



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR SEPTEMBER 12, 2006

NATURAL GAS MARKET NEWS

The National Hurricane Center reported that Tropical storm Gordon is about 505 miles north-northeast of the Leeward Islands and is following a course similar to that of Florence. The system off the Cape Verde Islands has strengthened into Tropical Depression and has potential to become a Hurricane in the next couple days as it moves west.

The U.S. EIA reported in its September Short-Term Energy Outlook that though a warmer-than-normal winter left natural gas stocks at unusually high levels to start the injection season in April, over the summer, this inventory cushion has slowly eroded. In particular, very warm weather at the end of July plus high inventories resulted in the first weekly net drawdown of natural gas inventory during the summer months in at least 12 years. But even with the erosion, working gas in storage measured on September 1 came to 2.976 Tcf, 322 Bcf above the five-year average. Inventory at the end of the third quarter of 2006 will be an estimated 3.25 Tcf, slightly higher than the 3.24 Tcf predicted last month. The EIA noted that gas stocks should total 3.429 Tcf by November 1, the start of the traditional withdrawal season. That would top the five-year average by 289 Bcf. High gas inventories have helped keep natural gas spot prices down, noting that Henry Hub prices, which averaged \$13.44/Mcf in December 2005, fell to an average of about \$6.74/Mcf over the summer. Barring extreme weather for the rest of the year, the EIA expects the Henry Hub spot price to increase to an average \$10/Mcf by this January and then fall back to an average \$7/Mcf by next summer. The spot price is expected to average \$7.51/Mcf in 2006 and \$8.30/Mcf in 2007. Total U.S. gas consumption this year is projected to fall below 2005 levels by about 240 Bcf, or 1.1%, to 21.6 Tcf before rebounding to 22.41 Tcf in 2007. Residential gas consumption is projected to drop by 7.5% because of mild weather early in 2006 and then increase by 9.2% next year. Dry natural gas production is projected to increase by 1.1% this year to 18.48 Tcf and by 1.5% in 2007 to 18.56 Tcf. Total LNG net imports are expected to increase from their 2005 level of 630 Bcf to 700 Bcf this year and to 940 Bcf in 2007.

Generator Problems

ECAR – FirstEnergy's 1,260 Mw Perry nuclear unit increased output to 84%. Yesterday the unit was operating at 80%.

SERC – TVA's 1,170 Mw Watts Bar nuclear unit shut from full power by early today.

Canada – Ontario Power Generation's 535 Mw Lennox #4 oil- and natural gas-fired power station returned to service by early today.

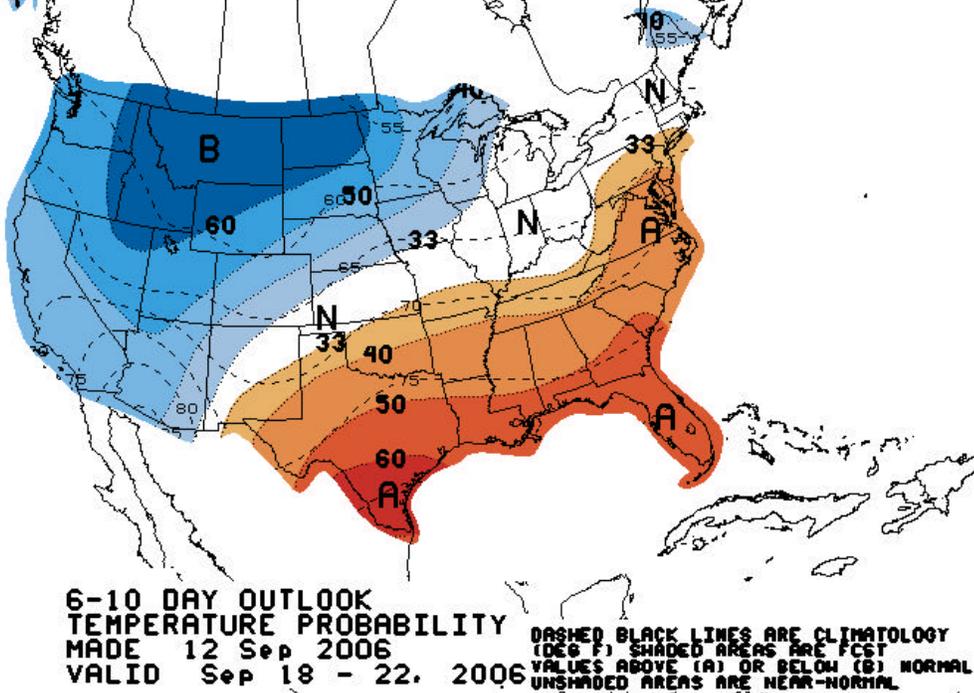
The NRC reported this morning that 93,196 Mw of nuclear generating capacity were on line, lower by 1.23% from Monday and some .05% higher than a year ago.

Scientists from MIT have teamed up with Canada's biggest independent petroleum explorer, EnCana Corp. to test ultrasound exploration technology in a Wyoming gas field in hopes of mapping rocks deep below the Earth's surface to hunt for oil and gas. They are looking for "sweet spots" – pockets of natural gas and oil contained in fractured porous rocks. The U.S. has an estimated 254 Tcf of gas from these tight formations, and this technology will help locate them.

PIPELINE RESTRICTIONS

Algonquin Gas Transmission said 00201 Tennessee Gas Mahwah in northern New Jersey has been restricted to capacity on the Algonquin system for September 12. Nomination increases for receipts sourced at Mahwah will not be accepted.

KM Interstate Gas Transmission said that effective for gas day today, and until further notice, Burlington Resources Hendry (PIN 7738) is at capacity for received volumes. Based on the current level of nominations, IT/AOR and secondary volumes are at risk of not being scheduled.



Natural Gas Pipeline Company said that effective for gas day today, and until further notice, Segment 17 is at capacity. Therefore, ITS/AOR and Secondary out-of-path firm transports are at risk of not being fully scheduled.

Southern Natural Gas Pipeline Co. announced an open season for bids for receipt point amendments to firm transportation contracts on its system. The open season began Monday and will end at 10:00 AM ET on September 14.

Transmission said that for gas day September 11, the restriction prohibiting the acceptance of due pipe resolution nominations is still in effect. All parties with a due shipper imbalance are requested to resolve them as soon as is practicable. Tetco requires that shippers and TABS parties schedule their contracts balanced except for the scheduling of Due Shipper payback, and point operators to perform according to nominated volumes. Tetco will force balance TABS-1 pools or restrict the system as required. Tetco has also scheduled and sealed receipts sourced at Monroe Station. No increases in receipts sourced at Monroe will be accepted.

Texas Eastern

Williston Basin Interstate Pipeline Company said that for the timely cycle for today's gas flow, both 019 Madden-Worland and 020 Worland-Lovell are in capacity constraint.

PIPELINE MAINTENANCE

ANR Pipeline Company said that due to emergent repairs at Patterson Compressor Station, ANR will restrict its Southeast Gathering Area, Patterson to Eunice delivery capacity. The Southeast Gathering Area, Patterson to Eunice delivery capacity, located in Louisiana in the Southeast Area Fuel Segment, will see flow cut to 650 MMcf/d from September 11-13. Based on current nominations for this segment, it is anticipated that the reductions will result in the curtailment Firm Secondary and IT nominations.

Gulf South Pipeline said it will be performing scheduled maintenance on Index 130-21 in Livingston Parish, Louisiana beginning September 15 at 8:00 AM and continuing for approximately eight hours. Production at Location 474 Sugar Bowl will be shut-in during the maintenance.

Northern Natural Gas Company said it will be conducting required periodic pigging of the Farmington to North Branch B mainline in Minnesota through September 15. NNG noted these dates had been changed from prior postings. No interruption of service to deliveries is anticipated during this maintenance process; however, inlet pressure fluctuations at delivery points may be experienced.

Williston Basin Interstate Pipeline Company said that planned maintenance will be performed at the Billy Creek Compressor Station through October 6. At this time, Williston Basin does not anticipate any restrictions to the system however there is a potential for withdrawal limitations on aggregate storage at Billy Creek during this

time. Williston also said that planned maintenance will be performed at the Manning Compressor Station September 25-29. Maximum capacity through the Manning Station will be approximately 82 MMcf per day.

ELECTRIC MARKET NEWS

U.S. Electricity consumption is expected to increase by 0.9% in 2006 from the prior year, the EIA reported in its September short-term energy outlook. The latest forecast marks a slight upward revision from the 0.6% growth rate the agency predicted in its August report. The EIA also said it expects electricity consumption to increase by 1.2% in 2007, up from the 1.1% it forecast in August. The agency said that residential electricity prices are expected to increase by 10.2% this year compared with 2006 because the costs of fuels for electricity generation have risen and retail electricity price caps have recently been loosened in some states, particularly in New England and the south Atlantic region, as a result of restructured electricity markets. In August, the agency forecast that residential prices would rise by 8.9% in 2006 and by another 3.6% in 2007.

The EIA said that electric power sector consumption of coal is projected to grow by a modest 0.3% in 2006, and then increase by another 2% in 2007.

In August, the agency predicted that electric power sector coal consumption would rise by 0.7% this year and by 1.3% in 2007. The price of coal to the electric power sector is projected to rise throughout the forecast period, although at a slower rate than in 2005 and the first half of 2006. Coal prices to the electric sector are projected to climb from \$1.54/MMBtu in 2005 to \$1.67/MMBtu in 2007.

Citing public opposition to spending federal funds in the international carbon market, the Conservative government of Canada has rescinded a 2005 pledge by the former Liberal government to give the United Nations C\$1.5 billion for the Clean Development Mechanism.

NYMEX Natural Gas Options Most Active Strikes for September 12, 2006									
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Prev Settle	Volume	IV
LN	10	6	C	7	09/26/2006	0.0641	0.0533	6300	95.092
LN	10	6	P	4.5	09/26/2006	0.0354	0.0112	6200	83.749
LN	10	6	C	7.5	09/26/2006	0.0411	0.0286	5400	102.47
ON	11	6	P	4	10/26/2006	0.003	0.008	5150	70.291
LN	11	6	P	6	10/26/2006	0.1871	0.1821	3150	71.002
LN	3	7	P	4.5	02/23/2007	0.0584	0.0543	3000	70.214
LN	11	6	P	4.5	10/26/2006	0.0135	0.0095	2650	72.136
LN	11	6	C	11	10/26/2006	0.1114	0.0867	2400	86.844
LN	1	7	P	5	12/26/2006	0.0255	0.0227	2300	66.138
LN	10	6	P	4.75	09/26/2006	0.044	0.0298	2200	71.829
LN	11	6	C	15	10/26/2006	0.0139	0.0104	2000	91.516
LN	10	6	C	8	09/26/2006	0.0238	0.0163	1850	106.13
LN	10	6	C	6.5	09/26/2006	0.1079	0.104	1800	87.709
LN	10	6	C	6	09/26/2006	0.1933	0.2069	1750	80.096
LN	11	6	P	6.5	10/26/2006	0.3553	0.356	1700	73.463
LN	11	6	P	7	10/26/2006	0.5876	0.5968	1700	76.039
LN	11	6	C	10	10/26/2006	0.1843	0.1524	1600	84.181
LN	11	6	P	5.5	10/26/2006	0.0889	0.081	1600	70.406
LN	10	6	P	5	09/26/2006	0.1105	0.0695	1575	78.519
ON	11	6	P	6.5	10/26/2006	0.356	0.356	1507	71.252
LN	12	6	C	11.5	11/27/2006	0.4771	0.5287	1500	74.679
LN	4	7	C	9	03/27/2007	0.6572	0.7166	1350	43.403
LN	10	6	C	6.25	09/26/2006	0.1434	0.1466	1225	83.922
ON	10	6	P	6	09/26/2006	0.619	0.536	1211	81.845
LN	3	7	P	8	02/23/2007	0.9653	0.9142	1200	75.679
LN	10	6	C	10	09/26/2006	0.0034	0.0031	1150	118.43
ON	11	6	P	6	10/26/2006	0.187	0.182	1150	69.099
LN	12	6	C	12.5	11/27/2006	0.3375	0.3727	1100	76.039
LN	11	6	C	8.5	10/26/2006	0.3915	0.3631	1100	77.943
ON	10	6	P	4.5	09/26/2006	0.035	0.011	1045	82.634
LN	11	6	C	12	10/26/2006	0.0696	0.0507	1025	89.44

MARKET COMMENTARY

The natural gas market opened 8 cents stronger boosted by a strong cash market as storage facilities fill up before the peak winter season. October natural gas climbed as high as 5.86, presumably on short covering as market players bring in front to back spreads. Once the cash markets closed, October slid down the charts, to a low of 5.56 before settling down 9.6 at 5.574. The November contract unusually settled up 1.9 cents at 7.274, but the December and January contracts settled down 22.6 and 18.6 cents respectively.

The bearish inventory report expected on Thursday will pressure the market to challenge the 5.44-5.50 support level, and with the winter contracts trading sub 10.00, their premium to the front end of the curve will also diminish. Further support we see at \$5.25, \$5.15 and \$5.00. Market players continue to watch storm activity and the development of Tropical Depression. Should the market get a spook from the tropics, resistance is seen at \$5.90, \$6.08, \$6.24, \$6.35, \$6.53, \$6.64, and \$7.08.

