



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR AUGUST 19, 2008**

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

Tropical Storm Fay just will not go away for some traders. Overnight some computer models, the GFS and the European models in particular had changed to now leave open the possibility of this storm moving into the Atlantic off the coast of Daytona Beach, stalling there and redeveloping quickly and then pushing west again and reemerging back into the Gulf of Mexico, coming ashore anywhere from Alabama to Mississippi. Meanwhile the National Hurricane Center was watching a tropical disturbance some 1000 miles west-southwest of the Cape Verde Islands. The NHC assigns a 25-50% probability that this system could develop into a tropical depression within the next 48 hours, but other forecasters note that this system is moving into an area of high wind shear, with winds of up to 20-30 knots that could continue through the weekend, thus preventing development near term.

BBL, the operator of a natural gas pipeline from the Netherlands to the UK announced it will build an additional compressor to increase its capacities for exports to Britain. The new compression at Anna Paulowna station in the Netherlands will increase capacity on the line by 8 million cubic meters per day to 50 million cubic meters per day.

Algeria's state oil company Sonatrach reported that a fire in a natural gas pipeline in western Algeria on Monday had stopped gas flow from the Hassi R'mel gas field in central Algeria to the port at Arzew.

The U.S. Department of Labor reported this morning that the Producer Price Index for July climbed 1.2% after a 1.8% gain in June. The core producer price index, which excludes energy and food, jumped by 0.7% in July after a 0.2% increase in June. This was the fastest rise in the monthly core

#### **Generator Problems**

**PJM** – PPL's 1115 Mw Susquehanna #1 nuclear unit rebounded by 17% from yesterday and stood at 94% of capacity.

**ERCOT** – Unit #1 at the coal fired Martin Lake Steam Electric Station was taken off line this morning as operators conducted electrical work. The unit was expected back in service in the afternoon.

**WECC** – SGE's 1080 Mw San Onofre #3 nuclear unit was back to full power this morning. The unit had been at 67% of capacity on Monday.

**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 131,683 Mw, 2.5% less than was recorded on Monday. Generation outages today were expected to be 15,501 Mw down 5.4% from Monday's levels.

**PJM** reported that generating outages in the region were estimated at 14,464 Mw up 4.8% from Monday, while peak demand was seen running at 116,400 Mw today basically unchanged from yesterday and some 0.7% less than forecast on yesterday. Wednesday's peak demand was also revised lower today by 1.8%, now seen at 104,600 Mw.

**MISO** reported that 6,610 Mw of outages in the region today 11.8% more than Monday. Peak demand today was seen at 87,170 Mw some 4.1% more than Monday and 1.3% more than forecasted on Monday. Wednesday's peak demand is seen at just 86,310 Mw.

producer prices since November 2006. Meanwhile the government reported that U.S. housing starts in July fell 11% to the lowest annual rate in more than 17 years, while building permits tumbled 17.7%.

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	793,000	\$7.727	(\$0.014)	(\$0.302)	(\$0.074)	(\$0.511)
Chicago City Gate	624,300	\$7.743	\$0.007	(\$0.285)	(\$0.048)	(\$0.234)
NGPL- TX/OK	802,600	\$7.473	\$0.008	(\$0.555)	(\$0.047)	(\$0.489)
SoCal	794,300	\$7.391	\$0.005	(\$0.637)	(\$0.050)	(\$0.630)
PG&E Citygate	861,800	\$7.768	\$0.032	(\$0.261)	(\$0.023)	(\$0.255)
Dominion-South	315,500	\$8.129	(\$0.130)	\$0.101	(\$0.185)	\$0.201
USTRade Weighted	17,235,900	\$7.485	(\$0.019)	(\$0.543)	(\$0.07)	(\$0.511)

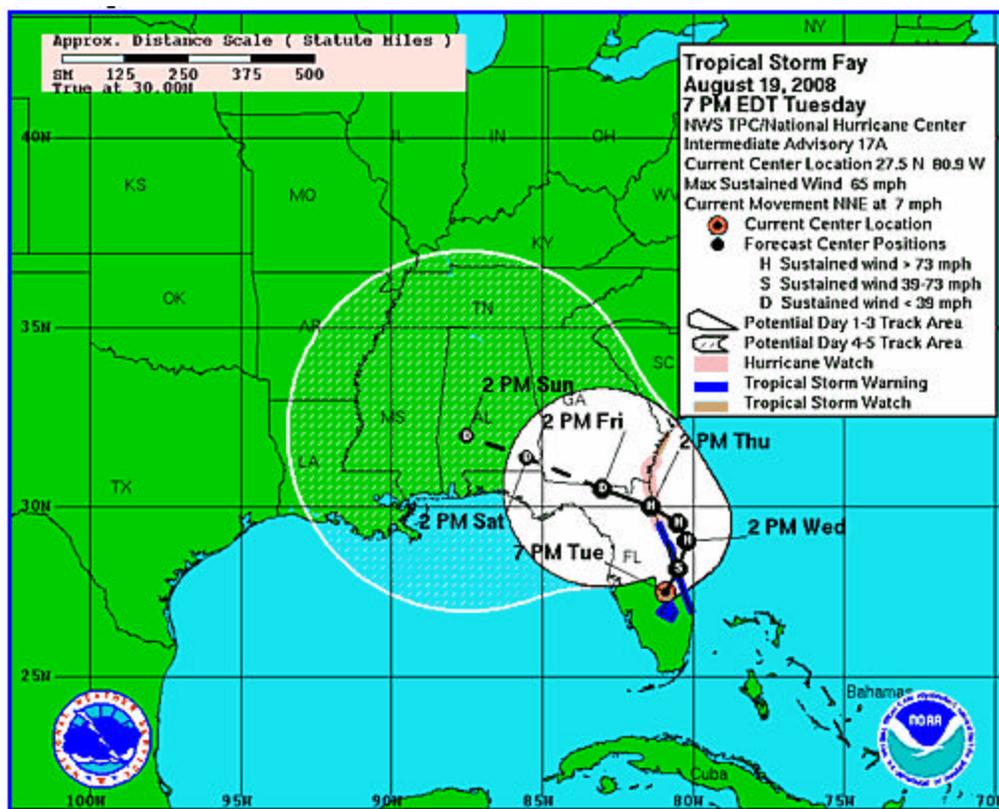
Lehman Brothers released a research report late yesterday that warned that the United States could see working stocks of natural gas could reach 3.52 tcf at the end of the

traditional injection season, just under last year's record 3.545 tcf level, due to a mild summer and increased domestic production and reduced industrial sector demand. The investment bank said that its storage numbers are based on August and September weather being significantly cooler than last year and that tropical storm and hurricane related supply disruptions will not exceed 60 bcf.

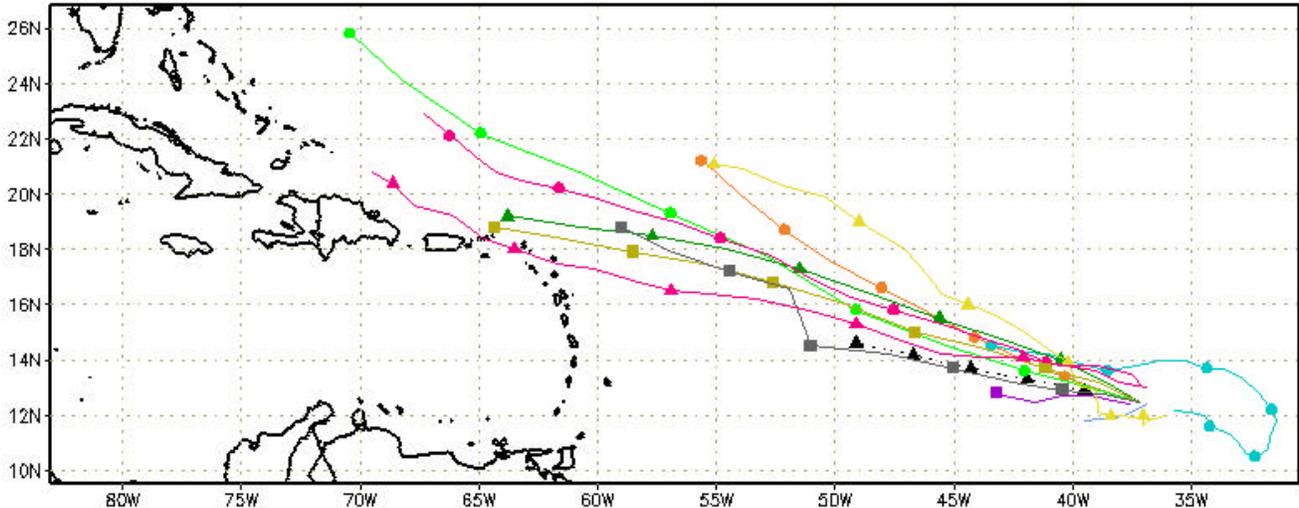
The Polish government today came out and supported the construction of the LNG port proposed on the Baltic coast. The government said it was important to diversify the nation's gas supplies. The proposed terminal would handle some 2.5 billion cubic meters annually.

**PIPELINE RESTRICTIONS**

PG&E's California Gas Transmission has issued an OFO on its system for Wednesday due to low inventory. The OFO has a 6% tolerance level.



--▲-- XTRP 19/1200Z    ▲ BAMD 19/1200Z    ▲ GFDL 19/0600Z    ▲ AVNO 19/0600Z    ▲ CMC 18/1200Z  
 --■-- TVCN 19/1200Z    ■ BAMB 19/1200Z    ■ UKM 19/0000Z    ■ AEMN 19/0600Z    ■ LGEM 19/1200Z  
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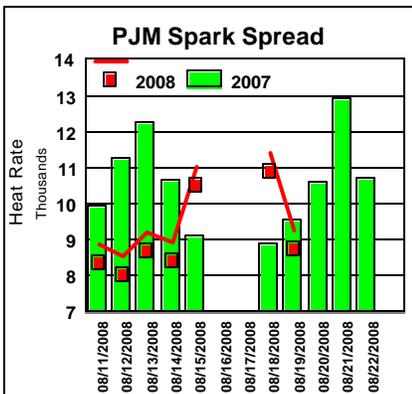
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FGT said that given the heavy rains expected across much of its Market Area through Thursday. It may issue an Underage Alert Day during the period, if line pack levels become too high.



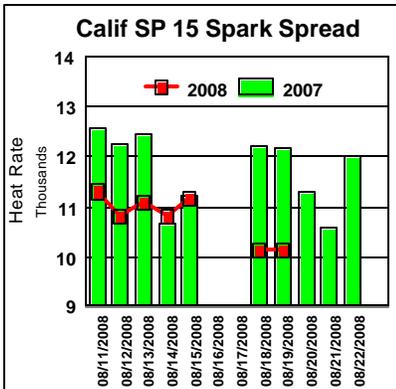
**PIPELINE MAINTENANCE**

Southern Natural Gas Pipeline said that pigging operations over the weekend could not be completed and as a result it will extend pigging operations on the South Section 28 line into August 20<sup>th</sup>. As a result the company said the Sabine interconnect point will be scheduled up to 120,000 Dth while the work is completed.

Rockies Express Pipeline said a force majeure remains in place at one of the units at the Wamsutter Echo Springs booster facility interconnect. As a result of the force majeure the company will be scheduling a lower capacity of 70,000 Dth/d until further notice.

Panhandle Eastern Pipeline Company said it would shut its Centralia 300 Line Suction for tie ins on September 2<sup>d</sup>. The work is expected to last for 7 days. Capacity will be limited to 1270 MMcf/d through Houstonia as a result of the work.

KMIGT said it would be performing maintenance at its Herdon Compressor Station (Segment 775) on Wednesday. Nominations through Segment 775 will be limited to 220,000 Dth/d while the work is completed.

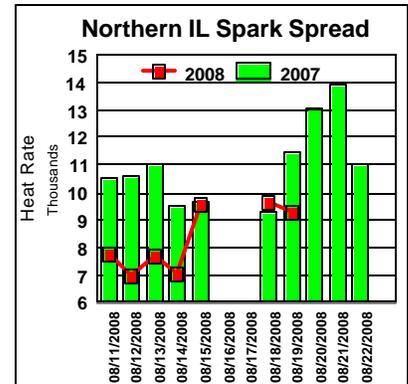


**ELECTRIC MARKET NEWS**

Hydro-Quebec said today that it plans to spend \$1.8 billion to refurbish its 675 Mw Gentilly 2 nuclear generating unit. The company said the work would be able to extend the life of the unit until 2040. The nuclear unit supplies about 3% of the provinces electricity.

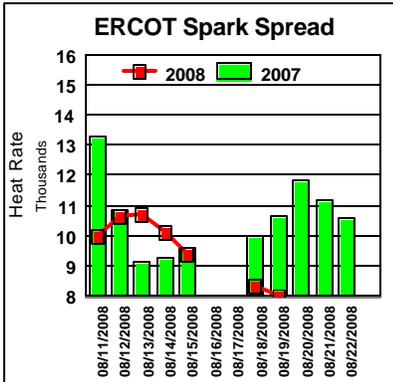
Genscape reported that U.S. power plants have 0.5% more coal on hand this week than last, with overall stockpiles 2.6% greater than the same week a year ago.

FPL reported that it had no major damage to power plants or transmission facilities as Tropical Storm Fay crossed its service territory. The utility reported that upwards of 95,000 customers had lost power at some point during the storm but one third had their service already restored by late afternoon.



**MARKET COMMENTARY**

The natural gas market today posted an outside trading day. While prices were on the defensive this morning as Tropical Storm Fay moved ashore in Florida, prices were dragged higher at midday by the explosive move by oil prices to the upside as stops in that market were triggered as the dollar was dramatically weakening on world currency markets. The midday computer model runs once again came back and some models still left open the possibility that



Tropical Storm Fay once emerging into the Atlantic would intensify and then head westward back into the Gulf late in the week. While the consensus model forecast had the storm moving ashore once again near Jacksonville and moving into Georgia and Alabama, it still left an element of doubt in some traders minds and as a result the market seemed content to move sideways for the remainder of the day. In addition the midday computer forecasting models also dramatically shifted southward the forecast track of the tropical disturbance currently in the central Atlantic, and thus increased the potential that this storm could be a future threat to the Gulf of Mexico next week.

Open interest reported at midday showed that natural gas futures declined for the third straight trading session, declining on Monday by 8,240 lots and seeing the smallest open interest in the natural gas futures market since June 4<sup>th</sup>.

As we feared yesterday this market can turn quickly as new forecasts come into this market. We hate to be a broken record but the tropical forecast will continue to be the driving force for this market as well as the price direction in oil prices. We see support tomorrow at \$7.78 followed by \$7.60, \$7.514 and \$7.41. Resistance we see at \$8.119 followed by \$8.158, \$8.34, \$8.475 and \$8.529. Additional resistance we see at \$8.69, \$8.736 and \$8.905.