



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR MAY 22, 2008**

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

The National Weather Service today said it was looking for an active hurricane season this year with 12-16 named storms in the upcoming 2008 Atlantic hurricane season, which starts June 1<sup>st</sup>. The government forecasters see 6-9 hurricanes developing with 2-5 becoming a category 3 or higher. The government forecasters see their new forecast has a 60-70% probability. It noted that the La Nina phenomenon in the eastern Pacific is fading, but its impact would be felt for some time. The government forecast seems to cover the range of other forecasts. Colorado State and WSI are looking for 8 hurricanes this year, with TSR 7-8 hurricanes and Weather Research Center calling for 6 hurricanes.

A senior analyst at Weather Insight said today that according to its analysis when government forecasters at midday report a significant change in their temperature forecast the price of natural gas can move dramatically within minutes. The company outlined that over a two year period it reviewed instances when the National Weather Service posted significant changes in its temperature forecast at midday, such as for temperatures to be much below the 30-year average, it would lead to "a strong positive price trend", in eight out of nine occurrences, within an hour of the forecasts release. The analyst noted that there were 20 occurrences where both its "temperature criteria" were met, and in 16 of the 20 instances, or 80% of the time, natural gas prices rallied an average of 8.1 cents within the hour. The group also did a review of summer time forecasts for Chicago. It noted that a greater than average change in the midday forecast combined with the call for temperatures to be much above the 30 year average resulted in an average gain in price of 3.4 cents within 15 minutes of the forecast release and a 6.3 cent gain within an hour of trading. If the Chicago forecast was changed to a cooler than normal forecast 6 out of 8 occurrences natural gas prices fell an average of 6.9 cents after 30 minutes or a 14.3 cent decline after an hour of trading.

The House of Representatives late Wednesday voted to override President Bush's veto of the Farm Bill which also included provisions to close the "Enron Loophole" which had allowed large electronic trading platforms, such as ICE to circumvent the

#### **Generator Problems**

**NPCC** – Calpine said it plans to start its Ontario 1995 Mw Greenfield natural gas fired power plant in June with full commercial operation expected in October.

Dominion Resources 882 Mw Millstone #2 nuclear unit was shut down on Thursday afternoon.

OPG's Lambton #3 coal fired unit was taken off line for repair work today.

**SERC** – Dominion's 800 Mw Surry #2 nuclear unit ramped up to 70% of capacity this morning, up 40% from yesterday.

All three of TVA's Browns Ferry nuclear units returned to full power this morning.

**MAPP** – NPPD's 800 Mw Cooper nuclear unit was back to full power this morning, up 18% from Wednesday.

**ERCOT** – AEP planned to restart its 690 Mw Oklaunion coal fired power station after its weeklong outage.

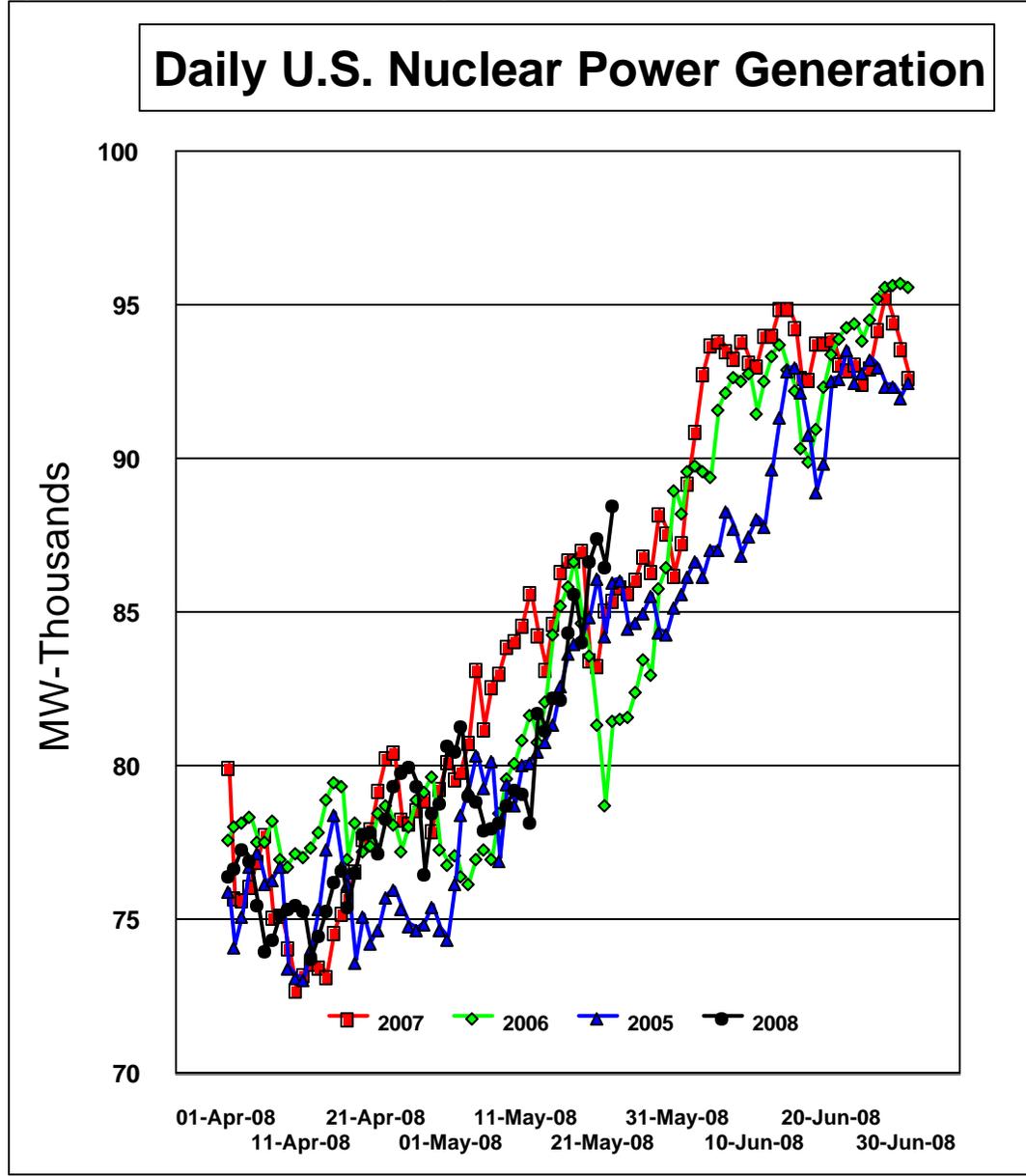
**FRCC** – Progress Energy's 870 Mw Crystal River nuclear unit #3 remained at limited output with 48% capacity.

**WSCC**- Dynegy's 739 Mw Unit #7 at the Moss Landing natural gas fired power plant was shut for unplanned maintenance.

**MAIN** – Exelon's 1120 Mw Braidwood #2 nuclear unit ramped up 5% to 90% this morning.

The NRC reported that 88,454 Mw of nuclear capacity is online, up 2.3% from Wednesday and up 3.2% on the year.

full oversight of the CFTC. It was discovered though that a legislative oversight had left out over 30 pages of the original legislation that had been sent to the White House, as a result the House will have to pass the bill all over again and force a second vote by Congress to override the President's veto.



The president of Bentek, speaking at GasMart in Chicago yesterday said that despite the “replumbing” of the natural gas industry currently, as growing production and new pipeline systems are changing historical gas flows around the nation, the net impact on near term on natural gas prices will be limited.

Striking workers in France were blocking Gaz de France's Fos Tonkin LNG terminal near Marseille. Workers walked off the job late Wednesday and operations at the 7 billion cubic meter/ year facility are expected to remain shut at least until Thursday evening.

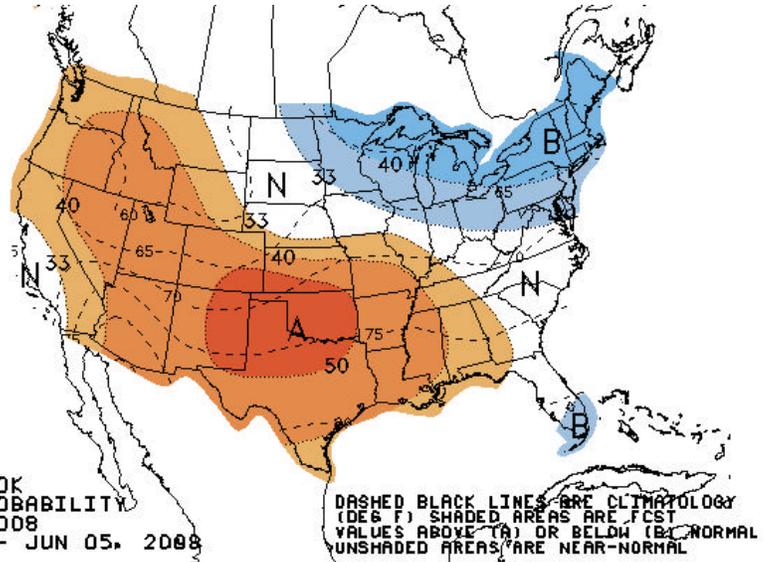
Reuters reported this morning that for the week ending May 19<sup>th</sup> gas

storage levels in Britain and Belgium stood at 43% of capacity, up 1% from the prior week.

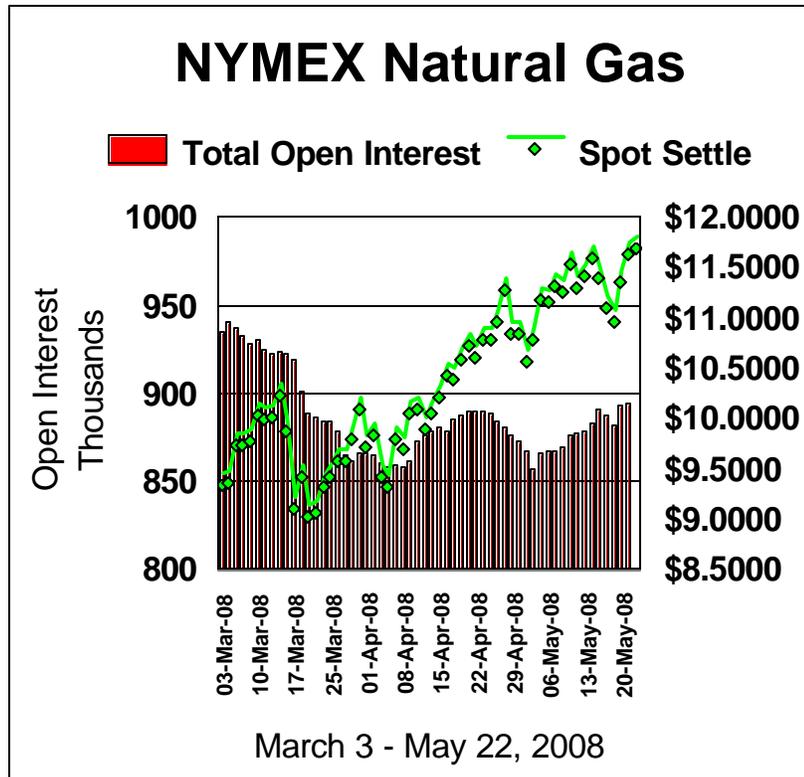
Pennsylvania Public Utility Commission on Thursday voted unanimously to investigate Pepco Energy's proposed 11.2% increase in gas base rates for its customers. The company had said the rate increase was necessary to invest in its natural gas infrastructure to ensure safe and reliable service.

The governor of Alaska today recommended that state lawmakers support a \$26 billion proposal from TransCanada to build a natural gas pipeline connecting the state's gas resources to its existing Alberta natural gas pipeline system. The governor though said the competing ConocoPhillips and BP \$30 billion pipeline proposal fell short of the state's needs. The governor said, “the plan had virtually no detailed information, no commitment, and a need for uncertain billions of dollars of concessions.” State lawmakers are set to begin debate on the plans next month.

The Natural Gas Supply Association said today that they see current supplies of natural gas as strong and expect to remain that way for the foreseeable future. They see the injections as being on pace to meet this winter's demand for natural gas and thus should help place downward pressure on market prices. They feel that based on some private forecasts for a cooler than normal temperatures this summer, that 3.6 tcf of



gas should be in storage at the end of the current injection season. The group said that industrial demand accounts for 31% of U.S. natural gas consumption. The only industrial demand sector they see an increase coming this summer will be in the ethanol production sector. From 2000 to 2006 natural gas demand for ethanol processing tripled, with this demand seen doubling or tripling again by 2012.



**PIPELINE RESTRICTIONS**

FGT said that continued warm temperatures over its service area again leaves the potential for an Overage Alert Day over the next several days.

PG&E California gas transmission has extended its system wide OFO.

**PIPELINE MAINTENANCE**

Panhandle Eastern said that the outage on the Edgerton 100 line to upgrade the Detroit regulators, has been rescheduled for June 2. The work had originally be slated to begin May 28<sup>th</sup>. The work is expected to last 16 days. During the outage, nominations will not be accepted at Michigan Consolidated gas – River Rouge or River Rouge Pt.

**ELECTRIC MARKET NEWS**

Calpine Corp said confirmed that it had received an \$11 billion takeover offer from NRG Energy. Calpine is the nation's

largest power producer based on natural gas generation. Calpine was forced into bankruptcy in December 2005 following a surge in natural gas prices and a collapse in electric prices. The company emerged from bankruptcy protection this past January.

The EIA reported today that for the week ending May 17, 2008 U.S. coal production reached 22.244 million tons down 2.4% from the prior week, but 0.9% higher than the same week a year ago. Year to date production has been running some 3.4% higher than a year ago.

NYMEX Natural Gas Options Most Active Strikes for May 22,2008								
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LN	6	8	C	12	05/27/2008	0.1029	8,938	39.39
LN	11	8	P	6.25	10/28/2008	0.0188	6,000	51.30
LN	12	8	P	12	11/21/2008	1.2263	4,700	50.93
LN	12	8	P	10.5	11/21/2008	0.5563	4,700	47.19
LN	8	8	C	13	07/28/2008	0.4854	4,615	40.75
LN	8	8	C	12	07/28/2008	0.8284	4,115	38.59
LN	6	8	C	13	05/27/2008	0.0049	3,675	43.84
LN	8	8	C	15	07/28/2008	0.1754	3,225	45.53
LN	8	8	C	14	07/28/2008	0.2779	3,215	42.51
LN	7	8	P	8.5	06/25/2008	0.0001	3,100	31.99
LN	7	8	C	13	06/25/2008	0.187	3,065	37.88
LN	6	8	C	12.25	05/27/2008	0.0524	2,737	40.68
LN	7	8	C	12	06/25/2008	0.4732	2,651	35.45
LN	6	8	P	11.5	05/27/2008	0.1241	2,412	39.30
LN	6	8	C	12.5	05/27/2008	0.0252	1,685	41.91
LN	9	8	P	11	08/26/2008	0.6992	1,550	51.55
LN	6	8	C	11.75	05/27/2008	0.1885	1,515	38.01
LN	6	8	P	11.25	05/27/2008	0.0528	1,485	38.45
LN	6	8	P	11.6	05/27/2008	0.1652	1,485	39.66
LN	7	8	P	9.5	06/25/2008	0.0076	1,400	35.53
LN	3	9	C	10.5	02/24/2009	2.9979	1,400	31.19
LN	3	9	C	10	02/24/2009	3.2803	1,400	26.37
ON	6	8	C	12	05/27/2008	0.103	1,387	40.24
LN	8	8	C	16	07/28/2008	0.1248	1,250	49.35
LN	8	9	P	5.5	07/28/2009	0.0366	1,200	38.09
LN	9	9	P	5.5	08/26/2009	0.0432	1,200	38.32
LN	11	9	P	5.5	10/27/2009	0.0272	1,200	34.76
LN	10	9	P	5.5	09/25/2009	0.0722	1,200	41.50
LN	12	9	P	5.5	11/23/2009	0.0169	1,200	32.76
LN	6	8	P	10.25	05/27/2008	0.0001	1,100	34.45
LN	1	9	P	7.5	12/24/2008	0.0758	1,100	47.08
LN	10	8	C	20	09/25/2008	0.1806	1,100	57.88
LN	1	9	P	8	12/24/2008	0.1143	1,100	46.72
LN	7	8	P	10	06/25/2008	0.0305	1,070	36.72
LN	3	9	C	12.5	02/24/2009	2.1073	1,051	39.76
LN	6	8	P	11	05/27/2008	0.0177	1,040	37.68
LN	5	9	P	8	04/27/2009	0.3005	1,000	38.80
LN	7	8	P	11	06/25/2008	0.2032	1,000	39.14
LN	3	9	P	7	02/24/2009	0.09	1,000	46.93
LN	1	9	C	13	12/24/2008	1.8048	1,000	40.35
LN	1	9	P	13	12/24/2008	1.9325	1,000	56.14

GE said it would likely start operating the 775 Mw Inland Empire natural gas fired power plant in California this summer. The project has been under construction since 2005.

NYISO said today that New York State should have sufficient power supplies this summer, barring unexpected extremes in weather conditions. NYISO forecasts this summer's peak power demand to reach 33,809 Mw, a 5.1% increase over the peak demand recorded last summer.

#### **MARKET COMMENTARY**

The natural gas market today started out the morning session a few pennies better. While the natural gas market began to weaken prior to the release of the EIA Storage Report as oil prices began to erode, the release of the report seemed to trigger the release of the bulls to return to this market. This fresh buying also seemed to be spurred onward by a relatively bullish hurricane forecast from the government. This allowed prices to run counter to oil values and set a new contract high in the June contract as well as allowing the spot price reach its highest level in 29 months. But the continued decline of the oil market through the afternoon prompted profit taking by the bulls going into the close and allowed prices to finish the day back near the levels where they

started this morning. Volume today was excellent with 238,279 lots booked on the day, the biggest volume day since February 12<sup>th</sup>.

While the oil markets in recent weeks have been posting up days on Friday, we feel the fundamentals in natural gas are weakening a bit given the strong rebound in nuclear generation recently. Given this seasonally high generation level coupled with moderating temperatures and a holiday weekend which will be depressing industrial demand for natural gas as well, we feel that we could see natural gas values retrace much of this

week's gain in the coming few days. We see initial support at \$11.50-\$11.475, \$11.357, \$11.302. Additional support we see at \$11.239, \$11.124 and \$10.857. Resistance we see at \$11.85-\$11.87, \$11.986, \$12.054 and \$12.252.