



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR AUGUST 2, 2005**

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

The 2005 Atlantic hurricane season will be worse than previously expected, with as many as 21 tropical storms and 11 hurricanes. Gerry Bell of NOAA said "although we have already seen a record-setting seven tropical storms during June and July, much of the season's activity is still to come." In May NOAA predicted the 2005 Atlantic hurricane season would be above normal, with 12 to 15 tropical storms and seven to nine hurricanes. The new forecast would mean a record number of named tropical storms, based on atmospheric conditions and ocean temperatures. The previous record was 19 tropical storms in 1995. Meanwhile later in the day the National Hurricane Center announced that Tropical Depression 8 formed this afternoon some 350 southwest of Bermuda and was not seen as any threat to the United States land mass. But overall the Atlantic basin continues to enjoy a relative period of calm again this week, as tropical waves in the region continue to find the presence of Saharan dust clouds as a hindering factor for further development.

Dynergy said it has agreed to sell its Midstream natural gas business to Targa Resources, in a deal worth \$2.48 billion in cash. Targa Resources is a Houston-headquartered independent company affiliated with private equity investor Warburg Pincus.

Trunkline Gas Co. said it will move forward with its North Texas Expansion Project based on a solid market response in a recent open season. The project will include construction of about 45 miles of 30-inch diameter pipeline along an existing right of way from the Kountze, TX, compressor station to the Longville, LA, compressor station. It will provide about 400 MMcf/d of additional capacity and is estimated to be in service in 2007.

Sempra LNG announced it has executed a 20-year agreement to provide Eni S.P.A. with approximately 40% of the capacity of Sempra LNG's Cameron LNG receipt terminal under development near Lake Charles, Louisiana. As a result of the agreement, Sempra LNG will begin construction on the terminal within the next two months. Cameron LNG is the second Sempra LNG terminal to begin construction this year. Under this agreement, Sempra LNG will provide Eni with approximately 600 MMcf/d of capacity in the Cameron LNG receipt terminal. Upon terminal completion in late 2008, Cameron LNG will have an initial send out capacity of approximately 1.5 Bcf/d.

#### **Generator Problems**

**ERCOT**— TXU's 565 Mw Monticello #1 coal-fired power unit will be in start up today following repairs to the boiler feed pump.

TXU's 750 Mw Martin Lake #3 coal-fired power unit shut August 2-4 to repair a boiler tube leak.

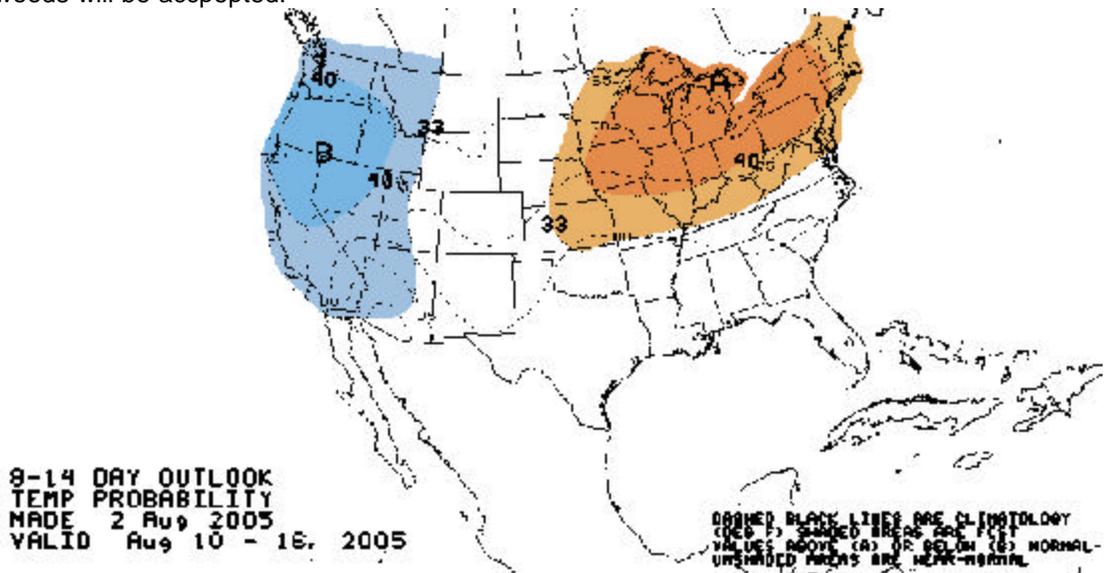
**MAAC**— Exelon Generation's 1,116 Mw Peach Bottom #3 nuclear unit returned to full power today. The unit was operating at 89% yesterday. Peach Bottom #2 remains at full power.

**Mexico**— Sempra Energy's 600 Mw Termoelectrica de Mexicali natural gas-fired power station shut early today for planned and unplanned reasons. The unit was available for service Monday.

**The NRC reported that U.S. nuclear generating capacity was at 97,157 Mw up .12% from Monday and up 1.92% from a year ago.**

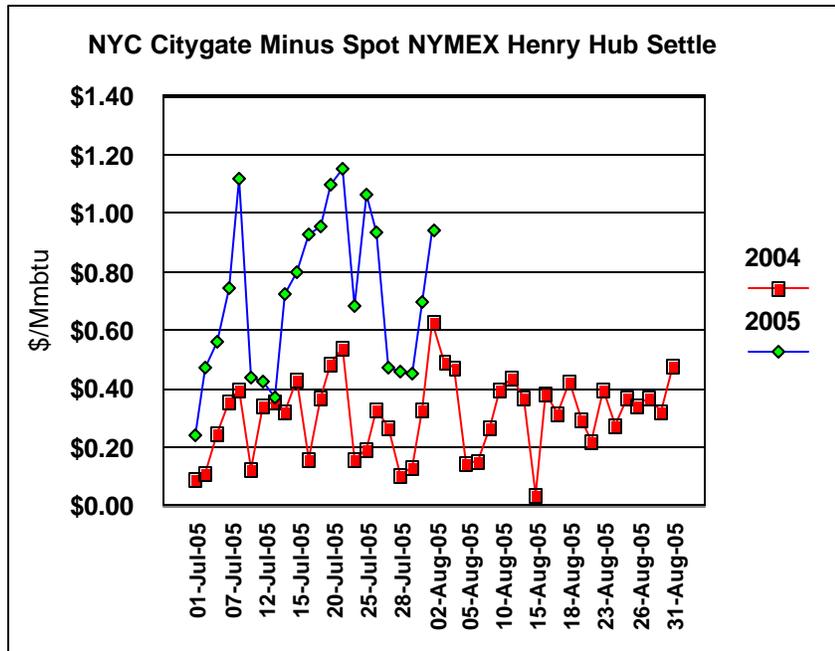
**PIPELINE RESTRICTIONS**

East Tennessee Natural Gas said nominations sourced upstream of the Flatwoods compressor station for delivery downstream of Flatwoods have been sealed to capacity. No increases in nominations flowing through Flatwoods will be accepted.



Florida Gas Transmission on 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 nominations, NNS demand, and other factors, Gulf South may be required to schedule available capacity and implement scheduling reductions on Index 11 and 70 (Palestine 8-inch), Index 1 and 8 (Dallas 18-inch – Tyler 12-inch), and Montpelier to Kosciusko, and Kiln to Mobile.



Iroquois Gas Transmission System said that due to the system being at capacity through the Athens Compressor Station, current loans, I.T. and ER/ED downstream of Athens are subject to allocation through August 2. Receipts at Brookfield are available, however no additional nominations will be allowed.

Texas Eastern Transmission Corp. said that M1 24-inch has been sealed to capacity. Nomination increases sourced between Little Rock and Fagus, for delivery outside of this area, will not be accepted.

**PIPELINE MAINTENANCE**

Gulf South Pipeline said that it will be performing unscheduled maintenance on the Jackson Compressor Station

Unit #4 beginning immediately and continuing until further notice. Capacity through the Jackson Compressor Station could be affected as much as 125 MMcf/d during the duration of this maintenance.

Natural Gas Pipeline Company of America said that the Hydrostatic Testing in Segment 11 of the Midcontinent Zone is running into delays and is now expected to be completed August 15, rather than July 29. Natural is currently performing hydrostatic testing on the Amarillo Mainline #3 north and south of Station 195 in Washington County, Kansas. NGPL rescheduled work at the Mason Creek station due to a delay in acquiring the necessary permits. This project was originally scheduled from August 1-4. The new dates are August 16-18.

Williston Basin Interstate Pipeline Company said that due to unplanned maintenance, one unit at the Billy Creek Compressor Station will be down until Friday August 5. Injections into the Billy Creek Storage field will be limited to approximately 2.3 MMcf/d during this maintenance. Also, the company said maintenance to replace approximately .5 miles of mainline on the Garland-Elk Basin Line will be performed between August 3 and August 17. Receipts in Line Sections 19, 20 and 21 may potentially be affected depending on quantities nominated.

### **ELECTRICITY MARKET NEWS**

FERC attorneys have asked a federal court to stay and remand a case dealing with the agency's authority to allow companies to charge market-based rates for wholesale power. In a July 29 motion to the U.S. District Court of Appeals for the District of Columbia Circuit, FERC Solicitor Dennis Lane asked that the court remand the record in the proceeding thus far and hold the case in abeyance "pending issuance of commission orders on this matter." Petitioners in the case, including Cinergy Marketing & Trading and Western Gas Resources, oppose the motion. Public Citizen, another petitioner, also said it opposes the request. At issue is a July 2004 case challenging FERC's authority to allow companies to sell market-based rates for wholesale power. There are several issues consolidated in the case itself, but it ultimately questions whether the agency has congressional authority to issue market-based rates.

Calpine Corp. and the energy business of GE Co. will begin construction this month of a 800 Mw natural gas-fired power plant at the Inland Empire site in Riverside County, California. The plant received its license from the California Energy Commission in June, and GE has now acquired the site and related development rights for the project from Calpine. The companies expect to bring the Inland Empire Energy Center online by the summer of 2008 – in time to help offset state-forecasted energy shortfalls in Southern California.

American Transmission Co.'s applications for approval to construct two new 50-mile 345 kV transmission lines in central and northeastern Wisconsin have been determined to be complete by the Public Service Commission of Wisconsin. The decision marks the beginning of the regulatory review process, which will include engineering and environmental scrutiny and public hearing.

Fitch Ratings said that it anticipates the omnibus Energy Policy Act of 2005 likely will not have a negative credit impact and will have mostly positive implications for creditors to the sector.

### **MARKET COMMENTARY**

The natural gas market continued its bullish trend today, opening a penny and half higher, and immediately trading up to yesterday's high of \$8.22. The market consolidated the rest of the morning, finding support at the \$8.13 level until midday momentum trading broke the market to a nine-month spot chart high of \$8.41. Heat and humidity blanketing the nation kicked up cooling demand and the NOAA's new report increasing its previous storm activity outlook lent support to the market. In addition, the next-day gas on Transco at the New York City gate jumped 47 cents on average to \$9.32, its highest level since January when it topped out close to \$20. Natural gas closed up 22.4 cents at \$8.378 with a strong 88,000 contracts booked on the day, and more than half coming through spreads.

The last six sessions has seen a 14% surge in the market to new highs and as near term weather is forecast to become milder, the market is overbought and due for a correction. Tomorrow's oil inventory figures should lend structure to natural gas tomorrow, and bearish figures in oil will put natural gas on the defensive. We see support at \$8.00 followed by the two raising windows at \$7.90-\$7.98 and \$7.71-\$7.76. More distance support we see at \$7.34 and \$7.185. Resistance we see at the nine-month spot chart high of \$8.41 and then \$8.50. Further resistance we see at \$8.605 along the upward trading channel.