



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR JANUARY 31, 2005

NATURAL GAS MARKET NEWS

The Climate Prediction Center reported that the US saw a total of 235 Heating Degree Days on a gas home heating customer weighted basis in the week ending January 29th, up from its previous estimate of 206 HDD. It is down 12.6% on the year but up 6% from normal. It is predicting that the current week ending February 5th will see 187 HDD on a gas home heating customer weighted basis. It is down 17.6% on the year and down 13% from normal.

According to the US Minerals Management Service, the percentage of the Gulf of Mexico's daily natural gas production that is offline fell to 3.73% from 4.54%. The amount of production shut in is 489.39 mmcf/d of natural gas.

Fidelis Energy said that the government has informed it that the final permit covering the easement over the last 177 feet of North Franklin Pipeline will be posted in the Federal Register of Feb. 2. Upon these final requirements being completed, the company is planning, along with its North Franklin Gas Field Partners, to immediately tie-in the field and the Archer-Whitney #1 well. Fidelis is optimistic that gas flow rates will be 5 MMcf/d.

Encore Acquisition reported that its estimated proved oil and gas reserves increased by 23% to 173 million barrels of oil equivalent as of Dec. 31, 2004. Oil reserves accounted for 77% of total proved reserves, and 71% of proved reserves are developed. The estimated pretax present value of Encore's reserves increased by 59% to over \$1.6 billion (using a 10% discount rate and constant year end prices of \$43.46 for crude oil and \$6.19 for natural gas).

El Paso Corp. announced today two exploration and production acquisitions in east Texas and south Texas totaling \$211 million and an addition of 124 Bcf of proved reserves and 29 MMcf/d of average net production. In east Texas, El Paso signed an agreement to purchase a privately held exploration and production company with operations in Rusk and Shelby counties for \$179 million. The deal comes with 52 wells and associated gathering infrastructure with 20 MMcf/d of production from the Cotton Valley and Travis Peak formations. El Paso will also acquire six additional wells that are currently being drilled or completed, 77 proved undeveloped locations, and significant additional potential development and exploration opportunities. In south Texas, El Paso purchased assets in the Samano Field located in Starr and Hidalgo counties for \$32 million. The acquisition includes 26 wells that are producing 9 MMcf/d and the associated gathering system.

Generator Problems

ERCOT— TXU Corp. shut its 750 Mw Monticello #3 coal-fired station in Texas Jan. 30 to repair a leak in the expansion joint of the air preheater.

FRCC— FPL Group's 693 Mw Turkey Point #3 nuclear unit dipped to 58 % today to conduct a regularly scheduled turbine valve test as well as a water box cleaning. The unit was operating at full capacity on Friday and is expected to return to full power on Feb. 1. Turkey Point continues to operate at full power.

MAAC— PSEG Power ramped production 17% to 40% capacity at its 1,049 Mw Hope Creek nuclear unit, after restarting Jan. 19 from a refueling and maintenance outage.

The NRC reported that U.S. nuclear generating capacity was at 89800 Mw today down .59% from Friday.

PIPELINE RESTRICTIONS

Natural Gas Pipeline Company of America said it has had one unit unavailable at Station 812 since Jan. 14. This has caused NGPL to reduce the segment capacity in Segment 16 to a lower level for scheduling transports. This unit is scheduled to become available again on Feb. 4. As soon as it is placed in service, NGPL will begin using the higher segment capacity for scheduling transports in segment 16. NGPL is at capacity for gas received upstream of Compressor Station 155 in Wise County, Texas in Segment 1 going northbound. All Louisiana Line Segments (25, 23 and 24) are at capacity for eastbound transport volumes.

Texas Eastern Transmission said that STX and ETX have been restricted to capacity, and therefore no physical increases of receipts will be accepted between Mont Belvieu and Little Rock, and no PAL Parks are available in STX and ETX, or M1-24 and M2-24.

East Tennessee Natural Gas said that due to colder weather, it anticipates implementing the following restrictions today: No secondary receipts out of path upstream of station 3104; No secondary receipts out of path upstream of station 3205; And no secondary deliveries downstream of station 3313 on the 8inch 3300 line between Rural Retreat and Roanoke.

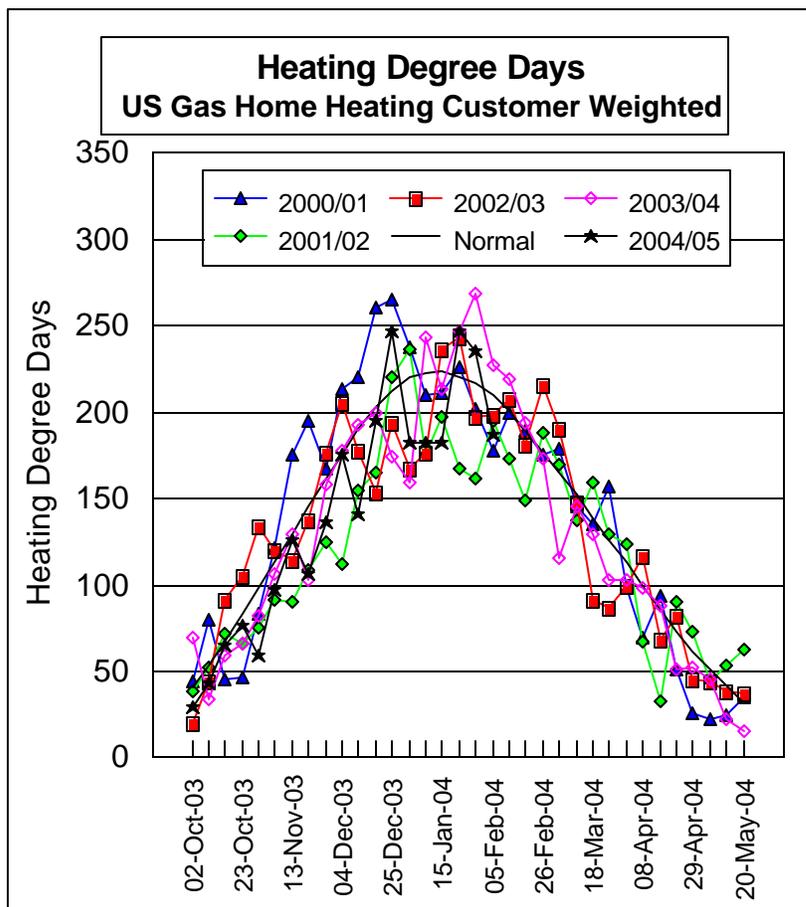
KM Interstate Gas Transmission said it is at capacity for deliveries through the Casper Compressor Station (Segments 45 and 730). Depending on the level of nominations, interruptible flow, authorized overrun and secondary out-of-path volumes are at risk of not being scheduled. The Casper Compressor Station is located in Wyoming.

Florida Gas Transmission said that near freezing temperatures are currently in northern Florida, and FGT's linepack is currently lower. Consequently, for Tuesday's flow, FGT said that there is the potential for an Overage Alert Day.

Transcontinental Gas Pipeline has modified available capacity for transportations under Firm Transportation, secondary Firm Transportation and Interruptible Transportation on certain segments of Transco's production area mainline (upstream of Compressor Station 65) as well as at specific locations where receipts or deliveries may be limited. These changes are effective beginning Feb. 1. For the constraint points: Compressor Station 30 is unrestricted; Compressor Station 35 has 650 MMcf/d available; Compressor Station 40 has 600 MMcf/d available; Compressor Station 50 has a total scheduled quantity limited to 2,000 MMcf/d.

PIPELINE MAINTENANCE

Alliance Pipeline said that the Carson Creek Compressor #2 will be offline for 12 hours starting at 9:00 AM MT on Feb. 1 for minor maintenance. Station capacity will be lowered to 13.3 MMcf/d. The Carson Creek Compressor is located in Alberta.



TransCanada said that it declared an Emergency Response Compensation Event in Segment 1 on Jan. 30 due to unplanned maintenance at the Meikle River A Compressor Station on the Alberta Line. The receipt capacity in this area has been reduced to 141.8 MMcf/d while the typical flow prior to the even was 225.2 MMcf/d.

Westcoast Energy said that the K100 inlet compressor at the Kwoen Gas Plant went down at 6:00 AM MT Jan. 29 and that the company is currently waiting for parts in order to repair the unit. Westcoast anticipates having the repairs completed and having K100 up and running on the afternoon of Feb. 1. Upstream customers can expect to see higher pressures in the gathering system.

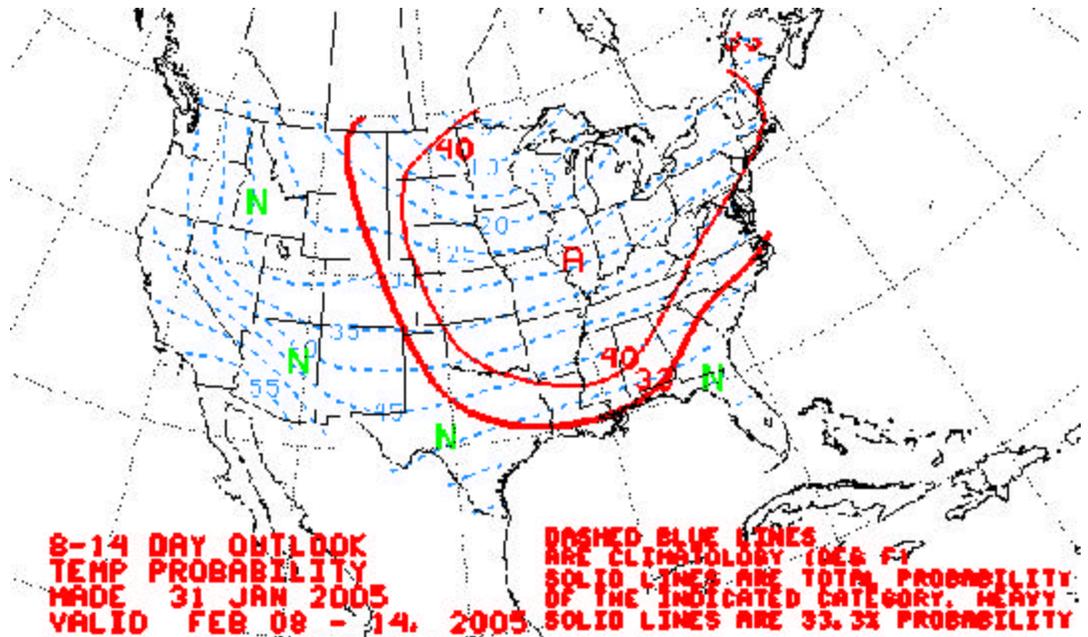
ELECTRICITY MARKET NEWS

LG&E Energy announced a series of facility improvements to enhance electric reliability for customers and cleaner air for all Kentuckians, with a total investment value to exceed \$2.3 billion. The improvements will include \$659 million for new sulfur dioxide removal scrubbers to be added to existing coal fired generating units at KU's Brown and Ghent generating stations. The investment will promote cleaner air and guarantee further SO2 reductions. The company will also use \$76 million for upgrades of existing Ohio Falls hydroelectric facility at McAlpine Dam in Louisville. The upgrades will extend the life of this 1920s renewable energy facility, and expand its output from 80 Mw to 100 Mw. LG&E's plans also includes a \$450 million long-term supply agreement with WV Hydro to construct three 240 Mw hydroelectric stations at three existing dams on the Ohio River, and then sell the power to LG&E Energy. Finally, LG&E proposed \$1.2 billion to construct a new 750 Mw generating unit at its existing Trimble County Station. An advanced supercritical pulverized coal boiler that includes the latest technological advances in efficiency and environmental controls will power this station.

Con Edison of New York has begun testing new units at its East River cogeneration station in Manhattan. The new units which cost about \$700 million and will only burn natural gas, will likely enter service by the summer and add 288 Mw of generating capacity to the existing 300 Ms oil/gas-fired station. The primary reason for expanding East River is to enhance the reliability of its steam system and replace the steam output of its hundred-year-old Waterside cogenerations oil/gas-fired station in Manhattan, not necessarily to generate more electricity. Con Edison agreed to sell 163 Mw Waterside in 2000, and will retire the station sometime after the new east River units enter service. The net electricity gain will be about 125 Mw. The project will have the environmental benefit of providing more steam and electricity with less pollution compared with the old Waterside facility.

MARKET COMMENTARY

The natural gas market gapped lower from \$6.15 to \$6.12, its intraday low, in light of the moderating weather forecasts, showing above normal temperatures for most of the country. The market was also pressured amid the weakness seen in the oil markets. However the natural gas market's selling early in the session was quickly offset by short covering as the oil complex rebounded sharply off its early lows. The natural gas market bounced off its low and backfilled its gap as it rallied to a high of \$6.32. It later retraced more than 62% of its gains only to bounce back into positive territory and rally to a high



of \$6.33 amid strength seen in the oil complex. It settled up 6.2 cents at \$6.321 after it posted an outside trading day. Volume in the natural gas market remained light with 52,000 lots booked on the day.

Despite today's move higher, we continue to believe that the ample inventories of natural gas and the moderating weather forecasts will weigh on the market and keep its gains limited. The latest 8-14 day forecast calls for above normal temperatures for the eastern two-thirds of the country and normal temperatures for rest of the country. Technically, its daily stochastics still have room to the downside. The market is seen finding resistance at \$6.33-\$6.335 followed by its previous high of \$6.64, \$6.67 and \$6.75. Meanwhile support is seen at \$6.25 followed by \$6.17 and its low of \$6.12. More distant support is seen at \$6.08 and \$5.83-\$5.81.