



## ENERGY RISK MANAGEMENT

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### POWER MARKET REPORT FOR FEBRUARY 4, 2009

#### NATURAL GAS MARKET NEWS

Barclays Capital released a new research report this week that noted that more declines in U.S. industrial gas demand is expected. The bank noted that its anecdotal evidence suggests that most natural gas intensive industries have scaled down operations, in some cases by nearly half. Barclays said the chemical sector, which is the single largest industrial consumer of gas with about 6.3 bcf/d of demand, was down 11.3% year on year in December, Barclays looked for these industries to continue to contract sharply in the first quarter, followed by a slower decline in the second quarter. The bank though still looks for industrial output to rebound in the second half of the year.

The consulting firm Pan EurAsian Enterprises said Wednesday that U.S. imports of LNG in 2009 are likely to run between 400-500 Bcf above 2008 levels, but still below the levels reached in 2007. The company is looking for a spring to summer surge in LNG imports given the slack global demand during the period, while suppliers will continue to produce LNG "even in the face of very low prices." The noted that the only natural gas market in the world that is liquid enough, large enough and accessible enough to absorb this oversupply of LNG during the global summer lull is the U.S. market. The company noted that the

average landed cost of LNG imports in 2008 was \$9.52 Mcf, versus \$6.66 per Mcf in 2007. They noted that December prices averaged \$8.43 per Mcf.

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	628,300	\$5.012	(\$0.028)	\$0.371	(\$0.388)	\$0.090
Chicago City Gate	762,600	\$4.961	(\$0.217)	\$0.320	(\$0.428)	\$0.403
NGPL- TX/OK	1,460,200	\$3.629	(\$0.385)	(\$1.012)	(\$0.596)	(\$0.618)
SoCal	363,000	\$3.951	(\$0.077)	(\$0.690)	(\$0.288)	(\$0.601)
PG&E Citygate	684,600	\$4.812	\$0.798	\$0.171	\$0.587	\$0.068
Dominion-South	291,800	\$6.149	(\$0.066)	\$1.508	(\$0.277)	\$1.113
USTRade Weighted	18,766,300	\$4.756	(\$0.177)	\$0.115	(\$0.39)	\$0.090

The CFTC today launched its new monthly Commitment of Traders report for the data recorded in January. The report will focus on 22 commodity markets, including four each from energy, agriculture, metals, financials

#### Generator Problems

**NPCC** – Entergy was expected to reduce operations at its Pilgrim nuclear unit for planned control rod adjustments.

**PJM**- Exelon's 619 Mw Oyster Creek nuclear unit started to exit its recent outage and was up to 3% this morning. The unit had been shut back on February 1<sup>st</sup> due to a main transformer fire.

**ERCOT** –Texas Municipal Power Agency's 462 Mw Gibbons Creek coal fired power station was expected to shut on Wednesday due to a boiler tube leak. Repairs are expected to last several days.

**FRCC** – Progress Energy's 838 Mw Crystal River #3 nuclear unit had exited its one day outage and was back up to 58% capacity this morning.

The NRC reported this morning that **92,659 Mw of nuclear generation capacity was on line, up 0.8% from Tuesday and 6.2% higher than the same time a year ago.**

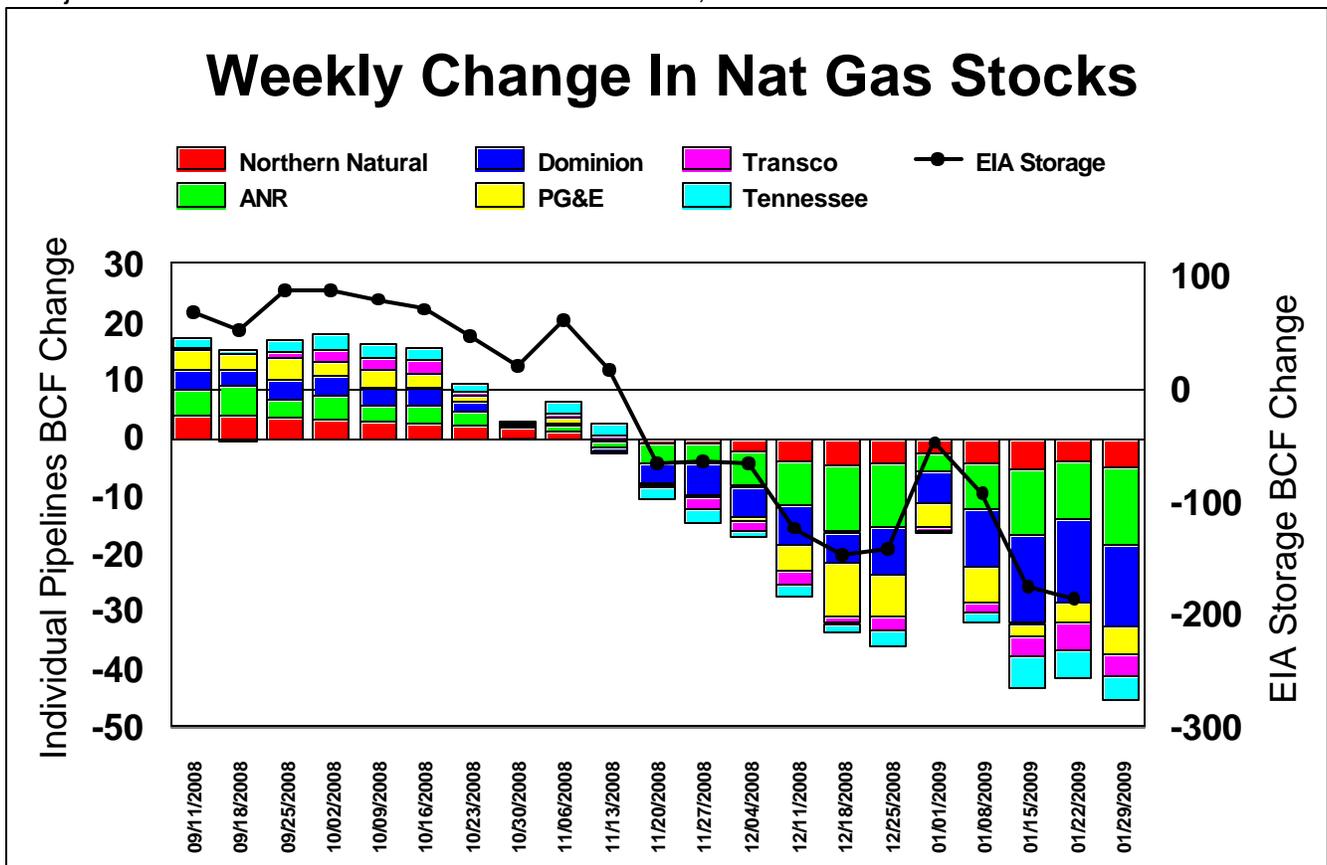
and soft commodities and two from livestock markets. The report is expected to last for a six-month trial basis. But there appears to be no new insight into the markets since the data is derived from the weekly data.

According to ETF Securities, exchange traded commodities (ETCs) have seen strong inflows again last week, with \$416 million moving into the market, following a record breaking inflow of \$581 million the previous week. ETCs are securities that track the value of an underlying instrument, such as gold or oil futures. Total inflows in the first four weeks of this year were up \$1.3 billion, with 57% of the money going into precious metals and 37% into energy.

The Weaver Cove Energy filed an amended application with the FERC this week seeking to revise its previously approved LNG import terminal project by constructing a berth for tankers one mile offshore Mount Hope Bay and underwater pipeline facilities to unload and deliver LNG to its proposed terminal site in Fall River, Massachusetts.

Constellation Energy announced Tuesday that it had reached definitive agreement to sell its downstream natural gas unit to Macquarie Group Ltd. The deal is expected to close in the second quarter. The merger could create a gas marketer with about 17 Bcf/d of volume.

ADP reported that it estimated that U.S. private sector companies lost 522,000 jobs in January. This was just below market estimates of a reduction of 530,000.



The managing director of the Nabucco gas pipeline project said today that the pipeline consortium may review its \$10.3 billion investment plan this year given the fall in steel prices. He said that the pipeline could begin in Georgia-Iran or in Turkey and that the consortium would consider both alternatives positively.

Sontrach's LNG tanker, Berge Arzew was due to deliver LNG into the Isle of Grain import facility this week. Meanwhile BG Group's Dragon LNG import terminal in Wales will not be ready to take its first delivery of LNG until at least April the company said today.

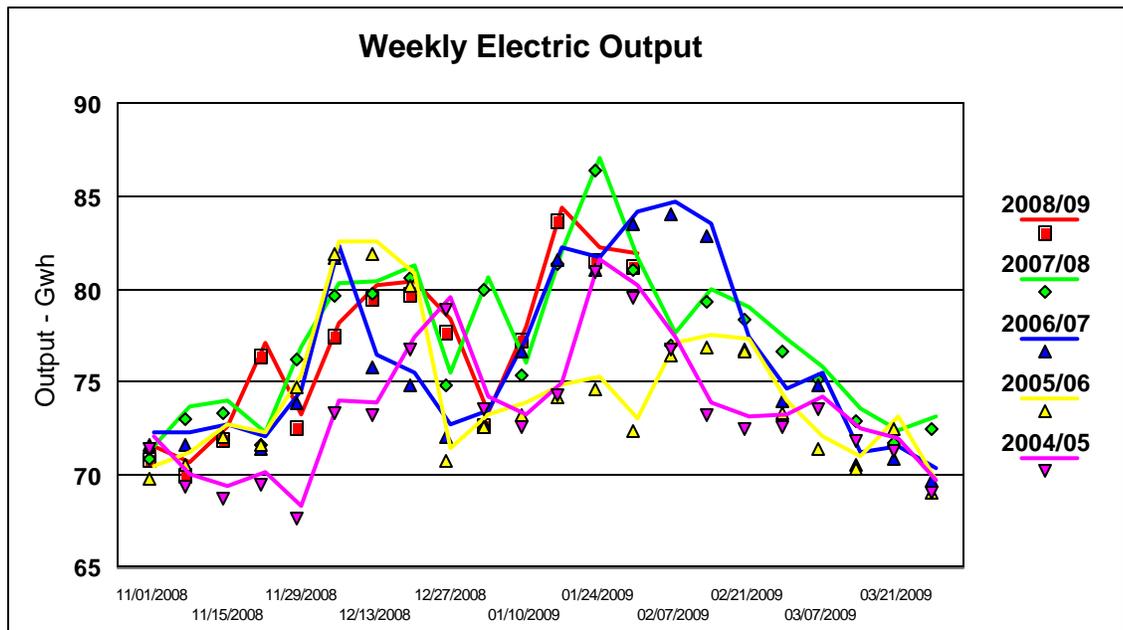
The Korea International Trade Association reported today that South Korean imports of LNG plunged by 17.6% on the year in December to just 2.44 million mt. The average price paid for the LNG stood at \$16.47 Mmbtu. The decline in imports of LNG appears to be the result of declining industrial output. The South Korean government earlier this week announced that exports from the country tumbled by a record 33% versus a year ago in January.

**ELECTRIC MARKET NEWS**

According to local utilities, more than 218,000 homes and businesses remained without power Wednesday morning following last week's snow and ice storm that hit Oklahoma to Pennsylvania.

The National Center for Atmospheric Research (NCAR) announced today that it had reached agreement with Xcel Energy to provide the company with detailed wind forecasts every three hours to help it maximize power generation from its wind generating assets. NCAR will develop a prototype wind forecast system over the next 18 months and generate predictions for Xcel wind farms in Colorado, Minnesota, New Mexico, Texas and Wyoming in six months. Xcel said it hopes to save \$10-\$12 million in the first two years of the program

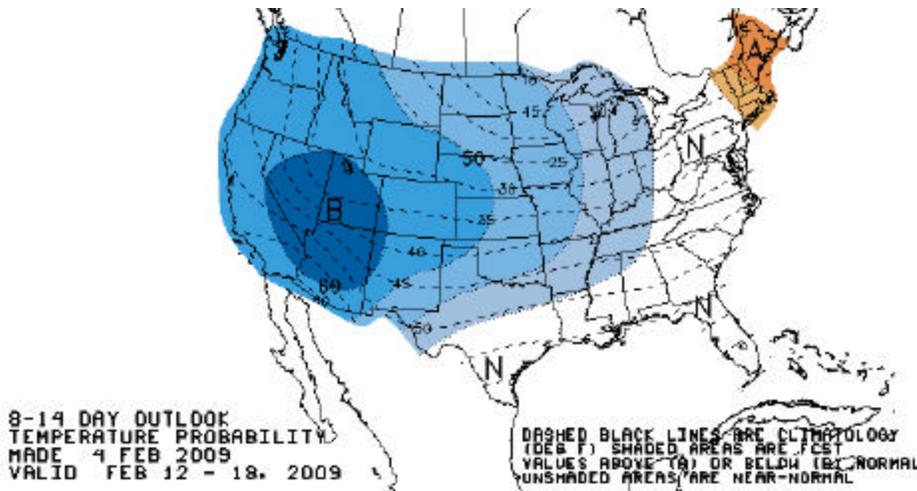
The NRC today postponed a vote on Exelon's bid to renew its operating license for 20 years at the nation's oldest operating reactor, the Oyster Creek facility in New Jersey. The commission did not say why the vote had been postponed but three members of the New Jersey's Congressional delegation had asked the NRC to delay the decision.



So far the NRC has approved license renewals for 51 of the 104 operating U.S. reactors and other power plants are either awaiting extensions or have stated their intentions to see relicensing.

The Edison Electric Institute reported today that for the week ending January 31<sup>st</sup>, U.S. electric production reached 81,253 Gwh, down 0.45% from the previous week and some 6.4% less than the same week a year ago.

The American Wind Energy Association said today that energy produced by wind generation grew 50% and created over 13,000 new jobs in 2008. The association pointed out the at the stimulus plan passed by the House of Representatives includes the extension of \$13 billion in tax credits for clean energy through 2012 and a grant program that covers 30% of the upfront costs of wind energy investments.



### **MARKET COMMENTARY**

While the market posted an inside trading session today, it for the most part remained in positive territory for nearly the whole trading session, as traders appeared to be looking past the significant warm up over the next week and rather focusing on the 11-15 day forecast which computer models continue to suggest that a large portion of the country will experience below normal temperatures. In fact the midday computer model runs appeared to show that it was possible for most of the nation could see a couple days of much below normal temperatures during this period.

Market expectations for tomorrow's EIA Storage Report appear to be running around a 190 bcf expected draw down. Our model is looking for just a slightly larger drawdown of 192-195 bcf, which would make it the largest draw in stocks since the week ending February 1<sup>st</sup> of last year. For the same week a year ago, stocks fell an adjusted 221 bcf, while the five year seasonal average shows a 183 bcf decline.

While we remain bearish on this market longer term, it appears that this market wants to work higher as evidence by our second straight day with a higher low. We feel that if this market can break above the \$4.72-\$4.73 area prices with prices quickly running to \$4.836 and \$4.95. More significant resistance we see at \$5.03 \$5.26 and \$5.491. Support we see initially at \$4.48 followed by \$4.35 and \$4.245. More distant major support is at \$4.05.