



## ENERGY RISK MANAGEMENT

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

**www.e-windham.com**

### POWER MARKET REPORT FOR JUNE 30, 2005

#### NATURAL GAS MARKET NEWS

The gas prices needed to generate expected rates of return for energy companies has risen sharply as drilling, finding and development costs have jumped. Lehman estimates that the average price of gas required to generate a 15% pre-tax rate of return in 2004 was roughly \$6.35/MMBtu. This is roughly \$11/boe higher than the required price that we calculated using 2000 F&D cost and operating cost data. Lehman says that higher costs likely put a floor under U.S. gas prices, estimating \$5-6/MMBtu needed to earn a 10% rate of return on new drilling after allocation of all costs. Lehman keeps 2005 U.S. gas forecast unchanged at \$7.

Hurricane activity has increased and is likely to remain high for a decade or more, the head of the National Hurricane Center, Max Mayfield reported yesterday. Mayfield said "from the 1970s to the mid 1990s the number of hurricanes was low, but now frequency is increasing and this period of heightened activity could last another 10 to 20 years." The cyclic increase in tropical storms is made more dangerous because of the growth in coastal populations in recent years. An estimated 85% of coastal residents have never experienced a major hurricane.

#### Generator Problems

**ECAR**— DTE Energy Co. expects to restart its 1,111 Mw Fermi #2 nuclear unit on about July 1-2. The company shut the unit June 25 to fix a non-radioactive leak in one of 14 drywell cooling units.

**ERCOT**— American Electric Power will restart the 528 Mw Welsh #1 coal-fired power station on July 1-5 following miscellaneous maintenance on auxiliary equipment.

**MAAC**— Constellation Energy returned its 825 Mw Calvert Cliffs #1 nuclear unit to full power. The unit was scaled back to 87% on Wednesday. Calvert Cliffs #2 continues to operate at full power.

**MAIN**— Ameren Corp.'s 1,137 Mw Callaway nuclear unit returned to full power by early today. The company reduced power at the unit late Tuesday to about 70% to work on one of the plant's two feedwater pumps.

**WSCC**— Calpine Corp.'s 605 Mw Metcalf natural gas-fired power station returned to service by late Wednesday. The company shut the unit June 17 for unplanned reasons.

**The NRC reported that U.S. nuclear generating capacity was at 92,479 Mw up .58% from Wednesday and down 4.14% from a year ago.**

#### **EIA Weekly Report**

	06/24/2005	06/17/2005	Net chg	Last Year
<b>Producing Region</b>	711	691	20	634
<b>Consuming East</b>	1091	1028	63	1010
<b>Consuming West</b>	321	312	9	280
<b>Total US</b>	2123	2031	92	1925

Texas, and be built in two phases over about 5 years.

The FERC rejected, on safety grounds, KeySpan Corp.'s plan to upgrade a LNG storage terminal in Rhode Island to accept water-borne tanker shipments. KeySpan, the largest distributor of natural gas in the U.S. Northeast, wanted to convert an existing LNG storage facility to a

The FERC gave ExxonMobil Corp. final approval to build a \$600 million LNG terminal in Texas. The Golden Pass import terminal would deliver an average 2 Bcf/d to existing pipeline systems in Texas and Louisiana. It would be 10 miles south of

Port Arthur,

#### **Canadian Gas Association**

#### **Weekly Storage Report**

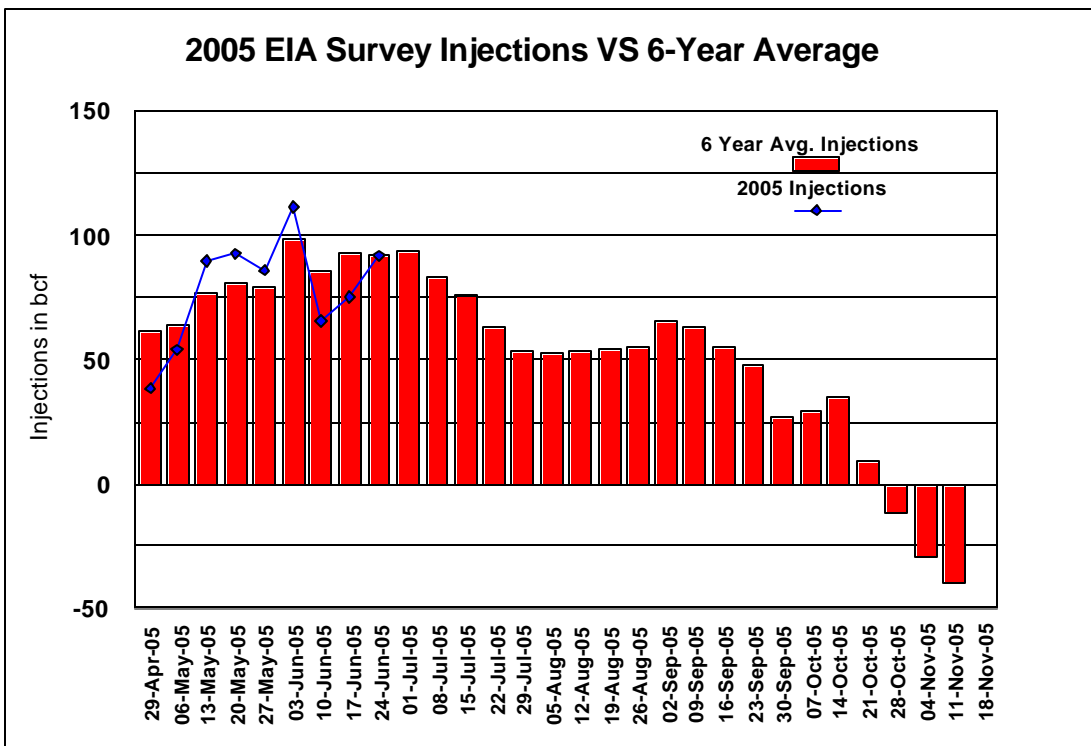
	24-Jun-05	17-Jun-05	25-Jun-04
<b>East</b>	128.7	118.0	150.4
<b>West</b>	171.6	164.1	159.7
<b>Total</b>	300.3	282.1	310.1

terminal capable of receiving tankers.

Anadarko Petroleum Corp. said it has signed nominated capacity agreements for a planned expansion of the Maritimes & Northeast Pipeline system to deliver natural gas into Canadian and U.S. markets from Anadarko's proposed Bear Head LNG import terminal. M&NP has proposed a pipeline expansion that would allow Anadarko to ship about 750 MMcf/d of gas from the planned terminal to the existing pipeline about 35 miles away. First deliveries are slated for late 2008.

ANR Pipeline Company announced that it has fully subscribed the company's existing storage capacity through the 2006-2007 withdrawal season and is extending its non-binding open season for expansion of storage and associated transportation service at the request of customers. ANR's extended open season is for new storage and transportation capacity commencing operation in 2006, 2007, of 2008. The open season, originally scheduled to end on June 22, will now run until July 8, 2005. The storage capacity offered is designed to help customers manage seasonal price volatility and provide increased supply security.

Southern Natural Gas Co. said it has filed an application with FERC for the proposed Cypress Pipeline project,



which would expand the pipeline's access to gas supplies for markets in Georgia and Florida. Cost of the Cypress project, a 176-mile pipeline expansion system from Savannah, Ga., to Jacksonville, Fla., is estimated at \$240 million, with throughput capacity of the pipeline about 220 MMcf/d. The pipeline project is expected to be in service by mid-2007.

**PIPELINE RESTRICTIONS**

NGPL said the force majeure is still in effect due to a failure that occurred back on May 13<sup>th</sup> on the Gulf Coast #3 mainline in Harrison County, TX. The affected line continues to be isolated. In other news, Natural is at capacity for gas received upstream of Compressor Station 155 in Wise County, Texas Segment 1 going northbound. Deliveries to Florida Jefferson are at capacity. ANR South Joliet #2 is at capacity for deliveries.

Florida Gas Transmission said that due to hot temperatures in its market area, it is issuing an Overage Alert Day at 25% tolerance.

Gulf South Pipeline said that based upon its initial review of nomination, NNS demand, and other factors, Gulf South may be required to schedule available capacity and implement scheduling reductions for Montpelier to Kosciusko.

KM Interstate Gas Transmission said it is at limited capacity for deliveries to Panhandle Pony (PIN 9673). Based on the level of nominations, interruptible flow, authorized overrun and secondary volumes may be scheduled.

Texas Eastern Transmission Corp. said it has restricted M1 24-inch to capacity. STX and ETX have been scheduled to capacity. Nomination increases between Mont Belvieu and Batesville will not be accepted.

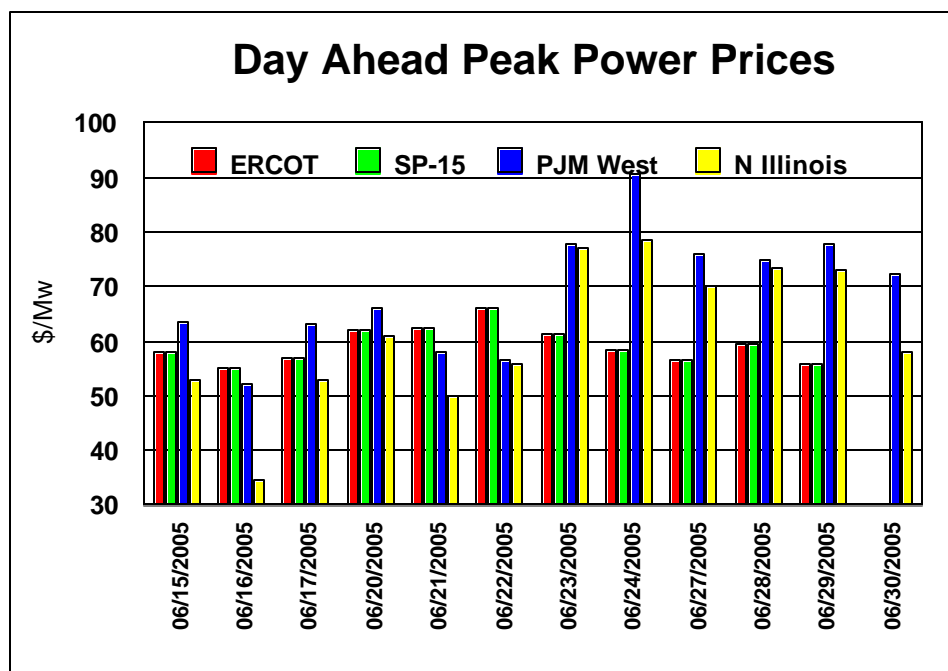
Transwestern Pipeline said it will not be accepting gas on the El Paso Field Services/TW Eddy County Receipt I/C due to high water content.

**ELECTRICITY MARKET NEWS**

Transmission capacity on the California/Oregon AC Friday is expected to increase by 400 Mw to 3000 Mw. Capacity along the Pacific DC intertie is expected to remain steady at 2900 MW.

FERC formally approved a \$15 billion megamerger between Exelon Corp. and Public Service Enterprise Group to create the nation's largest utility. FERC approved the merger without calling an official agency hearing,

allaying a threat that the merger would be delayed. The merger would create the biggest U.S. utility with assets of nearly \$80 billion and 7 million customers.



A consortium of Montana municipalities said it has offered to acquire NorthWestern Corp. for \$32.50 per share in cash, or more than \$1.1 billion total. The consortium, Montana Public Power Inc., said it would sell NorthWestern's non-Montana assets to South Dakota Power Co. Montana Power would also assume \$825 million in debt.

FERC stripped Duke Energy Corp.'s utility unit of the right

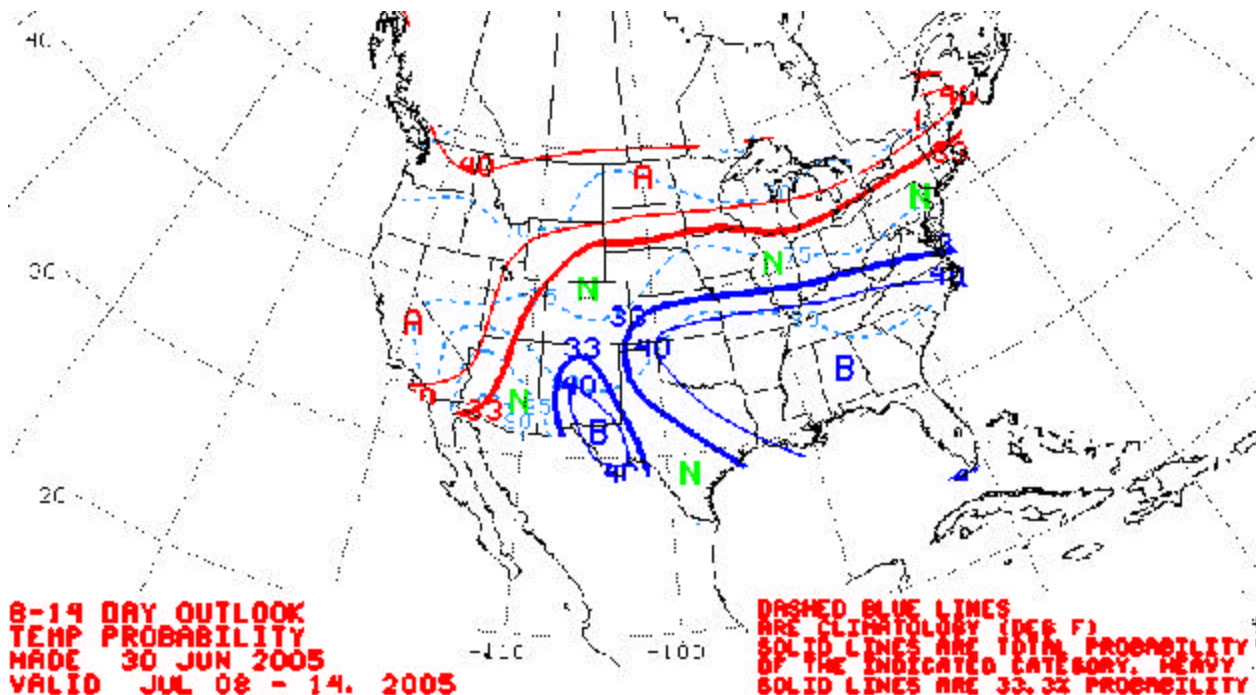
to sell wholesale electricity at market-based rates in its home territory. FERC found that Duke Power has the ability to unfairly influence prices in its two-state control area, and said the utility must sell electricity at cost-based rates there for its wholesale customers.

The U.S. Nuclear Regulatory Commission granted a license amendment for the 539 Mw Kewaunee nuclear station in Wisconsin on June 24 to modify the auxiliary feedwater system and return to service.

The U.S. Nuclear Regulatory Commission granted a license amendment to Wisconsin Energy Corp. for the 514 Mw Point Beach #2 nuclear unit on June 20-21. The amendment allowed Nuclear Management Co., which operates the plant, to lift the new reactor vessel head into place. The new vessel head is heavier than the old head so the NRC had to make sure the new head would not create an undue safety hazard. The company put the vessel head into place on June 25 and is testing the plant in preparation for startup.

**ECONOMIC NEWS**

Business activity in the U.S. Midwest expanded in June for a 26<sup>th</sup> straight month but at a slightly slower rate than expected. The National Association of Purchasing Management-Chicago business barometer slipped to 53.6 in June from 54.1 in May. Economists had forecast the index at 54.3.



#### **MARKET COMMENTARY**

The natural gas market opened lower this morning following on the coattails of weaker crude oil prices. The market received a quick shove to the downside following the release of the EIA storage report, which showed a slightly larger build than expected. Prices quickly dropped to \$6.95 level but buyers quickly returned to the market and helped push prices back above the \$7.00 level. With the rally in the heating oil market throughout the morning, natural gas prices inched higher but failed to reach yesterday's highs before stalling and then eroding. The collapse of crude oil prices late in the session helped natural gas not only return to the morning's lows but breach these levels falling all the way to \$6.91 before bouncing back late in the session. The August contract though still settled down over 10 cents on the day posting its lowest settlement since June 3<sup>rd</sup>.

We continue to look for the market to crawl back above the \$7.00 level by the close tomorrow, given the continued threat of a tropical system developing in the western or central Gulf of Mexico. But with the prospects of some cooler temperatures moving into the Great Lakes and into the Southeast next week and lasting into the following week should limit the upside potential for this market, especially given the limited industrial demand for natural gas given the 3 day holiday period. We see support in the August natural gas contract at \$6.90 followed by \$6.855 and \$6.81. Resistance we see at \$7.05, \$7.125, \$7.165 and \$7.20. Additional resistance we see at \$7.27, \$7.31, \$7.38, and \$7.49.