

NGI's Daily Gas Price Index®

A Daily Price Service of Natural Gas Intelligence

Wednesday August 6, 2008

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Prices Tumble; Shut-Ins Temporarily Soar

Prices plunged at all points Tuesday as the latest tropical storm threat to offshore production began an overland trek through Texas with its accompanying demand destruction from power outages and heavy rains that would help to cool off what had been an ultra-sultry Lone Star State through Monday. Of course, the previous day's dive of 66.3 cents by September natural gas futures also contributed to the cash market softness.

Further downward pressure on spot gas numbers was applied by forecasts that high temperatures in most of the U.S. early this week would be evaporating over the next couple of days. The cooldown will already be under way Wednesday in the Midwest, New England and south-central section. The Northeast and South will see little change in highs, but Northeast citygates already were peaking in the mid 80s or less Tuesday.

Overall losses ranged from about 15 cents to \$1.15 or so. All of the triple-digit declines occurred in the Rockies, although regional highs will be rising a few degrees Wednesday.

A marketer in the region acknowledged that the Rockies will be getting a little warmer Wednesday, but said conditions would still be relatively moderate with overnight lows dipping into the lower 60s. Also, extra supply is getting put into the Rockies market with interruptible storage injections ending Tuesday at the Jackson Prairie facility and Northwest requiring interruptible balances there to be taken to zero by Aug. 15, he noted (see *Daily GPI*, July 29).

September natural gas futures will have neutral guidance for Wednesday's cash market, although further spot price drops are expected due to falling cooling load. After spending time in both negative and positive territory, the prompt-month contract ended the day in exactly the same spot where it started (see related story).

Northern Natural Gas indicated a steep decline of cooling load upcoming in its Midwestern market area. A bulletin board posting said the normal system weighted temperature at this time of year is 72 degrees. It projected that conditions would be slightly warmer than that with averages of 74 Tuesday and 73 Wednesday, but then the average is expected to drop to 68 Thursday and 69 Friday.

A Texas-based marketer said Henry Hub, which had averaged \$9.20 Monday, was down to the mid \$8.60s at mid-morning Tuesday. And the Chicago citygate plunged about 70 cents from Monday's \$9.15 average, he said.

The marketer said he expected that producers would start returning workers to facilities offshore southeastern Louisiana Tuesday, but maybe not until Wednesday for those off southwestern Louisiana and the upper Texas coast.

Although Florida Gas Transmission extended an Overage Alert Day into at least its second day Tuesday, traders apparently didn't expect it to continue. All Florida Gas production-area zones along with the Florida citygate recorded steep drops.

Tropical Storm Edouard was downgraded to a tropical depression Tuesday afternoon after coming ashore shortly after daybreak that morning in the Sabine Pass area of southeast Texas. It never developed

AUGUST CASH MARKET PRICES

	range	avg.	chg.	vol.	deals
South Texas					
Agua Dulce	\$8.34-\$8.45	\$8.41	-70	83	10
El Paso GTT (Valero)	\$8.42-\$8.42	\$8.42	-62	4	1
Florida Gas Zone 1	\$8.47-\$8.59	\$8.53	-69	15	4
NGPL S. TX	\$8.36-\$8.56	\$8.43	-53	278	40
Tennessee	\$8.30-\$8.64	\$8.45	-57	194	23
Texas Eastern S. TX	\$8.33-\$8.44	\$8.38	-60	136	31
Transco St. 30	\$8.40-\$8.67	\$8.45	-53	58	15
East Texas					
Carthage	\$8.40-\$8.68	\$8.47	-52	202	39
Houston Ship Channel	\$8.21-\$8.43	\$8.36	-68	1770	167
Katy	\$8.27-\$8.65	\$8.39	-65	1032	171
NGPL TexOk	\$8.00-\$8.35	\$8.15	-65	1053	163
Texas Eastern E. TX	\$8.36-\$8.60	\$8.57	-15	24	6
Texas Gas zone 1	\$8.53-\$8.76	\$8.61	-55	351	65
Transco St. 45	\$8.69-\$8.75	\$8.71	-48	169	30
West Texas					
El Paso Permian	\$7.58-\$8.00	\$7.70	-54	2027	311
Transwestern	\$7.59-\$7.85	\$7.70	-41	25	6
Waha	\$7.70-\$8.10	\$7.83	-52	530	90
Midwest					
Alliance	\$8.45-\$8.60	\$8.50	-68	899	101
ANR ML7	\$8.78-\$8.90	\$8.82	-74	102	7
Chicago Citygate	\$8.35-\$8.60	\$8.48	-67	2360	334
Consumers Energy	\$8.65-\$8.96	\$8.78	-57	395	68
Dawn	\$8.72-\$8.98	\$8.81	-46	1304	163
Michigan Consolidated	\$8.68-\$8.95	\$8.75	-54	825	132
Midcontinent					
ANR SW	\$7.60-\$7.89	\$7.70	-39	85	31
CenterPoint East	\$7.40-\$7.60	\$7.52	-38	231	41
CenterPoint West	\$7.40-\$7.53	\$7.47	-42	38	6
NGPL Amarillo Mainline	\$7.79-\$7.85	\$7.84	-43	13	4
NGPL Midcontinent	\$7.40-\$7.80	\$7.54	-52	1668	267
Northern Natural Demarc	\$7.73-\$8.00	\$7.81	-48	583	92
Northern Natural Ventura	\$7.70-\$8.10	\$7.91	-47	611	93
OGT	\$7.60-\$7.68	\$7.64	-41	21	3
Panhandle Eastern	\$7.38-\$7.78	\$7.47	-52	1489	170
Southern Star	\$7.55-\$7.73	\$7.66	-44	37	10
Louisiana					
ANR SE	\$8.49-\$8.85	\$8.65	-50	492	95
Columbia Gulf Mainline	\$8.54-\$8.72	\$8.59	-53	675	114
Columbia Gulf Onshore	\$8.54-\$8.77	\$8.63	-53	536	83
Florida Gas Zone 2	\$8.59-\$9.05	\$8.76	-54	83	12
Florida Gas Zone 3	\$8.80-\$9.10	\$8.97	-64	351	59
Henry Hub	\$8.41-\$8.85	\$8.66	-54	1016	149
Miss. River Trans.	\$8.24-\$8.40	\$8.37	-53	12	2
NGPL LA	-- --	--	--	--	--
Southern Natural	\$8.75-\$9.12	\$8.87	-69	1081	140
Tennessee Line 500	\$8.68-\$8.90	\$8.73	-60	1007	166
Tennessee Line 800	\$8.50-\$8.85	\$8.61	-52	537	102
Texas Eastern E. LA	\$8.50-\$8.74	\$8.61	-61	417	98
Texas Eastern W. LA	\$8.50-\$8.69	\$8.57	-54	367	62
Texas Gas Zone SL	\$8.56-\$8.63	\$8.59	-54	255	41
Transco St. 65	\$8.66-\$8.95	\$8.79	-52	900	147
Trunkline E. LA	\$8.54-\$8.62	\$8.57	-56	174	39
Trunkline W. LA	\$8.48-\$8.79	\$8.58	-58	376	58

enough to attain hurricane status, but remained a strong tropical storm while making landfall with maximum sustained winds of 65 mph.

On Monday Edouard's landfall had been predicted to occur around midday Tuesday in the vicinity of Galveston, TX, south of Houston. The actual location shifted to the east near the Louisiana border and was earlier than expected because the storm turned more toward the northwest than expected and accelerated in forward speed during the night.

Minerals Management Service (MMS) said 555 MMcf/d in offshore shut-ins were reported to it Monday, but that didn't reflect the full production impact of Edouard. The deepwater Independence Hub had been expected to start restoring 800-850 MMcf/d to the Gulf Coast market during the weekend following a four-day outage to inspect the integrity of leak repairs on its export pipeline. However, the restoration effort was delayed due to the heavy seas generated by the storm.

And southern Cameron Parish in the southwestern corner of Louisiana, home of some major gas processing plants, was being evacuated Monday, prompting the shutdown of several of the plants. That undoubtedly was boosting the suspension of extra production that afternoon, as MMS only posted the shut-ins reported to it by 11:30 a.m. CDT.

MMS confirmed a sharp increase in Edouard-related shut-ins, saying it had received reports from 45 companies Tuesday (up from 16 a day earlier) of 946 MMcf/d in gas shut-ins. The agency also reported 77,819 b/d in oil shut-ins (a nearly sevenfold increase from Monday's 11,539 b/d). Platform and mobile drilling rig evacuations rose to 154 (up from 23) and nine (up from six), respectively, MMS said.

Midstream operator Targa Resources shut down its Stingray and Barracuda processing plants because of the Cameron Parish evacuation, said President Joe Bob Perkins, adding that combined plant throughput had been 450 MMcf/d recently. Despite some road condition issues, employees had already started repopulating the Stingray facility Tuesday morning and those at Barracuda would be doing the same, Perkins said. Both plants would be ready to handle any restored offshore production by Tuesday evening, he said.

Tennessee added two meters Monday afternoon to a list of those affected by its request for shut-ins by producers behind the

AUGUST CASH MARKET PRICES

Alabama/Mississippi	range	avg.	chg.	vol.	deals
Texas Eastern M-1, 24	\$8.30-\$8.45	\$8.36	-74	52	11
Texas Eastern M-1, 30	\$8.69-\$8.84	\$8.76	-59	153	44
Transco St. 85	\$8.78-\$8.90	\$8.82	-61	166	26
Florida					
FGT Citygate	\$9.50-\$9.67	\$9.61	-81	86	8
Rocky Mountains					
Cheyenne Hub	\$7.00-\$8.12	\$7.74	-23	264	46
CIG	\$5.60-\$5.95	\$5.79	-90	156	45
El Paso Bondad	\$7.30-\$7.45	\$7.36	-48	120	28
El Paso non-Bondad	\$7.40-\$7.64	\$7.49	-63	592	93
Kern River	\$5.55-\$5.85	\$5.66	-116	76	13
Kingsgate	\$7.48-\$7.51	\$7.50	-51	314	32
Northwest Domestic	\$5.55-\$6.00	\$5.66	-104	71	21
Northwest S. of Green River	\$5.45-\$6.00	\$5.75	-116	69	17
Northwest Sumas	\$7.25-\$7.45	\$7.34	-42	58	17
Opal	\$5.55-\$6.00	\$5.67	-111	367	70
Questar	\$5.20-\$5.70	\$5.30	-85	2	2
Stanfield	\$7.55-\$7.68	\$7.61	-50	285	39
Northeast					
Algonquin (citygate)	\$9.05-\$9.46	\$9.27	-74	372	79
Columbia Gas	\$8.80-\$9.00	\$8.89	-51	807	158
Dominion (CNG)	\$9.04-\$9.36	\$9.14	-64	596	118
Dracut	\$8.90-\$9.00	\$8.94	-72	98	16
Iroquois Zone 2	\$9.15-\$9.37	\$9.24	-67	219	32
Iroquois, Waddington	\$8.90-\$9.22	\$9.05	-52	406	60
Niagara	\$8.86-\$9.09	\$8.93	-52	312	40
Tennessee Zone 6	\$9.05-\$9.30	\$9.16	-75	237	38
Texas Eastern M-2,30	\$9.10-\$9.41	\$9.16	-70	268	51
Texas Eastern M-3	\$9.15-\$9.40	\$9.22	-73	975	187
Transco Zone 5	\$9.05-\$9.25	\$9.15	-56	172	21
Transco Zone 6 non-NY	\$9.19-\$9.36	\$9.27	-66	248	67
Transco Zone 6 NY	\$9.23-\$9.55	\$9.33	-73	644	118
Arizona/Nevada					
El Paso S. Mainline/N. Baja	\$8.05-\$8.20	\$8.13	-45	321	27
Kern Delivery	\$7.88-\$8.15	\$7.95	-51	295	40
California					
Malin	\$7.68-\$7.92	\$7.76	-59	1224	156
PG&E Citygate	\$8.10-\$8.40	\$8.22	-52	1550	176
Southern Border, PG&E	\$7.83-\$7.96	\$7.88	-55	118	22
Southern California Bdr. Avg.	\$7.83-\$8.14	\$7.92	-53	1519	171
Canada					
NOVA/AECO C Cdn\$/GJ	\$7.16-\$7.40	\$7.29	-25	2019	149
Westcoast Station 2 Cdn\$/GJ	\$6.95-\$7.10	\$7.04		65	15

Notes: Prices traded Tuesday, August 5 for August 6 delivery. Changes are calculated from prices traded August 4 for August 5 delivery. A blank in the change column indicates information was not available for either the current or prior period. Prices are in U.S./MMBtu except for locations in the Canada section which are in Cdn\$/GJ. The deals column represents the number of transaction reports used by NGI in the calculation of the price and the volume column is the sum of the volume of those deals, in thousand MMBtus/day. Pricing points may be marked with an asterisk (none this issue) to denote NGI has used editorial judgment based on confirmed bids or asks, or relationships to other market locations in determining the price.

For more information, please see NGI's Price Methodology at:

<http://intelligencepress.com/methodology.html>

Previous 5 Days	7/30	7/31	8/1	8/4	8/5
Jul/Aug Henry	\$9.01	\$9.26	\$9.05	\$9.20	\$8.66
September Nymex	\$9.248	\$9.119	\$9.389	\$8.726	\$8.726
3 Month Strip	\$9.425	\$9.312	\$9.583	\$8.938	\$8.920
6 Month Strip	\$9.811	\$9.721	\$9.990	\$9.387	\$9.352
12 Month Strip	\$9.666	\$9.619	\$9.875	\$9.366	\$9.321
18 Month Strip	\$9.811	\$9.788	\$10.040	\$9.580	\$9.531
24 Month Strip	\$9.662	\$9.660	\$9.908	\$9.506	\$9.454

SoCal Citygate: New Index Location

In response to the scheduled October 1st implementation of Firm Access Receipt Rights and Off-System Delivery (FAR-OFF) by Southern California Gas Company, NGI will be making changes to our Southern California spot gas pricing coverage. Principally, a "SoCal Citygate" index pricing location will be added to the California section of NGI's daily, weekly and bidweek (monthly) spot gas price tables. This new location will represent gas delivered into the citygate pool of the SoCal gas system. NGI expects to begin publishing data at this location in its Bidweek Survey and Daily Gas Price Index publications dated October 1, 2008.

Additionally, NGI is soliciting comments from the marketplace on the need for and viability of listing prices at specific Southern Border receipt points or transmission zones. These additional pricing locations would be in addition to NGI's Southern California Border Average listing, which will remain unchanged.

Grand Chenier and Sabine processing plants, which were being shut down. Its list had 34 meters upstream of Grand Chenier and 17 meters upstream of Sabine. A Tennessee spokesman confirmed that flows behind the two plants had been taken to zero Monday.

Transco said it had been informed by WFS Liquids Co. that the Cameron Meadows Gas Plant was in the process of restarting operations and should be capable of full processing recover later Tuesday afternoon. Transco also said Crosstex Energy Services planned to have the Sabine Plant back in operation by Wednesday morning, prompting Transco to reinstate a 100,000 Dth/d limit on receipts at the UTOS tailgate (see *Daily GPI*, Aug. 5).

Shell said there was no tropical storm impact to operated production in the Gulf of Mexico, and that with Edouard no longer a threat to its offshore operations, it would issue no more updates. "We will commence with regularly scheduled crew changes and the redeployment of the limited number of personnel we evacuated throughout today [Tuesday] and tomorrow [Wednesday] as weather allows."

Edouard was already beginning to weaken as it moved inland through southeast Texas, the National Hurricane Center (NHC) said. It canceled a hurricane watch from west of Intracoastal City, LA, to Sargent, TX, Tuesday morning and that afternoon discontinued all coastal tropical storm warnings.

At 4 p.m. CDT the storm's center was about 35 miles north-northeast of Houston, NHC said. Edouard was moving to the west-northwest at nearly nine mph, which represented a slowing pace, and maximum sustained winds had decreased from around 65 mph upon landfall to nearly 35 mph.

The storm's course was expected to take it through Central Texas where its rains, if not winds, will be welcomed by a drought-troubled area. Relief from the heat also will be regarded as a blessing after Texas set a 2008 record for peak electricity use Monday and just barely missed eclipsing the all-time record.

Traders Looking Lower Yet September Settles Unchanged

Spot month natural gas futures settled unchanged, but more deferred contracts retreated in active trading Tuesday on the New York Mercantile Exchange. Traders cited an interest by funds and managed accounts toward the sell side of the market, and in the longer term analysts suggested that if there were no major production-disrupting hurricanes this season, prices could fall more than another dollar.

The September contract was flat at \$8.726 and October retreated 1.6 cents to \$8.820. September crude oil fell \$2.24 to \$119.17/bbl.

"The black-box funds are playing the market from the short side and there is new additional fund money also coming in on the short side. These guys can't get enough," said a New York floor trader.

He added that the funds were looking at price objectives "below \$8. We are taking out crucial levels of support on a daily basis, and today's low [overnight trading] was \$8.335." He noted that the market was recovering well from the overnight drop, and "a lot of shorts are short-term and are covering quickly."

"Selling rallies would be a better way to play the market than to initiate a random short. Anytime the market pops its head up like it did at \$8.84 on the floor, it's a good selling opportunity. Anytime the market rallies, you sell it. The trend is lower."

Longer term traders see the market continuing lower as well. "I think the support in the high \$8 area is only temporary, and today you had a bit of a 'dead-cat' bounce," said George Ellis, a director at the Bank of Montreal in New York. He suggested that the bounce might take prices as high as \$9.15 to \$9.20, but then you "sell it again."

Ellis admitted that a bullish consideration was the fact that storage was running behind a year ago, but "I don't think storage is a huge issue and prices are normalizing back to an area that makes sense and is the correct value for this

NYMEX Henry Hub Futures 8/5/2008

Expiration date in parentheses

Contract	High	Low	Settle	Change
Sep (8/27)	\$8.840	\$8.550	\$8.726	.000
October	\$8.870	\$8.590	\$8.820	-.016
November	\$9.255	\$9.095	\$9.215	-.038
December	\$9.645	\$9.530	\$9.633	-.042
Jan 2009	\$9.880	\$9.770	\$9.855	-.050
February	\$9.920	\$9.795	\$9.865	-.060
March	\$9.740	\$9.655	\$9.700	-.065
April	\$9.180	\$9.110	\$9.125	-.055
May	\$9.090	\$9.090	\$9.090	-.055
June	\$9.182	\$9.182	\$9.182	-.055
July	\$9.285	\$9.285	\$9.285	-.055
August	\$9.355	\$9.355	\$9.355	-.055
September	\$9.390	\$9.390	\$9.390	-.055
October	\$9.475	\$9.475	\$9.475	-.060
November	\$9.815	\$9.815	\$9.815	-.060
December	\$10.205	\$10.205	\$10.205	-.055
Jan 2010	\$10.490	\$10.435	\$10.435	-.055
February	\$10.445	\$10.390	\$10.390	-.055
March	\$10.205	\$10.150	\$10.150	-.055
April	\$9.095	\$9.030	\$9.030	-.065
May	\$8.980	\$8.915	\$8.915	-.065
June	\$9.055	\$8.990	\$8.990	-.065
July	\$9.150	\$9.085	\$9.085	-.065
August	\$9.220	\$9.155	\$9.155	-.065
Est. Volume, 8/5:	171,660		Open Int, 8/4:	933,759

September NYMEX Technical Indicators

Trend Indicator	7/30	7/31	8/01	8/04	8/05
+Dir. Indicator	11.49	11.77	13.43	11.66	11.03
-Dir Indicator	52.95	50.60	46.11	45.99	45.56
18 Day Avg.	10.832	10.613	10.443	10.256	10.053
40 Day Avg.	12.057	11.974	11.894	11.793	11.694
Oscillators					
RSI	22.39	21.53	27.80	22.95	22.95
Stochastics (Slow)	4.83	5.89	8.57	9.44	9.59

Notes: The contents of this chart are in no way intended to serve as trading advice on the part of Intelligence Press Inc. For more information on how to interpret these technical indicators, please call Intelligence Press at (703) 318-8848 and ask for the pricing staff.

September NYMEX Options at 8/05 Close

Strike Price	Call Price	BS Value	Implied Volatility	Put Price	BS Value
\$8.60	.556	.455	59.2%	.431	.329
\$8.65	r	.429	- -	.455	.353
\$8.70	.507	.404	59.3%	.481	.378
\$8.75	.483	.380	59.2%	.507	.404
\$8.80	.462	.357	59.5%	.536	.431
\$8.85	r	.335	- -	.566	.459
\$8.90	.422	.314	59.8%	.596	.488
Total Volume, 8/4:	9,742		Open Interest, 8/4:	975,688	

Notes: BS Value represents the theoretical value of the option at the close of the August 5, 2008 trading session derived using the Black-Sholes options valuation model. Inputs for the model are the September futures price of \$8.726, strike price, 20 day annualized volatility of the September contract of 46.9%, and 21 days remaining before the options' expiration.

Daily updates provided by CSI <http://www.csidata.com>

market. If we can get out of this season without a major hurricane, we can see a \$7 handle. I think the market finds a bottom at \$7.50.”

Weather bulls will have to deal with unsupportive temperatures and a near-term tropical outlook showing no active systems. “Updates that now extend beyond mid-month are suggesting relatively normal temperature patterns following a sizable warm-up during the past weekend and into today. Consequently, storage injections going forward are not likely to be affected appreciably,” said Jim Ritterbusch of Ritterbusch and Associates.

AccuWeather.com reported that Tropical Storm Edouard came ashore Tuesday morning near the Texas-Louisiana border sporting 65 mph winds, but no major damage was observed. At 2 p.m. EDT Edouard was located about 35 miles east of Houston. The forecaster is monitoring several tropical waves in the Atlantic but does not identify any organized systems.

Ritterbusch is standing aside for now. Monday's price plunge carried further than what was anticipated and “has exceeded our downside expectations and has forced a move to the sidelines following this morning's decline to below the \$8.64 level,” he said in a Tuesday morning note to clients.

CSU Ups the Ante, Forecasts Nine Hurricanes This Year

With five named storms already charted this year, including two hurricanes, and Tropical Storm Edouard drenching portions of Texas, the Colorado State University (CSU) hurricane team increased the number of storms it said will form in the Atlantic Basin this year, forecasting a total of 17 named storms, including nine hurricanes, five of them intense (Category 3 or greater).

CSU forecasters had previously called for a well above-average hurricane season this year with 15 named storms forming in the Atlantic Basin (see *Daily GPI*, June 4). The updated forecast increased the number of forecast storms based on warm sea surface temperatures and low sea level pressures observed over the tropical Atlantic in June and July, combined with an active early season in the deep tropics. The long-term (1950-2000) average is 9.6 named storms, 5.9 hurricanes and 2.3 intense hurricanes.

“The primary concern with our current very active seasonal forecast numbers is the continued ocean surface warming in the eastern and central tropical Pacific,” said CSU forecaster Phil Klotzbach. “Although it seems unlikely at this point, there is a possibility that a weak El Nino could develop by the latter part of the hurricane season. If this happened, it would likely reduce the number of late-season tropical cyclones.”



Firm Physical Natural Gas Price Bulletin

For Natural Gas Delivered on August 6, 2008

(Trade Date of August 5, 2008)

The following information is proprietary to the IntercontinentalExchange (ICE) and may not be redistributed or disseminated without the express written consent of Intercontinental.

	High	Low	Weighted Average Index	Change	Volume (mmBtu)	Number Trades	Counter- Parties
EAST							
Algonquin Citygates	\$9.4500	\$9.0500	\$9.2588	-0.74	160,100	37	19
Dominion-South	\$9.3500	\$9.0500	\$9.1343	-0.65	250,100	50	26
Dracut	\$9.0000	\$8.9000	\$8.9407	-0.71	43,000	6	6
Iroquois-Z2	\$9.3700	\$9.1500	\$9.2495	-0.67	41,600	11	9
TCO	\$9.0000	\$8.8000	\$8.8869	-0.52	351,000	73	39
TETCO-M2	\$9.4000	\$9.1150	\$9.1547	-0.69	102,200	21	16
TETCO-M3	\$9.4000	\$9.1500	\$9.2219	-0.72	435,600	87	39
TGP-Z6 200L	\$9.3000	\$9.0500	\$9.1617	-0.76	79,000	16	13
Transco-Z5 (non-WGL)	\$9.2500	\$9.1100	\$9.1612	-0.55	40,500	7	7
Transco-Z6 (non-NY)	\$9.3600	\$9.1950	\$9.2739	-0.66	114,500	31	20
Transco-Z6 (NY)	\$9.5500	\$9.2300	\$9.3335	-0.74	245,500	53	29
GULF/TEXAS							
ANR SE	\$8.8500	\$8.4900	\$8.6439	-0.51	228,200	43	27
Carthage	\$8.6800	\$8.4000	\$8.4644	-0.53	95,300	18	14
CG-Onshore	\$8.7700	\$8.5450	\$8.6269	-0.54	255,900	41	29
CG-Mainline	\$8.7200	\$8.5400	\$8.5831	-0.54	312,100	53	24
FGT-Z3	\$9.0300	\$8.9700	\$9.0040	-0.65	95,100	16	9
Henry	\$8.8500	\$8.4200	\$8.6625	-0.54	497,800	73	32
Houston Ship Channel	\$8.4300	\$8.2100	\$8.3607	-0.68	882,300	83	22
Katy	\$8.6500	\$8.2750	\$8.3877	-0.65	496,800	80	34
NGPL-STX	\$8.5600	\$8.3600	\$8.4316	-0.51	138,700	20	15
Sonata-T1	\$9.0500	\$8.7500	\$8.8601	-0.70	403,600	58	28
TETCO ELA	\$8.7400	\$8.5000	\$8.6128	-0.61	207,500	48	30
TETCO-ETX	\$8.6000	\$8.3600	\$8.5710	-0.15	11,600	3	4
TETCO-M1 24	\$8.3500	\$8.3500	\$8.3500	-0.71	1,000	1	2
TETCO-M1 30	\$8.8400	\$8.6950	\$8.7586	-0.59	67,800	20	19
TETCO-STX	\$8.4400	\$8.3300	\$8.3850	-0.61	46,500	12	13
TETCO WLA	\$8.6900	\$8.5000	\$8.5748	-0.54	183,200	31	16
TGP-500L	\$8.9000	\$8.6800	\$8.7259	-0.60	482,600	80	38
TGP-800L	\$8.8500	\$8.5000	\$8.6094	-0.52	274,700	51	31
TGP-Z0	\$8.6400	\$8.3000	\$8.5279	-0.44	20,300	5	8
TGT-SL (FT)	\$8.6300	\$8.5600	\$8.5870	-0.54	117,600	20	15
Transco-30	\$8.6700	\$8.4000	\$8.4514	-0.53	27,100	6	6
TGT-Z1 (FT)	\$8.7600	\$8.5300	\$8.6084	-0.55	170,200	32	22
Transco-45	\$8.7500	\$8.6900	\$8.7107	-0.48	86,300	15	12
Transco-65	\$8.9350	\$8.7500	\$8.8024	-0.51	308,000	58	34
Transco-85	\$8.8950	\$8.7900	\$8.8347	-0.61	56,200	10	11
Trunkline ELA	\$8.6200	\$8.5400	\$8.5681	-0.56	84,700	19	15
Trunkline-WLA	\$8.7900	\$8.4800	\$8.5789	-0.58	188,000	29	16
MIDCONTINENT							
Alliance Delivered	\$8.5950	\$8.4550	\$8.4935	-0.69	342,900	43	16
ANR-SW	\$7.8000	\$7.6000	\$7.6925	-0.40	38,800	14	13
CEGT-Flex	\$7.6000	\$7.4000	\$7.5237	-0.39	105,500	18	15
CEGT-West	\$7.5300	\$7.4000	\$7.4684	-0.42	19,000	3	4
Chicago Citygates	\$8.5650	\$8.3500	\$8.4598	-0.67	593,700	102	32
Consumers	\$8.9600	\$8.6500	\$8.7800	-0.57	218,900	36	17
Demarc	\$8.0000	\$7.7350	\$7.8150	-0.48	262,600	41	25
Michcon	\$8.8700	\$8.6800	\$8.7491	-0.54	415,600	63	24
NGPL-Amarillo	\$7.8500	\$7.7900	\$7.8376	-0.42	6,300	2	3
NGPL Midcont	\$7.8000	\$7.4000	\$7.5410	-0.52	853,600	135	36
NGPL-TXOK	\$8.3500	\$8.0000	\$8.1541	-0.65	514,800	79	36
Oneok	\$7.6800	\$7.6800	\$7.6800	-0.37	5,100	1	2
Panhandle	\$7.7600	\$7.3800	\$7.4716	-0.52	731,300	83	30
Ventura	\$8.1000	\$7.7000	\$7.9203	-0.46	243,600	38	20
Southern Star	\$7.7300	\$7.7000	\$7.7059	-0.41	13,500	4	5
WEST							
CIG-Mainline	\$5.9500	\$5.6000	\$5.7956	-0.90	81,600	24	18
EP-Permian	\$7.8800	\$7.5800	\$7.6918	-0.54	793,800	119	39
EP-Waha	\$8.0000	\$7.6000	\$7.7670	-0.52	174,600	29	16
Cheyenne	\$8.1200	\$7.0000	\$7.6741	-0.29	76,200	19	15
EP-SJ Blanco	\$7.6400	\$7.4000	\$7.4908	-0.63	304,000	47	24
EP-SJ Bondad	\$7.4500	\$7.3000	\$7.3585	-0.48	59,900	13	8
KRGT-Del Pool	\$8.1500	\$7.8800	\$7.9487	-0.51	132,600	18	14
Kingsgate	\$7.5100	\$7.4800	\$7.5005	-0.52	106,800	14	9
KRGT-Rec Pool	\$5.8500	\$5.6200	\$5.6580	-1.00	11,200	3	4
Malin	\$7.9200	\$7.6800	\$7.7568	-0.59	631,200	82	29
NWP-Wyoming	\$5.8500	\$5.5500	\$5.6059	-1.05	14,500	6	10
NWP-Rocky Mtn	\$6.0000	\$5.4500	\$5.7527	-1.16	32,900	8	11
Opal	\$6.0000	\$5.5500	\$5.6761	-1.11	164,300	31	19
PG&E - Citygate	\$8.3300	\$8.1000	\$8.2165	-0.52	776,300	88	28
PG&E-Topock	\$7.9600	\$7.8300	\$7.8761	-0.56	51,400	10	12
SoCal Border	\$8.1400	\$7.8300	\$7.9235	-0.52	734,800	80	31
Stanfield	\$7.6800	\$7.5500	\$7.6053	-0.50	144,900	20	14
TW-Blanco	\$7.5900	\$7.4000	\$7.4767	-0.62	50,400	11	12
Waha	\$8.1000	\$7.7000	\$7.8357	-0.51	220,600	41	21

Includes all firm physical fixed price trades done from 7 AM to 11:30 AM Central Prevailing Time on the trade date specified for natural gas delivered on the specified date(s). © 2008 IntercontinentalExchange, Inc.

The CSU team also issued a monthly tropical cyclone activity forecast, which forecast four named storms, three hurricanes and one intense hurricane forming in the Atlantic basin in August, approximately 180% more activity than is seen in the average August. There is a considerably higher-than-average probability of at least one intense hurricane making landfall in the United States during this year's hurricane season, the team said.

The year's fifth named storm, Tropical Storm Edouard, came ashore shortly after daybreak Tuesday in the Sabine Pass area of southeast Texas. It never developed enough to attain hurricane status, but it remained a strong tropical storm while coming ashore with maximum sustained winds of 65 mph. Edouard is expected to weaken as it moves west over Texas towards Houston. According to the National Hurricane Center, the center of the storm was midway between High Island and Sabine Pass in the McFaddin National Wildlife Refuge early Tuesday morning. At 10 a.m. CDT a hurricane watch, which had been posted west of Intracoastal City, LA, to Sargent, TX, was discontinued, as were tropical storm warnings east of Cameron, LA, and west of San Luis Pass, TX. A tropical storm warning remained in effect from Cameron westward to San Luis Pass.

Tropical Storm Arthur, the first tropical storm of the 2008 Atlantic hurricane season, developed May 31 in the western Caribbean Sea and wasted little time in moving ashore over Mexico's Yucatan Peninsula, where it was downgraded to a tropical depression on June 1. Bertha meandered through much of the Atlantic between July 3 and July 20, threatening Bermuda and twice becoming a hurricane, but never threatened gas or oil interests.

Last month Hurricane Dolly brought heavy rain and wind speeds of more than 100 mph when it made landfall at South Padre Island near Brownsville, TX. Minerals Management Service reported more than 600 MMcf/d shut-ins of gas, 58,000 b/d of oil and 62 evacuated platforms and mobile drilling rigs associated with Dolly, which weakened to a tropical storm and then to a tropical depression as it passed into Mexican territory near Laredo, TX.

Also last month, Tropical Storm Cristobal stayed in the Atlantic as it traveled northeast, eventually being downgraded to an extratropical depression as it moved into cooler North Atlantic waters.

Most forecasters this year have called for an active or above-average Atlantic hurricane season. Last month WSI Corp. increased by one the number of named storms and hurricanes that it predicts will form in the Atlantic Basin this year, calling for 15 named storms and nine hurricanes, including four intense hurricanes to form (see *Daily GPI*, July 23). Previously WSI forecasters had said they expected 14 named storms, eight hurricanes with four of them intense hurricanes (see *Daily GPI*, July 2). The slight increase was primarily due to increasing sea surface temperature anomalies in portions of the Atlantic Basin that play a role in storm development and intensity, WSI said.

The National Oceanic and Atmospheric Administration (NOAA) has said projected climate conditions point to a near-normal or above-normal hurricane season in the Atlantic Basin this year (see *Daily GPI*, May 27). The outlook indicates a 60-70% chance of 12 to 16 named storms, including six to nine hurricanes and two to five major hurricanes, NOAA said.

MDA EarthSat forecasters also said the 2008 Atlantic hurri-

cane season will likely be busier than average but quieter than last year (see *Daily GPI*, April 16). MDA EarthSat forecasters said 13 named storms, six hurricanes and three intense or major hurricanes are likely to form during the Atlantic hurricane season.

AccuWeather.com meteorologist Joe Bastardi said the East Coast will be at greater risk this coming hurricane season even though the number of named storms is expected to be about average, and Gulf of Mexico interests can expect seven to 10 days with at least the threat of weather disruptions (see *Daily GPI*, May 13).

Using NOAA data and its own storm tracking tool, forecasting network WeatherBug said it expects 10-12 named storms and an above-average Atlantic hurricane season (see *Daily GPI*, May 30).

In June the Energy Department's Energy Information Administration (EIA) said it expects a total of 11.3 million bbl of crude oil and 78 Bcf of natural gas to be shut in in the Gulf of Mexico during the 2008 hurricane season (see *Daily GPI*, June 12). The prediction is based on the results of a Monte Carlo hurricane outage simulation, which is conditioned on how NOAA's most recent predictions for the level of Atlantic Basin hurricane activity compare to historical activity, the EIA said. A report issued this summer by energy consultant IHS Inc. said average impact on U.S. oil and natural gas production from Gulf of Mexico hurricanes over a 45-year period was "relatively modest" and the impact on energy supplies "typically short-lived" (see *Daily GPI*, June 5).

Anadarko Considers Buying Properties, Stock to Boost Value

Citing the "stunning" drop in the net asset value (NAV) of U.S. exploration and production (E&P) companies, Anadarko Petroleum Corp. is considering ways to boost the company's value — by either buying back stock or buying some assets — the CEO said Tuesday.

The share buybacks or acquisition opportunities would "unlock the value" of Anadarko's share price, CEO Jim Hackett told energy analysts during a quarterly earnings conference call. Anadarko's share price has fallen around 19% since the beginning of the year, and Anadarko may use its solid balance sheet and free cash flow to bolster the sagging share price.

"There are a number of options we'll look at, giving focus on how to make sure we don't lose our investment grade rating," Hackett said. "We're working through the system. But the values for large cap [E&Ps] is stunning relative to the NAV."

Anadarko purchased Kerr-McGee Corp. and Western Gas Resources for \$21 billion in 2006, and as it consolidated the massive set of assets more than \$12 billion of the properties were sold in 2007. This year Anadarko expects to return to production growth with a \$4.9-5.1 billion capital budget, which is 25% higher than it was in 2007.

"We have a new asset footprint, and we've demonstrated its depth and flexibility as we overcame the production shut-in," Hackett said. "The Independence Hub shut-in was a month longer than we expected, and we still beat the volume guidance for the quarter. If we had resolved the issue in May, we would have been at the high end of our guidance for the quarter."

Anadarko produced 50 million boe in 2Q2008 even with

the 50-day shut-in of the deepwater Independence Hub, which Anadarko operates (see *Daily GPI*, June 17). The gas hub was shut in last week for a routine four-day maintenance check on the integrity of its bolts and flex joints, but the anticipated weekend restart was delayed with the arrival of Tropical Storm Edouard, Hackett noted (see *Daily GPI*, Aug. 5). The hub should begin ramping up to pre-storm levels this week, he said.

Several key areas lifted Anadarko's U.S. production in 2Q2008: the tight gas play in the Uinta Basin, coalbed methane production from the Powder River Basin and the Gulf of Mexico (GOM).

"Momentum onshore affirms our production guidance of 207-212 million boe expected in 2008," said Hackett. Anadarko's 3Q2008 production is expected to be about 13% higher than for the same period a year ago, ranging from 51-54 million boe.

Onshore U.S. spending will account for about half of Anadarko's 2008 capital budget; GOM projects will require a quarter of the spending. Full-year 2008 output is expected to be around 212 million boe, which would be in line with 2007 production.

To ensure that its growing Rockies production is moved to market, Hackett said Anadarko was doing what it could to back gas pipeline projects in the region.

An Anadarko subsidiary in May committed to 250 MMcf/d as a foundation shipper for the proposed Bison Pipeline Project, which would carry Powder River Basin gas supplies (see *Daily GPI*, May 16). Hackett told analysts that the company also agreed to make a binding commitment to El Paso Corp.'s proposed Ruby Pipeline LLC, which would carry gas from the Rockies to the West Coast (see *Daily GPI*, June 26). The CEO offered no details on the extent of Anadarko's commitment to the Ruby pipeline project, which as proposed would have an initial capacity of 1.3-1.5 Bcf/d.

"Together these pipelines will ensure a market for Rockies gas," said Hackett. "We feel pretty good about our takeaway capacity position to handle the basis differential... We see constraints going forward, which is why we signed up with Bison and Ruby and to ensure they are on time to get done as early as possible."

The Houston-based producer reported that net income dropped 98% from a year ago after asset sales lifted the year-ago quarter and hedging contracts for oil and natural gas fell in value. Reported net income fell to \$23 million (5 cents/share) from \$1.31 billion (\$2.81) in 2Q2007. Excluding the hedging loss and the impairment and gains from asset sales, Anadarko earned \$1.78/share, which was 1 cent above average Wall Street estimates.

Haynesville Shale Pipeline Project Proposed

A new natural gas pipeline to move production from the emerging Haynesville Shale in northwestern Louisiana beginning in late 2009 has been proposed Tuesday by DCP Midstream Partners and M2 Midstream LLC (Momentum).

As an extension of DCP's Pelico Intrastate Pipeline, the Haynesville Connector would originate in western De Soto Parish, LA, and extend more than 150 miles to Delhi, LA, with access to several takeaway pipes.

"Producers in the Haynesville-Lower Bossier shale area in East Texas and North Louisiana are enthusiastic about results from initial wells, which are meeting or exceeding their

expectations, and these results are bolstering forecasts for natural gas production in the area," said DCP CEO Mark Borer.

No pipeline infrastructure or financial details were disclosed.

If it is built, the joint venture partners estimated that the Haynesville Connector could begin initial deliveries in the third quarter of 2009 and offer an estimated 1.5 Bcf/d of takeaway capacity by early 2010. The joint venture remains subject to definitive agreements and approvals, the companies said.

Momentum and DCP have been working on the pipeline proposal "for several months in order to provide Haynesville Shale producers with access to a long-term takeaway solution on an accelerated timeline," said Momentum CEO Frank Tsuru.

DCP Midstream Partners is owned by DCP Midstream LLC, a joint venture of Spectra Energy and ConocoPhillips. Momentum, based in Houston, owns and operates the M2 Fairplay gathering system in East Texas and the State Line gathering system in De Soto Parish.

Information about the Haynesville Connector is available from DCP's Brian Frederick at (713) 735-3667 or Momentum's George Francisco at (713) 783-3000.

National Fuel Plans Pipe to Tap Marcellus Shale

National Fuel Gas Supply Corp. (Supply), the pipeline and storage segment of National Fuel Gas Co., is conducting an open season until Sept. 12 for capacity in the Appalachian corridor in southwestern and central Pennsylvania that will provide transportation and storage services to Northeast market interconnects including Ellisburg, Leidy and Corning.

The open season features a newly proposed pipeline system, the Appalachian Lateral, to provide interstate pipeline infrastructure to move gas supplies produced from the Marcellus Shale and other Appalachian producing horizons to growing Northeast markets. The open season will also provide shippers the opportunity to access incremental storage capacity of 8.5 Bcf via Supply's planned expansion of certain of its existing fields. The storage capacity will be offered in a complementary open season in the near future.

The scope and size of the Appalachian Lateral will be determined after the close of the open season. It could run up to about 350 miles through the Marcellus Shale fairway to connections with existing facilities. The Appalachian Lateral may serve as a complement to Supply's previously announced West-to-East project, which is designed to move Rockies Express gas supply from Ohio to the Northeast. Results from a 2007 open season for the West-to-East project were robust and market interest remains strong for new facilities to be built in this region where exploration and production activity, particularly in the Marcellus Shale, is increasing, the company said.

"Many of our pipeline and storage assets are located in the heart of the Appalachian region and provide ready and flexible opportunities for new storage and transportation services to accommodate new production from this region, as well as growing demand in the Northeast," said Ronald J. Tanski, president of National Fuel Gas Supply.

Additional information is available at www.nationalfuelgas.com or by calling National Fuel's interstate marketing department at (716) 857-7740. The open season will close at 11 a.m. EDT on Sept. 12.

ICE Sees Hedging Tending Toward Options, Products

While participation in its energy futures markets by global energy companies remains strong, IntercontinentalExchange Inc. (ICE) is seeing principals move toward specialized products rather than crude oil and also into options because of increased intraday market volatility, Chairman Jeffrey Sprecher said in a 2Q2008 briefing on the company's "second strongest quarter ever." He also announced plans for a share buyback program worth up to \$500 million because the board believed the company's shares are undervalued.

Three new initiatives are coming into play in the third quarter to broaden the electronic exchange's footprint into new markets and allow more flexibility in existing energy markets, Sprecher said. ICE reported consolidated net income for the second quarter of 2008 of \$84.9 million, a 58% increase compared to \$53.7 million for the second quarter of 2007. Diluted earnings per share (EPS) in the second quarter were \$1.19, an increase of 59% over 75 cents in 2Q2007.

Commercial customers increased to 50% of ICE business in the first half of 2008 compared to 46% a year ago, Sprecher said, reflecting "a strong commitment by commercials... We are seeing more commercial users in OTC [over the counter] markets" as those markets become more regulated and transparent.

Since the energy markets have been "very, very choppy," however, the companies have been moving more into the options arena where they can more easily capture trends. "I'm amazed by the movement into options." He said ICE plans to have an options platform rolling out "pretty soon."

Also, as long as prices were rising the oil companies did not need to hedge as much. On the other hand energy users have been moving hedging activities away from crude toward products closer to ones they actually use, such as distillate and natural gas. "Natural gas has been doing very well on ICE," Sprecher said.

He commented that crude volumes on rival exchange Nymex were buoyed by huge trades by an oil trading company that went into bankruptcy [SemGroup], "which was not a customer of ICE" (see *Daily GPI*, July 24).

ICE expects to capture more energy trading once it completes its transition in mid-September from clearing contracts from LCH.Clearnet to its own in-house ICE Clear Europe. Currently, margin requirements as much as 25% higher on Clearnet than Nymex, which could be having a short-term impact on trading volumes. Sprecher noted that Clearnet tends to raise margins more readily than it lowers them. Chuck Vice, ICE president, said that using its own risk analysis, ICE will be updating margin requirements more frequently.

Also, in late September ICE Futures U.S. will establish itself in the equity index futures market as the only exchange for all U.S. Russell Index futures and options on futures contracts, including the Russell 2000 mini-futures contract. It also expects to complete its acquisition of Creditex Group Inc., moving into the credit default swaps markets spanning the U.S., Europe and Asia at a time when that market is restructuring. Sprecher said that

while the venture is risky it "is in a similar place that the energy market was seven years ago," and has good potential.

Noting that "extreme measures" to rein in excessive speculation "failed to gain traction in the Congress," Sprecher said he expects more bipartisan legislation aimed at energy fundamentals to emerge when Congress returns from its recess. The outcry against the futures markets reflected in part the failure of ICE and the industry to educate the Congress as to the workings and the value of these markets, he said. One benefit of the recent focus on futures markets has been that ICE officials have forged relationships with leading policymakers in Congress and the administration. Sprecher said ICE now has a infrastructure and people in place to continue to deal with potential government legislation and regulation.

The company's 2Q report showed combined volume for ICE's futures exchanges increased 18% over 2Q2007 to 58.1 million contracts, with the ICE Brent Crude and ICE WTI Crude futures contracts establishing new quarterly volume records. Average daily volume (ADV) for ICE Futures Europe was 610,187 contracts during the second quarter. ADV for ICE Futures U.S. was 274,420 contracts, and total quarterly volume represented the second highest in history. ADV for ICE Futures Canada was 13,633 contracts. Average daily commissions for ICE's global OTC segment rose 69% to \$1.2 million during the second quarter of 2008.

Consolidated revenues in the second quarter increased to \$197.2 million, a 44% increase over \$136.7 million in the second quarter of 2007.

The share buyback program for up to \$500 million will extend over the next 12 months. The share price dropped nearly 10% to about \$85 after the earnings announcement on Monday, but was rebounding by about 3% to above \$88 late Tuesday.

Gas Transmission Projects Eyed by NorthWestern

NorthWestern Energy Corp. intends to focus on its regulated utility assets and building more power and natural gas transmission infrastructure in its Great Plains region, said CEO Michael Hanson during a recent second quarter earnings conference call.

For both the second quarter and the first six months of this year, Sioux Falls, ND-based NorthWestern increased its net income compared to the same periods last year — \$9.5 million (24 cents/share) in the second quarter, compared with \$2.4 million (6 cents) for the same period in 2007; and \$33 million in net income for the first six months, compared with \$21.6 million for that same period last year.

Hanson stressed that with all three ratings agencies placing the company at investment grade and with a final settlement completed on the last lingering litigation from its Chapter 11 bankruptcy four years ago, NorthWestern is focused on infrastructure upgrades, particularly in Montana, and becoming a "pure utility" operation.

NorthWestern has pending a \$404 million sales agreement for its 30% interest in the Colstrip Unit 4 coal-fired generation facility in Montana to Bicent (Montana) Power Co., and a filing with the Montana Public Service Commission (PSC) to con-

sider taking the generation plant interest into the rate base for NorthWestern's distribution power utility operations in the state. If the Colstrip interest is rate based, the sales agreement is terminated with Bicent, Hanson said.

Hanson said NorthWestern has several other investments it wants to make in expanded gas and electric infrastructure, including three electric transmission line projects in and around Montana — a 500-kV transmission line from Colstrip, a 230-kV collection system in the center of Montana, and the 400-mile Montana to Idaho high-voltage line, Mountain States Transmission Intertie (MSTI).

Hanson said MSTI is a \$200-250 million project that would come on line in 2013, but during the rest of this year detailed economic, engineering and logistical studies will be done on the utility's preferred and two alternate routes. "We already had 639 MW of expressed interest on the project," he said. "We'll ultimately match the market interest to the project capacity of this project when construction begins."

Noting that balancing services are becoming increasingly scarce and more costly in the region, NorthWestern is continuing to pursue its \$200 million, 125-150 MW Mill Creek Generating Plant in Montana as a means of providing its own balancing services in the area. That project is slated to be completed by January 2011. Added wind generation coming on line and the fact that NorthWestern is currently dependent on the market for all regulation services are further driving the need for this project.

"We expect to file a complete proposal with the Montana PSC by mid-August this year," Hanson said.

NorthWestern also is looking at adding natural gas transmission in South Dakota and Nebraska, Hanson said. The utility plans to spend up to \$40 million during the next three years for several natural gas pipeline extension projects to accommodate new and expanding biofuel and ethanol production facilities in the region.

Duke Overcomes Higher Fuel Costs, Posts Strong Earnings Gain

Volatile fuel prices and economic uncertainty weren't enough to keep Duke Energy's core operations from performing well, the company said in reporting 2Q2008 adjusted diluted earnings of 27 cents/share, up from 24 cents in 2Q2007.

The quarterly results reflected strong performances by Duke's three largest segments, partially offset by a \$113 million charge related to impairments recorded by the company's former land management and development wing, Crescent Resources. Duke sold a 49% stake in Crescent to Morgan Stanley Real Estate for \$1.4 billion in 2006 (see *Daily GPI*, Sept. 11, 2006). Duke retained a 49% stake in the Charlotte, NC-based real estate company.

Duke's U.S. Franchised Electric and Gas (USFE&G) unit reported 2Q2008 earnings before interest and taxes (EBIT) of \$503 million, compared with \$452 million in 2Q2007. The increase was due primarily to the conclusion in the third quarter of 2007 of North Carolina clean air amortization, the substantial completion of rate credits in 2007 related to Duke's merger with Cinergy Corp. and higher Allowance for Funds Used During Construction, including the impact of a favorable regulatory ruling in Indiana. USFE&G also benefited from higher

rates in the Midwest, primarily a result of recovery of qualifying pollution control costs in Indiana, Duke said.

Duke's Commercial Power segment, which buys and sells electricity on the wholesale market, reported 2Q2008 EBIT of \$235 million, compared to \$64 million in 2Q2007. Commercial Power results increased primarily because of higher mark-to-market gains due to economic hedges, gains on the sale of emission allowances, lower purchase accounting expenses and improved operations.

During the quarter Duke acquired Catamount Energy Corp. from funds affiliated with Diamond Castle Holdings LLC for approximately \$240 million, significantly increasing its wind energy operations and announced a \$100 million plan to install solar panels at up to 850 North Carolina sites.

Natural Gas as Transport Fuel Gains Ground

Just how prescient were the recent comments of Chesapeake Energy CEO Aubrey McClendon and T. Boone Pickens about increasing the use of natural gas as a transportation fuel? General Motors Corp. (GM) now is calling natural gas an "enticing alternative" to petroleum, and Honda Motor Co. has begun touting "Phill," a home refueling appliance available to owners of natural gas vehicles (NGV).

GM's Larry Burns, vice president of research and development, cited natural gas' abundance, affordability and relative cleanliness in a recent GM FastLane blog entry.

"Because GM believes there is no single technology solution to displace petroleum," Burns said GM is "aggressively" pursuing biofuels and "leveraging other efficiencies" that include advanced engines and hybrids.

"In the near term, we can use compressed natural gas (CNG) in internal combustion engines," said Burns. "Mid term, we can leverage natural gas to create electricity for [GM's] Volt and future variants. In the long term, natural gas could be an excellent source for making hydrogen for fuel cell vehicles, either at the filling station or in people's homes."

GM already has experience with NGV, Burns noted. GM's Opel Zafira CNG is "among the leaders in Europe, where gasoline and diesel fuel are costly, and we are exploring a dual-fuel approach with natural gas and gasoline for U.S. customers. While we are not ready to commit to a future production plan, we are taking a serious look at natural gas in the U.S. as yet another way to diversify our portfolio of affordable and sustainable transportation energy solutions."

For natural gas to make a "measurable impact," Burns said, many vehicles need to use it, and "it must be readily available. Collaboration with the energy industry and governments is key. Governments will likely need to provide incentives to encourage early adoption of the technology and to jump-start the fueling infrastructure."

Honda has begun selling Civic GX NGV in the United States for about \$24,590 — \$7,000 more than the conventional Civic. It now is available only in California and New York, which both have a network of natural gas fueling stations. The U.S. Environmental Protection Agency has rated the Civic as the cleanest internal-combustion engine. The California Air Resources Board gave the vehicle its cleanest emissions rating.

Honda is offering Phill as part of the NGV package. The refueling station, manufactured by Ontario-based FuelMaker, connects to a home-based natural gas line to allow fill-ups at home. The compact unit (30 inches by 14 inches by 14 inches) hangs on the wall of the garage. According to Honda, Phill is as safe and as quiet as a clothes dryer. A methane detector monitors for leaks and automatically shuts down the unit if necessary.

Refueling a four-cylinder Civic NGV could take up to 16 hours for an empty tank; a full tank would have a driving range of 220-250 miles. CNG mileage is 24 in the city and 36 on the highway, according to Honda. Although not measured in liquid gallons, Honda said the price for CNG may be as low as \$1.29/gallon on an equivalent basis.

According to FuelMaker, Phill is available in select areas of California, Arizona, Colorado, Illinois, Indiana, Michigan, Nevada, New Jersey, New York, Ohio, Oklahoma, Oregon, Pennsylvania, Utah, Washington, Texas and Wisconsin.

Energy Transfer Partners Completes Two Texas Projects

Energy Transfer Partners LP (ETP) has raised its gas pipeline transportation capacity out of the prolific Barnett Shale of North Texas to more than 3.5 Bcf/d with the completion of two projects: the 135-mile, 36-inch diameter Paris Loop pipeline and the 25-mile, 36-inch diameter Maypearl to Malone pipeline.

Paris Loop originates near Eagle Mountain Lake in northwest Tarrant County, TX, and connects to ETP's Houston Pipe Line system near Paris, TX. It immediately provides customers with more than 400 MMcf/d of capacity out of the Barnett Shale and is expected to accommodate 900 MMcf/d by the end of the first quarter 2009.

The 36-inch Maypearl to Malone pipeline (see *Daily GPI*, Dec. 20, 2007) extends from ETP's systems near Maypearl, TX, to its 42-inch diameter pipeline near Malone, TX. The expansion links an additional 600 MMcf/d of capacity out of the Barnett Shale to markets currently accessed by the ETP pipeline network.

Recently EOG Resources Inc. CEO Mark Papa said his

company, which is focused on developing Johnson County, TX, acreage, is forecasting Barnett Shale output to peak in 2009 at around 5 Bcf/d and plateau the following two years (see *Daily GPI*, July 31). Chesapeake Energy Corp. CEO Aubrey McClendon, whose company targets Tarrant County, TX, including the city of Fort Worth, said he did not agree — he puts the peak at around 6 Bcf/d by 2012 (see *Daily GPI*, Aug. 4).

Completion of the Paris Loop and Maypearl to Malone pipelines is a part of ETP's overall expansion efforts. The partnership plans to bring on-line more than 700 miles of natural gas pipelines in 2008, with more than 500 miles of pipeline expected to be completed in Texas alone. Projects expected to come on-line later this year include the Southern Shale, Cleburne to Tolar, the Carthage Loop and the Katy Loop pipelines in Texas, and the Phoenix Expansion in Arizona.

Senate Holds Placed on Three CFTC Nominations

Sen. Maria Cantwell (D-WA), an avid critic of the Commodity Futures Trading Commission (CFTC), has placed holds on three nominations to the five-member agency.

"I am making no secret of the fact that I'm holding up the renomination of CFTC commissioners. And I am holding up new appointments to the CFTC until Congress gets to the bottom of this [energy market speculation] and we can get commissioners who are going to enforce the law on the books," Cantwell said in a speech on the Senate floor prior to leaving for the August recess.

"We have a CFTC and an administration that is watching out more for Wall Street than for Main Street. It's up to us to make sure that we are going to pass legislation that puts transparency and tough rules in place to make sure that the markets work for consumers," she said.

Cantwell has long criticized the CFTC for what she believes is its lax oversight and regulation of the energy commodity markets, and has offered bills to bolster the agency's authority. In late June Cantwell sought unanimous consent of a measure (HR 6377), which would have directed the CFTC to invoke its emergency authority under the Commodity Exchange Act to ensure that the market prices for energy commodities accurately reflect supply and demand forces (see *Daily GPI*, July 1). The House had passed a similar bill in June by a vote of 402-19 (see *Daily GPI*, June 27).

But Senate Republicans opposed the emergency measure with Sen. Jeff Sessions (R-AL) attempting to attach an amendment to open the closed-off areas of the federal Outer Continental Shelf to oil and natural gas drilling. This prompted Cantwell to withdraw her motion.

In mid-July Cantwell, along with Sens. Joseph Lieberman (I-CT) and Susan Collins (R-ME), introduced legislation to set position limits on all food- and energy-related contracts held by financial speculators, including over-the-counter (OTC) holdings and futures positions on foreign exchanges (see *Daily GPI*, July 14).

Failing to pass legislation on energy speculation prior to recessing, Cantwell placed holds on the renominations of Acting CFTC Chairman Walter Lukken and Commissioner Bart Chilton. She also is blocking the nomination of Scott O'Malia of Michigan, who was tapped by President Bush for a seat on the CFTC

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in April. The Senate Agriculture Committee approved the three nominations in July. The holds would prevent the Senate from confirming the trio until Cantwell's concerns are addressed.

Lukken was tapped by Bush to be CFTC chairman in June 2007, but he has been serving as acting chairman while awaiting Senate confirmation. He has been with the CFTC since 2002. Chilton in April was renominated by the White House for a full five-year term. His first term was brief, extending from August 2007 to April.

O'Malia was nominated to the CFTC for the remainder of a term expiring in April 2012. He currently serves as a clerk on the Senate Appropriations Committee's Energy and Water Development Subcommittee. Previously he was a staff member on the Senate Energy and Natural Resources Committee. O'Malia also was director of federal legislative affairs at Mirant Corp. early in his career. He received his bachelor's degree from the University of Michigan.

Baltimore County to Ask Supreme Court To Review Sparrows Point LNG Case

Baltimore County plans to file a petition next week with the Supreme Court challenging a federal appeals court ruling that struck down a county zoning ordinance banning the construction of the AES Sparrows Point liquefied natural gas (LNG) terminal near Baltimore, MD, a county spokeswoman said.

In late May the U.S. Court of Appeals for the Fourth Circuit in Richmond, VA, ruled that the Baltimore County zoning ordinance barring the construction of the LNG facilities in certain Chesapeake Bay coastal areas was preempted by the Natural Gas Act (NGA) (see *Daily GPI*, May 27).

The appellate court reversed a June 2007 decision by the U.S. District Court for the District of Maryland that upheld Baltimore County's ordinance. The lower court said the ordinance was not preempted by the NGA and was within the delegated authority of the state of Maryland and Baltimore County under the Coastal Zone Management Act (CZMA).

In direct contrast with the lower court, the Fourth Circuit held that the zoning ordinance was not part of Maryland's federally approved Coastal Zone Management Plan (CZMP), and thus was not preempted from the NGA as an exercise of Maryland's rights under the CZMA.

The Supreme Court petition, which must be filed by Aug. 13, will be "related to the county's right to enforce its coastal management zone to prevent facilities in Chesapeake Bay critical areas," said Baltimore County spokeswoman Ellen Kobler.

In June 2007 Arlington, VA-based AES Corp. challenged the U.S. District Court's ruling, which had dealt a blow to the energy company's plans to build its Sparrows Point LNG terminal near Baltimore (see *Daily GPI*, July 3, 2007). AES argued at the time that Baltimore County's zoning ordinance violated the Energy Policy Act of 2005's amendments to the NGA, which gave the Federal Energy Regulatory Commission sole jurisdiction over the siting of onshore LNG facilities.

In January 2007 the Baltimore County Council passed the zoning ordinance barring the "establishment or expansion" of LNG facilities in all Chesapeake Bay critical areas. The county council's measure was introduced and voted on within days of

AES filing its application at FERC to build the Sparrows Point LNG project on the site of a former steel mill on a peninsula that juts into Chesapeake Bay in the city of Baltimore (see *Daily GPI*, Jan. 19, 2007).

Maryland's Critical Areas Commission, which oversees development in the state's coastal areas, approved the county's zoning ordinance. The commission said its action was needed to formally incorporate the new law into the county's coastal plan (see *Daily GPI*, June 12, 2007).

The Sparrows Point project, which was been the target of intense opposition by state and federal politicians, would have about 1.5 Bcf/d of regasification capacity with a potential for expansion to 2.25 Bcf/d. Regasified LNG would be delivered to regional markets via Mid-Atlantic Express, an 87-mile, 30-inch diameter pipeline that would extend from the terminal to connections with interstate pipelines at Eagle, PA. The pipeline also would include connections with local distribution company Baltimore Gas & Electric.

The project, including three LNG storage tanks, would be located on 80 acres within the existing Sparrows Point Industrial Complex in Baltimore County. The site was previously owned by Bethlehem Steel and housed a steel manufacturing and shipbuilding facility.

In April FERC issued a favorable draft environmental impact statement on the terminal project (see *Daily GPI*, April 28). AES is now awaiting a final environmental impact statement, to be followed by a certificate ruling.

Climate Change Activists Target Northwest Natural's LNG Support

A climate change activist group in the Pacific Northwest Monday demonstrated against Northwest Natural Gas Co. for its support of a liquefied natural gas (LNG) facility and related pipeline as an offshoot of wider demonstrations in Portland, OR.

At one point in the afternoon about a dozen demonstrators from Convergence for Climate Action occupied the Northwest Natural headquarters lobby in downtown Portland.

The incident was peaceful and no one made any demands, according to a utility spokesperson who spoke late Monday to *NGI*. However, in a written announcement on the action the activist group said its demonstrators were demanding to talk with either CEO Mark Dodson or COO Gregg Kantor.

The demonstrators were opposed to Northwest Natural's proposed joint venture 223-mile natural gas transmission pipeline, which would connect to the proposed NorthernStar Natural Gas Bradwood Landing LNG receiving terminal on the Oregon side of the Columbia River just east of where it flows into the Pacific Ocean. The pipeline is proposed to give Oregon a second interstate natural gas link and diversity of supply (see *Daily GPI*, Feb.15).

Calling Oregon's largest natural gas distribution utility "one of the region's biggest climate criminals," the climate group said the proposed gas pipeline would cross wetlands in the Columbia River Estuary, Willamette Valley farms, the Mt. Hood National Forest and then into Madras, OR. "[We] oppose the pipeline due to related global and local environmental destruction and social justices," the group said.

Northwest Natural's spokesperson reiterated that the pipeline is needed to improve reliability, diversity of supply and the cost of energy for its 600,000 customers. Compared to current supplies, which come from one interstate pipeline, the additional option will lower consumer costs, the utility contends.

"Northwest Natural's Palomar Pipeline would only increase our dependence on another foreign fossil fuel," said Sandy Miller, a member of the activist group. "It is widely recognized that in the fight against climate change, the last thing we need is to build new fossil fuel infrastructure."

At a Northwest energy conference June 4 in Portland several presentations pointed to the need for new and more diverse natural gas supplies for the region, including LNG (see *Daily GPI*, June 19). The Northwest Natural Gas Association sponsored the one-day annual conference.

Industry Brief

Tennessee Gas Pipeline Co.'s recent open season for its 300 Line Expansion Project resulted in a binding precedent agreement for a 15-year term from **Equitable Energy LLC**, a subsidiary of **Equitable Energy**, which was awarded all of the project's 300,000 Dth/d of capacity. The project links Equitable's Appalachian production to Northeast markets. The expansion facilities will consist of approximately 125 miles of 30-inch diameter pipeline looping and approximately 46,000 hp of additional compression facilities to be constructed in Tennessee's existing pipeline corridor in Pennsylvania and New Jersey. Tennessee, a subsidiary of **El Paso Corp.**, has entered into a fixed-price agreement to lock in its pipe costs. Tennessee plans to file its certificate application with the Federal Energy Regulatory Commission during the second quarter of 2009, with phased construction anticipated during 2010 and 2011.

Transportation Notes

Effective Wednesday **Northwest** will reduce available capacity at the Boise (ID) Compressor Station from 499,000 Dth/d to 425,000 Dth/d due to damage sustained by Unit #2 this past weekend. Emergency repairs are under way and the unit is expected to be placed back in service Friday, Northwest said.

CIG reported discovering a crack Saturday in an oil cooler thermostat valve at Mocane Compressor Station in Beaver County, OK, requiring that one of the station's compressors be taken out of service until the crack can be repaired. Because of that outage, CIG cut Mocane capacity from 43 to 23.5 MMcf/d Tuesday and declared a force majeure. Based on current estimates, CIG anticipates that repairs can be completed by the end of the week. The pipeline noted that current firm capacity commitments at Mocane are 34,560 Mcf/d.

Due to forecasts of "extremely cool conditions beginning Thursday" and continuing through the weekend in much of its

market area, **Transco** said effective Thursday it will not allow excess storage injections under Rate Schedules GSS or WSS; will not allow any Park quantities or Loan payback; and, effective Friday, will not allow due-pipeline imbalance make-up) nominations. Transco said if it experiences a significant decrease in operational flexibility, it may limit the schedule tolerance at pooling points to 1% or take additional actions consistent with its tariff.

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