



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR OCTOBER 23, 2008**

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

The U.S. Minerals Management Service reported this afternoon small progress had been made over the last two days in returning shut in production from the Gulf of Mexico to service. The MMS reported that some 81,811 b/d of crude production had been restarted in the last two days and some 164 MMcf/d of natural gas production. As of midday 32.3% of the crude oil production and 34.5% of the natural gas production in the Gulf of Mexico remains shut in.

Norway said today that it would not be interested in joining with Russia, Iran and Qatar in forming a new OPEC style cartel for gas producers.

Belgian gas company Distrigas said it would make a decision in the next few days regarding the LNG cargo it loaded at Zeebrugge in Belgium earlier this week. The ship is currently waiting off the coast of England. The company exported three LNG cargoes in August and September. Two were sold to Spain and one to Korea.

ConocoPhillips LNG marketing manager said today that Japan, South Korea and Spain, the world's three largest buyers of LNG, may find it difficult to secure supplies between 2012-2015, due to shortfall of projects scheduled to come on line during that period and the continued expected growth in demand for the fuel.

#### **Generator Problems**

**PJM** – Exelon's 1116 Mw Peach Bottom #2 nuclear unit continues to ramp back up from its recent outage. This morning the unit was at 96% of capacity up 19% from Wednesday.

**NPCC** – OPG's 535 Mw Unit #4 at the oil and gas fired Lennox power plant was shut early Thursday morning for maintenance.

**SPP** – Entergy's 1207 Mw Grand Gulf nuclear unit #1 was at 15% power this morning up 13% from Wednesday.

**ERCOT** - AEP planned to restart its 528 Mw Unit #2 Welsh coal fired power plant over the next several days. The unit was shut for maintenance back on October 17<sup>th</sup>.

Luminant's 575 Mw coal fired Unit #1 at the Big Brown power station has been shut for the past two days for operators to repair a tube leak.

**The NRC reported this morning that some 79,272 Mw of nuclear generating capacity was online this morning, up 0.5% from Wednesday and up 0.2% more than the same day a year ago.**

#### **EIA Weekly Report**

	10/17/2008	10/10/2008	Net chg	Last Year
<b>Producing Region</b>	918	892	26	1013
<b>Consuming East</b>	1985	1945	40	1959
<b>Consuming West</b>	444	440	4	451
<b>Total US</b>	3347	3277	70	3424

\*storage figures in Bcf

EnCana Corp, Canada's third largest natural gas producer, reported today that third quarter profits more than tripled as a result of production being higher than expected and a \$2 billion gain in the value of its hedging contracts. The company reported that it has a substantial portion of its forward production

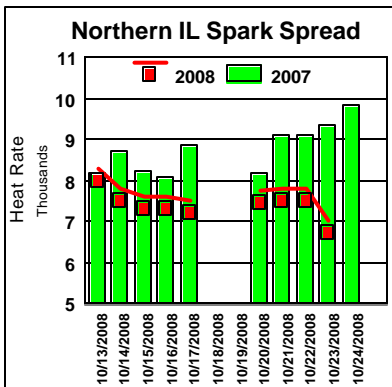
hedged. For the 2009 gas year, from November 2008 through October 2009, it has 2.5 bcf/d or 60% of

its expected production, hedged at an average price of \$9.15 Mcf. The company reported that its natural gas production in 3Q2008 stood at 3.917 bcf/d up 8% from a year ago.

Bank of America and Merrill Lynch have asked the FERC to approve on an expedited basis the combination of their energy trading and marketing arms as part of the planned \$50 billion merger of the firms.

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	681,700	\$6.770	(\$0.167)	\$0.340	\$0.188	(\$0.724)
Chicago City Gate	651,900	\$6.992	(\$0.100)	\$0.562	\$0.354	\$0.109
NGPL- TX/OK	934,000	\$6.443	(\$0.170)	\$0.013	\$0.284	(\$0.345)
SoCal	378,900	\$4.827	(\$0.111)	(\$1.604)	\$0.343	(\$2.187)
PG&E Citygate	658,400	\$6.417	(\$0.151)	(\$0.013)	\$0.304	(\$0.297)
Dominion-South	280,500	\$7.036	(\$0.316)	\$0.606	\$0.138	\$0.354
UStTrade Weighted	16,592,800	\$6.036	(\$0.266)	(\$0.394)	\$0.19	(\$0.724)

Bentek Energy said today that they see that by next year the United States should produce more natural gas that it has ever produced in history and the new supplies will pressure pipeline systems and likely damage the prospects for Canadian imports and LNG facilities.

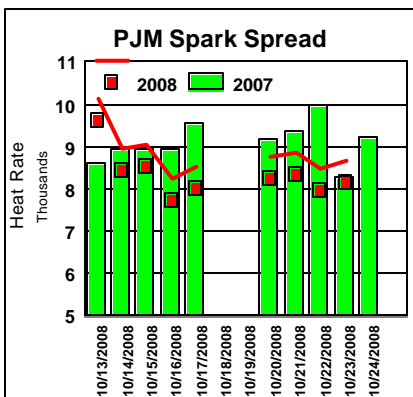
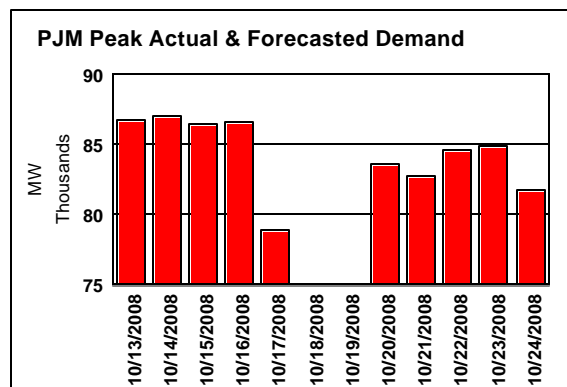


**PIPELINE RESTRICTION**

Northwest Pipeline said that due to volumes increasing through the Kemmerer Compressor station by approximately 30,000 Dth and the company's need to protect its Jackson Prairie storage account for the upcoming winter season the pipeline is no longer able to mitigate the over-scheduling of Kemmerer and thus is invoking an OFO.

**PIPELINE MAINTENANCE**

Williston Basin Interstate Pipeline Company said that planned maintenance was expected to be performed at the Glen Ullin Compressor Station today. The work was not anticipated to restrict the system. The company noted that next week it would perform maintenance at the Bismarck Compressor Station between October 29-30. At this time the company does not expect any restriction on the system.

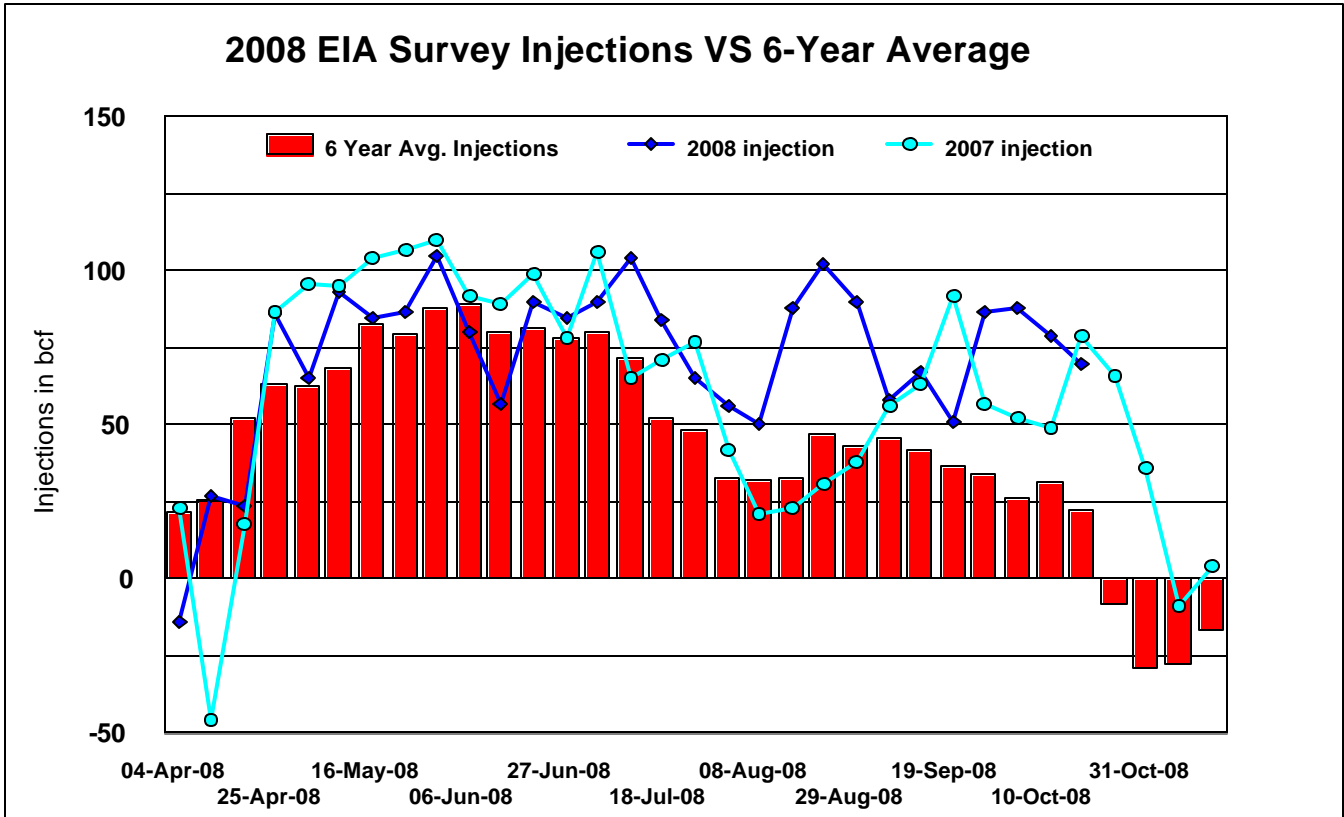


Alliance Pipeline said that the unscheduled shutdown of an Alliance Pipeline

Mainline Compressor Station in Saskatchewan at the Loreburn Station has been rectified and the Unit is now back on line.

**ELECTRIC MARKET NEWS**

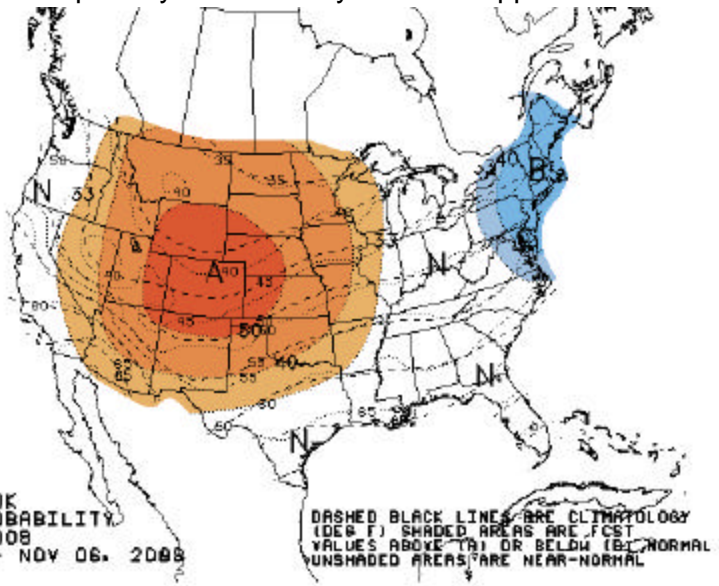
The EIA reported today that they estimated U.S. coal production for the week ending October 18<sup>th</sup> reached 22.763 million tons down 1.8% from the prior week, but 4.9% higher than the same week a year ago. Year to date U.S. coal production is running some 1.5%



higher than the same time year ago.

**MARKET COMMENTARY**

The natural gas market today despite receiving a neutral to slightly supportive inventory report, appeared to run counter to the conventional wisdom and posted its biggest down day since October 6<sup>th</sup>. Despite near term colder temperatures which has been supporting the cash markets and moving the basis out, the longer term weather forecasts especially the 8-15 day outlooks appears to show a return to above normal temperatures especially moving into the mid section of the country and this seemed to be the over riding factor for the market. The market received its first technical bearish signal when the support levels of the past week at \$6.68-\$6.69 were breached before 10 am and the market quickly went on the defensive falling 25 cents in less than an hour, but holding the secondary key support level of \$6.43 from the lows of October 16<sup>th</sup>.

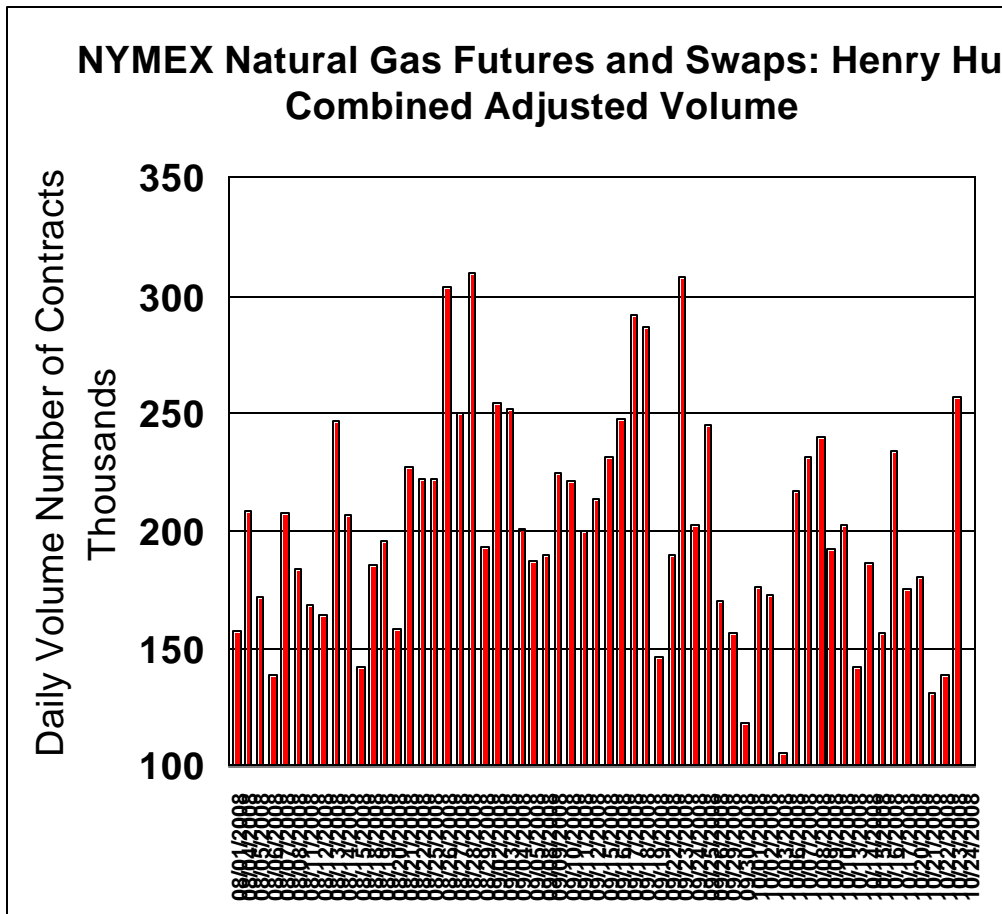


But this support was breached by midday and values slumped to \$6.36 before stabilizing and moving

in a sideways pattern for the remainder of the day. Trading volume today in the natural gas was excellent with the highest volume in the Henry Hub futures and swaps being recorded since September 18<sup>th</sup>. It will be interesting to look towards tomorrow's open interest report as a confirmation that today's sell off was the result of weak longs liquidating positions and exiting the market.

While we remain cautiously supportive on this market we have to recognize that significant technical damage was done to the

market today. As a result we would have to see a break below today's lows at \$6.36 to throw the towel in on our long position. We see additional support at \$6.256, \$6.093, \$5.987 and \$5.826. Resistance we see at \$6.43 followed by \$6.523, \$6.68, and \$6.953. Additional resistance we see at \$7.116 and \$7.545.



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