



## **ENERGY RISK MANAGEMENT**

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

**www.e-windham.com**

### **POWER MARKET REPORT FOR JULY 19, 2007**

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

AccuWeather's forecaster Joe Bastardi this morning warned that despite a near term cooling this weekend, it could be followed over the next three weeks by the three hottest summer weeks since the "great heat wave of 1988".

The National Weather Service this morning released its latest long-term temperature forecasts. It noted that sea surface temperatures have persistently remained 0.5 to 1.5 degrees Celsius below normal in the equatorial Pacific Ocean from 120 West Longitude to the South American coast. Despite a brief warming of these waters in late May and early June, the temperatures have cooled a bit and as a result are expected to persist through August, keeping a neutral ENSO condition. There is still the possible development of a La Nina condition after August. Forecasters noted that despite the current two week forecast calling for very warm

#### **Canadian Gas Association**

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

	13-Jul-07	29-Jun-07	14-Jul-06
<b>East</b>	168.2	159.2	186.7
<b>West</b>	296.8	293.4	181.3
<b>Total</b>	465.0	452.6	368.0

temperatures for the northern plains and into the east, and the expectation that these temperatures will remain in place at the start of August, there is only weak support that this weather pattern will persist through the entire month. As a result forecasters looked for only the west and the southeastern U.S. to see above normal temperatures for the entire month of August with the south central U.S. seeing below normal temperatures due to the high level of soil moisture in the region that will tend to moderate temperatures over the month. Much longer term though, the NWS temperature outlook for December 2007- February 2008 does not look to promising for the bulls as almost the entire country is seen as being above normal.

Natural gas flows into the St. Fergus Total terminal in the U.K were up to about 50 million cubic meters for the second day in a row but well above rates seen for most of June and July. Demand in the UK market seems to be supported by exports to Belgium for storage injections. British spot prices though seemed to have backed off to 29 pence per therm and are once again back below U.S. spot values. Meanwhile it was confirmed that Algeria's 138,000 cubic meter LNG carrier had docked at the Isle of grain terminal this afternoon, marking the first LNG delivery to the UK in four months.

#### **Generator Problems**

**WECC-** APS's 1314 Mw Palo Verde #1 nuclear unit has finally been restarted and was up to 12% of capacity this morning. The unit has been off line since May 19<sup>th</sup> and had been expected to be restarted over this past weekend. Operators hope to have the unit back to full power now by this weekend

**NPCC** – OPG's 490 Mw Nanticoke #4 coal fired unit was taken off line early Thursday.

**PJM** – AmerGen's 636 Mw Oyster Creek nuclear unit went off line again this morning after returning to service on Wednesday.

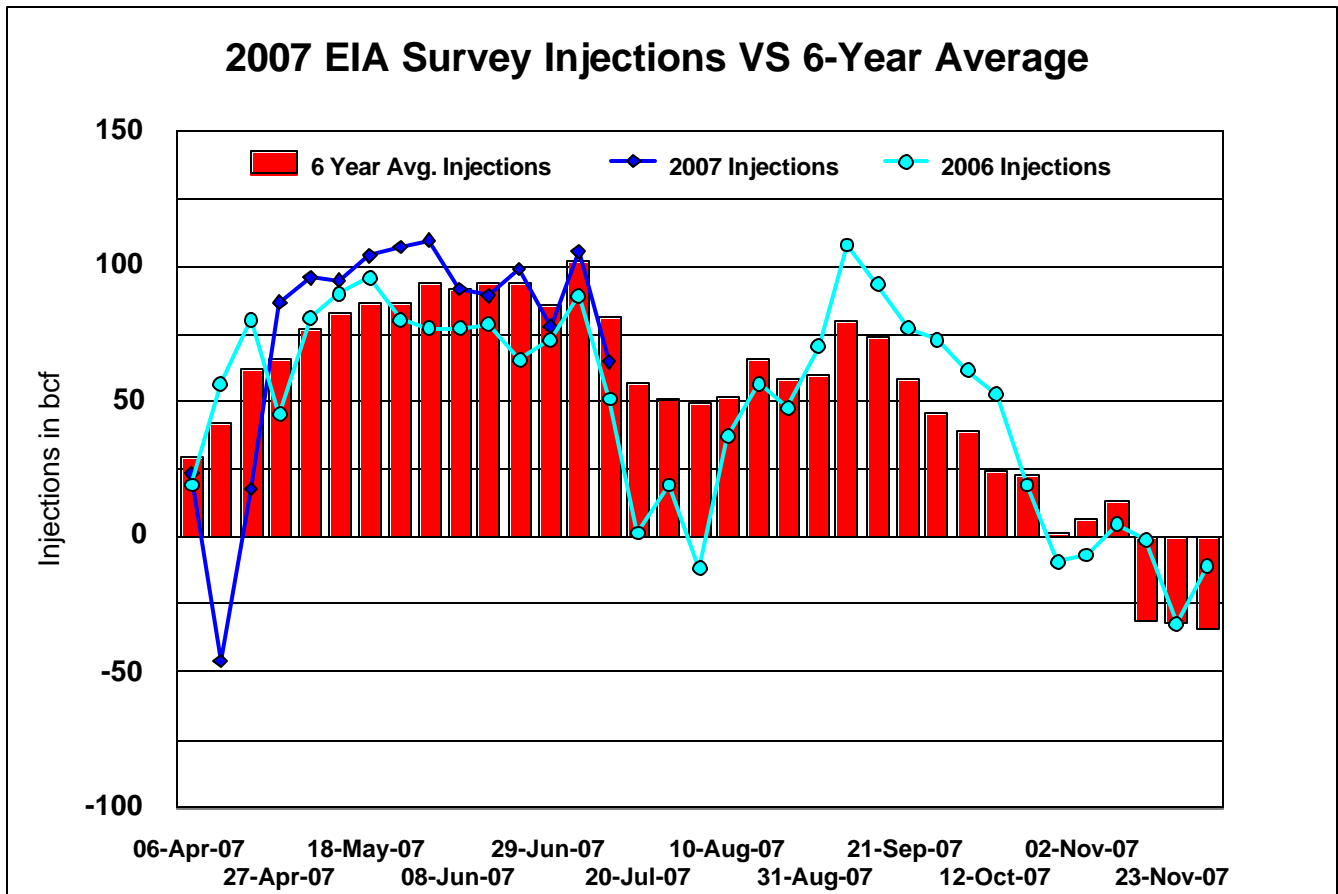
**The NRC reported that 95,709 Mw of nuclear capacity is on line, down 0.52% from Wednesday, and off 0.87% from a year ago.**

#### **EIA Weekly Report**

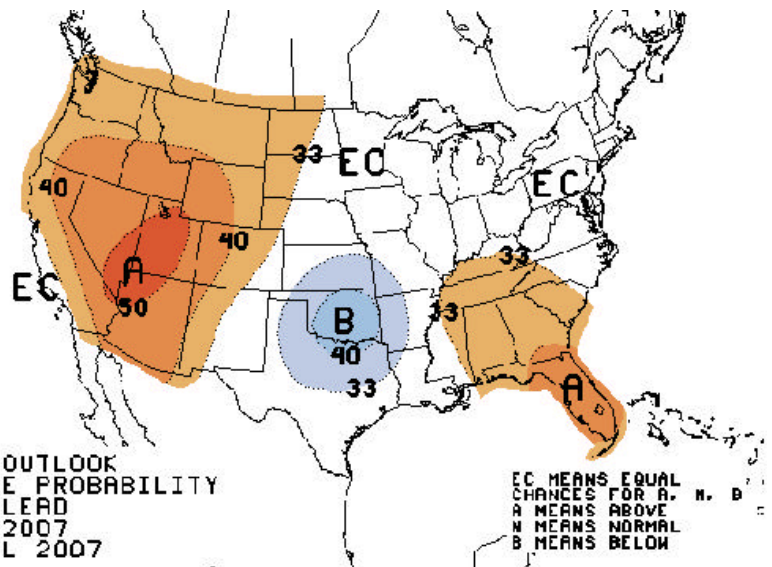
	07/06/2007	07/06/2007	Net chg	Last Year
<b>Producing Region</b>	903	896	7	869
<b>Consuming East</b>	1396	1348	48	1503
<b>Consuming West</b>	393	383	10	383
<b>Total US</b>	2692	2627	65	2755

\*storage figures in Bcf

The FERC today issued a draft policy statement in which it proposes to modify its standards to allow the use of master limited partnerships in the composition of proxy groups used to determine the returns on equity in rates charged by interstate natural gas and oil pipelines.



The outgoing head of the Federal Reserve Bank of Chicago warned Thursday that inflation remains the central banks biggest worry and that markets may be too complacent about investment risk. He warned that complicated financial instruments called derivatives “can be misused”. But he said to this point derivatives have proven their ability to play an important role in hedging risks and given some of the recent financial shocks, these securities appear to be acting as a “shock absorber” for the economy. He noted that “a large number of hedge funds have collapsed recently, yet the financial markets absorbed these failures with negligible consequences for the broader economy.” He warned though that for all the apparent calm, “it is possible that the market may be under pricing risk”



in part due to long run economic stability enjoyed by the U.S.." He felt it is was way to premature to think we have entered into a new era of financial moderation and that financial volatility has not been abolished.

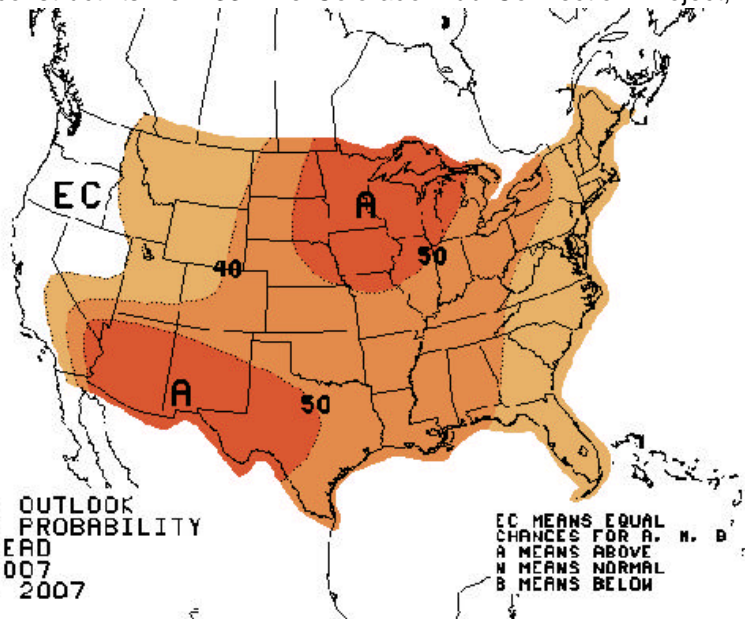
The FERC today denied Quoddy Bay LNG's request for a reciprocity condition that would bar the flow of natural gas through expanded U.S. pipeline facilities from a proposed Canadian LNG terminal until the Canadian government has withdrawn its threat to block U.S. bound LNG tankers from traversing its waters.

Northwest Pipeline said today it is proposing to construct its new 33 mile Colorado Hub Connection Project, which would provide transportation service from the greasewood and Meeker hubs to a location near Sand Springs, CO.

**PIPELINE RESTRICTIONS**

FGT reported that it continued to issue an Overage Alert Day for its market area with a 20% tolerance. FGT said it will not interrupt previously scheduled Market Area ITS-1 service.

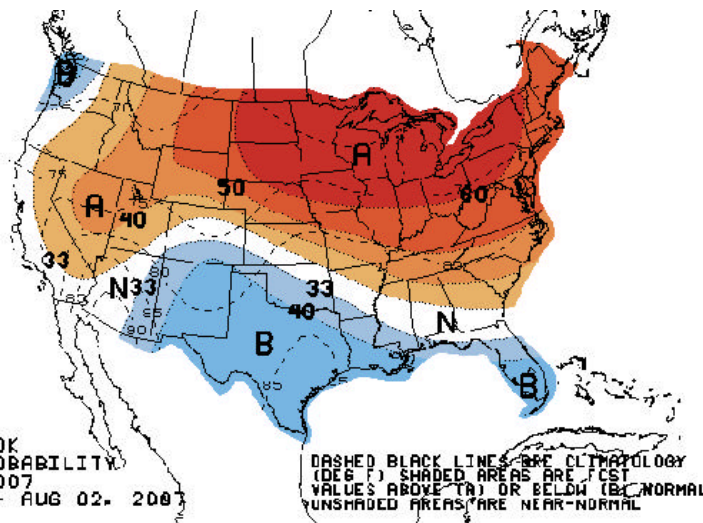
Northwest Pipeline on Thursday notified shippers of gas quality issues at its Sand Springs receipt point.



**PIPELINE MAINTENANCE**

**ELECTRIC MARKET NEWS**

The EIA reported today that U.S. coal production for the week ending July 14<sup>th</sup> reached 21.016 million short tons up 7.3% from the prior week but down some 5.3% from the same week a year ago. Year to date U.S. coal production is running some 2.6% behind a year ago.



**MARKET COMMENTARY**

The natural gas market this morning opened a few pennies better as supportive weather forecasts and firmer cash market values helped to keep futures prices up around yesterday's late day highs. The release of the EIA storage report at mid morning came in slightly less than most market expectations and as a result the market made its first run at resistance at the \$6.70 level. While this initial bullish run was

short lived, the bulls did return at midday when updated weather forecasts appeared to continue to support the approach of a significant heat wave starting next week. Prices thus were able to push through the \$6.70 level in the final 30 minutes before the close and reaching the highest values on the week. With tonight's settlement right

at the 20 day moving average, it is the first time since June 18<sup>th</sup> those values have equal or exceeded the 20-day moving average in the August contract.

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	819,200	\$6.501	\$0.274	(\$0.338)	\$0.051	(\$0.349)
Chicago City Gate	417,400	\$6.405	\$0.265	(\$0.230)	\$0.083	(\$0.262)
NGPL- TX/OK	510,400	\$6.151	\$0.211	(\$0.484)	\$0.029	(\$0.479)
SoCal	999,400	\$6.175	\$0.213	(\$0.460)	\$0.031	(\$0.493)
PG&E Citygate	643,700	\$6.429	\$0.299	(\$0.207)	\$0.117	(\$0.214)
Dominion-South	387,900	\$6.924	\$0.236	\$0.289	\$0.054	\$0.299
Transco Zone 6	345,600	\$7.045	\$0.161	\$0.410	(\$0.021)	\$0.460

It seems that to us without a significant reversal in a weather forecast that this market will most likely will trade and settle at or above the 20 day moving average tomorrow and thus may once again be trying to build a case for a modest trend

change in this market. Resistance we see at \$6.75 followed by \$6.81, \$6.85, \$6.881 \$6.961 and \$7.018. More distant resistance we see at \$7.188 and \$7.415. Support we see at \$6.602, \$6.546, \$6.485-\$6.465 and \$6.394. More distant support we see at \$6.22 , \$6.15

