



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR JULY 19, 2010

#### NATURAL GAS MARKET NEWS

The National Hurricane Center this morning was monitoring two tropical waves in the Caribbean but assigned only a low 20% or less chance that these systems could have tropical cyclone development in the next 48 hours. One wave, Invest 97-L is located near the Virgin Islands and Puerto Rico and is producing disorganized showers and thunderstorms as it moves west-northwestward at 10 mph. Currently wind shear conditions are keeping this system from developing but as it approaches South Florida later this week there could be the possibility for some development, but currently the GFS, Canadian and European models do not show this system developing. The second system is over the central and western Caribbean but currently does not even show signs of any surface circulation. Forecasters though are keeping a close eye on tropical waves coming off the African coast given the Madden Julian Oscillation is currently in a favorable phase across the Atlantic Basin and the probability of having our second name storm by the end of the month should seem a greater possibility.

#### Generator Problems

**PJM** – Constellation Energy's Calvert Cliffs #1 and #2 nuclear units both returned to full power over the weekend.

PPL's Susquehanna #1 nuclear unit, which was scrambled shut on Friday, still remained off line on Monday morning.

**SERC**- All three nuclear units at TVA's Browns Ferry nuclear plant which were at half power on Friday were back to full power this morning.

**The NRC reported this morning that some 93,892 Mw of nuclear generation was operating today, up 0.5% from yesterday and off nearly 0.1% from the same day a year ago.**

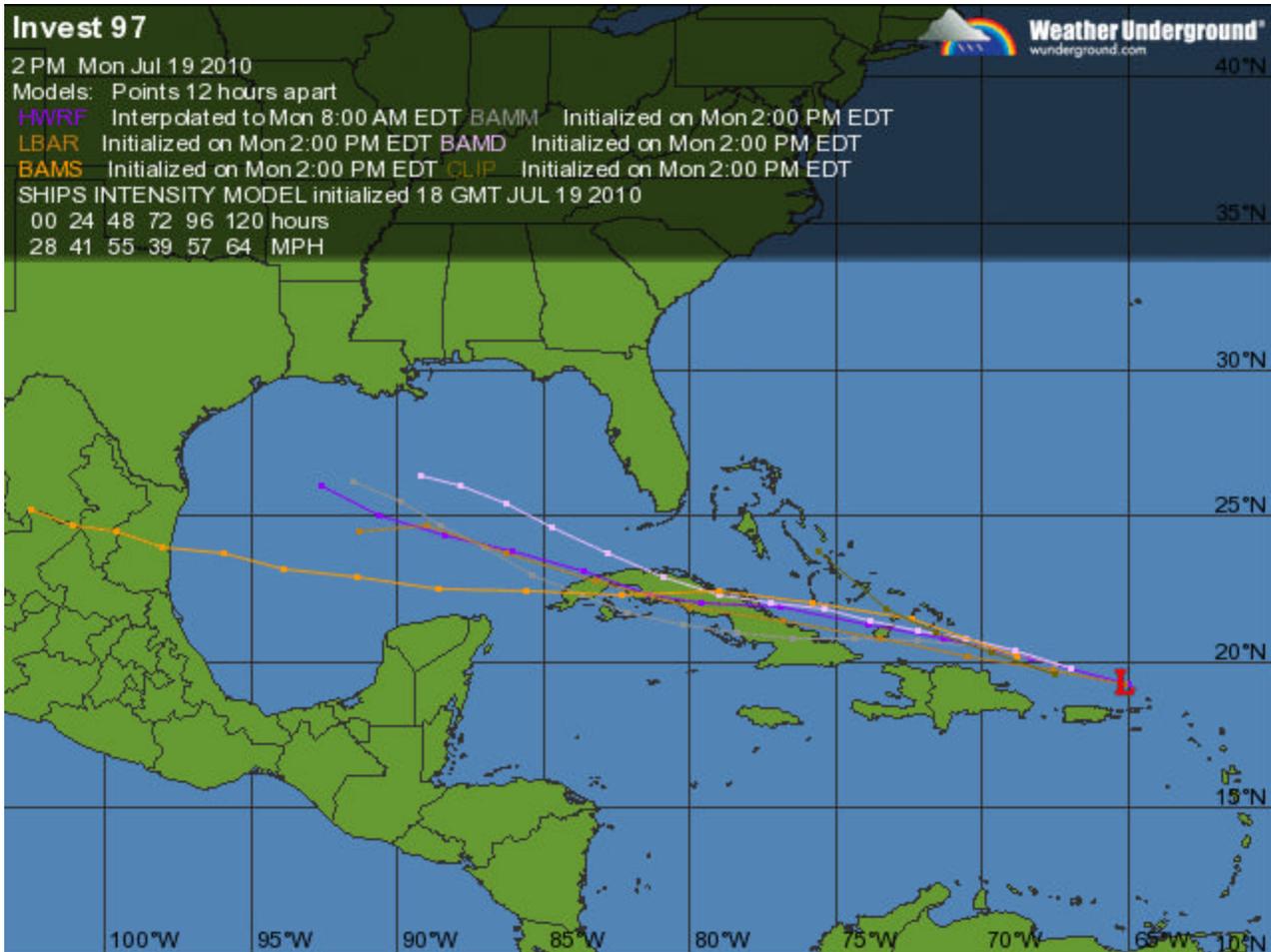
Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	856,700	\$4.557	(\$0.122)	\$0.037	(\$0.072)	(\$0.066)
Chicago City Gate	546,800	\$4.519	(\$0.107)	(\$0.001)	(\$0.072)	(\$0.005)
NGPL- TX/OK	687,200	\$4.341	(\$0.140)	(\$0.179)	(\$0.105)	(\$0.162)
SoCal	338,600	\$4.238	(\$0.108)	(\$0.282)	(\$0.073)	(\$0.293)
PG&E Citygate	652,400	\$4.244	(\$0.132)	(\$0.276)	(\$0.097)	(\$0.269)
Dominion-South	755,400	\$4.738	(\$0.152)	\$0.218	(\$0.117)	\$0.264
USTRade Weighted	20,956,900	\$4.453	(\$0.107)	(\$0.067)	(\$0.07)	(\$0.066)

The Climate Prediction Center reported this morning that the U.S. on a population-weighted basis saw 93 cooling degree-days for the week ending July 17<sup>th</sup>. This

was 27% more than normal and 31% hotter than the same week a year ago. For the current week the agency is looking for 101 CDD, some 34.7% hotter than normal and 62% warmer than the same week a year ago.

Pennsylvania regulators last week sent Marcellus Shale operators a letter outlining nine safety practices that should be followed when conducting shale-drilling operations in the state. This follows in the wake of EOG Resources safety lapses at a well last month.

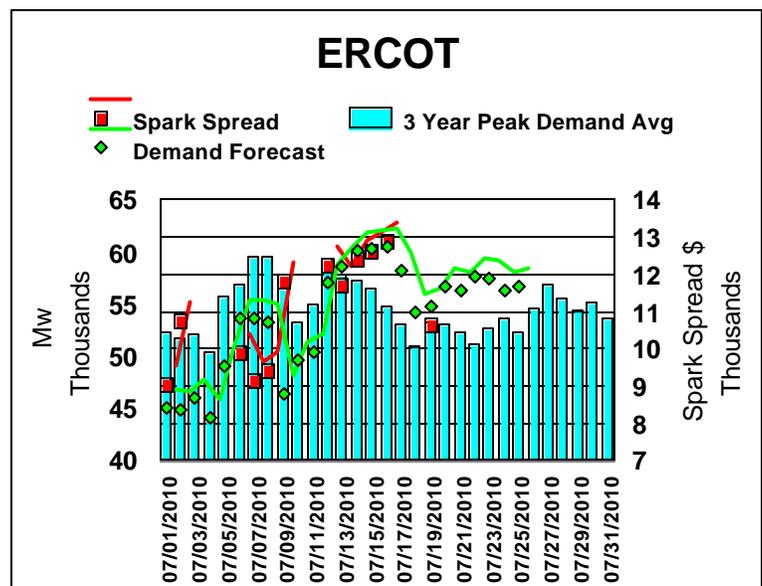
A Russian newspaper reported today that the Russian government might move to increase the minerals extraction tax on natural gas by only 10-15% next year, much less than expected. The Finance Ministry had been discussing doubling the tax from the current level of \$4.8 per mcm, which was set in 2005. Russian gas companies led by Gazprom have been able to fend off earlier attempts to increase the tax, arguing it needs cash to fund ambitious investment plans.



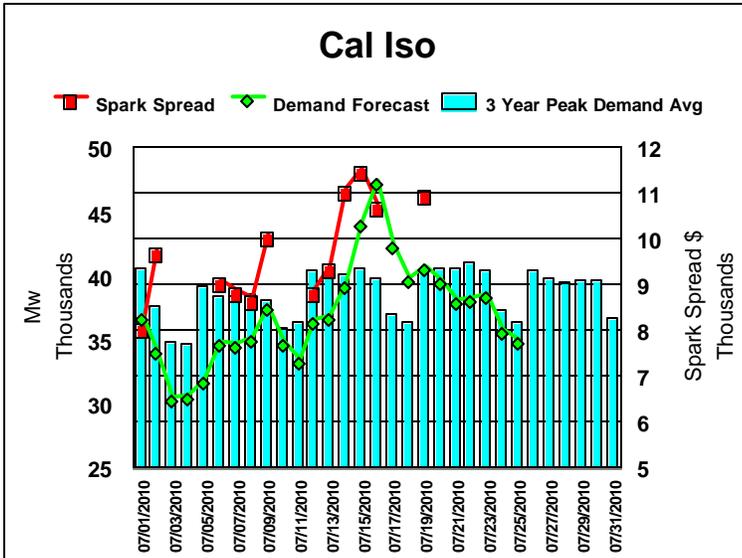
PetroChina said today that it plans to sharply increase its natural gas production from its Karamay oil field to 5 bcm next year, while it keeps crude production relatively stable. Natural gas production by 2015 is seen reaching 10 bcm by 2015 at the field.

BP announced today it has reached agreement with Egypt to develop significant gas resources from two deep water blocks of the Nile Delta development. Production is projected to be able to reach 1 bcf/d.

Chevron announced today that it has signed a preliminary agreement with Korea Gas Corp for the delivery of LNG



from its Wheatstone project offshore Australia for up to 20 years. The agreement will mark a significant step forward for the project, which the company said it looks to make a final investment decision on by 2011. Under the agreement, KOGAS is expected to purchase 1.5 million tons a year of natural gas for up to 20 years, with 75% of it expected to be purchased from Chevron and the remainder from other Wheatstone partners. KOGAS also signed a preliminary equity agreement to acquire a 5% interest in each of Chevron's Wheatstone field licenses and in the Wheatstone project LNG and domestic gas processing facilities.



According to the Milford Haven port officials, two LNG tankers are scheduled to arrive at the British port this week. The Methane Kari Elin will berth at Dragon LNG terminal on July 23<sup>rd</sup> and the Tembek I will berth on July 24<sup>th</sup> at South Hook terminal.

Private weather forecaster WSI Corp said today that it expects warmer than normal temperatures to continue from August through October for most of the United States. WSI sees above normal temperatures in August in all regions except the Southeast and South Central. The basis of their warmer than normal

forecast is from a newly-emerging La Nina event, a relatively cold north Pacific, and a record warm North Atlantic.

**PIPELINE MAINTENANCE**

Southern Natural said it will be running maintenance pigs on the 16 inch Logansport Supply Line and the 14-inch Logansport Line in north Louisiana west of the Bienville compressor station for July 20 and July 21 for approximately 10 hours each day. The work will result in a force majeure declaration.

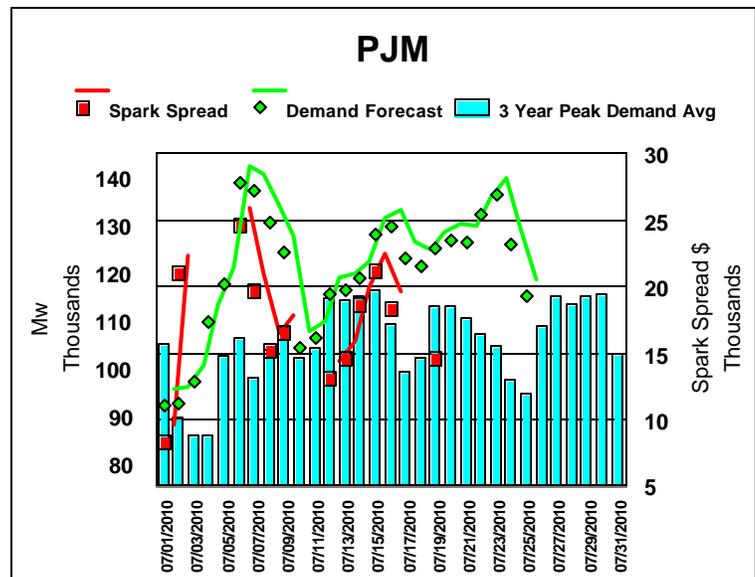
**PIPELINE RESTRICTIONS**

Tennessee Gas Pipeline reported today that due to reduced nominations it will accept nomination increases to 150,000 Dth at Mainline Valve 233 and Station 307 and to 100,000 Dth of available capacity at Niagara Spur Backhaul point.

PG&E has issued a systemwide OFO with a 5% tolerance due to high inventory levels.

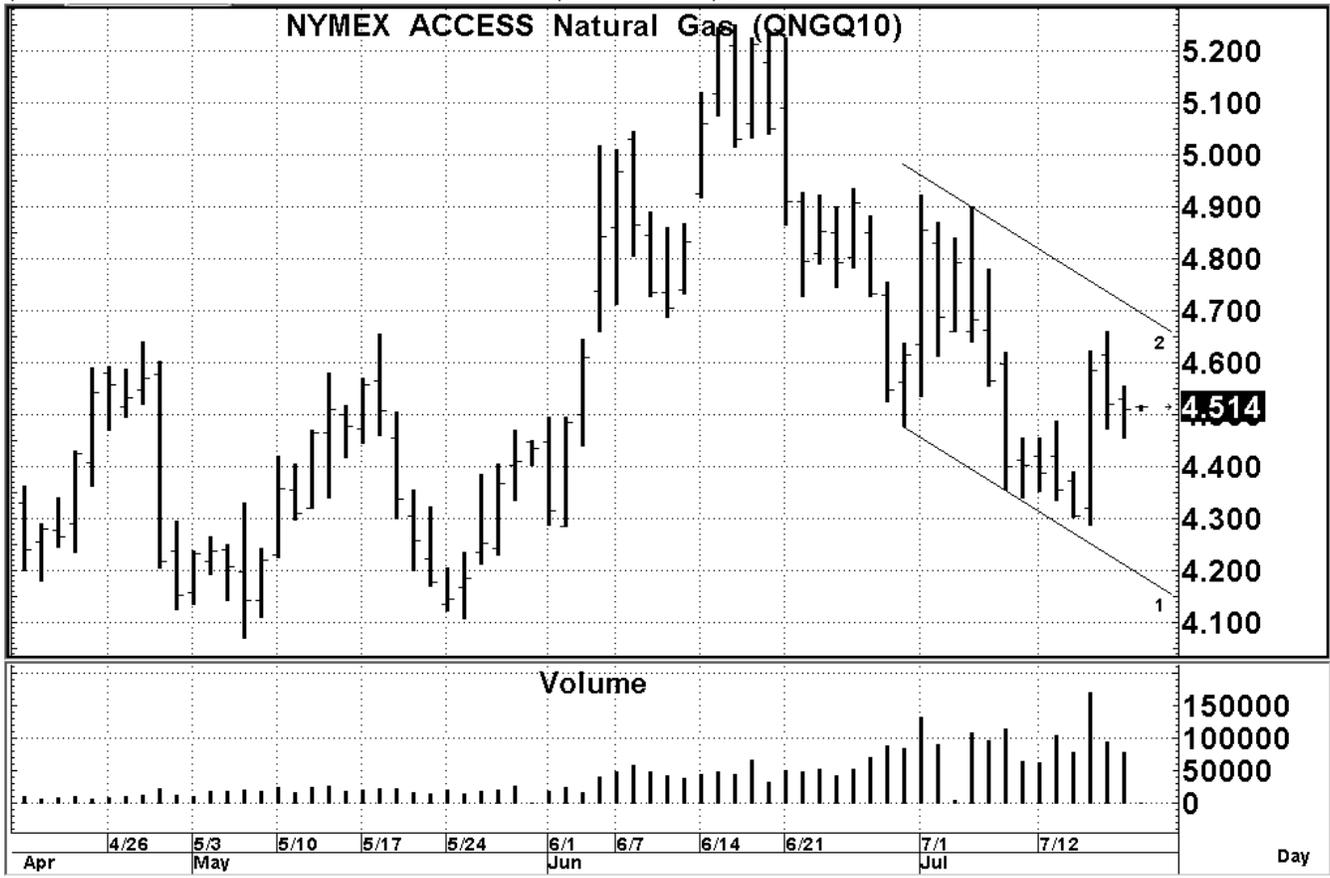
**MARKET COMMENTARY**

The natural gas traded in a seesaw fashion today as prices continued to pivot around unchanged levels throughout the session. Prices did settle lower on the day but only by a penny or two in light to moderate volume. This market appears will remain within this trading channel partially supported by high cooling demand but incapable of breaking out to the upside without a clear indication of a significant contraction in domestic supply



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either through a drop in drilling rig rates or a tropical disruption to production. We see initial support at 4.45-\$4.43 followed by \$4.40, \$4.288 and \$4.192. Resistance we see at \$4.655, \$4.697, \$4.768 and \$4.882. More distant resistance we see at \$4.934 and \$5.25.



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