



## ENERGY RISK MANAGEMENT

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### POWER MARKET REPORT FOR JULY 22, 2008

#### NATURAL GAS MARKET NEWS

Forecasters confidence in their outlook for Hurricane Dolly increased today as land fall was seen within the next 24 hours basically on the Mexican/Texas border as a strong Category 1 hurricane. Sparing both Mexican and U.S. Gulf off shore production areas. The next area of tropical interest is a well-defined tropical wave located over the far eastern Atlantic near the Cape Verde Islands. But some forecasters note that tropical waves moving off the coast of Africa recently have had pockets of African dust associated with them, thus inhibiting development.

Private forecaster WSI today raised its forecast for the number of named storms this Atlantic hurricane season from 14 to 15 and also increased the projected number of hurricanes by 1 to nine. The forecasting service noted that "the relatively early occurrence of the first intense hurricane, Bertha, is also usually an omen for a very active season."

#### Generator Problems

**NPCC** – Entergy's 620 Mw Vermont Yankee nuclear power plant ramped up to 90% of capacity this morning, up 27% from Monday. By late in the day the plant was back to full power.

OPG's 535 Mw Unit #3 at the oil and natural gas fired Lennox power plant was taken off line for short term maintenance work today. The company also reported that the 494 Mw Unit #1 at the Lambton coal fired power plant was also taken off line.

**The NRC reported that 98,439 Mw of nuclear capacity is online, up 0.2% from yesterday and up 1.9% from the same day a year ago.**

The Minerals Management Service report this afternoon that there were some modest evacuations of oil and gas platforms in the Gulf of Mexico today. As of midday some 49-production platforms or 6.8% of the total 717 offshore manned platforms in the Gulf of Mexico had been evacuated. As a result the agency was reporting that 60,621 b/d of crude oil production had been shut in along with 395 Mmcf/d of natural gas production. Companies that reported evacuating staff included Apache, BP, ExxonMobil, and Anadarko. Late in the day Anadarko reported that it was already restoring the equivalent of 10,000 b/d of oil production or 1/3 of its total shut in

production, given the projected path of the storm.

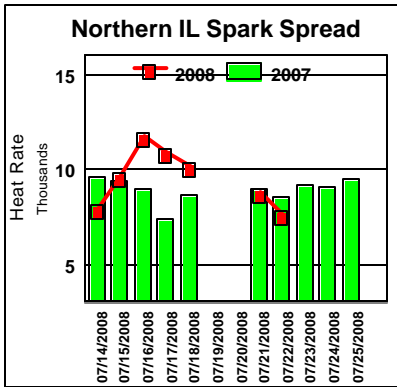
| Natural Gas Cash Market  |               |           |           |                        |           |                        |
|--------------------------|---------------|-----------|-----------|------------------------|-----------|------------------------|
| ICE Next Day Cash Market |               |           |           |                        |           |                        |
| Location                 | Volume Traded | Avg Price | Change    | Basis (As of 12:30 PM) | Change    | Basis 5-Day Moving Avg |
| Henry Hub                | 1,230,800     | \$10.157  | (\$0.423) | \$0.163                | \$0.057   | (\$0.138)              |
| Chicago City Gate        | 708,700       | \$10.006  | (\$0.464) | \$0.012                | \$0.014   | \$0.105                |
| NGPL- TX/OK              | 797,100       | \$9.628   | (\$0.425) | (\$0.366)              | \$0.053   | (\$0.313)              |
| SoCal                    | 793,000       | \$9.513   | (\$0.326) | (\$0.481)              | \$0.152   | (\$0.645)              |
| PG&E Citygate            | 738,600       | \$9.801   | (\$0.296) | (\$0.193)              | \$0.182   | (\$0.370)              |
| Dominion-South           | 509,600       | \$10.798  | (\$0.519) | \$0.804                | (\$0.041) | \$1.084                |
| UStTrade Weighted        | 21,298,900    | \$9.843   | (\$0.421) | (\$0.151)              | \$0.06    | (\$0.138)              |

Petrobras received its first floating regasification terminal at the Pecem port. The ship will be installed at the port and will have the capacity to regasify

6 million cubic meters of LNG a day. The terminal is expected to enter into operation between August 25<sup>th</sup> and September 25<sup>th</sup>.

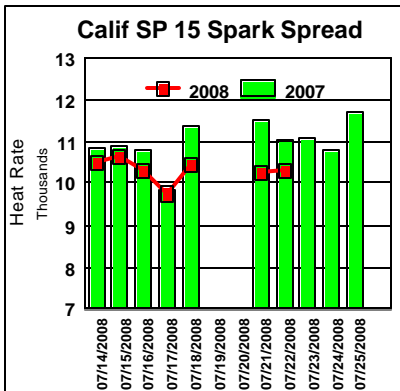
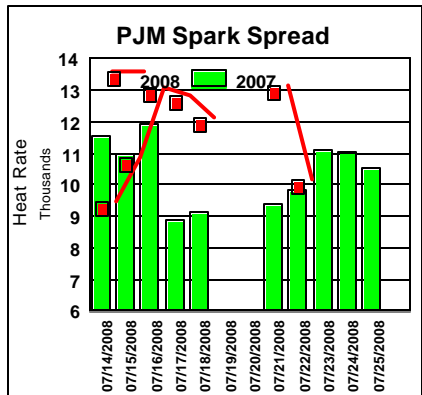
Gazprom's CEO was scheduled to meet today with the Ukraine's Prime Minister to discuss contracts for natural gas supplies for next year. Ukrainian officials have been pressing the Russians, from whom they rely on for 71%

of their natural gas supplies, to reach a supply agreement by September 15, since the fuel price is critical for preparing the Ukraine state budget.



The Interagency Task Force on Commodity Markets, which has been investigating the role of speculators and other factors in recent sharp rises in energy and commodity prices, said today that its interim findings on the crude oil market has been that fundamental supply and demand factors best explain the recent surge in crude oil prices. The task force is chaired by the CFTC and is made up of staff from the Departments of Agriculture, Energy and the Treasury, the Federal Reserve, FTC and the SEC. The task force said it continues to evaluate the commodities markets and it will provide an additional report later this year. Meanwhile legislation seeking to strengthen the CFTC's oversight of the

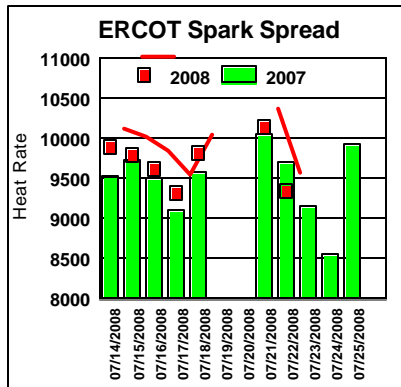
energy future markets passed a legislative hurdle today in the Senate, but is expected to face strong Republican opposition if it does not include provisions to expand domestic drilling. The legislation would order the CFTC to eliminate "excessive speculation" from the markets by requiring the regulator to set limits on the amount of speculative trades participants who are not hedging the delivery of the actual commodity can make. The bill though does leave out earlier request to raise margin rates or the banning of certain participants.

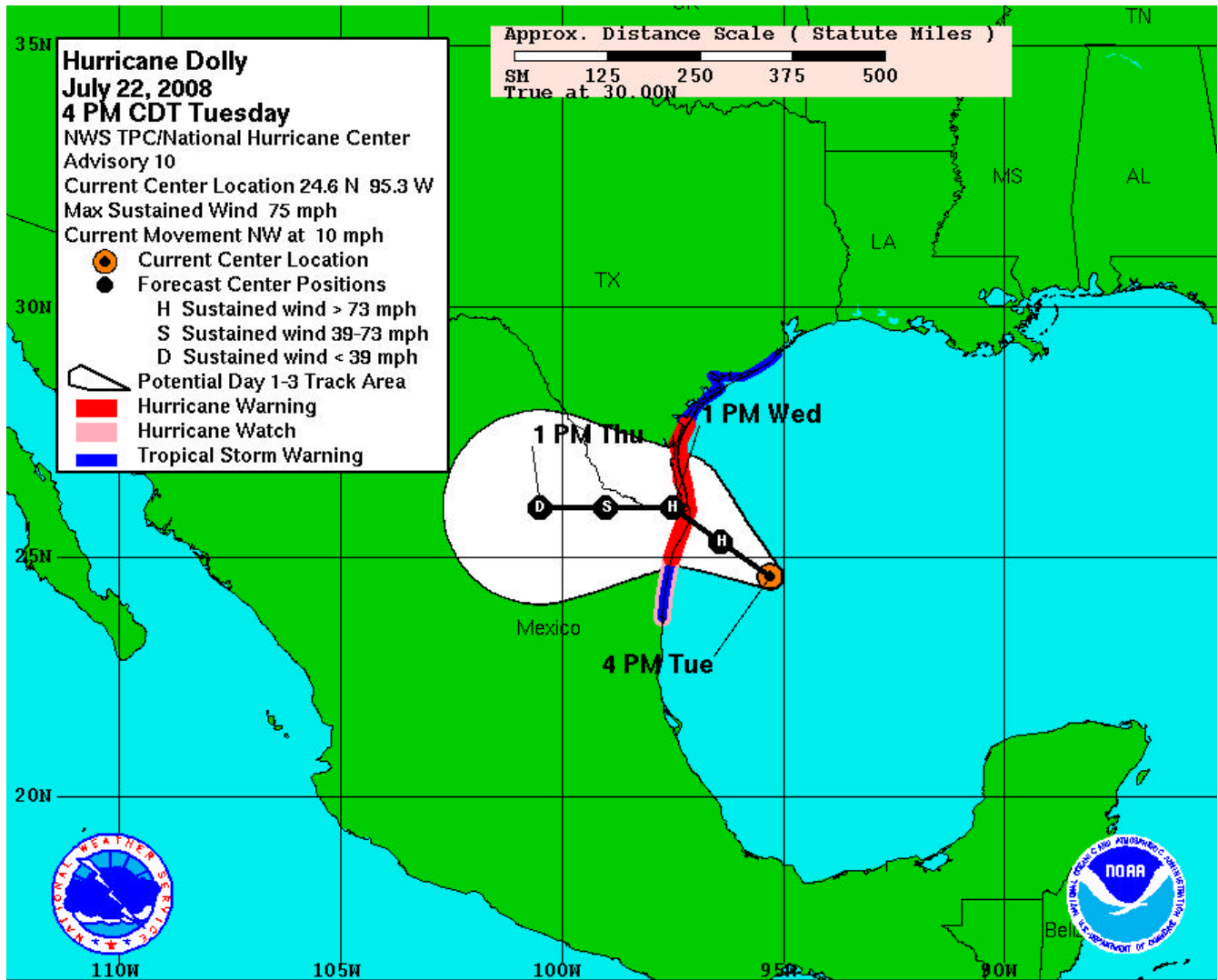


A 2007 audit of Trinidad and Tobago's natural gas reserves done by petroleum consultants Ryder Scott, found that the country held 17 tcf of gas reserves down only slightly from 17.05 tcf reported in 2006. The country has a daily gas production rate of 3.9 bcf, of which 59% is allocated to LNG and 41% to the domestic market.

T. Boone Pickens warned lawmakers today that oil prices will reach \$300 per barrel in 10 years if the United States fails to reduce its dependence on foreign imports. He again repeated his call that new wind power generation and new transmission lines to support these facilities be brought on line as quickly as possible and that natural gas be freed up from electric generation which could then be shifted to the transportation sector.

Tulsa-based Semgroup LP, filed for bankruptcy protection today. The company reported that it had suffered a \$2.4 billion loss on MYMEX futures and additional \$850 million in OTC mark to market losses. The company was forced to take a \$2.4 billion loss on July 16<sup>th</sup> after it transferred its NYMEX trading account to Barclays PLC. The company said it had accounted for this position as "loss contingencies". Included in the NYMEX losses is \$290 million owed to SemGroup by a trading company owned by SemGroup's co-founder and former CEO, Thomas Kivisto. SemGroup had engaged in regular hedging transactions with BOK Financial Corp. As of the end of 2007, SemGroup had hedged 21 million barrels of crude oil with BOK, which had a fair market value of negative \$130 million. At the end of March this position reportedly was worth a negative \$88 million. Two hedge funds took control of SemGroup Energy Partners general partner last week under the terms of an existing loan agreement. Officials said SemGroup, in order to meet obligations to creditors, plans to sell off oil and natural gas gathering, transportation, and storage assets.





**PIPELINE MAINTENACE**

Williston Basin Interstate Pipeline said that unplanned maintenance would be performed at the Worland Compressor Station through July 25<sup>th</sup>. At this time no restriction to the system is anticipated. The company also reported that planned maintenance will be performed at the Glenn Ullin Compressor Station August 4<sup>th</sup>. Maximum capacity to the Northern Border-Glen Ullin delivery point will be 35,000 Dth/d for August 4<sup>th</sup> and 60,000 Dth/d for August 7<sup>th</sup>. The company also reported that planned maintenance will be performed on August 11<sup>th</sup> at the Little Beaver Compressor Station, which could restrict receipt quantities in line Section 14, receipts from Baker Area mainline and delivery quantities to Manning. No compression will be available at the Little Beaver station during this work.

Sabine Pipeline reported that due to maintenance work planned at its Port Neches compressor for the month of August it had declared force majeure on natural gas supplies at three pipeline points in Texas. The points are Houston Pipeline/Jefferson, Kinder Morgan Texas/Jefferson and Kinder Morgan Tejas Pipeline/ Jefferson.

Transco Pipeline said that routine maintenance scheduled for July 22<sup>nd</sup> in the USG has been postponed until July 24<sup>th</sup>, due to high seas associated with Tropical Storm Dolly. The work is expected to require several production facilities to shut in on that day with some 30,000 dth/d affected.

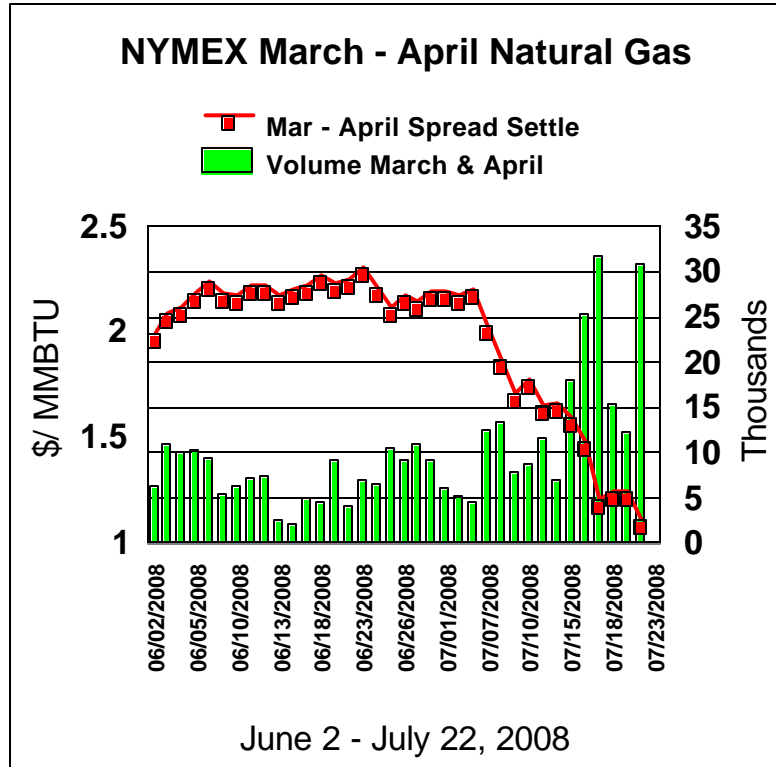
Northwest Pipeline said it was performing anomaly repairs near Muddy Creek compressor station beginning July 22<sup>nd</sup>. Primary firm nomination requests have exceeded the available capacity of 160,000 Dth/d and thus the company was forced to declare a Deficiency Period that will last through July 25<sup>th</sup>.

Gulf South Pipeline said that scheduled maintenance on the Arnaudville Compressor Station Turbine Unit #1 has been extended through July 25<sup>th</sup>.

Alliance Pipeline said that to facilitate the installation of a compression station at the Taylor Junction there are piping modifications that need to be performed which will require all production upstream of the junction to be shut in for August 12-13<sup>th</sup>.

**ELECTRIC MARKET NEWS**

Genscape reported that U.S. power plants have 1.3% less coal on hand this week than last week as coal supplies have basically been reduced back to levels comparable to last year. These coal stocks equate to 50 days of forward supply.



A report from the British Parliamentary Environmental Audit Committee called on the U.K. government to set a deadline for the closure of all coal fired power plants that do not capture and store their carbon dioxide emissions or the nation will miss its carbon reduction targets.

**MARKET COMMENTARY**

The natural gas went on the defensive once again this morning as traders were met at the office door with weather forecasts that assigned an high degree of certainty that Tropical Storm Dolly would be coming ashore at the Mexican/Texas border as at best a strong Category 1 hurricane on Wednesday, thus sparing both Mexican and American offshore production facilities. This coupled with plunging spot power prices in the Midwest and northeastern U.S. allowed natural gas futures to plunge by 30 cents in one hour of trading this morning, establish a new four month low back below \$10.00, before settling into a sideways trading pattern for the remainder of the trading

session. Volume today was good with over 219,000 lots changing hands. While the spot August contract saw trading activity that accounted for over 45% of the total volume for the day, the March and April contracts saw excellent volume on the day with nearly 31,000 contracts traded between these two months, as this spread seems to have awakened traders interest in the last week as prices have broken below the \$1.60 level. As we discussed earlier it appears that this spread is headed back to the trading range from late last year between of \$1.00-\$ 0.60.

Despite the hard sell off of the oil markets this month, natural gas has seen even stronger selling pressure, and as a result the discount of natural gas to crude oil on a BTU basis remains near historical highs. As a result we continue to look for the natural gas to have the potential to rebound, but buyers seem reluctant to return to this market until there is a fundamental reason to do so, and the weather forecast near term continue to point to limited cooling needs and the absence of a tropical threat on the horizon. It appears that this market is headed to moving into a trading range of \$9.50-\$10.50 while it awaits bullish weather news. Tomorrow we look for support at \$9.80 followed by \$9.55-\$9.53 with more distant support at \$9.186 and \$9.00. Resistance we see at \$10.418, \$10.77-\$10.799 and \$11.034. More distant resistance we see tomorrow at \$11.343, \$11.50 and \$11.792.

On a side note it is difficult to assess a market in the wake of a significant collapse of a major trader in the market. The SemGroup collapse appears to have had a significant impact on the energy markets over the past two weeks, given the size of trading losses reported today. Just like Amaranth, China Aviation or even the MG

collapse from years ago, the equilibrium of supply demand balance can take weeks to finally return to the markets following the disruption caused by the forced liquidation of market positions by these firms.

