



## ***ENERGY RISK MANAGEMENT***

Howard Rennell & Pat Shigueta  
**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

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### **POWER MARKET REPORT FOR JUNE 1, 2005**

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

The Shell-led Sakhalin Energy project, based on an island off Russia's Pacific coast, said it has signed up an eighth customer for its LNG. Sakhalin Energy is Russia's biggest foreign investment ever, and will be the biggest LNG project in the world, with a total capacity of 9.6 million tonnes. It has told Reuters it may decide to raise that capacity by 50%.

El Paso reported late yesterday in its 8-K filing, that it has received a subpoena from the SEC related to some of its natural gas and oil production hedges.

The U.S. courts yesterday issued an emergency injunction that halts the development of coal-bed methane in the Montana section of the Power River Basin until an appeal of the case is being decided. MDU Resources said that the injunction could cause a reduction in the number of new coal bed natural gas wells that its subsidiary, Fidelity Exploration & Production Company, has planned to drill in Montana during 2005 and in the overall coalbed natural gas production levels previously estimated for 2005.

FERC approved a joint settlement between New York State energy regulators and a Dominion Resources natural gas pipeline unit that will result in \$49 million in savings for New York's natural gas utilities and customers over a five-year period. The settlement between New York State Public Service Commission and Dominion Transmission requires DTI to reduce its firm transportation reservation rates by more than 16% and its storage fuel retention percentage rate by more than 17%.

#### **Generator Problems**

**MAIN**— Exelon Generation reported its 900 Mw Dresden #2 nuclear unit at 33% today. Yesterday the unit was operating at 20%. Dresden #3 continues to operate at 99%.

**MAPP**— The Omaha Public Power District continued to ramp output at its 492 Mw Fort Calhoun nuclear unit, operating at 10%.

**SERC**— TVA's 1,127 Mw Sequoyah #2 nuclear unit ramped up to 90% of capacity by early today. Yesterday, the unit was operating at 45% of capacity after exiting a refueling outage over the weekend. Sequoyah #1 continues to operate at full power.

Dominion Energy's 921 Mw North Anna #2 nuclear unit curtailed output to 85% capacity today. North Anna #1 continues to operate at full power.

**WSCC**— Constellation Energy's 780 Mw High Desert natural gas-fired power station returned to service by late yesterday.

Calpine Corp.'s 811 Mw Delta Energy Center returned to service by early today. The unit was operating at 611 Mw earlier in the week.

Arizona Public Service's 1,247 Mw Palo Verde #3 nuclear unit is expected to return to service by the weekend and reach full power early next week.

**Canada**— Ontario Power Generation's 535 Mw Lennox #4 oil- and natural gas-fired power station returned to service by early today. The unit shut over the weekend for a short planned outage.

Ontario Power Generation's 881 Mw Darlington #2 nuclear unit returned to service May 30. The unit shut March 18 for planned reasons. Darlington #1, #3, and #4 continue to operate at high power.

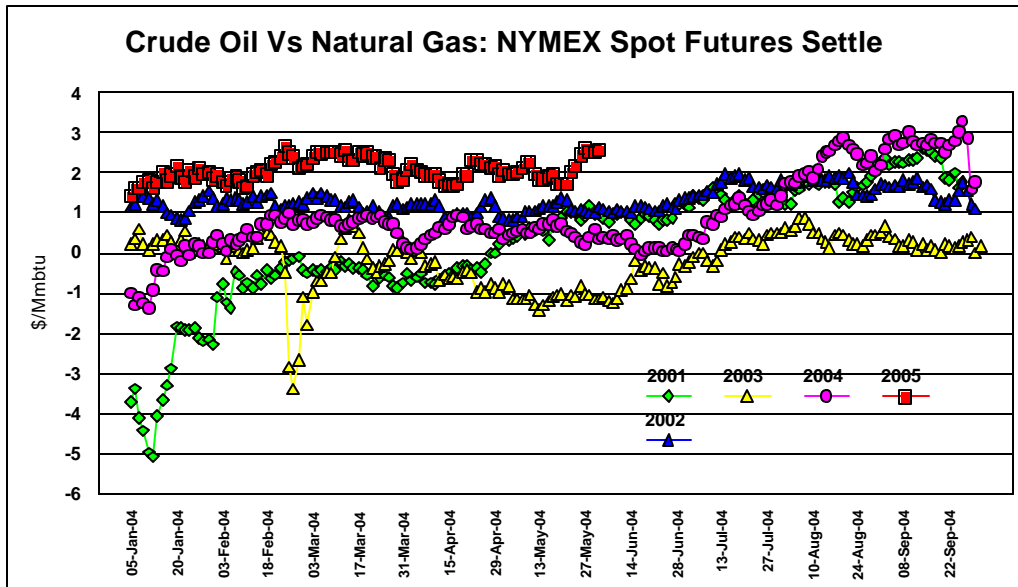
NB Power's 635 Mw Point Lepreau nuclear unit returned to service May 29. The unit shut April 15 for its planned annual maintenance outage.

**The NRC reported that U.S. nuclear generating capacity was at 86,141 Mw up .61% from Tuesday and down 4.80% from a year ago.**

New Jersey Natural Gas, a subsidiary of New Jersey Resources, asked the state's regulators for a 4.2% hike in the price for basic gas supply service.

**PIPELINE RESTRICTIONS**

Natural Gas Pipeline of America said that the force majeure is still in effect on the #3 mainline in Segment 26. In other news, Segment 17 is at capacity today. NGPL is at capacity for gas received upstream of Compressor Station 155 in Wise County, Texas in Segment 1 going northbound.



Gulf South Pipeline said that based upon its initial review of nominations, NNS demand, and other factors, Gulf South may be required to schedule available capacity and implement scheduling reductions for East Texas-Area 8.

KM Interstate Gas Transmission said that in reference to its March discovery of cracks on several of the pulsation bottles on six Cheyenne Market

Center compressor units at three compressor stations – Huntsman (2); Rockport (2); and Kimball (2) – the units are not available for service for operational and safety reasons. The remaining compressor units on the KMIGT system are not impacted and remain in service. KMIGT does not anticipate that firm services will be curtailed. KMIGT currently estimates that one of the units will be back in service no later than July 1.

**PIPELINE MAINTENANCE**

Iroquois Gas Transmission System said that during the exhaust duct work at Dover, the manufacturer found damage to the power turbine and has made arrangements for immediate replacement. The unscheduled replacement will take approximately seven days. During this time the unit will be unavailable.

Southern Natural Gas Pipeline said it will be performing pipeline integrity work on its 16-inch Gwinville Pickens Line in Mississippi from June 10 through June 30 instead of June 6 through June 30. While this work is being performed, Southern will not be able to accept nominations at SNG's interconnect with Koch Gateway.

**ELECTRICITY MARKET NEWS**

Public Service Enterprise Group retired two 148 Mw oil-fired units at the Kearny power station. The units have been in service since 1953. PSEG Power shut the plants after the regional grid operator PJM Interconnection determined the system did not need the units for reliability this summer. There are still 460 Mw of natural gas and oil-fired peaking capacity at the Kearny station.

Calpine Corp. and Safeway Inc. have agreed to expand and extend the term of their retail power sales contract, enhancing the single largest California retail transaction Calpine has entered into to date. The new agreement calls for the delivery of approximately 130 Mw, a 20 Mw increase, and extends the term of the existing contract one additional year through mid-2008. Increased power deliveries are scheduled to begin June 1.

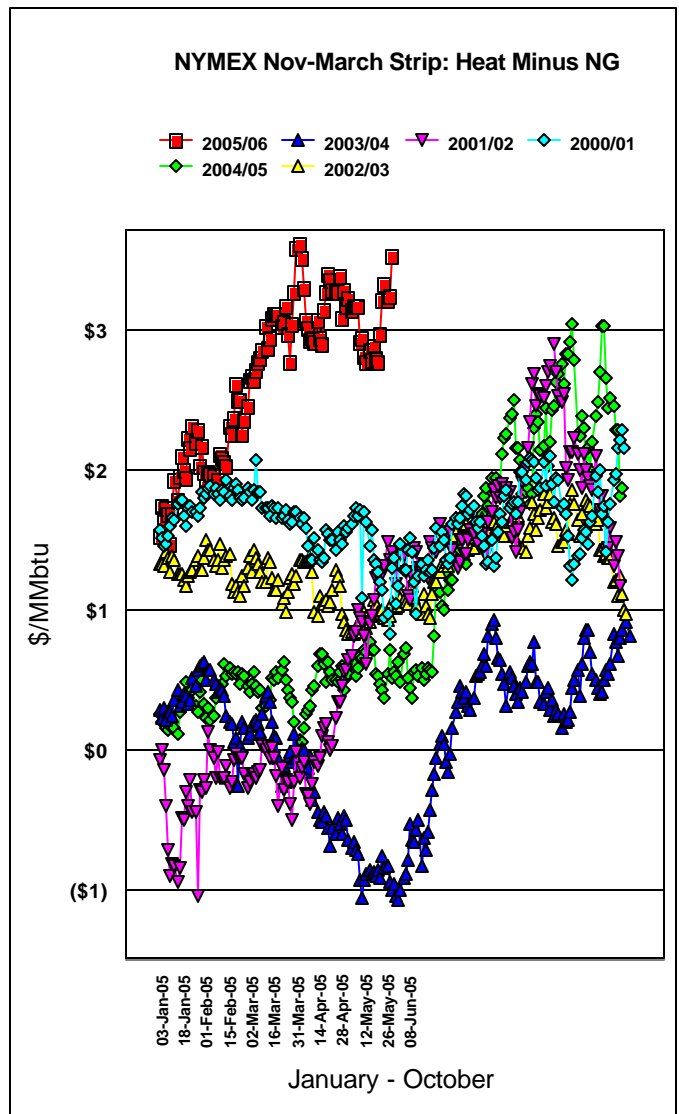
PPL Corporation strongly urged the Federal Energy Regulatory Commission to hold a full hearing concerning the proposed merger of Exelon and PSEG. PPL believes this transaction is anti-competitive and that the result will leave the combined firm with the ability to exercise market power.

Ormat Technologies announced that it has entered supply and construction agreements for approximately \$9.15 million for an ORMAT Recovered Energy Generation power Plant with a pipeline company in Western Canada. The facility will have a design capacity of 5 Mw net and will convert recovered waste heat from an existing gas turbine driving a compressor on the supplier's pipeline into electrical power. The supplier will sell the electricity generated by the facility to the local utility under a long-term power purchase agreement.

Ontario selected Eastern Power to build two 280 Mw natural gas-fired power plants in the greater Toronto area. Eastern will build the Greensfield North Power Project and Greenfield South Power Project in Mississauga about 15 miles southwest of Toronto along Lake Ontario. These two plants are part of Canada's Ministry of Energy's request for 2,500 Mw of new generation capacity and demand reduction projects. The new capacity will replace some of the older coal-fired generation.

**ECONOMIC NEWS**

Growth in the U.S. factory sector slipped more than expected in May to its slowest pace in nearly two years. The ISM index reported that national manufacturing activity fell to 51.4 in May from April's 53.3. Analysts on the street had predicted the index would likely fall to 52.1.

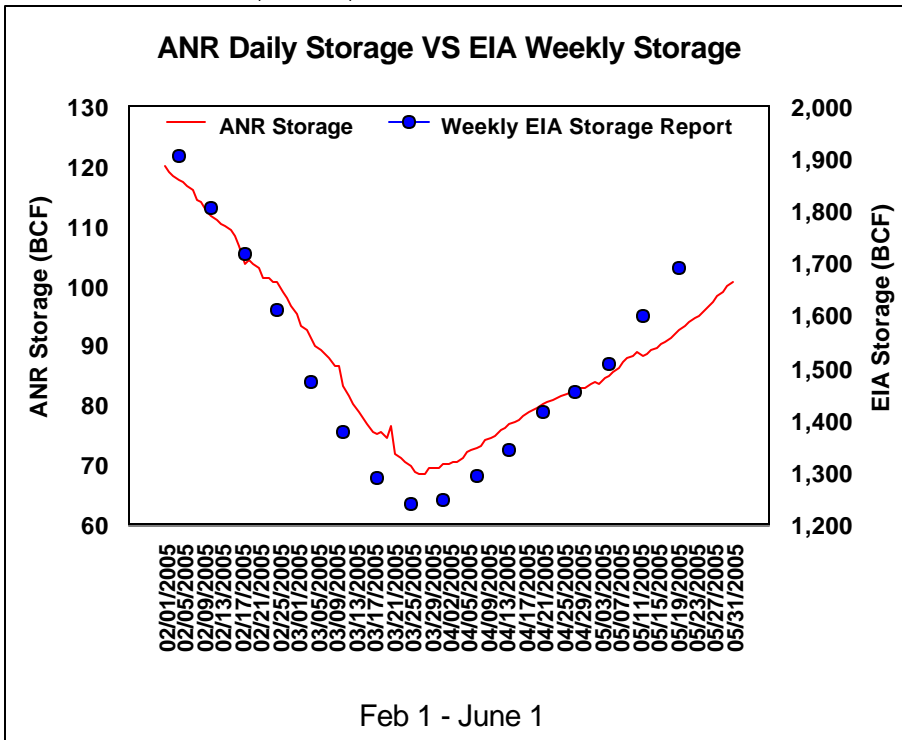


**MARKET COMMENTARY**

The natural gas market finally found traction to the upside today, but it took a runaway oil market to give gas prices the shove not only through the previous three day resistance at \$6.37-\$6.39, but the two month downward trend line at \$6.482. As a result gas prices this afternoon returned to levels not seen since early May. But despite this dramatic upswing in price, natural gas values still continued to lag behind oil prices, and thus saw its price discount to crude move out yet another 4 cents per mmtu. Relative to heating oil this price movement has been even more striking. For this coming winter natural gas continues to see its discount to heating oil widening further, today by another 27 cents per mmbtu and approaching the widest this price spread has been since early April.

The natural gas market today finished with over 108,000 futures contracts traded, with nearly 65% of this volume coming into the market once the trend line resistance was breached late this morning. We would not be surprised to see that this surge of volume was the result of some commodity short liquidation,, especially given its recent high levels of net short positions held by this group. Unfortunately since this coming Friday's Commitment of Traders Report will not reflect today's trading activity, (since yesterday was the cutoff for the reporting period), we will have to examine tomorrow's open interest report to look for some support of this market theory. We feel though that today's market action does not have the fundamental support to sustain these lofty levels without a significant improvement in demand from gas from electric generators, or further oil market bullish hysteria. As a result we would look for some

retracement in natural gas values see initial support at \$6.70 followed by \$6.545, \$6.465-\$6.445 and \$6.386. Resistance we see tomorrow at \$6.80, followed by \$6.84-\$6.86, \$6.94, \$7.085 and \$7.15. More distant resistance we see at \$7.275-\$7.31.



Market expectation for tomorrow's EIA storage report appear to be centered around a 90 bcf injection for the week ending May 27<sup>th</sup>. A year ago saw an 88 bcf build in stocks with the 5 year seasonal average coming in at a 85 bcf build.