



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR AUGUST 29, 2008**

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

The National Hurricane Center said Gustav gained hurricane strength on Friday afternoon. Hurricane forecasters were looking at the central Louisiana shore as the likely striking point for Gustav, possibly on Tuesday, but noted that it was still too early to say reliably where the storm will hit. Gustav is expected to reach the Cayman Islands Friday, cross western Cuba Saturday and enter the Gulf of Mexico on Sunday. Private forecaster, Planalytics said Gustav remained on a path for energy production in the US Gulf of Mexico, with a high probability of the storm developing into a category 3 or 4 hurricane. Accuweather also continued to forecast that the storm will strengthen further and move into the Gulf of Mexico

as a category 3 hurricane and could become a category 4 or 5 hurricane later Sunday before making landfall as a category 2 hurricane early next week. Meanwhile, Tropical Storm Hanna, which formed on Thursday, is not seen as a direct threat to land in the near future. However there are models forecasting a possible threat to the eastern Gulf of Mexico next week.

The US Minerals Management Service stated that a total of 86,013 bpd or 6.6% of total oil production in the Gulf of Mexico and 136 mmcf/d or 1.8% of total natural gas production has been shut in ahead of Tropical Storm Gustav. The amount of shut in production is expected to increase significantly in the next 48 hours, as nearly all producers have announced that they will completely halt operation in the Gulf.

According to Earth Science Associates, about 9% of US Gulf of Mexico oil output and 10% of the region's natural gas output falls within 30 miles of the forecast storm track of Tropical Storm Gustav. It stated that 750 million cubic feet/day of natural gas output is within 30 miles of the storm track, while 1.18 bcf is within 30-60 miles and about 5.66 bcf/d of gas output is more than 60 miles from the projected storm track.

#### **Generator Problems**

**SERC** – Entergy Corp's 1,266 Mw Grand Gulf nuclear power unit in MS was at 82% power early Friday, down from full power on Thursday, the U.S. Nuclear Regulatory Commission reported. No known reason was given. The unit is slated to shut for refueling and maintenance on Sept. 18 for about a month.

**FRCC** – Progress Energy Inc's 838 Mw Crystal River #3 nuclear power unit in FL was at 60% power early Friday. The unit was shut Sunday following a manual reactor trip, according to the NRC. The company tripped the unit due to feedwater flow oscillations. A condensate pump became uncoupled, lowering condensate flow.

**NPCC** – NRC reported an "unusual event," at PSEG's Hope Creek, NJ nuclear reactor. This is the lowest of NRC's four emergency classifications. The event report was due to internal flooding in the plant's service water intake structure.

**The NRC reported today that some 96,729 Mw of generation was being supplied by nuclear power plants, up 0.34% from Thursday and up 0.38% on the year.**

Apache Corp has shut in production from five of its platforms in the Gulf of Mexico because third party pipelines have suspended operations. The five platforms have gross production of 850 bpd of oil and 28 mmcf/d of natural gas.

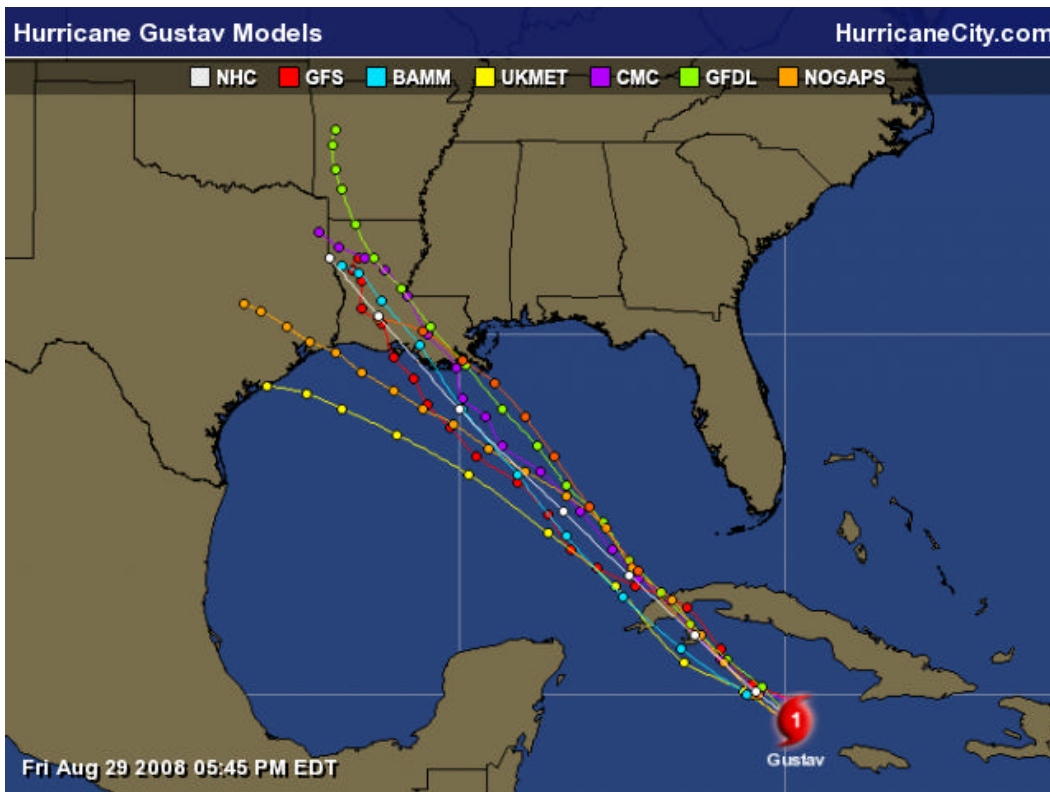


El Paso Corp has started evacuating non-essential workers from its Gulf of Mexico production platforms and its pipeline systems and plans to fully evacuate workers in the projected path of Tropical Storm Gustav. It will remove more than 100 workers

from 10 production platforms and two contract rigs in the Gulf of Mexico and pipeline personnel in southern Louisiana, southern Mississippi and southeast Texas.

**PIPELINE RESTRICTIONS**

Sabine Pipe Line operator of the Henry Hub said that it could begin shutting down its natural gas pipeline operations in the Gulf of Mexico as early as Sunday morning. The Sabine Pipeline runs from Port Arthur, TX and ends in Vermillion Parish, LA at the Henry Hub near the town of Erath. The Henry



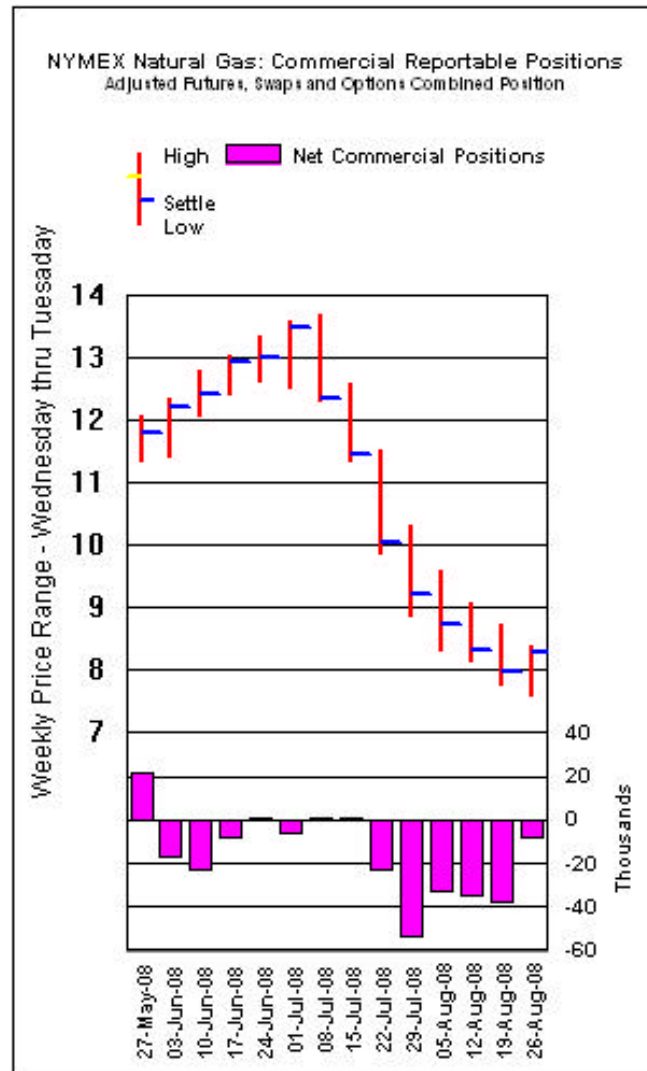
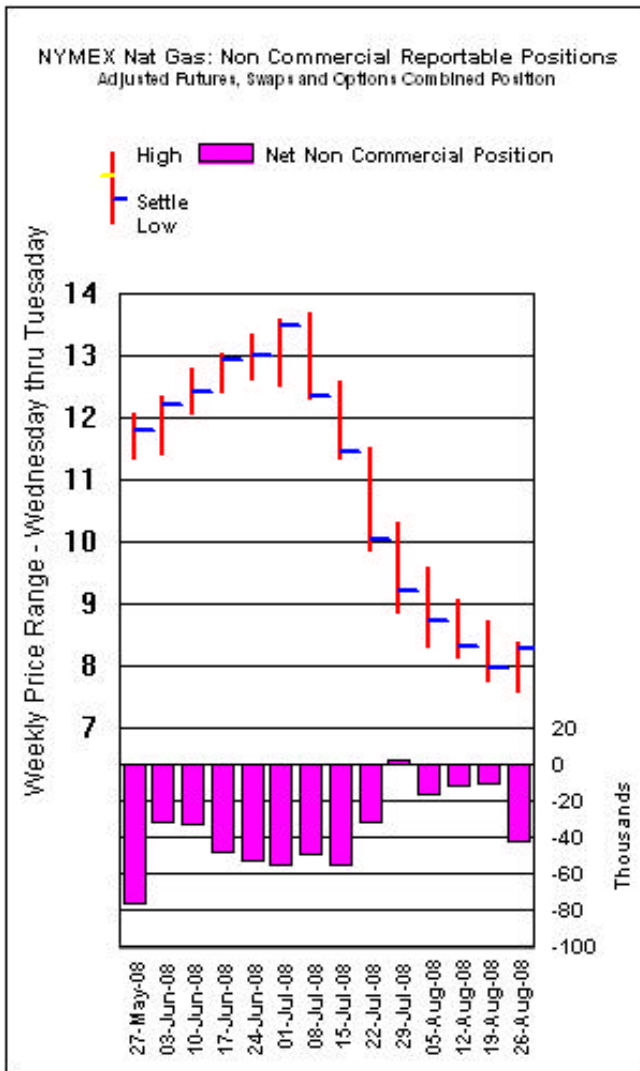
Hub interconnects nine interstate and four intrastate pipelines.

ANR Pipeline, a unit TransCanada, said it might need to shut-in the SE1 D segment of its Cameron Meadows Lateral in LA if Tropical Storm Gustav moves into the area as expected this weekend. The shut-in will not allow ANR to accept nominations or gas flow into its system from interconnects with Stingray, Barracuda and UTOS pipelines at Johnson Bayou, LA.

Williston Basin Interstate Pipeline Co., the wholly owned natural gas transmission pipeline subsidiary of MDU Resources Group, Inc. has announced an expansion project, which will add an additional 75 Mmc/d to its 253-mile Grasslands Pipeline. This is an expansion of approximately 54% to its already existing capacity of 138 MMcf/d.

An unexpected outage was reported at Colorado interstate Gas Co's Elk Basin Compressor Station, located on the Big Horn Lateral. Capacity is currently posted at 82,000 Mcf/d, and under current conditions, the outage is not impacting scheduling. Significant repair work is expected prior to returning the station to full service. Repairs are currently estimated to be completed on or about the end of the week of October 13.

Stingray Pipeline Co. said its Bridgeline delivery point is currently available to all shippers. Due to operational issues earlier this week, the delivery point was inaccessible, with all nominations for the Bridgeline point reduced to zero at midweek.



### **PIPELINE MAINTENANCE**

Weather permitting, due to Tropical Storm Gustav, Gulf South said it still plans to conduct scheduled meter maintenance at the Digs–Mobile Bay location beginning at 8:00 AM on Tuesday, 9/2. The subject receipt location will be unavailable for service for the duration of the maintenance.

### **ELECTRIC MARKET NEWS**

Genscape reported that its US coal burn index increased 4% in the week ending August 28<sup>th</sup>, when compared to the prior week. However the index was down 7% from the same week a year ago.

### **MARKET COMMENTARY**

Ahead of the long U.S. Labor Day weekend, at the forefront of everyone's mind are concerns over Tropical Storm Gustav. This led to short covering early in the session. A stronger dollar and varying reports as to whether Gustav will reach hurricane status and if it does, to what category will it reach, led the energy complex lower, taking natural gas with it. The natural gas market posted an inside trading day as traders were still trying to gauge Gustav's likely path and intensity. The market sold off sharply to a low of \$7.926 in afternoon trading and settled down 10.7 cents at \$7.943.

Early next week, the natural gas market will be driven by the developments of Hurricane Gustav. This market is already suffering losses due to Independence Hub and any supply disruptions caused by Hurricane Gustav will impact supplies further. The potential loss of natural gas production due to the impact of the hurricane will lend support to the market. The natural gas market is seen finding support at \$7.806, \$7.72, \$7.669 and \$7.412 while resistance is seen at \$8.20, \$8.32, \$8.457, \$8.594, \$8.808 and \$8.88.

The latest Commitment of Traders report showed that reportable non-commercials in the natural gas market increased their net short position by 9,008 contracts to a new record level of 156,144 contracts in the week ending August 26<sup>th</sup>. The combined futures and options report that non-commercials increased their net short position by 28,268 contracts to 230,329 contracts on the week. Meanwhile, when combining the positions in options and swaps, the net short position increased by 32,340 contracts to 41,871.