



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR NOVEMBER 6, 2008**

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

The National Hurricane Center said this afternoon that Tropical Storm Paloma, which formed over night had winds of 60 mph and while moving north at 7 mph was expected to begin to curve toward the northeast and move in the direction of Cuba and the Bahamas. The storm is expected possibly to reach a Category 2 level storm by the time it reaches Cuba.

The FERC said today that U.S. energy regulators conducted 66% more investigations this year of potential market manipulation than in 2007. The total number of cases though were just 20. The FERC said the agency in August began looking into power markets in New York State after allegations of participants that were sending power through Ines skirting Lake Erie to take advantage of pricing differences. The FERC also said there were 68 instances of companies' self-reporting potential violations. No civil penalties have been imposed yet for those self reports the agency said. The FERC said the majority of these reports were for violations of the agency's natural gas capacity release rules, while self-reports for violations of standards of conduct were down considerably from 2007.

#### **Generator Problems**

**NPCC** – OPG's 490 Mw coal fired Nanticoke #1 power plant was shut for short term maintenance.

**ERCOT** – AEP shut its 528 Mw Unit #2 at the Welsh coal fired power plant for maintenance work planned for November 5-7<sup>th</sup>.

STP Nuclear's 1280 Mw South Texas #2 nuclear unit ramped up to 77% capacity this morning, up 27% from Wednesday.

Luminant's 750 Mw coal fired Martin Lake Unit #2 power plant tripped off line Thursday afternoon.

**SERC** - Progress Energy's 710 Mw Robinson #2 nuclear unit was restarted from its recent refueling outage and was at 1% power this morning. The unit had been off line since September 26<sup>th</sup>.

**The NRC reported this morning that some 79,797 Mw of nuclear generating capacity was online this morning, up 0.6% from Wednesday and down 1.9% from the same day a year ago.**

#### **EIA Weekly Report**

	10/31/2008	10/24/2008	Net chg	Last Year
<b>Producing Region</b>	938	938	0	1058
<b>Consuming East</b>	2010	2004	6	2013
<b>Consuming West</b>	457	451	6	463
<b>Total US</b>	3405	3393	12	3534

The API today warned that proposed rules from the Federal Trade Commission to combat manipulation of energy markets could push investors out of the the energy markets and harm the energy sector. The FTC in August proposed draft rules that would prohibit the use of fraud and deception in wholesale petroleum markets. The API noted that the proposed regulations should apply only when there is proof of specific intent to use deception to impact the energy markets and that there should be safe harbor protections for statements by market participants that are not made to government agencies, third party reporting services or to the public through corporate announcements. The group also called on the FTC to

eliminate any liability for incomplete disclosures and to clarify that the rules only apply to specific wholesale petroleum transactions and apply in instances where there is proven impact on market prices. Some industry participants worry that these proposed regulations could apply to futures markets and thus cause a recipe for disaster due to overlapping regulations from competing regulatory regimes.

**Canadian Gas Association**

**Weekly Storage Report**

	31-Oct-08	24-Oct-08	02-Nov-08
<b>East</b>	233.6	237.7	247.6
<b>West</b>	339.0	339.2	344.0
<b>Total</b>	572.6	576.9	591.6

storage figures are in Bcf

The California Public Utilities Commission approved PG&E's 15 year, 375,000 Dth/d transportation contract on the proposed Ruby Pipeline from Wyoming to southeast Oregon.

CIG yesterday asked the FERC for the go ahead to place in service by the end of this month an expansion of its system with the High Plains Expansion, which would service growing natural gas demand along the Colorado Front Range, especially in the Denver area.

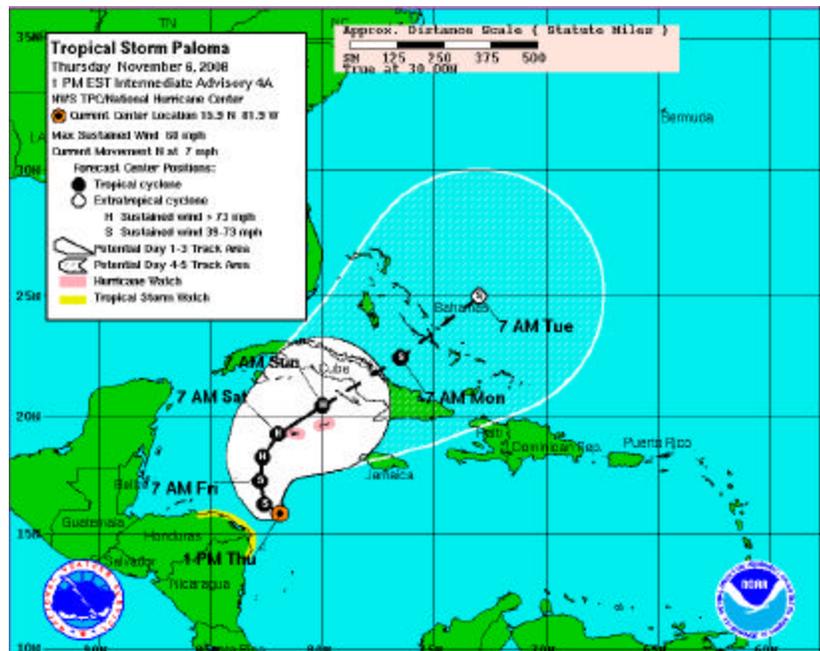
Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	915,900	\$7.035	\$0.099	\$0.118	\$0.552	(\$1.174)
Chicago City Gate	785,700	\$6.411	\$0.506	(\$0.506)	\$0.795	(\$0.840)
NGPL- TX/OK	626,800	\$6.160	\$0.575	(\$0.757)	\$0.864	(\$1.192)
SoCal	341,500	\$5.629	\$0.498	(\$1.288)	\$0.787	(\$2.526)
PG&E Citygate	509,100	\$6.406	\$0.104	(\$0.511)	\$0.393	(\$0.753)
Dominion-South	358,000	\$7.096	\$0.044	\$0.179	\$0.333	(\$0.121)
UTrade Weighted	16,301,000	\$6.355	\$0.263	(\$0.562)	\$0.55	(\$1.174)

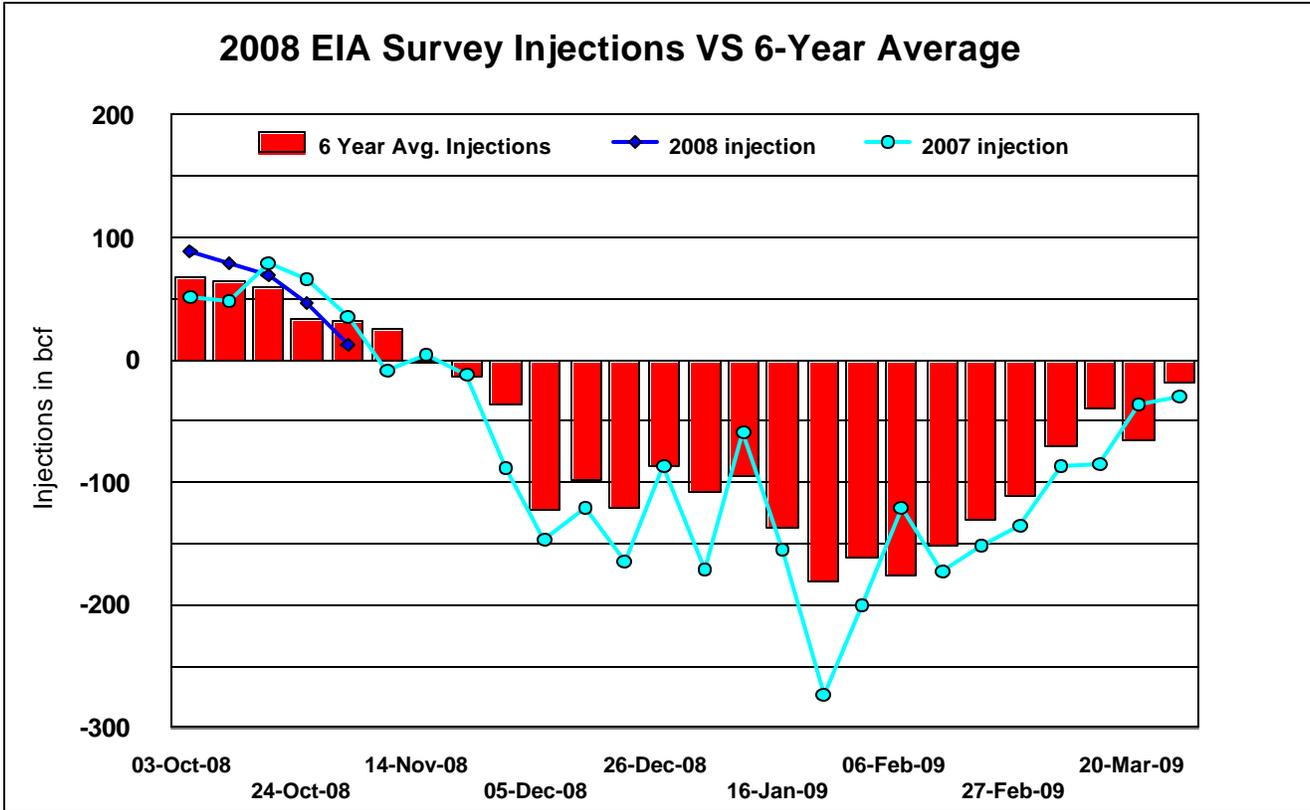
Rumors continued to circulate in the market that BP could be making another deal to buy part or all of Chesapeake Energy.

Platts reported today that Constellation Energy plans to sell its Houston-based downstream gas trading operations which if completed and along with other asset sales it is planning would generate between \$1-1.5 billion in liquidity through the return of collateral

Gas storage levels in Britain and Belgium were reported to be at 98% full for the week ending November 3<sup>rd</sup>, down 1% from last week and 1% lower than the same week a year ago.

Iran approved the commercial viability of natural gas production at the Farsi block operated by Indian firms, Indian Oil and Gas Corp and Indian Oil Corp. The block is estimated to hold 12.8 tcf of gas. The companies will now submit a \$3 billion development plan to the Iranian government. Iran is actively seeking to expand production



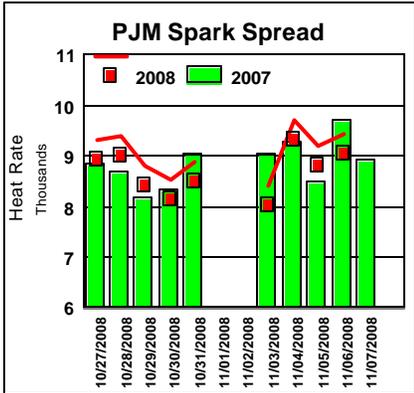


activities with Indian and Chinese firms since it views these countries will be less susceptible than many other companies to western pressure over Tehran's nuclear program.

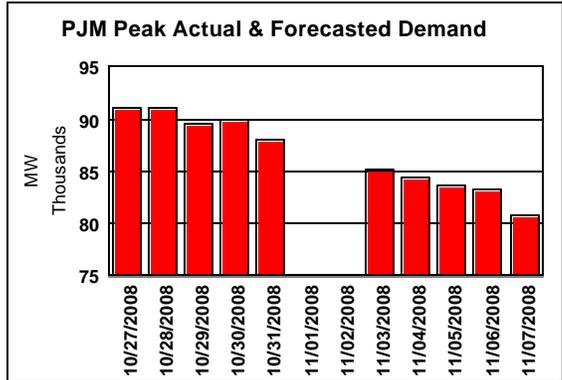
**ELECTRIC MARKET NEWS**

Duke Energy reported that it has begun commercial operations at its 59 Mw Ocotillo Wind Farm, located in Howard County, Texas on November 1<sup>st</sup>.

The FERC said today that it has authorized a set of securities transactions allowing acquisition minded

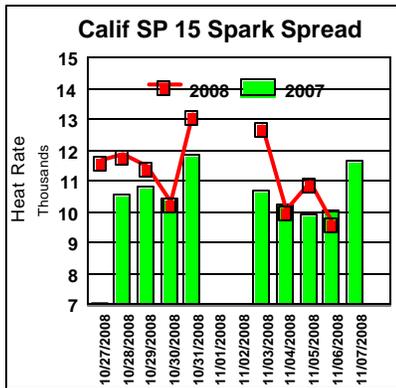


hedge fund Harbinger Capital Partners and LS Power to take large stakes in merchant generators. The FERC said this action is fulfilling congressional intent of reducing barriers to investment in the utility industry while protecting consumers Harbinger won approval to acquire up to 20% of the outstanding shares of



Entegra Power Group, while LS Power was approved to acquire up to 20% of TransAlta.

The EIA reported today that for the week ending November 1<sup>st</sup>, U.S. coal production reached 22.804 million tons down 2.2% from the prior week but some 4.4% higher than the same week a year ago. Year to date production has been running some 1.6% above a year ago.

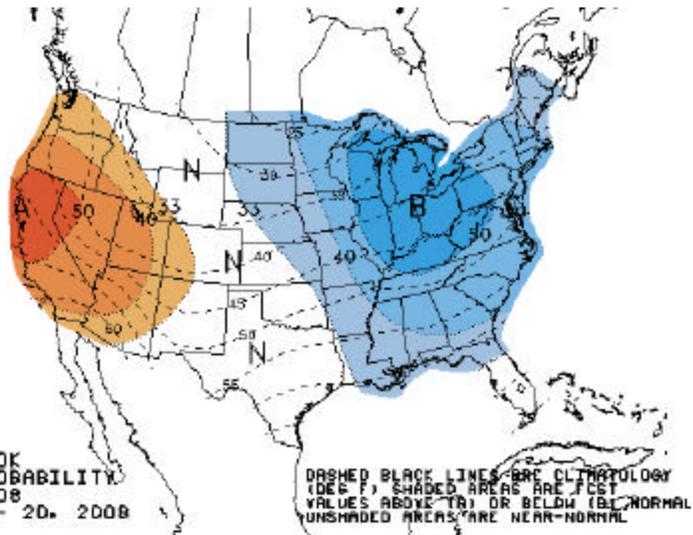


Great Basin Transmission announced today an open season to receive proposals for the purchase of long-term point-to-point transmission rights on the Southwest Intertie Project. The SWIP is a proposed above ground 500 Kv AC transmission line stretching over 500 miles between Idaho and southern Nevada. As much as 1850 Mw of north –south transmission capacity and 1850 Mw of south to north transmission capacity will be available.

Al Gore's Alliance for Climate Protection called on the new Obama administration to push for immediate investments in three energy areas; energy efficiency, renewable resources and create a unified power grid.

**MARKET COMMENTARY**

The natural gas market started out the morning up near the highs of the past two days, but once again was unable to break through despite supportive weather forecasts and stronger cash prices. Instead the market was dragged lower by plunging oil prices and extremely weak global equity markets as the bearish economic gloom once again swept across these markets. At mid morning the natural gas market received supportive news from the EIA as its storage report showed a smaller than expected build and as a result helped to stabilize the market and stop its freefall. The market basically spent the remaining time of the trading session in a sideways trading pattern, with the majority of the trading activity taking place between \$6.90 and \$7.00.



Volume was decent today with just over 189,000 lots traded on a combined adjusted basis in the Henry Hub futures and swaps contracts.

As we are at the start of the winter heating season, current stocks of natural gas are some 130 bcf behind a year ago but still comfortably some 78 bcf above the five-year seasonal average. As a result this market's upside appears to be resting on the shoulders of the weatherman. If the economy continues to spiral downward, the price pressures on this market will emerge more to the forefront, especially if there is not significant strong heating demand to kick off this winter heating season. While we continue to look for the short term weather forecast to help stabilize prices here near term and push values back up toward the \$8.00 level we do not feel the winter heating season will be severe enough to erase the ample inventories of natural gas, especially at a time when industrial and commercial activity will be contracting.

Near term we see resistance tomorrow at \$7.262, \$7.298 and \$7.36. Additional resistance we see at \$7.546 and \$7.748. Support we see at \$6.857, \$6.80, \$6.776, \$6.669, \$6.574 and \$6.29. Major distant support we see at \$5.835.

The March April spread continues to remain in a sideways pattern unable to gain traction in either direction. Major resistance remains at 10.8 and 17.5 cents with support at last Thursday's low of 0.9 cents.

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