The Windham Group
Energy Futures Brokerage

# *ENERGY RISK MANAGEMENT*

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## NATURAL GAS & POWER MARKET REPORT FOR DECEMBER 15, 2010

### NATURAL GAS MARKET NEWS

BP reported that its Destin natural gas pipeline has implemented a force majeure for its offshore Gulf of Mexico receipt points due to a problem at its Pascagoula natural gas processing plant.

The project developers for the proposed $1 billion Calais LNG import project in Maine have withdrawn its permit applications since they could not find financial backers. The developers though informed the state regulators of its decision Tuesday, but noted it intended to refile its applications in the "near future". In July, Goldman Sachs and GS Power Holdings pulled out of the project. The project had proposed LNG receiving plant with two 160,000 cubic meter LNG storage tanks with the potential for a third, plus a 20.7-mile pipeline connecting the terminal to the Maritimes & Northeast Pipeline.

**Generation Update**

**NPCC –** Dominion's 877 Mw Millstone #2 nuclear units ramped up to 82% power t his morning from 54% power on Tuesday.

OPG's 494 Mw Lambton #4 coal fired power plant returned to service early Wednesday following a brief outage.

**PJM –** Exelon's 619 Mw Oyster Creek nuclear unit was taken off line today for operators to connect a new transformer

**The NRC reported today that some 93,598 Mw of generating capacity was online today, basically unchanged from yesterday but 1.5% higher than the same day a year ago.**

### ELECTRIC MARKET

The PJM Interconnection reported today that peak power demand in PJM set a new record for December and exceeded the grid operator's forecasted peak demand for this winter. The new peak demand was 115,723 Mw set at 7 PM EST. The prior record was from 2008 at 113,593 Mw.

Investor Carl Icahn reportedly has reached an agreement to buy power producer Dynergy for $665 million in cash. Icahn Enterprises bid for the company is 10% higher than the recent Blackstone bid for the company that Icahn helped to block just three weeks ago.

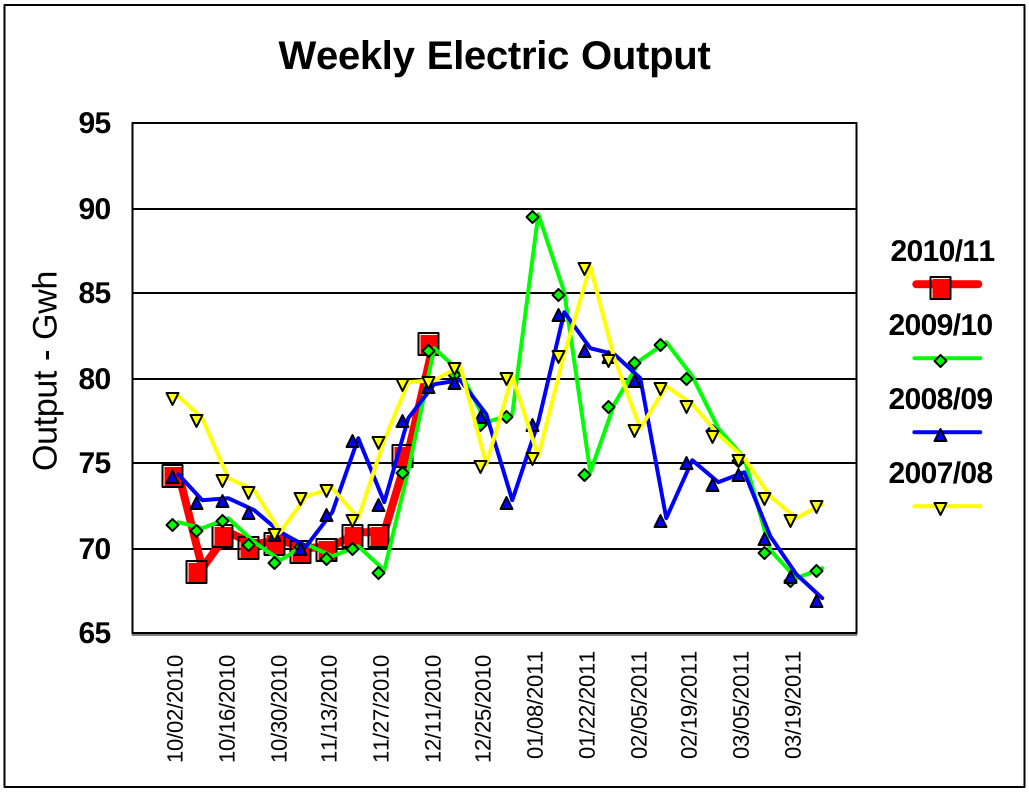
The Edison Electric Institute reported this afternoon that U.S. power production last week reached 82104 Ghw, up 8.8% from the prior week and 0.6% higher than the same week a year ago.

AEP's West Virginia utilities reached a power rate settlement with the state's regulatory staff for a 5.53% rate increase. The state's Public Service Commission will make a final decision on the rate increase by March 31st.

### ECONOMIC NEWS

The Federal Reserve Bank reported this morning that they estimated U.S, industrial production rose 0.4%, in November some 0.1% better than market expectations and the largest monthly gain since July. But the Fed did revise lower its October number by 0.2% to a 0.2% decline for that month.

The U.S. Labor Department reported today that U.S. consumer prices increased by just 0.1% as energy prices rose by the smallest amount in five months. This increase matches most economists' expectations.

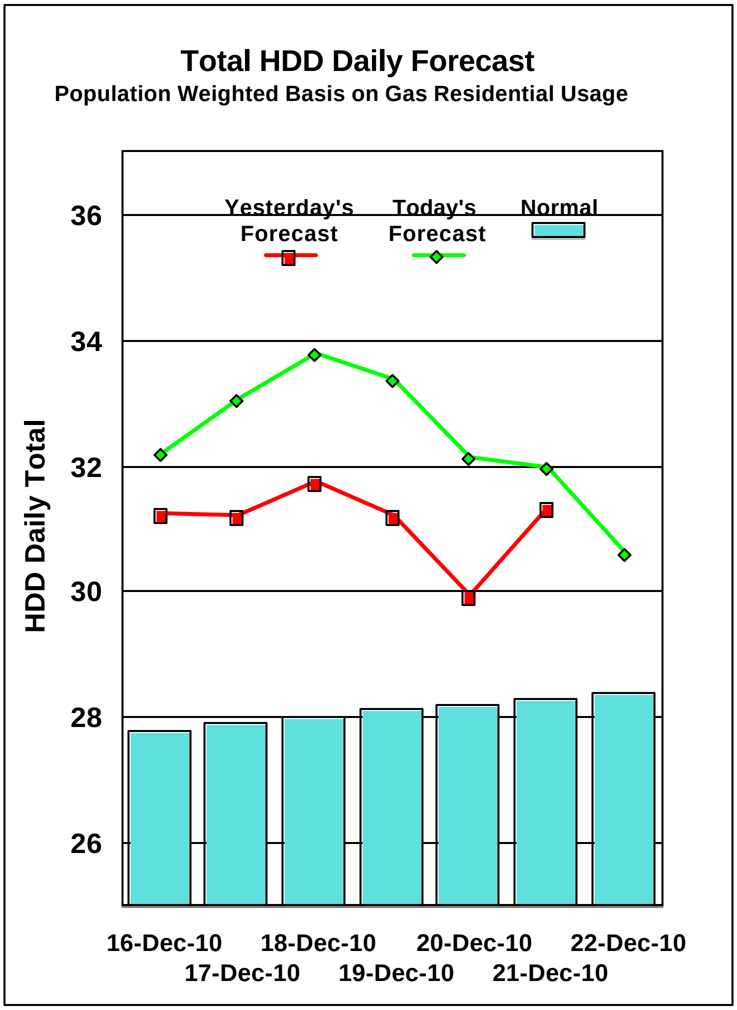



The CFTC chairman said it would not meet its mid-January target to issue a final rule setting position limits on energy, agricultural and metal contracts. The CFTC's chairman said today before Congress that the CFTC may phase in new speculative trading curbs over time until it can get more data on the OTC market. He said that the CFTC staff is looking at whether it is possible to implement spot month limits sooner than single month or all month combined limits. The Dodd-frank Act requires the CFTC to place limits on the number of commodity futures, options and swap contracts that any one speculative trader can hold at a given time. The law requires the CFTC to place limits on commodity contracts traded across all derivatives markets that play a role in setting market prices. The limits would be applied to commodities that have a finite supply like oil or natural gas.

**MARKET COMMENTARY**

The natural gas market despite seeing some positive economic news, in the stronger than expected industrial production numbers, and a colder forecast for the next seven days saw prices remain under pressure this morning. The midday forecasts appeared to swing back to reflecting a colder temperature outlook especially for the 11-15 day period, which helped to boost prices by 5-7 cents off their low's of the day. This rebound could not be maintained and values slid back once again by mid afternoon allowing prices to settle lower for the second consecutive session. The January contract based upon a spot continuation chart settled below the 50 percent retracement level of $4.226, which is derived using the range of $5.196 and $3.255. With the inability of this market to maintain strength above $4.300, we would look continued weakness and for a test at the $3.996 support level.

Market expectations for tomorrow's EIA Storage Report appear to be running between a 150-175 bcf draw down with most expectations centered around a 160-165 bcf decline. Stocks fell an adjusted 186 bcf for the same week a year ago, while the five-year seasonal average shows a 153 bcf decline.



Total HDD Daily Forecast
Population Weighted Basis on Gas Residential Usage
HDD Daily Total
36
34
32
30
28
26
Yesterday's Forecast
Today's Forecast
Normal
16-Dec-10
17-Dec-10
18-Dec-10
19-Dec-10
20-Dec-10
21-Dec-10
22-Dec-10