



## ***ENERGY RISK MANAGEMENT***

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### **NATURAL GAS & POWER MARKET REPORT FOR JUNE 17, 2010**

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

The National Hurricane Center continues to watch tropical system Invest 92-L. The system which had been basically written off yesterday came roaring back to life late yesterday and overnight and this morning is a strong tropical wave that was tracking across the Lesser Antilles on Friday on its way toward the southeastern Gulf of Mexico by the middle of next week, when it may move into a more favorable area for development. Currently while the various models have ultimately different potential directions for the system it appears the most the system could develop into is either a tropical depression or tropical storm.

Baker Hughes reported the number of drilling rigs search for natural gas in the United States this week stood at 953 rigs, down 1 from last week.

Barclays Capital in a research note released earlier this week noted the recent narrowing of natural gas futures storage spreads shows the market is divided over the end of injection season inventory level. The bank feels that working gas storage levels will have to exceed 2009 levels to warrant the same bearish price response demonstrated in 2010 and 2009. But the research analysts said "sustained higher prices look unlikely," with total gas inventories likely testing 4 tcf by the end of the injection season. The bank feels that as a result of the expansion in inventory capacity, market inventory containment fears are reduced substantially as long as inventory levels match year ago levels. The bank is estimating that storage capacity this year will approach 4.1 tcf.

India's Reliance Industries told its shareholders on Friday that the company aims to build a "significant position" in the shale gas business.

Gazprom said again today it was prepared to cut 85% of its gas supplies to Belarus from Monday onward if it fails to pay \$192 million in debt. Belarus' Energy Minister said it would hold emergency talks with Gazprom to avoid a disruption in gas supplies.

Gazprom's CEO said today that the company could produce less gas this year than expected if demand in Europe keeps falling. From May Gazprom has noted a sharp decline in gas consumption in Southern Europe. If the tendency persists, then they expect their 2010 gas output will be lower than forecast. Gazprom earlier this year forecasted a production would reach 519 bcm. He also noted that

#### **Generator Problems**

**PJM** – OPG's Nanticoke #1 and #2 coal fired power plants were shut for short maintenance work today.

Constellation Energy's 890 Mw Calvert Cliffs #2 nuclear unit was at 79% power this morning down 4% from Thursday.

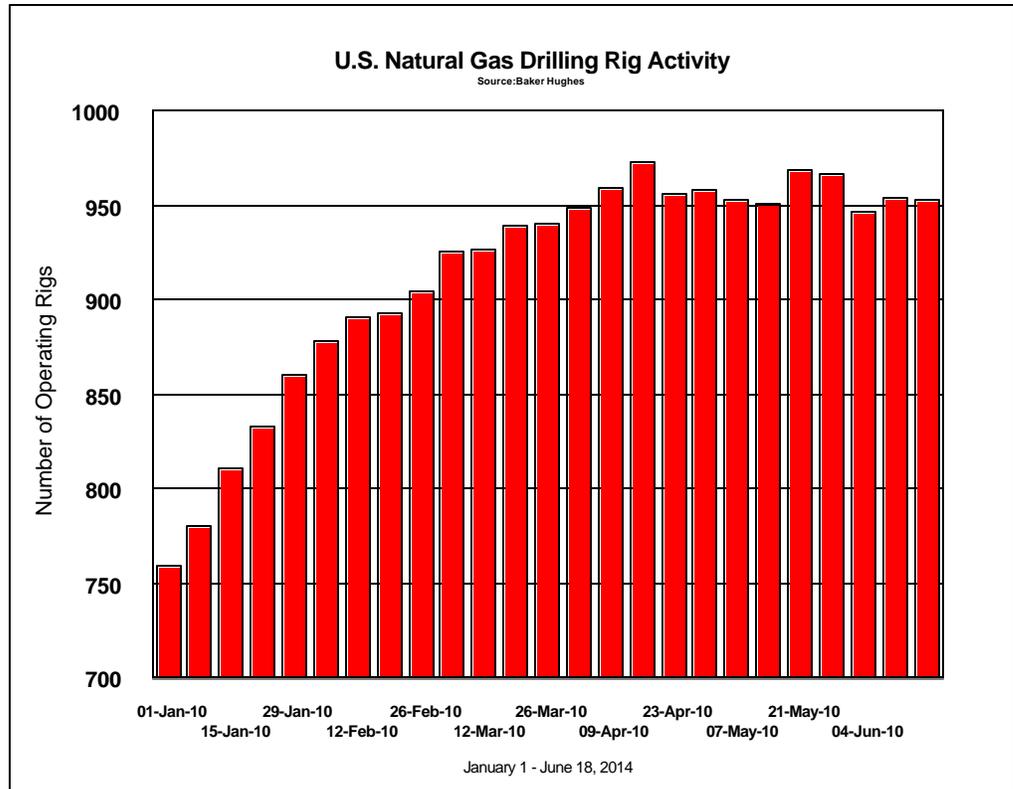
PSEG's 1174 Mw Salem #1 nuclear unit has exited its recent outage and was at 98% power this month. The unit has been in and out of outages for the last week.

**SERC**- TVA's 1100 Mw Browns ferry #2 nuclear unit was at 100% power this morning up 11% from yesterday.

**MISO** – DTE's 1122 Mw Fermi #2 nuclear unit returned to full power this morning, up from 34% power yesterday.

**The NRC reported this morning that some 94,082 Mw of nuclear power was generated today, up 1.8% from yesterday and 0.9% below the same day a year ago.**

conventional gas reserves in the United States could last only 11 more years, according to the most pessimistic forecasts. He also noted today that Gazprom has been meeting with banks to talk about a possible merger with Ukrainian energy holding company Naftogaz. Gazprom also announced it has signed an agreement with Novatek, Russia's second largest privately owned gas producer, to jointly develop an LNG plant and related infrastructure at the Yuzho-Tambey field on the Arctic Yamal Peninsula.



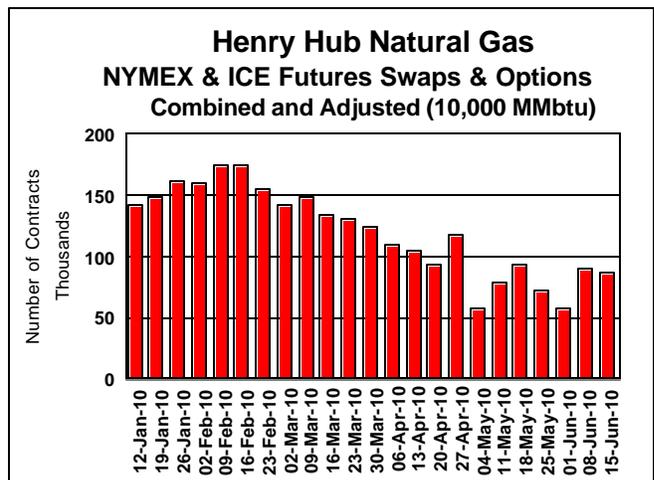
Russia's top energy official said today that spot gas deals were not alternatives to long-term gas contracts. He also went on to question whether U.S. shale gas was economically viable.

The UK's Met Office said the North Atlantic is likely to see one of the most active tropical storm seasons on record this year. It expects 20 storms to move across the Atlantic between July and November, threatening disruption to oil and gas installations.

**PIPELINE RESTRICTIONS**

Tennessee Gas Pipeline said it accept nomination increases to 19,000 Dth on its Carthage Line Lateral and it Niagara Spur Backhaul Point.

NGPL said for today's gas day and until further notice it has limited capacity available for deliveries at Bridgeline Holdings-Vermillion and for gas going southbound through Segment 16 (CS #812) in Oklahoma.



**PIPELINE MAINTENACE**

Southern Natural said it has developed a repair plan for its 24 inch South Main Loop, which was taken out of service on June 15<sup>th</sup> when an anomaly was identified just downstream of Gwinville compressor station in central Mississippi. The line is expected to return to service no later than June 21<sup>st</sup>.

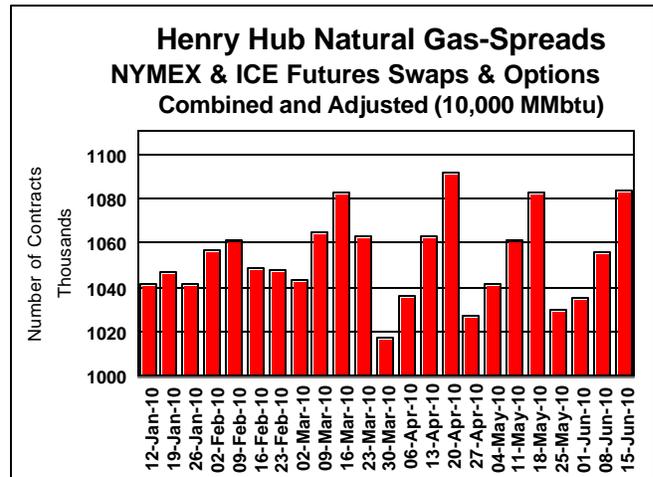
Panhandle Eastern Pipeline said there will be a planned outage on the Louisburg 100 line for anomaly digs. The outage is expected to last three days. During the outage nominations will not be accepted at Pony Express-Kinder Morgan.

NGPL said for July 19<sup>th</sup> through July 23, it will perform meter maintenance at the Sabine Henry interconnect in Vermilion Parish . The Sabine Henry interconnect will be shut in and remain unavailable for the duration of this work.

**MARKET COMMENTARY**

While the natural gas market finished lower today it basically remained contained within the same trading range of the past four trading sessions as traders struggled to find a reason to break this market outside of this trading range. This afternoon's Commitment of Traders report appeared to offer little fresh insight. While much

has been discussed in recent days of potential hedge fund liquidation of bad spread positions, the government report showed little hint of this problem in the numbers. In fact when combining together and adjusting for contract size NYMEX and ICE Henry Hub futures, swaps and options, one finds that not only did the net long position of the commodity funds actually decrease by 3400 lots, the reportable spread position by this group actually increased by 27,718 lots, at least through Tuesday June 15<sup>th</sup>.



We would look to next week to see if the eastern half of the nation's heat wave will shows of breaking or a tropical threat that could push this market outside of its trading range, otherwise we feel this market may continue to be contained with in the range of \$4.95-\$5.26.

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