



## ***ENERGY RISK MANAGEMENT***

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

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

The EIA's Short-Term Energy Outlook for June reported that the Henry Hub natural gas spot price, which had averaged over \$7.30 per mcf in April 2005, fell to \$6.66 per mcf in May as weather in the Midwest and East moderated and crude oil prices eased. The EIA forecasts that the natural gas market is likely to tighten over the next few months as summer cooling demand picks up. Prices are projected to continue to increase as the winter heating season boosts natural gas demand. The EIA sees monthly average spot prices to reach \$7.50 per mcf by the end of the year. The report noted that even though natural gas storage remains above the 5-year average, high world oil prices, continued strength in the economy, the expectation that Pacific Northwest hydroelectric resources will be well below normal through mid-summer, and limited prospects for growth in domestic natural gas production all support the natural gas price projections. The EIA forecasts that Henry Hub prices are expected to post averages of about \$6.90 per mcf in 2005 and just over \$7.10 per mcf in 2006. Working gas in storage is 12% higher than 1 year ago and 17% above the 5-year average. Natural gas demand is projected to increase by 2.0% in 2005 and by 2.3% in 2006, due largely to weather-related factors and continued strength in consumption for electric power production. Domestic natural gas production in 2005 is expected to remain near the 2004 level, despite a 12% increase expected in natural gas-directed well completions.

Dominion Resources CEO Thos Capps believes natural gas prices will be in the range of \$5.50 to \$7 per mcf through 2012. Capps also said Dominion would not build a new nuclear plant under the current version of the energy bill proposed by the U.S. Congress. He added, that if the government wants nuclear plants they are going to have to step in and help with the economics.

#### **Generator Problems**

**ERCOT**— Martin Lake #1 power unit will be in start up following repairs today.

**MAAC**— PSEG Power's 1,049 Mw Hope Creek nuclear unit returned to full power today. Yesterday, the unit was operating at 91% capacity.

PPL's 1,115 Mw Susquehanna #2 automatically scrambled shut from full power yesterday afternoon due to an apparent generator load reject. Susquehanna #1 remains at full power.

**SERC**— Duke Power's 1,129 Mw Catawba #1 nuclear unit increased output to 40% by early this morning. The unit was warming up offline at 10% yesterday. Catawba #2 continues to operate at full power.

Progress Energy's 900 Mw Brunswick #2 nuclear unit ramped output to 85% this morning after scaling back output late Friday to conduct planned rod pattern adjustments. Brunswick #1 continues to operate at full power.

**WSCC**— Energy Northwest's 1,158 Mw Columbia Generating nuclear unit could return to service during the upcoming weekend. The unit shut around May 7 for maintenance and refueling outage.

**Canada**— Hydro-Quebec restarted the 675 Mw Gentilly #2 nuclear unit over the past weekend and expects the unit to reach full power by June 11 following a maintenance outage.

**The NRC reported that U.S. nuclear generating capacity was at 87,723 Mw down .61% from Monday and down 3.95% from a year ago.**

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Paul Corby, a senior vice president with consulting firm Planalytics, commented that with gas and crude oil stocks running stable to higher compared with 2004 levels, the influence of speculative traders has put a "fear premium" on commodity prices in spite of weak fundamentals. In opening comments to attendees of Interchange energy's LDC Forum in Atlanta, Corby said speculators are in fact manipulating commodity markets to their advantage, although their activity is not necessarily illegal, what they are doing is their job, making a profit.

Enterprise Products Partners said it will construct a \$130 million natural gas liquids fractionator that can handle up to 75,000 bbl/d at the interconnection of the MidAmerica Pipeline System and the Seminole Pipeline system.

Canada's Irving Oil and Spain's Repsol, have signed definitive partnership agreements on development of the 1 Bcf/d Canaport LNG terminal in St. John, NB, which would be connected to Irving Oil's refinery and the eastern Canadian pipeline grid. The terminal is expected to be operational delivering regasified LNG into the marketplace in 2008.

### **PIPELINE RESTRICTIONS**

Gulf South Pipeline said that based upon its initial review of nominations, NNS demand, and other factors, Gulf South may be required to schedule available capacity and implement scheduling reductions for Texas: Tyler 12-inch Index 8 / Palestine 8-inch Index 11 & 70 / Dallas 18 – inch Index 1.

Texas Eastern Transmission Corp. said it has restricted STX and ETX to capacity. M1-24-inch, and M2-24-inch to capacity. Nomination increases between Mount Belvieu and Sarahville will not be accepted.

Florida Gas Transmission said that due to hot temperatures in its market area, it is issuing an Overage Alert Day at 20% tolerance.

National Fuel Gas said that on June 8, 9, 14-17, 20 and 21, it will be pigging line K. During this work NatFuel may have restrictions in capacity for secondary and interruptible transactions with receipts north of the Concord station.

Northern Natural Gas Company said that a force majeure situation exists at the Farmington, Minnesota compressor station due to a mechanical problem. The potential impact of this unplanned outage will vary depending upon weather and load conditions.

### **PIPELINE MAINTENANCE**

Transcontinental Gas Pipeline Corporation said it has completed the replacement work on High Island Lateral. Transco shut in several production platforms on May 11 as a result of third party damage to the pipeline. Transco's facilities have been completed and the affected pipeline is being purged and packed for a return to service. Transco expects this process to be complete sometime late today or early Wednesday.

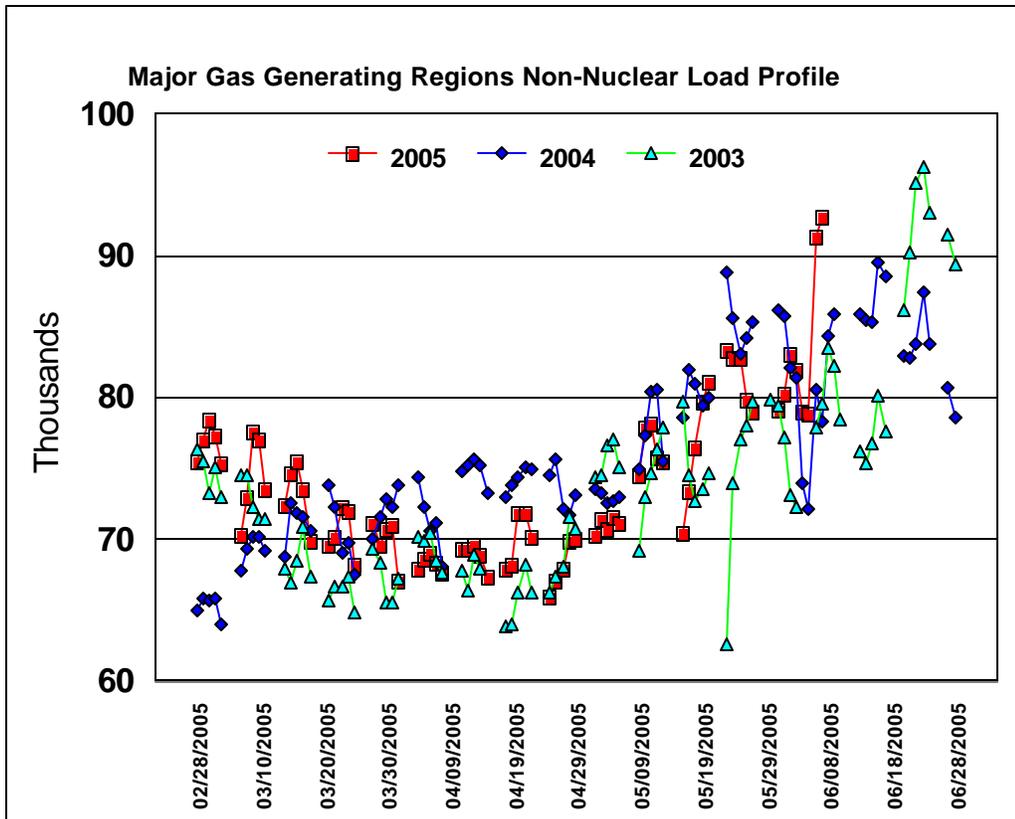
Westcoast Energy said late last night it was experiencing problems with the B Sulphur Train at the Pine River Gas Plant, and suspected mechanical problems with the air valve was the cause. Though the company said it expected to be back to full throughput by now, it said upstream customers will see higher pressures due to the reduced capacity. Customers are not being asked to adjust their business at this point.

Williston Basin Interstate Pipeline Co. said that due to an oil change on Unit #3 at the Fort Peck Compressor Station, Point ID 00885 Bowdoin and 00880 Whitewater will be affected by approximately 1 MMcf for tomorrow. Also, relocation of part of the mainline on the Billy Creek to Sheridan Line will be performed. Delivery Point ID 05800 WBI – Aggregate Storage and Receipt Point ID 04843 Dry Ranch may potentially be affected depending on quantities nominated.

### **ELECTRICITY MARKET NEWS**

The EIA reported in its Short-Term Energy Outlook for June that electricity demand is expected to increase by 2.4% in 2005 and by an additional 2.0% due largely to continuing economic growth, following estimated electricity demand growth of 1.6% in 2004. Third and fourth quarter 2005 year-over-year electricity demand growth is expected to be particularly strong, as cooling and heating demand are likely to be higher than in the mild third and fourth quarters of 2004. The EIA also noted that hydroelectric power availability is expected to

increase in 2005 by about 4.1%, a downward revision from last month due to lower precipitation patterns. Coal demand in the electric power sector is expected to increase by 2.4% in 2005 and 2.1% in 2006. Power sector demand for coal continues to increase, as oil and natural gas prices remain high. U.S. coal production is expected to grow by 1.8% in 2005 and by an additional 2.6% in 2006.



PJM Interconnection, electricity grid operator for the U.S. Mid-Atlantic and Midwest states, met a demand of 114,800 Mw on Monday, which PJM said was the first time any centrally dispatched grid in the world met a demand of more than 100,000 Mw. Temperatures across PJM are expected to remain at well above normal levels, in the 90s through Wednesday, and PJM forecasts even higher demand of about 118,900 Mw for Tuesday. Again, PJM forecasts power supplies would be adequate to handle the expected usage of electricity.

New York Governor, George Pataki, proposed a new Article X power plant siting bill that reauthorizes a statewide energy planning process to ensure an adequate, reliable and affordable supply of electricity. Since the old Article X expired Jan. 1, 2003, generation developers and the financial community, seeking regulatory certainty, have been reluctant to start major, expensive power plant projects in the state.

**MARKET COMMENTARY**

The natural gas market continued to set its own price direction today as strong generating demand for natural gas east of the Rockies kept spot cash prices for gas firm. While the market posted an inside trading day, it was able to remain comfortably above the \$7.00 level throughout the day despite crude oil prices falling for the second straight session. Estimated volume levels for natural gas were unavailable for much of the day due to technical problems on the exchange floor.

We feel that this market will remain above the \$7.00 price barrier tomorrow and into Thursday's storage report given the continued high air conditioning load east of the Rockies. In addition the market may begin to find support from the news that the National Hurricane Center is keeping a close eye on an area of cloudiness and showers over the western Caribbean Sea near Honduras. Forecasters are expecting this system to move slowly northward over the next couple of days and upper level winds are forecast to become more favorable for slow development.

We see resistance tomorrow at \$7.18 followed by \$7.24, \$7.275 and \$7.31. More distant resistance we see at \$7.47. Support we see at \$7.06, \$7.035 and \$6.925. Additional support we see at \$6.815, \$6.685 and \$6.554.

