



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR SEPTEMBER 8, 2006

NATURAL GAS MARKET NEWS

As Alaska Gov. Frank Murkowski prepares to pass along to the next governor the results of two years of work on a gas pipeline contract with major producers BP, ExxonMobil and ConocoPhillips, at least two of the three candidates, Republican Sarah Palin and Democrat Tony Knowles, indicated they will start the process with an open competition among multiple pipeline project proposals. The third candidate, Independent Andrew Halcro, favors using the Murkowski negotiated deal as a base but with significant modifications.

A privately held, Seattle, WA-based firm, Prometheus Energy, by the end of the year will begin commercial operations on a small-scale liquefaction plant at a landfill in Southern California, seeking to produce 5,000 gallons/day of liquefied natural gas (LNG) for the Orange County public transit bus system that already runs on LNG. Prometheus' backers are betting that landfill, coal bed and various sources of uneconomic/"stranded" gas supplies can be tapped globally for the transportation market.

PIPELINE RESTRICTIONS

Kern River Pipeline said that line pack south of Elberta is low due to excessive drafting. Kern River requests that all operators be on rate and arrange to payback gas drafted off the pipeline.

Texas Eastern Transmission said that it will not accept due pipe resolution nominations. Any party with a due shipper imbalance is requested to resolve it as soon as is practicable. Tetco also requires that shippers and TABS parties schedule their contracts balanced, and point operators to perform according to nominated volumes. Tetco will force balance TABS-1 pools or restrict the system as required. Due to an outage on line 1-A downstream of Chester Junction, the following delivery points are unavailable for nominations: M&R 72649 Sun R&M Point Breeze; M&R 70030 PGW Point Breeze; M&R 73318 Liberty Electric; M&R 72930 PECO Eddystone; M&R 73127 Mobil Oil; M&R 71682 PGW Penrose; M&R 73060 PGW Harkness.

PIPELINE MAINTENANCE

Gulf South Pipeline said that it is performing pigging maintenance on Index 296 Lirette Harvey 20-inch through September 12. Due to this pigging maintenance capacity at SLN 21805 Discovery will be limited to a maximum

Generator Problems

ECAR – AEP's 1,020 Mw Cook #1 nuclear unit slipped down to 71% capacity today as the unit prepares for a scheduled refueling and maintenance outage to begin September 16. Cook #2 continues to operate at full power.

FirstEnergy's 946 Mw Davis-Besse nuclear unit restarted and ramped production to 18%.

ERCOT – South Texas Project Nuclear Company's 1,250 Mw South Texas #1 unit is preparing for its fall refueling outage and has reduced power to 97%. South Texas #2 continues to operate at full power.

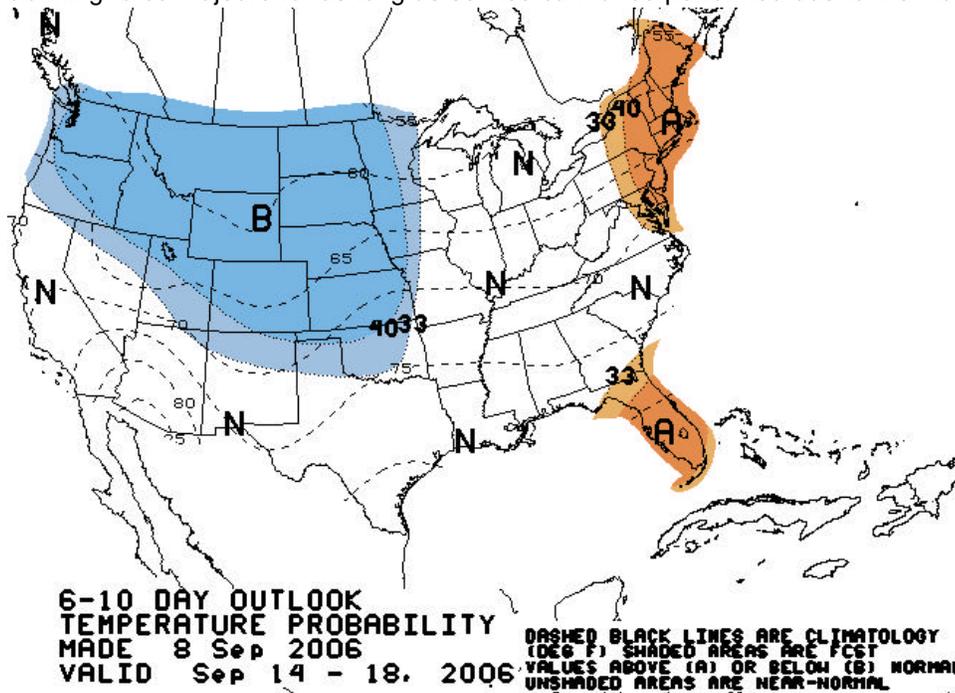
MAAC – FirstEnergy's 821 Mw Beaver Valley #1 nuclear unit shut from full capacity late yesterday due to a reactor trip. Beaver Valley #2 continues to operate at full power.

MAIN – Exelon's 1,252 Mw Byron #1 nuclear unit decreased output to 94% as it coasts down for a planned maintenance and refueling outage scheduled to begin September 11. Byron #2 continues to operate at full power.

SERC – Entergy's 858 Mw Arkansas #2 nuclear unit decreased output to 95% as the unit prepares for a maintenance and refueling outage. Arkansas #1 continues to operate at full power.

The NRC reported this morning that 94,248 Mw of nuclear generating capacity were on line, slightly lower by .76% from Thursday but some .65% higher than a year ago.

40 MMcf/d for the duration of the maintenance. To the extent firm service is interrupted, Gulf South will be claiming force majeure for as long as service cannot be performed due to the maintenance activity.



Natural Gas Pipeline Company said that from September 26-30, it will perform pipeline maintenance and additional compression will be installed at Sayre Storage Facility (Compressor Station 184) in Beckham County, Oklahoma. As a result, Sayre Storage will be unavailable. DSS, FSS and NSS Storage injections sourced on the Amarillo System will be at risk of not getting fully scheduled up to IQ depending on the overall level of storage nominations.

Questar Pipeline Company said that it will be performing maintenance at its Payson

meter station that will require the station to be shut-in for three days. As a result, the ML 80 capacity will be reduced to 200 MMcf/d for October 24-26. Based on current nominations, this represents a 5% reduction in primary to primary (tier 1) nominations. As nominations are realigned other Southern system scheduling points may also need to be used.

ELECTRIC MARKET NEWS

The California Public Utilities Commission approved without a debate a revised power purchase agreement between San Diego Gas & Electric and Calpine for the output from the 583 Mw Otay Mesa power plant Calpine is building in the state. The revised agreement will allow SDG&E to own the natural gas-fired combined-cycle facility, when the 10-year deal ends.

Due Energy said it and its wholly owned subsidiary, Gas Spin Co., have filed documents with the U.S. Securities and Exchange Commission detailing the proposed separation of the company's natural gas and electric businesses. GasCo will be one of the largest natural gas transmission, storage, gathering, processing and distribution businesses in North America, with more than 17,500 miles of natural gas transmission pipeline, approximately 250 Bcf of gas storage capacity and 1.3 million retail gas customers in Ontario, Canada. Through DEFS, its 50-50 joint venture with ConocoPhillips, GasCo will also be the largest producer of natural gas liquids in the U.S. The remaining business units that will make up Duke Energy after the separation will create one of the five largest electric utilities in the U.S.

Allegheny Energy announced that it expects the cost of installing flue gas desulfurization equipment (scrubbers) at the Fort Martin and Hatfield's Ferry power stations to be higher than previously estimated. The projects are designed to reduce sulfur dioxide emissions from the coal-fired facilities in West Virginia and Pennsylvania by approximately 95%, or about 237,000 tons per year. The initial projected cost at the Fort Martin facility was \$338 million, now estimates are in the range of \$500 to \$550 million. Initial costs at the Hatfield plant were \$550 and now it is expected to cost \$650 million. The cost increases are due to a number of factors, including construction challenges caused by site-specific characteristics, necessary changes in material-handling equipment and higher material costs.

MARKET COMMENTARY

The natural gas market opened 2.8 cents lower to start a quiet session of continued weakness given the dearth of supportive news. The front month poked its head as high as 5.78, but could not maintain the positive territory and with the rest of the energy complex making new lows, natural gas followed suite. October natural gas traded as low as 5.61 before settling down 4.3 cents at 5.675.

The choppy finish to today's session is indicative of the market's uncertainty as market players wait for a possibly tropical disturbance to bounce prices back above 6.00. However, if no storm causes shut-in production, the bearish fundamentals will pressure the market to new multi-year lows as we move through the shoulder season. The industry will only require an injection pace of 7.07 Bcf/d to get supplies to a very solid comfort level of 3,400 Bcf by November 1, which is very bearish compared to the 9.33 Bcf/d actual injection rate last year and the 9.40 Bcf/d five-year average. The Commitment of Traders Report showed that non-commercial traders reduced their net long futures position by 13,327 lots to 31,934 contracts. In the combined futures and options report, non-commercial traders reduced their net long position by 12,354 lots to 35,120 contracts. We see support at \$5.60, \$5.50, \$5.47, \$5.15 and \$5.00. We see resistance at \$5.90, \$6.08, \$6.24, \$6.35, \$6.53, \$6.64 and \$7.08.

