



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR JUNE 12, 2007**

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

The EIA reported in its June Short-Term Energy Outlook report that natural gas consumption during the first quarter of 2007 was 10% higher than during the first quarter of 2006. The EIA went on to state that demand this summer is projected to be close to what it was last summer, leading to an annual average increase in natural gas consumption of 4.0% in 2007 over 2006. Looking to 2008, growth in natural gas consumption is expected to slow to 0.8%. On the production side, dry natural gas production from the Gulf of Mexico is expected to decline 7.4% in 2007, recovering in 2008 with a 3.1% growth with the help from Independence Hub, which is projected to start later this year and produce 1 Bcf/d by the middle of 2008. Onshore production increases are expected to offset the drop in Gulf of Mexico supplies for 2007, leaving total dry gas production flat for the year. Total dry gas production is expected to grow by 1.5% in 2008. Imports of LNG are expected to reach 790 Bcf in 2007, 35% above last year's total. However, pipeline natural gas imports are projected to decline by 4.4%, or 160 Bcf, in 2007 as rig activity and production in Canada continue to dip. The EIA also noted that in its projection of 2007 U.S. natural gas production, a hurricane induced outage of 86 Bcf for the Gulf of Mexico is now included. The total outage is spread across 5 months (June through October), with the shares distributed by the average historical outage for each month (June 1.1%; July 5.3%; August 33.3%; September 46%; and October 15.5%). The Henry Hub spot price averaged \$7.88 in May, up from \$7.83 in April and \$7.32 in March. The Hub spot price is expected to average 7.96 in 2007 and 8.15 in 2008.

#### **Generator Problems**

**The NRC reported that 94,005 Mw of nuclear capacity is on line, down a meager 0.01% from Monday, and up 0.28% from a year ago.**

According to Planalytics, a risk management consulting service to gas users, new LNG gas terminals and rising US imports of LNG are likely to boost domestic natural gas prices as terminal owners bid against each other to attract cargoes.

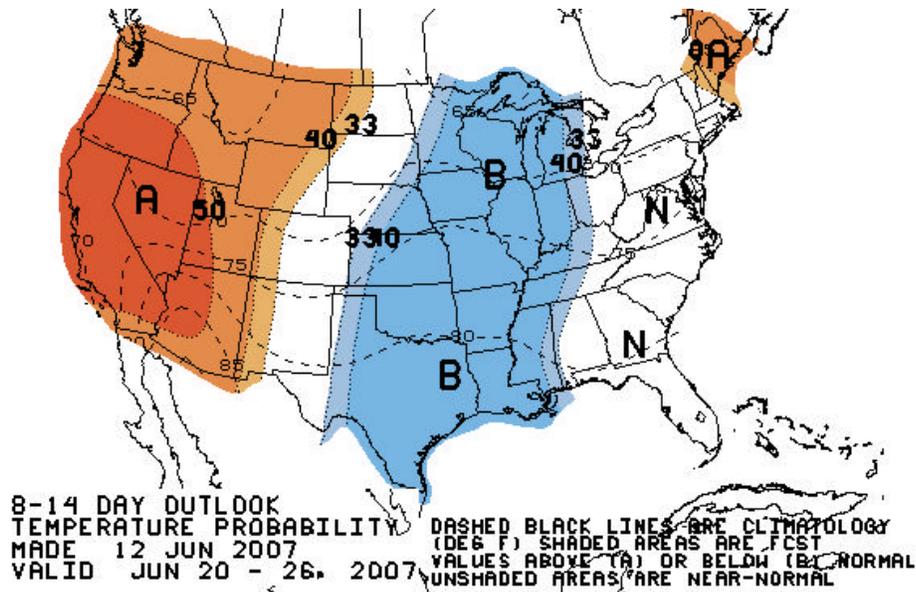
Dominion announced the Storage Factory Project, which would expand its natural gas storage capacity by up to 50 Bcf. The Storage Factory Project would integrate the high deliverability of storage in salt formations with the large capacity of depleted reservoir storage. The result is an efficient, reliable operation that will bring competitive and flexible gas storage services to customers in the Northeast and Mid-Atlantic market areas. Initial construction is scheduled for 2009.

Rumpke Landfill, of Colerain Township, Ohio and Montauk Energy Capital have opened a new landfill gas-to-energy facility at Rumpke's Sanitary Landfill. The new facility will combine with existing gas recovery infrastructure at the landfill to process up to 15 MMcf of landfill gas each day into natural gas. The processing capacity is the largest in the world according to Rumpke and Montauk officials. Customers of Duke Energy will use the natural gas.

Shell is in talks to tie up term contracts for its Hazira LNG import terminal in India's western state of Gujarat. The 2.5 million mt/year import and regasification terminal began commercial operations in 2005.

#### **PIPELINE RESTRICTIONS**

Algonquin Gas Transmission said yesterday that effective immediately and until further notice, the AGT system requires all parties to trend their imbalances towards zero.



Florida Gas Transmission said that it has extended its overage alert day notice due to the 90-degree weather forecast for Florida today; the Overage Alert Day tolerance is set at 25%.

KM Interstate Gas Transmission said that effective today and until further notice, Segment 340 Ulysses, Segment Herndon, Segment 775 Soloman River and Segment 620-790 Rockport are at AOR/IT/Secondary At Risk. In addition, effective today and until further notice, SSC Grant, CIG Weld, NNG Milligan, WBI Bridger and Petr Dev Newton

are at IT/AOR/Secondary At Risk. SSC Grand is also at Primary At Risk.

Natural Gas Pipeline Company announced effective today and until further notice, Segment 13, 14 and 15 on the Amarillo system are at capacity, while Segment 1 has limited capacity. On the Gulf Coast System, all Louisiana Line Segments (25, 23 and 24) are at capacity. Effective June 12 and until further notice Natural has limited capacity for gas going southbound through segment 26 for deliveries eastbound into segment 25 or southbound into segment 22.

Tennessee Gas Pipeline said that effective Timely Cycle 9:00 Am CT at station 827 approximately 7% of supply to Market Secondary Out of Path nominations have been restricted. At Niagara River Meter Tennessee restricted through approximately 29% of Supply to Market Secondary Out of the Path nominations.

Texas Eastern Transmission Corp. said it has sealed nominations flowing through Batesville. Increases in nominations for receipts sourced between Little Rock and Batesville for delivery downstream of Batesville will not be accepted. Tetco has restricted and sealed nominations sourced in zones STX and ETX for delivery outside that area. No increases in receipts between Little Rock and Mt Belvieu for delivery outside that area will be accepted. Additionally, Tetco has forced balanced all long TABS-1 pools in STX, ETX, and M1 24-inch.

TransColorado Gas Transmission said that effective today and until further notice, Segment 220 and Segment 240 are listed as IT/AOR/Secondary At Risk, as is PIN 36100 Questar Greasewood.

Williston Basin Interstate Pipeline Company said that 019 Madden-Worland and 020 Worland-Lovell line sections remain in pipeline capacity constraint for Timely Cycle deliveries. Penalties will be imposed. Williston also said that 01010 Northern Border-Manning has been lifted from pipeline capacity constraint for delivery effective evening cycle.

### **PIPELINE MAINTENANCE**

Alliance Pipeline announced two maintenance projects beginning this week. Corrective maintenance requires the AB09 Fourth Creek Meter Station to be offline for one hour June 13. Station capacity will be lowered to 1772 MMcf/d. Meanwhile, the Towner Compression Station will be offline for eight hours June 13 to perform minor maintenance. AOS may be impacted but will be determined closer to the outage date.

ANR Pipeline Company said that due to an engine failure, the company will begin unplanned engine repairs at the Marshfield Compressor Station in Wisconsin in the Northern Fuel Segment (ML-7), which will reduce the total Viking-Marshfield receipt capacity by 60 MMcf/d through June 15. Based on current nominations at Viking-

Marshfield, it is anticipated that the above reductions may result in the curtailment of IT and Firm Secondary nominations.

National Fuel Gas Supply Corporation said that it will be performing maintenance on the Colden storage line, C-46, set to begin prior to June 24. The work will reduce NFGSC ability to inject into system storage. This work is not anticipated to affect firm storage injections.

Texas Eastern Transmission Corp. said that during a required DOT pipeline integrity investigation, it has been determined that a further detailed investigation is required between Tivoli and Petronilla on the McAllen system. Subsequently, effective immediately, the McAllen system, from PEMEX to Blessing, must be lowered to a maximum of 700 psig. Furthermore, it is anticipated beginning June 14, that receipts and deliveries between PEMEX and Tivoli will be restricted until the remaining investigations are complete. It is anticipated that these investigations will take several weeks for completion.

### **MARKET COMMENTARY**

The natural gas market opened 1.2 cents higher and for the second straight session held support over 7.60. Nothing has happened that would really move the market, so it's chopping around in its familiar range. The market is deriving support from a warm long-range weather outlook as well as the EIA predicting that 86.5 Bcf will be shut in during this hurricane season. The July contract traded as low as 7.58 early in the morning, but a firmer cash market supported futures throughout the first half of the session. After the cash market closed and the oil complex weakened ahead of its inventory report, natural gas came of its highs of 7.705. A late session recovery lifted prices to settle up 7.2 cents at 7.68 and then in after hour trading, July natural gas made new daily highs to 7.73.

Forecasts for a warm summer and an active hurricane season have kept sellers nervous thus far, but until a broad-based heat wave kicks up demand or a Gulf Coast storm disrupts supplies, the market will chop in its 7.50-7.80 range. We see support at \$7.605, \$7.518, and \$7.455. We see resistance at \$7.755, \$7.817 and \$7.905. Further resistance we see at \$8.00 and \$8.20-\$8.21.