



## ENERGY RISK MANAGEMENT

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### POWER MARKET REPORT FOR SEPTEMBER 2, 2008

#### NATURAL GAS MARKET NEWS

While Gustav has barely faded from view, the National Hurricane Center was already watching several other storms in the tropical Atlantic. While Tropical Storm Hanna now appears to be headed toward the southeast coast, Tropical Storm Ike which strengthened yesterday was seen to be on a westward path that would place it near Hispaniola and the southeastern Bahamas by the weekend with winds of 95-105 mph. A couple of the computer models are warning that the storm could be Category 3 or higher in 3-4 days. From that point on the long range models are split on if this storm heads westward into the Gulf or northward toward the Southeastern U.S. coast.

Sabine Pipe Line LLC reported that its field personnel continued to perform on-site damage assessments and as a result the force majeure at Henry Hub remained in effect until further notice. The company shut down operations on Sunday. Late in the day though the company reported that it was looking to possibly restart operations this evening.

The NYMEX said Tuesday that all unfulfilled delivery obligations of natural gas on the August and September contracts continue to be subject to force majeure. The exchange

said in a notice to members, its Delivery Committee remains in continuing contact with Sabine regarding the recovery of Henry Hub facilities after the storm.

U.S. Minerals Management Service reported this afternoon that for the second straight day some 1.3 million barrels of crude production remained off line in the Gulf of Mexico as well as 7.062 bcf/d. Since

#### Generator Problems

**SERC** – Progress Energy's 937 Mw Brunswick #2 nuclear unit was off line after the unit shut automatically from full power due to an electro-hydraulic control system malfunction on Saturday.

TVA's 1127 Mw Unit #2 at the Sequoyah has exited its recent outage and was up to 18% of capacity this morning. The unit had been shut on Monday.

**SPP** – Entergy's 967 Mw River Bend and 1152 Mw Waterford #3 nuclear units were taken off line in front of Gustav and as of this morning still were off line.

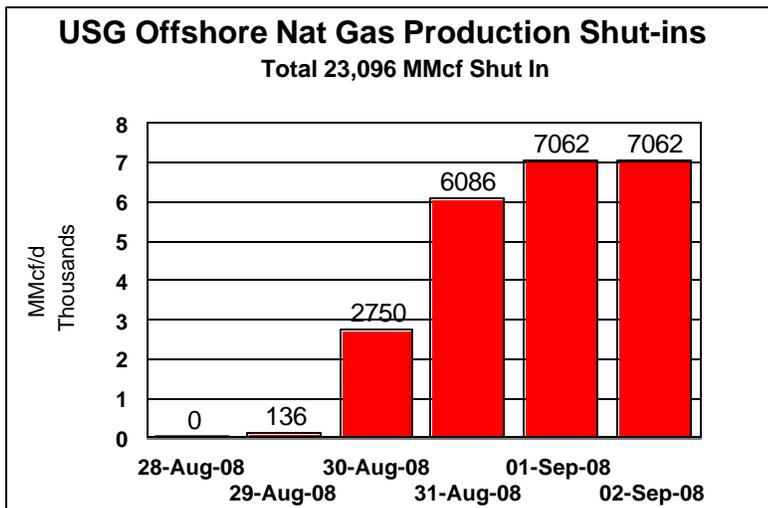
**WECC** – SCE's 1100 Mw San Onofre nuclear unit #3 was taken off line on Monday due to a problem with a back up generator.

**NPCC** – OPG's coal fired Nanticoke 6 and 7 power generating units and the Lambton #2 coal fired unit were all taken off line for maintenance.

Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
<u>Location</u>	<u>Traded</u>	<u>Price</u>		(As of 12:30 PM)		<u>Moving Avg</u>
Henry Hub				(\$7.271)	\$0.030	(\$0.453)
Chicago City Gate	595,400	\$7.020	(\$0.770)	(\$0.251)	\$0.026	(\$0.119)
NGPL- TX/OK	519,500	\$6.600	(\$1.125)	(\$0.671)	(\$0.329)	(\$0.360)
SoCal	789,000	\$6.451	(\$0.505)	(\$0.820)	\$0.291	(\$0.771)
PG&E Citygate	1,139,300	\$6.963	(\$0.543)	(\$0.308)	\$0.253	(\$0.281)
Dominion-South	409,900	\$7.842	(\$0.422)	\$0.571	\$0.374	\$0.416
USTrade Weighted	15,021,000	\$6.684	(\$0.766)	(\$0.587)	\$0.03	(\$0.453)

U.S. Minerals Management Service reported this afternoon that for the second straight day some 1.3 million barrels of crude production remained off line in the Gulf of Mexico as well as 7.062 bcf/d. Since

last week some 4.9 million barrels of crude oil production and 23.1 bcf of natural gas production has been lost due to Hurricane Gustav.

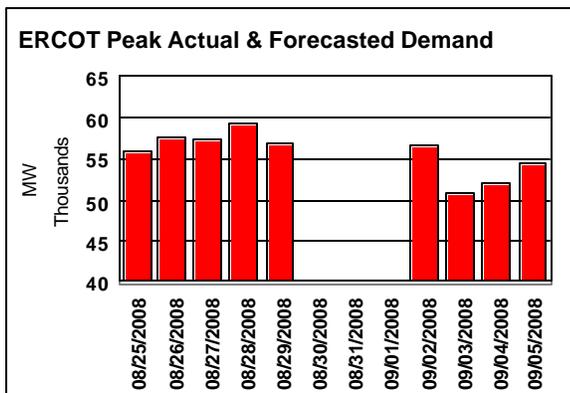


Destin Pipeline said it was still assessing its offshore facilities following the storm. It noted though its onshore points remained in operation. The company declared a force majeure event on Friday.

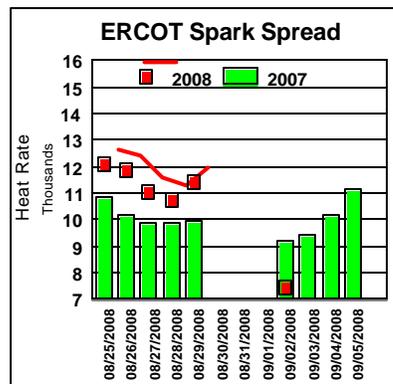
Apache's CEO said today that he did not expect to find much damage to the company's production facilities in the Gulf of Mexico from the recent storm, but inspections were still ongoing. Late in the day the company reported that a handful of its USG platforms were producing minimal oil and gas volumes. The company did note though that

onshore production in Louisiana remains shut in.

ANR Pipeline said its force majeure remained in effect as it was still in the "very early stages" of evaluating the impact the storm had on its infrastructure. Later in the day the company said that its system could return to normal operations as early as Tuesday night.



API's president said sensors on offshore rigs and platforms indicate no major hurricane damage. U.S. emergency officials though said a return to full production could take two weeks.



The DOE reported this morning that some 14

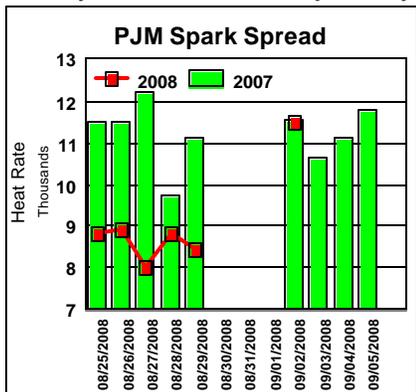
natural gas pipelines in the Gulf of Mexico have declared force majeure and shut down due to the effects of Hurricane Gustav. In addition some 25 major natural gas processing plants along the coast were also shut.

The U.S. Coast Guard post-Gustav over flights in the Gulf of Mexico found no major damage to platforms, rigs and no oil spills.

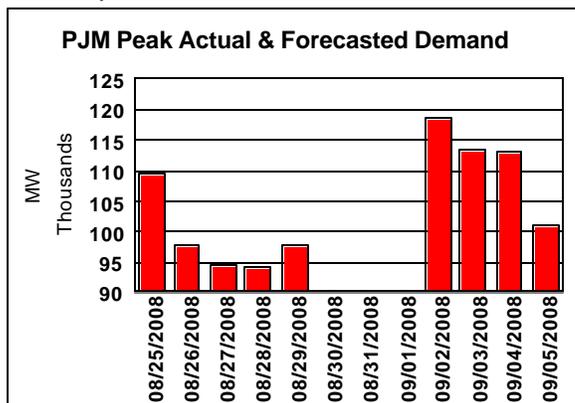
The Army Corps of Engineers reported late this afternoon that several vessels are grounded on top of a 16-inch natural gas pipeline buried beneath a canal in New Orleans. Officials said line couldn't be easily relocated.

Colorado State University released their updated hurricane outlook for the Atlantic basin and it sees well above average activity this month with four hurricanes forming, with two of these becoming major hurricanes. They noted that due to warmer than normal sea surface temperatures, no sign of an El

Nino conditions and near record low sea level pressures in the tropical Atlantic could result in storm activity this month to be just shy of twice the normal rate for a September.



Major chemical industries in Louisiana reported minimal damage from Hurricane Gustav. Dupont said based on initial site reports its Burnside and Pontchartrain sites sustained some wind damage and



lost electrical power but were not flooded. Restart activities are pending restoration of basic services and equipment repairs. The company's Sabine, Beaumont, DeLisle, Mobile and Pascagoula sites were making plans to begin start up activities Tuesday. Dow Chemical said its Texas manufacturing sites continued normal operations and had not been impacted Hurricane Gustav. Its Plaquemine, Louisiana saw some units taken down due to the storm and its operations at St Charles were taken down completely in front of the storm. BASF, which has 14 manufacturing operations on the Gulf Coast, said it was unsure when it can restart operations in the Gulf Coast region due to the breakdown of the power grind in the area.



The EIA reported that it will release its weekly oil inventory report on Thursday at 11 AM EDT while its weekly storage report will be released at its normal time on Thursday at 10:35 AM EDT.

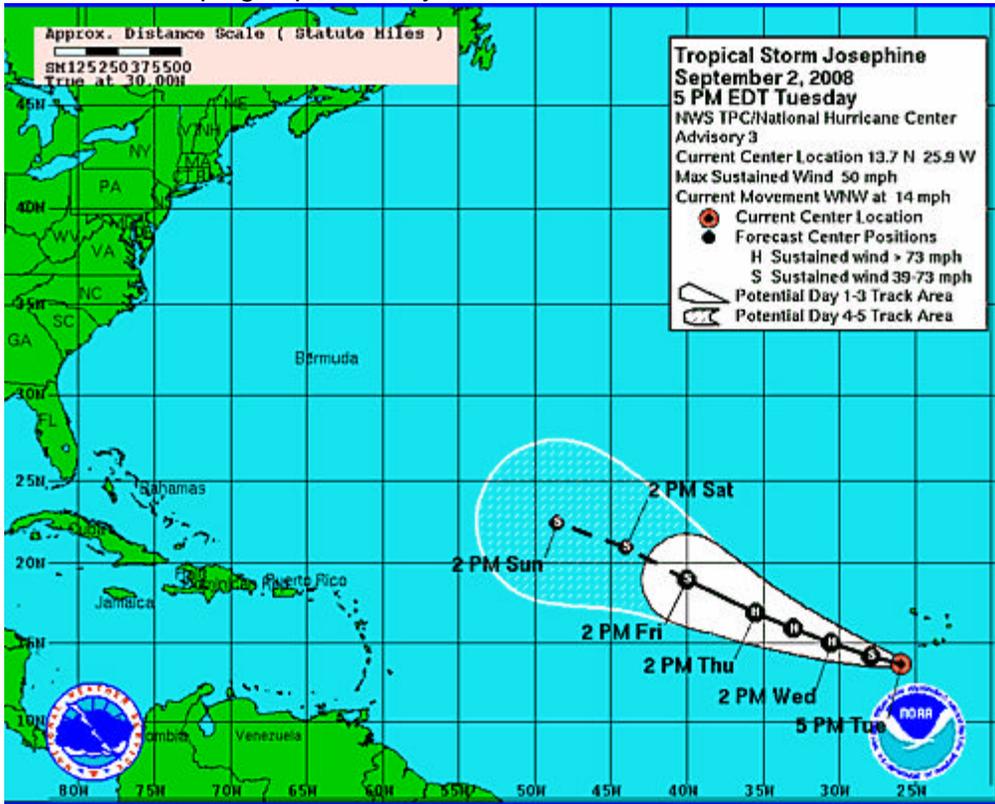
BP announced today that it has agreed to buy a 25% stake in the Fayetteville Shale play from Chesapeake Energy for \$1.9 billion.

The CEO of Chesapeake Energy said today that he sees natural gas prices ranging between \$8.00

to \$11.00.

The Institute for Supply Management said that its Index of National factory activity edged lower to 49.4 in August from July's 50.0 level..

Pan EurAsian Enterprises a natural gas consultant reported today that it estimates that total LNG imports into the United States in August fell to 30.7 bcf from 83.2 bcf a year ago, making imports year to date some 61% below year ago levels. The group noted that LNG prices approaching \$20 per Mmbtu are keeping imports away from U.S shores.



The FERC on Friday issued a favorable draft environmental review of the Jordan Cove Energy Project LP's proposal to build a LNG import terminal and associated pipeline facilities to serve the Pacific Northwest.

Flows through the BBL natural gas pipeline, which translates gas between the Netherlands and Britain, returned to service today after an unexpected outage earlier in the day. The outage had pushed U.K. gas prices for today and tomorrow to two-year highs.

Royal Dutch Shell reported that the Goldeye Pipeline that feeds gas into its import terminal in Scotland had reopened earlier Tuesday. The pipeline has been scheduled originally to reopen on Monday.

Gazprom reported that its natural gas production in August fell by 2.3% from July levels to 1.26 billion cubic meters per day.

**PIPELINE RESTRICTIONS**

Texas Gas Transmission said it took the Youngsville compressor station offline Monday, September 1<sup>st</sup> as a result of Hurricane Gustav. With the compressor station offline, the company said it was forced to issue a force majeure for deliveries in the Eunice East segment of the Texas gas system. The company, which estimated supply reductions estimated at 600 to 700 million cubic feet from offshore production from the weekend, was expected to be restarted late today.

Discovery Gas Transmission said that its pipeline operations in Louisiana remain shut in following hurricane Gustav.

Enbridge Offshore Pipelines said a force majeure remains in effect on its system due to severe weather caused by Hurricane Gustav this past weekend.

NGPL said this morning that a force majeure remains in place on its Louisiana line after the company shutdown compressor stations 342 and 346 in Cameron Parish, Louisiana over the weekend. Effective until further notice, the company will schedule Segment 23 primary firm and secondary in path to a minimum of 66% of each contract. The company was seeking to restart the compressors along its line, which have not been damaged, with generators, but gave no restart dates.

Tennessee Gas Pipeline and SONAT said that they have collectively lost 2.5 bcf/d of natural gas production as a result of Gustav. Despite the supply disruptions, line inventory levels remain at adequate levels and there have been no operational problems for either company.

SONAT reported late today that it was ramping back up to normal levels after it sustained "minor damage" for this weekend's storm. The pipeline reported that it had lost commercial power, particularly in Houma, Louisiana region. But the company declined to give a time schedule when it would return to pre Gustav operation levels.

FGT has issued an Overage Alert for today with a 25% tolerance due to severe weather conditions created by Gustav's arrival.

Anadarko said today that it was sending crews to inspect the Independence Hub, Marco Polo and other platforms in the central and eastern Gulf of Mexico. Aerial surveys had seen no damage and the company hopes to restart the facilities as quickly as possible.

### **PIPELINE MAINTENANCE**

KMIGT said it will be performing maintenance today on its Casper Compressor Station. The work is expected to last until October 31<sup>st</sup>. During the maintenance capacity through Segments 45 and 730 will be limited to 163,000 Dth/d. Based on the current level of nominations, AOR/IT, secondary and primary FT quantities are at risk of not being scheduled.

Rockies Express Pipeline said it will be performing maintenance at its booster facility at the Wamsutter Echo Springs interconnect on September 3-4<sup>th</sup>.

Gulf South said it would postpone scheduled maintenance on the Airport Compressor Station until sometime next week due to weather conditions in the wake of Gustav. The work had originally been scheduled for September 1<sup>st</sup>.

### **ELECTRIC MARKET NEWS**

Entergy reported that over 825,000 customers in Louisiana and Mississippi were without power following the passage of Gustav through its service territory yesterday. The company noted that the New Orleans and Baton Rouge areas were basically service islands as transmission lines into and out of the area were down. The company reported that 119 transmission lines were downed. Cleco Corp reported that that it had 141,000 of its customers in coastal Louisiana were without power.

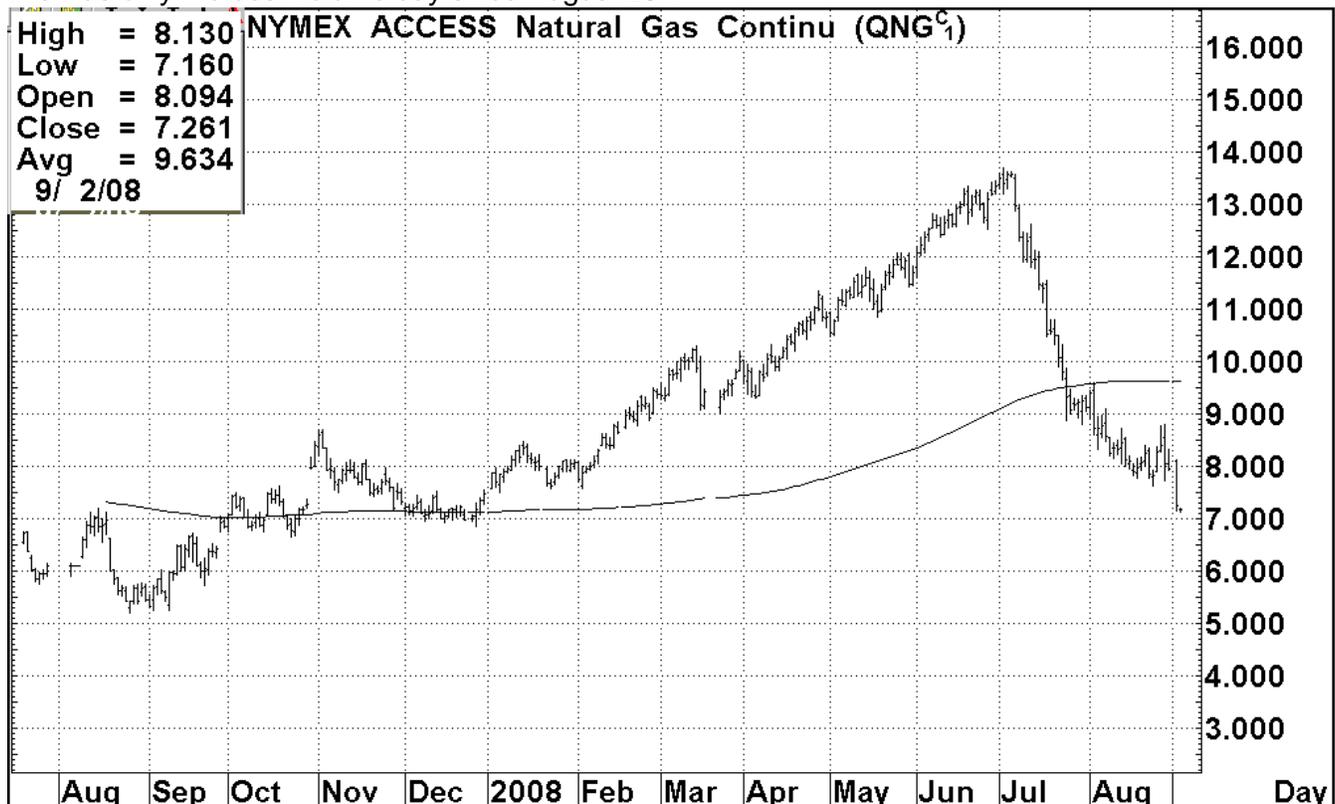
Genscape reported that U.S. power plants last week increased their coal stocks by 0.2% from the previous week, and as a result see stocks that are now 2.3% higher than the same week a year ago.

PPL Electric Utilities said today that it was asking the FERC for a change in the way transmission rates are calculated that would result in a small increase for its Pennsylvania customers. The company said that the rate hike would help pay for the replacement of aging transmission lines and the construction of new equipment. The company asked the FERC for permission to switch to a formula based rate that would help it raise \$20 million more. The company is seeking a November 1<sup>st</sup> start up date for the new rate.

The FERC on Friday approved Virginia Electric Power's request for transmission incentives in the form of 125 and 150 basis point adders to its return on equity for 11 transmission projects in Virginia and parts of the PJM Interconnection.

**MARKET COMMENTARY**

The lack of any reports of significant damage of energy facilities across the Gulf of Mexico appeared to signal the widespread return of the bears to the energy markets. As the oil futures markets all broke below their 200 day moving averages today, which seemed to spark additional selling of the market ( an event that natural gas back on July 24<sup>th</sup> recorded) this market saw decent volume for the day but not outstanding volume as 193,625 futures changed hands , while the smaller sized penultimate and Henry Hub swap contracts traded 38,934 and 205,126 lots respectively. On a combined adjusted basis this was only the best volume day since August 26<sup>th</sup>.



Open interest reported at midday showed that the combined adjusted open interest of the Henry Hub futures and swaps contract grew by over 10,000 contracts on Friday with nearly all the gains recorded in the 2009 contract months.

The weather premium and then some was taken out of the natural gas market today as natural gas values lost over 65 cents in value for the second time in a month. While it appears that any future tropical weather threats will offer limited upside lift to prices given the reluctance of bulls to hold positions in this bear trend, we feel that this market could see some stability coming for the remainder of this week. First the true extent of damage has not been fully appraised and the recovery time of restoring production and pipeline flows historically can be slow and tedious. Second the decline in prices has brought values back to an area on the charts where prices spent nearly a month of sideways congestion last December between \$6.838 and \$7.529. We would look for support tomorrow at \$7.16 followed by \$6.939, \$6.838, \$6.616 and \$6.021. Resistance we see at \$7.336 followed by \$7.51 and \$7.767. Additional points of resistance we see at \$7.857, \$7.966 \$8.13-\$8.16.

