



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR DECEMBER 27, 2006**

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

Plains All American Pipeline said that 140 MMcf/d of natural gas output from the High Island and East Breaks areas of the Gulf of Mexico has been shut in due to damage to the High Island Pipeline System, which was ruptured by a ship's anchor on December 24. Divers are evaluating the extent of the damage to the pipelines. Until the inspection is complete Plains is unable to say how long the HIPS pipeline will be shut.

The Energy Management Institute commented on the year on year storage surplus in natural gas, stating that following this week's report, which is expected to show a modest build of 50-70 Bcf, the overhang will be approaching the highest level since late March of this year of near 500 Bcf. With half of the official heating season over we are looking at entering the heart of the heating season with the largest overhang in a long time. This coupled with projections for warmer than normal temperatures for the January through February period for will keep natural gas prices on the defensive for an extended period of time. If the weather does in fact come in as predicted, it is possible that we will see a re-test of the lows (\$4.07) made in September 2006.

Sempra Energy said it will sell its interests in two Argentine gas-distribution companies in a continuation of its strategy to shed non-strategic assets and focus on growing its natural gas infrastructure and marketing businesses and its California utilities. Sempra is selling its 37% interest in Camuzzi Gas Pampeana and its 39% stake in Camuzzi del Sur.

Indonesia's Arun LNG plant is expecting a production shortfall of 12 cargoes in 2007 because of a natural decline in gas field reserves. The Arun plant has a contractual commitment to supply 78 LNG cargoes in 2007 to its long-term customers, so the 12-cargo shortfall means it would be able to provide only 66 shipments. The Arun LNG plant, which started operations in 1978, has mothballed more than half its initial capacity of 12 million mt/year since 2000, because gas supplies from ExxonMobile's ageing fields were wearing thin.

#### **PIPELINE RESTRICTIONS**

Texas Eastern Transmission Corp. said that it has scheduled to capacity deliveries downstream of Castor on the Castor lateral. No increase of deliveries downstream of Castor on the Castor lateral will be accepted.

#### **PIPELINE MAINTENANCE**

Colorado Interstate Gas Company recently listed its expected maintenance projects for the month of January. At the Cheyenne Compressor Station, one unit will be out of service January 8 through January 11. Capacity

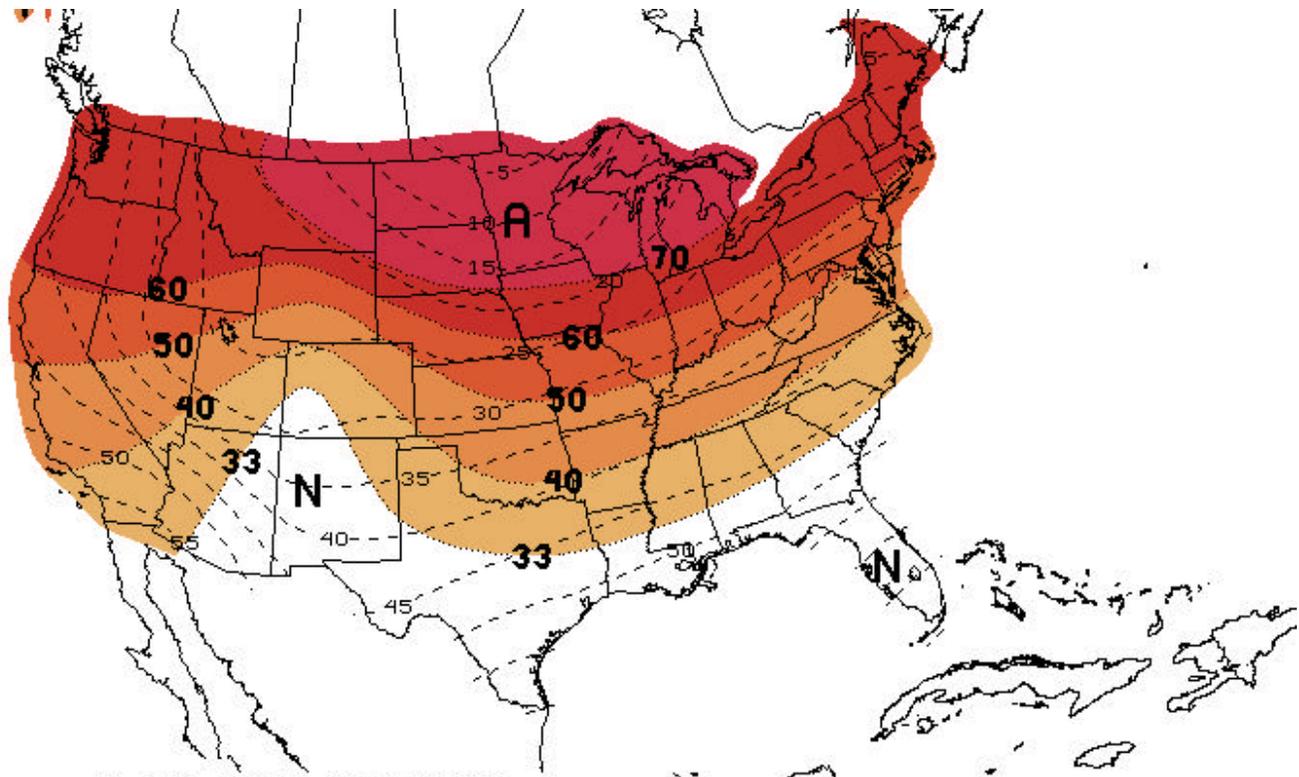
#### **Generator Problems**

**SERC** – Dominion Resources' 800 Mw Surry #1 nuclear unit remains at reduced operations today, holding production steady at 80% capacity. Surry #2 continues to operate at full power.

Tennessee Valley Authority's 1,125 Mw Sequoyah #2 nuclear unit increased output to 44% today. Yesterday, the unit was operating at 16%. Sequoyah #1 remains at full power.

**WSCC** – Southern California Edison's 1,080 Mw San Onofre #3 nuclear unit remained reduced at 29% capacity today. San Onofre #2 remains at full power.

**The NRC reported that 92,832 Mw of nuclear capacity is on line, up .33% from Tuesday, and 2.24% lower from a year ago.**



**6-10 DAY OUTLOOK  
TEMPERATURE PROBABILITY  
MADE 27 Dec 2006  
VALID Jan 02 - 06, 2007**

**DASHED BLACK LINES ARE CLIMATOLOGY  
(DEG F) SHADED AREAS ARE FCST  
VALUES ABOVE (A) OR BELOW (B) NORMAL.  
UNSHADED AREAS ARE NEAR-NORMAL**

through CYC will be reduced from 600 MMcf/d to 557 MMcf/d. At the King Compressor Station, one unit will be out of service January 23 through January 25. Capacity through KHF will be reduced from 150 to 100 MMcf/d.

Florida Gas Transmission said that it will be performing maintenance on one of the compressors located at Compressor Station #6 in Orange County, Texas starting on January 22. This outage is expected to last through the end of January. During this work FGT will schedule up to approximately 225 MMcf/d through Compressor Station #6. During normal operations FGT schedules up to 300 MMcf/d.

PG&E California Gas Transmission has scheduled an annual maintenance at the Kettleman Compressor on January 15-19. Capacity on the Baja Line will be reduced to 1,050 MMcf/d, roughly 92% of capacity.

Southern Natural Gas Pipeline said that it has identified a need to perform unscheduled maintenance on one of three compressor units at its Muldon Storage Field. Repairs are under way and based on the best available information the unit is expected to return to service sometime on December 28.

#### **ELECTRIC MARKET NEWS**

Duke Energy Carolinas and North Carolina Electric Membership Corp. announced agreements to purchase Saluda River Electric Cooperative Inc.'s ownership interest in unit 1 of the Catawba Nuclear Station. Saluda River currently owns approximately 19% of unit 1, with NCEMC and Duke Energy owning the remaining 56% and 25%, respectively. The agreements, which are worth \$200 million, call for Duke Energy to pay \$158 million for the purchase of approximately 72% of Saluda's interest and the NCEMC to pay \$42 million for the remaining 28%.

Avista Utilities is seeking authorization from the Idaho Public Utilities Commission to buy up to 6.5 Mw of energy from Stimson Lumber Company. Stimson operates a thermal wood waste generating plant at Plummer. Also

included within the agreement is an interconnection agreement that allows the energy created by the lumber plant to be connected to Avista's transmission grid.

### **MARKET COMMENTARY**

The natural gas market opened down 17.3 cents below the key 6.00 level to start its last day of trading. The market stumbled to its lowest point in ten weeks to a low of 5.74 as winter just doesn't want to show itself in the northern half of the country. After hitting 9.05 on November 30, the front month contract slumped nearly 35% and went off the board at 5.838, down 27.5 cents on the day. The February contract traded to a low of 6.11 before settling down 19.1 cents at 6.142.

With little fundamental support expected over the next two weeks at least, market players cautioned that the February contract will likely pick up where January left off. The combination of above normal temperatures across the country for the next few weeks and a record overhang of gas keeps the bears in control as they look at the September lows of 4.07. Without the weather, prices will continue to slide until additional demand is picked up from coal generation switching, which won't be until below the 5.00 level. We see support in February at \$6.05, \$6.00, \$5.95, \$5.75, \$5.58, \$5.35, \$5.20, \$5.00 and \$4.07. We see resistance at \$6.50, \$6.87, \$7.00, \$7.20 and \$7.40.