



## ENERGY RISK MANAGEMENT

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### POWER MARKET REPORT FOR AUGUST 3, 2007

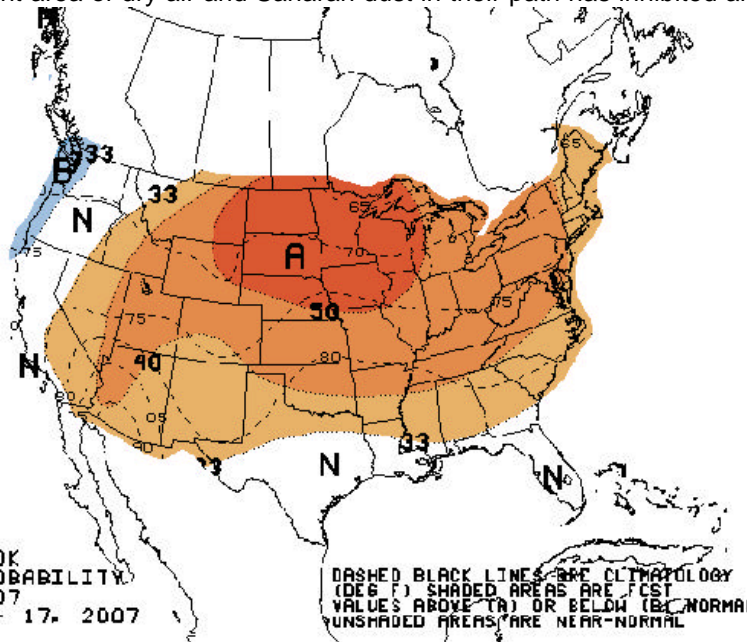
#### NATURAL GAS MARKET NEWS

The National Hurricane Center this morning continued to play down the threat of the tropical wave moving across the Caribbean. While they still mentioned there is a chance the storm could become a tropical depression before it reaches Central America, the risk for a stronger storm or to other areas of the region appeared to be nil. Forecasters do not see any other risk for tropical development until at least until the middle of next week. One area of concern next week appears to be the area near the Bahamas, and the other is east of the Windward and Leeward Islands around 35-45 West Longitude, where the GFS model is calling for the potential development of a tropical system. It appears that while some strong tropical waves are moving off the coast of Africa, the persistent area of dry air and Saharan dust in their path has inhibited any short term development.

#### Generator Problems

**WECC** – Energy Northwest cut output at its 1200 Mw Colubia generating nuclear unit to 15%. The unit had been at full power on Thursday.;

**The NRC reported that 97,563 Mw of nuclear capacity is on line, down 0.7% from Thursday, and up 1.79% from a year ago.**



Friday morning, Dr. Gray and his staff at Colorado State University hurricane research team reduced their outlook for the 2007 Atlantic storm season, now calling for 15 storms, with eight growing to hurricane strength, and four reaching Category 3 or higher before the end of the hurricane season on November 30<sup>th</sup>. In its prior forecast back on May 31<sup>st</sup>, the group had called for 17 named storms, with nine reaching hurricane strength and five reaching hurricane strength. The group looks for at least 1 major or

category 3 or better storm to have a 68% chance of making landfall in the U.S. (versus a 74% chance expected in the last report in May and a 52% chance basis the average of the last century). The chances of a land fall occurring along the US Gulf of Mexico is now placed at a 44% chance( versus a 49% risk forecasted in the last report and a seasonal average risk of 30%.)

Gazprom said Friday that it has postponed a planned cut in gas supplies to Belarus after Belarus pipeline operating company made its first payment to cover its gas debt to Russia. Reportedly a payment of \$190 million was made. Earlier in the week Gazprom had threatened to cut gas supplies to Belarus by 45% from Friday morning over the country's failure to pay for gas supplied in the first half of the year. Gazprom claims that Belarus

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	914,800	\$6.112	(\$0.229)	(\$0.159)	(\$0.140)	(\$0.155)
Chicago City Gate	408,300	\$6.138	(\$0.335)	\$0.052	(\$0.283)	\$0.048
NGPL- TX/OK	633,800	\$5.899	(\$0.234)	(\$0.187)	(\$0.182)	(\$0.225)
SoCal	1,178,100	\$5.642	(\$0.230)	(\$0.444)	(\$0.178)	(\$0.424)
PG&E Citygate	451,600	\$5.960	(\$0.142)	(\$0.126)	(\$0.090)	(\$0.145)
Dominion-South	202,800	\$6.458	(\$0.474)	\$0.372	(\$0.422)	\$0.551
Transco Zone 6	332,900	\$6.784	(\$0.559)	\$0.698	(\$0.507)	\$0.775

owes it \$456.16 million. Gazprom has also said it expects Belarus to pay for future gas deliveries in full and on time.

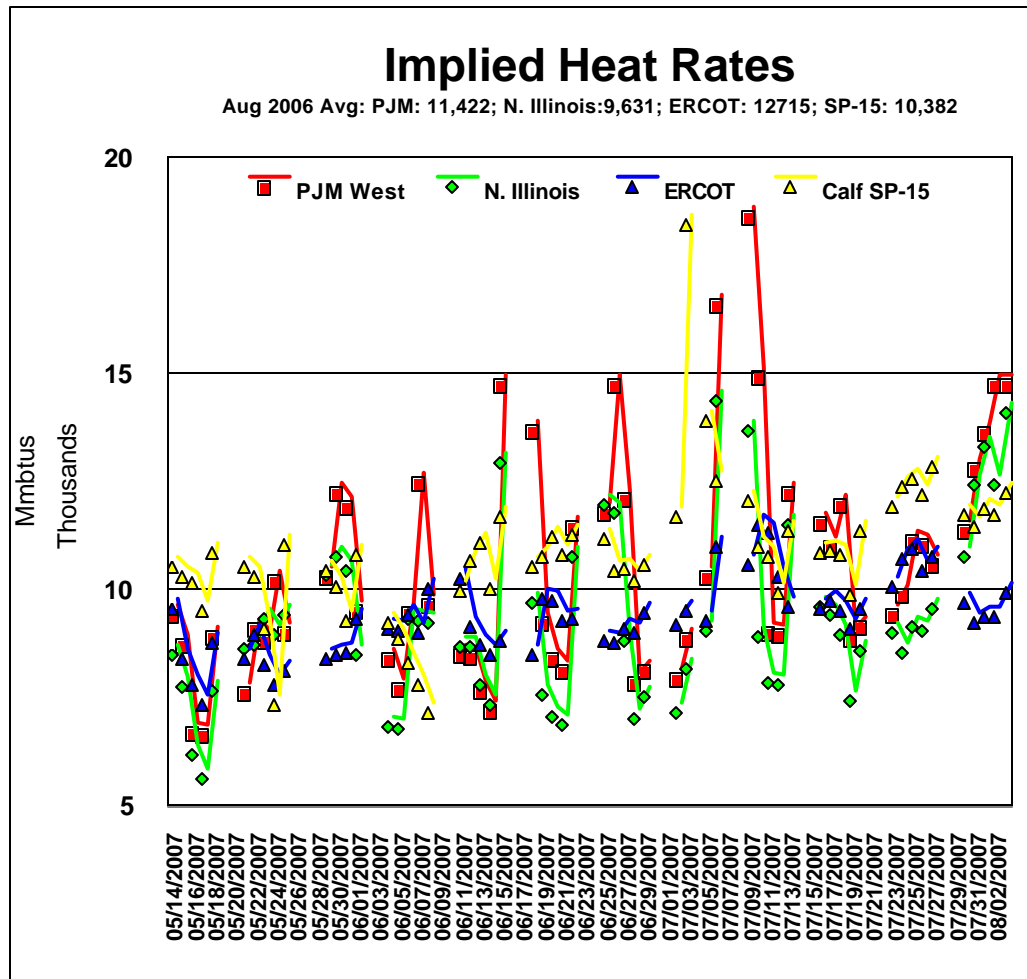
ExxonMobil said today that it will continue to examine all options for the sale of the gas from its Sakhalin-1 project on

Russia's Pacific coast. This response comes following state representatives earlier in the week formally recommending that the consortium partners give priority to supply the Russian market with the project's gas rather than export markets. ExxonMobil said its position is to "simply sell that gas for the best possible price."

Sempra Energy's CEO said yesterday that the firm's expansion projects in LNG, interstate pipelines and storage capacity are all on track. The main project the \$800 million, 1 bcf/d Costa Azul LNG terminal in North Baja continues to move forward.

Baker Hughes reported that for the week ending August 3<sup>d</sup>, the number of drilling rigs in the United States search for natural gas stood at 1470, down 4 from the prior week but up 5.3% from the same week a year ago.

Imports of LNG into the United States in July were estimated at 2.9 bcf/d basically unchanged from June, but not as high as some earlier industry forecasts of 3.2 bcf/d at the start of July. Waterborne Energy which provided the estimates, calculates that some of the spot LNG cargoes moved toward Europe, as import levels there grew by 17 bcf as well as increased buying in Asia as well. The



consultant was looking for Japan to purchase an addition 4-5 extra cargoes of LNG per month going forward in order to make up for the nuclear generating shortfall cause by the closure of the 8200 Mw nuclear plant last month due to earthquake damage. Tokyo Electric Power has six mothballed oil and LNG generating units that have a combined capacity of 2.2 million kilowatts.

The CEO of EOG Resources said today that the expectations for “disappointing” natural gas prices in the second half of this year due to higher LNG imports and expanding domestic natural gas production will push the producer to hedge more of its production and sell some shallow gas holdings in Appalachia. The company is looking to hedge between 30-35% of its production for 2008 market permitting.

Chesapeake Energy reported that its natural gas production set a record for the 24<sup>th</sup> consecutive quarter as 2Q07 daily gas production increased by 9% over the first quarter and was some 19% higher than the same time last year. The company claimed that these gains now pushed the company into the position of the largest independent gas producer in the United States.

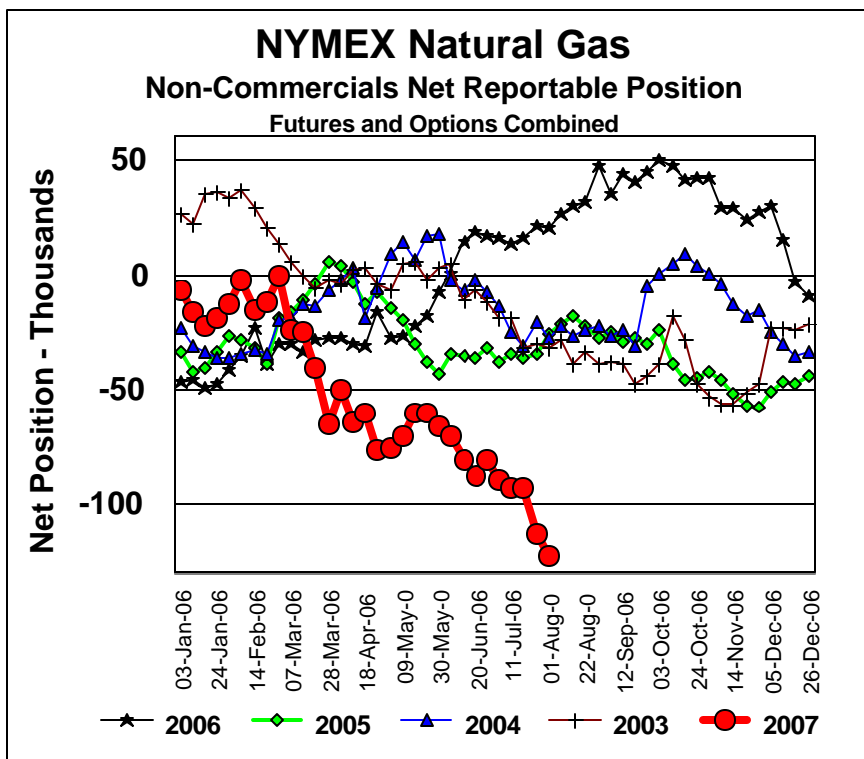
The FERC Friday gave a favorable final environmental approval to double the storage and send out capacity of Southern LNG’s import terminal in Georgia and to build a new 188 mile, 1.175 bcf/d gas pipeline to move the gas into the growing Southeast markets.

Northwest Pipeline announced it was launching an open season to seek binding commitments from shippers for participation in its Colorado Hub Connection project. Northwest is proposing a new 34-mile pipeline that would run from greasewood and Meeker Hubs to access Northwest’s mainline near Sand Springs, CO.

**PIPELINE MAINTENANCE**

Gulf South Pipeline said that maintenance on Index 130 south of Jackson, Mississippi that began June 26<sup>th</sup> has been extended through August 7<sup>th</sup>. The work was originally expected to be completed by today.

Northern Natural Gas said it would conduct Motor Control Center testing and planned unit maintenance at the Galena Compressor Station. Delivery volumes east of Galena will be limited to primary firm only. Lower pressures and pressure fluctuations may be experienced at delivery locations during this period.



Transco said that as a result of a pipeline smart pig inspection done earlier this year, the company is required to remove a section of the line downstream of the Sabine River for service. The company said that the project will limit the amount of available transportation capacity through the affected area. Effective for gas day August 4<sup>th</sup>, the company will limit the total scheduled quantity to Primary Firm Transportation for gas received upstream and delivered downstream of the Sabine River. This restriction is expected to last through August 20<sup>th</sup>.

**ELECTRIC MARKET NEWS**

Calpine announced this week that the U.S. Bankruptcy Court has approved the sale of its 50% stake in Acadia Power Partners to Cajun Gas Energy for roughly 189 million. Acadia Power Partners is a joint venture with the Louisiana utility Cleco, which owns

and operates the 1160 Mw natural gas fired Acadia Energy Center in Eunice, LA.

Genscape reported today that for the week ending August 2<sup>nd</sup>, its weekly coal burn index rose 4.8% in the east and fell 0.1% in the west, to result in the overall index being 4% higher for the week.

## **MARKET COMMENTARY**

While the early strength in the oil markets this morning seemed to help support natural gas to start the day, the release of a bit more moderate hurricane outlook by Colorado State, and the poor economic news that was released that seemed to weigh on all the financial markets, appeared to help drag the market lower and let this market settle lower for the second day in a row. But overall volume was light, as trading interest appeared restricted given it being a Friday in the summer.

The afternoon's Commitment of Traders Report showed that non-commercials decreased their futures only net short position by 674 lots for the period ending July 31<sup>st</sup>. But non-commercials though seemed to shift their focus to options and as a result the combined futures and options position was now net short 122,719 lots a new all time record. This was a 9,335 net increase in shorts during the week.

These record open interest net short positions do concern us given the potential explosive nature that a true hurricane threat may have to this market in sparking a short covering rally. As a result while we feel this market could erode further in coming days we see the profit potential for new shorts to be initiated at these levels is just not sufficient to offset the upside risk. In fact we would look for any sell off sending October values back toward the \$6.00 price level as a speculative opportunity to buy out of the money calls. As a point of reference the Oct \$7.00, \$7.50 and \$8.00 calls settled at 52 cents, 39.7 cents and 30 cents respectively.

We see initial support in this market Monday at \$6.00 and \$5.96, followed by \$5.85 and \$5.699. Resistance we see at \$6.22, \$6.29, \$6.387, \$6.482, \$6.59, \$6.68 and \$6.82.