



## ENERGY RISK MANAGEMENT

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### POWER MARKET REPORT FOR JANUARY 27, 2005

#### NATURAL GAS MARKET NEWS

American Electric Power of Columbus, Ohio finalized the sale of its controlling interest in Houston Pipeline Co. to Energy Transfers Partners. ETP purchased 98% of the partnership interests in Houston Pipeline Co. for \$825 million and also purchased 30 Bcf of working gas and working capital, for a total consideration of approximately \$1 billion. AEP retained the other 2%, and will provide certain transitional administrative services. HPL includes 4,200 miles of natural gas intrastate and gathering pipelines in Texas with capacity of approximately 2.4 Bcf/d, the 7,000-acre underground Bammel storage reservoir near Houston and related transportation assets. This sale completes AEP's divestiture of natural gas assets in the U.S.

#### **EIA Weekly Report**

|                         | 01/21/2005 | 01/14/2005 | Net chg | Last Year |
|-------------------------|------------|------------|---------|-----------|
| <b>Producing Region</b> | 692        | 755        | -63     | 647       |
| <b>Consuming East</b>   | 1290       | 1438       | -148    | 1201      |
| <b>Consuming West</b>   | 288        | 307        | -19     | 270       |
| <b>Total US</b>         | 2270       | 2500       | -230    | 2119      |

#### **Generator Problems**

**ECAR**— Officials at Detroit Edison's 1,139 Mw Fermi #2 nuclear unit said they identified the non-radioactive leak and that a repair plan has been developed that will last several days.

**MAAC**— PSEG Power Supply continued to increase production at its 1,049 Mw Hope Creek nuclear unit, ramping power 6% to 23%. The unit restarted Jan. 19 after a long refueling and repair outage.

The Western Electricity Coordinating Council reported that outages in the region on Wednesday totaled 14,848 Mw, down 10.6% from yesterday.

**The NRC reported that U.S. nuclear generating capacity was at 90425 Mw today up .091% from Wednesday.**

The Texas Railroad Commission has set February 2005 natural gas production allowable for prorated fields in the state to meet market demand at 22.5 Bcf, representing a decrease of 4.4 Bcf when compared with actual production of 26.9 Bcf in February 2004. The Commission reported Texas gas storage for December 2004 as 291.8 Bcf compared with 268.3 Bcf in December 2003. The January 2005 gas storage estimate is 276.9 Bcf. Gas-well gas from prorated fields accounts for 7% of total gas well production in Texas. Preliminary statewide production reported for November 2004 is 27.3 million barrels of oil and 359.2 Bcf of gas well gas.

#### **Canadian Gas Association**

#### **Weekly Storage Report**

|              | 21-Jan-05 | 14-Jan-05 | 23-Jan-04 |
|--------------|-----------|-----------|-----------|
| <b>East</b>  | 159.0     | 179.3     | 156.6     |
| <b>West</b>  | 116.0     | 130.6     | 111.6     |
| <b>Total</b> | 275.0     | 309.9     | 268.2     |

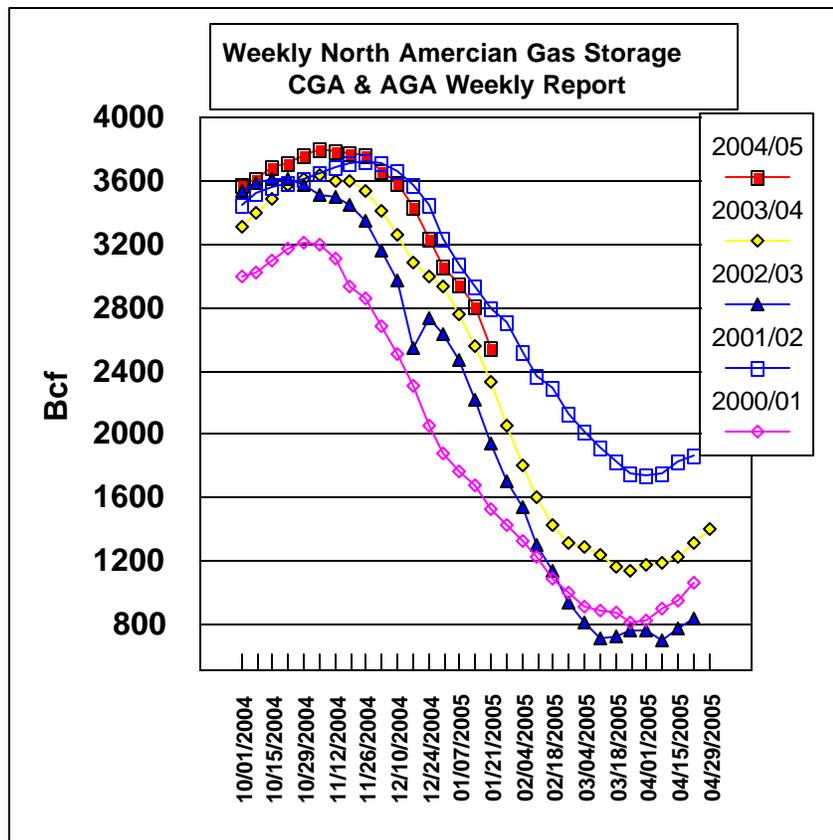
storage figures are in Bcf

#### **PIPELINE RESTRICTIONS**

Natural Gas Pipeline Company of America said it 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.

Texas Eastern Transmission said that the Monroe Line has been nominated to capacity. Likewise, Market Zone 3 has been scheduled to capacity through the Perulack/Chambersburg Stations. In addition, the Leidy Line has been scheduled to capacity. STX and ETX have been restricted to capacity, and therefore no physical increases of receipts will be accepted between Mont Belvieu and Little Rock, and no PAL Parks are available in STX and ETX, or M1-24 and M2-24.

East Tennessee Natural Gas said that due to colder weather, it anticipates implementing the following restrictions today: No secondary receipts out of path upstream of station 3104; No secondary receipts out of path upstream of station 3205; And no secondary deliveries downstream of station 3313 on the 8inch 3300 line between Rural Retreat and Roanoke.



Trailblazer Pipeline Company said that effective Tuesday, Feb. 1, it anticipates that capacity will be available for a limited amount of secondary out-of-path transport volumes going eastbound through Station 601. The scheduling of any interruptible flow and authorized overrun transport volumes will depend on the level of nominations received and will only be scheduled to the extent that secondary out-of-path and primary in-path are not fully utilized.

Mississippi River Transmission said that due to forecasted cold weather, effective 9:00 AM CT today, MRT is posting a System Protection Warning. MRT will not schedule any Main Line IT or AOR volumes for delivery north of Glendale. Firm volumes will be limited to their primary direction of flow. MRT is not accepting short imbalance positions in the market zone. Shippers may not nominate supply from existing long imbalance positions in the market zone. MRT currently has capacity available on the East Line.

**PIPELINE MAINTENANCE**

Colorado Interstate Gas Co. said that the Natural Buttes Compressor Station is currently out of service due to a force majeure event. At approximately 12:03 PM MT yesterday, a gas generator suffered a catastrophic failure resulting in an oil fire. The fire was extinguished but service using the station remains adversely affected. This force majeure event impacts receipts from Unitah and Meter Station 101. Nominations for the evening cycle for Thursday, Jan. 27 will be taken to 80 MMcf/d at both Unitah and Meter Station 101 until further notice.

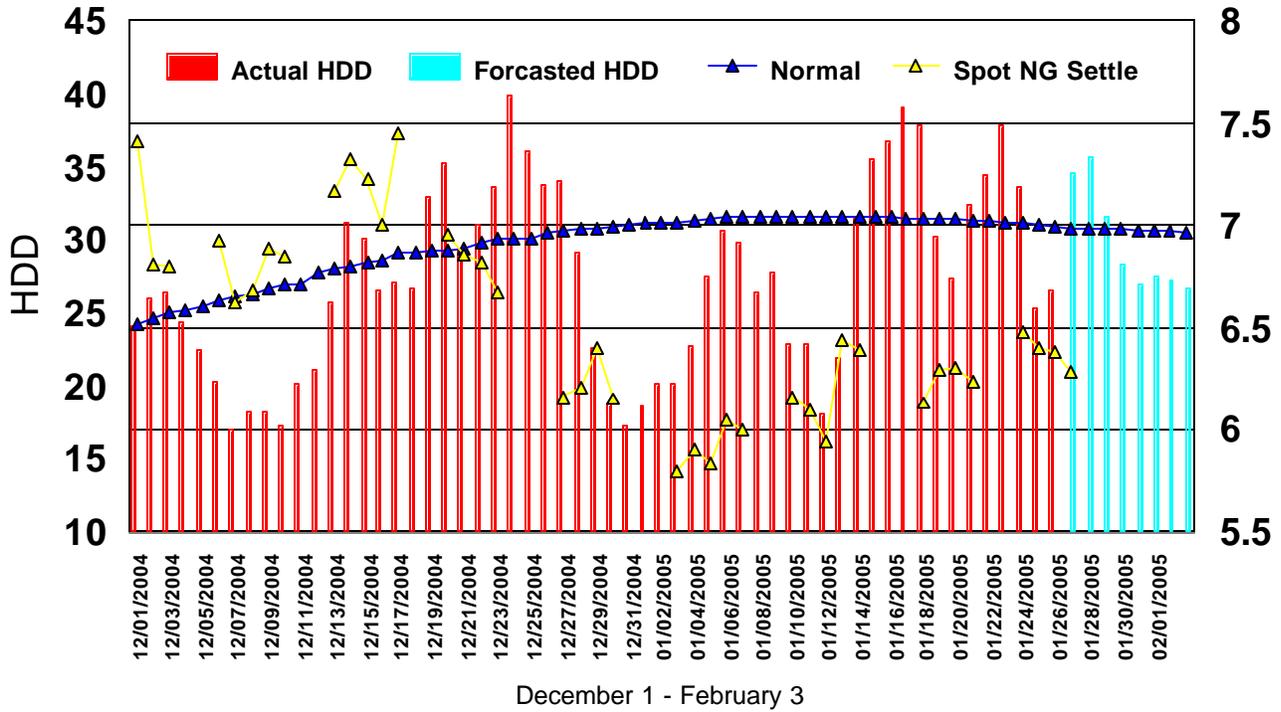
Northern Border Pipeline Co. said that its Compressor Station No. 3 is scheduled to be unavailable for service on Feb. 1-2. This force majeure event, which is needed to repair a faulty seal, will require a reduction in contracted mainline firm capacity upstream of Compressor Station No. 4 of approximately 15% each day. Northern Border's ability to receive gas at Port of Morgan, Saskana and Buford will be affected by this outage.

**ELECTRICITY MARKET NEWS**

American Transmission Co., of Wisconsin, was elated to hear the ruling by Dane County Circuit Court affirming the Public Service Commission of Wisconsin's final order approving the Arrowhead-Weston transmission line project. ATC is working to obtain easement for the use of county-owned land in Washburn and Douglas counties. In Washburn County, the project crosses about 9.5 miles of county-owned land all of which already has a transmission line, but ATC will take down two-pole transmission line structures and replace them with single-pole structures, and negotiate new easements. In Douglas County, ATC needs easements from the county for the use of 2.5 miles of county-owned land, and the remainder will be built using existing easements. Other easements have been negotiated with nearly 200 private landowners including The National Park Service. The project is expected to be in service in mid-2008.

# U.S. Heating Degree Days

Basis Weighted Natural Gas Home Heating

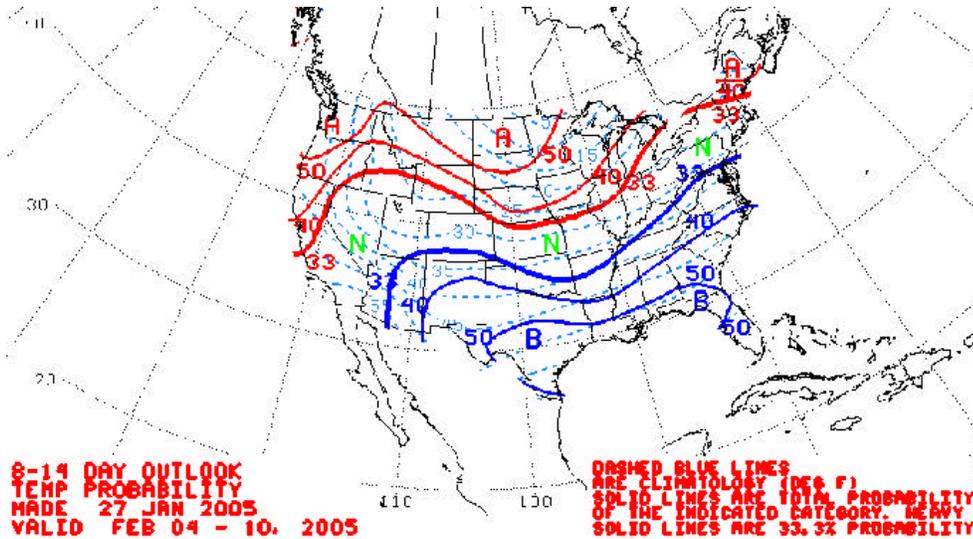


The California Independent System Operator declared a short-lived power transmission emergency early Thursday due to an unplanned outage on a major transmission line. The unexpected outage occurred on the DC Pacific Intertie, a key link between southern California and the Pacific Northwest, around 2:53 AM PST. Power was traveling north at the time and so the outage left California with too much electricity, and the units were required to reduce output. The emergency was lifted at 4:15 am, although the DC line remains off-line. The line was expected back by mid day.

The Midwest Independent Transmission System Operator reported today that it will delay until April 1 the planned March 1 launch of its energy markets. MISO will start a non-financially binding market on March 1, but that will essentially be a dry run of its market rollout. The reason for the delay comes after hearing intense stakeholder opposition over the past several days. Market participants have asked for an additional 30 days to fine-tune and test their systems and to provide additional training.

Consumers Energy said that Michigan regulators have approved a proposal that will allow the utility to reduce the amount of electricity it purchases from Midland's 1,500-Mw natural gas-fired cogeneration project, based on the price of gas and replace it with power from lower-cost sources. Consumers has a 49% stake in the Midland project, and as a result of the conservation plan, the plant's annual gas consumption would be cut by 30 to 40 Bcf. Consumers said it expects the money saved by burning less natural gas to fully offset the cost of purchasing replacement power, and that an additional \$5 million a year in savings from reduced gas costs will be used to fund a renewable energy program. The company will also share its savings with ratepayers, with an estimated savings of at least \$14 million in 2005.

## MARKET COMMENTARY

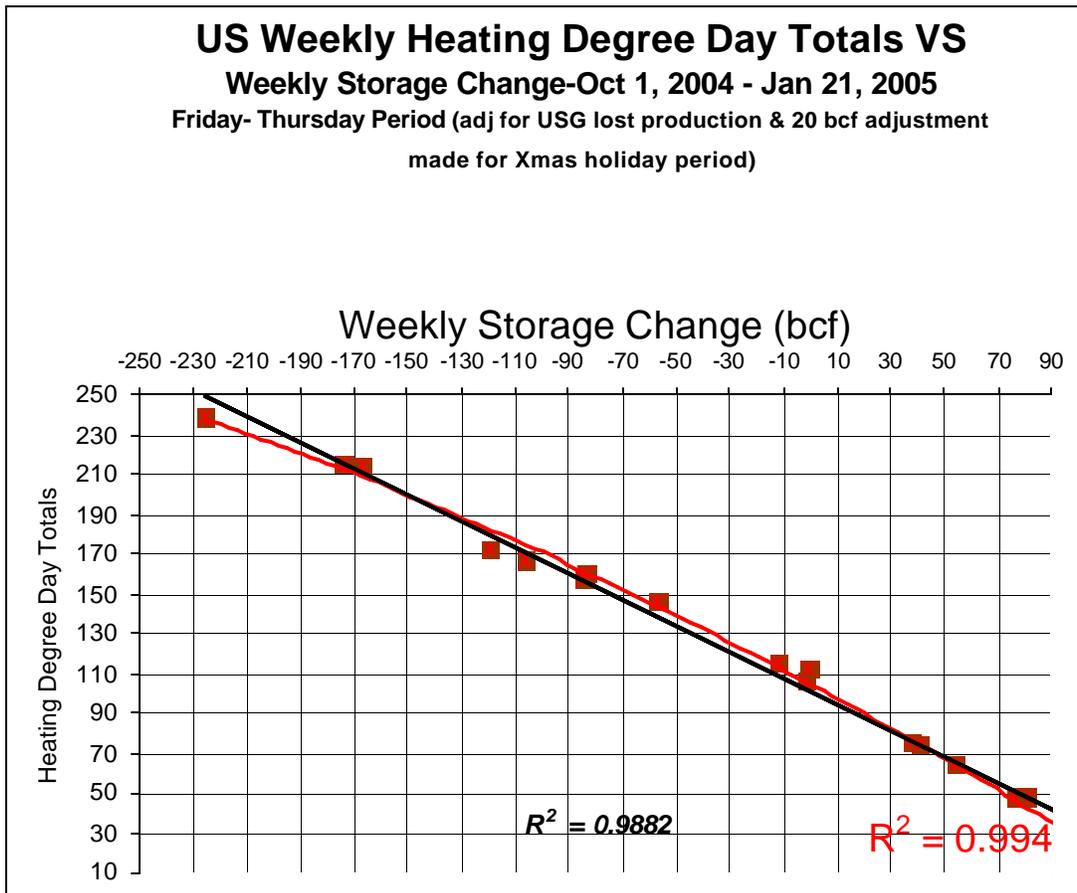


The natural gas market opened a few pennies better this morning as revised forecasts continued to point towards slightly higher heating demand than had been forecasted earlier in the week for this weekend and especially next week. The EIA storage report came in higher than market expectations and it provided a quick lift to prices, but this lift was not sustainable as traders appeared to take the opportunity to take some profits as some traders dismissed the higher draw

down as simply the result of market participants beginning to be forced to increase their withdrawals from storage before the end of the heating season. The closing range saw sellers over, thus helping to push February prices down ten cents and settling at its lowest level for the week. Volume for a futures expiration day was moderate with 91,000 futures traded.

Today's natural gas inventory reports for both the U.S. and Canada showed the largest draw downs of this winter heating season,

but still left total working gas storage levels significantly higher than three of the last four winter seasons. As a result we would look for natural gas to remain on the defensive over the next 4-6 weeks, as owners of gas in storage are forced to draw down their inventories before season's end. As a result any cold snap impact on prices will be limited to the upside, while the price pressure from a warm period can be magnified to the down side,



as spot gas in the cash market will find smaller and smaller number of interested buyers. As a result we continue to recommend staying with bear spreading the March-April natural gas, looking for March to potentially move to a discount to April some time next month. Outright price resistance we see in the March contract at \$6.64-\$6.69, \$6.75, \$7.04, \$7.17, \$7.26, \$7.32 and \$7.45. Support we see at \$6.335, \$6.245, \$6.133, \$6.08 and \$5.83-\$5.81.

Early discussions for next week's storage report appear to be showing a range of 160-207 bcf draw down. Our estimate would be at the upper end of the range looking 195 bcf decline. The same week a year ago saw a decline of 225 bcf.