



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta,  
& Karen Palladino

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

**www.e-windham.com**

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### **NATURAL GAS & POWER MARKET REPORT FOR SEPTEMBER 2, 2010**

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

Tropical Storm Gaston appeared to show little further development overnight, and by midday the storm had been downgraded first to a tropical depression once again and by the end of the day to a remnant low. But forecasters were still looking for the storm to possibly redevelop further in the coming days as it moves westward through conditions that are favorable for development. Elsewhere the National Hurricane Center was also watching an area of showers and thunderstorms that are associated with a vigorous tropical wave some 200 miles east south east of the Cape Verde Islands. Further tropical cyclone development though is not expected over the next two days as it moves westward at 10 mph.

Encana reported today that it had suspended drilling at Deep Panuke off of Nova Scotia as a precaution to the approach of Hurricane Earl. It was evacuating many personnel from Rowan Gorilla III drilling rig as a precaution as well as removing two vessels that were installing flow lines to the area. Meanwhile Exxon Mobil said it was removing nonessential staff from the Sable Island platforms as a precaution, but did not expect the storm to impact operations of the gas field. Current forecasts have the storm passing to the west of the 330 mmcf/d gas field.

#### **Generator Problems**

**NPCC** – Dominion's coal fired 1600 Mw Brayton power plant ramped up late Wednesday and was at 64% power this morning.

OPG's 494 Mw Lambton coal fired Unit #4 was shut early Thursday.

**SPP** – CLECO's 720 Mw Dolet Hills coal fired power plant ramped back online today and was running at 65% power.

**WECC** – Xcel Energy's 660 Mw Comanche Station coal fired power plant powered down and was running only at 32% of capacity.

**MISO** – Alliant Energy's Columbia 1140 Mw coal fired power plant powered down overnight and was at just 39% capacity this morning.

Otter Tail Power's 450 Mw coal fired Coyote Station was shutdown late Wednesday.

**ERCOT** – Luminant's 2379 Mw Martin Lake coal fired power plant ramped up power Wednesday and the plant was running at 92% power this morning.

**The NRC reported this morning that some 96,450 Mw of nuclear generation was operating today, basically unchanged from yesterday and up 2.4% from the same day a year ago.**

#### **EIA Weekly Report**

	08/27/2010	08/20/2010	Change	08/27/2009
<b>Producing Region</b>	956	949	7	1085
<b>Consuming East</b>	1677	1624	53	1769
<b>Consuming West</b>	473	479	-6	460
<b>Total US</b>	3106	3052	54	3314

\*storage figures in Bcf

The platform earlier this month was producing 1,400 b/d of oil and condensate and 9.2 mmcf/d of natural gas.

Mariner Energy confirmed today that an explosion and fire occurred at its production platform on Vermilion Block 380 in the Gulf of Mexico. All crewmembers were rescued and no injuries were reported. The platform, which was not producing at the time of the accident, was undergoing

The EIA said in its Natural Gas Weekly Update that overall natural gas demand for the week ending September 1<sup>st</sup> fell as a result of a 9% decline in natural gas consumption for power generation.

Eni reported that it is moving its deepwater rig from the Gulf of Mexico to West Africa and will keep the contract with Transocean until its expiry on December 2011. The rig departed last week bound for Nigeria.

Russian natural gas production fell in August to 1.39 bcm per day from 1.42 bcm in July according to the Russian energy ministry. Gazprom's production edged down to 1.06 bcm from 1.08 bcm in July.

**Canadian Gas Association**

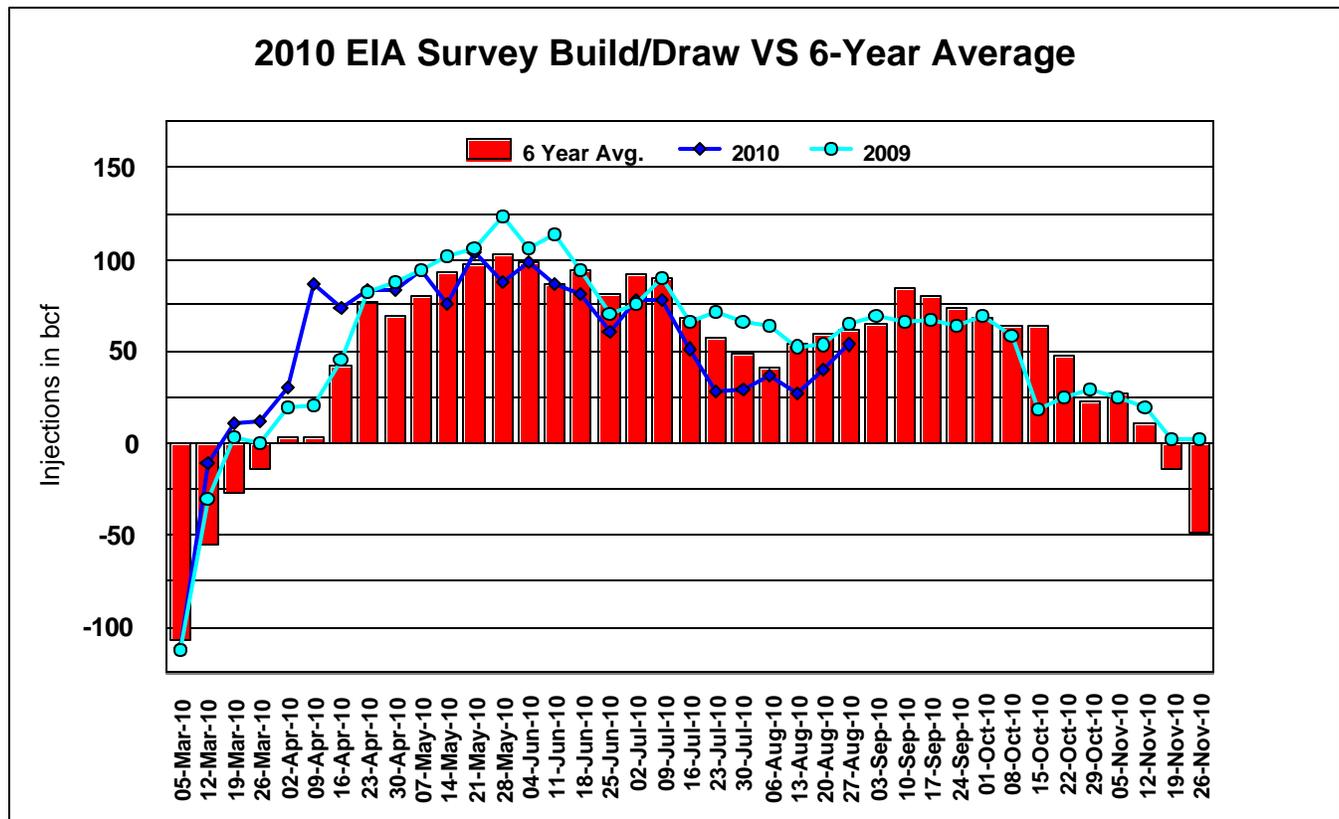
**Weekly Storage Report**

27-Aug-10 20-Aug-10 28-Aug-09

<b>East</b>	181.1	174.7	219.6
<b>West</b>	354.2	349	336.8
<b>Total</b>	535.3	523.7	556.4

storage figures are in Bcf

Gazprom said it has lowered its expectation for gas sales to Europe in 2010. It now expects sales to be flat compared to 2009. The company had earlier looked for a 2% gain in sales.



Saudi Aramco has extended the closing date for bids to build the kingdom's largest gas plant back to October 24<sup>th</sup> from a September deadline. The facility is designed to process up to 2.5 bcf/d of gas from the Arabiyah and Hasbah offshore sour gas fields. Market estimates are the plant will cost between \$6-\$8 billion.

PetroChina reportedly has completed construction of its first LNG wharf in the northern city of Dalian. The facility reportedly can handle the largest LNG tanker in the world today. The rest of the facility is scheduled to be completed shortly and the facility will become operational by April 2011.

Indonesia's Pertamina said today that it is in talks with Japan's Kansai Electric and South Korea's Korea Gas Corp to supply LNG from its Donggi-Senoro project. The parties hope to conclude a deal by the end of the year. The Donggi-Senoro project would process gas from Sulawesi and have a capacity of 2 million tones per year and would go on-stream in 2014.

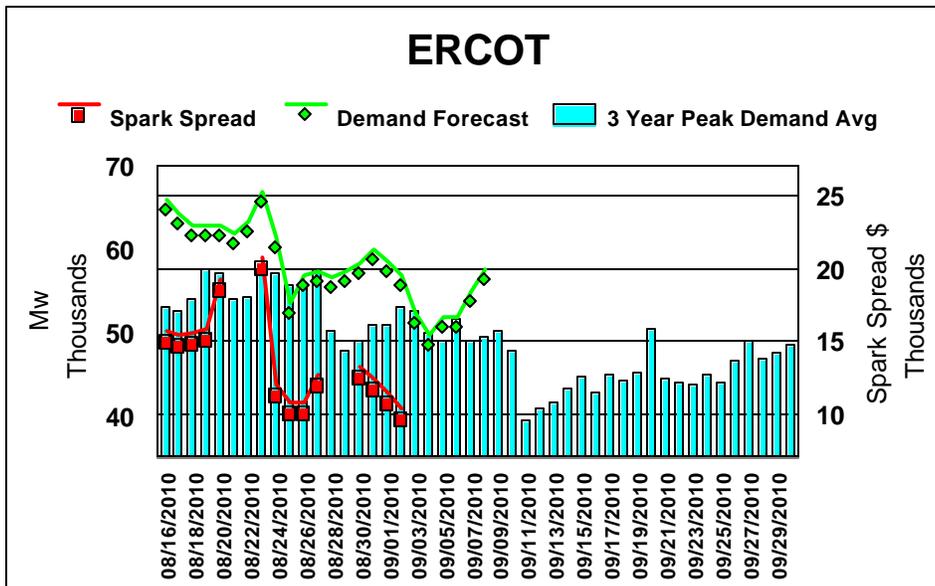
Woodside Petroleum said its Browse LNG project would remain on track after the Western Australia state government decided to forcibly acquire land required for the project. The project would be ready therefore to make a final investment decision by the middle of 2012.

**ELECTRIC MARKET NEWS**

A senior Obama administration official said today the U.S. EPA has a "huge role to play" in cutting greenhouse gas emissions. The agency is looking to reduce methane

emissions and the head of the EPA will visit Mexico in October to discuss the topic with Mexican officials.

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	1,071,600	\$3.743	\$0.013	(\$0.041)	\$0.022	(\$0.095)
Chicago City Gate	783,200	\$3.791	\$0.021	\$0.007	(\$0.001)	(\$0.013)
NGPL- TX/OK	947,500	\$3.661	\$0.007	(\$0.123)	(\$0.015)	(\$0.143)
SoCal	432,300	\$3.712	\$0.177	(\$0.072)	\$0.155	(\$0.257)
PG&E Citygate	858,500	\$3.974	\$0.264	\$0.190	\$0.242	(\$0.089)
Dominion-South	972,800	\$3.959	\$0.002	\$0.175	(\$0.020)	\$0.159
USTrade Weighted	23,637,700	\$3.748	\$0.044	(\$0.036)	\$0.02	(\$0.095)

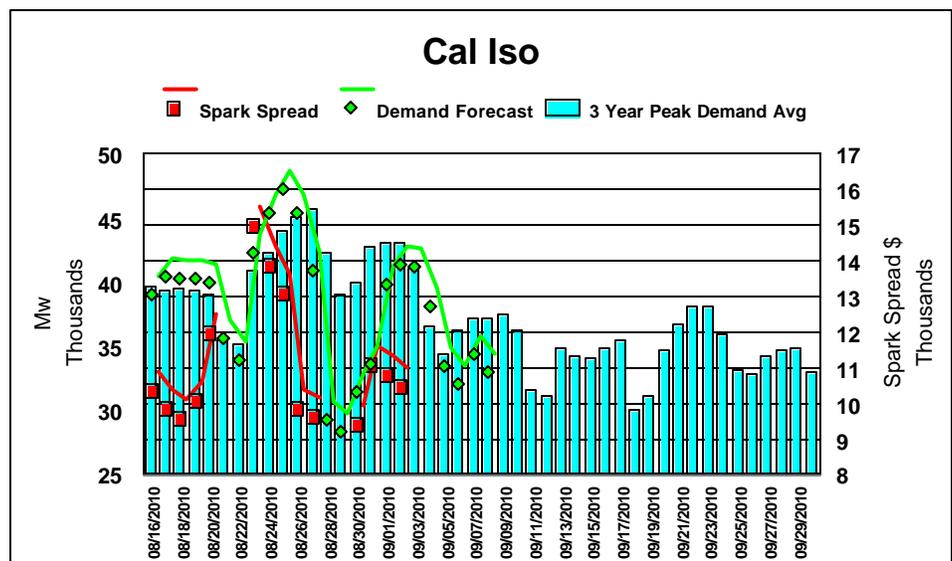


PG&E has started testing turbines at a new 660 Mw combined cycle, natural gas fired power plant in Colusa County, California. The new plant is not expected to begin commercial operation until the fourth quarter. Construction of the plant began in 2008.

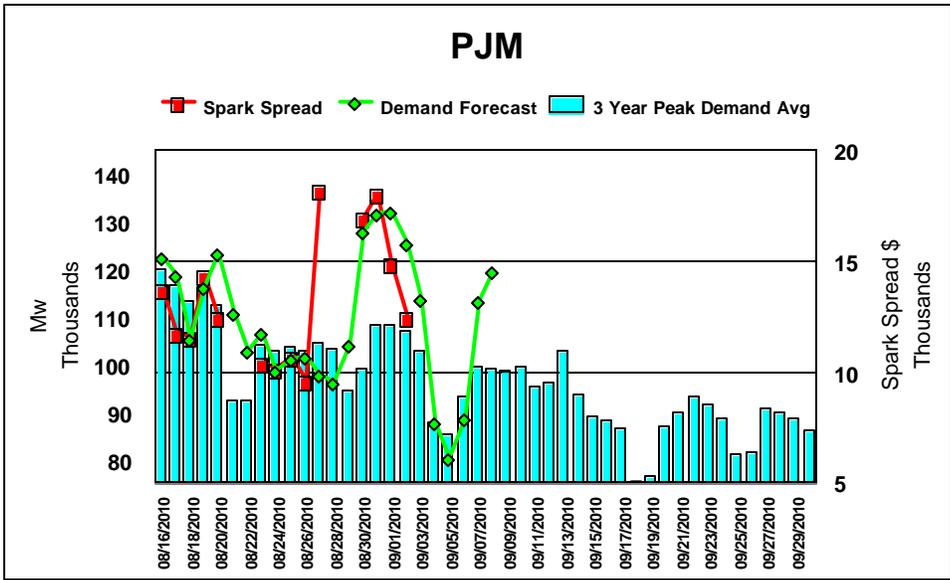
**ECONOMIC NEWS**

The US Labor Department said the number of initial unemployment claims fell by 6,000 to 472,000 in the

week ending August 28<sup>th</sup>. New claims for the previous week, ending August 21<sup>st</sup>, were revised upward to 478,000 from 473,000. The four week moving average fell by 2,500 to 485,500. The prior week's average was revised to 488,000. It reported that the number of continuing claims in the week ending August 21<sup>st</sup> fell by 23,000 to 4,456,000 from the preceding week's revised level of 4,479,000. The unemployment rate for

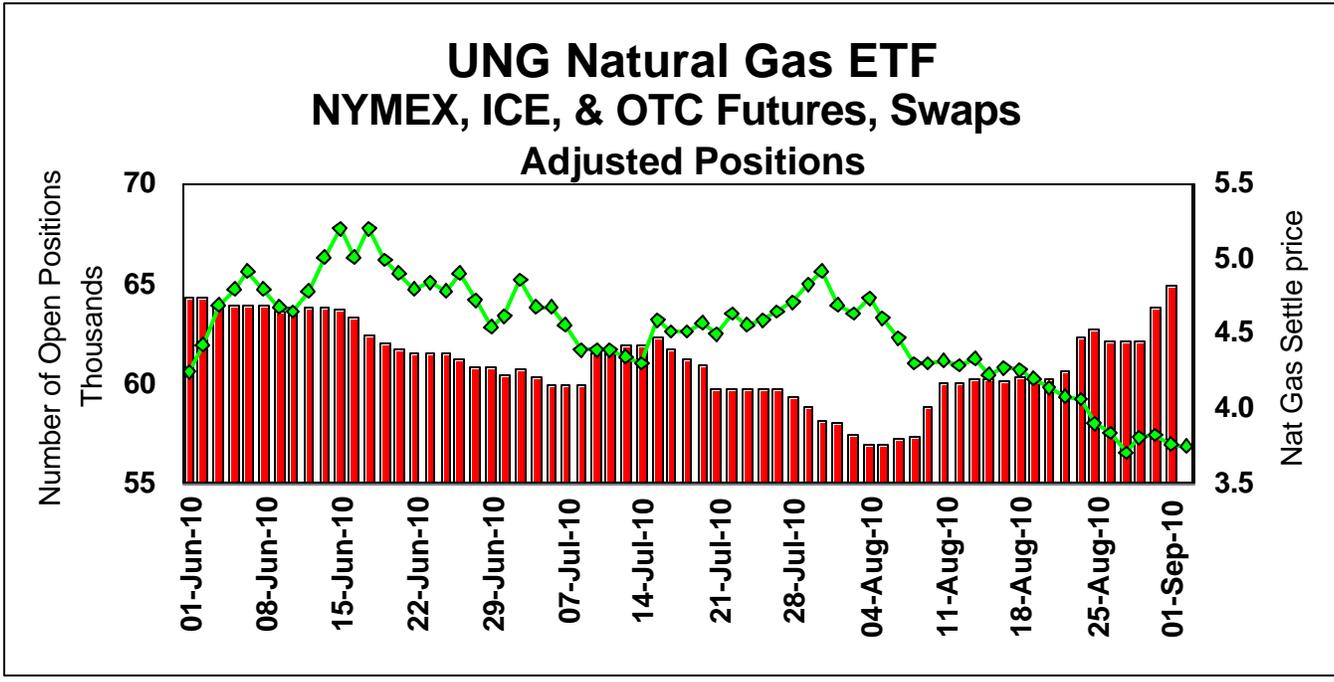


workers with unemployment insurance in the week ending August 21<sup>st</sup> was 3.5%, unchanged on the week.



The Labor Department also reported that US productivity in the second quarter fell more than previously estimated. Nonfarm business labor productivity fell by a seasonally adjusted annualized rate of 1.8% compared to the prior quarter. It had originally estimated that second quarter productivity fell by 0.9%. It reported that productivity in the first quarter increased by 3.9%.

The Commerce Department said new orders for US manufactured goods were up by a modest 0.1% in July to \$409.48 billion. It was the first increase following two consecutive declines in orders. In June, new orders for manufactured goods fell by a revised 0.6%, less than the previously reported 1.2% decline for the month.

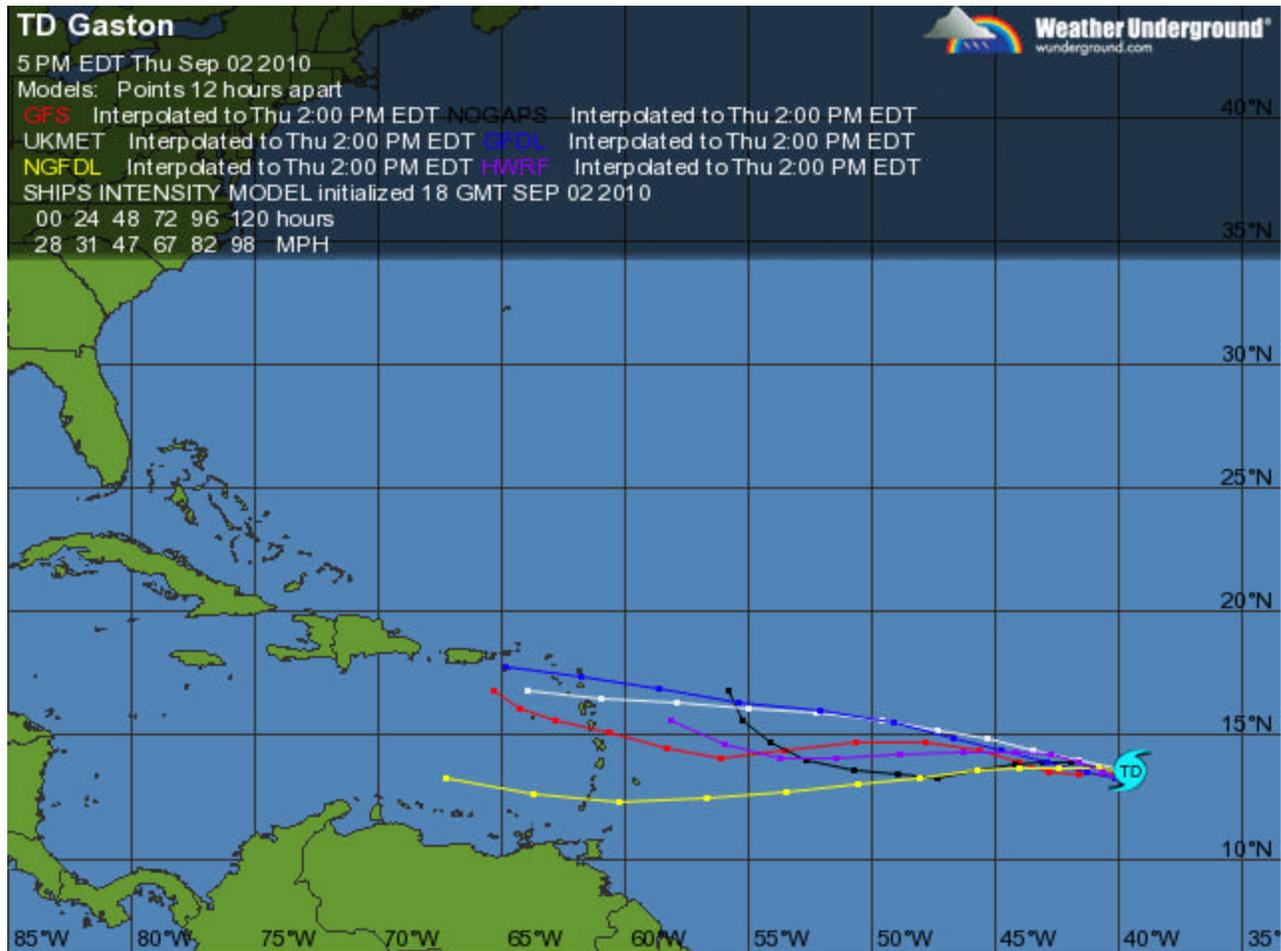


The National Association of Realtors' index for pending sales of used homes increased by 5.2% to 79.4 in July. The report represents a reversal after the index fell two months in a row following the April 30<sup>th</sup> expiration of a tax credit for buyers. Year over year, the pending sales index was 19.1% below its level of 98.1 in July 2009. In its monthly forecast on the industry, the NAR projected existing home sales of 4.91 million this year and 5.44 million in 2011.

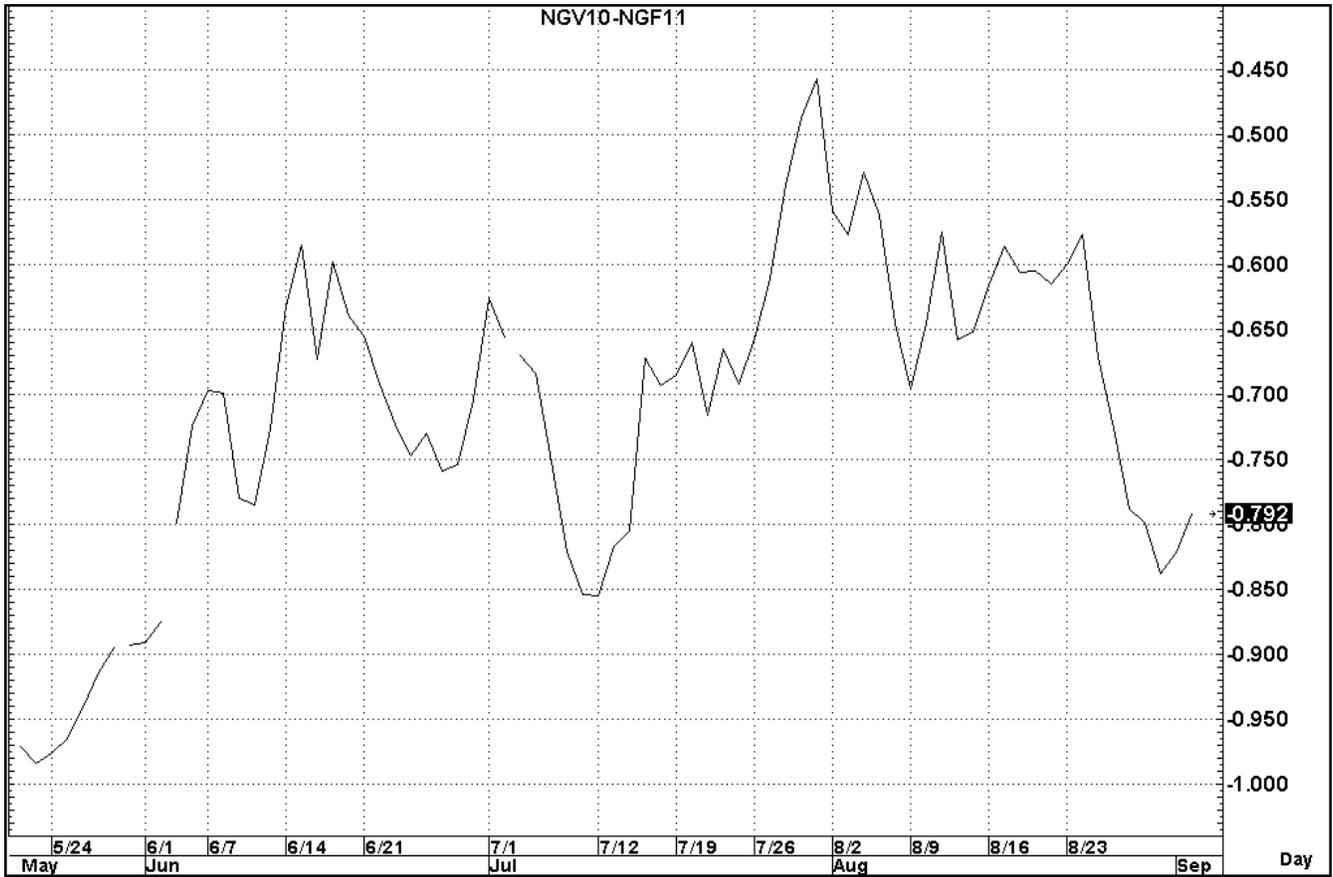
Thomson Reuters data showed that same store sales in August increased by 3.3% compared with estimates of a 2.5% increase.

### **MARKET COMMENTARY**

The natural gas market remained mired in its weeklong boxed in trading range as the EIA storage report came in at expectations this morning and thus did not have the strength to push this market outside of its recent boundaries. While the tropics appear to be heating up, the risks from Tropical Storm Gaston seemed to take two steps backwards as the storm was down graded to a tropical depression at midday and then a remnant low by this evening. Forecasters though still leave open the strong possibility that this storm system could come back to life in several days as it heads toward the Caribbean. In addition a vigorous tropical wave has emerged from the African coast, while other private forecasters warned that the Gulf of Mexico could spawn a tropical system in the coming days.



We continue to feel comfortable in holding calls going into this long holiday weekend since we feel the price risk is substantially greater to the upside rather than the downside when we return to the office on Tuesday morning during the height of the Atlantic hurricane season. The Oct Jan spreads appeared to point toward this bias as well today as it settled up for the second day in a row. One word of note is that the UNG, the natural gas ETF, that has seen relative static open interest in recent weeks has begun to demonstrate an upswing in shares/open interest growing quickly in the past few days back to levels not seen since early June, pointing to speculative longs returning to this market



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