



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR OCTOBER 26, 2004**

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

The head of BP's operations in Canada said today that he was optimistic that a greatly anticipated natural gas pipeline from Alaska to the continental U.S. could be operating by 2013. Chief executive of BP Canada Energy Co., Brian Frank, said 2013 also is the earliest possible date such a line could begin transporting at least 4 Bcf/d, but the U.S. Congress moved along the process earlier this month with \$18 billion in loan guarantees. Ultimately, Frank said he believes the need for Alaskan gas will drive the process. The companies must still negotiate fiscal details with the state of Alaska, come to regulatory terms with Canada and employ technology to reduce the \$20 billion price tag before the line can be built.

Governor Rick Perry stated today that he is committed to making the state a major doorstep for LNG imports, while vowing to keep Texas open to continued oil and gas exploration. Perry told the annual meeting of the

#### **Generator Problems**

**MAAC** – The 1,110 Mw Peach Bottom 2 nuclear unit is operating at 91% today, up 28% on the day. The unit was reduced in power last week to investigate some bad fuel in the reactor.

**MAIN** – The 800 Mw Dresden 3 nuclear unit was taken offline this morning for its routine refueling outage. A schedule for the return to full power has yet to be disclosed. The Dresden 2 is currently running at 98% capacity.

The 1,120 Mw Braidwood 1 nuclear unit is currently operating at 45% capacity, up 15% on the day. The unit was running at 30% yesterday after restarting over the weekend.

**MAAP** – The 565 Mw Duane Arnold nuclear unit went offline late yesterday for planned maintenance. The maintenance involves repairing a small circulating water tube leak in the main condenser system. The unit will return to service as soon as the repairs are complete.

**NPCC** – The 825 Mw FitzPatrick nuclear plant was running at 75% capacity this morning, after boosting power 59% overnight.

**SERC** – The 1,129 Mw Catawba 2 nuclear unit increased output to 81% capacity today after exiting a refueling outage over the weekend. The unit is up 61% on the day.

**ERCOT** – The 750 Mw coal fired Unit #1 at the Martin Lake Steam Electric Station was expected to be restarted this afternoon following completion of boiler repairs.

**WSCC** – The 1,100 Mw Diablo Canyon 2 nuclear unit shut this morning for a planned refueling outage. On October 24, maintenance personnel began reducing production to begin the refueling.

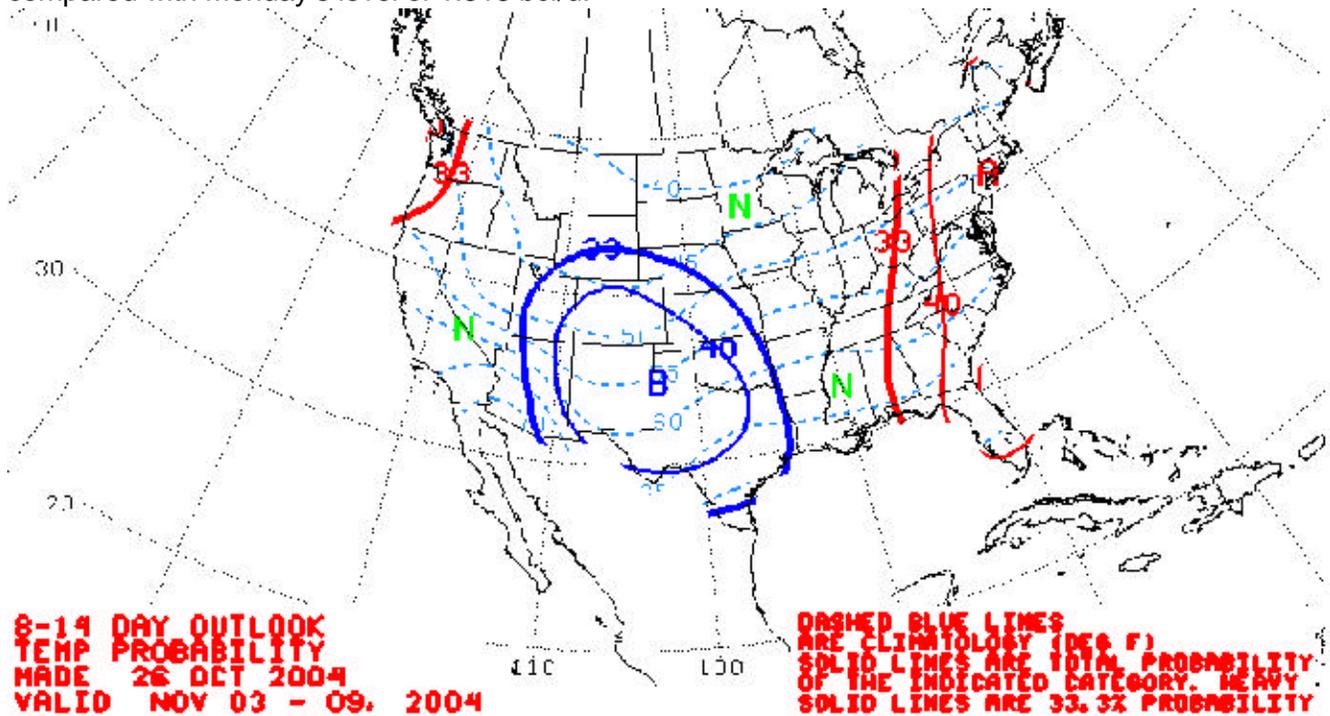
**CANADA** – The 535 Mw Lennox 3 oil and natural gas-fired unit shut early this morning for a short-term planned outage.

The 490 Mw Nanticoke 7 coal-fired unit returned to service this morning from a planned maintenance outage that began on October 14.

**Based on the latest NRC reports, total nuclear generation output this morning reached 78,209 Mw up 848 Mw or 1.1% from yesterday's levels. Total generation was some 1.81% less than the same date a year ago.**

Independent Petroleum Association of America, "We are working with industry and government regulators to bring at least six LNG terminals to Texas." Perry, a Republican, told the group he considered LNG to be a "key groundwork" for the state's economic future.

The MMS once again reported no change in the amount of crude oil shut in the Gulf of Mexico. It stated that there was still about 426,172 bpd of oil output shut in, unchanged from Monday. In regards to natural gas production, it stated that there was 1.514 bcf/d of natural gas production was shut compared with Monday's level of 1.518 bcf/d.



U.S. Commerce Secretary Evans said today that while the President is "very concerned" about rising energy prices, the administration continues to feel that the U.S. economy can absorb higher energy prices.

The U.S. Securities and Exchange Commission voted by a 3-2 margin today to require managers of hedge funds with at least 15 U.S. clients to register with the Commission as "investment advisers".

Marathon Oil reported today that it has not hedged any of its oil or gas production for 2005. The company also noted that it has decided to move forward in developing its natural gas assets in the Powder River basin. The company has drilled some 300 wells in the basin this year and plans to drill 500 more in 2005. At year-end the company expects those wells to be producing more than 70 Mmcf/d, with next year's production levels expected to be slightly lower.

### **PIPELINE RESTRICTIONS**

ANR Pipeline Company said that based on current and projected operational conditions in November and until further notice, ANR will not schedule any daily injections to DDS, MBS or Overrun injections into Firm Storage Service accounts. In addition, ANR will continue restricting daily parking of volumes under rate schedule IPLS. Loan volumes under IPLS will not be affected.

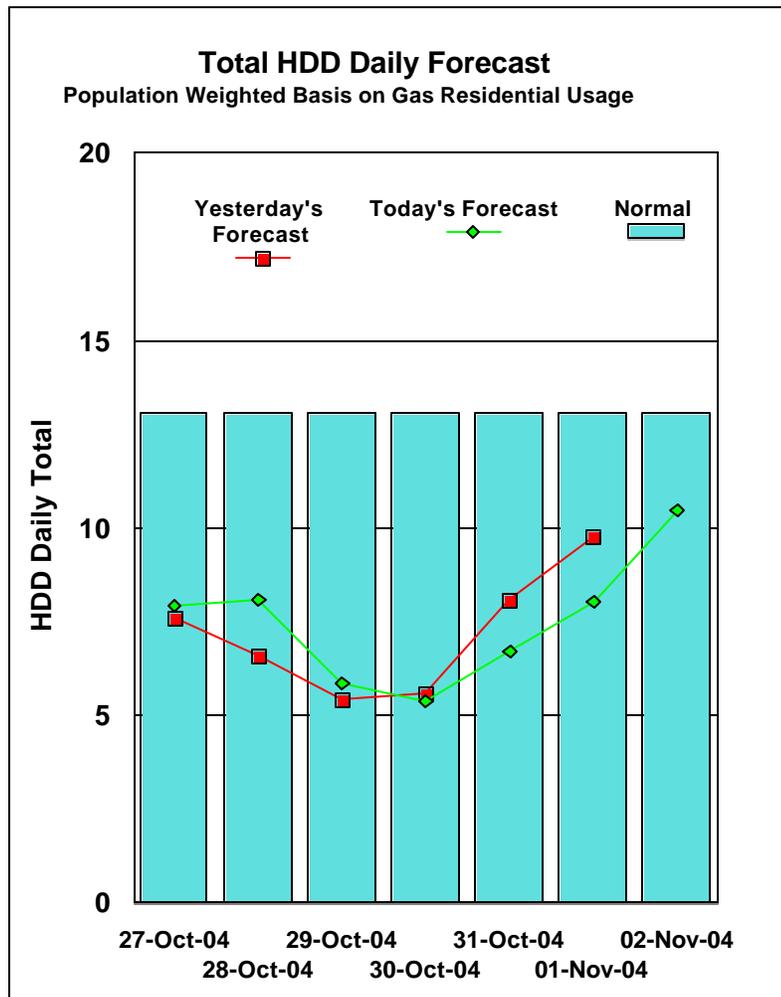
National Fuel Gas said that construction on line N-20 has been ongoing since August 23 and is scheduled to be finished on November 7. Nat Fuel is expecting restrictions on line N-20 that may effect

interruptible transportation and firm transportation with the following receipt or delivery points; TET Bristoria and Equitrans.

Texas Eastern Transmission Corp. stated that due to pipe replacement between Pemex and Santa Fe, receipt points and delivery points between Pemex and the pipe replacement location have been nominated to zero for the duration of the outage. No gas may be scheduled at any location in the outage area. This line work is scheduled to be completed on October 28. Also, the 24-inch line between Longview and Fagus has been nominated to capacity. No increases in physical supply between Longview and Fagus will be accepted.

**PIPELINE MAINTENANCE**

El Paso Natural Gas Company said that its delivery point to the Cabot Hobbs power plant will be shut to replace pressure regulators on October 28. There will be no flow to ICABHOBS for 24 hours beginning at 7:00 AM MT on October 28.



Gulf South Pipeline Company announced it will be performing scheduled maintenance on its Index 301 near Jackson, Mississippi beginning at 6:00 AM ET on October 27, and lasting for 12 hours. During this time Gulf South will be unable to make deliveries to SLN 2532 – Rex Brown Power Plant – Hinds County, Mississippi.

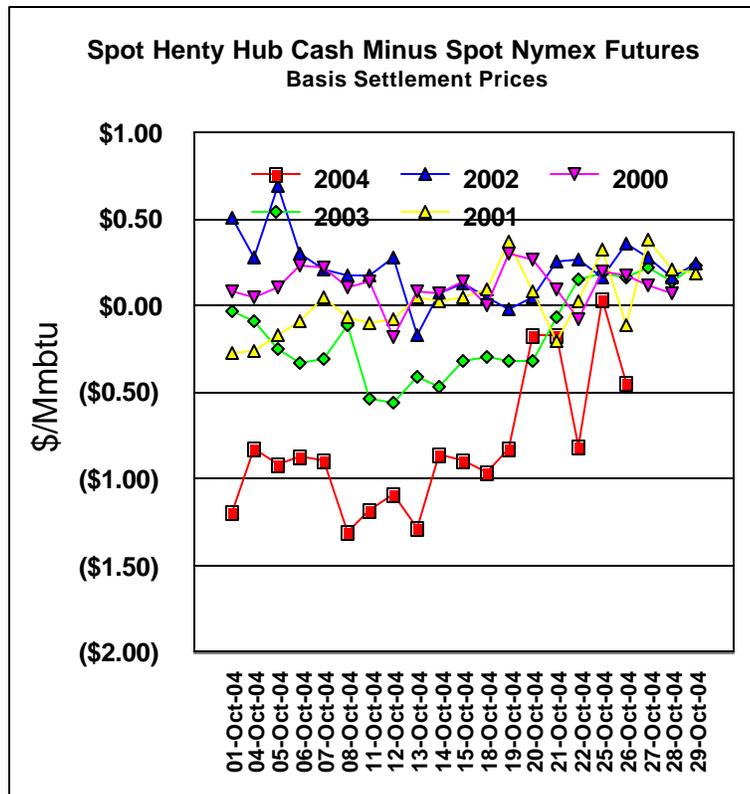
PG&E California Gas Transmission has scheduled repairs at the Delevan Compressor Station from November 1-7. PG&E anticipates capacity on the Redwood line to slip to 2,085 MMcf, or 98% capacity during the repairs on November 1-2. On November 3-6 capacity is expected to fall to 1,880 MMcf/d or 88% of capacity. On November 7, Redwood capacity is expected to increase to 2,025 MMcf/d or 95%. On November 10, PG&E will be performing a water wash and general maintenance at the Tionesta Compressor. Capacity on the Redwood line is expected to fall to 2,095 MMcf/d or 98% for the day. On November 16,

the company will be performing semi-annual maintenance at the Delevan Compressor Station. Capacity on the Redwood line is expected to drop to 2,100 MMcf/d or 99% for the day. On November 19, PG&E will be performing semi-annual maintenance at the Gerber Compressor. Capacity on the Redwood line is expected to decrease to 2,020 MMcf/d or 95% for the day.

**ELECTRIC MARKET NEWS**

Sierra Pacific Resources announced yesterday that its two electric utilities, Nevada Power Company and Sierra Pacific Power Company, have recently contracted with three renewable energy producers to buy Renewable Energy Credits for electricity generated by solar and geothermal resources. The contracts finalized earlier in October will help the Nevada utilities meet their Renewable Energy Portfolio Standards which require that a certain percentage of electricity generated to serve customers must come from renewable energy resources in Nevada.

Cinergy signed a letter of intent with GE and Bechtel today to look into building a commercial sized integrated gasification combined cycle project in Indiana, possibly at PSI's 160 Mw Edwardsport oal fired facility.



**MARKET COMMENTARY**

The bulls stampeded back into the natural gas market today. While prices opened a few pennies better on the back of firmer values recorded at the end of the Access session, prices moved higher in the first hour of trading, back above the \$8.00 price level, basis November, as private weather forecasters continued to talk about arctic air moving southward through Canada next week and moving into the Plains by the end of next week. This air mass was then expected to move eastward during the first week of November. While yesterday's high of \$8.13 held into lunch time, the relentless push higher by locals finally triggered buy stops above \$8.13 and again over Friday's high of \$8.23 that sent prices moving higher. Buying continued even on the close as it appeared some traders were trying to reach the \$8.50 strike level. While this effort failed, as prices reached

only a high of \$8.46 and settled at \$8.403, buying continued on the start of the ACCESS session and prices did reach as high as \$8.52 before the cut off time for submission to the exchange for the exercising of out of the money calls. The exchange reported late this afternoon that some 275 \$8.50 calls and 92 \$8.45 calls that were out of the money were exercised. Coming into this morning the exchange had reported that there were some 2,664 open positions in the \$8.50 calls (down 131 from the previous session) and 140 open positions in the \$8.45 calls ( up 140 lots from Friday night). Final volume on the day was estimated 74,000 futures traded of which a third was booked via spreads.

Cash natural gas values failed to even come close to keeping up with futures today, as some market points even lost value. Henry Hub saw values increase only 3 cents to \$7.78, as near term weather forecasts actually were even less supportive than yesterday's weekly outlook, coupled with rebounding nuclear generation levels.

Well to put it simply, we were wrong in our outlook for prices today. We totally misjudged the ability of the bulls to drive this market higher and pin it up close to the \$8.50 strike price, helped in part by traders continued fears of winter weather despite near record storage levels and limited forecasted demand for the next week. But given the continued lag of cash prices we still feel that the November

contract will see pressure on values later Wednesday after the initial buying of the “out of the money call” sellers is cleared early in the morning. We would look for support in the November contract at \$8.29, \$7.93, \$7.77 and \$7.715. More distant support is at \$7.483 and \$7.253. Resistance we see at \$8.52 followed by \$8.79 and \$9.00. We would look for the November expiration day tomorrow to be potentially explosive since this market appears to have sizeable open interest remaining in the spot contract. The NYMEX reported this afternoon that there were still some 27,523 contracts open in the spot contract; this is the highest level of open interest since the March contract expired. That contract

saw a 19-cent trading range that in general went against the trend of the prior week. Overall open interest increased by 3553 lots in what has to be seen as a continued flow of new longs into this market.

