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POWER MARKET REPORT FOR JANUARY 11, 2005

NATURAL GAS MARKET NEWS

U.S. spot natural gas prices are expected to average $5.77/Mcf in 2005, the EIA said today in its short-term energy outlook for January. This is a significant downward revision in its price forecast. Just last month the EIA had estimated that 2005 would see prices averaging $6.01/Mcf. EIA said that unusually warm weather in the U.S. Northeast has left the industry with nearly 2.7 Tcf of gas in storage at the end of December, 5% higher than last year and 12% higher than the five-year average. With the heating season half over, the EIA predicts that gas prices will likely ease over the first three quarters of this year before rebounding in the fourth quarter. The agency predicts that 2006 will see prices average out at $5.95 /Mcf. While the EIA did not make any revisions in its overall domestic production estimates for 2005 it did increase it estimates for net imports via Canada and through LNG for this year by 4.3%.

A group of large industrial natural gas consumers has called on the CFTC to access the potential negative influence of hedge fund activity has on volatility and natural gas prices and to recommend to Congress statutory changes that are needed to properly oversee hedge fund players.

Generator Problems

Canada – Ontario Power's Pickering #7 nuclear unit returned to service following a recent short term outage to repair the exciter on the generator. The unit was off line yesterday.

WSCC – Sempra's 335 Mw gas fired Elk Hills power plant was off line today. No restart date has been given.

LPGC 235 Mw gas fired La Paloma #4 generating unit went off line today joining its sister unit the 260 Mw #1 unit which went off line on Friday.

AES 225 Mw gas fired Huntington Beach #3 generating unit was also taken off line today for unplanned work.

The Cal Iso reported at midday that some 6299.6 Mw of generating capacity was off line with limitations of 7720.18 Mw in generating capacity. Overall in the WECC a total of 14, 197 Mw of generation outages were reported, down from 17,478 yesterday.

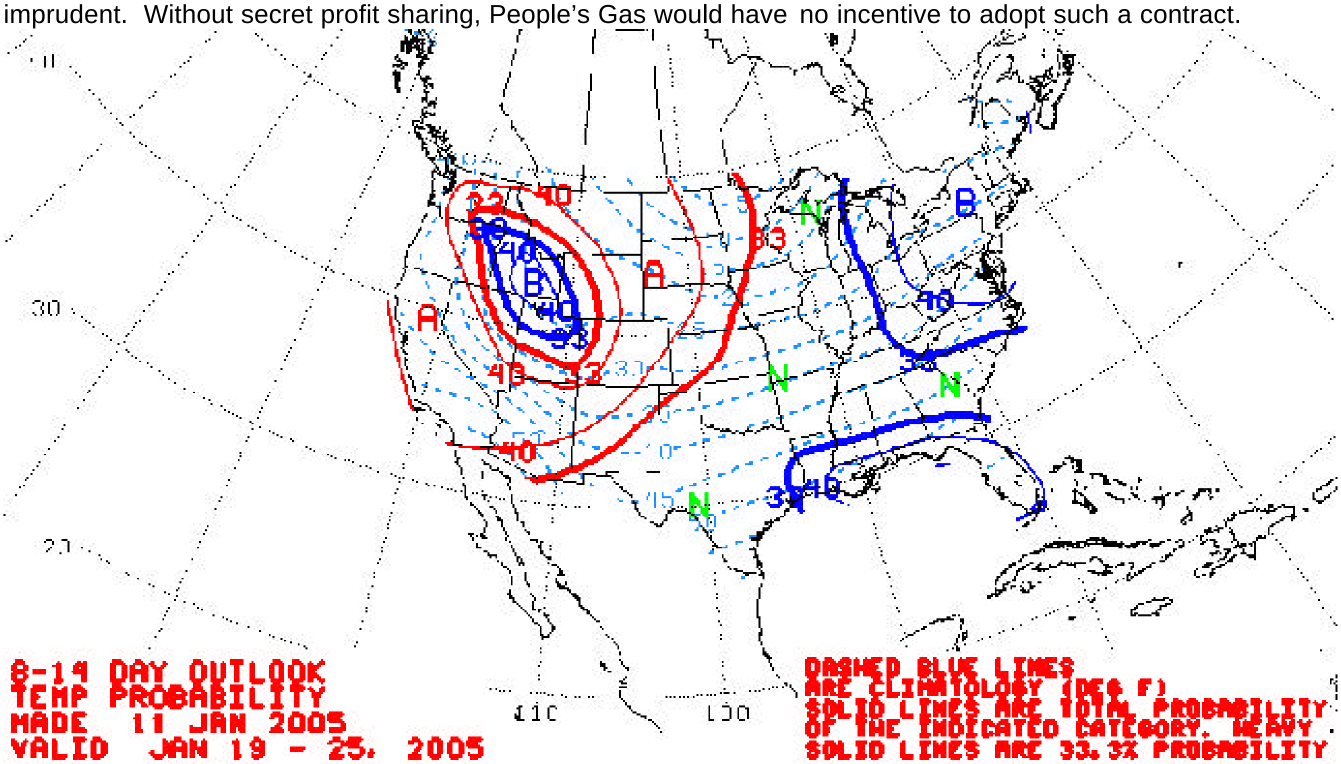
The NRC reported that U.S. nuclear generating capacity was at 91,875 Mw today up .13% from Monday.

The FERC today granted a construction permit to Freeport LNG to begin work on its 1.5 bcf/d LNG receiving terminal. The company hopes to have the terminal in operation by the winter of 2007-08. Meanwhile Excelerate said today that it expects its new LNG terminal to open next month and begin receiving shipments in March. The company said that it is finalizing a supply agreement but is not yet ready to release any details. Under Excelerate's setup, incoming LNG tankers will offload to modified tankers designed to revaporize the gas. Then the terminal vessels will deliver the gas via a sub sea buoy and flexible riser to a pipeline that runs to the shore along the USG floor. When the facility is fully operation in two years, it expects to deliver some 500 Mmcf/d of natural gas.

XTO Energy announced today that is has agreed to purchase privately held Antero Resources Corporation, a prominent Barnett Shale producer, for cash and equity consideration valued at approximately $685 million. This acquisition will increase XTO's production and leasehold acreage in Barnett Shale, in Tarrant County and in

Parker and Johnson counties of Texas. Proved reserves are estimated to be 440 Bcf of natural gas, 41% of which are proved developed, and an estimated upside potential of 400 to 500 Bcf of natural gas reserves exists.

A study commissioned by the Citizens Utility Board and the City of Chicago discovered that Peoples Gas overcharged customers at least $149 million as the result of a secret, illegal profit sharing deal with an affiliate of Enron. Customers paid excessive rates during the winter of 2000-2001, when gas prices reached record highs. The study was filed as testimony with the Illinois Commerce Commission, which is investigating the Chicago-based company's gas purchases from that winter. CUB and the City are asking the ICC to order a refund, averaging $163 per customer. The study explains how Peoples Gas gave up control over its gas purchases and storage to Enron and its affiliates, who then funneled profits from trading the gas-originally intended for customers' use-to Enron and Peoples Energy, the gas utility's parent company. As a result, during the winter of 2000-01, when gas prices reached nearly $1 per therm, People Gas had to purchase replacement gas to sell to consumers at record-high market prices. The testimony from CUB and the City show how the deals between Peoples Gas and the Enron Affiliates formed the basis for a controversial five-year contract Peoples entered into to purchase roughly two thirds of its natural gas form Enron—a contract CUB and the City conclude was imprudent. Without secret profit sharing, People's Gas would have no incentive to adopt such a contract.



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. All Louisiana Line Segments (25,23 and 24) are at capacity for eastbound transport volumes. NGPL is at limited capacity for transportation going northbound through and downstream of Compressor Stations 109 and 110 (Segment 14) and through Compressor Station 801 (Segment 15).

Algonquin Gas Transmission said that nominations for gas flowing through Stony Point compressor station have been nominated to capacity.

Panhandle Eastern Pipeline said that due to the lack of availability of compression at Cashion, nominations through the BIS09 segment will be limited to 110 MMcf until May 31. The BIS09 segment includes the following points: #10632-DEFS Kingfisher, #40526-DEFS Cashion and #12791-Exogex. The affected area is located in Oklahoma. Also, the unscheduled outage at the Liberal Unit's 315 and 317 has been extended. Unit 317 is expected to be back in service on Jan. 26, and unit 315 will remain out of service through Feb. 15. The operational capacity through Liberal is currently 800 MMcf/d. The affected area is located in Kansas.

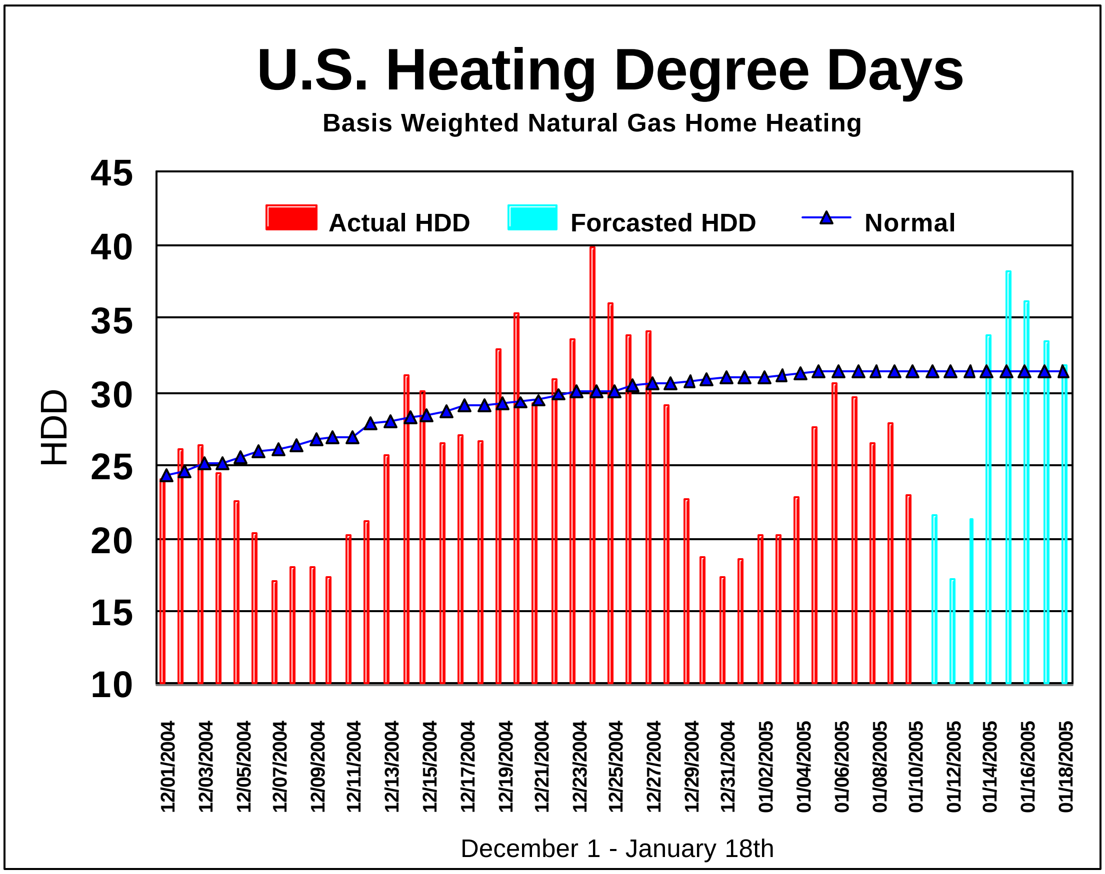
Texas Eastern Transmission said that receipts in STX and ETX have been nominated to capacity. No physical increases of receipts between Vidor and Little will be accepted.

PIPELINE MAINTENANCE

Kern River Gas Transmission said that maintenance at the Veyo Compressor Station originally scheduled for Jan. 10-17 has been postponed due to severe weather conditions in the area. Instead, the Dry Lake Compressor Station maintenance originally scheduled for Jan. 24-31 will be moved up to Jan. 11-18. The Veyo maintenance will be re-scheduled tentatively for Jan. 24-31. The Dry Lake maintenance will require the unit to remain unavailable for the duration of the work, with no impact to transportation.

ELECTRICITY MARKET NEWS

The DC Pacific Intertie remains offline until January 21st, due to maintenance work, while the southbound capacity on the AC line is limited to 2900 Mw during some peak hours, down from its normal capacity of 4800 Mw.



The U.S. Nuclear Regulatory Commission has started an in-depth, three-part inspection of FirstEnergy Corp.'s 1.320 Mw Perry nuclear plant because of past problems with safety equipment. An eight-person team started Jan. 10 by looking at the first part of the inspection, the plant's corrective action program, how it finds, evaluates, and fixes problems. The plant shut Jan. 6 because two recirculation pumps unexpectedly shifted speed and one of the pumps shut down. FirstEnergy said it would fully investigate the cause of the outage and fix the problem before restarting the reactor. The NRC's second part of the broad inspection is scheduled for late February or early March, to review activities during the plants refueling outage. The third part of the inspection, planned for April and early Mat, will involve a team of eight to 10 inspectors for three weeks focusing on operating procedures, staff and management performances, engineering and emergency planning.

The NRC has released two letters concerning the Hope Creek nuclear power plant in advance of a public meeting about the facility scheduled this Wed. Jan. 12. The first letter provides the NRC's assessment of one of Hope Creek's recirculation pumps. The NRC has concluded that operation for one more operating cycle is acceptable, provided that PSEG implements commitments to closely monitor the pump for vibrations throughout the cycle and to respond promptly to any evidence that its performance may be degrading. The other letter provides the preliminary results of an NRC special inspection concerning a steam pipe failure and shutdown that occurred at Hope Creek on Oct. 10. The special inspection team concluded that operators successfully responded to the event and that PSEG conducted comprehensive follow-up evaluations and developed appropriate corrective actions.

U.S. coal production will rise to a record 1.138 billion tons in 2005 from 1.111 billion tons last year, according to an estimate by the National Mining Association. Production in the Eastern half of the U.S. is expected to be about 486 million tons, driven by increasing domestic demand for electricity generation, and growing exports to meet demand for metallurgical coal used in steel making. Western U.S. coal production is expected to hit about 640 million tons.

The EIA's Short term Energy Outlook today estimated that U.S. electric demand is expected to increase by 3.3% in 2005 and by an additional 2.1% in 2006. Despite relatively high oil and gas prices recently, the EIA sees demand for both these generating fuels increasing by 9.3% and 5.8% respectively over the next 12 months. Even coal demand in the electric generating sector will grow by a solid 2.3% in the coming year while nuclear generation is expected to remain relatively flat with a gain of just 0.5% in 2005. Hydroelectric generation though is expected to bounce back by some 11.4% this year following yet another poor hydro generating period last year, due the continued drought in the West.

New York State Governor Pataki and Attorney General Spitzer will announce today a settlement with six New York coal-burning power plants to reduce emissions. The settlement stipulates that NRG will cut emissions of sulfur dioxide by 87% and nitrogen oxides by 81% at its Huntley and Dunkirk facilities. AES agreed to reduce NOx levels by 70% and SO2 levels by 90% at four plants in New York, according to terms of the settlement.

Montana state regulators have asked he FERC to investigate whether PPL Montana should be stripped of its ability to sell power at wholesale market rates. State regulators on Monday filed a complaint stating that PPL Montana and its Colstrip plants in Montana have filed disputable claims that it passed FERC's new generation market power screens. The state is claiming that the company has overstated its uncommitted generation in Montana and thereby understating PPLM's market power.

A spokesman for the Ontario Ministry of Energy said today that Ontario government expects to announce over the next several weeks' details of its plan to restructure its electric sector once again. The changes are expected to include a still to be determined regulated commodity price for electricity generated at the province owned nuclear and major hydro generation assets. This will reportedly create a heritage pool for Ontario's 12 million residents and a competitive wholesale market for all other generation. Since the end of 2002 homeowners and small businesses have been paying a fixed commodity cost for electricity. But the new plan will seek to eliminate some of the subsidized electricity rates that consumers enjoy and thus create a blended electricity cost and thus they hope will help spur energy conservation, especially as the government seeks to retire older nuclear and coal generating units. The some 50,000 large volume industrial and commercial customers in the province will continue to pay the fluctuating wholesale market rate for power

MARKET COMMENTARY

The natural gas market today remained schizophrenic. The market gapped lower this morning as some doubt about the severity and duration of the cold temperatures heading into the Midwest and Eastern population centers by week's end. The NWS appeared to moderate a bit in their 8-day temperature outlook as well as discussions by various forecasters that the computer models all appear to lack any general consensus for next week forecast and beyond. As a result prices were in effect adrift. The morning's session saw prices work lower initially before finding support near Friday's lows. From that point the market rallied back and by midday backfilled the gap from yesterday's price action before settling into basically a dime trading range for the afternoon's trading session. Final volume was estimated at 71,000 futures contracts. But unlike yesterday when outright trading accounted for 65% of the day's activity, today's trading saw basically the reverse with spreads accounting for nearly 60% of the day's activity.

This afternoon's open interest report was a bit of a surprise to us, as it showed that total open interest in the natural gas contract posted only a 98 contract increase basis Monday's trading. This was the smallest daily change since December 20th. This appears to us that basically the trading of the past two days seems to be more based on day trading rather than position adjustment. This continues to support our belief that barring a major change in the weather perspective that traders will stay with their positions until Thursday's EIA storage report.

The market appears to be looking for a draw in working gas of between 60-165 bcf with the market consensus centering around a 100-110 bcf draw down. Our estimate though is much more bearish with a draw down of just 83 bcf. A year ago saw a 153 bcf decline with ta five year seasonal decline of 149 bcf. As a result we would look to sell into any rally tomorrow either via an outright futures sale or the purchase of puts. We see initial resistance at $6.14 but more significant resistance at $6.32 and $6.415 and this is the area where we would look to be a seller. Additional resistance we see at $6.44, $6.55, $6.665, $6.69 and $6.89. Support we see at $5.93-$5.91 followed by $5.76 and $5.71.