



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR AUGUST 12, 2008**

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

The EIA released their latest Short Term Energy Outlook today and it significantly lowered its price outlook for this year and next from its report released a month ago. The agency now sees natural gas prices in 2008 averaging \$10 per Mcf and in 2009 at \$9.00 per Mcf. This is a price reduction of 14% and 23% respectively. While the agency revised higher its outlook for natural gas consumption in 2008, by 0.9% to a gain of 3% and in 2009 by 0.6% to a growth rate of 1.7% as natural gas fired power generation continues to grow, the price pressure appears to be coming from the agency's dramatic change in supply forecast. The EIA now sees total marketed natural gas production to increase by 8% in 2008 and grow by another 3.7% in 2009. Robust growth from unconventional production basins in the Lower 48 onshore region is expected to continue, while production is projected to remain unchanged in the Federal Gulf of Mexico in 2008. Marketed natural gas production from the federal Gulf of Mexico is projected to grow by 3.5% in 2009 while sustained drilling activity is expected to lead to production gains of 3.9% in the Lower 48 onshore region. Imports of LNG are expected to remain low as demand for LNG in Asia and Europe continues to pull cargoes in those directions due to higher prices than the U.S. market. As a result the agency sees LNG imports in the United States this year totaling just 390 bcf in 2008 and 480 bcf in 2009 versus imports last year of 771 bcf.

The National Hurricane Center was watching two areas of disturbed weather in the tropics, which they warned could strengthen into a tropical depression within the next two days. The first area is some 500 miles east of the Lesser Antilles. This system (92-L) while battling some pockets of dry air which appear to have limited any development through the day

#### **Generator Problems**

**NPCC** – OPG's reported that its 490 Mw coal fired Unit #1 at the Nanticoke power station returned to service. But the company took down the 490 Mw Unit #3 sister unit for short-term maintenance. The company also reported that its coal fired Lambton 4 power generating unit also returned to service.

**SERC** – Southern's 888 Mw Farley #1 nuclear unit has returned to full power.

TVA's Browns Ferry #3 nuclear unit was at 75% power this morning down 23% from yesterday.

**MRO** – Exelon's 867 Mw #2 nuclear unit returned to full power this morning, following a reduction overnight to 67% so operators could work on a turbine unit. The unit had been at 98% capacity on Monday.

NPPD's Cooper nuclear generating unit has exited its outage and was up to 20% of power this morning.

**The NRC reported that 95,246 Mw of nuclear capacity is online, up 1.1% from yesterday and down 1.13% from the same day a year ago.**

**WECC** reported that it was looking for peak demand today to reach 138,229 Mw, down 0.7% from Monday. Generation outages today were expected to be 13,764 Mw down 7.5% from Monday's levels.

**PJM** reported that generating outages in the region were estimated at 10,684 Mw up 3.6% from yesterday, while peak demand was seen running at 98,800 Mw today some 5.7% more than yesterday but some 0.7% less than forecast on Monday. Wednesday's peak demand was also revised lower today by 0.7%, now seen at 100,600 Mw.

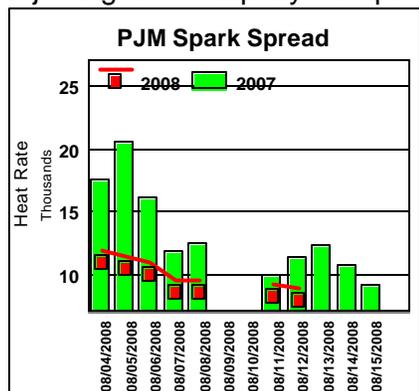
**MISO** reported that 5,200 Mw of outages in the region today 0.2% higher than yesterday. Peak demand today was seen at 79,770 Mw some 1.7% higher than yesterday and 0.3% less than forecasted on Monday. Wednesday's peak demand is seen at 81,080 Mw.

today is still expected to strengthen later this week as it approaches the Bahamas and Florida. Some forecasters are looking for this storm to move through the Florida straits early next week and move into the eastern Gulf of Mexico around next Thursday. The second system (93-L) some 500 miles west southwest of the Cape Verde Islands is seen developing slowly over the next few days but most likely

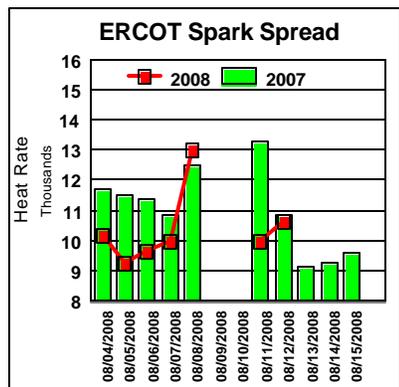
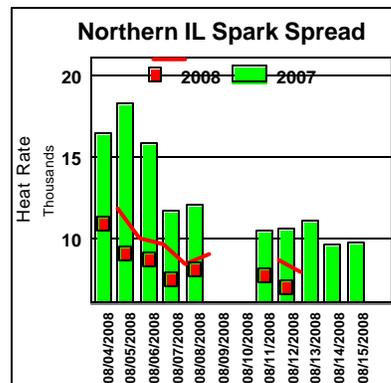
Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	843,200	\$8.231	\$0.051	(\$0.171)	(\$0.061)	(\$0.458)
Chicago City Gate	567,700	\$8.188	\$0.182	(\$0.214)	\$0.075	(\$0.253)
NGPL- TX/OK	435,100	\$7.919	\$0.109	(\$0.483)	\$0.002	(\$0.489)
SoCal	454,900	\$7.759	\$0.067	(\$0.643)	(\$0.040)	(\$0.644)
PG&E Citygate	907,500	\$8.101	\$0.144	(\$0.301)	\$0.037	(\$0.340)
Dominion-South	351,400	\$8.609	\$0.083	\$0.207	(\$0.024)	\$0.268
UTrade Weighted	17,333,000	\$7.894	\$0.046	(\$0.508)	(\$0.06)	(\$0.458)

would strengthen by the end of the week. This system currently looks to be more a threat to the eastern coast of Florida or the Southeastern U.S.

Partners on Monday requested that the federal courts “review and set aside” two FERC rulings rejecting the company’s request that a federal district court be allowed to hear the agency’s case charging ETP with manipulating the natural gas market. The FERC last week had denied the company’s request to move the case to the federal courts citing that the Natural Gas Act does not require the agency to file an action in district court unless and until it seeks civil penalties. In May the FERC sent its case against ETP to an administrative law judge.



Chevron said Tuesday that it plans to incorporate the development of a domestic gas phase at its Gorgon LNG project in Western Australia. The company is seeking to develop a domestic gas plant that could handle some 275,000 Mcf/d before December 2010. This supply would boost Western Australia’s gas supply by 30%. It appears that this push to tap into the domestic market gained steam as its LNG plans seemed to have faced delays. The first LNG exports now are not expected until 2014.



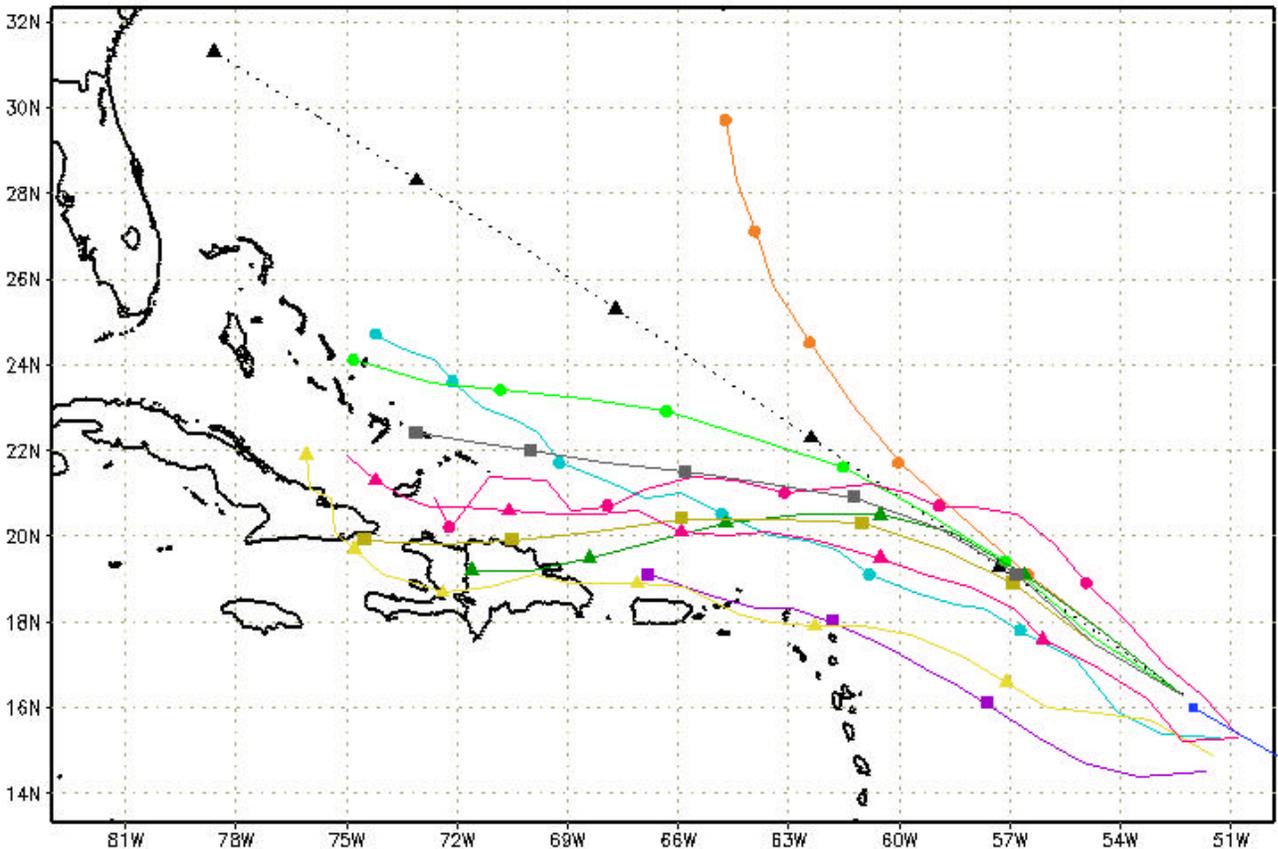
BP and StatoilHydro announced this morning that they had stopped natural gas exports from Azerbaijan through the South Caucasus pipeline due to security concerns in Georgia.

Mitsubishi Corp agreed to buy as much as 1.5 million metric tons a year from the Progress LNG export project in Nigeria starting in 2011. The contract will run for 15 years. Mitsubishi will buy the entire production from Progress LNG.

AltaGas Income Trust reported that its Harmattan Complex has returned to full operations. The complex some 60 miles north of Calgary had been shut down on July 24<sup>th</sup> following a fire to an oil heater. Operations were restarted on July 28<sup>th</sup> but at reduced levels. At that time, the Complex was gathering and processing gas at close to normal levels, while some

extraction functions were limited. As of yesterday, the Complex was processing gas at pre-incident volumes with full extraction and fractionation capabilities.

XTRP 12/1800Z    BAMD 12/1800Z    GFDL 12/1200Z    AVNO 12/1200Z    GMC 12/1200Z  
 TVCN 12/1800Z    BAMB 12/1800Z    UKM 12/1200Z    AEMN 12/1200Z    LGEM 12/1800Z  
 NHC Not Avail    BAMS 12/1800Z    NGPS 12/1200Z    HWRP 12/1200Z    CLP5 12/1800Z



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NHC Advisories and County Emergency Management Statements supersede this product. This graphic should complement, not replace, NHC discussions.



**PIPELINE MAINTENANCE**

Alliance Pipeline said that it would perform piping modifications beginning today at the Taylor Junction to facilitate the installation of a compression station. These modifications will require all production upstream of the junction to be shut-in. The outage is expected to last at least 48 hours.

Williston Basin Interstate Pipeline said it has identified an anomaly on the GeoResources lateral near Hammond Field in southeast Montana requiring repair. Receipts from #04830 Hammond will be shut in when the company isolates and repairs the problem. The company also reported that it had cancelled maintenance at the Fort peck Compressor Station originally scheduled for August 13<sup>th</sup>.

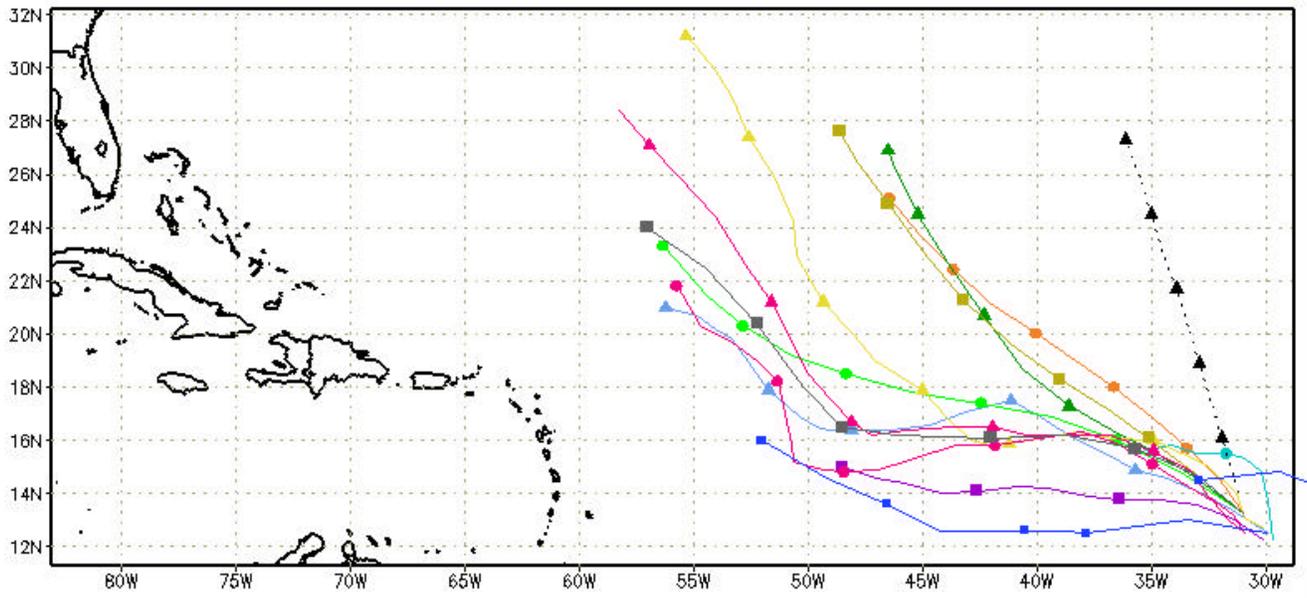
Questar Pipeline Company said the repair parts installed at its SocCal delivery meter to correct the failure from August 7<sup>th</sup> failed on installation. As a result, the meter cannot be placed back into service and no nominations will be accepted to MAP 302 (SoCal) The Company hopes to accept nominations by August 13<sup>th</sup>.

**ELECTRIC MARKET NEWS**

The EIA Short Term Energy Outlook today said as a result of cooling needs so far this summer running about 8% higher than a year ago, electricity consumption which last month had been expected to be flat in 2008, is now estimated will grow by an average rate of 1.2% in 2008. The agency sees this

growth rate continuing in 2009, but this is 0.2% less than forecasted last month. Coal consumption by the power industry is seen growing by just 0.3% in 2008, half the rate forecasted last month by the EIA. In addition the agency now sees coal consumption by the power sector being flat in 2009, down from the 0.4% increase discussed last month by the EIA. U.S. residential electricity prices are expected to increase by 5% this year and grow by 10% in 2009, as higher generating costs slowly cycle through to the consumer.

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Genscape reported today that U.S. power plants have 0.8% less coal on hand than last week, but stockpiles were 1.1% higher than the same time a year ago. The stocks on hand equate to 49 days of average coal burn.

PNM Resources Energy and its partner Cascade Investments LLC have dropped plans to expand the Twin Oaks coal fired power plant in Texas by 305 Mw. No reason was given for the decision. But PNM Resources did say later in the day that it may sell its Texas retail electric operation as it focuses on restoring the financial health of the company.

The NRC today approved the request by Dominion Generation to increase the generating capacity at the Millstone nuclear plant by 7% or 80 Mw. The company intends to implement the upgrade during its fall maintenance outages.

The Salt River Project Agricultural Improvement and Power District reached agreement with the EPA and the Department of Justice to control air pollution from its coal fired power plants. The company

agreed to install pollution control devices at its plants in St. John's Arizona at an estimated cost of \$400 million and also pay a civil penalty of \$950,000.

**MARKET COMMENTARY**

The natural gas market started the day firmer helped by higher oil prices as well as a supportive weather forecast that the tropical disturbance near the Leeward Islands would be strengthening and could be headed towards the Gulf of Mexico by next week. But as oil backed off the morning's highs so did natural gas and the market received

an additional shove downward as the mid-afternoon tropical update was released and it showed that neither system had demonstrated any additional strengthening during the day. The market remains basically confined in the trading range of the past two days at \$8.55-\$8.16.

With the short term tropical outlook a bit in doubt late this afternoon and a temperature outlook that continues to moderate, the pressure will be building on natural gas tomorrow to punch below the recent lows in both the September contract as well as in the spreads such as the March-April, if the bulls do not have a strong base to rest upon. We see support tomorrow at \$8.23, \$8.19-\$8.16. Additional support we see at \$8.095 and \$7.956. Resistance we see at \$8.319 followed by \$8.468, \$8.55, \$8.607 and \$8.724. Additional resistance we see at \$9.09 and \$9.60.

