



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta,  
Karen Palladino & Zachariah Yurch  
**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

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### **POWER MARKET REPORT FOR JANUARY 18, 2008**

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

UBS today announced that they were cutting its 2008 composite spot natural gas price forecast from \$8.00 per Mmbtu to \$7.25 Mmbtu due to stronger than expected U.S. gas production growth, storage volumes, warmer than normal weather this winter and a slowdown in U.S. economic growth. The company though did raise its 2008 WTI price forecast by \$11.00 per barrel to \$85.00 per barrel.

Excelerate Energy earlier this week entered into a revaporized LNG off take purchase arrangement with Deutsche Bank's DB Energy Trading LLC.

British Gas' Centrica Plc, today became the third British utility to raise retail natural gas and electricity prices this year. British Gas' energy tariffs will increase by 15% immediately.

Baker Hughes reported today that for the week ending January 18<sup>th</sup> the number of drilling rigs search for natural gas in the U.S. stood at 1401, down 8 from the previous week and off some 65 rigs from a year ago.

Peru LNG consortium said it plans to issue bonds worth between \$300-\$500 million in the local market to finance part of its project to export from its Camisea natural gas field.

The chairman of the AGA said today that given natural gas' small carbon footprint, it will be the key and only viable fuel source to help bridge a 15 year gap for the nation to transition from so called dirty fossil fuels to cleaner alternatives such as new nuclear power, clean coal technology, renewables and LNG. In order to meet this demand for the fuel, he called for offshore areas to be opened as soon as possible for new exploration and drilling activities.

The managing director of BG Group Plc said today that the level of U.S. LNG imports in 2008 will depend on the balance between world supply growth and the intensity of demand outside the United States. In 2007 U.S. imports of LNG reached a record 738 bcf. He looked for the world's natural gas market to grow in the their price linkage as more LNG ships come onto the world market.

Two analysts at Barclays Capital noted that despite some recent discussions in the markets that summer is becoming the high price season for natural gas, both analysts view that there are strong fundamental reasons why winter has and will continue to be the premium price season. They noted that relatively mild weather and

#### **Generator Problems**

**ECAR** – Consumers Energy's 789 Mw Palisades nuclear unit increased output to 90% power today. Yesterday, the unit was operating at 70% power.

**MAPP** – Wolf Creek Nuclear Operating Corp.'s 1,167 Mw Wolf Creek nuclear unit ramped up to full capacity today. Yesterday, the unit was operating at 34% power.

**MAIN** – Exelon Generation's 912 Mw Dresden #3 nuclear unit restarted and is warming up offline at 1% capacity. Dresden #2 is operating at 97% power.

**SERC** – Entergy's 1,207 Mw Grand Gulf #1 nuclear unit ramped output to 86% power. The unit was operating at 44% power.

**ERCOT** – Luminant said it planned to shut its 750 Mw #2 coal fired Martin Lake power plant today to repair a steam leak.

**WSCC** – APS' 1,270 Mw Palo Verde #3 nuclear unit remains offline at 12% as it comes back from a refueling outage. Palo Verde #1 and #2 continue to operate at full power.

**The NRC reported that 89,468 Mw of nuclear capacity is online, up 1.58% from Thursday, and down 7.57% from a year ago.**

record high storage levels, led to the current softness in the winter premium. They note that winter spread levels reflects an insurance premium for winter gas, “especially for those who must buy gas during the winter to meet customer needs no matter what the price.

**PIPELINE MAINTENANCE**

Alliance Pipeline said that the Teepee Creek station experienced mechanical difficulties Wednesday evening. Operations are working to correct this issue and hope to resolve it today.

Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
Location	Traded	Price		(As of 12:30 PM)		Moving Avg
Henry Hub	1,209,300	\$8.418	\$0.311	\$0.375	\$0.695	\$0.206
Chicago City Gate	850,000	\$9.140	\$0.807	\$1.097	\$0.835	\$0.374
NGPL- TX/OK	1,396,100	\$7.981	\$0.158	(\$0.062)	\$0.186	(\$0.227)
SoCal	700,700	\$8.051	\$0.193	\$0.008	\$0.221	(\$0.231)
PG&E Citygate	726,700	\$8.189	\$0.156	\$0.146	\$0.184	\$0.001
Dominion-South	521,600	\$8.958	\$0.529	\$0.915	\$0.557	\$0.574
Transco Zone 6	467,200	\$9.327	\$0.169	\$1.284	\$0.197	\$2.268

Gulf South Pipeline said that two maintenance projects have been extended. Unscheduled maintenance at Carthage Junction Compressor Station Unit #2 that began January 14 has been extended through January 20. Also, scheduled maintenance on Goodrich Compressor Station Unit #6 that began December 18, 2007, has been extended through February 11.

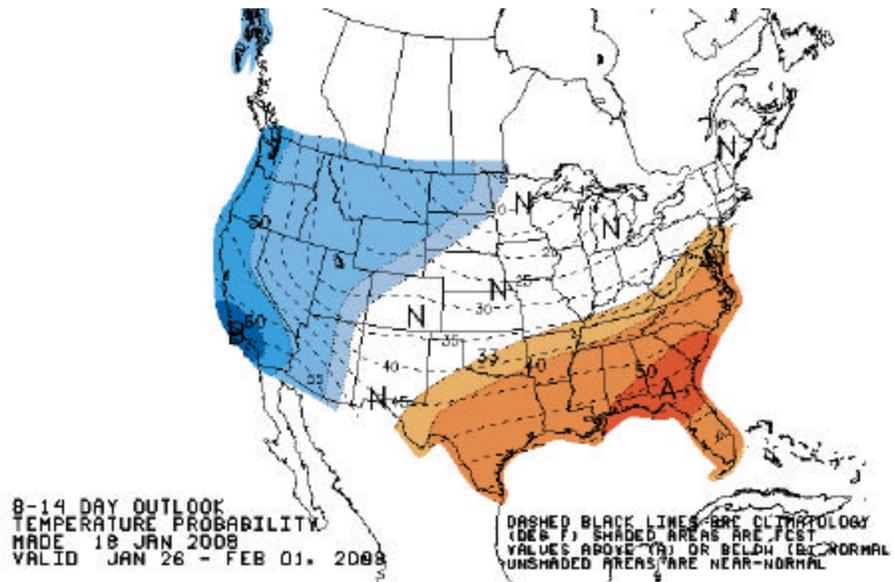
**ELECTRIC MARKET NEWS**

As estimated by the EIA from data on railroad car loadings, U.S. coal production totaled approximately 22.6 million short tons during the week ended January 12. This production estimate is 5% higher than last week’s estimate, and about the same as the estimate reported for the comparable week in 2007. Production east of the Mississippi River totaled 9.6 mmst, production west of the Mississippi River totaled 13.0 mmst.

The Maryland Public Service Commission said yesterday that it would initiate proceedings to discover whether Constellation Power Source supplied Baltimore Gas and Electric with power at “above-market rates” and thus inflating losses at Baltimore Gas & Electric.

Hess Corp said today that they and their partner ArLight Capital Partners are exploring the possibility of building a 512 Mw natural gas fired power plant in Bayonne, New Jersey with the possibility of selling the power into the New York City market.

The U.S. Northwest River Forecast Center yesterday predicted water runoff at Dalles Dam would be 95% of normal for the January – July period. This forecast is unchanged from its prior estimate from a week ago. Last year saw water flows reach only 89% of normal.



**MARKET COMMENTARY**

The spot cash natural gas markets zoomed higher today as the arctic blast was moving into the mid section of the nation and was expected to sweep eastward this weekend. But while cash prices posted one of its strongest

gains of this heating season, and as the ICE next day market recorded its most active trading volume session since mid November, futures prices remained relatively stable, as futures traders appeared already looking much further ahead and saw the next week of below normal temperatures would then moderate in the following week.

This afternoon's CFTC Commitment of Traders Report showed that for the week ending January 15<sup>th</sup> showed that despite the rebound in prices during the period non-commercials increased their net short position by 6101 lots in the futures markets, with the combined net futures and options position for this group increasing by 9711 lots to an all time new record short position, eclipsing the prior record set at the end of July this year.

While one would think this record short position may trigger some short covering and profit taking by the hedge funds that could allow prices to rebound, this was not the case this summer. When over 14,000 lots in shorts were reduced by the funds over a one week period following the prior peak short position, spot futures prices basically remain flat on the week. As a result we would not look for the funds net short position to be a major impact on price next week, but rather see the longer-term forecasts to be the key price mover. If in fact these forecasts for more moderate temperatures in the 8-14 day period appear likely next week then we would look for a challenge of the major support at \$7.86 and \$7.67 possible.

