



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR OCTOBER 7, 2008**

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

The EIA stated in its Short Term Energy Outlook that US domestic natural gas production is expected to average 58.91 bcf/d in 2008 and 61.39 bcf/d in 2009, down 1.01% and 0.63% from its previous estimates. Its fourth quarter estimate was revised down 1.18% from its previous estimate to 60.06 bcf/d. It also reported that net imports were also revised lower by 1.35% to 8.05 bcf/d in 2008 and by 0.25% to 7.87 bcf/d in 2009. Its fourth quarter estimate was revised down by 1.5% to 7.88 bcf/d. Total US natural gas demand is estimated to average 64.67 bcf/d in the fourth quarter, down 0.68% from its previous estimate. Demand for 2008 and 2009 was cut by 0.25% to 64.69 bcf/d and by 0.54% to 65.89 bcf/d, respectively. Henry Hub natural gas spot price is seen averaging \$9.67 in 2008, down 0.41% from its previous estimate while the price in 2009 is estimated at \$8.17, down 4.44% from its previous estimate. It also reported that households heating primarily with natural gas are expected to spend an average of \$155 or 18% more this winter. The increase in natural gas expenditures reflect the combined effects of a 17% increase in price and 1% increase in consumption.

#### **Generator Problems**

**ERCOT** – Luminant's 575 Mw Big Brown unit# 2 restarted early Tuesday after the unit tripped Monday evening.

**SERC** – Southern Nuclear's 883 Mw Hatch #1 nuclear unit ramped up to full power, up 11% from Monday.

**MRO** – Exelon's 1163 Mw LaSalle #1 nuclear unit cut its power to 84% capacity on Tuesday, down from full power on Monday.

**According to the NRC some 82,928 Mw of generating capacity was in operation in the U.S. this morning, down 0.70% from Monday and 1.16% higher than the same time a year ago.**

The US Minerals Management Service reported that a total of 18,805 bpd of crude production returned to the market, leaving 581,874 bpd of crude production still shut in the Gulf of Mexico as of Tuesday. It also reported that a total of 141 mmcf/d of natural gas production was restored, leaving 2.86 bcf/d of natural gas production still shut in.

The MMS also reported that the first lease sale in the 181 South Area in central Gulf of Mexico Planning Area in two decades is proposed to be held on March 18, 2009.

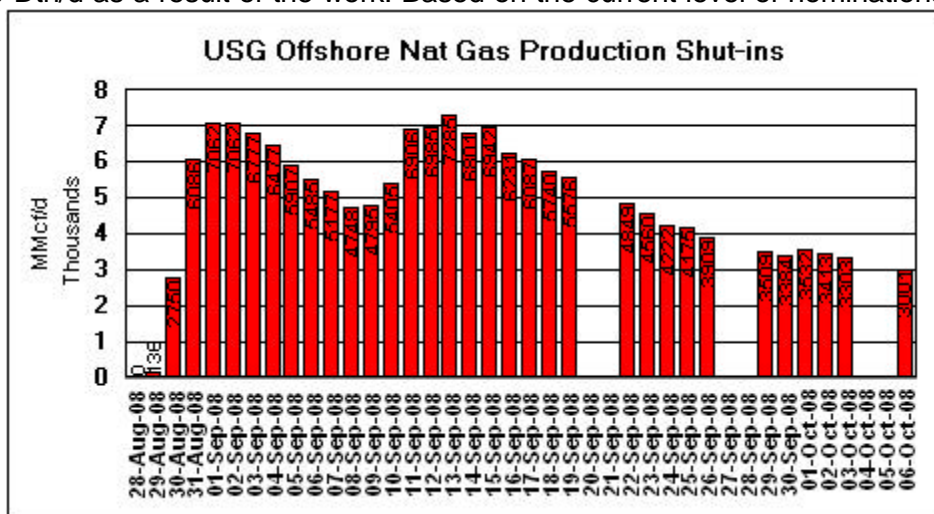
Tropical Storm Marco formed on Monday in the southern Gulf of Mexico, prompting Pemex to evacuate four offshore plants and shutdown wells. Pemex said it shut six wells at Lankahuasa, which primarily produces natural gas and was taking preventive action at onshore oil facilities along the Gulf coast.

The FERC approved the expansion of Dominion Cove Point's liquefied natural gas import terminal on Maryland's eastern shore. However it capped LNG flows across the Washington Gas Light Co system at currently authorized levels.

## **PIPELINE MAINTENANCE**

KMIGT, a unit of Kinder Morgan, announced that it would be performing maintenance at its Laton Compressor Station (Segment 775). Maintenance was to begin today. Nominations through Segment 775 will be limited to 235,000 Dth/d as a result of the work. Based on the current level of nominations, AOR/IT, Secondary out-of-path, and Primary in-path quantities are at risk of not being scheduled. KMIGT may be able to schedule additional quantities on the Intraday 2 cycle.

Rod bearing maintenance began today at El Paso Natural Gas Company's Flagstaff # 1's north mainline. The work is expected to last into Wednesday, 10/8.



TransColorado Gas Transmission Company L.L.C., a unit of Kinder Morgan, said it would be performing maintenance at its Redvale Compressor Station today. Capacity through Segment 220 will be limited to 355,000 Dth and capacity through Segment 240 will be limited to 405,000 Dth. Based on the current level of nominations, AOR/IT, secondary & primary FT quantities are at risk of not being fully scheduled, the company said.

Questar Pipeline Company said that it would begin replacing the compressor bundle on Unit #3 today at its Oak Spring compressor station following its mechanical failure. The work is expected to be completed by the end of the week. As a result, capacity on ML 104 will remain at 300,000 Dth/d until further notice.

Scheduled pigging maintenance is expected to begin October 16 at Gulf South Plan's Index 157 and Index 140, Halter Island to Kent Bayou. The planned maintenance is expected to take approximately 10 days.

## **ELECTRIC MARKET NEWS**

The EIA said in its Short Term Energy Outlook that total electricity consumption is expected to grow by 1% in 2008 while growth consumption in 2009 is expected to remain relatively low, primarily as a result of the projected slow growth in economic activity. US residential electricity prices are expected to grow by 6.2% this year and 9.4% in 2009. It reported that growth in domestic coal consumption and particularly in exports is expected to contribute to a 3% increase in coal production in 2008. In 2009, coal production will remain relatively unchanged at increases in coal exports are offset by decreases in domestic consumption and producer held stocks.

The NRC has accepted a combined license application for two new reactors at the Levy County site near Crystal River, Florida. Progress Energy, which submitted an application, is seeking approval to build and operate two 1,100 Mw reactors.

## **MARKET COMMENTARY**

The natural gas market continued to trade lower as the energy complex remained pressured by the continuing losses in the equity markets. The natural gas market posted a high of \$7.011 early in the session amid the early strength seen in the crude market. However it erased its gains and breached its previous low as it gradually sold off to a low of \$6.73. The market settled in negative territory for the fourth consecutive session and below the \$7.00 level for the second consecutive session at \$6.768, down 6.7 cents on the day.

While we are still of the opinion that the market will continue to be driven by the economic news, the market may be poised for further downside as it continued to trade lower today. Technically, the market is seen finding support at its gap from \$6.643-\$6.474, basis its spot continuation chart. More distant support is seen at \$6.381 and \$6.131. Resistance is seen at \$6.85, \$6.943, \$7.011 followed by \$7.117 and \$7.224. Further resistance is seen at \$7.348, \$7.50, \$7.938 and \$8.117.