



## ENERGY RISK MANAGEMENT

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### POWER MARKET REPORT FOR AUGUST 1, 2008

#### NATURAL GAS MARKET NEWS

Enterprise Products Partners reported that given the passage of Tropical Storm Edouard through the Gulf of Mexico on Sunday and Monday, the restart of the Independence Hub has been delayed. The production platform was taken off line last Tuesday night for a four-day evaluation of earlier repairs. The company said they expect the platform to be up and running "later this week".

Tropical Storm Edouard continued to drift westward in the Gulf of Mexico today. The storm had forced the suspension of crude offloading at the LOOP as well as the closures of the Lake Charles and Houston Ship Channels. While the storm earlier in the morning showed some disorganization, forecasters were still saying there was just a 20% chance the storm could reach hurricane strength by the time it made landfall some where near Galveston Island on Tuesday afternoon. Late in the day the

#### Generator Problems

**NPCC-** OPG's 490 Mw coal fired Unit #4 at the Nanticoke power plant was taken offline for maintenance work today.

**MRO** – Xcel Energy's 551 Mw Prairie Island #1 nuclear unit returned to service and was back up to 99% of power this morning. The unit tripped off line on July 31<sup>st</sup>.

Dominion Resources' 556 Mw Kewaunee nuclear power plant dropped to 55% of power this morning. The unit had been operating at full power on Friday.

**ERCOT** – Luminant's 750 Mw Unit #1 at the coal fired Martin Lake power station returned to service over the weekend after being shut due to a malfunction the middle of last week.

**SERC** – Southern's 888 Mw Farley 1 nuclear unit was operating at full power this morning, up 2% from Friday.

**WSCC-** AES Corp's 495 Mw Alamos natural gas fired Unit #6 returned to service on Sunday afternoon.

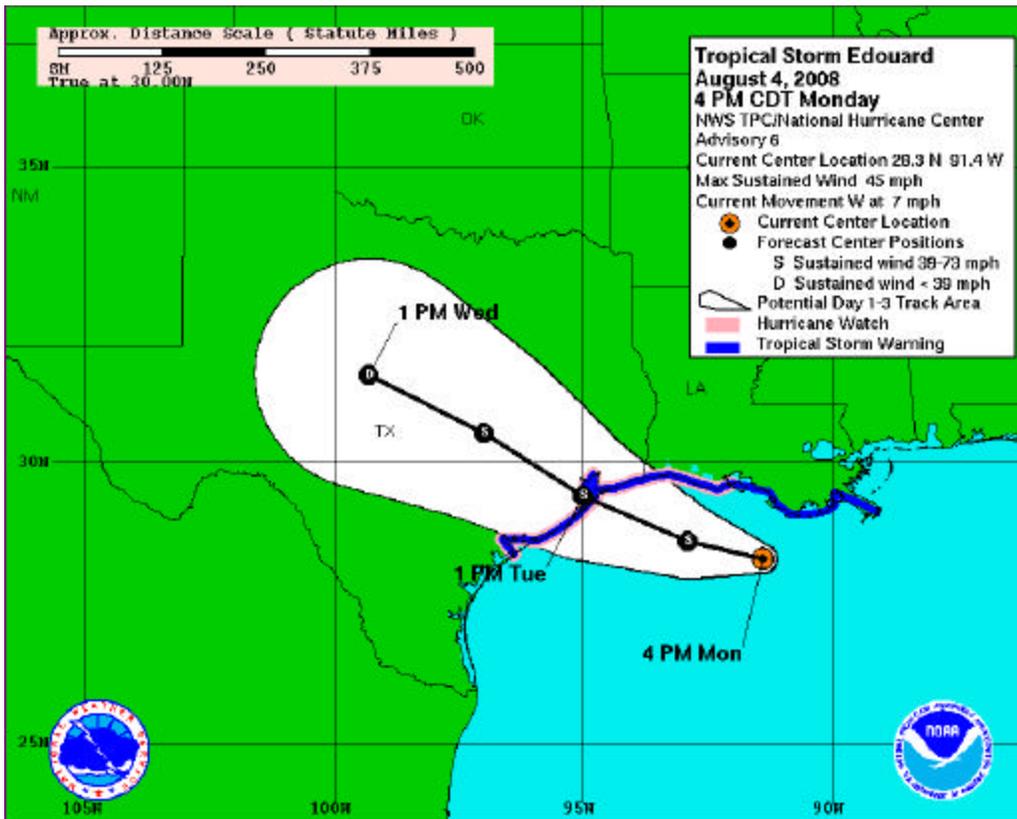
**The NRC reported that 91,494 Mw of nuclear capacity is online, down 6.5% from Friday and down 5.4% from the same day a year ago.**

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	571,300	\$9.199	\$0.151	\$0.466	\$0.854	(\$0.379)
Chicago City Gate	563,700	\$9.127	\$0.181	\$0.394	\$0.816	(\$0.087)
NGPL- TX/OK	54,000	\$8.139	(\$0.505)	(\$0.594)	\$0.130	(\$0.551)
SoCal	8	\$8.447	\$0.445	(\$0.286)	\$1.080	(\$0.901)
PG&E Citygate	992,700	\$8.741	\$0.332	\$0.008	\$0.967	(\$0.558)
Dominion-South	303,500	\$9.783	\$0.166	\$1.050	\$0.801	\$0.596
USTRade Weighted	19,682,700	\$8.822	\$0.219	\$0.089	\$0.85	(\$0.379)

the overall system's maximum winds had not changed much from this morning. There remained a divergence between computer model forecasts for the maximum strength that this storm will reach before making landfall now seen between Galveston and Port Arthur. Most oil and gas companies operating offshore platforms reported no impact to their operations. But at midday the U.S. Minerals Management

National Hurricane Center was reporting that the wind field of the storm was expanding and that tropical force winds were now recorded in three of the four quadrants, but the overall

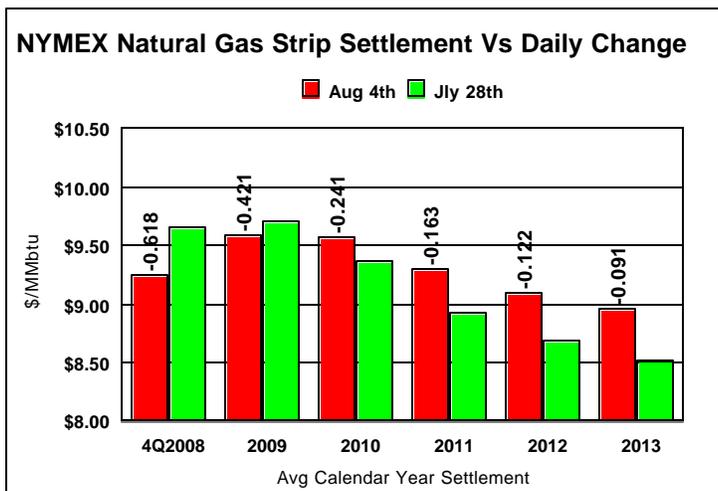
Service did report that a total of 23 platforms and 6 drilling rigs had been evacuated due to the storm. This has resulted in 11,539 b/d of crude production and 555 million cf/d of natural gas production lost.



The operator of the 1.395 bcf/d Stingray natural gas corridor, Enbridge Offshore Gas Pipelines, late on Monday afternoon declared force majeure on the corridor due to Tropical Storm Edouard and has halted pipeline operations. The company said that force majeure was due to severe weather and the evacuation of its West Cameron 509 compressor station as a result of the evacuation of Cameron Parish, Louisiana. It added that the Stingray

Station 701 Compressors, located at Holly Beach, are expected to shut down later today due to the mandatory evacuation of the parish.

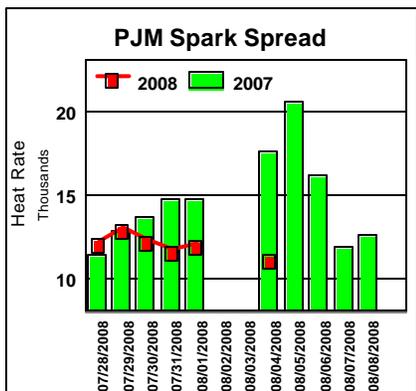
Centrica told customers on Monday that those using Britain's Rough gas storage facility to store gas on an interruptible basis must take it out from August 9<sup>th</sup> or sell it to customers holding firm storage rights. This is Britain's largest storage facility and it is nearly full, at 93% so only shippers who have paid for guaranteed storage rights will be able to use it after August 9<sup>th</sup>. The facility has approximately 118 bcf of storage.



The U.S. Commerce Department reported this morning that new orders at U.S. factories increased by a greater than expected 1.7% in June, helped in part by a sharp gain in nondurable foods orders. The government also revised May numbers upward by 0.3% to a 0.9% gain. June's increase was the largest since December.

The Croatian prime minister said today that his government would make a decision this autumn on the location of a LNG terminal, which is expected to be operational by 2014. Croatia along with its partners, OMV, Total, RWE, E.ON\_Ruhr gas

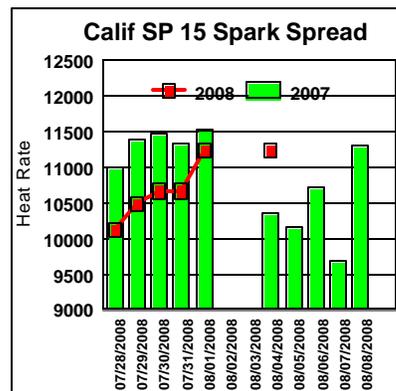
and Geoplin are looking at the terminal as a project that can help central Europe lower its dependency on Russian pipeline gas. The terminal would have an initial capacity of 10 billion cubic meters of gas per year, which could be increased at a later time up to 15 billion cubic meters.



TECO Energy announced today the formation of a new subsidiary, SeaCoast Gas Transmission, which will seek to develop and own a high volume Florida intrastate natural gas transmission pipeline. SeaCoast Gas has entered into an agreement with JEA, its first pipeline customer that would provide for long-term transportation of natural gas to JEA's planned Greenland Energy Center. SeaCoast Gas' planned pipeline would connect both FGT and Southern Natural gas transmission networks.

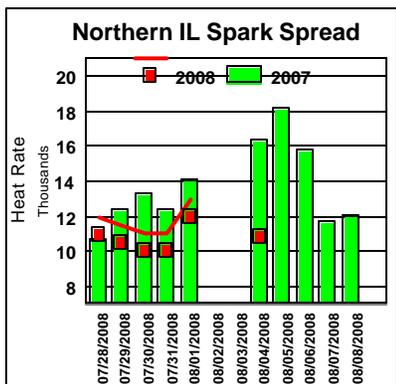
which is seeking to move natural gas from the North Slope to its AECO hub.

Texas Eastern Transmission announced today a non-binding open season for its Texas Eastern Appalachia to Market (TEAM) expansion program, to move emerging Appalachian natural gas production to the markets in the northeast and Mid-Atlantic States. The expansion program has a targeted capacity of 300 million cf/d and be in service as early as November 1, 2011.



**PIPELINE MAINTENANCE**

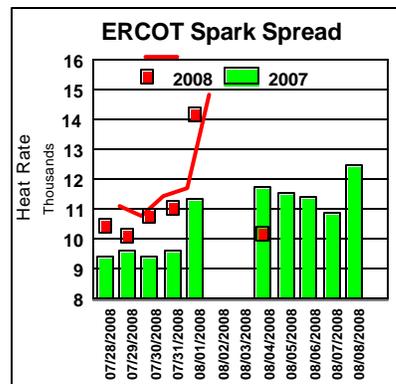
Trunkline Gas Company announced several outages in September on the Kountze 100 line as part of the completion for Phase II of the Trunkline Field Zone Expansion Project. On September 4<sup>h</sup> lasting through September 15<sup>th</sup> outages along on the Kountze 100 line will limit capacity to 650 MMcf/d.



**ELECTRIC MARKET NEWS**

The CEO of independent power producer Magnolia Energy told Mississippi state regulators that its 945 Mw Magnolia natural gas generating facility has operated at less than 20% of the time since starting operations over 5 years ago, The company official told regulators that investor owned utilities in the state continued to operate older and

less efficient generating units and their request to build additional generating units in the state is unnecessary. The independent power producers are seeking state regulators to adopt rules forcing utilities to give them a chance to sell power into the market through a competitive bidding process.



ERCOT was forecasting power demand in Texas would reach a new record this afternoon, to 63,804, topping the current record of 62,339 Mw set back in August 2006.

NRG Energy and environmental groups reportedly have reached a deal allowing the power producer to proceed with a large, coal fired generator in Texas, in exchange for the offsetting or sequestration of half of the plant's greenhouse gas emissions. The 800 Mw unit is proposed at the company's Limestone generating facility near Waco, Texas.

Genscape reported that U.S. power plant output fell 3.2% to 91.4 million Mwh in the week ending July 31<sup>st</sup>. Output was 1.8% less than the same week a year ago.

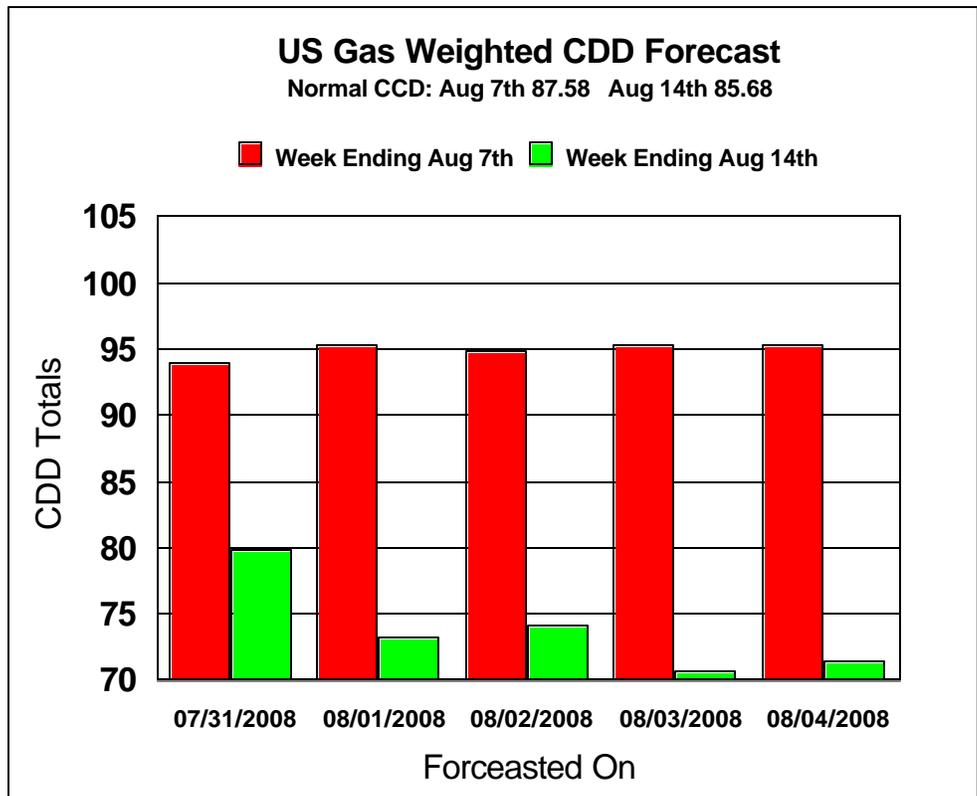
**MARKET COMMENTARY**

While the natural gas started the trading session higher Sunday evening on the news of Tropical Storm Edouard had indeed been able to form in the Gulf of Mexico as some private forecasters had been warning on late Friday, but by early Monday morning forecasters, lead by the National Hurricane center had issued

updates saying the storm had actually weakened a bit overnight and as a result had only a 20% chance of reaching hurricane strength before making landfall by Tuesday morning/ afternoon. As a result prices began to erode throughout the morning. Traders also found little comfort in the current heat wave in supporting prices, despite firmer cash prices since the hotter than normal outlook for the current week for the nation was seen as being replaced by a cooler than normal one, next week. The outlook for next week was seen as even cooler than had been forecasted at the end of last week. As a result prices saw additional selling sweep into the market when last week's lows were breached at the \$8.81 level late this morning driving prices down to \$8.60 before support was found once the gap in the daily September chart from February 8<sup>th</sup> was backfilled. Prices actually moved into a sideways pattern throughout the afternoon despite the late sell off in oil prices, which ended up returning the price differential between natural gas and crude oil back to levels where the it was on Friday. Volume today was good with over 208,000 futures traded.

Open interest reported at midday showed that the futures open interest on Friday declined by 7,109 contracts, with liquidation in the January, March, April and October contracts accounting for 10,464 lots to be reduced. The Henry Hub Swap contract also saw a reduction in open interest by 10,093 lots (one quarter the size of the futures contract) with the same months in the 2010 contract year showing a combine reduction by 14,750 lots.

The March-April spread also broke down today breaking recent support of the last week at 64 cents at mid morning allowing this spread to fall all the way down to 50 cents before bouncing back in the afternoon, but still settling at 58.5 cents, the lowest this spread has settled in over three years.



Technically this spread now might not find support until it reached the bottom of a two-year price channel, which would be 36 cents.

We feel that speculative long liquidation was the driving force in this market, despite the late news of greater volumes shut in as a result of the storm as well as the delay once again in the restart of the 1 bcf/d Independence production platform. But it appears longs will not return to this market until they are shown a true serious hurricane threat to the Gulf of Mexico and or a heat wave that last for more than 1 week. In the September contract we would look for support tomorrow starting at \$8.50 followed by \$8.351, \$8.33, \$7.975 and \$7.351. Resistance we see at \$9.351, \$9.60, \$9.975 and \$10.351.