



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR JUNE 29, 2010

#### NATURAL GAS MARKET NEWS

Tropical Storm Alex continued to be watched closely by forecasters today as it appears the storm this morning was developing further as it began to develop an eye wall. Unlike yesterday when the models had this storm possibly making landfall north of the Mexico/U.S. border, this morning the models seemed to be converging on a landfall point in Mexico as a result of a high pressure ridge developing north of the storm that will steer the storm more on a westward track. Landfall currently is expected in the early hours of Thursday morning. Meanwhile a tropical wave currently coming off the coast of Africa has the potential for further development according to some models, such as the European model which has correctly forecasted the long range development of tropical Storm Alex. This model is calling for the wave to post development when it reaches the eastern and central Caribbean around July 5<sup>th</sup> or 6<sup>th</sup>.

#### Generator Problems

**NPCC** – OPG's 490 Mw coal fired Unit #5 at the Nanticoke power plant returned to service late Monday.

**ERCOT** – The Monticello coal fired Unit #3 was being restarted today following conclusion of scheduled maintenance. The unit has been off line since June 27<sup>th</sup>.

**SEC** – Progress Energy's 938 Mw Brunswick #1 nuclear unit dropped to 74% power this morning.

**MISO**- FirstEnergy's 879 Mw Davis-Besse nuclear unit has exited its four month long outage and had ramped up to 18% power this morning.

**The NRC reported this morning that some 94,563 Mw of nuclear generation was operating today, up 0.5% from yesterday and some 1.6% lower than the same day a year ago.**

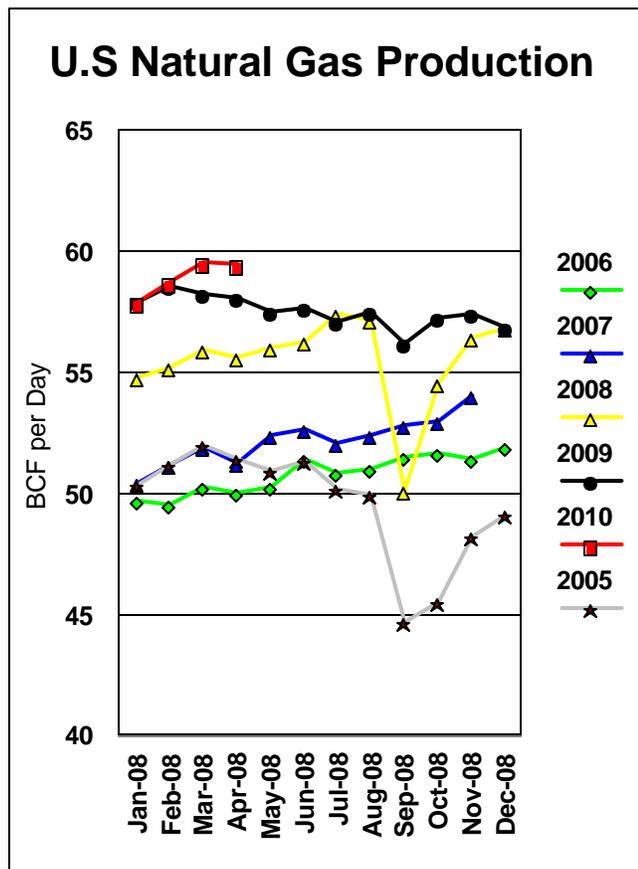
The EIA at midday released their updated Natural Gas Monthly report. It estimated domestic dry natural gas production in April averaged 59.4 bcf/d down 0.1 bcf/d from the prior month, but the first monthly decline since December. Production though was estimated to be 2.5% higher than a year ago.

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	421,300	\$4.682	(\$0.168)	\$0.090	(\$0.008)	(\$0.058)
Chicago City Gate	354,100	\$4.640	(\$0.196)	\$0.048	(\$0.023)	\$0.085
NGPL- TX/OK	544,400	\$4.486	(\$0.165)	(\$0.106)	\$0.008	(\$0.082)
SoCal	586,500	\$4.364	(\$0.095)	(\$0.228)	\$0.078	(\$0.321)
PG&E Citygate	871,800	\$4.526	(\$0.107)	(\$0.066)	\$0.066	(\$0.188)
Dominion-South	239,400	\$4.781	(\$0.228)	\$0.189	(\$0.055)	\$0.253
UTrade Weighted	19,002,300	\$4.515	(\$0.181)	(\$0.077)	(\$0.01)	(\$0.058)

Net imports of natural gas were also higher in April, up 12.8% from March but down 2.1% from a month ago. LNG import in April stood at 1.39 bcf/d, up 15.7% from March, but 25.8%

less than the same month a year ago. Consumption in April was estimated at 56.7 bcf/d, down 3.4% from the same month a year ago. Residential and commercial demand was down in April versus the same month a year ago, off 17.3% and 9.7% respectively, but industrial and power generation demand for gas was up 6.5% and 3.9% respectively on the month.

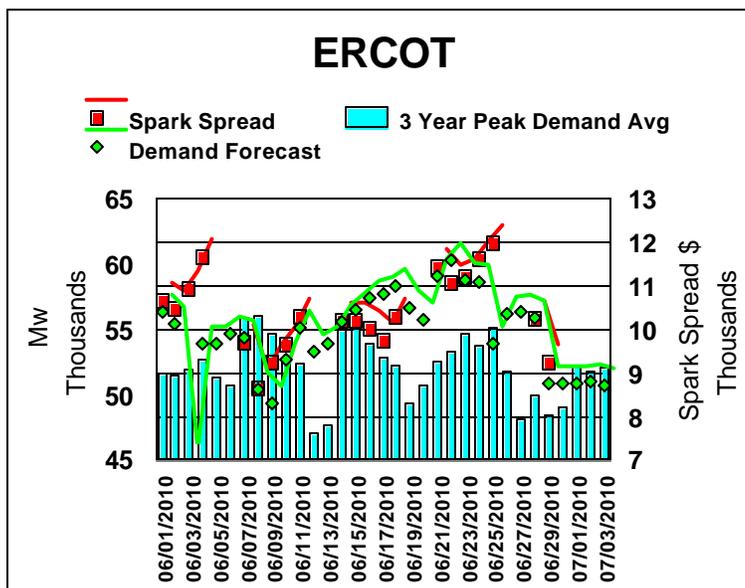
Apache Corp said this morning that it has shut in some oil and gas production from their Gulf of Mexico assets due to the approach of tropical Storm Alex. Some 5,500 b/d of oil production and 40 million cf/d of gas production were offline as of this morning. Hess reported this morning that it was evacuating all personnel from its "Bald Pate" platform, while Exxon said it was continuing its storm preparations and as of midday had shut in 8,000 b/d of crude production and 123 million cf/d of gas production. Anadarko Petroleum said it has begun evacuating personnel from its facilities in the western Gulf of Mexico but no production had been impacted. Chevron said it was shutting in production at some offshore locations in the central and western Gulf of Mexico primarily as a result of third party pipelines. Meanwhile BP said it was returning workers to shut in production platforms in the western Gulf of Mexico. The company had evacuated workers from Atlantis, Holstein, Mad Dog and Thunder Horse platforms. The company said it would begin to restore production as workers returned to the platforms.



Enbridge said late yesterday that it declared a force majeure on its offshore Nautilus natural gas pipeline system after some Gulf of Mexico producers shut in supply as a precaution against Tropical Storm Alex. The company estimated that some 100 million cf/d of production on the 600 mmcf/d line has been shut in.

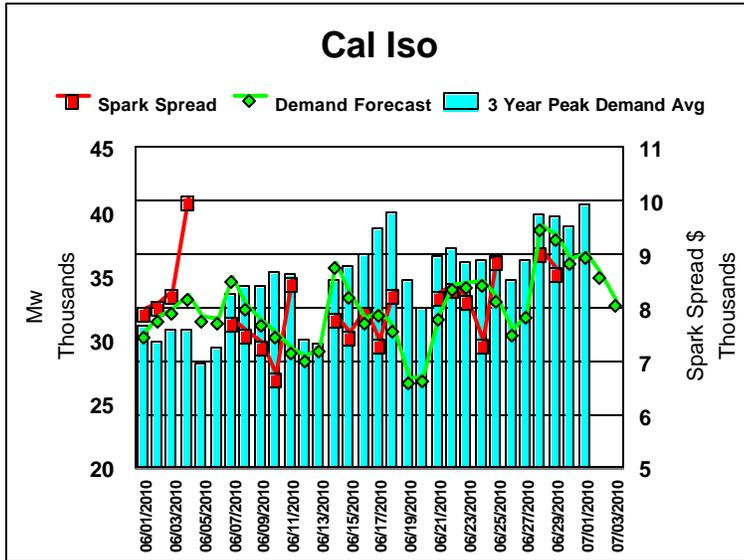
The Freeport LNG import terminal in Texas reported that it has made safety preparations in front of the approach of Tropical Storm Alex in the region. No tankers are expected at the terminal in the coming days though.

In a report released today by the AGA, the trade group saw the prospect of a significantly warmer than normal summer given a strong La Nina developing in the Pacific, coupled with the prospects of a very active Atlantic hurricane season and the "undercurrent of negativity" from the Gulf oil spill has helped to send gas prices sharply higher in recent weeks. The AGA noted that cooling demand has been critical in the recent rally, as the national temperature has been at least 18% warmer than normal since May 29<sup>th</sup>, while May was 35.1% warmer than normal. The AGA noted that despite the recent trend of smaller than normal storage injections, the group sees a new all time high storage level "entirely possible" by the end of October. The group also noted imports



from Canada remain about 3% ahead of last year. LNG imports in June were seen to be averaging 1.1-1.5 bcf/d.

Gas production at the Troll A, Kvitbejboern and Visund platforms in the North Sea was disrupted this morning, due to the discovery of a gas leak in a riser area of the Troll A platform. Gassco reported that as a result of this disruption there was no gas feeding into the Kollsnes gas processing plant, which normally processes close to 40% of total Norwegian gas exports. National Grid reported that gas flows fell from around 60 mcm/day to 42 mcm/day this morning, sending spot UK gas prices soaring.



The Lijmiliya LNG tanker, which holds up to 263,000 cubic meters of gas was slated to arrive at the South Hook terminal on July 6<sup>th</sup>, according to port officials. Meanwhile National Grid confirmed the Gaselys LNG tanker has berthed at the Isle of Grain terminal on Monday.

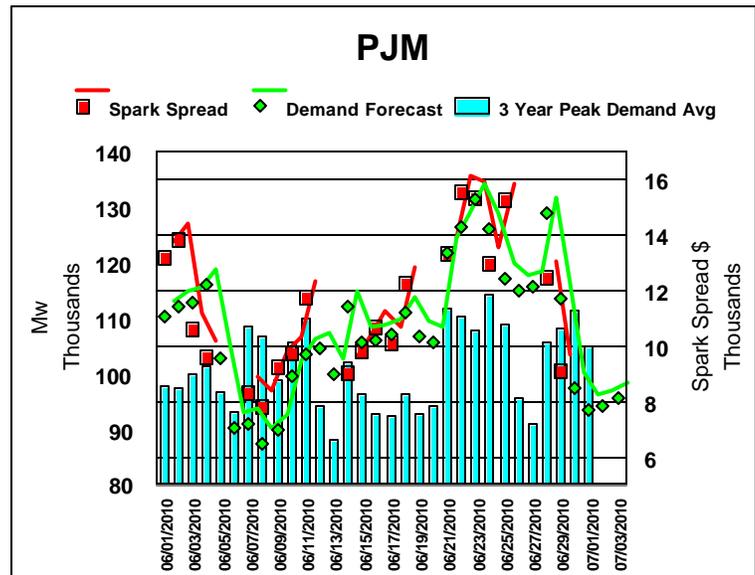
Iran's foreign minister said today that his country will sign a deal shortly with Bahrain on exporting gas to Bahrain and the investment participation of Bahrain in the South Pars natural gas field. Under the agreement Iran will also participate in Bahrain's refining and petrochemical industries.

Japan's May LNG imports were 13.2% less than the prior month totaling 4.791 million tones on the month. Indonesia and Malaysia continue to account for 45% of total LNG supply. Japanese imports of LNG have been running some 9% higher than a year ago.

**PIPELINE MAINTENANCE**

Questar Pipeline said that due to follow up work related to the June 24<sup>th</sup> mechanical failure on Unit #2 at the Oak Spring compressor station, it would be taking the unit out of service for 12 hours of unscheduled maintenance on June 30<sup>th</sup>. ML 104 capacity will be reduced to 340,000 Dth/d or a 10% reduction.

Gulf South said the pipeline maintenance at Index 130, originally scheduled to be completed by June 25<sup>th</sup>, will continue through July 15. The work will result in pipeline pressures being reduced from normal levels impacting FGT Montpelier/St. Helena.



An Enogex owned 20 inch natural gas line exploded Tuesday some 50 miles southwest of Oklahoma City. The incident occurred on a gathering line serving a processing plant in Cox City. A crew was performing maintenance on the line at the time of the explosion.

**PIPELINE RESTRICTIONS**

Tennessee Gas Pipeline said that due to reduced nominations it will accept increases for nominations of approximately 60,000 Dth of capacity pathed through Station 245.

### **ECONOMIC NEWS**

The Conference Board said its index of consumer confidence for June fell to 52.9 compared with the 62.7 in May, a level that was revised down from a previously reported 63.3. The present situation index fell to 25.5 from 29.8 the prior month. May's level was previously reported at 30.2. Meanwhile, consumer expectations for the state of economic activity over the next six months fell to 71.2 from 84.6 in May, which was previously reported at 85.3.

### **ELECTRIC MARKET NEWS**

The U.S. Northwest River Forecast Center said it expects water flows at the Dalles Dam on the Columbia River will be 86% of normal for the April – September period, a 2% improvement from last week's forecast. Water flows at the Grand Coulee Dam were also revised higher, up 1% to 81% of normal.



Genscape reported today that it estimates coal stockpiles at U.S. power plants fell 1.6% this week from last and were 8.5% smaller than last year at this time.

Texas' two wind farms along the Gulf Coast, Pattern Energy's 283 Mw Gulf Wind farm and Iberdrola's 404 Mw Penascal I and II farms were within the area where hurricane warnings have been posted and operators were making storm preparations. Both farms are designed to be shut

down if winds exceed 55 mph and are built to withstand sustained winds of 150 mph.

### **MARKET COMMENTARY**

As it became apparent this early morning that Tropical Storm Alex would not be a threat to U.S. offshore natural gas production, as forecasters were seeing it taking a more westward track and making landfall in northern Mexico, the selling pressure on natural gas was able to breach recent support major support at \$4.727-\$4.687. Prices by mid morning found initial support at the \$4.56 price level and then basically moved in a sideways 5 cent trading range for much of the day before late selling before the close sent prices down to \$4.525, slightly more than a 62% retracement of the prior rally of the past month, before rebounding a few pennies late in the day. But the market saw its lowest close since June 2<sup>nd</sup>. While volume was good in the August futures contract, some 24% better than yesterday, trading activity in the next day cash market on ICE was extremely light, posting its lightest trading day since April 27<sup>th</sup>.

Well why we thought it may take a few days to reach these prices levels we achieved it basically one day. We still feel comfortable though is selling the August \$4.00 and \$4.25 calls on a scale down basis

tomorrow still feeling the fears of tropical weather will continue to keep traders on edge until at least until mid August to early September. These options today settled at 5.5 and 12.1 cents respectively.

We look for support tomorrow to be found initially at today's low of \$4.525 followed by \$4.448 and more distant support at \$4.248. Resistance we see at \$4.745 followed by \$4.802, \$4.887, \$4.934 and \$4.972. More distant resistance we see at \$5.20-\$5.24.

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