



## ENERGY RISK MANAGEMENT

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### POWER MARKET REPORT FOR SEPTEMBER 12, 2008

#### NATURAL GAS MARKET NEWS

All eyes continued to watch the approach of Hurricane Ike toward the Texas coast, with landfall expected as a Category 2 or possible Category 3 hurricane early Saturday morning, possibly near high tide. As a result storm surge expectations for the region were estimated at 16-20 feet. There is one other area of tropical weather that the NHC is watching and that is about 200 miles northeast of the southeastern Bahamas. This area of disturbed weather is in part the remnants of Tropical Storm Josephine. Some slow development is possible over the next couple of days as it moves on a west-northwestwardly track. The rest of the tropical Atlantic appeared quiet.

The U.S. Minerals Management Service reported today that as of midday there was some 1.267 million barrels of offshore crude oil production shut in in the Gulf of Mexico and 6.985 bcf/d of natural gas production.

#### Generator Problems

**MRO** – Xcel Energy's 572 Mw Monticello nuclear power plant was shut yesterday due to a problem with a transformer.

Dominion's 591 Mw Kewaunee nuclear plant was taken offline Thursday and it remained off line today.

**NPCC** – Bruce Power's Bruce #6 822 Mw nuclear unit returned to service on Friday. The unit was taken off line on September 6<sup>th</sup>.

**WECC** – Southern California Edison's 1080 Mw San Onofre #3 nuclear power plant started to exit its outage and was up to 18% of power this morning.

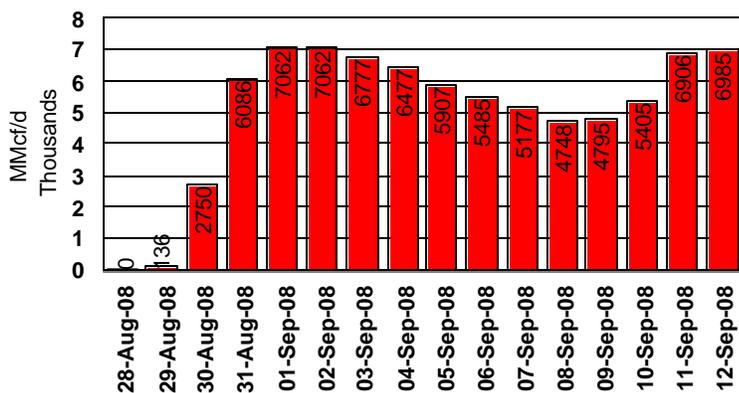
**SPP** – Entergy's 1152 Mw Waterford #3 nuclear unit returned to full power early Friday. The unit was at 64% capacity on Thursday.

The 2000 Mw natural gas fired Sabine Power Station was shut down today ahead of the arrival of Hurricane Ike. Operators feared that the expected storm surge could reach the plant.

**According to the NRC some 95,313 Mw of generating capacity was in operation in the U.S. this morning, some 0.5% less than Thursday, and 3.65% more than the same day a year ago.**

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

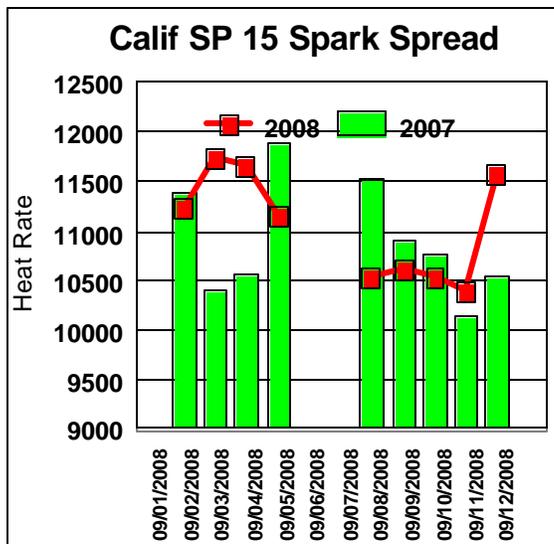
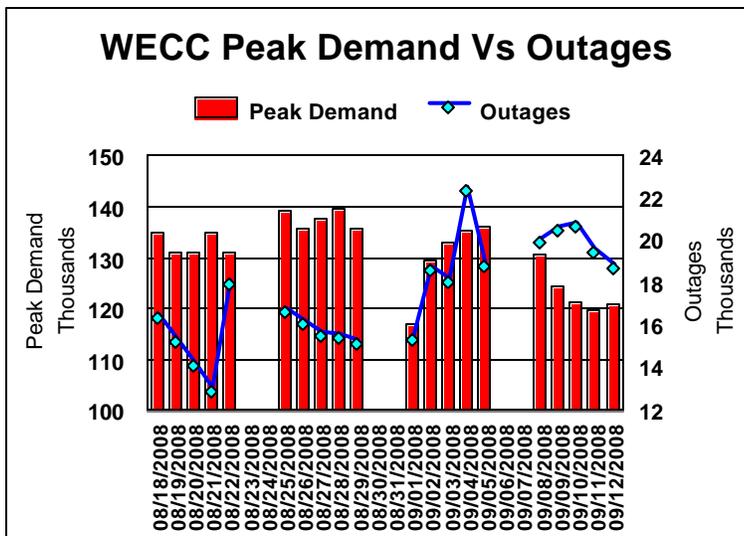
Total 81.758 Bcf Shut In



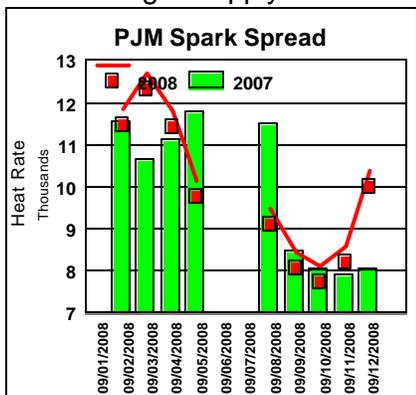
On the economic front the University of Michigan reported that their consumer confidence index jumped to 73.1 in September, the highest since January 2008, from 63 in August. This was the biggest monthly jump since January 2004. U.S. wholesale prices dropped by a bigger than expected 0.9% in August, the sharpest decline in two years, driven by lower energy prices. Core prices, excluding energy and food rose by 0.2% after a 0.7% surge in July. But on the negative side stocks of unsold goods at U.S. businesses climbed during July at the sharpest rate

in four years. The increase was at twice the rate expected by economists.

Energy West announced it would be acquiring three natural gas distribution companies for \$34.3 million. The deal will increase the company's customer base by 50%.



The Pennsylvania Public Utility Commission warned consumers that they would likely see their natural gas and electric bills this winter to run some 17.69% and 7.83% higher than last year. The Commission also said today that it has initiated an action plan to increase effective competition in the retail market for natural gas supply.



The EIA confirmed the obvious this week that LNG imports into the United States have been lagging behind last year averaging 1.2 bcf per day. Imports for the months of April through August are particularly low given the fact that LNG prices in the United Kingdom have been running at a substantial premium, which just last week was at \$6.58 per Mcf premium over U.S. prices.

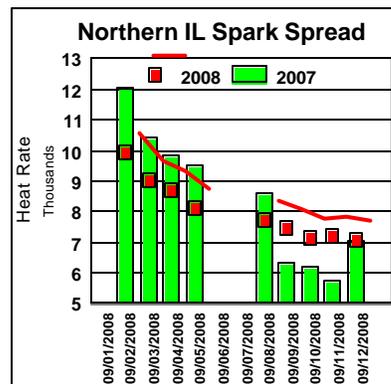
CLP Power said it has given up on its plan to build Hong Kong's first LNG import terminal on South Soko Island. The company now plans to

source natural gas for its joint venture Black Point power plant by importing gas from an LNG import terminal in Guangdong.

**PIPELINE RESTRICTIONS**

FGT issued an Overage Alert Day at 20% tolerance in its market Area for Friday.

NGPL said that it has declared a force majeure event on its Louisiana line due to Hurricane Ike.



Columbia Gulf Transmission said Friday that it experienced supply cuts due to Hurricane Ike and could declare force majeure is shippers created imbalances on its system .

## PIPELINE MAINTENANCE

Alliance Pipeline said that minor maintenance will require the Estlin compression station will be offline for four hours on September 17<sup>th</sup>. System throughput will likely not be affected.

Williston Basin Interstate Pipeline said it would be performing its annual fall rock pressure test on the Elk Basin Storage Field for a 48-hour period

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	221,700	\$8.016	\$0.184	\$0.533	(\$0.459)	(\$0.549)
Chicago City Gate	459,900	\$6.648	(\$0.603)	(\$0.834)	(\$0.731)	(\$0.295)
NGPL- TX/OK	458,100	\$6.372	(\$0.551)	(\$1.110)	(\$0.679)	(\$0.527)
SoCal	557,100	\$6.042	(\$0.405)	(\$1.440)	(\$0.533)	(\$1.019)
PG&E Citygate	749,900	\$6.594	(\$0.209)	(\$0.888)	(\$0.337)	(\$0.610)
Dominion-South	177,700	\$7.790	(\$0.024)	\$0.308	(\$0.152)	\$0.323
UTrade Weighted	9,377,400	\$6.617	(\$0.331)	(\$0.865)	(\$0.46)	(\$0.549)

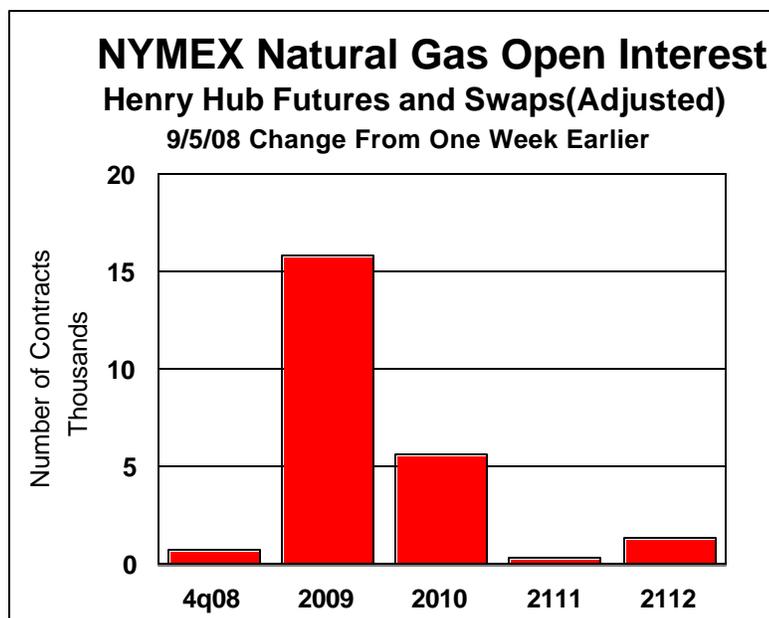
beginning October 15<sup>th</sup>. The company also reported that the unplanned maintenance work on the Cabin Creek Compressor Station has been extended until September 26<sup>th</sup>, but the company does not expect this will result in any restrictions on the system.

Gulf South Pipeline said that effective immediately it is performing unscheduled maintenance at the Napoleonville Compressor station and lasting for two weeks. Capacity through the compressor station could be affected by as much as 100,000 Dth/d.

## ELECTRIC MARKET NEWS

The PJM Interconnection said it is considering using wind forecasting as a possible tool that would help the operator to gauge wind power availability and when drop offs in generation may occur. Other grid operators such as ERCOT already incorporate wind forecasting in its operating plan.

Entergy reported that 136,000 customers still were without power in Louisiana and Texas due the effects of Hurricane Gustav and Ike.

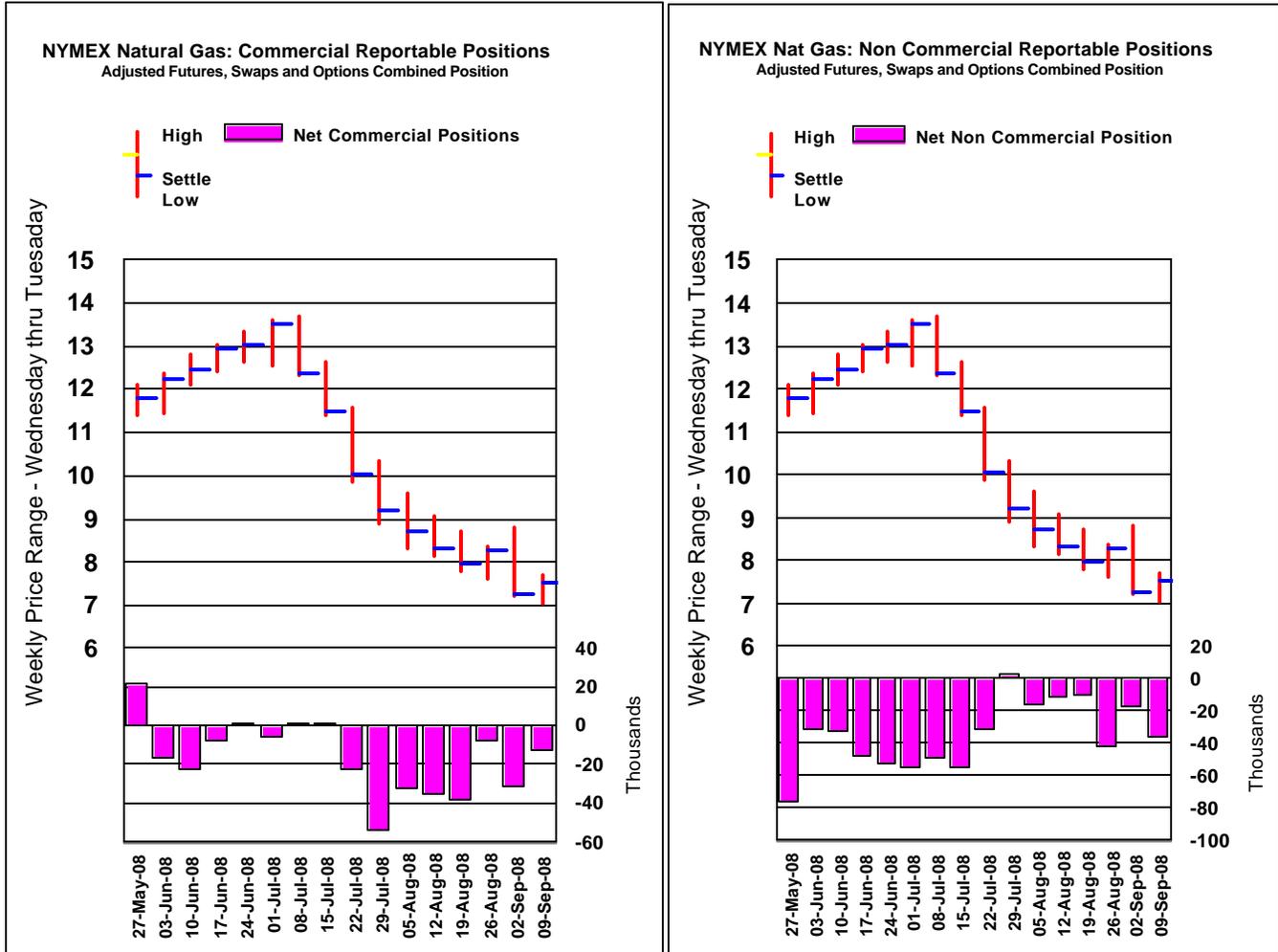


## MARKET COMMENTARY

Despite the fact that Hurricane Ike never strengthened out over the Gulf to the feared Category 3 or Category 4 levels discussed yesterday and that by this morning the main destructive threat from this storm appeared to be the projected storm surge of flood waters that are aimed squarely at 23% of the U.S. refining infrastructure, it appeared that natural gas was the strongest energy market during the first half of the day trading session today. Prices surged by 45 cents before profit taking appeared to seep into the market by lunchtime allowing prices to retrace two thirds of the morning's gains. Prices though were still able to settle up on the session by

basically a dime. Traded volumes on the day were slightly lighter than Thursday which was not

surprising given the fact that most of the energy traders in Houston were not at their office desks today.



Open interest reported at midday showed that basically no change ( only a 300 lot decline) from Wednesday when looking at the combined adjusted open interest from the futures and swaps contracts basis Henry Hub. But when looking at the change over the week one sees a significant increase in 2009 and 2010 contract months.

This afternoon's Commitment of Traders Report showed that for the week ending September 9<sup>th</sup>, while commercials were dramatically shrinking their net short position by over 19,500 lots. It appears that the non-commercial sector was on selling these contracts to commercials as they increased their net short position by over 18,670 lots on a combined net adjusted basis between futures and options on the Henry Hub contracts.

This market has remained in basically in a sideways trading range for the past two weeks of \$7.70-\$7.02, but next week we could possibly see this market breakout. But if there is a breakout to the upside it appears it will remain dependent on oil prices stabilizing which is possible given the potential for significantly stronger product prices if there is flooding damage to Texas based refineries. The other external force on the energy market is the value of the U.S. dollar, which today was significantly pushed lower after recording a basically strong rally over the last month. We see resistance on

Monday at \$7.651, \$7.70-\$7.73, \$7.93-\$7.95, \$8.20 and \$8.88. Support we see at \$7.12-\$7.10, \$7.02, \$6.83 and \$6.55.