



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR OCTOBER 30, 2007**

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

The NHC reported that Tropical Storm Noel has weakened a bit as it hugs the north coast of Cuba. The system is currently moving west near 7 mph with sustained winds of 35-45 mph. Noel is forecast to turn more to the north and then northeast tomorrow, as a mid-level trough of low pressure develops over the eastern Gulf of Mexico and Florida. By Thursday, Noel is expected to move northeast away from the U.S.

Enterprise Products Partners said production through the Independence Hub in the Gulf of Mexico ramped up to 640 million cubic feet per day as 12 of its initial 15 wells worked toward full capacity of 1 Bcf per day by year-end. Enterprise expects production to ramp up further within another week or two. Production had been reduced slightly mid-month for planned maintenance after first production began in late July.

Chesapeake Energy Corp. reported first natural gas production from its 11 wells on a lease at the Dallas airport. Production recently started, with about 30 MMcfe from the first wells on the 18,000-acre lease at the airport. The airport acreage may produce up to 1 Tcfe of reserves.

More than 29 million acres offshore Louisiana, Mississippi, Alabama and Florida, including some blocks in the Eastern Gulf of Mexico (GOM) Planning Area available for the first time in 20 years, will be up for lease next spring when the Interior Department's Minerals Management Service (MMS) holds lease sales 206 and 224.

Qatar's energy minister, Abdullah bin Hamad al-Attiyah, said that natural gas is undervalued compared with oil and that he is unhappy and unsatisfied with the current price of natural gas. He argued that the fuel is more environmentally friendly, and that it is a very important fuel for the future. Qatar has the world's third-largest reserve of natural gas after Russian and Iran and is major exporter of LNG.

Indian oil minister, Murli Deora, on an official trip to Qatar, requested additional LNG supply. India's state-backed Petronet currently imports 5 million mt/year of LNG from Qatar's RasGas under a 25-year contract that began in 2004. India is asking for an additional 2.5 million mt/year. The contract has a fixed flat price of 2.53/MMBtu for the first five years, equivalent to \$20 per barrel of oil.

#### **Generator Problems**

**ECAR** – Consumers Energy's 789 Mw Palisades nuclear unit increased power to 65% capacity as the unit returns from a refueling outage.

**ERCOT** – TXU's Monticello coal-fired power station shut to install a continuous opacity monitor, as necessary to maintain compliance.

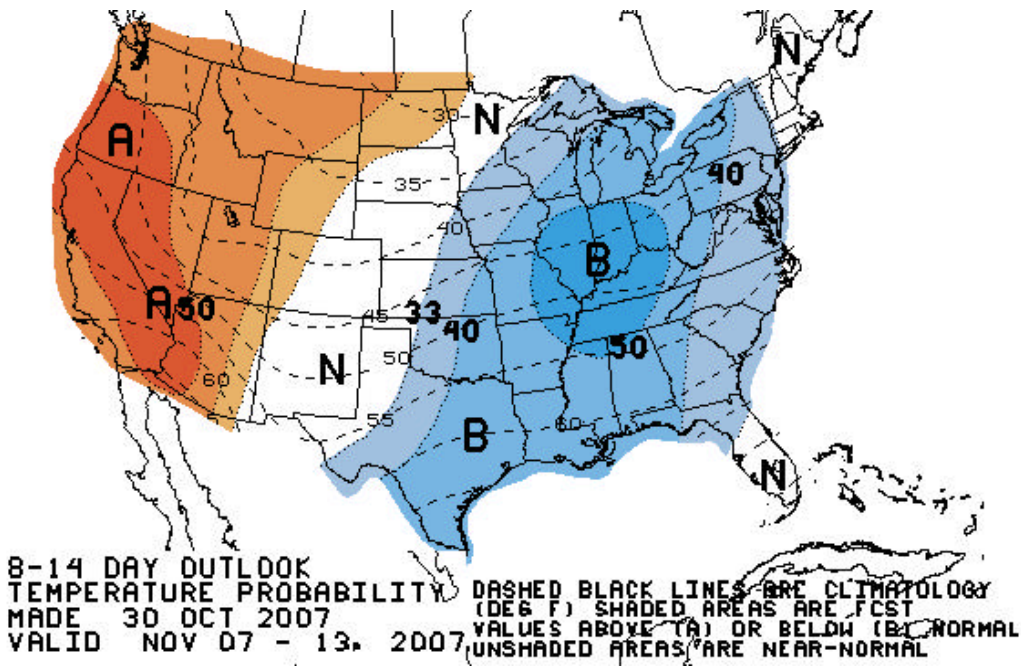
**FRCC** – Progress Energy's 838 Mw Crystal River #3 nuclear unit reduced power to 60% to work on a condensate pump. Yesterday, the unit was operating at full power.

**MAIN** – Exelon's 1,120 Mw Braidwood #1 nuclear unit ramped output to 75% power. Yesterday, the unit was operating at 64% power. Braidwood #2 continues to operate at full power.

**NPCC** – Entergy's 685 Mw Pilgrim nuclear unit will reduce output today to about 50% capacity for a thermal condenser backwash to clean mussels out of the cooling water system.

**PJM** – PPL's 1,115 Mw Susquehanna #1 nuclear unit remains offline at 18% after restarting yesterday following a short maintenance outage. Susquehanna #2 continues to operate at full power.

**The NRC reported that 79,452 Mw of nuclear capacity is online, down .06% from Monday, and up 7.70% from a year ago.**



ConocoPhillips and Peabody Energy announced they have selected Kentucky as the location to study the development of a major commercial scale coal-to-gas facility. The companies are conducting a feasibility study for a state-of-the-art "mine mouth" gasification project, using ConocoPhillips proprietary E-GAS technology, which could result in the creation of more than 500 high-wage jobs and future production representing as much

as 1.5 Tcf of natural gas over the life of the project.

The NYMEX announced margin changes for natural gas futures contracts. Margins for the first month will remain the same. Margins for the second month will increase to \$8,775 from \$8,100 for customers. Margins for the third and fourth months will remain unchanged. Margins for the fifth month will decrease to \$7,425 from \$8,100 for customers. Margins for all other months will remain the same.

**PIPELINE MAINTENANCE**

Gulf South Pipeline said that scheduled maintenance at Olla Compressor Station Unit #2 has been extended through November 30. Capacity through Olla Compressor Station during the maintenance could be reduced by as much as 250,000 Dth.

**PIPELINE RESTRICTIONS**

PG&E California Gas

**NYMEX Nat Gas Options Most Active Strikes for October 30, 2007**

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LN	12	7	P	8	11/27/2007	0.4333	4,345	53.02
LN	12	7	P	7	11/27/2007	0.0845	4,265	50.58
LN	12	7	C	9	11/27/2007	0.1603	3,371	52.35
LN	1	8	P	8	12/26/2007	0.4933	3,300	54.49
LN	2	8	P	7.5	01/28/2008	0.3837	3,200	51.27
LN	1	8	P	5.5	12/26/2007	0.0111	3,050	53.68
LN	2	8	P	6	01/28/2008	0.058	3,000	49.66
LN	3	8	C	20	02/26/2008	0.0152	2,950	64.91
LN	2	8	C	20	01/28/2008	0.012	2,800	71.14
LN	12	7	P	7.5	11/27/2007	0.2145	2,495	51.68
ON	5	9	C	11	04/27/2009	0.364	2,000	30.68
LN	1	8	C	9	12/26/2007	0.4554	1,980	50.86
LN	3	8	P	8	02/26/2008	0.7746	1,775	53.07
LN	12	7	C	10	11/27/2007	0.06	1,765	57.87
LN	12	7	P	7.75	11/27/2007	0.3124	1,610	52.30
LN	1	8	P	7	12/26/2007	0.1509	1,575	52.07
LN	6	8	C	10	05/27/2008	0.344	1,300	34.76
LN	7	8	C	10	06/25/2008	0.4215	1,250	34.19
LN	1	8	P	6.5	12/26/2007	0.0695	1,200	51.72
LN	2	8	C	15	01/28/2008	0.0443	1,100	61.72
LN	3	8	C	15	02/26/2008	0.0609	1,100	58.43
LN	10	8	P	8	09/25/2008	1.1354	1,100	50.94
LN	1	8	C	11	12/26/2007	0.1323	1,075	57.51
LN	3	8	P	6	02/26/2008	0.0981	1,050	47.93
LN	12	7	C	9.5	11/27/2007	0.0971	1,045	55.16
LN	3	8	P	5	02/26/2008	0.0243	1,000	50.06
ON	11	8	C	11	10/28/2008	0.678	1,000	42.91

Transmission has set a system-wide operational flow order on its California natural gas pipeline system for tomorrow's gas flow due to high inventory. Tolerance is set at 5%.

Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	1,312,100	\$6.992	\$0.333	(\$1.089)	\$0.224	(\$0.973)
Chicago City Gate	676,500	\$7.177	\$0.377	(\$0.905)	\$0.271	(\$0.776)
NGPL- TX/OK	464,100	\$6.890	\$0.396	(\$1.192)	\$0.290	(\$1.087)
SoCal	1,364,200	\$7.178	\$0.336	(\$0.904)	\$0.230	(\$0.843)
PG&E Citygate	527,700	\$7.529	\$0.132	(\$0.553)	\$0.026	(\$0.302)
Dominion-South	587,500	\$7.129	\$0.313	(\$0.953)	\$0.207	(\$0.830)
Transco Zone 6	340,200	\$7.402	\$0.613	(\$0.680)	\$0.507	(\$0.597)

### **ELECTRIC MARKET NEWS**

Genscape reported that U.S. coal supplies rose 1.9% last week, and days of burn available increased to 55. U.S. power generators had more than 152.3 million tons of coal as of the week ending

Monday, up nearly 2.9 million tons from the previous week. Power stations had more than 17.1% more coal than during the same week in 2006, down from a surplus of 17.2% recorded in last week's report.

### **MARKET COMMENTARY**

On its first day on the board as the front month, December natural gas found support in forecasts for an early cold snap to kick off November as well as support in winter-weather buying, despite the crude oil market seeing its first down day in over a week. With a firm cash market, natural gas futures rallied to a high of 8.17, but as crude oil came under significant profit taking pressure and dropped over \$3.00 today, natural gas pulled back to settle up just 4.7 cents at 8.021.

With expectations for another above-average build to stocks this week, perhaps as high as 60-62 Bcf, some short-term weakness may be ahead, as the December contract is technically near the upper end of its seven week range. We see support at 7.906, 7.808, 7.676 and 7.50. We see resistance at 8.10, 8.268, 8.366 and 8.50.