



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR SEPTEMBER 29, 2004**

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

The U.S. Minerals Management Service Wednesday afternoon reported that recovery efforts in returning USG production in the wake of Hurricane Ivan remains slow. The agency reported that still some 485,000 b/d or 28.5% of overall Gulf production remains off line and some 2.3 bcf/d or 19% of natural gas production remains shut in. The cumulative shut in totals have now reached 12.4 million barrels of crude and 55.5 bcf of natural gas.

Southern Natural Gas Pipeline Company said that its assessment of damage from Hurricane Ivan is continuing in the Main Pass area. Sonat expects that damage assessment will take about two weeks to complete assuming no further delays due to weather conditions and vessel availability. Initial reports indicate that the Main Pass 293 platform was destroyed; the incoming 24-inch riser on the Main Pass 298 B platform was severed, and there is piping damage to the subsea tie-in on the 18-inch SP 60 line, which also impacts the 12-inch Main Pass 116 line. Repair plans will be developed and communicated after the damage assessment is completed. The company also added another 11 receipt points on its Main Pass line, with about 320 MMcf/d flowing out of a total of 42 receipt points. Prior to Hurricane Ivan, SNG was receiving about 800-850 MMcf/d of natural gas at 70 points upstream of its Toca Compressor Station. About 500 MMcf/d flowed on these points prior to Hurricane Ivan. Nominations for all 42 points are being

#### **Generator Problems**

**ECAR** – The 1,260 Mw Perry nuclear power plant is at full power, ramping 16% since yesterday. The unit trimmed output overnight for fuel exchange and rod pattern adjustments.

**MAAC** – The 1,100 Salem nuclear unit 1 is operating at full power today, up 81% on the day. The unit restarted and was warming up at 19% capacity yesterday, after shutting on Saturday for planned work.

**MAIN** – The 855 Mw Quad Cities nuclear unit 1 is currently running at 75% capacity, down 10% on the day. The reason for the reduction has yet to be disclosed.

The 1,170 LaSalle County 1 nuclear unit is down 15% on the day, running at 85% capacity as of early this morning. The reason for the reduction was not immediately available.

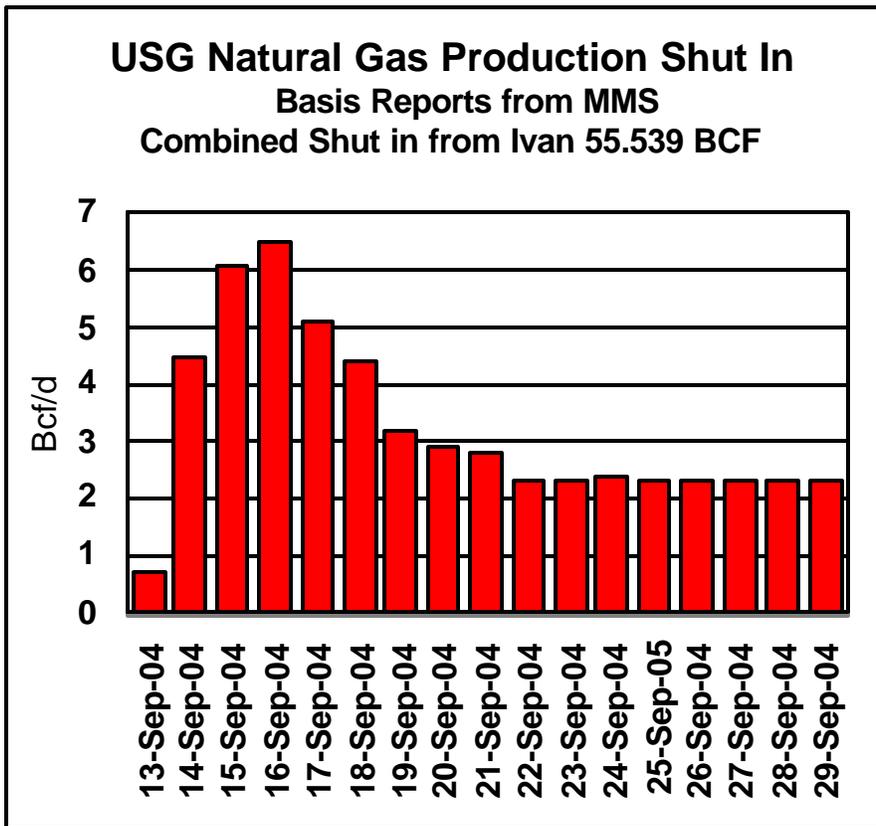
**NPCC** – The 1,158 Mw Nine Mile Point 2 nuclear reactor is operating at 98% capacity today. The unit lowered output earlier this week due to planned maintenance work that included control rod pattern adjustment.

**ERCOT** – The 528 Mw coal fired Unit #3 at the Welsh Power Plant was expected to be restarted this afternoon. The unit had been off line for maintenance of a boiler and precipitator. Start up operations are expected to last until October 3<sup>rd</sup>.

**SPP** – The 1,135 Mw Wolf Creek nuclear plant is operating at 99% capacity, after being trimmed down to 80% production yesterday. The unit was down-powered on Monday for a potential transformer replacement in the switchyard.

***Based on latest NRC reports, total nuclear generation output this morning reached 85,868 Mw up 1,418 Mw or 1.7% from yesterday's levels. Total generation was some 7.38% higher than the same date a year ago.***

accepted for the next cycle. All other points upstream of Toca remain under a force majeure and should flow gas until they have been released from the force majeure, submitted a nomination and checked to see how much gas is actually scheduled.



Britain's BP Plc. Expects to expand the capacity of its planned Tangguh LNG complex to produce 8 million tonnes per year after sales exceeded the original volume. Lukman Mahfoedz, BP Indonesia vice president for Tangguh LNG said, "We expect to increase the capacity of the Tangguh plants to a total of 8 million tonnes per year. So each plant will now be 4 million tonnes per year." The two production facilities at Tangguh in Papua had been due to produce 3.5 million tpy each of the super-cooled and compressed gas. Investment in the Tangguh development will amount to about \$5 billion, with start up scheduled for mid-2008, although BP only expects to make a final investment

decision on the project by the end of the year. BP has yet to finalize a 20-year deal to supply 3.7 million tpy to Sempra Energy. An official at Indonesia's oil and gas watchdog, BP Migas, previously said that BP was expected to sign a final contract with Sempra early next month.

Imports of LNG will never be sufficient to replace the coal used in baseload power plants, John Stanton, vice president of the National Environmental Trust said Tuesday. Stanton also told the Natural Gas Roundtable in Washington D.C., that wind, solar, wind and biomass will at best remain marginal sources of energy. He thought the federal government should spend more money to develop coal-gasification technologies and expected that gasified coal would become the primary fuel used by electric generators. In the meantime, the U.S. will have to acknowledge that LNG must fill its immediate energy needs. The technology is available now to remove most of the carbon dioxide from natural gas, which makes it an even more attractive commodity from an environmental standpoint. Stanton recognized that considerable opposition to LNG docking facilities in the U.S. continues, but Canadians "are not allergic to energy development" and very likely will import the LNG that will be shipped to the U.S. Stanton also feels that growing dependency on LNG could put the U.S. economy at risk, which is one reason why the federal government should allocate more resources to developing coal-gasification technology. He also acknowledged that unless the government intervenes, imported LNG will be less costly to produce and use than gasified coal in peaking plants.

The National Hurricane Center does not expect any tropical storm development over the next 24 hours but it continues to watch a tropical wave moving westward in the eastern Atlantic, but conditions are not favorable for this system to become better organized at this time. In the Caribbean, close to the

South American coast there is an area of strong convection or thunderstorm activity. But there remains no signs of any organization at this time.

The U.S. government reported that the U.S. economy grew at a 3.3% rate in the second quarter, up from an earlier forecast of a 2.8% expansion from last month but still slower than the 4.5% economic expansion in the first quarter. This was still the slowest growth rate in more than a year.

The CEO of Duke Energy declined to provide a timeline today on when the two undamaged salt cavern storage facilities at its Moss Bluff facility in Liberty County, TX would reopen.

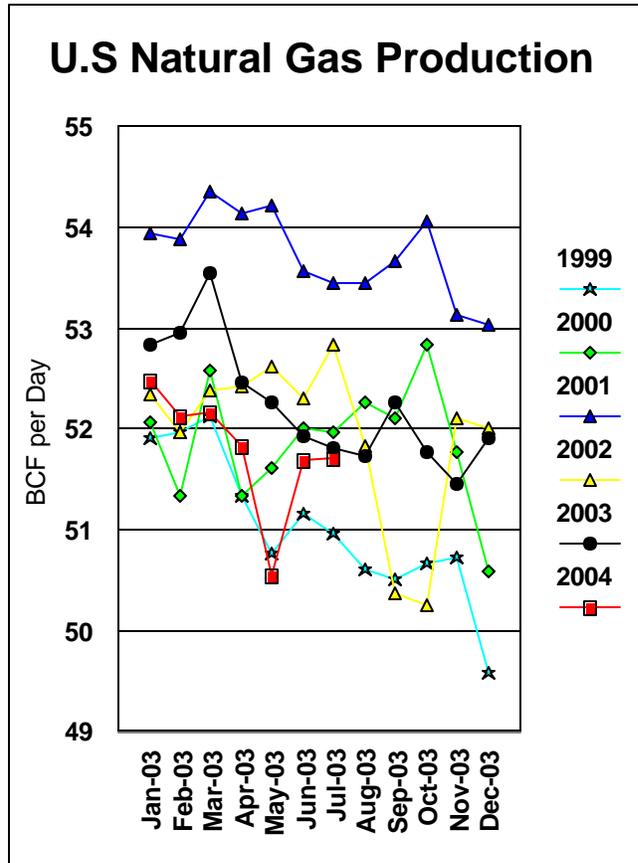
The NYMEX announced that it will increase the margins on its Henry Hub natural gas futures, swap futures and e-miNY futures contracts at the close of Thursday's session. The margins on the first four natural gas futures contracts will increase from \$6,750 to \$7,425 for customers while margins on the fifth month will increase to \$6,413. The margins on the first month of the Henry Hub swap futures contract will increase to \$1,856 from \$1,688 for customers. Margin increases also will apply to the second month through the 19<sup>th</sup> month, expecting decreases in the sixth and 14<sup>th</sup> through 18<sup>th</sup> months. Margins on the first month of the e-miNY natural gas futures contract will increase to \$3,713 from \$3,375.

This afternoon the EIA released their latest monthly report on the natural gas market. The agency estimated that US. domestic production in July stood at 51.7 bcf/d, unchanged from June and some 0.2% less than the same month a year ago. Net imports on the month reached 10.3 bcf/d, the highest level since August 2001 and some 10% higher than the same month a year ago. Consumption though in July was estimated at 49.4 bcf/d some 2.7% less than the same period a year ago. While residential demand for the month was off only 1.6% from July 2003, commercial and industrial usage of gas was off 5.4% and 2.4% respectively from year ago levels, while electric utility demand was off 3.3%. Working gas in storage at the end of July was estimated at 2.395 tcf, some 5 bcf higher than had been estimated basis the government's weekly storage report.

**PIPELINE RESTRICTIONS**

Florida Gas Transmission said that due to high demand and warm temperatures, it is issuing an Overage Alert Day at 5% tolerance for today.

Gulf South Pipeline Company stated that based upon its initial review of nominations, NNS demand, and other factors, Gulf South will be required to schedule available capacity and implement scheduling reductions for today. In East Texas/Capacity Allocation Area 8/Zone 1 Gulf South will notify affected parties when final scheduled quantities are available.

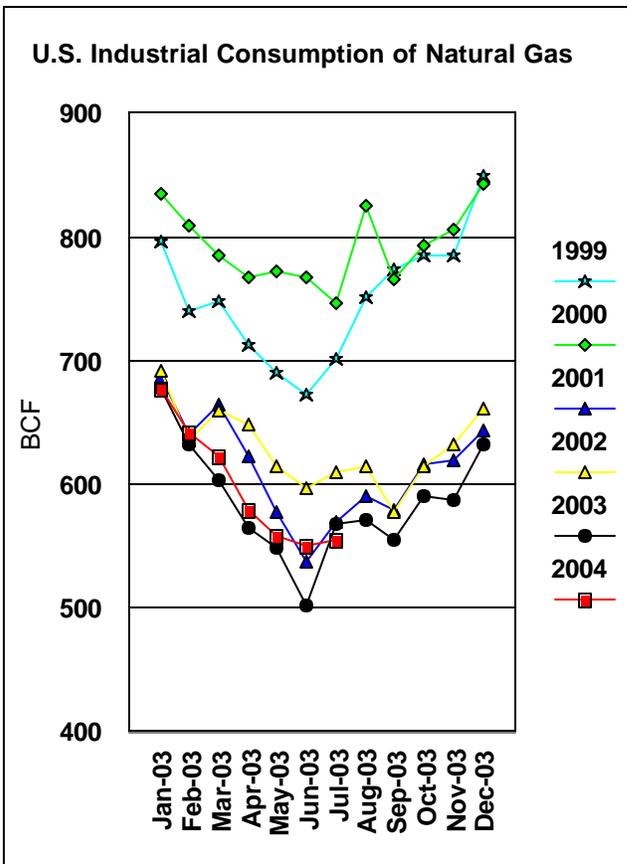


East Tennessee Natural Gas said that due to maintenance on the 3200 line between Tracy City and Ooltewah, scheduled deliveries between Topside and Tracy City have put part of the system at capacity. No increases in physical deliveries will be accepted unless the supply is also sourced between Topside and Tracy City. This work is scheduled to be completed on September 30.

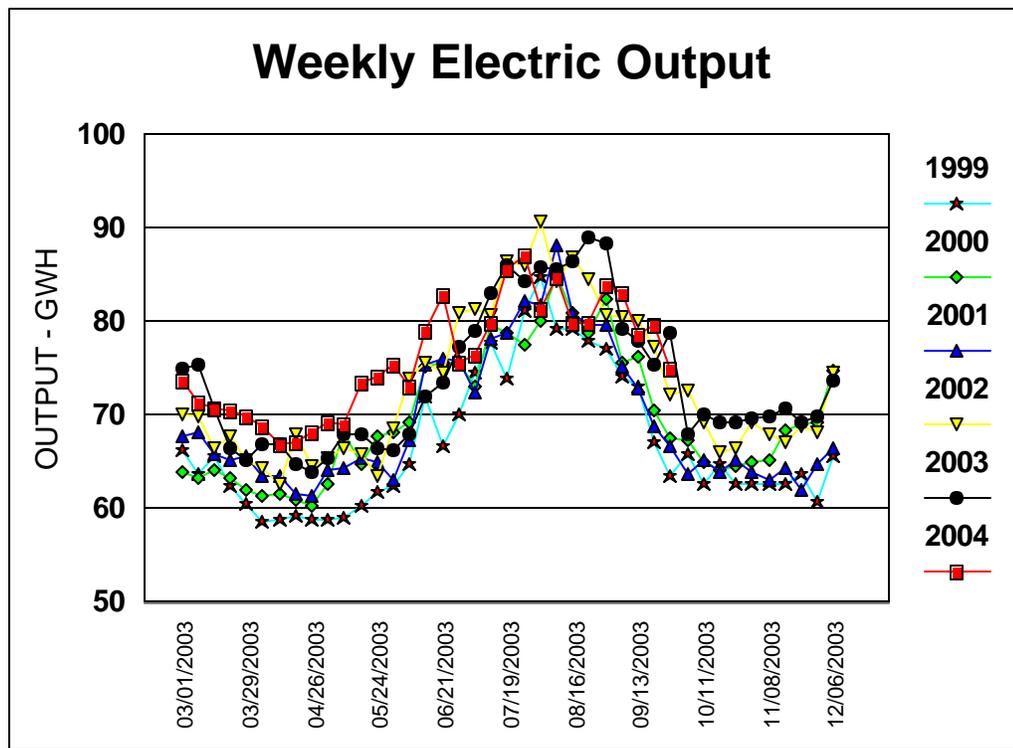
**PIPELINE MAINTENANCE**

Texas Eastern Transmission Corp. said that Vidor discharge maintenance work has been completed ahead of schedule and the pipe has resumed normal operations in the area. Effective immediately, all restrictions and seals for zones STX/ETX and the M1-24 are lifted. The Monroe line in Zone ELA has been scheduled to capacity based on supply nominations for this lateral.

Williston Basin Interstate Pipeline Company said it would complete maintenance at the Saco Plant by 1:00 PM MT today. This maintenance was initially scheduled for September 20-23 and changed to September 27-30. Due to maintenance at the Saco Compressor Station, Receipt Point ID 0885 Bowd and Receipt Point ID 0880 Whitewater will be zero



during this time period.



**ELECTRIC MARKET NEWS**

Florida's two largest utilities were working today to restore power to the 600,000 customers still in the dark after Hurricane Jeanne blasted through the state over the weekend. More than 425,000 Florida Power & Light customers were still without power early this morning, down from the more than 1.7 million customers initially affected. Progress Energy Florida said about

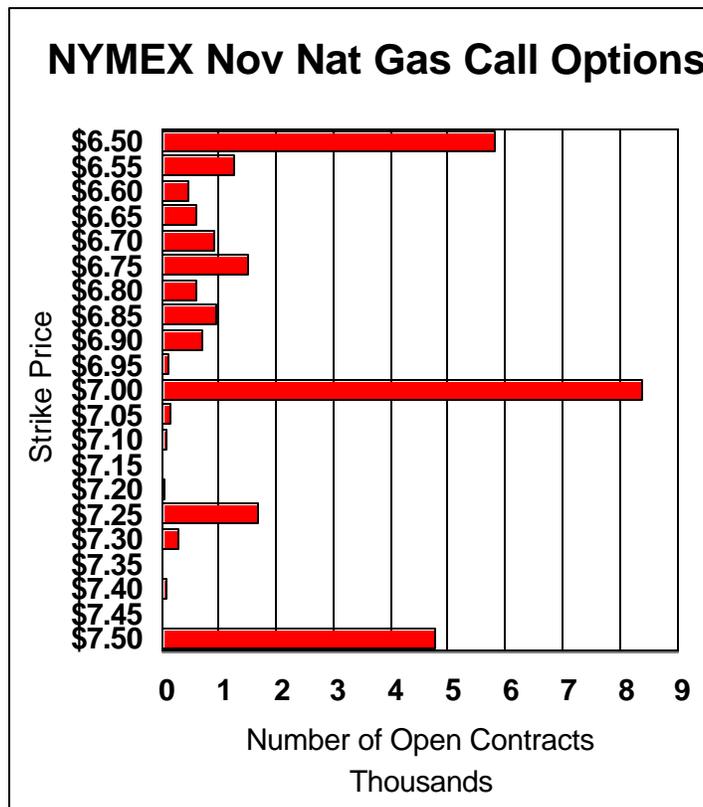
178,000 of its customers were still without electricity early today, down from a peak of about 722,000 on Sunday.

The Edison Electric Institute reported today that for the week ending September 25<sup>th</sup> some 75,004 Gwh of power was generated in the continental U.S., down some 5.91% from the previous week and some 4.83% less than the same week a year ago. For the first 39 weeks of this year, electric production has been some 1.6% higher than last year.

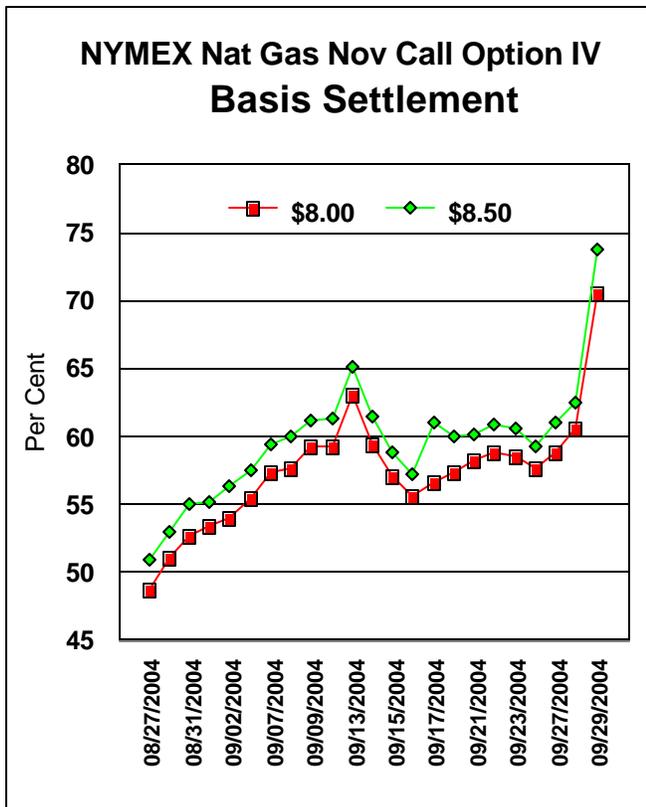
The Long Island Power Authority and Connecticut Light and Power Co. will rebuild the old 300 Mw power cables connecting southwest Connecticut and Long Island, New York, LIPA's Chairman Richard Kessel said in a statement last yesterday. LIPA and CL&P agreed to split the estimated \$80 million cost to replace the existing cables as part of a settlement with Connecticut that allowed the new 330 Mw Cross-Sound Cable to start operating on June 28. The cable has continued to operate since without incident. The companies want to rebuild the 1385 cables because of their high outage rate and environmental concerns associated with fluid leaks after a number of anchors dragged up and damaged the cables. The new cables will be solid core cables buried beneath the floor of the Long Island Sound. The LIPA Board of Trustees will likely approve of the agreement with CL&P on September 29. The companies agreed to replace the cables by the summer of 2007. They will start seeking state permits to replace the cables soon and issue requests for proposals from cable manufacturers by the end of the year.

PJM Interconnection will assume functional control of American Electric Power's eastern transmission grid, covering 22,300 transmission miles, midnight on the evening of Thursday, September 30. AEP's chairman, president and chief executive officer Michael G. Morris said, "Consumers throughout the

PJM region will benefit from AEP's membership in PJM, which will enhance overall transmission system reliability while encouraging increased competition among wholesale electricity suppliers." AEP will continue to own its eastern transmission system, to use its low-cost generation to serve the needs of its native-load customers and to sell available generation to other parties.



The Bonneville Power Administration announced that the transmission of direct-current energy between the Pacific Northwest and California will stop October 1. The shutdown of the DC intertie will allow the Los Angeles Department of Water and Power to complete a nearly total rebuild of their Sylmar DC converter station at the southern end of the 846-mile long DC line. The work at Sylmar is part of the overall project to replace aging equipment at both ends of the intertie in order to increase reliability and reduce maintenance. Work at BPA's Celilo substation near The Dalles, Ore., was completed in April at a cost of about \$45 million. The DC intertie



is scheduled to be back up to its full capacity of 3,100 Mw by the beginning of 2005. Work on the DC lines will not affect the operation of the Pacific Northwest-Pacific Southwest AC intertie lines.

According to American Transmission Co.'s 10-year Transmission System Assessment report issued yesterday, the electric transmission system in most of Wisconsin and Michigan's Upper Peninsula continues to operate at its limits, even with nearly \$500 million in system investments over the past four years. The study said that the transmission system continues to be constrained across the Upper Midwest region, particularly in areas that have experienced significant growth. A company spokeswoman said that this year's assessment report reinforces the need for additional 345 kV transmission lines to shore up the system's reliability and provide adequate infrastructure to address the continuing increase in electricity demand.

#### **MARKET COMMENTARY**

The natural gas market continued its surge to the upside today. Continued short covering, coupled with \$50.00 crude oil prices and the prospects of the first two significant outbreaks of cold weather moving into the central and eastern parts of the nation later this week and again next week seemed to keep the bullish fires of the last two day rally burning. But the market appears to have received and additional surge of buying from the option market, as sellers of what had been far out of the money call strikes, suddenly found themselves with positions that were quickly moving into the money. Some 23,884 contracts of open interest in just the November call options last night were out of the money, only to find that overnight and into the first 30 minutes of trading today these positions were suddenly at or in the money. The buying frenzy in natural gas sent spot prices to their highest level since January 9<sup>th</sup> of this year, with the November contract setting an all time high. While the two hard sell offs in the oil market following the release of the oil inventory statistics and again with the news of a ceasefire in a troubled oil region in Nigeria, helped to calm the natural gas market and allow prices to retrace some 44% of the price gains of the past two days, before rebounding again in the afternoon, as news from the MMS continued to point to problems in returning shut in production in the USG to the market. The November contract settled the day up 56 cents at \$6.911. Final volume was estimated at 106, 192 futures traded.

Expectations for tomorrow's EIA storage report for the week ending September 24<sup>th</sup> appear to be running around a 70 bcf injection. For the same week a year ago stocks increased by 101 bcf with the five-year seasonal weekly injection averaged at a 79 bcf gain. Some 23 bcf of production was lost for this reporting period. But given the poor cooling demand during this period we would look for an injection rate of 83-90 bcf, despite this loss of domestic production.

We do not expect to see this market tomorrow to continue the same explosive price gains that it has posted over the past two sessions. In fact given the nearly \$1.00 gain that we have seen in the past two days, just can not be justified in our minds at this stage of the pre-heating season. These price gains are more suitable for January not September. As a result we feel that one should consider

buying puts in the November contract, looking for selling pressure to return to this market later in October as storage levels continue to be rebuilt. For those with a bit more aggressive approach to this market, we feel that the \$8.00 and \$8.50 calls offer an attractive sale opportunity especially if the November futures move back over \$7.00 tomorrow. These two strikes traded as high as 30 and 13 cents respectively earlier in the morning, but still settled at 30 cents and 13 cents.

We see resistance tomorrow at \$7.00 followed by \$7.23, \$7.32, \$7.39, \$7.44, \$7.55 and \$7.63. Support we see at \$6.65, \$6.41 and \$6.37.