



## ENERGY RISK MANAGEMENT

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### POWER MARKET REPORT FOR OCTOBER 22, 2008

#### NATURAL GAS MARKET NEWS

The National Hurricane Center this morning continued to watch a tropical low-pressure system sitting over the northwest Caribbean Sea. The NHC assigned less than a 20% chance that this system could further develop into a tropical depression within the next 48 hours. Forecasters noted that this system may aid the development of a non-tropical low in the eastern Gulf of Mexico later this week which would then move northeastward, but no threat is seen to the energy production areas of the Gulf of Mexico at this time.

Cheniere said today that it expects to deliver the final commissioning cargo to its Sabine Pass LNG import terminal during the first quarter of 2009. This cargo will be delivered before the LNG supply contract with Total begins in April of 2009. The LNG terminal will have a send out capacity of 2.6 bcf, with an expansion expected in 2009 for an extra 1.4 bcf/d.

ConocoPhillips said today that it looks to hold its 2009 capital spending flat at the \$15 billion planned for this year.

#### Generator Problems

**PJM** – Exelon's 1112 Mw Peach Bottom #2 nuclear unit ramped up to 77% power on Wednesday, up 57% from the prior day.

**NPCC** – OPG's 490 Mw Nanticoke coal fired Unit #8 was shut for a short-term maintenance period.

**WSCC** – PG&E's 1118 Mw Diablo Canyon #2 nuclear unit was shut early this morning and the sister #1 unit was reduced to 50% of power due to problems of water intake systems due to presence of jellyfish.

**SPP** – Entergy's 1266 mw Grand Gulf nuclear plant was still in startup this morning and was at 2% of capacity, up only 1% from yesterday.

**The NRC reported this morning that some 78,904 Mw of nuclear generating capacity was online this morning, down 1.7% unchanged from Tuesday and down 0.2% more than the same day a year ago.**

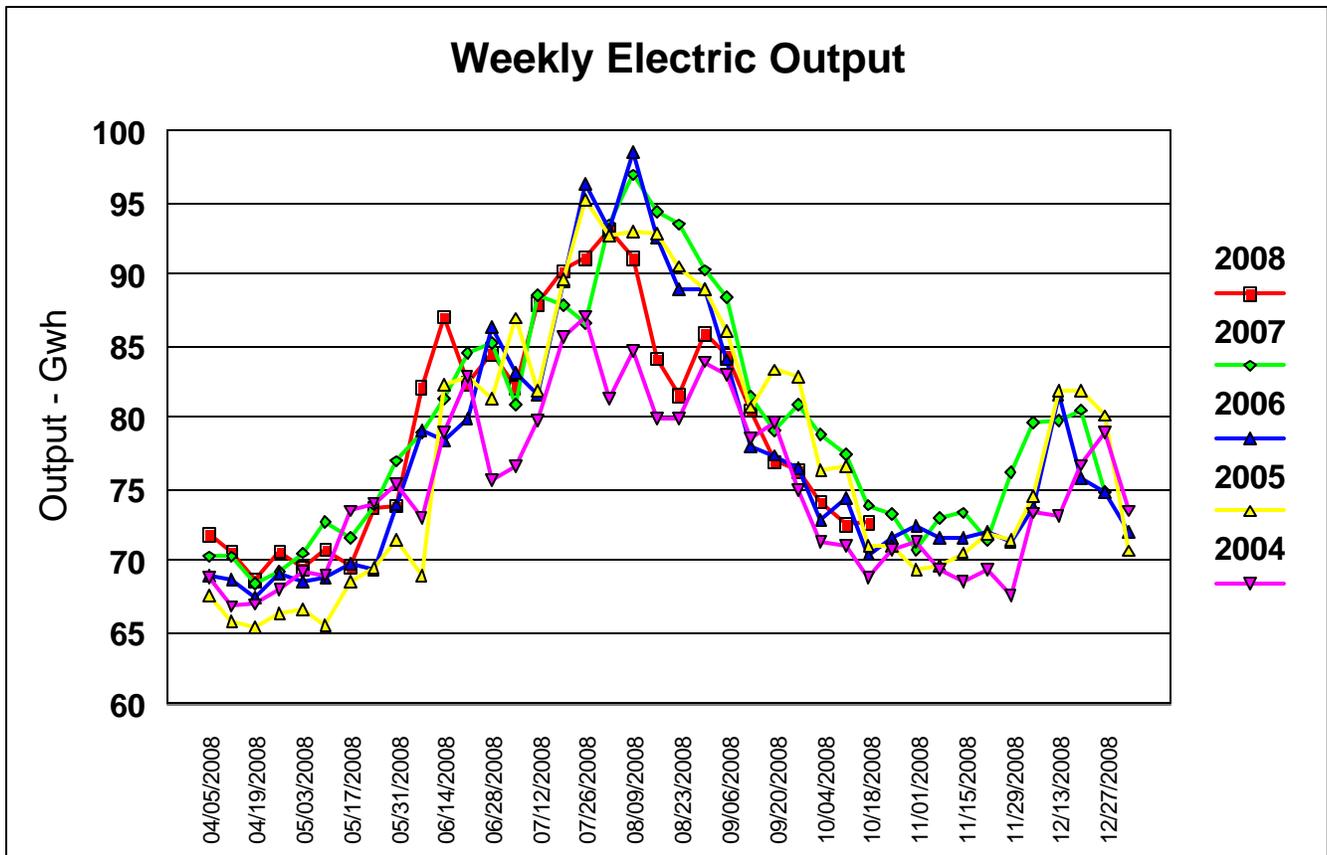
#### Natural Gas Cash Market

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	651,600	\$6.937	\$0.179	\$0.053	(\$0.000)	(\$0.841)
Chicago City Gate	776,600	\$7.092	\$0.164	\$0.208	\$0.026	(\$0.069)
NGPL- TX/OK	928,500	\$6.613	\$0.221	(\$0.271)	\$0.083	(\$0.476)
SoCal	412,300	\$4.937	\$0.084	(\$1.947)	(\$0.054)	(\$2.262)
PG&E Citygate	548,500	\$6.568	\$0.187	(\$0.316)	\$0.049	(\$0.384)
Dominion-South	395,200	\$7.352	\$0.149	\$0.468	\$0.011	\$0.219
USTrade Weighted	16,535,500	\$6.302	\$0.138	(\$0.582)	(\$0.00)	(\$0.841)

The FERC today gave Gulfstream Natural gas System the approval to place into service Phase IV of its pipeline expansion facilities. As a result the

company will be moving to place into service a pipeline expansion to supply natural gas to a power plant in west-central Florida that is scheduled to be converted to gas.



The FERC also today warned interstate natural gas pipelines that they face the risk of penalties if they fail to comply with the agency's requirement to report transportation contracts containing deviations from their pro forma open access tariffs.

In recent weeks power companies and their lobby, the Electric Power Association, have been calling on the FERC to change its regulations and allow passive investors, such as hedge funds, to take stakes of as much as 20% in multiple companies and be treated as passive investments that will not distort market dynamics, as long as the investors have certified their passive status with the SEC. The result would be to clear up some of the uncertainty that exists around purchases that hedge funds have been making in power producers. Meanwhile the American Public Power Association, whose members buy power on the wholesale markets, have express alarm at this potential development given the history of hedge funds following a rather activism policy in their investment activities.

#### **PIPELINE MAINTENANCE**

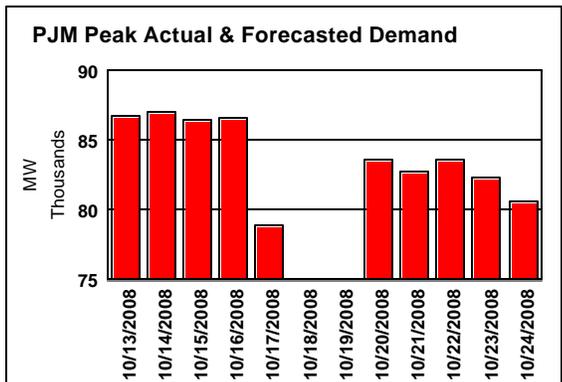
Tennessee Gas Pipeline said that the Unit 1C chock replacement at Station 40 is on scheduled to be completed on time. The company though will delay the maintenance planned on Unit 2c and has now scheduled it for October 27-October 30<sup>th</sup>. The company does not expect the work will result in any restrictions.

NGPL said it expects to complete the hydrostatic test outage on Segment 12 ahead of schedule and has bumped up the completion date up from November 9<sup>th</sup> to October 31<sup>st</sup>.

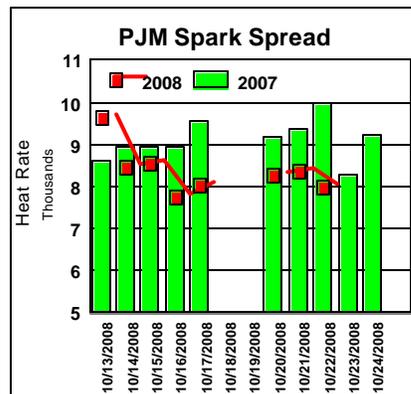
#### **ELECTRIC MARKET NEWS**

The Edison Electric Institute reported that for the week ending October 18<sup>th</sup> U.S. electric power production reached 72,773 GWh, some 0.16% higher than the prior week but 1.65% less than the

same week a year ago. Year to date electric production has been running 1% less than the same time a year ago.



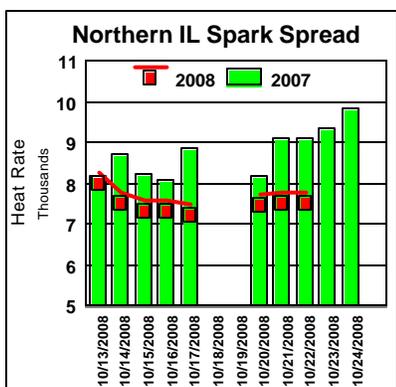
NRG Energy and BP's joint venture, the 150 Mw Sherbino I Wind Farm in West Texas entered service this week following a construction period that began back in 2007.



The NY ISO's chief

financial officer said today the grid operator does not expect to sustain any significant loss from three

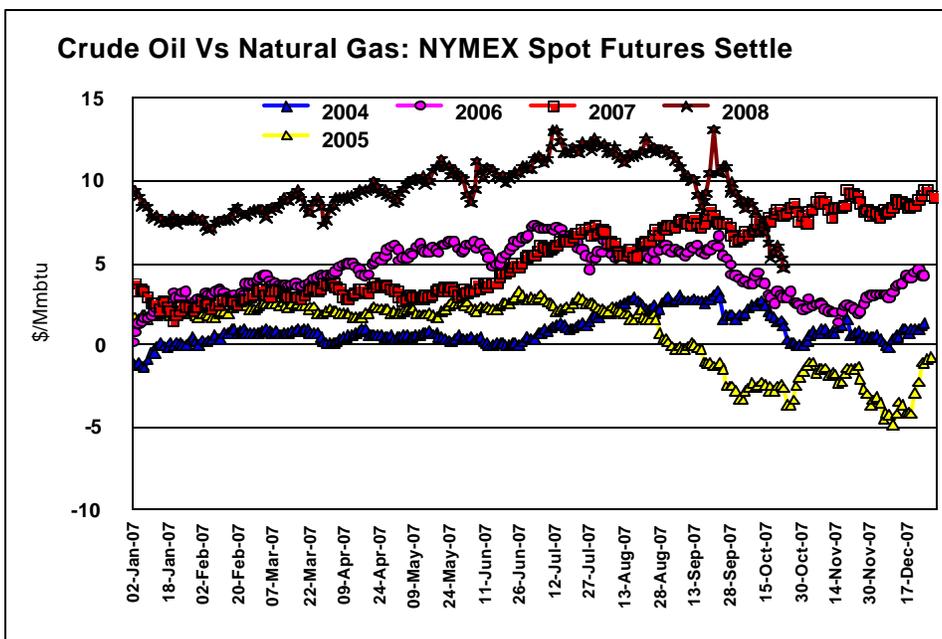
recent defaults and it continues to hold sufficient collateral to cover most of the changes. The ISO on Friday said Lehman Brothers Commodity Services, Pro-Energy Development and Quark Power failed to meet their payment obligations and were considered to be in default. LBCS filed for bankruptcy on October 3<sup>rd</sup>. The ISO said LBCS' charges are currently just under \$2.5 million and are expected to increase to \$4 million by the end of the next billing period. The ISO holds about \$10 million in cash collateral from LBCS but the bankruptcy court froze the money. Pro-Energy, a Buffalo, New York based competitive retail supplier is expected to resolve its default while the potential losses from the Quark Power default are estimated at less than \$0,000.



The NRC reported it has sent a special inspection team to look into an apparent loss of reactor coolant system inventory control at PSEG's Salem #1 nuclear unit back on October 15<sup>th</sup> when the unit was shut for refueling.

### MARKET COMMENTARY

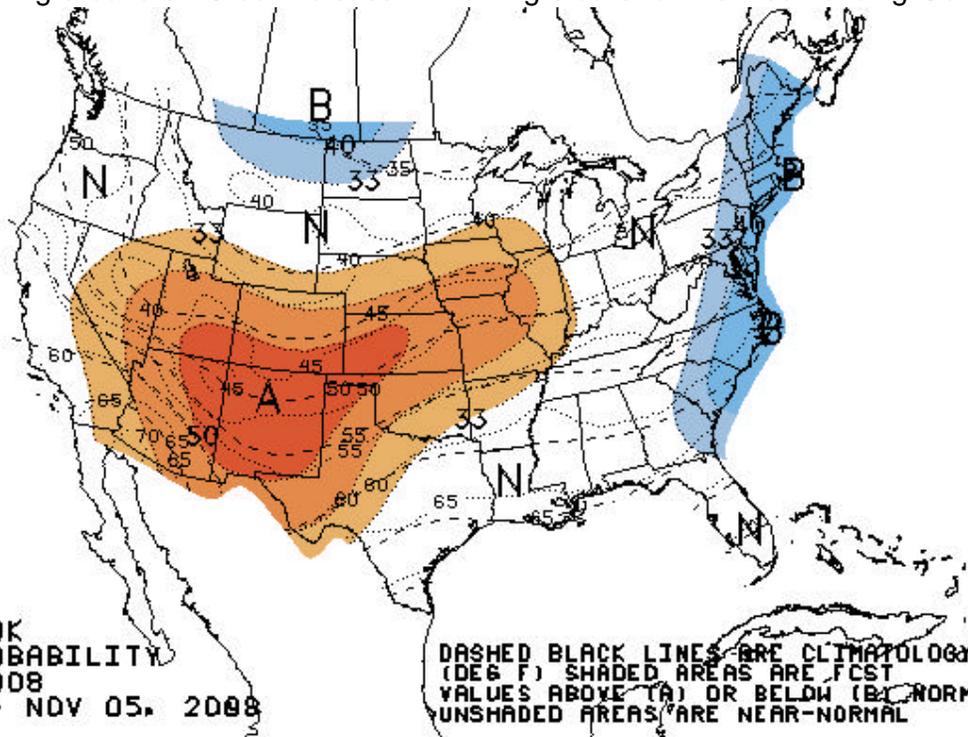
The natural gas market continues to be a relative beacon of strength in an otherwise deflating commodity sector. While oil prices tumbled over \$5.00 per barrels today, the natural gas futures market settled down only 6-10 cents on the day, as stronger cash markets from near term colder than normal weather and restricted offshore production has kept the market relatively firmer than expected. As a result



the natural gas market has seen its discount to crude oil prices fall to its narrowest point since June of last year and returned to a season level that is close 2004 and 2006.

While much attention has been made of the rush to the exits by traders from positions throughout the financial markets, this is not the case in natural gas. While crude oil futures open interest today is nearly 27% smaller than a year ago, natural gas futures open positions are more than 15% larger, possibly in part as more participants have been driven to exchange cleared products, due to fears over counterparty risk. Yesterday's trade action saw open interest in the Henry Hub futures and swaps on a combined and adjusted basis grow for the third consecutive trading session and reached its highest level since late September. Calendar 2010 contract months continue to attract significant attention, increasing by nearly 7500 lots versus a gain of 1922 lots in the Calendar 2009 contracts.

Market expectations for tomorrow's storage report are ranging between a 65-85 bcf build, with the average expectation falling around a 76 bcf increase in working stocks for the week ending October



17<sup>th</sup>. For the same week a year ago there was a reported a 60 bcf build while the 5 year average soa build of 62 bcf.

We do not expect the inventory report to have much impact on price tomorrow but rather weather and overall financial events will probably play a greater role. We would expect to see oil prices stabilize as traders move to the sidelines, in front of the OPEC meeting scheduled for Friday and thus this should help natural gas also hold its current levels and possibly creep higher once again. We would see support at the lows of the past three days \$6.73-\$6.68. We see additional support at \$6.618, \$6.481, \$6.431 and \$6.027. Resistance we see at \$6.913, \$6.97, \$7.05, \$7.129, \$7.187, \$7.364 and \$7.626.

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