



## ***ENERGY RISK MANAGEMENT***

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### **NATURAL GAS & POWER MARKET REPORT FOR JUNE 3, 2010**

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

The U.S. Interior Department on Thursday said that the Minerals Management Service would allow drilling permits for shallow Gulf of Mexico waters when exploration projects meet new environmental and safety requirements. They noted that there is "no moratorium on shallow water drilling." The department sought to clarify an email sent earlier in the day by an MMS official that said the agency would no longer issue drilling permits in waters at any depths, which would have reversed last week's decision by the White House to end the drilling ban for waters less than 500 feet.

Gassco reported today that maintenance work at the Langed pipeline is going according to plan and will be finished on Thursday. According to National Grid Langed flows were not running Thursday morning but did resume Thursday afternoon.

#### **EIA Weekly Report**

	05/28/2010	05/21/2010	Change	05/29/2009
<b>Producing Region</b>	868	845	23	929
<b>Consuming East</b>	1095	1047	48	1014
<b>Consuming West</b>	394	377	17	376
<b>Total US</b>	2357	2269	88	2319

\*storage figures in Bcf

Australia's Prime Minister said today that his government would not be intimidated by mining companies over the proposed 40% mining tax, as some companies announced they were putting some new projects on hold as a result of the tax.

#### **Canadian Gas Association**

##### **Weekly Storage Report**

28-May-10 21-May-10 29-May-09

<b>East</b>	112.7	106.4	129.4
<b>West</b>	262.2	253.3	232.9
<b>Total</b>	375	359.7	362.3

storage figures are in Bcf

CFTC Commissioner Scott O'Malia said today that the CFTC is planning on taking a hard look at whether to impose new rules to limit high frequency and algorithmic trading strategies that threaten to distort prices. The commissioner noted that the CFTC would look closely at the practice of "baiting" the market by using small volume trades to drive prices in one direction. He also noted that the agency should gauge the impact of the broad new powers it expects to receive from Congress to regulate

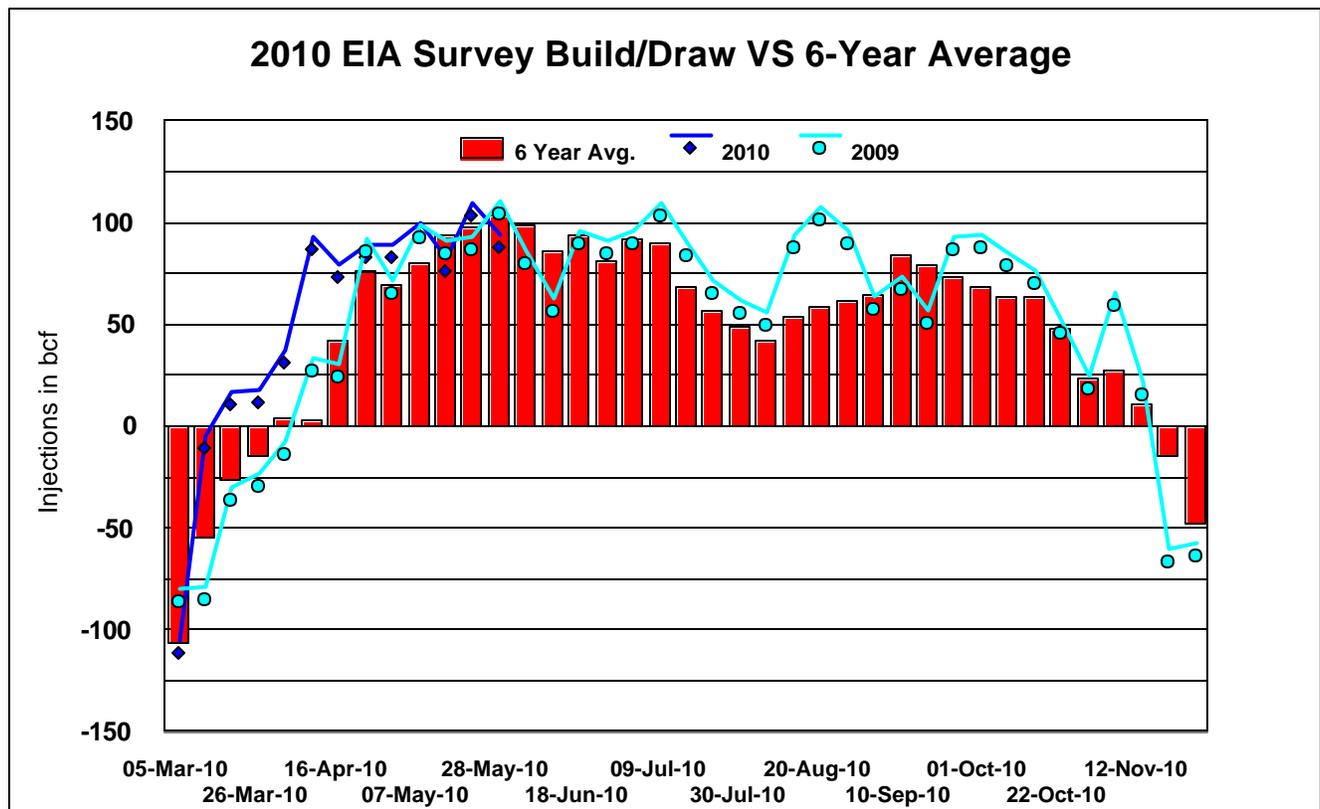
swap markets before making a decision on a position limit plan. The new commissioner said the CFTC would need more computing power and staff with quantitative analysis expertise to tackle the new authority to regulate the vast OTC market.

**ECONOMIC NEWS**

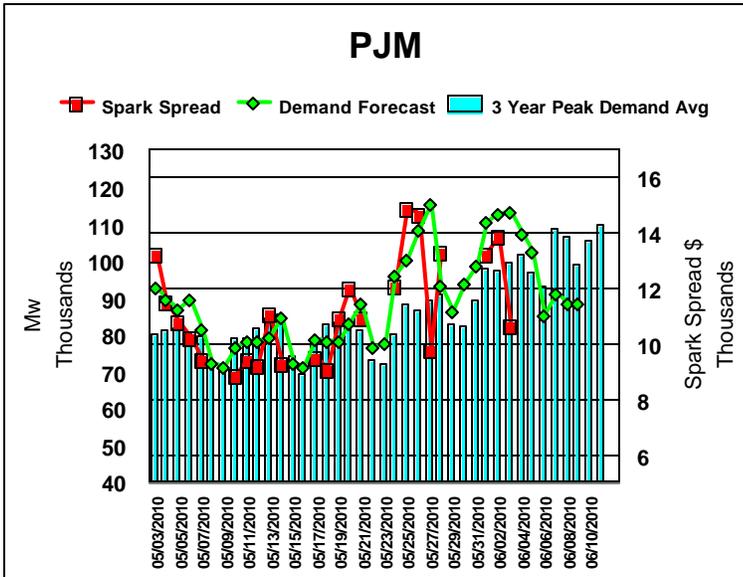
The Commerce Department reported that new orders received by US factories increased by 1.2% in April to \$420.08 billion following March's upwardly revised 1.7% increase. Excluding transport, orders fell by 0.5%, the first decline in nine months.

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	1,063,600	\$4.557	\$0.236	(\$0.018)	(\$0.061)	(\$0.097)
Chicago City Gate	598,700	\$4.511	\$0.143	(\$0.064)	(\$0.041)	\$0.017
NGPL- TX/OK	607,800	\$4.339	\$0.141	(\$0.236)	(\$0.043)	(\$0.148)
SoCal	582,500	\$4.198	\$0.131	(\$0.377)	(\$0.053)	(\$0.268)
PG&E Citygate	1,003,300	\$4.437	\$0.075	(\$0.138)	(\$0.109)	\$0.020
Dominion-South	506,100	\$4.595	\$0.084	\$0.020	(\$0.100)	\$0.136
UTrade Weighted	22,741,800	\$4.381	\$0.123	(\$0.194)	(\$0.06)	(\$0.097)

The US Labor Department reported that US productivity increased less than previously reported in the first quarter of 2010 as companies cut labor costs by a lower amount than originally estimated. Nonfarm business labor productivity increased by a seasonally adjusted annualized rate of 2.8% in the first quarter compared to the fourth quarter of 2009. Unit labor costs fell at a 1.3% annualized rate last quarter compared with previous estimates of a 1.6% decline.



The US Labor Department also reported that the number of initial claims for unemployment benefits fell by 10,000 to 453,000 in the week ending May 29<sup>th</sup>. The previous week's level was revised slightly upwards by 3,000 to 463,000. The four week moving average increased by 1,750 to 459,000 from the previous week's revised average of 457,250. The number of continuing claims increased by 31,000 to



4,666,000 from the preceding week's revised level of 4,635,000. The unemployment rate for workers with unemployment insurance was 3.6% in the week ending May 22<sup>nd</sup>, unchanged from the previous week.

According to the ADP Employer Services report, the US private sector added 55,000 jobs in May compared with an upwardly revised gain of 65,000 in April. The April figure was originally reported as a gain of 32,000.

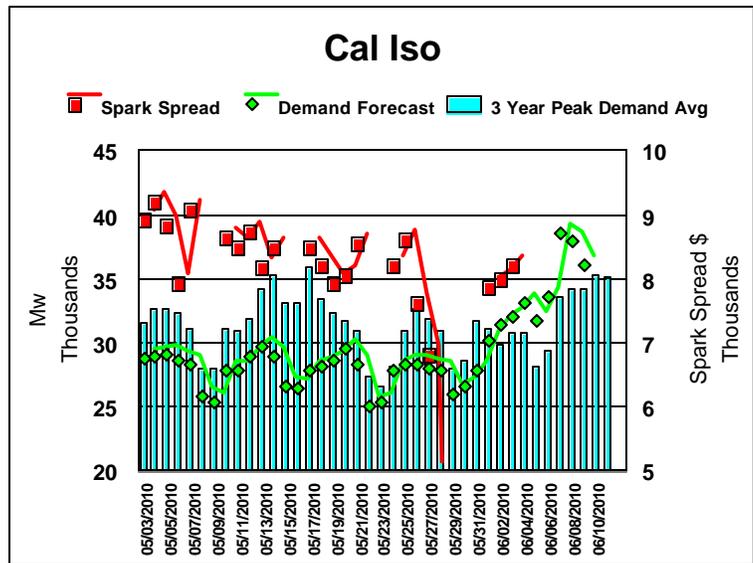
### PIPELINE MAINTENANCE

El Paso Natural Gas Company yesterday, Wednesday, June 2, said it plans to shut

in Line 1300 between Roswell and Caprock, both in New Mexico, June 8-9 for pipeline and valve replacement. El Paso will lower physical capacity of 620 MMcf per day at its compressor station in Lincoln, New Mexico, to zero during that period.

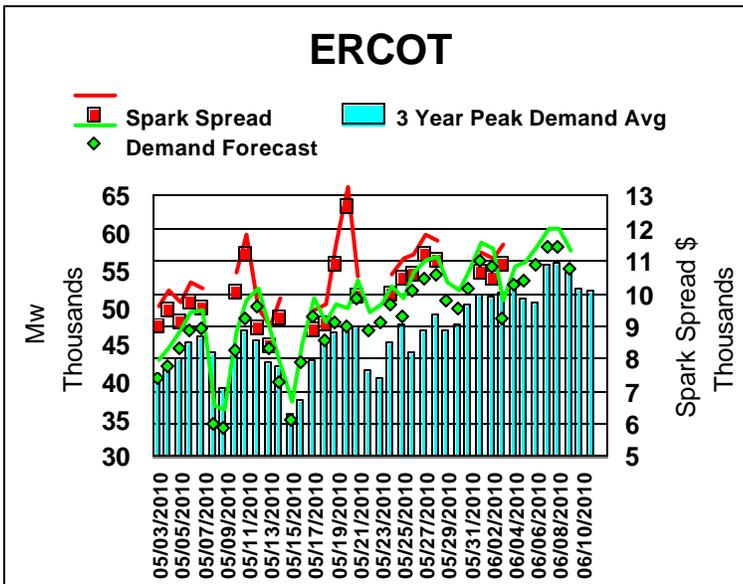
### ELECTRIC MARKET NEWS

The U.S. EPA said it has finalized a rule that will cut smokestack emissions of sulfur dioxide. This would be the first change in policy in 40 years on this emission. Big coal burning utilities like Southern and AP may need to take steps to reduce emissions under the rule. The rule seeks to protect people for the first time against short-term exposure to SO<sub>2</sub>,



It calls for a one hour standard at 75 parts per billion of SO<sub>2</sub> in the air. The rule will replace the current 24-hour and annual SO<sub>2</sub> health standards. The rule will require monitors to be placed in cities and other populated areas where the emissions are high.

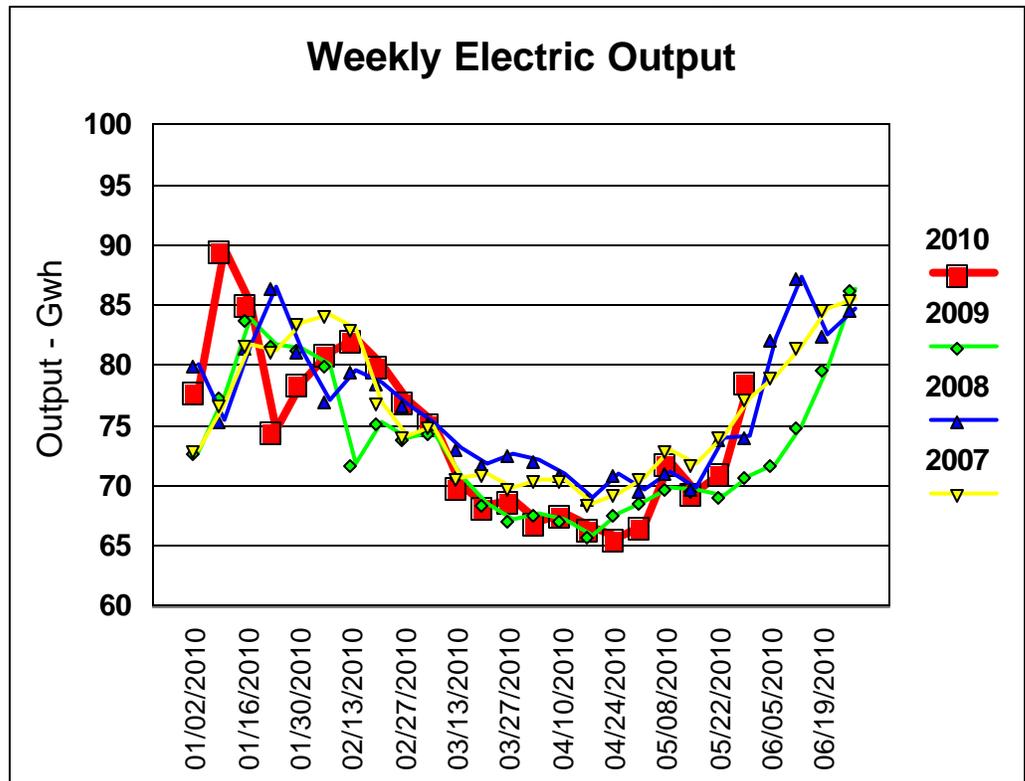
According to a report by the U.S. Dept. of Energy, as many as 11 power plants along the Gulf Coast could be impacted by the oil spill from the Deepwater Horizon. Concern is that the spill may interfere with the facilities' intake structures. Several of these plants along the Gulf of Mexico draw water directly from the Gulf or from nearby salt water sources. This water is used as a cooling



agent. Should it become contaminated, cooling water systems are at risk of becoming damaged. No specific plant has been identified but there are 11 such plants located in that region.

U.S. coal production for the week ending May 29<sup>th</sup> reached approximately 20 million tons, some 2.2% less than the prior week but 4.8% higher than production estimate.

The Edison Electric Institute reported that for the week ending May 29<sup>th</sup> power production reached 78,528 Gwh, up 10.6% from the prior week and up 9.9% from a year ago.



**MARKET COMMENTARY**

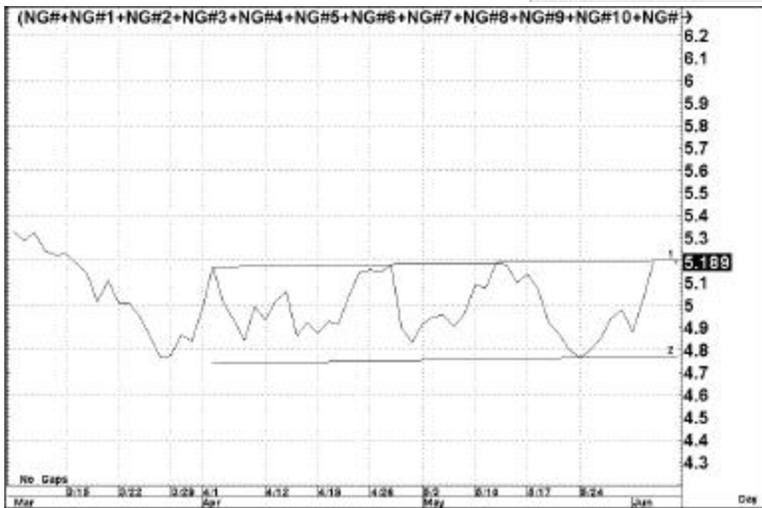
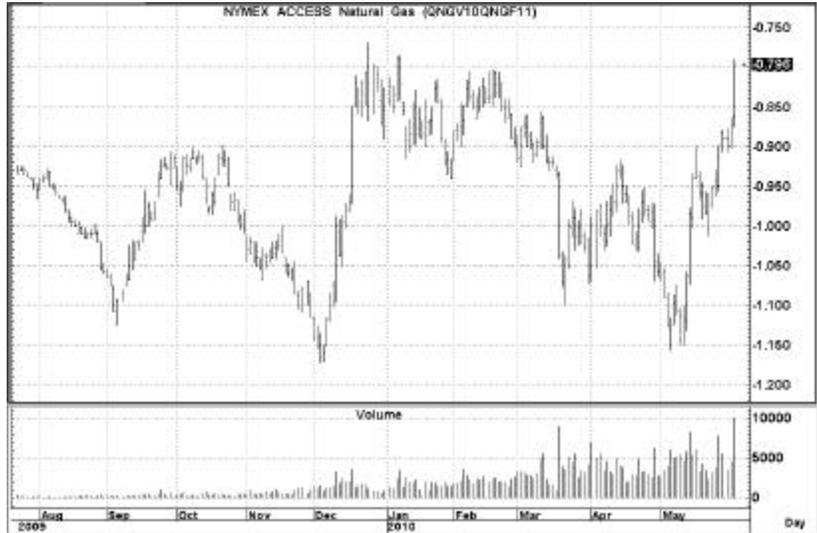
The natural gas market saw the spot month settle up over 6% today as a mildly supportive storage report helped the market to finally muster enough traction to breach the spot continuation chart's resistance at the 200 day moving average at \$4.55 and set off stops that finally drove the market through the upper limit of its three month trading channel and allowed it to settle at its highest level since mid March. The spot continuation chart showed that prices completed a retracement of just over 39% of the whole downward move from January through April. Volume was excellent today with the spot contract trading over 162,588 lots, some 60% higher than recent trading activity and only the fourth time this year that the spot contract traded over 150,000 lots outright on a daily basis on Globex. The 12-month strip

though while finishing stronger today still remains contained within its two month sideways trading pattern



While we feel that fundamentally the storage report was not a large enough deviation from market expectations to have resulted in prices settling 25-40 cents better on the day, the technical factors seem to have taken a short-term control of the market. We feel that there may be some follow through buying driven by additional short covering over the next couple of days, but we feel the fact that storage levels remain extremely

ample and still running ahead of last year's record pace makes us still look for places to be a scale up seller of this market, especially in out of the money calls in the July contract, which will expire before the hurricane season or the hot part of the season gets underway. The July \$5.00 call tonight settled at 9.3 cents. We would look for the July futures to see resistance starting at \$4.69 followed by \$4.768, \$4.815 and \$4.959. More distant resistance we see at \$5.014 and \$5.23-\$5.26. Support we see at \$4.60 followed by \$4.55, \$4.454, \$4.374,



\$4.29-\$4.27.

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