



## ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,  
& Karen Palladino

(212) 624-1132 (888) 885-6100

[www.e-windham.com](http://www.e-windham.com)

### NATURAL GAS & POWER MARKET REPORT FOR DECEMBER 8, 2010

#### NATURAL GAS MARKET NEWS

The CEO of Chesapeake Energy said today he looks for the natural gas market to begin to improve by the second half of 2011 into the first half of 2012. He said he expected the company to spend "far less" in 2011 than it did in 2010.

Colorado State University said today that it looks for the 2011 Atlantic hurricane season to again show above average activity and be on par with the 2010 season. The forecast is calling for 17 named storms, nine hurricanes and five major hurricanes. A normal season sees 11 named storms, six hurricanes and two major hurricanes. Dr. Gray's forecasting team noted that this past year the United States was extremely lucky in that none of the 12 Atlantic basin hurricanes this season made landfall. They are looking for the probability of at least one major hurricane making landfall along the Gulf Coast between the Florida Panhandle and Brownsville, Texas at 48% vs a normal long term average of 30%. Forecasters at Colorado State noted that there "is significant uncertainty with this earliest outlook, issued six months prior to the start of the hurricane season. Given the current upper ocean heat content anomalies in the tropical Pacific, we believe that El Nino conditions are unlikely. This could mean a more active hurricane season." This past season was the second most active on

#### Generation Update

ERCOT – AEP's planned to restart the 528 Mw Unit #2 at the Welsh coal fired power plant on December 8<sup>th</sup>.

The coal fired San Miguel power plant was in restart today after operators completed repairs to a tube leak which had forced the unit out of service earlier this week.

The NRC reported today that some 94,005 Mw of generating capacity was online today, up 0.1 % from yesterday and 7.5% higher than the same day a year ago.

Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	891,800	\$4.465	(\$0.014)	(\$0.090)	\$0.037	\$0.133
Chicago City Gate	1,083,300	\$4.701	(\$0.037)	\$0.146	(\$0.148)	\$0.228
NGPL- TXOK	717,900	\$4.359	(\$0.018)	(\$0.196)	(\$0.128)	(\$0.123)
SoCal	406,900	\$4.381	\$0.006	(\$0.174)	(\$0.105)	(\$0.081)
PG&E Citygate	1,141,800	\$4.548	\$0.005	(\$0.007)	(\$0.106)	\$0.103
Dominion-South	382,400	\$4.869	\$0.005	\$0.314	(\$0.106)	\$0.330
USTRade Weighted	21,715,400	\$4.774	\$0.148	\$0.219	\$0.04	\$0.133

record. Dr. Gray noted that sea surface temperatures in the far North Atlantic remain at record warm levels, which is an indication that we are in an active multi-decadal period

for Atlantic hurricane activity.

An explosion and fire at OGE's natural gas processing plant near Rush Plains, Oklahoma, forced the evacuation of the facility but did not result in injuries or affect natural gas supplies in the region.

The Al Huwaila LNG tanker was reported to be scheduled to arrive at the Isle of grain terminal on December 18. The ship reportedly is carrying 216,000 cubic meters of LNG from Qatar.

The volume of Russian gas transported through the Ukraine to Europe rose 3.2% year on year to 85.06 bcm in January-November period the Ukrainian transport monopoly reported.

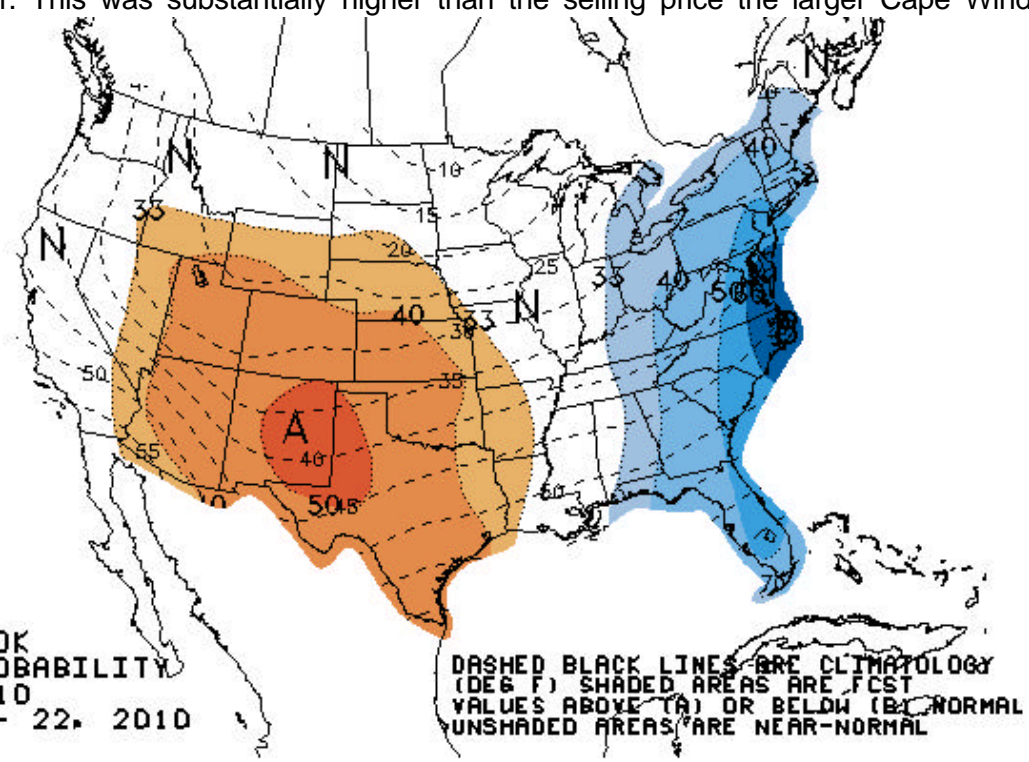
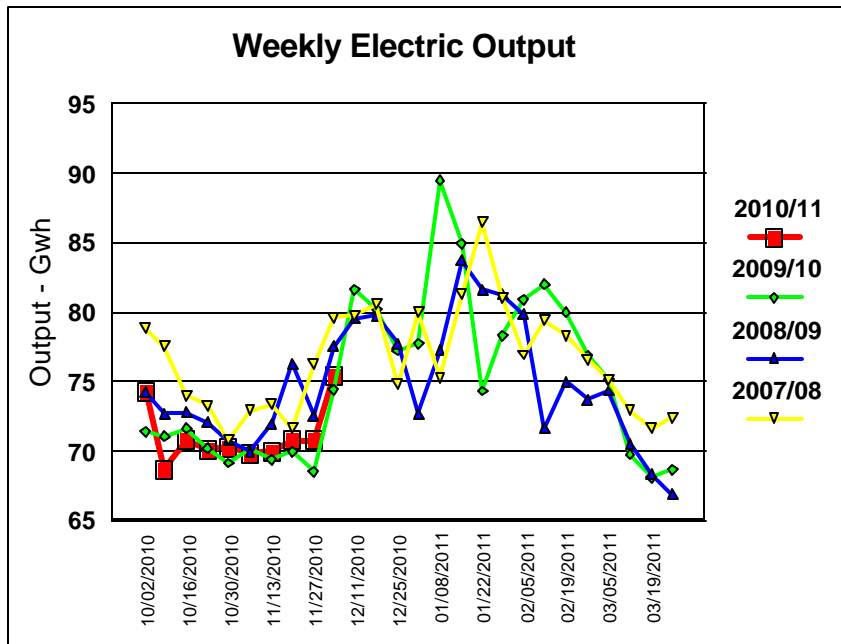
An executive at EOG Resources said today that the company will look for a joint venture partner in Haynesville and Horn River if 2011 asset sales are not successful.

Gazprom said it would supply 150-155 bcm of gas to Western Europe in 2011, while the Ukraine will receive 40 bcm of gas for the same period.

**ELECTRIC MARKET**

Deepwater Wind, the developer of a proposed wind farm off the coast of Rhode Island, announced it has doubled the size of the project, saying that a greater scale will allow it to sell the electricity produced at a lower price.

The company now plans to install 200 wind turbines some 20 miles off the coast of Rhode Island. Deepwater had earlier reached a deal to sell electricity to National Grid for 24.4 cents per kilowatt hour. This was substantially higher than the selling price the larger Cape Wind



project secured at 18.7 cents per Kwh. Deepwater said the larger project size should allow it to sell power in the “mid-teens”. The project is expected to begin construction in 2014, with turbines operating by 2015. The larger project is expected to have a 1000 Mw of generating capacity.

The Edison Electric Institute reported that for the week ending December 4<sup>th</sup> it estimated U.S. power production reached 75,494 Gwh, up 1.4% from the prior week and up 6.6% from the same week a year ago. Year to date power production is up 3.7% from a year ago.

### **MARKET COMMENTARY**

Supportive weather forecasts helped to drive this market higher especially late this afternoon, as midday forecasts confirmed the continued cold air's grip over the mid and eastern sections of the country for the next two weeks. The January futures contract posted its second outside trading day in a row as it reached a fresh four-month spot high today. Volume was excellent today with nearly 160,000 contracts changing hands in the January contract alone.

Market expectations for tomorrow's EIA storage report appear to range between a 60-100 bcf drawdown with most centered around a 85 draw in stocks. The same week a year ago saw an adjusted 55 bcf decline a year ago with a five year season decline of 36 bcf.

We feel that while the market may see a brief sell off following the release of the storage stats this may then provide bulls another buying opportunity. While longer term we feel we should see lower prices again, one can not continue to stand in front of the seasons first prolonged cold wave any longer. We would look to be a scale down buyer starting tomorrow at \$4.51 down to the next major area of support at \$4.32-\$4.30. Additional support we see at \$4.234 and \$4.144. Resistance we see at \$4.64, \$4.68 and \$5.00.

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