



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR NOVEMBER 20, 2009

#### NATURAL GAS MARKET NEWS

The strategic analysis manager for Southwestern Energy Company said he sees Canadian production declines are part of a continent wide trend that has the potential to cut the North American natural gas supply glut by 508 bcf/d next year. He estimated it would take spot prices reaching \$6.00 per Mmbtu to halt the production decline.

Baker Hughes reported today that for the current week the number of drilling rigs search for natural gas dropped by 2 to 726 rigs. This was the second consecutive weekly decline.

Wood Mackenzie analysts said today that new coal fired generation plans and higher LNG imports are likely to limit increases in the prices of natural gas in North America over the next two years. The consultants saw 2010 prices averaging \$4.50 and \$5.00 in 2011. They see some 19 Gw of new coal generation being built and scheduled to come on line between 2009 and 2012. While they see economic recovery globally will help to deflect LNG imports from the United States, they do not see demand outstripping supply near term due to the development of vast shale gas fields in North America. The said gas prices though could jump to as high as \$10 per Mmbtu by 2013 and 2014.

#### Generator Problems

**NPCC** – Dominion Resources 882 Mw Millstone #2 nuclear unit ramped up to 96% power on Friday, up from 42% on Thursday.

Entergy's 620 Mw Vermont Yankee nuclear unit saw power cut to 89%, down 11% from yesterday.

**MISO** – Exelon's 912 Mw Dresden #3 nuclear unit was at 98% capacity this morning, up 11% from Thursday.

**ERCOT** – STP Nuclear's 1280 Mw Unit #1 at the South Texas nuclear power station was at 77% power, some 40% higher than yesterday.

Luminant's 750 Mw Unit #3 at the Martin Lake coal fired power plant was scheduled to be shut Friday evening for 24 hours to fix a tube leak.

**The NRC reported today that 80,7234 Mw of nuclear generation was on line this morning, up 1.4% from yesterday, and off some 6.3% less than the same time a year ago.**

Forty-five residents of a small rural northeastern Pennsylvania town in the Marcellus Shale region brought a lawsuit today against Cabot Oil & Gas, claiming the company's natural gas drilling and hydraulic fracturing had contaminated their water wells with toxic chemicals. The company did not comment on the lawsuit since it had not had time to read it today, noted that there has never been a documented case of ground water contamination because of hydraulic fracturing.

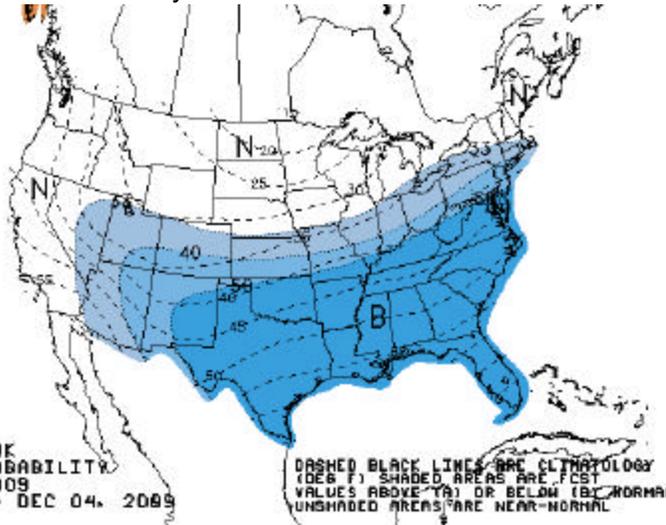
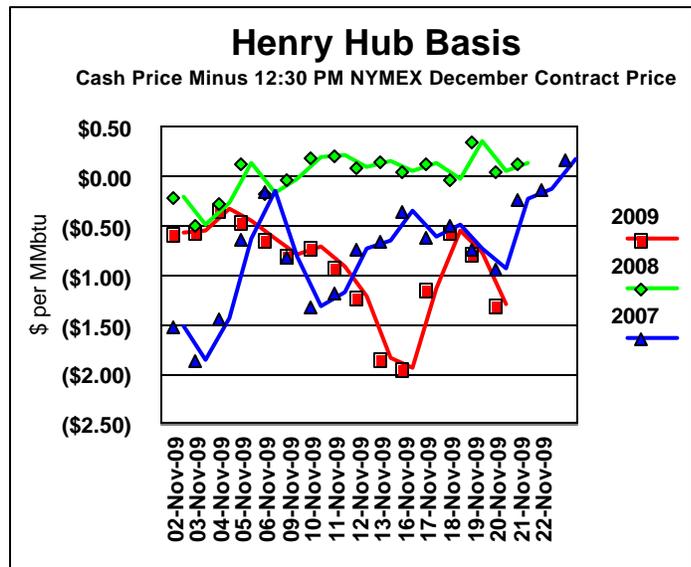
#### Natural Gas Cash Market

ICE Next Day Cash Market

Location	Volume Traded	Avg Price	Change	Basis		Basis 5-Day Moving Avg
				(As of 12:30 PM)	Change	
Henry Hub	958,100	\$3.093	(\$0.472)	(\$1.301)	(\$0.571)	(\$0.999)
Chicago City Gate	355,800	\$3.143	(\$0.538)	(\$1.251)	(\$0.590)	(\$0.964)
NGPL- TX/OK	523,000	\$3.011	(\$0.455)	(\$1.383)	(\$0.507)	(\$1.159)
SoCal	532,400	\$3.198	(\$0.586)	(\$1.196)	(\$0.638)	(\$0.910)
PG&E Citygate	384,700	\$3.794	(\$0.417)	(\$0.600)	(\$0.469)	(\$0.268)
Dominion-South	361,100	\$3.174	(\$0.540)	(\$1.220)	(\$0.592)	(\$0.954)
UTrade Weighted	16,771,200	\$3.120	(\$0.519)	(\$1.274)	(\$0.57)	(\$0.999)

Centerpoint Energy and NextEra US Gas Assets have signed an agreement to explore the possibility of building a pipeline in north Louisiana to transport natural gas from the expanding Haynesville Shale area. An upcoming open season would be held to gauge market interest. Potential capacity of the line could be 2 bcf/d and would connect the shale area to the Perryville Hub.

Statoil ASA said that it is uncertain now when its Arctic Snohvit LNG plant will restart. Operators tried to restart the plant on November 7<sup>th</sup> after a three-month shutdown for an upgrade to bring the plant to full capacity. The plant though was shut down the following day though due to a technical fault in a condensate treatment system and then an electric fault was discovered. The plant has a design capacity of 4.3 million tons a year, but it has suffered three maintenance shutdowns this year alone.



The Ukrainian natural gas company Naftogaz said Friday that the risk of yet another new natural gas dispute evolving this winter between Russia and the Ukraine has been significantly reduced following a compromise deal reached between Putin and Tymoshenko which will allow for the Ukraine to buy less gas for next year than what was originally agreed upon.

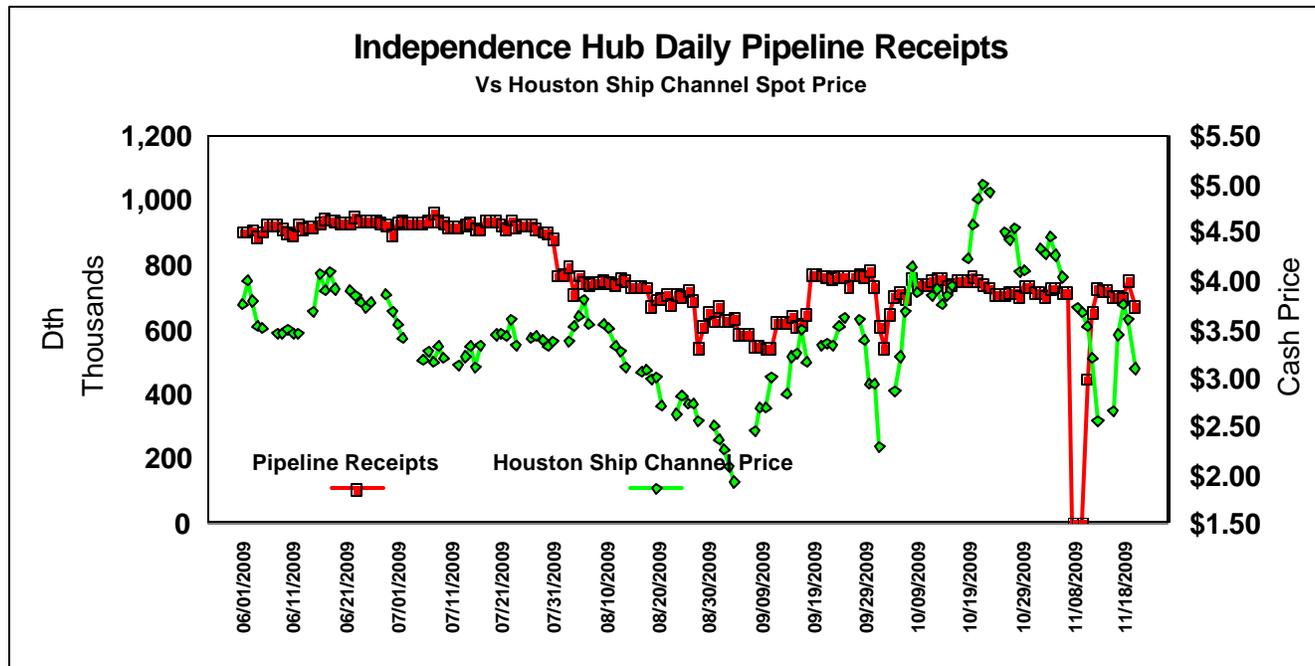
Barclays Capital yesterday released a report, which

outlined that despite a phase of weaker macro-economic data and some signs of oversupply, upward price momentum is accelerating in a number of commodities markets. They see this price escalation as a result of strong investment inflows in October and continuing into November. They estimate that total inflows into commodities year to date are approaching \$55 billion, a new record. They estimated that by the end of the year the flows will have totaled \$60 billion for the year. The prior record was estimated at \$51 billion achieved in 2006. Total commodity assets under management will probably expand to \$230-\$240 billion by the end of the year. The investment bank though estimates that as fears of an economic calamity have faded, evidence for the lack of any systematic correlation between commodities and equity markets has re-emerged. They believe that "commodities as part the global macro trade has now largely run its course and a nuanced view of supply demand fundamentals is coming back into focus as an important guide to investment strategy."

**PIPELINE RESTRICTIONS**

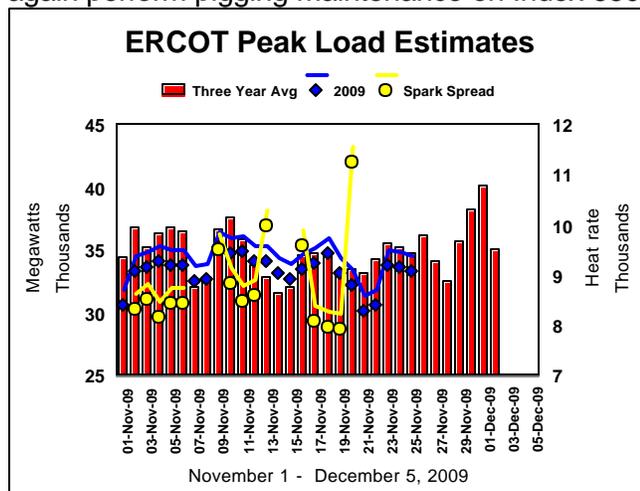
Northern Natural Gas said a System Overrun Limitation is in effect at Gilmore City #1 through November 20<sup>th</sup> due to sustained lows in excess of facility capacity limitations.

PG&E has issued a system wide operational flow order in effect for gas day November 20<sup>th</sup> due to high inventories with a 12% tolerance set.



### PIPELINE MAINTENANCE

Gulf South Pipeline said it has completed maintenance on the Hall Summit Compressor Station Maintenance Unit #3. The work began on November 10<sup>th</sup>. The company will again perform planned compressor maintenance on the unit starting December 1<sup>st</sup> and lasting for 48 hours. The company also reported that it has recently completed planned pigging maintenance on its Index 880 pipeline and will again perform pigging maintenance on Index 880 on December 2<sup>nd</sup>.



Alliance Pipeline said yesterday that inspections and maintenance would require the AB21 Teepee Creek Lateral Meter/Compressor Station to be unavailable for 10 hours on November 25<sup>th</sup>. In addition the company reported the Taylor Junction Compression Station would be unavailable for 2 hours on November 23<sup>rd</sup> to allow for minor inspection. Also the company said that between November 23<sup>rd</sup> and 27<sup>th</sup> it will perform inspection tool runs on the Bigstone and Edison laterals.

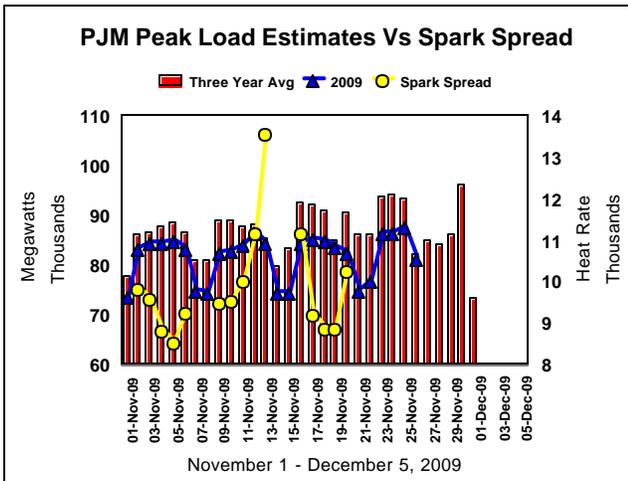
NGPL said that beginning November 23<sup>rd</sup> and continuing through November 25<sup>th</sup> it will be performing a meter upgrade at the Duke Energy

Caddo interconnect on Segment 2 of its Midcontinent Zone. This location will be unavailable for nominations of flow for the duration of this project.

### ELECTRIC MARKET NEWS

The EIA reported on Thursday afternoon that the United States saw coal production for the week ending November 14<sup>th</sup> reach 20.888 million short tons, up 1.6% from the prior week but off 9.5% from the same week a year ago. Year to date coal production is off 7.2%.

AEP's Southwestern Electric Power said yesterday that it intends to purchase the transmission and distribution assets of a Louisiana electric cooperative, Valley Electric for \$94 million. Regulators of Louisiana and Arkansas must approve the transaction.



Genscape reported today that U.S. coal consumption during the past week fell 2% from the previous week due to weak demand in the East. Coal demand appeared to be 9% less than the same week a year ago. Genscape noted that fuel switching from coal to natural gas is increasing, and as a result some large coal plants were off line this week.

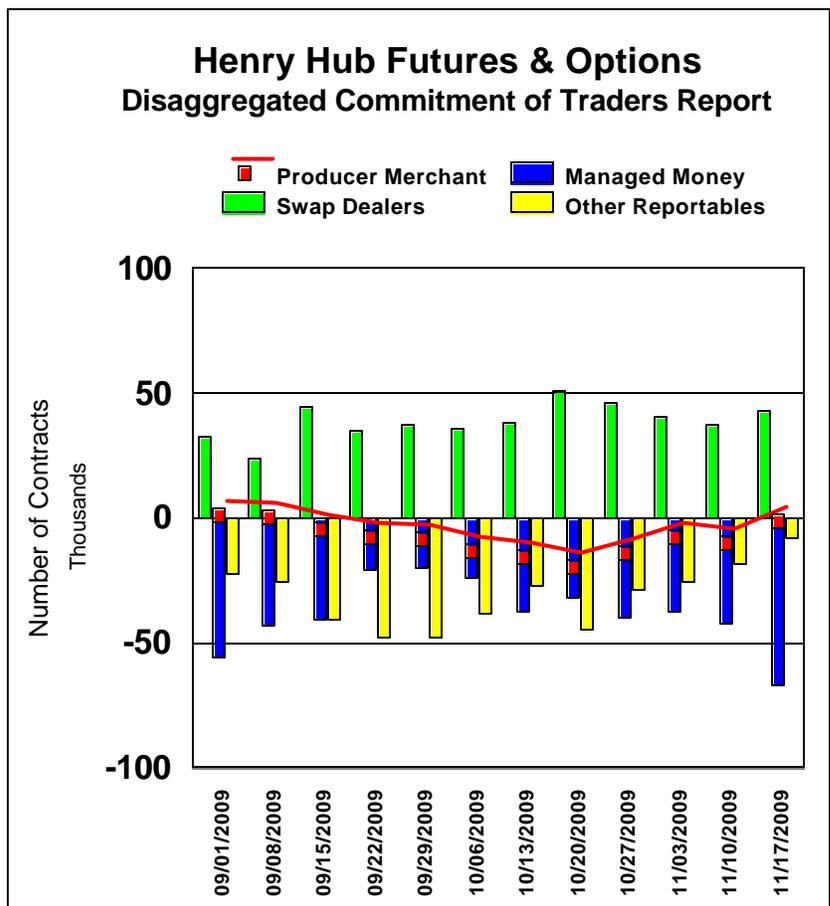
**MARKET COMMENTARY**

The pressure on natural gas prices this month can be summed up by the fact the mid section of the country has been enjoying unseasonably warm

temperatures. This has been underlined by the data that Friday was the 17<sup>th</sup> consecutive day of milder than normal temperatures in the Chicago area, one of the longest such warm spells on record in the month of November. Given that above normal temperatures are expected to continue into next week, it appears natural gas usage is off 25% for heating as the area posts the 20<sup>th</sup> warmest November of the past 139 years. This warm spell coupled with the lighter weekend industrial load send cash prices tumbling again today across most trading hubs.

But despite the decline in the cash market and the weaker equity and oil markets, the natural gas futures continued to march to the beat of a different drummer, as it settled higher for the second day in a row. The “bullish” two day move was again based upon the expectations for temperatures to turn colder starting for most of the eastern half of the country by Thanksgiving. This evening’s latest NWS 8-14 day forecast showed that this colder air pattern would take hold over a majority of the nation. While confidence in this forecast appeared to have grown today it could be quickly erased by Monday if there is a drop in the confidence level for this forecast.

This afternoon’s new Commitment of Traders Report showed that producers during the week ending November 17<sup>th</sup>, had dramatically reduced their net short position by over 9,400 contracts in the Henry Hub futures and options market. As



a result this trading group was nearly equally long and short, a market position that has not been heavily net short since the week ending September 8<sup>th</sup>. Meanwhile the managed money sector though significantly added to their short positions and as a result increased their net short position by 24,634 lots. Swap dealers have remained net long for the past three months and on the week raised their net length by 5380 lots.

We see resistance for this market on Monday initially at \$4.44 and \$4.47, followed by \$4.504, \$4.584 and \$4.726. More significant resistance we see at \$4.857, \$5.073 and \$5.289. Support we see at \$4.282, \$4.22 and \$4.15-\$4.14. Significant support we see at \$4,035 and \$3.26.

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