



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR AUGUST 10, 2010

NATURAL GAS MARKET NEWS

The EIA has lowered its estimate for domestic natural gas production in 2010 but still expected total output this year to be up 1.9% from 2009 levels. In its "Short-Term Energy Outlook", released Aug. 10, the EIA said that it expected marketed natural gas production to be up 1.12 billion cubic feet per day in 2010 to 61.10 bcf. This is revised from July's outlook of 2.1% in 2010 to 61.26 bcf daily. U.S. natural gas consumption was raised to about 64.89 bcf per day, up 3.8% from 2009 demand of 62.49 bcf daily.

The US National Hurricane Center said a low pressure system over the southeastern Gulf of Mexico strengthened Tuesday morning and now had a 70% chance of becoming a tropical depression over the next 48 hours as it moves towards the Louisiana coast. Computer models show it will move northwest across the Gulf over the next few days before making landfall in southeast Louisiana. Separately, the NHC continued to follow a low pressure system in the central Atlantic about 820 miles northeast of the eastern Caribbean Islands that weakened overnight. The system has a 60% chance of strengthening into a tropical depression over the next 48 hours, down from a 70% chance earlier. The Atlantic system however is not expected to affect the Gulf of Mexico. The NHC also said a tropical wave formed in the Central Atlantic about 700 miles east of the eastern Caribbean Islands. It said the wave was moving west and had a 10% chance of developing over the next two days.

A supply and marketing agreement between Barclays Capital and Italy's ENI has been signed. Under the agreement, Barclays will market LNG supplied to the Cameron import terminal in Louisiana and also bring in physical cargoes itself. The agreement marks Barclays' entry into physical LNG trading. ENI USA Gas Marketing has import capacity and storage rights at the Cameron LNG terminal.

The Lijmiliya LNG tanker, which comes from Qatar, is scheduled to arrive at the UK's South Hook terminal on Aug. 17. The vessel has capacity to carry 263,000 cubic meters of super-cooled natural gas.

India's Petronet LNG will import a spot cargo of LNG at its Dahej terminal on Aug. 20.

Generator Problems

NPCC - US Power Generating Co.'s 175 Mw Unit 2 Astoria oil/natural gas fired power plant in Queens NY experienced a steam tank rupture early Tues. Traders believe that the 50-year old unit would not return to service. The company's other three units were not affected.

MAAC- PPL Corp's Susquehanna, PA reactor experienced a leak of Freon vapor from a chiller system in its 1,149 Mw unit 1. The unit is said to be at full power.

FRCC- NextEra Energy Inc's 839 Mw Unit 1 at the St. Lucie nuclear power plant in FL ramped up to 95 percent early Monday from 48 percent early Friday.

The NRC reported this morning that some 95,624 Mw of nuclear generation was operating today, up 0.41% from yesterday and up 0.22% from the same day a year ago.

Turkey's Energy Minister, Taner Yaldiz, announced on Tuesday that Turkey has paid Iran about \$600 million for natural gas it has yet to use but contracted for. As Turkey's gas consumption rises, it will eventually use this amount.

PIPELINE MAINTENANCE

Norway's Kaarstoe gas plant is scheduled to start a maintenance outage in the evening of Aug. 17, with maintenance going into full effect early on Aug. 18.

The Swiss-Italian gas pipeline is expected to resume operations on Aug. 13, according to operator, Transitgas. The pipeline originally shut on July 23 and was expected to restart on Aug. 9.

PIPELINE RESTRICTIONS

Gulf South said it would be accepting nominations for flow at the Airport Compressor Station on gas day Aug. 11, beginning with the timely cycle, as work is completed.

PG&E has issued a system wide operational flow order in effect for gas day Aug. 10 due to high inventory. Customers' supplies are required to be within a 12% tolerance requirement of daily usage to avoid the Stage 2 noncompliance charge of \$1/Dth.

Effective intraday cycle 1, for gas day Aug. 10, Tennessee Gas Pipeline Co. will accept nomination increases of; 7,500 Dth at Carthage line Lateral; 300 Dth at Leidy Delivery Meters; 56,000 Dth at Rivervale; 52,000 Dth at Station 245 and 77,000 Dth at Station 321. Customers are reminded that previously restricted nominations must be retriggered for any subsequent intraday cycle once a restriction has been lifted in order for increased volumes to be scheduled.

Maintenance at GMT-Rusk, expected to be completed Aug. 13, was completed ahead of schedule on Aug. 10, NGPL said. For gas day Aug. 10, all services are available to be scheduled.

ELECTRIC MARKET NEWS

The EIA in its "Short-Term Energy Outlook" released Aug. 10, said that it expects total consumption of electricity in the U.S. to grow by 4% this year, with growth in 2011 to slow to a rate of 0.4%. The EIA is attributing this growth in consumption to extremely hot weather, especially in the Northeast during June and July. Total heating degree-days were 54% higher than normal in the Mid-Atlantic and 73% higher than normal in New England.

ECONOMIC NEWS

According to the Labor Department, US productivity unexpectedly fell in the second quarter, the first decline in 18 months, amid slower output growth and an increase in labor costs. Nonfarm business productivity fell at a 0.9% annual rate in the April to June period. It was the first decline since the fourth quarter of 2008, when productivity fell by 0.1%. In the first quarter, productivity increased by an upwardly revised 3.9%. Economists were expecting productivity to increase by 0.3% in the second quarter. Unit labor costs increased at a 0.2% annual rate last quarter compared with a 3.7% decline in the first quarter.

The Commerce Department reported that US wholesale inventories increased only slightly in June while sales unexpectedly fell. Total wholesale inventories increased by 0.1% to \$399.2 billion at the end of June following an unrevised 0.5% increase in May. Sales at wholesalers fell 0.7% following a downwardly revised 0.5% decline in May.

MARKET COMMENTARY

The natural gas market seesawed and posted an inside trading day as the market positioned itself ahead of Thursday's release of the EIA natural gas storage report. The market retraced some of its previous losses early in the session and posted a high of \$4.37 as the market was looking for a

bounce back from Monday's sharp losses. It however erased its small gains and posted a low of \$4.276 in afternoon trading. The market, which held support at its previous low of \$4.263, bounced off its low and once again retraced some of its losses ahead of the close. However the market's gains were limited by the EIA lowering its demand forecast for the growth of industrial demand of natural gas this year to 7% from 7.5% in its previous report. The natural gas market settled down 1.2 cents at \$4.297.

While the market will initially trade off the EIA weekly inventory report on Thursday, the market's gains will remain limited by the lack of any supportive weather forecasts. The EIA report is expected to show an average injection of 30 bcf to 35 bcf, which is below the five year average build of 39 bcf and last year's build of 63 bcf. Technically, the natural gas market is seen finding support at \$4.263, \$4.259, \$4.22 and \$4.165 while resistance is seen at \$4.353, \$4.37, \$4.408, \$4.447 and \$4.548.