



## ***ENERGY RISK MANAGEMENT***

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### **NATURAL GAS & POWER MARKET REPORT FOR JUNE 23, 2009**

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

An area of disturbed weather in the southwestern Gulf of Mexico that is associated with an area of low pressure appears to be moving slowly northwestward and is expected to push inland into Mexico by Wednesday. The GFS model though continues to look for a trough of low pressure that is expected to split off of the U.S. East Coast by late this week. The model is looking for this to leave a piece of energy behind in the central Gulf of Mexico, which could then develop into a tropical system by Saturday. Probability though still remains low.

NGI reported that legislation in the Pennsylvania legislature continues to move slowly forward that seeks to impose a severance tax on growing natural gas production in the state's Marcellus Shale region. The legislation was approved at the committee level and now moves before the full House for consideration.

Jefferies & Company recommend to its investors Tuesday that they reduce their exposure to natural gas companies, basis the belief that the market is overly optimistic about the potential for higher gas prices. They note, "...cool temperatures and the potential for a slower than forecast economic recovery may cause natural gas prices to lag expectations currently priced into equities." The chief investment strategist at Raymond James though continues to remain positive on natural gas values this week, as he noted that natural gas reserves are generally depleting faster than oil, while gas is politically more favorable than coal.

The Rockies Express Pipeline said today that it has made "significant progress" on the REX-East segment and expects service from Mexico,

#### **Generator Problems**

**NPCC** – OPG's 490 Mw Nanticoke #5 coal fired unit returned to service early Tuesday.

OPG's 494 Lambton #1 coal fired unit was taken off line early Tuesday.

Bruce Power's 6261 Mw Bruce nuclear power station was operating at near full power on Tuesday afternoon.

Entergy's 540 Mw Vermont Yankee nuclear unit was at 95% power this morning off 5% from yesterday.

Entergy's 1025 Mw Indian Point #3 nuclear unit remains at 57% power this morning, unchanged for over two weeks after experiencing an automatic reactor trip on may 29<sup>th</sup>.

**WSCC** – The 1150 Mw Columbia generating Station remained at 1% power this morning after being restarted yesterday hollowing a six week maintenanc eoutage.

**ERCOT & SPP**– AEP's 528 Mw Welsh #3 coal fired power plant is expected to be restarted this week. The unit was shut down over the weekend for scheduled boiler maintenance.

AEP's 690 Mw Oklaunion coal fired power plant was expected to be restarted ove rthe next two days following completion of maintenance that began on Friday.

**SERC** – Southern's 883 Mw Hatch #2 nuclear unit was shut Tuesday morning. The unit had been at 61% power.

TVA's 1150 Mw Browns Ferry #3 nuclear unit lost 4% and stood at 96% of capacity. Meanwhile the #2 sister unit ramped up 10% from yestersayto 32% power.

**The NRC reported this morning that 93,404 nuclear generation capacity was on line, basically unchanged from yesterday and off 4.9% from the same time a year ago.**

Missouri to Lebanon, Ohio to begin possibly on June 28<sup>th</sup> two days earlier than planned.

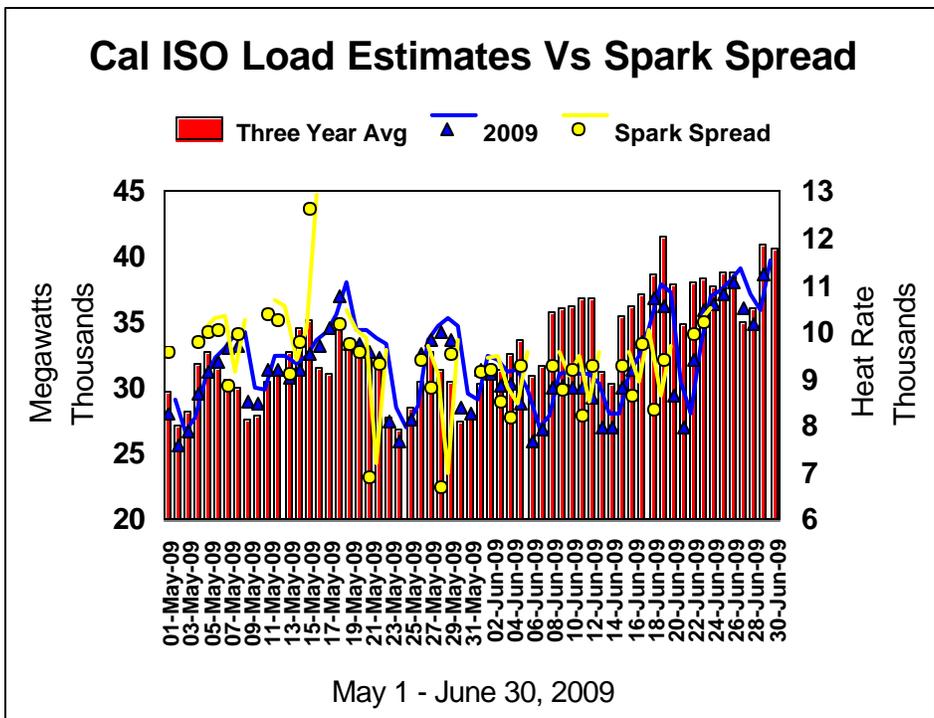
Senate Republicans blocked a measure in the Senate on Monday that would have given the CFTC the authority to invoke its emergency powers to immediately curb excess speculation in any contract market that is within “the jurisdiction and control of the commission and on or through which energy futures or swaps are traded.”

Ukrainian President Yushchenko said today that there was no guarantee Russia would not resort to new “gas blackmail” as it did when it halted supplies in January. The President also expressed satisfaction with his country’s talks with the IMF over a third tranche of a \$16.4 billion loan. The Ukraine’s leaders see the IMF loan as vital to help it weather the effects of the global financial crisis which has cut the country’s export markets and sent industrial production tumbling by more than 30% year on year.

Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
Location	Traded	Price		(As of 12:30 PM)		Moving Avg
Henry Hub	519,500	\$3.915	(\$0.097)	\$0.061	\$0.003	(\$0.286)
Chicago City Gate	594,300	\$3.724	(\$0.103)	(\$0.129)	(\$0.049)	(\$0.203)
NGPL- TX/OK	712,900	\$3.629	(\$0.062)	(\$0.224)	(\$0.008)	(\$0.294)
SoCal	401,500	\$3.185	(\$0.072)	(\$0.668)	(\$0.018)	(\$0.770)
PG&E Citygate	623,400	\$3.295	(\$0.059)	(\$0.558)	(\$0.005)	(\$0.609)
Dominion-South	214,800	\$4.188	(\$0.058)	\$0.335	(\$0.004)	\$0.215

Mitsubishi Corp said today that it will cooperate with the Indonesian government and its investment partners on the Donggi-Senoro LNG development and hopes to make a final decision on the investment “at an early stage”. The project has met some governmental officials opposition, which seek to block exports of LNG from the nation.

Contract workers at the Dragon LNG import terminal at Milford Haven have once again walked off the job, in support of industrial actions elsewhere. Operators though said operations were expected to continue at normal levels.



**PIPELINE RESTRICTIONS**

NGPL said effective for June 23<sup>rd</sup> and until further notice, Gulf South Goodrich has limited capacity for deliveries. Limited ITS/AOR and Secondary Firm transports are available.

**PIPELINE MAINTENANCE**

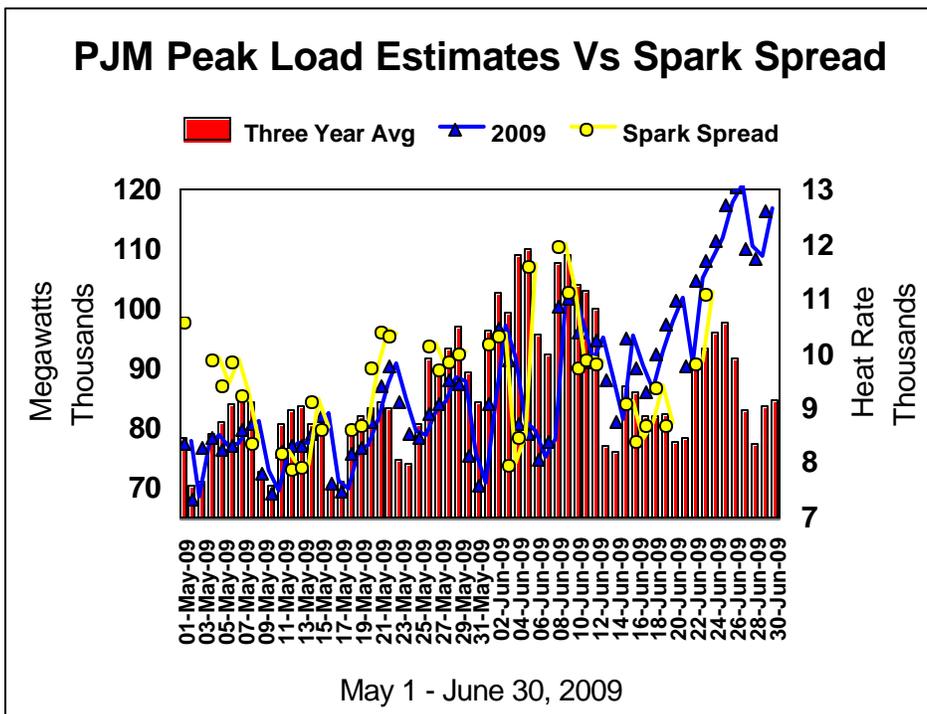
The Alliance Pipeline said it will be conducting minor maintenance on the Alameda, Albert Lea and Morinville compression stations which will result in taking the units off line for four hours June 24<sup>th</sup>.

System throughput (AOS) is not likely to be impacted but will be determined closer to the outage date. The company also reported that its Taylor Junction compression station will be off line for eight hours of maintenance on June 24<sup>th</sup>. Capacity at the station will be lowered.

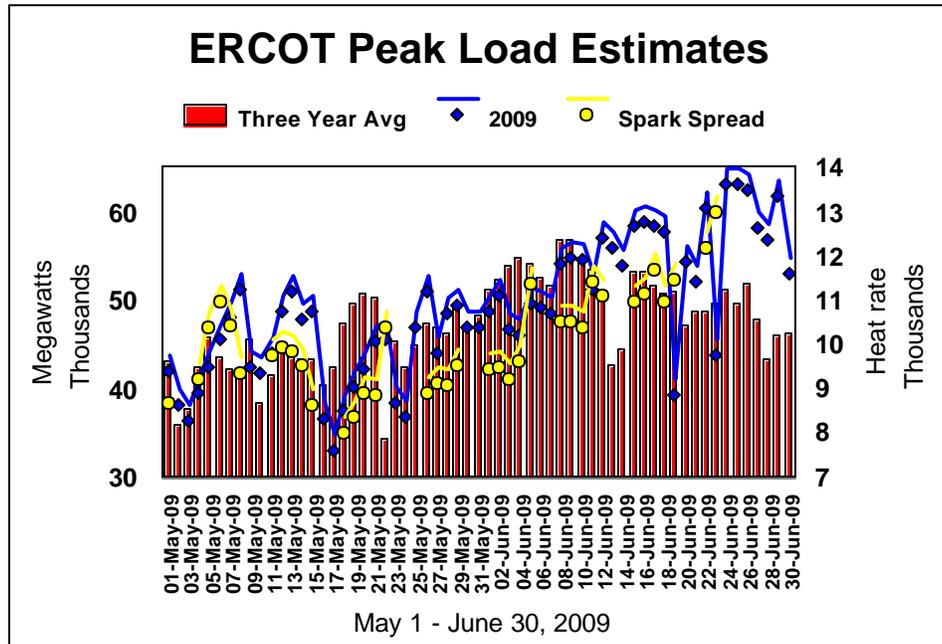
El Paso Natural gas Company said Line 1300 east of the Belen compressor station was taken out of service June 22<sup>nd</sup> for repairs. The repairs to branch piping off the mainline should be repaired before the start of June 23<sup>rd</sup>. Therefore the capacity at Lincoln will be raised back to 516 MMcf/d for June 23<sup>rd</sup> gas day.

**ELECTRIC MARKET NEWS**

IHS CERA said it in its latest power industry index released today noted that construction costs are easing for all types of power plants for the first time in nearly a decade, as a result of lower commodity costs for steel, copper and petroleum. It estimates a power plant to build for \$1 billion in 2000 would today cost \$2.17 billion, versus a recent peak of \$2.33 billion in late 2007.



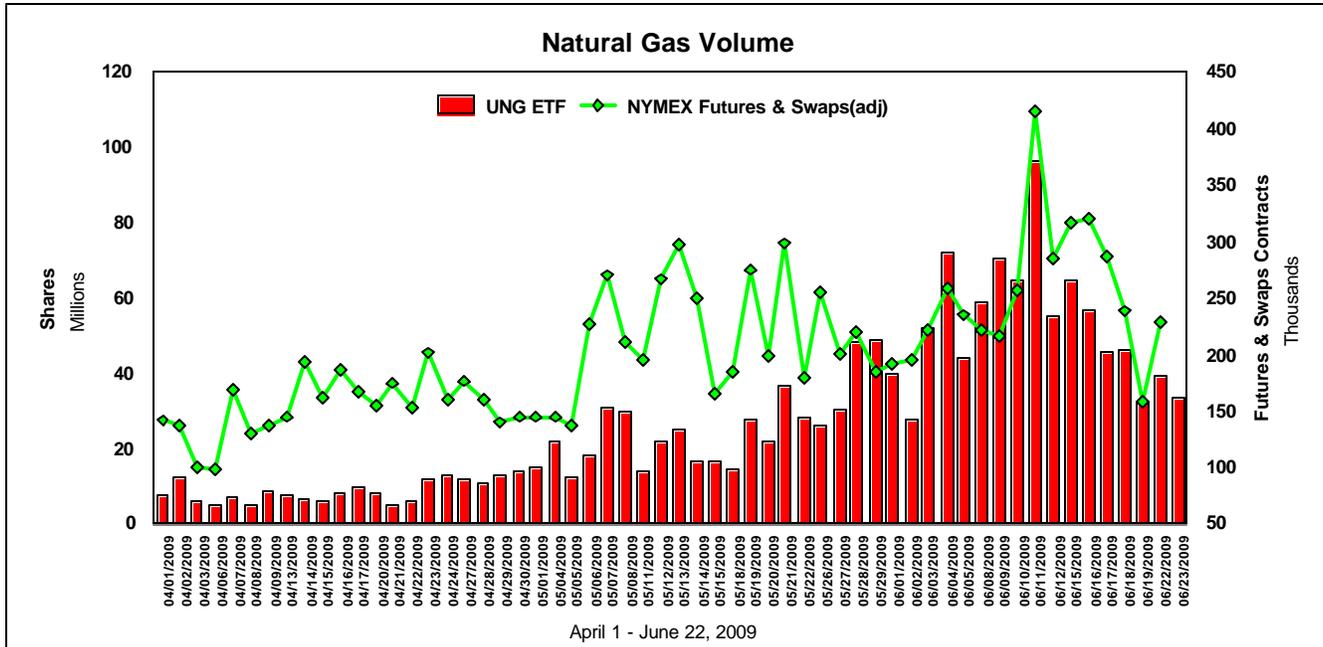
The Democratic leadership in the House of Representatives said overnight that the House of Representatives are expected to vote on an energy and climate change bill on Friday. But they noted that some issues are still under consideration, which appeared may lead to an amendment to the bill dealing with the treatment of ethanol and other biofuels. President Obama today urged the House of Representatives to pass the broad energy and climate change bill. He said the legislation would create a set of incentives that will spur the development of new sources of energy including wind, solar and geothermal power. He said the legislation would be "paid for by the polluters who currently emit dangerous carbon emissions that contaminate the water we drink and pollute the air we breathe."



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The U.S. Department of the Interior today approved five exploratory leases for wind power projects off the coasts of New Jersey and Delaware that would be capable of generating electricity of up to 1500 Mw. The leases, the first of their kind, will go to Bluewater Wind New Jersey, Fishermen's Energy of New Jersey, Deepwater Wind and Bluewater Wind Delaware. The leases allow the companies to gather data, which includes building towers to collect information on wind speed, intensity and direction.



In Texas, the demand for power in ERCOT broke the June record on Monday and it was forecast to break the all time record on Tuesday, Wednesday, Thursday and Friday. The all time demand record is 62,339 Mw.

Genscape estimates that coal supplies at U.S. power plants fell 0.03% last week from the previous week but are still some 20.2% higher than the same time a year ago.

### **MARKET COMMENTARY**

The natural gas market rallied early this morning on the back of expected stronger generation over the next several days in Caliso, PJM, MISO and ERCOT, allowing prices to challenge the \$4.00 price level once again. But the natural gas rally failed as oil prices dropped a dollar per barrel at the start of the floor trading session, pulling natural gas values back to the lows of June 15<sup>th</sup> before finding support. While oil prices rallied back towards \$70.00 as the dollar value eroded through the trading session, the natural gas market failed to gain any upside traction and moved in a sideways fashion basically for the remainder of the day. It appears the relative absence again of speculative buyers failed to fuel a potential rally. The natural gas ETF, UNG once again saw limited volume with just over 33,000,000 million shares traded today.

While we remain one of the biggest bears of the natural gas market, we feel the short term fundamental support that this market could gain from escalating generation demand for natural gas, especially at a time when nuclear generation levels are nearly 5% less than a year ago could keep this market from reaching our near term price target of \$3.60. As a result we would be content to take profits at \$3.75 or better tomorrow, looking for a rally back above \$4.30 to start scale up selling once again. We see initial support tomorrow at \$3.825 followed by \$3.73, \$3.655 and \$3.623. More distant support is at \$3.55, \$3.50 and \$3.395. Resistance we see at \$4.00 followed by \$4.041, \$4.107, \$4.172 and \$4.207. More distant resistance we see at \$4.328, \$4.387 and \$4.69.

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