



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR MAY 26, 2006**

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

Surplus LNG cargoes from Oman, Algeria and Trinidad and Tobago, originally bound for western markets, are now on offer for diversion to Asian destinations due to low US gas prices and a tank-top situation in European markets such as Spain. In addition, African producers Nigeria and Egypt have also issued spot sell tenders offering surplus cargoes for June loading. Asian demand for LNG, however, is seasonally weak at the moment and will not be able to absorb all the supplies.

Baker Hughes reported that the number of rigs searching for oil and gas in the U.S. rose ten to 1,649 in the week ending Friday. During the same week last year, there were 1,331. The number of rigs searching for oil rose 5 to 265, while the number of rigs searching for gas rose three to 1,381. There were three miscellaneous rigs, two more than last week.

The New York Mercantile Exchange Inc. (Nymex) on Friday announced the proposed fee schedule for the initial slate of the energy futures contracts that will be offered for side-by-side trading on CME Globex, the electronic trading platform of the Chicago Mercantile Exchange, on June 11 for trade date June 12. The company noted that all listed fees are quoted on a per side basis. Fees for the natural gas (penultimate) and natural gas (last-day) financial futures contracts will be \$1.60 for NYMEX members, \$2.10 for Comex members, and \$2.60 for non-members.

#### **PIPELINE RESTRICTIONS**

Kern River Pipeline said that line pack is posted as high across its entire system. Shippers are asked not to bank or draft gas from the system.

#### **Generator Problems**

**ERCOT**— American Electric Power's 528 Mw Welsh #2 coal-fired power unit shut May 26-30 to fix a leak in the feedwater heater.

**MAAC**— Exelon's 1,116 Mw Peach Bottom #2 nuclear unit reduced output to 89% by early today. Yesterday, the unit was operating at full capacity. Peach Bottom #3 continues to operate at full power.

**MAIN**— Dominion Resources' 591 Mw Kewaunee nuclear unit increased output to full capacity by early today.

**MAPP**— Nebraska Public Power District's 800 Mw Cooper nuclear unit reconnected to the grid and ramped output to 35% capacity.

**NPCC**— Entergy's 535 Mw Vermont Yankee nuclear unit increased production to 76%. Yesterday, the unit was operating at 67% capacity.

Entergy's 956 Mw Indian Point #2 nuclear unit remains curtailed at 64% capacity today.

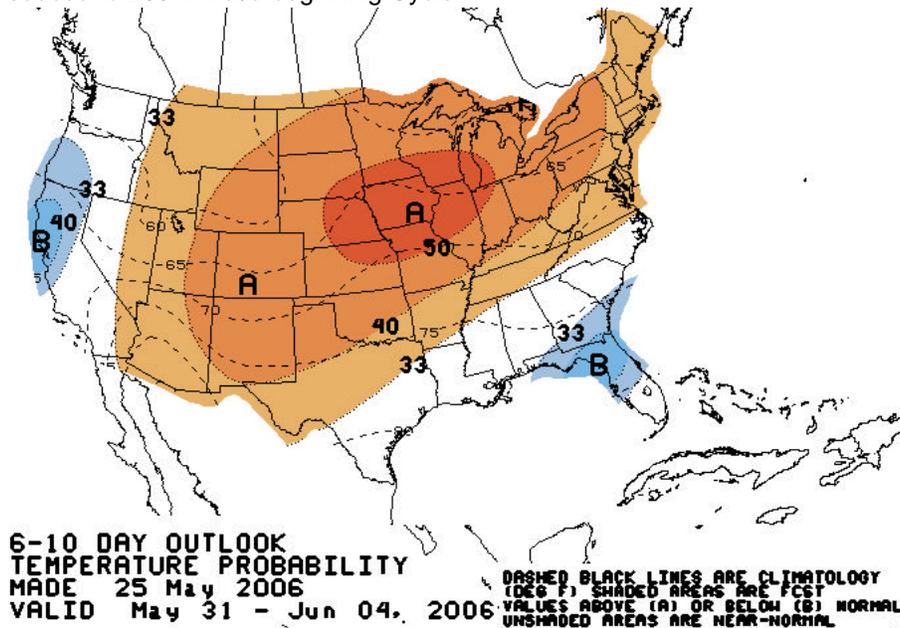
**SERC**— Southern Nuclear's 888 Mw Farley #1 nuclear unit increased output to 43% capacity. The unit was at 30% yesterday, after restarting on Wednesday. Farley #2 continues to operate at full power.

TVA's 1,100 Mw Browns Ferry #2 nuclear unit increased output to 72% capacity. The unit was warming up offline at 1% yesterday. Browns Ferry #3 continues to operate at full power.

**WSCC**— PG&E's 1,100 Mw Diablo Canyon #2 nuclear unit remains offline this morning, operating at 8% capacity. Diablo Canyon #1 remains at full power.

**The NRC reported that U.S. nuclear generating capacity was at 83,476 Mw up 1.27% from Thursday and down 2.39% from a year ago.**

Questar Pipeline Company said that due to operational conditions, the ML 80 scheduling point capacity has been reduced to 265 MMcf/d beginning Cycle 1.



Texas Eastern Transmission said that it has scheduled and sealed M1 and M2 24-inch to capacity. No increases between Little Rock and Fagus for delivery outside that area will be accepted. Tetco has restricted and sealed receipts sourced between Mt Belvieu and Little Rock. No increases in receipts sourced between Mt Belvieu and Little Rock for delivery outside that area will be accepted.

#### **PIPELINE MAINTENANCE**

Alliance Pipeline said that inspections and maintenance will require the Olivia Compressor Station to be unavailable for 36 hours beginning on May 31.

System capacity will be impacted but will be determined closer to the outage date. The Olivia Station is located in Minnesota. Alliance also said that inspections and maintenance require the Wembley Meter Station in Alberta to be unavailable for four hours on May 30. Station capacity will be reduced to 187.2 MMcf/d.

#### **ELECTRIC MARKET NEWS**

Progress Energy's second scrubber recently began operating at the Asheville Plant, continuing the company's commitment to improving air quality in western North Carolina. The Asheville Plant's first scrubber came online in November 2005. When all the technologies are installed, the Asheville Plant will reduce NOx emissions by 93% from 1996 levels and reduce SO2 emissions by 93% from 2001 levels. According to the North Carolina Department of Environmental and Natural Resources, the SO2 and NOx control technologies installed statewide as part of Clean Smokestacks will also remove 65% of mercury emissions.

The U.S. Energy Department and Environmental Protection Agency need to do a better job monitoring the performance of companies participating in voluntary programs to reduce greenhouse gas emissions. Without improvements, it will be difficult to evaluate the merits of these voluntary programs, as opposed to government-mandated reductions.

#### **MARKET COMMENTARY**

The June natural gas contract opened 6.5 cents lower to start its last day of trading. Early support from a strong cash market as well as a firming crude oil market drove the expiring contract to a high of 6.05, but as expiration goes, the 30-minute closing range saw prices jump between 5.75 and 6.00. June went off the board down 5 cents at 5.925, and the upcoming front month, July, settled 4 cents higher at 6.154.

The shortened trading session ahead of a long weekend did not invite any new money into the market, and market players are waiting to see how much and for how long the heat is going to last come Tuesday, when trading resumes. Next week also sees the official first day of Hurricane Season, June 1, causing some jitters. With June holding its support at 5.75, we expect to see the July contract continue to find support and have a corrective move higher as summer cooling demand kicks in. We see support for the July contract at \$6.10, \$6.00, \$5.86, and \$5.75. We see further support at \$5.70-\$5.71 and \$5.50. We see resistance at \$6.70, \$6.76 and \$7.00. We see further resistance at \$7.12 and \$7.37.