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ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR DECEMBER 26, 2007

NATURAL GAS MARKET NEWS

Private forecaster WSI Corp. said today that they expect temperatures in the densely-populated Northeast to average above-normal in January and February, but a colder-than-normal March may make up for lost winter heating demand. Midwestern states will remain warmer-than-normal in January but experience colder-than-normal temperatures in February and March.

Another piece of the massive Rockies Express Pipeline (REX) fell into place Monday. FERC gave REX the go-ahead to begin service at the Meeker Compressor Station in Rio Blanco County, CO.

FERC said it is concerned about a potential conflict of interest by an environmental contractor that is working on both a proposed liquefied natural gas (LNG) terminal in Oregon and an interstate gas pipeline project in that state.

Generator Problems

MAPP – Xcel Energy's 551 Mw Prairie Island #1 nuclear unit returned to full power today. The unit had been shut since Friday. Prairie Island #2 continues to operate at full power.

PJM – Exelon's 619 Mw Oyster Creek nuclear unit increased output to 91% over the long weekend after work on the condenser was completed.

SERC – Dominion Resources' 925 Mw North Anna #2 nuclear unit was forced shut when the unit automatically tripped shut due to the trip of a coolant pump. North Anna #1 remains at full power.

The NRC reported that 94,121 Mw of nuclear capacity is online, down .19% from Friday, and up 1.39% from a year ago.

The proposed capacity of the Gorgon LNG project in Western Australia has been increased by 5 million mt/year to a total of 15 million mt/year, a spokesman for operator Chevron said. The Gorgon joint venture has endorsed a change in project scope from two 5 million mt/year LNG production trains to three.

This week's EIA inventory report will be released on Friday December 28, as a result of the holiday earlier this week. Expectations point to a draw of 130 to 150 Bcf for the week ending December 21, exceeding the five-year average of 119 Bcf and way above last year's 49 Bcf pull for the same week. The early part of the storage review period included the nor'easter that ripped up the East Coast December 19-20 while the latter half saw ongoing cold, each of which helped support heating demand this week. However, analysts also have an eye on commercial and industrial closures leading up to the holidays, which might have helped temper some of the later week demand. The recent year-on-year deficit is expected to swell over the coming weeks, but little change is expected versus the five-year average. Even with an increasing deficit to a year-ago, with total stocks likely to remain over 3.1 Tcf ahead of the New Year, natural gas storage remains a clearly bearish fundamental for the market right now.

PIPELINE MAINTENANCE

Tennessee Gas Pipeline said that an unplanned maintenance project may result in reduced capacity through Station 17, which will undergo repairs due to a flange leak in the compressor unit on December 27. The loss of horsepower associated with this project will result in lower throughput through Station 17. Additionally, restrictions may become necessary through a pro-rata portion of Secondary In the Path nominations pathed through this compressor station.

Southern Natural Gas Pipeline Co. said that repairs are underway after the unscheduled outage on the 24-inch 2nd North Main Line upstream of Tarrant Compressor station located in north central Alabama. Southern anticipates this line will be repaired and placed back in service as soon as during the day on December 27. The line will likely be operated at a reduced pressure and might have an impact to capacity. Based on the latest forecast and projected demand, no impact is expected between now and Thursday.

MARKET COMMENTARY

The natural gas market began the session under the key 7.00 level as physical gas prices were mostly lower today as light trading returned after five-day deals were made last Friday. However, as crude oil rallied above 95.00 on news that Turkey had attacked Kurdish sites in Northern Iraq, natural gas was dragged back above the 7.00 level to a high of 7.068. In general though, the inability of natural gas to participate in the petroleum rally further weighs on the market and supports the bearish sentiment. The soon to expire January contract settled up 2.1 cents at 7.046.

With the January options expiring today and futures tomorrow, the massive net short positions and the subsequent covering will support the market in the immediate term. However, with the current 8-14 day forecast calling for above average temperatures through the beginning of January, we feel that the market is not through testing the 7.00 level. A pull back in crude oil will help in alleviating the bullish tone that is seen across the energy complex and allow fundamentals to track natural gas lower. We see resistance at 7.10, 7.15, 7.20, 7.36 and 7.60. We see support at 7.00, 6.91, 6.80, 6.64 and 6.50-6.47.