



## ENERGY RISK MANAGEMENT

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### POWER MARKET REPORT FOR SEPTEMBER 11, 2008

#### NATURAL GAS MARKET NEWS

The National Hurricane Center continued to watch the advancement of Hurricane Ike today and its overall forecasted path remained basically unchanged from earlier this morning when it showed that it is on a direct path to the Freeport, Galveston Houston corridor. While the storm did not strengthen as expected during the midday period, it finally looked to be strengthening late in the day, as pressures began to fall. The hurricane wind field had grown to 100 miles out from the center of the storm and growing. While the NHC appears to have lowered their wind forecast a bit by landfall it still was calling for a Category 3 storm at landfall but there seemed to be little discussion of it becoming a Category 4 storm.

#### Generator Problems

**MRO** – Exelon’s 912 Mw Dresden #2 nuclear unit was at 98% of capacity this morning up 16% from yesterday.

**NPCC** – Bruce Power’s Bruce 4 nuclear reactor returned to service.

**WECC** – San Onofre #3 nuclear unit was expected to reconnect to the regional power grid as soon as today as repairs to a back up generator has been completed.

**SPP** – Entergy’s 1152 Mw Waterford #3 nuclear unit exited its outage and ramped up to 64% by this morning. The unit yesterday was at 18% of capacity.

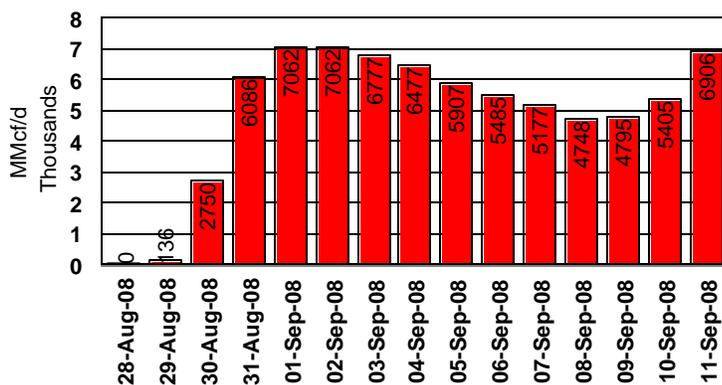
**According to the NRC some 95,832 Mw of generating capacity was in operation in the U.S. this morning, some 0.7% more than Wednesday, and 4.27% more than the same day a year ago.**

Sabine Pipe Line LLC reported today that it was forced to extend the time needed to complete work at its Port Neches compressor and would extend the force majeure for three receipt points on its system. The receipt points affected are Houston Pipeline/Jefferson, KinderMorgan Tejas Pipeline/ Jefferson and KinderMorgan Texas/ Jefferson. The company also reported that while Hurricane Ike appears will miss making a direct hit on its facility, the storm surge associated with the storm could impact its

operations. The company noted that the Vermillion Parish authorities have issued a mandatory evacuation notice for all people living south of Highway 14, which includes the physical location of Henry Hub.

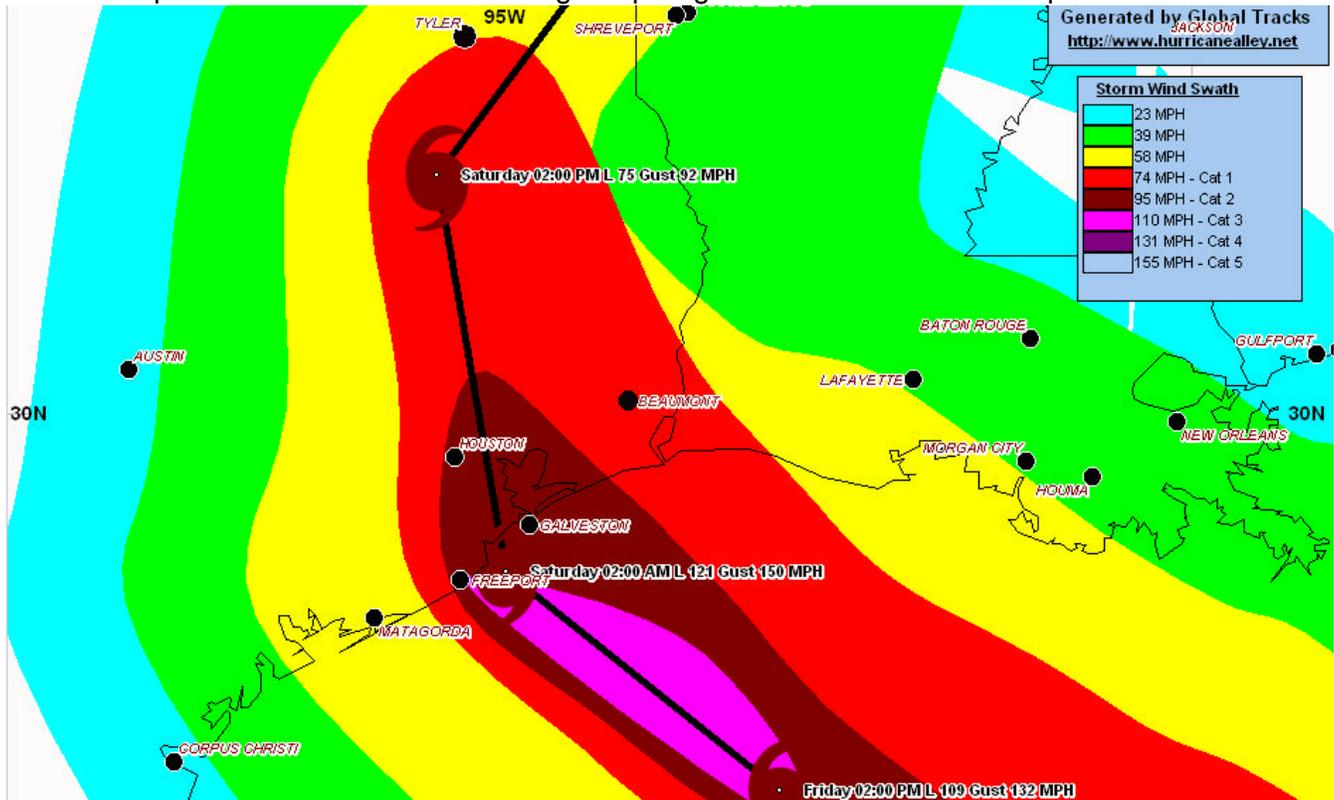
#### USG Offshore Nat Gas Production Shut-ins

Total 74.773 Bcf Shut In



The U.S. Minerals Management Service reported this afternoon that as of midday some 96.9% of the crude oil production from the Gulf of Mexico and 93.3% of the natural gas production has been shut in. The agency also reported that Hurricane Gustav did very little damage to offshore oil infrastructure, with only one report of a destroyed platform that accounted for

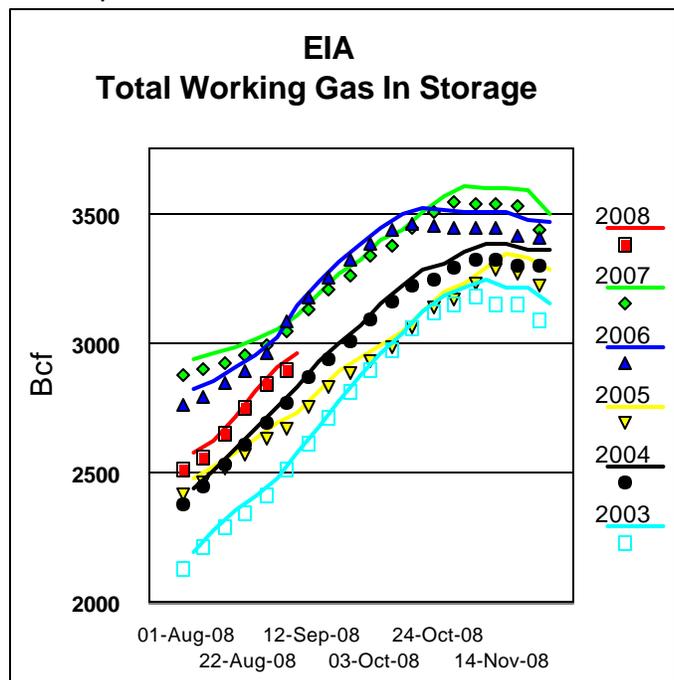
130 b/d of crude oil production and 2.96 MMcf/d of natural gas production. Five other platforms received damage that will require up to three months of repairs before production can be restored and another 35 platforms received minor damage requiring less than one month of repairs.



Dow Chemical announced that it is shutting down its large Freeport, Texas chemical facility as well as ramping down operations at other Texas sites, including Clear Lake, La Porte, Texas City and Seadrift. Dupont and BASF were also ramping down their Texas operations as well.

CME/NYMEX announced late last night that it would alter its weekend trading hours and would now begin trading for Globex and Clearport on Sunday, September 14<sup>th</sup> at 10:00 am EDT with a 9:30 am EDT pre opening for trade date Monday September 15<sup>th</sup>.

The CFTC released their staff report on a review of the activities of swap dealers and commodity price index traders. The report's finding and recommendations are based on information that the agency examined of market conditions between December 2007 and June 2008. The staff found that the aggregate amount of commodity index trading occurring in both OTC and exchanged traded commodity markets was estimated at net notional value of \$200 billion, up \$54 billion from December 2007. Of this \$200 billion in value, some \$161 billion was tied to commodities traded on U.S.



markets regulated by the CFTC. But the CFTC noted that while there was an increase in the net notional value of commodity index business in crude oil futures, it appears to be due to an appreciation

**EIA Weekly Report**

|                         | 09/05/2008 | 08/29/2008 | Net chg | Last Year |
|-------------------------|------------|------------|---------|-----------|
| <b>Producing Region</b> | 795        | 793        | 2       | 912       |
| <b>Consuming East</b>   | 1723       | 1676       | 47      | 1732      |
| <b>Consuming West</b>   | 387        | 378        | 9       | 407       |
| <b>Total US</b>         | 2905       | 2847       | 58      | 3051      |

of the value of existing investments caused by the rise in crude oil prices and not the result of more money flowing into commodity index trading. Thus as crude oil prices increased over the period, the activity of commodity index traders in crude oil during this period reflected a net decline of futures equivalent contracts.

The CFTC calculated that index trading accounted for a crude oil futures contract equivalent of 408,000 contracts in December 2008 and only 363,000 contracts by June 30, 2008. Thus the head of the CFTC before Congress said today "there doesn't appear to be strong evidence speculation is driving up prices". Staff recommendations from the report include: remove swap dealers from the commercial category in the Commitment of Traders report and create a new swap dealer classification for reporting purposes; develop and publish a new periodic supplemental report based on OTC swap dealer activity; create a new CFTC Office of Data Collection; establish more detailed reporting standards for certain large traders on regulated futures exchanges to ensure a more precise picture of their trading activity; consider elimination of bona fide hedge exemptions for swap dealers and create a new, limited risk management exemption; encourage the further clearing of OTC transactions; conduct a review of swap dealers futures trading activity to ensure that it is sufficiently independent of any

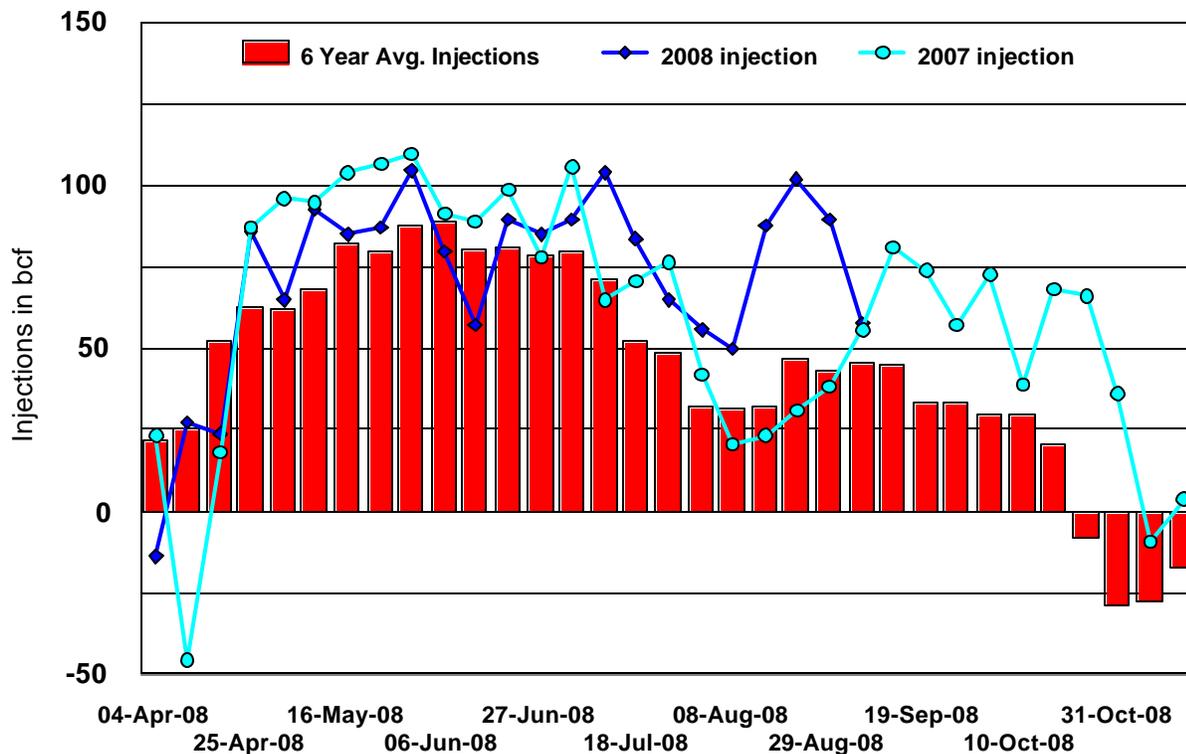
**Canadian Gas Association**

**Weekly Storage Report**

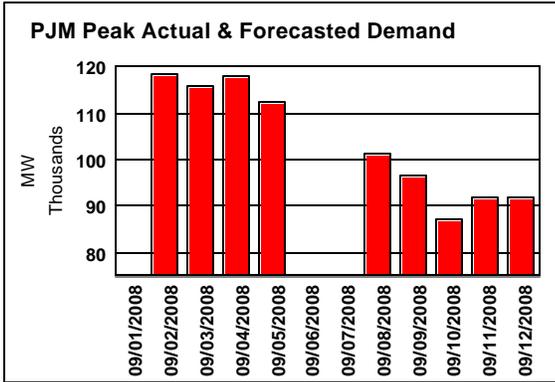
|              | 05-Sep-08 | 29-Aug-08 | 07-Sep-07 |
|--------------|-----------|-----------|-----------|
| <b>East</b>  | 202.0     | 196.7     | 219.4     |
| <b>West</b>  | 304.9     | 298.3     | 320.2     |
| <b>Total</b> | 506.9     | 495.0     | 539.6     |

storage figures are in Bcf

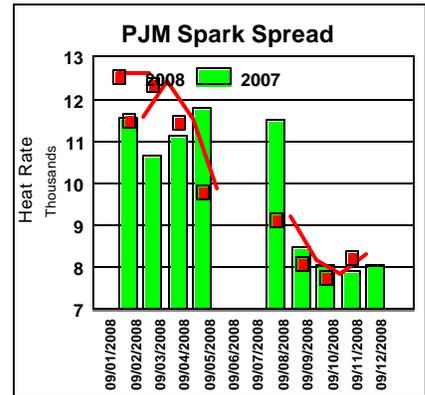
**2008 EIA Survey Injections VS 6-Year Average**



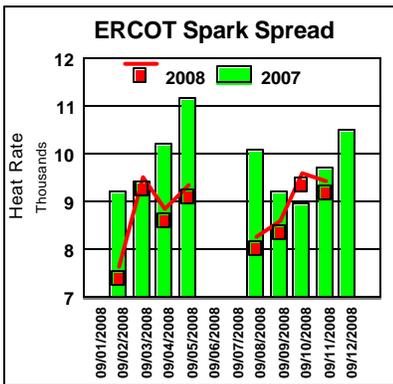
affiliated commodity research; request increased funding from Congress to support the above recommendations and oversight activities.



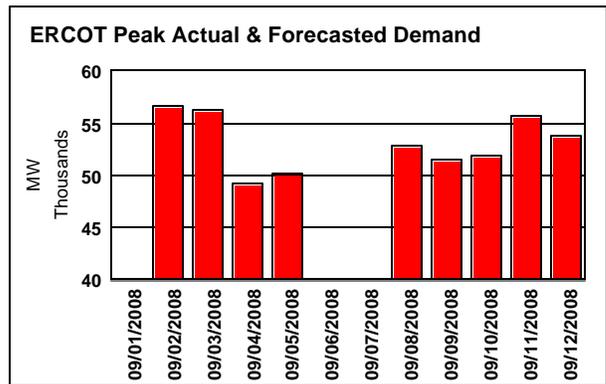
Platts reported today that Lehman Brothers which has grown into the 10th largest natural gas marketer in North America, selling 4.6 bcf/d on gas in the first quarter, continues to trade normally in the gas market despite the



collapse in the firm's stock value over the past several days. Activities in the power market also appear normal. The company reported in its quarterly financial statement that based on value at risk numbers, its exposure to commodity risk increased slightly on the quarter from the prior quarter, with an average



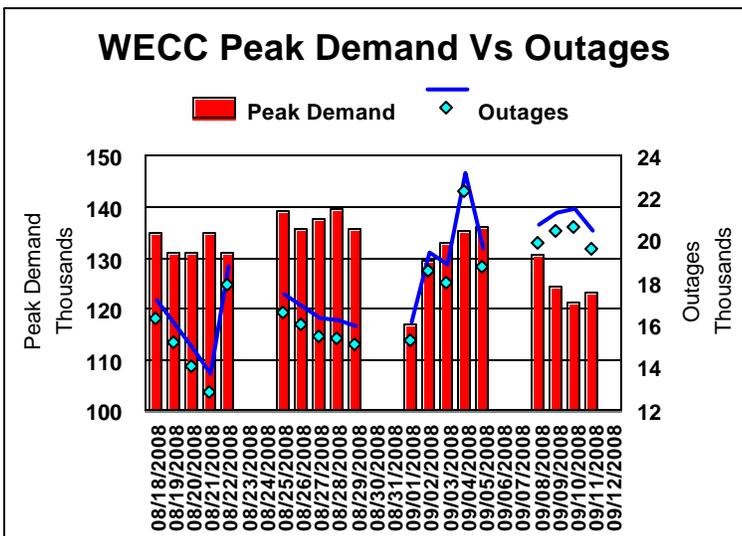
of \$15 million/day at risk in the event of a 1 in 20 chance of an adverse movement in the commodities markets, up from \$12 million/day.



**PIPELINE RESTRICTIONS**  
Northern Natural Gas reported that due to the approach

of Hurricane Ike it was declaring a force majeure for its entire Matagorda Offshore Pipeline System. The company was requiring all platforms to be shut in.

Sabine Pipe Line said that is has lifted the OFO from 100% of receipts from the Sea Robin pipeline interconnect at Henry Hub. The OFO had been issued on Wednesday.



Rockies Express Pipeline said that a force majeure event occurred on one of the units at its Wamsutter Echo Springs booster facility interconnect. Until further notice it was lowering scheduled capacity to 70,000 dth/d.

FGT issued an Overage Alert Day at 20% tolerance in its Market Area today.

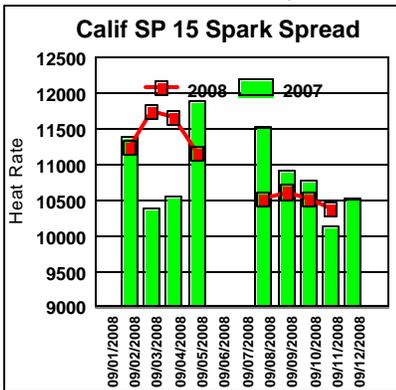
**PIPELINE MAINTENANCE**  
Gulf South Pipeline said the scheduled maintenance on Hall Summit Compressor Station Unit #2 is complete. The work

started on September 9<sup>th</sup>. The company also reported that scheduled maintenance on the Marksville Compressor Unit #4 has been extended for an additional 90-120 days. Capacity through the station could be reduced by as much as 150,000 dth during the maintenance work.

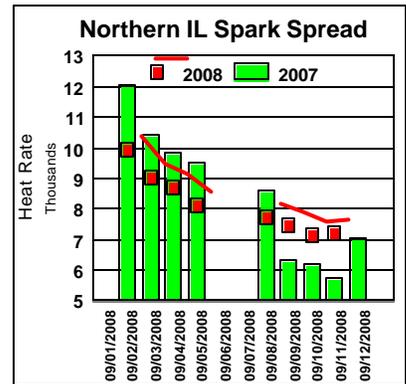
| Natural Gas Cash Market  |           |         |           |                  |           |             |
|--------------------------|-----------|---------|-----------|------------------|-----------|-------------|
| ICE Next Day Cash Market |           |         |           |                  |           |             |
|                          | Volume    | Avg     | Change    | Basis            | Change    | Basis 5-Day |
| Location                 | Traded    | Price   |           | (As of 12:30 PM) |           | Moving Avg  |
| Henry Hub                | 239,000   | \$7.831 | \$0.180   | \$0.477          | (\$0.102) | (\$0.486)   |
| Chicago City Gate        | 539,500   | \$7.251 | (\$0.035) | (\$0.103)        | (\$0.116) | (\$0.177)   |
| NGPL- TX/OK              | 275,000   | \$6.923 | (\$0.209) | (\$0.431)        | (\$0.290) | (\$0.403)   |
| SoCal                    | 485,400   | \$6.447 | (\$0.050) | (\$0.907)        | (\$0.131) | (\$0.909)   |
| PG&E Citygate            | 345,800   | \$6.803 | (\$0.080) | (\$0.551)        | (\$0.161) | (\$0.498)   |
| Dominion-South           | 146,000   | \$7.815 | \$0.080   | \$0.461          | (\$0.001) | \$0.321     |
| US Trade Weighted        | 9,843,700 | \$6.948 | (\$0.021) | (\$0.406)        | (\$0.10)  | (\$0.486)   |

Tennessee Gas Pipeline said that due to Hurricane Ike it has delayed some planned maintenance outages. Work was being pushed back 3-10 days.

NGPL said that the hydrostatic tests along parts of the Illinois Lateral #2 line are taking longer than planned and that the estimated completion date has been pushed back by 12 days to September 27<sup>th</sup>. NGPL said the start of hydrostatic testing on Segment 12 has been moved from September 18<sup>th</sup> to October 1<sup>st</sup> due to contractor availability.



Trunkline Gas Company said that beginning September 15<sup>th</sup> there will be an outage to perform electrical work and repairs through its Cypress pipeline point. Flow will be limited to 270 MMcf/d.



**ELECTRIC MARKET NEWS**

Entergy said this morning it has restored service to 890,000 or 92% of its customers that lost power due to Hurricane Gustav last week.

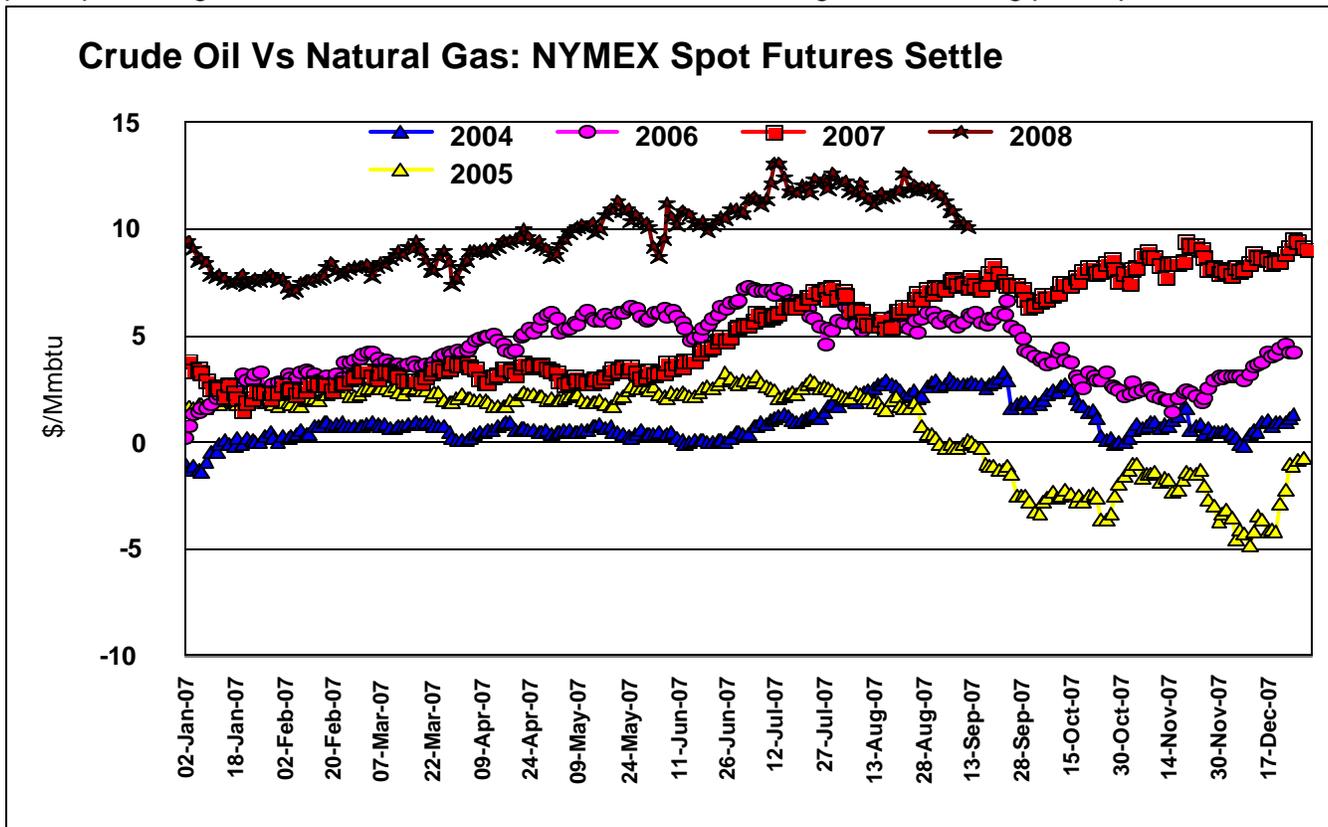
The NY Power Authority on September 15<sup>th</sup> said it would begin the third phase of a four year, \$135 million life extension and modernization program at the 1056 Mw Blenheim-Gilboa pumped storage hydro project. Work will result in shutting one of the plant's 264 MW units until June 2009.

The EIA reported today that U.S. coal production for the week ending September 6 stood at 22.385 million tons down 3.8% from the prior week and 1.8% better than the same week a year ago. Year to date production has been running 1.5% higher than a year ago.

**MARKET COMMENTARY**

Despite the march of Hurricane Ike towards the Texas gulf coast today and the significant shutdown of nearly all offshore natural gas production in the Gulf of Mexico yet again the strong retracement in oil prices driven by the escalating value of the dollar once again dragged this natural gas market lower today, having it settle at new near term lows and the lowest level in the spot contract since December 27, 2007. The light volume of trading on the cash market as reflected by ICE traded volumes today showed a significant decline today, off 40% from yesterday's volumes as production and consumption levels have been impacted by the impending storm. Tomorrow's market activity could be even lighter given the large commercial shutdown of the Houston energy office corridor due to the impending

arrival of Hurricane Ike. As a result futures prices could trip off trading vacuums tomorrow as many participants might not be active in the market that otherwise might blunt trading price spikes.



We continue to look at these production shut-ins as longer-term support for natural gas prices, but if the dollar continues its rapid rebound we feel it can only push crude oil prices lower and in part drag natural gas prices down with them but not on an equal basis. We have seen that in the recent sell off of the last two weeks crude oil futures have lost some two and a half dollars in premium on a Mmbtu to natural gas and that this premium will continue to be under pressure we feel for the next several months.

We would look for support tomorrow in the October natural gas contract to be found at \$7.16, \$7.09 and major support at \$7.02 and \$6.93. More distant support we see at \$6.65. Resistance we see at \$7.527, \$7.65, \$7.70-\$7.72. More distant resistance we see at \$7.80, \$7.95-\$7.96, \$8.17 and \$8.272.