the agency sees coal demand rising more strongly than any other fuel to nearly 7 billion tones of coal equivalent in 2030.

The EIA in its Short Term Energy Outlook sees retail sales of electricity to the industrial sector to slowly begin to recover next year, with demand gains stronger in the commercial and residential sectors, which should result in demand growing by 1.6% next year. The agency though looks for the rebound in natural gas prices to prompt power generators to move back to their normal reliance on coal as a generating fuel once again as a base load generating fuel. Coal consumption by the power sector witnessed an 11% decline in the first half of this year and is expected to average this full year at a 9% decline. But in 2010 with a return to coal as a base load generating fuel and the addition of 4300 Mw of new coal fired generation on line by the end of next year, projected coal consumption by the power sector should increase by 5%.

The EIA estimates that CO2 emissions from fossil fuels fell by 5.6% in 2009. But with the rebound demand for coal and the general economic rebound should result in a 1.5% increase in CO2 emissions in 2010.

Congressman Markey, the chairman of the House Select Committee on Energy Independence and Global Warming, in a letter to the Interior Secretary has asked his department to approve the Cape Wind Offshore wind project before the start of the international climate change talks in Copenhagen in December. This would be the United States first offshore commercial wind project and would send a strong message to international negotiators that the United States is committed to reducing GHG levels he noted.

GE's merchant transmission project, the Linden VFT transmission project which connects the PJM Interconnection at Linden, NJ to Staten Island in the New York ISO began service on November 1<sup>st</sup>. The 300 Mw line uses a variable frequency rotary transformer to control power flows.

State regulators reportedly have ruled the Southern Company's Mississippi Power has a need for additional generating capacity in the future and as a result this helps keep alive the utility's effort to build a \$2.2 billion advanced coal fired generating plant in Kemper County. The project, which is opposed by independent power producers in the Southeast and environmental groups, would be a 582 Mw integrated gasification combined cycle facility.

Genscape estimated that U.S. coal stockpiles at U.S. power plants this week shrank 0.45% from last week on reduced deliveries, but stockpiles were still 13.2% greater than a year ago.

### **MARKET COMMENTARY**

The natural gas market today finished down 16-20 cents, with most of this downward move accomplished by 9:10 am. The key pressure on this market was the apparent little or no damage from Tropical Storm Ida and the continued poor heating demand expected for the next two weeks for most of the country. This market continues to remain in its downward spiral as a result of the overhang of storage gas and the delay of the start of the heating season. This spiral in our mind could have been a freefall if it had not been the continued slow recovery of nuclear generation levels this autumn.

We see this market headed to testing the low recorded in the December contract at \$4.34. After this level we see support at \$4.241, \$4.035 and \$3.956. Resistance we see at \$4.609 followed by \$4.69, \$4.752 and \$4.839. More distant resistance we see at \$5.029, \$5.213 and \$5.396.

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