



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR JULY 23, 2010

#### NATURAL GAS MARKET NEWS

Tropical Depression Three became Tropical Storm Bonnie overnight, but as the storm moved westward across parts of Florida the organization of the storm appeared to become a bit ragged as the storm encountered not only land but some wind shear as well. Forecasters by late morning were not as bullish on the storm and actually began to leave open the possibility that the storm could degenerate into a tropical wave or even dissipate. The track of the storm appeared to be pointed towards making landfall on the Louisiana coast late Saturday or early Sunday. By late this afternoon NHC downgraded the system to a tropical depression but warned it could restrengthen later when it was fully over the Gulf of Mexico. AccuWeather forecaster Joe Bastardi noted though that this system will remain relatively disorganized and will eventually make land fall this weekend on the Gulf Coast with only 25 mph winds. Meanwhile while the rest of the Tropical Atlantic remains basically quiet, there are indications from the long range GFS model that a significant uptick in tropical activity is possible for the eastern Atlantic during the first week of August.

#### Generator Problems

**NPCC** – The 494 Mw coal fired Unit #4 at the Lambton power plant was shut for short-term maintenance today.

**PJM** - The 636 Mw Hope Creek nuclear power plant saw power output fall 15% overnight and stand at 85% of capacity this morning.

**SERC** – TVA's 1120 Mw Browns Ferry #2 nuclear unit was at half power this morning, off from full power recorded on Thursday. Operating levels were reduced due to high temperatures in the Tennessee River. State regulations require Browns Ferry, which uses river water to cool the plant, to keep temperatures downstream of the plant below a 24 hour average of 90 degrees F.

The 695 Mw Robinson #2 nuclear unit was at 99% power this morning up 9% from yesterday.

**WSCC** – The 1070 Mw San Onofre #2 nuclear unit saw power output increase by 6% from yesterday's levels and return to full power.

**The NRC reported this morning that some 94,388 Mw of nuclear generation was operating today, down 0.5% from yesterday and off 0.5% from the same day a year ago.**

Meanwhile energy companies operating in the Gulf of Mexico were making preparations for the advance of Tropical Storm Bonnie. BP reported that it was in the process of

Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
<u>Location</u>	<u>Traded</u>	<u>Price</u>		(As of 12:30 PM)		<u>Moving Avg</u>
Henry Hub	798,200	\$4.694	\$0.026	\$0.096	\$0.029	\$0.004
Chicago City Gate	620,800	\$4.635	(\$0.008)	\$0.037	\$0.029	\$0.066
NGPL- TX/OK	656,700	\$4.469	(\$0.000)	(\$0.129)	\$0.037	(\$0.116)
SoCal	337,000	\$4.339	(\$0.048)	(\$0.259)	(\$0.011)	(\$0.218)
PG&E Citygate	534,800	\$4.358	(\$0.051)	(\$0.240)	(\$0.014)	(\$0.195)
Dominion-South	601,300	\$4.922	(\$0.054)	\$0.324	(\$0.017)	\$0.351
USTrade Weighted	18,748,900	\$4.581	(\$0.008)	(\$0.017)	\$0.03	\$0.004

securing eight company-owned platforms in the Gulf of Mexico Friday and preparing to evacuate all workers. Apache Corp said it has shut down some 2350 b/d of crude production and 6.7 MMcf/d of gas production and had evacuated some 25 offshore workers. Anadarko said evacuations of its personnel

from its Gulf facilities has so far not impacted production, while Shell said it was shutting in production from most of its eastern and central Gulf of Mexico. Chevron said it has been evacuating non-essential personnel and was starting to shut in some production as well as a result of third party pipelines being shut in. Enterprise this afternoon reported it was shutting production from three offshore platforms and evacuating 30 employees from six platforms. Their three shut in platforms produce 100 MMcf/d of gas and 4000 b/d of crude. ConocoPhillips said it was evacuating nonessential workers on Friday from its Magnolia Platform in the central Gulf but no production had been impacted at this time.

By midday the Bureau of Ocean Management reported that 28.3% or 452,302 b/d of oil production and 10.4% or 667 MMcf/d of natural gas production in the Gulf of Mexico had been shut down Friday due to Tropical Storm Bonnie.

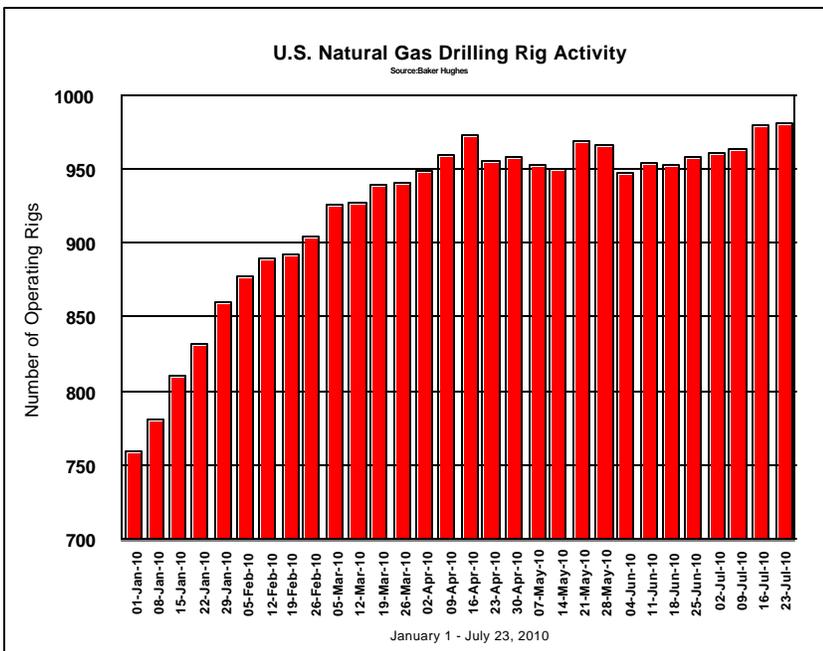
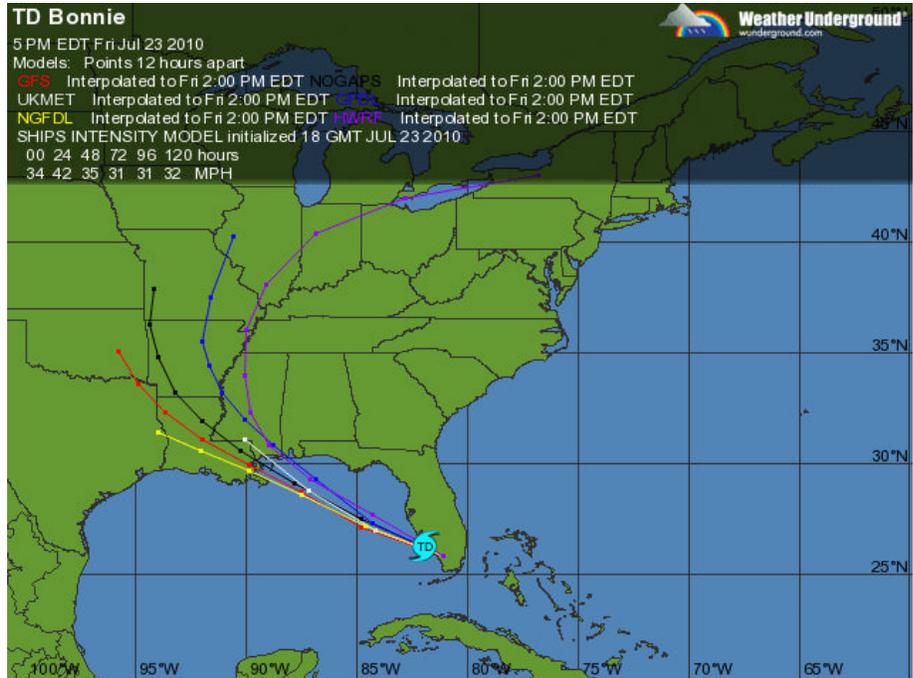
The Pennsylvania Public Utility Commission reported that an explosion at a natural gas well in Allegheny County in western Pennsylvania killed two people on Friday morning. The well was owned by privately held Huntley & Huntley, which owns some 350 gas wells in the greater Pittsburg area. It was not clear if this particular well was a shale gas well. The explosion reportedly occurred while workers were welding equipment at the well site.

Reuters reported today that some 1,200 people attended a public meeting near Pittsburg Thursday

evening as part of the EPA's probe into frack drilling. EPA is conducting a two-year study into the safety of hydraulic fracturing. The meeting showcased that the issue remains highly charged and emotional.

Baker Hughes reported this afternoon that for the current week the number of natural gas drilling rigs operating in the United States increased for the fifth straight week, increasing by 3 rigs to 982 rigs the highest since February 20, 2009. But the number of horizontal rigs, those used to extract gas from shale deposits, declined for the second week in a row, dropping by 1 to 858.

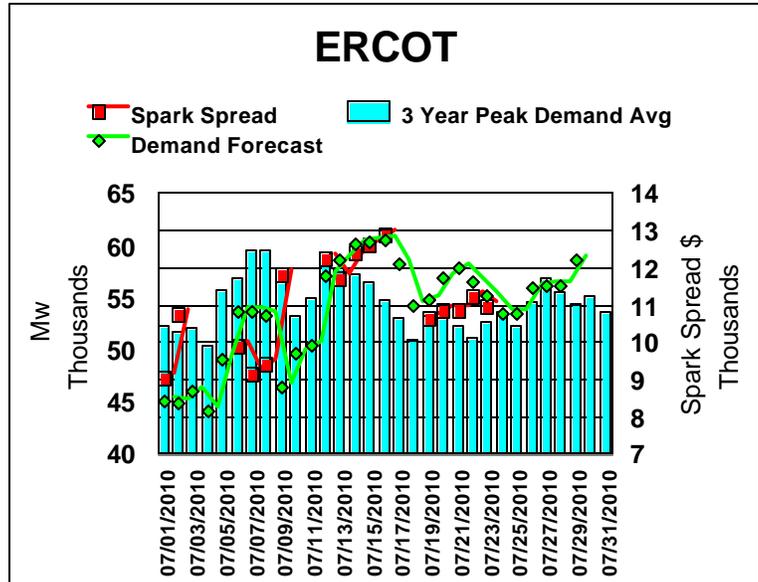
The Turkish energy minister said



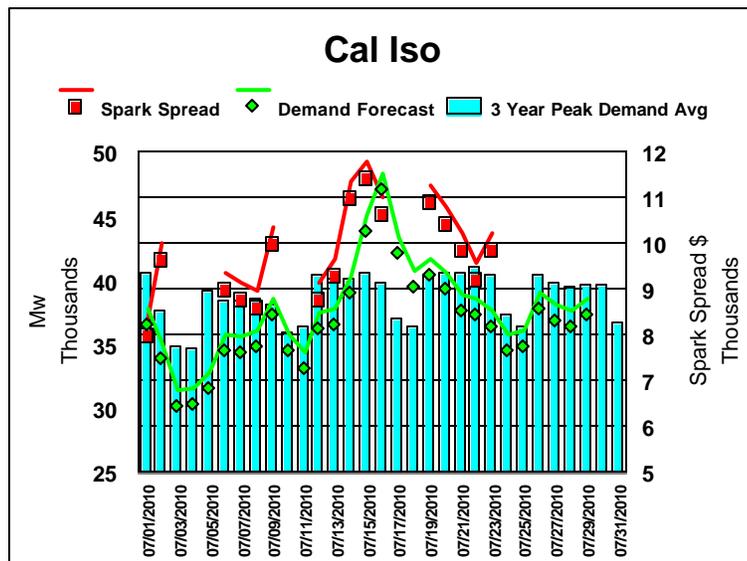
Friday that neither the Turkish government nor the state owned pipeline and gas company Botas have signed a \$1 billion pipeline deal with Iran. Iran earlier in the day announced Turkey had agreed to build the pipeline that would have provided an export avenue for its natural gas to Europe. The line would have the capacity to transport 110 million meters of gas per day. Iran earlier this week signed an agreement with Pakistan to build a pipeline to ship gas possibly onto India. Later in the day it appeared a private Turkish firm Som Petrol claimed to be partner in the deal.

The Turkish energy minister said today that the Turkish government aims to hand over Botas's 6 bcm natural gas contract with Russia to private companies and allow the private sector to handle the importation of natural gas from Russia from 2011 onward.

Woodside Petroleum said today its Pluto LNG project is 91% completed as of the end of June and is on schedule to export its first cargoes by the end of March 2011. But the company noted that its Dalia South – 1 well off western Australia turned out to be a dry hole thus casting further doubts that it can secure enough gas reserves to support an investment decision for Pluto expansion by the end of this year. The company also reported that maintenance work on its third and fifth trains at the North West Shelf was successfully completed during the first half of this year, with the fourth train due to be shut for planned maintenance in the third quarter.



Indonesia's energy minister said the country was in talks with Singapore seeking to reduce its natural gas exports to Singapore as a result of growing domestic needs for energy.



Reuters released the results of its quarterly survey of analysts on their U.S. natural gas price forecast. The latest survey found that the industry appears to have lowered their 2010-price outlook by 3% from last quarter to \$4.85 per Mmbtu basis Henry Hub. While the group continues to see 2011 prices will average out higher than this year, but these estimates were lowered by 4% from last quarter to \$5.48. Prices for 2012 were estimated will be at \$5.99.

Barclays Capital in a research note today reported that investment flows into

commodity indexes fell to \$4 billion in the second quarter, the lowest level since the first quarter of 2009. They noted that increased volatility and linkages with other assets, as well as concerns about the outlook for commodity fundamentals and prices in the wake of the credit crunch may be dampening investor demand for commodities.

**PIPELINE MAINTENANCE**

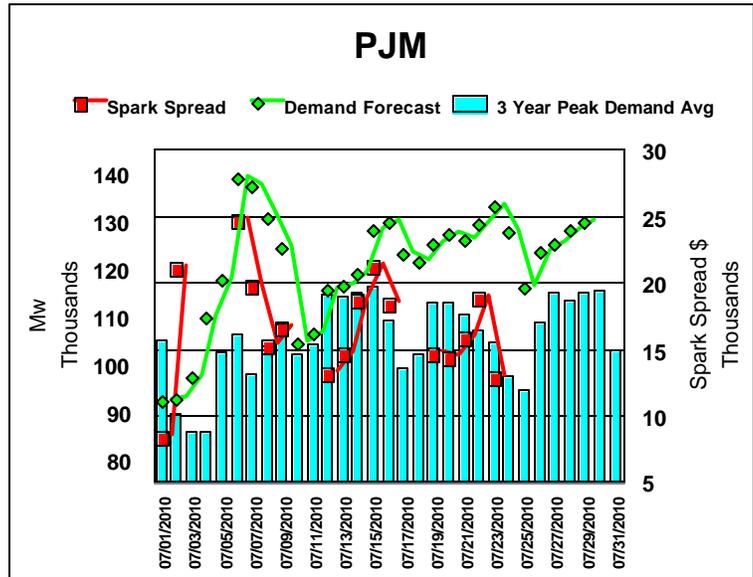
Gulf South reported it has completed the unscheduled maintenance at the Airport Compressor Station that began on July 20<sup>th</sup>. Capacity had been set at zero during the work.

NGPL announced it would conduct hydrostatic testing from August 17<sup>th</sup> through September 30<sup>th</sup>, of two short sections of the Amarillo Line between Station 198 and Station 109 in Iowa. Both stations are on Segment 13. The work is expected to result in the reduction in capacity along Segment 13 to 77% of maximum quantities for primary firm and secondary in path firm transports.

**PIPELINE RESTRICTIONS**

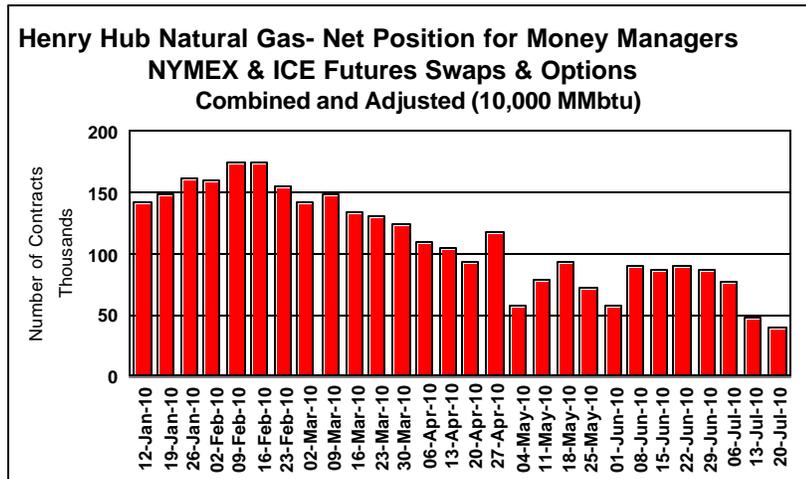
PG&E has issued a system wide OFO for July 24<sup>th</sup> due to high inventory levels. A 5% tolerance was set.

Tennessee Gas Pipeline said it has lifted restrictions for July 23<sup>rd</sup> and will accept nomination increases of 20,000 Dth at the Rivervale meter and 50,000 Dth at Station 321.



**ELECTRIC MARKET NEWS**

Con Edison today urged its customers to cut back on power use this weekend given the forecast for possible damaging thunderstorms and near triple digit heat are expected for its service area of 3.2 million customers.



The U.S. Senate majority Leader said today he will unveil a pared down energy bill focusing on reforming offshore oil drilling possibly as early as Monday with the Senate taking up the bill as early as Tuesday and looking for potential passage by early the following week. The slimmed down version of the energy bill is expected to hold BP accountable for the oil spill in the Gulf of Mexico and seek to prevent similar disasters. It will also contain incentives to convert trucks to run natural gas and to increase energy efficiency. Carbon caps and the renewable power

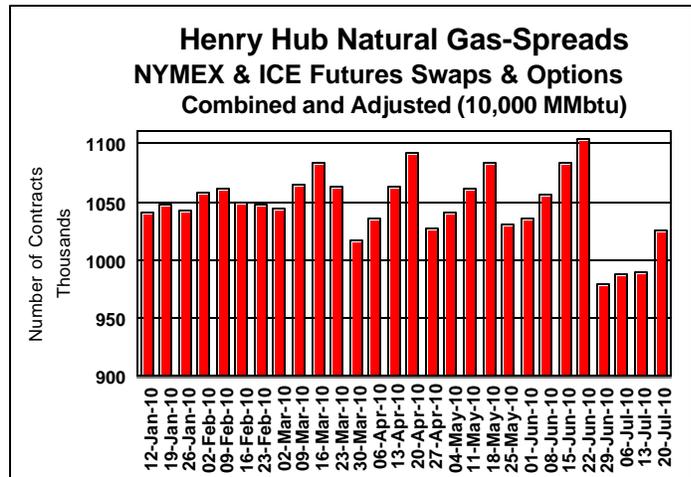
mandate has been stripped from the proposed legislation.

NB Power reported that the long delayed refurbishment of the 635 Mw Point Lepreau nuclear power plant in New Brunswick, Canada, was about 75% complete. The plant has been off line since 2008 and is expected to be back in service by early 2011.

Genscape reported that U.S. coal use rose 1% this week from the week before and was 12% greater than the same time a year ago.

## **MARKET COMMENTARY**

Despite the threats from AccuWeather that this weekend will see a “super scorcher” from New York City to Raleigh, North Carolina, with the heat index approaching 100 -115 degrees, the next day cash market basis ICE was slightly weaker today with traded volume at its lowest level since March of this year. This weaker cash market coupled with Tropical Storm Bonnie floundering and becoming less of a threat to offshore natural gas production than it was seen to be last night, appeared to prompt some to take their profits on long positions today which pressured the market to settle lower. The late afternoon news from Baker Hughes that the natural gas rig count increased on the week once again did not help the mood of the market either. The sell off in the market though was in relatively light volume and as a result prices posted an inside trading day that could portend for a relatively volatile trading session on Monday. We would suspect that if indeed Tropical Storm Bonnie turns out to be a bust and the expectations for moderating temperatures next week will be realized, we feel this trade volatility could be to the downside. We see support starting at \$4.55 followed by \$4.504, \$4.45, and \$4.349. More distant support we see at \$4.288 and \$4.11-\$4.10. Resistance we see at \$4.665-\$4.68 followed by \$4.719, \$4.768 \$4.88-\$4.90 with more distant resistance at \$5.20-\$5.25.



This afternoon's Commitment of Traders Report showed that in the combined Henry Hub positions in futures, swaps and options on both the ICE and CME, the managed money sector continued to reduce its overall net long position for the fourth consecutive week, while spreads held by this sector continued to rebound from the contraction in these position a month ago when a couple of hedge funds were rumored to be liquidating positions.

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