



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR SEPTEMBER 3, 2010

NATURAL GAS MARKET NEWS

The National Hurricane Center said Hurricane Earl was moving up the US East Coast as a weaker Category 1 storm while two other tropical systems in the eastern Atlantic were being monitored. There were still no immediate storm threats to oil and gas producing facilities in the Gulf of Mexico. Earl passed near Cape Hatteras, North Carolina early Friday and was about 350 miles southwest of Nantucket, Massachusetts. While it was not forecast to make US landfall, it was expected to steer northeast along the Eastern Seaboard at about 18 mph and approach southeastern New England by Friday evening. A slow weakening was forecast during the next 24 to 36 hours. Meanwhile Tropical Storm Fiona was located in the western Atlantic about 310 miles south-southwest of Bermuda. It was expected to move north and then north-northeast, passing near Bermuda on Saturday. A gradual weakening was forecast during the next couple of days and it is not expected to strengthen to hurricane strength. The remnant low pressure area of former Tropical Storm Gaston remained in the central Atlantic moving west at 5-10 mph. The NHC said conditions could become more favorable for the system to redevelop during the next couple of days but gave it a low 20% chance of becoming a tropical cyclone again during the next 48 hours. The NHC was also monitoring a tropical wave located off the west coast of Africa, where conditions were marginally conducive for development. The system was given a 10% chance of becoming a tropical cyclone during the next 48 hours.

Generator Problems

NPCC – Entergy's 1,020 Mw Indian Point nuclear powered Unit 2 was shut early Friday to allow for repairs to a coolant pump. It is not yet known how long repairs will take.

Ontario Power Generation's coal fired 494 Mw unit 3 shut early Friday. No reason was given for the closure.

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.

A contract has been signed between Russia's gas export monopoly, Gazprom and Azerbaijan's state owned energy firm for the purchase of 2 billion cubic meters of gas. The contract begins in 2011 and extends to 2012. The European Union is also looking to secure large supplies of gas from Azeri and Russia's locking in of this contract could hamper their efforts. Both Russia and the European Union are competing to secure gas contracts from Azerbaijan's Shah Deniz II field set to come on stream in 2016.

Ukrainian Prime Minister, Mykola Azarov, said on Friday that the agreement between his country and Russia for the purchase of gas must be changed. The agreement is for 10 years and the current pricing formula is not working for Ukraine. Azarov told a briefing that "We are in talks (with Russia) and we are saying that if our call is not heard, we will think of some other mechanisms but will not work for 10 years with this contract." He was quick to add that blackmail would not be used.

Russian natural gas production fell in August to 1.39 billion cubic meters per day from 1.42 bcm in July. Gazprom, Russia's largest gas exporter experienced a decline of .02, falling from 1.08 bcm to 1.06 bcm.

ELECTRIC MARKET NEWS

According to a Genscape report, U.S. coal use was unchanged week to week but 1 percent below consumption in the same week last year. Consumption in the East was unchanged from that of the previous week and 3 percent below the same week last year. In the less populous West, coal use rose 2 percent week to week but was 3 percent greater than the same week last year.

ECONOMIC NEWS

The US Labor Department said job losses continued to increase in August, though at a more modest pace than expected. Nonfarm payrolls fell by 54,000 in August. The estimate for July was revised to 54,000 job losses from an original estimate of a 131,000 drop in payrolls. The unemployment rate increased to 9.6% as expected after holding at 9.5% during the previous two months.

The Institute for Supply Management said the US non-manufacturing sector expanded at a much slower pace than last month. Its non-manufacturing purchasing managers' index fell to 51.5 in August from 54.3 in July. The ISM said its August business activity/productivity index fell to 54.4 from 57.4 in July. The new orders index fell to 52.4 in August from 56.7 in July. The ISM's non-manufacturing employment index fell to 48.2 in August from 50.9 in July.

MARKET COMMENTARY

A short covering rally just ahead of the U.S. Labor Day weekend, supported by storms continuing in the Atlantic Ocean sent the October futures contract as high as 4.9 percent at one point during the trading session. Despite an eleven week streak of inventory builds and storage overhangs above the five-year average, this market appears to be building a bottom as it traded above the \$3.993 from last week. Inventory increases have been below expectations, leaving supplies based upon a year-on-year average in deficit. Expectations of lingering hot weather should continue to eat away at stock overhangs, as demand going into the start of the fall season remains steady. With non-farm payrolls falling less than forecasted, speculation that demand would increase grew. In comparison to coal, natural gas continues to be undervalued, which may attract electric utilities to switch over from coal to natural gas fired power plants, also increasing consumption. Coming into next week we would look for natural gas to continue its up move with the October contract working towards initial resistance at \$4.073.

The Commitment of Traders report showed that non-commercials in the natural gas market switched from a net long position of 2,724 to a net short position of 28,952 contracts on an adjusted futures and options basis. The disaggregated futures and options report showed that managed money funds cut their net short position by 1,624 contracts to 71,561 contracts on the week.