



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR NOVEMBER 16, 2010

#### NATURAL GAS MARKET NEWS

The National Hurricane Center today noted that the area of low pressure in the southwestern Caribbean still remains relatively disorganized and it appears will head toward Central America in the next couple of days and poses no threat to the Gulf of Mexico. Forecasters continue to assign only a 20% chance that this system could become a tropical cyclone.

Nexen said today that it has hired an investment adviser to help it find a joint venture partner for shale gas properties and the expertise in building LNG facilities and access to foreign markets. The company estimates that it holds some 21 tcf of gas in its shale gas holdings.

#### Generation Update

**NPCC** – Entergy’s 852 Mw FitzPatrick nuclear unit dropped to 42% capacity Tuesday, down 57% from yesterday.

**PJM** – PSEG’s Hope Creek nuclear generating unit returned to full power overnight.

**SERC** – Progress Energy’s 900 Mw Harris nuclear unit ramped up to 72%, up 45% from Monday’s levels. The unit continues to ramp up from its recent refueling outage that began back on October 2<sup>nd</sup>.

Duke Energy’s 846 Mw Oconee #1 nuclear unit dropped to just 19% power Tuesday. The unit had been at full power on Monday.

TVA’s 1148 Mw Sequoyah #1 nuclear unit started to exit its recent refueling outage and was up to 4% power this morning. The unit had been off line since October 4<sup>th</sup>.

**FRCC** – NextEra’s 693 Mw Turkey Point #3 nuclear unit was shut early Tuesday. The unit had been at full power on Monday.

**WECC** – PG&E’s 1122 Mw Diablo Canyon #1 nuclear unit ramped up to 78% power this morning, up 30% from Monday. Operators continued to ramp the unit up from its restart over the weekend from its recent refueling outage.

**ERCOT** – Luminant’s 750 Mw Martin Lake #1 coal fired unit is expected to see maintenance work on the ESP unit Tuesday and Wednesday.

**The NRC reported today that some 80,050 Mw of generating capacity was online today, down 1.5% from yesterday and 1.6% higher than the same day a year ago.**

A spokesman for the Golden Pass LNG terminal said today that he expected the commissioning of the terminal to be completed by year-end or early in the first quarter of next year. The terminal was set to

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	599,900	\$3.660	\$0.096	(\$0.183)	\$0.043	(\$0.138)
Chicago City Gate	893,100	\$3.841	\$0.094	(\$0.002)	\$0.023	(\$0.032)
NGPL- TX/OK	604,300	\$3.615	\$0.138	(\$0.229)	\$0.067	(\$0.317)
SoCal	366,300	\$3.679	\$0.129	(\$0.165)	\$0.058	(\$0.196)
PG&E Citygate	597,900	\$4.239	\$0.067	\$0.396	(\$0.004)	\$0.387
Dominion-South	368,000	\$3.840	\$0.131	(\$0.003)	\$0.060	(\$0.036)
USTrade Weighted	19,483,800	\$3.746	\$0.114	(\$0.097)	\$0.04	(\$0.138)

receive its second LNG cargo this week. The AL Oraiq, a LNG tanker from Qatar has a capacity of 206,000 cubic meters of LNG.

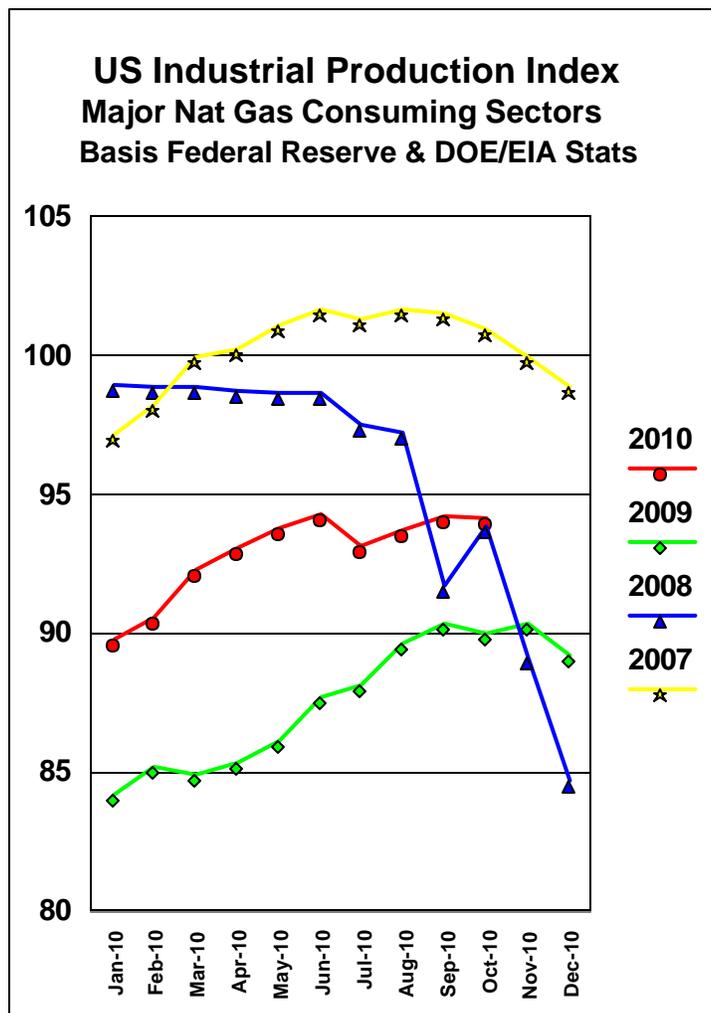
Total SA reported that it has shut its

Elgin gas platform in the North Sea early Tuesday due to an unspecified “minor technical issue”. The

company said that it hoped to restore production as soon as possible. The platform processes gas from the Elgin and Franklin fields, which is then exported through the Shearwater Elgin Area Line platform to Bacton. Peak production from the fields is 15.5 million cubic meters of gas a day.

Russia's largest independent natural gas producer, Novatek, announced it would pay some \$900 million for 51% of the ownership of Sibneftegaz it has acquired from Gazprom.

Gazprom's CEO said today that the company looks for its gas sales to Europe to reach pre-crisis sales levels by 2012. Gazprom exported 180 bcm of gas in 2008, with sales dropping to 140 bcm in 2009.



BP confirmed today that it has suspended production at the British North Sea Rhum gas field due to EU sanctions against Iran. Production would remain suspended until it receives clarification from the British government on certain aspects of the new EU regulations concerning restrictive measures against Iran. The field produces up to 6 million cubic meters of gas a day.

Reuters reported that the 43,000 cubic meter LNG tanker Adamawa, which was previously reported to be heading to Mexico, is now slated to arrive at Belgium's Zeebrugge terminal on November 28th

Williams Partners said today that it has filed for FERC approval to provide additional natural gas service of firm natural gas transportation of 142,000 Dtm to the mid-Atlantic region with the addition of three miles of new pipelines and upgrades to existing compressor facilities.

Analysts at FirstEnergy Capital Corp said today that they see the gas glut remaining through 2011. They expect natural gas rig count to begin to retreat, but does not look for the number of rigs operating to break below the 700-rig "tipping point" (the point at which the number of rigs needed to keep U.S.

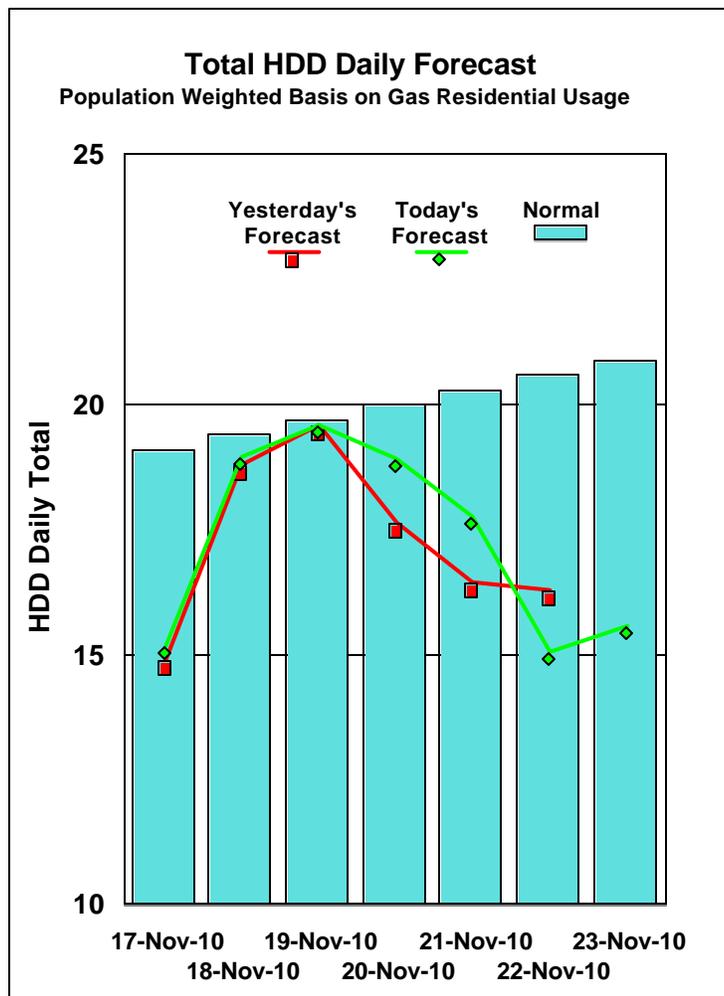
production unchanged) and production should continue to grow into 2012. The analysts look for the rig count to fall to 800 rigs possibly by the end of the first quarter of 2011. However, greater use of horizontal wells and more frac stages per well will continue to boost rig productivity and the United States gas supply going into 2012. The company though sees production growth slowing to near zero by the first half of 2012. The analysts predict that natural gas prices should hold above \$3.50 per Mmbtu for now but that the market will potentially have another downward price push possibly late this year, which will be needed to push rig counts lower. By the end of this winter heating season the analysts see a "grossly oversupplied" market, possibly some 1.9 tcf of gas in storage, and gas prices near or below \$3.00 per Mmbtu which would be needed to push the rig count lower.

The American Public Gas Association told Congress today that legislators need to arm the CFTC with adequate funding and resources to provide the agency with the ability to police the markets effectively and prevent fraudulent and manipulative trading behavior in the commodity futures markets

**ELECTRIC MARKET NEWS**

Reuters reported today that about 18,900 Mw of U.S. nuclear power generating capacity will be out of service at the height of the spring refueling season in mid-April, some 6% less than this year's peak and 10.5% less than the five year seasonal average.

Genscape reported today that coal stocks held at U.S. power plants this week were some 0.75% higher than the same time a week ago but were 12.4% lower than the same week a year ago.



Bruce Power today delayed the expected restart of the 750 Mw Units 1 and 2 at the Bruce nuclear plant. Both units had been slated to be restarted in the fourth quarter of 2011 but are now seen possibly being restarted in the early part of 2012.

**ECONOMIC NEWS**

The US Labor Department said US producer prices increased in October on higher oil costs. The Producer Price Index increased by a seasonally adjusted 0.4% in October. The Core Producer Price Index, excluding food and energy prices, fell by 0.6% in October, the sharpest decline in more than four years after increasing by 0.1% in September. For the 12 months ended in October, the Producer Price Index increased by 4.3%, accelerating from a 4% annual increase in September. The report showed that energy prices increased by 3.7% in October.

US industrial production was unchanged in October as a sharp decline in utilities production outweighed a strong increase in the manufacturing sector. The Federal Reserve said industrial production in October was unchanged after fall by 0.2% in September. Capacity utilization was steady at 74.8% in October. Year over year,

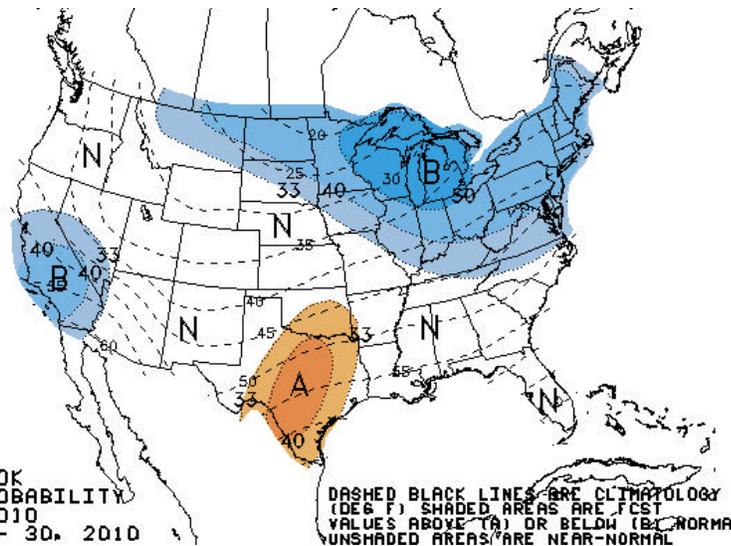
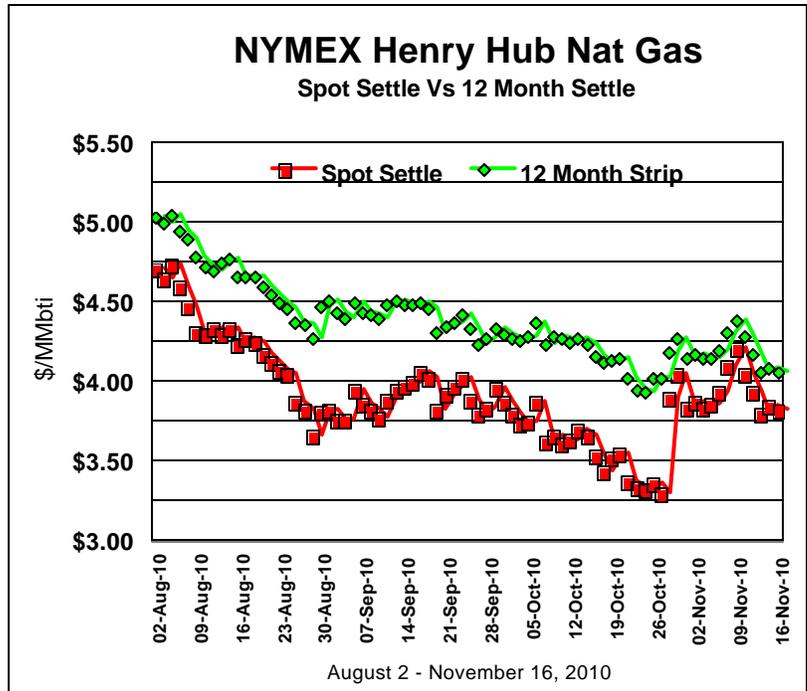
industrial production is up 5.3%. For those industry sectors that are the main consumers of natural gas, one sees this group seeing its index falling only by 0.03% from the prior month but up 4.7% from a year ago.

**MARKET COMMENTARY**

While the cash markets were stronger this morning as near term heating demand was seen as improving across much of the nation over the next several days, the natural gas futures market though was on the defensive for much of the day. The gas futures market did not escape the general malaise of the commodity and equity markets today, as financial concerns in Europe and a potential tightening of fiscal policies in Korea and China to cool those expanding markets pushed most equities and

commodity values lower. The gas futures market though bounced off the late morning lows as the midday weather forecasting models appeared once again to be trending toward a colder forecast for the 8-15 day period, especially for the eastern U.S. But once again the confidence factor in this forecast remains extremely low, with the NWS forecasters assigning it its lowest confidence factor of just a 1 on a scale of 1 to 5. Volume today while moderate was still the smallest amount recorded in the December contract since November 3<sup>rd</sup> as it appeared traders are moving toward the sidelines and awaiting a clearer forecast picture as well as the release Thursday of the EIA Storage Report.

Without a strong agreement in forecasting models tomorrow, it would not surprise us to see this market basically tread water and potentially post an inside trading session in front of Thursday's storage report. We look for resistance tomorrow at \$3.92 followed by \$3.98 and \$4.043. More distant resistance we see at \$4.217-\$4.25. Support we see at \$3.782, \$3.774 and \$3.71. Additional support we see at the gap in the spot continuation chart at \$3.656-\$3.41.



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