



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR FEBRUARY 28, 2005**

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

Raymond James' top energy analyst, Marshall Adkins, reduced his 2005 price forecast from \$7.05/Mcf to \$6.80/Mcf with the bulk of the reductions occurring in the second and third quarters of 2005. Adkins lowered his second-quarter forecast from \$7.20/Mcf to \$6.50/Mcf and his third-quarter call from \$7.40/Mcf to \$7/Mcf. Adkins cited a lack of weather-driven demand for this heating season as the impetus for his change in forecast, saying "weather is and has been a major driver of gas prices on a near-term-basis," and "abnormal weather has knocked out a substantial amount of gas demand during the last nine months." For 2006, Adkins raised his price forecast from \$6.50/Mcf to \$7.50/Mcf, saying that fundamental supply/demand issues remain imbedded in the gas market, noting the current gas storage surplus.

The Climate Prediction Center reported this morning that they estimated that for the week ending February 26<sup>th</sup>, the nation saw some 180 heating degree days on a gas home heating customer weighted basis. This was 2.2% less than normal but was 5.9% colder than the same week a year ago. For the current week ending March 5<sup>th</sup>, the CPC is forecasting 185 HDD. This would be 6.9% colder than normal and some 50% more than the same week a year ago.

Natural Gas Pipeline Company of America is planning to add 10Bcf of working gas capacity to its North Lansing gas storage

#### **Generator Problems**

**ECAR**— FirstEnergy reduced its 873 Mw Beaver Valley #2 nuclear unit to 42% early this morning and is operating it at 40% while repairs are conducted on one of the unit's pump motors. The unit was at full power on Friday. Beaver Valley #1 remains at full power.

**MAAC**— PPL Corp.'s 1,140 Mw Susquehanna #2 nuclear unit shut early today. On Friday the unit was operating at 84% of capacity as it coasted down for a refueling and maintenance outage. The unit will remain shut for about one month. Susquehanna #1 continues to operate at full power.

**MAIN**— Exelon's 1,194 Mw Byron #1 nuclear unit shut early today, for a month long refueling outage expected to start in early March. The unit was operating at full power on Friday. Byron #2 continues to operate at full power.

We Energies returned its 516 Mw Point Beach #2 nuclear unit to full power, after reducing it to below 50%, when an offsite transmission network line was lost yesterday, resulting in the loss of all four required battery charges. Point Beach #1 continues to run at full power.

Exelon reduced output to 90% this weekend at its 912 Mw Dresden #3 nuclear unit to perform a scheduled rod pattern adjustment. The work is done and output is climbing, the unit is operating at 93%. The unit was at 97% on Friday. Dresden #2 is running at 96%.

**MAPP**— Nuclear Management's 565 Mw Duane Arnold unit is down 9% since Friday, operating at 84% capacity as it coasts down for a refueling and maintenance outage.

Nuclear Management restarted its 593 Mw Prairie Island #1 unit, operating it at offline at 1%. The unit shut Feb. 19 for a planned maintenance to repair the seal oil system associated with the electrical generator. Prairie Island #2 is currently operating at full capacity.

The Omaha Public Power District shut its 492 Mw Fort Calhoun nuclear unit this weekend for a refueling and maintenance outage. On Friday, the unit was operating at 93% capacity.

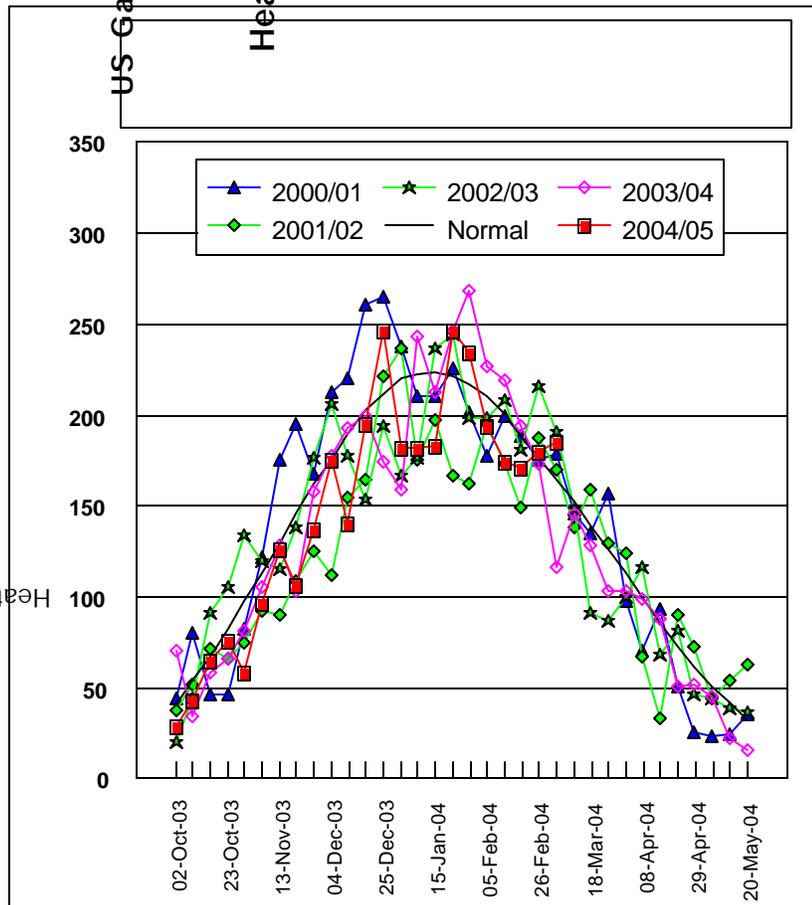
field in Harrison County, TX. The pipeline company is offering incremental storage capacity in an open season that started Monday and will end March 21.

FERC staff issued preliminary environmental approval to EnCana Corp.'s proposed Entrega gas Pipeline to transport Rocky Mountain supplies from the Piceance Basin in northwestern Colorado to the Cheyenne gas-trading hub in northeastern Colorado.

French energy giant Total aims to expand its LNG business by 10% per year to remain one of the world's top three players. Total chief, Thierry Desmarest, said sustained growth of 10% for the next five year would boost the company's LNG equity to 15 million tonnes by the end of the decade from eight million now. Desmarest and other top oil executives are calling on OPEC countries to open up to foreign investment to help replenish spare oil production capacity, but more success is being found on the gas front. Total signed a deal value at 3.5 billion, taking a stake in the giant Qatargas-2 LNG project, involving state-run Qatar Petroleum and Exxon. The French major has LNG investments throughout the Middle East, where a "sleeping project" in Yemen has been brought back to life, with the \$2.8 to \$3.6 billion Yemeni LNG project to be online by mid-year with two trains totaling 6.7 million tonnes of capacity per year. Elsewhere Total is pursuing projects, including Iran, Indonesia, Nigeria and Norway. Looking into the longer-term, Total has its eye

US Gas Heating Degree Days

Heating Degree Days



**Generator Problems**

**SERC**— Entergy's 978 Mw River Bend nuclear unit exited an outage and ramped up to 33% today. The unit shut Feb. 22 for planned repairs to fix a hydrogen leak in the stator water cooling system associated with the main generator.

Tennessee Valley Authority restarted its 1,126 Mw Sequoyah #2 and has ramped it back up to full power. The unit shut Feb. 23 following an automatic reactor trip on low-low steam generator levels. Sequoyah #1 continues to operate at full power.

TVA reported its 1,100 Mw Browns Ferry #2 nuclear unit at 84%, down 13% since Friday. The unit will see more curtailment before being taken offline for refueling. Browns Ferry #3 remains at full power.

Progress Energy is increasing output at its 895 Mw Brunswick #1 nuclear unit this morning after reducing it over the weekend for planned inspections and maintenance. The unit was operating at 92% this morning. Brunswick #2, operating at 82% is in its final leg of coast down for a spring refueling.

**Canada**— Ontario Power Generation's 535 Mw Lennox #3 oil- and natural gas-fired unit shut for a short-term planned outage. Lennox #1, #2, and #3 remain available for service.

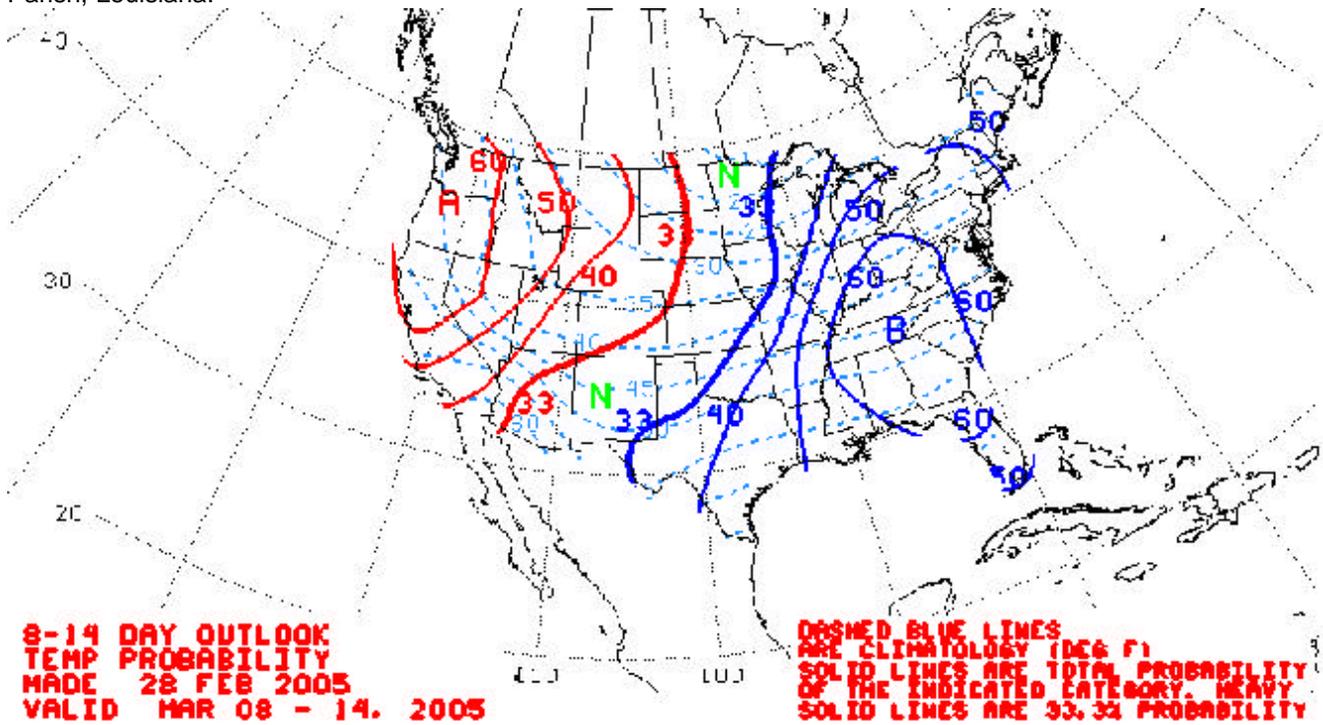
**The NRC reported that U.S. nuclear generating capacity was at 84,063 Mw today down 2.33% from Friday and down 1.78% from a year ago.**

on Iraq, but security remains an issue, and it is taking a step-by-step approach in Russia.

Mexican state oil monopoly Pemex said natural gas production averaged 4.610 Bcf/d, up from 4.539 Bcf/d in December. Imports of natural gas slipped to 717.9 MMcf/d in January from 764.3 MMcf/d the previous month. Mexico has not exported any natural gas since February 2002.

Cheniere Energy said its wholly-owned limited partnership, Sabine Pass LNG, has closed a \$822 million senior secured credit facility with a syndicate of 47 financial institutions. Lead arrangers of

the facility are HSBC Securities and SG Corporate and Investment Banking, an arm of Societe Generale. Cheniere, which develops terminals to receive LNG, said the facility will be used to fund most of the costs of constructing and placing into operation the Sabine Pass LNG liquefied natural gas receiving terminal in Cameron Parish, Louisiana.



### **PIPELINE RESTRICTIONS**

Texas Eastern Transmission said it has been scheduled to capacity in STX and ETX, except for IT-1 and a portion of preferential nominations exiting STX and ETX. No increases will be accepted between Vidor and Little Rock

East Tennessee Natural Gas, said due to weather forecasts showing cold temperatures across its entire system, ETNG anticipates implementing several restrictions. There will be no secondary out of path receipts upstream of station 3104; no secondary out of path receipts upstream of station 3205; an no secondary deliveries downstream of station 3313 on the 8 inch 3300 line between Rural Retreat and Roanoke.

Florida Gas Transmission said that due to high demand and low temperatures, it is issuing an Overage Alert Day at 25% tolerance for today.

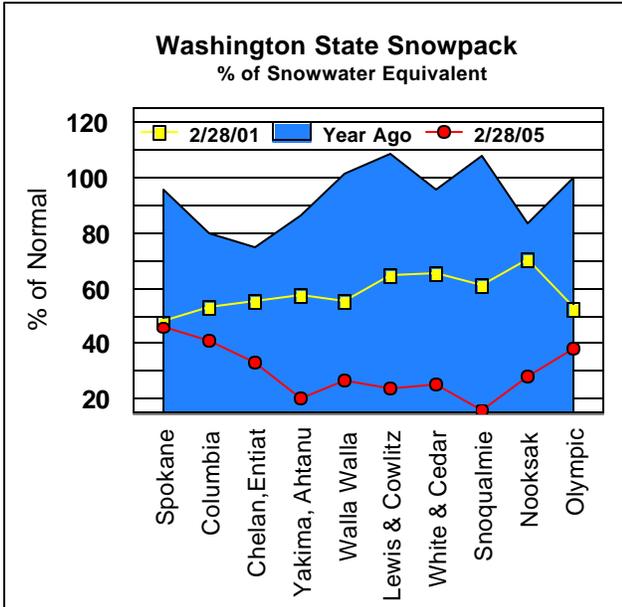
### **PIPELINE MAINTENANCE**

Alliance Pipeline said minor maintenance will require the Carson Creek Unit #2 compressor in Alberta to be offline for 8 hours starting at 9:00 AM MT on March 3. Station capacity will be lowered to 17.8 MMcf/d for March 3.

TransColorado said in an update to its ongoing force majeure situation at several of its compressors, that five compressor units at four compressor stations have been shut down while the investigation and subsequent repairs are completed. The units include: Whitewater (1); Redvale (1); Dolores (1); and Mancos (2). Currently, Segment 220 is limited to 310 MMcf/d and Segment 240 is flowing 356 MMcf/d. Cracks were discovered initially on the Whitewater unit's suction and discharge pulsation bottles. This station was shut down for operational and safety concerns. Based on these findings, TransColorado initiated an investigation for similar cracks in the suction and discharge bottles on all the recently installed compressor units. Cracks were discovered on several of the other units and they were immediately shut down. TransColorado said the estimated in-service date for completion of repairs on all compressor units is April 15. As each unit is repaired, however, additional capacity may become available before April 15.

**ELECTRICITY MARKET NEWS**

The California Independent System Operator Board of Governors approved Southern California Edison's Palo Verde-Devers 2 expansion project, which will result in a 230-mile 500 kV transmission line that connects the Palo Verde Substation in Arizona with the Devers Substation in Southern California. It also includes rebuilding four 230 kV lines and other improvements to grid facilities in the area. The project could be online in 2009, providing an additional 1,200 Mw of transmission capacity. The estimated cost is \$680 million.



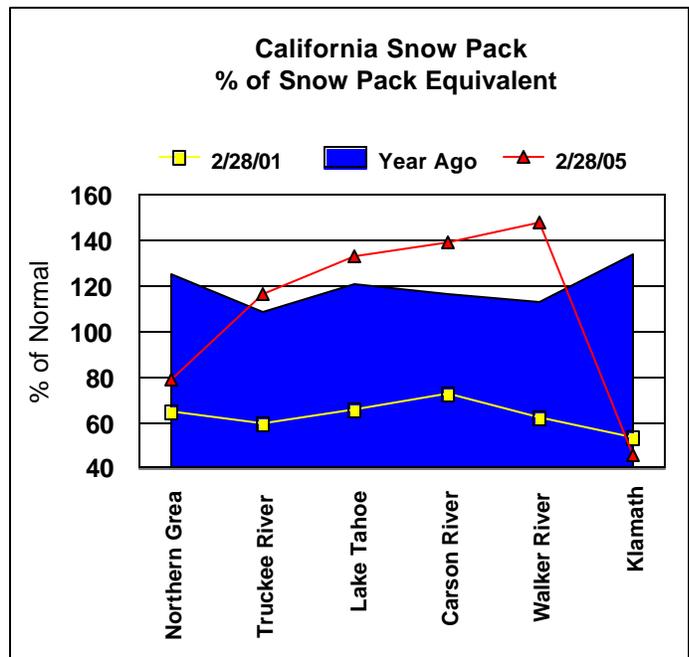
The Northwest River Forecast Center continued to lower its water flow forecast for this water season. The Center is now looking for water flows through the Dalles Dam during the April-September period will only reach 63% of normal, some 6% less than its forecast just a week a year ago. Water flows at the Grand Coulee Dam are seen as averaging 80% of normal during the April-September period down some 3% from its earlier estimate.

**MARKET COMMENTARY**

Despite higher oil prices and a stronger cash market in natural gas, the natural gas futures market opened a couple of pennies lower this morning, and spent the day in a relative sideways trading pattern as it traded on either side of unchanged. It appeared that the futures market, which had gotten ahead of itself on Friday, took a breather today. Volume today was only 68,000 futures traded of which 44% were booked via spreads.

The NWS and various private weather forecasters appear to be in general agreement that the next two weeks should see below normal temperatures across the eastern half of the nation. While this forecast is supportive for heating oil, the bullish outlook for natural gas is tempered by the warmer than normal temperatures expected across the west where natural gas heating customers account over 25% of total natural gas consumption. In addition, the fact that the heating season is winding down, and that daily average normal temperatures continue to warm rapidly results in moderating the impact of these "colder than normal" temperatures on actual net natural gas demand.

We continue to look for the front end of this market to be contained within a trading range as cooler weather late in this heating season, is offset by still more than ample inventory levels. But as the drought in the Pacific Northwest continues to worsen we feel that this summer's natural gas contracts will continue to find support as electric generation needs in the west will continue to have to be met by natural gas. While the California snow pack is not as small as 2001, the western region should still see hydro generation this summer the smallest since 2001. If the current call for above normal temperatures in the west this summer is realized, we could see the demand for natural gas for generation needs in this region compounded by limited hydro generation resources.



Near term resistance in the April contract we still see at \$6.75, followed by \$6.84. Additional resistance we see at \$7.04, \$7.16-\$7.24. Support we see at \$6.61, \$6.58, \$6.42, \$6.335, \$6.28 and \$6.245.