



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR SEPTEMBER 28, 2006**

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

The Natural Gas Supply Association said in its annual winter forecast that gas consumption this winter is expected to increase 5.7%, or 600 Bcf, but gas inventories are expected to be at record levels at the start of the heating season, keeping pressure on prices. Gas in storage is forecast to total a record 3.5 Tcf as the heating season begins on November 1. The EIA said that residential natural gas prices will average \$13.34 per Mcf this heating season, down 10% from last year. The trade group also pointed out that because residential natural gas customers make up 52% of all U.S. homes, a normal winter in general will lead to strong gas consumption, but the record amount of supply will keep prices low.

The chairman of the Natural Gas Supply Association, Chris Conway, said he doesn't see the need for greater regulation of over-the-counter natural gas trades in light of the recent Amaranth Advisors debacle. Conway, who is also president of gas and power for ConocoPhillips, said he didn't see anything to suggest there's something broken in the OTC markets. He added that each fund has its own investment strategy and investors obviously need to be aware of what these are, and that the presence of speculators in the market is a good thing, providing liquidity, which actually lowers costs.

The National Hurricane Center reported that Tropical Storm Isaac has formed, though like its predecessors this year, it will pose little threat to land as it spins off into the Atlantic. The storm is located about 665 miles southeast of Bermuda and is moving northwest near 8 mph.

#### **PIPELINE RESTRICTIONS**

PG&E California Gas Transmission has called a customer-specific operational flow order on its California natural gas pipeline for today's gas flow. PG&E issued the restriction because of high gas supplies on its system.

Texas Eastern Transmission said that the restriction prohibiting the acceptance of due pipe resolution nominations is still in effect. All parties with a due shipper imbalance are requested to resolve them as soon as practicable. TETCO requires that shippers and TABS parties schedule their contracts balanced except for the

#### **Generator Problems**

**ERCOT** – South Texas Project's 1,250 South Texas #1 nuclear unit is scheduled to shut October 1 for a refueling outage. Today, output slid to 85% capacity. South Texas #2 continues to operate at full power.

TXU Power's 1,150 Mw Comanche Peak #2 nuclear unit is operating at 98% capacity as it coasts down for a refueling outage expected to start October 7. Comanche Peak #1 continues to operate at full power.

**MAAC** – PSEG's 1,100 Mw Salem #2 nuclear unit restarted and ramped up to 55% capacity by early today. Salem #1 continues to operate at full power.

**MAPP** – Nebraska Public Power District's 800 Mw Cooper nuclear unit continues its slide to a refueling and is operating at 96% capacity.

**SERC** – Progress Energy's 937 Mw Brunswick #2 nuclear unit returned to full power this morning, up from 79%. Brunswick #1 continues to operate at full power.

**WSCC** – Arizona Public Service's 1,270 Mw Palo Verde #2 will shut September 30 for a standard refueling outage. Palo Verde #1 remains shut for repairs and is expected to return some time next week. Palo Verde #3 continues to operate at full power.

Salt River Project is seeking to restart its 1,580 Mw Mohave Generating Station. The coal-fired station shut December 2005.

**The NRC reported this morning that 86,428 Mw of nuclear generating capacity were on line, .82% higher than Wednesday but 2.26% lower than a year ago.**

**EIA Weekly Report**

	09/22/2006	09/15/2006	Net chg	Last Year
<b>Producing Region</b>	942	915	27	783
<b>Consuming East</b>	1874	1835	39	1691
<b>Consuming West</b>	438	427	11	403
<b>Total US</b>	3254	3177	77	2877

\*storage figures in Bcf

scheduling of Due Shipper payback, and point operators to perform according to nominated volumes. The pipeline operator will force balance TABS-1 pools or restrict the system as required.

Westcoast Energy said that the DEGT Pine River Gas Plant has been investigating the operational issues with the B Sulphur Train. Repairs to B

Sulphur train will be completed at approximately 2:00 PM MT, September 29. DEGT Pine River Gas Plant will resume full production at this point.

Williston Basin Interstate Pipeline said that several points and line sections are in pipeline capacity constraint and that penalties will be imposed. Line sections in constraint for receipts in the timely cycle include 019 Madden-Worland and 020 Worland-Lovell.

**Canadian Gas Association**

**Weekly Storage Report**

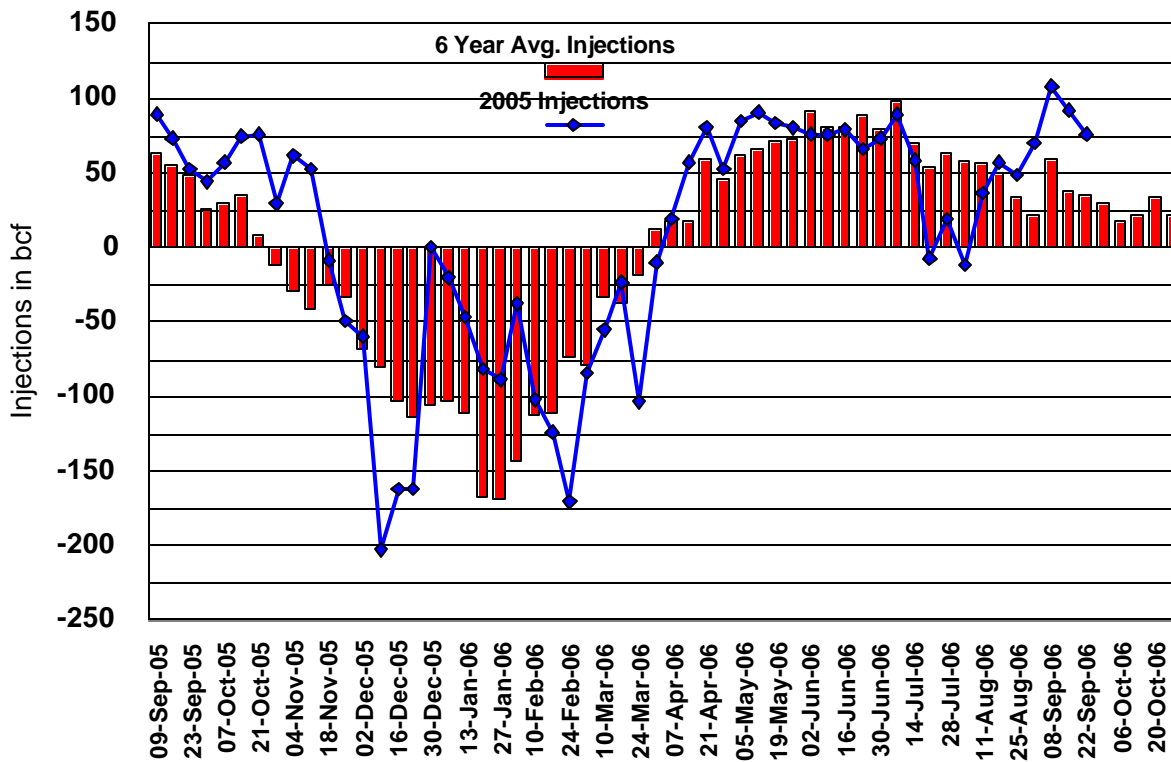
	22-Sep-06	15-Sep-06	23-Sep-05
<b>East</b>	232.5	227.3	226.4
<b>West</b>	206.5	206.2	242.0
<b>Total</b>	439.0	433.5	468.4

storage figures are in Bcf

**PIPELINE MAINTENANCE**

Natural Gas Pipeline Company said that from October 3-7 it will inspect the electric compressor units at Station 302 in Montgomery County, Texas. Both compressor units will be unavailable for 12 hours each day, which will lower the schedule to capacity going eastbound into Segment 25. ITS/AOR and secondary out-of-path transports will not be available.

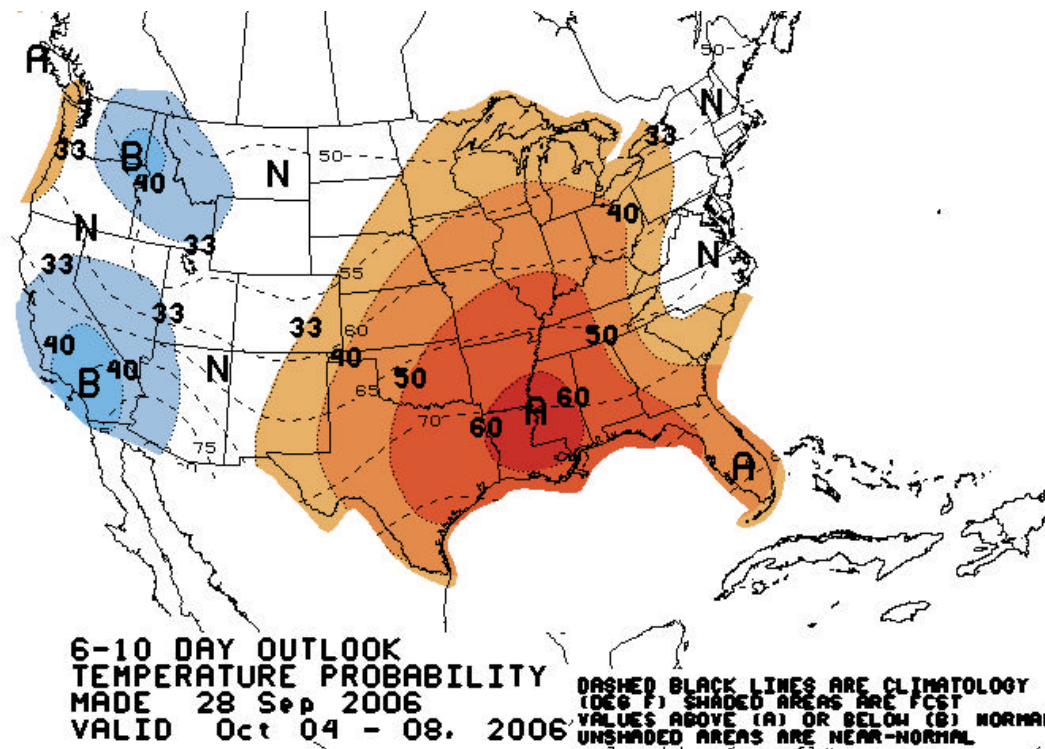
**2006 EIA Survey Injections VS 6-Year Average**



Panhandle Eastern Pipe Line Company said there will be an outage at the Montezuma Station for header piping tie-ins from October 30-31. Capacity will be limited to 1,270 MMcf/d through Montezuma for the duration of the outage. This scheduled project is part of an ongoing integrity program conducted by Panhandle.

Southern Natural Gas Pipeline Co. said that maintenance on the South Main Loop Line downstream of Wrens Compressor Station will start the afternoon of September 28, and last through October 12. This work constitutes an event of force Majeure. Southern's capacity in Group 07 east of Wrens will be reduced by about 175 MMcf/d during this work.

TransColorado Gas Transmission said it will be performing maintenance at its Redvale Compressor Station on October 17. Capacity through Segments 230 and 250 will be limited to 350 and 400 MMcf/d, respectively. AOR/IT, secondary and/or primary firm quantities may not be fully scheduled.



**ELECTRIC MARKET NEWS**

U.S. energy companies expect to shut the most nuclear power reactors this year for autumn refueling since the fall of 2000. Electricity traders guessed this would require the energy companies to rely more on their more expensive coal and natural gas fired plants over the next couple of months. On October 15, the usual height of the autumn maintenance season, about 25,700 Mw of nuclear capacity will be out of service, a

27% increase over the 20,200 Mw out this time last year and 37% over the 18,900 Mw five-year average. In the fall of 2000, refueling outages peaked at about 26,100 Mw.

Cheap coal will be the main enemy in a fight against global warming in the 21<sup>st</sup> century because high oil prices are likely to encourage a shift to coal before wind or solar power as pointed out by the chief economist at the Potsdam Institute for Climate Impact Research in Germany. Coal emits far more greenhouse gases, blamed by most scientists for a rise in world temperatures, per unit of energy when burnt in power plants or factories than oil or natural gas. Coal is plentiful across the globe making it the fuel of convenience, but the emissions it gives off make it a detriment to the environment. Many countries, led by the U.S., are trying to create clean coal technologies to strip heat-trapping gases from the exhausts of power plants or factories. The gases could then be buried below the ground. Electricity can be generated more cheaply and easily from coal than from renewable energy sources, making the next substitution process from liquids to coal rather than to wind, solar or biomass. Global penalties for emitting carbon dioxide would make switching to coal less attractive.

**MARKET COMMENTARY**

The natural gas market opened 12 cents lower as the November contract started its first session as the spot contract. The EIA's inventory report was a bit on the lower end of expectations, with 77 Bcf injected into the ground, but still a large build to an already full supply situation. Price reaction was initially higher, trekking to a high of 5.63 but in line with the bearish fundamental picture to this market, prices receded and extended through yesterday's low to 5.35. November natural gas ultimately settled down 27.7 cents at 5.392.

Total stocks in storage now stand at 3,254 Bcf, 377 Bcf over last year at this time and 354 Bcf over the five-year average. Stocks are already at a comfortable level and with mild weather and early winter forecasts calling for above normal temperatures to start the heating season, we feel this market will continue lower continuing the October contracts slide to two-year lows. We see support for the November contract at \$5.35, today's low and then it will target the \$5.00 level followed by \$4.80. We see resistance at \$5.84, \$6.00, \$6.40 and \$6.95-\$7.00.

<b>NYMEX Nat Gas Options Most Active Strikes for September 28, 2006</b>									
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Prev Settle	Volume	IV
ON	3	7	C	11	02/23/2007	0.5	0.58	8,949	76.21
LN	11	6	P	5	10/26/2006	0.3095	0.2731	5,960	86.23
ON	11	6	P	5	10/26/2006	0.31	0.273	4,671	84.33
LN	11	6	C	7	10/26/2006	0.1274	0.205	3,935	91.52
LN	1	7	C	10	12/26/2006	0.3619	0.4208	3,000	69.37
LN	11	6	C	10	10/26/2006	0.0108	0.0243	2,915	101.67
ON	3	7	C	8	02/23/2007	1.086	1.184	2,728	70.89
ON	3	7	C	9.5	02/23/2007	0.729	0.82	2,675	73.92
ON	12	8	C	15	11/21/2008	0.52	0.552	2,500	42.46
ON	12	8	P	6	11/21/2008	0.478	0.476	2,500	34.97
LN	1	7	C	12	12/26/2006	0.1705	0.2074	2,100	73.05
LN	11	6	C	6	10/26/2006	0.3045	0.4483	2,025	86.84
LN	1	7	C	13	12/26/2006	0.1189	0.1473	2,000	74.46
ON	1	7	C	12	12/26/2006	0.171	0.208	2,000	75.61
LN	12	6	C	12	11/27/2006	0.0649	0.0885	1,800	79.38
LN	12	6	P	6	11/27/2006	0.3127	0.2915	1,779	71.09
ON	3	7	P	7	02/23/2007	0.996	0.984	1,739	68.18
LN	11	6	C	5.5	10/26/2006	0.4675	0.6534	1,425	84.17
ON	2	7	C	15	01/26/2007	0.156	0.193	1,400	81.86
LN	2	7	C	12	01/26/2007	0.3195	0.3773	1,365	74.24
LN	3	7	C	12	02/23/2007	0.3942	0.4678	1,200	73.60
LN	3	7	P	6	02/23/2007	0.5057	0.507	1,111	68.84
ON	3	7	C	10.5	02/23/2007	0.573	0.661	1,104	75.96
LN	1	7	P	6	12/26/2006	0.3016	0.2958	1,104	67.81
LN	6	7	P	6	05/25/2007	0.5655	0.5668	1,100	55.56
LN	3	7	P	7	02/23/2007	0.991	0.9786	1,100	72.66
LN	3	7	C	8	02/23/2007	1.0799	1.1778	1,075	63.71
ON	11	6	C	6	10/26/2006	0.305	0.449	1,064	89.13
ON	1	7	C	9	12/26/2006	0.53	0.594	1,062	70.37
ON	1	7	P	7	12/26/2006	0.699	0.69	1,055	66.36
LN	1	7	C	15	12/26/2006	0.058	0.0751	1,050	76.39
LN	11	6	P	4	10/26/2006	0.0596	0.051	1,050	89.21