ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR DECEMBER 15, 2004

NATURAL GAS MARKET NEWS

The Federal Energy Regulatory Commission approved Cheniere Energy's $750 million plan to build a LNG terminal and pipeline near Sabine Pass, Louisiana. The receiving terminals will initially process up to 2.6 Bcf of natural gas a day and have a storage capacity of 10.1 Bcf. ChevronTexaco and Total have signed separate contracts to each take 1 Bcf of the daily gas produced, and Cheniere will hold the remaining 600 MMcf. Cheniere plans to break ground the first quarter of 2005 and complete by mid-2008. This project is the largest LNG facility ever authorized by the agency.

Entrega Gas and Pipeline awaits FERC approval for its 327 mile pipeline from the Rocky Mountains eastward to higher-priced gas markets. The 36-inch and 42-inch pipeline would transport as much as 500 MMcf/d from northern Colorado's Piceance Basin to the Cheyenne Hub. Entrega is waiting for a draft of an environmental impact statement from the FERC. Entrega's two- phase pipeline will begin with the 36-inch proportion expected to begin service by fall of 2005 and the 46-inch portion one year later. Eventually the pipeline will transport up to 1.5 Bcf/d. The total cost is around $650 billion.

FERC approved the final elements of Order 637 compliance for El Paso to force conversion of basic transportation service classes. The settlement covers the conditions under which El Paso may issue "strained" or "critical" operating condition orders and addresses terms for daily imbalances during such conditions, daily charges for those imbalances and catch-up nominations for daily imbalances during a SOC. Other settled issues include delivery point operational balancing agreements, path rights and segmentation and monthly imbalances.

In FERC's final meeting of the year, they issued a third (and final) rehearing order for its 2003 final affiliate rule

Generator Problems

ERCOT– South Texas Project Nuclear Co. ramped up power back to 48% capacity at its 1,250 Mw South Texas #1 plant. The unit was operating at 40% yesterday. It was taken offline Monday after a small leak on Loop A was detected. #2 unit is currently at full power

FRCC – FPL shut its 693 Mw Turkey Point #3 from full power yesterday when a fire broke out on the turbine. Unit #4 remains at full power.

MAAC – Exelon increased production 12% to 78% at its 1,148 Mw Peach Bottom nuclear #2 following Monday's reactor re-circulation runback. #3 remains at full power.

PSEG continues to ramp power at its 1,100 Mw Salem #2, up to 65%. The unit was offline at 18% yesterday as it returns from being shut following an oil spill in the Delaware River. #1 remains shut.

NPCC– Ontario Power's 535 Mw Lennox 4 oil and natural-gas fired unit shut for a planned outage expected to last one to two weeks. Units #1-3 were available for service.

Ontario Power's 494 Mw Lambton #3 returned to service while #4 shut for a planned outage. Units #1 and #3 are available for serve, #2 shut Nov. 1.

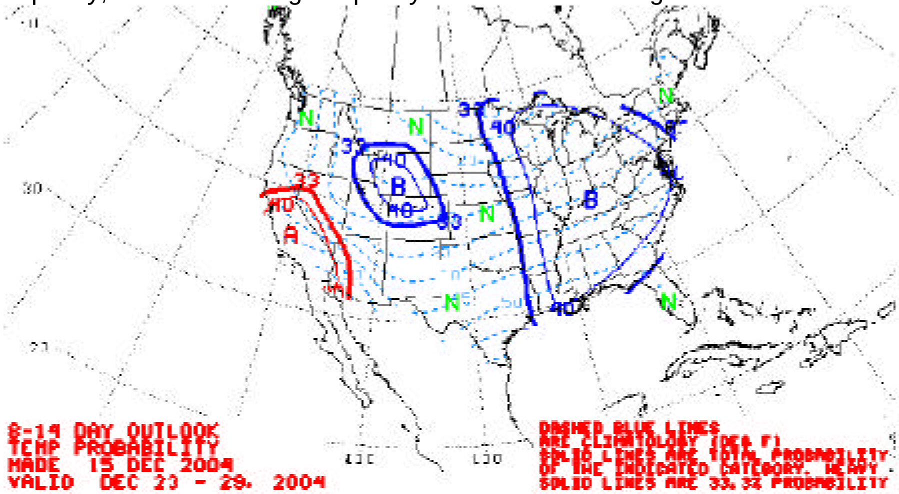
SERC –.Entergy ramped output to full power at its 966 Mw River Bend following a an unexpected scram shut down on Friday.

WSCC –.Pacific Gas and Electric's 1,100 Mw Diable Canyon Nuclear #2 continues to warm up off line at 8% as it returns from a refueling outage. #1 is operating at full power.

The NRC reported that U.S. nuclear generating capacity was at 89,831 Mw today up .55% from Monday.

Cal Iso reported that some 10,039 Mw of generation capacity was off line today, up 469 Mw from yesterday.

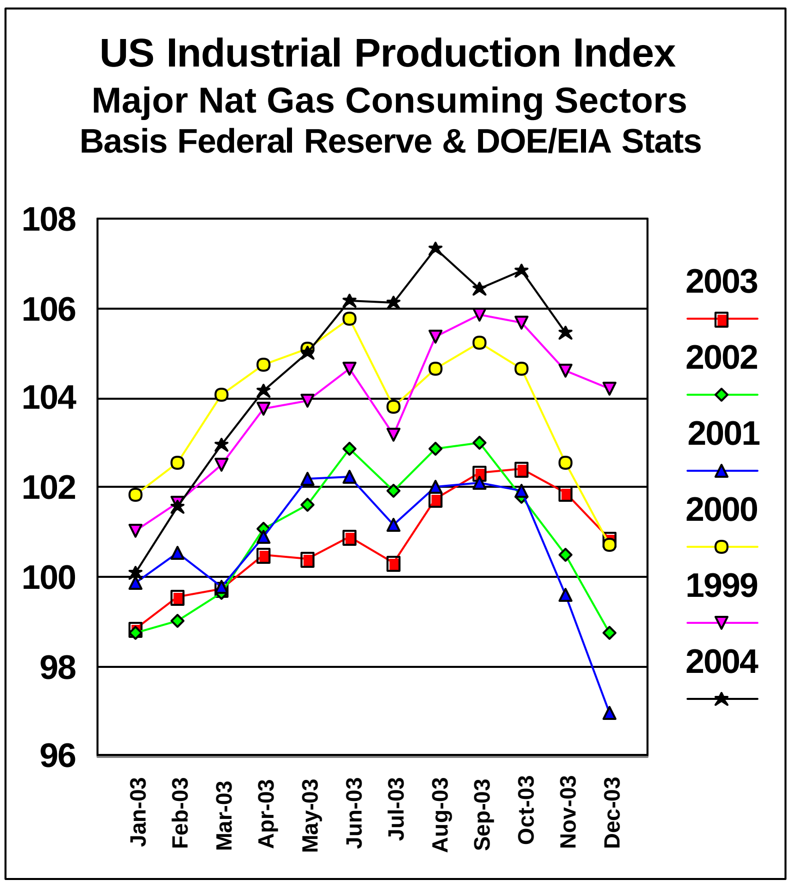
and gave a run-down of its major accomplishments in 2004, which included certification of 20 major pipelines, three storage facilities and now three proposed LNG terminals. The certificates represent 5.7 Bcf/d of pipeline capacity, 7Bcf/d of storage capacity and 2.1 Bcf/d of regasified LNF deliverability.



PIPELINE RESTRICTIONS

Natural Gas Pipeline Co of America is at capacity for gas received upstream of Compressor Station 155 in Wise County, Texas in Segment 1 going northbound. Deliveries to Florida-Jefferson are at capacity. Capacity is available for gas received on the Arkoma Line (Segment 16). NGPL is at capacity for transportation going northbound through and downstream of Compressor Stations 109 and 110 (Segment 14) and through Compressor Station 801 (Segment 15).

Texas Eastern Transmission Corp.'s Monroe Line has been nominated to capacity. No physical increases can be accepted from the following meters: Gulf South West Monroe, Reliant Energy West Monroe, and Duke Energy Field Services – Ouachita Parish, La. Also nominated to capacity, receipts between Mount Belvieu in STX and Fargus in M1 24-inch, including zone ETX. No increases in physical receipts will be accepted between the Mount Belvieu and Fagus compressor stations.



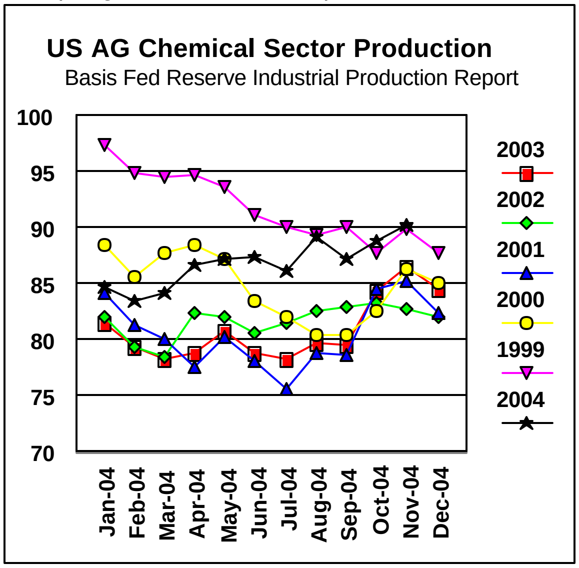
East Tennessee Natural Gas reports that the following restrictions are in place on the East Tennessee system: Secondary receipts out of path upstream of station 3104; secondary receipts out of path upstream of station 3205; and secondary deliveries downstream of station 3313 on the 8 inch 3300 line between Rural Retreat and Roanoke. Also, ETNG will institute its Maximum Allowable Delivery Service.

Algonquin Gas Transmission said it has restricted all authorized overrun, interruptible flow and approximately 23% of priority 3 nominations flowing through Stony Point. Incremental nominations flowing through Stony Point will be accepted only on priority 1 firm nominations on no notice contracts.

PIPELINE MAINTENANCE

Florida Gas Transmission said that due to high demand and near-freezing temperatures, it is issuing an Overage Alert Day at 20% tolerance for today.

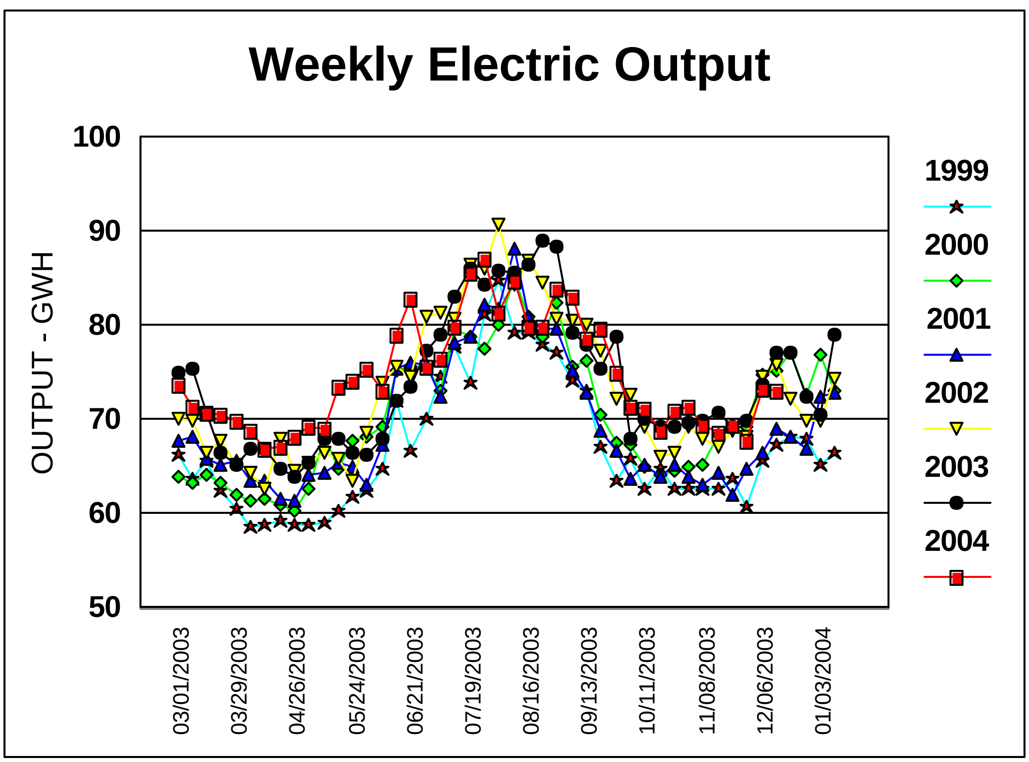
Mississippi River Transmission Pipeline said that due to forecasted cold weather, it is posting a System Protection Warning subject to the following conditions. MRT will not schedule any Main Line IT or AOR volumes for delivery north of Glendale. Firm volumes will be limited to their primary direction of flow. MRT is not accepting short imbalance positions in the market zone or Field Zone. Shippers may not nominate supply from existing long imbalance positions in the market zone or Field Zone. MRT currently has capacity available on the East Line. In order to avoid operational flow orders, shippers who were relying on Main Line IT, AOR, and/or imbalance volumes are encouraged to resource supply to MRT's East Line or reduced applicable delivery volumes.



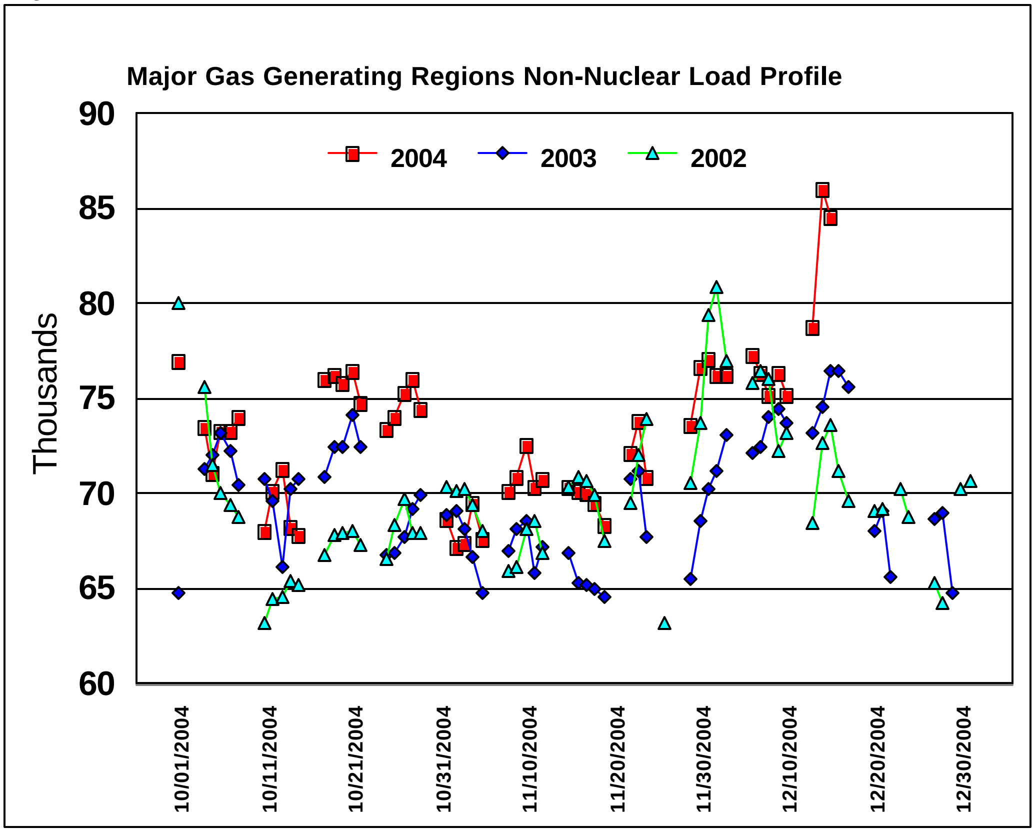
ELECTRIC MARKET NEWS

The Federal Energy Regulatory Commission told 6 big U.S. utilities that they have the ability to unfairly sway power prices in some of their home territories, and ordered them to take remedial action. Alliant Energy, American Electric Power, Duke Energy, Entergy, Southern, and Kansas City Power and Light have 60 days to propose ways to dilute their market dominance, or forfeit their right to sell electricity at market-based rates. FERC must enforce its market power test to ensure fair competition in the wholesale power market.

FERC found two Arizona utilities in violation of agency rules on transmission service and ordered monetary and procedural corrections. FERC found that Arizona Public Service departed from procedures, failing to arrange for necessary point-to-point transmission service when making off-system sales, failing to correctly post transmission paths for the Phoenix Valley 230-kV system on the APS Open-Access Same-Time Information System, failing to post all transmission outages and scheduled transmission curtailments on its Oasis, and failing to make timely filings with FERC when deviating from its Standards of Conduct rules. As a result of its unauthorized use of point-to-point transmission service, FERC directed APS to pay $4 million, $1.25 million to low income energy assistance programs in Arizona, and the rest to upgrade the utility's West Phoenix-Lincoln Street 230-kV transmissions system with high-capacity composite conductors to better serve customers. FERC also audited Tucson Electric Power Company. TEP was faulted for obtaining point-to-point transmission service that was not posted on



their system and made it available to other wholesale merchants. Other violations include TEP allowing control area personnel to interact with employees engaged in wholesale merchant functions—a violation of the Standards of Conduct rules. FERC directed TEP to pay $25,000, to refund any revenue generated in excess of its variable operation and maintenance costs, and to establish procedures to make sure transmission information is given to all customers at the same time.



The Midwest Independent Transmission System Operator has completed several key levels in preparing them for their March 1, 2005 open. They completed the first two of three Systems Operations tests, demonstrating the organization's ability to dispatch generation. Midwest ISO also conducted the second of two System Restoration Drills to show how they will communicate in case of grid emergencies. They allocated the initial tier of Financial Transmission Rights, marking the first time market participants have made financially binding decisions that will settle when the Day-Ahead and Real-Time Energy Markets open on March 1, 2005. Midwest ISO is also nearing completion of the first phase of Parallel Operations, in which Midwest ISO control room operators simulate a market environment to train and practice for live operations.

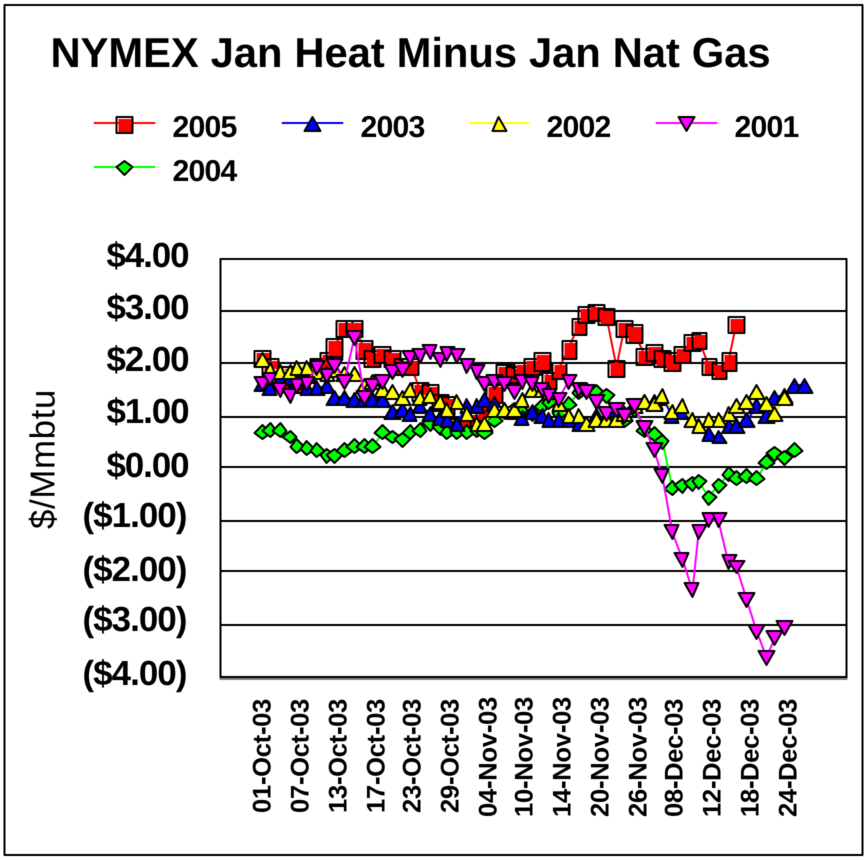
Five Minnesota utilities, Great River Energy, Missouri River Energy, Minnesota Power, Otter Tail Power and Xcel Energy reported that Minnesota's transmission system will become unreliable in the next 15 years without significant infrastructure additions. Minnesota's electrical load is expected to grow 2.5% a year through 2020 requiring 3,300 miles of additional transmission facilities and 6,300 Mw of new generation, with an estimated cost of $2.7 billion.

The Maryland Public Service Commission commented on the Reliability Pricing Model proposed by PJM, stating that it is a positive step with the locational component, but caution needs to be taken. A hearing was held, and PSC is concerned that the RPM has not been exposed to economic analysis and testing. The Commission believes that it is imperative for the model to go through extensive experimentation focusing on the demand curve and market power mitigation mechanism making sure that they are clearly evaluated before implementation. As the locational capacity component is such a valuable piece of the model, the PSC is concerned that the RPM should not be phased in without the locational component.

Electricity production fell 2% to 73,162 gigawatt hours in the week ending Dec. 11. The Mid-Atlantic region posted a 5.2% decrease to 8,271 GWh. The Pacific Northwest rose 7.3% to 3,522 GWh. For the first 52 weeks of the year ended Dec. 11, production rose 1.7% to 3,694,057 GWh.

ENVIRONMENTAL NEWS

The New York State Public Service Commission voted to accelerate a program to foster development of renewable energy in New York State in 2005 so that qualified generators can take advantage of federal tax credits scheduled to expire at the end of the year. New York State Energy Research and Development Authority estimates of total project cost savings, and thus customer savings could be in the range of $97 million depending on the extent of renewable energy developed in 2005. The schedule approved the first step in implementing the Commission's September 2004 Renewable Portfolio Standard (RPS) decision designed to increase to at least 25% by the year 2013 the amount of electricity from renewable sources used by customers in New York State. Renewable energy resources eligible for the federal tax credits include wind, solar, landfill gas, and biomass. In addition to helping New York achieve more energy independence by 2013 through greater use of renewable energy, the RPS Program is forecast to reduce statewide air emissions of nitrogen oxide by 6.8%, sulfur dioxide 5.9% and carbon dioxide 7.7%. To meet the 25% renewable target, New York State will have to add approximately 3,700 Mw of renewable resource generation capacity.



ECONOMIC NEWS

The Empire State Manufacturing Survey indicates that conditions for New York manufacturers improved at a somewhat accelerated pace in December. The general business conditions index rose from 18.9 to 29.9.

MARKET COMMENTARY

The natural gas market today remained a relatively calm island unto itself. While natural gas prices initially weakened this morning as temperatures in the Midwest began to moderate, they did receive a boost upward following on the coattails of the energy markets which saw the bulls unlocked following a relatively mildly bullish inventory report. But despite crude oil prices ending the day up over two dollars and heating oil prices up over 8 cents, natural gas failed to hold onto even the morning's positive gains as prices finished off nearly a dime, as demand remained finite and as a result the overhang of stocks as we discussed in last night's report acted as a drag on this market. Probably if it has not been for the recent strong utility demand for natural gas prices would have been unable to breech the $7.00 barrier this week. Volume on the day remained relatively light with just over 46,000 futures traded.

Option activity today was also relatively light with 16,000 calls traded versus just over 7,000 puts. It is interesting to note that one of the most active strikes on the day was the February $15 calls which despite being settled at 1.5 cents, traded over 1500 times today between 2.8-3.0 cents as buyers for what ever reason continu to be draw to this strike.

Expectations for tomorrow's storage report appear to be running around a 65 bcf draw down. Last year saw a 134 bcf decline with the five year seasonal average showing a 106 bcf decline. We continue to look for a 59-61 bcf decline. This would leave some 3.15 tcf of gas still in the ground, the highest amount of gas in storage on a seasonal basis in the last decade except for December 2001.

Tomorrow's storage report will set the key for the price direction of this market, but unless there is a significant deviation away from market expectations for the draw down, we continue to feel that this market will remain trapped in a trading range of probably $7-$8.00 for the next week and a half. We see support at $7.20-$7.19, $7.065, $6.965, and $6.865. More distant support we see at $6.54 and $6.505. Resistance we see at $7.35 followed by $7.556, $7.62, $7.682 and $7.77-$7.785. Additional resistance we see at $7.95 and $8.184.