



## ***ENERGY RISK MANAGEMENT***

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### **NATURAL GAS & POWER MARKET REPORT FOR JUNE 26, 2009**

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

The tropical weather forecasts appear to have caught the attention of traders today. Currently forecasters are watching the interaction of a tropical wave in the western Caribbean and a mid-level circulation over central America, which has been designated Invest 93-L. This entire area of disturbed weather is expected to track to the northwest today reaching the Yucatan peninsula on Saturday. Environmental conditions in the area are conducive for slow development of the system especially as the system is expected to enter into the southern Gulf of Mexico by late Sunday. The GFS model forecasts the system to slow way down and possibly stall in the area for possibly several days. The Canadian model though has the system turning more to the north and then northeast as it heads towards the northern Gulf of Mexico and the Gulf Coast. Forecasters are also beginning to watch a couple of fairly impressive tropical waves either just off the coast of Africa or still over the continent of Africa. The GFS model, which had earlier in the week raised alarm bells that these systems could develop into tropical systems, has backed off those forecasts. Typically any systems that develop in this area at this time of year do not pose a threat to the Gulf Coast.

Baker Hughes reported today that for the week ending June 26<sup>th</sup>, the number of natural gas drilling rigs operating in the U.S once again was declining, falling by 5 rigs.

The House of Representatives approved on a spending bill on Friday that calls on the EPA to examine the risks of hydraulic fracturing to the nation's drinking water.

#### **Generator Problems**

**NPCC** –OPG's 490 Mw Nanticoke #7 coal fired power plant was shut early Friday for short-term maintenance.

OPG's 515 Mw Pickering #5 nuclear unit was taken off line for short-term maintenance today.

Entergy's 620 Mw Vermont Yankee nuclear plant was at full power this morning, up 50% from Thursday.

**MISO** – First Energy said it was repairing a piece of equipment in the transmission switchyard at the 879 Mw Davis-Besse nuclear power plant. The circuit fault knocked out one the plant's two off site power sources. Despite the event though the plant continued to run at full power.

FirstEnergy's 1231 Mw Perry nuclear unit was still off line this morning but had ramped up to 15% capacity.

**ERCOT & SPP** – AEP's 528 Mw Welsh coal fired Unit #2 was expected to be restarted over the weekend.

NRG's 649 Mw Parish coal fired Unit #5 tripped off line Friday.

**WSCC** – The 1150 Mw Columbia Generating Station was at 60% power this morning up 40% from Thursday.

**SERC** – TVA's Browns Ferry #2 nuclear unit was at 60% power this morning, up 22% from yesterday.

Southern Nuclear's 883 Mw Hatch #2 nuclear unit was at 76% power up, 54% on the day.

**The NRC reported this morning that 95,646 nuclear generation capacity was on line, up 1.5% from yesterday and off 0.7% from the same time a year ago.**

Avista Utilities has filed a request with the Public Utility Commission of Oregon to increase natural gas rates by 11.6% to recover costs for planned capital projects.

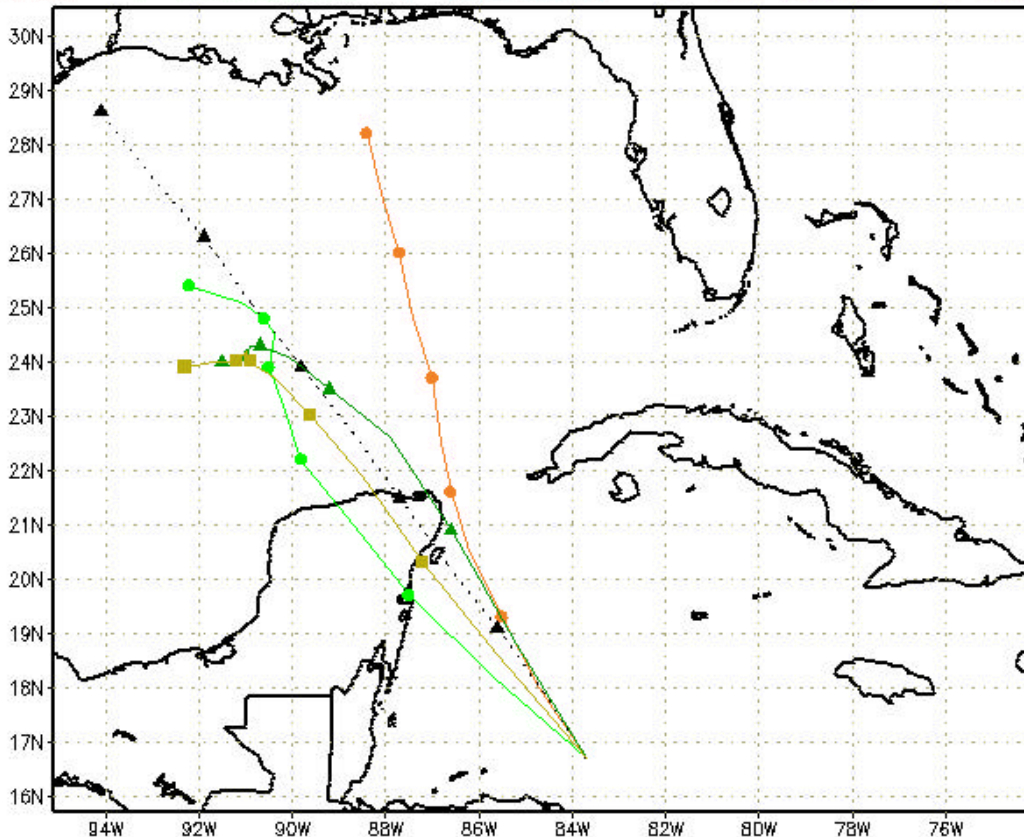
The U.S. financial markets were put back on the defensive this morning as a result of comments coming out of China, where the Chinese central bank reiterated a call for a “super sovereign currency”. This comes on the heels of the report last week by the Federal Reserve that China, the biggest foreign owner of U.S. treasuries, cut its holdings of U.S. government notes and bonds by \$4.4 billion to \$763.5 billion in April.

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	339,100	\$3.806	(\$0.012)	(\$0.052)	(\$0.132)	(\$0.190)
Chicago City Gate	450,300	\$3.559	(\$0.123)	(\$0.299)	(\$0.170)	(\$0.150)
NGPL- TX/OK	612,800	\$3.522	(\$0.073)	(\$0.336)	(\$0.120)	(\$0.235)
SoCal	313,100	\$3.218	(\$0.052)	(\$0.640)	(\$0.099)	(\$0.612)
PG&E Citygate	484,200	\$3.329	(\$0.100)	(\$0.529)	(\$0.147)	(\$0.506)
Dominion-South	217,500	\$4.032	(\$0.099)	\$0.174	(\$0.146)	\$0.296
UStTrade Weighted	14,639,600	\$3.564	(\$0.085)	(\$0.294)	(\$0.13)	(\$0.190)

Other economic news was mixed on the day. U.S. consumer spending rose in May for the first time since February as government stimulus pushed incomes higher.

This good news though was moderated by the news that savings jumped to a record annual rate of \$768.8 billion the highest level since records began to be kept in 1959. The savings rate climbed to

- ▲--- XTRP 26/1200Z    ▲ BAMD 26/1200Z    ▲ GFDL Not Avail    ▲ AVNO Not Avail    ▲ CMC Not Avail
- TVCN Not Avail    ■ BAMB 26/1200Z    ■ UKM 26/0000Z    ■ AEMN Not Avail    ■ LGEM 26/1200Z
- NHC Not Avail    ● BAMS 26/1200Z    ● NGPS Not Avail    ● HWRF Not Avail    ● CLP5 26/1200Z

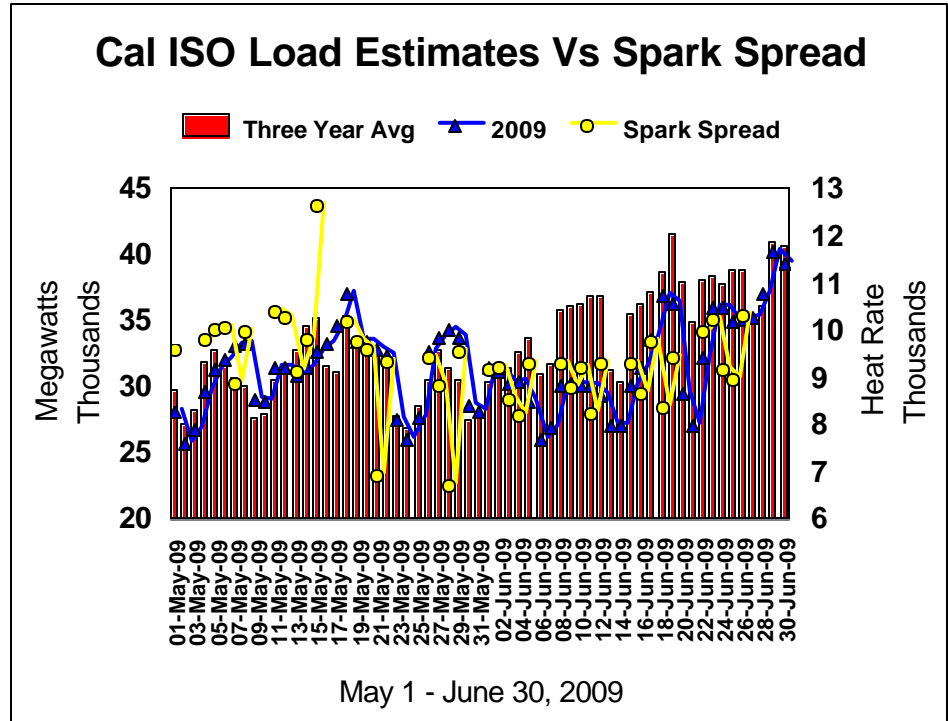


6.9%, the highest since December 1993. The University of Michigan reported that its U.S. consumer confidence index for June rose to the highest level since February 2008 to 70.8 from 68.7 in May. The Economic Cycle research Institute said its Weekly Leading Index rose to a 37 week high of 117.6 for the week ending June 19<sup>th</sup>, from a downwardly revised 117.0 the previous week.

Russia's Sakhalin-2 consortium has extended the maintenance at one of its two LNG trains by one month. The unit, which began maintenance on June 13th, had been expected to be off line for only 12 days. Operators found that remedial work associated with the compressor system was required.

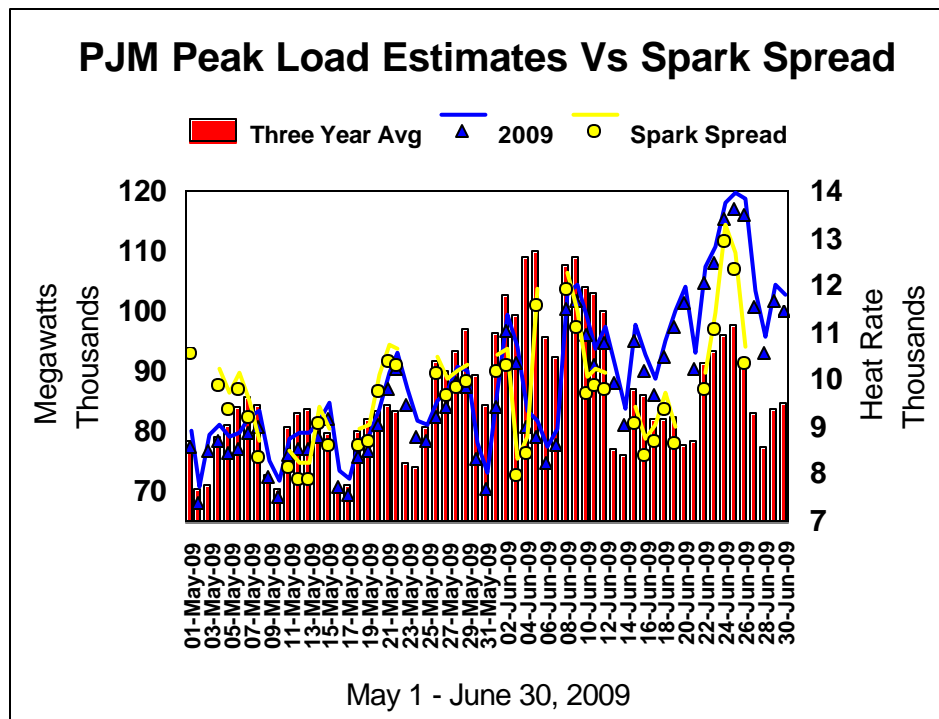
Gazprom said it is not concerned that the Ukraine will make its June payment for natural gas early next month, but is more concerned about the Ukraine's ability to pay for July and beyond as the Ukraine seeks to further boost imports. Gazprom and Naftogaz reportedly reached agreement on June gas supplies today. Naftogaz will pay a little less than \$300 million for June supplies and has agreed to buy larger volumes for July, August

and September for its underground storage facilities. Meanwhile Gazprom threatened today to cut supplies and go to court if Belarus does not pay for gas its gas supplies. Belarus currently owes Gazprom \$244 million for gas supplies this year.



Gazprom's CEO warned Europe today that it should avoid turning its search to diversify its source of

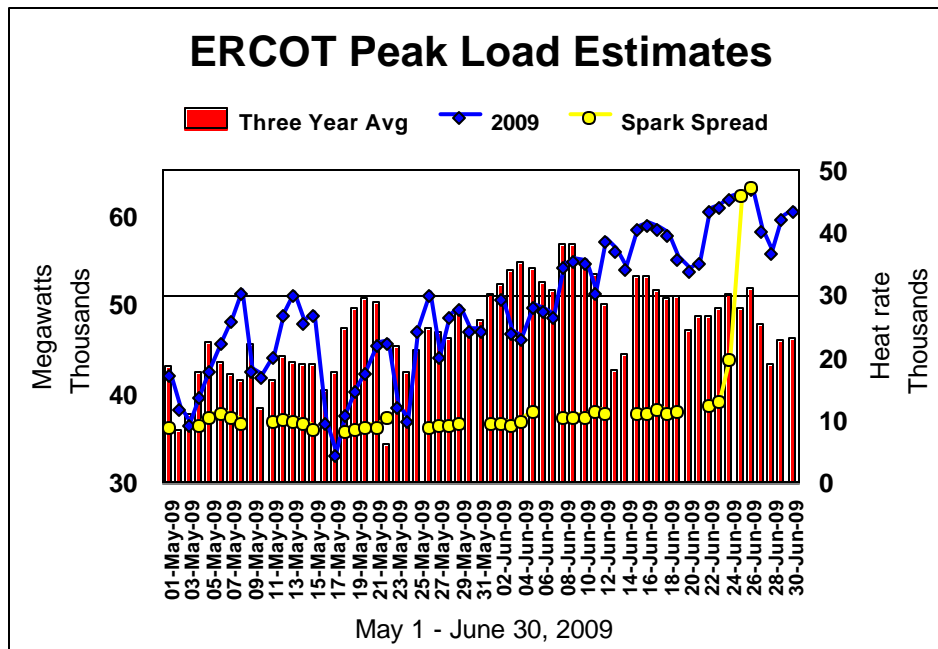
natural gas imports into a "fetish" that could alienate partners such as Russia. He noted that the "construction of new transport routes does not mean that reliable long-term partners will appear."



ONGC, Indian Oil and Oil India announced a plan to develop the Iranian Farzad oil and natural gas field in the Gulf. The group is looking to invest \$5 billion. The group noted that the oil and gas will belong to the National Iranian Oil Company, with NIOC then would allocate the gas to the group for converting into LNG which would then be

shipped to India. The field has an estimated 12.8 trillion cubic feet of recoverable reserves.

Gazprom said it was ready to start buying small volumes of Azeri gas from next year to supply volumes to Russia's southern regions. Gazprom anticipates buying the gas from phase one of Azerbaijan's main gas field, Shakh Deniz.



South Korean steel maker POSCO and utility firm K-Power have agreed to a base LNG price equivalent to an oil price of \$38 per barrel Indonesia's energy minister said on Friday.

Turkish and European Union officials said on Friday they were optimistic an agreement could be reached soon on bringing Turkey into the planned Nabucco gas pipeline project.

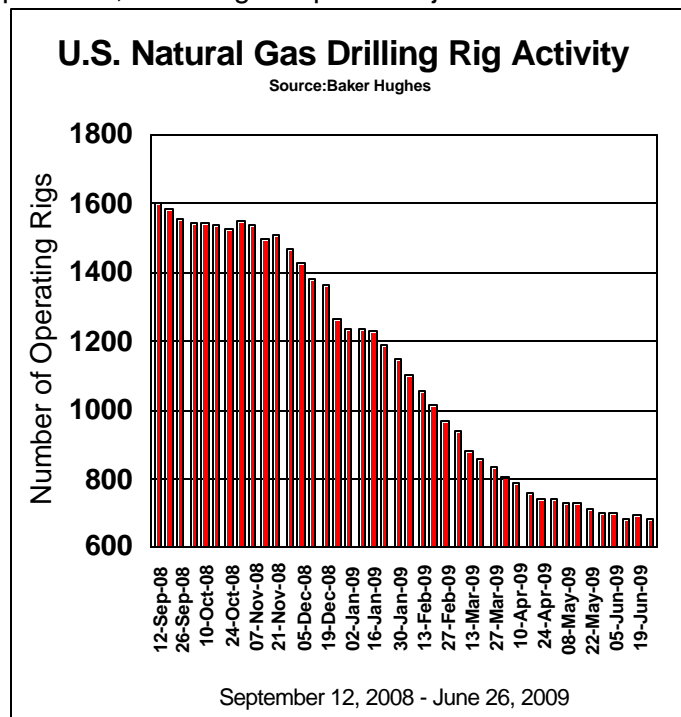
The deputy chief executive of Gazprom said today that his company plans to sell Nigerian natural gas on export markets as it this week formed a joint venture with Nigerian National Petroleum Corp. Gazprom said it would work with Nigeria on gas exploration, production and transportation, including the possible joint construction of the Trans-Sahara gas pipeline, a project that would send Nigerian gas to European markets.

**PIPELINE RESTRICTIONS**

Tennessee Gas Pipeline said effective today, due to reduced nominations, it will accept increases for nominations sourced from meters located on the Carthage Line lateral.

In a notice dated June 25<sup>th</sup>, Cheyenne Plains Gas Pipeline, Colorado Interstate Gas and Wyoming Intrastate Company said they will begin placing underperformance capa at several locations beginning June 27<sup>th</sup> and will remain in effect until further notice. The companies said, Arrowhead, Saddle Draw, East Rock Springs, Dullknife and Ford meter Station would be impacted. The companies said underperformance cap warnings at Forgan and Tomahawk would also continue.

Southern Natural Gas issued a notice that based on forecasted temperatures through Monday and supplied and anticipated demand, it expects storage requirements to be at maximum injection capability for the weekend.



California gas Transmission issued a system wide OFO for June 26<sup>th</sup> due to high inventory levels on its system.

**PIPELINE MAINTENANCE**

Questar Pipeline said repairs to Unit #2 at Oak Spring, which had been expected to be completed by today, were not finished and would continue until further notice. This would mean that the ML 104 capacity will remain at 330,000 Dth/d until further notice.

Gulf South Pipeline said that unexpected maintenance forced it to shutdown the Destin Compressor Station. The company said the station will be unavailable for 24-36 hours. Based on system operations and nominations, the company does not expect any impact to shippers utilizing the station.

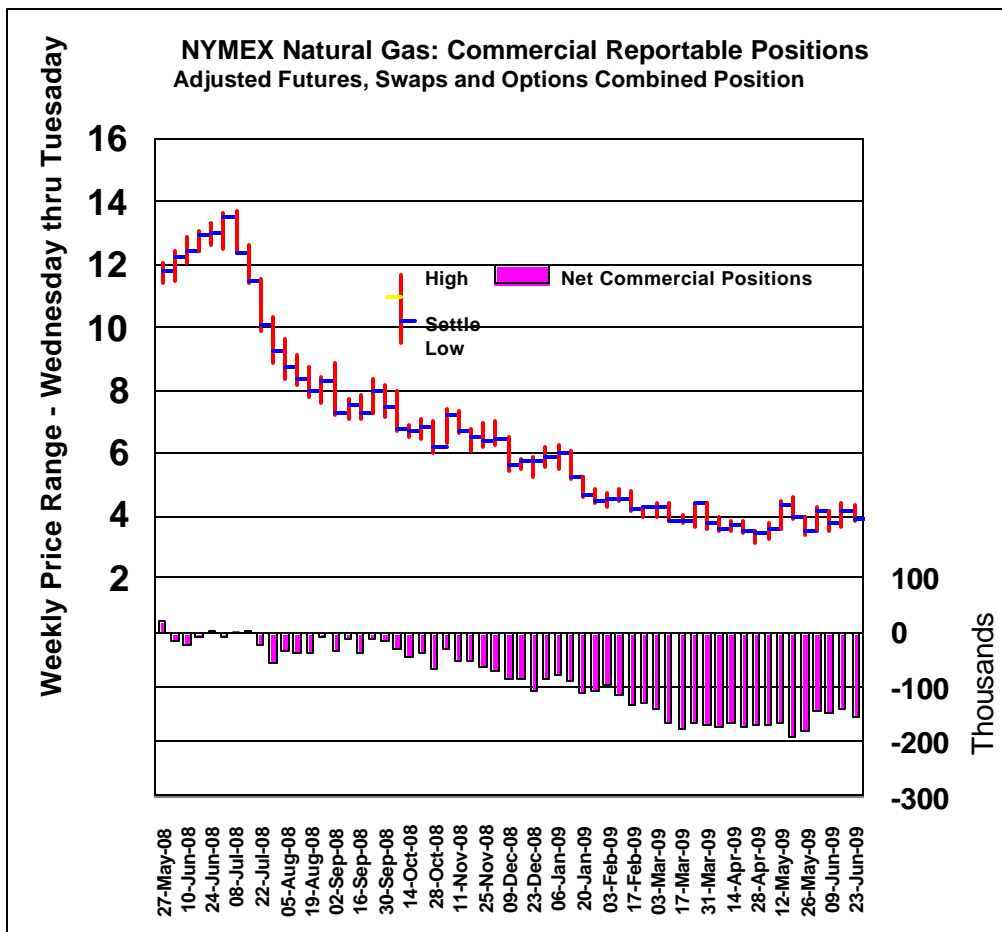
**ELECTRIC MARKET NEWS**

Genscape reported that U.S. coal consumption by utilities rose 8% from the previous week, but it was 6% less than the same week a year ago.

The EIA reported late yesterday that for the week ending June 20<sup>th</sup>, U.S. coal production reached 20.414 million short tons, up 0.1% from the prior week and some 2.1% less than the same week a year ago. Year to date production has been 5.7% less than a year ago.

**MARKET COMMENTARY**

The expiring July natural gas contract closed up for the third straight trading session with buyers returning to the market in the afternoon as a little short covering appeared to be in the cards given the possible risk of a tropical system developing in the Gulf of Mexico next week. The contract received an additional push to the upside as the final 30 minutes of trading saw a dime rally and one final challenge of the \$4.00 price level just before the closing bell. Longer range temperature forecast



though appeared to be keeping the bulls in check as the current heat wave is seen moderating by next week and the potential for the upper Midwest and northeast U.S. seeing cooler than normal temperatures once again by the July 4<sup>th</sup> holiday.

We continue to look for a rally in this market to re-establish a short position and it may take time, possibly waiting until Thursday's storage report before that becomes a reality. We see resistance

starting Monday in the August at \$4.126-\$4.14 followed by \$4.23 and \$4.305. Additional resistance we see at \$4.574 and \$4.69. Support we see at \$3.905 followed by \$3.854, \$3.71 and \$3.627.

We will patiently stay with our Oct-Jan spread, which on the week saw the October lose basically a couple of cents to the January contract. We continue to long-term look for this spread to see October move back to a \$1.70-\$1.75 discount to the January contract.

This afternoon's Commitment of Traders Report showed that commercials on the week ending June 23<sup>rd</sup> increased their net short position by nearly 14,000 contracts nearly offsetting the non-commercial's growth in their net long position by 16,000 contracts.

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