



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JULY 14, 2009

NATURAL GAS MARKET NEWS

The president of the Kansas City Federal Reserve Bank said today that he feels the U.S. recession is almost over but the recovery will be very slow, given the seriousness of the problems in the financial industry. He warned that inflation must not be ignored or it could become a problem in four or five years.

The government reported today that retail sales rose a stronger than expected 0.6% last month, stirring hopes that the economy was finally starting to recover.

Moody's Investors Service said today that they see natural gas prices ranging between \$3 to \$5 per Mcf over the next 12 months and average under \$6 for at least a year after that.

Weather forecasters were watching the eastern Atlantic a bit closer today. One of the tropical waves in this area, that only the GFS model has been forecasting for at least a week that could develop into something more significant, was now being taken a bit more seriously by other forecasting models this morning. If development does in fact begin to occur there appears to be two possible tracks it could take. The first is a due west track into the Caribbean by next week where wind shear would be expected to rip the system apart. The second possible track would be a west-northwest track which would take the system slightly to the northwest-north of the Leeward Islands which would most likely if it becomes a threat to the U.S. it would most likely be to the east coast of the country.

The Abu Dhabi Gas Liquefaction Company, Adgas said in a week or so it plans to invite bids on a spot LNG cargo loading in September. The cargo is expected to be offered on a FOB basis. The offer would be the first such cargo to be offered by the producer for several weeks, since it sold a July cargo this past May. The company operates the 6 million mt/year LNG facility.

Williams said its Transco pipeline is holding a non-binding open season from July 14th through August 4th to obtain shipper commitments for an expansion designed to provide up to 150,000 Dth/day of firm

Generator Problems

NPCC – Bruce Power's 795 Mw Unit 8 was shut at the request of the grid operator for what is expected to be a brief outage due to surplus base load generation in Ontario.

SERC – Southern Nuclear's 883 Mw Hatch #2 nuclear unit was at 44% power, down 31% from yesterday.

FRCC – FPL's 864 Mw St. Lucie #2 nuclear unit remains off line this morning for pipe maintenance.

WSCC –TransAlta's 406 Mw coal fired Unit #4 at the Sundance power plant was shutdown again on Monday after it returned to service earlier in the day. The unit was initially off line since July 10th.

Energy Northwest said its 11150 Mw Columbia Generating nuclear unit remains reduced at 55% capacity as maintenance is done on a main condenser.

Cal ISO reported this afternoon that it had some 6684 Mw of generating capacity off line, of which 35% was non-gas generating assets.

The NRC reported this morning that 93,516 Mw nuclear generation capacity was on line, down 1.0% from yesterday and off 3.7% from the same time a year ago.

transportation service to the market in Virginia, Washington D.C. and Maryland. The Mid-Atlantic Connector Expansion project is designed to provide service from an interconnection with East Tennessee Natural gas in Rockingham County, North Carolina to delivery points as far north as Transco's interconnect with Columbia Gas transmission in Montgomery County, Maryland. The proposed in service date would be November 1, 2012.

Britain's newest liquefied natural gas terminal, Dragon LNG, took delivery of its first cargo on Tuesday. BG's Methane Lydon Volney tanker, which can carry 145,127 cubic meters of LNG, arrived as expected on Tuesday to deliver the first commissioning cargo to the terminal at Milford Haven.

British gas storage company Portland Gas Plc said it planned to start construction of the Portland project on July 31st. The Portland Project will be largest onshore gas storage facility in the UK, with a capacity of 35 bcf.

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	927,300	\$3.292	\$0.118	(\$0.094)	(\$0.014)	(\$0.207)
Chicago City Gate	413,400	\$3.201	\$0.107	(\$0.185)	(\$0.012)	(\$0.194)
NGPL- TX/OK	705,300	\$3.082	\$0.116	(\$0.304)	(\$0.003)	(\$0.319)
SoCal	413,900	\$3.178	\$0.041	(\$0.208)	(\$0.078)	(\$0.262)
PG&E Citygate	609,800	\$3.337	\$0.080	(\$0.049)	(\$0.039)	(\$0.147)
Dominion-South	163,800	\$3.507	\$0.148	\$0.121	\$0.029	\$0.077
USTRade Weighted	17,356,800	\$3.206	\$0.105	(\$0.180)	(\$0.01)	(\$0.207)

The Nabucco gas pipeline project to Europe is not economically logical if it does not transport gas from Iran. The deputy head of National Iranian Oil Co said construction of

the Nabucco pipeline will be economically logical if it has remarkable gas suppliers in the long term, including Iran. The Nabucco pipeline aims to transport 31 billion cubic meters/year of gas from the Caspian region, the Middle East and Egypt to Europe through Turkey, Bulgaria, Hungary, Romania and Austria.

The Ukrainian prime minister said today the her nation has been storing gas, coal and grains to ensure that the financial crisis does not affect ordinary life come this winter. She reported that there is some 21 billion cubic meters of gas already in storage, with 5 million tones of coal and \$400 million set aside to buy grain stocks this fall. The Ukrainian economy has been particularly hard hit in the global economic crisis with the Ukrainian economy contracting 20% in the first quarter from a year ago with industrial output off 20-30%.

PIPELINE MAINTENANCE-

Kinder Morgan said the smart pig run scheduled for July 14th, on the Rockies Express Pipeline East from Bainbridge to Hamilton has been postponed, No new date has been set at this time.

Gulf South said it would be performing planned system maintenance on Unit #3 at the Jackson Compressor Station beginning the morning of July 20th and last for two weeks. Capacity through the Jackson Compressor Station could be reduced by as much as 100,000 Dth during the work.

PIPELINE RESTRICTIONS

Tennessee Gas Pipeline said that for July 14th it has restricted Carthage Line Lateral and Interruptible Storage Injections at Northern Storage. On the Carthage line Lateral approximately 84% of Supply to Market Secondary Out of Path nominations pathed from meters located on the Carthage Line Lateral. The company has restricted 100% of IS-MA storage injections at Northern Storage.

ELECTRIC MARKET NEWS

The Regional Greenhouse Gas Initiative (RGGI) released auction documents today in preparation for the bidding process for the September 9th auction. This will be the third auction held since compliance obligations took place on January 1st. The auction will offer for sale more than 28.4 million allowances for the 2009 vintage and nearly 2.2 million CO2 allowances for the 2012 vintage. The RGGI states will continue to use a reserve price of \$1.86 for all allowances in the fifth auction. Under the RGGI, emissions in the region will be capped at current levels until 2014 and then reduced by 2.5% per year from 2015 through 2018, resulting in a net cut of 10%. In the June 17th auction all of the CO2 allowances, about 30.9 million, for the 2009 vintage sold at a clearing price of \$3.23 per allowance, with 2.2 million allowances for the 2012 vintage being sold at a clearing price of \$2.06 per allowance.

Denbury Resources said this week that it has initiated a feasibility study of a possible long term CO2 pipeline project that would connect proposed gasification plants in the Midwest to the company's existing CO2 pipeline infrastructure in Mississippi and Louisiana. The company is looking at building a 500-700 mile pipeline that would have a preliminary cost of \$1 billion and take 4-5 years to complete. One of the proposed gasification plants would be in Indiana and the other in Illinois. The CO2 would be piped to oil production areas and injected to help boost oil production from those wells. The company estimates that CO2 enhanced oil recovery projects store between 25% and 50% more CO2 than will be emitted from the incremental recovered oil's carbon footprint.

Genscape reported that coal supplies at U.S. power plants shrank 0.2% this week from last week but remain 24.5% greater than the same week a year ago.

MARKET COMMENTARY

Well today was a novel experience, not only was it an up day, it posted its largest daily gain since June 15th. The natural gas market saw gains in both its cash and futures markets as the economic mood in the global equity markets appear to be a bit better than it has over the past week. This seemed to be a signal for the shorts to finally taking profits and exit the market, especially given its extreme oversold nature of the market.

We would look for this market possibly to continue its modest rebound tomorrow but we feel volume will become lighter as traders move towards the sidelines and await Thursday's storage report. We see initial support tomorrow at \$3.44 followed by \$3.381, \$3.304, 3.227-\$3.218 and \$3.155 Resistance we see at \$3.485 followed by \$3.542 and \$3,632. More significant resistance we see at \$3.742, \$3.839, \$3.901 and \$4.059. We would not recommend establishing a new short unless prices approach the \$4.00 level once again.