



## ***ENERGY RISK MANAGEMENT***

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### **NATURAL GAS & POWER MARKET REPORT FOR JULY 20, 2009**

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

Weather forecasters this morning were watching a tropical wave that was a couple of hundred miles east of the Windward Islands. But upper level winds are expected to remain unfavorable for development of this system for the next several days as it moves westward. The National Hurricane Center estimated there is less than a 30% chance that this system demonstrated tropical cyclone formation over the next 48 hours. The latest model runs have the storm tracking west-northwest through the Caribbean and ending up near the Bahamas by later this week.

Private weather forecaster Planalytics said today that they see unusually cool weather will continue in parts of the Great Lakes and Northeast into early August, while the tropical Atlantic should also remain fairly quiet. Meanwhile private weather forecaster, WSI Corp said today it was cutting its forecast for the 2009 Atlantic hurricane season due to wind conditions that favor fewer storms and the development of a new El Nino event in the tropical Pacific. WSI now looks for 10 named storms, five hurricanes and two intense hurricanes of Category 3 or greater.

#### **Generator Problems**

**NPCC** – OPG's 881 Mw Darlington #3 nuclear unit returned to service early Monday. The unit went off line on July 15<sup>th</sup>.

OPG's 494 Mw Lambton coal fired Unit #4 returned to service this morning.

**PJM** – Exelon's 619 Mw Oyster Creek nuclear unit was at 90% capacity, up 19% from Friday, after the unit was restarted on July 16<sup>th</sup>.

Constellation Energy's 835 Mw Calvert Cliffs #1 nuclear unit was at 10% power this morning. The unit had been shut down on July 15<sup>th</sup>.

**ERCOT & SPP** – Luminant's 575 Mw coal fired Big Brown Unit #1 was expected to be restarted today. The unit had tripped off line earlier.

**MISO** – Exelon's 1118 Mw LaSalle #1 nuclear unit has been shutdown so operators could replace a seal on a pump that circulates water through the reactor.

**The NRC reported this morning that 93973 Mw nuclear generation capacity was on line, down 0.1% from Friday and off 4.35% from the same time a year ago.**

#### **Natural Gas Cash Market**

ICE Next Day Cash Market

| <b>Location</b>   | <b>Volume</b> | <b>Avg</b>   | <b>Change</b> | <b>Basis</b>                    | <b>Change</b> | <b>Basis 5-Day</b> |
|-------------------|---------------|--------------|---------------|---------------------------------|---------------|--------------------|
|                   | <b>Traded</b> | <b>Price</b> |               | <small>(As of 12:30 PM)</small> |               | <b>Moving Avg</b>  |
| Henry Hub         | 545,000       | \$3.489      | \$0.096       | (\$0.082)                       | \$0.291       | (\$0.225)          |
| Chicago City Gate | 423,000       | \$3.479      | \$0.149       | (\$0.092)                       | \$0.294       | (\$0.220)          |
| NGPL- TXOK        | 427,500       | \$3.348      | \$0.128       | (\$0.223)                       | \$0.273       | (\$0.346)          |
| SoCal             | 309,800       | \$3.520      | \$0.208       | (\$0.051)                       | \$0.353       | (\$0.220)          |
| PG&E Citygate     | 1,050,800     | \$3.692      | \$0.197       | \$0.121                         | \$0.342       | (\$0.067)          |
| Dominion-South    | 184,000       | \$3.701      | \$0.097       | \$0.130                         | \$0.242       | \$0.047            |
| UTrade Weighted   | 16,960,700    | \$3.464      | \$0.146       | (\$0.107)                       | \$0.29        | (\$0.225)          |

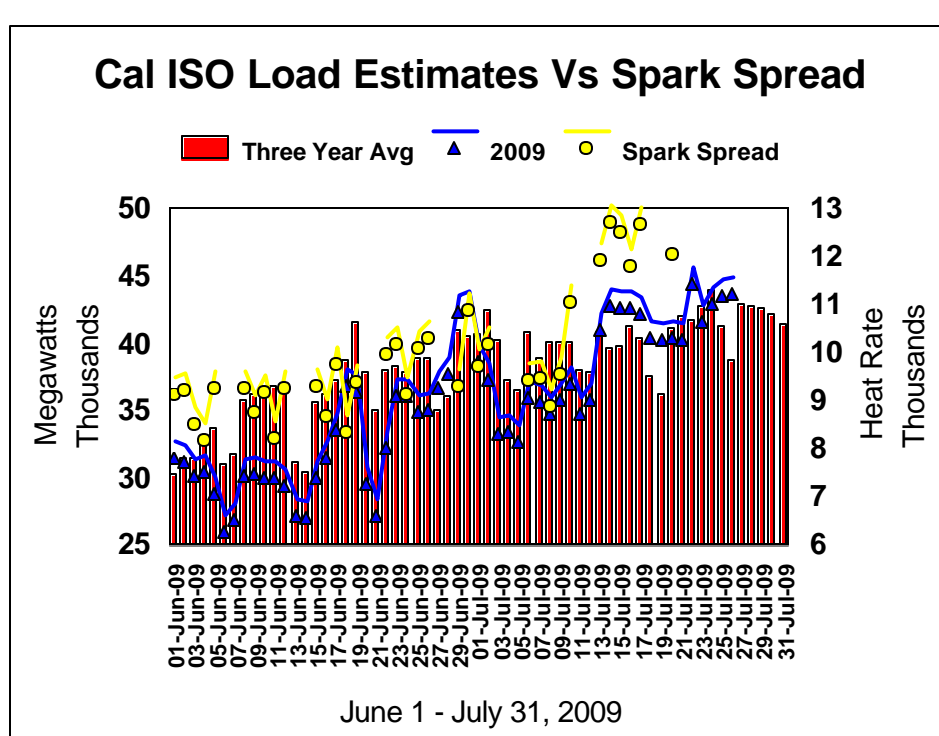
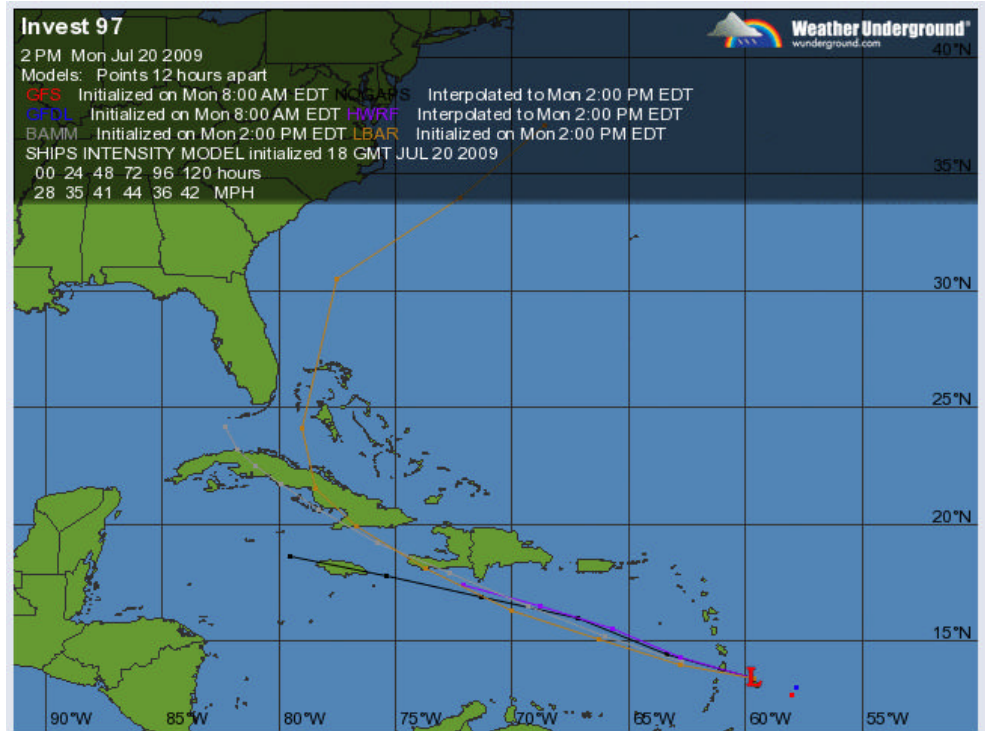
One should note that the markets love affair with the natural gas ETF may be waning just a bit. Bloomberg News today ran an article that outlined that investors may be

disappointed in their investments in the fund this year given the poor return given the cost of roll of the positions each month due to the existing market contango. Since the end of last year the UNG ETF has lost 44% in value while the August futures contract has lost 39.8%. From last year's peak to now, gas has fallen 74% and the S&P has lost 25%. The gas ETF is down 80% during this period, and 18% since mid June when open interest in the ETF ballooned. Raymond James also released a research note today in which it floated the idea that their investors may be better off investing in gas weighted exploration and production companies rather than the UNG.

Milford Haven Port Authority reported that a Qatari LNG tanker was arriving at the South Hook terminal on Sunday.

Yemen LNG's chief executive said today that the company's first export cargo of LNG will be delayed until mid-September due to minor "technical" problems. In May the company had announced its first export cargo would sail in August.

An official from China National Offshore Oil Corporation said over the weekend that his company expected to have a LNG receiving capacity of 50 million tones by 2020.



StatoilHydro said Monday that it started gas production from the Tune South well on July 18<sup>th</sup>. Output from the field is expected to be 1.4 million cubic meters per day. The field will account for 10% of the gas exported from the Oseberg field in the first year of production.

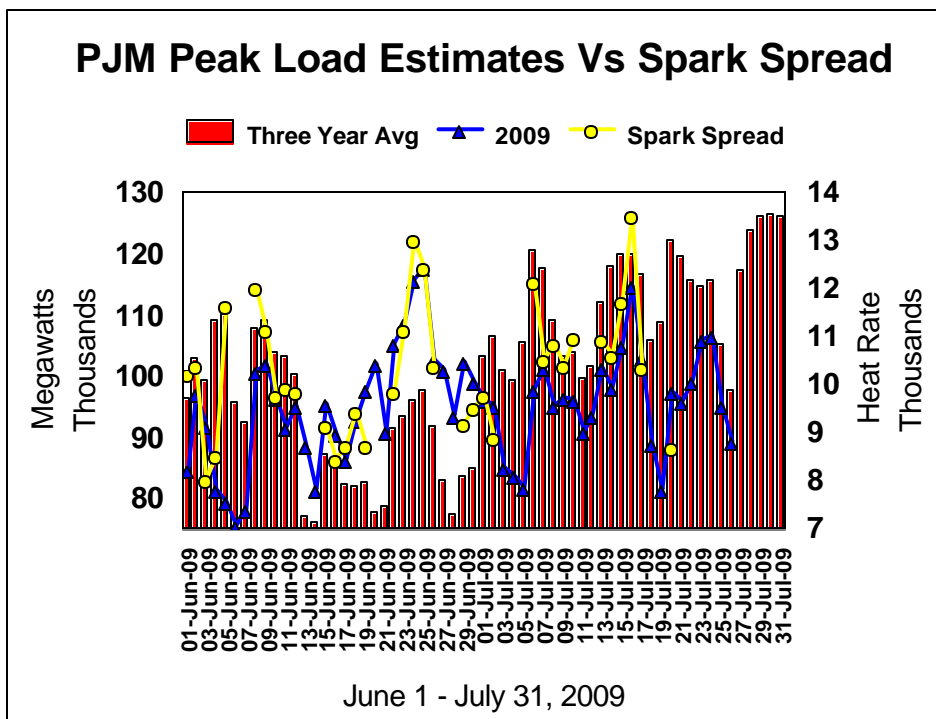
CME Group today announced the launch of trading and clearing services for 11 new financially settled natural gas basis options contracts. Trading will be available on the New York trading floor and clearing services will be

available through CME ClearPort®, a set of flexible clearing services open to over the counter (OTC) market participants to significantly mitigate counterparty risk and provide capital efficiencies across

asset classes, beginning on August 2 for trade date August 3. These contracts are listed by NYMEX, and are subject to NYMEX rules and regulations.

The new basis options contracts and their commodity codes will be:

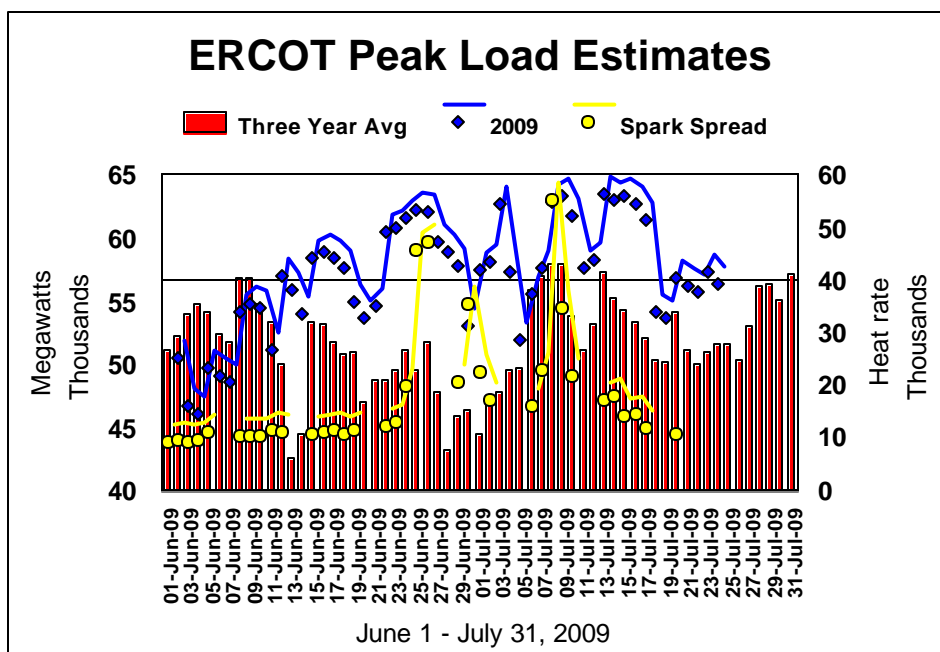
- Henry Hub (5E)
- Houston Ship Channel (5F)
- SoCal (5M)
- Northwest Pipeline, Rockies (5I)
- Panhandle (5K)
- Michigan



Consolidated Gas (4W)

- Texas Eastern Zone M-3 (5N)
- Columbia Gas Transmission Corp. Appalachia (TCO) (5D)
- Natural Gas Pipeline Co. of America (NGLP) TexOk (5H)
- Natural Gas Pipeline Co. of America (NGLP) Mid-Con (5G)
- Waha (5O)

The contract will be 2,500 mmBtus in size with a minimum price fluctuation of \$0.01 per barrel. There will be 10 strike prices in increments of \$0.01 per mmBtu above and below the "at-the-money" strike price, for a total of 21 strike prices. The expiration date will be the last business day of the underlying month of the futures contract. The first listed month will be the August 2009 contract. The contracts will be listed for 48 consecutive



months.

US lender CIT Group Inc, which lends to nearly 1 million small and mid-sized businesses, has agreed to a \$3 billion rescue with bondholders, helping it avoid bankruptcy.

The Conference Board's index of US leading economic indicators increased 0.7% in June, exceeding economists' consensus forecast for a 0.5% increase. The US recession is easing but not yet over.

The Atlanta Federal Reserve President Lockhart said today that the U.S economic recession is ending but it will be some time before the Fed begins to unwind its dramatic monetary expansion.

ExxonMobil Corp has less than two weeks to respond to claims by the Texas General Land Office that the company sabotaged wells to prevent other producers from tapping fields it no longer wanted. The Texas Railroad Commission said it will not take action on allegations of an early 1990s program of plugging abandoned wells with trash, sludge, cement and explosives until August at the earliest. ExxonMobil can face fines in excess of \$1billion. ExxonMobil has previously stated that the method to plug the wells was designed to protect groundwater from contamination.

### **PIPELINE MAINTENANCE**

Gulf South said in a notice late last week it is performing emergency pipeline maintenance on Index 301 and it is expected to last until July 22<sup>nd</sup>. As a result of the work several pipeline points will be shut in.

### **PIPELINE RESTRICTIONS**

Rockies Express Pipeline said the force majeure at its Arlington Compressor Station that was initiated on July 17<sup>th</sup> remains in effect as repairs continue. The company hopes to have the station returned to service on July 31<sup>st</sup>.

NGPL reported that beginning July 18<sup>th</sup> and continuing until further notice, Florida Gas-Jefferson has limited capacity available for deliveries.

Tennessee Gas Pipeline said it s was accepting nominations sourced from meters on the Carthage Line Lateral. The company estimated it had 16,000 Dth of available capacity.

PG&E said it had placed a Stage 2 OFO on its line for Monday due to low inventory.

### **ELECTRIC MARKET NEWS**

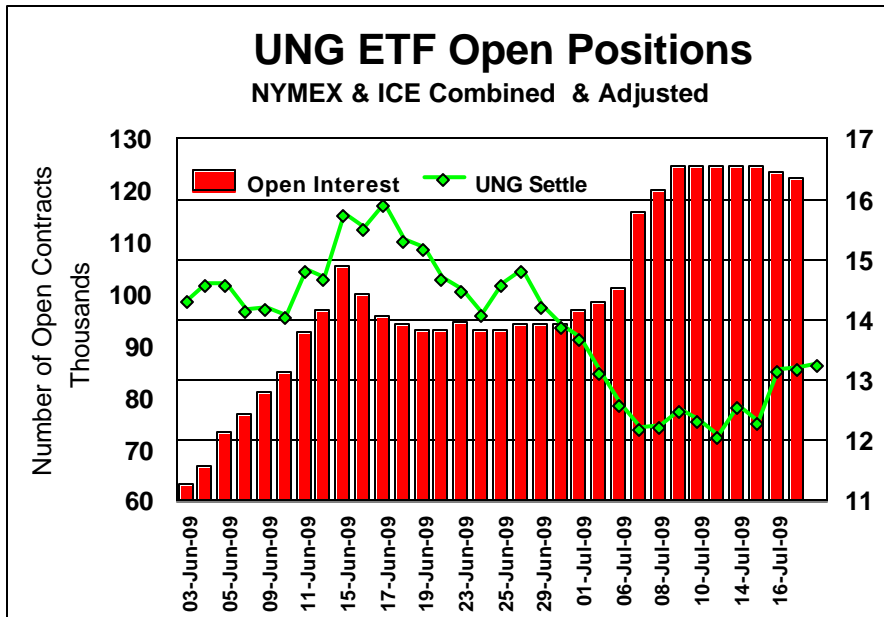
Senator Dorgan, a democratic senator from North Dakota said late last week the carbon trading emissions scheme that would be created under the climate change bill passed by the House of Representatives would provide a "field day" for speculators and as a result he would not support any legislation that limits carbon emissions through trading allowances.

Genscape reported that U.S. power output for the week ending July 16<sup>th</sup> rose 7.76% from the previous week but was still 6.92% less than the same week a year ago.

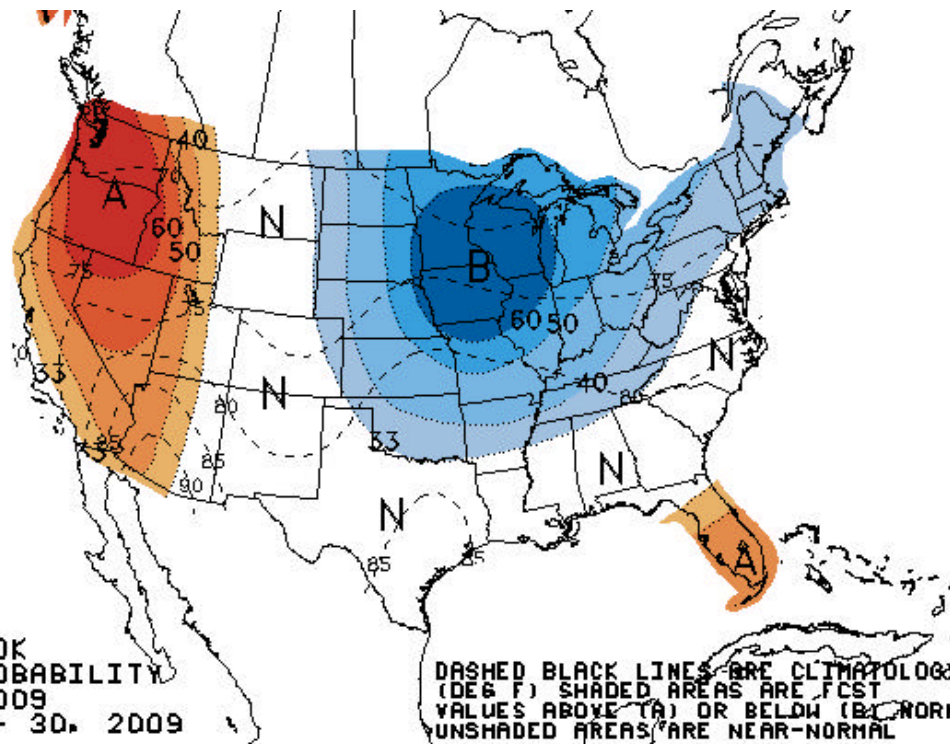
### **MARKET COMMENTARY**

While the oil markets have seen a strong upward move over the past three trading sessions, the natural gas market while posting wide daily trading ranges, basically has been mired in a modest trading pattern with the market finishing trading each of these sessions within a 2.1 cent range. While the bulls found comfort from the cash market which was firmer today coupled with modest uptick in the potential risk from a tropical wave entering the Caribbean today, the bears found comfort in the ever

growing stock overhang and the prospects for limited power generation demand in the coming days and weeks given recent temperature forecasts.



We continue to be bearish overall on this market and look to be a scale up seller on any move above \$3.90. We see initial resistance at \$377-\$3.785 followed by \$3.901 and \$4.059. Additional resistance we see at \$4.138, \$4.50 and \$4,574. Support we see at \$3.516, \$3.454, \$3.254 and \$3.227



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