



## ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,  
& Karen Palladino

(212) 624-1132 (888) 885-6100

[www.e-windham.com](http://www.e-windham.com)

### NATURAL GAS & POWER MARKET REPORT FOR JULY 16, 2010

#### NATURAL GAS MARKET NEWS

Goldman Sachs released a research report today in which its analysts lowered their 2010 and 2011 U.S. and European natural gas price targets as a result of stronger than expected U.S. natural gas production. The investment bank was raising its 2010 U.S. production expectation by 3 bcf/d to 58.5 bcf/d. It was also raising its 2011 production outlook by 3.7 bcf/d to 58.1 bcf/d. The bank's research staff though continues to factor in a slightly declining production path over the rest of 2010, as a result of some decline in the number of conventional rig counts. Their second half 2010 U.S. price target is now \$4.63 some 97 cents less than prior outlook and for 2011 it sees prices rebounding to average only \$5.25 off 75 cents from its prior forecasts. Analysts warned that their price forecasts has the assumption that U.S. LNG imports will remain low in order to balance the increased U.S. production. While they see a tighter European market capable of absorbing a substantial portion of the global LNG supply, they still see the need for global LNG production to remain relatively restrained in order to keep the global gas market in balance. The bank though continues to feel that given the stronger industrial demand, warmer weather and the ability for renewed coal to gas substitution by utilities if gas prices fall further, that the \$4.00 price level for spot gas in the U.S. is unsustainable and the \$4.50 price level more of a realistic lower price band. Goldman sees the 2010 injection season ending with 3.915 tcf in storage and 3.940 tcf at the end of 2011, just shy of full storage, which it estimates at 4 tcf. In Europe the bank sees European inventories building at a slower than normal pace due in part to various disruptions in production and

#### Generator Problems

**ERCOT** – The coal fired Unit #2 at the Big Brown Electric Station was shut down overnight for maintenance. The work is expected to be completed by Friday afternoon.

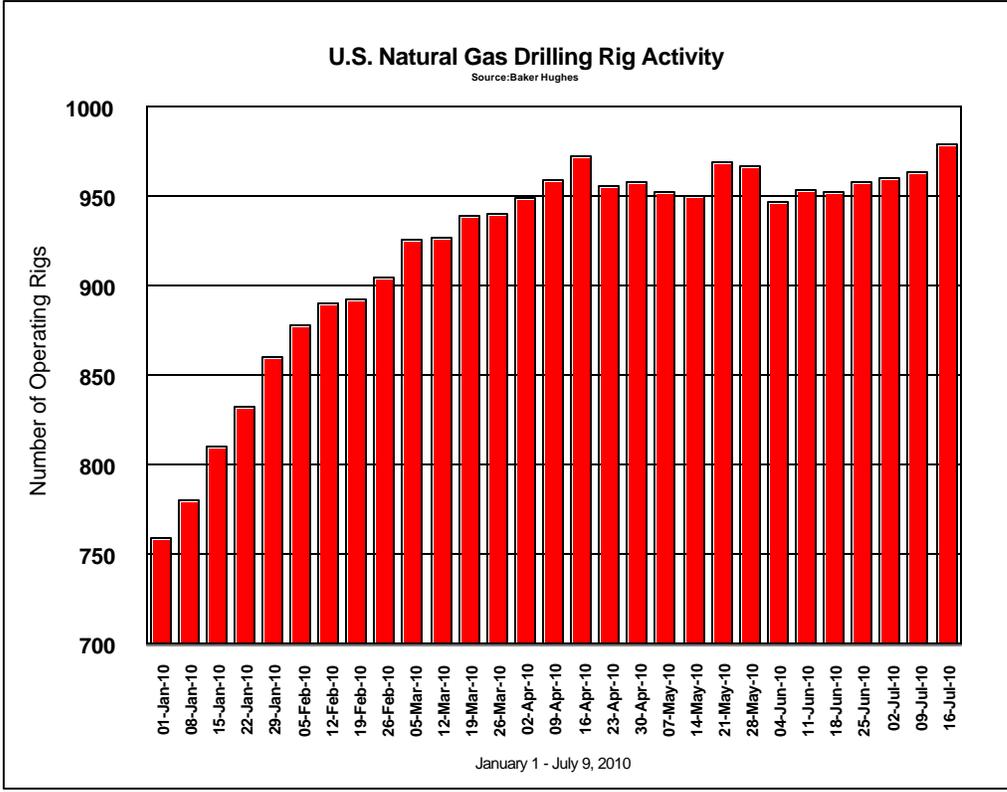
The NRC reported this morning that some 92,476 Mw of nuclear generation was operating today, down 1.3% from yesterday and off nearly 3% from the same day a year ago.

Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
Location	Traded	Price		(As of 12:30 PM)		Moving Avg
Henry Hub	773,300	\$4.679	\$0.251	\$0.124	\$0.254	(\$0.071)
Chicago City Gate	440,100	\$4.626	\$0.210	\$0.071	\$0.257	(\$0.014)
NGPL- TX/OK	536,300	\$4.482	\$0.224	(\$0.073)	\$0.271	(\$0.163)
SoCal	356,500	\$4.346	\$0.180	(\$0.209)	\$0.227	(\$0.298)
PG&E Citygate	660,500	\$4.376	\$0.197	(\$0.179)	\$0.244	(\$0.264)
Dominion-South	553,400	\$4.890	\$0.237	\$0.335	\$0.284	\$0.278
USTrade Weighted	19,294,900	\$4.560	\$0.207	\$0.005	\$0.25	(\$0.071)

processing of Norwegian gas and the reduction in global liquefaction rates. They are now estimating that the UK NBP price to average \$5.75 per mmbtu for the second half of this year and in 2011.

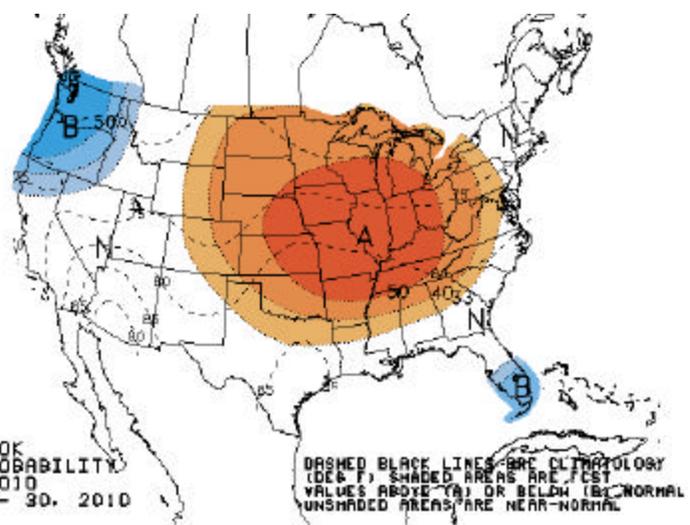
Baker Hughes reported this afternoon that the number of rigs searching for natural gas in the U.S. this week stood at 979 rigs, up strongly from last week by 15 rigs. This surpassed the recent high from April and stands at the highest level since mid-February 2009.

The tropics remained relatively quiet today. While forecasters noted there were two areas of low pressure, one just east of southern Nicaragua and the other in the northern Gulf of Mexico, neither was expected to post significant development in part due to their relative close proximity to land. Elsewhere the Eastern Atlantic remains very quiet, as an outbreak of dry dusty Saharan air has been overlying the area. This is expected to continue for at least another 4-7 days. But forecasters are look for this dry air pattern along with current wind shear conditions will be begin to fade by the end of the month as it begins to shift northward. One private weather forecaster expressed concern today that the abnormally warm summer thus far in the northeastern United States may be a sign of trouble later this hurricane season. If this pattern continues, then the northwestern and the western Gulf coast may be at a higher risk of a significant hurricane this season.



Total SA reportedly is looking at taking a 20-25% stake in Russia's OAO Novatek's Yamal LNG gas project. Total already has a 25% stake in the Russian Shtokman LNG project with Gazprom.

The engineering arm of Iran's Revolution Guards said Friday that it is pulling out of participating in projects in the Iranian giant South Pars gas field. The group blamed the "recent oppressive action by the West" in placing additional sanctions on Iran as a reason for the move.



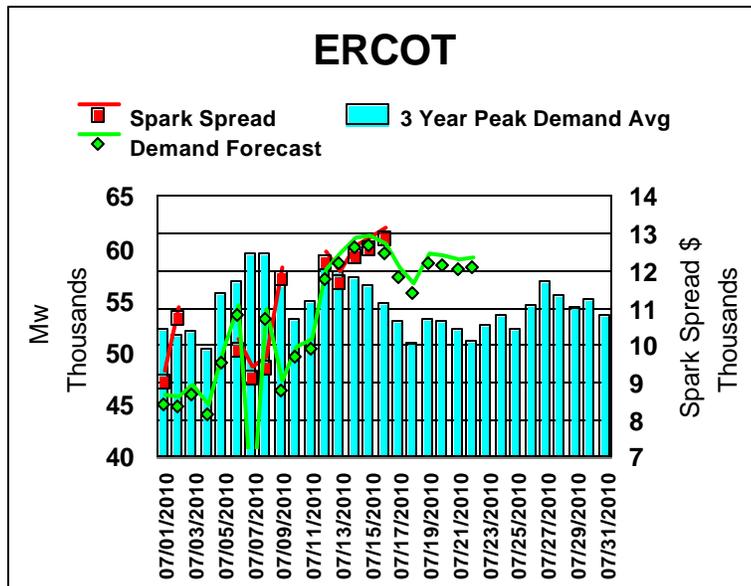
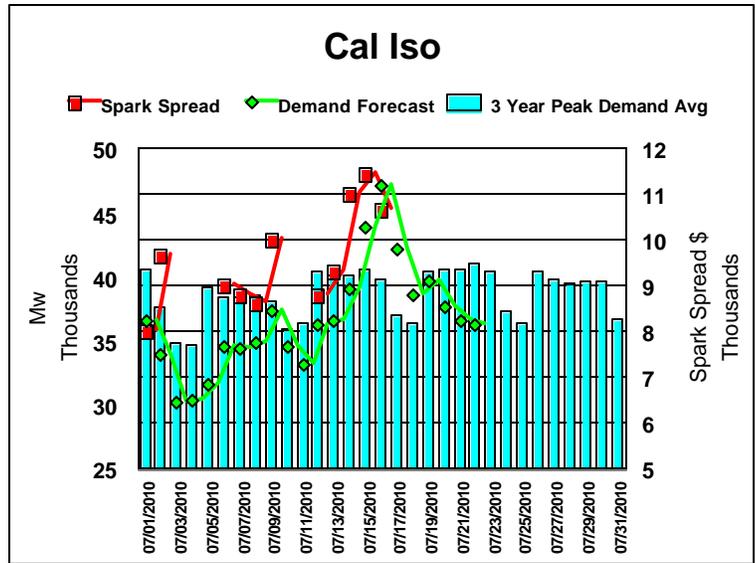
**PIPELINE MAINTENANCE**  
Gulf South said it will perform pipeline maintenance on Index 130 (Kosciusko 30-inch) upstream of the Montpelier Compressor Station in Livingston Parish, LA, beginning on July 21<sup>st</sup> and lasting for three days. Based on system operations and nominations the company does not expect any impact to shippers. The company also announced it is set to begin

maintenance on its Tallulah Compressor Station on August 21<sup>st</sup> for eight days.

**PIPELINE RESTRICTIONS**

Tennessee Gas Pipeline announced that for July 16<sup>th</sup>, due to reduced nominations it will accept increases for nominations of 18,000 Dth pathed for delivery through the Rivervale delivery meter,

Rockies Express Pipeline reported it has a gas quality issue at the Lost Creek Sweetwater receipt point that may jeopardize its ability to meet its firm obligations and or endanger the safe operation and integrity of its system. The company also reported that from today and



until further notice it is at capacity for delivered quantities to Dominion-Clarrington. Based on the level of nominations, interruptible transportation/authorized overrun and secondary quantities are risk of not being scheduled.

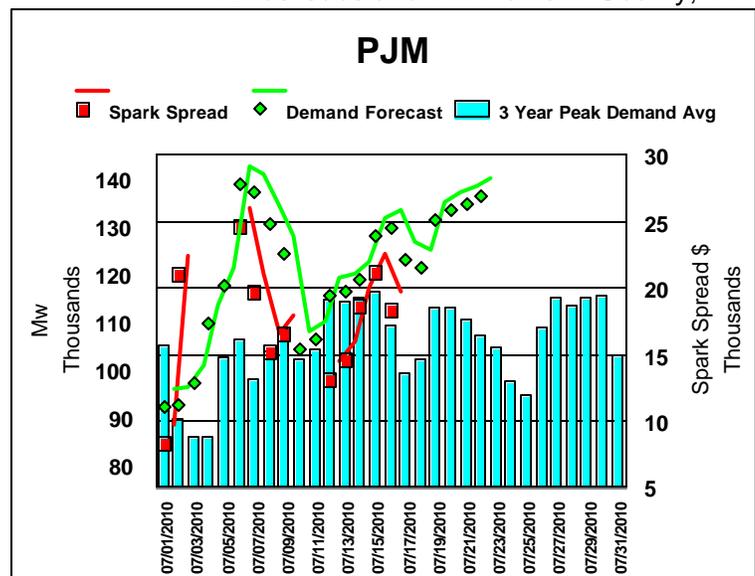
**ELECTRIC MARKET NEWS**

AEP and Allegheny Energy announced today the Maryland PSC has issued a favorable ruling in regard to the Potomac-Appalachian Transmission Highline. Affiliates of the companies have been seeking authorization to construct the PATH project, a 275-mile, 765 Kv transmission project extending from the Amos substation in Putnam County, WV

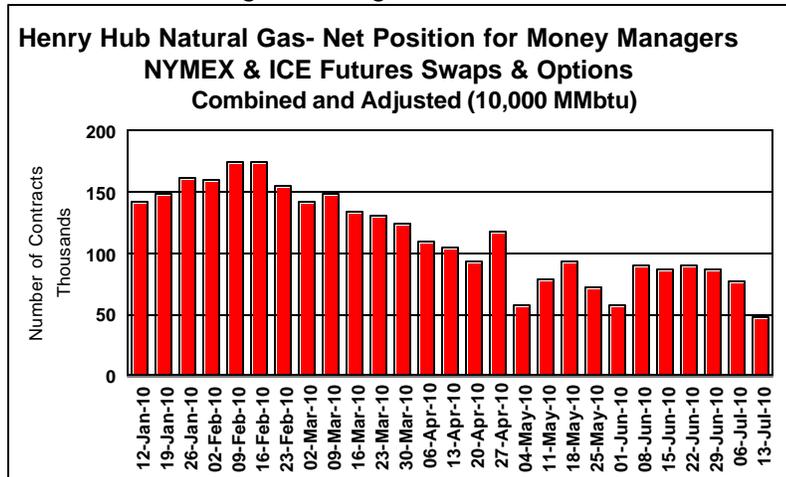
to a proposed substation in Frederick County, MD. PJM has established a required in-service deadline for PATH of June 1, 2015, at the latest.

**MARKET COMMENTARY**

Despite seeing cash spot market values firm nicely today, driven by yet another heat wave expected for not only ERCOT but MISO and PJM next week, the futures market moved in the opposite direction today. Several reasons helped to pressure the futures market. First the tropics remain very quiet with no real threats expected until possibly the end of July or early August. Second, the price outlook for natural gas that was released by Goldman



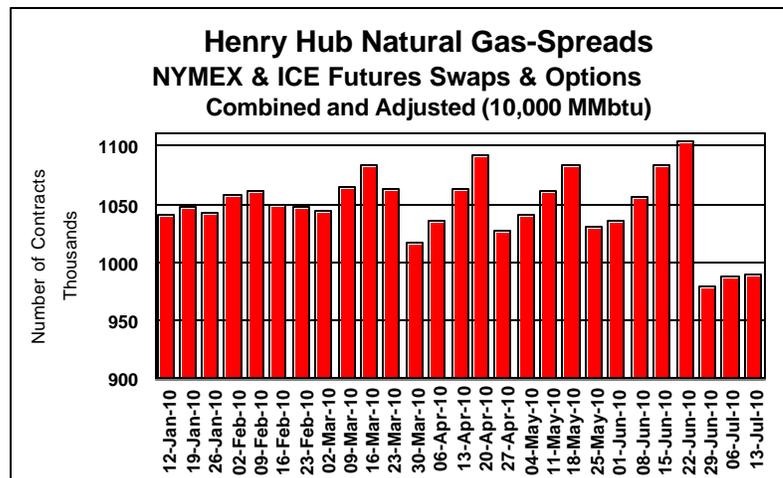
Sachs this morning was a significant shot of cold water on this market, followed lastly by a surprisingly bearish Baker Hughes rig report, which showed drilling activity in the U.S. continues to expand not contract as many analysts, like Goldman Sachs have been repeatedly calling for since the end of this past winter.



Before the bearish news was injected into this market this morning, the natural gas contract had basically retraced slightly more than 38% of the sell off of the past two weeks. But the bearish news factors from midmorning onward helped this market to take back nearly 50% of the gains from the past

24 hours before finding support and stability. We continue to feel that next week's heat wave should help support this market from sinking below this week's lows of \$4.30-\$4.288 and more likely will see the \$4.40-\$4.35 price area as demonstrating the majority of support. We continue to feel comfortable in holding until expiration the August \$4.00 and \$4.25 calls which we shorted earlier this month. On the upside we see resistance starting at \$4.635-\$4.66 followed by \$4.77, \$4.88-\$4.90.

This afternoon the CFTC released their Commitment of Traders report for the week ending July 13. It showed that net long reportable positions held by commodity funds in ICE and CME Henry Hub futures, swaps and options on a combined and adjusted basis fell for the third consecutive week and stood at its lowest net long position this year. This net position change is not the result of long liquidation but rather the reversal of some long positions and the addition of new shorts, as the gross positions held by this group in the Henry Hub contracts grew by 14,240 lots on the week and stood at the largest gross position in three weeks.



The information contained in this letter is taken from sources, which we believe to be reliable, but is not guaranteed by us as to accuracy or completeness and is sent to you for information purposes only. The Windham Group bases its market recommendations solely on the judgment of its personnel. Reproduction in whole or part or other use without written permission is prohibited.