



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta &  
Zachariah Yurch

**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

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### **POWER MARKET REPORT FOR AUGUST 21, 2006**

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

After the record-breaking 2005 Atlantic hurricane season, the 2006 season is now below normal. As of yesterday (August 20) three tropical storms will have formed in the Atlantic in an "average" year, which is the same number that has formed this year so far. Because of multi-year averaging, that means that today (August 21) slightly more than three storms would have formed, making this year (statistically speaking) just below normal. In the hurricane category, this year is decidedly below normal, with no hurricanes so far, while by this date 1.5 hurricanes have formed in the average years of 1944 through 2005. Part of the reason for the slow season is that tropical western Atlantic sea surface temperatures (SSTs) are running about normal, if not slightly below normal. In contrast, at the same time last year SSTs in the same region were running well above normal. With only 3 named storms compared to 9 on this date last year, it is nearly impossible at this late date to have a season anywhere near as busy as last season, which totaled 27 by the end of the year. The most recent prediction from the National Weather Service is for there to be 12 to 15 named storms by December – only half of last year's total. It now looks like that prediction might be too generous.

However, Max Mayfield, director of the U.S. National Hurricane Center, said there are signs of increased activity near the west coast of Africa, source of the troublesome "Cape Verde" hurricanes that grow powerful on their long trip across the Atlantic. The hurricane season is from June 1 to November 30, but the worst part of it usually is between mid-August and late October, with the peak around September 10. Currently, the National Hurricane Center is tracking a vigorous tropical wave located a few hundred miles east-southeast of the Cape Verde Islands.

#### **PIPELINE RESTRICTIONS**

Kern River Pipeline said that line pack remains high on the north end of the system. Line pack is currently normal from Goodsprings to the end of facilities.

#### **Generator Problems**

**FRCC** – Progress Energy's 838 Mw Crystal River #3 nuclear unit shut by early today. On Friday, the unit was operating at full power.

**SERC** – TVA's 1,100 Mw Brown Ferry #3 nuclear unit was forced shut on August 19 due to the loss of both reactor recirculation pumps. On Friday, the unit was operating at full power. Browns Ferry #2 continues to operate at full power.

Progress Energy's 938 Mw Brunswick #1 nuclear unit is expected to return to service soon. The unit shut August 11 to work on the hydrogen cooling system for the main generator on the non-nuclear side of the plant.

Duke Power's 846 Mw Oconee #3 nuclear unit began to increase output, operating the unit at 41% capacity. The unit was offline at 18% on Friday. Oconee #1 and #2 continue to operate at full power.

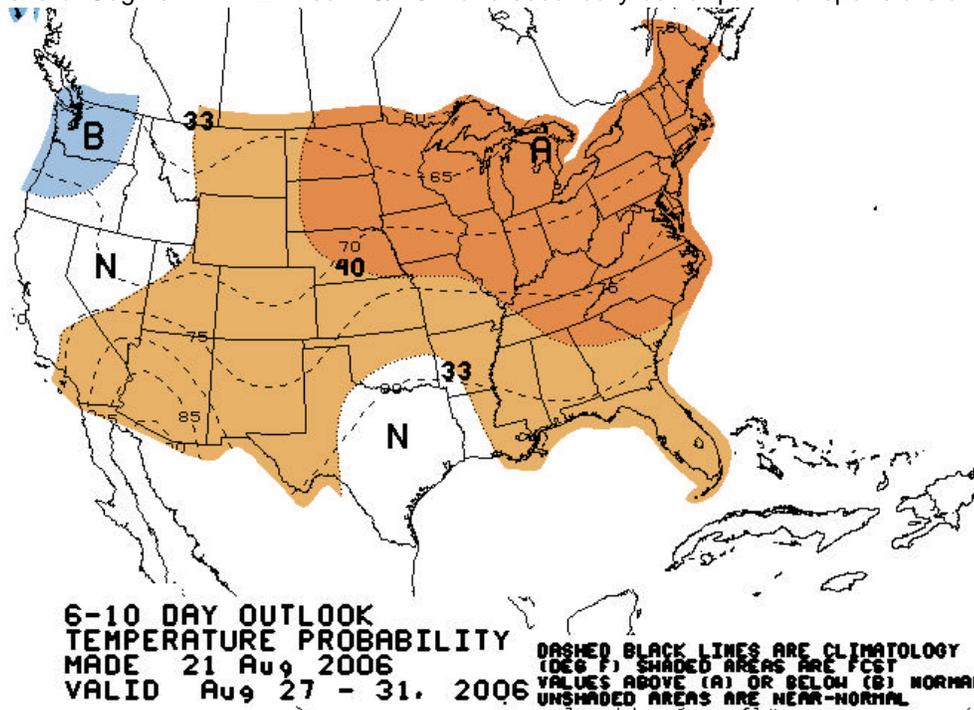
Entergy's 1,091 Mw Waterford nuclear unit increased to full power over the weekend. On Friday, the unit was operating at 86%.

**WSCC** – LS Power Group's 739 Mw Moss Landing #7 natural gas-fired power station returned to service by Sunday afternoon.

**Canada** – Ontario Power Generation's 494 Mw Lambton #4 coal-fired power station shut by early today for a short-term outage.

**The NRC reported this morning that 94,050 Mw of nuclear generating capacity were on line, 1.73% lower than Friday, and 1.52% lower than last year levels.**

Natural Gas Pipeline Company said that it has limited capacity available for gas going eastbound through the end of Segment 17. Limited ITS/AOR and secondary out-of-path transports are available.



Northern Natural Gas Company said that it has discovered a leak on a supply line to the Redfield Storage facility. This will decrease the storage injection capabilities effective immediately. The facility is located in Dallas County, Iowa. At this time, Northern does not anticipate any limits on firm injection capabilities.

Williston Basin Interstate Pipeline Company said that hydrostatic testing on Line Section 15 through early September could impact flows. During the testing period of August 21 – September 2, maximum capacity will be

approximately 35.1 MMcf/d from Deadwood to Rapid City, which could result in restrictions to the system depending on volumes nominated. Potential for restrictions is less likely as the testing moves further south down the pipeline.

### **PIPELINE MAINTENANCE**

Texas Eastern Transmission said that the scope of work for the outage on Eagle station discharge downstream of Chester Junction line 1-A has changed. The outage will start on September 5 and will now end on September 30.

TransColorado Gas Transmission said that it will be performing maintenance at its Mancos Compressor Station on September 28. Nominations scheduled through Segment 250 will be limited to 380 MMcf/d. Depending on the level of nominations, AOR/ITS, secondary and primary FT quantities are at risk of not being scheduled.

Transcontinental Gas Pipe Line said that it continues to experience unanticipated delays in completing the tie-in work associated with the North High Island Lateral job. Consequently, Transco now anticipates the outage will continue through gas day August 24, weather permitting. Transco will begin accepting nominations at the NHI lateral locations for gas day August 25.

Williston Basin Interstate Pipeline Company said that planned maintenance will be performed on the Bismarck Compressor Station early next week, though Williston Basin does not anticipate any restrictions to the system. According to informational postings on the company's website, Bismarck Unit 2 will have work performed on August 28 while Unit 3 will have work done on August 29.

### **ELECTRIC MARKET NEWS**

Arizona Corporation Commission staff recommended that Arizona Public Service receive a rate hike of \$193.5 million, or 9.8%, which is lower than the utility's request of \$453.9 million, or 21.3%. Three key issues led to the staff's lower recommendation. First, APS wanted an 11.5% return on equity, but staff proposed an ROE at 10.25% as currently allowed. Second, APS sought \$298 million to pay for fuel costs, but staff found that a \$193 million increase was more appropriate. Finally, APS sought a \$44 million increase for pensions, while staff concluded that an \$11 million increase was adequate.

## **MARKET COMMENTARY**

The natural gas market opened 9 cents lower, on unfavorable weather reports and a continued lack of tropical disturbances. September natural gas traded initially to a low of 6.60, from where it trended slightly higher with a strengthening crude market reaching a day's high of 6.78. But as traders became unimpressed with the weather forecasts, the market came under pressure, falling to a low of 6.46. September natural gas recovered moderately to settle down 10.7 cents at 6.624.

The absence of extreme heat and the unlikelihood that we will see temperatures such as those from the beginning of the month, and the slow storm season, will keep bears in the drivers seat. The market is waiting simply on storm reports. If a storm develops and its trajectory puts in into the Gulf, prices will spike, but until such a scenario, the market will be on the defensive. We see support at \$6.45, \$6.43, \$6.32 and \$6.10. We see resistance at \$6.78, \$7.03, \$7.19, \$7.30, \$7.95, \$8.00 and \$8.25.

<b>NYMEX Petroleum Options Most Actively Traded Options for August 21, 2006</b>											
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Prev Settle	Volume	High	Low	IV
ON	4		7 C	20	03/27/2007	0.053	0.057	5025	0.055	0.052	57.938
LN	10		6 C	10	09/26/2006	0.1347	0.1874	2895	0	0	101.32
ON	10		6 P	6	09/26/2006	0.386	0.37	2832	0.41	0.35	86.21
LN	1		7 P	8	12/26/2006	0.4527	0.4438	2490	0	0	71.608
LN	3		7 P	8	02/23/2007	0.8062	0.7943	2210	0	0	76.972
ON	9		6 P	6	08/28/2006	0.052	0.082	1998	0.06	0.04	71.483
LN	10		6 C	8	09/26/2006	0.3757	0.4689	1900	0	0	93.842
ON	10		6 P	6.5	09/26/2006	0.635	0.612	1781	0.61	0.58	89.315
LN	10		6 C	9	09/26/2006	0.2248	0.2968	1700	0	0	98.226
LN	9		6 C	7	08/28/2006	0.1588	0.2772	1525	0	0	81.845
LN	10		6 P	6	09/26/2006	0.3852	0.3693	1450	0	0	88.228
LN	1		7 P	9	12/26/2006	0.7906	0.7706	1450	0	0	72.79
LN	1		7 C	12	12/26/2006	1.4682	1.5816	1240	0	0	68.003
ON	10		6 C	8	09/26/2006	0.376	0.469	1122	0.45	0.37	96.188
LN	10		6 C	11	09/26/2006	0.0835	0.1219	1100	0	0	104.34
LN	9		6 P	6.5	08/28/2006	0.2225	0.2585	1100	0	0	78.577