



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR OCTOBER 10, 2006**

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

The EIA Short-Term Energy and Winter Fuels Outlook for October 2006 reports that consumers can expect lower energy costs to heat their homes as slightly higher demand will be offset by much higher supply. Domestic dry natural gas production is expected to increase by 0.8% in both 2006 and 2007 due in large part to restored production capacity from the major disruptions caused by Hurricanes Katrina and Rita in the Gulf of Mexico. Total net imports of natural gas, including both pipeline and LNG, are expected to show a 4.5% decline in 2006, due mainly impart to a decrease in the amount of Canadian production available for export to the United States. Total LNG imports for 2006 are expected to be approximately 650 Bcf compared to 630 Bcf in 2005 and then rise to 920 Bcf in 2007 as a result of rising supplies from Algeria, Nigeria, Libya, and Egypt. Total natural gas consumption is projected to decline by 1.1% in 2006 due to the warmer-than-average January 2006. Consumption is expected to rebound in 2007, growing by 2.9%. The EIA stated that annual residential consumption fell 7.5% from last year, but in the industrial sector, demand is expected to be comparable to the 2005 levels. In 2007, residential and industrial demands are estimated to increase by 8.7% and 2.7% respectively. The EIA noted that expected working gas in storage and the start of the heating season (November 1) is expected to be about 3,540 Bcf, 360 Bcf above the five-year average. The Henry Hub natural gas price is expected to average about \$6.90 per mcf in 2006 and \$7.53 per mcf in 2007.

#### **PIPELINE RESTRICTIONS**

Kern River Pipeline said that linepack remains high on the entire system; however, due to maintenance at the Fillmore Compressor Station, shippers and operators are encouraged to be on rate unless arrangements have been made. The company is urging shippers or operators with imbalances that are out of tolerance to get on rate and plan to make arrangements after the maintenance is over.

KM Interstate Gas Transmission said that until further notice, Williston Basin Bridger (PIN 8737) is at capacity for delivered volumes. Based on the current level of nominations, IT/AOR and secondary volumes are at risk of not being scheduled.

#### **Generator Problems**

**MAAC** – Exelon's 1,112 Mw Peach Bottom #2 nuclear unit started to exit a refueling outage and ramped up to 6% capacity. The unit shut September 18 for the refuel. Peach Bottom #3 continues to operate at full power.

PSEG's 1,100 Mw Salem #2 nuclear unit is operating at 85% as it prepares for a 4-week refueling, which could begin as early as tomorrow. Salem #1 continues to operate at full power.

**MAPP** – Nebraska Public Power District's 800 Mw Cooper nuclear unit coasted down to 95% as it prepares for an October 21 refueling outage.

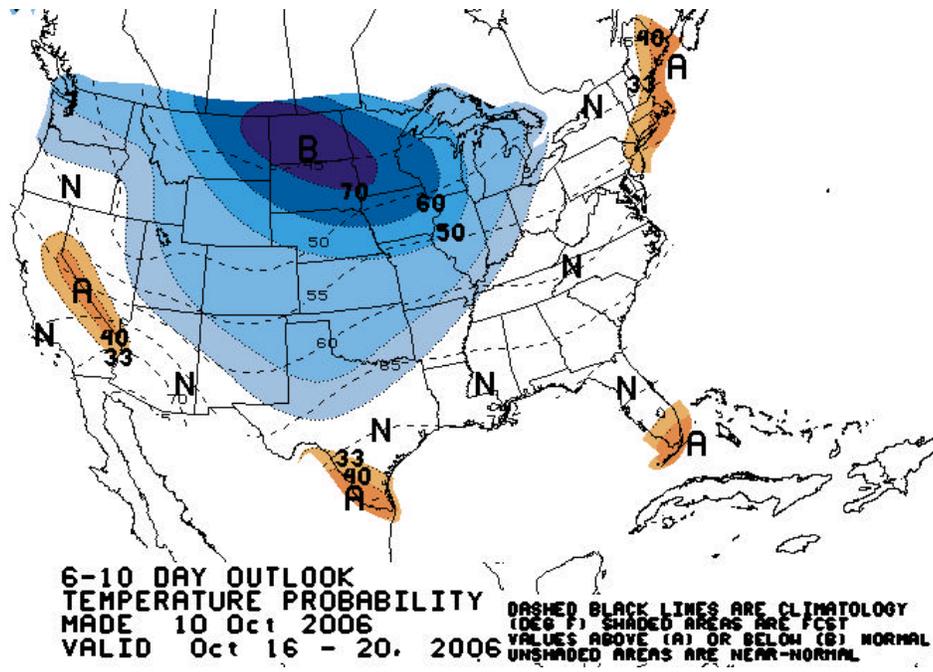
**MAIN** – Exelon Generation's 1,120 Mw Braidwood #1 nuclear unit coasted down to 94% as it prepares for an October 16 refueling outage. Braidwood #2 continues to operate at full power.

**WSCC** – Southern California Edison's 1,080 Mw San Onofre #3 nuclear unit initiated the coast down to its fall refueling. The unit is operating at 98% capacity. SONGS #2 remains at full power.

Sempra Energy's 565 Mw Palomar natural gas-fired power station shut for planned work yesterday afternoon.

**The NRC reported that 75,273 Mw of nuclear capacity is on line, down 7.13% from Friday, and 7.97% lower than a year ago.**

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%.



Texas Eastern Transmission Corp. 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 also requires that shippers and TABS parties schedule contracts balanced except for the scheduling of Due Shipper payback, and point operators to perform according to nominated volumes. TE will force balance TABS-1 pools or restrict the system as required.

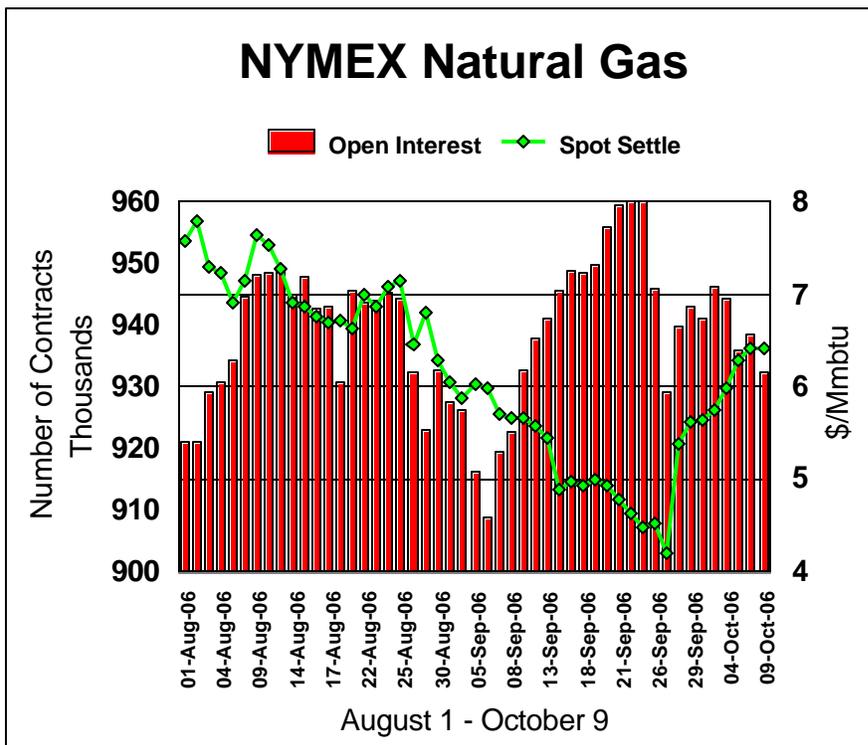
Williston Basin Interstate Pipeline Company said that several points and line sections are in pipeline capacity

constraint and that penalties will be imposed. Line sections in constraint for receipts in the timely cycle include 016 Cabin Creek-Hathway; 017 Hathway-Hardin; 018 Hardin-Lovell; 019 Madden-Worland; 020 Worland-Lovell; 021 Lovell-Elk Basin; and 022 Elk Basin-Billings.

**PIPELINE MAINTENANCE**

Gulf South Pipeline said that it will be performing scheduled pipeline maintenance on Index 206 South Jennings 6-inch beginning 8:00 AM CT, October 12 and continuing for approximately eight hours. Gulf South Pipeline also said that it will be performing scheduled pipeline maintenance on Index 209 Lake Arthur 4inch beginning 8:00 AM CT, October 19, and continuing for approximately eight hours.

Williston Basin Interstate Pipeline Company said that planned maintenance will be performed on Line Section 15 on October 11-13. The maintenance being performed is due to HCA assessment test results. During the maintenance period a maximum capacity will be approximately 35.1 MMcf/d from Deadwood to Rapid City, which could result in restrictions to the system



depending on volumes nominated. Williston also said that planned maintenance will be performed at the Saco Compressor station on October 25. Maximum capacity at the Saco Compressor station will be approximately 24 MMcf. Williston has once again extended the project dates for the unplanned maintenance at the Bismarck Compressor Station. The work is now expected to last through October 13. At this time, Williston Basin does not anticipate any restrictions to the system. Finally, Williston said it has revised the project duration of the planned maintenance at the Marmarth Bowman Lateral scheduled for October 24. The work is now expected to last just four hours between 10:00 AM MT and 2:00 PM MT. At this time, the company does not anticipate any restrictions to the system.

### **ELECTRIC MARKET NEWS**

The EIA reported in its Short-Term Energy Outlook report for October 2006 that total electricity demand is expected to increase by 1.1% in 2006. Although temperatures for the spring and early summer of 2006 were higher than the same period last year, causing a jump in electricity consumption for air conditioning, temperatures for the third quarter have been much lower. Overall, cooling degree-days for 2006 are projected to be 1.3% higher than 2005 levels. Total electricity demand is expected to grow in 2007 by 1.3% as a result of continued economic growth and an assumed return to normal temperature patterns. Regional price increases in the first half of 2006 compared to the same period in 2005 have ranged from 4% in the Mountain region to 24% in New England. Residential electricity prices are projected to average 10.4 cents in 2006, which is 10% higher than 2005 prices. Prices are then expected to increase slightly in 2007 to 10.6 cents, although some regions may experience a decline as recent decreases in generation costs are passed through to customers.

The EIA also noted that U.S. coal production is expected to grow by 1.7% in 2006 and 0.6% in 2007. Coal imports are expected to increase by over 13% in 2006 and grow by an additional 11.3% in 2007. Coal imports account for approximately 3% of coal consumption. Coal demand on the other hand is expected to be flat in 2006 and increase by 2.6% in 2007. Coal consumed by the electric power sector is expected to decline slightly in 2006 (0.7%) and grow by 2.9% in 2007.

American Electric Power said it will form a joint venture with an outside company to fund and own up to \$1 billion worth of new electric transmission assets in Texas. AEP said it is in talks with potential partners and expects that the joint venture will be active in early 2007.

### **MARKET COMMENTARY**

The natural gas market opened 3 cents lower to start an inside trading day that saw prices chop between 6.37 and 6.64 as the market eyes an approaching cold snap. The market attempted early in the session to break the streak of positive trading sessions by trading into negative territory with the slumping oil complex, but with the expect of frost this week in the Midwest and by weekend in the Northeast, prices returned to positive territory and natural gas posted its eighth straight winning session. November natural gas finished the session up 3.7 cents at 6.466.

In the short term, natural gas will remain elevated as the market gets a feel for how much heating demand this cold snap will generate, but looking further out, NOAA forecasts continue to expect that most of the country will see winter temperatures above normal. Consequently, we feel it is only a matter of time before the current rally fizzles. Given the record level of storage, we feel the forward winter contracts will have trouble maintaining an \$8.00 handle. Early expectation for Thursday's EIA inventory report call for a build of between 55 and 80 Bcf, adding further weight to this market. We see support at \$6.36, \$6.28, \$6.00 and \$5.77. We see further support at \$5.46, \$5.35 and \$5.00. We see resistance at \$6.70, \$6.80, \$6.95-\$7.00, \$7.08, \$7.16 and \$7.40.