



## ENERGY RISK MANAGEMENT

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### POWER MARKET REPORT FOR MAY 3, 2007

#### NATURAL GAS MARKET NEWS

TSR released their May forecast update today for the Atlantic hurricane season in 2007. The group continues to look for an active season. They noted that based on current and projected climate signals, Atlantic basin and US land falling tropical cyclone activity are forecast to be about 65% above the 1950-2006 norm in 2007. There is a high likelihood (around 84%) that activity will be in the top one third of years historically. TSR's two main climate signals are forecasted wind speeds for trade winds for the Caribbean and tropical North Atlantic during the hurricane season and expected sea surface temperatures in the tropical North Atlantic during August and September. At present TSR anticipates both indicators having a moderate enhancing effect on the tropical season. TSR expects 16.1 named storms (plus or minus 3.8), 8.9 hurricanes (plus or minus 2.6) and 4 intense hurricanes (plus or minus 1.5). That compares with a 56-year average of 10.3 storms, 6.2 hurricanes and 2.7 intense hurricanes.

#### EIA Weekly Report

	04/27/2007	04/20/2007	Net chg	Last Year
<b>Producing Region</b>	672	647	25	688
<b>Consuming East</b>	716	664	52	955
<b>Consuming West</b>	263	253	10	254
<b>Total US</b>	1651	1564	87	1896

The FERC Wednesday approved Northern Natural Gas' request to expand its pipeline system to meet the growing demand for natural gas by ethanol producers in several Midwest states.

Senate Majority Leader Reid said today that it was unlikely that the Senate will debate any energy bill before June, despite his earlier commitment to take up energy legislation before Memorial Day. While the Senate Energy and Natural Resource Committee on Wednesday approved a bill encouraging energy efficiency, renewable fuels and carbon sequestration, Senate Republicans which lost in their effort in committee to add an amendment setting a 21 billion-gallon annual coal to liquids mandate by 2022, threatened to hold up the bill on the Senate floor if their proposal does not receive full debate and consideration.

#### Generator Problems

**SERC** – Southern Nuclear's 1215 Mw Vogtle #2 nuclear unit was at 18% of power this morning and operators were preparing to reconnect the unit to the grid. The unit tripped off line back on April 23<sup>rd</sup>.

**NPCC** – OPG's 490 Mw Unit #4 at the Nanticoke coal fired power plant returned to service this morning. The unit was taken off line on April 30<sup>th</sup>.

Entergy's 979 Mw Indian Point #3 nuclear unit was at 30% of power down from 65% recorded on Wednesday.

The 580 Mw Brighton Beach natural gas fired power station in Ontario was taken off line again for short-term maintenance work.

**PJM** – PSEG Nuclear's 1100 Mw Salem #1 nuclear unit was again restarted for the third time in the last 2 weeks and stood at 21% of capacity

**MAPP** – Xcel Energy's 600 Mw Monticello #1 nuclear unit was ramped up to 95% of capacity after running at 40% for much of this week.

**MAIN** – Exelon has restarted its 1225 Mw Byron #2 nuclear unit but was at only 5% of power this morning. The reactor has been offline since April 1<sup>st</sup>.

**ERCOT** – Operators at TXU's 575 Mw Unit #2 at the Big Brown coal fired power plant took the unit off line for maintenance for the next two days.

**WSCC** – APS 1247 Mw Palo Verde #3 nuclear unit ramped up to 46% of capacity this morning, following return to service on Wednesday from its recent maintenance outage.

**The NRC reported that 80,793 Mw of nuclear capacity is on line, up just 1.15% from yesterday, and up 4.99% from a year ago.**

**Canadian Gas Association**

**Weekly Storage Report**

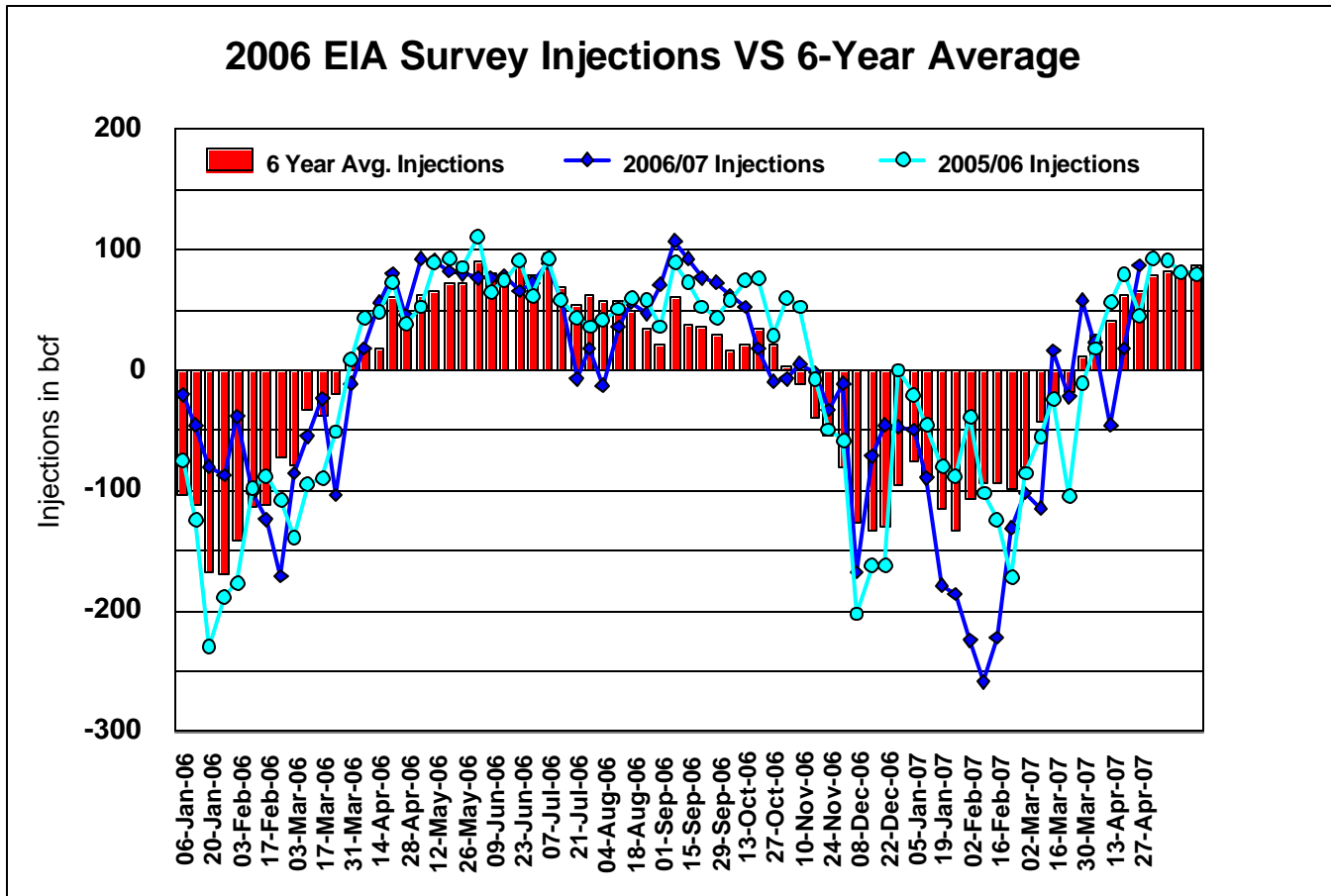
	27-Apr-07	20-Apr-07	28-Apr-06
<b>East</b>	62.8	55.0	100.6
<b>West</b>	47.1	46.0	146.7
<b>Total</b>	109.9	101.1	247.3

storage figures are in Bcf

Columbia Gas Transmission filed an application with the FERC for a \$175 million project to expand its eastern and Mid-Atlantic markets. The project would expand pipeline, compression and storage networks serving this area.

The executive director of the IEA said today that natural gas is becoming an increasingly global commodity and as a result developments in previously separate regional gas markets can no longer be considered in isolation. He noted that the dramatic growth of LNG output is linking markets to an extent thought impossible just a few years ago. He called on member governments to streamline regulation, improve market functioning, through price transparency and increased domestic production. In addition member governments need to use gas more efficiently and to diversify their supply sources and routes. They need to elaborate short-term emergency policies for gas. Such policies may, in certain circumstances, include strategic storage.

The NYMEX reported that the average daily volume on the exchange in April was 1.398 million contracts, a 23% increase from the same period a year ago.



**PIPELINE RESTRICTIONS**

Tennessee Gas Pipeline reported today that at Station 820C1 Terminus SW Loop Line it was expecting to restrict through approximately 35% off Supply to Market Secondary Out of the Path nominations.

**PIPELINE MAINTENANCE**

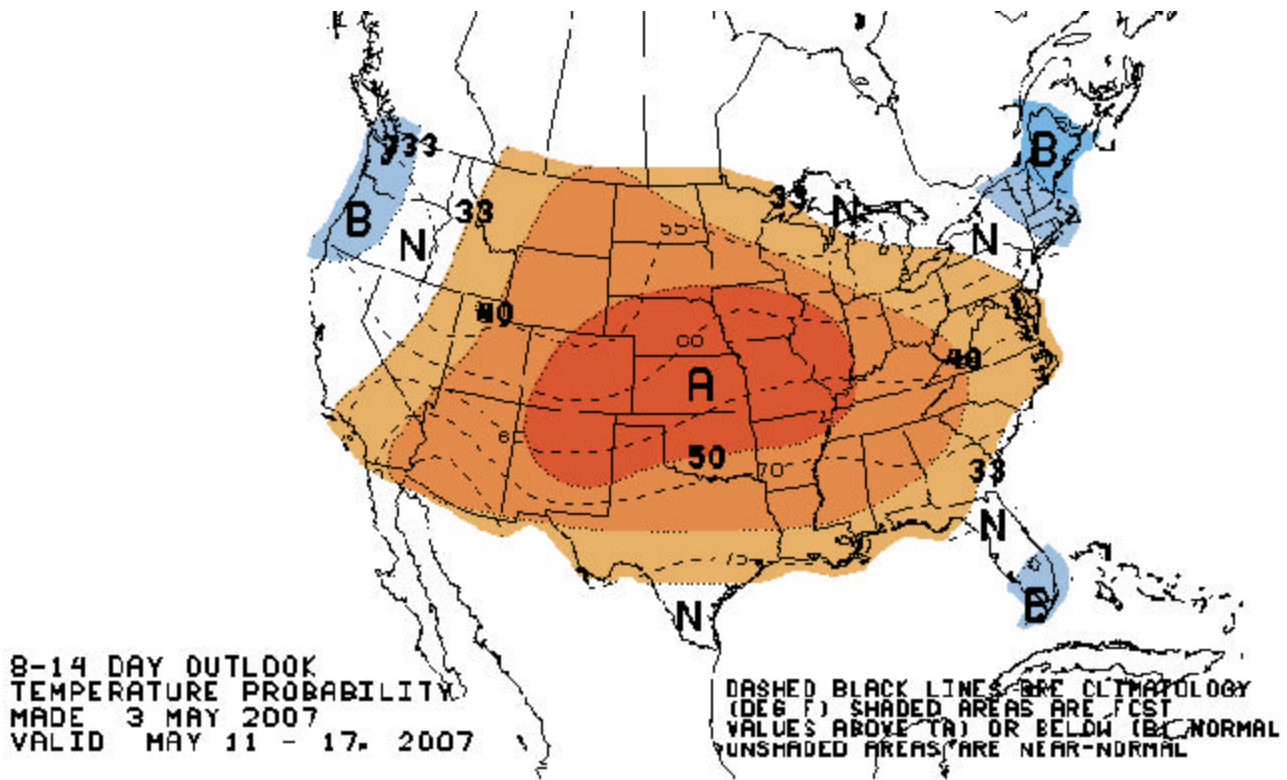
Williston Basin Interstate Pipeline said that maintenance will be performed at the Landeck measurement Station starting today and finishing on Friday afternoon. Volumes at Delivery Point ID 05062 BHM-Landeck will be set at

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	1,084,300	\$7.577	(\$0.060)	(\$0.506)	(\$0.189)	(\$0.454)
Chicago City Gate	559,900	\$7.523	(\$0.116)	(\$0.277)	(\$0.209)	(\$0.296)
NGPL- TX/OK	702,700	\$7.263	(\$0.085)	(\$0.537)	(\$0.178)	(\$0.572)
SoCal	759,200	\$6.879	(\$0.214)	(\$0.921)	(\$0.307)	(\$0.719)
PG&E Citygate	850,900	\$7.424	(\$0.144)	(\$0.376)	(\$0.237)	(\$0.265)
Dominion-South	596,100	\$8.122	(\$0.032)	\$0.322	(\$0.125)	\$0.318
Transco Zone 6	241,800	\$8.145	(\$0.099)	\$0.345	(\$0.192)	\$0.403

zero. The company also reported that the unplanned maintenance at the Monarch Compressor Station has been extended until May 11<sup>th</sup>. Also the planned maintenance on Line Section 15 the Rapid City West Boulevard Lateral will be zero dekatherms per day

from may 14<sup>th</sup> through May 25<sup>th</sup>.

El Paso Natural Gas said that the Belen station has become unavailable since Wednesday morning due to surge control valve problems. The capacity reduction of the San Juan Crossover has been changed from 29 Mmcf/d to 75 mmcf/d during this period.



Tennessee Gas Pipeline reported that hydrostatic testing of Targa Resources liquids pipeline is underway in the Sabine Pass Area causing the shut down of the Crosstex-Sabine and WFS – Cameron Meadows Processing Plants. As a result, due to the High Hydrocarbon Dew Point Tennessee restricted approximately 35% of Supply to market Secondary Out of the Path nominations.

**ELECTRIC MARKET NEWS**

As a result of three days of severe storms across Texas some 200,000 customers remained without power today, down from a high of 300,000 customers with out service on Wednesday.

The New York ISO released their Power Trends 2007 report today. The report points to significant gains made in opening access to the bulk electricity grid for competition and to innovative and renewable power sources, such as wind power. The study confirmed that there are sufficient supplies of electricity to meet this summer's expected peak electrical demands. The report also expects generation and transmission resources on the bulk electricity grid to be adequate through 2010. However potential resource deficiencies may occur in the state's southeastern region by 2011, especially in New York City and Long Island. If left unaddressed this problem could become acute by 2016. The report also did note the following problems: (1) The absence of a streamlined siting and permitting process for major power plants (2) The continued need for the strengthening of the capabilities of the existing wholesale electricity market structure, need to attract the capital to develop large, baseload power plants and transmission facilities; (3) The power generation sector's ever increasing dependence on natural gas, which is placing the state's wholesale electricity markets in a vulnerable position to price volatility and the security of its supply systems; (4) The impacts of upcoming or imminent state and federal environmental initiatives on the availability of and price of electricity.

An official with the American Public Power Association said today "the evidence continues to mount that electricity generators win and consumers lose in regional transmission organization (RTO) markets. The group cited the recent work by a professor at Northeastern University, which said the report that had been commissioned by PJM in November, which showed that consumers had benefited by RTO electricity markets, was in fact flawed. The professor also noted the AP report last month, which noted that federal data showed consumers in deregulated markets are paying 30% more for electricity than consumers in regulated regions. The professor noted that these

NYMEX Nat Gas Options Most Active Strikes for May 3, 2007								
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LN	10	7	P	4.5	09/25/2007	0.0182	5,050	52.45
LN	9	7	C	15	08/28/2007	0.0525	5,000	56.83
LN	6	7	P	7	05/25/2007	0.0287	4,450	39.41
ON	6	7	C	8	05/25/2007	0.274	3,244	38.57
LN	6	7	C	8.5	05/25/2007	0.118	2,650	38.47
LN	8	7	P	8	07/26/2007	0.5355	2,641	45.07
LN	5	8	C	20	04/25/2008	0.0387	2,500	40.07
LN	4	8	C	15	03/26/2008	0.1196	2,150	36.56
LN	3	8	C	20	02/26/2008	0.2564	2,080	53.18
ON	3	8	C	20	02/26/2008	0.256	2,000	57.63
LN	3	8	P	7.5	02/26/2008	0.4901	2,000	49.26
LN	3	8	C	10	02/26/2008	1.4616	1,950	36.78
LN	10	7	P	6	09/25/2007	0.1501	1,950	51.68
LN	8	7	C	8	07/26/2007	0.7232	1,875	35.13
LN	8	7	P	7	07/26/2007	0.1734	1,782	43.38
LN	8	7	C	9	07/26/2007	0.3582	1,716	38.68
LN	6	7	P	6.75	05/25/2007	0.0129	1,612	40.11
LN	9	7	C	8	08/28/2007	0.9462	1,575	38.67
LN	6	7	C	8	05/25/2007	0.2738	1,440	36.08
LN	7	7	P	7	06/26/2007	0.0933	1,375	39.91
LN	11	7	C	11	10/26/2007	0.551	1,350	43.36
LN	7	7	C	8	06/26/2007	0.5073	1,350	33.82
LN	4	8	C	8.5	03/26/2008	0.9841	1,350	22.72
LN	4	8	C	12	03/26/2008	0.2987	1,300	32.91
LN	7	7	C	9	06/26/2007	0.1818	1,241	37.20
LN	3	8	C	15	02/26/2008	0.5562	1,225	47.90
LN	6	7	P	7.75	05/25/2007	0.2058	1,185	40.30
LN	6	7	P	6.5	05/25/2007	0.0054	1,150	40.99
LN	6	7	P	7.25	05/25/2007	0.0621	1,150	39.62
LN	7	7	C	10	06/26/2007	0.0608	1,125	39.91
LN	3	9	C	10	02/24/2009	1.484	1,100	19.29
LN	1	9	C	10	12/24/2008	1.4791	1,100	17.31
LN	9	7	C	8.65	08/28/2007	0.6822	1,050	41.04
LN	9	7	P	8	08/28/2007	0.7045	1,025	50.48
ON	3	8	C	15	02/26/2008	0.556	1,000	53.72
LN	7	7	P	8	06/26/2007	0.4279	1,000	41.64
LN	3	8	C	11	02/26/2008	1.1752	950	39.92
LN	3	8	C	18	02/26/2008	0.348	950	51.60
LN	2	8	P	8.5	01/28/2008	0.7373	900	50.03
LN	3	8	P	8.5	02/26/2008	0.8791	900	51.21
LN	1	8	P	8.5	12/26/2007	0.6464	900	48.90
LN	1	8	C	15	12/26/2007	0.4249	850	47.12
LN	8	7	P	6	07/26/2007	0.0335	816	43.05
LN	6	7	P	8	05/25/2007	0.3267	800	41.01
ON	6	7	P	8	05/25/2007	0.327	732	38.61

higher costs can not be explained away by higher fuel costs, despite the efforts of generators to do so. The APPA also noted that last month Exelon and Constellation Energy, two of the largest sellers of power in the PJM reported “enormous first quarter profit increases of 73% and 72% respectively. The group said that these RTO markets are not working and that “...we need to retool these markets to benefit end-use consumers and thus the overall economy, not just the ‘bottom lines’ of a few suppliers.”

The EIA reported today that coal production in the United States stood at 21.556 million short tons down 0.2% from the previous week and some 5.2% below the same week a year ago.

### **MARKET COMMENTARY**

The natural gas market started the day at basically unchanged levels this morning and saw some minor price erosion in front of the EIA Storage Report that was expected to show a sizable injection rate for the week ending April 27<sup>th</sup>. When the report was released at 10:30 this morning showing a slightly larger than expected build of 87 bcf, the market quickly fell and tested the three month support trend line down at \$7.512. But the market failed to convincingly breach this level and the market quickly bounced off this level and started a strong rally. The market gained support from the TSR Hurricane forecast as well as from a midday forecast which showed above normal temperatures throughout much the nation starting next week and into the following week. Also a reported 1000 lot buy order that came into the market reportedly over Globex appeared to boost this market higher. The market received a further technical boost late in the session when the highs from the last Friday and Monday were breached allowing further short covering to push prices back up to nearly \$8.00. Final volume for the day was reported to have been over 143,000 contracts, the largest volume trading session since April 10<sup>th</sup>, the last time this market saw a dramatic rally to the upside and the first push above \$8.00 in the June contract in nearly two months.

We feel that today’s exaggerated move to the upside was sparked by weak shorts exiting this market on the news of a bullish hurricane forecast and a near term supportive temperature outlook for increased air conditioning demand. The inability of the cash market to match these gains, (in fact it was off at most trading points) makes us believe that this dramatic move was more of a short covering inspired rally and would look for confirmation in tomorrow’s open interest report. We remain bearish on this market and would not be forced out of this position unless the market moves above the \$8.13-\$8.19 level. We see resistance tomorrow at \$8.01 followed by \$8.137, \$8.191, with more distant resistance at \$8.338 and \$8.679. Support we see at \$7.916, followed by \$7.81, \$7.752, \$7.694 and \$7.525. Additional support we see at \$7.445, \$7.362, and \$7.215.