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ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR JANUARY 26, 2005

NATURAL GAS MARKET NEWS

Columbus, Ohio-based American Electric Power said it would pay a total of $81 million to three U.S. regulators, the CFTC, U.S. Department of Justice, and the FERC, to settle investigations over its gas price reporting and gas storage activities. The CFTC and DOJ will both receive $30 million, to settle the gas price reporting issues, and FERC will receive $21 million to resolve allegations related to gas storage activities. The agencies will therefore close their investigations and the CFTC will dismiss litigation filed against AEP in Sept. 2003. The settlement with FERC resolves allegations of undue preferences provided to an AEP affiliate by two other affiliates engaged in gas storage and transportation services and ends FERC's investigation of all three affiliates, two of which AEP sold last year.

Cheniere Energy announced today that its initiated the NEPA pre-filing process to apply to the FERC for permits to build and operate its proposed Creole Trail LNG receiving terminal. The $900 million receiving terminal would have a 3.3 bcf/d processing capacity and is planned to be operational by 2009. The permitting process is expected to take 12-18 months. This is the company's fourth LNG project under development on the U.S. Gulf Coast.

Generator Problems

ECAR— DTE Energy determined the cause of a cooling water leak at its 1,140 Mw Fermi #2 nuclear unit. A gasket on one of 14 air-cooling units in the plant's containment structure was the cause of the leak of non-radioactive cooling water. The unit is expected to return to service Jan. 31.

MAIN—Exelon's 1,144 Mw LaSalle nuclear unit #2 is expected to shut Jan. 29 for a refueling outage that will last a month.

NPCC— OPG's 285 Mw coal-fired Lakeview #6 shut today and is expected to restart Feb. 2.

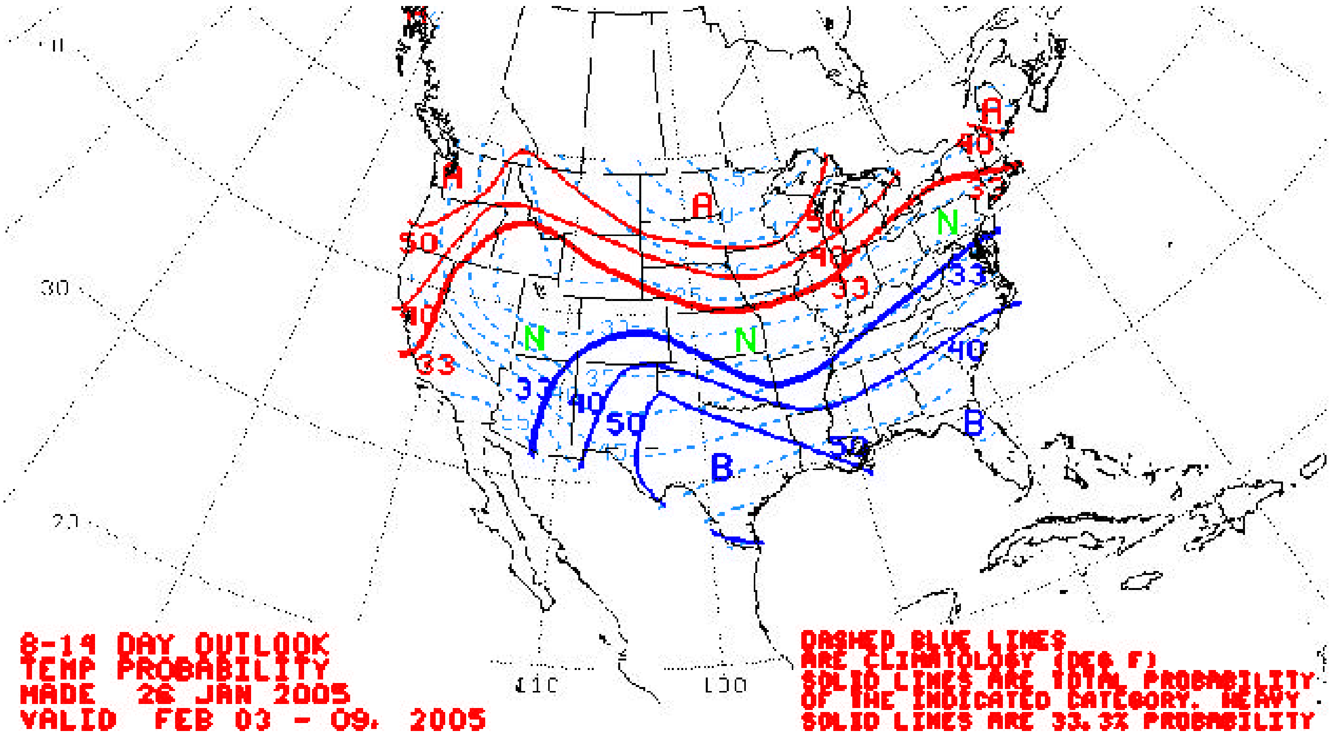
The Western Electricity Coordinating Council reported that outages in the region totaled 16,342 Mw on Wednesday down fron 21,979 Mw off line on Tuesday.

The NRC reported that U.S. nuclear generating capacity was at 90344 Mw today down .033% from Tuesday.

Cimarex Energy, a Denver-based oil and natural gas producer, agreed to acquire Irving, Texas-based Magnum Hunter Resources Inc. for $1.5 billion in stock to increase reserves and secure new projects. Cimarex will pay $16.67 per share of Magnum and assume its $645 million of debt. The deal will triple Cimarex's proven reserves to more than 1.3 Tcf, most in natural gas. Also, the takeover will double production to about 500 MMcf/d.

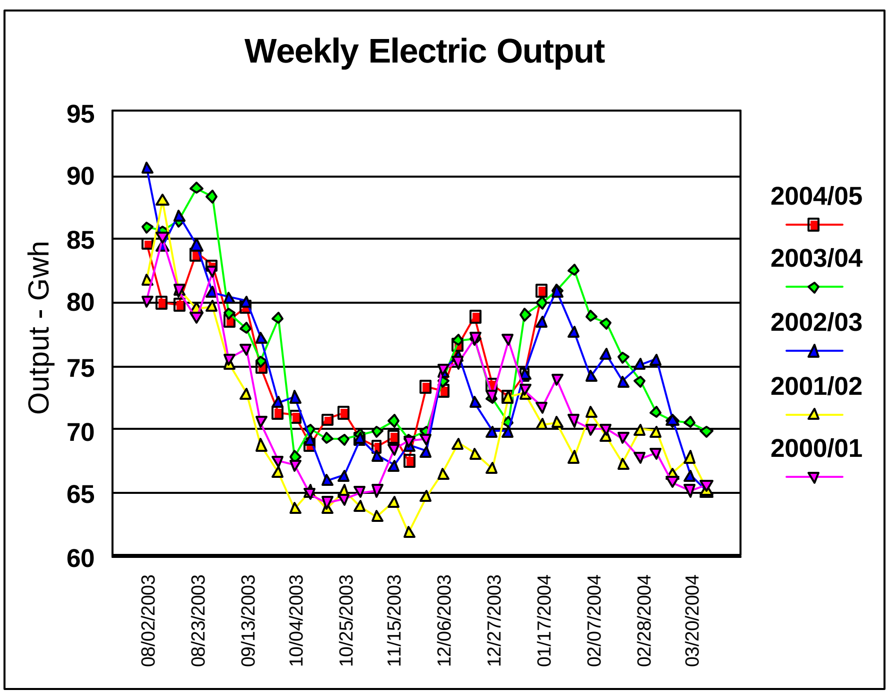
ConocoPhillips' vice president of global gas LNG, Mike Stice, believes that only four to eight of the 52 proposed LNG terminals will be built by the end of this decade. Each proposed facility is capable of regasifying as much as 1.5 Bcf/d of natural gas. The proposed terminals will be clustered in the Gulf Coast, Southeast, and Northeast, where U.S. demand is centered. The Southern region anticipates LNG terminals to be built in Mexico and in Mexico's Baja California region. According to Stice, the pace of LNG growth in the U.S. is limited more by supply than by the export-import infrastructure. The new terminals are targeting 2008 startup dates, and Stice believes NYMEX futures prices will converge around $4.50 to $5.00 in 2008 to 2010. Futures trading may increase as companies try to maximize value and hedge the risk of long-term LNG contracts.

The NYMEX reported today that a record 162,403 off-exchange contracts were cleared through NYMEX ClearPort on Tuesday, exceeding the previous record of 147,153 contracts on November 4, 2004.



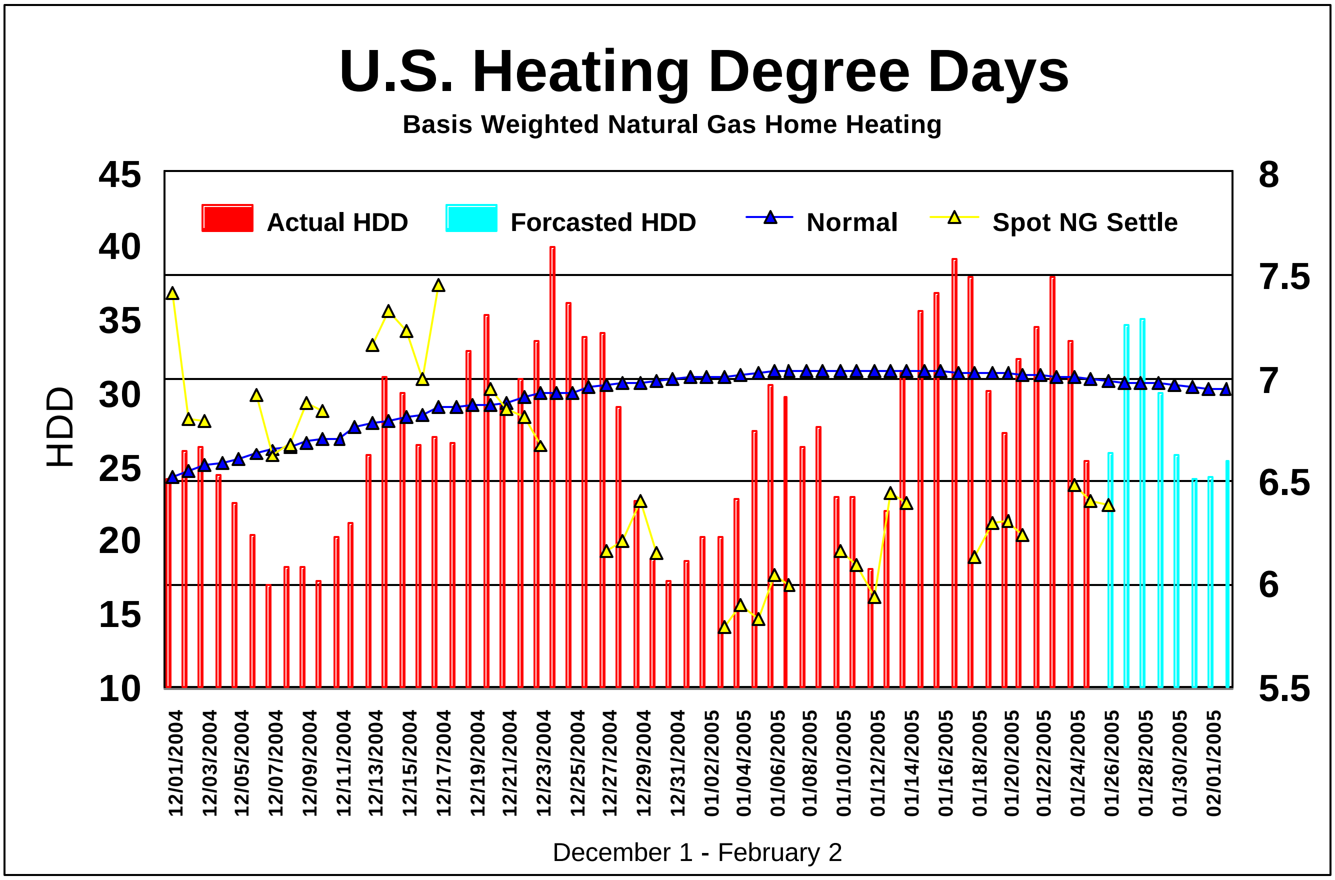
ELECTRICITY MARKET NEWS

Electricity production for the week ending Jan. 22 rose 4.4% from the same week in 2004. The Edison Electric Institute reported production at 80,958 GWh for the week. The Southeast showed the largest year-on-year increase, rising 8.7% to 22,912 GWh. The Rocky Mountain region had the only decrease in the nation, falling 1.8% to 4,275 GWh. So far this year, production totaled 301, 349 GWh, up 0.7% from last year. For the 52 weeks ended Jan. 22, production rose 1.9% from the corresponding period in 2004 to 3,851,759 GWh.

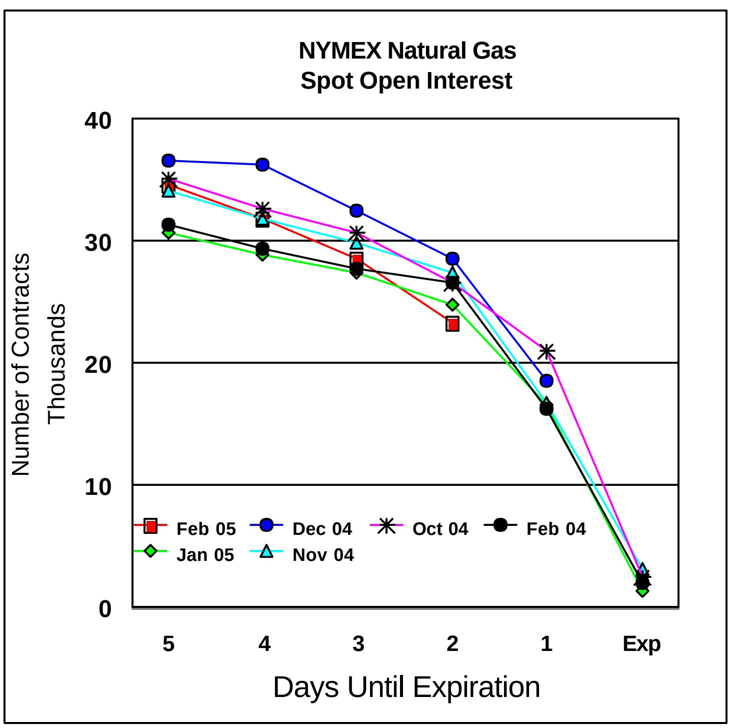


The NYMEX PJM financially settled monthly contracts Tuesday traded 7,110 contracts yesterday, breaking the previous daily record of 3,699 lots traded on May 12, 2004. The contract today traded 2900 times.

The House Energy and Commerce Committee Chairman today said



that he expects the House of Representatives will approve a comprehensive energy bill sometime in late February. The Senate though would not be ready to debate such a bill until sometime this spring.



MARKET COMMENTARY

The natural gas market today saw a relatively quiet and stable trading session, despite being an options expiration day. While the oil markets reflected a high level of volatility as traders in those markets appeared unsure on how to react to today's oil inventory reports, natural gas traders basically were content to see prices float on either side of $6.40 throughout the day. Final volume was estimated at 78,000 futures contracts traded.

Market expectations for tomorrow's EIA storage report appear to be running between 210-220 bcf draw down., which would mark the first time this heating season that stocks were draw down over 200 bcf. The same week a year ago saw a 184 bcf decline, while the 5 year seasonal average shows a 165 bcf drop. Our estimate does not seem to deviate too far from the prevailing consensus as we are looking for a 207 bcf decline.

There seems to be a growing anticipation that tomorrow's futures expiration will be volatile. Given the relatively quiet day posted today, despite being an option expiration day, prices barely moved beyond Tuesday's price parameters. This coupled with tomorrow being a storage report day as well could fuel the flames of volatility. But one dissenting factor for this increased volatility scenario is the fact that this afternoon's open interest report showed that basis Tuesday's trading, the spot month saw a 5315 contract decline in open positions on the day. As a result coming into this morning the spot contract had its smallest open interest level, some two days prior to expiration, since July when the August contract expired.

While we remain bearish in our outlook for the direction of natural gas prices, it appears unlikely that we will see a hard sell off tomorrow on expiration, and thus will have to wait until the March contract becomes the spot month to probably see further significant declines. When looking back at the past 12 expirations we found that when the commodity funds were holding over a 30,000 combined futures and options net short position going into expiration week, (this happened on five occasions) the final trading day of the spot futures always settled higher though not significantly in four of the five instances. Typically the gains were of 5-7 cents but the October contract expiration did see a 46 gain, but that was also in the midst of the immediate early damage assessments to production facilities following in the wake of Hurricane Ivan.

We would look for resistance in the February contract tomorrow to be found initially at $6.45 followed by $6.51 and $6.645-$6.69. More distant resistance we see at $6.89 and $6.975. Support we see at $6.245-$6.30, followed by $6.20, $6.15, $6.08 and $5.83.