



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR MAY 8, 2007

NATURAL GAS MARKET NEWS

The EIA Short-Term Energy Outlook for May resoundingly echoed an increase in natural gas consumption and production. Colder weather through the first 4 months of the year compared with last year has prompted a rise in expectations for total natural gas consumption in 2007. This winter saw 13% more heating degree days and as a result, total consumption was up more than 10% in the first quarter of 2007. Forecasts for Q2 and Q3 consumption increased by 1.65% and .41% respectively from last month's outlook. In annual terms, natural gas consumption is expected to rise by 3.4% in 2007 and by 0.9% in 2008. The EIA further said that dry gas production increased by 1.3% year-over-year in the first quarter of 2007. Total dry gas production is projected to increase by 0.9% this year and 1.4% next year. Forecasts for Q2 and Q3 supply versus last month's outlook increased .36% and .18% respectively. LNG is estimated to have reached 180 Bcf in the first quarter, more than 60% above the corresponding period last year. LNG shipments are projected to remain strong throughout the forecast period, reaching 790 Bcf in 2007 and more than 1,000 Bcf in 2008. The average Henry Hub natural gas spot price increased from an average of \$7.32 in March to an April average of \$7.83. The Henry Hub spot price is expected to average \$7.84 in 2007, 90 cents above the 2006 average, and \$8.16 in 2008.

Both AccuWeather and Colorado State University issued forecasts for the 2007 hurricane season today. AccuWeather said the 2007 season will bring 13 to 14 named storms, of which six or seven could strike the United States, with Florida and the U.S. Gulf Coast being at significant risk. Joe Bastardi, forecaster for AccuWeather, said that the chances a storm would cross over oil-producing parts of the Gulf of Mexico were 2.5 to 3 times higher than normal this year. According to Colorado State University, there is a 49% chance that a hurricane packing winds of 111 miles per hour or higher will hit the Gulf Coast. The average chance for a major hurricane to hit the region is 30%

Generator Problems

SERC – Entergy's 966 Mw River Bend nuclear unit ramped up to 82%. Yesterday, the unit was operating at 16% power.

Southern Nuclear's 1,215 Mw Vogtle #2 nuclear unit increased output to 95% capacity today. Vogtle #1 remains at full power.

NPCC – Entergy's 535 Mw Vermont Yankee nuclear unit reduced output to 96% as it prepares for a planned refueling outage.

PJM – PSEG's 1,100 Mw Salem #1 nuclear unit increased production to 90% capacity today. The unit was at 85% yesterday.

MAIN – Wisconsin Energy's 512 Mw Point Beach #1 nuclear unit exited a refueling outage and ramped up to 64% power by early today. Yesterday, the unit was operating at 14%. Point Beach #2 continues to operate at full power.

Exelon's 912 Mw Dresden #2 nuclear unit restarted and is warming up offline at 4%. Dresden #3 is operating at 98% power.

Exelon's 1,225 Mw Byron #2 nuclear unit increased output to 82% from 80% as it returns from a refueling outage. Byron #1 is currently running at full capacity.

Exelon's 1,162 Mw LaSalle #2 nuclear unit reduced output to 85%. LaSalle #1 continues to operate at full power.

WSCC – Southern California Edison's 525 Mw Mountainview #4 natural gas-fired power station returned to service today. The unit had been shut since May 4.

The NRC reported that 83,921 Mw of nuclear capacity is on line, up 1.08% from Monday, and up 4.82% from a year ago.

ELECTRIC MARKET NEWS

The California Independent System Operator issued a notice to restrict generation maintenance operations today through 6 PM. Hot weather over much of the state has increased demand for electricity, which hit a high for this year of 36,300 Mw on Monday and is forecast to rise to 36,400 Mw today.

Duke Energy Corp. said it plans to build two natural gas-fired plants in North Carolina and sees higher costs for its planned coal-fired plant. Duke plans to seek approval to build 1300 mw of natural gas-fired plants on existing sites in North Carolina. The company also said it sees slightly higher cost for the company's proposed 800 Mw coal-fired power plant in North Carolina.

MARKET COMMENTARY

The natural gas market opened 9.4 cents lower pressured by low seasonal demand and bearish storage forecasts. The market traded to a low of 7.59 as market players expect a bearish storage report. However, early weakness in the oil complex gave way to a bit of a short covering rally as market players cite continued geopolitical tensions and the EIA reported increased consumption forecasts, and as a result natural gas received an overflow of buying and lifted off its lows, returning to its early morning highs of 7.703. The market was able to shrug off the effects of the oil correction, and fell back into the close to settle down 14.2 cents at 7.637.

Early expectations for this week's inventory report call for a build of between 85 Bcf to 100 Bcf, bearish compared to the five-year average injection of 65 Bcf and the year-ago build of 81 Bcf. We continue to look at the daily trend crossing at 7.565 as a key support point. With the oil complex backed off its highs, we feel that a test of this support line will come this week. Although, with the hurricane forecasts calling for an above average season and summer cooling demand around the corner, a break of the upward trend from January will be tough to realize. We see further support at 7.48, 7.40, 7.30 and 7.15. We see resistance at 8.00-8.04, 8.20 and 8.68.