



**POWER MARKET REPORT FOR AUGUST 20, 2007**

**NATURAL GAS MARKET NEWS**

The U.S. Minerals Management Service reported at midday that according to data submitted by offshore operators some 10 production platforms and 24 rigs have been evacuated in the Gulf of Mexico as a precaution to the approach of Hurricane Dean. It is estimated that some 3.2% of oil production in the Gulf of Mexico has been shut-in or approximately 41,967 b/d with 1.3% of the natural gas production or 100 Mmcf/d. As a result of Tropical Storm Erin and Hurricane Dean the MMS reports that some 193.5 MMcf/d of natural gas production has been lost to date.

An analyst from Planalytics on CNBC said this afternoon that they still see 5 named hurricanes to be recoded this season with 2-3 three of these hurricanes reaching the Gulf of Mexico.



Shell Oil reported that upwards of some 97.5 million cubic feet of Gulf of Mexico production had been shut in over the weekend as a precaution ahead of Hurricane Dean. As forecasts this morning pointed that these production areas would not be at risk, the company began to restart this production this morning. Shell though said it was monitoring Tropical Disturbance 37, which may impact operations in the eastern Gulf of Mexico later this week.

**Generator Problems**

**NPCC** – Constellation Energy's 1120 Mw Nine Mile Point #2 nuclear unit had reconnected to the grid this morning and had ramped up to 95% of capacity.

OPG's twin 490 Mw coal fired units at the Nanticoke pwer plant were shut over the weekend for repair work that could last the week.

OPG's 494 Mw #3 coal fired Lambton power plant was restarted this morning. The unit tripped off line on August 16<sup>th</sup>.

**PJM** - Exelon's 1143 Mw Limerick #1 nuclear unit reconnected to the grid over the weekend and was back to full powe rhtis morning.

**WECC** – PG&E's 1100 Mw Diablo Canyon #1 nuclea runit was back at full capacity this morning. The unit had been offlinesince Thursday.

**FPCC** – FPL's 839 Mw St Lucie #2 nuclear unit was taken off line Saturday due to a reactor coolant system leak. The unit had been at full power on Friday.

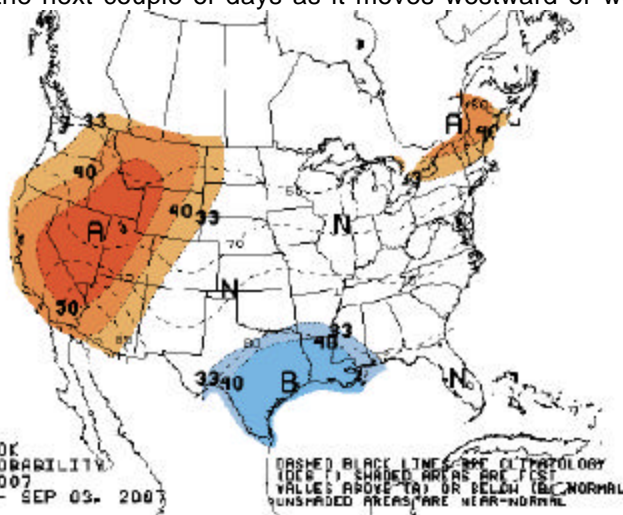
**ERCOT** – The coal fired Unit #2 at theBig Brown steam electric station was attempted to be restarted today.

**SERC** – TVA's1155 Mw #2 nuclear unit at the Browns ferry nuclear power plant was expected to reconnect to the grid later on Monday. Unit #2 was taken off line as well as operators reducingoutput in Units #1 and #3 last week due to environmental concerns. Units #1 and #3 which had been reduced to 75% of capacity on Friday were back to full power today.

**The NRC reported that 96,569 Mw of nuclear capacity is on line, up 1.95% from Friday, and up 2.68% from a veaar aoo.**

Meanwhile BP this morning said it planned to keep nonessential workers onshore, until the company was sure Dean was following its forecasted path, but no BP production had been shut in.

The National Hurricane Center currently was watching a large but disorganized area of showers and thunderstorms located a few hundred miles northeast of the northern Leeward Islands that is associated with a tropical wave. Upper level winds are expected to gradually become more favorable for development of this system during the next couple of days as it moves westward or west-northwestward at 15-20 MPH. Currently



most forecasters do not see this as a threat to the Gulf of Mexico but more a threat to the Bahamas and the east coast of Florida followed by Southeast coastline early next week.

WSI Corp said today that they see the next three months should bring above normal temperatures across most of the U.S. although high natural gas inventories should outweigh warm weather in September and keep natural gas and power prices moderate. The forecaster sees September natural gas demand for the power sector should be neutral to slightly bullish for prices, but high gas inventories should outweigh any

bullish demand pulls from the power sector. The group sees cooler than normal temperatures in October for the northern half of the country while the southern half sees warmer than normal temperatures, but come November the Northeast and Midwest should see warmer than normal temperatures.

NOAA reported today that for the week ending August 18<sup>th</sup>, cooling degree day total for the national on a population weighted basis reached 83 CDD, down 8.8% from the prior week but still 22% higher than normal and 27.7%

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	986,300	\$6.471	(\$0.673)	(\$0.082)	\$0.120	(\$0.100)
Chicago City Gate	364,400	\$6.233	(\$0.540)	(\$0.011)	\$0.155	(\$0.020)
NGPL- TX/OK	551,700	\$6.063	(\$0.543)	(\$0.181)	\$0.152	(\$0.224)
SoCal	873,400	\$6.104	(\$0.432)	(\$0.140)	\$0.264	(\$0.361)
PG&E Citygate	524,900	\$6.309	(\$0.529)	\$0.065	\$0.166	(\$0.117)
Dominion-South	125,600	\$6.583	(\$0.648)	\$0.339	\$0.047	\$0.455
Transco Zone 6	292,300	\$6.890	(\$0.631)	\$0.646	\$0.065	\$0.763

higher than the same week a year ago. For the current week ending August 25<sup>th</sup> the NOAA forecasts 79 CDD 27.4% higher than normal and 11.2% hotter than the same week a year ago.

Gazprom has asked the Russian government to allow it to raise pipeline shipping fees for local independent gas producers by 20% in 2008. The government previously had approved for a 15% hike for 2007.

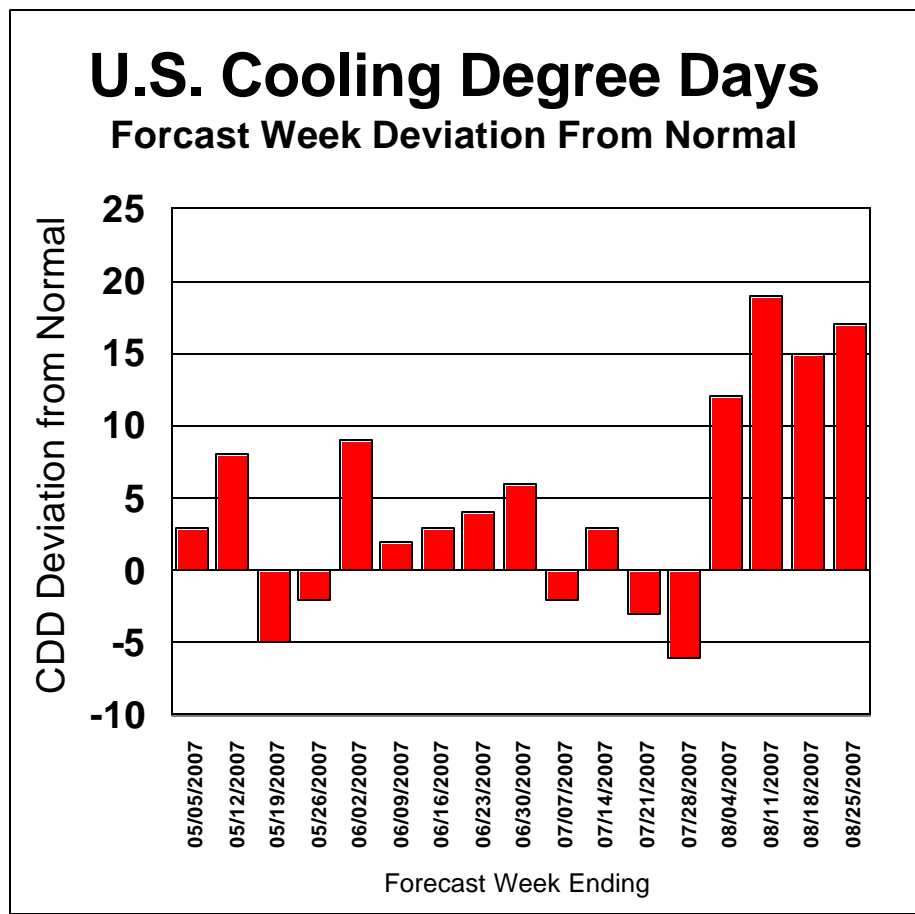
The subsidiary of E.ON AG, which owns a 78% stake in the company looking to build a LNG receiving terminal in Wilhelmshaven, noted that the open season called last month for the project has shown strong interest from gas companies. The open season is scheduled to end August 31<sup>st</sup>. A final decision on whether to build the terminal will be made at the end of this year. The facility could begin operations in 2011. The facility would have a total capacity of 10 billion cubic meters of LNG per year.

NorthernStar Energy said it could begin construction on its Bradford Landing LNG receiving terminal on the Columbia River in Oregon by the first half of next year.

Connecticut's Attorney General said today a U.S. court ruling last week effectively stops a proposed 50 mile natural gas pipeline which would have run between Connecticut and Long Island, New York. The U.S. District Court ruled in favor of the state in a dispute over whether Spectra Energy and KeySpan could dredge a trench in the sea floor of Long Island Sound, for the construction of the Islander East pipeline.

The Interconnector pipeline between the U.K. and Belgium continued to flow into the U.K. again today as it had been doing since Friday. Flows along the pipeline tomorrow are expected to jump to its highest level of imports since August 9<sup>th</sup>. Meanwhile Centrica Plc said natural production at its South Moreambe field is due to start today after being off line for maintenance for the past 10 days.

Analysts at Raymond James & Associates said that the inability of the exploration and production industry to grow significantly domestic natural gas production will result in U.S. gas prices next year rebounding to a 7:1 or even 6:1 ratio with crude oil, depending on weather. Thus \$70 oil prices next year could see \$10 natural gas prices.



The NYMEX announced today that it would be changing margin rates on its natural gas; Henry Hub swap; swing swap and penultimate swap; natural gas penultimate and last day financial; and NYMEX miNY natural gas futures contracts effective the close of business Tuesday, August 24<sup>th</sup>. Margins on the natural gas futures for the first or spot contract will be raised by 6.7% to 10,800, while margins for the smaller sized miNY natural gas and Henry Hub swap and penultimate swap futures will be increased 6.7% as well to \$2700 for customers.

Sentinel Management Group, the cash management firm serving the U.S. futures industry that filed for Chapter 11 bankruptcy protection, may have violated U.S. securities law, an attorney for the U.S. Securities and Exchange Commission said on Monday. The SEC is seeking a temporary restraining order against Sentinel. The SEC had concerns "based on violations of

the Investment Advisor Act. A hearing is being held to determine whether the Bank of New York, which has about \$300 million of Sentinel funds, can release those funds to Sentinel clients. The SEC had indications that the funds had been commingled.

**PIPELINE MAINTENANCE**

TransColorado gas Transmission said today that it will be performing maintenance at its Dolores Compressor Station August 21<sup>st</sup>. Capacity through Segment 220 (Whitewater CS to Olathe CS) will be limited to 325,000 Dth and capacity through Segment 240 (Redvale CS to Dolores CS) will be limited to 375,000 Dtm. Based on the current level of nominations, AOR/IT, secondary and Primary FT quantities are at risk of not being scheduled.

Northwest Pipeline said that the fuel gas piping modifications originally scheduled for August 21-22 at the Lave Hot Springs compressor have been postponed due to the delay of equipment deliveries need for the work.

Transco said that it has completed the anomaly repair work downstream of Sabine River. The limitation on available transportation capacity that was initiated on August 4<sup>th</sup> will be lifted effective for gas day August 21<sup>st</sup>.

Southern Natural gas Pipeline said that it has experienced an unscheduled outage at the Rome Compressor Station located on the 12-inch Chattanooga Branch main and loop lines. The station is not expected back into service until August 24<sup>th</sup>.

Gulf South Pipeline said that repairs due to unforeseen circumstances the unscheduled maintenance outage on the Kiln Unit #1 was not complete as had been expected. Capacity through the compressor station could be reduced by as much as 125,000 Dth during the work.

### **PIPELINE RESTRICTIONS**

FGT said that due to high temperatures in its service area it continued to issue an Overage Alert Day, with a 20% tolerance.

### **ELECTRIC MARKET NEWS**

A Reliant Energy power plant filed for Chapter 11 bankruptcy protection today. Reliant Energy Channelview LP, produces electricity and steam mainly for Equistar Chemicals and sell the surplus power into the Texas wholesale market. The company was forced to file for bankruptcy protection when the plant's lenders were unwilling to extend a \$14 million revolving credit facility due August 15<sup>th</sup>. Company officials said the bankruptcy would have no financial impact on Reliant and that no other filings were forthcoming. The 800 Mw gas fired power plant is expected to continue to operate under bankruptcy protection. As of June 30<sup>th</sup>, Channelview's debt was \$342 million. Reliant's new investment in the power plant before any tax impact was \$60 million.

Progress Energy Carolinas, due to high August heat and tight supply has asked customers to curb non-essential use of electricity until 9 PM. While the utility expects demand to approach August 9<sup>th</sup>'s peak demand record of 12,647 Mw the company does not expect a new record to be set though.

Seminole Electric Cooperative said it would file an appeal in seeking to overturn the Florida Department of Environmental Protection's denial last week of site certification for its proposed new clean coal generating unit in Palatka, Florida.

### **MARKET COMMENTARY**

The natural gas market collapsed today as traders returned from the weekend only to find all computer tracking models were in agreement and that this storm would be no direct threat to U.S. offshore production areas. As a result it seemed that the shorts that were forced to cover over the prior week returned to the market, especially the funds and were just steady sellers throughout the day as the market posted an orderly and steady decline throughout the morning and into the early afternoon. Over 172,000 futures were traded on the day, with the spot month accounting for 42% of the day's volume. Option volume was also brisk today with over 147,700 lots traded. The most active strikes were in the October \$4.00 put versus the \$4.50 or \$5.00 put spreads, which traded over 12900 times combined.

We would look for this market to find some potential support tomorrow just under the \$6.00 as prices search for support at the trend line off the lows from August 6<sup>th</sup> and July 25<sup>th</sup>. Additional support we see at \$5.906, \$5.855, \$5.72, \$5.538. Resistance we see at \$6.36, \$6.452, \$6.594, \$6.735, \$6.818 and \$7.00. Options we see have come down dramatically in value as IV's in the September ATM fell 26% and the October options saw IV's contract by 11% back to levels not seen since August 10<sup>th</sup>. The October \$8 calls tonight settled at 17 cents, which we think could be a decent value to the next hurricane inspired rally.