



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR OCTOBER 4, 2006**

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

Mariner Energy announced that it has made a material conventional shelf discovery in the High Island 116 well, drilled to a total measured depth of 14,683 feet. The well encountered approximately 540 feet of net vertically pay in thirteen sands. Completion operations are underway, with initial production anticipated later in the fourth quarter. Mariner internally estimates this well to have proved and probably reserves in the range of 40-60 Bcf.

British spot natural gas prices, which dipped below zero yesterday, rose slightly today but stayed at low levels as flows of Norwegian gas through a new pipeline increased still further. Within-day traded at 7.20 pence a therm, up 2.2 pence from the previous close but down about half a penny from its opening level as the system became less comfortably supplied over the course of the day.

Even with this winter expected to be colder than winter 2005-2006, the Michigan Public Service Commission (MPSC) said it expects residential natural gas bills for the season will be lower than they were last year. The report also predicts that 2006 electricity sales within the state will likely reveal a 0.8% decrease compared to 2005.

Citing lower estimates for oil and natural gas prices going into 2007, Banc of America Securities on Wednesday cut its rating on the exploration and production (E&P) sector to "market weight" from "overweight." Assuming normal weather, the 2007 consensus estimates for oil and gas are "unlikely" to rise in the near term, energy analyst Robert Morris said in a note to clients.

#### **PIPELINE RESTRICTIONS**

Florida Gas Transmission said that warm weather is forecast in Florida for today. Therefore, FGT is notifying customers in FGT's Market Area that it is issuing an Overage Alert Day at 25% tolerance.

Kern River Pipeline said that line pack is low from Muddy Creek to the interconnect with the Common facilities. Operators and shippers are encouraged to be on rate and arrange payback where possible.

PG&E California Gas Transmission has called a system-wide 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. Tolerance was set at 5%.

#### **Generator Problems**

**ERCOT** – TXU Power's 1,150 Mw Comanche Peak #2 nuclear unit continues to coast down for a refueling outage and is operating at 94% capacity today. Comanche Peak #1 continues to operate at full power.

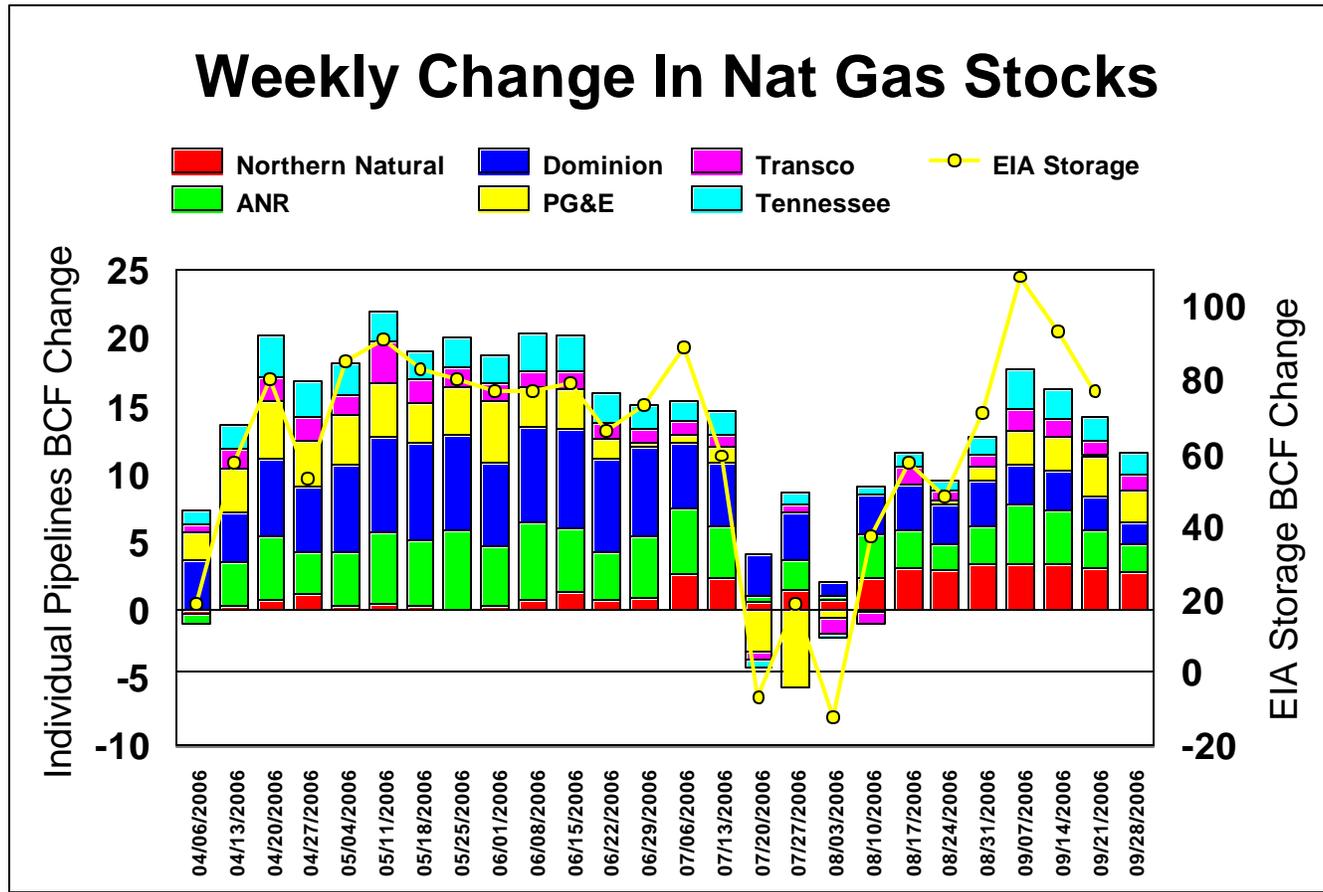
**MAAC** – Part of PSEG's 1,220 Mw Linden natural gas-fired power plant will return to service over the next day or so. Half of the plant shut in mid-September for maintenance.

**Canada** – Ontario Power Generation's 494 Mw Lambton #4 coal-fired power station returned to service early today. The unit shut for service late yesterday.

Ontario Power Generation's 515 Mw Pickering A #4 nuclear unit is shut for short-term work and may remain shut for its scheduled refueling outage.

**The NRC reported this morning that 81,144 Mw of nuclear generating capacity were on line, .08% higher than Tuesday but 1.16% lower than a year ago.**

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 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. Due to the previously posted outage at Crookville Station, TE has restricted and sealed receipts sourced between Little Rock and Crookville for delivery downstream of Crookville. No increases in receipts sourced between Little Rock and Crookville for delivery outside that area will be accepted.



Williston Basin Interstate Pipeline Company 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.

**PIPELINE MAINTENANCE**

Florida Gas Transmission said that as the result of a third party contractor's equipment being out of place, FGT will be performing unscheduled maintenance on the FGT Mainline near Station 6 in Orange County, Texas. The third party contractor's equipment may have significantly damaged the FGT mainline. The mainline will need to be taken out of service while the mainline is being repaired. FGT is setting up to perform this repair work today and last one to three days. During this maintenance, FGT will not schedule volumes through Station 6. During normal operations FGT schedules up to 300 MMcf/d through Station 6.

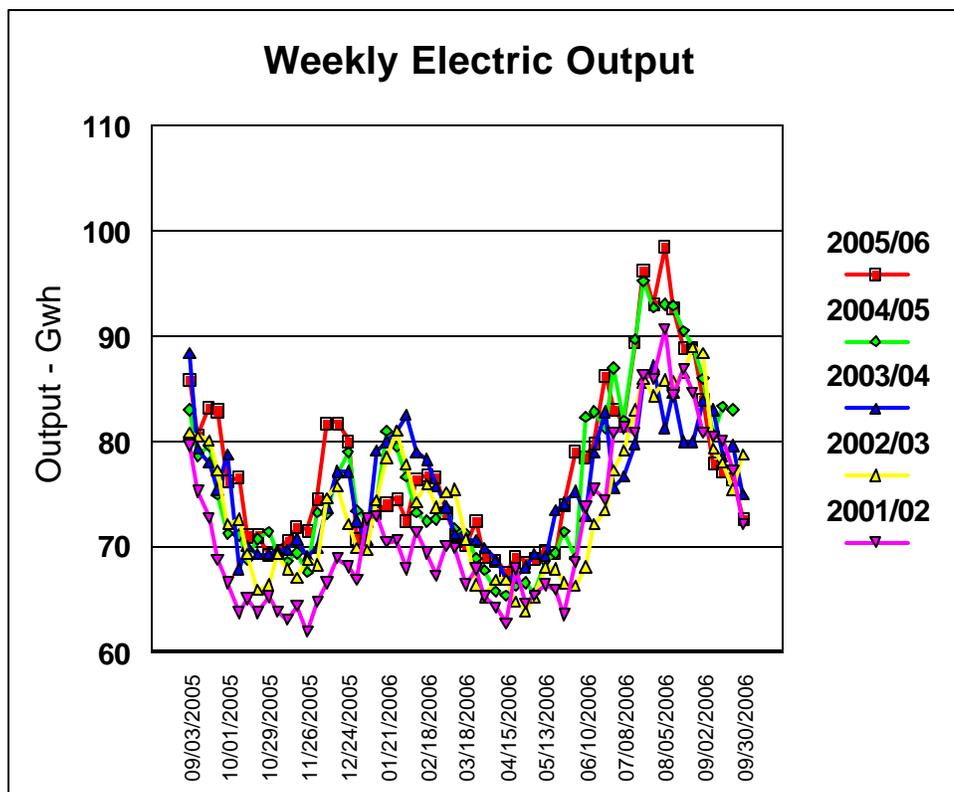
Gulf South Pipeline said that it will be performing scheduled maintenance on Bistineau Compressor Station Unit #4 beginning October 10, and continuing for five days. Injections to the Bistineau Storage Field will be reduced by 100 MMcf/d for the duration of the maintenance. Withdrawals from the Bistineau Storage Field should not be affected during this maintenance. Gulf South also said that it will be performing scheduled pipeline maintenance

on Index 250, at the LA HWY 167 road crossing located in Lincoln Parish, Louisiana, beginning October 17, and continuing for three days.

Natural Gas Pipeline Company said that from October 11-13 it will be inspecting the electric compressor units at Station 302 in Montgomery County, Texas. This station is the terminus of Natural's South Texas Zone (Segment 22) and the beginning of the Texok Zone (Segments 25 and 26). Both compressor units will be unavailable for 12 hours each day, which will lower the schedule to capacity into Segment 25. ITS/AOR and secondary out-of-path transports will be unavailable. On these gas days the associated capacity reduction through the affected area will require Natural to initially schedule primary firm and secondary inpath transports to a minimum of 91% of MDQ for each contract with Segment 25 primary/secondary in-path rights. The actual scheduling percentage will depend on the level of nominations each day.

Williston Basin Interstate Pipeline Company is planning mainline valve replacement in certain areas of its system with Line Section 16 work lasting just one day and the Line Section 20 work lasting about six weeks. The company said it will be removing and replacing a mainline valve between the Hathaway Compressor Station and Cabin Creek Compressor Station on Line Section 16. This project is anticipated to begin October 19 and be completed in eight hours.

During the period of valve tie-in and/or removals, mainline gas flow will be affected for an eight-hour period. Williston Basin also will be removing and replacing valves between the Worland Compressor Station and Lovell Compressor Station on Line Section 20. This project is anticipated to begin October 23 and be completed December 5. During certain periods of valve tie-in and/or removals, deliveries to customers at MI Drilling, MDU-Georgia Pacific Himes and MDU-Wyo-Ben Greybull may not be possible for approximately 10 hours at each site. Receipts at Emblem may also be affected for a 10-hour period.



**ELECTRIC MARKET NEWS**

The Edison Electric Institute reported that electricity production in the continental U.S. for the week ended September 30 fell 4.6% from the same 2005 week to 72,866 GWh. There were no U.S. regions that showed an output gain for the week.

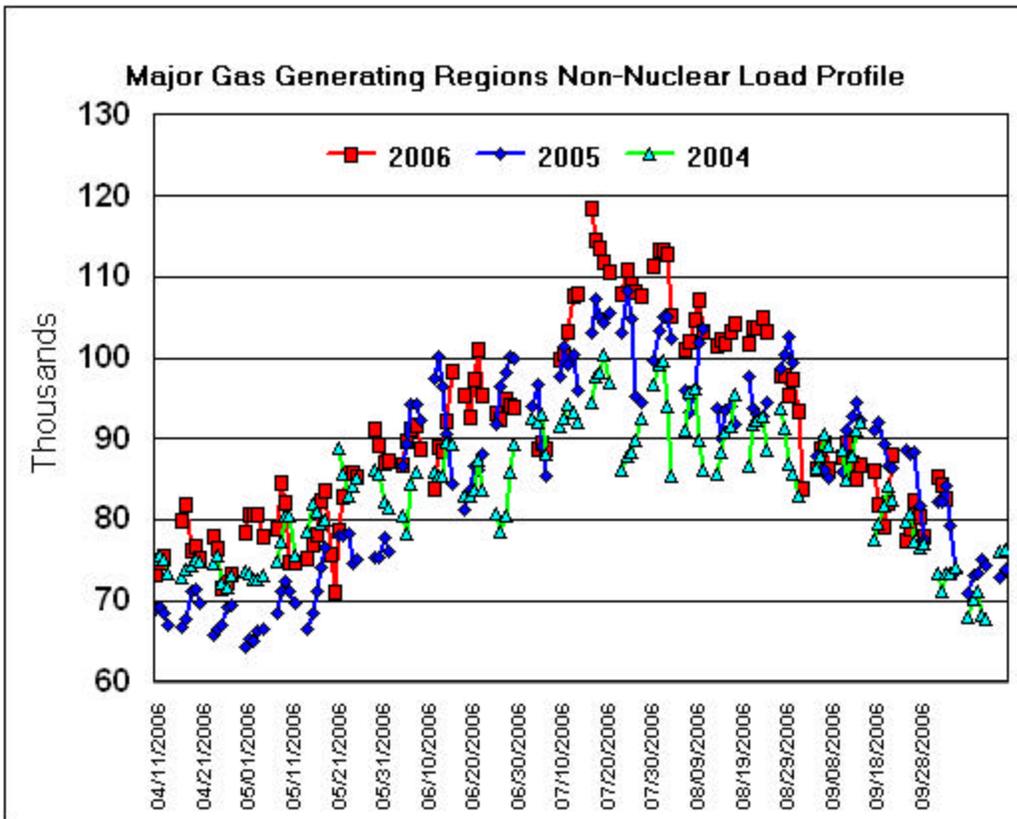
Ameren Corp.'s Illinois power utilities announced a plan that would give residential customers the choice either to pay the full amount of higher electricity costs in 2007 or to phase in increases over a period of year. Ameren said increases would be phased in at an annual maximum increase of 15% over three years or until the full amount of the rate increase is reached.

The Bonneville Power Administration announced that it has cut wholesale power rates by 3%. BPA attributed the decrease to "stringent cost-management" and "better-than-expected surplus power sales due largely to the normal water year" and two new financial arrangements.

The U.S. Nuclear Regulatory Commission said leaks of radioactive tritium at U.S. nuclear power plants over the past two decades have not endangered the public's health. The task force probing into tritium releases is made up of NRC personnel and a nuclear safety official from the Illinois Emergency Management Agency, and started their investigation after Exelon Corp. reported that tritium-contaminated water had leaked from its Braidwood power plant in Braceville, Illinois, about 60 miles southwest of Chicago, into the Kankakee River.

**MARKET COMMENTARY**

The natural gas market opened 7 cents stronger as it continued with follow through technical buying. The market is reacting to an oversold condition and with winter around the corner, market players are tidying up their books. Also supporting this market are strong cash prices given the large amount of nuclear generation offline due to refueling and maintenance outages. Autumn refueling at U.S. nuclear plants was expected to top out in mid-October at its highest level since



2000, running more than 5,000 Mw over last year and nearly 7,000 Mw above the five-year average. Non-nuclear generation is up about 10% and natural gas-fired power units provide most of that. November natural gas led the rally, trading through resistance at 6.00 to a high of 6.18. The foray over the 6.00 threshold marks the highest levels for the front month contract in over a month. November natural gas ultimately came to rest at 5.995, a full 23.6 cents higher than yesterday.

The market was also psychologically supported by the petroleum market today, which shrugged off sizeable storage build and a trip to an intra-day low of 57.75 to close up 73 cents, on news of unrest in Nigeria. However, for natural gas to ultimately hold at these follow through technical levels, the market is going to have to see something concrete in terms of additional heating load or production cuts.

Expectations for tomorrow's EIA inventory report range from a 65 Bcf injection to a 90 Bcf injection, with average estimates calling for a build of 76-79 Bcf. Our model was at the lower end of expectations, with 60-65 Bcf expected. A larger than expected build, in the 80s would most certainly put the brakes on this little rally. We see support at \$5.80, \$5.60 and \$5.46. We see further support at \$5.35, \$5.00 and \$4.80. We see resistance at \$6.17-\$6.20, \$6.28, \$6.40 and \$6.95-\$7.00.