



## ***ENERGY RISK MANAGEMENT***

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### **NATURAL GAS & POWER MARKET REPORT FOR DECEMBER 3, 2009**

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

Goldman Sachs Group today in a research note said it looked for crude oil prices to average \$90 per barrel next year and \$110 in 2011 as increasingly strong demand from the emerging markets will require higher prices to ration demand out of the developed markets over the next two years. But the company lowered their price estimates for natural gas, seeing U.S. natural gas prices next year averaging \$6.00, well below its prior estimate of \$7.10 per Mmbtu. The company lowered their estimates based on the production gains from unconventional supplies sources as well as from expansion of LNG supplies.

Qatar's RasGas said it plans to sell about a fifth of its LNG exports on a flexible basis, rather than tying it all up in long term contracts.

#### **EIA Weekly Report**

	11/27/2009	11/20/2009	Change	11/27/2008
<b>Producing Region</b>	1219	1211	8	963
<b>Consuming East</b>	2092	2099	-7	1938
<b>Consuming West</b>	526	525	1	466
<b>Total US</b>	3837	3835	2	3367

\*storage figures in Bcf

Gazprom Global LNG has traded 2 million tons of LNG this year and looks to increase its trading to 10 million tons or more per year over the next few years. The company said it looks to build a long term supply portfolio along side its spot trading business, with LNG from Sakhalin and other new Russian LNG projects as they come on line.

#### **PIPELINE MAINTENANCE**

Texas Eastern has begun construction on a project to reconfigure its Kosciusko Compressor Station in Mississippi so as to allow gas receipts from Texas gas transmission's Greenville Lateral.

#### **Generator Problems**

**NPCC** – Dominion's 882 Mw Millstone #2 nuclear unit was back to full power this morning, up 10% from yesterday.

**PJM** – Dominion's 799 Mw Surry #2 nuclear unit has ramped up to 96% power this morning, up 26% from yesterday.

PSEG's Conemaugh #2 850 Mw coal fired power plant was shut on Thursday afternoon.

**FRCC** – FPL's 693 Mw Turkey Point #4 nuclear unit has started to exit its refueling outage and was at 2% power this morning. The unit has been down for refueling and maintenance since October 26<sup>th</sup>.

**MISO** – Exelon's 912 Mw Dresden #2 nuclear unit was preparing to connect to the grid this morning. The unit was at 21% power, up 3% from yesterday.

**WSCC** – TransAlta's 406 Mw Sundance #4 coal fired unit in Alberta was shut down today.

TransAlta's 450 Mw Genesee #3 coal fired power plant was shut today.

APS 1270 Mw Palo Verde #2 nuclear unit was running at 18%, up 2% from yesterday.

**SERC** – Duke Power's 846 Mw Oconee #1 nuclear unit continues to ramp up from its recent refueling outage and was at 20% power this morning.

**ERCOT & SPP** – Entergy's 1157 Mw Waterford #3 nuclear unit has been restarted and was at 1% power this morning. The unit had been off line since October 19<sup>th</sup>.

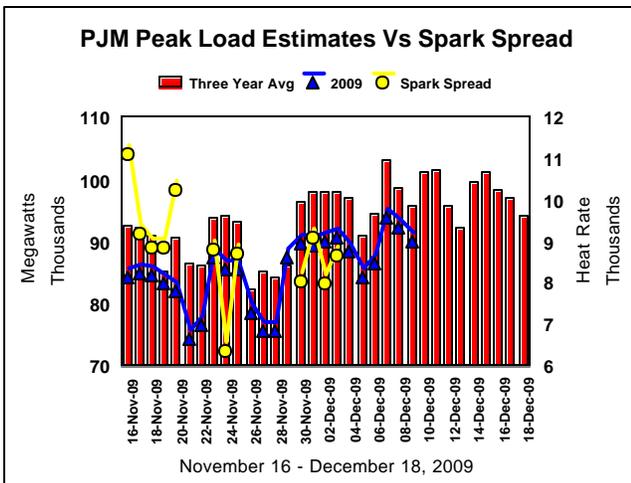
AEP's 528 Mw Welsh #1 coal fired power plant was expected to be taken down today and remain offline through December 8<sup>th</sup> for maintenance.

Luminant's 565 Mw Monticello coal fired Unit #2 was expected to be taken off line today and remain off line through Saturday for maintenance work.

**The NRC reported today that 86,839 Mw of nuclear generation was on line this morning, up 0.8% from yesterday, and off some 5.5% from the same time a year ago.**

The FERC yesterday authorized Rockies Express Pipeline to place into service new compression at the Big Hole Compressor Station in Moffat County, Colorado, as part of the company's Entrega expansion project. The project seeks to expand capacity on the system's Zone 1 by 200,000 Dth/d.

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	148,400	\$5.027	\$0.362	\$0.550	(\$0.140)	(\$0.354)
Chicago City Gate	630,000	\$4.768	(\$0.226)	\$0.291	(\$0.167)	(\$0.273)
NGPL- TX/OK	901,600	\$4.500	(\$0.156)	\$0.023	(\$0.097)	(\$0.524)
SoCal	438,500	\$4.858	(\$0.208)	\$0.381	(\$0.149)	(\$0.195)
PG&E Citygate	593,200	\$5.231	(\$0.240)	\$0.754	(\$0.181)	\$0.345
Dominion-South	271,900	\$4.666	(\$0.168)	\$0.189	(\$0.109)	(\$0.300)
UTrade Weighted	22,480,800	\$4.652	(\$0.199)	\$0.175	(\$0.14)	(\$0.354)



**PIPELINE RESTRICTIONS**

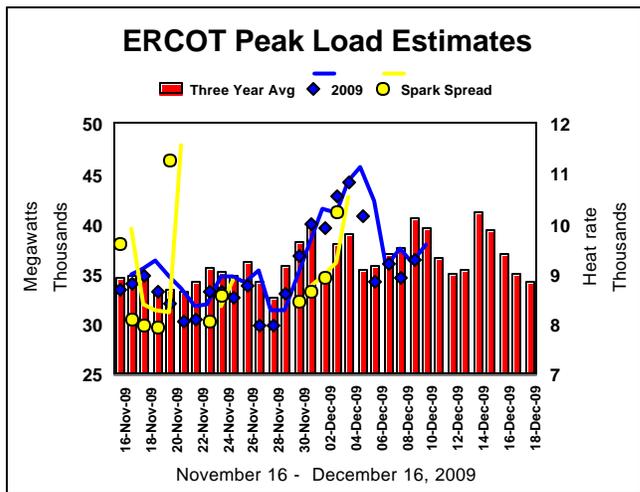
Transco said that for gas day December 4<sup>th</sup>, physical constraints in the Transco system will affect the quantity of interruptible transportation service secondary firm transportation and interruptible transportation available at various market area mainline point or segments.

NNG said that effective for December 3<sup>rd</sup> and until further notice, NNG Mills is at capacity for deliveries. Interruptible transportation service/authorized overrun and secondary firm transports are at risk of not being fully scheduled.

Midcontinent Express Pipeline said that effective for today and until further notice it has capacity available for gas flow to the ENOGEX/MEP Bennington point.

**ELECTRIC MARKET NEWS**

The EIA reported today that total U.S. greenhouse gas emissions fell 2.2% in 2008 from the year before to 7,053 metric tons of carbon dioxide equivalent. Since 1990 U.S. greenhouse gas emissions have increased by an average annual rate of 0.7%



**Canadian Gas Association**

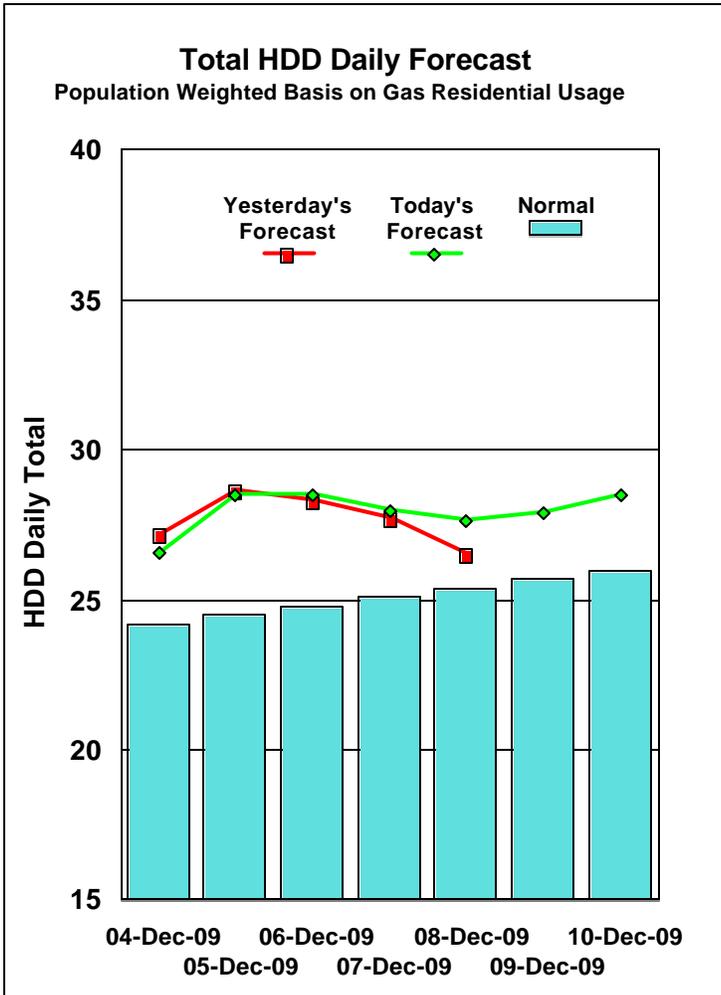
**Weekly Storage Report**

	27-Nov-09	06-Nov-09	28-Nov-08
East	239.1	239.4	214.4
West	373.7	372.5	345.5
Total	612.8	611.9	559.9

storage figures are in Bcf

PG&E Corp said it would build and operate a wind power project of up to 246 Mw in conjunction with Iberdrola. The project would cost just over \$900 million. The project marks the utility's first foray into owning wind generation assets.

The New Mexico Renewable Energy Transmission Authority presented the state's first comprehensive report on transmission conditions and needs. The report recommends the state of New



Mexico needs to develop an interstate transmission highway corridor within a 60-90 mile band extending west to east across the middle part of the state and heading to the Texas panhandle, as well as northward to Colorado. The report said the next step is to attend to details of establishing a specific path of the corridor and then working with counties and municipalities on planning and eminent domain issues. The ultimate objective with the corridors would be to establish interconnections with WECC, ERCOT and SPP to transmit large quantities of renewable energy from New Mexico. The authority is seeking to have the corridors identified before the Legislature's January 2011 session.

Mississippi regulators approved yesterday Entergy Mississippi's proposed expansion of the Grand Gulf nuclear plant. The project will seek to increase the plant's overall capacity by 13% to 1443 Mw, at a total cost of \$510 million. The project would be completed in 2012.

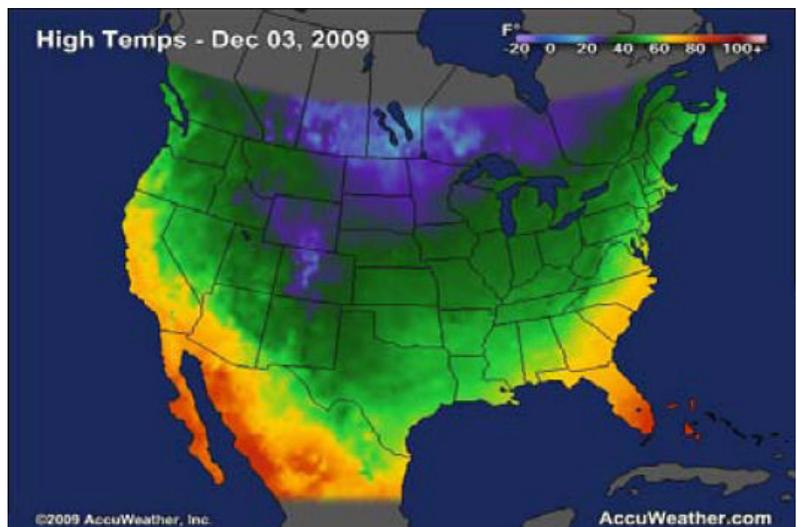
The U.S. Climate Task Force released a study done by Hart Research showing that it found 58% of Americans support a carbon tax, with 27% supporting a carbon cap and trade program.

trade program.

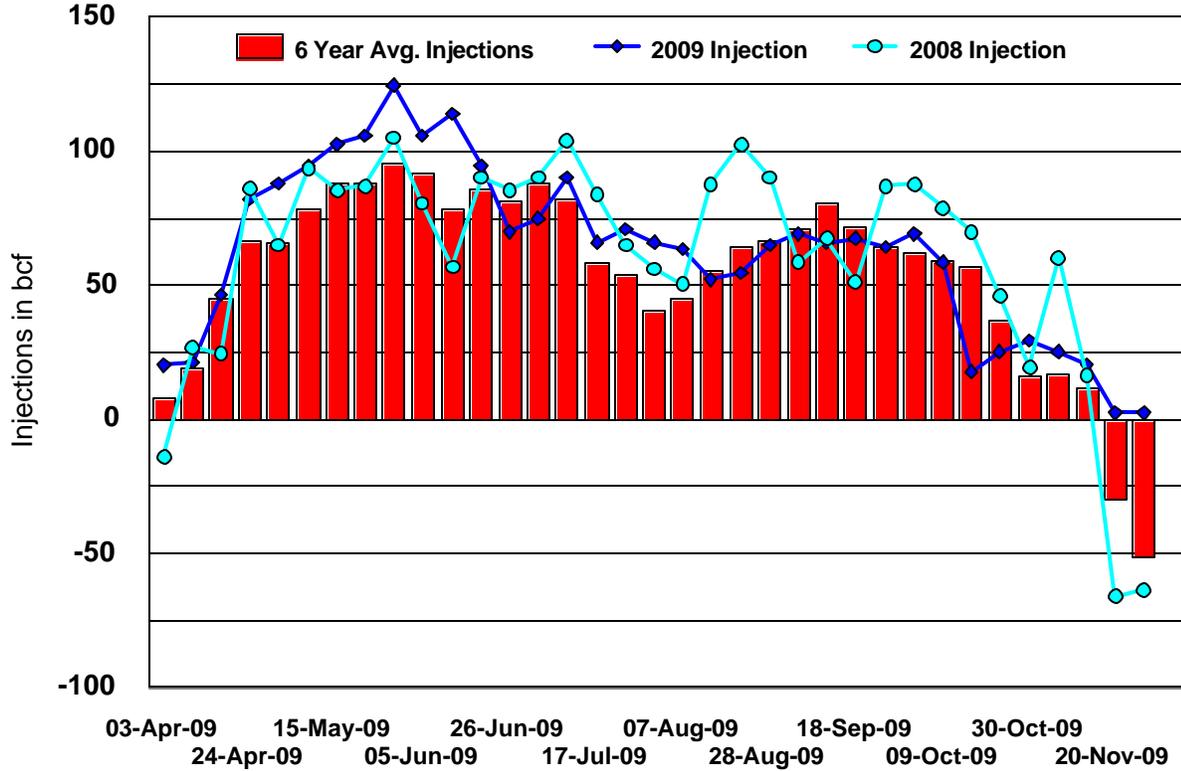
Barclays Capital analysts noted that while displacement of coal by natural gas in 2010 will continue, it would be at reduced levels as compared to 2009. The bank saw the excess supply of gas in 2010 would force some price competition between gas and coal. The analysts estimated that incremental gas burned by power generators that came solely from the displacement of coal was just more than 3 Bcf/d, much higher than most had anticipated. Gas price advantage over coal for power generators came in the Appalachian coal market, but Powder River Basin coal and lignite remained cheaper than gas.

### **MARKET COMMENTARY**

While temperatures in the Midwest and down to Texas turned colder today with snow recorded just outside of Dallas, the northeast saw seasonal temperatures that were the warmest in nearly a decade. But the focus for the futures market remained on longer term forecasts, such as the 8-14 and 11-15 day outlooks and these continued to

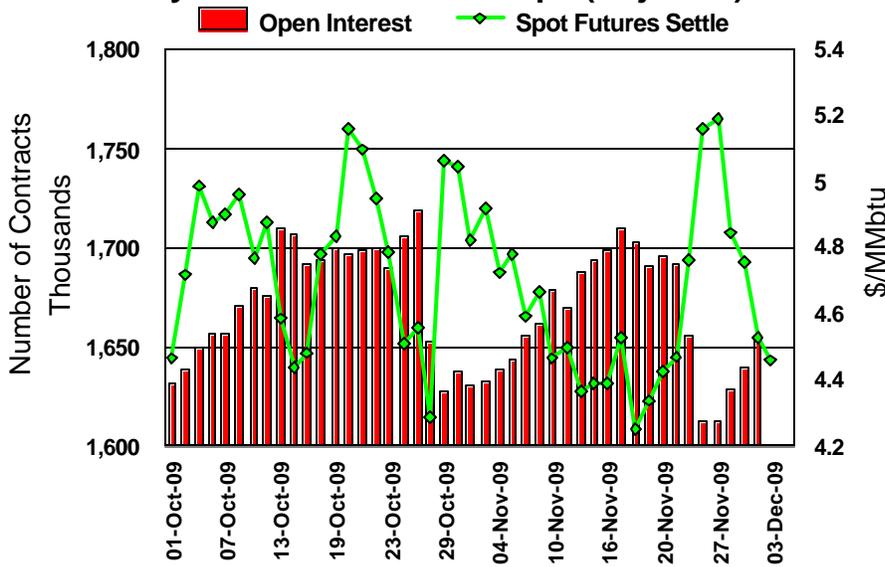


## 2009 EIA Survey Build/Draw VS 6-Year Average



point to much of the nation not being able to hold onto the cold air that would embrace much of the nation this weekend and early next week. Traders were also discouraged by the modest build in stocks reported by the EIA yet again in its weekly storage report, as yet another new storage record was established. Stocks currently are some 470 bcf above a year ago and 487 bcf above the five-year seasonal average.

## NYMEX Natural Gas Open Interest Henry Hub Futures and Swaps (Adjusted)



Open interest reported at midday showed that the recent sell off in prices in the futures and swaps market seems to have been driven by new shorts coming into the market. For the third consecutive session the market has seen a significant gain in open interest in the Henry Hub futures and swaps contracts on a combined and adjusted basis. In just three days these contracts have seen over 43,000 (10,000 MBTU sized) positions added while prices have plunged 75 cents.

While natural gas weather related heating demand over the next 5-7 days should finally help to begin to drawdown inventories, most traders appear unwilling to abandon their positions until the forecasting models point to a colder than normal air mass once again having a strong possibility of setting itself for a prolonged period across much of the nation. While we have been a long-term bear we feel that a forecast for a prolonged cold outbreak could flush these new relatively weak shorts out of the market. But given storage levels, we see potential rallies as being muted. As a result we would be a buyer of call spreads in January or February on any drop in the January contract down towards major support at \$4.076-\$3.996. We would look at buying the \$4.25-\$5.00 call spread between 10-15 cents.

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