



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR MARCH 15, 2007**

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

NOAA this morning released its long term spring weather forecast, which called temperatures across the country from April through June to be above normal for the West, through the Plains and into the Southeast.

WxRisk.com released its spring temperature outlook and it calls for a chilly and wet spring for the Plains Midwest and East Coast, with above normal temperatures over the Rockies and the Plains.

Total's CEO said today that his company's investment in the Iranian Pars LNG project will exceed \$2 billion in the \$10 billion project, if the company decides to go ahead with the project. A final decision is expected in the next few weeks or months and will be influenced by technical and geopolitical issues.

The CEO of the Dutch company GasTerra said today that The Netherlands is growing rapidly as a European gas-trading hub, but current regulatory restrictions are creating a bottleneck in the Hub reaching its full potential. He estimated that by 2010-2011 the infrastructure should be in place to give better access to the Dutch market and make the roundabout function fully. He noted that the Netherlands would offer the Norwegians a more integrated market, more storage possibilities and more flexibility/possibilities to add value to gas landed there than Britain. The Norwegians are currently considering whether to build a pipeline to either Britain or The Netherlands to move gas from its Troll field. A decision is expected by May.

Dominion Resources said that its plans to sell its oil and natural gas assets on schedule by midyear. This asset sale would allow the company to focus its core utility business.

#### **Generator Problems**

**PJM** – AmerGen's 650 Mw Oyster creek nuclear unit ramped up to 82% of capacity.

PSEG's 1100 Mw Salem #1 nuclear unit was at 94% of capacity as it coast down to its refueling outage.

**ECAR** – First Energy's 1300 Mw Perry nuclear unit saw power output drop to 70% of capacity this morning, off 29% from yesterday.

**NPCC** – Constellation Energy's 1135 Mw Unit #2 at the Nine Mile point nuclear has restarted and was at 4% of capacity this morning. The unit went off line back on March 9<sup>th</sup>.

**MAPP** – AmerenUE's 1190 Mw Callaway nuclear unit returned to full output this morning up 6% from yesterday.

**SERC** - Duke Energy's 1100 Mw McGuire #2 nuclear unit ramped up to 98% of capacity this morning. The unit had been operating at 50% of capacity since the weekend.

TVA's 1125 Mw Sequoyah #2 nuclear unit has rebounded to 48% of capacity following a trip off line on Tuesday.

**ERCOT** – TXU's 545 Mw Unit #4 at the Sandow coal fired power plant was expected to be restarted today. The unit was taken off line on March 13<sup>th</sup> to repair a tube leak.

AEP plans to shut its 528 Mw Unit #1 coal fired generator at the Welsh power station for the next two days to fix a boiler tube leak.

South Texas #2 nuclear unit continues to ramp downward towards its refueling outage. The unit was off 1% this morning at 84% of capacity.

**SPP** – Entergy's 1207 Grand Gulf nuclear unit #1 was coasting down to its scheduled outage as well. It was at 91% of capacity this morning.

**The NRC reported that 82,148 Mw of nuclear capacity is on line, up 0.99% from Wednesday, but some 2.06% less than a year ago.**

Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	919,000	\$7.023	\$0.165	(\$0.218)	\$0.257	(\$0.441)
Chicago City Gate	438,800	\$6.860	\$0.178	(\$0.163)	\$0.162	(\$0.249)
NGPL- TX/OK	522,400	\$6.575	\$0.178	(\$0.448)	\$0.162	(\$0.568)
SoCal	537,400	\$6.450	\$0.160	(\$0.573)	\$0.144	(\$0.763)
PG&E Citygate	613,300	\$6.860	\$0.120	(\$0.163)	\$0.104	(\$0.230)
Dominion-South	352,300	\$7.741	\$0.569	\$0.718	\$0.553	\$0.255
Transco Zone 6	362,700	\$8.182	\$0.792	\$1.159	\$0.776	\$0.591

The FERC today said it has sued to block Equitable Resources proposed purchase of Dominion Peoples on the grounds that the deal would harm competition.

The FERC chairman said today that FERC is weighing imposing "substantial penalties"

on power and natural gas companies that fail to reach settlements with agency staff.

The FERC today awarded a favorable initial decision to Kinder Morgan Louisiana Pipeline to build a 135 mile 42 inch pipeline to provide service from Cheniere LNG 2.6 bcf Sabine Pass import terminal.

The FERC also granted Algonquin Gas Transmission a certificate to construct a 16-mile pipeline that would connect to the company's pipeline system and the proposed Excelerate Energy's proposed Northeast Gateway deepwater LNG port. The line would have a capacity of 800,000 Dt/d with an in service date of mid-2007.

### EIA Weekly Report

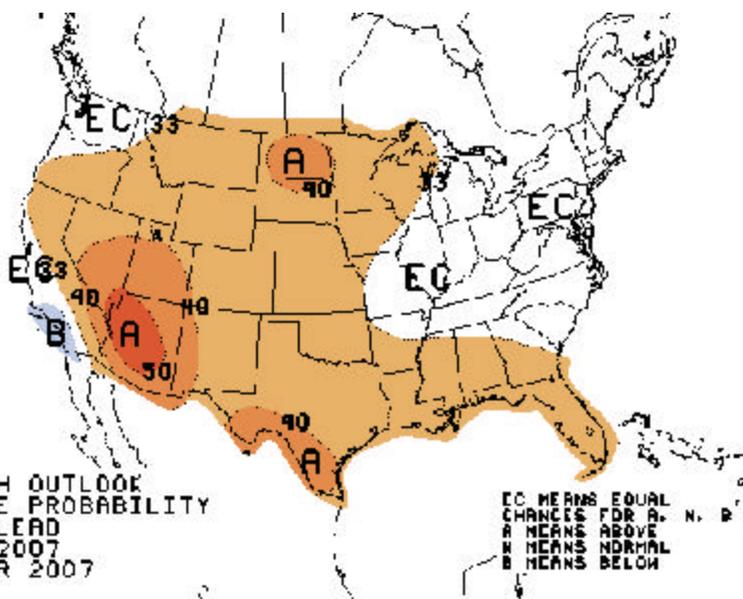
	03/09/2007	03/02/2007	Net chg	Last Year
Producing Region	564	586	-22	628
Consuming East	728	820	-92	958
Consuming West	224	225	-1	253
Total US	1516	1631	-115	1840

\*storage figures in Bcf

AIG said today that it had signed an agreement with Tenaska to buy a 50% stake in the companies natural gas marketing companies. Terms of the deal were not disclosed.

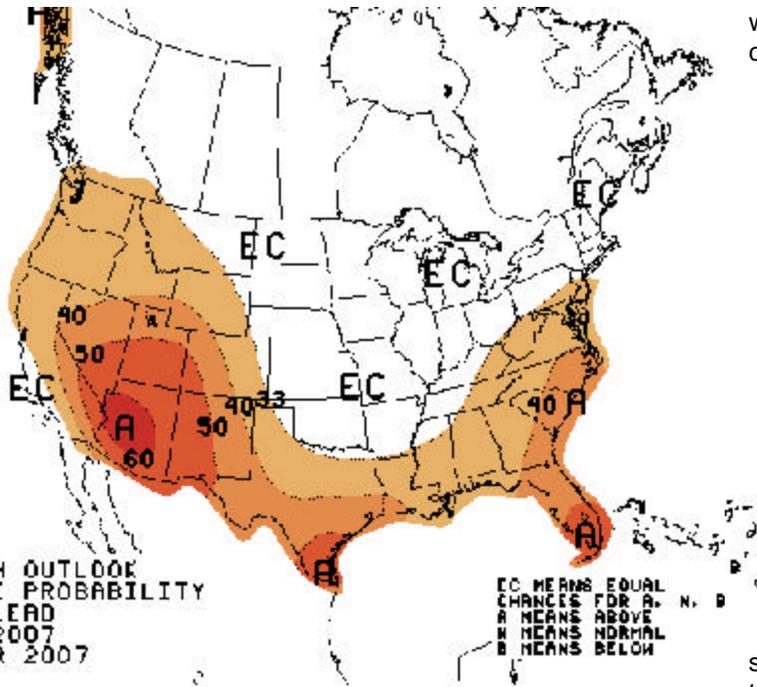
### PIPELINE RESTRICTIONS

KMIGT said that PIN 6501 SSC Grant, PIN 6616 PEPL Grant, PIN 6997 CIG Weld and PIN 8601 NNG Milligan are classified as AOR/IT/Secondary Risk. PIN 6501 SSC Grant is also at primary at risk. The West End Segment, Segment 340 Ulysses, Segment 773CO/KS to Herndon and Segment 775 Herdon to Soloman were all listed as AOR/IT/Secondary Risk.



Questar Pipeline said that the company is experiencing seasonal increases in CHDP at several receipt point on its Southern system. It anticipates a CHDP limit of 80 degrees F will need to be put in place in the near future.

NGPL said that effective today and until further notice it is at capacity for gas going northbound through Segment 13. ITS/AOR and secondary out-of-path firm transports are at risk of not being fully scheduled. On the Amarillo system, Segment 13, 14 and 15 are at capacity



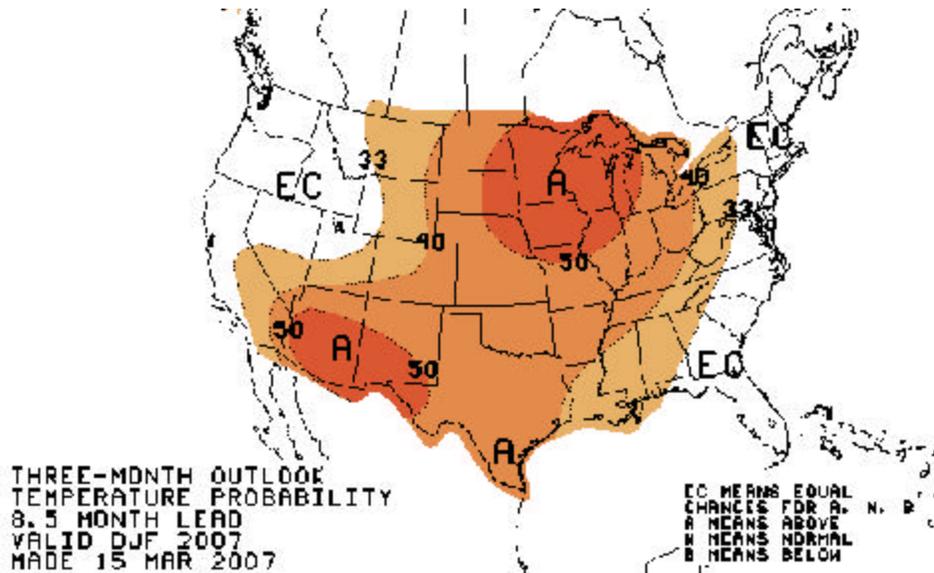
while Segment 1 has limited capacity available. On the Gulf Coast System, Segment 26 is at capacity while Segment 17 has limited capacity. On the Louisiana line Segment 25, 23 and 24 are all at capacity

Williston Basin Interstate Pipeline said that penalties will be imposed at the following line sections: 002 Dickinson-Bismarck; 003 Bismarck-Cleveland; 004 Cleveland-Grafton; 007 Williston-Bismarck; 024 Cleveland-Mapleton and 025 Portal-Tioga.

Tennessee Gas Pipeline said that effective for Cycle 1 today, due to reduced

nominations it will accept increases for nominations on the Carthage Lateral and for nominations pathed for delivery at the Leidy Delivery Meters 005030/005031. Restrictions that remaining place today are as follows: Carthage Lateral has a 54% of Supply to market, Secondary Out of the Path Nominations pathed from meters located on the lateral. It will also not accept any Supply to Market increases pathed from meters on the lateral. At the Leidy Meters the company restricted through approximately 21% of Supply to market Secondary Out of Path nominations for deliveries at the Leidy Delivery Meters. Also the company will not accept any Supply to market increases delivered to the Leidy Meters.

Texas Eastern has scheduled and sealed all nominations flowing through Batesville. Increases in nominations for receipts sourced between Little Rock and Batesville for delivery downstream of Batesville will not be accepted. The company also said it has restricted and sealed deliveries downstream of castor on the Castor lateral. It also noted that no increases in receipts between Little Rock and Vidor for delivery outside the area will be accepted.

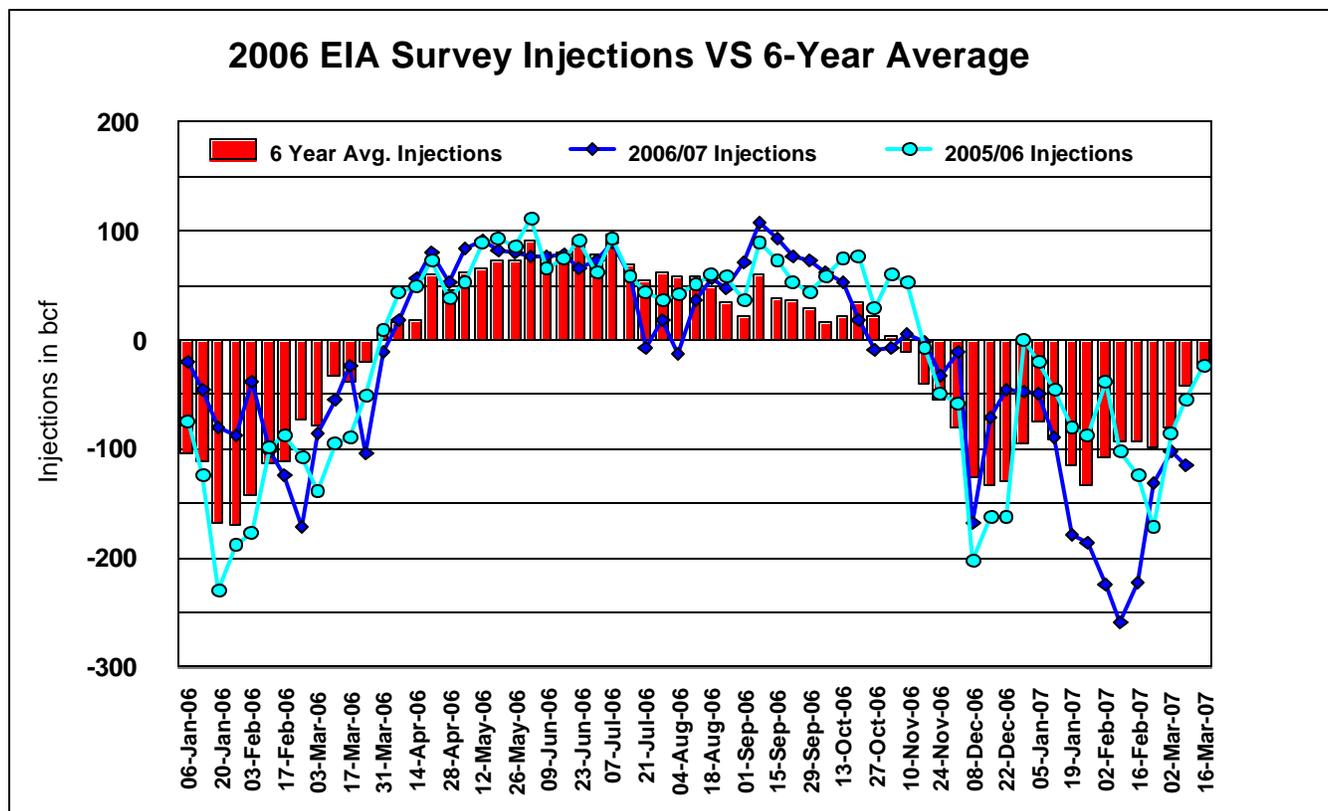


**PIPELINE MAINTENANCE**

Tennessee Gas Pipeline announced an emergency unit outage at Compressor Station 17. Initial estimates are for repairs will take 4 days. The company said it may be forced to restrict services through a pro-rata portion of Secondary Out of Path nominations pathed through the station.

## **ELECTRIC MARKET NEWS**

The FERC said Thursday it is up to Congress to decide if the FERC should have oversight authority over ERCOT. The chairman of FERC was speaking to a recent call by a Texas Congressman to provide the FERC with authority to oversee and review the proposed TXU sale to two private equity firms. Meanwhile the Texas Senate passed three bills Thursday that could complicate or even threaten the \$45 billion proposed merger. The bills would give the Texas PUC direct authority to veto the sale of a half interest or more in any public utility if the deal was found not to be "consistent with the public interest" The bills would also direct the PUC to reject the transfer of the right to transmit and distribute power to the new owner of a transmission and distribution utility if the commission decided the prospective buyer has debts or is capitalized in a manner that would adversely affect rates or services.

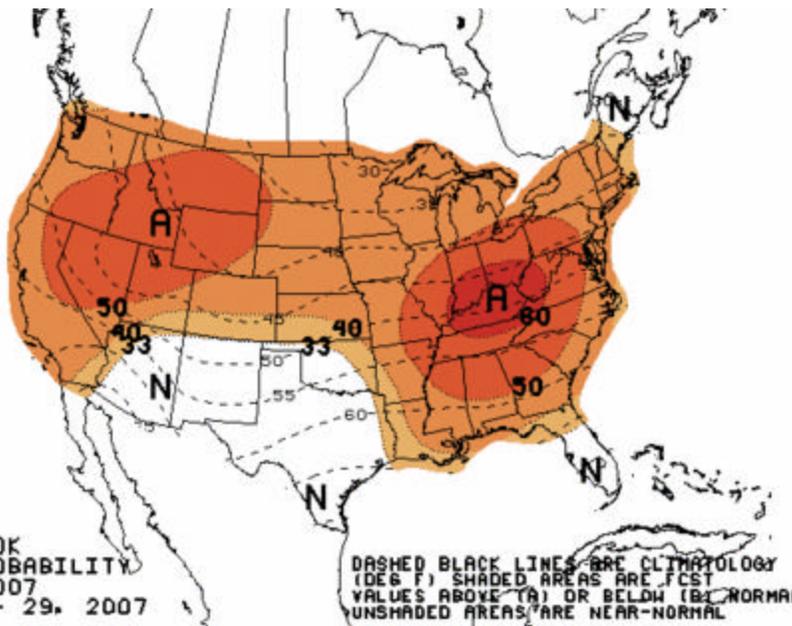


The FERC approved cost allocations plans for transmission and generation projects in MISO, agreeing with MISO's proposal to allocate 20% of project costs to the entire system and 80% to users who benefit from the addition.

AEP announced today that it plans to test new technologies to capture carbon emissions from two coal-fired power plants and to store the carbon underground. It plans to have the pilot project operational by 2011. The technology which is currently being site tested on a 5 Mw thermal slipstream facility, will be installed on AEP's 1300 Mw Mountaineer power plant in West Virginia, where up to 100,000 metric tons of carbon dioxide will be captured per year and stored in deep saline aquifers at the site.

Illinois regulators said yesterday that they have serious concerns about Ameren Corp's claim that it would lay off employees, delay electric connections for new customers and increase response times for customer calls as a result of a recent downgrade of the company's credit rating. Regulators are seeking that the utility assures the state that it is committed to maintaining the reliability of its electric system. The utility and others in Illinois have warned that if the state legislature freezes electric rates in the state it would force the utilities into bankruptcy. As a part of a deregulation scheme, Illinois lifted a 10-year rate freeze on January 1<sup>st</sup>, but customer outage over rate increases has legislators seeking to freeze rates again for a three year period.

MIT released a study today that called of the governments of major polluting countries such as the U.S, China and India to create climate change policies that set the cost of emitting greenhouse gas carbon dioxide at least \$30 per ton just to stabilize CO2 emission levels by 2050. The study warned that the global coal use could more than quadruple due to its cheapness and abundance, greatly increasing the risk of accelerating global warming. They estimate that a \$30 per ton emission charge would increase retail electric rates by 20-25%. The study warned that if government policies only created a cost of emitting CO2 at \$7 per ton, it would take 25 years before the necessary investments would be made to incentivize clean coal power generation.



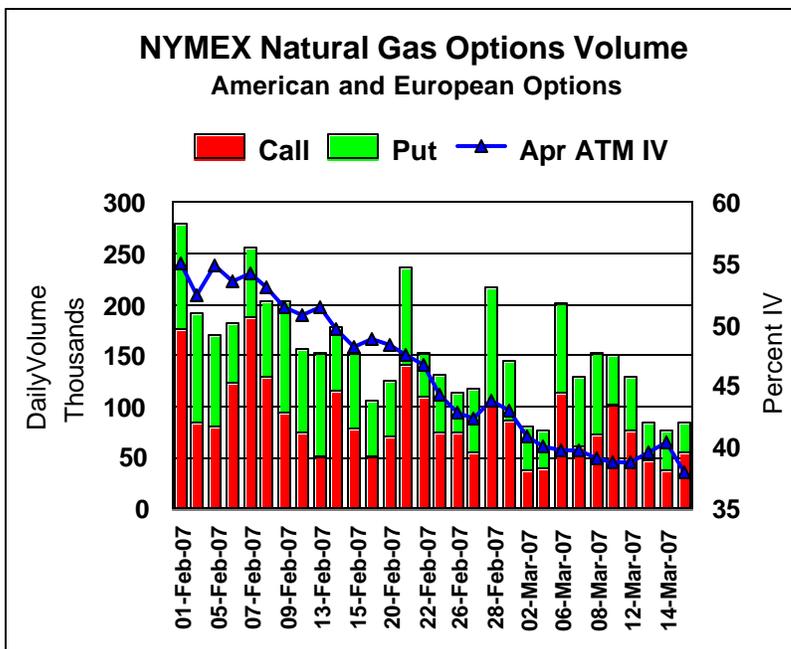
The chairman of the U.S. House of Representatives subcommittee on energy warned that the House is unlikely to act on any climate change legislation until at least the fall, despite the Speaker of the House's call earlier in the year for debate on a climate change bill would begin before July 4<sup>th</sup>.

California regulators today set aside an administrative law

judge's proposed decision and approved a contested settlement giving Pacific Gas & Electric a \$213 million general rate increase for 2007 with provisions for a \$125 million annual increases over the following three years. Consumer groups continued to oppose the deal.

The NERC today said it was pleased with the FERC decision to approve a substantial portion of the reliability standards proposed by the NERC in 2006. The standards are designed to help ensure the reliability of the bulk power system. The standards will take effect and the NERC will begin enforcing them this summer.

Senator Alexander from Tennessee today spoke in opposition to a bill introduced by two Senators from Kentucky that calls for the TVA to allow its transmission system to be used by others at the expense of existing customers. It would also seek to place the TVA under the jurisdiction of the FERC and calls for studies on its debt level and the potential privatization or sale of TVA's assets. Alexander said the legislation would



effectively destroy the TVA and raise electric rates for TVA customers.

Allegheny Energy announced it had reached an agreement for the installation of scrubbers at its coal fired Fort Martin Power Station.

The FERC today granted Brazos Electric Power Cooperative a request for TXU to interconnect with a proposed transmission line that Brazos is planning to construct for power flows in and out of ERCOT.

### **MARKET COMMENTARY**

The natural gas market today posted an outside trading session, basis the open outcry daily charts. The natural gas market opened higher this morning as near term forecasts for the next week continued to move towards colder than previously forecasted, helped in part by widespread agreement on a late season snow storm moving through the Northeast late this week. The release of the EIA Storage Report was basically a non-event as the level of drawdowns did not deviate significantly from market expectations. The market in the afternoon came under pressure helped in part due to deteriorating oil values. The natural gas market settled back below the \$7.00 level for the third time out of the last four trading sessions and appeared to confirm the return of a bearish

trend once again. This afternoon's 8-14 day forecast from the NWS appears will continue to help pressure this market next week as well as the potential of next week's storage report showing a build in stocks for the first time since the week ending November 10<sup>th</sup>. Our heating degree based model preliminary estimate for next week's report is for a build of 4 bcf. Most market expectations currently seem to be centered on a report that will show stocks unchanged to a draw of 15 bcf.

We remain comfortable in our continued bearish outlook for natural gas, looking for the \$6.89.5-\$6.86 support to be challenged with an ultimate downside goal of \$6.59-\$6.50. Additional support we see at \$6.33. Resistance we see at \$7.11-\$7.166, followed by \$7.17, \$7.30, \$7.436 and \$7.571. But we feel with the talk of a La Nina summer returning, and the likelihood of a return of a more active hurricane season coupled with a warm summer should have bulls looking for a bargain purchase price.

<b>NYMEX Nat Gas Options Most Active Strikes for March 15, 2007</b>								
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LN	5	8	C	20	04/25/2008	0.0246	5,600	38.34
LN	10	7	C	20	09/25/2007	0.0408	3,600	61.77
LN	10	7	C	8	09/25/2007	0.8997	2,250	40.92
LN	6	7	C	13	05/25/2007	0.0033	1,800	50.30
LN	8	7	C	12	07/26/2007	0.0722	1,800	47.98
ON	4	7	P	7	03/27/2007	0.214	1,676	38.30
LN	7	7	P	4.75	06/26/2007	0.0116	1,600	43.45
ON	6	7	P	6	05/25/2007	0.085	1,500	39.87
LN	4	7	P	7	03/27/2007	0.2139	1,451	40.14
LN	9	7	C	8	08/28/2007	0.7173	1,250	39.55
ON	1	8	C	12.5	12/26/2007	0.626	1,100	48.97
ON	10	7	C	10	09/25/2007	0.434	1,100	51.44
LN	4	7	P	6.75	03/27/2007	0.1003	1,021	38.95
LN	1	8	P	7	12/26/2007	0.3764	1,000	47.34
LN	8	7	C	10	07/26/2007	0.1865	1,000	43.62
LN	9	7	C	12	08/28/2007	0.1421	1,000	49.34
LN	10	7	C	12	09/25/2007	0.2368	1,000	50.90
LN	10	7	C	11	09/25/2007	0.3165	1,000	48.77
LN	8	7	P	6	07/26/2007	0.1859	925	46.07
LN	8	7	C	8	07/26/2007	0.5639	900	38.50
ON	4	7	P	6	03/27/2007	0.002	887	36.91
LN	4	7	C	7.75	03/27/2007	0.0202	825	41.37
LN	5	7	P	7	04/25/2007	0.3216	825	42.10
LN	1	8	C	11	12/26/2007	0.886	800	39.41
LN	7	7	C	13	06/26/2007	0.017	800	49.33
LN	6	7	C	10	05/25/2007	0.0342	750	42.95
LN	4	7	P	6.7	03/27/2007	0.0839	725	38.76
ON	4	7	P	6.75	03/27/2007	0.1	712	37.63
LN	4	7	P	7.05	03/27/2007	0.2435	700	40.57
LN	5	7	C	7.75	04/25/2007	0.1628	700	39.32
LN	7	7	C	11	06/26/2007	0.0505	700	44.93
LN	8	7	C	11	07/26/2007	0.1118	700	45.69