



## ***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 JULY 1, 2005**

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

Baker Hughes reported that for the week ended today, the total rig count in the U.S. remained unchanged at a total of 1,370 rigs, while remaining 169 rigs over the 1,201 counted during the same week in 2004. In Canada, Baker Hughes said that the rig count increased 91 rigs to a total of 348 rigs for the weekly period, while slipping 49 rigs from the 397 rigs reported during the corresponding week during 2004. The number of rigs searching for natural gas fell by 8 to 1,211.

Western Gas Resources announced it has entered into a settlement agreement to pay \$5.95 million in a civil suit in which Western was charged with manipulating the prices of natural gas futures on the NYMEX in violation of the Commodity Exchange Act, by reporting allegedly inaccurate, misleading and false trading information to natural gas index publishers.

#### **PIPELINE RESTRICTIONS**

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 Longview to Palestine

Texas Eastern Transmission Corp. said that M1 24-inch and M2 24-inch have been scheduled to capacity. Nomination increases between Little Rock and Batesville will not be accepted.

Kern River Pipeline said line pack levels are currently high. Kern River said it will continue to monitor daily banking and will take corrective action again, if necessary, throughout the upcoming holiday weekend. Kern River reminds its shippers that it will be in their best interest to rank their supply nominations in the event that additional delivery point cuts are necessary. Also, due to the high line pack Kern River will not accept any banking arrangement through the holiday weekend.

#### **Generator Problems**

**ECAR**— DTE Energy Co. is working on the standby feedwater pumps and control circuits at the 1,111 Mw Fermi #2 nuclear unit. The company expects to restart the unit as early as tonight.

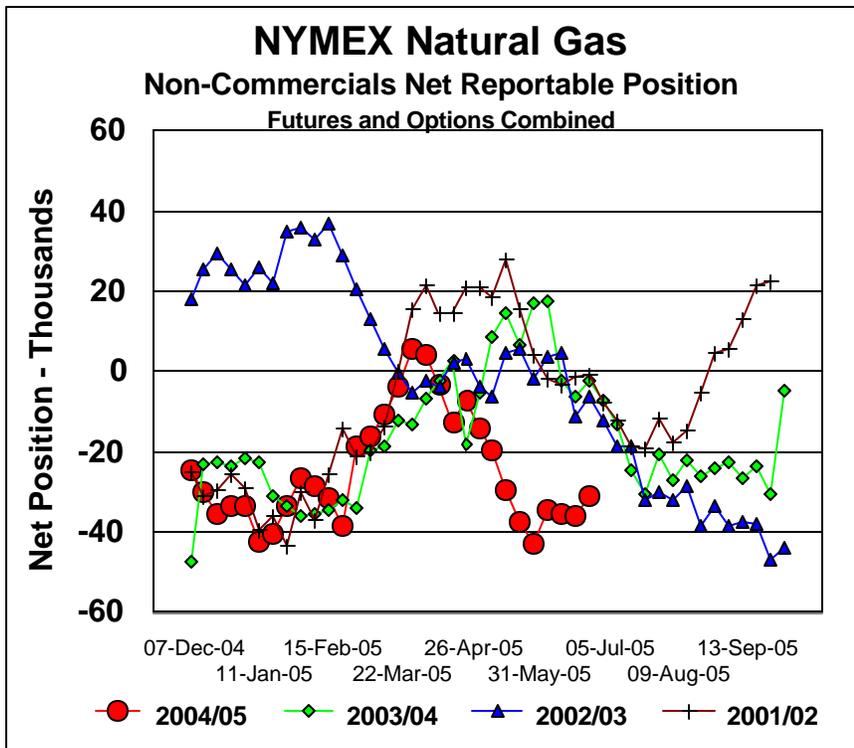
**ERCOT**— American Electric Power Co. will restart the 528 Mw Welsh #3 coal-fired power unit on July 26 following miscellaneous maintenance on auxiliary equipment. The company shut the unit June 30.

**NPCC**— Entergy Corp.'s 825 Mw Fitzpatrick nuclear unit shut late last night after the primary containment was declared inoperable. The unit was operating at full power yesterday.

**SERC**— Entergy Corp.'s 978 Mw River Bend nuclear unit started to exit an outage and ramped up to 10% of capacity by early today. The unit shut June 22 for planned work to fix a hydrogen leak on the main generator.

**WSCC**— Energy Northwest's 1,108 Mw Columbia nuclear unit started to exit an outage and ramped up to 2% of capacity by early today.

**The NRC reported that U.S. nuclear generating capacity was at 91,763 Mw down .77% from Thursday and down 4.97% from a year ago.**



Questar Pipeline said that on July 7, it will be internally inspecting the custody exchange meters between Northwest Pipeline and Clay Basin. No physical injections or withdrawals will flow in cycles 1,2, and 3 for gas day July 7. Questar is working with Northwest to minimize impact and to the extent possible, Questar will not nominations on the Northwest side subject to the zero physical flow requirement. Service is expected to return to normal in cycle 4.

#### **PIPELINE MAINTENANCE**

El Paso Natural Gas Company said that Bondad 2A maintenance has been completed. The capacity through Bondad Station was increased by 135 MMcf effective Cycle 3 yesterday. Also, El Paso said that the White Rock 2 turbine must be taken down to repair a hydraulic pump July 4 and 5, reducing the capacity of the San

Juan Basin by 200 MMcf/d from a base capacity of 2800 MMcf/d. Based on recent scheduled volumes through the point, this outage will have no effect on markets.

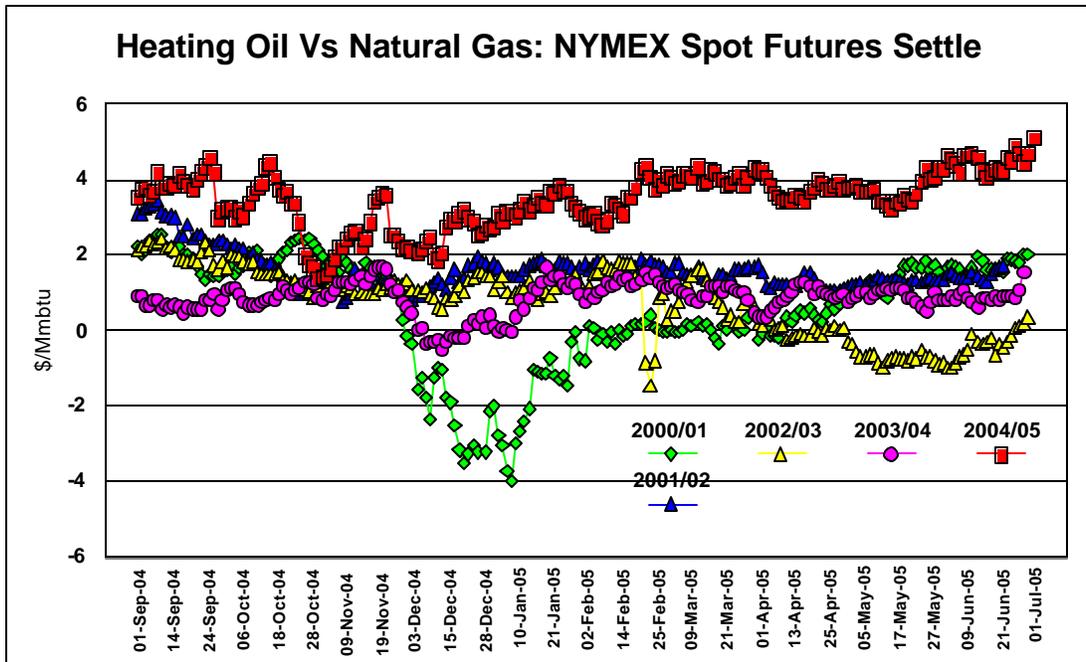
Questar Pipeline Company said that on July 12, it will be performing maintenance on ML 23 near Powder Wash. As a result, the Powder Wash receipt point, MAP #35, and the Fireplace Rock receipt point, MAP #34, will need to be shut-in and nominated to zero for all cycles on July 12.

#### **ELECTRICITY MARKET NEWS**

The Northwest River Forecast Center upped its forecast for Columbia River hydro flows in the coming months, according to the Early Bird forecast released today. Flows on The Dalles on the Oregon/Washington Border are projected to run 75% of normal from January-July, up one percentage point from the expectations released in the Mid-month Forecast. Meanwhile, flow projections for April-August are 73% of normal, up two percentage points since the last outlook.

The California Public Utilities Commission approved the construction of San Diego Gas and Electric Company's Otay Mesa Transmission Project and certified the project's final Environmental Impact Report. The project consists of the construction of two new 230 kV electric transmission circuits to connect SDG&E's Miguel Substation with both the Sycamore Canyon Substation and the Old Town Substation in San Diego County. The combined route length for both circuits is approximately 52 miles. The commission approved a cost cap of \$209 million for the project, with a contingency amount of 5%.

The Bonneville Power Administration announced that it would offer power benefits to three Northwest aluminum companies and one paper mill for five additional years. Beginning in the fall of 2006, BPA will provide the equivalent of up to 577 average megawatts at a cost capped at \$59 million a year to the industries that it has traditionally served directly.



**ECONOMIC**

**NEWS**

Factory activity in the U.S. strengthened in June in what's now been a two-year expansion for the sector. The Institute for Supply Management reported that manufacturing index for June moved to 53.8, after 51.4 in May. Forecasters were looking for a report of 51.5.

**MARKET**

**COMMENTARY**

The natural gas market opened higher above the 7.00 level in anticipation of the long weekend. The oil products took the drivers seat today with natural gas mirroring their bullish push. Natural gas experienced some mid-morning consolidation around the 7.10 level before rallying up to 7.20, the high of the day. Working on no significant news of its own, natural gas followed heating oil's fund driven bullish demand, settling up 19 cents at 7.171.

In comparison to its generation rival, heating oil, natural gas is at its greatest discount to the crude product. With this gap widening to unprecedented levels, it would seem likely that a correction is in order before the summer season ends. Yesterday's above expectation storage report and moderate temperature forecasts for next week will play a role in settling the market down and putting it in a downward channel. We see support at the 6.90 level, and resistance at 7.269, 7.38, and 7.491. Further resistance is at 7.85.

According to the latest Commitment of Traders report, non-commercials in the natural gas market cut their net short position from 28,911 contracts to 25,556 contracts in the week ending June 28<sup>th</sup>. The combined futures and options report also showed that non-commercials cut their net short positions by 4,802 contracts to 31,180 contracts.