ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR JANUARY 3, 2005

NATURAL GAS MARKET NEWS

The Climate Prediction Center today reported that it estimates that the U.S. saw 182 heating degree-days during the week ending January 1st, nearly 16.9% less than normal on a gas home heating customer weighted basis but surprisingly the week was still 5.2% colder than the same week a year ago. For the current week ending January 8th, the Center is forecasting only 166 HDD some 23.9% les than normal and 20.4% less than the same week a year ago.

Raymond James analysts today said that they expect natural gas prices in 2005 to average $7.25 per Mcf.

The U.S. Minerals Management

Generator Problems

ECAR – First Energy boosted its 1,260 Mw Perry unit 24% to 87%, as it returns from an automatic shut down on Dec. 27.

ERCOT – TXU shut its 565 Mw coal-fired Monticello #1 Dec. 31 – Jan. 1 to repair a boiler tube leak. TXU plans to start up the unit about Jan. 2-3.

FRCC – FPL's 839 Mw St. Lucie #2 exited and outage and ramped up to 19%. The unit shut Dec. 29 due to an overheating condition in the condensate pump motor. St. Lucie #1 dipped to 90% on Thrus.

FPL's 693 Mw Turkey Point #3 started to exit an outage and ramped up to 3%. The unit shut Dec. 28 due to a leak in the turbine plant cooling water system. Turkey Point #4 continues to operate at full power.

MAAC – Exelon reported more fluctuation in production levels at its 1,148 Mw Peach Bottom #2, so it reduced power to 83%. It was at full power yesterday and 79% on Thurs.

MAPP – Nebraska Public Power District reduced its 800 Mw Cooper facility 2% to 86% as it prepares for a scheduled refueling and maintenance outage.

NPCC – Ontario Power Generation's 516 Mw Pickering #7 returned to service after being shut on Dec. 27. All other units are operating

Ontario Power Generation's 535 Mw Lennox #1 oil and natural gas-fired unit returned to service after closing Dec. 29 for planned work.

SERC – Duke Energy's 846 Mw Oconee #3 exited a refueling and maintenance outage and ramped up to 18%. Oconee #1-2 continued to operate at full power.

Southern Co.'s 924 Mw Hatch #1 shut early Mon. to repair a water leak in the drywell. On Thursday, the unit was at full power. Hatch #2 continues to operate at full power.

WSCC – Duke Energy's 510 Mw combined cycle Moss Landing natural gas-fired unit shut for unplanned reasons early Monday. The unit was available for power late Sunday.

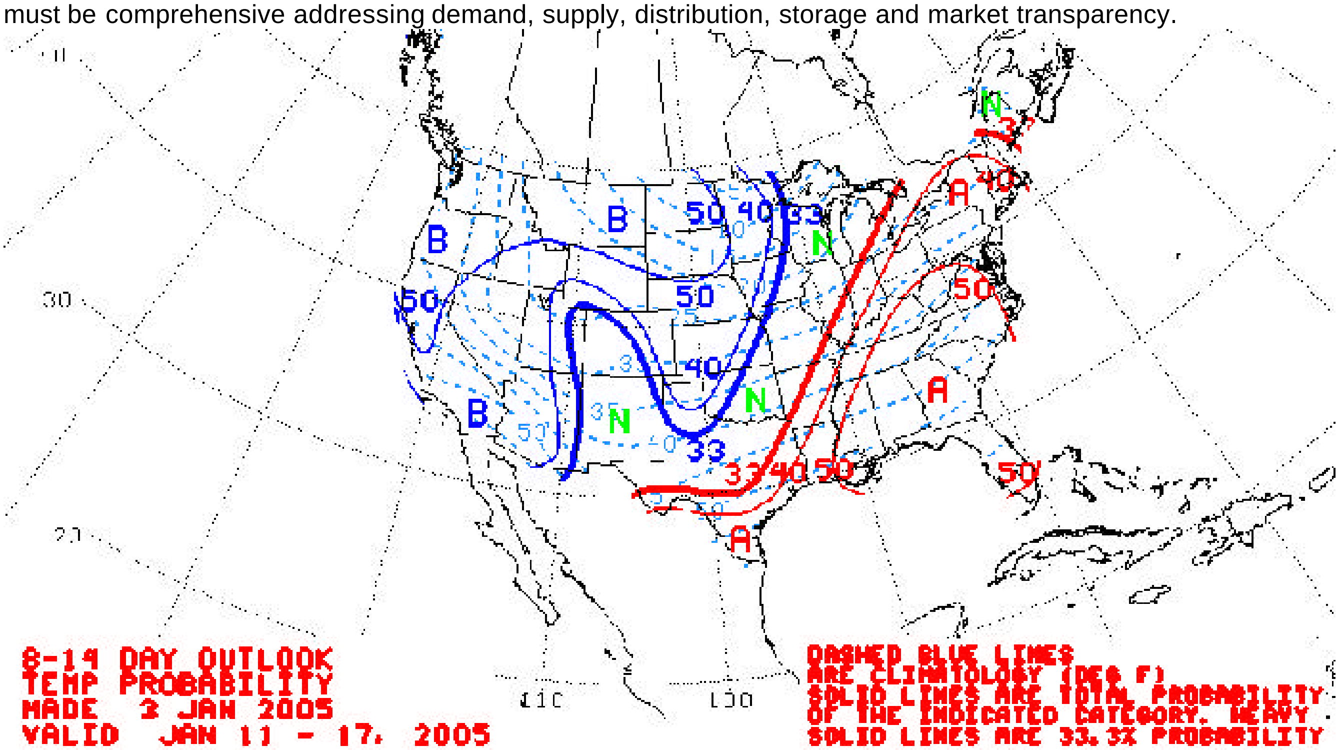
AES Corp.'s 480 Mw Alamitos #5 returned to service early Monday. The unit shut Dec. 27. All the other Alamitos units were available for power except #3.

Southern California Edison increased its 1,120 Mw San Onofre #3 1% to 70% as it comes back from a refueling.

The NRC reported that U.S. nuclear generating capacity was at 92205 Mw today down .45% from Friday.

Service reported this afternoon that U.S. oil output in the USG still shut in from Hurricane Ivan stood at 145,128 b/d a 6,649 b/d improvement from the agency's last report in mid December. Natural gas production saw a 9.6 Mmcf/d improvement, as some 584.69 million cubic feet of gas remained shut in. The cumulative shut in totals for the period since Hurricane Ivan stood at 38 million barrels of oil and 150.7 bcf of natural gas. The agency will release its next update on the status of shut in production on January 17th.

A coalition of U.S. industrial customers, trade associations and environmental groups has called on Congress today to formulate and adopt a natural gas supply and demand policy that will bridge the gap between growing gas demand and limited supply. The group sees no signs of the recent price pressures abating and that lawmakers need to push energy efficiency and conservation measures, since they represent the most important near term option for beginning to rebalance the natural gas markets. The group further noted that a new policy must be comprehensive addressing demand, supply, distribution, storage and market transparency.



Dynegy announced that it has completed operational enhancements at the Monument Natural Gas Field Processing Facility. The $7 million project consisted of the installation of four 3,250 horsepower compressors that replaced 18 gas compressors, resulting in improved reliability, increased fuel efficiency and operating margins that are expected to generate approximately $1.4 million of cost savings and a 66% reduction in nitrogen oxide emissions per year.

Mirant Americas Energy Marketing announced that it is seeking proposals for a one-,two- or three-year tolling arrangement for two of its natural-gas fired generating units: Pittsburg #7 (682 Mw) and Contra Costa #6 (337 Mw).

PIPELINE RESTRICTIONS

Natural Gas Pipeline Company of America is at capacity for gas received upstream of Compressor Station 155 in Wise County, Texas in Segment 1 going northbound. Also, all Louisiana Line segments 25, 23, and 24 are at capacity for eastbound transport volumes.

Texas Eastern Transmission said the Monroe Line has been nominated to capacity. Deliveries out of zones STX and ETX have been restricted to zero. There will be no physical receipts in STX, ETX, and M1-24 between Mont Belvieu and Fagus.

Trailblazer Pipeline Company has limited capacity available for transports goine eastbound through Station 601.

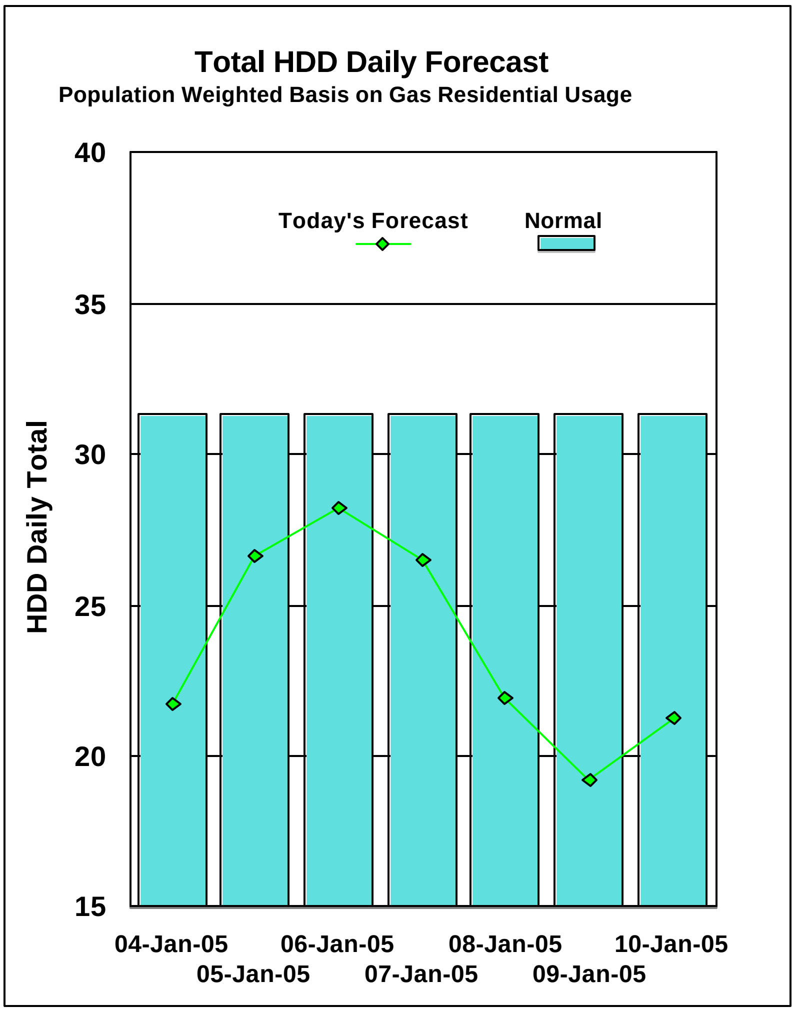
PG&E California gas Transmission has called a system-wide operational flow order on its California natural gas pipeline for today's gas flow. PG&E issued the restriction because of high gas supplies on its system.

PIPELINE MAINTENANCE

El Paso Natural Gas said that repairs to the Alamo Lake 2 Turbine oil pump are complete. The capacity of the Havasu Crossover was increased to its full capacity of 680 MMcf/d.

Transwestern said that it experienced a mechanical failure on Unit #1 at the Crawford compressor station located on the West Texas Lateral. Capacity will be reduced from 60 MMcf/d to 36 MMcf/d. A replacement should be available by Jan. 5.

Williston Basin Interstate Pipeline said that due to scheduled maintenance at the Baker Booster Compressor Station, flow to Point ID 04015 Baker Area Grasslands Mainline will be restricted by approximately 3 MMcf/d for Tuesday Jan. 4.



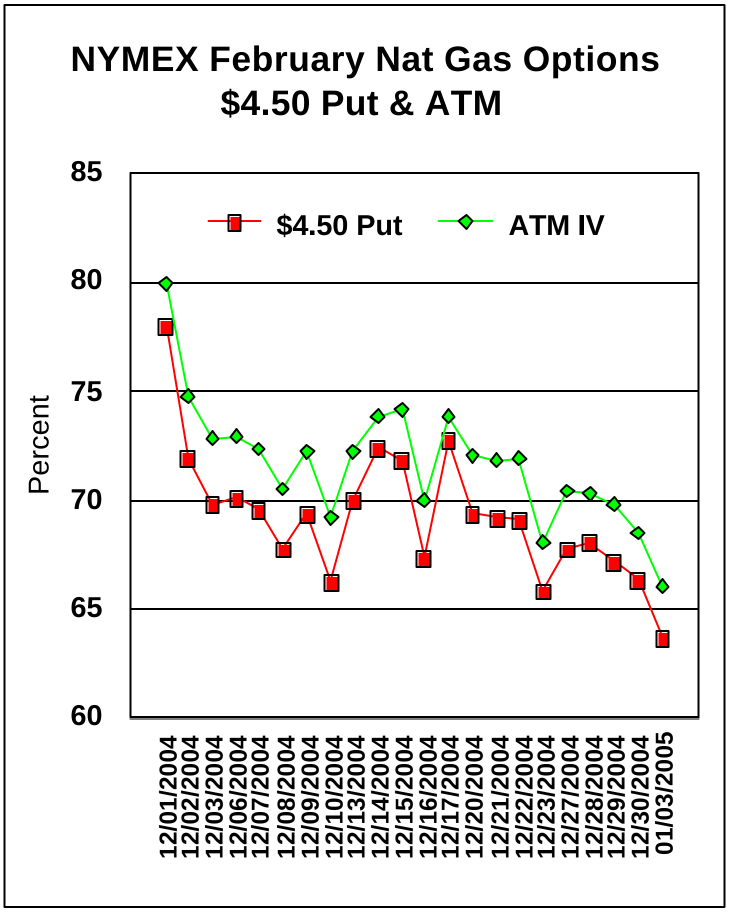
KM Interstate Gas Transmission said it will be performing tie-ins on its Goodland lateral on Jan. 4. The Capacity through Segment 161 will be limited to 7.7 MMcf/d.

ELECTRICITY MARKET NEWS

Genscape, Inc said today that its information shows sulfur dioxide emissions from domestic power plants fell 0.9% in 2004 from 2003, despite the fact that the sector increased its use of coal last year by more than 2.9%. The company claimed that this information shows that generators are having success in "better controlling their pollutant emissions". But the company still noted that generators exceeded their allocation of allowable emissions for 2004 and were forced to dip into reserves. It noted that if the industry continues down this path, SO2 allowance prices will remain high. The company noted that coal and nuclear generation "ate into the market share of natural gas and fuel oil, which were both too expensive to be competitive except at peak times in 2004". But the company noted that "both coal and nuclear plant fleets are reaching the limits of their capacity, and that increases in power consumption will lead to higher natural gas use in 2005."

TXU Energy Company, a unit of TXU Corp., plans to stop operating nine power-generating units in Texas and will end a purchasing deal, resulting in charges of about $200 million in the fourth-quarter of 2004. TXU said it would entertain the notion of leasing or restarting the combustion turbines during the first quarter of 2005. The units will remain available to the Texas power grid while a review of its options for the turbines during the first quarter of 2005 is completed. When the units finally stop operation, TXU expects to take a non-cash charge of about $156 million for the fourth quarter of 2004. These actions are part of TXU's performance improvement initiatives, which they believe will generate more than $600 million in operational earnings improvements by 2009. As part of the turnaround plan, TXU has slashed its debt and shed over $8 billion in non-core assets.

Xcel Energy agreed to double its grid investment budget over the next three years to boost reliability in the Denver area. The settlement agreement, approved by the Colorado Public Utilities Commission, calls for Xcel to spend an additional $38 million between 2005 and 2007 on underground cable repair above the $39 million of investment currently budgeted. Xcel will also contribute $2 million to a group that helps low-income customers pay energy bills. In return PUC has agreed to close its investigation into Xcel's electric service reliability, which started in 2003 after an increase in electric outages and customer complaints.



Dominion closed on its purchase of three Northeast power stations from USGen New England, increasing its electricity-generating portfolio by 10% to about 28,340 Mw. Dominion purchased the 1,599 Mw Brayton Point Station, the 745 Mw Salem Harbor Station, and the 495 Mw Manchester Street Station.

ECONOMIC NEWS

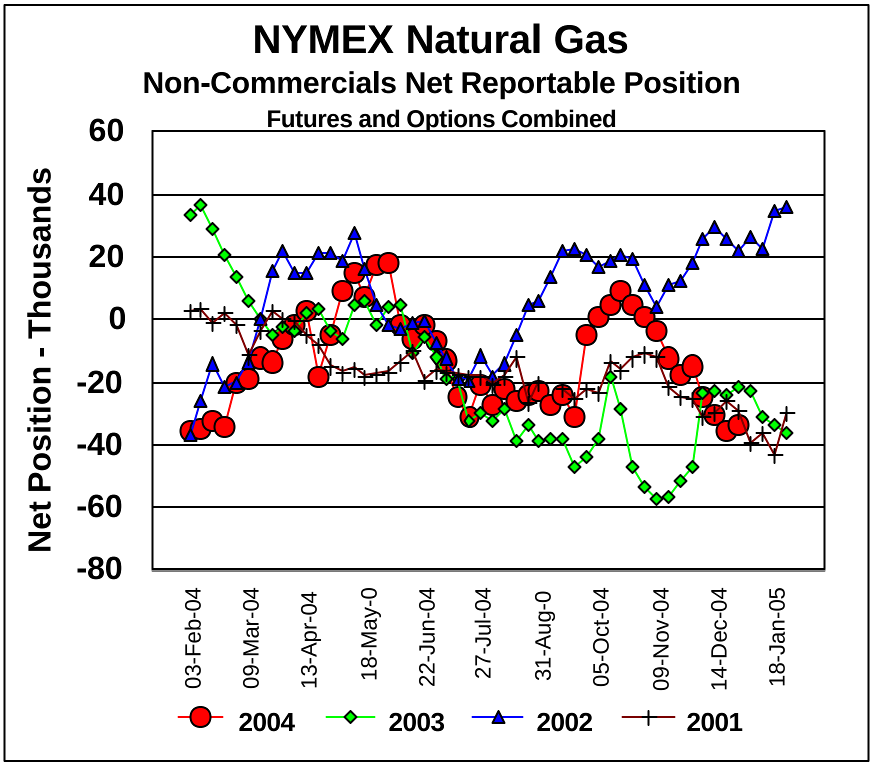
The Institute for Supply Management said its index of national manufacturing activity rose to 58.6 in December up from November's 57.8. Any reading above 50 indicates the factory sector is growing, and the index has been above 50 for the last 19 months. The overall index averaged above 60 for 2004, a strong year for manufacturing.

MARKET COMMENTARY

The natural gas market this morning gapped lower as weather forecasts continued to paint a bleak picture for heating demand for natural gas not only for the next week but through the middle of this month as well. The spot futures price fell today to its lowest level since mid-September on a spot continuation basis, but the February contract has not traded at these low levels since the end of February last year. It appears that these low price levels prompted some end user buying to start the New Year that helped to stabilize the natural gas market by mid morning. Final volume on the day was relatively modest though with just over 61,000 futures traded.

Natural gas options today saw moderate activity with just under 40,000 contracts changing hands. Puts again accounted for nearly 64% of the day's total volume led by the February $4.50 and $4.00 puts which each traded over 2900 contracts on the day, as it appeared fresh buyers flocked to the market. While the $4.50 put traded at 3.5 cents on the day, market makers appeared to protect their short of this strike by settling it at only 2 cents.

This market will continue to be driven by weather forecasts and as of this evening there appears to be little change to the prevailing bearish weather forecast that will keep this market on the defensive. We would look for support at the $5.70-$5.71 level again tomorrow, followed by $$5.62, $5.38-$5.30. Additional support we see at $5.255, $5.00-$4.93 and $4.52. Resistance we see at $5.83, $6.10, $6.44, $6.51, $6.665, $6.69 and $6.89.



Tonight's Commitment of Traders Report appeared to offer little new insight into this market, as non-commercial net short positions basically remained unchanged in the futures only report and in the combined option and futures report showed a slight decrease in net short positions by 1800 lots.