



## ENERGY RISK MANAGEMENT

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### POWER MARKET REPORT FOR JULY 24, 2008

#### NATURAL GAS MARKET NEWS

The tropics are extremely quiet currently, as the National Hurricane Center in its daily tropical report made no mention of any areas of interest for the next several days. It appears that wind shear and large areas of dry air over the far eastern Atlantic will suppress development for the next week or so. In fact the GFS forecasting model does not see any tropical development until some 10 days out as a tropical disturbance over Africa currently emerges into the Atlantic.

The Economic Cycle Research Institute said that its Weekly Leading Index fell to 129.4 in the week ending July 18<sup>th</sup> from 131.1 from the prior week. The group noted that its index is the lowest level since the week of October 24, 2003. The group's managing director noted that typically their leading index "always turns up months before the end of a recession." But given the index

"falling to its lowest reading in nearly five years, it is clear that the business cycle recovery is nowhere in sight." This comes on the same day that the government's durable goods report showed some promise for strength in the economy.

European energy regulators released a report today and noted that gas grid operators in northwest Europe are still not giving network users enough timely information on gas flows and available capacity. The regulators noted that while transmission network operators have voluntarily committed to publish all the information needed, many are still dragging their feet in releasing the information on a timely basis. As a result the available infrastructure

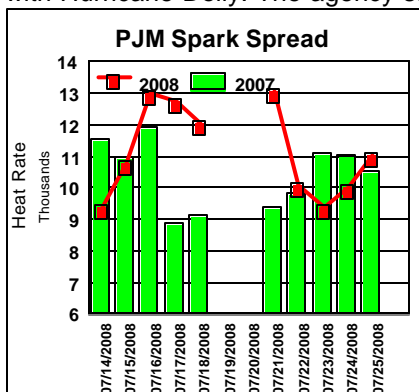
remains not efficiently utilized, leading to bottlenecks and supply shortfalls.

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	771,800	\$9.343	(\$0.354)	\$0.106	(\$0.550)	(\$0.176)
Chicago City Gate	516,400	\$9.122	(\$0.415)	(\$0.114)	(\$0.523)	(\$0.051)
NGPL- TX/OK	524,200	\$8.822	(\$0.417)	(\$0.414)	(\$0.525)	(\$0.392)
SoCal	747,300	\$8.638	(\$0.625)	(\$0.598)	(\$0.733)	(\$0.494)
PG&E Citygate	714,800	\$9.039	(\$0.433)	(\$0.197)	(\$0.541)	(\$0.212)
Dominion-South	424,200	\$9.860	(\$0.465)	\$0.624	(\$0.573)	\$0.755
USTrade Weighted	16,586,300	\$9.026	(\$0.442)	(\$0.210)	(\$0.55)	(\$0.176)

Hurricane Dolly. The company also reported that it was returning workers to its offshore platforms in the Gulf of Mexico but that none of its offshore production had been reduced during the storm. ExxonMobil and Chevron

Shell Oil reported today that it was restarting onshore production and drill operations in South Texas after these activities were briefly shut by

also said today that they were restoring offshore production that was shut-in in front of Hurricane Dolly. Chevron said it expected to have all of its production back on line Friday, while ExxonMobil declined to give specific production levels. The Minerals Management Service is no longer reporting on production shut ins associated with Hurricane Dolly. The agency said Thursday was its last report.



SemGroup investors today filed a class action lawsuit against SemGroup Energy Partners, L.P and affiliated parties. The group of investors that took part in the February 13 secondary offering allege that the prospectus for the offering misrepresented the financial strength of parent SemGroup L.P. and failed to disclose that the company had engaged in risky hedging strategies that presented a material risk of default.

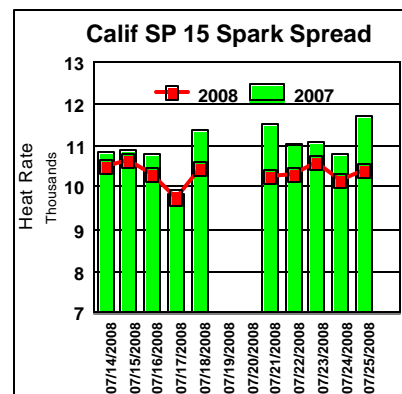
As expected the Senate today failed to muster the necessary votes to close debate on the Stop Excessive Speculation bill. Some Democratic members though vowed to bring the bill up for another vote later, as Senate Majority leader Reid filed a motion to reconsider. Republicans had threatened to filibuster the bill.

Japan's Inpex Holdings said today that they are close to making a decision by the end of the summer on the final location for the onshore site for its LNG plant in Australia. Two sites that are under consideration are Maret Islands or Darwin. But the company noted that the estimated infrastructure costs remain a decisive factor in if the company will move forward and begin construction of the facility. The company stressed it will make that decision in the second half of 2009.

**PIPELINE MAINTENANCE**

Northwest Pipeline said that the tie ins for the Jackson Prairie Deliverability Expansion originally scheduled for August 27-29<sup>th</sup> has been changed to August 19-25<sup>th</sup>. Northwest will schedule customer's storage injection and withdrawal nominations to the extent they net zero.

Transco Pipeline said that the routine maintenance that was scheduled to be performed on July 24<sup>th</sup> has been postponed until July 25 due to high seas associated with Hurricane Dolly.

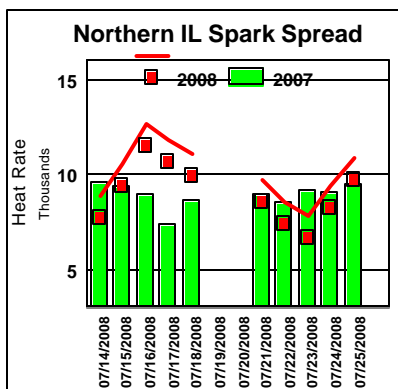


**ELECTRIC MARKET NEWS**

Genscape reported that U.S. coal burn index rose 0.7% for the week ending July 24<sup>th</sup>, when compared to the prior week. The index, a measurement of electric power demand for coal, was up 3.5% from the same week a year ago.

**MARKET COMMENTARY**

The natural gas market while technically posting an inside trading session today, still saw a 50 cent trading range that continues to reflect the volatility of this week was not taking a break today despite it being a Friday in the summer. While at first blush it appeared that yesterday's price action was longs flushing out of the market, as open interest reported at midday showed that the futures market saw a contraction 6,547 lots, with the spot month declining by 15,636 lots. But when examining the overall Henry Hub position, one finds that the swaps, the Henry Hub swap and the Henry Hub Penultimate contracts saw dramatic gains in open interest on the day. The Henry Hub Penultimate Swap saw 40,681 lot increase with the spot contract jumping by 35,915 contracts. The Henry Hub Swap saw a gain of 34,386 lots with strong gains in the March 09 and July 09 contracts of 10,080 and 11,015 respectively. Given that these contracts are 25% of the size of the futures contract then the three contracts would have a combine net gain of 12,220 contracts on the day. Option activity yesterday saw the European natural gas options swell in open interest by 82,476 lots, with calls accounting for 64% of the days gains. While no individual call strikes stood out it is interesting to note that the puts actually seem to



have a common strike that traders were interested in. The \$8.00 put in the first four months saw a combined gain of 6753 lots to a total combined open interest of 66,979 contracts. While the \$9.00 puts in the first four months saw less than a net 300 lots change in the combined open interest, surprisingly yesterday, this strike still offers a potential trip wire for an additional sell off in the futures market, As of Thursday this strike stood at a combined 55,202 open contracts. One must remember that at the start of the week there was some 77,509 contracts open in the first four months in the \$10 puts which seemed to accelerate the price move to the downside as they became exposed to being in the money earlier this week.

This afternoon's Commitment of Traders Report showed that for the weekend July 22<sup>nd</sup> non commercials reportable futures and options and swaps combined report, showed the group reduced their net short in the natural gas market by 22,543 contract but were still short by 31,625 contracts. Commercials on the other hand moved into a net short position on the week of 22,459 contracts while the small non-reporting segment of the market remained long and added to these longs by 1,205.

We look to next week and see weather as the key drive for the market. Given the poor likelihood of any tropical threat at this time, the temperature outlook will be key. If the cooling degree forecast next week remains normal or slightly less than normal it seems that the technical bearish momentum of this market will continue and attempt to breach the \$9.00 price barrier. We see support initially at \$9.00 followed by \$8.886, \$8.689 and \$8.38. Resistance we see at \$9.383, \$9.683 \$9.88 and \$10.00. More distant resistance points we see at \$10.721, \$10.80 and \$11.29.