



## **ENERGY RISK MANAGEMENT**

Howard Rennell, Pat Shigueta &  
Zachariah Yurch

**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

### **POWER MARKET REPORT FOR OCTOBER 19, 2006**

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

The FERC reported that conditions in the U.S. natural gas market are "as good as they have been for some time," and inventories are likely to hit a new record high in the next few weeks. FERC staff said U.S. natural gas inventories will likely surpass their all-time high of 3,472 Bcf set in November 1990 over the next few weeks. Conditions for natural gas indicate that the system has significant flexibility to deal with most challenges that might arise through the winter.

The National Weather Service predicts that temperatures in the north-central U.S. will be above normal in November, but the U.S. Northeast could have a more typical late fall. In its longer 90-day outlook, the Weather Service forecast that temperatures would remain normal in the Northeast and be above normal in the Midwest and West from November through January. This report differs from private forecaster AccuWeather, which predicted that the East Coast and part of the Gulf Coast could be colder than normal in December and January. Eastern states, including New England where heating oil usage is highest, are expected to have normal temperatures during November and through the longer forecast period into January. But warmer temperatures could create a drop in demand for natural gas in the Midwest, where the fuel is more popular.

#### **Generator Problems**

**ERCOT** – American Electric Power's 690 Mw Oklaunion coal-fired power station shut to fix a condenser leak.

**MAAC** – Exelon's 1,116 Mw Peach Bottom #2 nuclear unit has returned to full power today. Yesterday, the unit was working at 81% capacity. Peach Bottom #3 continues to operate at full power.

PPL's 1,115 Mw Susquehanna #2 nuclear unit has reconnected to the grid and is now operating at 24% capacity. Susquehanna #1 remains at full power.

**MAIN** – Exelon's 1,252 Mw Byron #1 nuclear unit ramps output to 84% capacity today. Yesterday, the unit was operating at 74%. Byron #2 continues to operate at full power.

**WSCC** – Arizona Public Service's 1,270 Mw Palo Verde #1 nuclear unit returned to full power today. Yesterday, the unit was operating at 91%.

**The NRC reported that 72,591 Mw of nuclear capacity is on line, up .80% from Wednesday, but 6.94% lower than a year ago.**

#### **EIA Weekly Report**

	10/13/2006	10/06/2006	Net chg	Last Year
<b>Producing Region</b>	997	979	18	817
<b>Consuming East</b>	1981	1951	30	1813
<b>Consuming West</b>	464	459	5	422
<b>Total US</b>	3442	3389	53	3051

\*storage figures in Bcf

The U.S. FERC approved an 11.2% return on equity for the Kern River Gas Transmission Co., reversing an earlier decision by an agency judge that the interstate pipeline should only get a 9.34% return. FERC's five commissions agreed that the initial rate set by an agency judge in March was too low, but did not give Kern River the 15.1% return that it had asked for in 2004.

In order to speed up the construction of U.S. natural gas infrastructure facilities, the FERC raised the price threshold for projects that first need agency approval. The cost limits for projects that win automatic approval from the agency were raised to \$9.6 million from \$8.2 million, and the value of projects that would require prior notice for FERC and public review were raised to \$27.4 million from \$22.7 million. These actions will eliminate regulatory barriers and speed needed development of energy infrastructure that will ultimately benefit our nation's energy consumers.

FERC approved Britain's National Grid's plan to buy U.S. natural gas distributor KeySpan Corp. for around \$7.3 billion in cash. The U.K. power-network and gas-pipeline operator's deal to buy the fifth biggest U.S. gas distributor, announced in February, also involved taking on \$4.5 billion of debt. KeySpan is the largest distributor of natural gas in the U.S. Northeast with around 2.6 million customers in New York, Massachusetts and New Hampshire.

**Canadian Gas Association**

**Weekly Storage Report**

	13-Oct-06	06-Oct-06	14-Oct-05
<b>East</b>	242.8	241.2	242.8
<b>West</b>	214.6	212.2	250.9
<b>Total</b>	457.4	453.3	493.7

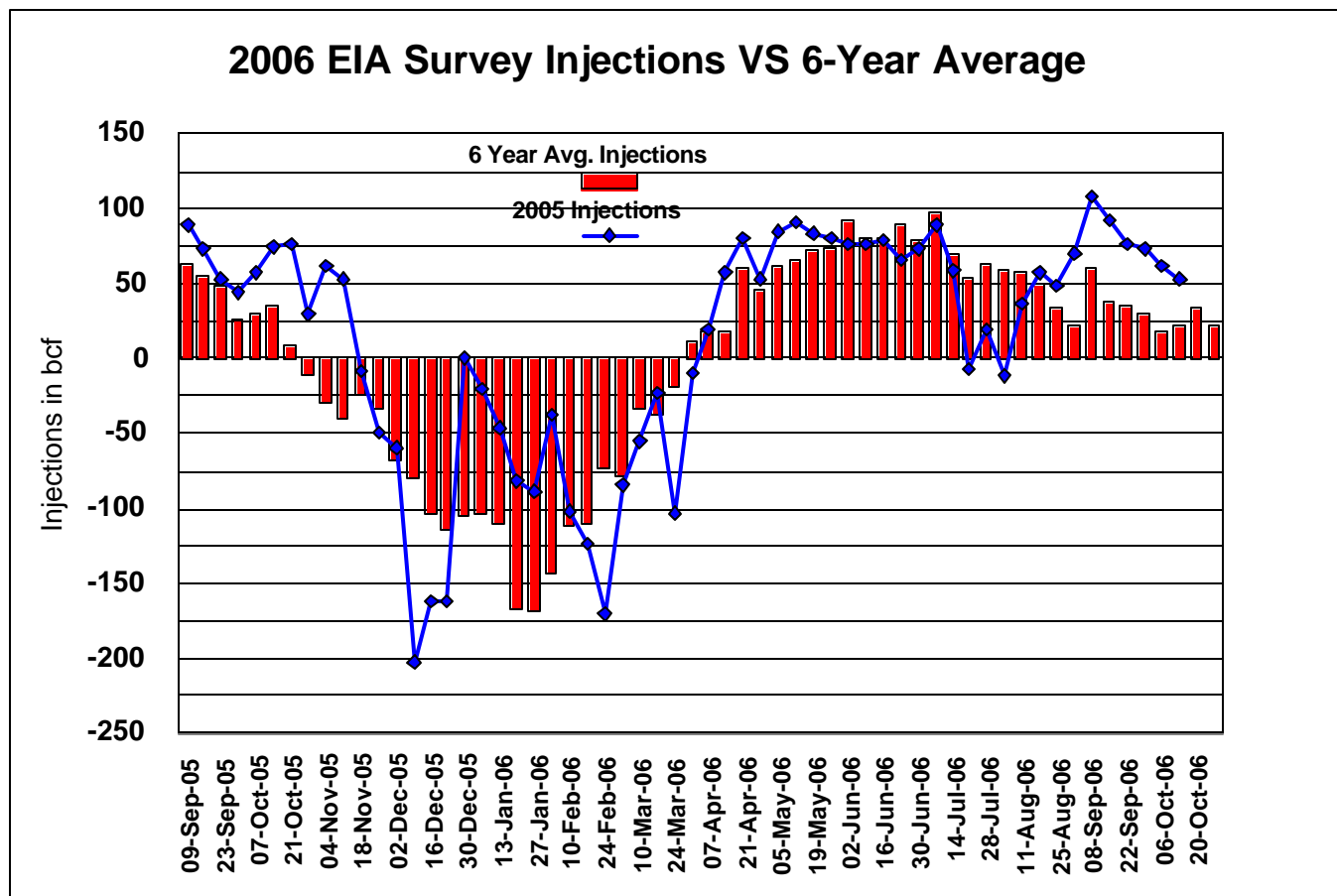
storage figures are in Bcf

**PIPELINE RESTRICTIONS**

Florida Gas Transmission said that 90-degree weather is again forecasted in Florida. Consequently, for the gas day of October 19, FGT would like to notify their customers in FGT's Market Area that it is issuing an Overage Alert Day at 15% tolerance.

Kern River Pipeline said that linepack is low south of the Elberta compressor station. Operators and shippers are asked to not draft the system.

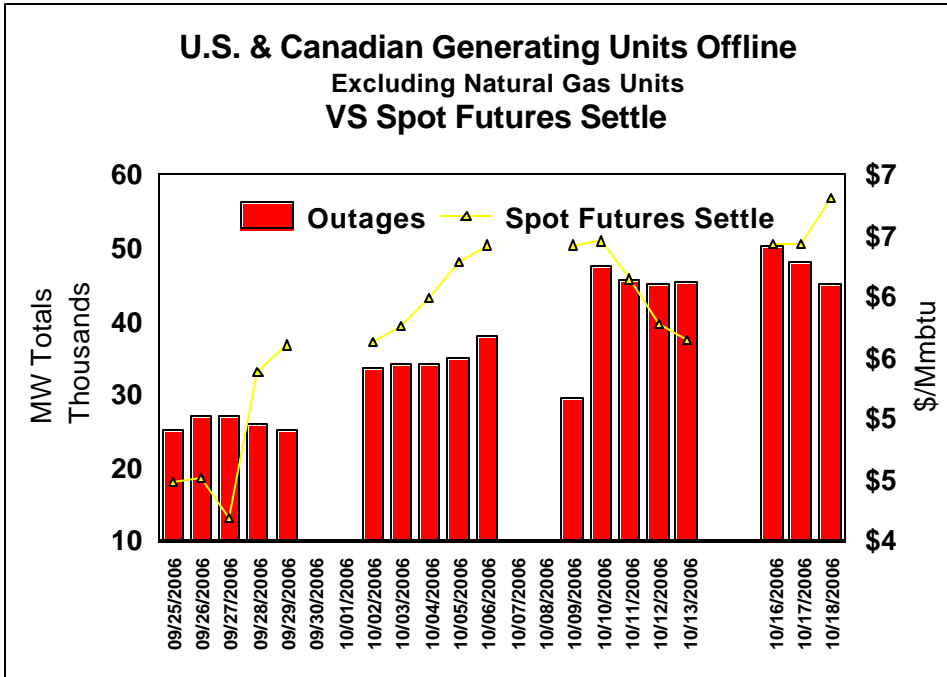
PG&E California Gas Transmission has called a system-wide operational flow order on its California natural gas pipeline for today's gas flow. PG&E issued the restriction because of high gas supplies on its system. Tolerance was set at 5%.



**PIPELINE MAINTENANCE**

El Paso Natural Gas Company said that on October 22, it will remove from service Line 1124 between Casa Grande Station and South Mountain regulator station. During the outage, portions of the line will be upgraded

and equipment will be installed that will allow for inline inspection. The outage is scheduled to last less than 24 hours and has been scheduled in cooperation with customers who have delivery locations in the area.

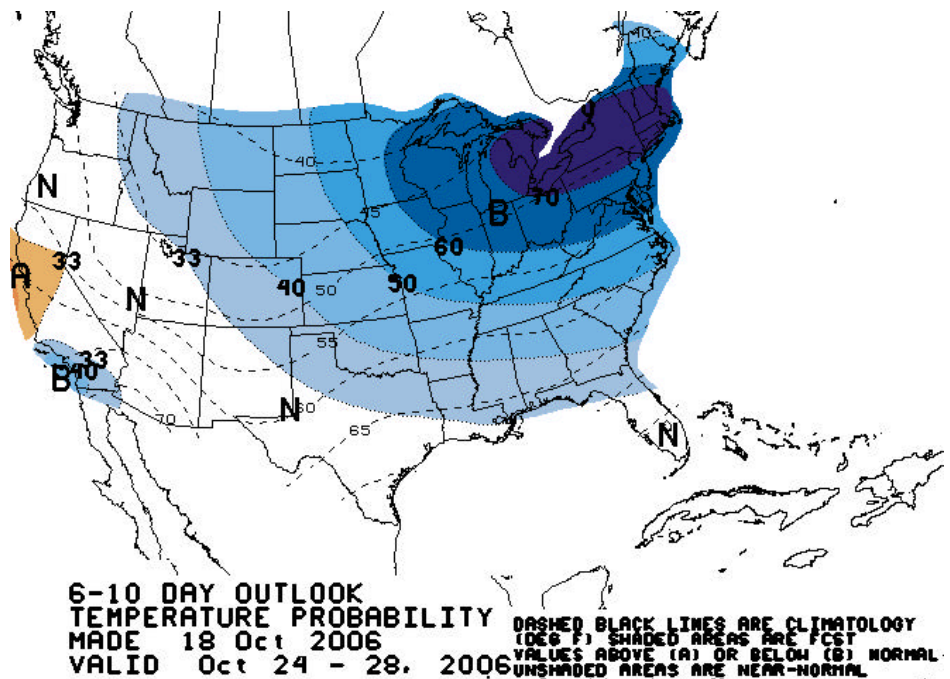


Gulf South Pipeline said that it will be performing unscheduled maintenance on the Goodrich Compressor Station Unit #5 beginning immediately and continuing for approximately 10 days. Capacity through the Goodrich Compressor Station could be reduced by as much as 50 MMcf/d.

Kern River Pipeline said that due to unforeseen problems encountered during the semi-annual maintenance at the Elberta Compressor Station, Kern River will extend the station outage until further notice. System capacity will remain at 1,918 MMcf until the maintenance is completed.

Northwest Pipeline said it will be raising a segment of line and performing a mainline valve installation in the Columbia River Gorge between the Willard and Washougal compressor stations on October 25. There will be no physical flow through the Gorge during the work. However, primary nominations through the Washougal Compressor are currently scheduled at about 250 MMcf/d. If nominations remain at this level through next week and during the work, Northwest will attempt to mitigate the entire outage with no impact to customers. Any increase in primary nominations may result in a deficiency period.

Williston Basin Interstate Pipeline Company said that the testing at its Elk Basin Storage Field (scheduled October 3 through October 18) has been extended into Gas Day October 19. Williston Basin said it does not expect any impact on storage injections or withdrawals at this time. Williston Basin also said that the eight-hour Line Section 16 valve replacement originally scheduled for today will be rescheduled at a later date. While Williston Basin removes and replaces a mainline valve between the Hathaway Compressor station and Cabin Creek Compressor station on Line Section 16, mainline gas flow will be affected for an eight-



hour period. In addition, the company said planned maintenance will be performed today on Line Section 15 due to HCA assessment test results. During the maintenance period there is potential for restrictions to the system depending on volumes nominated.

**ELECTRIC MARKET NEWS**

Delmarva Power has issued a Request for Proposals for 590 Mw of wholesale electricity to meet its Standard Offer Service obligation in Delaware. Standard Offer Service is the market-based, fixed-price power Delmarva buys on behalf of customers who do not purchase electricity from competing retail suppliers and who do not choose the option of hourly priced service. The first round of bidding will start November 27 and end in February. The winning bidders will receive service contracts to supply electricity for Delmarva customers beginning June 1.

The Federal Energy Regulatory Commission approved Australian-based Babcock & Brown Infrastructure's plan to buy U.S. utility NorthWestern Corp. Sioux Falls, South Dakota-based Northwestern had been subject of a long-running takeover battle before Babcock & Brown offered to buy it in April for about \$2.2 billion, or about \$37 a share, in cash.

**MARKET COMMENTARY**

The natural gas market opened 7 cents stronger ahead of the EIA's inventory report, which came in around expectations showing that 53 Bcf was injected into the ground last week. The market initially sold off to a low of 6.62 on news of more gas to an already overwhelming amount of gas in storage, but the buyers returned, spurred by forecasts calling for cool temperatures next week, and technical buying. The firming oil complex on news of Opec cuts also lent support, boosting the entire energy complex. November natural gas broke through resistance at 7.00 to trade to a high of 7.18 before settling up 32.5 cents at 7.132, the highest spot settle since late August.

<b>NYMEX Natural Gas Options Most Active Strikes for October 19, 2006</b>								
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LN	11	6	P	6.5	10/26/2006	0.1201	9,500	93.63
LN	11	6	P	6	10/26/2006	0.032	6,700	91.52
ON	11	6	P	6	10/26/2006	0.032	6,545	90.98
LN	11	6	C	7.5	10/26/2006	0.2347	2,950	95.94
LN	11	6	P	6.25	10/26/2006	0.0657	2,850	92.59
ON	12	6	C		13 11/27/2006	0.034	2,575	80.06
LN	11	6	C	8	10/26/2006	0.1181	2,375	98.86
LN	11	6	P	5.75	10/26/2006	0.0142	2,230	91.21
LN	5	7	P	7	04/25/2007	0.552	2,200	47.67
ON	11	6	C	7.5	10/26/2006	0.235	2,197	97.13
LN	11	6	P	6.75	10/26/2006	0.1996	2,075	94.67
LN	5	8	C		12 04/25/2008	0.2906	2,000	27.42
ON	1	7	C		15 12/26/2006	0.05	2,000	74.52
LN	5	7	C		12 04/25/2007	0.1436	2,000	43.69
LN	9	7	P	7	08/28/2007	0.7394	1,900	51.03
LN	11	6	C	8.5	10/26/2006	0.0571	1,750	101.71
LN	1	7	C		10 12/26/2006	0.4308	1,750	63.44
LN	11	6	P	7	10/26/2006	0.3064	1,500	95.80
LN	3	7	P	5	02/23/2007	0.0502	1,475	56.77
ON	11	6	C	8	10/26/2006	0.118	1,302	99.67
ON	2	7	C		10 01/26/2007	0.62	1,203	66.73
LN	3	7	P	4.25	02/23/2007	0.0117	1,175	55.60
LN	11	6	C	7	10/26/2006	0.4383	1,150	92.98
ON	11	6	P	7	10/26/2006	0.306	1,142	94.52
ON	11	6	P	6.25	10/26/2006	0.066	1,141	92.02
LN	12	6	P	6	11/27/2006	0.0616	1,025	67.75
ON	11	6	C	7	10/26/2006	0.438	908	94.57
LN	1	7	P	8	12/26/2006	0.6768	900	65.39
ON	11	6	P	6.5	10/26/2006	0.12	864	92.75
LN	1	7	P	7	12/26/2006	0.2853	850	63.40
LN	10	7	C	8	09/25/2007	1.39	830	34.13
ON	1	7	P	8	12/26/2006	0.678	825	62.13
ON	11	6	P	7.5	10/26/2006	0.602	819	97.01
LN	11	6	C	9	10/26/2006	0.027	800	104.44
LN	4	7	C	8	03/27/2007	0.7749	780	37.21
LN	5	7	C	8	04/25/2007	0.8111	780	35.35
LN	6	7	C	8	05/25/2007	0.9045	780	33.79
ON	11	6	C	6.75	10/26/2006	0.581	712	93.71

The physical market has continued to show strength, trading just 15 cents under the front month, versus 30 cents yesterday and about \$1 as recently as last week. Being in the peak of maintenance season for the nuclear reactors, natural gas generators have stepped up to replace that electricity generation, adding underlying demand to natural gas. In the way of the weather forecast rally is the 3,442 Bcf of natural gas that is in the ground, 391 Bcf over last year at this time and 345 Bcf above the five-year average. The market is seeing demand for the first time since the summer heat wave, and that has led to a technical rally, but we feel that this well supplied market will see a limited upside in the near term. We see support at \$6.81, \$6.40, \$6.22, \$6.00 and \$5.75. We see further support at \$5.60, \$5.55, \$5.46 and \$5.35. We see resistance at \$7.20, \$7.54 and \$8.00.