



## ***ENERGY RISK MANAGEMENT***

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### **NATURAL GAS & POWER MARKET REPORT FOR JULY 8, 2009**

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

Contrary to some news reports this morning, T. Boone Pickens said his massive wind farm project has not been canceled but just delayed. He again said transmission issues and the problem with the capital markets make it unfeasible at this point. He noted he still expects to develop the wind farm eventually and he would take delivery of the 667 GE wind turbines he had ordered. He noted he would use the turbines at smaller projects.

Senators Harry Reid and Bob Menendez introduced legislation in Congress today that seeks tax incentives for buyers of vehicles fueled by natural gas. These incentives would be doubled in size and extended for a decade. The bill would seek to provide credits of \$12,500 for passenger cars and light trucks and \$64,600 for higher weight class vehicles. The bill would also expand tax incentives for purchase of natural gas used as a vehicle fuel and for the installation of refueling stations. The refueling station tax credits would be doubled to as much as \$100,000, according to the Senate bill summary.

#### **Generator Problems**

**NPCC** – OPG's 490 Mw Nanticoke #5 coal fired unit was shut early Wednesday.

**PJM** – Exelon's 619 Mw Oyster creek nuclear unit dropped to 60% capacity early Wednesday, off from full power on Tuesday.

The Hope Creek nuclear unit returned to full power today, up 15% from yesterday.

**SPP & ERCOT** – Luminant's 575 Mw Big Brown coal fired Unit #1 which had been expected to be restarted yesterday will now be off line through Wednesday due to additional maintenance. The unit dropped off line on Tuesday morning.

**Cal ISO** – The region saw some 4948 Mw of generation capacity off line today, of which 53% was non-gas based generation.

**The NRC reported this morning that 96,406 Mw nuclear generation capacity was on line, down 0.1% from yesterday and off 1.85 from the same time a year ago.**

The United States Natural Gas Fund reported today that its positions in the ICE and NYMEX futures

<b>Natural Gas Cash Market</b>						
ICE Next Day Cash Market						
<b>Location</b>	<b>Volume Traded</b>	<b>Avg Price</b>	<b>Change</b>	<b>Basis</b>	<b>Change</b>	<b>Basis 5-Day Moving Avg</b>
				(As of 12:30 PM)		
Henry Hub	643,600	\$3.216	(\$0.088)	(\$0.134)	\$0.044	(\$0.345)
Chicago City Gate	546,900	\$3.174	(\$0.108)	(\$0.176)	\$0.019	(\$0.381)
NGPL- TXOK	927,400	\$3.032	(\$0.100)	(\$0.318)	\$0.027	(\$0.509)
SoCal	382,100	\$3.094	(\$0.024)	(\$0.256)	\$0.103	(\$0.453)
PG&E Citygate	600,100	\$3.179	(\$0.093)	(\$0.171)	\$0.034	(\$0.312)
Dominion-South	288,100	\$3.390	(\$0.092)	\$0.040	\$0.035	(\$0.042)
USTRade Weighted	17,124,600	\$3.146	(\$0.083)	(\$0.204)	\$0.04	(\$0.345)

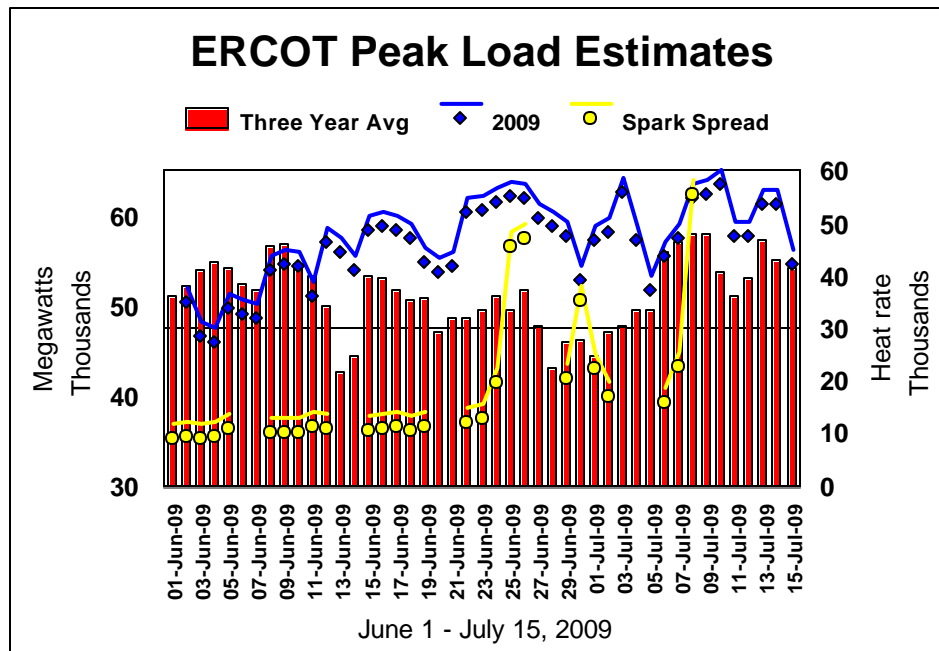
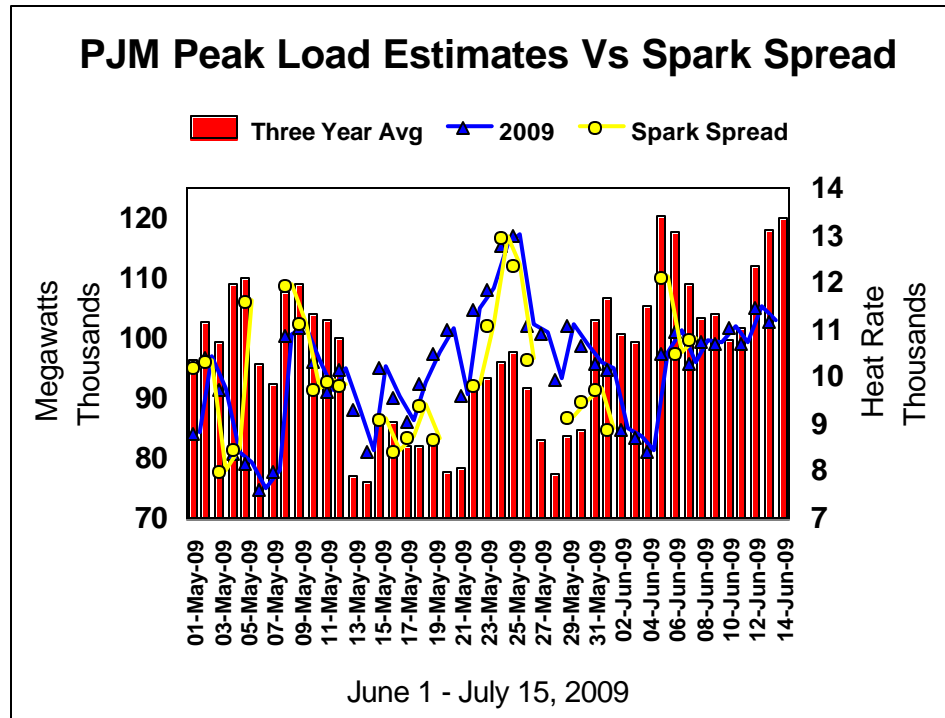
and swaps as of this morning were at an all time high for the 27-month-old ETF and more than 10 times the size of open positions at the start of the year. The fund continues to await approval

from regulators to issue more units in the fund.

Midcontinent Express Pipeline has asked the FERC for authorization to commence service across 200 miles of pipeline in Zone 2 of its system starting August 1<sup>st</sup>. This would be for the area between an interconnection with Columbia Gulf Transmission at Madison Parish, Louisiana to an interconnection with Transco in Choctaw County, Alabama

Alaska's Lt. Governor and soon to be Governor Sean Parnell said his top priority as governor will be to see

the Alaskan natural gas pipeline project become a reality. Lt. Governor Parnell does have a background in oil and gas. In the 1990's he served as deputy director of the Alaska Division of Oil and Gas, and once worked for ConocoPhillips.



China National offshore oil Corporation said it has won approval from the government to build its fourth LNG receiving terminal. The first phase of the Zhejiang project costing just over \$1 billion will be able to receive 3 million tones of LNG per year, is seen being operational by 2012.

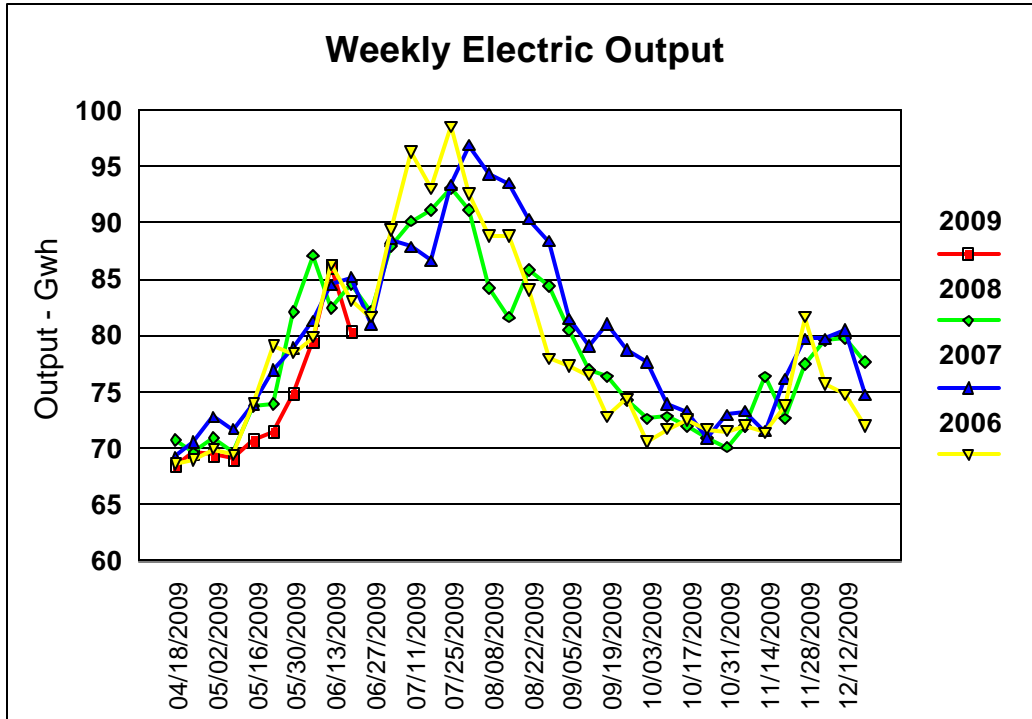
Ukraine's government announced Wednesday that it would more than quadruple the capital of the state energy firm Naftogaz. The country's prime minister though did not

elaborate on how the government will find the finances for the capital injection.

France's GDF Suez LNG terminal in southern France at Fos opening has now been delayed to the end of the second half of this year. The terminal originally had been scheduled to open on June 2007, but had been delayed due to a piping accident. The terminal will have a regasification capacity of 8.25 billion cubic meters.

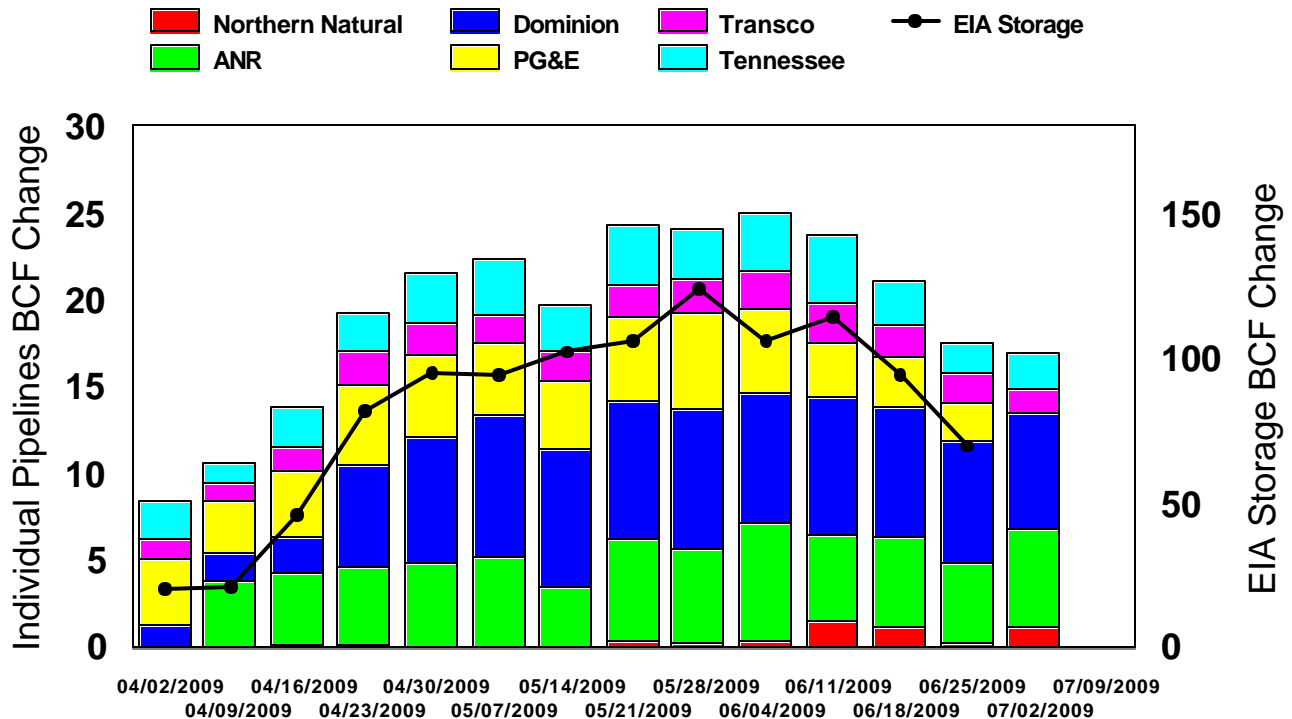
**PIPELINE  
MAINTENANCE**

El Paso announced a series of line maintenance projects scheduled for July. For its Rio Vista line inspections will be conducted on July 20-21<sup>st</sup> which had originally been scheduled a week later. Maintenance scheduled on the San Juan Basin and San Juan Mainline White Rock #2 overhaul will run through July 17<sup>th</sup>. As a result base capacity of 2800



MMcf/d at San Juan Basin and San Juan Mainline will be reduced 200 MMcf/d to 2600 MMcf/d. A series of maintenance projects along the North mainline in July will reduce capacity from 5-27 Mmcf/d on a daily basis. Maintenance on the San Juan Crossover will see capacity reduced by 10 MMcf/d

**Weekly Change In Nat Gas Stocks**



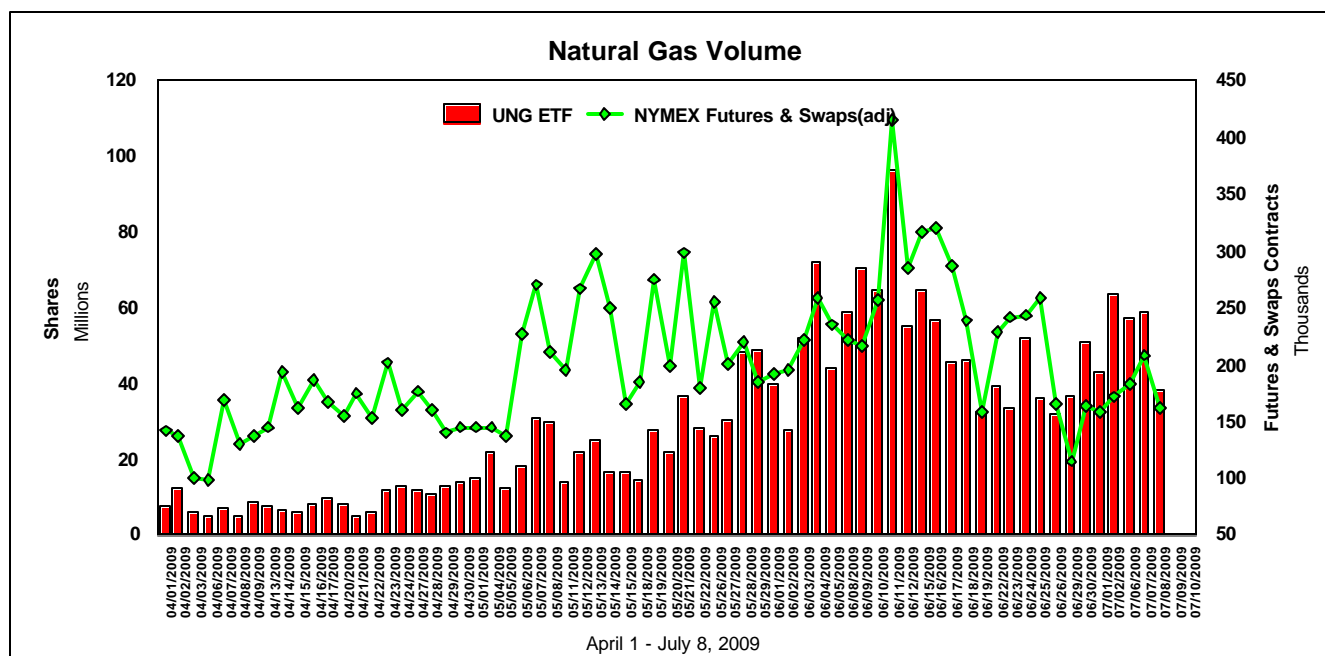
from July 27-30<sup>th</sup>. Maintenance on the South Mainline will reduce capacity during the month from 25-81 MMcf/d.

**PIPELINE RESTRICTIONS**

Tennessee Gas Pipeline announced it has restricted the Carthage Line Lateral and Interruptible Storage Injections for Wednesday. The company said it has restricted through approximately 66% of Supply to Market Secondary Out of Path nominations pathed from meters along the line. Tennessee said it also has restricted 100% of IS-PA storage injections at bear Creek Storage and IS-MA storage injections at Northern Storage.

**ELECTRIC MARKET NEWS**

The Edison Electric Institute reported that for the week ending July 4<sup>th</sup>, U.S. power production was pegged at 80,399 Gwh, down 2.2% from the prior week and some 6.7% less than the same week a year ago. For the first 27 weeks of this year U.S electric production has been 3.9% less than the same period a year ago.



Independent power producer NRG Energy today rejected Exelon’s latest hostile bid of \$7 billion stock offer as being too low, but left the door open for negotiations if the bid was improved further.

The U.S. Northwest River Forecast Center outlook for water flows at both the Dalles and Grand Coulee Dams remains unchanged from last week’s forecast for the April-September period. It looks for flows at the Dalles to be 85% of normal with the Grand Coulee Dam at 80% of normal.

**MARKET COMMENTARY**

While oil prices plunged yet again today the bearish spill over effect to the natural gas market was limited. While natural gas prices finished the session lower yet again, its value relative on a BTU basis gained on crude by 40 cents on the day and since June 29<sup>th</sup> it has recovered some \$1.38 per Mmbtu in value relative to spot crude prices. In addition it was difficult for natural gas to gain any traction to the upside given that forecasted generation loads in many areas of the country for the next week were a bit less than those forecasted yesterday. Volume today was also light in front of tomorrow’s storage report with volume still restricted in the natural gas ETF, which today posted only 38 million shares traded while the NYMEX futures and swaps in the Henry Hub contracts on an adjusted basis totaled just 160,472 lots.

NEW YORK MERCANTILE EXCHANGE(r)									
NYMEX OPTIONS CONTRACT LISTING FOR 07/08/2009									
				TODAY'S	PREVIOUS	ESTIMATED	DAILY	DAILY	
-----CONTRACT-----				SETTLE	SETTLE	VOLUME	HIGH	LOW	
LN	12	9	P	2.5	0.021	0.0187	5450	0	0
LN	8	9	P	2.5	0.0139	0.011	4762	0	0
LN	12	9	C	7	0.2014	0.2091	4750	0	0
LN	9	11	C	12	0.2219	0.2264	3700	0	0
LN	5	11	C	12	0.1123	0.1134	3700	0	0
LN	4	11	C	12	0.1109	0.113	3700	0	0
LN	10	11	C	12	0.2694	0.2751	3700	0	0
LN	8	11	C	12	0.1799	0.1817	3700	0	0
LN	7	11	C	12	0.1561	0.1578	3700	0	0
LN	6	11	C	12	0.1252	0.1261	3700	0	0
LN	9	9	P	3	0.1945	0.1712	3000	0	0
LN	9	9	C	6	0.0152	0.0174	2946	0.018	0.018
LN	9	9	C	4	0.2233	0.2491	2620	0	0
LN	12	9	P	4	0.2229	0.1999	2325	0	0
LN	12	9	P	3	0.0547	0.0488	2175	0	0
LN	10	9	P	3	0.2609	0.2346	2125	0	0
LN	10	9	C	4.5	0.3022	0.3238	2004	0	0
LN	12	9	C	5.5	0.5488	0.5736	1850	0	0
LN	10	11	C	8.5	0.6783	0.6967	1850	0	0
LN	7	11	C	8.5	0.486	0.4965	1850	0	0
LN	5	11	C	8.5	0.3915	0.4007	1850	0	0
LN	4	11	C	8.5	0.4008	0.4128	1850	0	0
LN	6	11	C	8.5	0.4336	0.4426	1850	0	0
LN	8	11	C	8.5	0.5323	0.5438	1850	0	0
LN	9	11	C	8.5	0.6006	0.6164	1850	0	0
LN	12	9	C	6	0.3966	0.414	1704	0	0
LN	8	9	P	2.75	0.0412	0.0335	1700	0	0
LN	9	9	C	5	0.0609	0.0693	1650	0	0
LN	8	9	P	3	0.0969	0.081	1650	0.09	0.09
LN	9	9	P	3.5	0.42	0.3809	1585	0.4	0.39
LN	10	9	C	4.25	0.369	0.3952	1550	0	0
LN	9	9	P	3.25	0.2949	0.2638	1300	0	0
LN	9	9	C	7	0.0039	0.0044	1200	0	0
LN	9	9	P	2.5	0.0664	0.0564	1150	0	0
ON	9	9	P	2.25	0.033	0.027	1100	0	0
LN	9	9	C	4.5	0.119	0.1343	1100	0	0
LN	10	9	P	2.5	0.1196	0.1046	1075	0.105	0.105
LN	10	9	C	3.75	0.5434	0.5823	1000	0	0
LN	10	9	P	3.15	0.3166		1000	0.3025	0.3025
LN	4	10	C	8	0.2047	0.2104	1000	0	0
LN	3	10	P	4.5	0.3876	0.3513	1000	0	0

Market expectations for tomorrow's EIA Storage Report for the week ending July 2<sup>nd</sup> are between a 70-100 bcf build in stocks with the median build at 84 bcf increase. Our estimate is a bit lower looking for a build of just 65 bcf. Stocks rose an adjusted 89 bcf for the same week a year ago with the five year average gain of 90 bcf.

Given our market expectations for a supportive EIA storage report we would look for prices to have the potential to rebound tomorrow especially if oil prices take a pause in their recent freefall. We would look for initial resistance at \$3.41-\$3.44 followed by \$3.617, \$3.811, \$3.96-\$3.98 and \$4.104. Support we see at \$3.33-\$3.32 followed by \$3.294 and \$3.25.

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