



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR AUGUST 8, 2006**

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

The EIA Short Term Energy Outlook for August showed that in 2006, total U.S. natural gas consumption is projected to fall below 2005 levels by about 270 Bcf, or 1.2%, then increase by 810 Bcf, or 3.7%, in 2007. Residential natural gas consumption is projected to fall in 2006 by 7.6% from 2005 levels due to mild weather early in 2006 and then increase by 9.1% in 2007, assuming normal weather. The EIA revised down its total inventory forecast of natural gas at the end of the third quarter of 2006 to 3.24 Tcf from 3.31 Tcf.

The NOAA reported that this hurricane season will be slightly less intense this year than first predicted with nine hurricanes expected to form. The government forecasters warned the most dangerous part of the season was still to come. They expect the 2006 season to produce 12-15 named storms, with 7-8 becoming hurricanes and three or four of them becoming major hurricanes.

The NOAA also reported that the continental U.S. suffered through its second-hottest July on record because of the blistering heat wave from California to New York. The heat wave broke more than 2,300 daily temperature records for the month and eclipsed more than 50 records for the highest temperatures in any July. The hottest July on record occurred in 1936, and the third hottest was 1934. The NOAA also reported that the first seven months of 2006 was the warmest January-July of any year in the U.S. since records began in 1895.

The tropical wave that the National Hurricane Center was watching yesterday with some interest continued to move westward at 15-20 mph and is now some 650 miles east of the Windward Islands. Thunderstorm activity near the center of this system has increased late in the day and if this trend continues a tropical depression will form either tonight or tomorrow. While the warm water in the region should support further development of the tropical system, dry air aloft could hinder significant development. Current computer models have the system weakening as it reaches the Lesser Antilles Wednesday night.

#### **PIPELINE RESTRICTIONS**

Algonquin Gas Transmission said Tennessee Gas Mahwah has been scheduled to capacity on its system.

Texas Eastern Transmission Corp. said that it has restricted and sealed receipts sourced between Longview and Crooksville for delivery downstream of Crooksville. No increases in receipts sourced between Longview and Crooksville for delivery outside that area will be accepted. Tetco has restricted and sealed receipts sourced between Longview and Joaquin for delivery downstream of Joaquin. No increases in receipts sourced between

#### **Generator Problems**

**ERCOT**— TXU's 750 Mw Martin Lake coal-fired power station is expected to return to service today following repairs to a boiler tube leak.

**PJM**— Edison Mission's Homer City power station reported that its 614 Mw Unit 2 shut August 3 and its 650 Mw Unit 3 shut August 4 will restart tomorrow.

**WSCC**— Arizona Public Service's 1,270 Mw Palo Verde #1 nuclear unit increased production to full capacity. Yesterday, the unit was operating at 80% capacity.

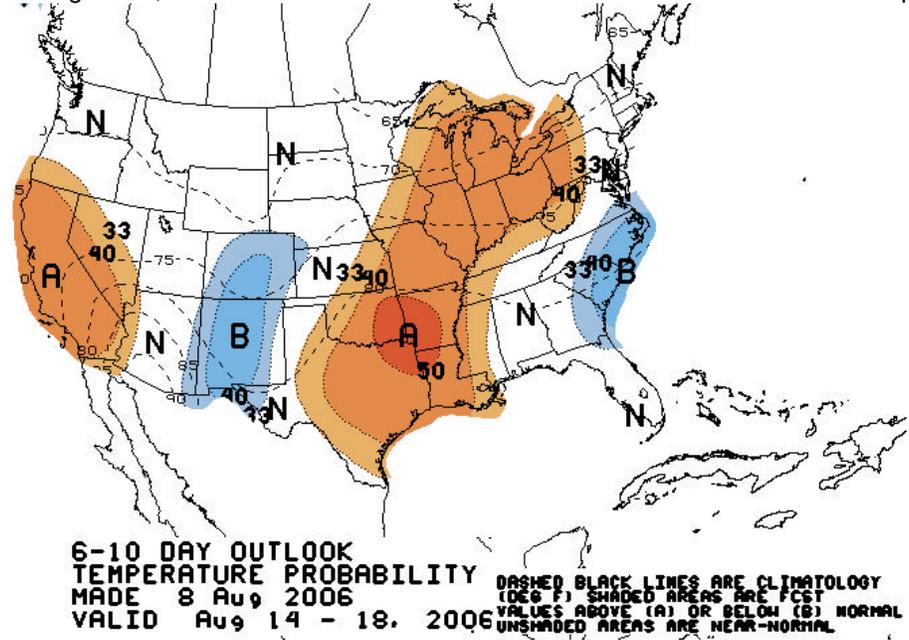
LS Power Group's 739 Mw Moss Landing #6 natural gas-fired power station restarted today following repairs to a steam leak over the weekend.

**Canada**— Ontario Power Generation's 535 Mw Lennox #3 oil- and natural gas-fired power station returned to service by early today.

**The NRC reported that U.S. nuclear generating capacity was at 97,373 Mw up .36% from Monday and up 2.15% from a year ago.**

Longview and Joaquin for delivery outside that area will be accepted. Tetco has also restricted and sealed receipts sourced between Mt. Belvieu and Longview. No increases in receipts sourced between Mt. Belvieu and Longview for delivery outside that area will be accepted. Finally, Tetco has scheduled and sealed receipts sourced between Tompkinsville and Longview for delivery downstream of that area. No increases in receipts sourced between Tompkinsville and Longview for delivery outside that area will be accepted.

Trailblazer's Compressor Station 602 in Lincoln County experienced a force majeure outage on one of the compressor units due to an internal electrical failure. The company previously posted the in-service date would be August 15, at the earliest. However, the back in service date is now anticipated to be August 18.



**PIPELINE MAINTENANCE**

El Paso Natural Gas Company said that Line 1204 must be taken out of service upstream of Seligman Station to make repairs based on internal inspection data that was just received. The capacity of the North Mainline will be reduced by 175 MMcf/d effective Cycle 1, August 8 and continue through August 9. Previously scheduled maintenance on Line 1201 in the same area has been postponed until Line 1204 is back in service.

Kern River Pipeline said that on August 8, Williams Field Services will perform maintenance and tie-in work at their Opal Plant. WFS

has communicated that the Opal Plant will be entirely down for gas day August 8. This outage is a significant impact to Kern River's supply and because it is occurring during system peak demand, it is imperative that shippers and operators align actual and scheduled quantities on gas days August 6-10.

Southern Natural Gas Pipeline Company said that the unscheduled maintenance on unit 9 at White Castle has been completed. The capacity on the west leg upstream of the Franklinton Compressor Station in South Louisiana will be increased on the next available cycle to 725 MMcf/d until further notice.

Williston Basin Interstate Pipeline Company said that unplanned maintenance is being performed on the Elk Basin Compressor Station through tomorrow. At this time, Williston does not anticipate any restrictions to the system.

**ELECTRIC MARKET NEWS**

The EIA's Short Term Energy Outlook report for August reported that with the recent heat wave that blanketed the nation, cooling degree-days for the third quarter this year are expected to be about 8% lower than the third quarter of 2005 but still almost 11% above normal. Electricity consumption is expected to increase by 0.6% in 2006 and by 1.1% in 2007. Residential electricity prices are expected to increase by 8.9% in 2006 and by another 3.6% in 2007. The EIA also said that electric power consumption of coal is expected to slightly outpace overall power demand, rising 0.7% in 2006 and another 1.3% in 2007.

Energy Secretary Samuel Bodman announced a plan to provide incentives to companies willing to build the first new nuclear plants in 30 years. The plan offers \$2 billion in federal insurance for construction of six plants. Bodman said 12 utilities are expected to file papers over the next three years to build 18 reactors. The insurance plan would provide up to \$500 million in coverage for the first two plants and up to \$250 million for the next four plants.

## **ECONOMIC NEWS**

The Federal Open Market Committee paused in its tightening after 17 consecutive 25 basis point hikes since June 2004, leaving interest rates unchanged at 5.25%.

## **MARKET COMMENTARY**

The natural gas market opened 1.3 cents higher today and traded to a low of just 6.89 before trending higher. With the peak of summer upon us, market players could not muster any downside momentum as the September contract quickly traded back to the 7.00 level. Following the release of the EIA short-term energy outlook report, which showed a lower forecast for gas in storage at the end of the third quarter, as the estimate was reduced from 3.31 Tcf to 3.24 Tcf. September natural gas rallied off the report backing filling the gap to 7.12 and continuing to a high of 7.24. The market remained elevated for the remainder of the session and September settled up 25.1 cents at 7.158.

<b>NYMEX Most Active Natural Gas Options for August 8, 2006</b>									
<b>Symbol</b>	<b>Month</b>	<b>Year</b>	<b>Call/Put</b>	<b>Strike</b>	<b>Exp Date</b>	<b>Settle</b>	<b>Prev Settle</b>	<b>Volume</b>	<b>IV</b>
LN	10	6	P	6	09/26/2006	0.3015	0.3606	6650	85.325
LN	10	6	P	4	09/26/2006	0.0176	0.0173	2500	87.594
ON	10	6	P	6	09/26/2006	0.302	0.361	2397	83.287
LN	9	7	P	5	08/28/2007	0.1697	0.1685	2050	51.103
LN	9	7	P	8	08/28/2007	1.1329	1.1418	2050	54.032
ON	1	7	P	7	12/26/2006	0.226	0.223	2000	65.426
LN	10	6	C	10	09/26/2006	0.3369	0.2782	1950	96.842
LN	3	7	P	7.5	02/23/2007	0.5728	0.5665	1700	71.434
LN	11	6	C	12	10/26/2006	0.5003	0.4518	1450	81.182
LN	10	6	P	4.5	09/26/2006	0.0468	0.0476	1450	87.825
LN	9	6	P	6.5	08/28/2006	0.2493	0.3383	1400	82.268
LN	11	6	C	16	10/26/2006	0.1509	0.1304	1390	84.749
LN	12	6	C	15	11/27/2006	0.5032	0.4665	1300	72.506
ON	11	6	P	7	10/26/2006	0.404	0.427	1265	75.78
ON	12	6	C	13	11/27/2006	0.806	0.757	1231	74.165
LN	1	7	P	6	12/26/2006	0.0944	0.0883	1200	68.003
LN	12	6	P	6	11/27/2006	0.0857	0.083	1200	68.368
ON	1	7	P	10	12/26/2006	1.24	1.246	1180	67.387

The upcoming storage report and the likelihood of additional summer weather down the line should keep September gas supported. Cash markets remain above futures, offering support to the market and making bears reluctant to pressure the market. The NHC also reported in its

5:30 pm update that the tropical wave 650 miles east of the Windward Islands has become more organized with thunderstorms around the low-pressure center and if this trend continues, a tropical depression could form later today or Wednesday. Being in the peak of hurricane season, with conditions favorable for development, downside pressure is going to stay to the sidelines and the market will maintain an upside bias. We see support at \$6.89, \$6.81, \$6.75-\$6.76, \$6.50 and \$6.43. We see further support at \$6.32 and \$6.00. We see resistance at \$7.30, \$7.54, \$7.76, \$7.95 and \$8.25.