



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR JANUARY 25, 2005**

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

The Consumer Alliance for Affordable Natural Gas, primarily a group of industrial consumers of natural gas, speaking before the Senate Energy and Natural Resource Committee today, again called on Congress and the CFTC to examine the effectiveness of current daily trading limits, in reducing volatility in the natural gas futures markets. The group noted that agricultural futures contracts price limits should be used as a reference point. The group also called on the CFTC to assess the potential negative influence of hedge fund activity in increasing volatility and the ultimate price of natural gas to the consumer and recommend to Congress any need statutory changes to enable appropriate oversight of these market players. The group also called on the CFTC to review the size of position limits as well if adequate ownership transparency of positions is available. The group called on Congress to examine the effectiveness of OTC markets capacity to manage natural gas contracts efficiently and fairly.

AEP submitted additional comments to the Senate Committee today and it called for improved storage and weather data from government agencies so as to provide for better checks and balances that will allow the market participants to assimilate and verify storage information timely enough to minimize price volatility. It called for the EIA to survey all storage operators each week that participate in the monthly storage survey. It also called on the EIA to have an internal model that would project the next week's inventory report based on weather, prior reports, regression analysis and other techniques, so as to provide a benchmark to check the next inventory report against prior to its release to determine if submitted data needs to be verified prior to the release of the next report. The company also called on the FERC to implement a requirement that all interstate pipelines that operate storage facilities should post an estimate of daily storage inventories. In addition the NWS should provide a national HDD calculation that coincides with the storage report, and should review the weighting given this number by customer weighted basis for each particular heating fuel.

Williams reported today that its Transco gas pipeline system, serving the U.S. northeastern and southeastern states set a three day delivery record January 17-19<sup>th</sup> with an average of delivery of 8.36 million Dekatherms per day.

#### **Generator Problems**

**ECAR**— DTE Energy expects in 1,140 Mw Fermi #2 nuclear plant to return to service in a number of days, after shutting the unit Jan. 24 to look into a non-radioactive water leak. There was no release of radioactive water at the plant.

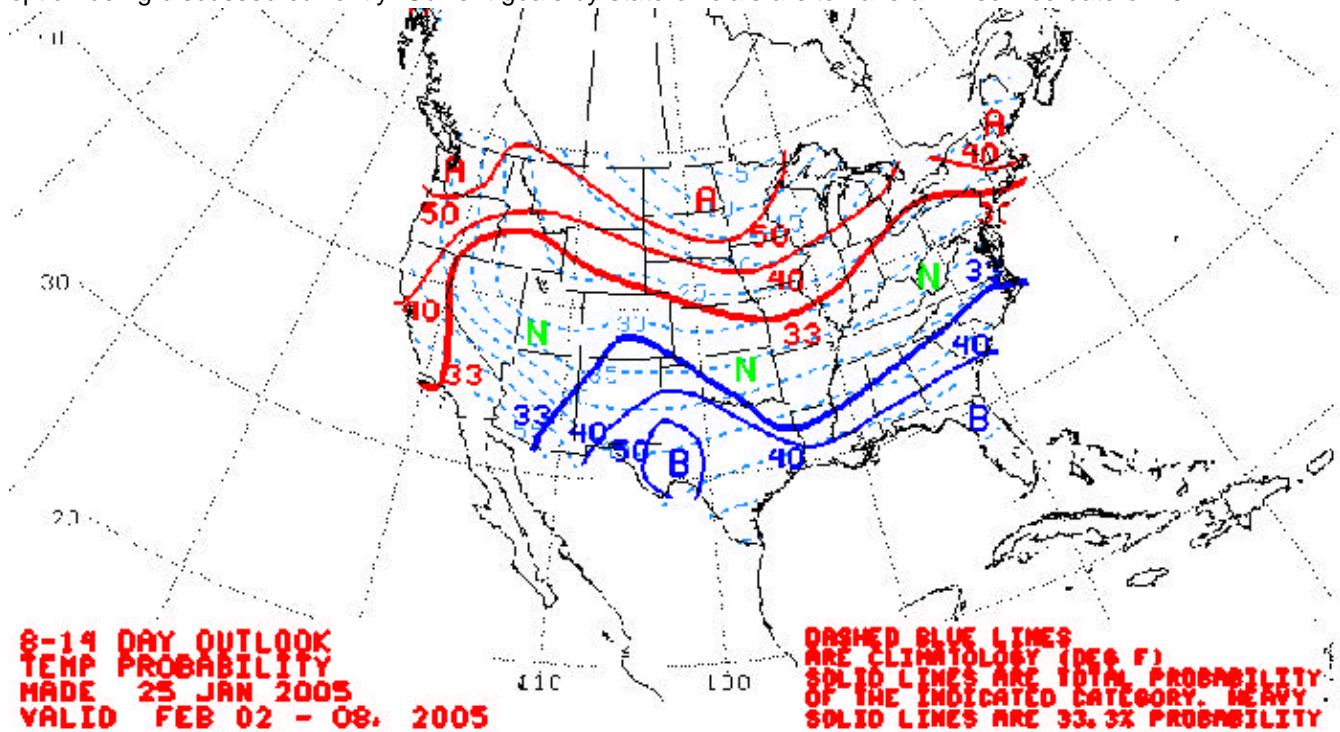
AEP's 1090 Mw Cook 2 nuclear unit returned to service today. The unit had been taken off line over the weekend to check into a problem with a control rod drive mechanism.

**WSCC** – The 320 Mw gas fired Unit #4 at the Etiwanda power plant was off line early Tuesday, while its sister Unit #3 saw a 294 Mw curtailment of its normal 319 Mw capacity.

**The Western Electricity Coordinating Council reported that outages in the region totaled 16,111 Mw up 2.7% from yesterday.**

**The NRC reported that U.S. nuclear generating capacity was at 90372 Mw today down .57% from Monday.**

Alaskan state officials said today that they hope to see bidding on a new Alaskan natural gas pipeline set in motion by the state legislature by the second quarter of this year. According to a member of the consortium discussing building the pipeline, MidAmerican Energy has again shown some interest in the project by once again participating in preliminary discussions. The company withdrew from earlier efforts to build the pipeline last year when it was unable to get exclusive state rights to the project. Currently discussions are centering around only one pipeline being built which would send some 4.5 bcf of gas to the lower 48 states, southward via Alaskan territory not through northern Canada. A LNG pipeline from the North Slope to Valdez is the only alternative option being discussed currently. Current goals by state officials are to have an in service date of 2012.



PEMEX today denied a newspaper report that a new deposit of natural gas has been discovered in the Burgos field, south of Texas. News reports had estimated that the new deposit held up to 4 tcf of natural gas. The company noted that it has been working since 2003 to increase natural gas output from the field through a series of multiple service contracts with foreign and local energy companies.

### **ELECTRICITY MARKET NEWS**

The DC Pacific Intertie was due to reopen late Tuesday bring on a southbound capacity of 2990 Mw.

U.S. Senator Cantell today reintroduced a bill that would amend the Federal Power Act by adding language that would prohibit all “manipulative practices” in wholesale power markets and would also specify that electricity rates resulting from such practices are not “just and reasonable.” The Senator noted that her bill would broaden the language contained in last year’s failed comprehensive energy bill, which sought to prohibit so called “round-trip” trading. She claimed that the manipulative actions taken by power traders during the western power crisis of 2000-01 cost the region an estimated \$35 billion in domestic economic product and a loss of 589,000 jobs.

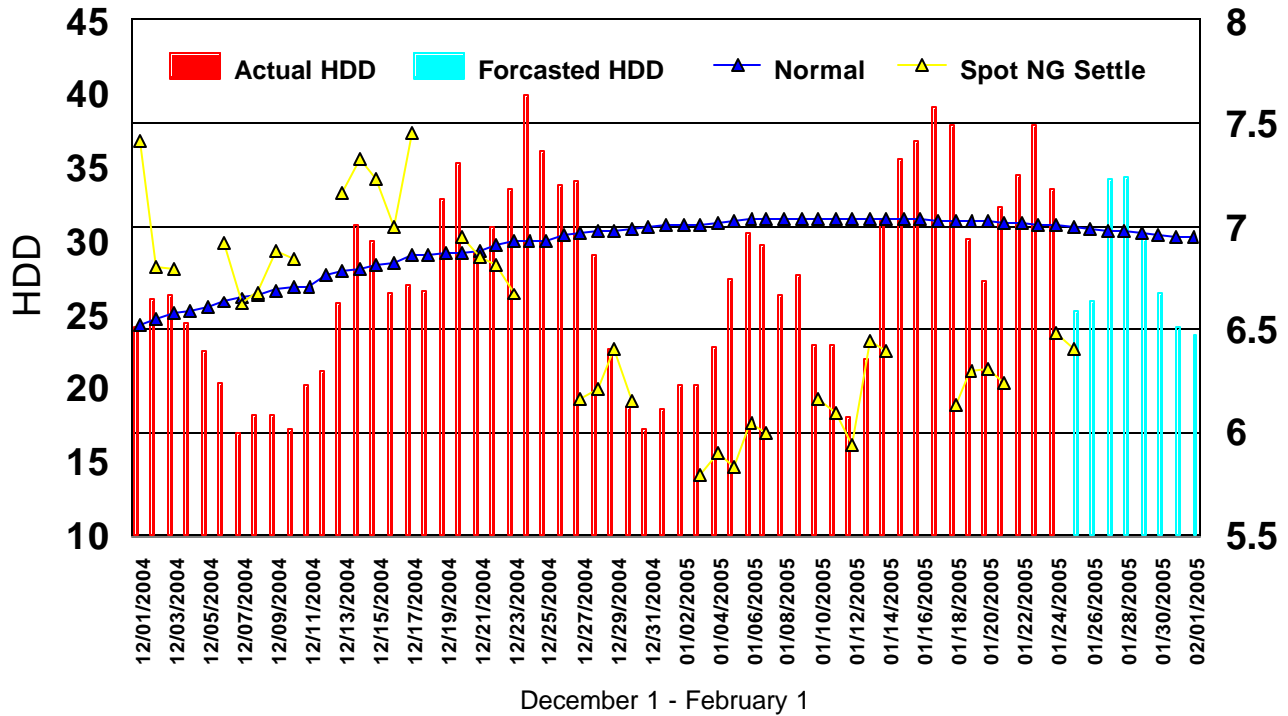
In the wake of Blizzard of '05, several utilities reported that record amounts of electricity were consumed across much of the East Coast. Con Edison in New York City delivered a record 7,934 Mw of electricity for a weekend day to its more than 3 million customers, eclipsing last year’s record. Dominion Resources in Virginia and North Carolina delivered 16,962 Mw to its 2.2 million customers. Progress Energy Carolinas set an all-time record on Jan. 24 of 12,011 Mw, breaking the old record of 11,977 Mw set on July 30, 2002.

### **ECONOMIC NEWS**

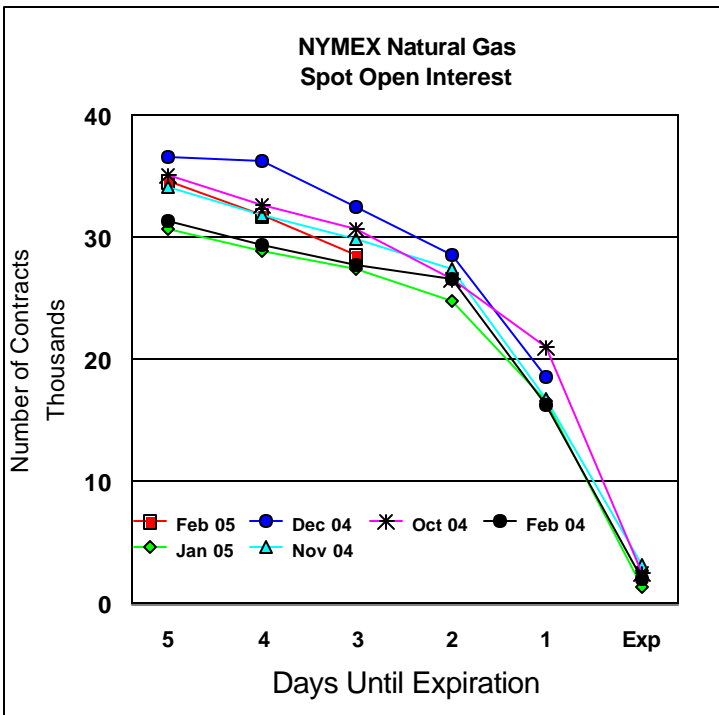
The Consumer Confidence Index, which had improved in December, edged up in January to 103.4 from 102.7. The employment component and the business conditions component both edged higher suggesting that the

# U.S. Heating Degree Days

Basis Weighted Natural Gas Home Heating



consumers' short-term outlook remains favorable and suggests the economy will continue to expand throughout the first half of this year.

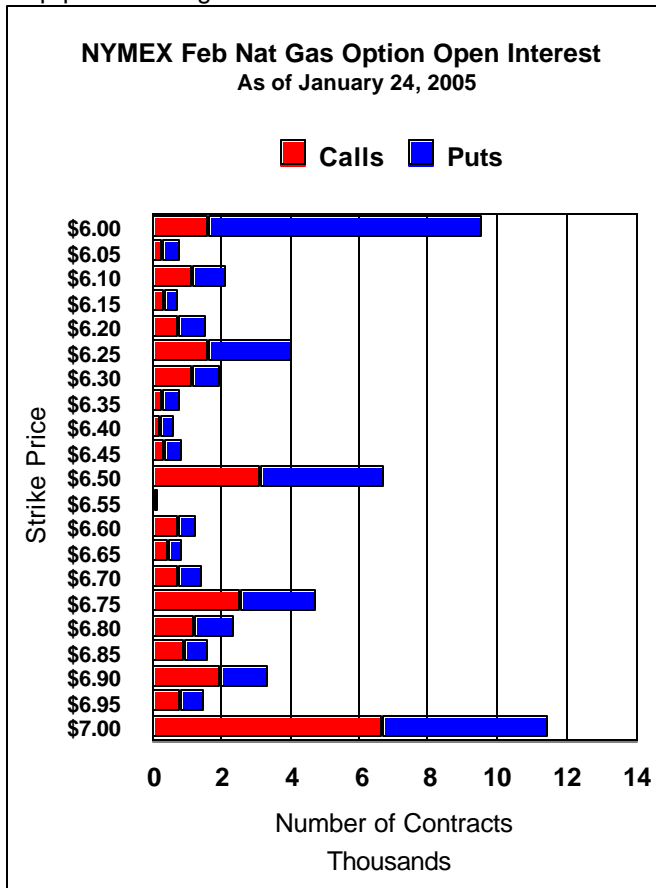


The Richmond Federal Reserve Bank saw its composite manufacturing index rise to 2 in Jan. from 1 in Dec. This new index draws from the shipments, new orders and employment indices long published by the regional Fed bank. The shipment index came in at -7 in Jan. from flat in Dec., but its employment index gained to 4 from Dec.'s 2 and new orders rose to 7 from flat. Economists have found the Richmond Fed Index to closely track the ISM monthly gauge of national factory activity and therefore, the Richmond Fed is going to speed up release of the number as it may offer valuable and timely information to financial markets.

## MARKET COMMENTARY

While the Northeastern U.S. was expected to see yet another artic outbreak later this week, the remainder of the country was basking in relatively moderate temperatures, and as a result limited heating demand for natural gas was weighing on cash prices yet again today. This cash market price erosion finally dragged futures prices down with it. While a late afternoon rally

dragged natural gas prices into positive territory, the bulls could not maintain these levels and late profit taking sent prices back down into negative territory. The February contract settled down 7.3 cents, with the 12-month strip price settling down 2.8 cents. Final volume on the day was estimated at 83,000 futures traded.



Open interest reported at midday showed a net increase of 1008 futures contracts, while the spot contract showed a decline 3183 lots. But more interesting was the change in open interest in the February natural gas options market, which saw a 1323 lot gain in the \$7.00 call during Wednesday's trading. Volume in this strike was much more subdued today with only 308 lots traded. The two most active February strikes today were the \$6.00 put and the \$6.50 calls, which makes us believe the consensus market opinion has shifted away from higher values to one in which prices should settle between \$6.00-\$6.50 by the time options expire tomorrow.

We continue to look upon the natural gas market in a bearish light and still believe that this market has the potential of challenging the \$6.00 level by the time the futures contract expires on Thursday. Support we see initially at \$6.25-\$6.245, followed by \$6.20, \$6.08, \$5.83 and \$5.71. Resistance we see at \$6.50 followed by \$6.645-\$6.69, \$6.89, \$6.97 and \$7.24-\$7.40.