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ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR OCTOBER 21,2004

NATURAL GAS MARKET NEWS

Conference Board economist Ken Goldstein said in a statement accompanying the report that growth in the final quarter of this year and the first quarter of next year "is likely to slower" relative to the 4% gain for the third quarter. He also said that rising energy prices and the hurricanes that struck the Southeast in September may have held down economic activity, and he warned that if consumers get more worried, the economy could even face slower growth.

EIA Weekly Report

	10/15/2004	10/08/2004	Net chg	Last Year
Producing Region	925	905	20	836
Consuming East	1880	1843	37	1767
Consuming West	418	411	7	378
Total US	3223	3159	64	2981

The National Weather Service today released their latest longer-term temperature outlooks. They noted that current observations indicate that a weak El Nino condition continues over the equatorial Pacific and a majority of forecasting models look for at least a weak El Nino condition to continue from this fall into the first few months of 2005, There is a chance that this El Nino episode could strengthen to moderate intensity and a smaller chance that it could weaken and return to a neutral status. But most models though do expect the event to weaken and eventually end later in 2005. The temperature outlook for November is calling for below normal readings in Colorado, New Mexico and northern sections of West Texas with above normal temperatures along the Pacific coast states. The rest of the country is seen to have normal temperatures. The agency's December – February outlook appears unchanged from last month's with the western half of the nation seeing above normal temperatures while the southeast and Mid-Atlantic States seeing below normal temperatures. The northeast and Midwest were seen as having equal chance for above, below or normal temperatures. Meanwhile the private weather forecasting service Earthsat noted that the current El Nino conditions should help to set up a winter jet stream pattern that would favor delivering cold air from north-central and northwestern Canada into the U.S. They expect to see the coldest weather for the eastern half of the U.S in December and February when

Canadian Gas Association
Weekly Storage Report

	15-Oct-04	08-Oct-04	17-Oct-03
East	247.0	245.6	262.2
West	219.8	216.9	199.3
Total	466.8	462.3	461.5

Generator Problems

ERCOT – The 555 MW coal fired Unit #8 at the WA Parish Electric Generating was being restarted this morning after being shut down for un-planned boiler tube leak repair.

The 565 Mw coal fired Unit #1 at the Monticello Steam Electric Station was expected to be restarted this evening following completion of boiler reapirs.

The 690 Mw coal fired Oklaunion Power Station is scheduled to be taken off line this evening.

Based on the latest NRC reports, total nuclear generation output this morning reached 81,428 Mw down 19 Mw or .02% from yesterday's levels. Total generation was some 5.35% more than the same date a year ago.

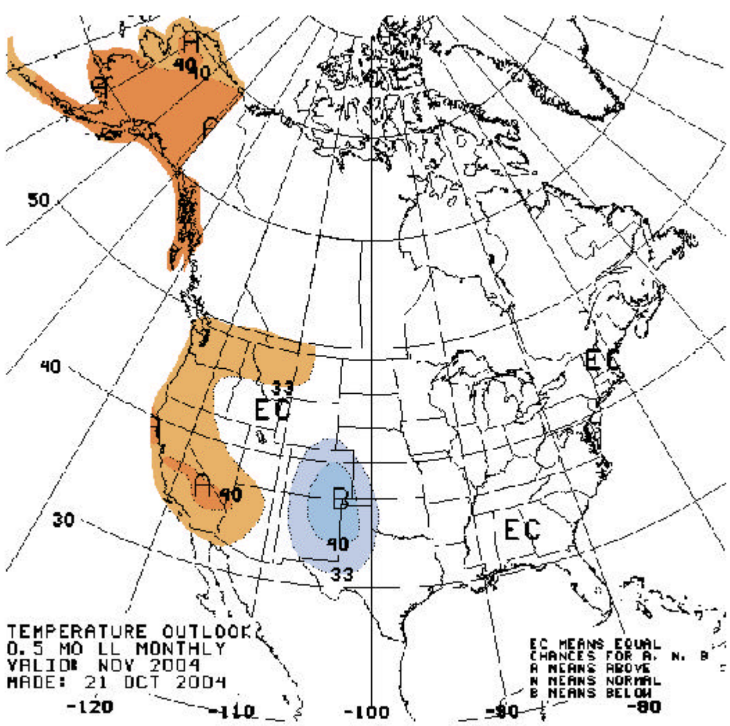
temperatures average some 3-5 degrees below normal, with February temperatures some 2-3 degrees below normal.

The MMS report, there was again no change overnight in the amount of Gulf of Mexico oil and natural gas production that remains shut. It said there is still 428,785 bpd of crude production shut in while 1.544 bcf of natural gas production remains shut in.

Shell Oil has resumed crude and natural gas production at its Cognac platform in the Gulf of Mexico and expects to increase its output to pre-Hurricane Ivan levels by mid-November. Production at the platform will reach 90%of normal levels for crude and 70% for natural gas in the coming day. It is expected to operate at full capacity by early December. It also estimates that output at its Ram-Powell platform will return to 70% by early December and to full capacity in the first quarter of 2005. Production at the Main Pass 252 platform is expected to resume operations in early 2005.

Canadian Enerdata reported today that it had revised its working gas in storage and maximum storage capacity in the East region for the week ending October 8th due to a combination of reporting and computational errors. The company was still investigating past data, but said it was confident about their data now. The revision effectively lowered stocks by 20 bcf.

A federal regulator stated today that she was concerned about how the cut in natural gas output in the Gulf of Mexico due to Hurricane Ivan will affect supplies for the U.S. winter heating season. About 1.544 Bcf/d of gas remains offline in the Gulf due to the storm's damage last month to drilling platforms and underwater pipelines. So far, 94 Bcf of total gas output has been lost. "I'm concerned about natural gas supplies for the winter…because we're really tight. If we have a cold winter, you're going to see more price spikes," said Federal Energy Regulatory Commissioner Nora Brownell on the sidelines of a FERC conference on U.S. gas storage. Brownell said there is little that the FERC can do to help get the gas flowing again, because the agency does not regulate the so-called "gathering" pipelines that transport the drilled gas from the Gulf platforms. The agency's jurisdiction occurs once the gas arrives on the mainland and it is then shipped through pipelines that cross state lines. The government has warned that gas demand this winter will be up from last year and consumers will pay higher prices. To ensure there is enough gas supply to meet demand this winter and in the years ahead, FERC met with energy company officials today to discuss how to increase U.S. natural gas storage capacity.



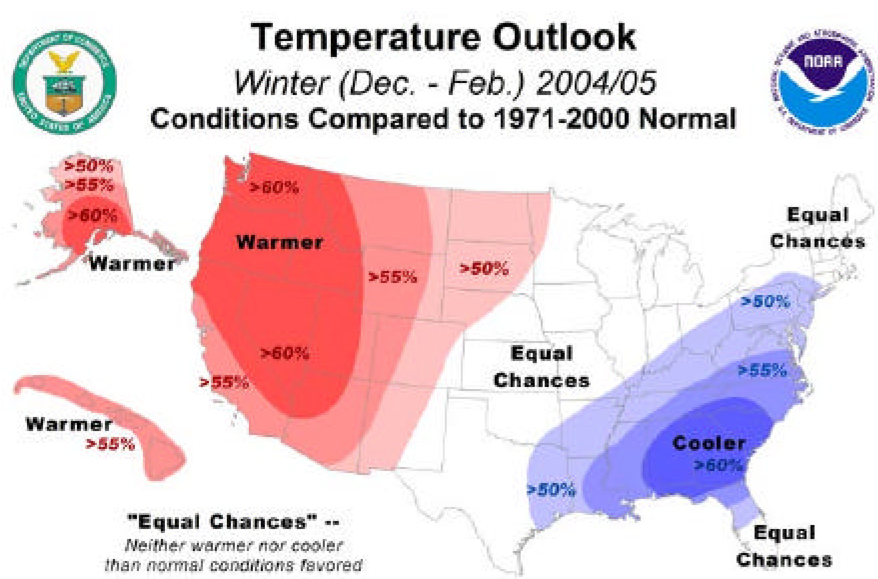
Algerian state oil and gas group Sonatrach has delayed by three months the restart of a damaged LNG unit at its Skikda energy complex, a company official stated yesterday. Ali Hached, vice president of the company, said, "There's a delay of three months, the train will start in the first quarter of 2005." The unit is one of three remaining plants at Skikda. The complex had six units but three were destroyed by a blast in late January which also killed almost 30 people.

Alaska will present terms to major oil companies for a natural gas pipeline from Alaska's North Slope within the next week, according to Governor Frank Murkowski. ConocoPhillips, BP and ExxonMobil support Murkowski's idea of the state owning a share of the pipeline. An agreement wouldn't mean pipeline construction would start, but it would set out terms such as production and property tax rates, and hiring commitments. The governor said the companies will respond to the proposal within a week of receiving it. He also said that the state wants to submit a final contract proposal to the Legislature in the next session, which begins January 10.

PIPELINE RESTRICTIONS

Florida Gas Transmission announced that due to high demand and low linepack, it is issuing an Overage Alert Day at 10% tolerance for today.

Algonquin Gas Transmission stated its interconnect with Tennessee Gas Pipeline at Mahwah, NJ has been restricted to capacity for today.



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. The pipeline restriction has a 1% tolerance, with shippers who violate the OFO subject to a $5.00/Mcf monetary penalty.

PIPELINE MAINTENANCE

El Paso Natural Gas Company said that the annual Department of Transportation inspection of Dutch Flat has completed a day ahead of schedule. As a result, the capacity of the Havasu Crossover was increased by 35 MMcf yesterday and will be increased by an additional 65 MMcf/d effective Cycle 2, today, to a total capacity of 640 MMcf/d.

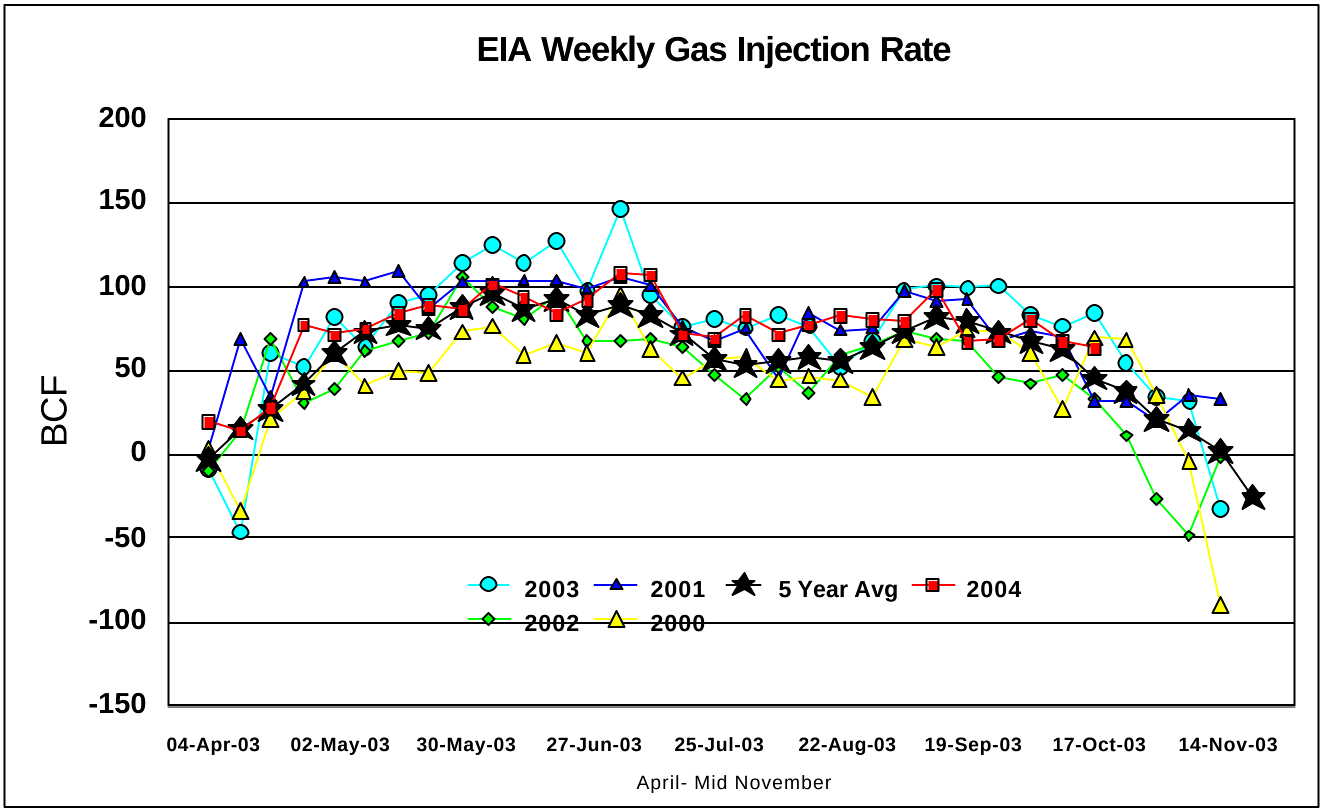
PG&E California Gas Transmission has scheduled general maintenance and a water wash at the Burney Compressor K-2 for October 28. The company anticipates capacity on the Redwood Line to slip to 2,010 MMcf, 96% of capacity during the repairs.

Questar Pipeline Company said it has scheduled the initial gauge pigging of ML 80 for Tuesday, October 26. To facilitate this pigging, Questar expects to cut the ML 80 scheduling point capacity from 260 MMcf/d to approximately 240 MMcf/d. Based on current nominations this is approximately a 10% cut in flexed nominations. Nominations are expected to return to normal for Wednesday, October 27.

ELECTRIC MARKET NEWS

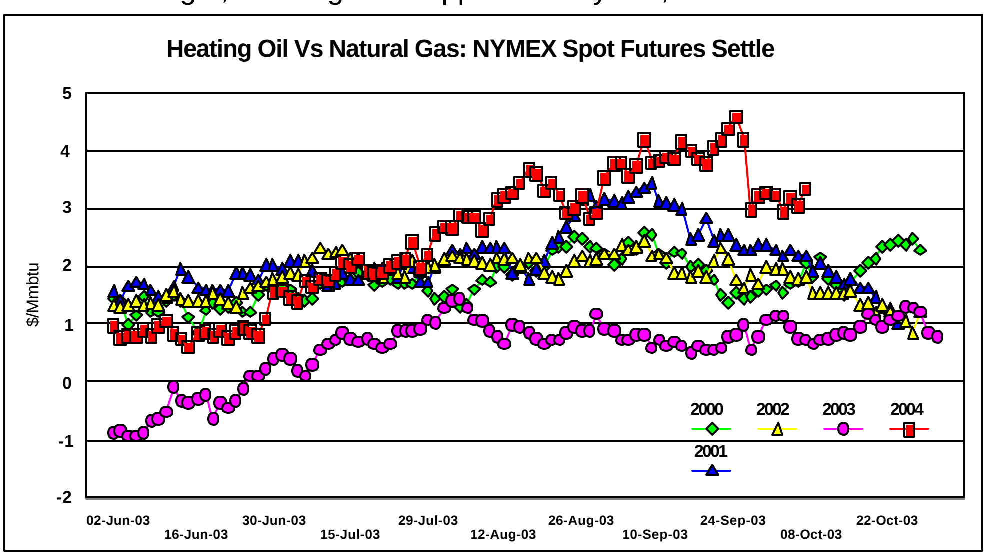
The FERC today approved Merrill Lynch's acquisition of Entergy-Koch Trading's energy trading business, finding that the transaction does not post any market power concerns. Under the transaction Merrill is buying the power, natural gas and weather derivative trading books managed by Entergy-Koch.

FirstEnergy Corp. has been notified by the U.S. Securities and Exchange Commission that the informal inquiry the SEC initiated in September 2003 relating to restatements of financial statements announced in 2003, and the extended outage at the company's Davis-Beese Nuclear Power Station, has become the subject of a formal order of investigation. The SEC notification also encompasses



issues raised during the SEC's examination under the Public Utility Holding Company Act. Concurrent with this notification, the company has received a subpoena asking for background documents and documents related to the restatements and Davis-Beese issues.

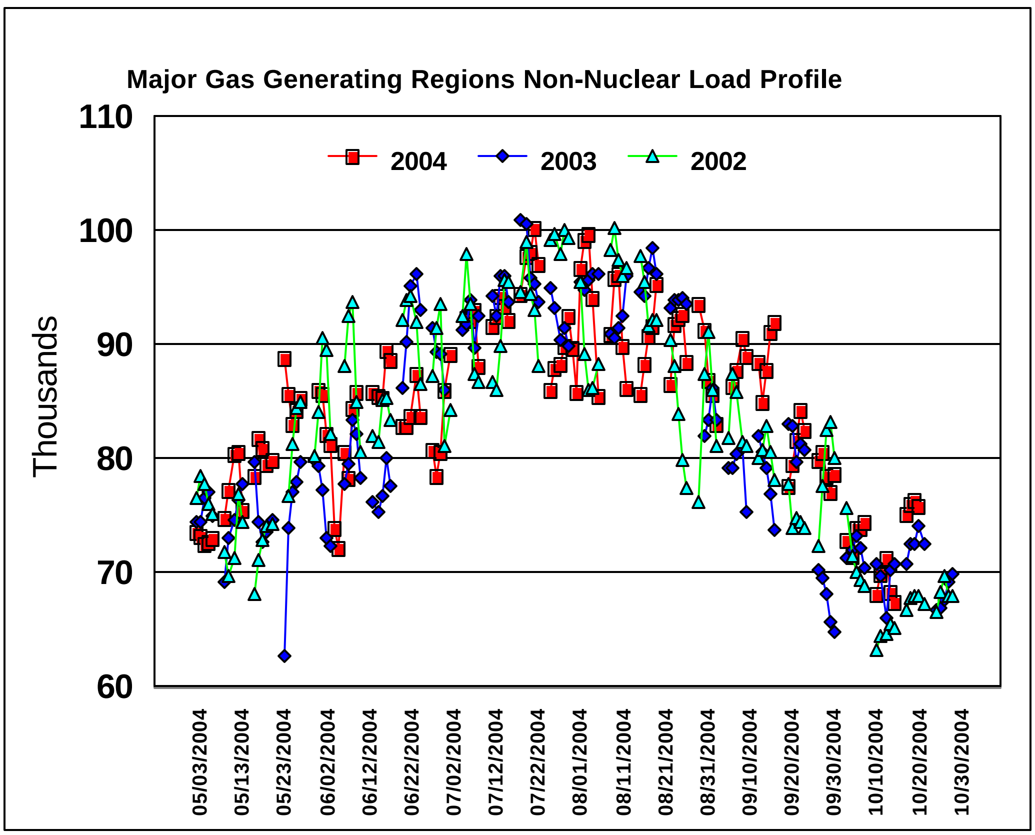
Without careful and continual oversight, carving out approximately 10,300 Mw of load under grandfathered transmission agreements could pose "potentially significant" reliability issues for the Midwest Independent Transmission System Operator, the organization said. In a filing to the FERC, MISO said it needs constant information about the carved-out grandfathered agreements so it can operate the grid



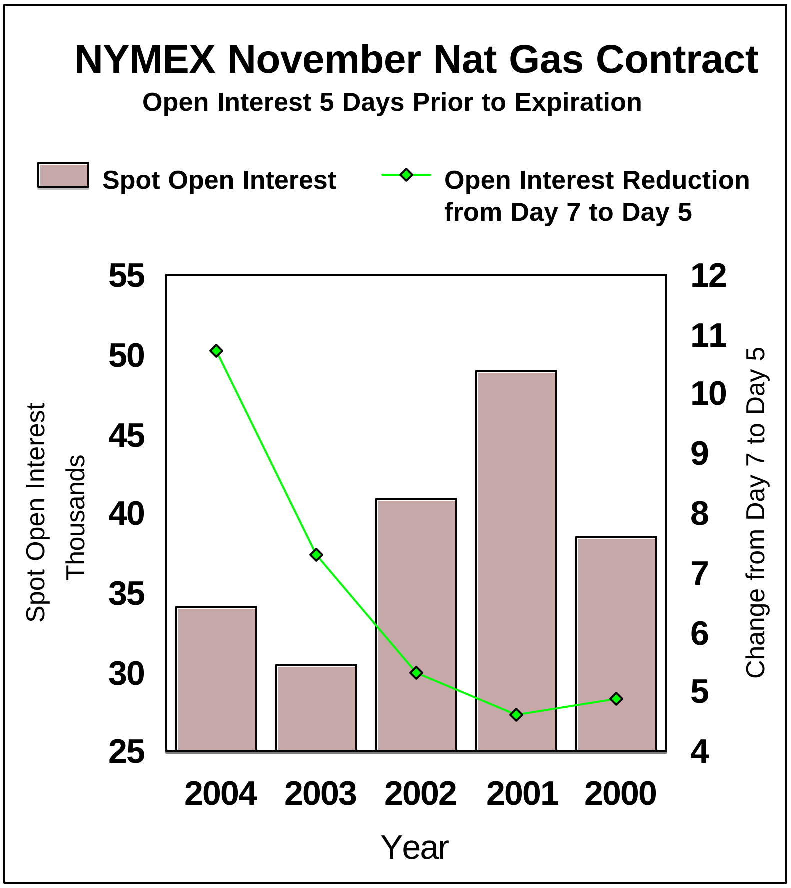
reliably. “The MISO energy markets will be subject to continuing, and potentially significant, reliability issues resulting from the GFA carve-out required” by FERC, MISO said. Such concerns will be exacerbated if the Midwest ISO does not receive the GFA information, or is otherwise unable to implement the GFA carve-out process. On September 16 the FERC ordered MISO to exclude the 10,385 Mw of capacity covered by GFAs from the grid operator’s energy market, set to begin in March 2005. In its filing, MISO proposed ways to account for the GFA load and said its plans must be taken seriously to avoid reliability concerns. MISO proposed to frequently collect historical scheduling information from the GFA parties so the grid operator can “remove the maximum capacity represented by each carved-out GFA” from its market model. It also proposed to “monitor market behavior that may arise as a result of the GFA carve-outs, and will report thereon to the commission” any potential concerns.

MARKET COMMENTARY

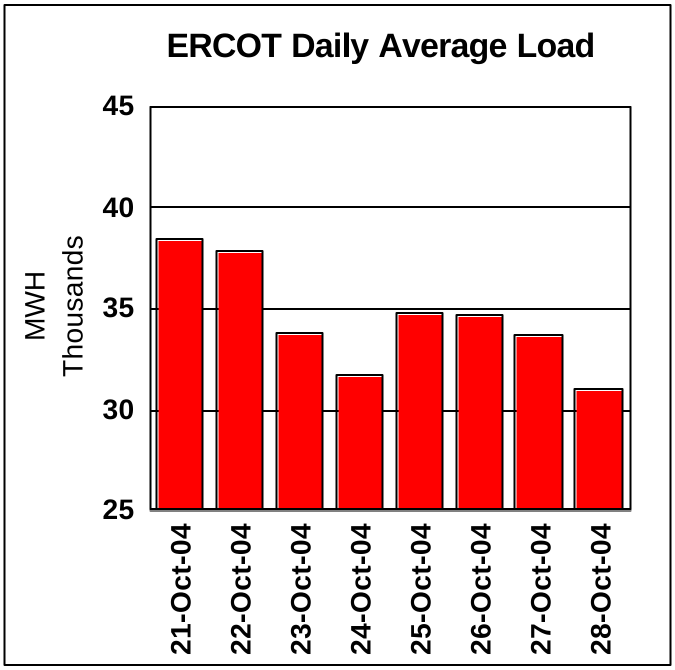
The NYMEX natural gas market opened nearly nine cents weaker this morning and despite some follow through selling after the opening, quickly turned and began to march higher as continued strength in the spot cash market, especially in the east and in the producing region seemed to boost futures prices. Despite the relatively neutral storage injection number from the EIA this morning, the market seemed to stage a rally at lunch time, as it appeared many trading managers breaking for lunch from the PIRA seminars in New York today, took to heart the group’s bullish price outlook discussed at this morning’s seminars and initiated some buying. Prices roses steadily through the lunch period and by 1 PM had set yet another new contract high as well as seeing the spot futures price reach its highest level since February 2003. Prices in the early afternoon while retracing somewhat found support at the $7.70 level, a 38% retracement of the day’s rally, but by the close despite heating oil prices running to new contract highs in the final few minutes natural gas prices dipped back to support at $7.60 before settling the day at $7.697, up 7.4 cents, the smallest price gain of the week.



Volume this week continued to be rather subdued, as only 66,000 futures changed hands today. This limited trade interest we feel does not support the start of a new long-term bull move in natural gas in our mind given the recent price volatility and the release of inventory reports today. Open interest reported this afternoon showed that as of the close of business Wednesday total open interest in futures stood at 399,106 up just three contracts. But supporting our belief that November shorts have rushed back to cover their positions this week is the fact that some 4225 spot open positions were taken off the books on Wednesday, resulting in a two day rush of nearly 11,000 contracts that were liquidated in the spot November contract.



Today's storage report while coming in within market expectations, we feel still has to be seen as bearish. This market continues to exceed the five year seasonal injection rate. The U.S. storage level currently is at 3.254 bcf just 31 bcf below all time highs. These storage levels have been rebuilt over the past week despite the continued shut in of offshore production from Hurricane Ivan coupled with some pipeline restrictions due to storage limitations. This coupled with the return of moderate temperatures in the coming days should reduce electric generation needs for gas in ERCOT as well as small heating demand in the northern states. Thus the recent price pressure in the cash market should be eliminated next week allowing cash prices to ease and thus drag futures down toward expiration.



We see resistance at $7.85, $7.95, $8.20 and $9.60. Support we see at $7.46, $7.32, $7.16, $7.02 and $6.885.