



## ***ENERGY RISK MANAGEMENT***

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### **NATURAL GAS & POWER MARKET REPORT FOR DECEMBER 2, 2009**

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#### **NATURAL GAS MARKET NEWS**

Barclay's Capital announced today it was launching a LNG services division, which would provide access to liquidity and markets, risk management, and credit and risk intermediation for the LNG industry. In its first deal, it will market LNG arriving into Exceleerate Energy's Northeast Gateway terminal near Boston.

Northwest Pipeline has received FERC approval to construct and operate the 15.5-mile 30-inch mainline natural gas loop from the Piceance Basin in Colorado to the Opal Hub in Wyoming. The \$65 million Sundance Trail expansion project is expected to be operational by November 2010.

Enbridge said today that it is still looking to build the LaCrosse pipeline to take natural gas from the Haynesville shale region despite a poor open season that did not provide the formal commitment of shippers to move forward with the 1 bcf/d pipeline. Officials though hoped that as the gas market begins to improve, customers will commit enough gas to the project to allow it to proceed.

The FERC said it would be accepting comments until December 30<sup>th</sup> for the Cadeville Gas Storage proposal to convert a depleted natural gas reservoir in Ouachita Parish, Louisiana into a 16.4 bcf working gas storage facility. The project has an in service date of late 2011.

Tennessee Gas Pipeline informed the FERC today that the costs to construct its Carthage Expansion Project exceeded estimates by 9.1%, due to construction expenses of almost \$6 million over the \$38.4 million projected cost.

The Russian Energy Ministry said Russian natural gas production rose by more than 9% in November from the prior month to 1.93 bcm/d. Gazprom's natural gas production in November rose 8% from October to 1.57 bcm/d.

#### **Generator Problems**

**NPCC** – OPG's 490 Mw Nanticoke #5 coal fired generating unit returned to service early Wednesday. The unit had been off line since November 17<sup>th</sup>.

OPG's 494 Mw Lambton #1 coal fired unit also returned to service early Wednesday. The unit was shut on November 30<sup>th</sup>.

Dominion's 870 Mw Millstone #2 nuclear unit dropped to 90% power this morning, down 10% from yesterday

**PJM** – PPL reported that it has reduced power at its 1140 Mw Susquehanna #2 nuclear unit to 79% power, down from 15% from yesterday. Operators said they had problems from flooding when a valve failed.

Dominion's 813 Mw Surry #2 nuclear unit ramped up to 70% power today.

**MISO** – OPPD's 478 Mw Fort Calhoun nuclear unit was in cold shutdown on Monday. The unit has been off line since November 4<sup>th</sup> for refueling.

Exelon's 867 Mw Dresden #2 nuclear unit started to exit its recent refueling outage and stood at 18% power on Wednesday. The unit was shut on November 2<sup>nd</sup>.

**WSCC** – APS 1314 Mw Palo Verde #2 nuclear unit started to exit its recent refueling outage and ramped up to 2%. The unit has been off line since October 5<sup>th</sup>.

**SERC** – TVA's 1653 Mw Raccoon Mountain pumped storage hydro plant is expected to remain off line for a couple of more weeks for additional repairs. The plant went into maintenance at the beginning of November.

**The NRC reported today that 84,832 Mw of nuclear generation was on line this morning, down 1.3% from yesterday, and off some 7.6% from the same time a year ago.**

The acting finance minister in the Ukraine said that while the Ukraine's gas bill for Russian gas in November was higher than previous months at \$770 million, it would still pay it on time. The Ukraine 's payment deadline is December 7<sup>th</sup>.

ExxonMobil said today that it expects to see global gas demand to grow by 25% and LNG will grow by 40% by 2020. The company expects to see LNG account for 10% of total gas supply by the end of the next decade.

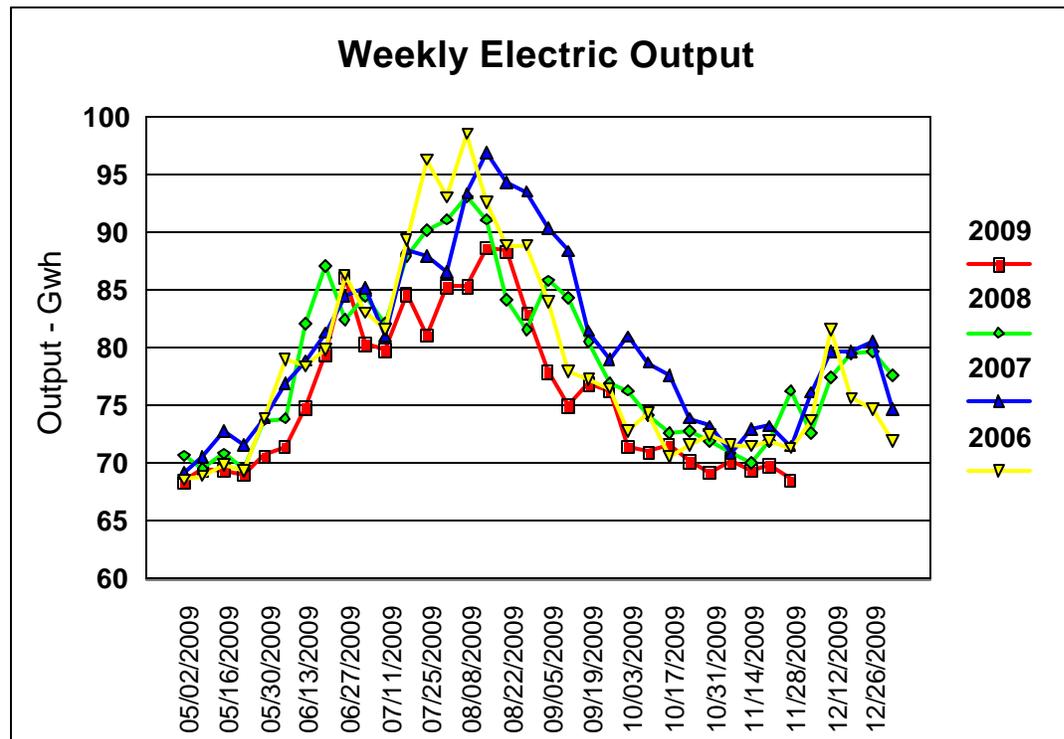
Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
Location	Traded	Price		(As of 12:30 PM)		Moving Avg
Henry Hub	844,000	\$4.665	\$0.364	\$0.129	\$0.635	(\$0.527)
Chicago City Gate	1,031,600	\$4.994	\$0.409	\$0.458	\$0.697	(\$0.454)
NGPL- TX/OK	920,200	\$4.656	\$0.319	\$0.120	\$0.607	(\$0.701)
SoCal	467,800	\$5.066	\$0.362	\$0.530	\$0.650	(\$0.392)
PG&E Citygate	834,600	\$5.471	\$0.252	\$0.935	\$0.540	\$0.226
Dominion-South	270,100	\$4.834	\$0.294	\$0.298	\$0.582	(\$0.456)
UTrade Weighted	23,316,900	\$4.850	\$0.347	\$0.314	\$0.63	(\$0.527)

Marathon Oil reported that while it made a small gas find in the North Sea it was deemed not commercially viable at this time.

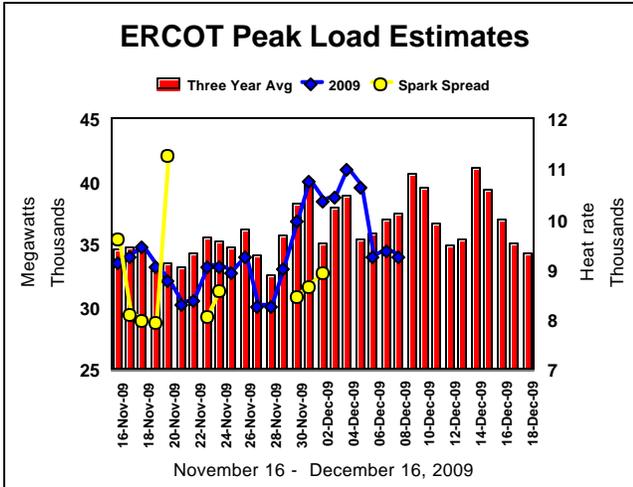
Sinopec plans to increase its natural gas output and cut its own consumption in order to ensure supplies will reach major consuming regions in China this winter. The company plans to boost production by 300,000 to 500,000 cubic meters over the next couple of months. This is already on top of the 8% increase it had scheduled for the 4Q2009 over the prior quarter.

Indonesia's PT Pertamina has signed a 15 year agreement to supply 125,000 tonnes of LNG to Tohoku Electric Power. The gas would be supplied from the Tangguh project. The plant is expected to export 50 cargoes in 2010.

The Nigeria LNG said it expects natural gas supplies from Royal Dutch Shell's Soku feed gas plant to rise from current levels of 500 MMcf/d to 650 MMcf/d by 2010. At full production the plant has a capacity to produce 1.1 bcf/d or 40% of the export terminal's total feed gas. Currently the plant is running at only half capacity after reopening in



October following lengthy repairs to pipelines damaged by gas thieves in 2008.



Bernstein Research said today that it was having serious doubts regarding the reliability of supply from Turkmenistan and Azerbaijan to make the proposed Nabucco pipeline a viable project.

ConocoPhillips said today the final investment decision on Abu Dhabi's Shah sour gas project will come in the first half of 2010. The project is expected to cost \$10 billion.

ADP reported that U.S. private employers shed 169,000 jobs in November. While this was initially viewed as bearish given market expectations of a 155,000-job loss, it was later viewed as neutral as ADP revised downward October's job loss from 203,000 to 195,000.

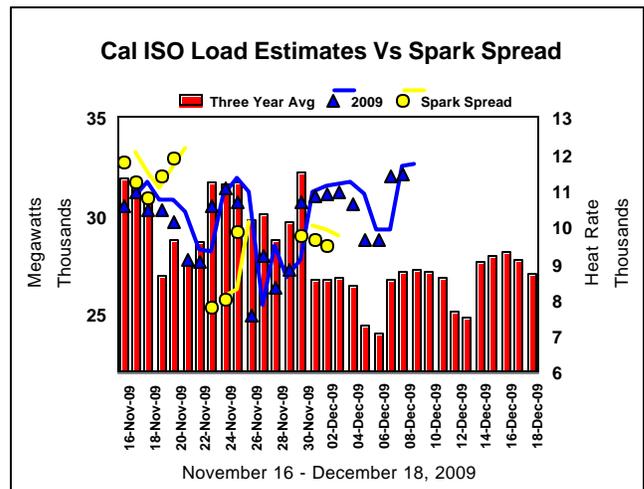
The Federal Reserve Bank released its Beige Book today and it noted that the weak U.S. economy is improving modestly with little upward pressure on wages and finished goods despite commodity price gains. Eight of the Fed's 12 districts reported some pickup in economic activity since October 21<sup>st</sup> report.

**PIPELINE RESTRICTIONS**

NGPL said effective today and until further notice Florida Vermillion has limited capacity available for deliveries. Limited interruptible transportation service/authorized overrun and secondary firm transports are available.

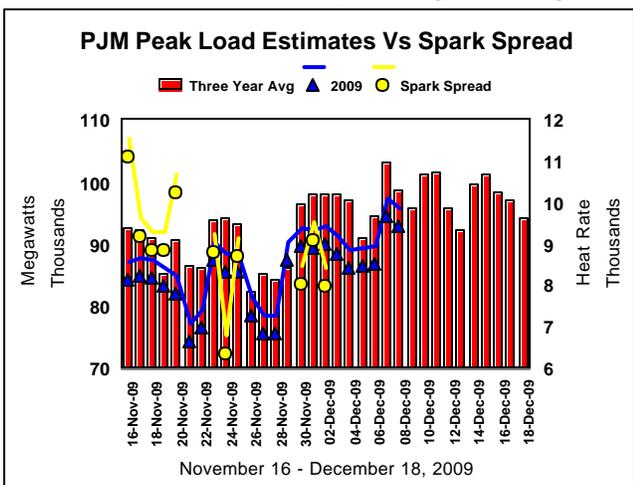
**ELECTRIC MARKET NEWS**

Exelon Corp announced it would permanently shut down four older coal fired power-generating units in



Pennsylvania by May 2011. The units have a combined generating capacity of 933 Mw.

A filing by two New York State administrative law judges said it is not feasible for the NY PSC to reach a decision at its December meeting on Entergy's proposal to spin off five of its nuclear power plants into a stand alone company. Two of Entergy's nuclear plants are in New York. The company has been working for the past two years in trying to spin off these plants into a new company that would be the nation's first stand-alone nuclear power company. The global credit crunch and regulatory foot dragging has been thwarting its efforts.

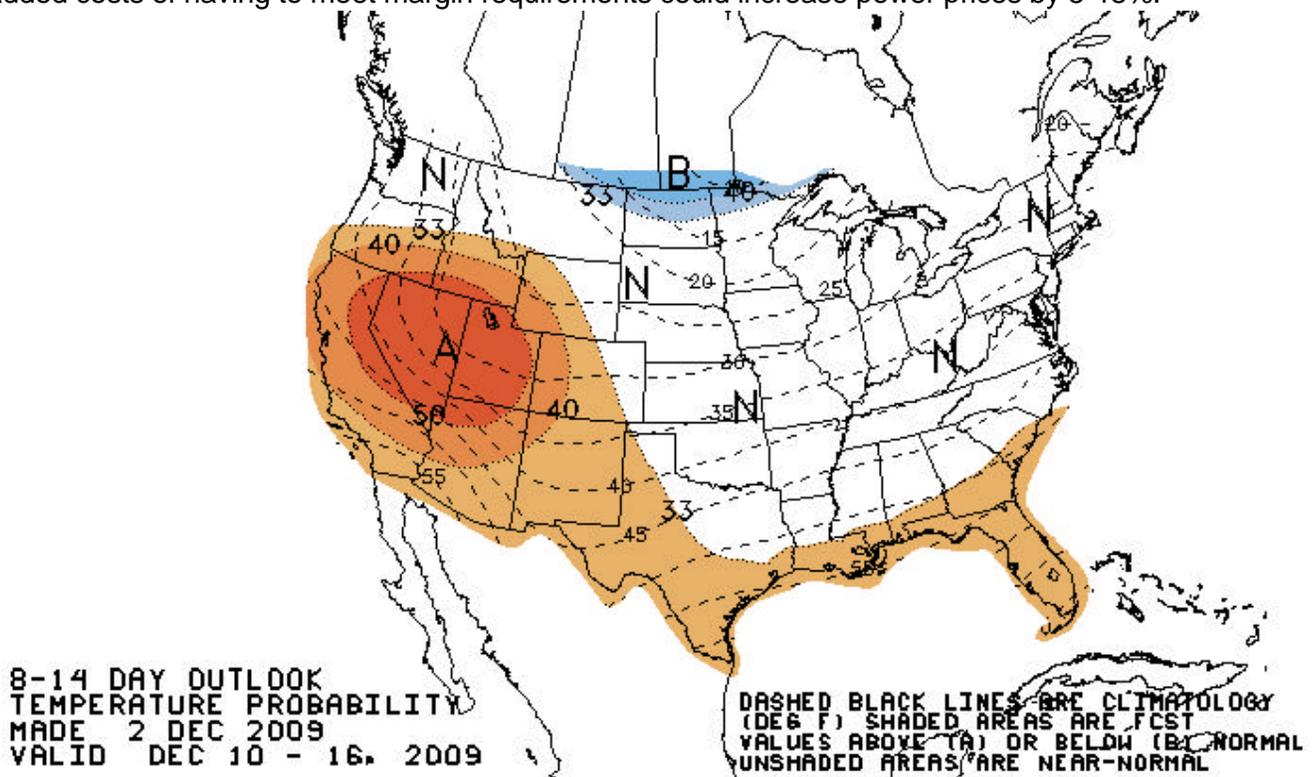


Massachusetts Governor Patrick said today that National Grid and Cape Wind have agreed to enter negotiations for a long-term contract under which the power utility operator would buy power generated

from Cape Wind's proposed offshore wind farm. State approval will be required for any power purchase agreement that is reached. The deal is critical for Cape Wind to receive the necessary financing in order to qualify in time for federal incentives, which could reduce the cost of the project by 30%.

The Edison Electric Institute reported that for the week ending November 28<sup>th</sup>, U.S. power production stood at 68,607 Gwh down 1.95% from the prior week and off 5.8% from the same week a year ago.

Congressman Markey said today he is working on changes to derivatives legislation that would preserve the FERC's authority over wholesale power markets. The Congressman noted that current proposed legislation needs to be modified since the definition of a swap currently which would require oversight by the CFTC, may include contracts that trade in wholesale power markets, which the FERC currently regulates. The Electric Power Supply Association said the proposed legislation "should expressly not include the day ahead, real time and financial transmission rights products" traded on power markets managed by RTO's. The trade group along with the Edison Electric Institute called on Congress to amend the legislation to ensure that power companies are exempt from requirements that derivative transactions go through clearing houses or regulated exchanges. They estimated that the added costs of having to meet margin requirements could increase power prices by 5-15%.



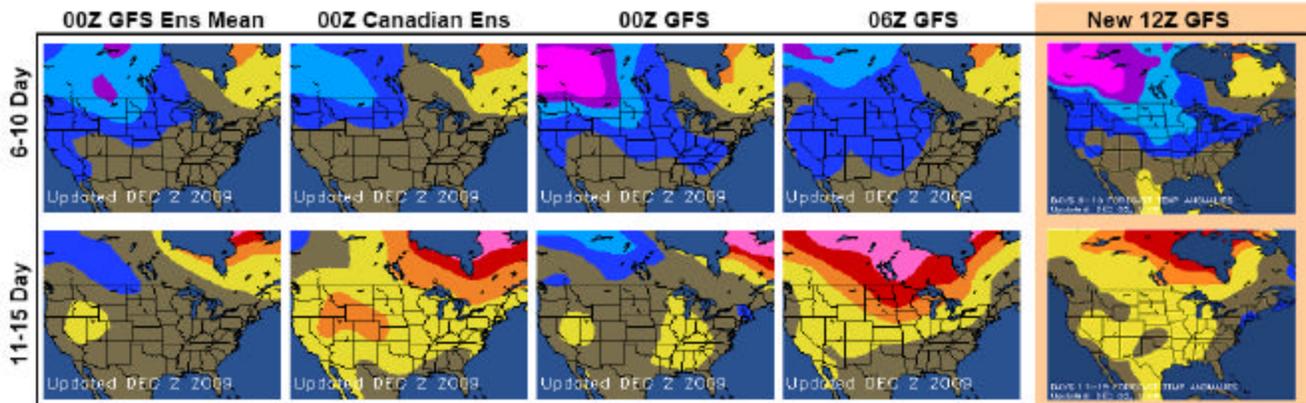
The Texas Railroad Commission this week filed motions in several of Texas Public Utility Commission proceedings, expressing concern that proposed renewable energy transmission lines "may impede the development of oil and gas resources.

### **MARKET COMMENTARY**

While colder temperatures began to spread into the midsection of the nation today and was expected to begin to spread into most of the Midwest tomorrow, helping the cash markets rebound nicely today, the futures market remained under pressure throughout the day. The bullish expectations from last week based on the 6-10 and 11-15 day forecasts of a colder than normal weather pattern to being established over the eastern two thirds of the nation continue to appear to be evaporating following each new forecasting computer modeling run. Forecasters now look for a more zonal flow to be

established over the 8-14 day period, allowing milder air to come pouring into the central and eastern U.S. and possibly eroding away the vast majority of the reservoir of colder air in western Canada as well. But some models did hold out the possibility that a blocking ridge, which initially is allowing colder air to move southward could hold and allow the central and eastern United States experience much colder than normal temperatures than currently are expected.

### Forecast Model Comparison



Market expectations for tomorrow's EIA Storage Report appear to be running between a 20 bcf draw to a 20 bcf build, with most expectations focused on a minor draw of 2-3 bcf. For the same week a year ago stocks fell and adjusted 64 bcf, while the five-year seasonal average declined by 43 bcf. Given the report includes the Thanksgiving holiday, any drawdown would be a surprise in our mind.

Today's price action appeared to cause major damage in our mind to a potential supportive technical outlook for this market. Not only did prices breach minor support at \$4.64 but more significant support at \$4.57-\$4.56. Tomorrow we look for minor support at \$4.43 and \$4.33-\$4.31 with more significant support at \$4.082 and \$3.996 basis the spot continuation charts. Resistance tomorrow we see at \$4,711, \$4.80, \$4.90, \$4.992 and \$5.145. Weather forecast continue to be the key!

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