



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR OCTOBER 16, 2006

NATURAL GAS MARKET NEWS

High-deliverability salt cavern storage, which currently represents 16% of total U.S. underground storage deliverability, potentially could rise to a 25% share of deliverability by 2008, the Energy Information Administration (EIA) said in a new report on "U.S. Underground Natural Gas Storage Developments: 1998-2005."

The new Rhode Island law that prevents tankers carrying liquefied natural gas (LNG) from using the state's waters to deliver the chilled fuel is unconstitutional and conflicts with the safety-security efforts of the U.S. Coast Guard, an official with the Center for Liquefied Natural Gas (CLNG) said Tuesday.

Texas Eastern Transmission Corp. said that storage is at unprecedented levels with a month remaining in the injection season. Tetco said that it is concerned about its ability to preserve flexibility and manage day-to-day pipeline operations as storage continues to fill. In order to maintain pipeline reliability and system integrity, Tetco must have the cooperation of its customers, meter operators and producers to maintain favorable operating conditions and prevent the issuance of Action Alert or Operational Flow Orders.

September 2006 was cooler than average for the continental U.S., providing relief from the second-warmest summer on record, according to scientists at the NOAA National Climate Data Center. September was the first cooler-than-average month for the continental U.S. since May 2005.

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.

Tennessee Gas Pipeline said that it has declared a force majeure event due to equipment failure at its Compressor Station 25 (Cleveland, Texas), which resulted in partial unavailability of capacity. Tennessee has partially restored the station. However, due to the unavailability of certain parts, 1 unit will remain out of service until mid November.

Williston Basin Interstate Pipeline Company said that several line inspections are in pipeline capacity constraint and that penalties will be imposed. Line sections in constraint for receipts in the timely cycle include 016 Cabin

Generator Problems

ECAR – FirstEnergy's 1,260 Mw Perry nuclear unit returned to full capacity. Yesterday, the unit was operating at 78% to perform rod pattern adjustments.

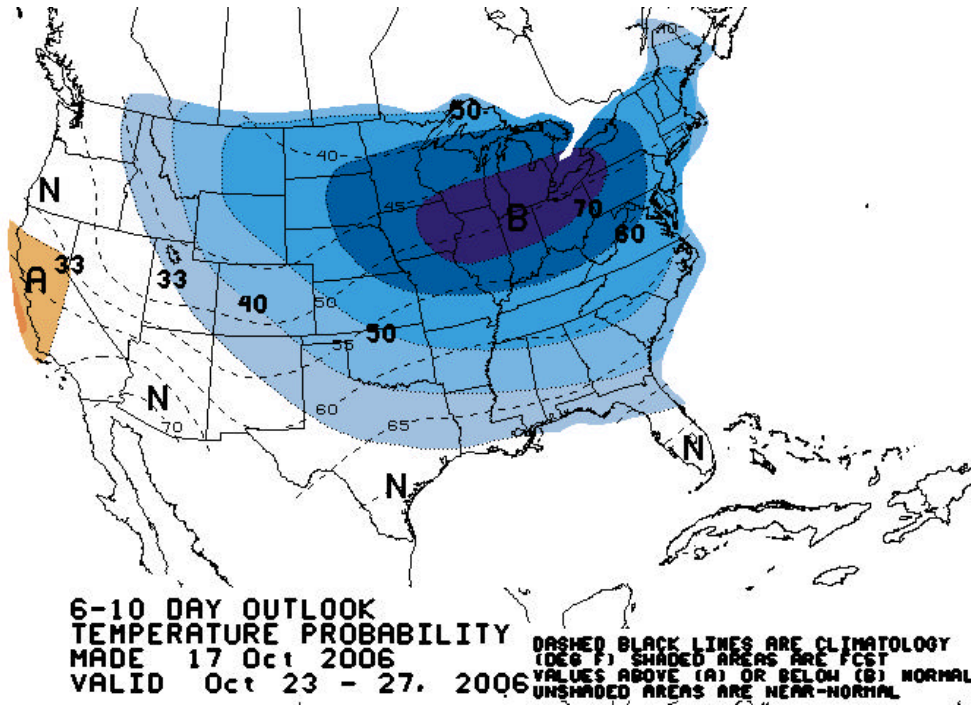
ERCOT – TXU Corp.'s 750 Mw Monticello #3 coal-fired power station shut today when an electrostatic precipitator transformer malfunctioned.

MAIN – Exelon's 1,252 Byron #1 nuclear unit ramped up to 58% capacity. Yesterday, the unit was operating at 10% after restarting from a refueling outage. Byron #2 continues to operate at full power.

WSCC – Arizona Public Service's 1,243 Mw Palo Verde #1 nuclear unit exited an outage and ramped up to 50% of capacity. Yesterday, the unit was operating at 12%. Palo Verde #2 remains shut for a refueling and is likely to return in mid November. Palo Verde #3 continues to operate at full power.

Southern California Edison's 1,080 Mw San Onofre #3 nuclear unit shut this morning for a scheduled refueling outage. San Onofre #1 remains at full power.

The NRC reported that 71,458 Mw of nuclear capacity is on line, up .37% from Monday, but 6.60% lower than a year ago.



Creek-Hathaway; 017
 Hathaway-Hardin; 018
 Hardin-Lovell; 019
 Madden-Worland; 020
 Worland-Lovell; 021
 Lovell-Elk Basin; and 022
 Elk Basin-Basin-Billings.

PIPELINE MAINTENANCE

Gulf South Pipeline said that it will perform scheduled maintenance on Index 250 at the LA HWY 167 road crossing located in Lincoln Parish, Louisiana, beginning October 18 and continuing for three days. Gulf South also said that it will perform scheduled maintenance at the Opelousas Compressor Station on both units beginning October 30, and

continuing for approximately 13 days. During the maintenance both compressors will be unavailable. Pipeline pressure permitting, delivery to Texas Eastern at Opelousas, without compression, will be available.

Natural Gas Pipeline Company said that from October 18 or 19 through November 17, it will be performing pipeline maintenance on the Gulf Coast #2 Line south of Station 302 (Segment 22 of Natural's South Texas Zone). Although Natural does not anticipate any impact to scheduling based on the expected level of nominations, the reduced capacity in Segment 22 will be lower than the October subscribed volume. On these gas days ITS/AOR and secondary out-of-path transports may be at risk. Also, on these days the associated capacity reduction through the affected area may require Natural to initially schedule primary firm and secondary in-path transports to a minimum of 67% of MDQ for each contract with Segment 22 primary/secondary in-path rights. The actual scheduling percentage will depend on the level of nominations each day.

Williston Basin Interstate Pipeline Company said it has extended the maintenance completion date to Gas Day October 17 for the unplanned maintenance at the Manning Compressor Station. Maximum capacity at the Manning Compressor Station will be approximately 82.15 MMcf/d until the work is complete.

MARKET COMMENTARY

The natural gas market opened 25.6 cents higher on continued follow through short covering from yesterday, trading over 6.90 early this morning. However, when the floor opened, November natural gas could not remain above last Monday's high of 6.80, and spent the rest of the session returning to par. November traded as low as 6.27, before settling down .002 at 6.442.

Yesterday's rally, spurred by forecasts for a cool start to winter got a bit ahead of itself again, as winter is still a ways off and the record amount of gas is more than ample to compensate for the increased demand. We feel that the November contract has put in a bottom and that though we will not see \$5.00 natural gas, \$7.00-plus in November is too much. The second shot of cool temperatures is expected to drop mercury levels across the country starting on Wednesday, keeping physical gas prices elevated and futures off their lows. Looking ahead to Thursday's EIA storage report, early forecasts are for a substantially smaller build to stocks due to last week's late cold snap. Early projections are for a modest 20 to 55 Bcf build. This will compare bullishly to last year's 79 Bcf injection and the five-year average build of 66 Bcf. We see support at \$6.40, \$6.25, \$6.00 and \$5.75. Further support we see at \$5.60, \$5.55, \$5.46 and \$5.35. Resistance is pegged at \$6.80, \$6.95-\$7.00, \$7.08 and \$7.20.