



## ENERGY RISK MANAGEMENT

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### POWER MARKET REPORT FOR JULY 20, 2007

#### NATURAL GAS MARKET NEWS

Weather forecasts this morning appeared to offer yet another reversal. The significant heat wave that was expected to be established across the Midwest and into the east coast, appeared to once again be moderated at least by some private weather forecasters. Accuweather that just a day or two ago was calling for a week long stretch of 90+ degree days in New York starting next week now only sees 1 or 2 days reaching the 90 degree plateau over the next two weeks, with Chicago recording 4 to 5 days reaching that high. But the NWS though continues to see the approach of a serious heat wave. The NWS issued a release Thursday night urging people in the Northern Plains and Midwest to prepare now for a heat wave that is expected to plague the region during the last 10 days of the month and possibly into August. The updated 6-10 and 8-14 day forecasts released this evening continue to point to this heat wave and government forecasters noted strong model agreement and thus they noted a high degree of confidence in their forecast. Meanwhile forecasters continue to talk about the potential for the tropical Atlantic to be changing starting next week. This morning's GFS model is forecasting a tropical disturbance to migrate westward through the central and eastern Atlantic early next week. By next Friday the GFS model forecasts this disturbance to be located just north of Puerto Rico, moving west-northwest.

#### Generator Problems

**WECC-** APS' 1314 Palo Verde #1 nuclear unit was at 20% of capacity this morning as operators continued to ramp the unit back up. The unit was at 12% on Thursday.

**NPCC** - OPG's 515 Mw Pickering #5 nuclear unit was shut early Friday.

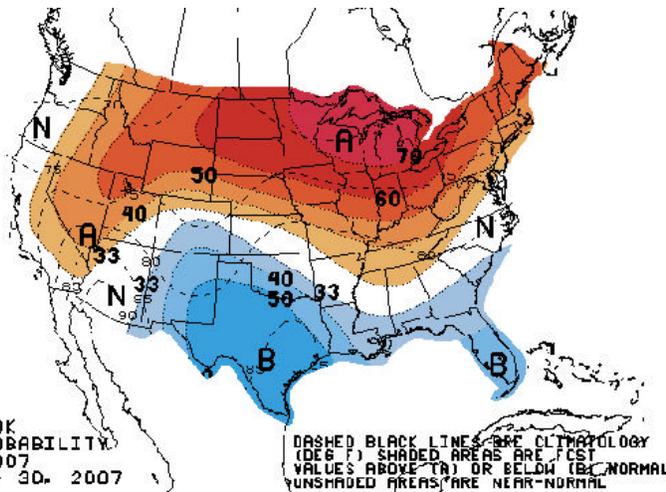
OPG's 490 Mw Nanticoke coal fired Unit #5 was taken off line once again. The unit had just returned to service on July 17<sup>th</sup> after a five day outage.

**The NRC reported that 95,800 Mw of nuclear capacity is on line, up 0.09% from Thursday, and off 0.68% from a year ago.**

BP the operator of the British CATS natural gas pipeline said today that investigations were still ongoing into how long the damaged pipeline would remain closed, which has resulted in shutting in a cluster of North Sea gas fields since the start of the month. Meanwhile output from the Elgin-Franklin fields was also halted briefly because of generator problem, but the line operator Total said production was returning to normal later on Friday. As a result spot prices for natural gas for Friday and Monday delivery both saw increases of 20% and 10.6% respectively.

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	759,300	\$6.461	(\$0.040)	(\$0.342)	(\$0.004)	(\$0.287)
Chicago City Gate	361,100	\$6.219	(\$0.186)	(\$0.288)	(\$0.058)	(\$0.196)
NGPL- TX/OK	521,800	\$6.010	(\$0.141)	(\$0.497)	(\$0.013)	(\$0.421)
SoCal	775,800	\$6.070	(\$0.105)	(\$0.437)	\$0.023	(\$0.407)
PG&E Citygate	684,100	\$6.405	(\$0.023)	(\$0.102)	\$0.105	(\$0.151)
Dominion-South	326,600	\$6.783	(\$0.141)	\$0.276	(\$0.013)	\$0.359
Transco Zone 6	276,100	\$6.846	(\$0.199)	\$0.339	(\$0.071)	\$0.519

The Independence Hub in the Gulf of Mexico, the deepest offshore production platform ever installed, began shipping natural gas on Thursday from the first of 15 sub sea wells in 10 anchor fields. Production was pegged at



approximately 50 million cf/d for the next week or so. Producers hope to bring on 1bcf/d of production by the end of the year.

Natural gas distributor Dominion East Ohio said today that it will submit within the next 30 days a request with the Ohio Public Utilities Commission to increase its base rates by roughly \$73 million. If the request is approved it would result in the average residential bill increasing by 4%. The company hopes to institute the rate increase during the second quarter of 2008. This would be the first rate increase

since 1994 and is needed to cover the costs of inflation, taxes, federal and state regulatory changes and maintenance on the pipeline system.

Baker Hughes reported that for the week ending July 20<sup>th</sup>, the number of drilling rigs search for natural gas fell by 4 on the week to 1,497, some 6.3% better than a year ago.

Analysts today at Lehman Brothers lowered their natural gas price forecast by 10% to \$7.00 Mmbtu for 2007 and reduced their expected 2008 price by 6% to \$7.50 per mmbtu. They noted the growing storage levels and the absence so far this summer of "extraordinary" weather as the main reasons. They noted that an unlikely 2.0-2.5 bcf/d slowdown in injection rates is needed to prevent storage from reaching record levels. They estimated that "lower prices may be required to turn a 0.8 Bcf/d surplus (in injection rates vs 5-year averages) into a 1.5 bcf/d shortfall. The implied swing of 2.0-2.5 bcf/d in the supply demand balance would grow to a requires 3 bcf/d if hurricane related shut ins do not occur this season." They did not rule out a return to 2006 lows.

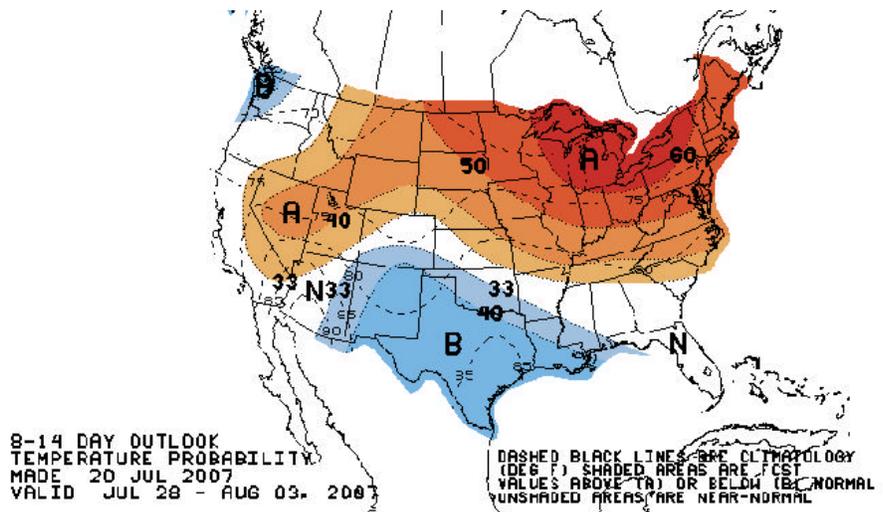
### PIPELINE RESTRICTIONS

FGT said that with continued high temperatures it again was issuing an Overage Alert Day for the market area at a 25% tolerance. FGT said it will not interrupt previously scheduled Market Area ITS-1 service.

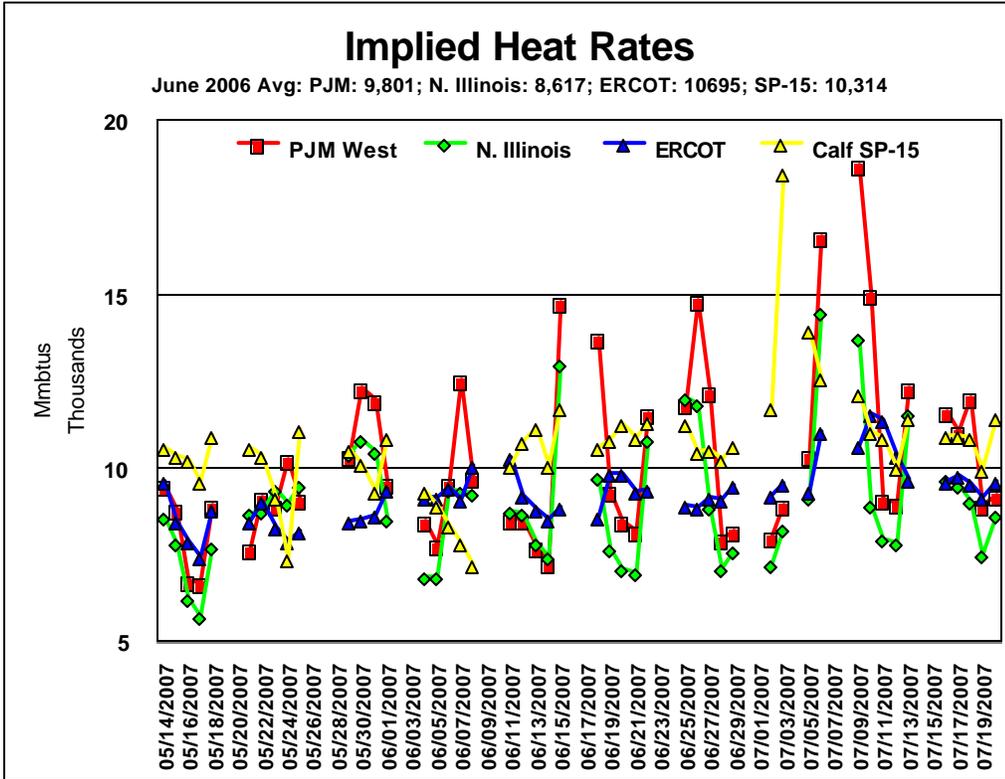
### PIPELINE MAINTENANCE

Alliance Pipeline reported Thursday that the Carson creek Unit #1 compressor experienced an unanticipated mechanical problem shortly after return to service following a long maintenance period. The unit is currently off line and is unknown when it will return to service. Station capacity will be lowered for Cycle 3 today back to 170.0 e3m3 until the issue is resolved.

Sabine Pipeline said it would be performing inspections and maintenance on three of the five compressor engines at the Sabine's Henry Hub North Booster Station beginning July 23<sup>rd</sup>. Maintenance is expected to be completed in nine days. As a result overall compression capabilities of the Henry Hub South Booster Station will be



reduced by 25%. This temporary reduction may result in nominations requiring compression at the South Booster Station to be allocated.



**ELECTRIC MARKET NEWS**

PG&E reported that despite a minor earthquake east of San Francisco Friday morning, its 2200 Mw Diablo Canyon nuclear plant was not affected.

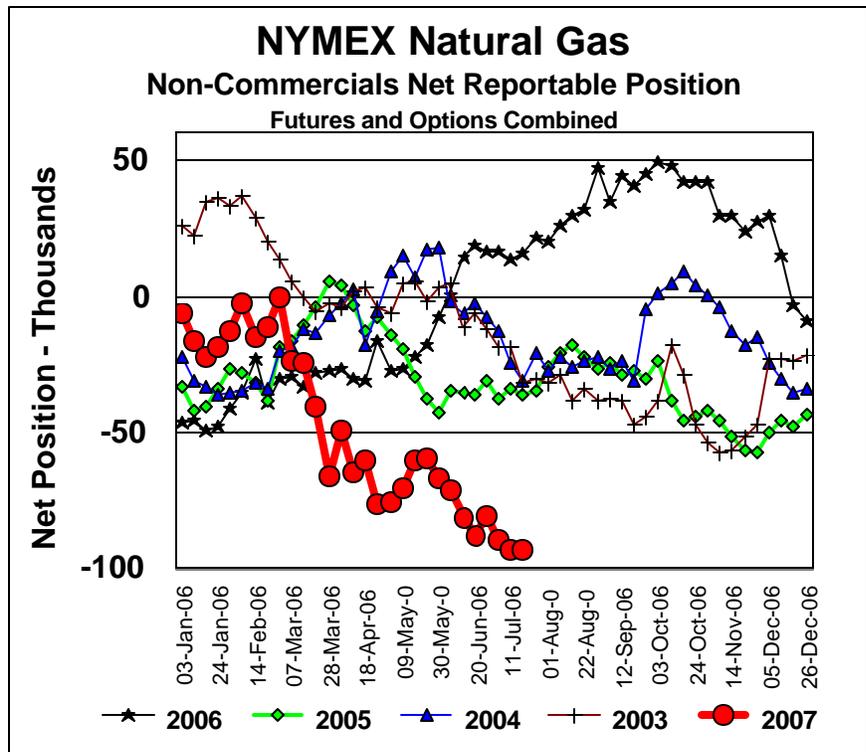
Constellation Energy said on Friday that it will form a joint venture with France based EDF to develop new nuclear power plants in the United States and Canada. The new holding company will be called Unistar Nuclear Energy LLC

Tampa Electric today filed a petition with the Florida Public Service

Commission to demonstrate the company's need to build the proposed 632 Mw Polk #6 power unit. The plant would be an Integrated Coal Gasification Combined Cycle facility. The new unit would be located on the site of the existing Polk Power Station in Polk County, FL. The facility is expected to be operational by 2013 at a cost of \$2 billion.

**MARKET COMMENTARY**

This market continued to be kept on a tight leash and extremely sensitive to variations of temperature forecasts without any serious tropical weather to focus traders attention on. As a result today's news that some private forecasters were not only looking for this weekend to be a bit cooler and but early next week as well seemed to depress cash values and push futures lower as well. The market received an additional shove to the



downside at mid day when yesterday's lows were breached allowing this market to give back more than 70% of the rally from the previous two days. Volume though was relatively light with just over 94,000 lots trading between the floor and on Globex, the lightest volume for the week.

Tonight's Commitment of Traders Report showed that the non-commercials continued to build their net short position for the period ending July 17<sup>th</sup>. The futures only report showed that the non-commercials increased their net short position by 4690 lots while the combined futures and options position saw a net short increase of 310 contracts.

We continue to feel that this large net short position by the non-commercials makes this market very susceptible to a explosive short covering rally at the first sign a true tropical risk to the Gulf of Mexico. But with the prospects of the next couple of storage reports closing the gap between last year's storage levels it appears the funds do not want to exit their position until forced to. As a result we feel the safest bet for the bulls to play this market into the teeth of the hurricane season is to own some out of the money calls.

We see support Monday at \$6.375 followed by \$6.266, \$6.226, \$6.15, \$5.95 and \$5.906. Resistance we see at \$6.626, \$6.75, \$6.868 and \$6.986.

