



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR JUNE 2, 2006**

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

Eastern Shore Natural Gas Co. (ESNG), a subsidiary of Chesapeake Utilities, announced Friday it is planning an interstate pipeline expansion to add 60 MMc/d of capacity into its delivery area on the Delmarva Peninsula. This will increase the line's capacity by about 33% and would be the largest expansion since the line was built in 1959.

Kinder Morgan Inc. said its Natural Gas Pipeline Company of America (NGPL) subsidiary is moving forward with a 200 MMcf/d expansion of its Gulf Coast and Louisiana mainlines to support greater transportation of gas from growing supply basins to the Henry Hub.

Baker Hughes reported that for the week ended June 2, the total rig count in the U.S. increased by eight rigs to a total of 1,657 rigs, up 304 rigs from the 1,353 counted during the same week in 2005.

#### **PIPELINE RESTRICTIONS**

Kern River Pipeline said that line pack has returned to normal across its entire system.

KM Interstate Gas Transmission said that it is at capacity for deliveries to Panhandle Pony (PIN 9673). Based on the level of nominations, IT/AOR and secondary volumes are at risk of not being scheduled. KM Interstate also said that a force majeure event occurred at its Casper Compressor Station in Natrona County, Wyoming early in the morning on Wednesday, May 31. Repairs are in progress and at this time the completion date is unknown. KMIGT also has scheduled maintenance on the impacted unit beginning on June 6 through June 16. Therefore, the force majeure will be removed effective June 6, which is the start of the maintenance. Effective immediately through June 16, the capacity through Segments 10, 43 and 720 is limited to 156 MMcf/d. AOR/IT, secondary and/or primary firm quantities may not be fully scheduled.

Texas Eastern Transmission said that it has scheduled and sealed M1 and M2 24-inch to capacity. No increases between Little Rock and Circleville for delivery outside that area will be accepted. Tetco has also restricted and sealed receipts between Mt. Belvieu and Little Rock in zone ETX. No increase in receipts between Mt. Belvieu and Little Rock for delivery outside that area will be accepted.

#### **Generator Problems**

**ERCOT**— TXU Corp.'s 750 Mw Martin Lake #3 coal-fired power unit shut today to fix a boiler tube leak.

AEP's 528 Mw Welsh #3 coal-fired power will be shut June 1-5 for planned maintenance.

**SERC**— TVA's 1,121 Mw Watts Bar nuclear unit is shut to replace a low-pressure turbine rotor. The unit is expected to return to service in two to three weeks.

Duke Energy's 846 Mw Oconee #3 nuclear unit started to exit an outage and ramped up offline to 3% capacity. Oconee #1 and #2 continue to operate at full power.

Progress Energy's 937 Mw Brunswick #2 nuclear unit increased output to 98% capacity by early today. The unit was operating at 75% yesterday. Brunswick #1 continues to operate at full power.

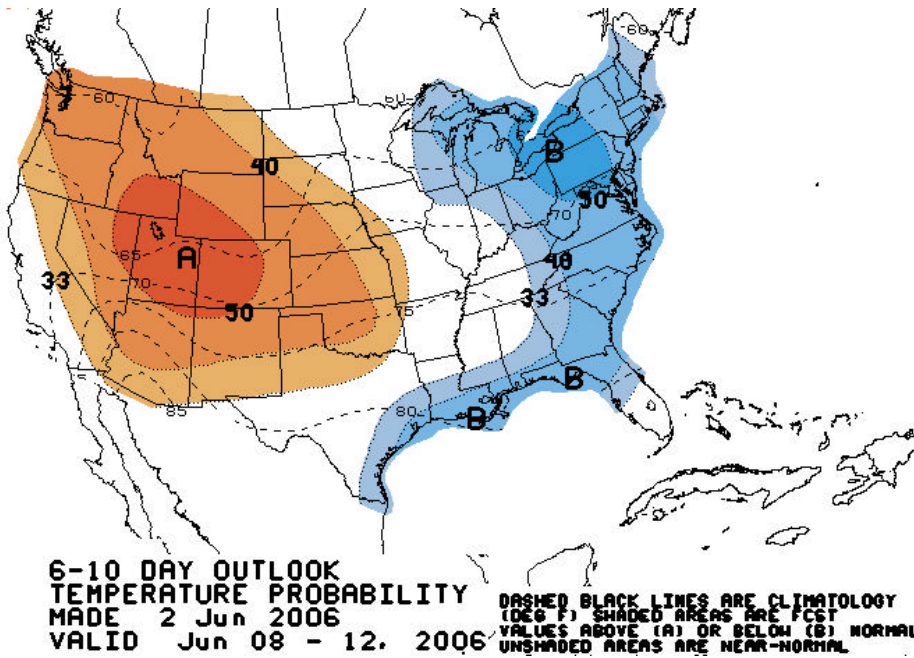
**The NRC reported that U.S. nuclear generating capacity was at 89,778 Mw up .22% from Thursday and up 4.20% from a year ago.**

TransColorado Gas Transmission said that it is at capacity for deliveries at PIN 42223 due to operational conditions. Depending on the level of nominations, authorized overrun, interruptible flow and secondary volumes are at risk of not being scheduled.

**PIPELINE MAINTENANCE**

Alliance Pipeline said it will perform scheduled maintenance at Aitken Creek 2 Station on June 7. The meter at the facility will be out of service for approximately four hours. Station Capacity will be reduced to 207.9 MMcf/d. The Aitken Creek Station is located in British Columbia.

Texas Eastern Transmission Corp. said that capacity through the Circleville compressor station has been lowered due to the work to replace a 26-inch line. Throughput capacity has been reduced by more than 60% due to this line outage. Texas Eastern anticipates restricting gas sourced upstream of Circleville for delivery downstream of Circleville through June 17, when the line work is scheduled to be completed.



Westcoast Energy said it has completed plugging of the reboiler leaks and the train is now back in service. McMahon is now back to full capacity. The raw gas constraint to 95% of firm residue treatment service is removed effectively immediately. Due to a delay in materials the reboiler leak repairs planned for tomorrow will not be taking place and there will be no constraint in place for the June 2 gas day.

Williston Basin Interstate Pipeline Company is reminding customers planned

maintenance to overhaul one unit at the Belle Fourche Compressor Station will be performed between April 27 and August 25. At this time, the company does not anticipate any restrictions to the system. Williston also said planned maintenance to replace a variable frequency drive on the first stage gas cooler will be performed at the Cabin Creek Compressor Station June 29. At this time, the company does not anticipate any restrictions to the system. Williston also said planned maintenance will be performed at the Cleveland Compressor Station June 5 to install a turbine starter. Williston's Elk Basin Compressor Station is performing unplanned maintenance on a gas cooler on one unit. Finally Williston said that planned maintenance will be performed at the Monarch Compressor Station June 59 to upgrade the station control system. At this time, the company does not anticipate any restrictions to the system.

**ELECTRIC MARKET NEWS**

U.S. power company Duke Energy Corp. said it filed an application to build two 800 Mw base load coal units on the site of its Cliffside Steam Station plant in North Carolina. Under Duke's plan for the Cliffside site, it would also retire four existing units and install emissions controls at the plant. It said it could invest about \$2 billion on the project. The company hopes to receive approval for the project by early to mid 2007, and have the first unit operational as early as 2011.

Power generator Mirant Corp. said that government agencies have given the go-ahead for it to increase operations at the 482 Mw Potomac River Generating Station in Alexandria, Virginia. Directives issued by the U.S. Department of Energy and the U.S. Environmental Protection Agency provide for the plant to increase

production to near normal levels, as long as it meets the National Ambient Air Quality Standards in the greater Washington D.C. and Northern Virginia area.

**ECONOMIC NEWS**

Nervousness about the cooling economy may have started to spread to employers, as the Labor Department reported that only 75,000 nonfarm payroll jobs were added in the month of May, a significant fall off. Anything below about 150,000 net new jobs a month is regarded as too little to keep up with population growth, so in effect, workers are losing ground.

New Orders at U.S. factories fell a smaller-than-expected 1.8% in April as orders for aircraft, machinery, and computers and electronic products slipped. Wall Street analysts were expecting a 2.2% drop in factory orders. The April slide was nevertheless the biggest decline since January, when they fell 2.7%.

**MARKET COMMENTARY**

The natural gas market opened down 5.8 cents with a slightly weaker cash market, but a rallying petroleum market on news of a kidnapping in Nigeria dragged natural gas higher. Moderating temperatures, especially in the Northeast, kept gains relatively under control, but July natural gas did make it to a high of 6.69. The inside trading day finished with the front month up 17.5 cents at 6.623. This week was the first out of the last four that natural gas finished higher.

The Commitment of Traders Report showed that non-commercial traders reduced their net short futures position by 10,118 contracts, and that they reduced their combined futures and options net short position by 10,041 contracts. With hurricane season official under way and cooling

demand coming into the picture, this week saw prices pull back from the 15 month low let by the expiring June contract last week. With temperatures moderating in key consuming regions, and if natural gas can decouple from the jittery oil complex, the bearish fundamentals that still exist will weigh on the market, will pressure prices lower. We see support at \$6.35, \$6.11 and \$6.05. We see further support at \$5.86, \$5.75 and \$5.70-\$5.71. We see resistance at \$6.72, \$6.76 and \$7.00. We see further resistance at \$7.12 and \$7.37.

