



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR DECEMBER 17, 2010

#### NATURAL GAS MARKET NEWS

Baker Hughes reported this afternoon that it estimates the number of drilling rigs searching for natural gas in the United States stood at 941 rigs, down seven from the previous week. It also noted that the number of horizontal drilling rigs operating dropped by 12 after holding at record highs for the past two weeks at 954.

According to Reuters, the Berge Arzew, LNG tanker is expected to dock at the Isle of Grain Terminal on December 21st. The ship is carrying 138,000 cubic meters of LNG from Algeria.

The Norwegian government announced today it would let the national grid operator,

#### Generation Update

**PJM** – Exelon’s 619 Mw Oyster Creek nuclear unit ramped up to 65% power this morning, up 40% from Thursday.

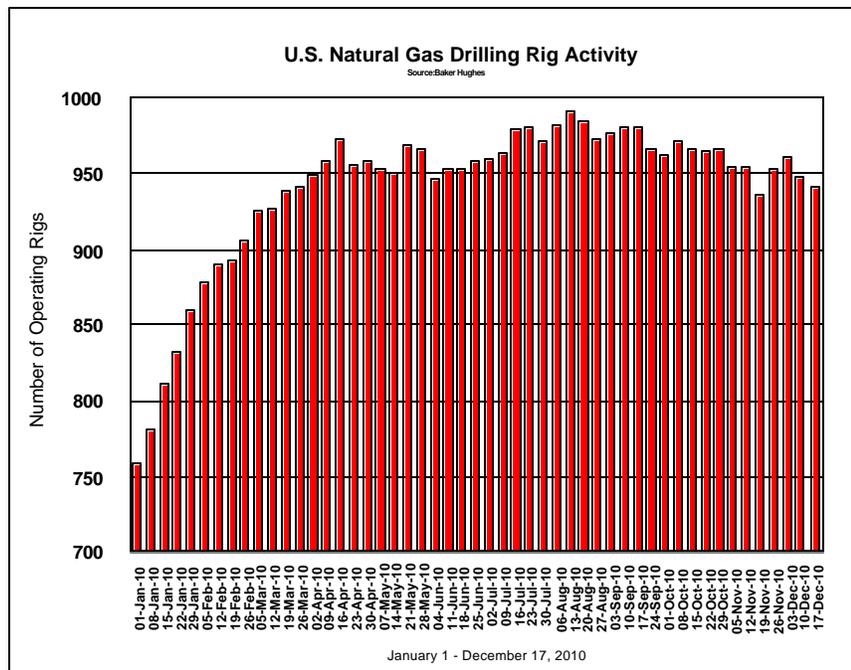
**ERCOT** – Luminant planned to restart its 568 Mw Sandow #4 coal fired power plant on Friday. The unit has been off line since December 3<sup>rd</sup>.

**FRCC** – NextEra Energy’s 693 Mw Turkey Point #4 nuclear unit has been restarted and is at 1% power this morning. The unit tripped off line on December 10<sup>th</sup>.

**WSCC** – Energy Northwest’s 1131 Mw Columbia nuclear unit dropped to 65% power for planned maintenance today. The unit had been at full power yesterday.

**SERC** – Southern’s 876 Mw Hatch #1 nuclear unit was shut for short-term repairs on a feedwater pump. The unit had seen power reductions earlier this week due to the problems.

**The NRC reported today that some 93,727 Mw of generating capacity was online today, basically unchanged from yesterday but 1.3% higher than the same day a year ago.**

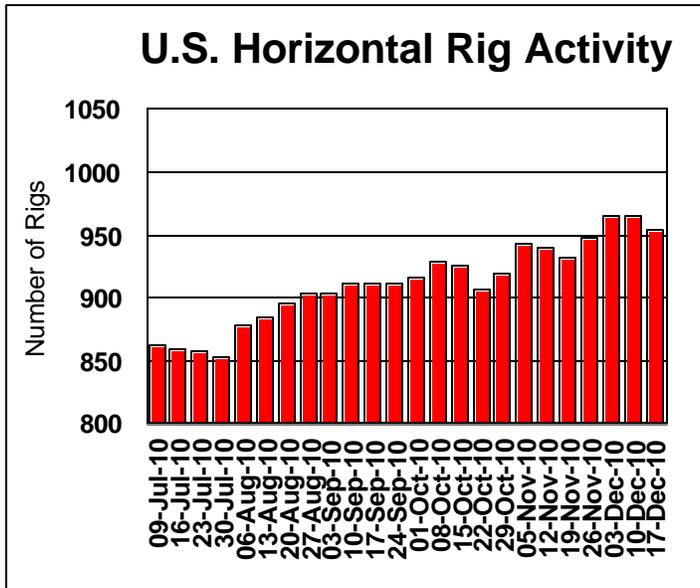


Statnett, to re-deploy two gas fired generating units this winter if a power emergency hits central Norway and its petroleum installations. With this regulatory approval the generating plants can be restarted in four hours rather than the required 2 weeks due to regulatory emission filings.

India’s state run power utility, NTPC is in early stage of discussions with Qatar to buy 1.3-1.4 mmcf/d of gas.

Santos announced today it has launched an equity raising for some A\$500 million to fund its share of the \$16 billion Gladstone coal seam gas fed LNG export project in Queensland, clearing

the way for a final investment decision in January. The company also agreed to sell 15% of Gladstone to Korea Gas and Total for A\$655 million to reduce its share of the project to 30%. The project currently has 7 million tonnes per annum of LNG off stake now secured in binding agreements. The company though has delayed the projected start of commercial operations for the project by one year to 2015.



China announced it has extended its resource tax on domestic sales of crude oil and natural gas to 12 western regions and provinces. China started levying the 5% resource tax on crude and natural gas back on June 1<sup>st</sup> in the northwestern Xinjiang region before imposing it on other regions since that time.

Sinopec Corp announced it has found industrial size gas flows from an exploration well in shale reservoirs in central China, but declined to provide details. Back in May the company noted that shale fracturing in an exploration well in southwestern China was also a success.

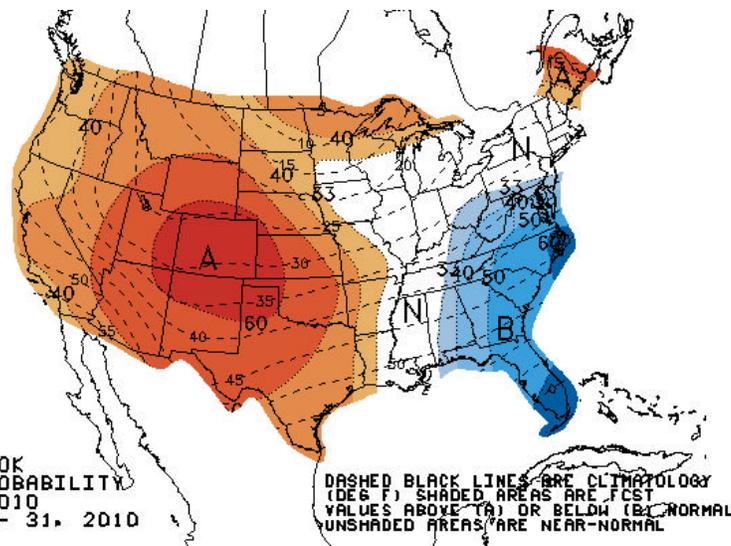
Russia and Belarus still have not reached an agreement over 2011 natural gas prices. Price talks remain ongoing. Gazprom said it would not deliver gas without a contract price.

Russia's leading non-state gas producer, Novatek said Friday that it has reached agreement today to buy Sibneftegaz for \$877 million as it continues to seek to increase its asset base.

**ELECTRIC MARKET**

Genscape reported today that it estimates U.S. coal demand edged up 1% this week from the previous week and was 1% higher than the same week a year ago.

The FERC yesterday approved the Midwest ISO's plan to allocate the cost of building power lines that connect renewable energy projects needed to meet the public interest goals of many states. The "Multi-Value Projects" will now have a 100% regional allocation of costs, ensuring the cost to upgrade the transmission system is distributed fairly to all involved. More than 30 states, including most of the Midwest ISO states have renewable portfolio standards that require electricity providers to obtain a minimum percentage of their power from renewable energy sources by a certain date.



Duke Energy reported that it set peak winter power usage in the Carolinas back on December 15<sup>th</sup>. The utility said its customer demand peaked at 17,570 Mw surpassing the previous peak of 17,282 set in January 2010.

Privately held Greengate Power said today it will work with Capital Power Corp to develop, build and operate what it expects will be the largest wind farm in Alberta. Scheduled for operation in late 2011 or early 2012, the 150 Mw Halkirk 1 project is some 171 miles northeast of Calgary.

**ECONOMIC NEWS**

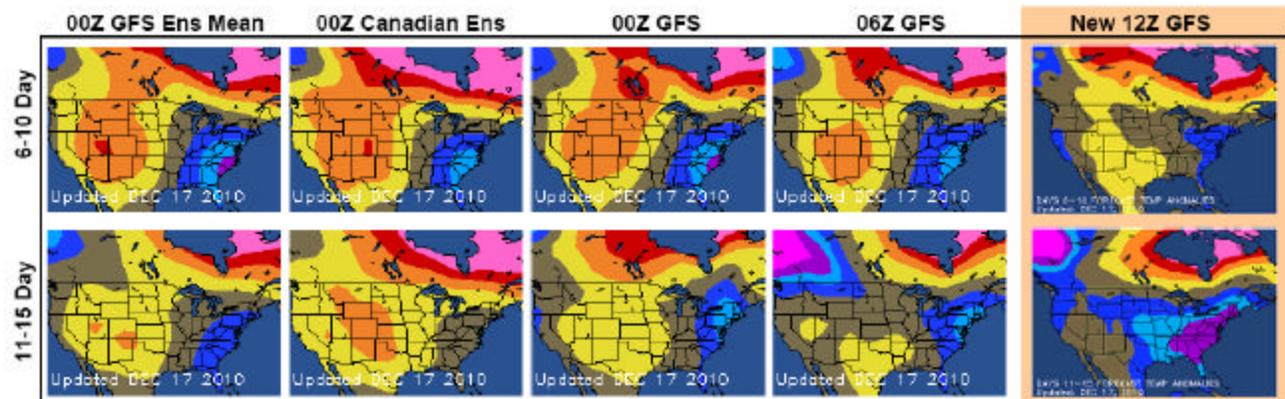
The Conference Board's measure of leading economic indicators increased 1.1% in November, the largest increase since March and the fifth consecutive monthly increase.

Ifo think tank said German business morale increased to its strongest level since 1991 in December. Its business climate index increased to 109.9 from 109.3 in November. It was the seventh consecutive increase and surpassed expectations for a fall to 109.1.

**MARKET COMMENTARY**

The natural gas market overnight moved to new near term lows, falling to the lowest level in the January contract since November 15<sup>th</sup>, but as the floor session began today the market staged a solid rally rising by 15 cents by midday supported by private weather forecasts that were calling for the next 15 days to be a bit colder than expected yesterday. This forecast was further support at midday by updated weather forecast computer model runs. But despite the strength demonstrated today the

**Forecast Model Comparison**



market still finished the week down over 35 cents.

Weather will remain a key to this market for the next couple of weeks. While this afternoon's 8-14 day forecast does not appear to be as bullish as some of the private forecasts, the market remains extremely susceptible to the volatility that these private forecasts continue to provide the market as they continue to change their outlooks for the 11-15 day period several times a day.

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