



## **ENERGY RISK MANAGEMENT**

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### **POWER MARKET REPORT FOR JANUARY 15, 2009**

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

The Russian and Ukrainian gas dispute entered into its third week today. The EU monitors confirmed today that no gas was flowing from Russia to Europe via the Ukraine, despite promises from both sides that the flow would resume on Tuesday. The Ukrainian and Russian Prime Ministers confirmed that they would meet in Moscow on January 17<sup>th</sup> along with two high-level energy officials from the EU. The EU appears unwilling to fully participate in an energy summit as long as the gas flow remains disrupted. The Ukraine today sent a telegram to Putin guaranteeing Russian transit gas flows to the EU “apart from 8% of the gas used to fuel gas pumping”. This transit gas issue has been one of the sticking points over the past two weeks. The Ukraine’s national gas company Naftogaz is ready to accept 99.2 mcm of gas per day through the entry point near the border of Sudzha and divide it through three exit points.

#### **Generator Problems**

**NPCC** – Entergy’s 852 Mw FitzPatrick nuclear unit dropped to 55% capacity this morning, off 45% from Wednesday.

OPG’s 494 Mw Lambton #3 coal fired generating unit was taken off line this morning for short term work.

**SPP** – Entergy’s 988 Mw Arkansas Nuclear One #2 nuclear unit was shut early Thursday, down 59% from yesterday’s operating level.

**The NRC reported this morning that 95,349 Mw of nuclear generation capacity was on line, down 0.6% from yesterday and 8.3% higher than the same time a year ago.**

Greece has bought two LNG cargoes from the spot market as a result of the ongoing contract dispute between Russia and the Ukraine. It appears that Greece is now entirely relying on LNG for natural gas supplies since its other import avenue for natural gas, Azerbaijan, stopped its exports a week ago as Turkey also is short Russian gas supplies.

Italy’s gas storage levels have fallen to 5,396 mcm on Wednesday, down 3.1% from Tuesday, as reported by the gas storage company Stogit. Current levels are some 64% of the levels recorded back on November 1<sup>st</sup>. Italy reportedly holds another 5100 mcm in strategic reserves.

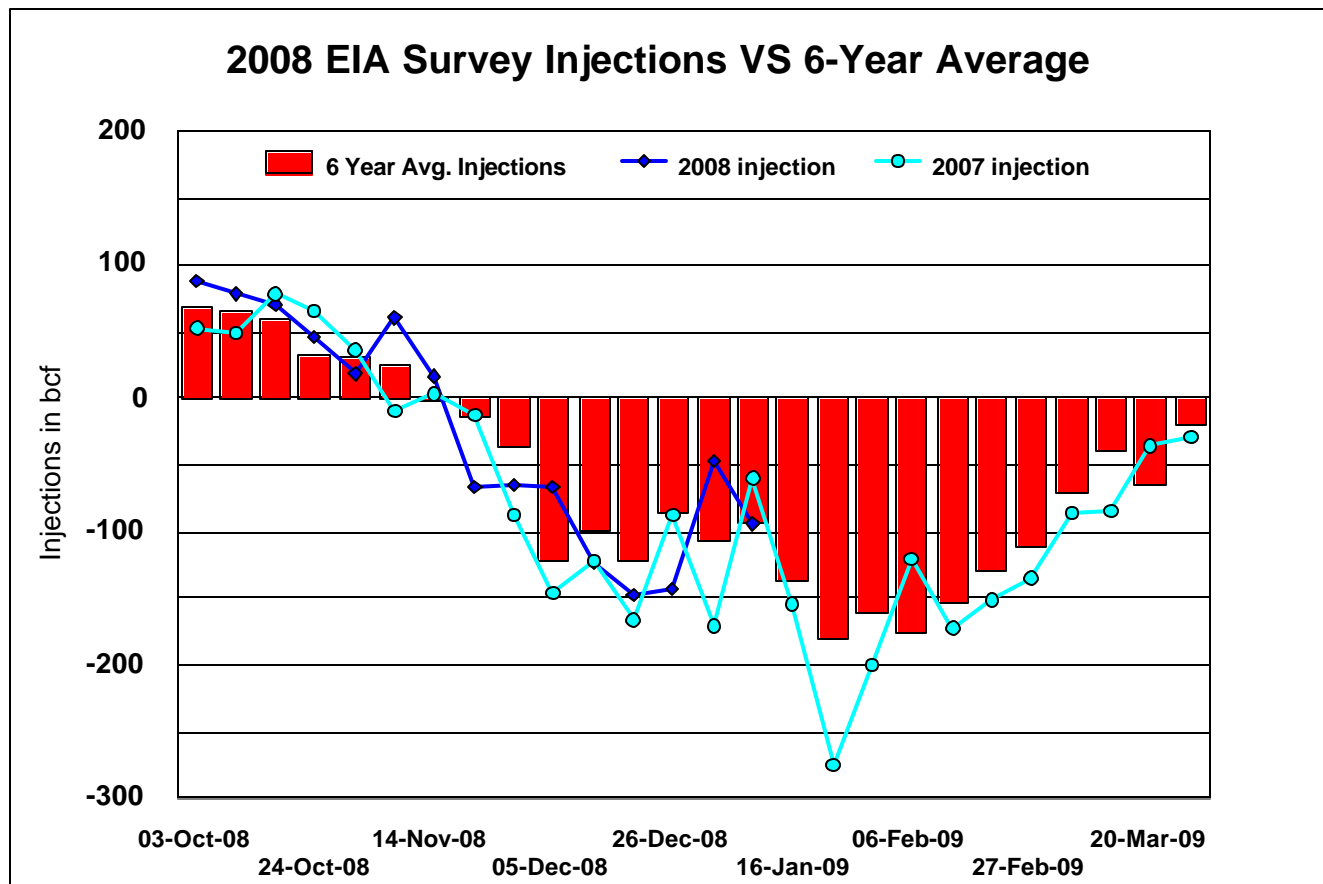
#### **EIA Weekly Report**

	01/09/2009	01/02/2009	Net chg	Last Year
<b>Producing Region</b>	899	902	-3	860
<b>Consuming East</b>	1468	1540	-72	1490
<b>Consuming West</b>	369	388	-19	358
<b>Total US</b>	2736	2830	-94	2708

\*storage figures in Bcf

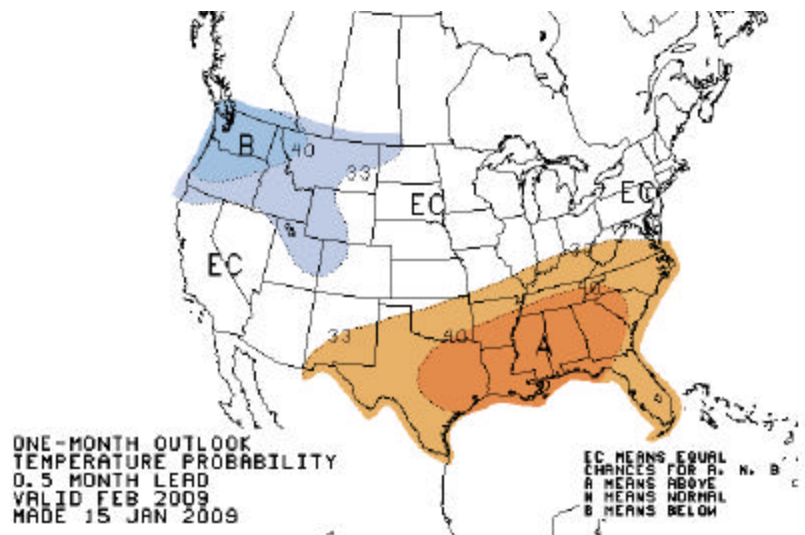
Qatargas reported that it expected to restart output at its Qatargas I plant “soon” but an exact date has not been determined. The unit went off line last week. The company noted that customers had been informed of the production problems, but declined to say if the company has declared a force majeure on shipments.

BP Trinidad and Tobago has stepped up its shipments of LNG to Britain's Isle of Grain LNG terminal as a result of higher prices on the European spot markets. National Grid reported that the company's 155,000 cm LNG tanker the British Sapphire arrived at the terminal on Thursday.

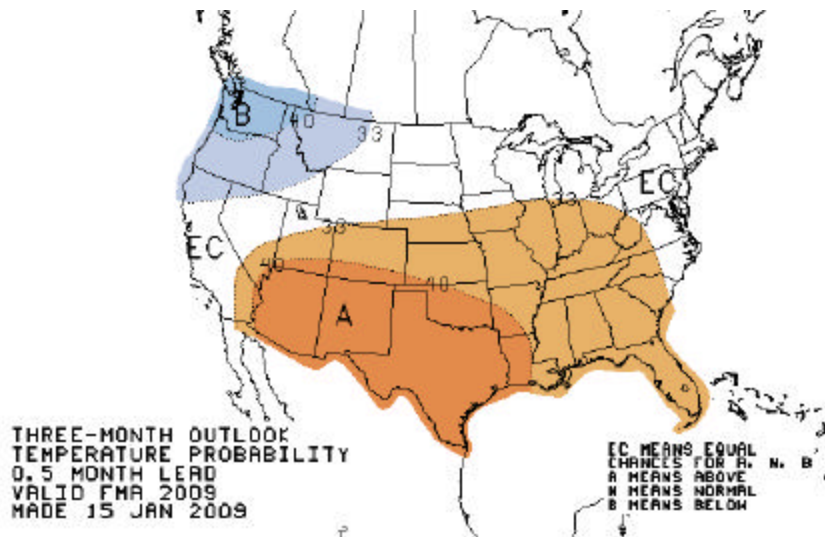


Reuters reported that a LNG cargo was waiting to offload at Exceletrate Energy's Northeast Gateway LNG terminal offshore of Boston, Massachusetts. This would be the first full cargo offloaded at the terminal since it was commissioned last May, when a third of a cargo was discharged. According to Waterborne Energy the ship is expected to offload at a rate of 500 million cubic feet per day over a 5-day period.

The FERC today gave conditional approval to the AES Sparrow Point LNG terminal and the connecting Mid-Atlantic Express interstate pipeline. But the agency did attach 169 conditions on the project. The terminal would have a 1.5 bcf/d capacity, with a storage capacity of 480,000 cubic meters of gas. Construction on either project cannot begin until all the conditions are met.



The National Weather Service today released their latest longer-term temperature outlooks for February and the February-April period. Both outlooks called for below normal temperatures for the Pacific Northwest with the southeast and south central states seeing warmer than normal temperatures.



Iraq today said it has begun planning on building a new pipeline to export natural gas from its Akkas field to Syria.

The Labor Department reported that initial claims for unemployment insurance benefits increased by 54,000 to 524,000 after seasonal adjustments in the week ending January 10. The four-week average of new claims last week fell to 518,500 from 526,500. It reported that continuing claims fell by 115,000 to 4,497,000. The unemployment

rate for workers with unemployment insurance held at 3.4%. Separately, the Labor Department said US producer prices fell for the fifth consecutive month in December by 1.9%. Wholesale prices fell by 0.9% for 2008 as a whole. Meanwhile, the core PPI increased by 0.2% in December.

The Philadelphia Federal Reserve reported that factory activity in the US Mid-Atlantic region contracted in January. It reported its business activity index at minus 24.3 following a reading of minus 36.1 for December. Separately, the Manufacturers Alliance/MAPI said a composite index of future business activity fell to 28% in December, the lowest level since March 1972 from 48% in September. It is the second consecutive quarter the index has fallen below 50%, a dividing line between growth and contraction.

**PIPELINE MAINTENANCE**

Trunkline Gas Company said scheduled maintenance at the Kaplan Compressor Station has been extended through January 22<sup>nd</sup>. The work had been expected to be completed by January 20<sup>th</sup>. As a result a reduction in back flow capacity to 150,000 Dth/d has been set.

El Paso Natural Gas said the force majeure at the Leupp D Compressor Station on the North Mainline will be lifted tomorrow following the completion of repair on a turbine.

PG&E California Gas Transmission said its Kettleman compressor K-2 is experiencing an

unplanned outage and will remain out of service through January 16<sup>th</sup>. Due to the outage Baja path capacity will be limited to 905 MMcf/d.

Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis	Change	Basis 5-Day Moving Avg
				(As of 12:30 PM)		
Henry Hub	477,800	\$5.266	(\$0.202)	\$0.493	\$0.031	\$0.346
Chicago City Gate	1,050,300	\$5.856	(\$0.481)	\$1.083	(\$0.212)	\$0.892
NGPL- TX/OK	831,100	\$4.533	(\$0.244)	(\$0.240)	\$0.025	(\$0.350)
SoCal	488,400	\$4.427	(\$0.169)	(\$0.346)	\$0.101	(\$0.511)
PG&E Citygate	588,700	\$5.212	(\$0.023)	\$0.439	\$0.246	\$0.201
Dominion-South	392,700	\$7.650	(\$0.041)	\$2.877	\$0.228	\$1.606
UStTrade Weighted	17,610,800	\$5.435	(\$0.238)	\$0.662	\$0.03	\$0.346

Rockies Express Pipeline said that it is extending various maintenance projects between the Turney Compressor Station and the PEPL/REX Audrain delivery point through Friday. The work began on Tuesday and had been expected to be concluded by today. AOR/IT, Secondary and Primary firm delivery quantities will continue to be scheduled up to 540,000 Dth/d during the work.

Alliance Pipeline said that scheduled maintenance would require AB 30 Gold Creek Lateral Meter/Compressor Station was taking it off line for several hours today and reducing capacity to 950 e3m3/day.

**PIPELINE RESTRICTIONS**

Rockies Express Pipeline said that effective for today and until further notice, it is at capacity for delivered quantities through Segment 130 (Wamsutter-to-Echo Springs) AOR/IT & Secondary out of path quantities are at risk of not being scheduled.

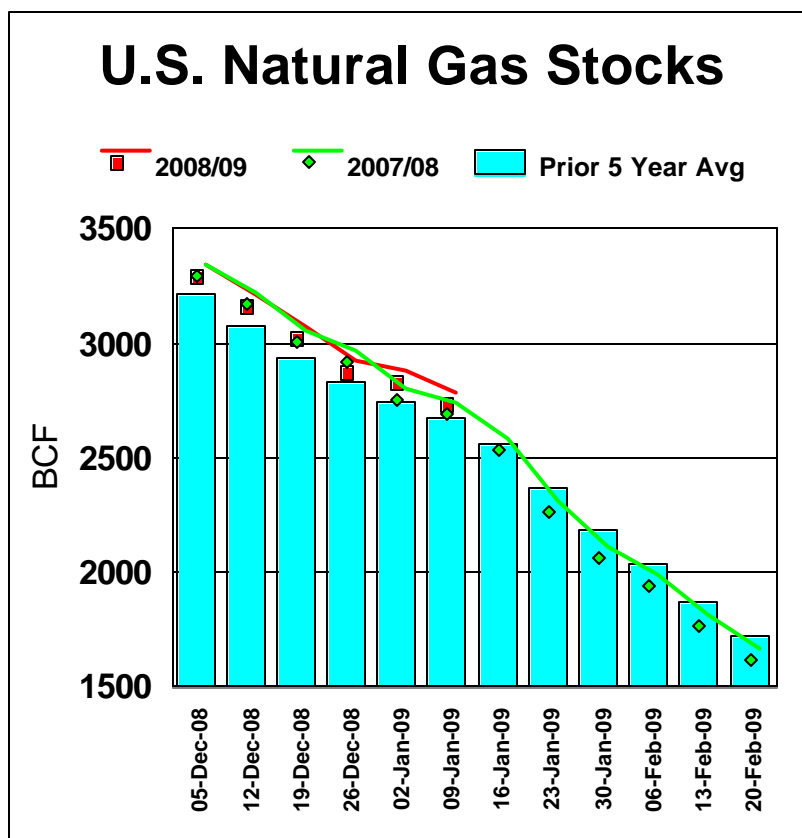
NGPL said effective for today and until further notice, Texas Gas Lowry is at capacity for deliveries. In addition the company reported that Florida gas-Jefferson is at capacity for deliveries. ITS/AOR and Secondary Firm transports are at risk of not being fully scheduled.

FGT said that due to continued cold weather in Florida, it has issued an Overage Alert Day for today a 25% tolerance.

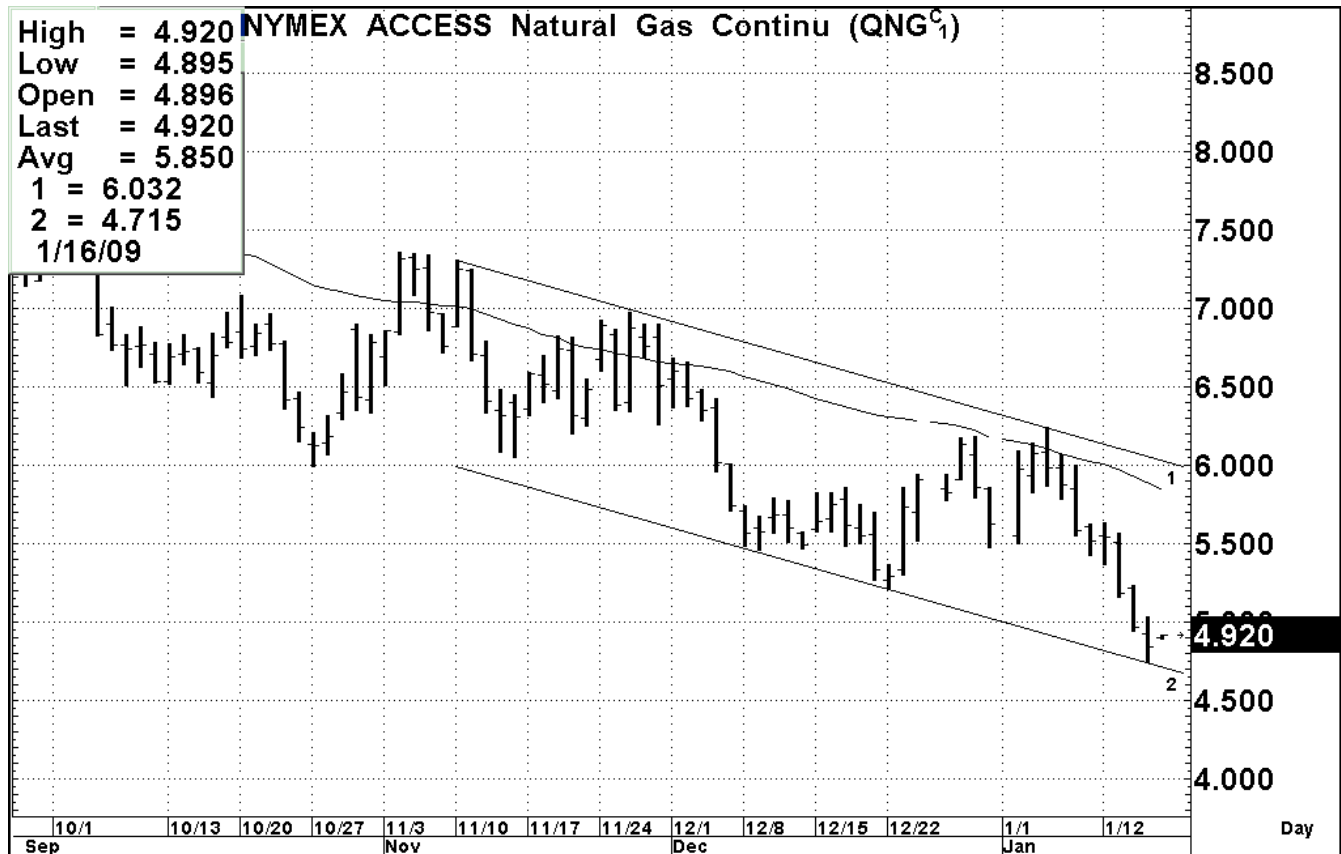
**ELECTRIC MARKET NEWS**

The economic stimulus bill unveiled by the House of Representatives today calls for more than \$50 billion in government spending on energy projects, which include some \$11 billion in funding for a program to modernize the U.S. electricity grid. Other funded projects would be \$2 billion for advanced battery development for electric vehicles, \$2.4 billion for carbon capture projects; \$6.2 billion for low income families for weatherproofing their homes and \$6.9 billion in grants to make energy efficiency investments.

Cities in the Oncor Electric Delivery region of Texas said Wednesday said that the consultants that they had hired had found “errors, unreasonable assumptions, discrepancies and a shortage of economic logic” in the recent updated cost-benefit analysis of the ERCOT planned nodal market. The group claimed that ERCOT had speculative and erroneous assumptions in estimating the benefits of a nodal market for consumers. The ERCOT consultants claimed that switching to a nodal market from the current zonal market could save \$5.6 billion. The group of cities was calling on the Public Utilities Commission of Texas to suspend and consider ending the nodal transition process and instruct EROT to improve the current zonal market.



The FERC today issued an audit report, which recommended changes to improve the SPP independence to assure effective enforcement of regional market compliance with reliability standards. The report noted three areas of concern: the regional entity's lack of independence from the market operator; the need to improve oversight of regional functions by SPP regional entity trustees to prevent conflicts of interest and to assure independence of the reliability operators; and the adequacy of SPP's implementation of its compliance monitoring and enforcement plan. The report calls for corrective action such as hiring of a regional manager and to ensure that the manager and reliability counsel keep SPP trustees apprised of all reliability operations.



**MARKET COMMENTARY**

The natural gas market continued its price erosion. For the seventh time out of the last eight trading sessions, prices settled lower reaching a level not seen since September 27, 2006. The continued stream of poor economic news coupled with a smaller than expected inventory drawdown reported this morning by the EIA kept the bears in control of this market. It appears that with weather moderating by the middle of next week the pressure could very well return to this market, even if we see a short covering rally tomorrow. We see support tomorrow at \$4.715 followed by \$4.584 and \$4.425. Resistance we see at \$5.00, \$5.16 and \$5.29-\$5.31. Additional resistance we see at \$5.491 \$5.688, \$5.85 and \$6.032.

The EIA confirmed today that its weekly natural gas storage report would be released on Friday, January 23<sup>rd</sup> at 10:30 EST as a result of next week's Martin Luther King Holiday and the Presidential inauguration.

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