



## ENERGY RISK MANAGEMENT

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### POWER MARKET REPORT FOR JUNE 19, 2008

#### NATURAL GAS MARKET NEWS

The National Hurricane Center's concern over a tropical wave moving westward in the central Atlantic yesterday, evaporated by this morning. Forecasters noted that despite being over warm water, the system has encountered upper level winds that that have inhibited development and as it heads towards the Caribbean it will encounter even stronger wind shear and dry air. In addition a tropical wave moving off the African coast currently is moving into an area not favorable for development as a large pool of dry air and Saharan dust seems to surround the system. Only the Canadian forecasting model shows that this system may have the potential to develop next week as it approaches the southern Windward Islands. The GFS model though is looking for a strong tropical disturbance to develop in the eastern Atlantic at the end of the month.

Goldman Sachs today noted in a research report that U.S. natural gas prices have surged 78% this year and may extend those gains because of competing demand for LNG

#### **EIA Weekly Report**

	06/13/2008	06/06/2008	Net chg	Last Year
<b>Producing Region</b>	667	660	7	827
<b>Consuming East</b>	997	959	38	1140
<b>Consuming West</b>	279	267	12	351
<b>Total US</b>	1943	1886	57	2319

\*storage figures in Bcf

international prices. But given the observed tightness in LNG market suggests that the risk to their price forecast is on the upside. They see LNG demand will increase by 10% per year through 2015. Goldman raised its demand forecast for Japan and South Korea for LNG by 3.3% to a combined level of 14.17 bcf/d and European demand for LNG by 1.9% to 5.85 bcf/d. Goldman noted that growth in Asian demand for LNG this year has been led by power plant demand for the fuel given fuel switching from oil to natural gas and the declines in nuclear generation.

The NWS' Climate Prediction Center today released their monthly update on their long-term temperature forecasts. The July-September 2008 temperature forecast calls for above normal temperatures in the southwestern U.S extending northward into the interior of California and much of the Great Basin. The northeastern U.S should also see above normal temperatures. The new temperature outlook for this upcoming winter places most of the nation in above normal temperatures.

#### Generator Problems

**SERC** – The Summer nuclear power plant returned to full power this morning up 1% from yesterday.

**MAPP** – OPPD's Fort Calhoun nuclear unit finally reconnected to the grid and ramped higher by 20% over the last day and was at 30% capacity this morning.

**WSCC** – AES Huntington Beach Units 3 and 4 were taken off line late yesterday for unplanned work.

**ERCOT** – Luminant's 545 Mw Sandow #4 coal fired unit remained shut Thursday as work continued to fix a tube leak.

**The NRC reported that 96,786 Mw of nuclear capacity is online, basically unchanged from yesterday and some 3.95% higher than the same date in 2007.**

from Asia and Europe. LNG consumption they noted in Asia and Europe may increase on stronger economic growth, emission costs and surging prices of alternative fuels such as oil and coal. Goldman reduced their estimates for U.S. demand for LNG by 13% this year to 1.54 bcf/d. They look for U.S. natural gas prices will likely remain in the \$12.70-\$13.20 per Mmbtu price range, in line with

#### **Canadian Gas Association**

##### **Weekly Storage Report**

	13-Jun-08	06-Jun-08	15-Jun-07
<b>East</b>	102.5	97.1	128.8
<b>West</b>	205.3	197.6	279.8
<b>Total</b>	307.8	294.7	408.6

storage figures are in Bcf

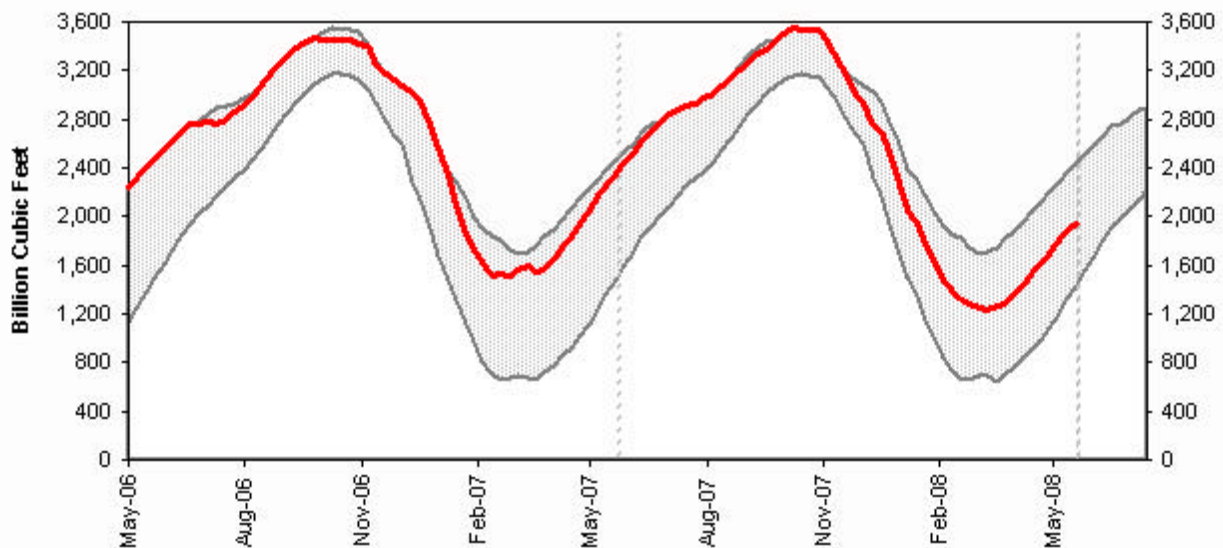
Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
Location	Traded	Price		(As of 12:30 PM)		Moving Avg
Henry Hub	639,200	\$13.085	\$0.152	\$0.279	\$0.458	(\$0.572)
Chicago City Gate	561,100	\$12.946	\$0.094	\$0.140	\$0.384	(\$0.143)
NGPL- TX/OK	758,000	\$12.456	\$0.069	(\$0.350)	\$0.359	(\$0.615)
SoCal	1,149,000	\$12.681	\$0.256	(\$0.125)	\$0.546	(\$0.852)
PG&E Citygate	1,037,800	\$12.741	\$0.201	(\$0.065)	\$0.491	(\$0.472)
Dominion-South	301,700	\$13.648	\$0.183	\$0.842	\$0.473	\$0.509
USTrade Weighted	19,294,100	\$12.640	\$0.168	(\$0.166)	\$0.46	(\$0.572)

Analysts at Sanford C. Bernstein and Company warned today that LNG may become more expensive than crude oil as demand from Asia and Europe rises faster than supply. While they note LNG prices could decline in 2009 and

2010 as new supplies come on to the market. But after this time period limited new supplies will be found from 2011-2015 will result in the market becoming very tight and the potential of LNG running at a premium over crude becomes a real possibility.

Woodside Petroleum said today that they see the global LNG market remaining tight until 2015 and possibly beyond driven by rising global demand and delay in supply projects. The noted that long-term LNG contract prices are approaching the crude oil equivalent and any move towards a tax on carbon could push LNG prices

**Working Gas in Underground Storage Compared with 5-Year Range**

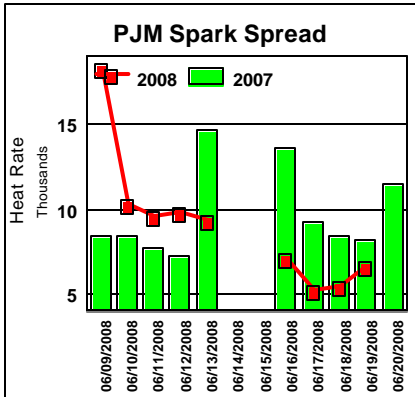


**Note: The shaded area indicates the range between the historical minimum and maximum values for the weekly series from 2003 through 2007.**

**Source: Form EIA-912, "Weekly Underground Natural Gas Storage Report." The dashed vertical lines indicate current and year-ago weekly periods.**

beyond crude oil. The company noted that the Pluto project, which it approved last year, will tap about 5 trillion cubic feet of gas and will require 5-6 wells. The Angela project is expected to start up some time in the 3Q2008.

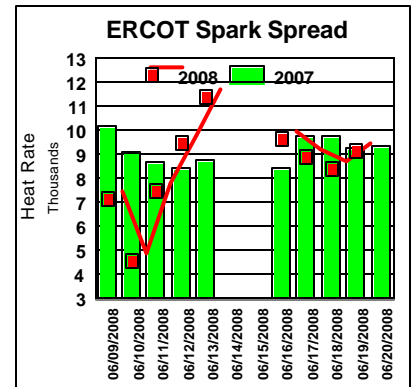
Australia's Queensland Gas Company expects to confirm an 80% increase in its proved and probable coal seam gas reserves in the Surat basin. If this is realized the company feels it would increase the chances of an LNG project being built in eastern Australia to tap into these reserves. The company is looking to build in partnership with BG Group, a 3-4 million mt/year LNG pant.



The Nigerian LNG Company said today its output had not been interrupted by the militant attack on the Bonga offshore field and that it would continue to meet all its supply obligations. The company receives slightly less than 5% of its natural gas supplies from the Bonga field.

UAE's Crescent Petroleum said it expects to start importing natural gas from Iran's offshore Salman Field in less than three months. The initial agreement calls for Iran to supply 600 million cf/d. The trading partners are discussing additional quantities of gas as well.

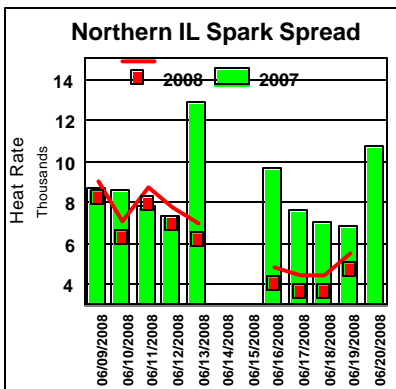
The FERC today approved a final rule designed to enhance competition in secondary gas capacity release markets. The rule seeks to remove price caps on short-term releases of capacity and increasing flexibility afforded asset management agreements under FERC's capacity release rules. The FERC though rejected requests for an exception to the capacity tying prohibition for LNG.



EnCana said today that if pipeline and storage infrastructure can keep pace, natural gas production from U.S shale basins could account for 18% of the Lower 48 state supply by 2015. Currently production from these areas account for just 8% of total supply.

The FERC today approved two natural gas storage projects in the Gulf Coast region, each with 20.8 bcf of total capacity. The two storage projects are the Tarpon Whitetail Gas Storage and the Black Bayou Storage projects.

Consultant Waterborne Energy estimates that imports of LNG into the U.S. this year will fall well short of the 770 Bcf recorded last year, likely only reaching 420 Bcf.



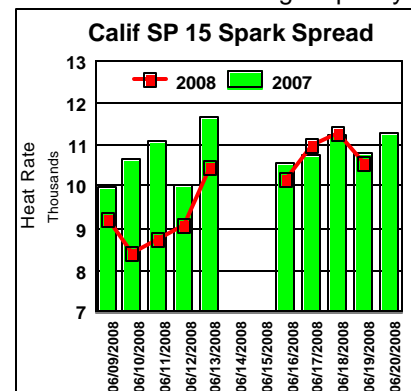
**PIPELINE RESTRICTIONS**

FGT again extended its Overage Alert Day again today due to high temperatures expected across the state. It again set its tolerance at 25%.

**PIPELINE MAINTENANCE**

TransColorado Gas Transmission notified customers today that it will be performing maintenance at its Whitewater Compressor Station on July 9<sup>th</sup>. Capacity through Segment 220 will be limited to 340,000 Dth and capacity through Segment 240 will be restricted to 390,000 Dth. The company also announced it will be performing maintenance at its Redvale Compressor Station on July 16<sup>th</sup>. This will result in capacity through Segment 220 and 240 being restricted to 355,000 and 405,000 respectively. Maintenance work at the Olathe Compressor station on July 23<sup>rd</sup> is seen restricting capacity

through Segments 220 and 240 to 330,000 and 380,000 dth respectively. Finally the company has scheduled maintenance at its Manos Compressor station on July 30<sup>th</sup>. Capacity through Segment 220 will be placed at 325,000 Dth and on Segment 240 at 375,000 Dth. Based on the current level of nominations, AOR/IT, secondary and primary FT quantities are at risk of not being fully scheduled on each of these dates and locations.



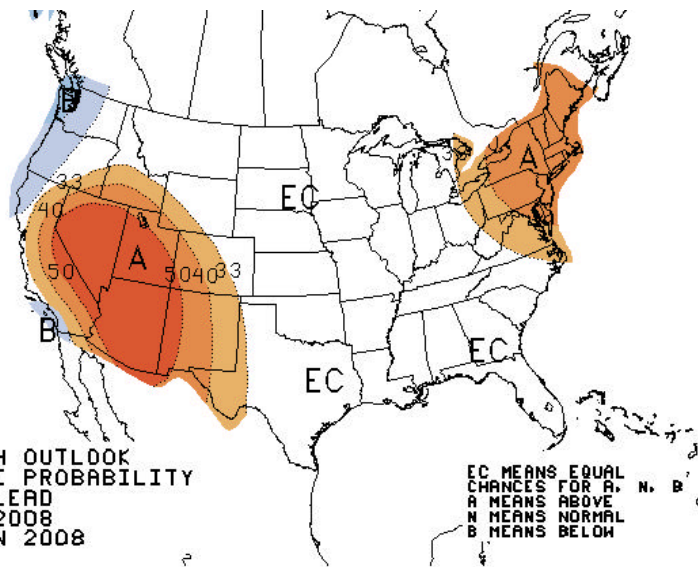
KMIGT said it has scheduled two maintenance projects in July at the Herndon Compressor Station on Segment 775. The first maintenance period will be from July 14-18<sup>th</sup> and will limit capacity to 220,000 Dth. The second maintenance period will be July 31<sup>st</sup> and will restrict capacity to 220,000. Based on the current level of nomination, AOR/IT, secondary out of path, and primary in path quantities are at risk of not being scheduled.

GULF South Pipeline said it has scheduled pipeline maintenance on Index 301-6 (Hattiesburg 8-inch) Forrest County, MS, on June 24<sup>th</sup>. Physical flow will not be available at Eaton Power Plant during the work.

Enbridge Offshore Pipelines said its Sea Robin Pipeline has informed Garden Banks Pipeline that deliveries at SMI 128 was restricted beginning June 18<sup>th</sup> through June 20<sup>th</sup>. Deliveries into the Sea Robin Pipeline during this time could be reduced to zero.

**ELECTRIC MARKET NEWS**

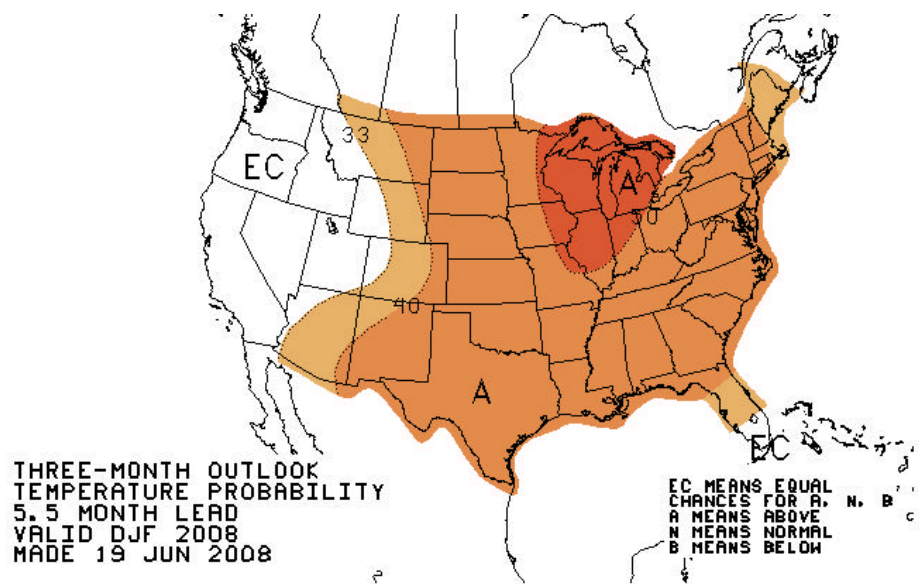
Union Pacific said today that while rail operations in Iowa remain limited, it was able to reopen both main east-west lines in the state and was able to cancel a major embargo. Flooding had forced the railroad to suspend operations.



The FERC today warned that the U.S. appears to be heading into a period of “significantly higher power prices that will last for years”. The FERC noted that higher fuel costs and rising construction costs for new power plants are the two main forces that will drive prices higher. In addition the uncertainty of future climate policy will also help to boost future power prices. The FERC said its regulatory policy must be based on reality. “We must confront three realities: FERC is regulating in a high cost environment; The United States needs massive investments in new electricity generation,

transmission and distribution facilities; and we are beginning to confront the climate change challenge, which puts us in a period of uncertainty regarding policy.” The FERC commissioner went on to state..”the United States cannot simultaneously make the massive investments necessary to assure security of our electricity supply, make additional large investments to confront climate change and lower electricity prices. Doing so would likely result in failure.”

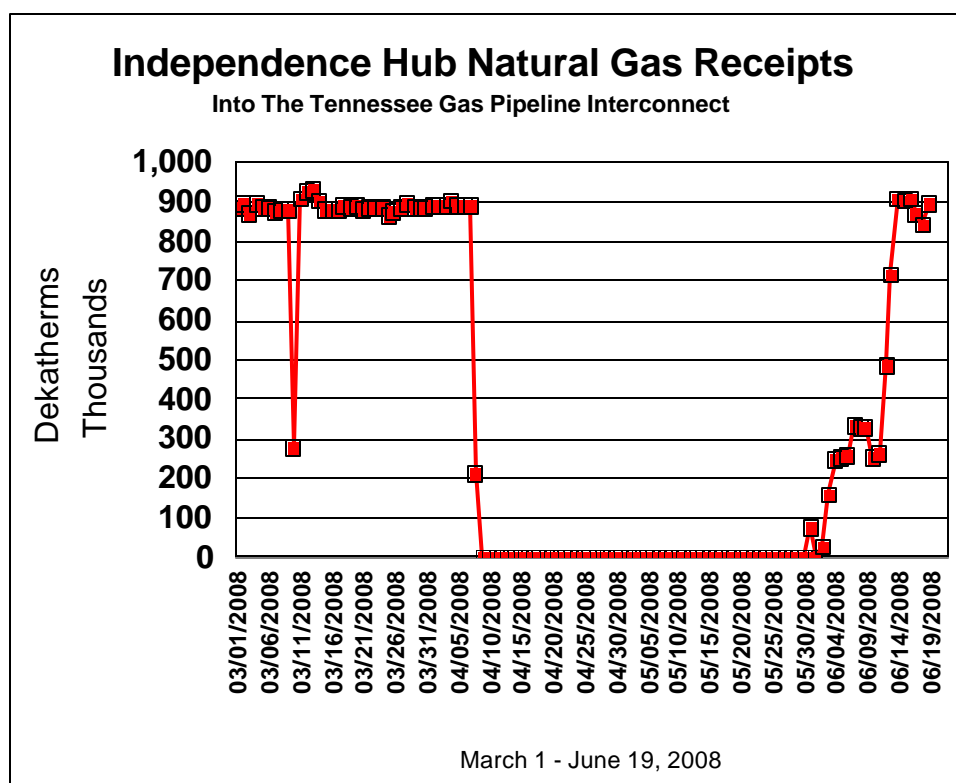
The Texas Public Utility Commission yesterday that it was designating a Yellow Conservation Alert for higher than normal temperatures this week and potential record high electricity demand for June. While the PUC expected supplies to be adequate, the alert urges extra conservation measures because shortages may occur during peak usage hours. The alert is declared for days where temperatures statewide are expected to be extremely



hot , leading to record or near record electricity consumption, but may also be declared if unexpected high demand and unexpected outages of power plants occur. During Yellow Alerts there is an expected or actual declaration of Step 1 of ERCOT's Emergency Electricity Curtailment Plan, which includes procurement of



additional generation.



**MARKET COMMENTARY**

The natural gas market set yet another new high early this morning before the EIA Storage Report as power generating demand remained strong in Texas and Florida. But as we feared the release of a supportive report was a trigger to unlock the return of the bears as they saw the opportunity to sell higher levels and they stampeded back into the room, driven in part by collapsing oil prices. The bears also seemed to take comfort in this morning's weather forecasts that confirmed no near term tropical threats. Prices tumbled through the late morning into mid day, retracing nearly 38% of the rally recorded this month, before support was found and prices stabilized. Volume

today was nearly three times more than yesterday with 270,987 lots changing hands.

**NYMEX Natural Gas Most Active Strikes for June 19, 2008**

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LN	7	8	P	12	06/25/2008	0.0116	8,420	33.76
LN	8	8	P	12	07/28/2008	0.2409	8,227	39.83
LN	7	8	C	14	06/25/2008	0.01	7,510	36.99
LN	7	8	C	13	06/25/2008	0.1678	7,279	33.82
LN	7	8	C	13.5	06/25/2008	0.0458	6,025	35.30
LN	5	9	P	5	04/27/2009	0.0038	5,500	36.61
LN	12	8	P	6.5	11/21/2008	0.0057	5,500	47.76
LN	10	8	P	7	09/25/2008	0.0056	5,200	50.91
LN	4	9	P	5	03/26/2009	0.0048	5,000	39.99
LN	6	9	P	5	05/26/2009	0.0037	4,400	35.38
LN	8	8	C	15	07/28/2008	0.1159	2,750	37.49
LN	8	8	C	13	07/28/2008	0.6326	2,650	34.41
LN	10	8	P	9	09/25/2008	0.0715	2,500	49.44
LN	3	9	C	15	02/24/2009	1.7028	2,300	44.09
LN	10	8	P	10.25	09/25/2008	0.2225	2,250	49.28
LN	10	8	P	9.75	09/25/2008	0.1446	2,250	49.11
LN	8	8	P	12.5	07/28/2008	0.4102	2,234	40.32
LN	8	8	P	11	07/28/2008	0.0589	2,200	38.97
LN	7	8	P	12.5	06/25/2008	0.0856	2,125	34.86
LN	8	8	C	13.5	07/28/2008	0.4318	2,100	35.41
LN	9	8	P	10.5	08/26/2008	0.1288	1,900	44.97
LN	8	8	P	13	07/28/2008	0.6415	1,877	40.99
LN	9	8	P	12	08/26/2008	0.5176	1,850	47.26
LN	7	8	P	12.25	06/25/2008	0.0351	1,710	34.28
LN	3	9	C	13	02/24/2009	2.3333	1,500	38.44
LN	10	8	C	15	09/25/2008	0.7034	1,500	47.14
LN	7	8	P	13	06/25/2008	0.3067	1,457	36.45
LN	7	8	C	12.75	06/25/2008	0.2851	1,420	32.88
ON	7	8	C	13.25	06/25/2008	0.091	1,205	35.41
LN	7	8	P	11.75	06/25/2008	0.003	1,200	33.22
LN	7	8	C	13.25	06/25/2008	0.0912	1,045	34.63
LN	8	8	C	14	07/28/2008	0.2853	1,010	36.17
LN	2	9	P	8.5	01/27/2009	0.1542	1,000	49.64
LN	1	9	C	15	12/24/2008	1.5368	1,000	44.08

With the oil market most likely looking to see additional profit taking in front of this weekend's energy summit in Saudi Arabia, we would look for this natural gas market to possibly retest the lows from today on Friday at \$12.625. If this area is breached we would look for support at \$12.39, \$12.22 and \$12.163. Additional support we see at \$11.815. Resistance tomorrow we would look for at \$13.00 followed by \$13.26, \$13.35 and \$13.504. More distant points of resistance we see at \$13.504 and \$13.99.