



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR SEPTEMBER 18, 2009

#### NATURAL GAS MARKET NEWS

The National Hurricane Center continues to watch a broad area of low pressure centered around 1000 miles southwest of the Cape Verde Islands. The system once again is showing some slow signs of further development, as upper level winds are only marginally favorable. The system is moving west-northwestward at 10 mph. The NHC is now saying there is a 30-50% chance this system could become a tropical cyclone in the next 48 hours.

The FERC on Thursday approved a compression expansion of the 500 mile Midcontinent Express Pipeline. The agency also approved Mississippi Hub's expansion of 5 bcf the authorized capacity of its high deliverability salt dome natural gas storage facility that is under development in southern Mississippi.

#### Generator Problems

**PJM** – PSEG Nuclear's 1120 Mw Hope Creek Nuclear was back to full power this morning, up 24% from yesterday.

**WSCC** – SCE's 1070 Mw San Onofre #2 nuclear unit was at 98% power this morning, up 38% from yesterday.

**ERCOT & SPP** – AEP planned to shut the 528 Mw Welsh coal fired Unit #3 for September 18<sup>th</sup> through September 20<sup>th</sup> but may last until September 28<sup>th</sup>.

STP Nuclear reported its South Texas #2 nuclear unit was in cold shutdown as it began its maintenance program.

**The NRC reported this morning that 88,590 Mw nuclear generation capacity was on line, up 0.7% from yesterday and off 1.9% from the same time a year ago.**

Canada's National Energy Board's Short Term Canadian Natural Gas Deliverability 2009-2011 report said the current downturn in drilling activity is expected to put a significant dent in Canadian natural gas supplies over the next two years. The report also found that the tight gas and shale gas drilling activity in northeast British Columbia, Quebec and the Maritimes is expected to continue at modest levels into 2010 as producers seek to gain knowledge and refine its techniques.

U.S. Senator Cantwell introduced legislation Thursday that would make it easier for the CFTC to prove market manipulation in energy markets. The CFTC standard for market manipulation currently is proving specific intent rather than the lower threshold of "recklessness" used by the SEC. Her legislation would change the CFTC requirement to be in sync with

#### Natural Gas Cash Market

ICE Next Day Cash Market

Location	Volume	Avg	Change	Basis	Change	Basis 5-Day
	Traded	Price		(As of 12:30 PM)		Moving Avg
Henry Hub	921,300	\$3.207	(\$0.289)	(\$0.456)	(\$0.304)	(\$0.243)
Chicago City Gate	550,500	\$3.285	(\$0.274)	(\$0.378)	(\$0.289)	(\$0.235)
NGPL- TXOK	921,300	\$3.180	(\$0.262)	(\$0.483)	(\$0.277)	(\$0.366)
SoCal	623,000	\$3.497	(\$0.274)	(\$0.166)	(\$0.289)	(\$0.069)
PG&E Citygate	832,000	\$3.891	(\$0.291)	\$0.228	(\$0.305)	\$0.345
Dominion-South	211,400	\$3.295	(\$0.224)	(\$0.368)	(\$0.239)	(\$0.222)
USTRade Weighted	20,582,800	\$3.278	(\$0.289)	(\$0.385)	(\$0.30)	(\$0.243)

the SEC's definition.

Baker Hughes reported this morning the number of natural gas drilling rigs operating in the U.S. this week rose by 6 rigs to 705.

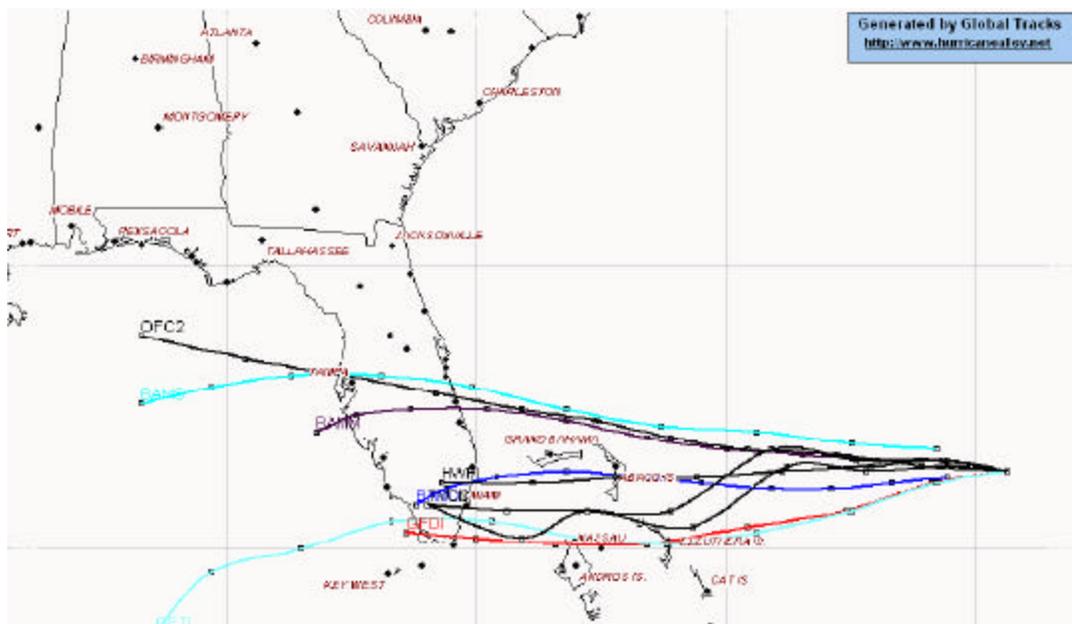
The NYMEX reported today that the natural gas futures traded a record volume on Tuesday, September 15<sup>th</sup>, as a total 404,450 contracts were traded on Globex and on the trading floor combined, surpassing the old record of July 24, 2008 of 403,106 lots.

The South Korean International Trade Association reported today that South Korean imports of LNG in August fell to 1.13 million tons down some 30% from a year ago.

Gazprom said its Sakhalin-LNG and oil project will produce more LNG than initially anticipated for 2009 and will hit peak production levels next year. Peak production is seen at 9.6 million tonnes.

Norway's Ormen Lange gas field is expected to reach full capacity of 70 million cubic meters a day by the end of this year. Four additional wells in the field are being drilled currently.

Societe Generale said it is aggressively pushing forward plans to build a strong platform to finance and trade LNG in Asia.



VNG Norge has been confirmed in making a gas discovery in the North Sea with an estimated 3-8 billion cubic meters of recoverable natural gas

A senior official at the Bontang LNG plant said today that output of LNG from the facility is expected to fall

next year due to lower natural gas supplies. The main supplier of the plant is Total. Total estimates the production from the field supplying the plant will fall some 6.7% next year.

Angola's first LNG plant is still on scheduled to begin operations in January 2012, the country's oil minister said today. The plant has a scheduled capacity of 5.2 bcm per year.

The Canport LNG terminal in New Brunswick is scheduled to receive a LNG cargo on September 26<sup>th</sup>. This will be the sixth cargo to arrive at the terminal since it began operations in June of this year.

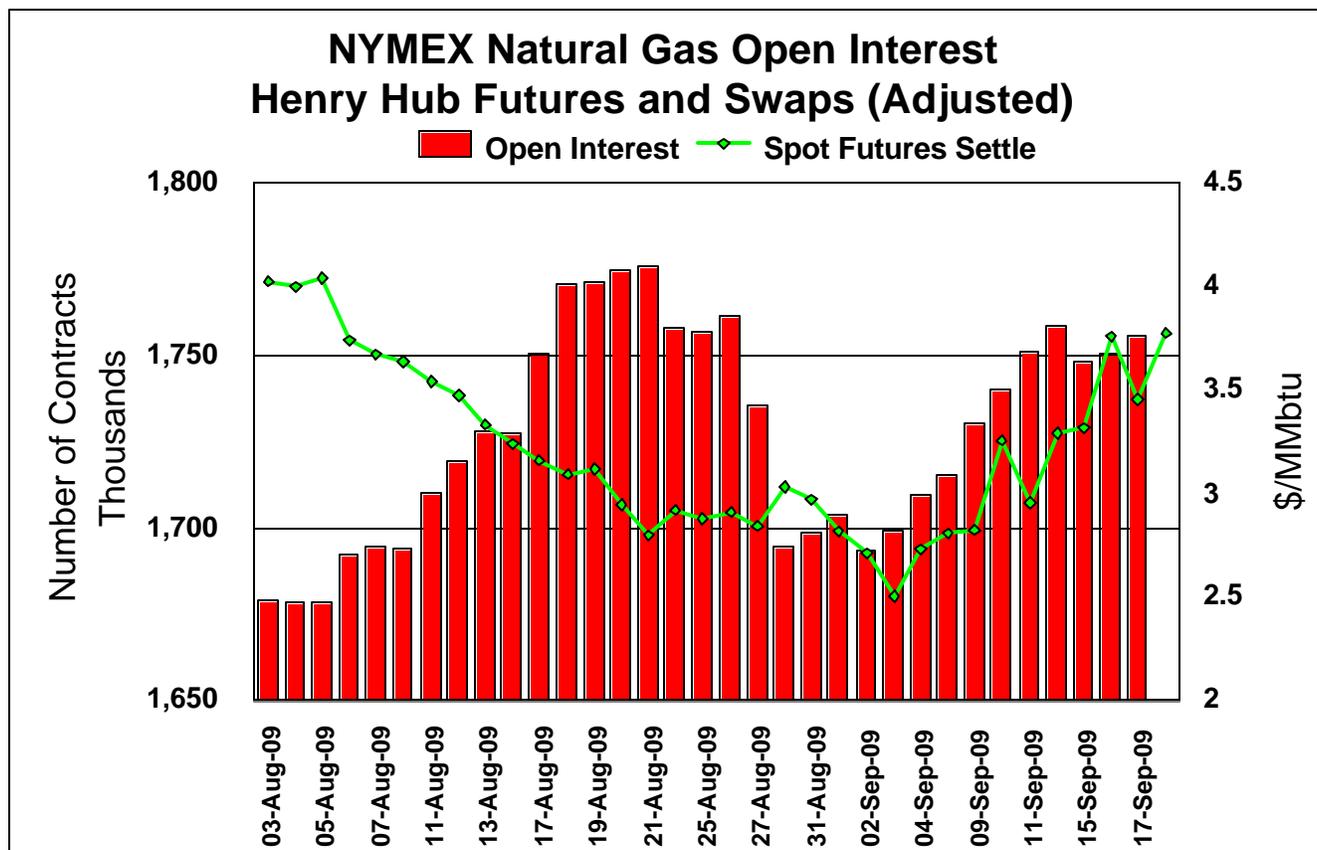
### **PIPELINE RESTRICTIONS**

Southern Natural Gas said based on historically high storage inventory levels and projected high injection requirements for the upcoming weekend; the company was implementing an OFO for long imbalances.

Northern Natural Gas said that beginning September 22<sup>nd</sup> and continuing until further notice a System Underrun Limitation will be in effect on Northern's system in both the Market Area and the Field Area. Northern is experiencing high storage inventories and is projected to have record storage inventories in October and possibly November.

**ELECTRICITY NEWS**

NYSEG and its sister company RG&E have asked the New York State Public Service Commission for approval to increase the companies charge to deliver electricity and natural gas to customers. The company in its filing noted that its electricity rates have declined since 1996 and for natural gas have remained essentially flat, it has become necessary to seek a rate increase to support ever increasing operating and maintenance costs. The company is seeking regulator approval for a 18.6% increase in electrical residential delivery charges and a 17.4% increase for natural gas.



The EIA said yesterday that U.S. coal production totaled approximately 20.8 million short tons for the week ending September 11<sup>th</sup> down 1.1% from the prior week and 11% less than the same week a year ago.

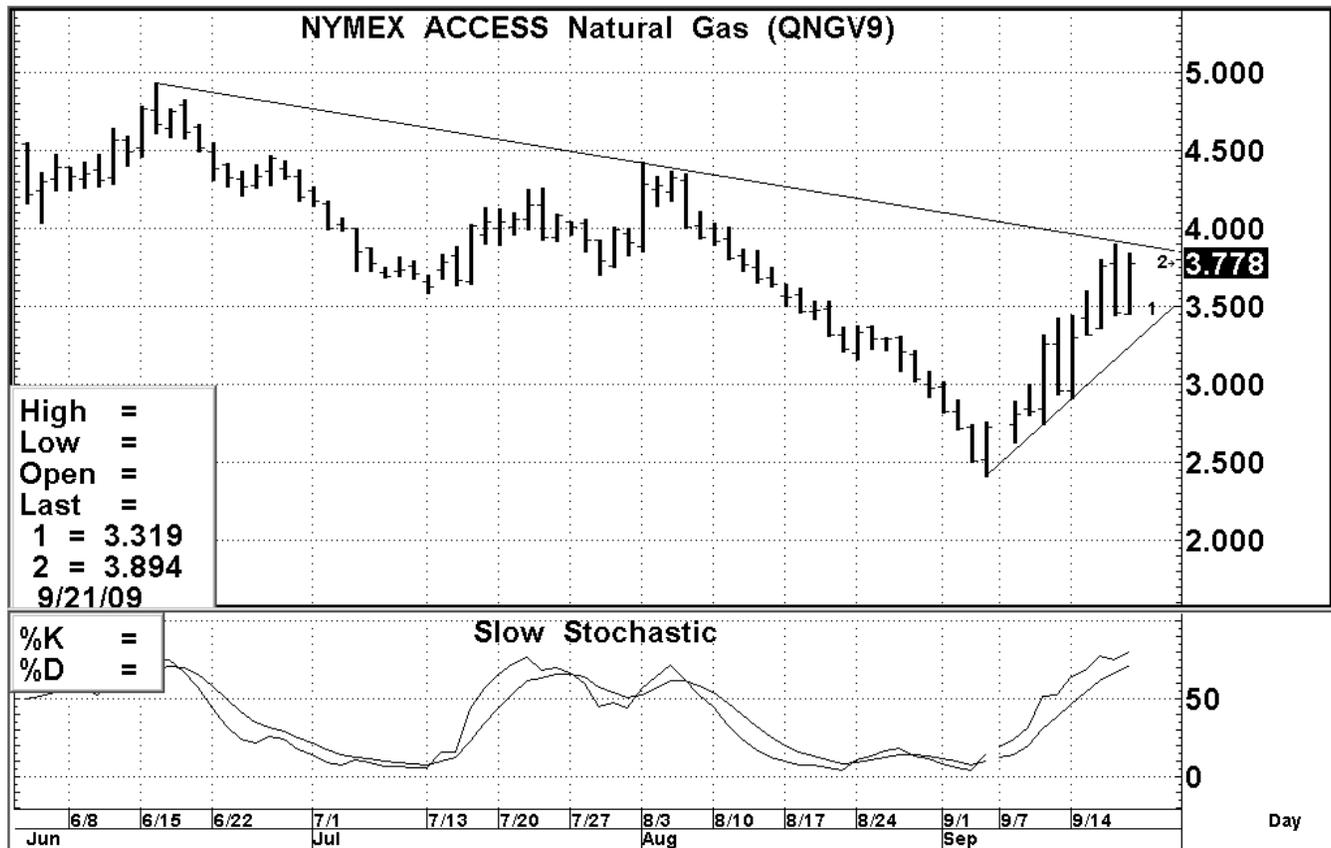
Genscape estimated that U.S. coal consumption during the past week fell 1% from the previous week and 10% from the same week a year ago.

**MARKET COMMENTARY**

Despite the declines in oil prices and cash natural gas prices today, the natural gas futures market actually finished higher. This was the highest settlement in the October contract for not only the week but since August 11<sup>th</sup>. The October contract though despite this strong finish to the week still posted an inside trading session, while not surprising for a Friday session, but still leaving open the possibility for a volatile trading session on Monday. It appears to us that some traders were reluctant to go home into the weekend short, given that this remains the peak period of the hurricane system and still the

possibilities that the remnants of Hurricane/Tropical Storm Fred could still be a threat. In fact as the day progressed Friday some computer models were actually beginning to look at this area of showers could eventually become a risk to the Gulf of Mexico.

We would look to the weather forecasts as being a key to this market on Monday. If in fact there is the potential for a flare up of tropical activity getting into the Gulf of Mexico, then this market could seriously challenge the resistance at \$3.894 and the \$4.00 price level. But if the remnants of Fred finally disperse or curve northward and or are a threat only to the East Coast of the U.S., prices could seek to test this month's support line at \$3.32.



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