



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR JUNE 2, 2009

#### NATURAL GAS MARKET NEWS

Colorado State University released their updated forecast for this upcoming hurricane season today and it has lowered its call to 11 named storms, from 12 from last months forecast. It sees five of these storms becoming hurricanes down 1 from last month's outlook as well. As a result the team is looking for a slightly below average 2009 Atlantic basin hurricane season based on cooler than normal tropical Atlantic and the potential for a weak El Nino during the bulk of the hurricane season. The team also updated its U.S. landfall probabilities. The group now looks for a 48% chance of a major hurricane making landfall somewhere along the U.S. coast versus a historical average of 52%. They see a 28% chance of such a storm making landfall on the U.S. East Coast, with a 28% chance of it making landfall along the Gulf Coast (versus a long term average of 30%). The team predicts that this season will see tropical cyclone activity at 90% of normal versus last year which saw a season of activity which was 160% of normal. The team will make its next forecast on August 4<sup>th</sup>.

#### **Generator Problems**

**SERC** – Southern Nuclear's 883 mw Hatch #2 nuclear unit was back to full power this morning up 8% from a year ago.

TVA's 1126 Mw Sequoyah #2 nuclear unit remained at 81% capacity.

**MISO** – Exelon's 867 Mw Quad Cities #1 nuclear unit has ramped up to 86% capacity this morning, up 58% from yesterday.

Exelon's 912 Mw Quad Cities #1 nuclear unit was at 86% capacity, up 58% from a year ago.

**The NRC reported this morning that 93,174 nuclear generation capacity was on line, up 0.8% from yesterday and up 2.2% from the same time a year ago.**

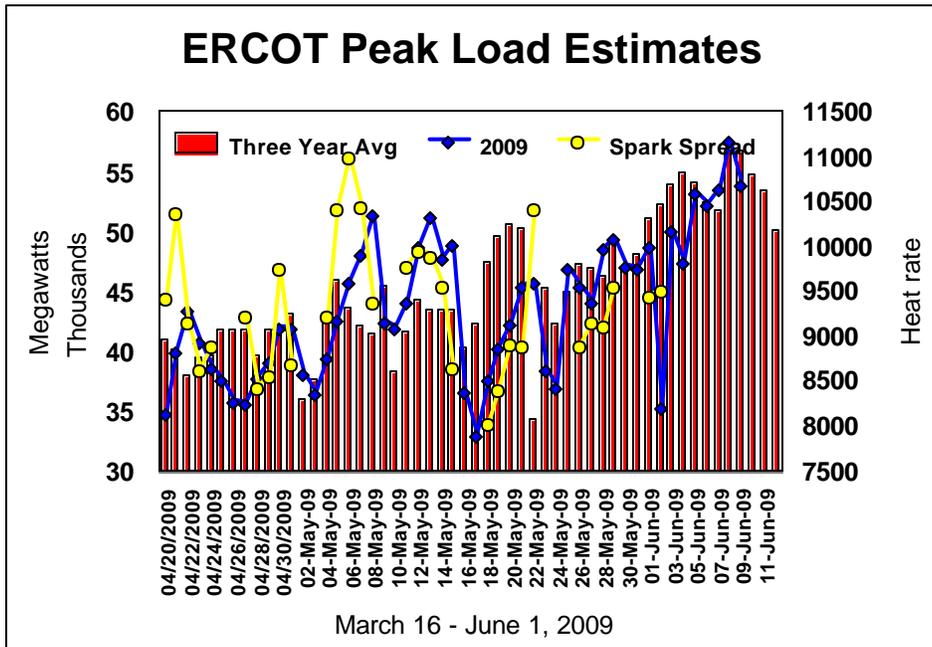
Energen Resources reported today that it has hedged 7.2 bcf of its 2011, San Juan Basin, natural gas

production at an average NYMEX-equivalent price of \$7.32 per Mcf. These along with sour crude oil hedges were the first 2011 hedges the company has put on. The company also reported that it

Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
<u>Location</u>	<u>Traded</u>	<u>Price</u>		<small>(As of 12:30 PM)</small>		<u>Moving Avg</u>
Henry Hub	729,800	\$4.051	\$0.188	(\$0.111)	\$0.002	(\$0.388)
Chicago City Gate	622,000	\$3.925	\$0.254	(\$0.237)	\$0.144	(\$0.314)
NGPL- TX/OK	681,700	\$3.834	\$0.206	(\$0.328)	\$0.096	(\$0.411)
SoCal	399,400	\$3.200	\$0.009	(\$0.962)	(\$0.101)	(\$0.750)
PG&E Citygate	651,000	\$3.542	(\$0.041)	(\$0.621)	(\$0.151)	(\$0.425)
Dominion-South	395,300	\$4.199	\$0.118	\$0.037	\$0.008	\$0.054
USTRade Weighted	17,395,200	\$3.718	\$0.112	(\$0.444)	\$0.00	(\$0.388)

had added an additional 1.1 bcf of its 2010 San Juan Basin natural gas production at a NYMEX – equivalent price of \$6.49 per Mcf. In total for 2010 the company has hedged approximately 44.4 bcf of its natural gas production at an average NYMEX-equivalent price of \$9.01 per Mcf.

Williams announced it has closed the joint venture agreement with Atlas Pipeline Partners, which creates Laurel Mountain Midstream LLC, which will own and operate 1800 miles of intrastate natural gas gathering lines in the Appalachian Basin servicing 6900 wells. The company feels that the new venture provides it a strong entry into the Marcellus Shale region.



Cheniere Energy has gained approval from the FERC to modify its Sabine Pass terminal to allow for the re-export of LNG.

Cheniere Energy purchased a LNG cargo for its Sabine Pass terminal from Egypt and it is expected to arrive at the facility on June 8<sup>th</sup>. It will be the first fully commercial cargo to arrive at the terminal. The terminal opened in April 2008, and has since only received

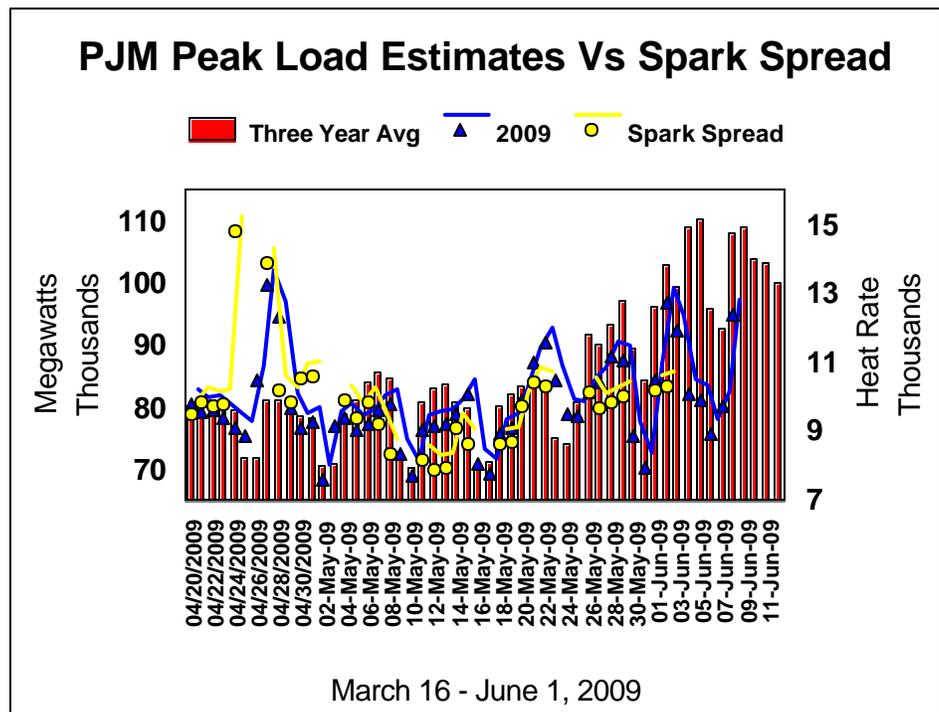
commissioning cargoes. This past Friday the company received FERC approval to re-export foreign sourced LNG from its facility, thus allowing it to import cheap gas during the summer to store and then export to higher paying markets in winter.

Repsol YFP's LNG tanker, Castillo de Villalba, is expected to arrive at the Bahia Blanca LNG terminal in Argentina on June 13<sup>th</sup> from Trinidad.

Kitimat LNG said yesterday that it has entered into a \$20 billion agreement with Korea Gas Corporation, under which KOGAS will acquire up to 40% of Kitimat LNG's production and an option to acquire an equity stake in the company's LNG export terminal in Bish Cove, BC.

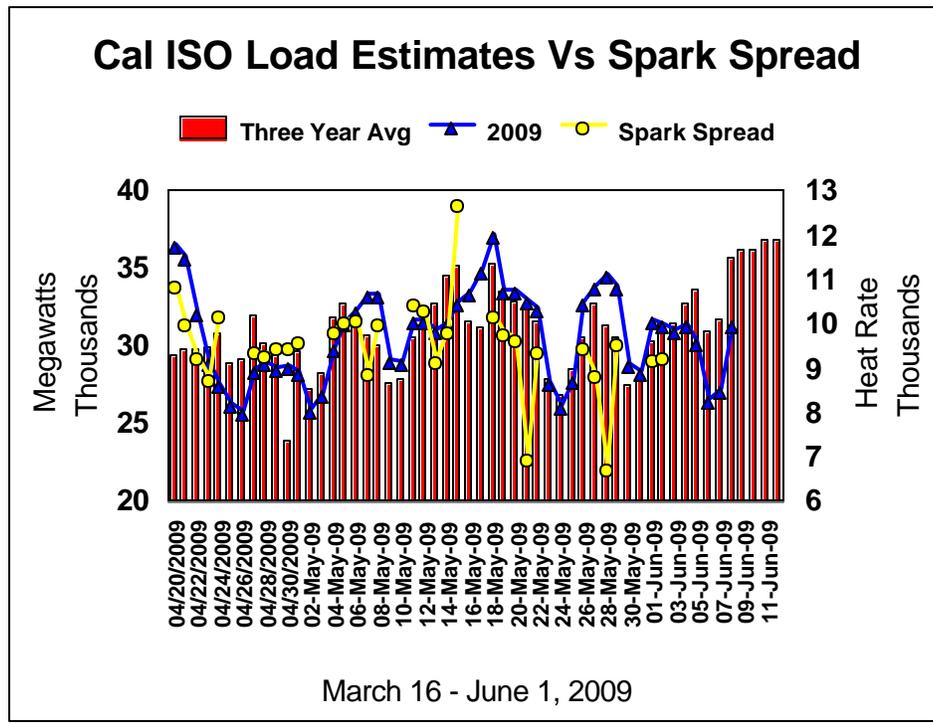
S&P's chief economist on Monday said he sees the U.S. economy could finally bottom by late this summer.

The American Iron and Steel Institute reported Monday that raw steel production in the United States increased again last week, although US steel mills operated at only 46% of capacity. Production was seen increasing by



1% on the week, the fifth consecutive weekly increase. But last week's production was 49% lower compared to the same level a year ago.

NGI reports that Washington Gas Light Company has applied to the Virginia State Corporation Commission to combine its winter gas hedging program and a pilot summer storage gas financial hedging program that the company started in 2006.



Platts reported that French LNG inputs for the week ending May 31<sup>st</sup> fell by 15% on the year, due to the downturn in injections at the Atlantic terminal of Montoir de Bretagne. Weekly inputs at that terminal were off 27.9% while inflows at the Fos Tonkin on the Mediterranean coast were up modestly at 3.8%.

Woodside Petroleum CEO said today that further expansions of the Pluto gas project are likely. He said the current \$9.7 billion Pluto gas project off of Australia's west coast was about 65% completed as of the end of May. First LNG exports from the project are expected in late 2010. The CEO also said the company has factored in the impact of the rival Chevron led Gorgon LNG project on its development plans, and feels that the Gorgon development will have no impact on its contractors and its workforce as it makes progress on Pluto and a possible second and third production train at the plant. In regards to the Sunrise LNG, he said Woodside will decide to build it at Darwin or float it at sea in the next couple of months. He also said that Woodside would prefer to build Browse LNG at James Price Point in the Kimberly region of Western Australia state. The other equity holders in the project, including Chevron, have not yet decided on a preferred location.

Chevron said a final investment decision on the Gorgon LNG project in western Australia is likely within months, while a commitment on the Wheatstone venture may come as early as 2011. The Gorgon project which has a projected \$40 billion price tag will have an initial capacity of 15 million metric tons a year.

The State Oil Company of Azerbaijan said today that European energy companies must set aside rivalries if they wish to prevent Gazprom from buying up excess natural gas volumes from the western Caspian basin. The company called on the European three pipeline projects should first agree on transit via Turkey to give Azerbaijan an alternative offer to Gazprom.

Russia's Energy Ministry reported that Gazprom's natural gas production fell 14% in May to 0.98 billion cubic meters per day from April levels, with overall Russian output off 12.1%. Year on year Gazprom's natural gas output was off 34%.

Natural gas supplies to Poland were fully restored on Monday after the Polish gas delivery company signed a previously announced deal with Gazprom to deliver 1.02 bcm of gas for about \$300 million

through September, easing concerns that lowered supplies will interrupt gas storage before the winter season. Poland had not been receiving all of its contracted gas since Ukrainian-Russian gas row earlier this year. Poland is still negotiating a longer-term deal with Russia that would secure deliveries past September.

The Chairman of the CFTC speaking on Capitol Hill today said he favors limiting excess commodities market speculation through position limit authority. He declined though to attribute the recent rise in oil prices to a return of speculation to the markets, but rather said “part of what we’re seeing is confidence coming back into the market.”

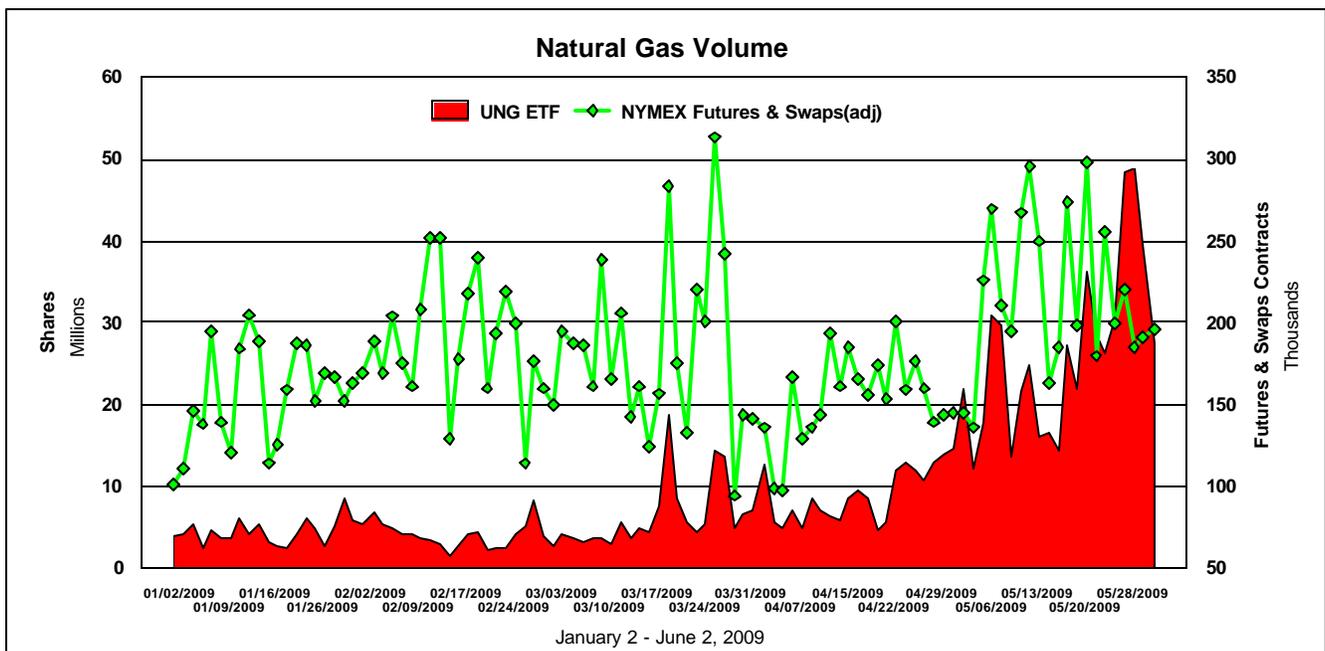
NGI reported that Morgan Stanley Private Equity is partnering for a second time with the management team of Triana Energy Investments in a venture expected to focus on acquiring natural gas properties in the Marcellus Shale region.

**PIPELINE RESTRICTIONS**

CGT said it has issued a system wide OFO for June 2<sup>nd</sup> due to high inventory. Customer supplies are required to be within a 5% tolerance requirement of daily usage.

**ELECTRIC MARKET NEWS**

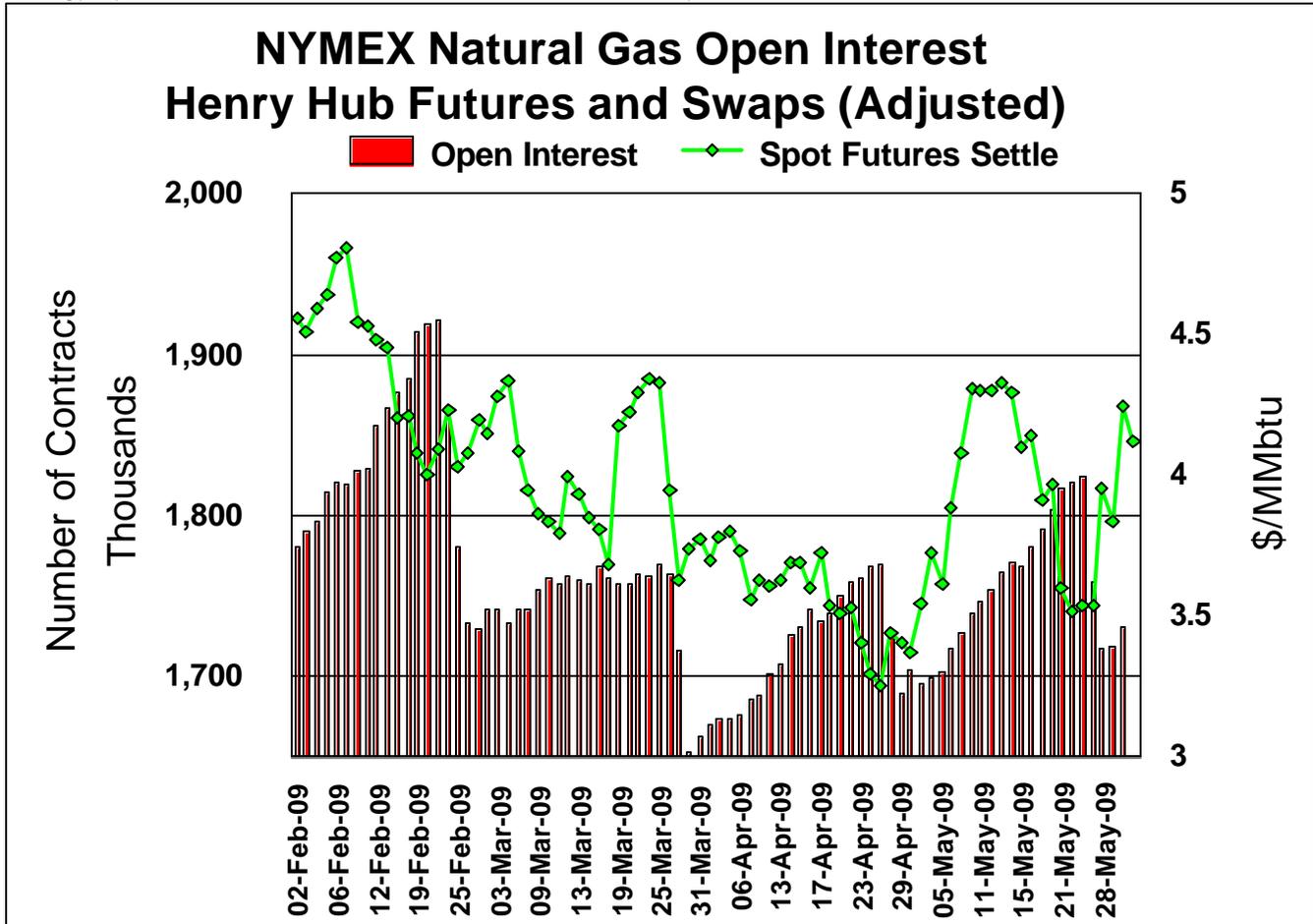
PacifiCorp said in a long-term plan filed with the Utah Public Service Commission that it plans to significantly cut its reliance on coal fired generation by adding renewable and natural gas fired generation as well as demand side management programs over the next nine years. The company also noted that given the drop in forward wholesale power prices over the last year it is providing the company with an opportunity to secure additional power supplies at a cost effective basis via the market without the need to commit to a large new thermal power plant.



U.S. coal supplies at U.S. power plants rose 0.6% this week from last week and are at 15.3% greater than the same week of 2008.

Duke Energy Carolinas has filed a request with the North Carolina Utilities Commission to increase its North Carolina customer rates by approximately 12.6% starting January 1, 2010.

A report from the Michigan Wind Energy Resource Zone Board outlined that Michigan could add between 3,431mw and 6,140 Mw of wind farm capacity in four regions in the state identified as having the highest potential for wind power. All four regions are in the Lower Peninsula, with three of the regions are along the state's western boundary with Lake Michigan and the fourth along Lake Huron. The report noted the regions are generally suited for large new base load power plants, the board said it can prove problematic when a number of wind energy systems are constructed since transmission system upgrades can often take longer to plan, site and construct than the lead time for a typical wind energy system, which could be installed in two to five years.



**MARKET COMMENTARY**

The natural gas market despite pushing higher by a couple of pennies overnight could not hold onto the gains, as selling pressure from possible profit taking appeared to take root in this market and kept this market in negative territory for much of this morning and afternoon allowing it to finish down just over a dime. Trading today posted its smallest trading range in four trading sessions as well as its lightest volume. Volume in the natural gas ETF was down 30% from yesterday and was at its lowest level since May 26<sup>th</sup>, but still well above the prior three month average daily volume. On the futures and swaps side volume was relatively strong with over 195,000 traded on a combined and adjusted basis.

Open interest reported at midday appeared to confirm the move of new longs coming into the market as the combined and adjusted Henry Hub futures and swaps positions grew yesterday by 11,468 lots.

We continue to remain bearish on this market given the lack of weather to boost power prices and support natural gas demand as a generating fuel. We would look for initial support Wednesday at

\$4.116 followed by \$3.985, \$3.892 and \$3.799. More distant support we see at \$3.716. Resistance we see at \$4.225 followed by \$4.284, \$4.337 and \$4.575 and \$4.69.

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