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ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR OCTOBER 6,2004

NATURAL GAS MARKET NEWS

The Minerals Management Service reported this afternoon that 478,126 b/d of crude production remained shut in as of this morning, some 25,034 b/d worse than yesterday. On the natural gas side some 1.801 bcf was shut in some 64 mmcf worse than yesterday's levels.

Still-lagging natural gas production in the Gulf of Mexico added another 6.5% to the price of natural gas on Tuesday. There has been a better than 50% increase in the price during the past month, going back to before Hurricane Ivan unleashed its wrath. But that's only part of the story of zooming prices. The other part, possibly even bigger, are predictions from private and federal forecasters that winter may be colder than previously expected, said Art Gelber of Gelber & Associates. Also, high-priced crude oil is pulling up natural gas prices. The fuels are switchable to an extent, and natural gas is now in a bit of a catch-up. As of Tuesday, daily production is still off by more than 14% in the Gulf, which accounts for a fourth of the nation's supply, because of lingering damage from the hurricane, according to the U.S. Minerals Management Service. In addition to hampering current output, Ivan's damage will delay new wells coming on line. For instance, 5 additional wells at the Devil's Tower project will be delayed. The amount of crude oil being pumped out of wells in the Gulf of Mexico is still of by 27%. The storm has shaved nearly 15.3 million barrels from production thus far. There is some worry that damaged platforms may not be repaired by winter. On the other hand, there is a large amount of natural gas in storage for winter.

U.S. natural gas inventories were expected to total 3.065 Tcf at the end of September, the EIA said today. The EIA's last official data show U.S. natural gas inventories stood at 3.011 Tcf for the week ending

Generator Problems

NPCC – The 1,158 Mw Nine Mile Point nuclear reactor boosted output 4% on the day, returning the plant back to full power. The plant operated at 96% power after being down-powered over the weekend for maintenance.

SERC – The 839 Mw St. Lucie nuclear units 1 and 2 are operating at full power. Unit 2 was boosted an additional 15% as of early this morning following yesterday's restart, while Unit 1 increased 1% on the day.

The 855 Mw Hatch nuclear unit 2 trimmed output 5% on the day, and is currently operating at 85% power.

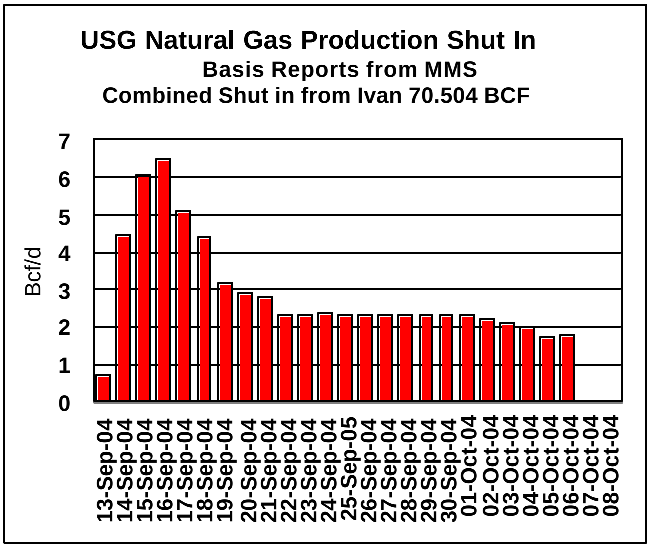
ERCOT – TXU's 575 Mw coal fired Unit #1 at the Big Brown Steam Electric Station was expected to begin startup operations Wednesday evening, following completion of boiler tube leak repairs.

AEP's 528 Mw Welsh 1 coal fired-power unit will shut between October 7-11 to perform maintenance on the boiler and precipitator.

CANADA – NB Power said it plans to keep its Point Lepreau nuclear plant shut for a few more days due to ongoing repairs.

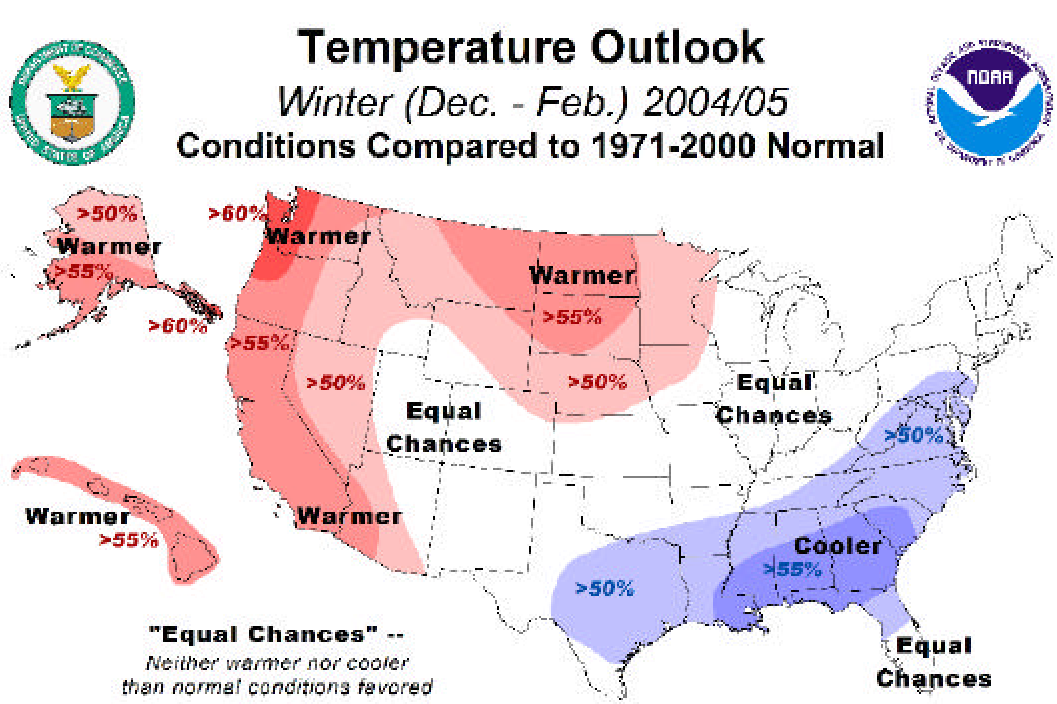
OPG's 535 Mw Lennox 3 oil and natural gas-fired unit returned to service early this morning.

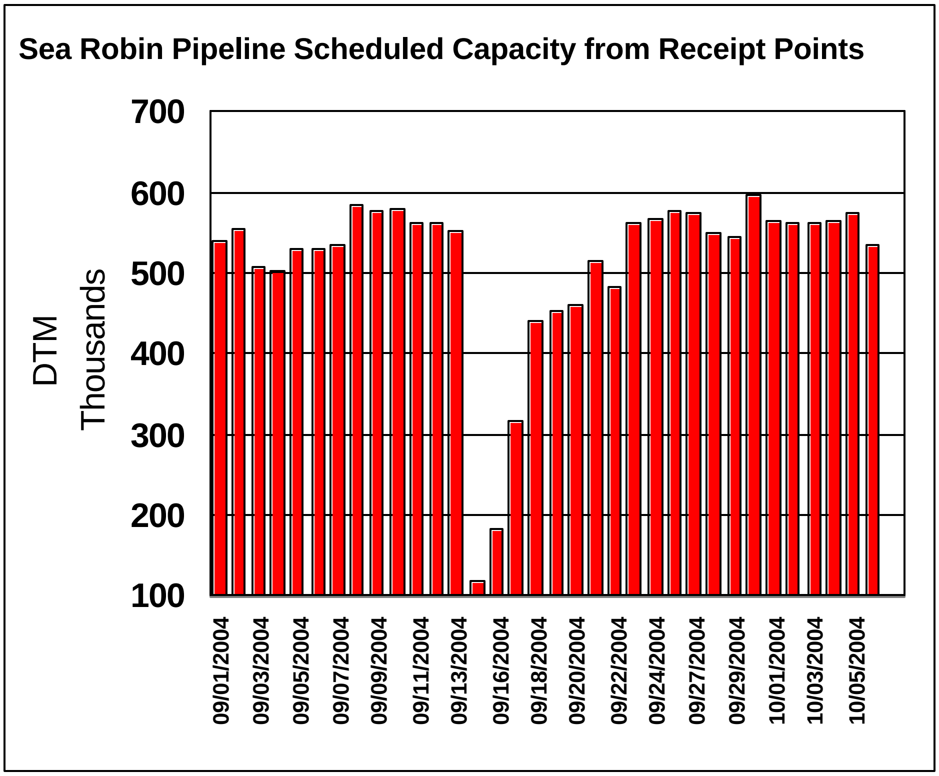
Based on latest NRC reports, total nuclear generation output this morning reached 84,688 Mw up 145 Mw or .17% from yesterday's levels. Total generation was some 8.11% higher than the same date a year ago.



September 24, which indicates the agency expects gas stocks to rise by about 54 Bcf for the week ending October 1. The EIA will release the official inventory numbers in its next weekly natural gas storage report to be issued at 10:30 AM EDT on Thursday.

According to the EIA's recent Short-term Energy Outlook, space-heating expenditures are projected to increase this winter for all fuel types compared to year-ago levels. Average residential natural gas prices are expected to be 11% higher than they were last winter, household expenditures are expected to be 15% higher, and consumption is expected to be 4% higher than last winter. The average spot price for natural gas at the Henry Hub for the month of September was $5.15/Mcf. Henry Hub prices are expected to average $6.10/Mcf in 2004 and $6.18/Mcf in 2005. The loss of natural gas production resulting from the Gulf hurricanes in September lowered last month's more optimistic injections rate, resulting in an estimated end-September level of working gas in storage of 3,065 Bcf, about 1% below last month's projections, but still about 8% above the 5-year average. Spot prices are still expected to rise significantly once the heating season gets under way. With continuing high rates of drilling for natural gas in North America, 2005 domestic production is projected to grow by 1.4%. Steady, if modest, increases in LNG imports, restrained export growth, and carryover from the robust storage levels noted above are expected to contribute to moderate improvement in the supply picture through 2005. When comparing the recent report to last month's report one finds that the EIA has lowered its production outlook for 3Q2004 and 4Q2004 by 1.3% and 0.6% respectively. In addition the agency also lowered its 2005 production outlook by 0.5% to 19.15 tcf. Net imports in 2005 are expected to reach 3.45 tcf, some 2% higher than forecasted last month. On the demand side though, the agency has raised its 2004 overall estimate by 0.4% while lowering its 2005 estimate by 0.1% to 22.47 bcf. While it appears to be taking into account a colder forecast by increasing demand estimates this month by 1.2%-1.3% for the residential and commercial sectors, it lowered its industrial 2005 consumption number this month by 1.7% from last month's projection.

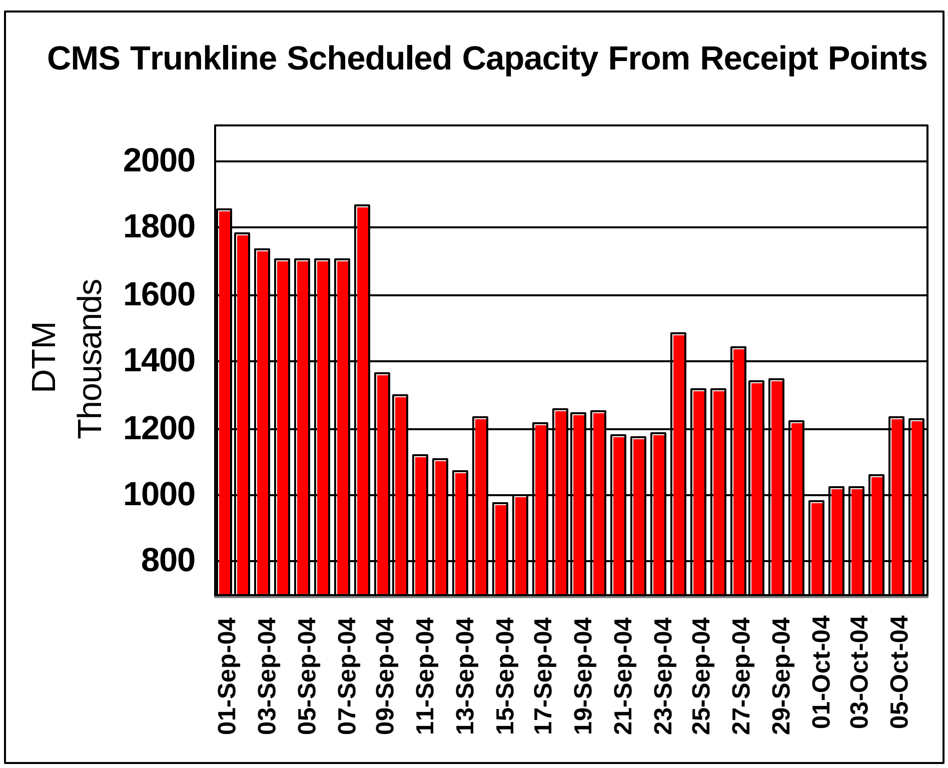




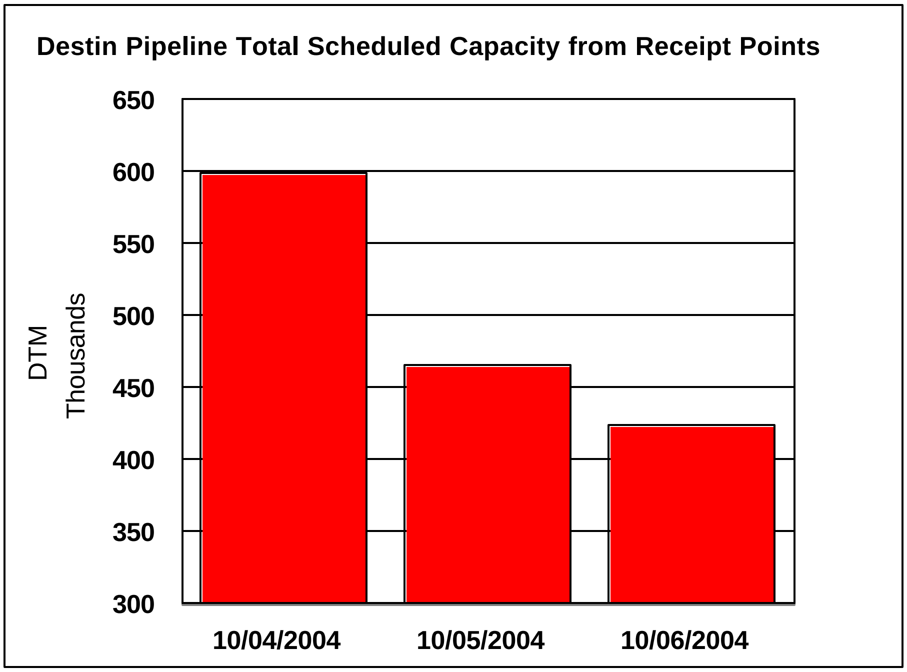
Electrical generation call on gas in 2005 remained unchanged at 5.33 tcf.

The NOAA released their winter temperature outlook this morning and it called for above average temperatures in Alaska and much of the west part of the nation as a result of forecast being based on a weak to moderate El Nino year. While the agency expects below normal temperatures across the Gulf Coast state, the Southeast and into the lower mid-Atlantic region, the Northeast and Midwest were seen as having an equal chances for warmer, cooler or near normal temperatures. Meanwhile private weather forecasting services seem much more bullish in their recent temperature outlooks. Forecasters at Harris-Mann Climatologic are the most bullish calling for heating demand in the northeast to run some 20-25% higher than last year. Earthstat is predicting a 5% higher demand in the Northeast, with Enercast.com calling for a 3%-5% colder winter for the Northeast and Midwest.

Forecasters at the National Hurricane Center continued to note that they saw no signs of further development for the area of cloudiness and scattered thunderstorms in the western Gulf of Mexico. Forecasters at AccuWeather continue to feel as this system moves northward it will bring tropical storm like conditions into the northwestern gulf of Mexico and by Sunday morning will be located near the mouth of the Mississippi River. Gale force winds and seas of 10-15 feet are possible.



PIPELINE RESTRICTIONS



Florida Gas Transmission said that due to high demand and warm temperatures, it is issuing an Overage Alert Day at 25% tolerance for today.

Texas Eastern Transmission Corp. stated that due to pig runs in STX/ETX, receipt points between Huntsville station and Longview station have been restricted to the capacity required to run the pigs. No increases of physical supply between Huntsville and Longview will be accepted. Also, the 24-inch system between Longview and Fagus has been nominated to capacity. No increases of physical supply between Longview and Fagus will be accepted.

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 the system. The pipeline restriction has 0% tolerance, with shippers who violate the OFO subject to a $5.00/Mcf monetary penalty.

El Paso Natural Gas Company said that the Plains Unit #3 will be down to service the gas compressor through October 28. Under current operating conditions, this unit is required for delivery of larger volumes of gas to Westar Felmac. The capacity of IW40-043 will be limited to 60 MMcf/d effective today and continuing until October 28.

Southern Natural Gas Pipeline Co. declared that it is currently experiencing receipts in excess of scheduled quantities and pipeline capacity west of the Bienville Compressor Station in north Louisiana which is threatening the operational integrity of the system. If the situation does not improve, Southern may be required to implement a Type 5 operational flow order for longs effective Thursday, October 7, until further notice.

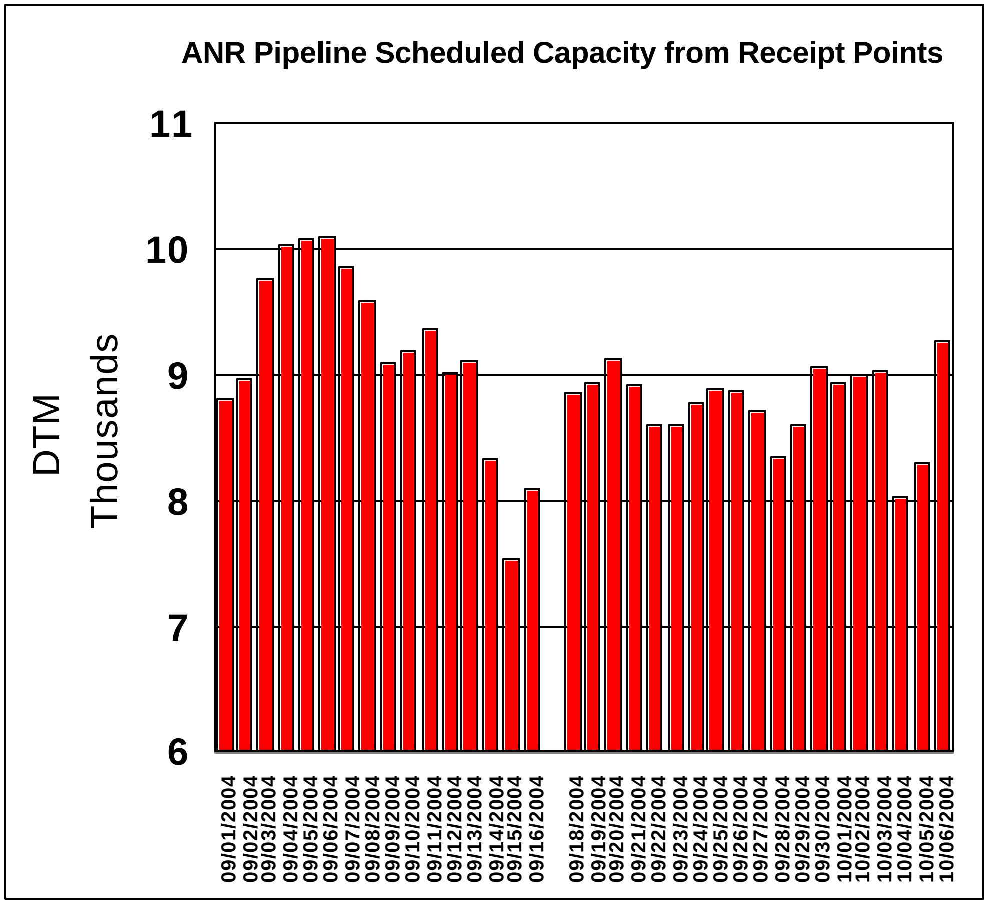
PIPELINE MAINTENANCE

Westcoast Energy said that inspection work on the 16-inch Grizzly Valley Extension Pipeline is going according to schedule. The company anticipates having the line back in service at 8:00 PM PST today.

Alliance Pipeline stated that minor maintenance originally scheduled to take 6 hours at the Towner Compression Station on October 7 will now require 10 hours to complete. As a result, system throughput will be slightly affected.

ELECTRIC MARKET NEWS

According to the EIA's short-term energy outlook, electricity demand is expected to increase by1.7% this year and by another 2.7% in 2005. Projected electricity demand in the fourth quarter is 3.2% above the prior-year level, when heating-related demand was depressed by comparatively mild weather conditions. Meanwhile, coal demand in the electric power sector is expected to show steady gains of 1.0% this year and 2.5% next year. Despite higher spot prices for coal, power sector demand for reflecting the impact of growing demand, coal continues to increase as oil and gas prices remain high and hydroelectric power availability remains low this year. U.S. coal production is expected to grow by 3.4% this year and by another 3.5% in 2005.



Creating a regional group to manage electricity transmission should cost up to $70 million in investment costs, or less than 20 cents per month for the average residential customer, the FERC stated today. FERC economists prepared an analysis of costs to launch a regional transmission organization (RTO) in response to widely varying estimates. State officials and utilities in the South and West generally oppose RTOs in their regions, contending such grid management groups costs too much. FERC commissioners have reportedly urges U.S. utilities to join independently run RTOs to make wholesale power markets more competitive and to improve the reliability of the nation's 160,000 miles of high-voltage grid. The report said creating an RTO should require an initial investment of $50 million to $70 million with annual revenue requirements in the same range. That translates into a cost per-household of about 0.02 cents per kilowatt-hour, or about $2 a year, the report said.

MARKET COMMENTARY

The "Lord giveth and the Lord taketh away" could explain the natural gas market today. While crude oil continued on its never-ending upward march, the bullish fever that had infected the natural gas market on Tuesday appeared to have dissipated, leaving some bulls with a headache as prices gapped lower, as continued short term demand levels remained depressed. Prices for much of the day remained in a sideways trading pattern, but did finish near their highs as the MMS shut in report released late in the day showed that shut in levels had slightly worsened over the past 24 hours by some 64 MMcf. This data seemed to have been confirmed earlier in the day as receipt totals along several pipelines in the Gulf region were down as well on the day.

The market currently is looking for tomorrow's EIA storage report to show an injection rate of around 70 bcf. The five-year seasonal average for the week is an injection of some 66 bcf. According to the MMS stats it would seem 16 bcf of gas production was lost on the week, some 7 bcf less than had been shut in during the prior reporting period.

We continue to look for natural gas futures to remain pressured by spot cash values as the storage overhang continues to pressure this market. But if crude oil prices fail to catch their breath then it may prevent natural gas prices from significantly settling below $7.00 basis the November contract at least for this week. We see support at $6.915, $6.87, $6.65, $6.465, $6.23 and $5.99. Resistance is seen at $7.07, $7.23, $7.39, $7.55, $7.63 and $7.715.