



## **ENERGY RISK MANAGEMENT**

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### **POWER MARKET REPORT FOR OCTOBER 16, 2008**

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

The National Weather Service today released their longer-term temperature outlooks. The NWS sees the midsection of the nation having above normal temperatures in November while the December – February period should see much of the eastern half of the nation above normal temperatures.

Statistics Canada reported today that Canadian manufacturing sales plummeted in August by 3.7% the largest decline on the year.

#### **Generator Problems**

**PJM** – Operators at PSEG's 1130 Mw Salem #2 nuclear power station reduced output by 29% to 65% of capacity. The unit appears to be coasting down to a refueling outage.

**The NRC reported this morning that some 81,967 Mw of nuclear generating capacity was online this morning, up 0.2% from Wednesday and some 2.2% more than the same day a year ago.**

The Philadelphia Federal Reserve bank released their mid-Atlantic factory activity report today and it showed that business activity in the area slumped unexpectedly hard, moving to -37.5 in October from 3.8 in September. A number below zero indicates contraction in manufacturing in the region. Meanwhile the Federal Reserve Bank this morning reported that in September U.S. industrial activity fell by 2.8%, its biggest decline since December 1974. Market expectations had been for only a 0.8% decline,

	<b>EIA Weekly Report</b>			
	10/10/2008	10/03/2008	Net chg	Last Year
<b>Producing Region</b>	892	867	25	994
<b>Consuming East</b>	1945	1899	46	1925
<b>Consuming West</b>	440	432	8	445
<b>Total US</b>	3277	3198	79	3364

after a revised 1% decline in August, which had been initially reported as a 1.1% decline. The Fed noted that the report was exacerbated by Hurricanes Gustav and Ike as well as the ongoing strike at Boeing. One final bit of economic news was that the government reported consumer prices in September were unexpectedly flat, as declining energy prices helped to reduce inflationary pressures.

#### **Canadian Gas Association**

##### **Weekly Storage Report**

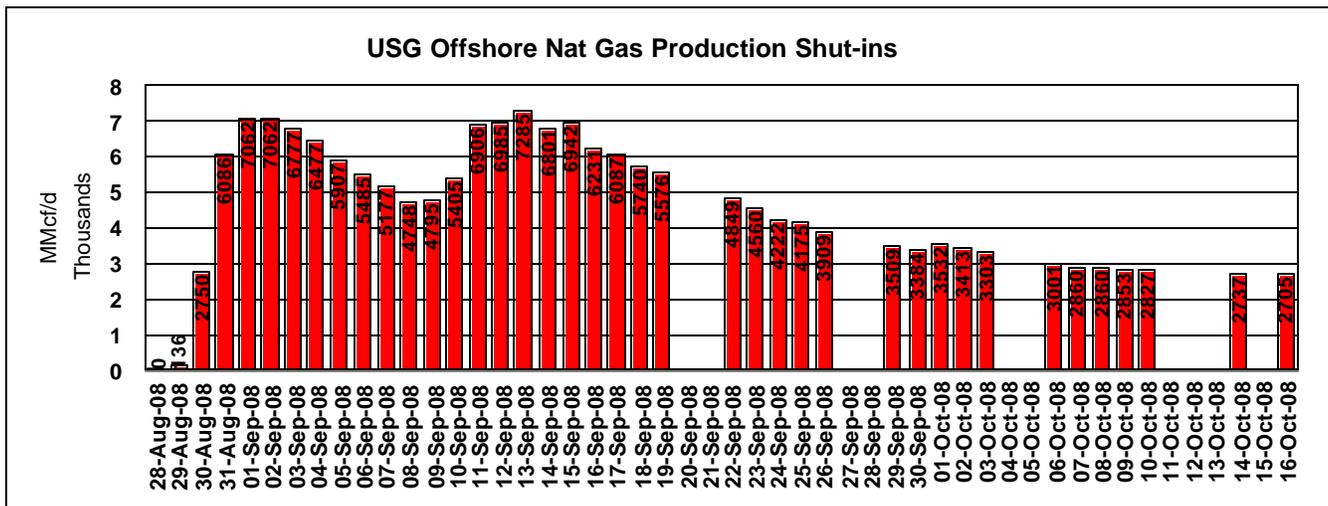
	10-Oct-08	03-Oct-08	12-Oct-07
<b>East</b>	231.5	226.9	244.5
<b>West</b>	339.8	332.4	336.0
<b>Total</b>	571.2	559.3	580.4

storage figures are in Bcf

While tropical threats to the Gulf of Mexico appear absent currently, the GFS model is forecasting the possibility of a new area of low pressure will try to form in the western Caribbean near the Yucatan Peninsula around Tuesday or Wednesday of next week and then stall in the area before finally moving north-northeast by the weekend and then threatening south Florida by October 26<sup>th</sup>. The European model currently is looking for a low to form early next week a but further south than the GFS model. It also looks for the potential system will just meander around in the western Caribbean through the end of the month.

The Wall Street Journal late yesterday reported that BP was considering buying more natural gas properties from Chesapeake Energy, but it was unclear at what valuation those assets would be

pegged at. This story comes on the heels of Chesapeake's CEO yesterday saying the company expects to earn more through asset sales than through drilling for natural gas this year.



The California Public Utilities Commission said today that it has decided it will not try to establish a separate set of rules for utilities to file in undertaking supply contracts involving LNG imports. The commission said LNG imports should compete "head-to-head" with domestic gas supplies.

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	595,800	\$6.651	\$0.013	(\$0.142)	\$0.030	(\$1.187)
Chicago City Gate	603,400	\$6.465	(\$0.001)	(\$0.328)	(\$0.138)	(\$0.431)
NGPL- TX/OK	751,000	\$6.148	(\$0.039)	(\$0.646)	(\$0.176)	(\$0.669)
SoCal	527,700	\$4.815	\$0.788	(\$1.979)	\$0.651	(\$2.956)
PG&E Citygate	285,400	\$6.344	\$0.015	(\$0.449)	(\$0.122)	(\$0.423)
Dominion-South	155,800	\$6.725	(\$0.119)	(\$0.068)	(\$0.256)	\$0.001
UStTrade Weighted	14,494,600	\$5.817	\$0.167	(\$0.976)	\$0.03	(\$1.187)

The Minerals Management Service reported today that production shut in

due to Hurricane Ike in the Gulf of Mexico continued to struggle to come back on line. Crude oil production took a step back from Tuesday's levels as the agency reported some 5,776 b/d more crude was off line this morning bring the total shut in production to 511,977 b/d. While natural gas production did see some recovery it was limited as only 32 MMcf/d of production returned to service, still leaving 2.705 bcf/d still shut in.

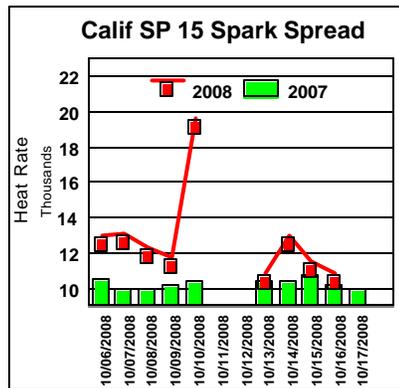
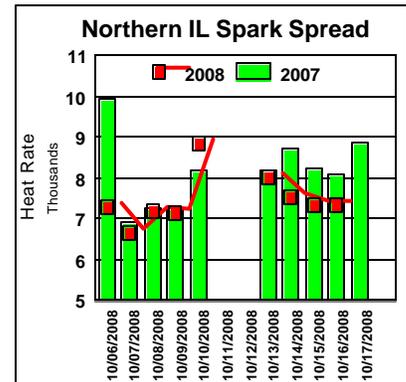
The EIA reported today that total proved reserves of dry natural gas in the United States at the end of 2007 rose to 237.7 tcf, 13% above 2006 year end levels and the highest level in 31 years EIA has published annual reserves data. The agency noted the dry natural gas reserve additions mostly reflected the rapid development of unconventional gas resources including shale, coalbed methane and tight low permeability formations. Shale proved reserves, in particular, increased 50% in 2007 and now accounts for about 9 percent of the U.S. total.

LNG consultants Waterborne Energy said today the recent fall in Algerian LNG production at its Arzew LNG plant is contributing to high global spot prices for the fuel. Production at the plant fell by around 21 bcf per month to only 73% of the plant's capacity.

Police in British Columbia reported today that there has been a second attempt in less than a week to bomb a natural gas pipeline in northeastern British Columbia. The pipeline operated by EnCan, did not rupture but was damaged in the incident near the town of Dawson Creek. The 12-inch line carries sour gas to the Steep Rock gas plant. While a Canadian anti-terrorism unit has joined the investigation it appeared the incident is local in nature.

### **ELECTRIC MARKET NEWS**

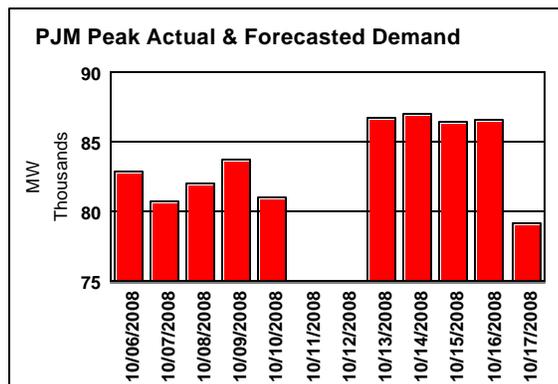
EDF said today that it would end its bid to acquire Constellation Energy, but would continue to look to add nuclear generating assets in the United States.



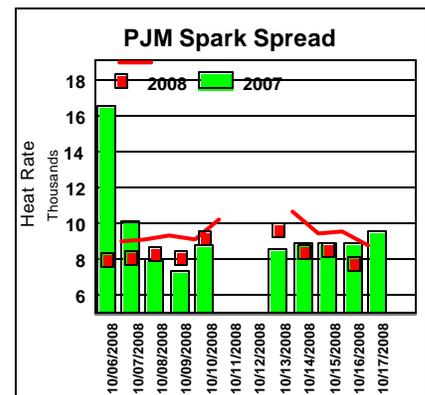
The FERC today approved rate incentives for major transmission projects in the West and in New England. The agency approved a 2% adder to its base return on equity and recovery of prudently incurred abandonment costs by PacifiCorp's for its proposed \$6 billion Energy Gateway Transmission Expansion Project. The project would eventually deliver up to 3,000 Mw of power from renewable resources to distant load centers, and involves eight segments covering portions of Nevada, Idaho, Oregon, Utah, Washington and Wyoming. It has a scheduled start up date of 2010-2014. The FERC noted that this project would significantly ensure reliability and reduce transmission congestion. The FERC

also gave conditional approval of a \$1.4 billion in rate incentives to Iberdrola's Central Maine Power's Maine Power Reliability Program Project. The approval was subject to ISO-New England including the project in the grid operator's regional system plan as a reliability transmission upgrade. The project would build 245 miles of a new 345 kV transmission line and 74 miles of a new 115 kV transmission line, while rebuilding 10 miles of an exiting 345 kV line and 155 miles of a 115 kV transmission line.

Senator Obama's energy adviser, Jason Grumet said in an interview that if Obama became president he would direct the EPA to use the 1990 Clean Air Act to set emission limits on power plants and manufacturer as carbon dioxide would be classified as a dangerous pollutant.



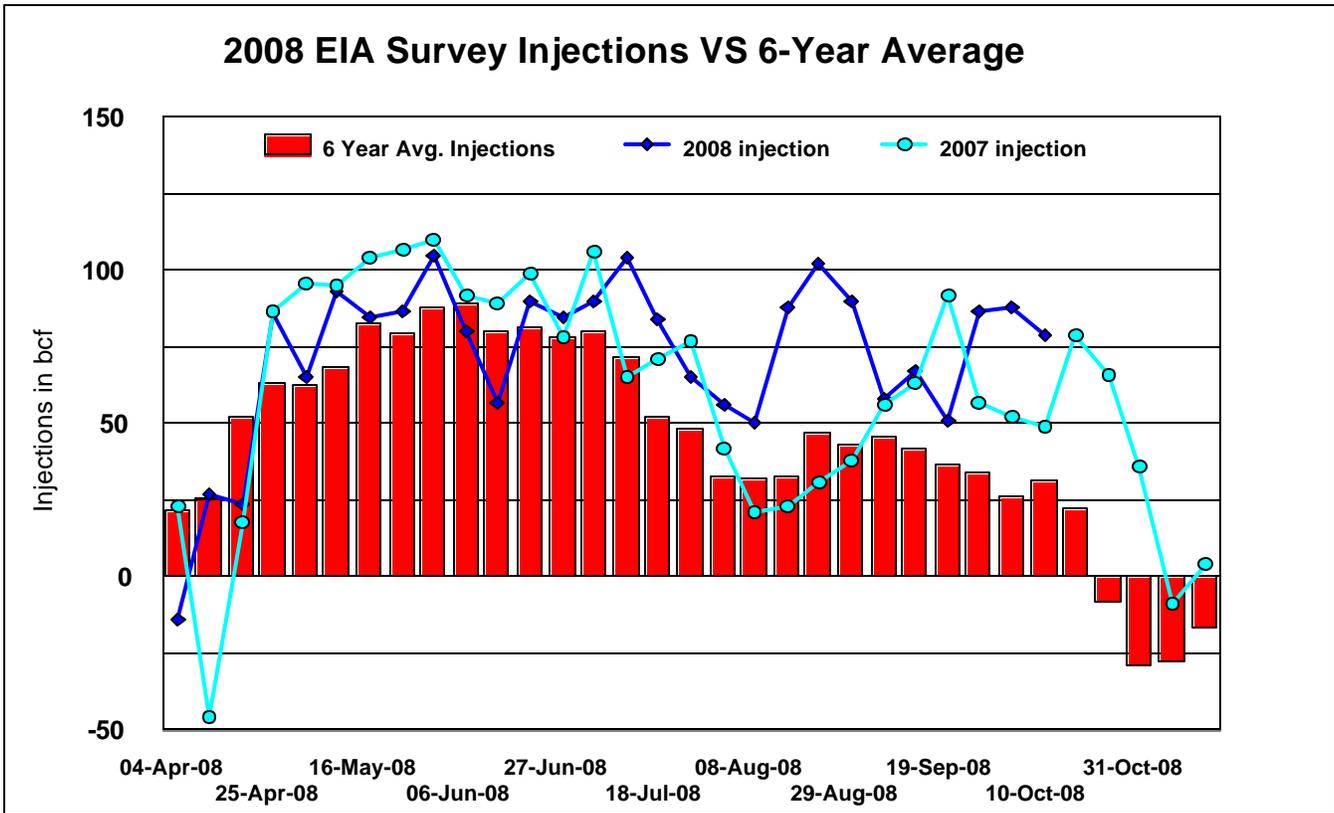
The FERC today finalized regulations that will strengthen the operation and improve the competitiveness of organized wholesale electric markets through the use of demand response and by encouraging long-term power contracts, strengthening the role



of market monitors and enhancing RTOs and ISO responsiveness.

The FERC today noted "the prospects for natural gas markets this winter are looking better than they were just a few months ago ." The noted that it appears the U.S. will have sufficient gas in storage to meet winter demand and coupled with expanding production and a moderate weather forecast, these

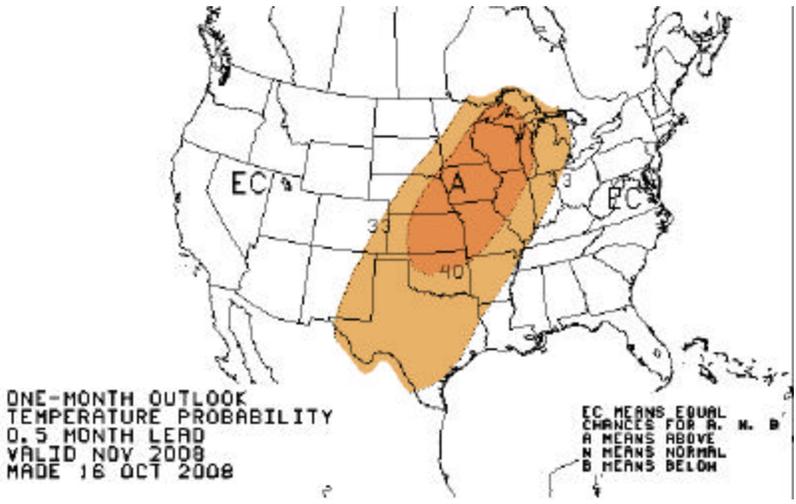
factors should go a long way towards protecting the country from supply disruptions and prolonged high prices. The agency said they expect storage levels to enter the winter at almost near capacity levels of 3,789 bcf.

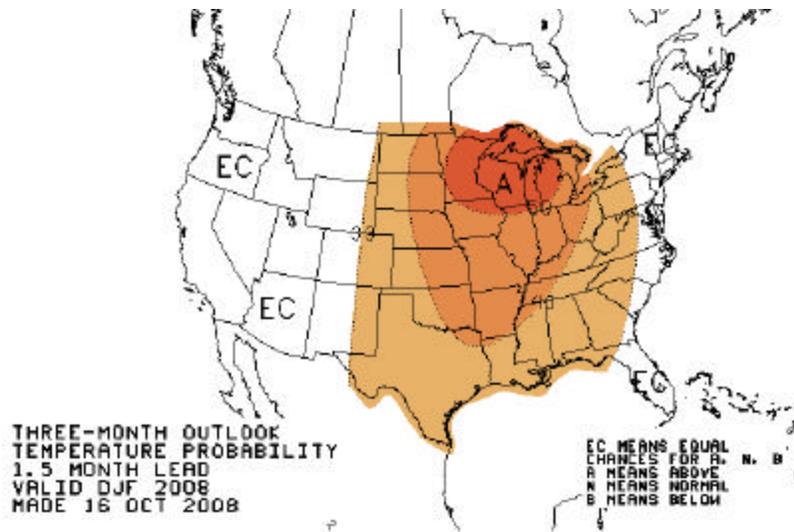


The FERC on Thursday asserted its jurisdiction over power projects located on the Outer Continental Shelf. The FERC and the Minerals Management Service had been fighting over agency oversight for projects in this area, but the FERC said that it was moving forward and asserting authority. In today's order, FERC notes that EPCA 2005 does not limit the scope of its authority over hydroelectric power or withdraw FERC jurisdiction over projects in the OCS. FERC Chairman Kelliher stressed today that FERC recognizes the role of Interior, which through the Minerals Management Service (MMS) manages lands on the OCS. There is no conflict with FERC's role as the licensing agency, he said.

**MARKET COMMENTARY**

While the general economic malaise seemed to depress prices overnight as Asian and European stocks markets were in a free fall, the November natural gas prices finally were able to breach the \$6.51 price level and backed fill the gap in the spot continuation chart from a year ago. But prices were able to stabilize early this morning and began drifting higher and back over

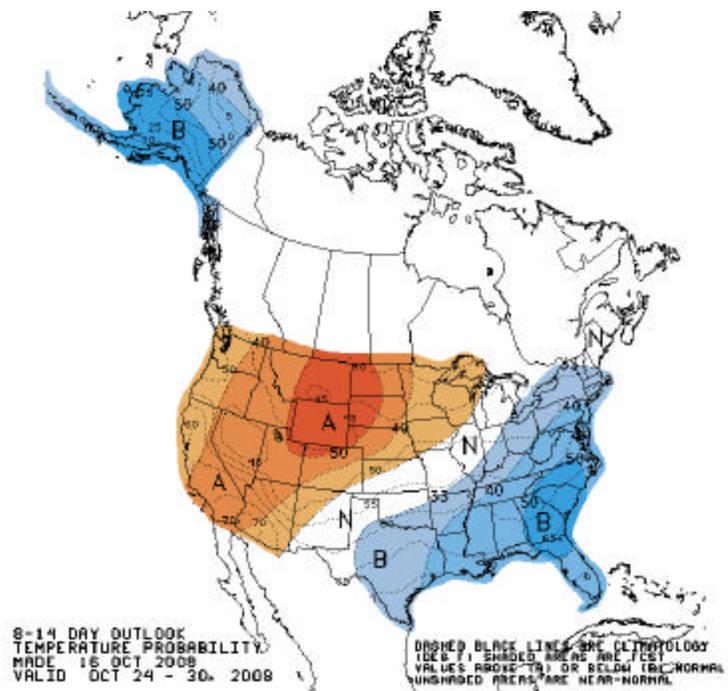




the \$6.50 level by 7 am. It appears the outlook for cooler than normal temperatures across the upper Midwest and into the northeast coming at a time that electric utilities have a significant portion of their nuclear and coal fired generation down or soon to go down for maintenance work has continued to help to support natural gas prices over the past week, despite a global meltdown in commodity prices in general. Today buyers seemed to return to the market following the release of the EIA storage report, which was only slightly less than prevailing market expectations. This

price rebound was further supported by the afternoon recovery in the U.S. stock market. As a result the natural gas market posted a stronger settlement for the third time out of the last four trading sessions.

We continue to feel that this market has demonstrated a true price resilience despite extremely gloomy and depressing economic funk overhanging the commodity markets and as a result would look to be a buyer of the November \$7.00-\$8.00 call spreads which tonight settled at 13.3 cents. Flat price we see support tomorrow at \$6.70 followed by \$6.436, \$6.254, \$6.073 and \$5.987. Resistance we see at \$6.885, \$7.01, \$7.066 and \$7.187. Additional resistance we see at \$7.291, \$7.364 and \$7.637.



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