



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR FEBRUARY 22, 2006**

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

Lehman Brothers lowered its estimates for 2006 crude oil and natural gas prices, citing inventory levels of the commodities. Lehman estimates the price of natural gas in the U.S. will be \$7.75 per million BTU this year, down 14% from the previous estimate of \$9.00.

Alaska Governor Frank Murkowski announced that the State of Alaska and three major energy producers have reached an agreement on a mammoth new pipeline to transport natural gas from the North Slope to the rest of North America. The three energy companies involved in the agreement are BP, ConocoPhillips and ExxonMobil. Murkowski also announced that he is proposing legislation to reform the state's oil production tax. The energy companies have only committed to push ahead with a two- to three-year period of designing the pipeline and getting the actual permits. Construction is still several years away.

The Minerals Management Service reported that the recovery of U.S. Gulf of Mexico oil and natural gas production after the storms of 2005 again showed little progress over the past two weeks. Natural gas output shut in was 1.504 Bcf/d, or 15.04% of normal daily output. That was only slightly improved from the February 8 report showing 1.554 Bcf/d shut in.

#### **PIPELINE RESTRICTIONS**

Kern River Pipeline said that its system is experiencing low linepack due to significant drafting. Therefore, it is imperative that operators do not take more gas than is scheduled.

Natural Gas Pipeline Company said that ANR South Joliet #2 is at capacity for deliveries. ITS/AOR and secondary Firm transport volumes are at risk of not getting fully scheduled. ANR South Joliet #2 is located in Will County, Illinois (Segment 33) in Natural's Iowa Illinois Receipt Zone.

Texas Eastern Transmission Corp. said it has scheduled and sealed M1 and M2 24-inch. No increases between Little Rock and Batesville for delivery outside that area will be accepted.

#### **PIPELINE MAINTENANCE**

Alliance Pipeline said that scheduled maintenance will require Irma Compressor Station to be unavailable for six hours on February 23. This work will impact AOS levels. The Irma Compressor Station is located in Saskatchewan.

#### **Generator Problems**

**ERCOT**— TXU's Martin Lake unit #2 shut for boiler tube leak repairs. The unit is expected to return to service tomorrow.

AEP's Oklaunion power unit #1 shut down to repair a condenser leak. The unit is expected to return to service February 28.

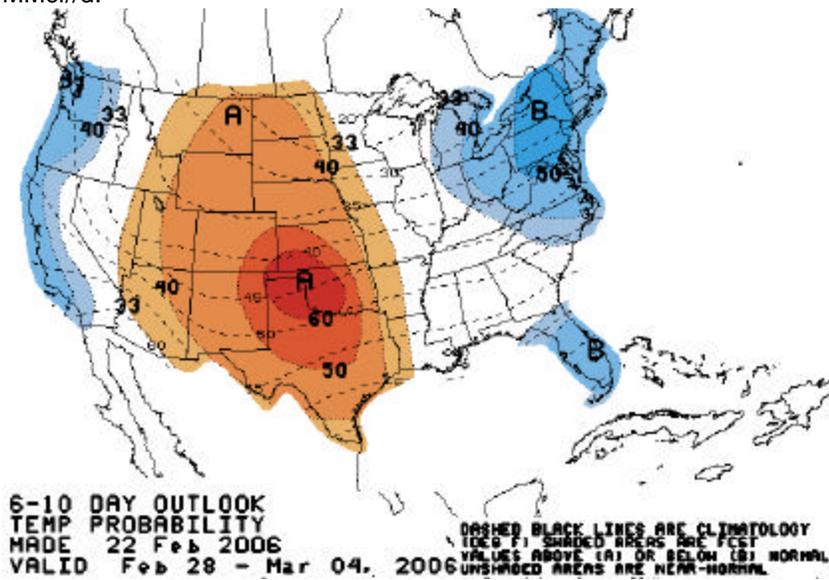
**FRCC**— FPL's 760 Mw Turkey Point #4 increased power to 50% capacity today. Turkey Point #3 continues to operate at full power.

**MAIN**— Exelon's 867 Mw Quad Cities #1 nuclear unit automatically shut early today after its protective systems detected an anomaly on either the power grid of the transformer outside the plant. Quad Cities #2 continues to operate at 85% capacity.

**MAPP**— Xcel Energy's 522 Mw Prairie Island #2 nuclear unit returned to full power after exiting an outage yesterday.

**The NRC reported that U.S. nuclear generating capacity was at 88,556 Mw down .24% from Tuesday and up 1.84% from a year ago.**

Florida Gas Transmission recently released its schedule for maintenance projects for the month of March. FGT will be performing maintenance on one of the compressors located at Compressor Station #4 near Bay City, Texas beginning March 1. This outage is expected to last through March 14. During this work FGT will schedule up to approximately 150 MMcf/d through Compressor Station #4. During normal operations FGT schedules up to 225 MMcf/d. FGT will be performing maintenance on the control panels and yard piping at Compressor Station #4 near Bay City, Texas. Both compressors at this station will be down during this outage. This outage is expected to last from March 15 until after the end of March. During this work FGT will schedule up to approximately 120 MMcf/d through Compressor Station #4. During normal operations FGT schedules up to 225 MMcf/d.



Gulf South Pipeline said that scheduled maintenance on Index 130-16 (Belle Isle 16-inch) St. Mary Parish, Louisiana will continue through noon, February 24.

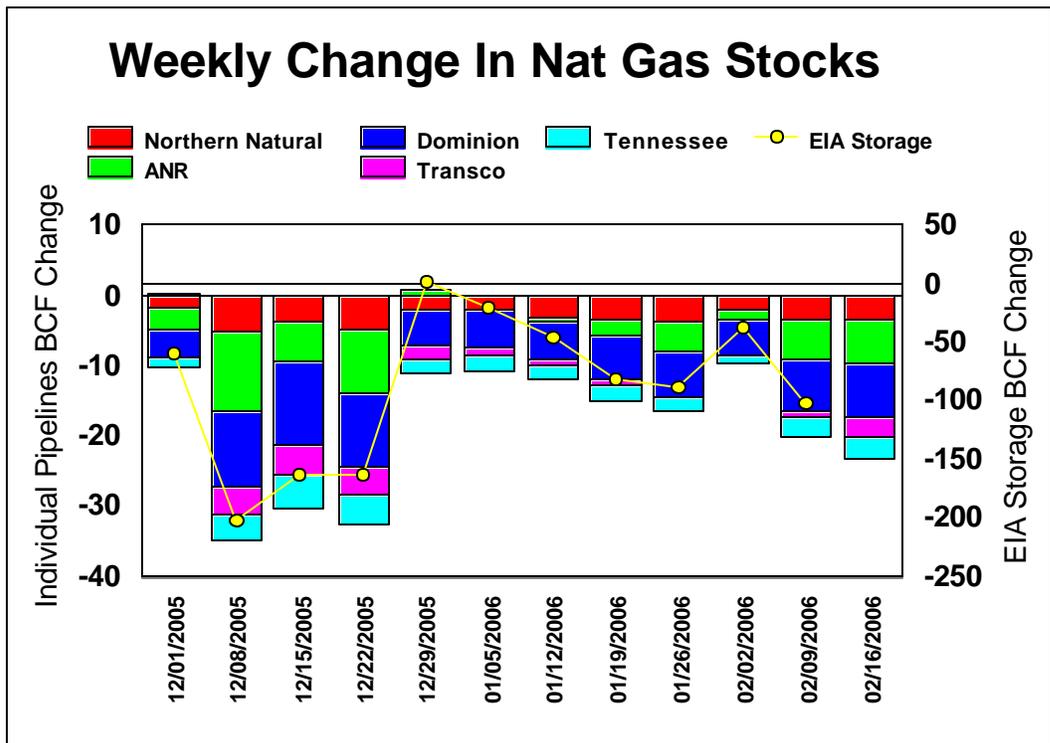
Kinder Morgan's unit Natural Gas Pipeline Company of America said it completed unscheduled work on unit 1 at its compressor station 812 in Atoka County, Oklahoma. The unit had been out of service for the repairs since January 30. The outage was not expected to affect deliveries.

Williston Basin Interstate Pipeline Company said that a revamp at Point ID 03255 South Elk Basin is complete

but that deliveries at Point ID 03680 Energy West WY-Elk Basin will be zero for another eight-hour period today. Due to a system enhancement at the Elk Basin Compressor Station, receipts at Point ID 03255 South Elk Basin and deliveries at Point ID 03680 Energy West WY-Elk Basin were brought down to zero for an eight-hour period.

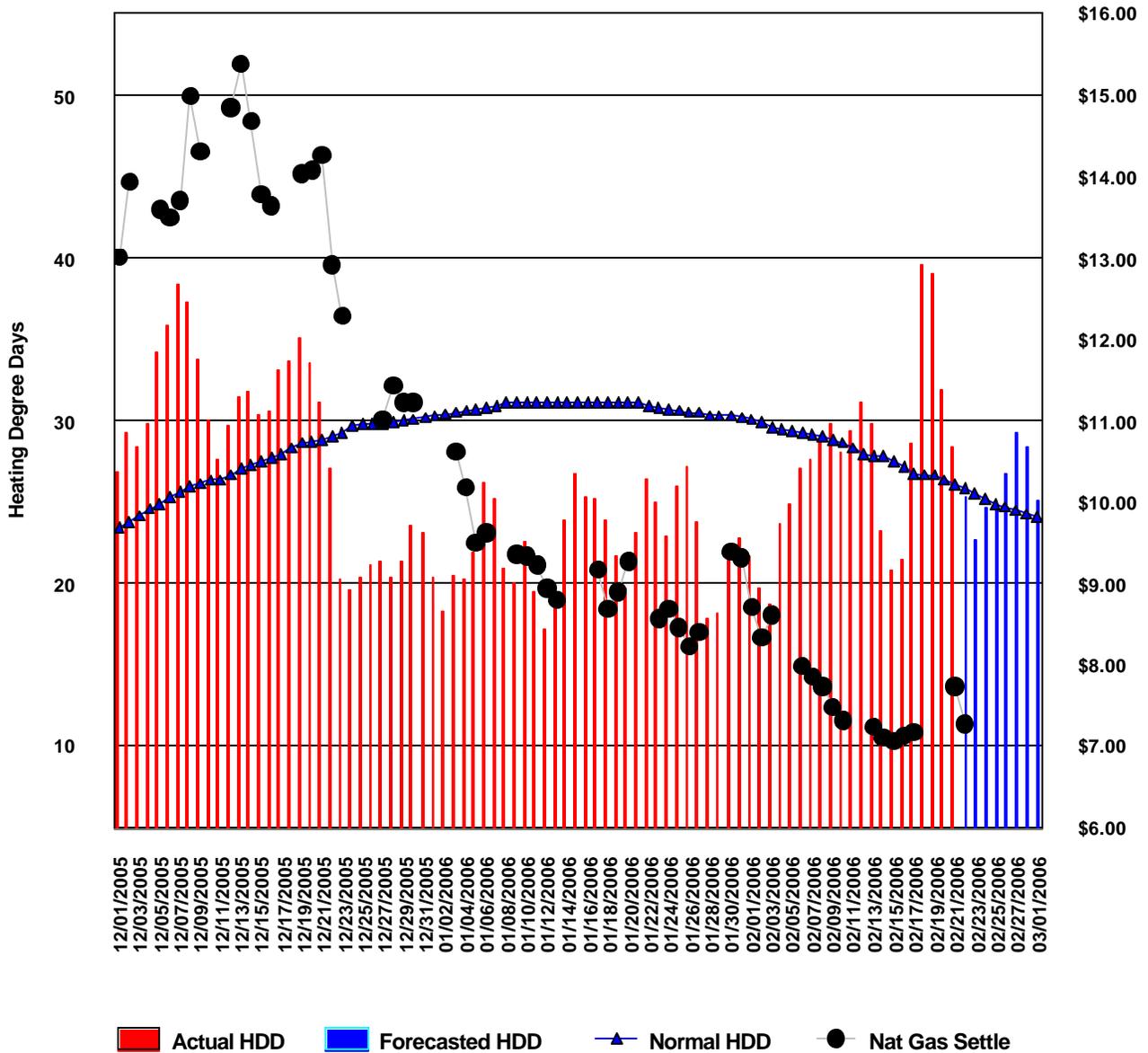
**ELECTRIC MARKET NEWS**

Nevada Power Co. said there was an explosion at the 580 Mw block 2 at the Chuck Lenzie natural gas-fired power station in Nevada on February 13. Nevada Power spokeswoman Sonya Headen said the company hopes that block 2 will enter commercial operations by this summer as planned. The company said the explosion likely resulted from a buildup of gas during the testing of one of the heat recovery steam generators.



# U.S. Daily Heating Degree Days

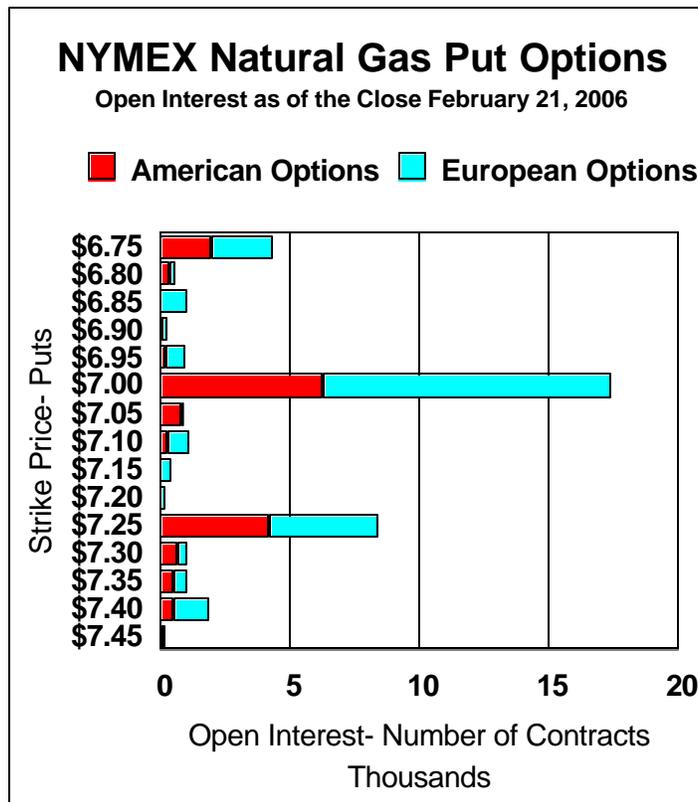
## Basis Gas Customer Weighted Basis



AEP is building a new breed of coal-burning plants that emit fewer greenhouse gases but the company says it will oppose U.S. emissions caps as long as nations like China resist mandatory cuts. AEP, the biggest user of coal in North America, is pursuing coal-fired power plants that use integrated gasification combined cycle technology, which turns coal into a cleaner-burning fuel.

Power company Southern Co. said it has signed a formal agreement with the U.S. Department of Energy to cooperatively build a 285 Mw clean coal power plant near Orlando, Florida. The company said it would develop the integrated gasification combined cycle plant in partnership with the Orlando Utilities Commission and Halliburton Co. unit KBR. Southern and the Energy Department announced initial plans to build the plant in October 2004. the total cost of the 10-year project is expected to be about \$557 million. The DOE will contribute about \$235 million, with Southern and the other partners paying the rest. The plant is expected to be in commercial operation in 2010.

The NRC has issued a license to Private Fuel Storage to construct and operate an independent spent nuclear fuel storage facility in Skull Valley, Utah. PFS, a consortium of nuclear power utilities, intends to construct the site on the Reservation of the Skull Valley Band of Goshute Indians, about 50 miles southwest of Salt Lake City. The facility is intended for temporary above-ground storage, in large cylindrical casks, of up to 44,000 tons of spent nuclear fuel from U.S. commercial nuclear power plants.



**MARKET COMMENTARY**

The natural gas market opened 28.1 cents lower, in an abrupt about-face from yesterday's technical rally. March natural gas traded sideways on either side of the 7.40 level before the weakness of the oil complex overlapped into natural gas, where it mirrored crude oil, pushing it to a low of 7.17. Natural gas settled down 44.8 cents at 7.283.

Without a rallying crude market, natural gas does not have much to go on. The winter is winding down and with what was supposed to be the coldest temperatures of the season behind us, record storage is a foregone conclusion. Expectations for tomorrow's EIA storage report range from an 89 Bcf draw to a 152 Bcf draw for the week ended February 17. This will compare somewhat bullishly with last year's 89 Bcf pull for the same week but is more in line with the 126 Bcf five-year average draw. Our model shows a drawdown range of 96 to 104 Bcf, with the best estimate being a 100 Bcf withdrawal, based on heating degree-day totals for the week. But based on the pipeline storage changes in the Midwest and the east over the past week this draw down

has a chance to reach as high as 128 bcf as storage customers move to lower their inventory levels before the season's end. We see support at \$7.00-\$7.03, \$6.98 and \$6.90. We see further support at \$6.02 and \$5.938. We see resistance at \$7.98, \$8.00 and \$8.12. Further resistance we see at \$8.40, \$8.745 and \$9.82.

Additionally, tomorrow is option expiration, and with roughly 17,000 open interest in the 7.00 put between the American and European options, that will be a price target especially with a bearish inventory figure.