



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR NOVEMBER 19, 2010

NATURAL GAS MARKET NEWS

Baker Hughes reported that the number of rigs searching for natural gas in the US fell by 19 to 936 this week.

Centrica, owner of Britain's biggest retail energy supplier British Gas, took delivery of the first ever cargo of LNG to be re-exported from the United States to Britain. The Maersk Meridian, which arrived from Louisiana, last night, is the first cargo of super cooled gas to be re-exported from the shale-gas saturated United States to Britain, following a maiden US LNG export in 1959.

The Al Shamal (217,000 cm), Fraiha (210,153 cm), and the Al Thumama (216,500 cm) are scheduled to arrive at the UK's Isle of Grain from Qatar on November 23, December 5, and December 9 respectively. The Al Gharrafa (216,000) was scheduled to arrive at Dragon terminal from Trinidad today and the Maersk Marib (166,000) is scheduled to arrive at the Isle of Grain from Yemen tomorrow.

Russia's finance minister said today that the gas industry will be able to carry a heavier gas tax burden as the country needs more cash to plug its budget deficit. According to investment banks' estimates, under current spending plans, the budget would only be balanced at an average price for Russia's Urals blend crude oil of about \$95 per barrel. Oil prices are currently holding at around \$82.

State gas company Bulgargaz said today that Bulgaria and Qatar have signed a confidentiality deal paving the way for talks on LNG deliveries from the Arab country in an effort to cut dependence on Russian gas. Bulgaria, the poorest European Union member, has stepped up its efforts to reduce its almost complete reliance on Russian gas by diversifying routes and supplies after a dispute between Russia and Ukraine in 2009 left it—and much of the region—without gas for weeks in freezing temperatures. Bulgaria has announced plans to link its gas network with those of Greece, Romania, Serbia and Turkey and has signed a memorandum of understanding for gas deliveries from Azerbaijan.

British prompt gas prices eased today with plentiful supply more than compensating for an outage at the large Rough storage facility. Gas for immediate delivery fell to 0.20 pence at 49.50 pence per therm at 1200 GMT compared with same-contract prices in the previous sessions, while gas for Monday was flat at 49.55 pence compared with the previous close.

Generation Update

NPCC – Entergy Corp's 852-megawatt Fitzpatrick nuclear power plant in New York ramped up to 62 percent by early today from 25 percent power early yesterday. The reactor exited an outage earlier this week after completion of repairs on its recirculation pump motor.

The NRC reported today that some 84,435 Mw of generating capacity was online today, up 3.08% from yesterday and 4.6% higher than the same day a year ago.

Turkmenistan has won support from its Caspian neighbors to lay a pipeline under the sea and become a major gas supplier to Europe, boosting plans for the EU-backed Nabucco project. Turkmenistan, which holds the world's fourth largest natural gas reserves according to BP data, will have up to 40 billion cubic meters of gas spare to supply to Europe.

Turkmenistan gas piped through China's second west-to-east pipeline will reach residential users in central China in early December, ahead of schedule to meet a winter demand spike, China National Petroleum Corp (CNPC) said today. CNPC said PetroChina, operator of the giant gas project, opened the valve on Thursday for part of the eastern section of the gas pipeline.

ELECTRIC MARKET NEWS

Genscape reported that US coal consumption increased by 1% on the week and by 7% on the year to 19.76 million tons. Coal consumption in the East was relatively unchanged on the week and up 7% on the year to 17.15 million tons while coal consumption in the West increased by 1% on the week and was unchanged on the year at 2.47 million tons.

MARKET COMMENTARY

For the first time this month, natural gas posted a weekly gain, moving higher on forecasts calling for below-normal temperatures. With forecasts expecting colder-than-normal temperatures in most of the eastern U.S. for the period between November 24 and November 28, expectations are that demand for this heating fuel will increase. Despite forecasts, inventories remain 9.3 percent above the five-year average, which means that most likely there will be enough supply to carry us through the winter, when demand typically peaks. Prices have encountered difficulty in remaining above the \$4.00 level, thus far. We believe that in order for this market to sustain itself above this level, we would have to see injections continue to fall off and for cold weather to remain through out most of the eastern part of the U.S. Prices, based upon a spot continuation chart, have not been above \$4.225, the fifty-percent retracement level between the range of \$5.196 and the recent low of \$3.255. Should the December contract fail to trade and maintain itself above this level, we would look for the upcoming front month, January to come under pressure. Likewise, should December sustain itself above this number, the January futures contract should remain strong.

The managed money funds in natural gas increased their net short position by 10,726 contracts to 68,150 contracts in the week ending November 16th, according to the Commitment of Traders' disaggregated combined futures and options report. The funds have likely cut their net short position given the market's upmove in recent days. Meanwhile, the producers/merchants cut their net short position by 4,362 contracts to 21,861 contracts while swap dealers increased their net long position by 1,319 contracts to 110,497 contracts on the week.