



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta,  
& Karen Palladino

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

**www.e-windham.com**

### **NATURAL GAS & POWER MARKET REPORT FOR JULY 29, 2010**

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

The EIA said today that dry natural gas production in May was estimated at 59 bcf/d, off some 0.5% after the agency made a slight downward revision in April's estimate. This was the first monthly decrease since December 2009. May production though was 2.9% higher than the same month a year ago. Louisiana posted the strongest gains from a month ago up 2.7% and saw its production of natural gas grow by 47.3% from May 2009. "Other" production states such as the Dakotas and states of the Marcellus Shale region saw production grow by 0.8% from April and up 11.4% from a year ago. Natural gas production from the federal area of the Gulf of Mexico though in May was 6.2 bcf/d down 3.4% from April and off 5.2% from the same month a year ago. Net imports of natural gas in May averaged 7 bcf/d, down 4.1% from April but 15% higher than the same month a year ago. Imports of LNG though declined by 14.3% in May from April and were off 24.6% from a year earlier. The EIA estimated consumption of natural gas was at 52.4 bcf/d, up 7.8% from May 2009. While residential and commercial demand appeared unchanged from year ago levels, the growth came from industrial and electric power generation which saw demand for natural gas in May grow by 13.5% and 9 % respectively from the same month a year ago. Month end working gas inventories were report at 2.421 tcf, some 22 bcf greater than originally reported by the EIA via its weekly storage report.

#### **Generator Problems**

**PJM** – The Hope Creek #1 nuclear unit was at 92% power this morning off 6% from yesterday.

The Oyster Creek #1 nuclear unit was at 85% capacity this morning, down 10% from yesterday.

**SERC** – TVA's Browns Ferry nuclear plant saw a net reduction in output this morning. While Unit #2 remained at 50% power, Unit #1 saw production cut by 30% to 67% capacity, while Unit #3 rebounded by 14% to 95% power.

**MISO** - The Point Beach #1 nuclear unit while being shut down for the past two days was restarted today and was at 13% power.

**The NRC reported this morning that some 94,298 Mw of nuclear generation was operating today, down 0.3% from yesterday and off 1.8% from the same day a year ago.**

Exxon and Shell both reported today strong production growth year on year, up 8% and 5.1% respectively. Both companies noted that this production growth was the result of gains in natural gas production. Oil now accounts for 58% of total Exxon output versus 64% a year ago while Shell has seen oil production account for just 53% of its total production output, down 6% from 2009. Exxon Mobil noted that the U.S. drilling halt in the deep water of the Gulf of Mexico will not have a big impact on its 2010 production targets. It also noted that it plans to increase drilling activity in U.S. shale plays in the second half of 2010.

#### **EIA Weekly Report**

	07/23/2010	07/16/2010	Change	07/23/2009
<b>Producing Region</b>	987	992	-5	1057
<b>Consuming East</b>	1459	1425	34	1515
<b>Consuming West</b>	473	474	-1	441
<b>Total US</b>	2919	2891	28	3013

\*storage figures in Bcf

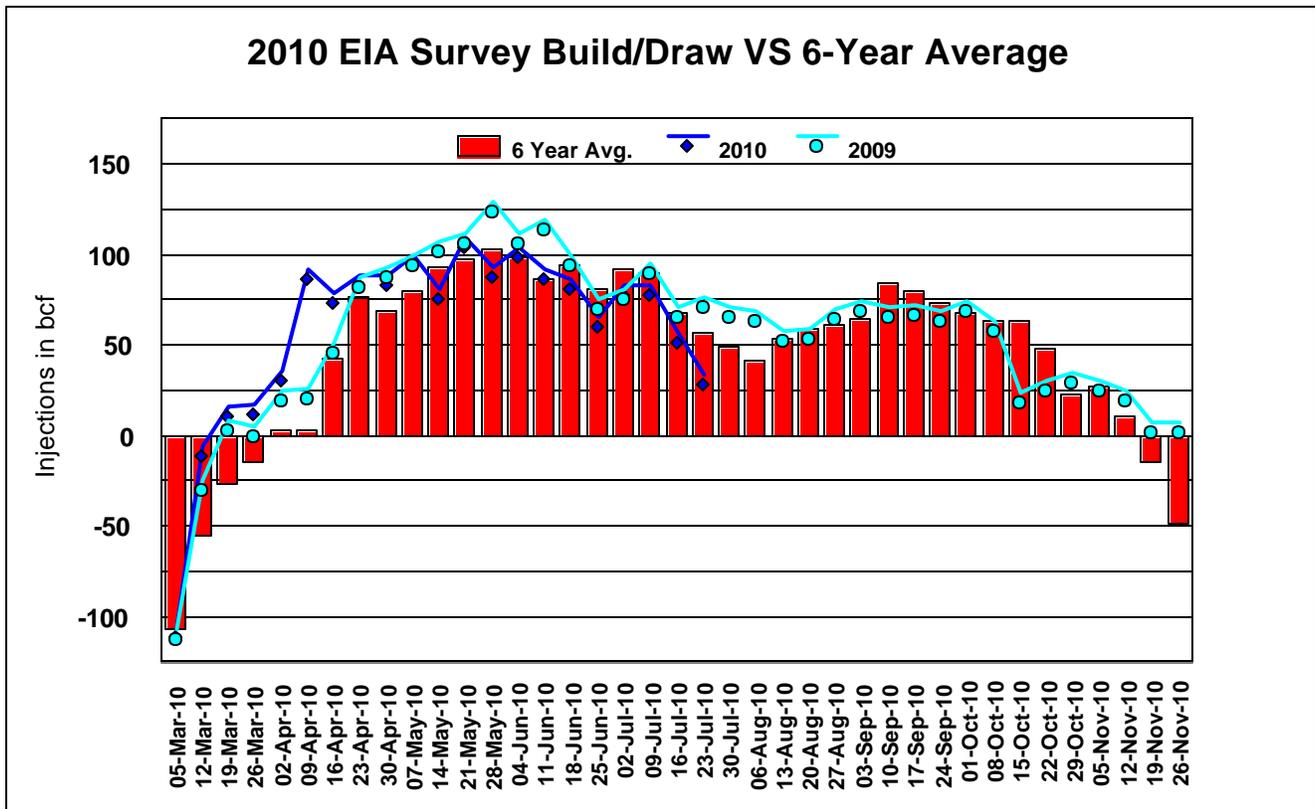
Shell reported today that major construction work at the planned 7.8 million tonne per year Qatargas 4 LNG facility, in which it holds a 30% stake is expected to be completed by the end of the year and begin to ramp up in 2011. Qatargas earlier this

year had noted that the project was on target to start up in the last quarter of 2010.

The IMF said today that the Ukraine would need to continue to increase its gas prices for consumers in the coming years, even after raising them by 50% this year.

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	741,300	\$4.799	\$0.047	(\$0.023)	\$0.017	(\$0.123)
Chicago City Gate	503,700	\$4.756	\$0.056	(\$0.066)	\$0.026	(\$0.017)
NGPL- TX/OK	779,300	\$4.633	\$0.055	(\$0.189)	\$0.025	(\$0.163)
SoCal	401,000	\$4.323	\$0.020	(\$0.499)	(\$0.010)	(\$0.374)
PG&E Citygate	462,800	\$4.455	\$0.025	(\$0.368)	(\$0.005)	(\$0.271)
Dominion-South	440,100	\$4.971	\$0.066	\$0.149	\$0.036	\$0.209
UTrade Weighted	18,398,000	\$4.622	\$0.047	(\$0.200)	\$0.02	(\$0.123)

Statoil said it has written down the value of its U.S. LNG import facility at Cove Point, Maryland, due to shale gas discoveries in the U.S. has limited the need for LNG. The write down was put at \$619.3 million. But the company noted it still believes that demand for natural gas in the United States will rise.

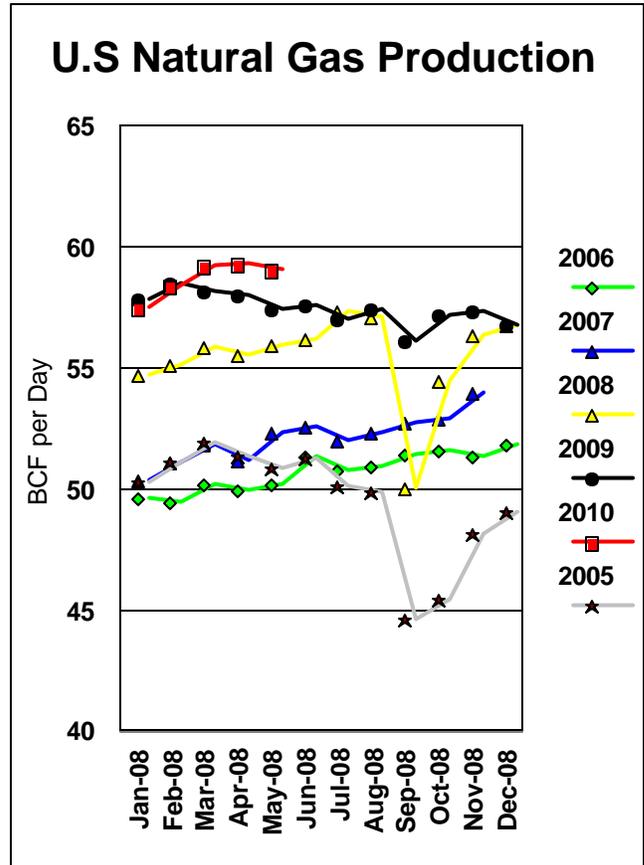


The British government reported that Britain's natural gas production fell by 14.3% in 2009, as the recession and maintenance work reduced demand. Production in 2009 was some 45% less than the peak annual production recorded in 2000. LNG imports into the UK though were up sharply in 2009, accounting for 25% of total imports, up sharply from just 2% share in 2008.

Nexen, which operates the largest oil field in the North Sea, said production at Buzzard was returning to normal after output was restricted because of operating issues at the St. Fergus gas terminal. The restrictions were lifted at around 9 am and production was quickly ramped up to 120,000 b/d with full rates of 200,000 b/d expected by the weekend.

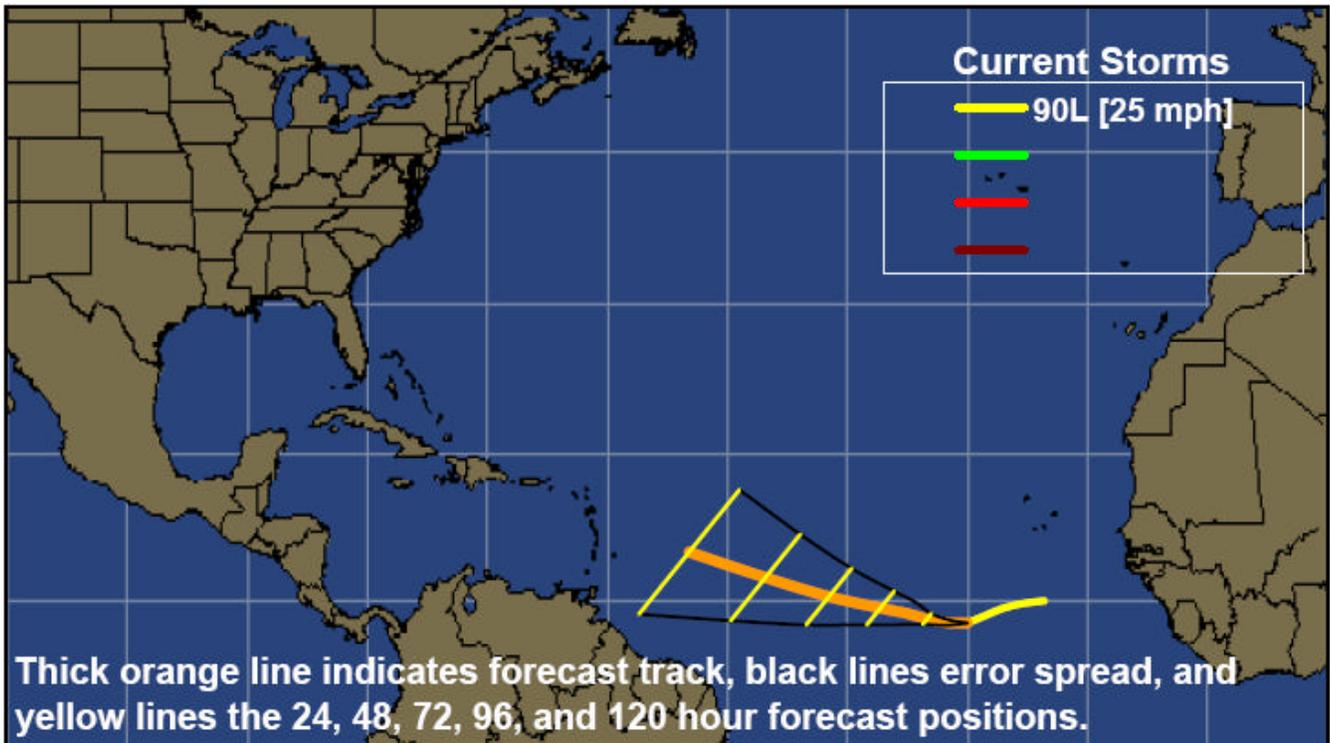
Mexico's state oil company, Pemex, reported that in the first six months of this year it has drilled the fewest wells since 2001, ending a three year increasing trend. The number of rigs operating at the end June stood at 130, down from a recent peak of 184 rigs in September 2009. The bulk of the decline has been in Pemex's northern region, where both Chicontepec and its major onshore gas fields are located.

This evening the National Hurricane Center was watching two areas of interest in the tropical Atlantic. The first is an area of showers and thunderstorms associated with a tropical wave moving across the Windward Islands. Development of this system is expected to be slow, as the NHC assigned only a 10% chance that it could become a tropical cyclone within the next 48 hours. The more interesting area is a tropical wave in the eastern Atlantic some 650 miles southwest of the Cape Verde islands. This has been designated as Invest 90L and was assigned a 20% probability of becoming a tropical cyclone with the next two days. This system has a healthy amount of thunderstorms and is showing some signs of developing circulation this evening.



### PIPELINE RESTRICTIONS

Tennessee Gas Pipeline said that for July 29<sup>th</sup> it would accept nomination increases of 43,000 Dth at Station 245, 51,000 Dth at Station 321, and 11,000 Dth at Leidy Delivery Meters and 34,000 Dth at



Rivervale Delivery Meter.

FGT has issued an overage alert day at 10% tolerance in its market area due to high temperatures.

NGPL said effective for today and until further notice it was at capacity for deliveries at Midwestern-Herscher Kankakee. Interruptible transportation service/authorized overrun and secondary firm transports are at risk of not being fully scheduled.

### **ELECTRIC MARKET NEWS**

The U.S. EPA on Thursday denied 10 petitions challenging EPA's 2009 finding that climate warming greenhouse gas emissions endanger human health and environment. The agency received petitions questioning the scientific basis for the so-called endangerment finding from the states of Texas and Virginia as well as from trade groups like the Ohio Coal Association. The agency noted the "endangerment" finding was based on years of science from the U.S and around the world.

The EIA reported that for the week ending July 24<sup>th</sup>, coal production in the United States reached 20.717 million short tons up 1.7% from the prior week and nearly unchanged for the same week a year ago. Year to date coal production is running some 1.7% less than a year ago.



### **ECONOMIC NEWS**

The Federal Reserve Bank of Kansas City reported today that its manufacturing output index stood at 14 in July, up from 3 recorded in June.

Fed governor Fisher said today that while he sees U.S. economic growth, it would most likely remain "suboptimal". He sees economic recovery once regulatory clarity is achieved.

The U.S. Labor Department reported that initial claims for state unemployment insurance dropped by 11,000 to a seasonally adjusted 457,000 in the latest week, versus an expectation of 459,000. But continuing claims rose more than expected, growing by 81,000 to 4.57 million people.

### **MARKET COMMENTARY**

Natural gas prices jumped higher at mid morning as a result of the release of a supportive storage report that was some 7-10 bcf less than market expectations, as a result of inventory reductions in both the West and Producing Regions. These declines mark only the third time in the 18-year history of the weekly series that both regions posted net declines during July. Temperatures were generally warmer than normal in most regions during the week. Overall temperatures were some 3.4 degrees warmer than normal and 5.3 degrees warmer than last year.

While the natural gas futures quickly retraced its initial gains, by midday it appeared the bulls looked upon this storage report in a more favorable light as the EIA released additional supportive data in its Natural Gas Monthly Report which showed not only that industrial demand was posting strong rebound from year ago levels but that domestic dry natural gas production in May declined for the first time since December.

It appears with the tropics beginning to heat up traders will be reluctant to go home over a weekend short this market. As a result while we would expect following Wednesday's expiration and a summer Friday trading activity will be diminished, prices should remain relatively firm as temperatures are expected to soar again next week over much of the nation after a cooler weekend. The Oct-Jan spread appears to confirm traders growing bullish bias toward the near term, as October has gained on January for the fourth consecutive trading session this week.

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