



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR DECEMBER 16, 2005**

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

An explosion early this morning at a capped natural gas well in Palo Pinto County, Texas, caused a fire that was still being fought. The county sheriff said there was new drilling in the area and that there was some speculation of a possible relation between the drilling and the explosion, but that it was under investigation. One of the new wells being drilled in the area had "hit some high-pressure gas yesterday."

Oklahoma-based Devon Energy said its Bridgeport natural gas processing facility in North Texas was operating normally despite energy market rumors that the plant was related to the fire in Palo Pinto County.

The U.S. House of Representatives approved a bill that would give the CFTC the ability to beef up regulation of the natural gas futures markets. The bill, which reauthorizes the CFTC, must be reconciled with the Senate's version of reauthorization legislation that does not contain the natural gas futures market regulatory language. The natural gas provisions in the bill emerged in committee when some lawmakers expressed concerns that rising gas prices, which have hurt the agriculture and chemical industries that use gas as a feedstock for fertilizer and other products, have been caused by futures traders manipulating the markets.

After a record-breaking hurricane season, blistering heat waves, lingering drought and a crippling Northeast blizzard, 2005 is ending as a warm year in the U.S., according to the National Oceanic and Atmospheric Administration. NOAA said 2005 will come close to the all-time high global annual average temperature, based on preliminary data gathered by scientists at the NOAA National Climatic Data Center. NOAA scientists report that the 2005 annual average temperature for the contiguous U.S. will likely be 1.0 degrees F above the 1895-2004 mean, which will make 2005 one of the 20 warmest years on record for the country.

Baker Hughes reported that the number of rigs actively exploring for oil and natural gas in the U.S. fell by 20 to 1,463. Of the rigs running nationwide, 1,222 were exploring for gas and 237 for oil.

#### **Generator Problems**

**ECAR**— Consumers Energy said its 730 Mw Palisades nuclear unit is back at full power.

**MAIN**— Wisconsin Energy Corp.'s 512 Mw Point Beach #1 nuclear unit exited an outage and ramped up to 28% of capacity by early today. Point Beach #2 continues to operate at full power.

**SERC**— Progress Energy's 900 Mw Brunswick #2 nuclear power unit ramped up to 71% capacity by early today. The unit was reduced to work on the condenser and recirculating water pump. Brunswick #1 continues to operate at full power.

**WSCC**— PG&E Corp.'s 404 Mw Helms Pumped Storage #3 hydropower station returned to service yesterday afternoon.

**Canada**— Bruce Power's 750 Mw Bruce A #3 nuclear unit returned to service following repairs to a main heat transport pump motor.

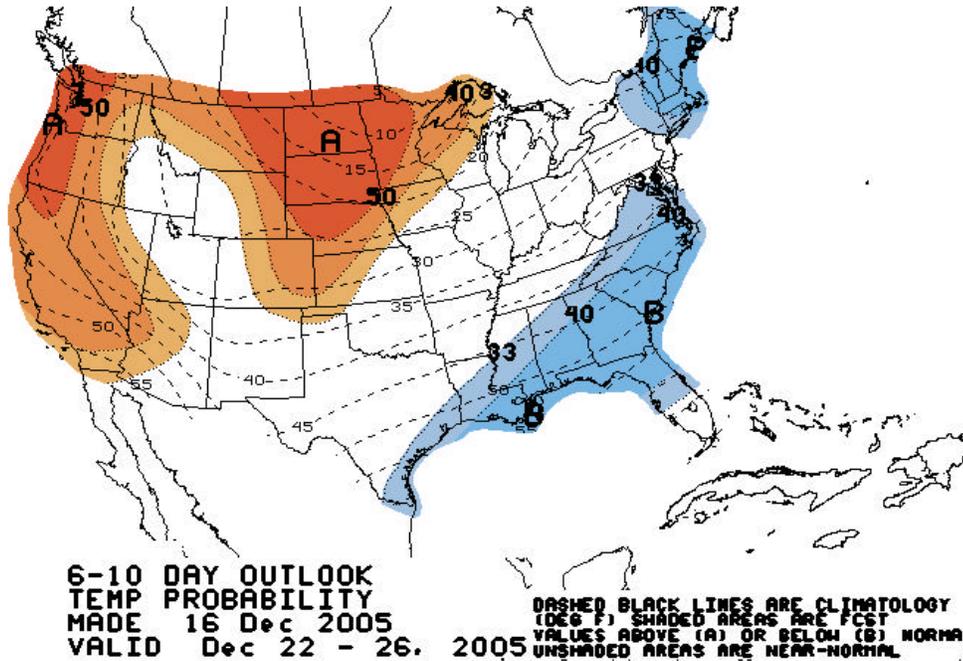
Ontario Power Generation's 490 Mw Nanticoke #5 coal-fired power unit shut early today, while unit #7 returned to service.

Ontario Power Generation's 535 Mw Lennox #3 oil- and natural gas unit returned to service early today.

**The NRC reported that U.S. nuclear generating capacity was at 92,421 Mw up .52% from Thursday and up 1.15% from a year ago.**

The U.S. Minerals Management Service finalized a rule that would allow oil and natural gas operators more time

to drill ultra-deep water wells in the outer continental shelf. The rule is designed to increase drilling of ultra-deep water wells – those 25,000 or more vertical feet below sea level – and subsequently boost U.S. production. The final rule authorized MMS to extend the life of a five- or eight-year lease on which ultra-deep exploration is being conducted even if the lease is not yet producing.



**PIPELINE**

**RESTRICTIONS**

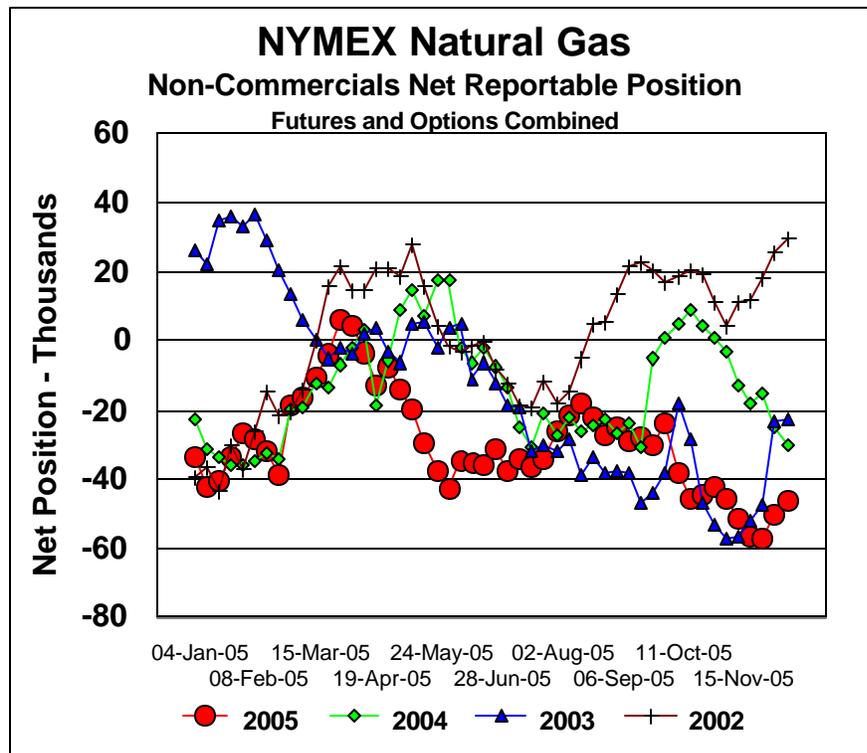
Gulf South Pipeline said that based upon its initial review of nominations,

NNS demand, and other factors, Gulf South may be required to schedule available capacity and implement scheduling reductions on Sarepta to 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.

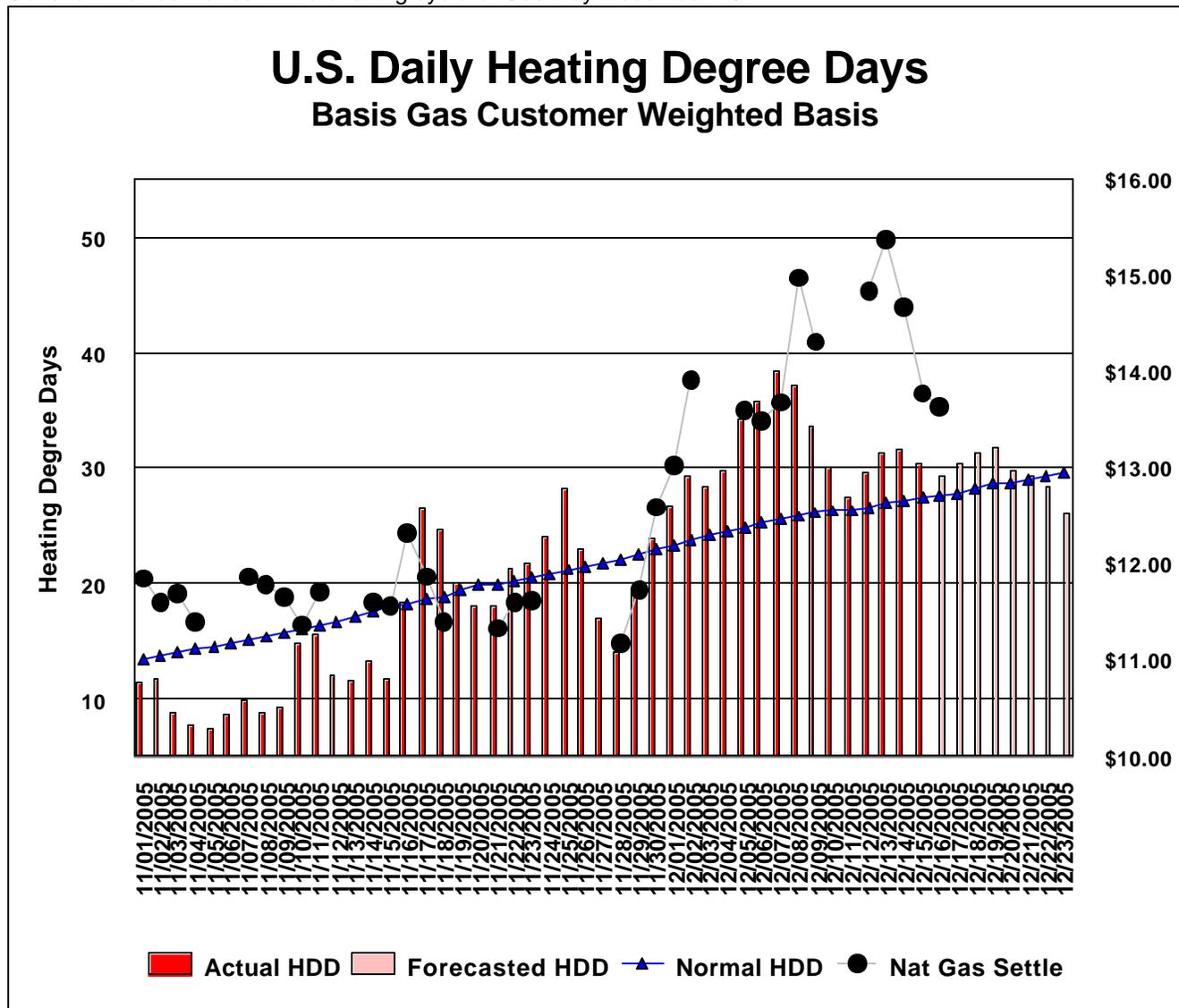
Kern River Pipeline said line pack has returned to normal levels.

Natural Gas Pipeline Company of America said that the receipt from Transco-Wharton is unavailable due to current operating conditions. This point is in Wharton County, Texas (Segment 22 of Natural's South Texas Zone). Effective today, this point will not be scheduled.

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.



Williston Basin Interstate Pipeline Company said the 014 Belle Fourche-Recluse is in pipeline Capacity Constraint for deliveries in the evening cycle of Gas Day December 16.



**PIPELINE MAINTENANCE**

Alliance Pipeline said that scheduled maintenance will require Unit #1 and the Carson Creek Meter/Compressor Station to be unavailable for six hours on December 21. Station Capacity will be reduced to 17.2 MMcf for this gas day. The Carson Creek Compressor is located in Alberta.

Northwest Pipeline said Unit #2 at the Goldendale Compressor Station experienced a mechanical failure on December 15. The preliminary duration to return the unit back to service is expected to be at least five days. During this outage, the available capacity will be approximately 501 MMcf/d, down from a design capacity of 547 MMcf/s. Since the scheduled quantities at the present time are less than the available capacity, Northwest does not anticipate this outage will impact shipper’s nomination requests.

**ELECTRIC MARKET NEWS**

Utilities Cinergy and Duke Energy said they have filed a settlement agreement related to their merger with Ohio regulators, including rate cuts for customers. The settlement also includes credits to help stabilize rates and certain guaranteed tax payments and charitable support.

As temperatures dropped and ice continues to wreck havoc on trees and power lines in the Carolinas, customer outages increased to more than 683,000 overnight, Duke Power, the biggest power company in the two states, said today. The outage will require a multi-day restoration effort, with Duke's 6,500 person strong restoration crew plus an additional 1,000 staff from neighboring utilities.

Florida's electric utilities will reduce reliance on natural gas to power generating plants by diversifying into coal and nuclear generation, according to a review of 10-year site plans issued by the Florida Public Service Commission. This year's report reflects a reduced dependence on the use of natural gas from 51% to 44% by 2014, the end of the current 10-year planning period.

Midwest utility Aquila said it will sell two peaking power plants in Illinois to AmerenUE for \$175 million. Aquilla said it expects to record a pre-tax impairment charge of \$160 million, or about \$100 million after tax, on the sale.

NRG Energy said it will sell a 640 Mw peaking power plant in Missouri to AmerenUE for \$115 million plus assumption of \$240 million of lease obligation and assignment of a \$240 million note receivable. NRG Energy said that of \$115 million in cash proceeds, \$93 million will be paid to the project lenders with the balance of \$22 million paid to NRG.

### **MARKET COMMENTARY**

The natural gas market opened 28 cents softer today on continued follow through selling from yesterday, as this market remains over bought. Today's session saw prices trade as low as 13.46, but action was choppy and sideways with resistance at 13.75, the day's high. Warmer forecasts have kept the bulls out of the market, as it struggles to find equilibrium after such a steep rally the last two weeks. A late short covering rally saw the natural gas market try to claw its way out of the red, but it failed to muster the support and the market settled down 14.8 cents at 13.633.

We don't expect this weakness to last, as the next round of cold weather will likely pique the interest of buyers. The Commitments of Traders report showed that non-commercial traders continued to reduce their net short position, given the strong rally that the market experienced last week. They reduced their net short position by almost 10,000 contracts to 29,026 lots. In the combined futures and options report, non-commercial traders reduced their net short position by 4,380 contracts to 45,922 lots. We see resistance at \$13.80, \$14.00 and \$14.57. We see further resistance at \$14.90, \$15.60 and \$15.78. We see support at \$13.46, \$13.30 and \$13.00. Further support is seen at \$12.78 and \$12.25.