



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR JUNE 25, 2010

#### NATURAL GAS MARKET NEWS

The National Hurricane Center this morning and throughout the day continued to watch Invest 93, which as of this morning had become a broad area of low pressure between the northeast coast of Honduras and the Grand Cayman Islands. The system continues to show signs of organization and forecasters are assigning a 80% chance of it becoming a tropical depression within the next day or so. Some forecasters see it becoming a tropical storm this weekend. The future path of this storm after it crosses the Yucatan Peninsula is where there is a divergence of opinion. One set of forecast models has this storm probably staying at tropical storm strength as it makes way toward the Mexican and Texas border on the Gulf of Mexico. The other set of models calls for this storm to possibly reach a Category 1 hurricane as it heads toward the Florida panhandle. The National Hurricane Center was watching a second area of interest, an area of large but disorganized cloudiness and showers centered just east of the northern Leeward Islands that was associated with a tropical wave interacting with an upper level trough. The NHC though assigned a very low level chance

#### Generator Problems

**NPCC** – OPG's 494 Mw Unit #1 at the Lambton power plant returned to service early Friday. The unit has been off line since early Tuesday.

**MISO** – Entergy's 778 Mw Palisades nuclear power plant was shut early Friday from full power early Thursday.

The NRC reported this morning that some 92,672 Mw of nuclear generation was operating today, down 0.6% from yesterday and some 3.1% lower than the same day a year ago.

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	478,000	\$4.839	(\$0.041)	\$0.019	(\$0.147)	(\$0.021)
Chicago City Gate	293,800	\$4.843	(\$0.050)	\$0.023	(\$0.153)	\$0.158
NGPL- TX/OK	645,500	\$4.673	(\$0.053)	(\$0.147)	(\$0.156)	(\$0.011)
SoCal	566,100	\$4.430	(\$0.027)	(\$0.390)	(\$0.130)	(\$0.387)
PG&E Citygate	898,300	\$4.565	(\$0.002)	(\$0.255)	(\$0.105)	(\$0.261)
Dominion-South	320,100	\$4.992	(\$0.051)	\$0.172	(\$0.154)	\$0.324
USTRade Weighted	19,513,900	\$4.693	(\$0.044)	(\$0.127)	(\$0.15)	(\$0.021)

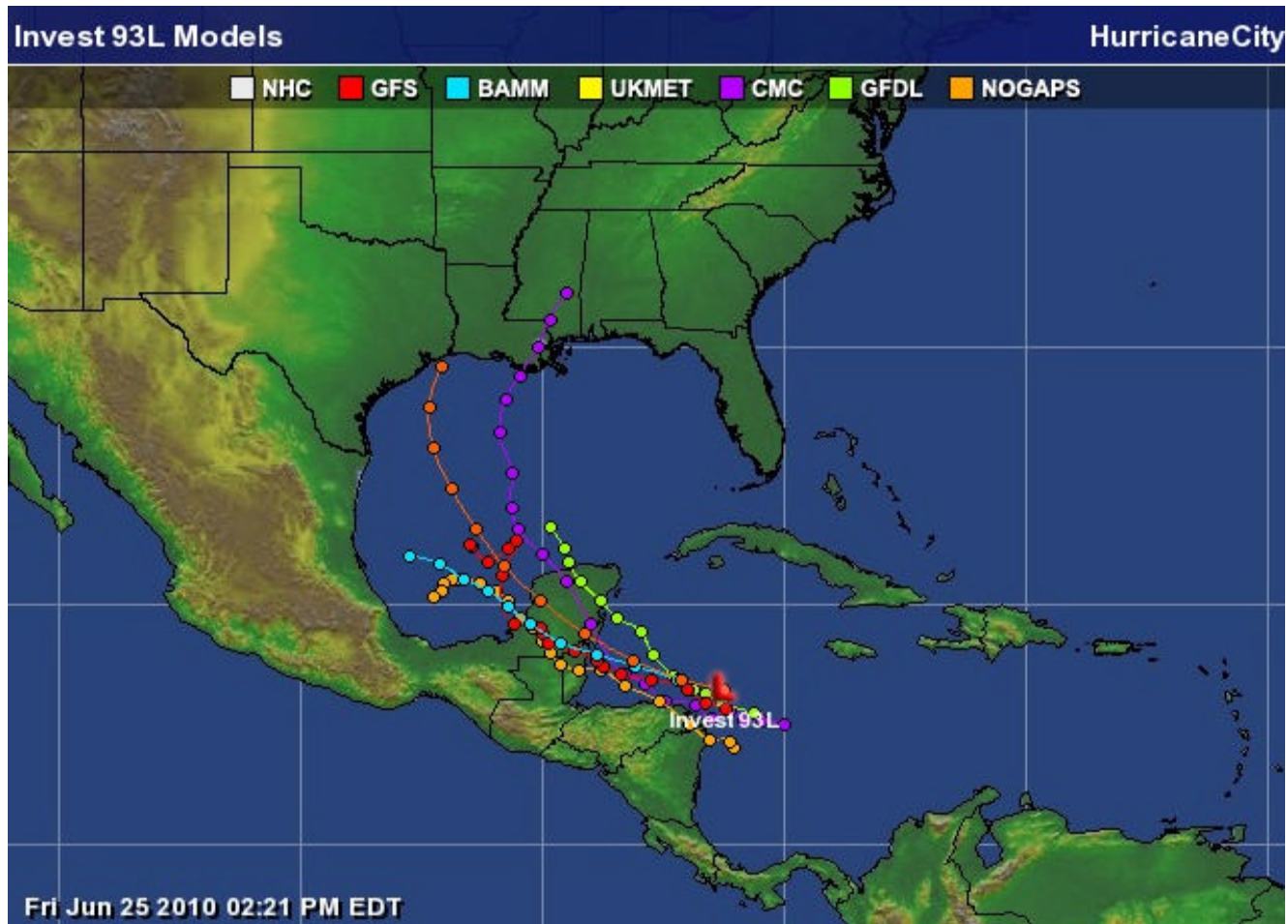
of this system becoming a tropical cyclone during the next 48 hours and its future path appears will be to head northward out to sea.

Baker Hughes reported this afternoon that the

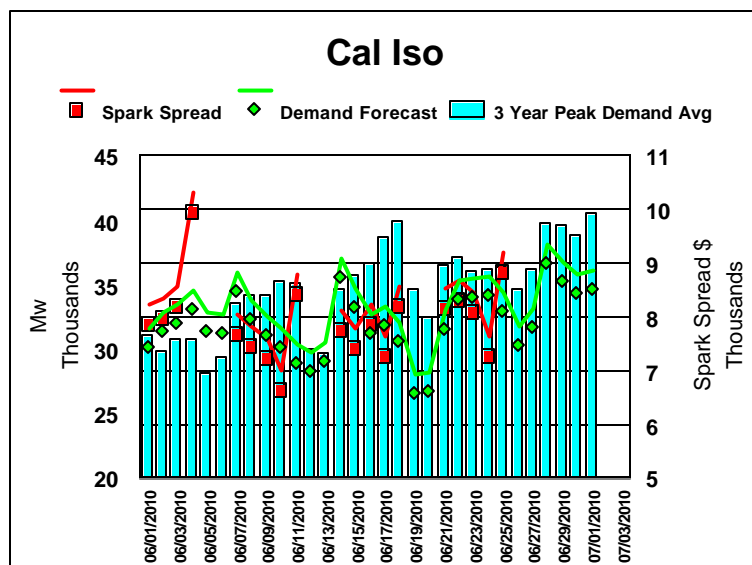
number of drilling rigs searching for natural gas in the U.S. increased by 5 rigs from last week. While the gas rig count has largely declined since hitting a 14 month high of 973 on April 16<sup>th</sup>, falling six times in the last 10 weeks.

ENI SpA said while it has halted development of its Appaloosa project in the U.S. Gulf, which it had slated to come on line later this year. The company has also halted work on its Allegheny project in the Gulf of Mexico. But the company said it has no plans to leave the Gulf where it has some 100,000 b/d of production. it has no plans to abandon Gulf of Mexico operations.

Statoil said it has sold a 10% stake in the Gro license in the Norwegian Sea to Polish gas group PGNiG for an undisclosed sum.



Russia's conflict with Belarus over payments for Russian gas is over and there are no serious issues left in negotiations over the 2010 gas transit payments according to Gazprom's CEO Alexei Miller. Gazprom is reportedly close to signing a new gas transit agreement with Belarus.



Gazprom's negotiations with the Ukraine's Naftogaz over a joint venture as proposed by Prime Minister Putin have reached an advanced stage with the two sides discussing the range of assets they could contribute to the joint venture.

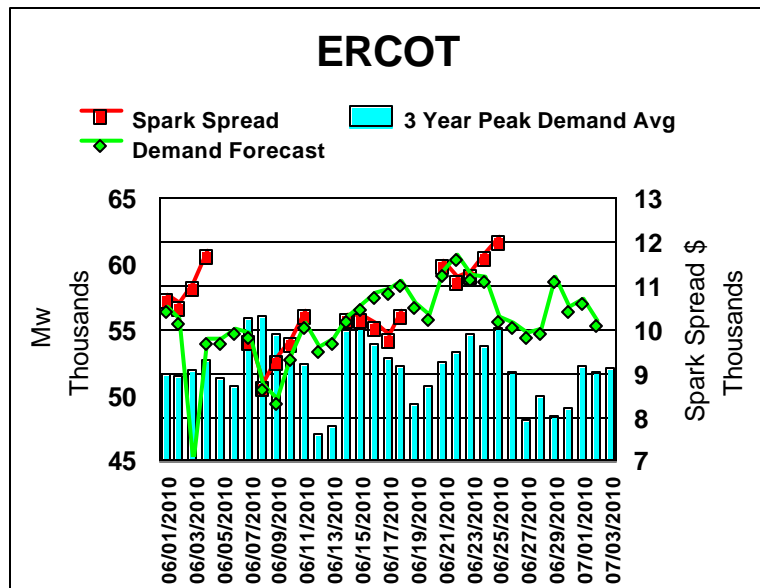
The Norwegian oil and energy ministry said on Friday it had approved the development plans of BG operated Gaupe gas field in the North Sea. The field is estimated to hold recoverable reserves of 5.4 million cubic meters. Production is slated to start in the fourth quarter of 2011.

Strikes in the oil and gas sector in Norway were averted Friday after unions and

employees organizations settled their wage negotiations.

BG's Queensland Curtis LNG project has won environmental approval from the Queensland state government in Australia. This should pave the way for a final investment decision on the \$15 billion project later this year. The project would produce 8.5 million tones per year of LNG with the potential to be expanded to 12 million tones per year.

Gassco said today that upgrade work at two major Norwegian gas plants is ahead of schedule. Plans



to upgrade the control systems on three compressors at Kaarstoe and five at Kollsnes were recently approved four weeks earlier than planned. The cost of the upgrade programs is placed at \$61.5 million. Upgrading work is scheduled for completion in 2013, and this work will have no impact on the planned maintenance due in August and September of this year..

Britain's North Sea CATS gas pipeline is set to reopen early Saturday after maintenance that began back on June 6th has been completed.

BG Group reported the North Sea Armada and Lomond gas fields were expected to

return to service July following the restart of the North Everest field last week. All three fields were shut for planned maintenance earlier this month.

The historic overhaul of the nation's financial system was finalized early Friday morning. The proposed legislation will give regulators oversight of the \$615 trillion OTC market for the first time. Key elements of the legislation are as follows:

- It will require banks to spin off swaps dealing desks for handling agricultural, energy and metals swaps, equity swaps and uncleared credit default swaps into separately capitalized holding companies.
- Allows banks to trade foreign exchange and interest rate swaps as well as gold and silver swaps and derivatives designed to hedge their own risk
- Regulators can require particular swaps or types of swaps to be cleared.
- End users will be allowed exemptions from clearing to prevent hedgers from higher transaction costs, as long as they explain to regulators how they are meeting their financial obligations.
- Financing arms of manufacturers do not have to clear swaps used to help sell the parent company's products.
- Clearinghouses can accept non-cash collateral for swaps
- Cleared swaps to be traded on exchanges or electronic platforms.
- All swaps to be reported to trad repositories or regulators.
- Dealers or swaps and major swap participants will be required to be registered with regulators, which would set capital and margin standards and other requirements.
- Regulators have been given the ability to limit swap positions held by a trader or class of traders.

EPFR Global reported today that for the week ending June 23<sup>rd</sup> it saw equity funds posting net outflows of \$2.5 billion while bond funds took in \$2.6 billion. For the first half of this year it has seen

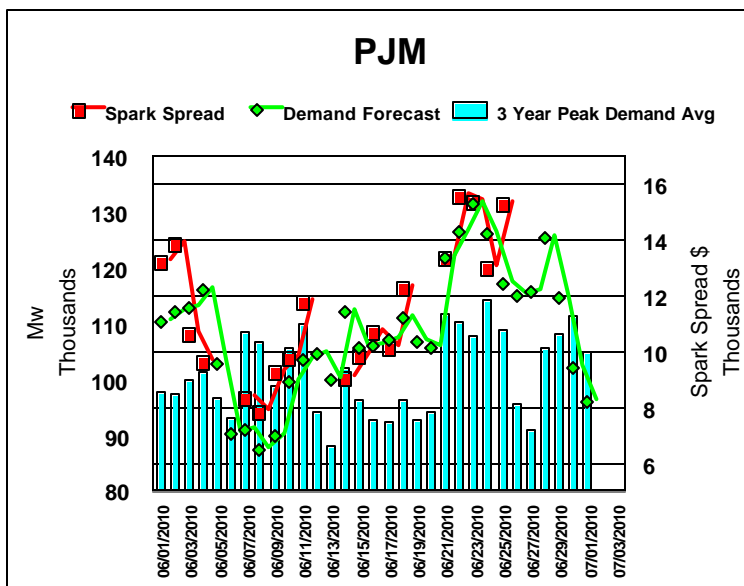
equity funds posting inflows of \$8.8 billion versus a \$26 billion outflow for the first half of 2009. Commodity sector funds had outflows on the week for the second time in 14 weeks.

**PIPELINE RESTRICTIONS**

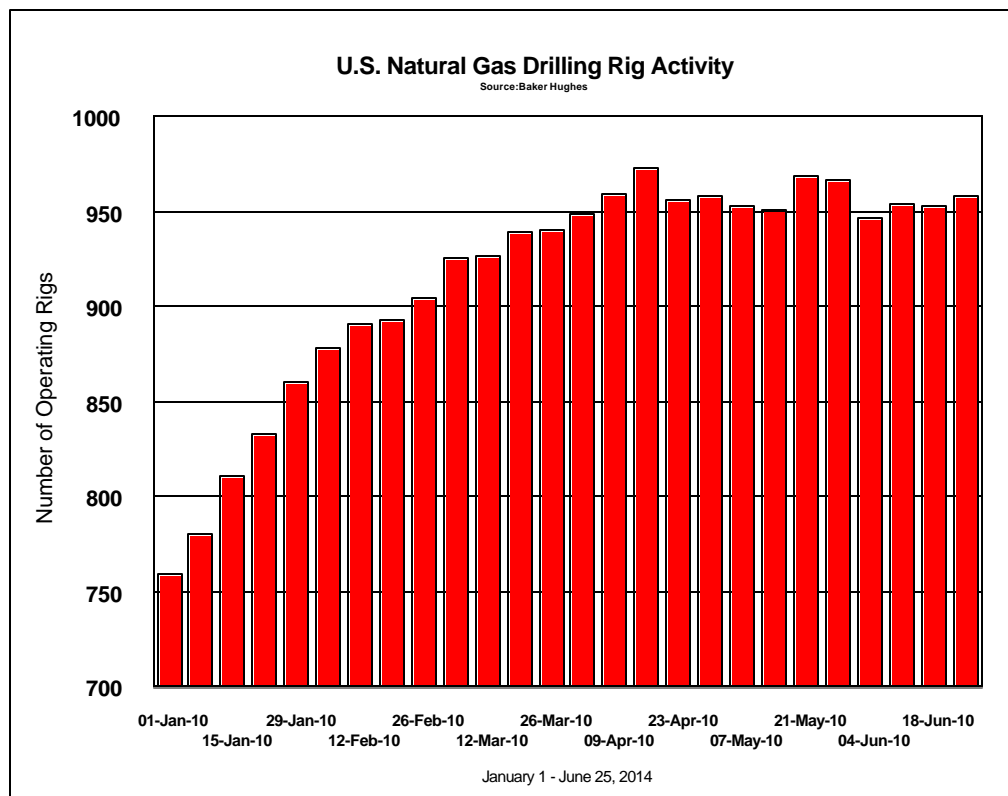
FGT once again issued an overage alert day with a 20% tolerance for its market area for June 25<sup>th</sup>, due to ongoing high temperatures.

**PIPELINE MAINTENANCE**

TransColorado said it will be performing maintenance at its Olathe Compressor Station on July 20-July 22. During the work, capacity through Segment 220 will be limited to 321,000 Dth, while capacity through Segment 240 will be limited to 336,000 Dth and Segment 190 backhaul will be limited to 256,000 Dth. At these levels of scheduled activity, AOR/IT, secondary and primary quantities are at risk of not being fully scheduled. The company also reported that it will be performing maintenance at its Whitewater Compressor Station on July 7-8<sup>th</sup>. Capacity through Segment 220 will be limited to 324,000 Dth, capacity through Segment 240 will be limited to 339,000 and Segment 190 backhaul will be limited to 259,000 Dth. Interruptible transportation service/authorized overrun, secondary and primary quantities are at risk of not being fully scheduled.



Questar Pipeline said it expected to have the repairs to Oak Spring #2 completed by the start of today's gas day. As a result, ML 104 capacity was expected to return to 520,00 Dth/d, up from a reduced capacity of 340,000 dth/d on Thursday.



**ECONOMIC NEWS**

U.S. consumer sentiment as reported by Reuters/University of Michigan rose in June to its highest level since January 2008. The final June reading reached 76 from 73.6 in May. The June report was better than market expectations.

The Commerce Department reported this morning that its final estimate for U.S. economic growth in

the first quarter of this year was actually slightly lower than previously reported. The 1Q2010 is now seen as expanding at 2.7% not the previously reported 3% pace that was reported last month.

**ELECTRIC MARKET NEWS**

AEP said Thursday that a negative ruling from the Arkansas Supreme Court will not stop construction of a \$1.7 billion, 600 Mw coal fired port plant. The construction of the John W. Turk coal power plant in Hempstead County, Arkansas is some 28% complete. The court rejected rehearing requested from both AEP’s Southwestern Electric Power’s and the Arkansas PSC, letting stand a May ruling, which upheld a lower court’s decision to overturn the 2007 commission action to approve construction of the plant. Without the certificate of need issued by the commission. AEP cannot add costs to build and operate the plant to rates paid by its 113,500 customers in Arkansas. As a result AEP will not seek a new certificate for the Arkansas PSC due to substantial cost and delay. Instead the company has notified regulators that instead of trying to recover Turk-related costs

through customer bills, it will sell 88 Mw of previously designated power to supply Arkansas customers into the wholesale power market as allowed under existing state law.

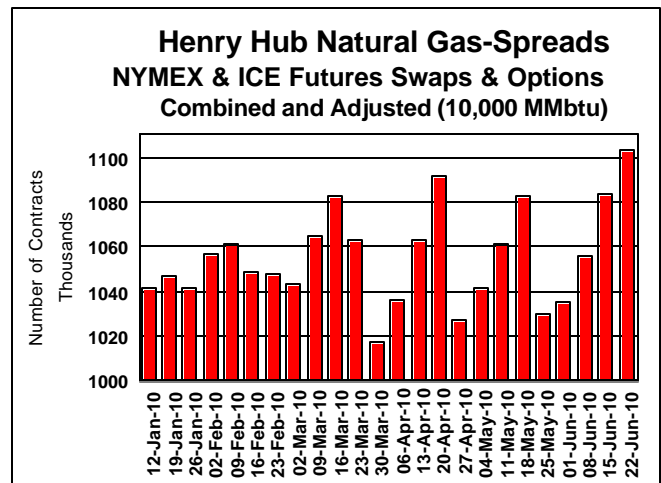
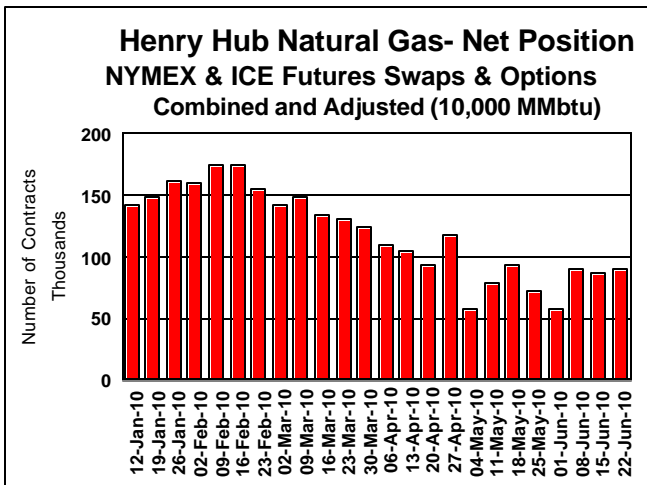
Genscape reported that U.S. coal usage rose 5% last week from the prior week and was 18% higher than the same week a year ago. They saw the above normal temperatures in the Midwest and Texas eastward over the past week as helping to boost this demand.

**MARKET COMMENTARY**

Barring the late rally in the natural gas market, this market spent most of the trading session within yesterday’s trading range. Volume was light, as one would expect for a typical summer Friday trading session and traders appeared rather content to hold their current positions going into next week. It appeared the 2 PM update from the National Hurricane Center on Invest 93, helped to give the market a late day shove upward as forecasters saw a higher probability the system would finally develop into a tropical depression and then a tropical storm in the coming hours. This weather related rally appeared to overshadow the Baker Hughes report which was released earlier in the day, showing that the number of natural gas drilling rigs operating this week moved higher and was at its highest level in four weeks.

The price action in the popular back month spreads of natural gas also reflected a comfort level by traders in where current prices are, as values for both the Oct-Jan and the March–April remained pinned to trading levels of the past few days, as volume in these spreads also continued to contract.

The weather forecasts will be the key to this market next week, especially the outlook for Invest 93. If as it appears right now that this storm will turn out not to be a threat production areas in the Gulf of Mexico then we feel that there will be a challenge of trend line support Monday at \$4.76, followed by \$4.712, \$4.616 and \$4.478. Resistance we see at \$4.893, \$4.944, \$5.00 and \$5.20.



Tonight's Commitment of Traders Report continued to show that the commodity fund sector remained firmly entrenched in its bullish outlook for the natural gas market, as its net long position in futures, swaps and options, increased by 3,211 lots. But what was more interesting was that this group of reportable traders increased the size of their reportable positions in spreads for the fourth consecutive month, despite the recent reports of several funds being forced to liquidate their sizeable back month bear spreads.

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