



## ***ENERGY RISK MANAGEMENT***

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### **NATURAL GAS & POWER MARKET REPORT FOR DECEMBER 13, 2011**

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

##### **North America**

El Paso's Ruby Pipeline that ships gas from the Rockies to the West Coast has been shut since Sunday morning as the company tries to repair damage from a fire over the weekend. The fire occurred in a remote area of Utah and no injuries were reported. The company has re-routed some gas supplies for customers. The 680 mile pipeline was placed into service in July and ships 1.1 bcf of gas per day. The company is still attempting to determine the cause of the fire and has not issued an estimate of when they expect flows to resume.

##### **Generation Outages**

The NRC reported this morning that some 91,424 Mw of nuclear generation was online, down 0.05% from yesterday and down 2.25% from the same day a year ago.

Natural Gas				
Month	O.I	Prior O.I	Change	% OF TTL
DEC	175791	193978	-18187	18.061%
JAN	110450	108192	2258	11.348%
FEB	179337	170678	8659	18.425%
Dec-12	23131	23270	-139	2.376%
Dec-13	8096	8085	11	
TOTAL	973323	969763	3560	

Due to a delay in the completion of its wells in the Eagle Ford shale Penn Virginia Corp cut its fourth quarter production outlook from 12.2-12.7 Bcfe to 10.7-11.0 Bcfe.

Despite the number of rigs drilling for natural gas in the US falling to a two year low production is expected to remain high keeping prices low according to analysis done by GHS Securities and Deutsche Bank. Prices are lowest they have been in

ten years causing producers to shift away from dry gas to more profitable liquids or oil related ventures but changes have not lowered supply which continues to exceed demand. The supply has been held high due to a backlog of thousands of wells set to come online and new technologies that have greatly increased well productivity. Bentek Energy has estimated that there is about 3700 uncompleted wells just in Marcellus, Eagle Ford and Haynesville shale plays alone that may take at least six months to be hooked up.

A Morgan Stanley report shows that shipping rates for LNG for a twelve month period or long rose to a record high. One-year hire rates for 150,000 cubic meter LNG tankers rose 8.3% last week to \$130,000 daily.

##### **International News**

Gazprom's Chief Executive announced that a new deal is unlikely to be struck with Ukraine this month and the country may have to continue paying for gas under its current agreement through 2012. Ukraine's government had put off the 2012 budget hoping to approve a new deal with Russia before the budget is due next week. The inability to secure a new deal will force Ukraine to run a higher budget deficit than previously estimated due to its high reliance on Russian gas.

French gas prices for businesses and households are expected to rise by 4.4% by January 1<sup>st</sup>.

In order to secure a deal with Russia, Ukraine may give Russia a stake in its pipelines to help secure a price discount. The two countries have discussed splitting the pipeline which brings Russian gas to Europe 40-40 with a European third party.

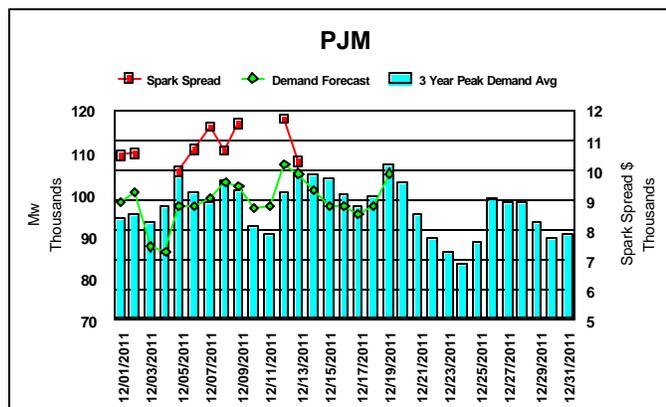
Iran's oil minister announced that it has discovered a large natural gas field in the Caspian Sea that contains an estimated 50tcf of gas.

The IEA released a report saying that the forecast for coal to 2016 is extremely uncertain due to the global economic outlook and the impact of shifts in China's domestic market. Prices are expected to rise steadily to 2016 because of strong demand growth from Asia and are prone to

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	727,000	\$3.116	(\$0.011)	(\$0.142)	\$0.037	\$0.040
Chicago City Gate	967,800	\$3.228	\$0.020	(\$0.029)	\$0.030	\$0.063
NGPL- TX/OK	598,300	\$3.077	\$0.009	(\$0.180)	\$0.019	(\$0.114)
SoCal	838,900	\$3.622	\$0.032	\$0.365	\$0.042	\$0.263
PG&E Citygate	639,500	\$3.665	(\$0.011)	\$0.408	(\$0.001)	\$0.340
Dominion-South	718,300	\$3.174	\$0.010	(\$0.083)	\$0.020	(\$0.001)
USTRade Weighted	21,767,000	\$3.254	\$0.027	(\$0.003)	\$0.04	\$0.040

strikes from short term supply problems. China is expected to have the biggest influence because its coal production is almost four times as large as Saudi Arabia's coal output while its domestic market is more than three times the size of the annual global coal trade.

Japan's Toyota Tsusho has signed an agreement with BG Group to sell gas from a coal-bed methane block in Australia for 20 years starting in 2014 to BG Group's LNG project for export.



### Electric Market News

Power companies in Maryland have amended an earlier request for proposals to buy generation capacity under long term contracts. Maryland sees benefits in constructing new plants because it will create more jobs, shut older dirtier plants, and lower energy prices. Maryland is now faced with the challenge of adhering to PJM rules which require states to continue to subsidize existing plants even if they are trying to build new cleaner more efficient plants.

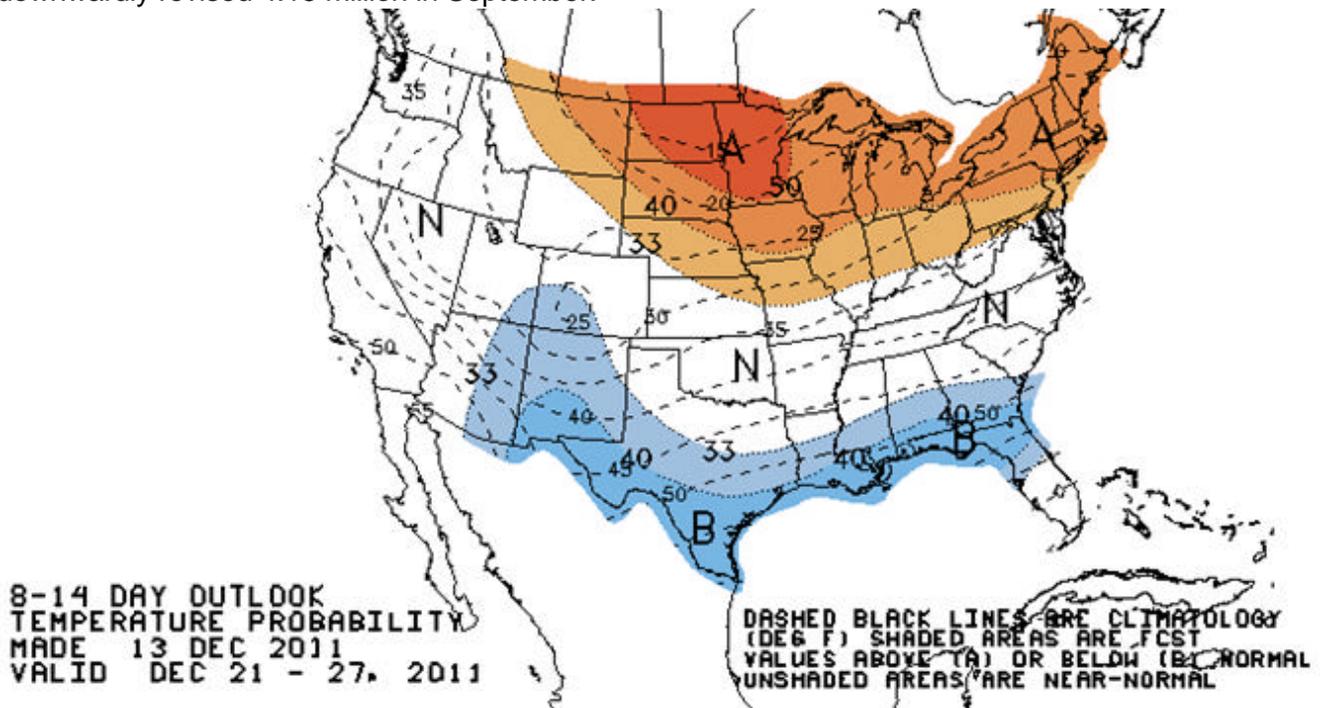
### Economic News

The US Commerce Department said US retail sales increased less than expected in November as a drop in receipts for food and beverages weighed against stronger sales of motor vehicles. Total retail sales increased 0.2% after rising by an upwardly revised 0.6% in October. In the 12 months to November, retail sales were up 6.7%. Core retail sales, excluding autos, gasoline and building materials, increased 0.3% in November after increasing 0.7% in October.

Inventories of US retailers were flat during October despite solid sales. The Commerce Department said overall inventories of businesses in the US increased by 0.8% to a seasonally adjusted \$1.546 trillion. It reported the highest increase in inventories in five months. It reported that sales of US businesses in October increased by 0.7% to a seasonally adjusted \$1.218 trillion after increasing by 0.6% in September. The inventory-to-sales ratio remained unchanged at 1.27 in October.

The International Council of Shopping Centers and Goldman Sachs reported that US chain store sales fell 0.1% in the week ending December 10<sup>th</sup> to 514.4. However US chain store sales increased by 2.9% on the year.

According to the Labor Department's Job Openings and Labor Turnover Survey, there were 3.27 million available jobs at the end of October, down from September's upwardly revised 3.38 million. Hiring also eased in October, with business and government hires fell to 4.04 million from a downwardly revised 4.15 million in September.



Small businesses in the US grew more confident in the economy's future in November. The National Federation of Independent Business said its Small Business Optimism Index increased 1.8 points to 92.

Federal Reserve officials left their policy options open for 2012 but took no actions on Tuesday. They offered an assessment of the economy that was more upbeat but still marked by significant downside risks. Nine out of 10 Fed officials voted to keep the central bank's easy credit policies unchanged for the second consecutive meeting. Officials reiterated that short term interest rates are likely to remain close to zero until mid-2013.

### **Market Commentary**

The natural gas market rebounded from its two year lows amid some profit taking. The market retraced some of its previous losses on moderating weather forecasts. The natural gas market traded higher early in the session backfilling some of its previous gap before it sold off to its low of \$3.231. The market later bounced off its low and traded to its high of \$3.299 in afternoon trading. It settled up 2.5 cents at \$3.279. The natural gas market found some support amid private weather forecasts calling for cooler temperatures over the next 11-15 days.

While the weather forecasts have moderated, the natural gas market's limits are still seen limited as extreme cold weather is unlikely. The market is seen finding resistance at its remaining gap from \$3.299 to \$3.309, \$3.338 and \$3.376. More distant resistance is seen at \$3.409, its 38% retracement level off a high of \$3.72 to a low of \$3.217, \$3.441, \$3.469, its 50% retracement level and \$3.528, its 62% retracement level. Support is seen at its low of \$3.24, \$3.202 and \$3.172.

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