



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR SEPTEMBER 15, 2008**

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

The Department of Energy reported this morning that 27 major natural gas processing plants with a total capacity of 13.85 bcf/d were closed in the Gulf of Mexico region, including plants still impacted from Hurricane Gustav. Eight major natural gas plants with a total capacity of 2.9 bcf/d were operating at reduced or normal levels.

Sabine Pipe Line reported that the force majeure for Henry Hub and the Sabine pipeline remains in effect as the company continues to assess flood damage to its facilities.

The U.S. Minerals Management Service reported this afternoon that 99.9% or 1.3 million b/d or crude oil output from the Gulf of Mexico remains offline. Some 93.8% of natural gas output also remains offline as a result of the recent storms, or 6.9 bcf/d production. The government reported that 11 offshore production and drill rigs were missing or destroyed as a result of Hurricane Ike.

The National Hurricane Center noted while the tropical Atlantic remained very quiet currently there was an area of disorganized shower activity located a few hundred miles east of the northern Leeward Islands that was associated with a westward moving tropical wave. The NHC assigned a less than 20% probability that the system could significantly strengthen over the next several days, as upper level winds appear unfavorable for development.

Lehman Brothers announced this morning that the firm had filed for bankruptcy protection. As a result the firm was notified by ICE that its trading rights on the electronic platform had been suspended. The CME and ICE though noted that the Lehman futures clearing unit remained in good standing and that the company was looking to transfer its FCM unit, the seventh largest FCM in the U.S. to a third party. The company though reportedly did shut down its carbon emissions trading desk today.

#### **Generator Problems**

**SERC** – Southern's 883 Mw Hatch #2 nuclear power unit was at 85% of capacity this morning down 15% from Friday.

Southern's 1149 Mw Vogtle #2 nuclear unit was shut early Monday for refueling. The unit had been at 94% of capacity on Friday.

Dominion's 910 Mw North Anna #2 nuclear unit was taken off line today for refueling. The unit had been at full power on Friday.

**NPCC** – OPG's 494 Mw coal fired Lambton #3 power unit went off line today, while Unit #1 returned to service after being shut for repairs back on September 10<sup>th</sup>.

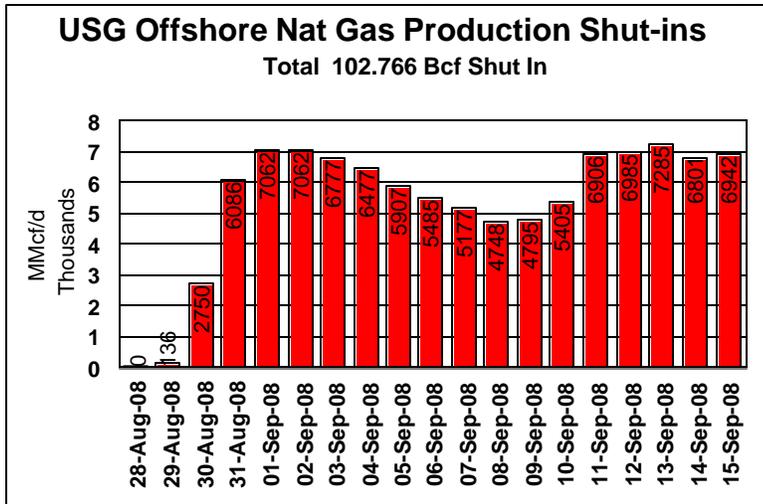
Entergy's 813 mw Fitzpatrick nuclear unit was offline for a planned outage. The unit had been operating at 94% capacity on Friday.

**WECC** – Southern California Edison's 1080 Mw San Onofre #3 nuclear unit was at 98% power up 18% from Friday.

**PJM** – Exelon's 1116 Mw Peach Bottom #2 nuclear unit was taken offline Sunday. The unit had been operating at full power.

**According to the NRC some 93,302 Mw of generating capacity was in operation in the U.S. this morning, some 2.1% less than Friday, and basically unchanged from the same time a year ago.**

The Australian Petroleum Production and Exploration Association has asked the Australian government to create a new category for the LNG sector that would allow LNG exports to be compensated during the initial stages of a carbon trading scheme. The group noted that LNG plays a crucial role in the global move towards cutting greenhouse gas emissions and that exporters of LNG, a low emission fuel, should not be penalized for emissions produced with preparing gas for export.



The president of the European Commission said today that alternative pipeline projects do not necessarily jeopardize the EU Nabucco pipeline project, given that Europe needs to diversify its energy sources.

The Federal Reserve Bank reported this morning that U.S. industrial output in August tumbled at a larger than expected rate of 1.1%, due to declines in auto production and lower utility output. Manufacturing production fell 1%, the largest decline in three years.

The National Weather Service reported that this past June-August summer season was the 22<sup>nd</sup> warmest on record, while August was the 39<sup>th</sup> warmest on record in the U.S. But based on population the government's residential energy usage for August and the summer season were near average.

### PIPELINE RESTRICTIONS

Anadarko said this morning that it was restarting its Independence Hub platform in the Gulf of Mexico and was performing minor repairs to two other platforms, Marco Polo and Constitution, and was returning workers to those facilities. The company said that its Neptune platform is ready to resume production as pipelines permit.

Shell Oil, the largest oil producer in the Gulf of Mexico, said it found "moderate damage" on some of its oil and gas production platforms but no major structural damage as was seen following Hurricanes Katrina and Rita. The company said the restart of its platforms would depend on required repairs as well as the readiness of pipelines to handle the production.

Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume	Avg	Change	Basis	Change	Basis 5-Day
	Traded	Price		(As of 12:30 PM)		Moving Avg
Henry Hub	0	\$0.000	(\$8.016)	(\$7.601)	(\$0.295)	(\$0.698)
Chicago City Gate	639,300	\$6.376	(\$0.272)	(\$1.225)	(\$0.391)	(\$0.514)
NGPL- TX/OK	622,400	\$5.865	(\$0.507)	(\$1.736)	(\$0.626)	(\$0.808)
SoCal	664,100	\$5.998	(\$0.044)	(\$1.603)	(\$0.163)	(\$1.181)
PG&E Citygate	334,200	\$6.441	(\$0.154)	(\$1.160)	(\$0.273)	(\$0.759)
Dominion-South	180,600	\$7.906	\$0.116	\$0.305	(\$0.003)	\$0.311
USTRade Weighted	9,783,200	\$6.442	(\$0.176)	(\$1.159)	(\$0.29)	(\$0.698)

BP Destin Pipeline said on Sunday it had lifted its force majeure declaration on natural gas receipt points.

SoNat said that offshore facility inspections are well underway. It estimated that as a result of the two hurricanes the company has lost supply currently of 500,000 Mcf/d.

The NYMEX said its Delivery Committee panel on Friday determined that Sabine Pipe Line, which operates the Henry Hub facility issued a force majeure effective 9 pm September 12<sup>th</sup> for 2 intraday cycles. Based upon this shutdown and declaration by Sabine, the Committee determined to make a finding of Force Majeure with respect to all remaining delivery obligations in the September 2008 natural gas contract month effective as of the Force Majeure implementation by Sabine. Further, as certain August 2008 NYMEX deliveries were affected by Hurricane Gustav and extended into September, any of those obligations, which may not have been confirmed, as completed, are also subject to this declaration.

NGPL reported it continued to operate throughout Hurricane Ike and is currently running at reduced volumes.

FGT issued an Overage Alert Day at 25% tolerance in its Market Area for today.

### **PIPELINE MAINTENANCE**

CIG said it has experienced an outage at its Elk Basin Compressor Station which has impacted its capacity at the Big Horn North Constraint which is located near the north end of the Big Horn Lateral. Current operating conditions have left open the possibility of making incremental interruptible deliveries through Big Horn North Constraint.

Rockies Express Pipeline confirmed it will be performing maintenance at its Williams Opal and Enterprise Pioneer interconnects on September 16<sup>th</sup>. The company will be performing maintenance work on the Roberson compressor station on September 16<sup>th</sup>.

### **ELECTRIC MARKET NEWS**

The Department of Energy reported that 3.9 million customers were without power in the aftermath of Hurricane Ike. In Texas, which was the hardest hit as some 2.1 million customers remained with out power. This afternoon ERCOT reported that 1.73 million customers were still without electrical service in the state, and it could take 3-4 weeks for full service to be restored. The grid operator said that 14 of 114 high voltage transmission lines that were knocked out of service due to hurricane Ike have been restored. It also noted that 11 power plants or about 2,585 Mw of generating capacity, were unable to operate due to a lack of transmission capacity.

AmerenUE crews reported that they had restored power to more than 75,000 customers in Missouri over the past 24 hours, while its sister company Ameren Illinois Utilities said that it has restored power to more than 42,000 customers in Illinois that had lost service due to the passage of the remnants of Hurricane through its service area.

Genscape reported that U.S. power output in the week ending September 11<sup>th</sup> fell 2.05% from the prior week before and dropped 4.85% from the same week a year ago.

### **MARKET COMMENTARY**

The natural gas market posted its fourth consecutive outside trading day as overnight selling pressure in the oil markets and other commodity markets driven by the financial turmoil in the markets placed a doom and gloom over the market. But prices once again demonstrated support just above the \$7.00 price level and bounced at midday when news came across the wire services that the Coast Guard reported that 11 production platforms and drilling rigs in the Gulf of Mexico were either missing or destroyed as a result of Hurricane Gustav. As prices broke the downward trend line of the past day and a half at \$7.255 prices were then off to the races as technical short covering appeared to drive prices up \$7.84 in just 30 minutes before stalling and backsliding two thirds of the up move before the

close. Volume today was excellent with 192,920 futures traded on the day. The combined adjusted volume in the Henry Hub contracts saw the best volume day since August 27<sup>th</sup>, with the 4Q2008 accounting for over 71% of the days volume. The back months 2011 through 2013 also saw a dramatic upswing in interest with Cal 2011 saw 4,210 lots traded with Cal 2012 and Cal 2013 trading 1678 and 2799 lots respectively.

This market is supported by the continued loss of domestic production of natural gas. Through today USG production lost from Hurricanes Gustav and Ike has reached 102 bcf with probably another 30 bcf at least that will be lost over the coming days as producers slowly bring back production. This we feel will be a growing factor in trader's minds as we approach the end of the injection season. But if the financial turmoil continues to roil the financial markets natural gas prices will still feel its spill over and prevent this market from moving higher. We see support tomorrow at \$7.07, \$7.02, \$6.83, with more dist support at \$6.66 and \$6.25. Resistance we see at \$7.786, \$7.84, \$7.95, \$8.17-\$8.19. More distant resistance we see at \$8.555 and \$8.88. The March April spread appears to be trying to build support at 14.5-15.5 cents. The daily stochastic indicators appear also to confirm that this market has put in a near term bottom as it posted the second day in a row with the %K over the %D and thus point o an upswing in values.