



## ENERGY RISK MANAGEMENT

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### POWER MARKET REPORT FOR JULY 30, 2008

#### NATURAL GAS MARKET NEWS

The National Hurricane center this morning was watching a broad area of low pressure that was located some 300 miles east-southeast of the Cape Verde Islands. The system had become better organized overnight and as a result was expected to be upgraded to a tropical depression in the next couple of days. Current computer models have the system moving towards the northern Leeward Islands by early next week. Model disagreement though continues on the degree of strengthening and where the future path of that system will go next week. But late this evening the National Hurricane Center said the potential for tropical cyclone formation in this area is decreasing.

Two Congressional Democrats reportedly will introduce a bill today in the House of Representatives that will seek to establish a national commission to "examine the adequacy of current federal policies governing the siting of natural gas infrastructure." They are looking for a proposed commission which would help assess how to place national gas infrastructure where it best meets supply needs and where it will have the least possible environmental impact, and achieve the maximum security with the limited resources available. Meanwhile House Democrats Wednesday failed to get the majority needed in a vote to move forward with their bill aimed at curbing excessive speculation in the energy and agriculture markets.

#### Generator Problems

**NPCC** – OPG's 490 Mw coal fired Unit #3 at the Nanticoke power plant returned to service this morning. The unit went off line on Tuesday.

**ERCOT** – Luminant's 750 Mw coal fired Unit #1 at the Martin lake power plant remained offline as repairs on the unit are taking longer than expected. The unit was taken off line on Monday.

**SERC** – Southern's 888 Mw Farley 1 nuclear unit has finally exited its recent outage, which began back on July 22 and was up to 30% of capacity this morning.

**The NRC reported that 97,763 Mw of nuclear capacity is online, up 0.2% from yesterday and down 0.7% from the same day a year ago.**

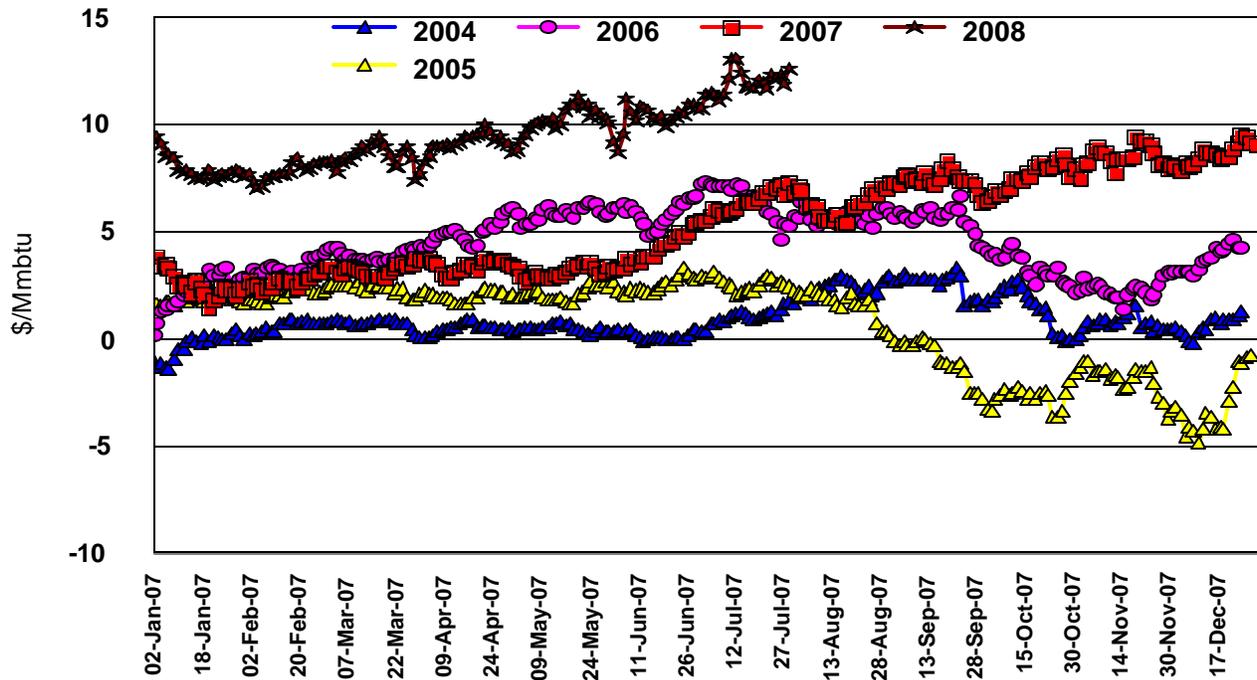
Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	808,900	\$9.013	(\$0.155)	(\$0.042)	(\$0.111)	(\$0.176)
Chicago City Gate	560,300	\$8.843	(\$0.126)	(\$0.212)	(\$0.021)	(\$0.035)
NGPL- TX/OK	854,100	\$8.501	(\$0.142)	(\$0.554)	(\$0.037)	(\$0.357)
SoCal	870,200	\$7.964	(\$0.409)	(\$1.091)	(\$0.304)	(\$0.572)
PG&E Citygate	562,300	\$8.317	(\$0.305)	(\$0.738)	(\$0.200)	(\$0.272)
Dominion-South	261,300	\$9.550	(\$0.099)	\$0.495	\$0.006	\$0.701
USTrade Weighted	19,190,200	\$8.581	(\$0.216)	(\$0.474)	(\$0.11)	(\$0.176)

British Company Centrica announced today that it would raise gas and electric prices for households by 35% and 9% respectively, due to escalating wholesale gas prices. The company is the

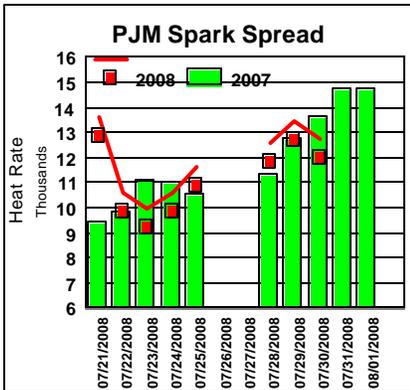
biggest household supplier in the UK with over 16 million customers. The company is the second of six major British suppliers to raise prices in the last week.

Russia's Gazprom reported that it had increased natural gas exports 10% to 109.6 billion cubic meters in the first half of the year, up 17.7% year on year.

## Crude Oil Vs Natural Gas: NYMEX Spot Futures Settle

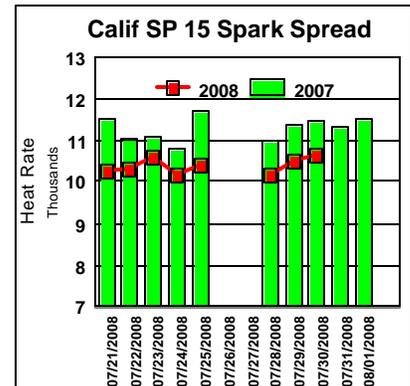


Noble Energy reported today a second quarter loss of \$144 million. The company on January 1, 2008 voluntarily changed their accounting method for commodity derivative instruments from the cash flow hedge method to the mark-to-market method. The company in the second quarter saw \$828 million in losses from commodity derivative instruments versus a \$1 million gain last year in the second quarter.. The company reported that it received an average \$5.86 per MCF for its natural gas in the second quarter and \$105.46 per barrel of its crude oil.

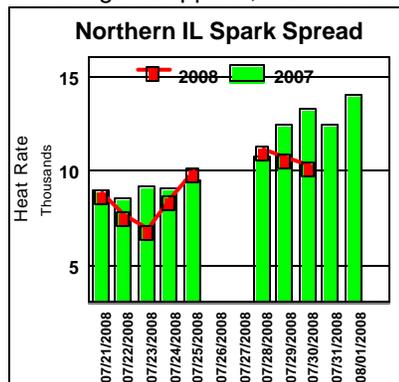


The Financial Accounting Standards Board voted today to delay accounting changes that would have sought to eliminate a concept known as "qualifying special purpose entity" or QSPE, that banks use to keep assets like mortgage-backed securities and special investment vehicles off their balance sheets. The group said it was necessary to delay implementation because a formal proposal has not yet been issued. As a result U.S. companies will not have to adopt the changes until they issue financial reports for fiscal 2010.

The chairman of Chesapeake Energy said today that the U.S. recoverable supplies of natural gas amounts to 2,247 trillion cubic feet, or 188 years worth of supply at current production levels. He noted that the size of "these shale gas deposits is so enormous that they can no longer be overlooked." More conservative estimates place reserves at 1,680 trillion cubic feet or 88 years of forward supply. The Chesapeake CEO also said he expected natural gas prices to hover in the \$9-\$11 per Mmbtu range



The President of Suez LNG North America testifying before Congress today said LNG is a safe, reliable and important part of the nation's energy mix. While he recognized that LNG only constitutes 2% of the nation's natural gas supplies, he noted that LNG helps to keep downward pressure on prices by helping diversify and



increase the energy's energy mix. He looked for LNG, as well as more domestic production will become increasingly important in future years when imports from Canada are expected to decline and demand for natural gas is expected to increase.

**PIPELINE RESTRICTIONS**

FGT issued an Overage Alert Day at 25% tolerance for July 30<sup>th</sup>.

**PIPELINE MAINTENANCE**

Williston Basin Interstate Pipeline said that planned maintenance will be performed August 4<sup>th</sup> at the Cabin Creek Compressor Station. While not anticipated, the potential exists for the curtailment of secondary deliveries in the East Mondack and Sheyenne Subsystems and Line Section 26.

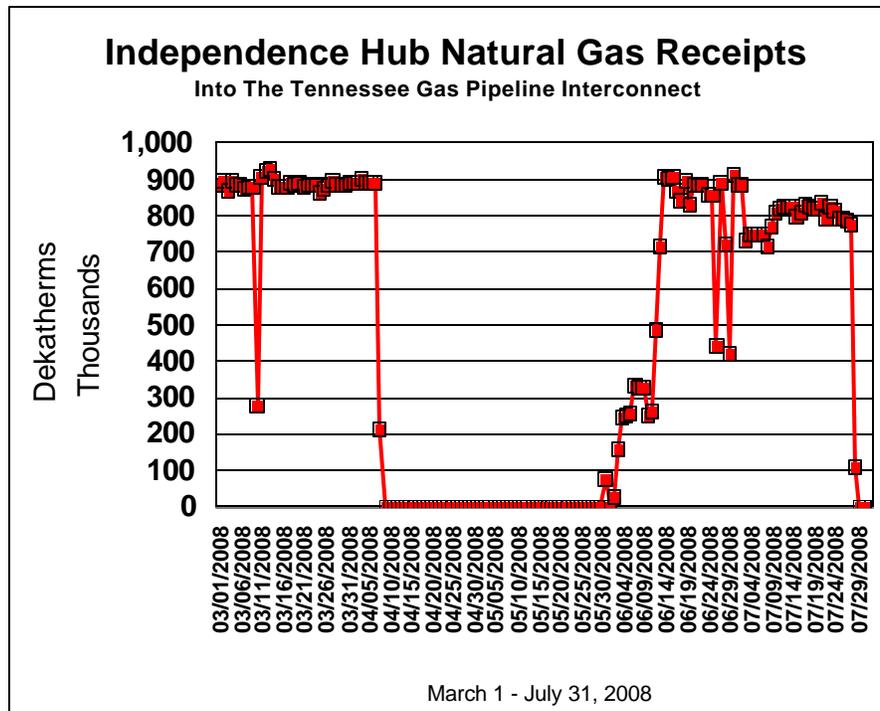
Tennessee Gas Pipeline said that it has completed work on the Vermillion 255 third party platform abandonment project and flow has resumed at Vermillion 267, 257, 256E, 267f, 287 and Basin Vermillion 267.

Northern Natural Gas Pipeline has revised the end date for work on its Connect/NNG B Line to August 22<sup>nd</sup>.

Gulf South Pipeline said the unscheduled maintenance at the Airport Compressor Station has been completed.

**ELECTRIC MARKET NEWS**

Entergy reported that its New Orleans service territory continues to recover in the aftermath of Hurricane Katrina. The company said that electric-customer base is at 75% and its natural gas customer base is up to 61% of pre-Hurricane Katrina levels.



Entergy's 852 Mw Fitzpatrick nuclear power plant moved a step closer in receiving its approval for a 20-year plant license renewal, as state regulators approved a water quality and Coastal Zone Management Act certification. These approvals will now clear the way for the NRC to review the renewal application.

The NRC said it is conducting a special inspection of the San Onofre nuclear plant safety system. But the NRC said the inspection had been planned before the earthquake. The unit continued to operate normally on Wednesday.

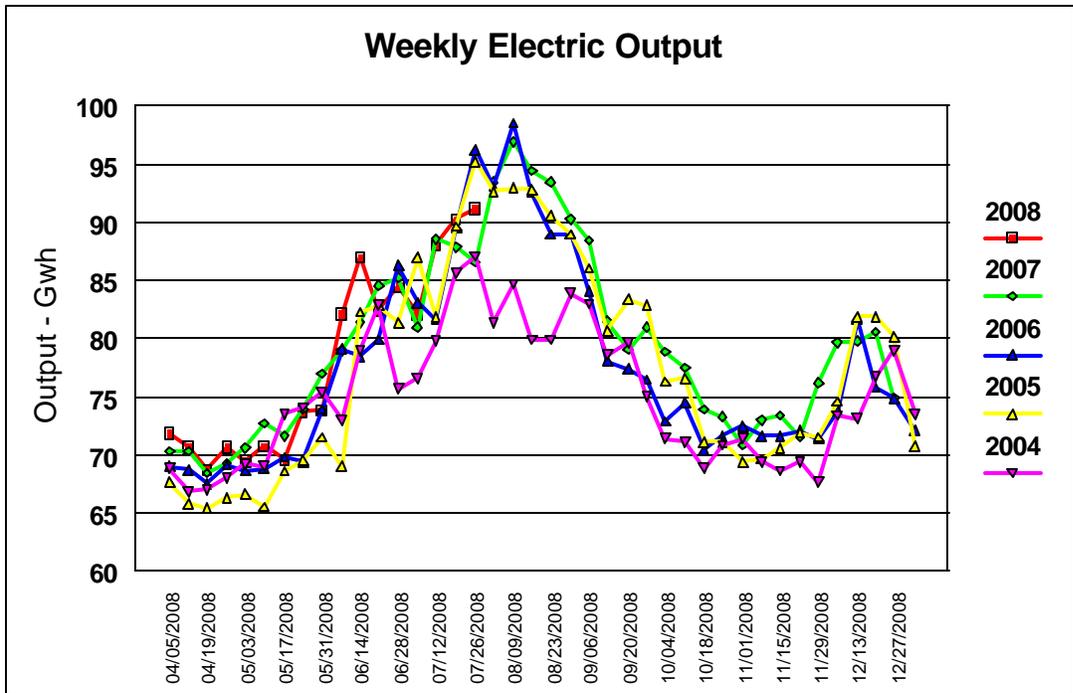
CL&P and LIPA energized the replacement power cables between Connecticut and New York ahead of schedule.

Edison Electric Institute reported that for the week ending July 26<sup>th</sup>, electrical production in the United States totaled 91,262 Gwh, some 5.3% better than a year ago and 1.05% higher than the prior week.

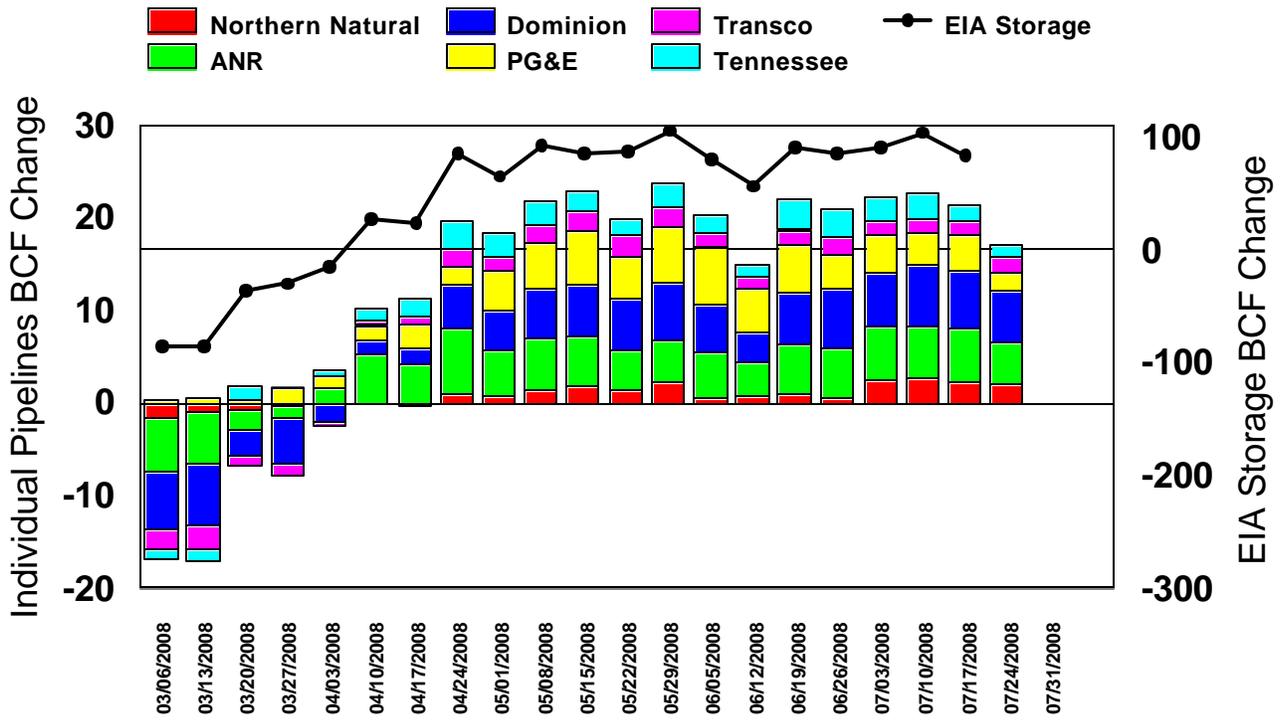
**MARKET COMMENTARY**

The natural gas market posted an outside trading session as prices worked lower this morning setting a new near term low as prices dropped to \$8.81. This was a price level not seen in the September contract since February 14<sup>th</sup>. The bears seemed in control despite the outlook for hot temperatures taking hold across much of the nation over the next couple of weeks. In addition

the basic shutdown of the Independence Hub once again for maintenance did not even seem to make an impact on traders opinions on this market. But as oil prices reversed and rallied higher following a mildly supportive oil inventory report, it helped to drag natural gas prices higher throughout the afternoon.



**Weekly Change In Nat Gas Stocks**



Market expectations for tomorrow's EIA Natural gas Storage Report are running between a 67-71 bcf build. The five-year seasonal average build is 55 bcf, while a year ago the same week saw a 75 bcf build. Our estimate comes in on the lower end of expectations looking for a 61-66 bcf build in stocks.

We feel that given our expectations for a supportive inventory report tomorrow this market should find some support and continue to build a base of support for a later move higher for this market. We see support tomorrow at \$9.25 followed by \$8.93, \$8.616 and \$8.422. Resistance we see initially sat \$9.34 followed by \$9.442, \$9.636, \$9.712. Given the potential rebound in the flat price we feel it will also spill over into the March April spread. This spread despite several attempts over the last week to move below the 70 cent price level, each day it was able to battle back and settle back above 70 cents. We feel that this spread could rebound back up to the \$1.00 level over the next couple of weeks and then even higher if the hurricane season begins to heat up.

