



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR JANUARY 7, 2005**

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

The U.S. Energy Information Administration has proposed giving traders more notice if it makes big revisions to weekly natural gas inventory data, after a massive change a few weeks ago triggered a huge price swing in the futures market. The EIA has proposed two options if it revises its weekly data by more than 15 Bcf, and is open for public comment. The first option calls for the EIA to publish the revision on the first federal work day of the following week, rather than waiting till Thursday as the current system does. The second option would allow the EIA to release revisions as soon as it is able, giving a two-hour notice on its web site, unless it fell less than 24 hours before the normal weekly release time.

#### **Generator Problems**

**FRCC** – FPL's 693 Mw Turkey Point #3 started to exit an outage and ramped output to 1%. Turkey Point #4 continues to operate at full power.

**Canada** – Ontario Power's 825 Mw Unit #3 at the Bruce Power nuclear power station is expected to be taken off line Saturday for maintenance and inspection work. The outage is expected to take some two months.

**WSCC** – PG&E ramped its Diablo Canyon #1 by 45% to operate it at 95%. Output was halved Wednesday for maintenance. Diablo Canyon #2 is operating at full power.

The Federal Energy Regulatory Commission set a Jan. 11 meeting with South Texas residents, environmental groups and energy companies to discuss Exxon Mobil Corp's proposed Vista el Sol LNG project. The Vista del Sol project would transport up to 1.4 Bcf/d of imported LNG to the site near Corpus Christi. The project includes a ship unloading facility for two LNG ships, three 155,000 cubic meters LNG storage tanks, vaporization equipment, a 25-mile natural gas pipeline, and various support buildings. FERC released a draft environmental impact statement for the project, concluding that it would mean "limited adverse" harm to the environment. FERC must approve a final environmental impact statement before construction can begin. This project is one of three-dozen proposed for the U.S. Gulf Coast, Northeast, and West Coast to import LNG to meet fast-growing demand.

ChevronTexaco said today that it expects to make a final investment decision at the end of this year on building a LNG plant in Mexico, after winning the last of three key permits this week. The proposed facility would be constructed near Tijuana.

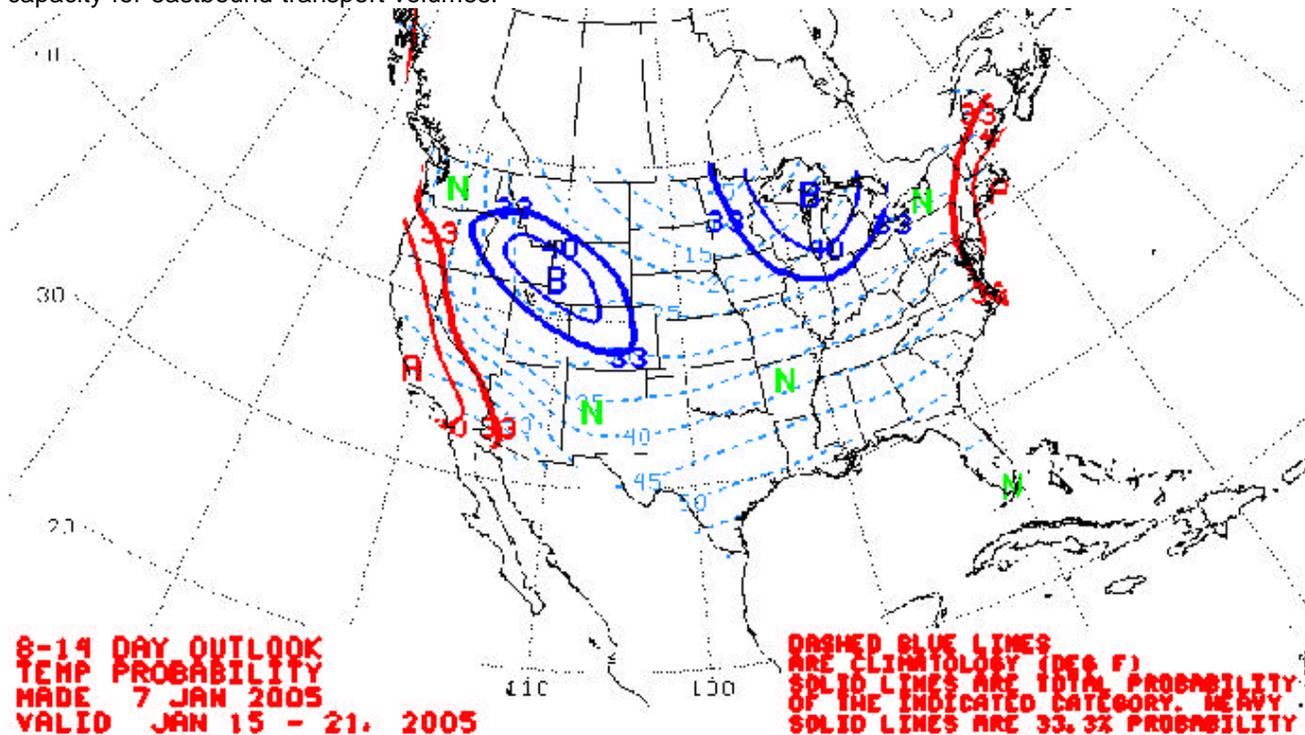
Baker Hughes reported that the number of rigs searching for oil and natural gas in the US fell by 1 to 1,242 in the week ending January 7. The number of rigs searching for natural gas increased by 5 to 1,063.

Williams' Transcontinental Gas Pipeline said its 10,500-mile line set a new peak-day delivery record on Dec. 20 of 8.73-million Dt, enough to serve 30-million U.S. homes. Phil Wright, senior vice president said "the majority of our market area experienced colder-than-normal [weather on Dec. 20] and our employees did a great job of responding to significant increases in demand."

A recent study suggests that it will take two decades for supply development triggered by the Mackenzie Gas Project to disturb even 4% of the vast Northwest Territories.

## **PIPELINE RESTRICTIONS**

Natural Gas Pipeline Company of America is at capacity for gas received upstream of Compressor Station 155 in Wise County, Texas in Segment 1 going northbound. All Louisiana Line Segments (25,23 and 24) are at capacity for eastbound transport volumes.



Texas Eastern Transmission Corp. said that the Monroe Line has been nominated to capacity. Receipts in STX, ETX, and M1-24 have been nominated to capacity. No physical increases of receipts between Vidor and Fagus will be accepted.

KM Interstate Gas Transmission said effective today and until further notice, Williston Basin Bridger (PIN 8737) is at capacity for received volumes. Based on the current level of nominations, interruptible flow, authorized overrun and secondary volumes are at risk of not being scheduled. The affected area is located in Wyoming.

Mississippi River Transmission said that the System Protection Warning it issued Wed. Jan. 5 due to cold weather forecasts is not longer in effect.

## **PIPELINE MAINTENANCE**

Williston Basin Interstate Pipeline Co. said that line sections 2, 3, 4, 4 and 7 could be affected by unscheduled maintenance at the Dickinson Plant, which Williston has extended through today. At this time, Williston does not anticipate any restrictions to the system due to this maintenance. Work should be completed by 5pm MT today.

El Paso Natural Gas Co. said that a portion of Line 1200 between Gallup station and Valve City must be shut in to repair a leak. The line will be out of service through Sat. Capacity of the san Juan Basin will be reduced by 50 MMcf/d from a base capacity of 2,880 MMcf/d, and the capacity of the Noth Mainline will be reduced by 50 MMcf/d from a base capacity of 2,351 MMcf/d through Jan. 8.

## **ELECTRICITY MARKET NEWS**

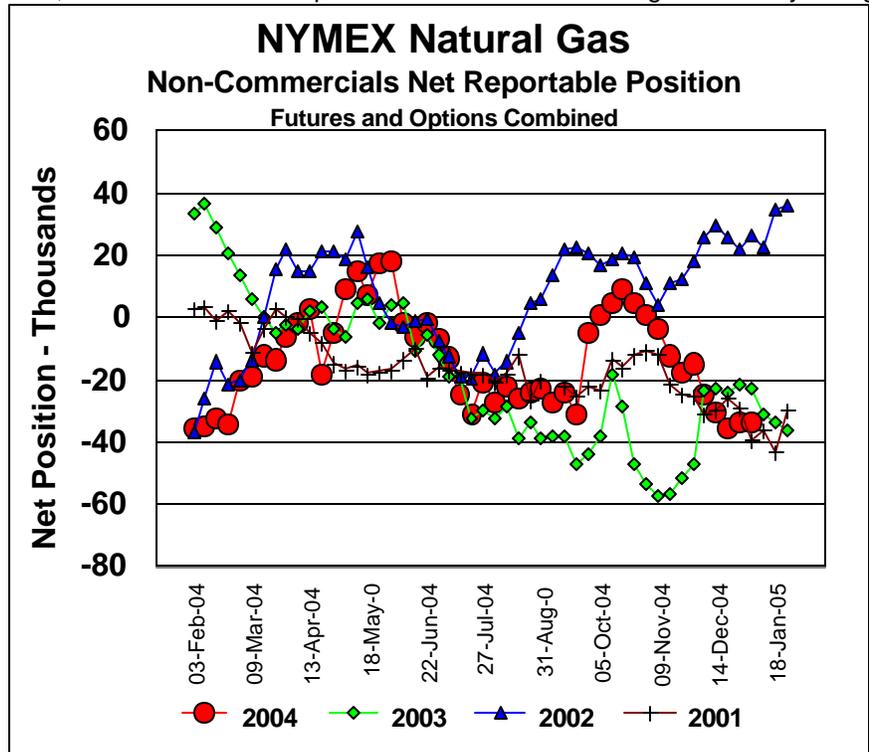
Allegheny Energy Supply Co. and Monongahela Power Co., subsidiaries of Allegheny Energy asked a U.S. court in West Virginia to declare that their coal-fired power plants are in compliance with the federal Clean Air Act. The two companies are seeking a declaratory judgment against the attorneys general of New York, New Jersey, and Connecticut, who filed a notice of intent to sue Allegheny in May 2004. The attorneys general alleged that the

Allegheny companies undertook maintenance projects at power stations in Pennsylvania and West Virginia in violation of the Clean Air Act. Allegheny has requested the court to rule in an effort to resolve the matter.

The FERC today rejected a request by Virginia and Louisiana regulators to vacate a June 2004 opinion that held the agency had the authority under the Public Utility Regulatory Policies Act to exempt AEP from Virginia laws and regulations that were preventing the utility from joining the PJM

The winter storm that moved through the Midwest and some eastern states over the last few days has still left some 250,000 customers without power as of midday today.

The EIA reported today that U.S. coal production for the week ending January 4<sup>th</sup> totaled 20.633 million short tons, down 0.7% from the prior week but some 0.5% higher than a year ago.



### ECONOMIC NEWS

The December unemployment situation released today showed that the nonfarm payroll increased 157,000, and the unemployment rate remained unchanged at 5.4%.

### MARKET COMMENTARY

The natural gas market today opened only a penny or two lower this morning pressured in part by weaker oil prices to start the day. But as oil prices began to rebound natural gas prices moved back into positive territory as traders appeared focused on trying to backfill the remaining gap in the daily price charts from \$6.07-\$6.10. While crude oil prices rallied over a dollar at mid morning, the natural gas market struggled to post sufficient gains to back fill the gap. Once the \$6.10 level was reached though prices quickly began to deflate and

prices fell back below the \$6.00 level. While prices moved into a quiet sideways pattern during the early afternoon, a late rally on the close allowed prices to move back and settle above the \$6.00 level. Surprisingly the day saw the highest trading volume for the week with 65,000 futures traded of which more than half were booked via spreads.

Open interest reported at midday by the exchange showed that the natural gas market saw a nearly 3,000 lot increase in open positions, in what has to be seen as new longs coming into the market on Thursday. We would think that some of these new longs cashed out at midday in front of the weekend, especially as the gap in the daily charts was finally back filled.

Weather will continue to dominate the direction of this market next week. If temperatures look to be as warm next week as currently forecasted we feel that this market will most likely come under pressure as long as there is no widespread or dominate forecast for arctic temperatures to become entrenched across the U.S. later in the week and into the following week. The NWS 814 day temperature outlook this evening does not appear to be particularly bullish, but government forecasters appear to lack a consensus on this temperature outlook as they assigned a much below normal confidence level to their forecast.

Tonight's Commitment of Traders Report showed no new insight into the market as non-commercials basically maintained their relative net short position in futures and options market for the period ending January 4<sup>th</sup>.

