



## ***ENERGY RISK MANAGEMENT***

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### **NATURAL GAS & POWER MARKET REPORT FOR AUGUST 4, 2009**

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

The only area of interest for the National Hurricane Center today was an area of showers and thunderstorms several hundred miles southwest of the Cape Verde Islands that is associated with a tropical wave. Any significant development of the system is expected to be slow to occur as the wave moves westward at 15 MPH. Forecasters noted that tropical activity for the next week should be relatively restrained given the dry dusty air over much of the eastern Atlantic as well as strong wind shear conditions expected for the next week over the Gulf of Mexico and Caribbean. This strong wind shear condition is expected to help suppress significant development of the current tropical system near the Cape Verde Islands as it nears the Caribbean later this week. Long range forecasters note that the prospects from mid-August and late August through all of September appear should be conducive to tropical storm formation based on the overall pattern and MJO pulse forecasts.

#### **Generator Problems**

**ERCOT & SPP** – NRG Energy planned to restart 864 Mw Limestone #2 coal fired power plant on Tuesday afternoon. The unit was taken out of service this past Saturday.

**The NRC reported this morning that 95,390 Mw nuclear generation capacity was on line, unchanged from yesterday and down 2.7% from the same time a year ago.**

Colorado State University today released their updated hurricane forecast for this year. The team reduced their prediction of tropical storms and hurricanes by one to 10 named storms and four of which will become hurricanes. The forecasting team expects two of the four hurricanes will reach Category 3 or higher. The CSU team has continued to reduce the number of storms this year as a result of cooler than expected sea surface temperatures in the tropical Atlantic Ocean and the development of El Niño conditions in the eastern Pacific.

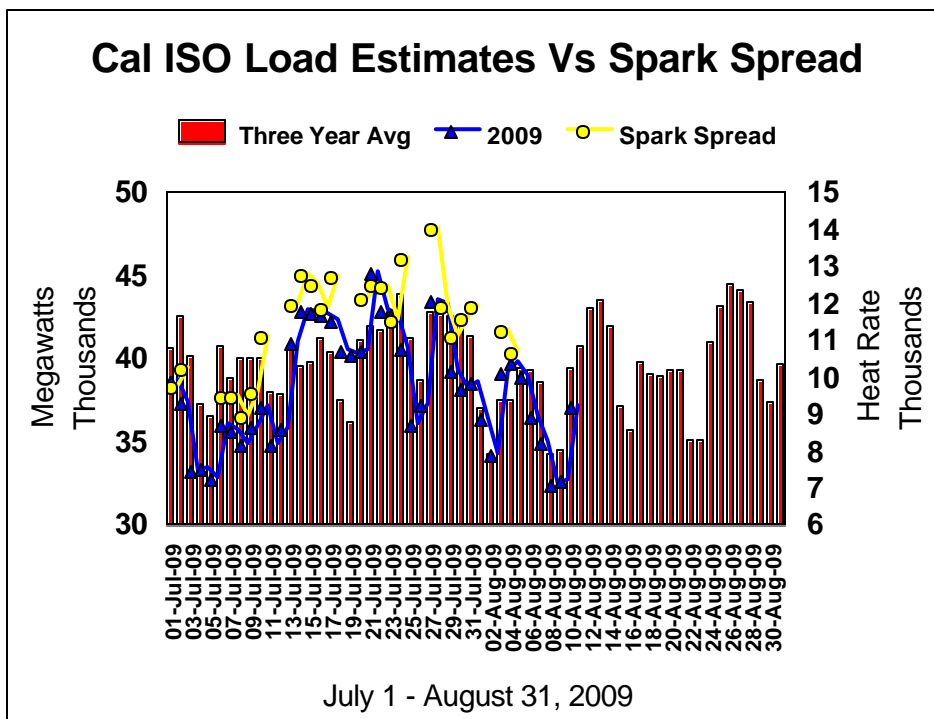
<b>Natural Gas Cash Market</b>						
ICE Next Day Cash Market						
	<b>Volume</b>	<b>Avg</b>	<b>Change</b>	<b>Basis</b>	<b>Change</b>	<b>Basis 5-Day</b>
<b>Location</b>	<b>Traded</b>	<b>Price</b>		<small>(As of 12:30 PM)</small>		<b>Moving Avg</b>
Henry Hub	1,186,000	\$3.529	\$0.098	(\$0.482)	\$0.101	(\$0.335)
Chicago City Gate	619,700	\$3.596	\$0.154	(\$0.415)	\$0.114	(\$0.311)
NGPL- TX/OK	673,700	\$3.459	\$0.131	(\$0.552)	\$0.091	(\$0.414)
SoCal	253,900	\$3.524	\$0.120	(\$0.487)	\$0.080	(\$0.366)
PG&E Citygate	668,900	\$3.761	\$0.127	(\$0.250)	\$0.087	(\$0.123)
Dominion-South	383,500	\$3.718	\$0.118	(\$0.293)	\$0.078	(\$0.103)
<b>USTrade Weighted</b>	<b>18,302,100</b>	<b>\$3.552</b>	<b>\$0.141</b>	<b>(\$0.459)</b>	<b>\$0.10</b>	<b>(\$0.335)</b>

The EIA reported that U.S. gross natural gas production in May fell slightly from April but remained nearly 2% above year earlier levels. Basis the agency's EIA-914

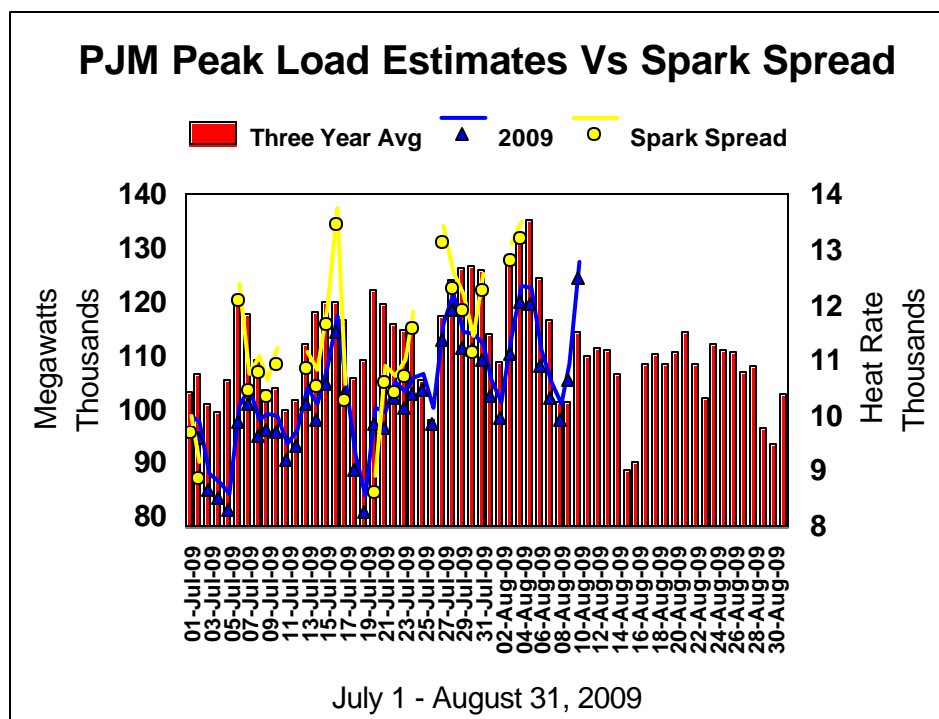
Monthly Natural Gas Production Report, it said wet gas output in May fell to 62.84 bcf/d, down 0.51 bcf/d or 0.8% from April's revised figure. The EIA said overall production declined in May due to low natural gas prices and some equipment problems, despite output gains of 2% in Louisiana and Oklahoma. The increase in Louisiana came primarily from the prolific Haynesville shale formation. The

largest production declines were in Texas; off 2.2% and in Federal offshore Gulf of Mexico waters, which fell 1.3%.

Anadarko Petroleum said its Independence hub is expected to be operated at reduced rates through the third quarter due to maintenance activities. The unit during the 2Q09 operated at 890 MMcf/d gross basis. The company expects its operating rates during the work will be approximately 800 MMcf/d or maybe a little lower from time to time. The work would mean shutting in "clusters of wells connected to allocation separators" but the platform would still be running. When work is completed by the end of September flows should return to 900 MMcf/d.



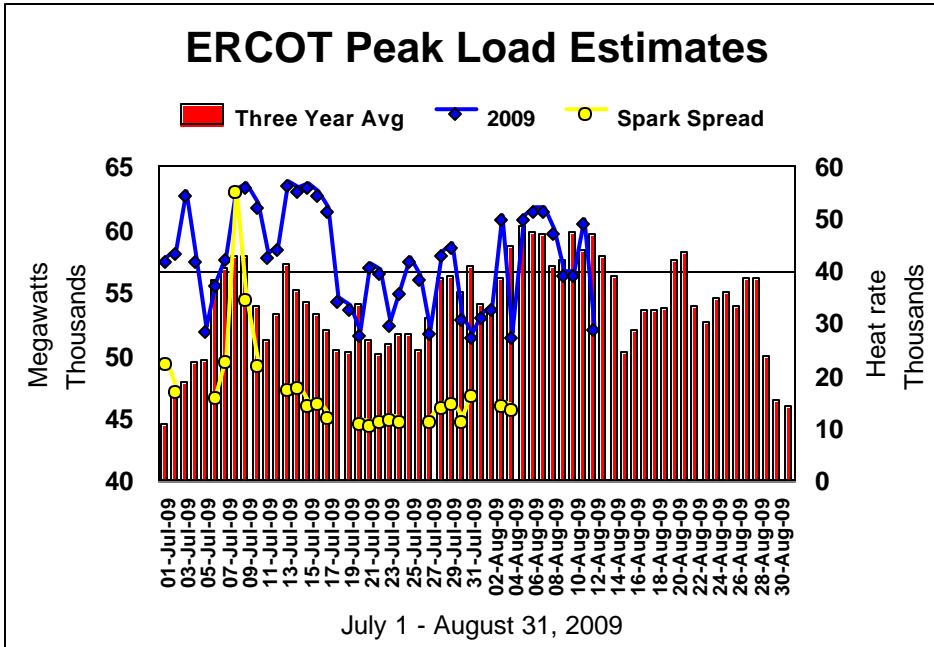
Chesapeake Energy said yesterday that it planned to boost liquidity and reduce debt by selling billions of dollars of leasehold properties and midstream assets this year and next. It noted that it is in "continuing discussions" with several companies about a possible joint venture on "some or all" of its Barnett Shale properties by year's end. The company's CEO said today that he expects natural gas storage to hit capacity this year, forcing producers to shut in production. He expects that as storage fills "pipeline pressures are going to increase and that is going to cause involuntary curtailment"



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Anadarko Petroleum said today that it expects its spending in the Marcellus Shale will be fairly significant. The company noted that its holdings there possess some of the most compelling economics in its onshore portfolio. As a result it expects to be operating as many as 14 rigs in the region by the end of this year. It estimates

that each Marcellus well holds 3-6 bcf of recoverable natural gas that can be produced even if prices drop as low as \$2.50 per Mmbtu. It also reported that as of August 3<sup>rd</sup> it had 530,000 Mmbtu/d of 2009 natural gas production hedged and 1,630,000 Mmbtu/d of its 2010 production hedged via three way collars. The floor sold was \$5.45 in 2009 and \$4.22 in 2010, with the floor purchased at \$7.50 in 2009 and \$5.59 in 2010. The ceiling sold against these positions was \$11.25 in 2009 and \$8.23 in 2010. The company also reported that via fixed price swaps it had hedged 1,150,000 Mmbtu/d of 2009 production at \$4.18 with 90,000 Mmbtu/d of production hedged in 2010 and 2011 each at prices of \$6.10 and \$6.17 respectively.



A BG Group LNG tanker is expected to arrive at the Elba Island terminal on Wednesday. Reuters reported that the terminal is expected to receive around 14 bcf of LNG in August, down 3 bcf from last month

The FERC on Monday issued a certificate to Questar Overthrust Pipeline for a compression expansion to move additional gas from its system to the Rockies Express pipeline in Wyoming.

Bentek in a new research report estimated that the Rockies Express pipeline has shifted 1.3 bcf/d of Rockies gas eastward into the Ohio market and away from the midcontinent pipeline interconnections. The two biggest recipients of REX East supply has been Texas Eastern and Dominion Transmission system at Lebanon, Ohio. Bentek said 312 MMcf/d of REX gas has displaced gas from Dominion's Cove Point LNG terminal. The group noted that in effect, the Ohio market has determined that it will not need all of the supply previously flowing north from the Southeast and Gulf Coast, along with the new supplies from the Rockies, until the winter heating season begins. That is putting downward pressure on the Southeast and Gulf Coast, especially Henry Hub. Bentek also noted that as long as Northeast and Ohio temperatures remain mild and demand remains weak, the situation is expected to continue, particularly after REX East reaches its terminus in Clarington, Ohio in November. At this point the pipeline gas would gain access to additional interconnects with Texas Eastern, Dominion and Columbia Gas Transmission.

The CEO of Northwest Natural Gas Company said there is a 50-50 chance that he Oregon LNG project will be built. He said a crucial indicator would come next year if the project moves forward.

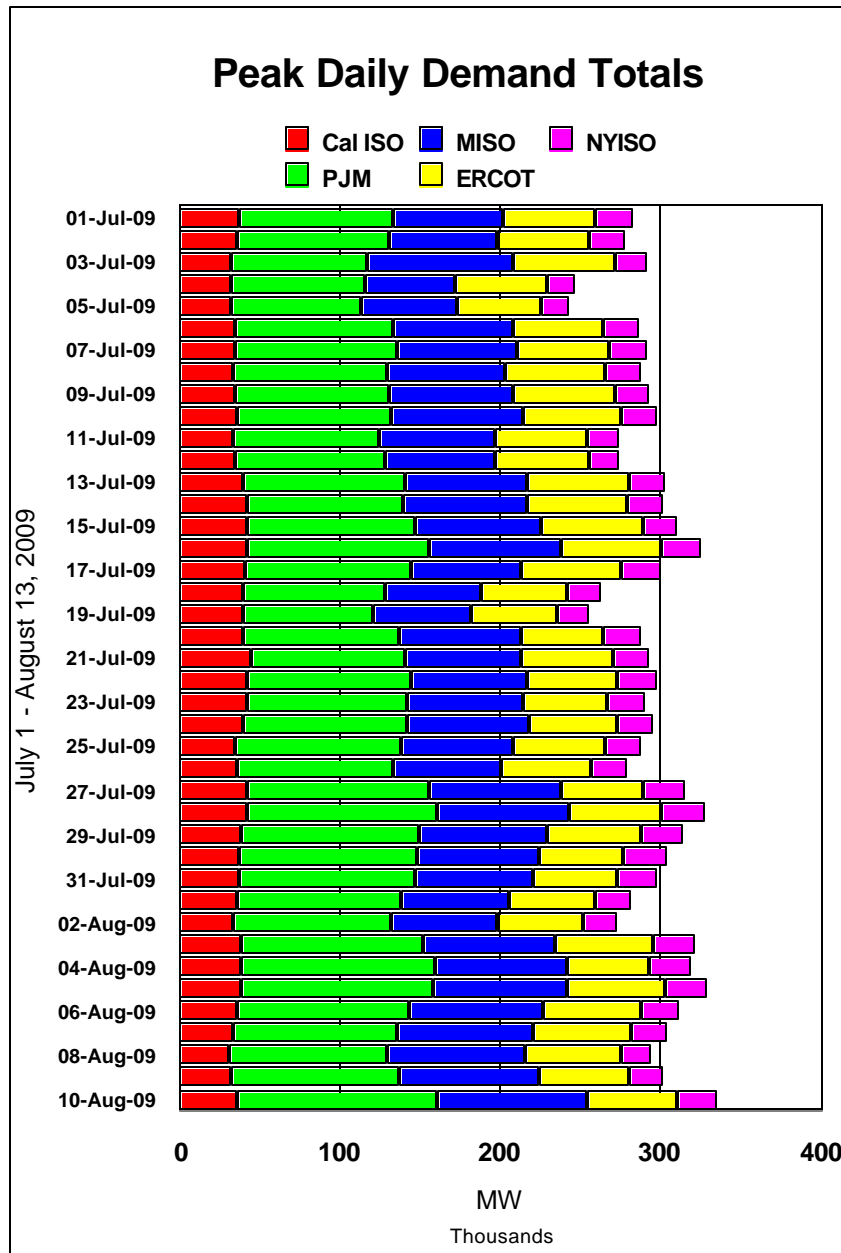
Reuters reported that the Qatari tanker was expected to deliver LNG to the South Hook terminal on August 9<sup>th</sup>. Meanwhile the Qatari tanker Al Utouriya was due to arrive at thre Isle of grain terminal on August 7<sup>th</sup>.

Reliance Industries said its gas fields off India's east coast have the potential to produce more than the estimated peak output of 80 million cubic meters per day.

The US Commerce Department said personal income fell at a seasonally adjusted rate of 1.3% compared to the month before, reflecting rising unemployment. It reported that spending increased

0.4% compared to the prior month. Adjusting for inflation, though spending fell by 0.1%. The data showed personal saving as a percentage of disposable personal income was 4.6% in June, down from 6.2% in May. The price index for personal consumption expenditures excluding food and energy, in June increased by 1.5% on the year after increasing by 1.6% in May. The core PCE increased 0.2% in June compared to May.

The National Association of Realtors' index for pending sales of previously owned homes increased by 3.6% in June to 94.6 from 91.3 in May. Year over year, the index was 6.7% above the level of 88.7 in June 2008. It was the fifth consecutive increase. Meanwhile gold reached an eight week high of \$964.30/oz as



### PIPELINE RESTRICTIONS

El Paso Natural gas Pipeline said that effective for August 4<sup>th</sup> and until further notice it has limited capacity available for gas going southbound through Segment 16 located in Atoka County, Oklahoma. Limited interruptible transportation service/authorized overrun and secondary out-of-path firm transports are available.

Tennessee Gas Pipeline said it will accept increases for nominations sourced from meters on the Carthage Line Lateral. The company expects to have available capacity of 59,000 Dth.

Panhandle Eastern Pipeline said it was allowing secondary out of path deliveries to flow downstream of the Edgerton compressor station. The flow will continue until further notice.

### ELECTRICITY MARKET NEWS

The Electric Power Research Institute in a research report released yesterday noted that a full portfolio of electricity sector technologies could address the challenge of reducing carbon dioxide emissions while limiting increases in household energy prices. The report estimated that a full portfolio of technologies could

reduce the cost to the U.S. economy of reducing carbon dioxide emissions by more than \$1 trillion by 2050. Deploying the full portfolio could result in an 80% increase in the wholesale cost of electricity by 2050 relative to current costs compared with an increase of 210% with a limited portfolio. The full portfolio of technologies results in the use of demand reduction, biomass, wind, hydropower, nuclear power, natural gas, coal plants with carbon capture and storage retrofit, and new coal plants using

carbon capture and storage. In the limited portfolio option there would be no use of coal generation after 2030, as well as the U.S. nuclear generation levels remain fairly constant and not expanded as well as no real progress made on a smart grid.

NEW YORK MERCANTILE EXCHANGE(r)									
NYMEX OPTIONS CONTRACT LISTING FOR 08/04/2009									
				TODAY'S	PREVIOUS	ESTIMATED	DAILY	DAILY	
-----CONTRACT-----				SETTLE	SETTLE	VOLUME	HIGH	LOW	
LN	9	9	P	3.5	0.1059	0.1065	5650	0.115	0.115
LN	10	9	P	3	0.0768	0.083	3390	0.094	0.0875
LN	9	9	C	6	0.0101	0.0135	2650	0.01	0.01
LN	9	9	C	4.5	0.1386	0.1593	2376	0.125	0.125
LN	9	9	C	4	0.3073	0.3364	2135	0.33	0.295
LN	11	9	C	5	0.6443	0.66	1900	0	0
LN	10	10	C	8	0.6542	0.6861	1825	0	0
LN	10	9	P	2.5	0.0309	0.0352	1700	0	0
ON	4	10	C	11	0.067	0.075	1600	0	0
ON	4	10	C	10	0.106	0.117	1600	0	0
LN	11	9	C	7	0.1522	0.1622	1500	0	0
LN	10	10	C	10	0.3543	0.3796	1500	0	0
LN	9	9	P	3	0.0247	0.025	1300	0	0
LN	9	9	P	3.3	0.062	0.063	1275	0	0
LN	10	9	P	4	0.3772	0.388	1200	0	0
LN	12	9	C	6.5	0.4129	0.4324	1050	0	0
LN	10	9	C	6	0.1044	0.1161	1050	0	0
LN	9	9	P	4	0.3063	0.3054	1006	0	0
LN	10	9	C	4.75	0.3378	0.3572	1000	0	0
LN	10	9	C	5	0.2682	0.2863	1000	0	0
LN	10	9	P	3.5	0.1886	0.1977	1000	0	0
LN	9	9	P	3.25	0.0538	0.0547	875	0	0
LN	1	10	P	3.5	0.0406	0.0446	825	0	0
LN	12	9	P	4.5	0.2071	0.217	800	0	0
LN	12	9	P	3	0.0192	0.0215	750	0	0

Genscape reported that coal supplies at U.S. power plants shrank an “unseasonably small” 0.05% this week from last week and are some 28.4% greater than the same week a year ago.

The EIA staff released a report today that lowered their estimates for the costs for U.S. households from the climate change bill that was passed by the House of Representatives last month. The EIA staff now estimates the average cost to U.S. households to be around \$100 in ten years, far below some industry estimates. The EIA analysis estimated the average American household would pay \$114 more in energy expense in 2020 and \$288 more in 2030 if it is enacted. Overall from 2012 through

2030 household energy costs would average \$83 more annually.

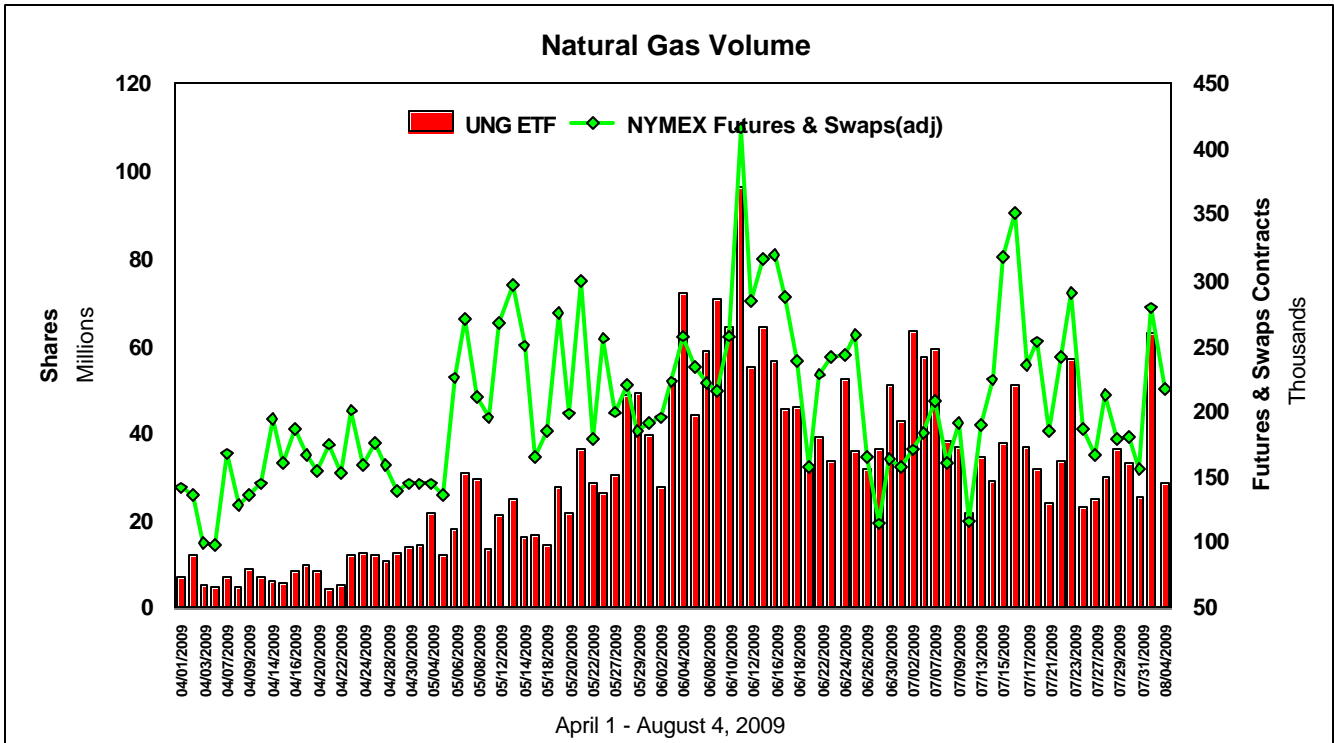
### **MARKET COMMENTARY**

It should not have been a surprise that following yesterday’s 56 cent plus trading range that the market took a pause today and posted an inside trading session. While prices did settle lower on the day the September contract was still able to settle above the psychological \$4.00 level for the second straight session, an event that has not been seen since June 29<sup>th</sup>. Traded volumes were down on the day on both the NYMEX and in the natural gas ETF.

We feel that the bulls are finally finding a little good news and that is helping to maintain prices at these levels. The news that maintenance at the Independence Hub will shut in some 10% of its recent production coupled with the recent uptick in summer power demand across the country over the next week, helped to counterbalance the continued absence of tropical storm threats, which was re-enforced by the revised Colorado State University hurricane outlook.

While we remain bearish on this market for the next several months we would look to exit the new shorts that were established yesterday over the \$4.00 level, down around the 3.75-\$3.70, feeling that as we enter August the seasonal upswing in tropical activity will begin to provide the bulls some additional comfort, even as storage levels continue to swell. We see resistance for this market starting

at \$4.06 followed by \$4.16-\$4.20. Additional resistance we see at \$4.442 and \$4.716.. Support we see at \$3.893, \$3.811 and \$3.728. Additional support we see at \$3.658, \$3.498 and \$3.366.



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