



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR AUGUST 14, 2009

NATURAL GAS MARKET NEWS

According to the US National Hurricane Center, the second tropical depression of the season has weakened to a remnant low.

The system will be closely monitored for sign of regeneration as it moves toward the northeast Caribbean. The tropical wave currently moving across the eastern Caribbean looks like it will move in the general direction of Florida and eventually the Gulf of Mexico this weekend. There is a

small possibility of the wave developing into a depression over the next several days in light of the unfavorable upper level shear and dry air. Meanwhile, a large tropical wave just south of the Cape Verde Islands is slowly coming together. The atmosphere in the path of this wave is not as dry as the air that helped weaken tropical depression 2, therefore strengthening is expected. However upper level easterly shear is also present above this tropical wave, which should keep it from rapidly strengthening over the next 12-24 hours. Weather models continue to show the wave strengthening into a hurricane by next week as it moves westward across the Atlantic. It also reported that showers and thunderstorms over the northeastern Gulf of Mexico are associated with a weak trough of low pressure. It said there is a low chance of this system becoming a tropical cyclone during the next 48 hours.

Bank of America-Merrill Lynch said natural gas prices through the end of September are expected to average \$3.80/mmbtu while prices in the fourth quarter are expected to average \$5/mmbtu.

The Hammerfest LNG plan in Northern Norway is set to close for three months starting Saturday for planned upgrading and maintenance work. StatoilHydro is upgrading and modifying the Hammerfest gas liquefaction plant, located in Melkoeya, northern Norway, in order to maintain a high production level in the future. The plant receives natural gas from Snoehvit, an offshore gas field in the Norwegian North Sea.

According to the Ukrainian State Statistics Committee, gas transit from Central Asia and Russia has fallen 37.1% in the first seven months of this year compared to the same period last year. The committee did not give figures for the volume of gas transported through Ukrainian territory but according to last year's statistics, 74 billion cubic meters of gas was sent through Ukraine.

Generator Problems

NPCC – Entergy Nuclear Northeast said that its 1,025 MW Indian Point unit 3 is back online at 83% capacity early Aug13 after being restarted Aug. 12. The unit tripped from 100% power on Aug. 10.

WSCC - PG&E Corp reported that is has shut down its 1,122 MW Diablo Canyon nuclear unit 2. The unit was shut at 1:04 pm Aug 13 in accordance with established plan procedures to perform more in-depth analysis of the main electrical transformer "A" phase 500 kV bushing. Previously, a power-factor condition had been reported.

The NRC reported this morning that 95,325 Mw nuclear generation capacity was on line, down 0.99% from yesterday and down 0.2% from the same time a year ago.

Elba Island is set to receive up to six cargoes of LNG in August, totaling around 18 billion cubic feet of gas. The natural gas tanker, Bluesky, is expected to arrive in Georgia on Friday, with additional shipments expected around Aug. 25. Cheniere Energy's Sabine Pass terminal in LA is set to take a cargo on Monday from Trinidad. The LNG Borno tanker was last seen this week heading across the Caribbean towards the U.S. Gulf Coast.

Kuwait was set to receive its first commercial cargo of LNG at its newly built terminal on Friday after a test cargo left port. The Express LNG tanker, which delivered a commissioning cargo to the Mina Al – Ahmadi GasPort terminal, leaving it free for two Royal Dutch Shell cargoes potentially to off load. The Sohar LNG tanker from Oman and the Grand Elena tanker from Russia's Sakhalin II project have both been waiting offshore Kuwait this week for commissioning to be completed. These will be the first cargoes delivered by Shell under a deal to supply the terminal with LNG starting this summer.

PIPELINE RESTRICTIONS

Effective for gas day Aug 14 and continuing until further notice, NGPL said FL Vermilion (PIN 7936) is at capacity for deliveries. Interruptible transport service/authorized overrun and secondary firm transports are at risk of not being fully scheduled.

Tennessee Gas Pipeline Co. has restricted Leidy Meters (005030/005031), effective evening cycle, for the gas day of Aug. 14, due to increased nominations in excess of capacity. Tennessee restricted through 76% of supply to market evening cycle nomination increases pathed for delivery at the Leidy Meters. For the remainder of the Aug. 14 gas day, Tennessee will not accept any supply to market increases delivered to the Leidy Delivery Meters.

ELECTRICITY MARKET NEWS

The EIA reported late Thursday that US coal production in the week ending August 8th totaled 21.161 million short tons, up 0.02% on the week but down 0.08% on the year. Year to date production is 6% less than a year ago.

Genscape reported that US coal consumption increased by 4% on the week but fell by 1% on the year.

Colorado Springs Utilities, who has a long-term contract with Peabody Energy Corp. is pondering whether or not to contract for about 300,000 tons of coal for 2010 delivery or purchase coal in the spot market. Currently, Peabody Energy Corp. has contracted to deliver to CSU 1.2 million tons of Powder River Basin Coal. This contract drops to 900,000 tons per year 2010. According to a CSU official, "Right now we have the flexibility to bid it out for the full supply or wait and buy it on a quarterly or even a monthly basis. We have a lot of coal in our inventory, so we may just work off the stockpile for a while." The current contract runs through 2014, with price reopeners at the end of 2010.

Mirant Corp. has agreed to permanently close its Potrero Power plant in San Francisco by the end of 2010 and pay \$1.1 million to the city to help address pediatric asthma in nearby communities. The deal follows nearly a decade of often contentious legal, political and regulatory maneuvering by San Francisco City Attorney Dennis Herrera and various other San Francisco area officials to close the city's last remaining large power plant. Under the terms of the proposed settlement agreement, Mirant has agreed to shut down the entire plant permanently including the large once-through cooling plant known as unit 3 and all three combustion turbines known as Potrero Power units 4-6, which date from the mid-1970s as soon as the plant is no longer needed for reliability purposes.

MARKET COMMENTARY

The natural gas market seemed ready to post an inside trading as it retraced some of its losses in overnight trading and remained range bound early in the session amid the uncertainty over the increasing storm activity ahead of the weekend. The market posted a high of \$3.408 on some short covering. It however erased its gains and breached the \$3.30 level as it sold off to a low of \$3.224, a

level not seen since April 28th, when it posted a low of \$3.192. The market was pressured amid the sharp losses seen in the crude market. The natural gas market settled down 9.8 cents at \$3.238.

The latest Commitment of Traders report showed that non-commercials increased their net long position by 16,383 contracts to 92,351 contracts on a combined basis in the week ending August 11th. Meanwhile, commercials increased their net short position by 18,063 contracts to 146,762 contracts on the week.

The natural gas market remains in its downward trend in light of the inventory picture and the bearishness in the oil market. It will however continue to look for developments in the tropical weather conditions as the tropical cyclone formation off the Cape Verde Islands is expected to threaten the Atlantic Seaboard or Gulf of Mexico next week. Technically, the natural gas market is seen finding support at its low of \$3.224, \$3.172, \$3.106 and \$2.988. Resistance is seen at \$3.30, \$3.356, \$3.408 followed by \$3.474, \$3.54 and \$3.557.