



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR DECEMBER 13, 2005**

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

Major producer ConocoPhillips and Burlington Resources announced late Monday they signed a definitive agreement under which ConocoPhillips will acquire the world's largest independent oil and gas producer in a transaction valued at \$35.6 billion, making the new company one of the top natural gas producers in North America.

Soaring natural gas prices in New York have commercial and industrial users with fuel-switching capabilities turning to cheaper fuels, like heating oil, to power their operations. New York cash natural gas prices reached \$18.00 per mmBtu early today, the highest in almost a year. Heating oil in New York was valued at the equivalent of \$12.37 per mmBtu, a discount of about \$5 per mmBtu over natural gas. The New York Public Utility Commission said that about 38% of the state's nonresidential natural gas customers had interruptible contracts, forcing them to switch fuels, slow operations or shutdown.

A Delaware court ruling that Calpine Corp. violated terms of its debt by using asset sale proceeds to buy natural gas for fuel should be reversed because the court misinterpreted the terms. But if the Delaware Court of Chancery ruling is upheld, Calpine won't until January 22 to repay the \$312 million it spent to buy natural gas for fuel. Calpine, struggling under a \$17 billion debt burden, has repeatedly said it may be unable to meet the Chancery Court's January 22 deadline to repay the money, and has also conceded that bankruptcy may be an option.

#### **PIPELINE RESTRICTIONS**

Algonquin Gas Transmission said it has restricted all AIT-1 and a portion of priority 3 nominations for gas flowing through Stony Point compressor station. No increases for transportation flowing through Stony Point except for primary no notice nominations will be accepted.

East Tennessee Natural Gas said it has restricted to capacity a portion of out-of-path nominations sourced west of Boyds Creek for delivery east of this location. No increases sourced west of Boyds Creek for delivery east of Boyds Creek will be accepted. Furthermore, no due shipper resolution, or creation of due pipe imbalances, will be available east of Boyds Creek. Delivery meter operators are required to flow volumes equal to or less than scheduled volumes.

Gulf South Pipeline said that based upon its initial review of nominations, NNS demand, and other factors, Gulf South may be required to schedule available capacity and implement scheduling reductions on Sarepta to

#### **Generator Problems**

**FRCC**— Progress Energy's 870 Mw Crystal River #3 nuclear unit returned to full power early this morning.

**MAAC**— Exelon Generation's 1,143 Mw Limerick #1 nuclear unit returned to full power today. The unit was operating at 94% power yesterday. Limerick #2 continues to operate at full power.

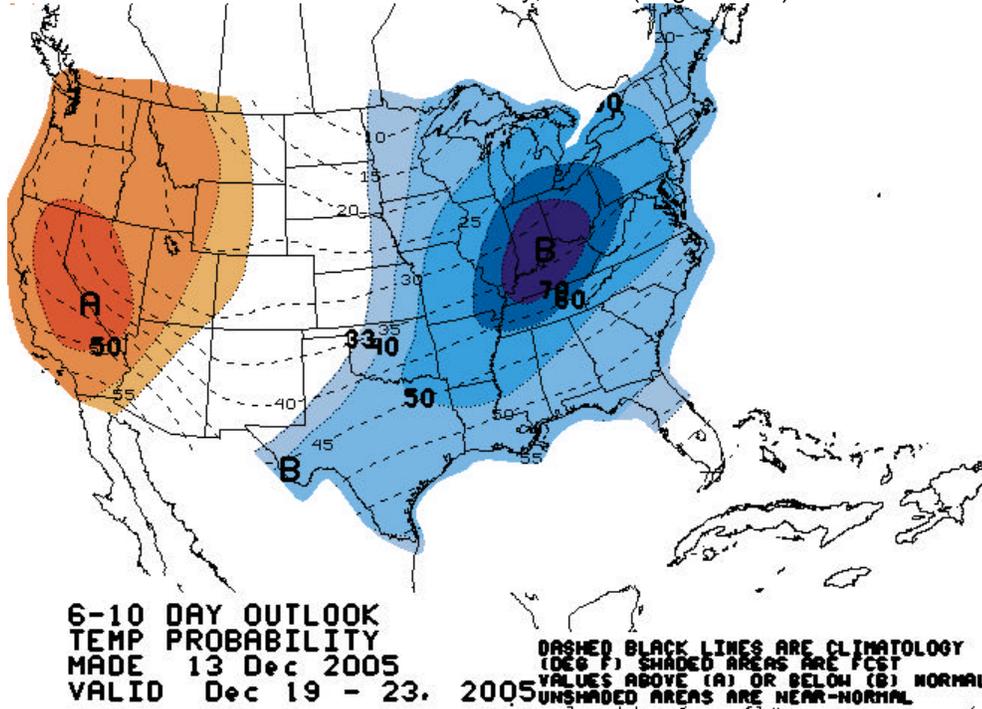
PSEG Nuclear's 1,100 Mw Salem #2 nuclear unit is operating at 98% power. Yesterday, the unit was operating at 64% capacity. Salem #1 continues to operate at full capacity.

**The NRC reported that U.S. nuclear generating capacity was at 92,826 Mw up .56% from Monday and up 3.90% from a year ago.**

Sterlington 18-inch Index 250; Tyler 12-inch Index 8 / Palestine 8-inch Index 11 & 70 / Dallas 18-inch Index 1; Hall Summit; Koran Station; West 30 North; Barron (To Columbia Gulf); Bayou Sale to Napoleonville; Montpelier to Kosciusko, Kiln to Mobile, and Lake Charles Receipts – Capacity Area 6.

Kern River Pipeline said line pack has returned to normal levels.

Natural Gas Pipeline Company of America said that ANR South Joliet #2 is at capacity for deliveries. Interruptible flow, authorized and secondary firm transport volumes are at risk of not getting fully scheduled. ANR South Joliet #2 is located in Will County, Illinois (Segment 33) in Natural's Iowa Illinois Receipt Zone.



Northwest Pipeline Corp. said that it is revising its Unauthorized Overrun Entitlement for all Receiving Party customers north of the Kemmerer Compressor Station from a Stage I (3%) to a Stage III (13%) until further notice. To avoid penalties and a potential OFO through the Green River and Kemmerer Compressor Stations, Northwest requests immediate cooperation and assistance to stay within scheduled volumes by bringing on additional supplies north of Kemmerer. Northwest appreciates a quick response to its request to payback imbalances owed

to Northwest north of Kemmerer this past week. Customers who still owe gas to Northwest north of Kemmerer are encouraged to make arrangements to pay back their imbalances as soon as possible. Due to customers voluntarily realigning supplies north of the Kemmerer Compressor Station, the primary nominations through the Green River and Kemmerer Compressor Stations are at or slightly below their design capacities.

Texas Eastern Transmission said it has restricted STX and ETX to capacity. No increases in receipts between Mt. Belvieu and Little Rock for delivery outside that area will be accepted. Tetco has also scheduled and sealed M1 and M2 24-inch. No increases between Little Rock and Batesville for delivery outside that area will be accepted. Also, Tetco has scheduled and sealed receipts sourced at Monroe Station. No increases in receipts sourced at Monroe.

**PIPELINE MAINTENANCE**

Alliance Pipeline said that minor maintenance will require the Whitecourt Compressor Station in Alberta to be offline for five hours on December 13. Station Capacity will be reduced to 31.2 MMcf/d.

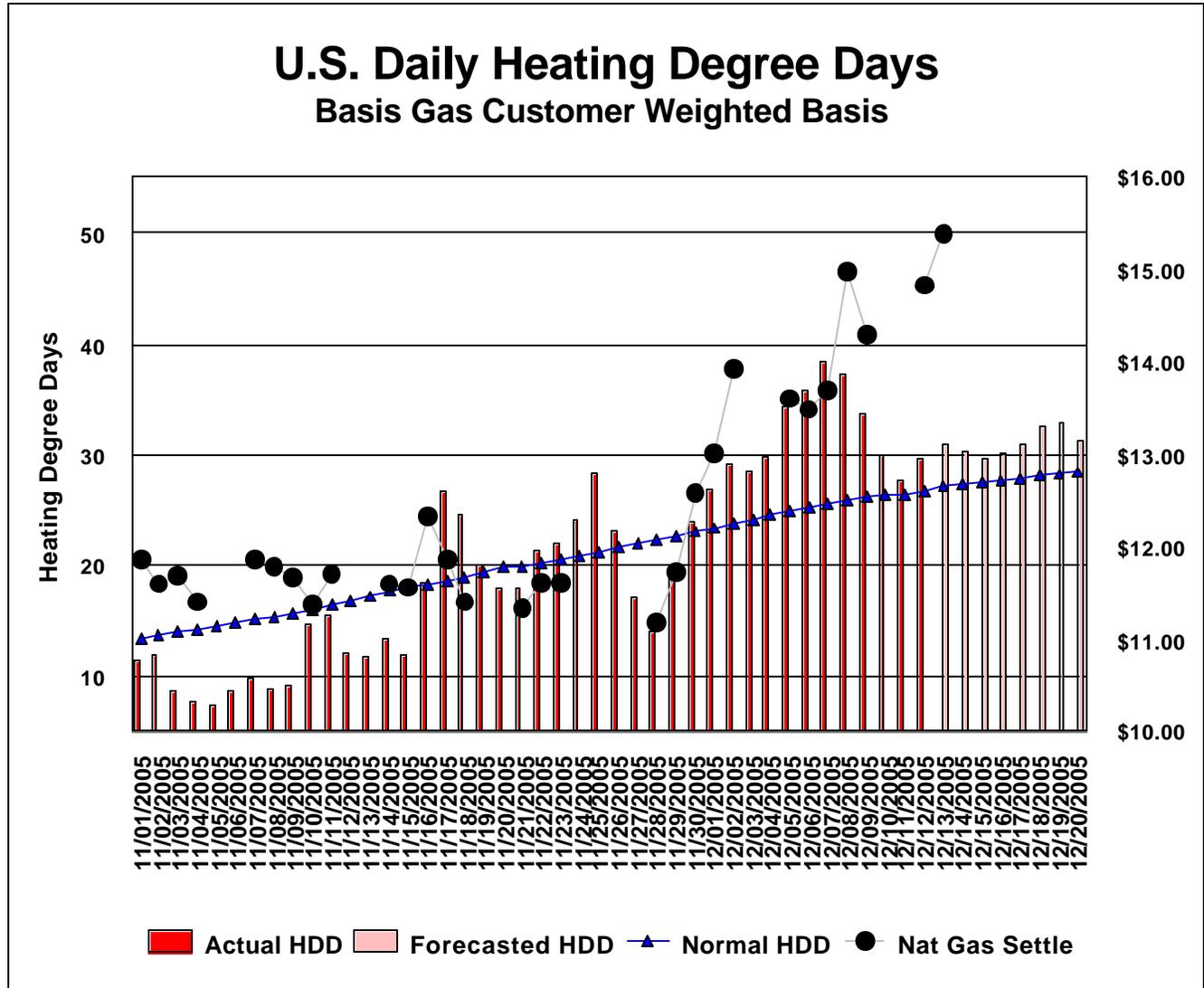
Gulf South Pipeline said that pigging on Index 266 in North Louisiana will resume today and is scheduled to continue for four days. Capacities in the following areas could be affected, during the duration of the pigging maintenance activity. In East Texas, capacity could be affected as much as 125 MMcf/d; in North Louisiana, as much as 150 MMcf/d; and in Olla South, as much as 150 MMcf/d.

Williston Basin Interstate Pipeline Company said that due to the maintenance performed at the Saco Compressor Station today, maximum capacity at Receipt Point ID 00880 Whitewater will be approximately 14.5 MMcf. Williston also said that there will be maintenance performed today at the Bismarck Compressor Station and one

unit will be down for a four-hour period. At this time, restrictions to the system are not anticipated. Further out, due to unplanned maintenance at the Baker East Compressor Station on December 15, Point ID 04018 Baker Area Mainline and 04015 Baker Area Grasslands Mainline will be affected by approximately 1 MMcf, Williston said.

**ELECTRIC MARKET NEWS**

Nevada utilities regulator approved Sierra Pacific Power Co.'s request to build a \$420 million 514 Mw, combined cycle natural gas power plant at its Tracy Generating Station east of Reno, Nevada. The company expects the unit to enter commercial service by June 2008. The company noted the Public Utilities Commission of Nevada would allow Sierra Pacific to recover an additional 1.5% return on equity for its investment in the plant since the state classified the project as a critical facility.



With U.S. natural gas prices near record highs, giant U.S. utility American Electric Power Co. is making a strong bet on coal as a future energy source. Columbus, Ohio based AEP, the biggest user of coal in North America, is pursuing a new breed of coal-fired power plants that use integrated gasification combined cycle technology, which turns coal into a cleaner-burning gas, reducing emissions. In doing so, AEP is rejecting the view of outgoing Federal Reserve Chairman Alan Greenspan, who has said that imports of LNG could alleviate a U.S. energy shortage.

**ECONOMIC NEWS**

The Federal Reserve raised the target for key short-term interest rates today by a quarter percentage point to 4.25%. The rate hike was widely expected by traders and analysts as the economy continues to show signs of strength. The central bank also modified its closely watch policy statement, a move many analysts believe is a sign that the FED may finally be nearing an end to its campaign of boosting interest rates. The FED kept the term "measured," but eliminated the phrase "policy accommodation can be removed," language that many FED watchers interpreted to mean that many more rate hikes were on the way.

#### **MARKET COMMENTARY**

The natural gas market opened 51 cents stronger on new forecasts that called for temperatures to be 6% colder than yesterday's forecasts. Frigid temperatures supported this market as it rallied to another all time high spot chart high of 15.78. Today's 4% advance in the January contract has the market again a bit overbought, with some small correction possible ahead of the inventory figures as the market is some 7% higher this week so far, but with frigid temperatures sticking around for the rest of the month, not much downside is ultimately expected. Natural gas slumped at the end of the session today and traded as low as 15.15, but settled up 53.7 cents at 15.378.

Despite comfortable inventories heading into the heating season, the market remains nervous about winter supplies, noting that flowing gas from the Gulf of Mexico will be considerable trimmed due to the two hurricanes this summer. Lending pressure to the market continues to be the demand destruction caused by the storms and the high prices. We see resistance at \$16.00 and \$16.50 based on a swing measurement of the previous leg up. We see support at \$15.29, \$15.00 and \$14.20. Further support we see at \$14.00 and \$13.30.