



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR MARCH 25, 2009

#### NATURAL GAS MARKET NEWS

BP's British Merchant LNG tanker was expected to arrive at the Isle of Grain terminal today from Trinidad.

In a new report prepared by McKinsey Global Institute, it forecasts U.S demand for fossil fuels, natural gas, oil and coal, will remain "exactly flat" until 2020, with only natural gas projected to grow at a rate of just 0.6% a year.

Barclays Capital in a research note said it looks for U.S. natural gas output to fall this year, but this is countered by global supplies of LNG increasing by their single largest gain, growing by 5.6 bcf/d. Where this new production capacity ends up being sent is the greatest uncertainty for the U.S. supply/demand balance for this summer's injection season.

Tokyo Gas Company, Japan's biggest gas supplier said Wednesday that it planned to buy 6% less LNG on long term contracts for the upcoming fiscal year (April-March) as gas demand is projected to fall for the second year in a row because of weak industrial demand. The company plans to buy 12.333 billion cubic meters of LNG compared to 13.109 bcn purchased in the year ending this month. This projected total would be the lowest volume in four years.

#### Generator Problems

**SERC** – TVA's 920 mw Farley #1 nuclear unit is expected to be shut down this weekend for a refueling outage. The unit was at 98% capacity this morning.

**ECAR** – AEP's 1060 Mw Cook #2 nuclear unit was shut for planned refueling and maintenance.

**WSCC** – PG&E's 1122 Mw Diablo Canyon #1 nuclear unit was at 28% capacity this morning up 26% from Tuesday.

**ERCOT** – NRG's 836 Mw Limestone #1 coal fired power plant tripped off line Wednesday.

**SPP** – AEP's 675 Mw Pirkey coal fired power station was expected to return to service by March 30<sup>th</sup>.

The NRC reported this morning that 85,209 Mw of nuclear generation capacity was on line, down 0.5% from yesterday and up 4% from the same time a year ago.

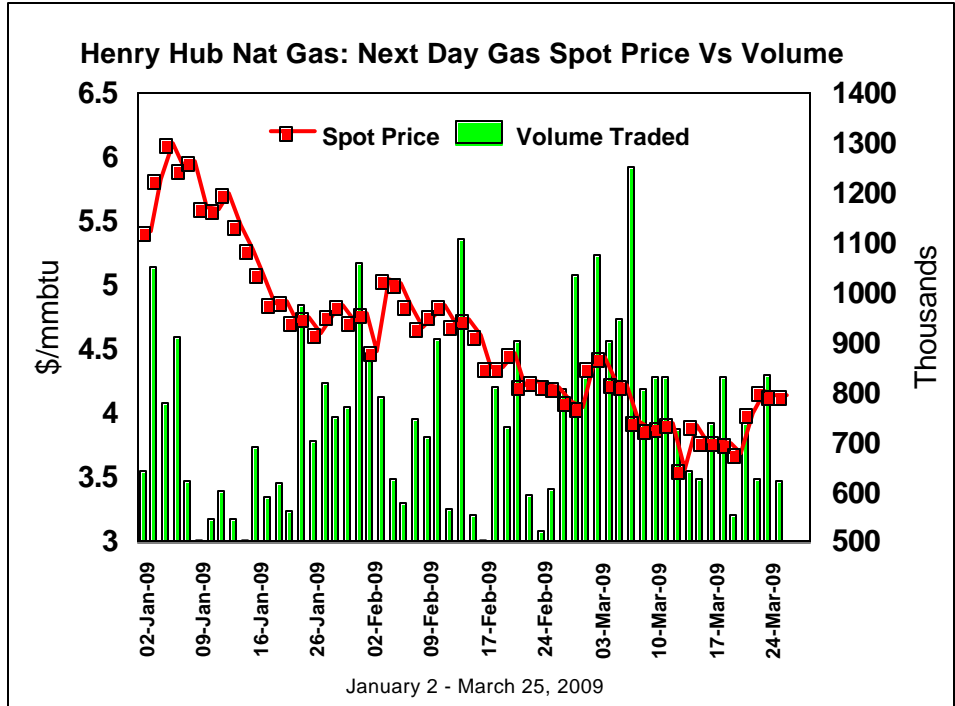
Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	622,800	\$4.133	\$0.006	(\$0.179)	\$0.114	(\$0.672)
Chicago City Gate	654,000	\$3.357	\$0.146	(\$0.955)	\$0.168	(\$1.061)
NGPL- TX/OK	990,100	\$2.984	\$0.103	(\$1.329)	\$0.124	(\$1.402)
SoCal	135,100	\$3.261	\$0.088	(\$1.051)	\$0.110	(\$1.137)
PG&E Citygate	419,300	\$4.092	\$0.059	(\$0.220)	\$0.081	(\$0.311)
Dominion-South	361,300	\$4.374	\$0.039	\$0.061	\$0.061	(\$0.006)
UStTrade Weighted	14,422,000	\$3.748	\$0.092	(\$0.564)	\$0.11	(\$0.672)

BHP Billiton announced today that the first oil and natural gas production has commenced from the Shenzi development in the deepwater of the Gulf of Mexico. The platform has a nominal capacity

of 100,000 b/d of oil and 50 million cf/d of natural gas.

Users of Britain's Rough gas storage facility will not be able to inject gas into the facility on April 3<sup>rd</sup> and only at 50% normal rates on the April 4<sup>th</sup>, due to scheduled maintenance work.

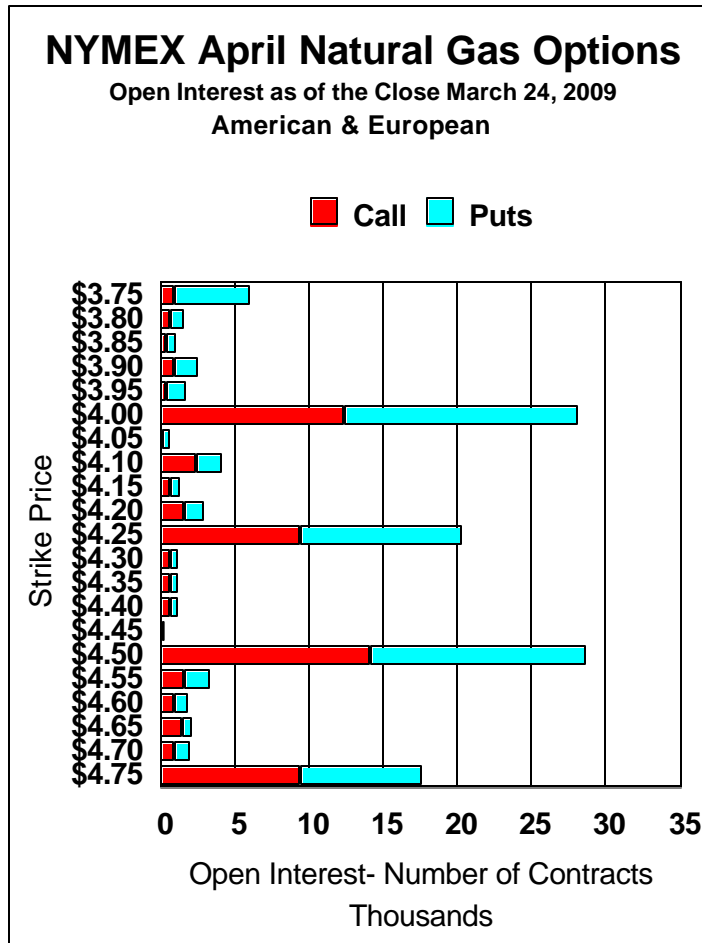
Gas flows through the BBL pipeline from the Netherlands to Britain may fluctuate next week due to software testing but at the end of day volumes will not be affected the operator said today.



According to the Commerce Department, new orders for US manufactured goods increased in February for the first time in seven months. It said durable goods orders increased by 3.4% to \$165.6 billion in February following a revised 7.3% decline the prior month. Inventories of manufactured durable goods fell for a second consecutive month in February by 0.9% to \$336.8 billion after falling by 1.1% in January.

Separately, the Commerce Department said sales of new homes increased by 4.7% to 337,000 in February. Home sales increased at their fastest pace since April 2008, from an upwardly revised 322,000 in January.

The US CFTC is considering major changes in how swap dealers obtain exemptions from speculative position limits. It is considering the elimination of hedge exemptions for swap dealers and replacing it with a stricter new type of limited risk management exemption which would impose additional reporting requirements and force dealers to certify that their clients who speculate off-exchange on commodity prices do not exceed position limits.



**PIPELINE RESTRICTIONS**

NGPL reported that effective for today and until further notice it is at capacity for gas going northbound through Segment 18 as well as at Texas Eastern Transmission Cameron,

Florida Vermillion and at Gulf South Goodrich. ITS/AOR and Secondary out of path firm transports are at risk of not being fully scheduled.

PG&E California Gas Transmission said it has issued a customer specific OFO for today's gas day due to low inventory.

Colorado Interstate Pipeline and Wyoming Interstate Company have posted critical notices related to blizzard conditions that are affecting their supply laterals in Wyoming. The companies have placed underperformance caps at Antelope and Powder River.

CIG said it has extended the force majeure at the Kim Compressor Station located near the Picketwire Constraint in Southern Colorado through April 3<sup>rd</sup>. Capacity at PWC will remain at 355 MMcf/d until April 3<sup>rd</sup> when it will be raised to full capacity at 414 MMcf/d.

**PIPELINE MAINTENANCE**

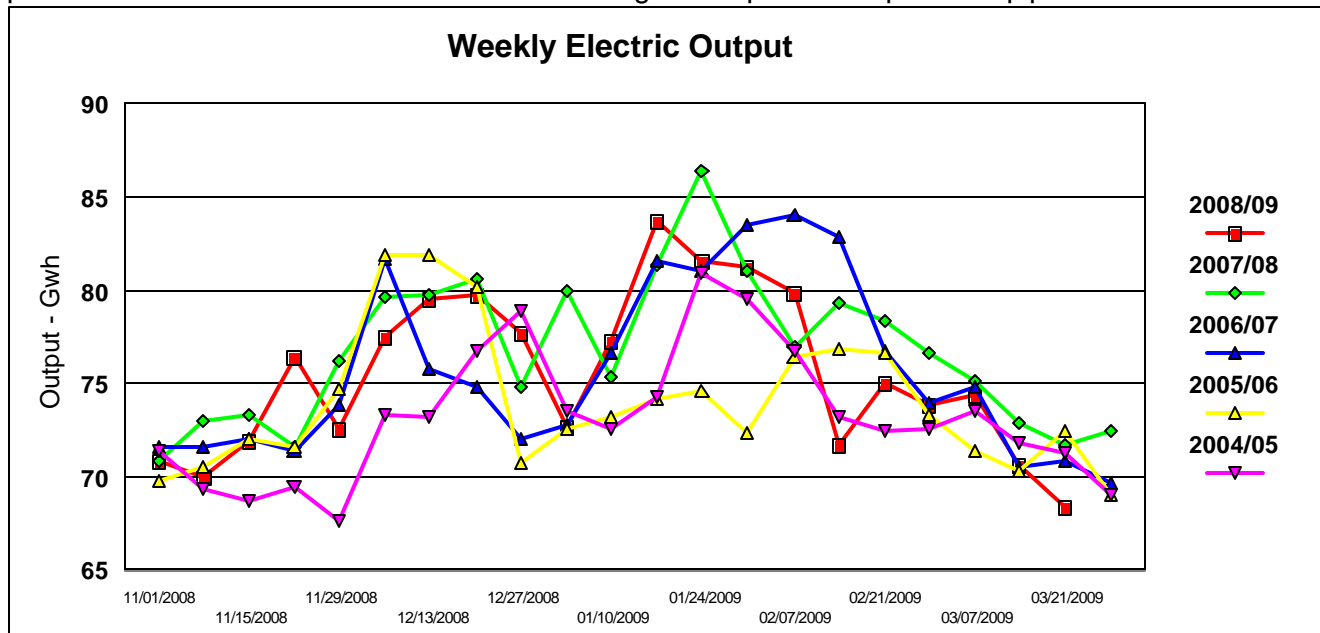
Gulf South Pipeline said it has completed system maintenance at the Hall Summit Compressor Station

El Paso Natural Gas Company said it has completed the liner check at Hackberry #1.

**ELECTRIC MARKET NEWS**

New York Power Authority announced that all proposed rate increases for the NYPA's hydropower customers will be cancelled this year due to the extraordinary economic crisis facing the state and the nation. The move reportedly will save New York businesses and residents some \$16.5 million.

Irving Oil announced today that it is planning to create an "energy corridor" that could deliver as much as 1500 Mw of power from the Canadian province of New Brunswick to the U.S. Northeast. The plan includes transmission lines capable of carrying between 1200 and 1500 Mw of electricity from wind generators, as well as a natural gas co-generator that would supply base load power for the line. The power corridor could also accommodate natural gas and petroleum products pipelines.



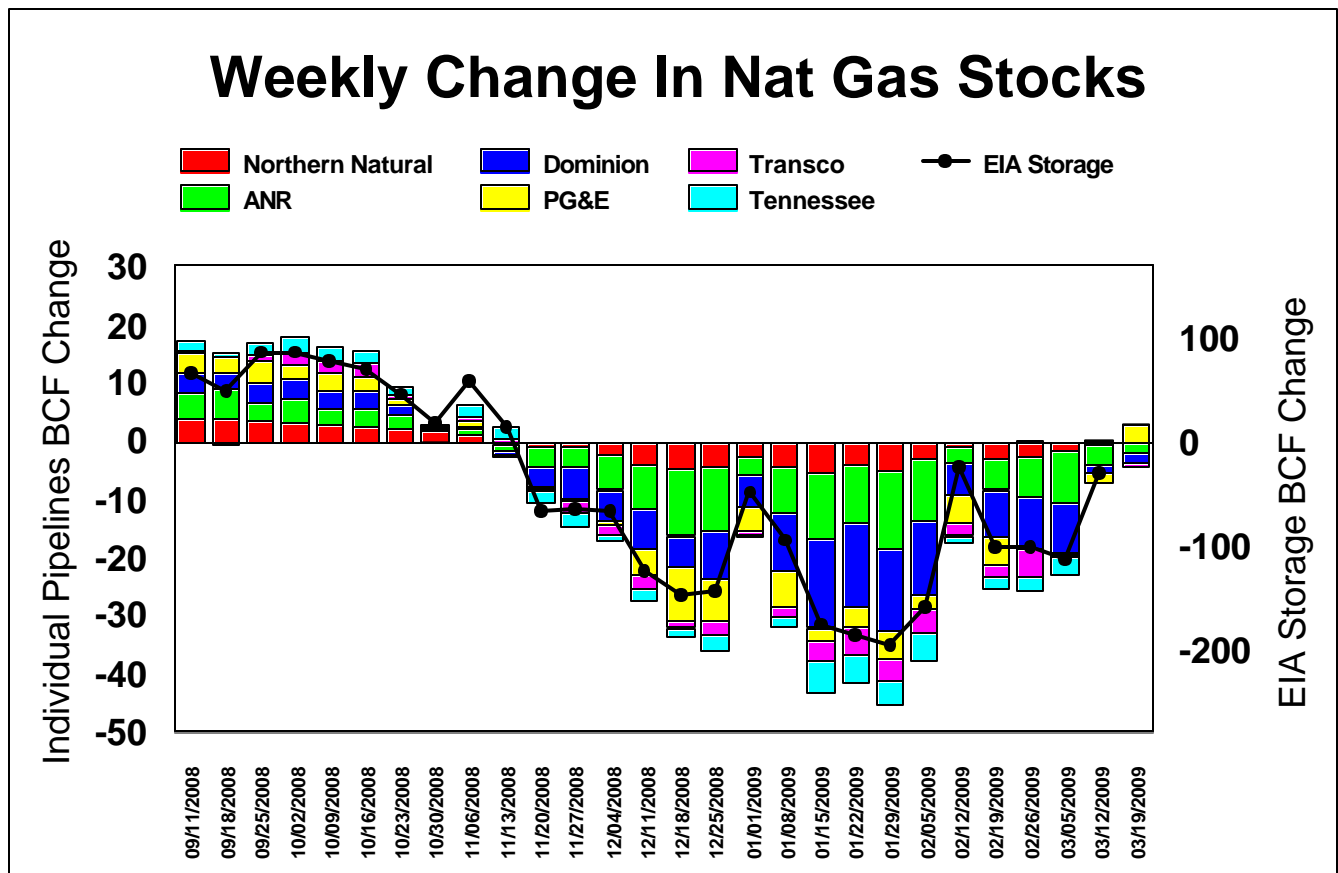
The Edison Electric Institute reported that for the week ending March 21<sup>st</sup>, power generation in the United States reached 68,367 Gwh down 3.15% from the prior week and off some 4.86% from the same week a year ago.

Sempra Energy Trading and Credit Suisse Energy asked the FERC yesterday to order MISO to stop retroactive resettlement of the market until after the FERC resolves pending requests for rehearing on revenue sufficiency guarantees.

The U.S. House Budget Committee is considered likely Wednesday to approve a fiscal 2010 budget resolution that will exclude the Obama administration's assumption that the Treasury will begin receiving revenue from a nationwide CO2 cap and trade program beginning in 2012. The Obama administration had estimated the government would receive \$646 billion in revenue over fiscal years 2012-2019 from auctioning of CO2 permits.

**MARKET COMMENTARY**

The natural gas market fell for the first time in a week but its decline was relatively modest, off just a couple of pennies. Despite the price pressure spilling over from the crude oil market which fell over a dollar per barrel today, natural gas prices basically remained steady helped in part by slightly cooler forecasts for the next couple of weeks along with U.S. economic news released today that showed positive rebounds in the durable goods orders and rebounding new home sales.



Market expectations for tomorrow's EIA Storage Report appear to be ranging between a 20 bcf draw to a build of 5 bcf, with the median outlook looking for a 9-11 bcf decline. Our model though is coming in on the bearish side looking for a 5 bcf build. Stocks fell an adjusted 43 bcf for the same week a year ago, while the five-year seasonal average shows a decline of 49 bcf.

NEW YORK MERCANTILE EXCHANGE(r)											
NYMEX OPTIONS CONTRACT LISTING FOR 03/25/2009											
							TODAY'S	PREVIOUS	ESTIMATED	DAILY	DAILY
-----CONTRACT-----							SETTLE	SETTLE	VOLUME	HIGH	LOW
LN 06 09 C 6.000						0.0792	0.0802	4850	0	0	
LN 04 09 P 4.000						0.0115	0.0179	3943	0.025	0.02	
LN 05 09 C 5.000						0.1294	0.1362	3275	0	0	
LN 01 10 C 6.500						0.8666	0.8839	3200	0	0	
LN 02 10 C 6.500						0.9125	0.9214	3200	0	0	
LN 03 10 C 6.500						0.894	0.9081	3200	0	0	
LN 01 10 C 6.000						1.0729	1.094	3075	0	0	
LN 02 10 C 6.000						1.1155	1.1292	3075	0	0	
LN 03 10 C 6.000						1.0802	1.0959	3075	0	0	
LN 04 09 C 4.500						0.0373	0.0584	2629	0.043	0.04	
LN 07 09 C 5.500						0.274	0.2861	2600	0	0	
LN 07 09 C 6.750						0.0894	0.0945	2500	0	0	
LN 07 09 P 3.000						0.0527	0.0542	2300	0	0	
LN 10 09 P 3.500						0.2482	0.2437	1700	0	0	
LN 10 10 C 7.000						0.9846	0.9753	1700	0	0	
LN 07 09 P 3.750						0.1885	0.1892	1500	0	0	
LN 10 10 C 9.000						0.5429	0.5332	1450	0	0	
LN 06 09 C 6.500						0.0424	0.0423	1300	0	0	
LN 05 09 P 3.500						0.0538	0.0515	1250	0.0525	0.0525	
LN 01 10 C 7.000						0.7042	0.7194	1225	0	0	
LN 02 10 C 7.000						0.7569	0.7639	1225	0	0	
LN 03 10 C 7.000						0.7427	0.7553	1225	0	0	
LN 04 09 C 4.400						0.0674	0.0934	1155	0	0	
LN 08 09 P 3.000						0.0752	0.0753	1150	0	0	
LN 01 10 P 5.000						0.4006	0.396	1100	0	0	
LN 02 10 P 5.000						0.4281	0.4185	1100	0	0	
LN 03 10 P 5.000						0.4662	0.4616	1100	0	0	

Given our bearish outlook for stocks tomorrow we feel that this should apply some pressure on prices and possibly have the market visit the \$4.25 price level especially given that tomorrow is option expiration day. But without a significant move to the downside in oil prices, natural gas prices this week appear unable to move back below the \$4.00 barrier. With today being an inside trading session tomorrow's price movement has the potential to be volatile. We see support at \$4.26-\$4.25 followed by \$4.19, \$4.14-\$4.13 and \$3.959. Resistance we see at \$4.42, \$4.50-\$4.51.

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