



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR NOVEMBER 22, 2010

#### NATURAL GAS MARKET NEWS

Market analysts at U.S. energy investment bank Tudor, Pickering and Holt said the development of shale gas in Europe appears to have expectations running far ahead of reality. The bank noted that European regulation on exploration and production (E&P) of shale gas is not well developed. In addition there is a major challenge from Europe's landownership structure. While in the U.S. the landowner typically also owns the mineral rights; in Europe, this is mostly is not the case. The bank also looks for global LNG prices to remain relatively high and that by 2014 and 2015 the market will see even further tightening. They based this analysis on the fact that global gas consumption has been growing at two to three times faster in recent years than oil consumption, so unless there is a massive double dip recession, LNG prices should remain firm. The bank though does not look for the U.S. to become a large exporter of gas despite low domestic prices and relatively higher international prices for LNG, given the political difficulties of the country exporting energy while we are an importer as well.

#### Generation Update

**NPCC** – OPG's 494 Lambton #4 coal fired power plant was shut late Friday, while Unit #3 returned to service late Sunday.

**SERC** – Progress Energy's 710 Mw Robinson #2 nuclear unit ramped up to full power on early Monday, up some 33% from Friday. The unit had exited its recent refueling outage last week.

Southern's 851 Mw Farley #1 nuclear unit ramped up to 80% by early Monday from 30% power recorded on Friday, as the unit continues to ramp back up from its recent refueling outage.

Duke Energy's 846 Mw Oconee #3 nuclear unit has returned to full power from the completion of its recent refueling outage. The unit was restarted on Friday and was at 1% power.

TVA's 1148 Mw Sequoyah #1 nuclear unit was back at full power Monday, up from 50% power on Friday.

SPP – Entergy's 978 Mw River Bend nuclear unit was at only 53% power this morning. The unit had been at full power last week.

**WECC** - TransAlta 406 Mw Sundance #5 coal fired power plant in Alberta returned to service late Sunday. Two other units at the facility remain off line.

**PJM** – Exelon's 1112 Mw Peach Bottom #3 nuclear unit exited its recent outage on Saturday and was back up to 95% power Monday morning.

**The NRC reported today that some 85,038 Mw of generating capacity was online today, up 0.7% from Friday and 3.8% higher than the same day a year ago.**

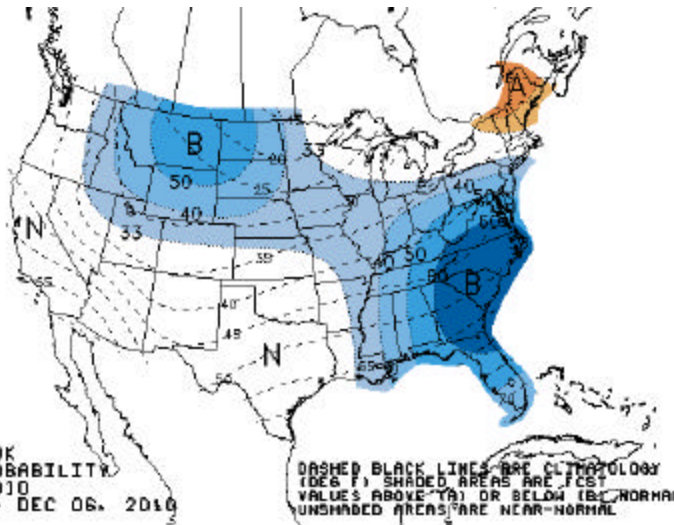
The North American energy and marketing arm of Macquarie Group and Freeport LNG Expansion LP announced today they plan to build a "world class bi-directional import/export" facility as a well as a liquefaction capacity at Freeport's existing LNG import facility near Freeport, Texas. The

#### 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	395,500	\$4.018	\$0.226	(\$0.183)	\$0.211	(\$0.087)
Chicago City Gate	739,700	\$4.266	\$0.316	\$0.065	\$0.255	\$0.024
NGPL- TX/OK	813,000	\$3.936	\$0.256	(\$0.265)	\$0.195	(\$0.244)
SoCal	207,200	\$4.173	\$0.357	(\$0.028)	\$0.296	(\$0.136)
PG&E Citygate	893,400	\$4.586	\$0.239	\$0.385	\$0.178	\$0.340
Dominion-South	361,300	\$4.162	\$0.194	(\$0.039)	\$0.133	\$0.013
UTrade Weighted	21,086,100	\$4.139	\$0.272	(\$0.062)	\$0.21	(\$0.087)

companies noted that given Freeport's significantly underutilized LNG facility coupled with low U.S gas prices relative to global LNG spot prices it has provided an economic reason to make the U.S. into a leading exporter of natural gas. The company noted that with the expansion of the Panama Canal slated for 2014, the Freeport facility would have a competitive access to Asian LNG markets as a result. The companies' are looking to invest \$2 billion to expand the Freeport facility. The plant would have a 1.4 bcf/d export capacity by 2015. Freeport LNG would operate the plant, with Macquarie contributing to development costs. The companies would share in the upside from the marketing of the LNG. Macquarie and Freeport plan to jointly market half of the export capacity, with the other half being offered to Freeport's existing import customers, Dow Chemical and ConocoPhillips.



ExxonMobil announced that it is suspending plans for its BlueOcean Energy LNG project slated for offshore New Jersey. The project was designed to have the capacity to supply about 1.2 bcf/d.

National Grid reported today that the Maersk Marib LNG tanker berthed Saturday at its Isle of Grain terminal. Meanwhile shipping sources reported that the Al Safliya and Mekaines LNG tankers are

expected to arrive at the Milford Haven port on December 11<sup>th</sup> and November 29<sup>th</sup> respectively, while the Norwegian LNG tanker Arctic Discovery is expected to arrive at the Dragon terminal on November 28<sup>th</sup>.

TNK-BP said Monday that the company is considering spending \$3.8 billion in its gas business over the next three years as it aims to more than double production to 30 bcm by 2020, with half of this production coming from associated gas. The company is looking to invest \$50 million on unconventional gas projects in Ukraine over the next few years. The company is looking at targeting six unconventional licenses containing tight gas plays in that country as well as tight gas production assets in Algeria from BP. The company looks to utilize the technical expertise it could acquire from the proposed Algerian assets and utilize them in the Ukraine as well.

The Chinese government reported that China imported 831,013 tonnes of LNG in October, with 31% coming from Australia, with Indonesia and Malaysia accounting for 22% and 14.6% respectively. Year to date imports of LNG are up nearly 73% from a year ago.

Woodside Petroleum's is expected to announce later this month that its \$13 billion Pluto LNG plant in northwestern Australia start up will likely be delayed one to six months due to recent labor strife and some design problems. The company is in the process of completing another cost and schedule review. Earlier this year following a similar review, the company had estimated that the project would be started up in February 2011 with the LNG production starting in March 2011. Market expectations for further delays have been discussed given the company's recent inquiry to Petronas on purchasing some LNG cargoes for early next year.

British spot natural gas prices continued to firm, reaching multi month highs today as forecasts called for "very cold " temperatures over the next three to five days. The Rough storage site resumed operations again over the weekend, after a gas leak at the Easington receiving terminal stopped supply last week.

A unit of China National Petroleum Corp reportedly is set to begin in 2011 a \$6 billion expansion project at Cuba's Cienfuegos refinery. While the project will expand the refinery by 85,000 b/d to 150,000 b/d it will also include the construction of a LNG terminal with the capacity to process 2 million tons of gas annually and a 150 Mw power generation plant.

Weather Services International expects temperatures for December-February to average colder than normal for Britain and western continental Europe. It said it expected the coldest weather in December, with the potential for a relatively warm spell in January or February.



**ELECTRIC MARKET NEWS**

The European Commission on Monday said a proposal to limit the use of some carbon credits from industrial gas projects in its emissions trading scheme might be unveiled during the United Nations climate summit in Mexico next week.

Genscape reported this morning that U.S. power output for the week ending November 18<sup>th</sup> fell 3.9% from the prior week and was some 1.3% less than the same week a year ago.

Analysts at Macquarie Capital said today that revised long-term load forecasts for 2014 and 2015 and a projected shift in generation should keep pressure on future capacity power prices in PJM through the May 2011 auction but will ultimately give way to higher prices in the following years. According to Macquarie they see up to 30 Gw of coal fired generation capacity in PJM could be retired, depending on the stringency of the EPA's Hazardous Air Pollutant Standards, which will not be known for another year. The firm also looks for additional retirement of older, inefficient coal plants between now and May 2011 auction could total 10 Gw of which 7 Gw have already been announced.

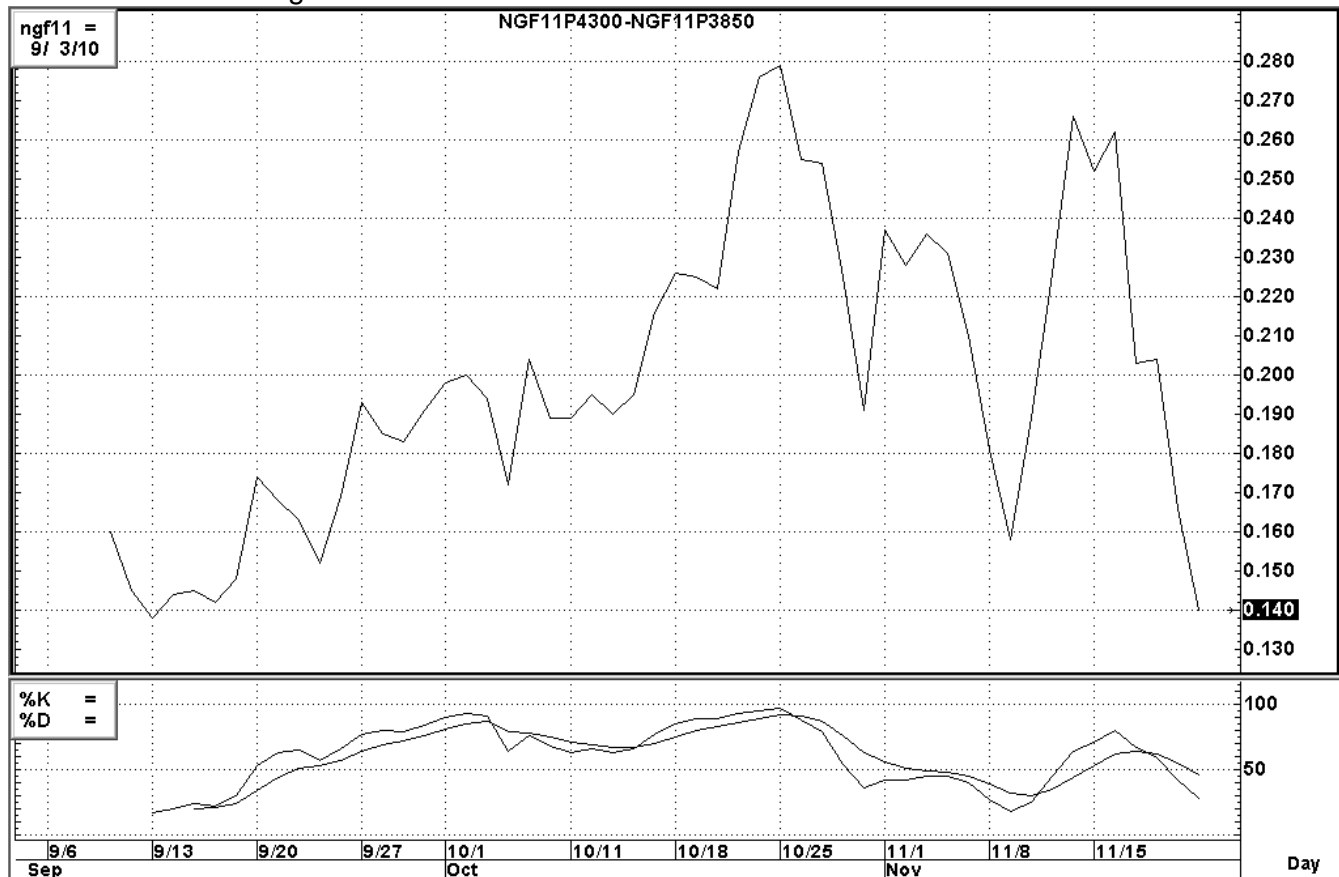
The CFTC said it will take comments and recommendations from the public to conduct a study regarding the oversight of existing and prospective carbon markets in the United States.

**ECONOMIC INDICATORS**

The National Association for Business Economics said its survey showed economists expect real gross domestic product to increase 2.7% this year compared with the October estimate of 2.6%. The forecast for 2011 was unchanged at 2.6%.

**MARKET COMMENTARY**

The natural gas futures market remained in positive territory for much of the day as traders found stronger cash markets and supportive weather forecasts released both this morning and again at midday, which continue to call for temperatures to basically turn colder than normal over the next 6-15 day period for most of the nation. By the end of the day the December contract had reached a level not seen since late September. The market also traded and settled above the 200 day moving average for the first time since August 5<sup>th</sup>.



With the December options contracts set to expire tomorrow on the CME, it appears that there is not any significant force to dramatically push this market in either direction and most likely will find itself following the path of least resistance and finishing the day tomorrow at the \$4.25 price level. We continue to feel though that this market remains over eager in evaluating short-term weather forecasts as a long lasting shift in the supply/demand situation of this market. Just late last week government forecasters continued to call for above normal temperatures for much of the nation in December while the January through March period should see most of the southern two thirds of the nation with above normal temperatures with colder than normal temperatures confined to the low populated areas of the northern high plains. As a result we feel the new speculative buying could quickly abandon this market at the signs of an extended period of warmer than normal temperatures taking hold in December. While our inclination is to recommend looking for a place to short this market, we feel the only prudent path to implement a bearish approach to this market at this time of year would be to be a buyer of puts

or puts spreads. We would look at the January \$4.30-\$3.85 put spread which tonight settled down near its lows of just 14 cents. Flat price we see resistance tomorrow at \$4.293-\$4.329 followed by \$4.455 and \$4.534. Support we see at \$4.07 followed by \$4.00-\$3.99. Additional support we see at \$3.933 and \$3.902-\$3.897 and \$3.803.

***The EIA announced today that due to the Thanksgiving holiday its weekly natural gas storage report will be released a day earlier, on Wednesday November 24<sup>th</sup> at 12 noon EST.***

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