



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR AUGUST 18, 2008**

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

The National Hurricane Center's track forecast of Tropical Storm Fay continued to shift eastward from Sunday evening's forecast and by Monday afternoon the best consensus was that for the storm to remain a Tropical Storm or possibly reach a minimal Category 1 hurricane by the time it made land fall Tuesday somewhere on the western coast of Florida. The storm is then expected to track northeastward across the state and re-emerge over the Atlantic and then stall and possibly strengthen there before making landfall somewhere along the southeastern coast. While some minor evacuations of production platforms in the eastern Gulf of Mexico were reported, production was not seen to be affected. Forecasters though were also following the progress of a cluster of "vigorous" thunderstorms east of the Cape Verde Islands. This area of disturbed weather is currently expected to strengthen and become a

#### **Generator Problems**

**NPCC** – Ontario Power Generation's 515 Mw Pickering #8 nuclear unit was taken off line early Monday.

Bruce Power's 750 Mw nuclear unit #3 returned to service this morning.

**PJM** – PPL's 1115 Mw Susquehanna #1 nuclear unit ramped up following weekend maintenance, but that saw operations reduced to 17% of capacity. Operations this morning were running at 77%

**FPCC**- FPL shut its 693 Mw Turkey Point #4 nuclear unit for repairs today.

**SERC** – TVA's 1121 Mw Watts Bar #1 nuclear unit ramped up to 95% capacity Monday. The unit was only at 26% capacity on Friday.

TVA's 1065 Mw Browns ferry #1 and 1120 Mw Browns Ferry 3 nuclear units returned to full power.

**MRO** – AEP's 1077 MW Cook #2 nuclear unit was taken off line over the weekend for maintenance and remained off line today.

Exelon's 867 Mw Unit #3 at the Dresden nuclear power plant ramped up to 99% of capacity. On Sunday the unit was reduced to 30% due to a reactor coolant system leak.

**WECC** – SGE's 1080 Mw San Onofre #3 nuclear unit returned to full power Monday. The unit had been running at reduced power since August 14<sup>th</sup>.

PG&E's 1118 Mw Diablo Canyon #1 nuclear unit was shut down automatically on August 17<sup>th</sup> due to a transformer fire.

**The NRC reported that 94,051 Mw of nuclear capacity is online, down 1.52% from Friday and up 1% from the same day a year ago.**

**WECC** reported that it was looking for peak demand today to reach 134,830 Mw, 5% more than was than recorded on Friday. Generation outages today were expected to be 15,218 Mw down 3.1% from Friday's levels.

**PJM** reported that generating outages in the region were estimated at 13,797 Mw up 9% from Friday, while peak demand was seen running at 116,300 Mw today some 16.6% more than Friday and some 0.4% less than forecast on Friday. Tuesday's peak demand was also revised lower today by 4%, now seen at 117,200 Mw.

**MISO** reported that 6,610 Mw of outages in the region today 18% more than Friday. Peak demand today was seen at 90,880 Mw some 16.3% more than Friday and 0.4% more than forecasted on Friday. Tuesday's peak demand is seen at just 86,060 Mw.

tropical depression or storm in the next couple of days as it head towards the northeastern sections of the Caribbean by this weekend.

Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
Location	Traded	Price		(As of 12:30 PM)		Moving Avg
Henry Hub	944,800	\$7.740	(\$0.082)	(\$0.233)	\$0.167	(\$0.503)
Chicago City Gate	608,100	\$7.736	(\$0.046)	(\$0.237)	\$0.112	(\$0.220)
NGPL- TX/OK	647,800	\$7.464	(\$0.081)	(\$0.509)	\$0.077	(\$0.475)
SoCal	660,400	\$7.386	\$0.025	(\$0.587)	\$0.183	(\$0.631)
PG&E Citygate	824,200	\$7.735	(\$0.059)	(\$0.238)	\$0.099	(\$0.263)
Dominion-South	249,000	\$8.259	\$0.009	\$0.286	\$0.167	\$0.223
USTrade Weighted	17,725,700	\$7.503	\$0.009	(\$0.470)	\$0.17	(\$0.503)

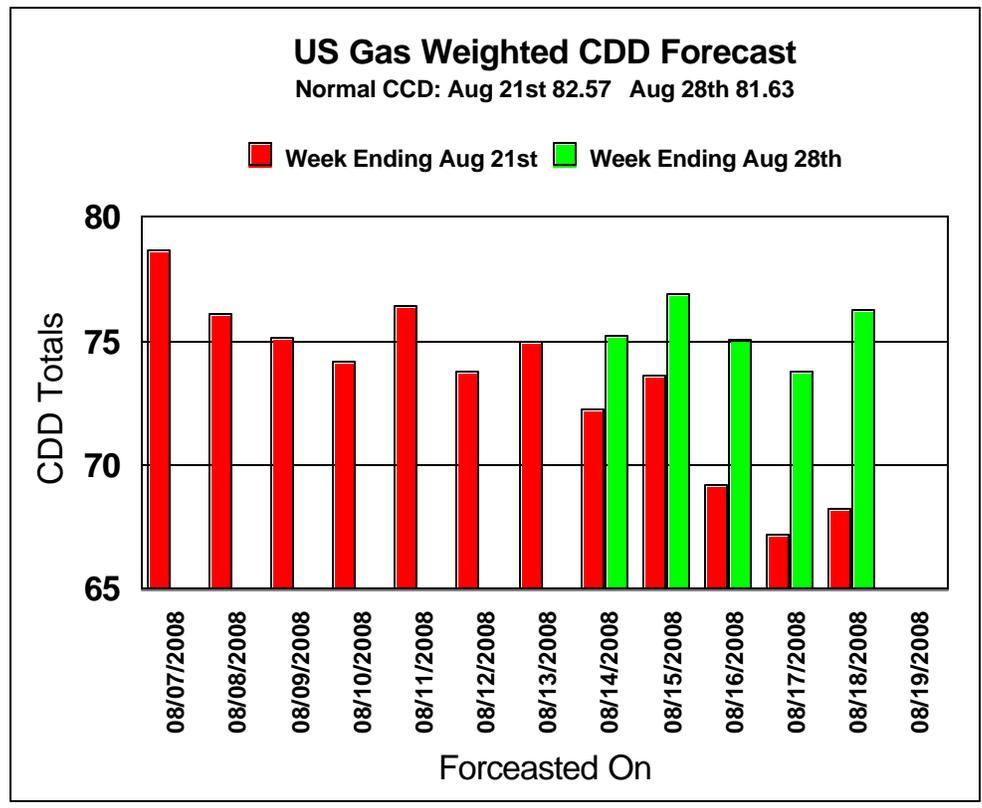
Goldman Sachs on Friday reduced their price forecast for this upcoming winter season by 23% due to higher than expected output and lower demand from power plants.

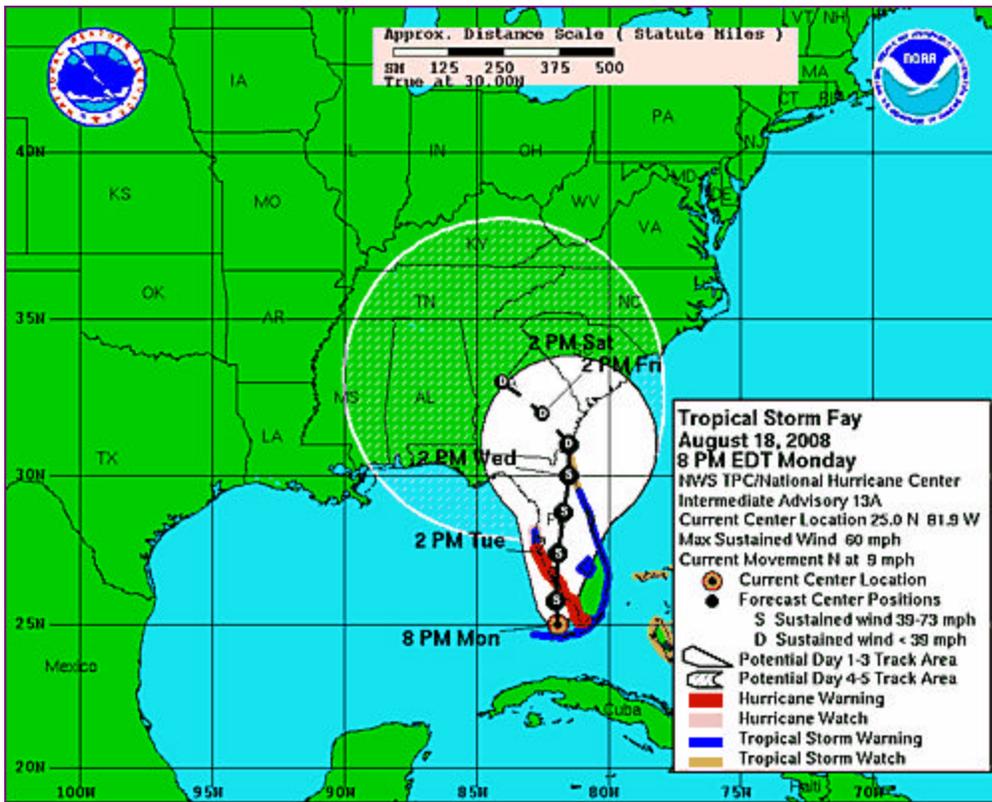
The investment bank noted that due to strong U.S. natural gas supply growth, incremental LNG imports into the United States will no longer be necessary for U.S. stocks to be rebuilt to comfortable levels in front of the upcoming heating season. The company raised its forecast by 720 million cf/d the U.S. natural gas production level, due to higher shale output. They also see working gas inventories to reach 3.45 tcf by the start of the heating season, which would be 122 billion above the 5 year average, and seeing inventories falling to 1.55 tcf by the end of the heating season. As a result it lowered it price forecast for April-August 2009 to \$9.10 per Mmbtu from its prior estimate of \$10.30.

An industry LNG consultant, Andy Flower said today that LNG output might rise by 14% next year as new projects in Qatar and Indonesia finally come on line. But he warned that LNG supplies this winter may be tight and thus could push LNG prices higher possibly to \$25 per Mmbtu.

Williams Companies received FERC approval for its Sentinel project, which seeks to provide additional natural gas service to the U.S. Northeast market. The project is slated to provide an additional 142,000 Dth/d of new firm transportation capacity, with 40,000 Mmcf/d as early as November 1<sup>st</sup> of this year and an additional 102,000 Mmcf/d by November 1, 2009.

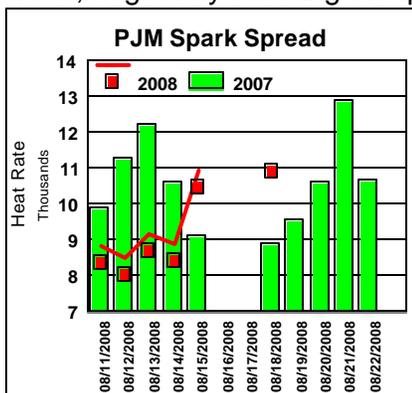
Market watchers are expecting the 138,000 cubic meter LNG tanker to arrive at the UK's Isle of Grain facility on Tuesday.





The federal commission, The Susquehanna River Basin on Friday said that it was tightening requirements on natural gas drilling in the Marcellus Shale play. This is the first time in the commission's 37-year history that it has imposed the prior approval requirement on a specific class of projects. The commission said all natural gas drilling operations in the Susquehanna River Basin Commission's jurisdiction must now seek its prior approval for water use starting October 15<sup>th</sup>. The

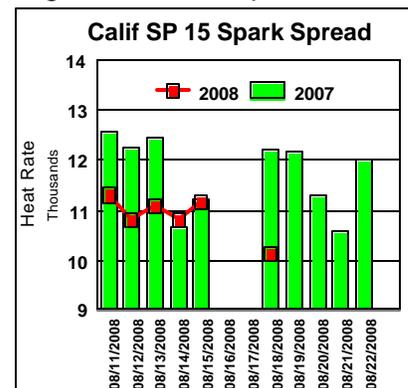
commission determined that gas drilling and production has the potential to consume huge amounts of water, negatively affecting the quality and quantity of water in the river basin.



According to a recent research report from SunTrust Robinson Humphrey/ the Gerdes Group North American exploration and production companies cost structures and current share prices suggest that natural gas process need to be more than \$8.00 per Mcf and oil prices above \$70.00 to deliver a market return on equity.

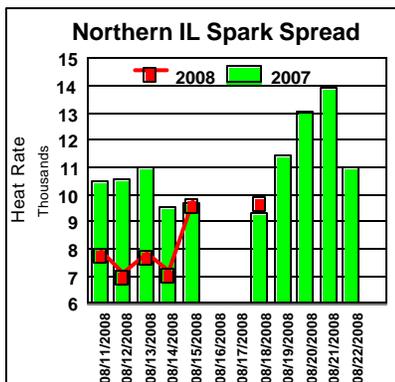
**PIPELINE MAINTENANCE**

Southern Natural Gas Pipeline Co. said maintenance on various sections of its pipelines between its Olga platform and Toca Compressor Station will start on August 24. It expects to start pipeline isolation between Gate 7 Platform and Toca Compressor Station with receipt points, Bayou Gentilly and Delacroix to be impacted. Pipeline isolation between the Olga Platform and Gate 7 Platform will begin around September 7, with the Cox Bay receipt point to be affected. They are expected to return to service around September 11.



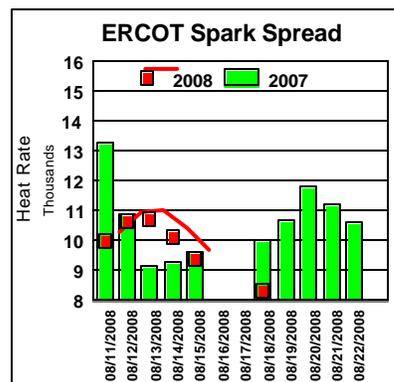
Gulf South said it began scheduled maintenance at the Olla Compressor Station on Unit # 2 on Sunday morning. The world will last about 14 days. It said capacity at the station could be reduced by as much as 250,000 Dth/d.

Alliance Pipeline said the Kerobert Compression Station will undergo two days of performance testing starting on Tuesday. The AB10 Josephine Meter Station will be unavailable for two hours on Wednesday for maintenance. Station capacity will be lowered to 22.08 mmcf/d of gas. Alliance will also conduct a routine inspection that will require the Carson Creek unit #1 compressor to be offline for 10 hours on Tuesday that will cut its capacity to 13.06 mmcf/d.



Florida Gas Transmission started unscheduled maintenance on one of the compressors at the Compressor Station #7. The outage is expected to last until the end of the month. During the work, FGT will schedule up to about 385,000 mmbtu/d through Compressor Station #7, down from the normal level of 465,000 mmbtu/d.

Sea Robin Pipeline Co said it would begin sweeping operations this week in the line segment between Vermilion 149 and the Sea Robin Condensate Facility for up to two weeks. Upon completion of the sweeping, Sea Robin will begin pigging operation in the same line segment.



Gulf South said it would be performing scheduled maintenance on the Airport Compressor Station Regulator Facility starting Wednesday morning for about 4 hours. Physical flow to the station will be shut in during the maintenance.



Genscape reported this morning that it estimates U.S. power generation in the United States for the week ending August 21<sup>st</sup> to have fallen 6.88% from the week before and down 8.11% from the same week a year ago.

Southern California Edison signed a 20-year contract with DCE for the purchase of 909 Mw of wind power from Oregon. No details of the deal though were provided.

Dominion Virginia Power said it has applied with the U.S. Department of Energy for a loan guarantee for a potential third nuclear power plant at the North Anna Power Station. The unit would have a capacity of 1520 Mw. If approved and the company moves forward with the project, it would not be in service until 2015.

### **MARKET COMMENTARY**

The natural gas market opened lower over night and basically remained on the defensive throughout the day as the track of Tropical Storm Fay continued to fade to the east and thus the risk to the Gulf of Mexico production areas was evaporating. With near term temperature outlooks for the next two weeks basically showing cooling demand should remain significantly less nationwide than normal, futures prices pushed lower and made yet another near term low. The September contract pushed down to a low of \$7.814 at the start of trading on Sunday night, a level not seen since the last trading session of 2007. Volume was moderate at best with just 149,000 booked on the day. Also the March April natural gas spread pushed lower in relatively light trading volume with just 1860 lots booked on the day. The spread settled at 33 cents, but trading after the close saw the values drop to a new low of 31.5 cents.

It appears this market could see yet another down session tomorrow, as the near term tropical risk to the Gulf of Mexico is absent coupled with a limited cooling demand across the nation for the next 7-10 days. But with this market in an extremely oversold condition technically it could be susceptible to a quick profit taking short covering rally at the first hint of a new tropical threat. Given that we are just starting to go into the peak hurricane period of the next 4-6 weeks we would recommend moving to the sidelines and would take profits on any shorts in outright or spreads that one might have.

We see support in the September contract tomorrow at \$7.81, followed by \$7.784, \$7.68, \$7.589 and \$7.546. More distant support we see at \$7.50-\$7.42. Resistance we see at \$8.02-\$8.05 followed by \$8.156, \$8.242 and \$8.26. Additional resistance is seen at \$8.736 and \$9.092.