



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR FEBRUARY 23, 2006**

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

Cheaper U.S. natural gas prices this year after a mild winter could give an unexpected boost to domestic manufacturers, a group hard hit by last year's record price run up. Manufacturers are the largest users of natural gas, accounting for about a third of total U.S. consumption. But last year industrial demand slumped more than 7%, as a steady creep upward in gas prices crimped margins and two Gulf Coast hurricanes damaged production facilities. While industrial gas use was slated to recover this year as Gulf Coast business bounced back after storm repairs, analysts said lower prices should help spur even more activity. But some sectors will not recover easily. The petrochemical industry has already moved some operations overseas. While the U.S. EIA expects overall gas demand to be flat in 2006, it estimates that industrial consumption will be up by about 3%. But despite the rebound, analysts noted that at least some industrial demand has been permanently lost, as manufacturers shut plants and moved overseas where gas is much cheaper.

NiSource Inc. unit of Columbia Gulf Transmission said it completed repairs on an underwater valve at its Vermilion platform in the Gulf of Mexico following hurricane damage late last year. The valve repairs allow gas from the company's Bluewater West Leg system in the Gulf to flow, opening meters along the connecting El Paso Corp. Tennessee Gas Pipeline Co. system.

The Federal Energy Regulatory Commission said it will waive for an additional four months certain agency rules to speed the construction of U.S. natural gas infrastructure facilities that will ease supply disruptions caused by hurricanes Katrina and Rita. The commission last November increased the cost caps for projects that may be constructed under the agency's automatic approval and blanket certificate regulations from \$8 million to \$16 million, and under the agency's prior notice provisions from \$22 million to \$50 million.

#### **PIPELINE RESTRICTIONS**

East Tennessee Natural Gas said that certain shippers on its system have built up significant due shipper imbalances despite ETNG's limited operational flexibility to continue to manage these imbalances. ETNG therefore has required shippers to take immediate action to reduce their due shipper imbalance positions. All

#### **Generator Problems**

**FRCC**— FPL Group's 693 Mw Turkey Point #4 nuclear unit returned to full power by early today. Yesterday, the unit was operating at 50% after exiting an outage earlier in the week. Turkey Point #3 continues to operate at full power.

**MAAC**— Exelon Corp.'s 1,134 Mw Limerick #2 nuclear unit shut by early today for planned maintenance. Yesterday, the unit was operating at full power. Limerick #1 continues to operate at 93% capacity as it coasts down for a planned month-long refueling.

**NPCC**— Constellation Energy's 1,158 Mw Nine Mile Point #2 nuclear unit reduced power to 92%, as it powers down for a refueling and maintenance outage. Nine Mile Point #1 continues to operate at full power.

**SERC**— TVA's 1,100 Mw Browns Ferry #3 decreased power to 81% as it coasts down to a refueling outage. Browns Ferry #2 continues to operate at full power.

Entergy Nuclear's 966 Mw River Bend power unit returned to full power today.

TVA's 1,121 Mw Watts Bar nuclear unit is operating at 83% capacity after completing some maintenance overnight. The unit is on its way back to full power.

**The NRC reported that U.S. nuclear generating capacity was at 88,100 Mw down .51% from Wednesday and up 2.96% from a year ago.**

## EIA Weekly Report

|                         | 02/17/2006 | 02/10/2006 | Net chg | Last Year |
|-------------------------|------------|------------|---------|-----------|
| <b>Producing Region</b> | 670        | 703        | -33     | 566       |
| <b>Consuming East</b>   | 1174       | 1249       | -75     | 930       |
| <b>Consuming West</b>   | 299        | 314        | -15     | 237       |
| <b>Total US</b>         | 2143       | 2266       | -123    | 1733      |

\*storage figures in Bcf

shippers must carefully review their need for gas and must tender and receive gas consistent with their confirmed nominations.

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.

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.

TransColorado Gas Transmission said it has capacity available for deliveries through Segment 240 (Red Vale Compressor to Dolores Compressor). Depending on the level of nominations, IT/AOR and secondary out-of-path volumes may be scheduled.

Trailblazer Pipeline Company said that effective for March, it anticipates having limited capacity available for interruptible flow, authorized overrun and secondary out-of-path firm transportation going eastbound through Compressor Station 602. However, the scheduling of any ITS/AOR and secondary out-of-path firm transportation will ultimately depend on the level of nominations received and will only be scheduled to the extent primary in-path firm and secondary in-path firm are not fully utilized.

### Canadian Gas Association

#### Weekly Storage Report

|              | 17-Feb-06 | 10-Feb-06 | 18-Feb-05 |
|--------------|-----------|-----------|-----------|
| <b>East</b>  | 143.9     | 156.4     | 104.9     |
| <b>West</b>  | 149.1     | 154.5     | 82.1      |
| <b>Total</b> | 293.0     | 310.9     | 187.0     |

storage figures are in Bcf

## PIPELINE MAINTENANCE

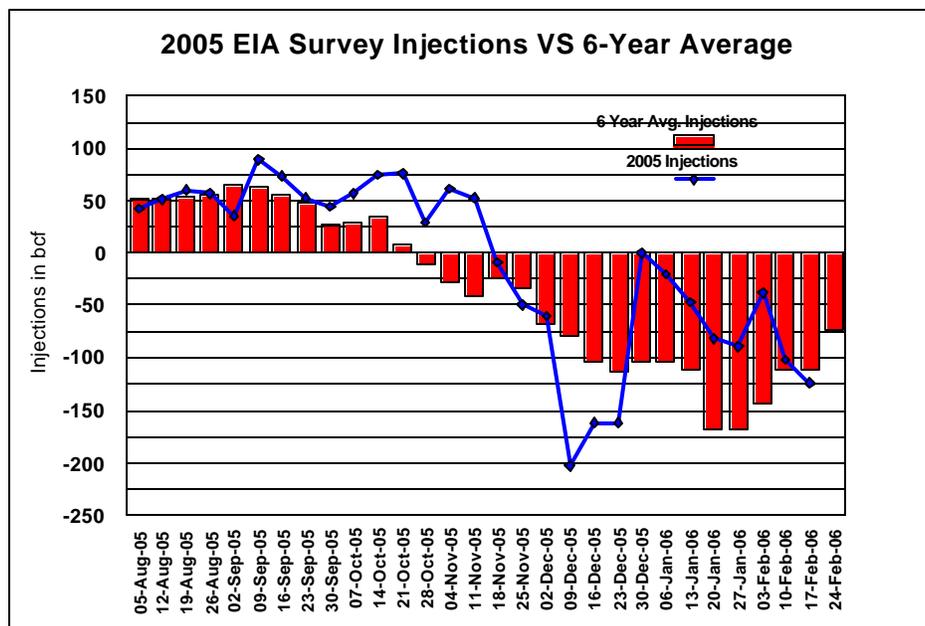
Natural Gas Pipeline Company said that unscheduled maintenance on Station 812 Unit #1 has been completed. This compressor station is in Atoka County, Oklahoma (Segment 16 of Natural's Texok Zone). Natural has begun scheduling Segment 16 to full capacity.

## ELECTRIC MARKET NEWS

Pennsylvania Governor Edward Rendell has proposed a mercury reduction plan that is stricter than federal rules but would protect the state's bituminous coal industry. The proposal would reduce mercury emissions by 90% by 2015. This is nearly 40% more than what federal rules would achieve at that time, while not discriminating against generating units that burn bituminous coal.

Empire District Electric Co. said it was negotiating for part ownership in the 665 Mw coal-fired Plum Point power plant that LS Power Associates plans to build in Arkansas. Empire said it initially intends to own 50 Mw and control another 50 Mw through a long-term purchased power agreement with an option to convert the agreement into an ownership interest in 2015.

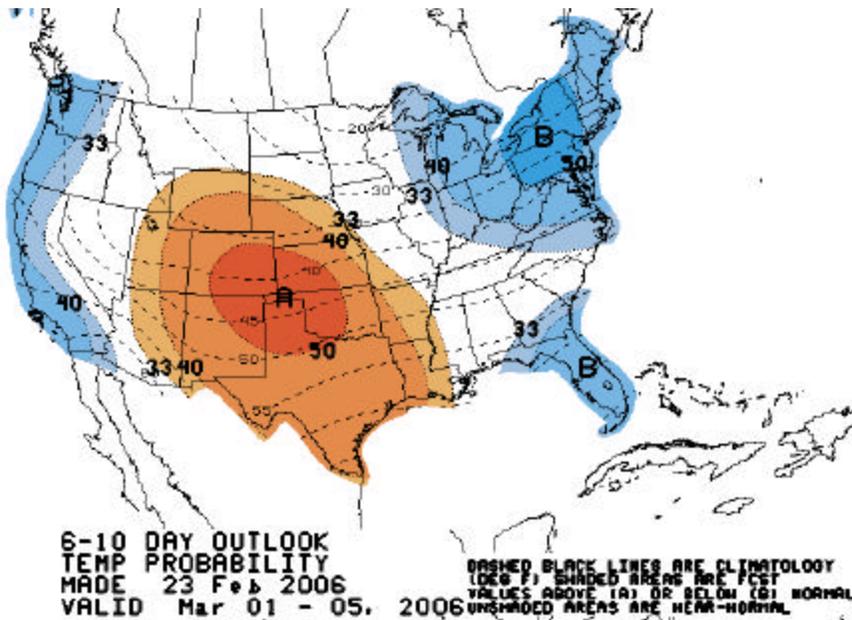
The Kentucky Public Service Commission will hold a hearing March 6 in Elizabethtown to receive public comment on revised proposals by Louisville Gas & Electric Co. and Kentucky Utilities Co. to build



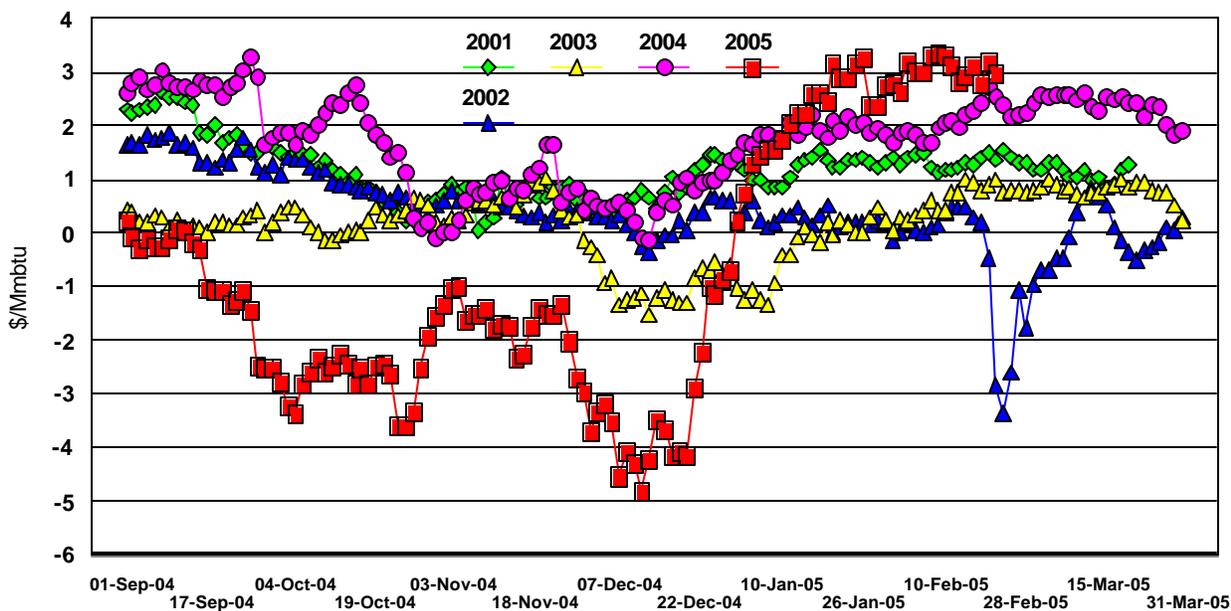
an electric transmission line in Jefferson, Bullitt, Meade and Hardin counties. LG&E and KU have submitted two options for a 345 kV line that would extend from LG&E's Mill Creek Generating Station in southwest Jefferson County to KU's Hardin County substation southwest of Elizabethtown. The first option is for 41.9 miles of line and the second calls for 43.9 miles.

**MARKET COMMENTARY**

The natural gas market opened 10.3 cents softer ahead of key EIA inventory figures today. With the street expecting a 120 Bcf withdrawal and the actual figure being a 123 Bcf draw, basically in line with expectation, the market was initially mixed. Likewise the oil complex's inventory figures were in line with expectations and had traders mixed as to the direction of the market. Natural gas traded sideways till about midday and then pressures from storage situation pressured the market lower. With March options expiring today and the outstanding open interest at the 7.00 strike, that was a clear target for traders. March natural gas traded to a low of 6.99 before recovering back above the 7.00 level. The volatility prone option expiration day did not cease to amaze, as the market rallied, jumping 20 cents at a time to a high of 7.60 before settling up 17.5 cents at 7.458.



**Crude Oil Vs Natural Gas: NYMEX Spot Futures Settle**



With March futures expiring tomorrow, the MOC price spike today, which was contained to the expiring contract, suggests some short covering ahead of tomorrow. With arctic air on its way to key consuming regions, sellers are somewhat cautious ahead of the weekend. Market players are waiting to see how long this cold snap lasts before pressuring the new spot April contract. We see support at \$7.00-\$7.03, \$6.98 and \$6.90. Further support

we see at \$6.02 and \$5.938. We see resistance at \$7.60, \$7.98 and \$8.00. Further resistance we see at \$8.12, \$8.40, and \$8.745.

### US Weekly Heating Degree Day Totals VS Weekly Storage Change-Oct 20, 2005 - Dec 29, 2005 Friday- Thursday Period (adj for USG lost production )

