



## ENERGY RISK MANAGEMENT

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### POWER MARKET REPORT FOR JANUARY 9, 2009

#### NATURAL GAS MARKET NEWS

The natural gas supply disruption between Russian and the Ukraine appears to be finally finding some resolution, at least in returning flows back into Europe. Gazprom confirmed this morning that the Ukraine has given verbal agreement for the deployment of international gas transit observers. The EU said that the gas monitoring team had already begun work in Kiev, but the resumption of natural gas exports to Europe could take some time, since pressure along the pipeline network will need to be restored. In addition the price dispute between the Ukraine and Russia still has not been resolved. In fact Naftogaz said talks with Gazprom over the past two days has made no progress.

#### Generator Problems

**NPCC** – Entergy’s Vermont Yankee nuclear plant was at 47% capacity this morning off 53% from yesterday morning.

**ERCOT** – NRG Energy’s 836 Mw Limestone coal fired Unit #1 was taken off line due to a tube leak.

**The NRC reported this morning that 96,067 Mw of nuclear generation capacity was on line, down 0.27% from yesterday’s level and 4.54% higher than the same time a year ago.**

It appears that Gazprom is using the recent gas crisis with the Ukraine to push development of other export pipeline projects. Gazprom’s president today said capacities of the planned South Stream and Nord Stream gas pipelines might be increased and the projects time frame advanced if countries participating in the projects would make such a request. Gazprom said it would react “positively to such requests. The South Stream project would move gas Russian gas across the Black sea to Bulgaria before splitting off into to separate pipelines. The Line would have a 30 billion cubic meter per year capacity and start operating in October 2013. The Nord Stream project would have an initial

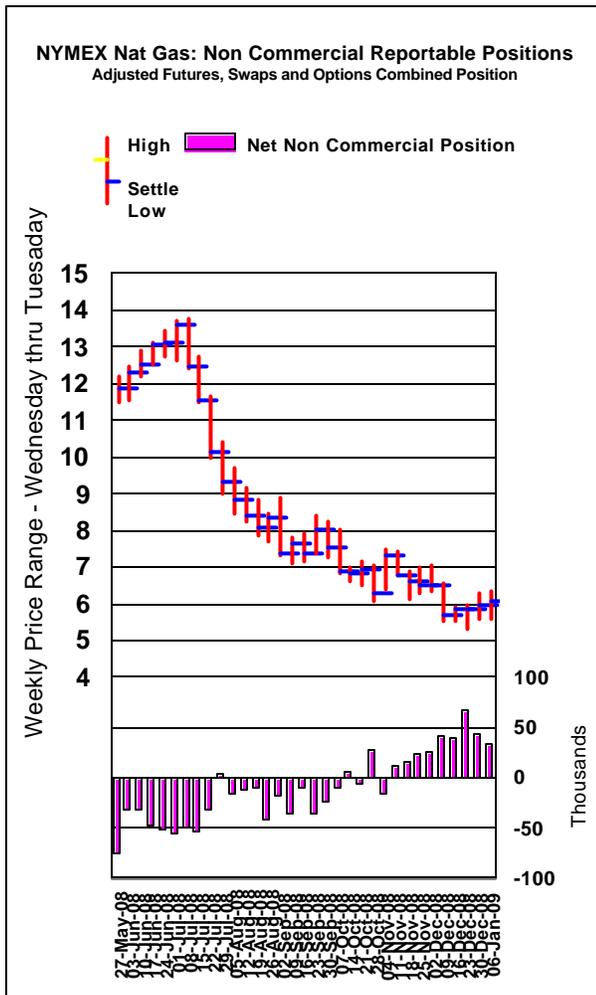
Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	492,800	\$5.604	(\$0.358)	\$0.135	(\$0.076)	(\$0.101)
Chicago City Gate	812,300	\$5.938	(\$0.254)	\$0.469	(\$0.111)	\$0.373
NGPL- TX/OK	601,800	\$5.069	(\$0.202)	(\$0.400)	(\$0.059)	(\$0.505)
SoCal	245,600	\$4.933	(\$0.296)	(\$0.537)	(\$0.153)	(\$0.576)
PG&E Citygate	455,900	\$5.680	(\$0.429)	\$0.210	(\$0.286)	\$0.299
Dominion-South	368,900	\$6.298	(\$0.152)	\$0.829	(\$0.009)	\$0.541
USTrade Weighted	14,012,500	\$5.523	(\$0.219)	\$0.054	(\$0.08)	(\$0.101)

capacity of 27.5 bcm/year and would start operating in 4Q2011 bringing Russian gas across the Baltic into Germany.

Elsewhere in Europe, National Grid revised downward its

Gas Balancing Alert trigger level for Saturday after a fall in gas stock levels because high demand over the last two days. The GBA level for Friday was 472 mcm, and on Saturday the level will be set at 428 mcm.

The U.S. Commerce Department this morning reported that U.S. wholesale inventories fell 0.6% after a revised 1.2% decline in October, which earlier had reported a 1.1% decline. In additional wholesale sales in November plunged a record 7.1% after falling a revised 4.5% in October. The Department of Labor meanwhile reported that U.S unemployment in November jumped to 7.2% as some 524,000 Americans lost their jobs on the month.



The National Climatic Data Center today said that the contiguous United States saw near average temperatures for 2008, with December readings seeing below the long-term average.

Baker Hughes reported that in the month of December the number of rigs search for oil and natural gas dropped 153 rigs from November and was some 29 less than the same month a year ago. For the week ending January 9<sup>th</sup>, the company reported the number of natural gas rigs stood at 1,239 down 28 from last week and over 300 less than were working just this past September.

Destin Pipeline said it is holding a binding open season through February 9<sup>th</sup> for up to 380 MMcf/d of firm capacity from Clarke County, MS and other onshore receipt points to interconnects with FGT, Gulf South and Gulfstream pipelines.

**PIPELINE MAINTENANCE**

Trunkline Gas Company said the outage on the 100-2 Line downstream of Joppa Station between Gate Valve 106-2 and 108-2 for subsidence prevention has been rescheduled to January 19<sup>th</sup>. The outage is expected to last 20 days. Estimated maximum capacity through Shaw is 1300 MMcf/d for the

duration of the outage.

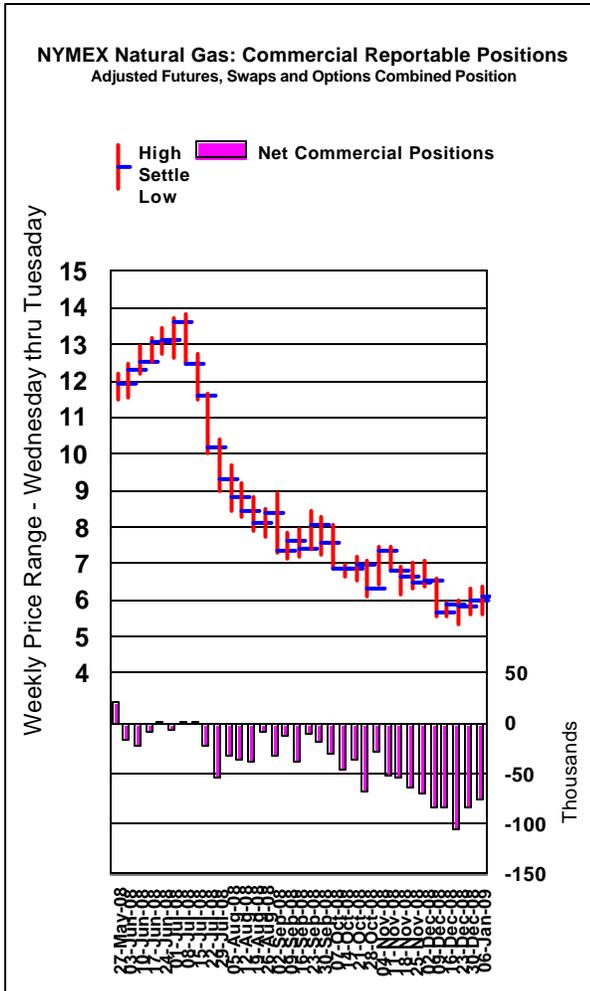
El Paso Natural Gas said the Eunice C plant will be shut today to install a relief valve, isolation valves and power gas line. Capacity was expected to be reduced by nearly 50%.

Northern Natural Gas said it must perform unplanned maintenance at the Beatrice, Nebraska compressor station for today. Mainline capacity will be reduced by 180,000 Dth. As a result the capacity through Oakland, Palmyra East and Palmyra North will be reduced by a net total of 180,000 Dth.

**PIPELINE RESTRICTIONS**

Rockies Express Pipeline said that it continues to assess its progress in constructing REX East and the company reaffirmed the dates and levels of service as projected in its prior two postings. The initial service for REX East is projected to commence on April 1<sup>st</sup> with a capacity of 1,600 MDth/d. Service to Lebanon is projected to commence on June 15<sup>th</sup> with a capacity of 1,600 MDth/d. In-service of the fully powered REX East pipeline to Clarrington, Ohio is expected to begin on November 1<sup>st</sup> with a capacity of 1,800 Mdth/d.

Dominion Transmission has issued an OFO for today for the northern portion of its service territory north of Lindley Gate Station and Stateline facilities due to expected cold temperatures. The company has also called an OFO for January 12<sup>th</sup> for the PL-1 area of its service territory due to cold weather forecasts.



CIG said it will allow limited paybacks onto its system but unlimited gas to go off system as long as it can maintain a system balance consistent with safe and reliable operations. The company is also concerned about the performance of the following interconnects and may place underperformance caps through tomorrow, January 10<sup>th</sup>: Saddle Draw, Table Rock Residue, Sand Wash and desert Springs.

NGPL said effective today and until further notice it is at capacity for gas going northbound through Segment 27 on its Gulf Coast Mainline Receipt Zone. The company also reported it is at capacity for gas going southbound through Segment 26 for deliveries eastbound into Segment 25 or southbound into Segment 22. ITS/AOR and Secondary out of path Firm transports are at risk of not being fully scheduled.

**ELECTRIC MARKET NEWS**

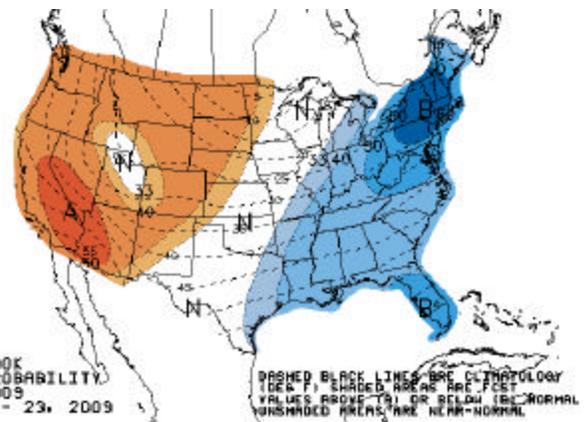
The EIA reported that for the week ending January 3<sup>rd</sup>, production of coal in the U.S. stood at 21.732 million tons, up 13.3% from the prior week and 3% higher than the same week a year ago.

The American Wind Association warned that the U.S. wind industry could see as much as a 50% reduction in new projects starts in 2009 versus 2008 with no additional stimulus.

Genscape reported that the U.S. coal burn index rose 6% during the week ended Thursday, but fell 2% from a year ago.

Congressman Waxman said today that he was “determined” to move a bill dealing with U.S. climate legislation through committee in 2009. He envisioned the bill would pass committee with in a bipartisan fashion and with strong support. He noted while the committee would examine a carbon tax, he was in favor of a cap and trade program.

The FERC has been asked to approve EDP’s plan to acquire half of Constellation Energy group’s nuclear assets as well as commit to buy, if asked up to \$2 billion in non-nuclear generation assets. In support of the filings, EDF and Constellation presented an independent consultant’s market analysis finding no impact on competition given the EDF’s generation



assets are in MISO and Constellation's generating facilities are primarily in PJM.

The U.S. Northwest River Forecast Center predicted today that water flows at the Dalles Dam will be 88% of normal, up 1% from last week's estimate for the April-September period but some 11% less than a year ago. Water flows at the Grand Coulee Dam are seen a bit better, estimated at 93% some 3% better than last week's forecast but still 5% less than last year's water flows.

Entergy Corp said it was suspending activity on two applications to build two new nuclear reactors, one in Mississippi and one in Louisiana. The company has asked the NRC to halt review of its applications, since the company was unable to come to terms with GE Hitachi, the reactor's manufacturer.

Coal deliveries have resumed at TVA's Kingston coal fired power plant, following its recent massive coal ash spill. TVA said that additional coal units have been restarted at the facility, as only two of the nine coal units were operating in the aftermath of the spill.

### **MARKET COMMENTARY**

Despite the approach of a significant cold outbreak across much of the eastern two thirds of the nation over the next several days, cash natural gas prices at many locations outside of the Northeastern United States, declined on the day. The futures markets this morning appeared to feel the weight of yet more bearish economic news as a disappointing sales report and jobs report were released. But despite breaking the lows of the past two weeks at \$5.47 at mid morning, the market did not find additional significant follow through selling falling only a few more pennies before stabilizing and trading in a sideways pattern into lunchtime. The market appeared to see some short covering in the afternoon as midday weather forecasters seemed a bit more comfortable and confident in seeing below normal temperatures holding on in the eastern half of the nation for a second week. As a result by the end of the day the market had retraced 62% of the day's sell off from yesterday afternoon.

We would look for the shock of colder temperatures upon traders as they step out of their homes on Monday morning to help give a short term boost to prices to start the week. But we continue to feel the economic gloom will continue to weigh on this market and prevent any significant upswing in values that would trigger a sustained bull move near term. As a result we would look for short-term rallies as selling opportunities with a downside objective of a potential breach of \$5.00 price level by the end of the month. We see resistance Monday starting at \$5.55 followed by \$5.62, \$5.723 and \$5.822. More distant resistance we see at the \$6.11-\$6.14 area where the 40 day moving average remains an effective key resistance point. Support we see at \$5.42 followed by \$5.31, \$5.245 and \$5.21.

This afternoon's Commitment of Traders Report showed that both commercials and non commercials added to their gross positions on the week, and it resulted in commercials decreasing their net shorts in the market by 7629 lots while commodity funds decreased their net short position by 9506, their second consecutive week in which their net short position has declined.

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