



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR JULY 27, 2007**

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

While the low-pressure systems in the Gulf of Mexico continued offer no risk of tropical development, forecasters continued to watch the development of a tropical wave currently at 30 West Longitude. Two long-range computer models now, the GFS and the ECMWF models have this system developing into tropical cyclone by middle of next week. In 10 days the GFS model has the system in the northeastern Caribbean just south of the Dominican Republic while the ECMWF model places the storm northeast of the Leeward Islands. Forecasters further note the possibility of these models being correct given the lack of significant wind shear in the region and the lack of dry air around the system that could have hindered development.

The NYMEX announced that as of the close of business July 27<sup>th</sup> it was changing its margin rates for its natural gas contracts. Margins for the first month of natural gas, natural gas penultimate financial and natural gas last day financial futures will increase to \$8775 from \$6600 for customers. Margins for the second month will increase to \$10,125 from \$8100 for customers; with customer margins for the third through seventh months will increase by \$675 to \$9450. Margins for the eighth through nineteenth months will decrease by \$2025 to \$7425 and margins on the 20<sup>th</sup> through the 31<sup>st</sup> months will decrease by \$675 to \$6075. Margins on the 32<sup>nd</sup> through 42<sup>nd</sup> months will see margins decrease by \$675 to \$4725.

Baker Hughes reported that for the week ending July 27<sup>th</sup> the number of natural gas drilling rigs operating in the U.S. fell by 23 rigs to 1474. This is 4.7% higher than a year ago.

EnergySouth will begin drilling a fourth high deliverability salt dome gas storage cavern at its BayGas Storage facility starting in September and will be in service by the fall of 2009.

Chevron reported this morning that its net natural gas production in the United States during the 2Q07 averaged 1.703 bcf/d down 7% from last year. Year to date, Chevron's domestic production of natural gas averaged 1.771 bcf/d down 5.2% from the first half of 2006. Meanwhile Royal Dutch Shell reported that its U.S. natural gas production in the second quarter also declined, dropping by 6.1% from the first quarter and a 7.1% decline from the 2Q06.

#### **Generator Problems**

**PJM** – PSEG's 1061 Mw Hope Creek nuclear power station in New Jersey returned to full power by early Friday. Unit had fallen to 80% of capacity on 6thursday.

**NPCC** – Bruce Power's Bruce A nuclear unit will see Unit #3 to be shut down for some six weeks late in the third quarter and Unit #4 to be taken off line for a month of maintenance work sometime in the fourth quarter of this year. Both units have a 750 Mw capacity.

OPG's 490 Mw Unit #2 and Unit #8 at the Nanticoke coal fired power plant were taken off line Friday morning.

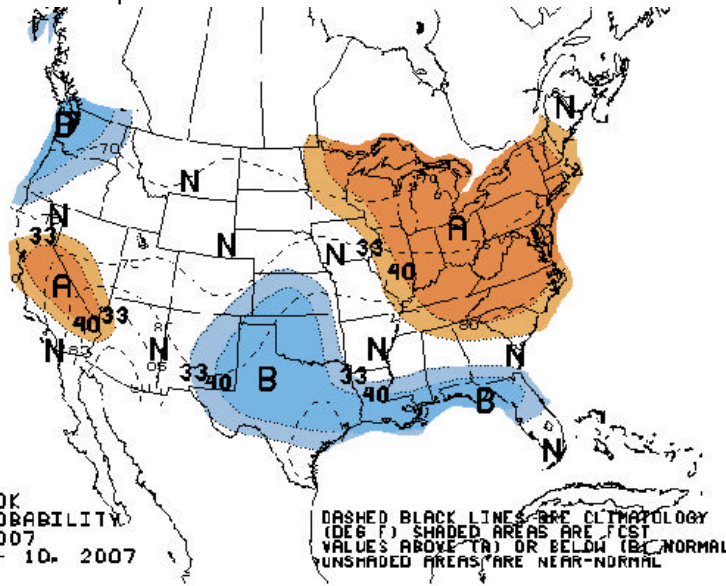
OPG reported that its 494 Mw Lambton #2 coal fired unit was restarted following a four-day outage.

**WECC** - APS 1270 Mw Palo Verde Unit #2 was at 40% down 13% from yesterday. Operators are expected to maintain this operating level while repairs are made to the plant's cooling system.

**ECAR** – FirstEnergy's 1235 Mw Perry nuclear unit ramped up to 95% of capacity on Friday. The unit was at 74% of capacity on Thursday.

**The NRC reported that 96,720 Mw of nuclear capacity is on line, up 0.25% from Thursday, and up 0.48% from a year ago.**

Woodside Petroleum sad today that it has approved the development of its Pluto LNG project in Western Australia, pending receipt of final environmental and regulatory approvals. The initial phase of the project would consist of a single train onshore LNG plant with a 4.3 million-mt/year target production rate with a nameplate capacity of 4.8 million mt/year. The plant will process gas from the offshore Pluto and Xena fields. The plant is expected to make its first shipments in late 2010.



On the economic front, The University of Michigan reported that its Survey of Consumers said its final July reading on consumer sentiment was pegged at 90.4, slightly below market expectations of 91.2 and an earlier estimate of 92.4. But it was still well above June's final reading of 85.4 which was a 10 month low. Meanwhile the U.S. Commerce Department reported this morning that the U.S. GDP rose at a 3.4% annual rate, in the second quarter. This would be the fast pace of growth since the

first quarter of 2006. Market expectations had been for a 3.2% expansion during the 2Q07.

Venezuelan President Chavez said today that he has put on hold his ambitious plans to build a South American 8,000-15,000 kilometer long natural gas pipeline since neighboring countries have not embraced the plan.

The U.S. appeals court Friday dismissed ExxonMobil's challenge to FERC regulations that it claimed would require it to expand the capacity of a proposed Alaskan natural gas pipeline beyond what had been planned. The FERC's rules directed pipeline sponsors to conduct an open season designed to promote competition and required sponsors to connect other producers to the pipeline by, if necessary, expanding certain elements of the line. The court rejected ExxonMobil's argument that "design changes" that the FERC cited in its regulations to ensure open access would necessarily require an increase in capacity.

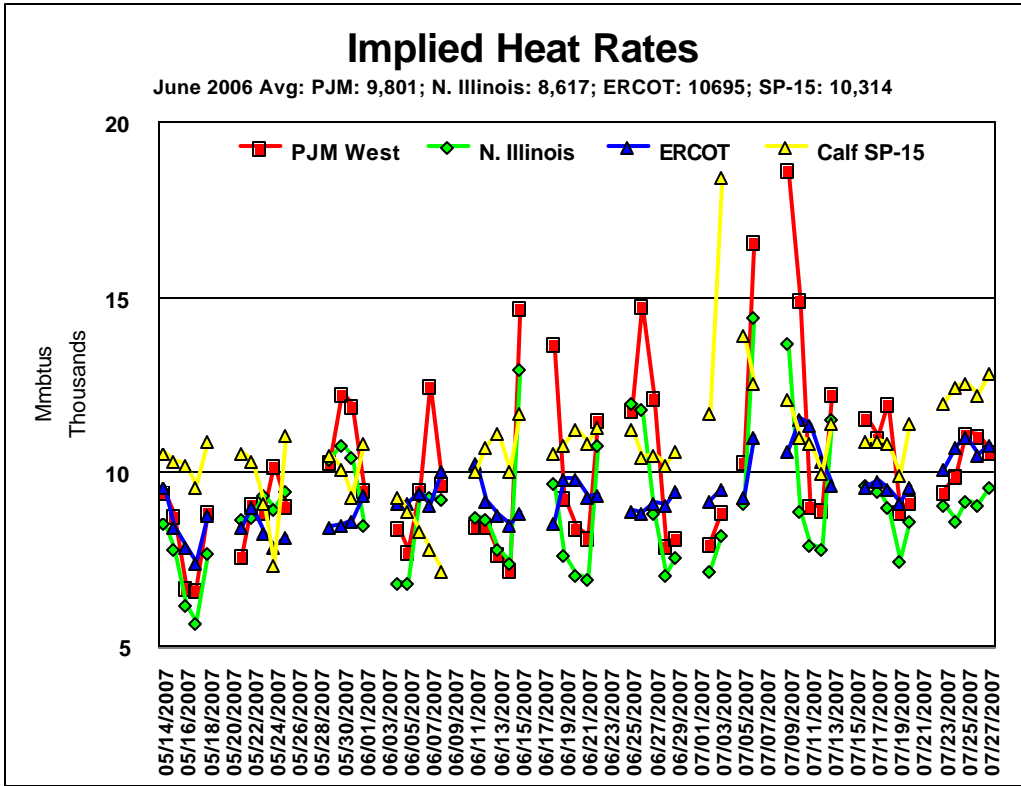
**PIPELINE RESTRICTIONS**

Florida Gas Transmission issued an alert to natural gas shippers on Friday as hot weather forecasted for its service area was expected to boost demand. To maintain system integrity, the company issued an overage alert at 5% tolerance

Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg Price	Change	Basis	Change	Basis 5-Day
Location	Traded	Price		(As of 12:30 PM)		Moving Avg
Henry Hub	806,600	\$5.772	(\$0.057)	(\$0.391)	(\$0.165)	(\$0.325)
Chicago City Gate	276,400	\$5.609	(\$0.203)	(\$0.375)	(\$0.244)	(\$0.285)
NGPL- TX/OK	386,500	\$5.390	(\$0.167)	(\$0.594)	(\$0.208)	(\$0.507)
SoCal	887,600	\$5.380	(\$0.277)	(\$0.604)	(\$0.318)	(\$0.370)
PG&E Citygate	559,900	\$5.787	(\$0.117)	(\$0.197)	(\$0.159)	(\$0.058)
Dominion-South	402,900	\$6.151	(\$0.056)	\$0.167	(\$0.097)	\$0.155
Transco Zone 6	334,800	\$6.100	(\$0.254)	\$0.116	(\$0.295)	\$0.248

**ELECTRIC MARKET NEWS**

Genscapre reported today that for the week ending July 26<sup>th</sup> some 11.64 million tons of coal was burned up 0.1% from the previous week and some 2.2% higher than the same time a year ago.

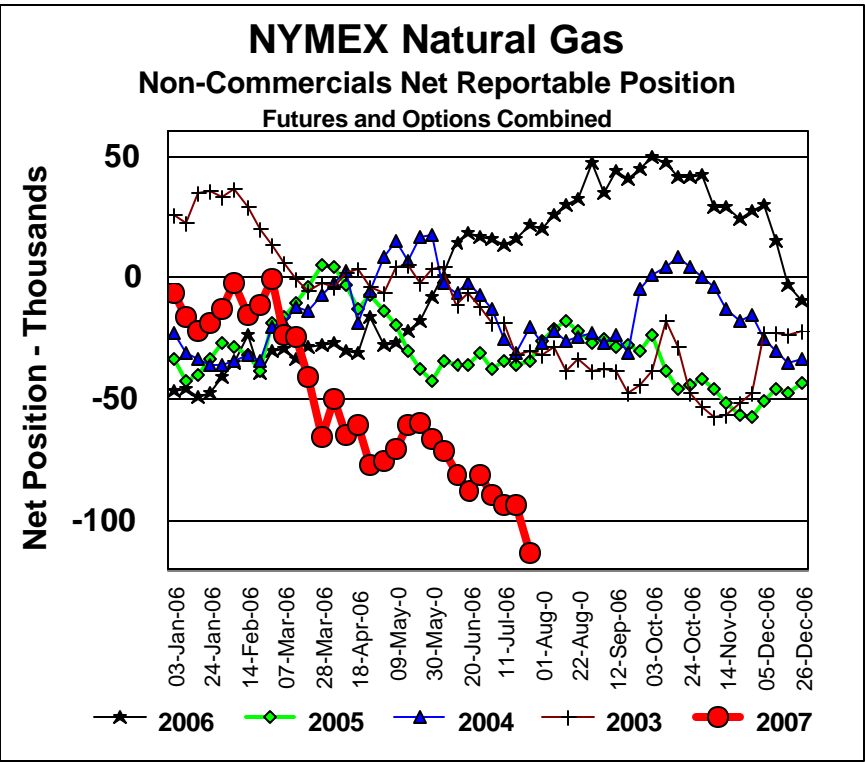


The Maryland Public Service Commission said today that it is considering hiring an outside law firm to determine whether it has sufficient evidence to argue to the FERC that the PJM wholesale power market is uncompetitive. The commission believes that the lack of competition may have contributed to a sharp increase in electricity rates last year by one of the state's largest utilities, Baltimore Gas & Electric. BG&E rates were set to rise by more than 70% last summer after a retail rate freeze imposed under the state's restructuring law expired and the

company acquired power through a wholesale market auction. The PJM Industrial Customer Coalition has described the RTO's current market system as "dysfunctional" and said PJM retail customers are "shouldering energy cost increases of a magnitude that defies long established principles of gradualism inherent in the electric utility industry."

**MARKET COMMENTARY**

The expiring August contract started the day a couple of pennies better this morning supported by stronger oil values. While the gas market appeared to find good resistance around the \$6.00 level, this resistance level was breached at midday, in what appeared to be a triggering of buy stops that drove prices 10-15 cents higher by expiration. After the close the CFTC reported that non-commercials for the week ending July 24<sup>th</sup> had increased their net short positions by 12,075 lots in the futures only report and by 20,156 lots in the



combined futures and options position report. Both of these net short positions were new all time net short positions. Thus given this large spec net short position may go a long way to explaining the late day rally in natural gas, a market that posted its strongest settlement since July 19<sup>th</sup>, despite seeing a day with little or no

supportive fundamental news. In fact the spot cash markets basically finished lower on the day, with the Henry Hub spot price going out some 16.5 cents below the spot futures price at midday.

While we feel that the natural gas market does have strong upside potential at the first signs of a true tropical threat to production areas, given the large net short position of the commodity funds, we feel today's price action will not find follow through on Monday without a tropical threat closer to becoming a reality than 10-14 days out. Thus we would not rush to buy out of the money calls until this market at least takes a look at this week's lows. We see resistance in the September contract Monday at \$6.28, \$6.334-\$6.342, \$6.435-\$6.45, \$6.493 and \$6.586. Support we see at \$6.082, \$6.027, \$5.929, \$5.855, \$5.83, and \$5.75.