



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR JULY 11, 2006**

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

The EIA's Short-Term Energy Outlook for July showed that natural gas consumption is projected to fall below 2005 levels by about 36 Bcf, or 1.7%, then increase by 91 Bcf, or 4.2%, in 2007. That is a larger decrease than projected in the June report. Residential consumption is projected to fall in 2006 by 7.4% from 2005 levels and then increase by 8.8% in 2007. Following recovery from the 2005 hurricane season, the output of natural-gas-intensive industries will likely contribute to some growth in industrial natural gas consumption this year (1.4%) and more in 2007 (4.7%). Dry natural gas production is projected to increase by 0.6% in 2006 and 1.1% in 2007. Total LNG net imports are expected to increase from their 2005 level of 630 Bcf to 760 Bcf in 2006 and to 1,000 Bcf in 2007. The EIA reported that spot Henry Hub natural gas prices, which averaged 8.86 per Mcf in 2005, are expected to average under 7.00 per Mcf over the next few months. Thus, barring extreme weather for the rest of the year, we expect a decline in the annual average Henry Hub spot price to about 7.61 per Mcf for 2006. However, the EIA feels that concerns about potential future supply tightness and continuing pressure from high oil market prices could drive spot prices to just over 9.00 per Mcf this coming December and January.

#### **Generator Problems**

**WSCC**— Arizona Public Service's 1,270 Mw Palo Verde #1 nuclear unit reduced output to 65% capacity. Yesterday, the unit was operating at 70%. Palo Verde #2 and #3 continue to operate at full power.

**The NRC reported that U.S. nuclear generating capacity was at 96,076 Mw down .07% from Monday and up 3.42% from a year ago.**

Pacific Gas and Electric Company and Microgy announced an agreement that allows Microgy to utilize PG&E's extensive natural gas transmission network to distribute renewable natural gas to markets in California and the West. Microgy, a subsidiary of Environmental Power Corporation, plans to generate renewable natural gas from dairy and other wastes using its proprietary biogas production technology. Under the terms of this agreement, PG&E will work with Microgy to interconnect these facilities with PG&E's extensive network of natural gas pipelines. As these state-of-the-art gas-generating facilities are constructed at farms in the central valley, California will enjoy a reliable supply of gas at market competitive prices.

The National Hurricane Center reported that they are tracking two tropical waves. The first is causing showers and thunderstorms over the eastern Dominican Republic, far southeastern Bahamas and Puerto Rico. The second wave, in the western Atlantic, east of the Lesser Antillies has a curved cloud structure. Shear and surface pressures are amiable for the organization of this wave over the next few days.

#### **PIPELINE RESTRICTIONS**

Algonquin Gas Transmission said Tennessee Gas Mahwah has been scheduled to capacity on its system.

Natural Gas Pipeline Company said that the gas quality problem originally reported on Sunday July 2 at the delivery to El Paso-Jal (PIN 3083) in Lea County, New Mexico (Segment 9 of Natural's Permian Zone) has been resolved. Effective immediately and continuing until further notice, Natural will accept nominations back up to the normal capacity at this delivery point.

Trailblazer Pipeline Company said that a force majeure event occurred at Compressor Station 602 in Lincoln County, Nebraska. During the early morning of July 10, Trailblazer experienced an unexpected outage due to an

internal electrical failure on one of its compressor units. The estimated duration of the outage to repair the compressor unit is four weeks. Effective on the Intraday 1 Cycle for gas day July 11, and continuing until further notice, Secondary out-of-path and ITS/AOR volumes will not be available for scheduling. In addition to the above effective time period, Trailblazer estimates that the amount of firm capacity currently available during this outage is 800 MMcf.

**PIPELINE MAINTENANCE**

Questar Pipeline Company said that it will be performing maintenance at its Price station, which will require the Price dew point plant to be shut-in July 18 through July 28. Questar has coordinated with downstream pipelines to minimize the impact. As a result of these efforts it is anticipated that there will be no additional impact to customers related to hydrocarbon dew point.

Texas Eastern Transmission said that the outage at Mt. Belvieu compressor station that was scheduled to start July 11 has been postponed.

**ELECTRIC MARKET NEWS**

The EIA said that electricity consumption is expected to increase by 0.6% in 2006 and by 1.4% in 2007. Residential electricity prices are expected to increase by 7.8% in 2006, and by another 2.9% in 2007.

**MARKET COMMENTARY**

The natural gas market opened 13 cents higher as temperatures continue to warm up across the country. August natural gas traded to a high of 5.85 early in the session, but could not sustain the buying interest, and slid back to par across the remainder of the session. August traded to a low of 5.55 shortly after mid-day, but rebounded to settle up 2.5 cents at 5.633.

Market players continue to be reluctant to press prices higher toward the 6.00 level even with supportive temperatures on the way. They are waiting to see the weather, its duration, and the effects it has on demand. Cash prices received another boost today, with prices jumping 10-45 cents across the country. The National Weather Service is forecasting that Cooling Degree Days will be about 17% above average for the week. With this supportive weather outlook, we feel that the market will tighten and move off 22-month lows. Early expectations for Thursday's EIA storage report call for a build of between 60 and 90 Bcf, with an average build of 74 Bcf. We see support at \$5.50, \$5.25 and \$5.00. We see resistance at \$5.85, \$6.00, \$6.10 and \$6.33-\$6.37. We see further resistance at \$6.89 and \$7.12.

