



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR JANUARY 9, 2007**

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

The EIA reported in its Short-Term Energy Outlook for January 2007 that persistent warm weather and the reduced demand for natural gas kept natural gas prices from rising in December as expected in last month's Outlook. With about 16% fewer heating degree-days than normal in December, the Henry Hub spot natural gas price averaged \$6.97/ mcf for the month. The EIA noted that with the forecast for the remaining winter months only slightly warmer-than-normal weather, the average Henry Hub spot price this winter is expected to remain below \$7.00. However, prices will remain sensitive to any periods of sustained cold weather during the remainder of this winter heating season. The Henry Hub natural gas price averaged \$6.94 per mcf in 2006 and is expected to average \$7.06 per mcf in 2007 and \$7.72 per mcf in 2008. Natural gas consumption is expected to grow 2.4% from 2006 to 2007, compared with a 1.3% decline from 2005 to 2006. Industrial sector natural gas consumption is estimated to have declined by 1.5% in 2006 and is projected to be followed by increases of 1.1% and 1.8% in 2007 and 2008, respectively. The EIA said that that net imports of natural gas are estimated to have fallen by 5.5% in 2006 and are expected to fall by another 1.1% in 2007, then increase by 7.8% in 2008. Declining pipeline imports from Canada will be tempered by rising LNG imports, which are expected to increase to 0.8 and 1.1 Tcf per year, respectively, in 2007 and 2008.

#### **Generator Problems**

**SERC** – Southern Nuclear's 862 Mw Hatch #1 nuclear unit increased production to full power. Yesterday, the unit was operating at 87%. Hatch #2 remains at full power.

Dominion Resources' 800 Mw Surry #1 nuclear unit returned to full power today. Yesterday, the unit was operating at 70%. Surry #2 continues to operate at full power.

**The NRC reported that 97,393 Mw of nuclear capacity is on line, up .40% from Monday, and 2.49% higher from a year ago.**

Business was booming in the trading exchange market in 2006 as evidenced by volume records from some of the major energy exchanges. Following IntercontinentalExchange's (ICE) record volume announcement last week, the New York Mercantile Exchange Inc. (Nymex) announced Tuesday that it set an annual total volume record of 276,152,326 contracts in 2006, crushing the previous record of 204,610,365 contracts set in 2005.

#### **PIPELINE RESTRICTIONS**

Northwest Pipeline announced that due to recent forecasts predicting a large influx of arctic air over the Pacific Northwest later this week, it is expanding its Stage II Overrun Entitlement to include Receiving Parties on the Grants Pass and Spokane Laterals beginning January 10. The Grants Pass Stage II Overrun Entitlement will include only those points south of the Oregon City Compressor Station.

Southern Natural Gas Pipeline said last night that there was an unscheduled outage on a unit at its Dearmanville Compressor Station. This unit is one of four units responsible for pumping gas up the Chattanooga Line, which is connected to Southern's North System. SoNat said that the duration of the outage is not known but would update the situation this afternoon. Based on modeling data, SoNat said it expects a capacity reduction of around 30 MMcf/d due to this unscheduled outage. Until this unit is repaired, it is highly likely that shippers will see reductions in Interruptible Transportation. Also, Firm Shippers to delivery points on the Chattanooga Line could be impacted during the outage depending on the level of demand and the duration of the outage. Please check your entitlement letters after each scheduling cycle to see how much gas has been scheduled at a point.

Texas Eastern Transmission said that effective immediately and until further notice, nominations will be accepted for resolution of outstanding due pipe imbalances. Shippers are requested to nominate such that both due pipe and due shipper imbalances trend toward zero.

Williston Basin Interstate Pipeline Company said that one point and several line sections are in pipeline Capacity Constraint for deliveries in today's timely cycle. Penalties will be imposed at the following line sections: Cabin Creek-Dickinson; Dickinson-Bismarck; Bismarck-Cleveland; Cleveland-Grafton; Williston-Bismarck; Belle Fourche-Recluse; Cleveland-Mapleton; Portal-Tioga; Belle Creek-Manning. In addition, penalties will be imposed at Northern Border-Manning.

### **PIPELINE MAINTENANCE**

Florida Gas Transmission said it would perform unscheduled pipeline examination upstream of its compressor station 6 in Texas starting Tuesday and lasting up to several days. During the examination FGT will schedule up to approximately 150 MMcf/d through station 6. During normal operations FGT schedules up to 300 MMcf/d through the station.

Gulf South Pipeline has revised its scheduled compressor maintenance project for the Goodrich Compressor Station, which will now be scheduled to begin January 15. Maintenance will be performed on Units 1,2, and 3,

<b>Natural Gas Cash Market</b>						
<b>ICE Next Day Cash Market</b>						
<b>Location</b>	<b>Volume Traded</b>	<b>Avg Price</b>	<b>Change</b>	<b>Basis (As of 12:30 PM)</b>	<b>Change</b>	<b>Basis 5-Day Moving Avg</b>
Henry Hub	680,600	\$6.147	\$0.124	(\$0.354)	\$0.004	(\$0.466)
Chicago City Gate	566,600	\$6.231	\$0.015	(\$0.270)	(\$0.061)	(\$0.327)
NGPL- TX/OK	508,900	\$5.875	\$0.051	(\$0.625)	(\$0.025)	(\$0.710)
SoCal	921,600	\$6.138	(\$0.069)	(\$0.362)	(\$0.145)	(\$0.255)
PG&E Citygate	452,600	\$6.605	(\$0.086)	\$0.105	(\$0.162)	\$0.215
Dominion-South	559,700	\$6.446	\$0.188	(\$0.054)	\$0.112	(\$0.344)
Transco Zone 6	195,400	\$6.986	\$0.338	\$0.486	\$0.262	\$0.031

with one unit down at a time, beginning at 7:00 AM and continuing through March 1. Capacity through Goodrich Compressor Station could be reduced by as much as 50 MMcf/d during this maintenance.

Enterprise Texas Pipeline that effective February 26, through March 13, the subject receipt location on Gulf South will be shut-in due to planned maintenance activities. Gulf South will not confirm nominations at this location for the effective period. Gulf South will provide additional notice when it is able to confirm nominations.

Gulf South Pipeline has been notified by

Williston Basin Interstate Pipeline Company said that planned maintenance will be performed at the Saco Compressor Station January 22 through January 26. Maximum capacity at the Saco Compressor Station will be approximately 24.7 MMcf/d for gas days January 22-26.

### **ELECTRIC MARKET NEWS**

The EIA reported in its Short-Term Outlook Report for January 2007 that with a return to normal summer temperatures in 2007, residential U.S. electricity consumption will grow a moderate 1.2% for 2007. However, residential demand is projected to grow at a more normal rate of 3.2% during 2008.

### **MARKET COMMENTARY**

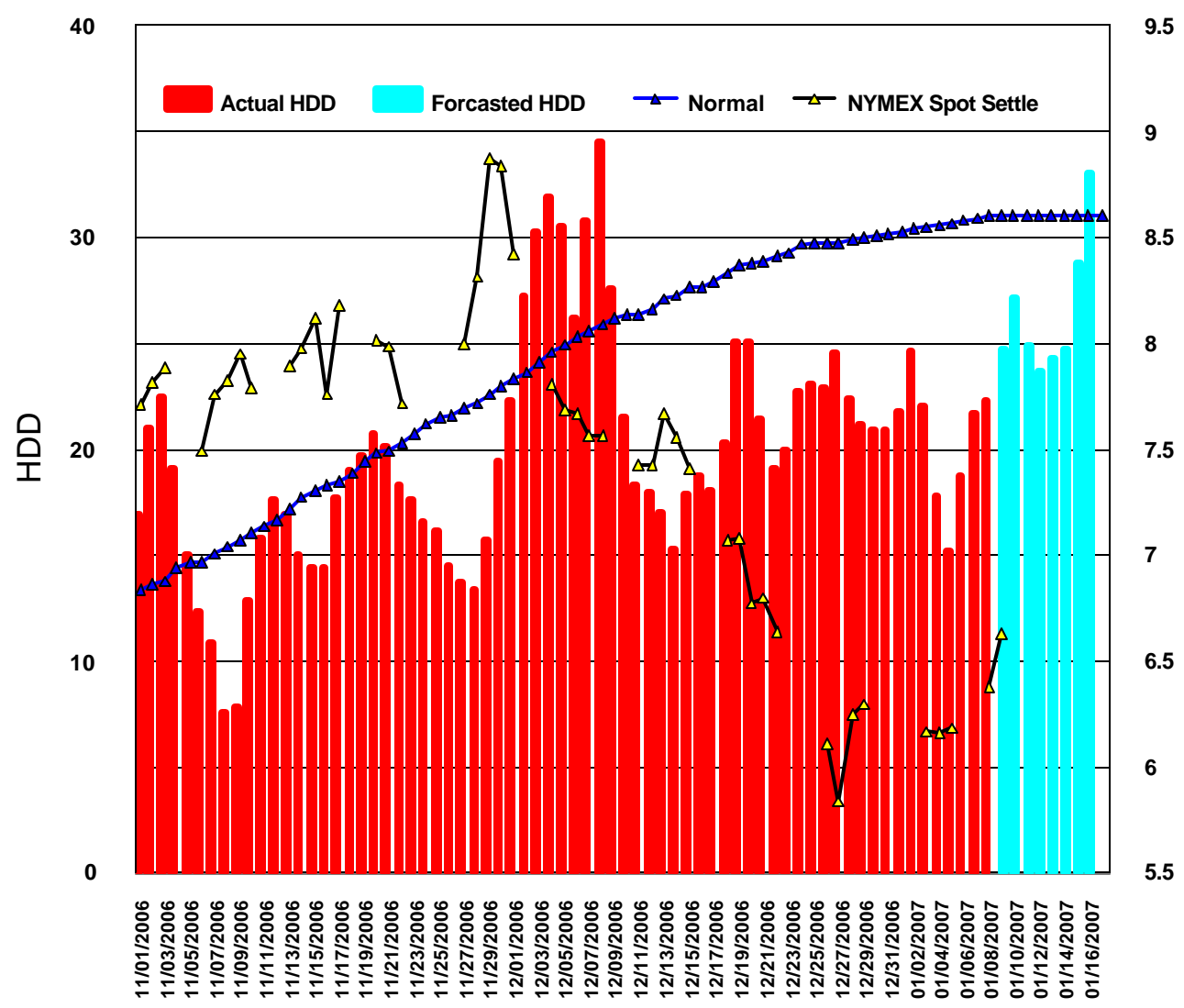
The natural gas market opened unchanged and after a brief sell off to 6.28 in accordance with the weakness in the oil complex, natural gas had an about face and rallied supported by firm cash prices and a recovering crude oil market. February natural gas broke above its high from December 26 and posted an intra day high of 6.65. The spot contract settled up 25.3 cents at 6.631. The gap from the Christmas Holiday, 6.62-6.73, was filled in after hour trading today.

Weather reports this week do call for more seasonal temperatures and even some arctic cold, yet reports today were not that different from previous reports so we feel this upside of this market will be limited in the short term. Early expectations for this week's EIA storage report call for a draw of between 25 and 50 Bcf. We look for a drawdown to be between 50-60 bcf. With such a bearish report expected and the glut of gas, the bit of weather

that is on its way may be too little too late. We see support at \$6.05, \$6.00, \$5.85, \$5.75, \$5.58, \$5.20 and \$5.00. We see resistance at \$6.75, \$6.87, \$6.92, \$7.00, \$7.20 and \$7.40.

# U.S. Heating Degree Days

## Basis Weighted Natural Gas Home Heating



**NYMEX Nat Gas Options Most Active Strikes for January 9, 2007**

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LN	4	7	C	8	03/27/2007	0.299	10,425	52.37
LN	4	7	C	10	03/27/2007	0.0767	9,350	56.68
LN	5	7	C	8	04/25/2007	0.4022	9,031	48.88
LN	6	7	C	8	05/25/2007	0.4878	5,400	45.23
LN	10	7	C	10	09/25/2007	0.5459	4,950	47.54
LN	3	7	C	8	02/23/2007	0.1889	4,775	58.99
LN	3	7	P	5.5	02/23/2007	0.0802	4,575	55.27
LN	10	7	C	8	09/25/2007	0.9974	4,450	43.24
LN	7	7	C	8	06/26/2007	0.5894	4,400	43.02
LN	8	7	C	8	07/26/2007	0.7419	4,400	44.06
LN	9	7	C	8	08/28/2007	0.854	4,400	43.37
LN	3	7	C	8.5	02/23/2007	0.1241	4,250	60.79
LN	2	7	C	8	01/26/2007	0.0397	3,850	62.83
LN	6	7	P	5	05/25/2007	0.1196	3,775	53.02
LN	2	7	C	7	01/26/2007	0.2031	3,500	59.49
LN	7	7	C	10	06/26/2007	0.2698	3,500	49.32
LN	4	7	C	7	03/27/2007	0.5867	3,400	49.34
LN	8	7	C	7	07/26/2007	1.1006	3,400	40.92
LN	5	7	C	7	04/25/2007	0.7218	3,350	46.37
LN	6	7	C	7	05/25/2007	0.8449	3,350	43.72
LN	7	7	C	7	06/26/2007	0.9751	3,350	41.96
LN	9	7	C	7	08/28/2007	1.2158	3,350	40.08
LN	10	7	C	7	09/25/2007	1.376	3,350	40.09
LN	4	7	P	5	03/27/2007	0.066	3,225	54.79
LN	5	7	C	10	04/25/2007	0.1305	3,200	53.30
LN	6	7	C	10	05/25/2007	0.1953	3,200	51.08
LN	8	7	C	10	07/26/2007	0.3527	3,200	48.50
LN	9	7	C	10	08/28/2007	0.4384	3,200	47.73
LN	2	7	P	6	01/26/2007	0.1002	2,790	60.64
LN	3	7	C	7	02/23/2007	0.4364	2,700	54.87
LN	5	7	C	14	04/25/2007	0.0208	2,500	60.52
LN	6	7	C	14	05/25/2007	0.0342	2,500	56.29
LN	3	7	P	5.75	02/23/2007	0.1325	2,350	56.26
LN	3	7	C	9	02/23/2007	0.081	2,300	62.25
LN	3	7	P	6	02/23/2007	0.2039	2,250	57.29
LN	5	7	P	5	04/25/2007	0.1032	2,065	55.26
LN	3	7	C	7.5	02/23/2007	0.2881	2,000	57.06
LN	6	7	P	6	05/25/2007	0.377	1,900	54.15
LN	7	7	P	5	06/26/2007	0.1527	1,775	53.45
LN	8	7	P	5	07/26/2007	0.1785	1,775	53.50
LN	9	7	P	5	08/28/2007	0.2134	1,775	54.03
LN	10	7	P	5	09/25/2007	0.2485	1,775	55.75
LN	2	7	C	7.25	01/26/2007	0.1386	1,700	60.41
LN	4	7	C	9	03/27/2007	0.1503	1,700	54.66
ON	2	7	C	7	01/26/2007	0.203	1,506	61.14

