



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta,  
& Karen Palladino

(212) 624-1132 (888) 885-6100

**www.e-windham.com**

### **NATURAL GAS & POWER MARKET REPORT FOR JUNE 4, 2010**

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

Cheniere Energy announced late Thursday that it plans to export U.S. natural gas overseas from its Sabine Pass terminal. The terminal which is the biggest LNG import terminal in the U.S., could accommodate up to 4 LNG production trains with a capacity to produce each 3.5 million tones of LNG the company believes. The initial plan would be to build two trains with further expansion based on customer interest. Exports could begin by 2015. Last year the company gained approval to re-export foreign sourced LNG from Sabine Pass. Cheniere plans to make a request to the FERC to begin a pre-filing process by the end of June.

Baker Hughes reported at midday today that the number of drilling rigs searching for natural gas in the United States this week dropped to 947 rigs, down 20 from the previous week.

A Pittsburg TV station reported today that a Marcellus Shale gas well, operated by EOG, ruptured Thursday night. According to a press release from the Pennsylvania Emergency Management Agency, the well which was in the fracking process ruptured, spewing frack water and wet gas some 75 feet

into the air. The well was some 110 miles east of the Ohio border near Interstate 80. The well was capped around noon on Friday. The well reportedly ended up releasing as

#### **Generator Problems**

**PJM** – Dominion's 903 Mw North Anna #2 nuclear unit was 98% power this morning up 7% from yesterday.

**SERC**- Duke Energy's 846 Mw Oconee #2 nuclear unit was at 65% power this morning, up 64% from yesterday.

SCE&G's 986 Mw Summer nuclear unit was back at full power this morning, up 11% from Thursday. Operators had reduced output on June 2<sup>nd</sup> to work on a feedwater pump problem.

**SPP** – Entergy's 978 Mw River Bend nuclear unit was at 88% capacity, up 8% from yesterday and up 18% from Wednesday when the unit was reduced to 70% power for unknown reasons.

**WSCC** – Energy Northwest's Columbia nuclear generating station was at 55% capacity this morning, down from full power recorded yesterday .

**ERCOT** – AEP's 528 Mw coal fired Welsh #3 power plant was expected to be restarted over the next several days, following a recent closure for short-term maintenance work.

Luminant's 765 Mw Unit #3 at the Monticello coal fired power plant reportedly was back on line after tripping off line yesterday.

**The NRC reported this morning that some 91,619 Mw of nuclear power was generated today, up 1.1% from yesterday but 1.9% below the same day a year ago.**

#### **Natural Gas Cash Market**

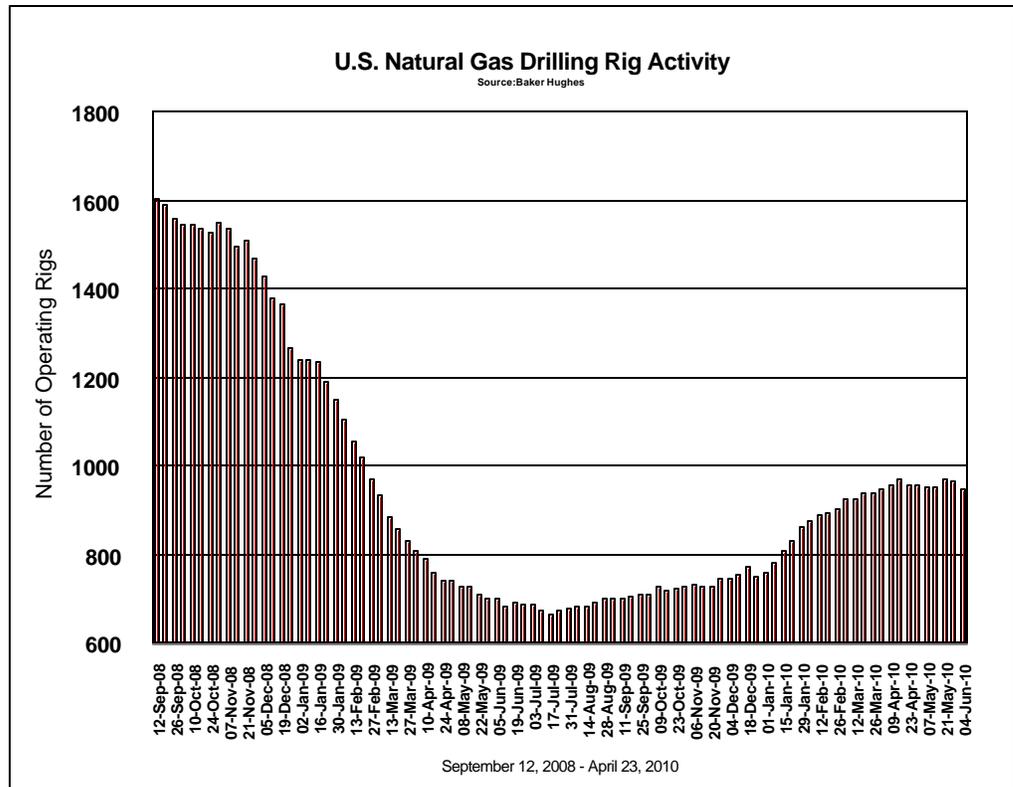
ICE Next Day Cash Market

<b>Location</b>	<b>Volume Traded</b>	<b>Avg Price</b>	<b>Change</b>	<b>Basis</b>	<b>Change</b>	<b>Basis 5-Day Moving Avg</b>
				(As of 12:30 PM)		
Henry Hub	1,128,000	\$4.603	\$0.046	(\$0.226)	(\$0.124)	(\$0.135)
Chicago City Gate	478,400	\$4.633	\$0.121	(\$0.196)	(\$0.133)	(\$0.016)
NGPL- TX/OK	714,500	\$4.492	\$0.153	(\$0.337)	(\$0.101)	(\$0.181)
SoCal	715,900	\$4.319	\$0.120	(\$0.510)	(\$0.133)	(\$0.308)
PG&E Citygate	77,530	\$4.514	\$0.077	(\$0.315)	(\$0.177)	(\$0.050)
Dominion-South	463,300	\$4.726	\$0.131	(\$0.103)	(\$0.123)	\$0.093
<b>USTRade Weighted</b>	<b>21,936,700</b>	<b>\$4.511</b>	<b>\$0.130</b>	<b>(\$0.318)</b>	<b>(\$0.12)</b>	<b>(\$0.135)</b>

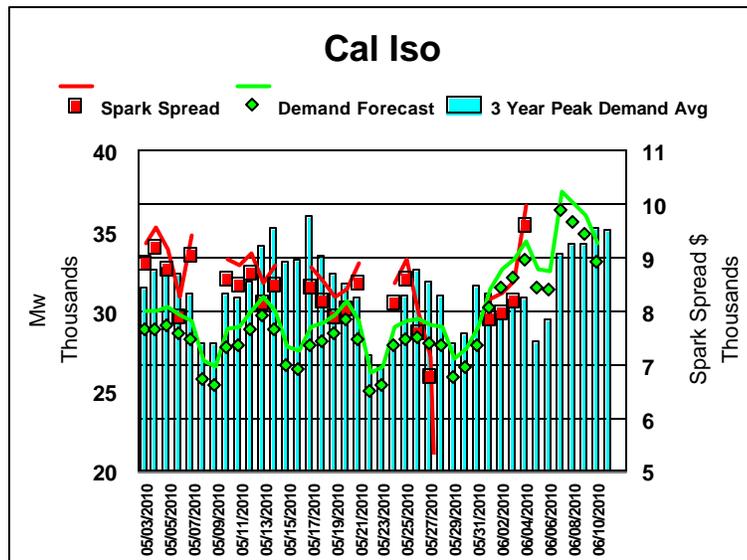
much as 1.5 million gallons of fluid used to hydraulically fracture the well. State officials were investigating the incident. The incident was the first in the Marcellus field to involve the Pennsylvania Emergency Management Agency.

Qatar's LNG producer Qatargas has resumed operations of its Train 3 production unit following completion of maintenance. The train has a 3.2 million tons per year capacity. Train 4 though remains offline.

Cyclone Phet, which had been a Category 3 storm, but had been downgraded to a Category 1 storm as it made landfall on the Omani coast forced oil and gas production to be halted in the country. The country's LNG export trains were shut down as a precaution and no damage to the facilities were reported. Oman LNG said it did not expect the weather disruption would result in any cargo delivery problems though.



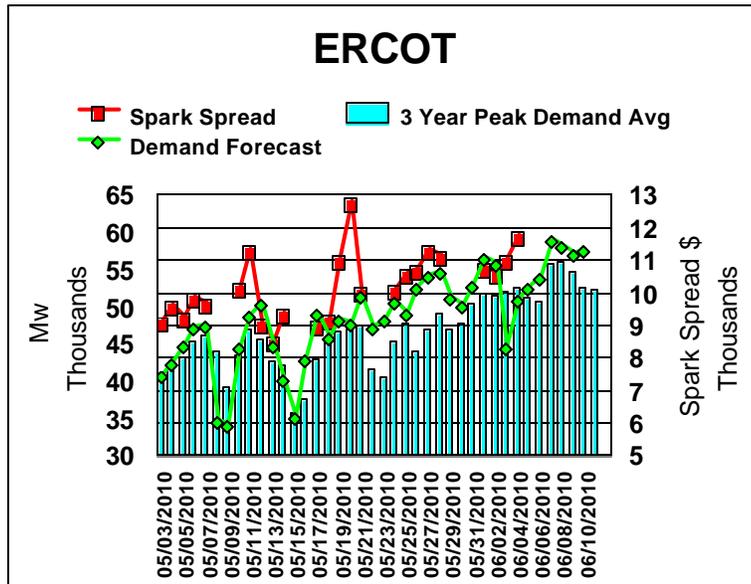
Norwegian gas flows to Britain via the Langeled pipeline were restarted once again on Friday after being restarted on Thursday only to see the flows disrupted again by the end of the day. Gasco the operator said that the pipeline's receiving terminal in Britain was back at full capacity on Friday morning. Flows along the pipeline were erratic this morning though. Statoil said only that there were no operation problems on their end.



Austria's OMV said Friday a regasification terminal it was looking to build with its partners on the Croatian island of Krk is unlikely to start operations before 2017, due to uncertainties surround demand projections for Europe. The consortium had previously looked for operations to begin as early as 2014.

The Russian Economic Development Ministry has projected that Russian LNG exports this year will reach 8.1 million metric tons, with exports reaching 9.3 million tons in 2011 and 9.7 million tons in 2012.

Statoil said today that it plans an 8-10 day maintenance shutdown of its Snoehvit LNG plant starting on September 11, 2010. The company plans another maintenance shutdown for 30-40 days in April 2011, but operators do not expect any further maintenance work after that until after 2014.



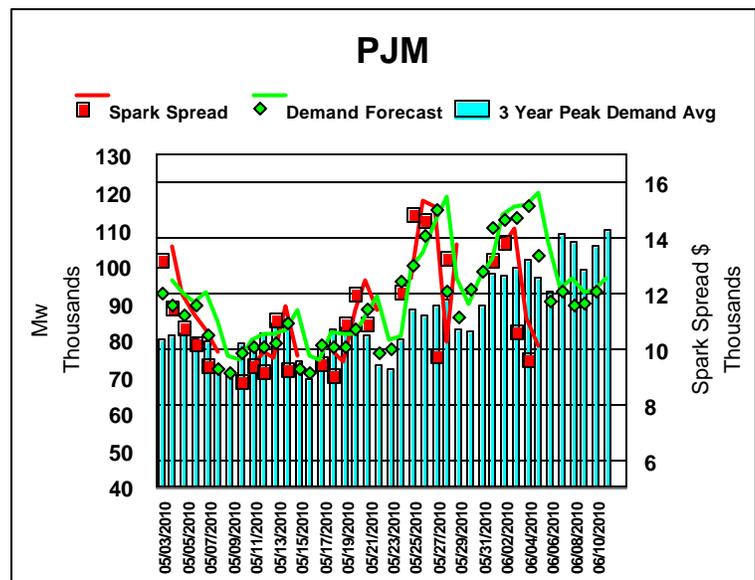
Statoil's CEO said today that he expects European gas demand will grow on average 1% annually through 2030.

Total SA said today that it did not expect BP's oil spill in the Gulf of Mexico to impact the technically challenging Shtokman project in the Russian Barents Sea. The company noted that the Shtokman field is not a deep-water field and is far away from any coastline. The company noted that Russian regulations on Arctic drilling and operations are already quite constraining.

Venezuela's PDVSA and Italy's ENI announced they will form a joint venture to operate a natural gas exploration and production license for the Caribbean's Punta Pescador and Gulf of Paria areas for 25 years. Natural gas produced from the region would be primarily used by the domestic Venezuelan market, as President Chavez seeks to boost gas production to help counter worsening power shortages in the nation.

**ECONOMIC NEWS**

The US Labor Department reported nonfarm payrolls increased by 431,000 in May, the largest gain since March 2000. That followed an unrevised 290,000 increase in April. The market was expecting payrolls to increase by 515,000. The increase in payrolls in May was mainly due to the hiring of 411,000 temporary Census workers. Only 41,000 private sector jobs were added in May. It reported that the unemployment rate fell only moderately to 9.7% in May from 9.9% in April.

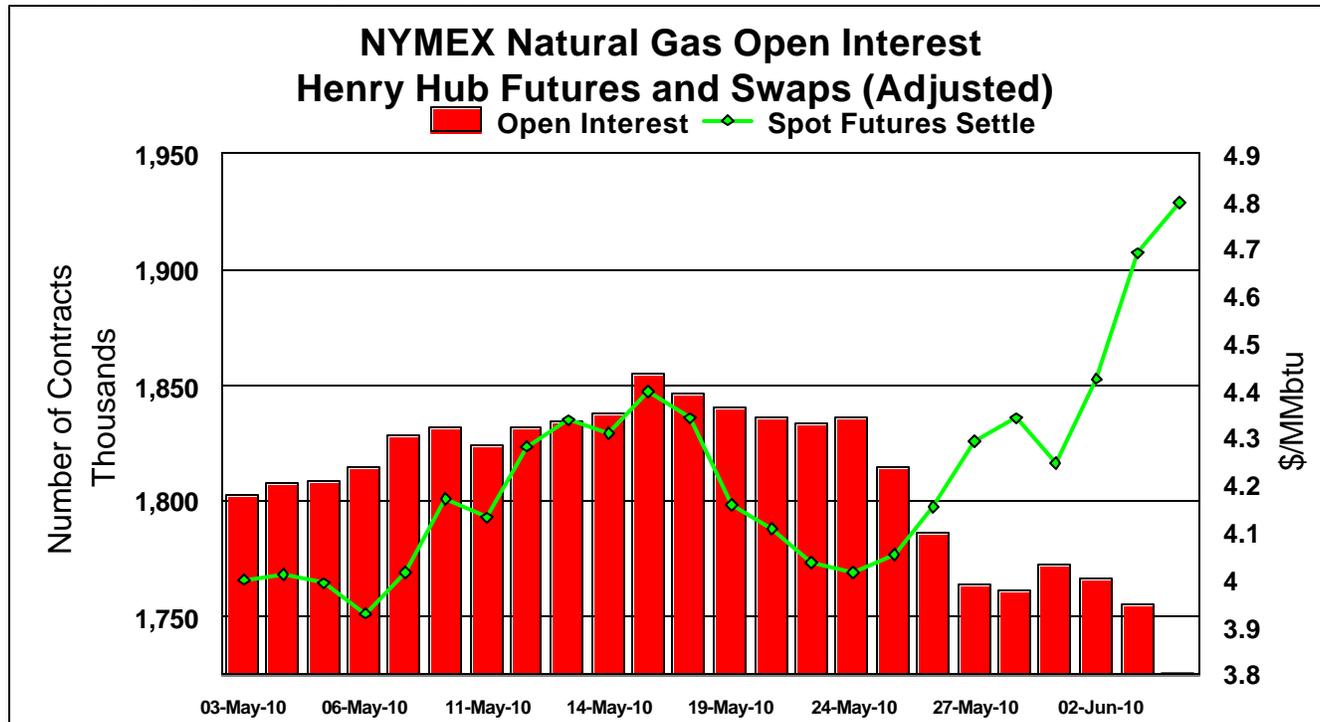


**PIPELINE RESTRICTIONS**

NGPL informed customers late yesterday that effective for Friday and until further notice of some capacity changes. At Florida Gas Jefferson it is at capacity for deliveries. Interruptible transportation service/authorized overrun and secondary firm transports are at risk of not being fully scheduled. The company reported that it has limited capacity available at Bridgeline vermilion and Segment 16. ITS/AOR and secondary firm transports are available. The company reported it has limited capacity available for gas going southbound through Segment 16 at Compressor Station 812 in Atoka County, Oklahoma. Limited ITS/AOR and secondary out of path firm transports are available.

Tennessee Gas Pipeline said that effective for June 4<sup>th</sup> it has lifted restrictions from June 4<sup>th</sup> due to reduced nominations at the Leidy Delivery meters.

Midcontinent Express Pipeline said capacity available on its Enogex pipeline lease will be reduced beginning June 9<sup>th</sup> and continuing through June 11<sup>th</sup>, so that Enogex can complete the work that was postponed last month. The direct impact will only be to MEP shippers who have contracted firm capacity through the Enogex lease portion on MEP.



**PIPELINE MAINTENANCE**

NGPL said it has postponed until further notice the work on unit #2 at Station 812 in Segment 16 of the Texok zone. This work will require a reduction in capacity through Segment 16 impacting NGPL shippers. ITS/AOR and firm secondary out of path transports will not be available

**ELECTRIC MARKET NEWS**

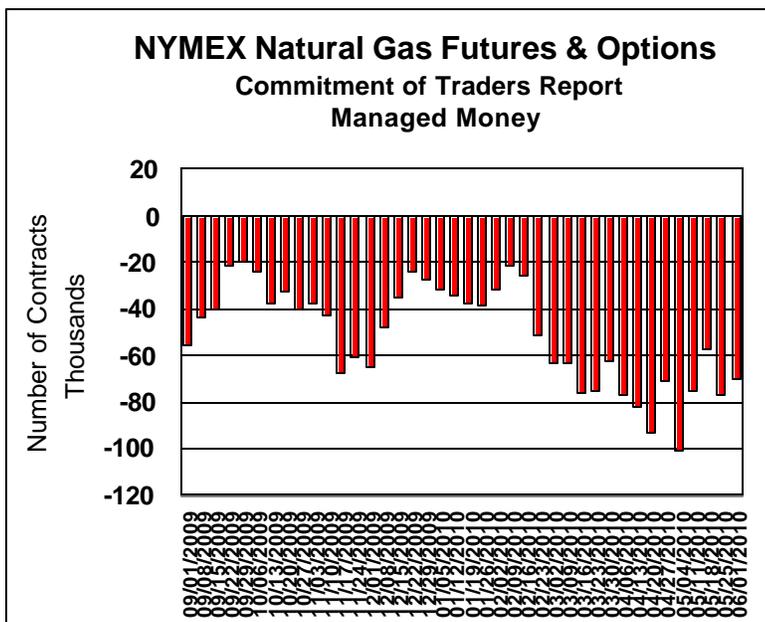
Genscape reported today that it estimates that last week coal use by U.S. power plants rose by 5% from the week before and was 19% greater than the same time a year ago. Warmer temperatures east of the Rockies drove this higher demand. Genscape also noted that rising natural gas prices are making it less economical to run gas fired power plants when it appears long term base load, fed by mostly by coal plants, is on the rise.

The New York Power Authority today said it started reviewing five proposals for wind power projects in state waters on Lake Erie and Lake Ontario. NYPA did not disclose the name of the developers of these projects or discuss the potential costs associated with the proposals.

**MARKET COMMENTARY**

While oil prices and equity markets were eroding away throughout the trading day Friday the natural gas market was headed in the other direction, up. Several factors appeared to be supporting natural gas throughout the day. First short term load reports were revised higher today for ERCOT and PJM, with PJM over the next 7 days looking at demand being some 22% higher than was expected just yesterday, with ERCOT demand for next week expected to be higher than forecasted yesterday as well. Second the Baker Hughes report appeared to finally give bears the comfort that they have been

seeking over the past several months, looking for a substantial down turn in drilling rig activity. But probably the biggest factor remained technical buying being driven in our mind by short covering. The natural gas market during Wednesday and Thursday saw open interest decline on a combined and adjusted basis on the NYMEX Henry Hub futures and swaps by over 16,500 lots and by nearly 11,000 lots on Thursday. This short covering we feel continued today allowing prices through mid afternoon to reach all the way up to \$4.977 basis the July contract, nearly posting a 50% retracement of the January-May sell off and reaching its highest level in the July contract since March 1<sup>st</sup>. But these lofty levels could not be held and prices gave back 20 cents in the final 30 minutes of trading before the close.



Tonight's Commitment of Traders Report offers little quality insight into this week's rally since it reflects the market only through Tuesday June 1<sup>st</sup>, before the price breakout of the past couple of days. This report did show that on a combined basis the futures and options in Henry Hub dropped by nearly 6700 lots in the commodity fund sector.

Despite the appearance of a technical breakout in the natural gas market, we continue to feel that this market has limited legs to the upside and remain comfortable with our recommendation last night in being a scale up seller of the July \$5.00 calls. This option traded up to 14.7 cents and settled there tonight, up 5.4 cents on the day. We feel with the

overall markets beginning to question the strength and breadth of the U.S. economic recovery this market will stall out once the short covering in this market runs its course. We see resistance Monday in the July contract at \$4.977 followed by \$5.008-\$5.014, \$5.23 and \$5.26. More distant resistance we see at \$5.33-\$5.348. Support we see at \$4.727, \$4.618-\$4.614, \$4.507, \$4.395 and \$4.307.

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