



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR DECEMBER 7, 2004

NATURAL GAS **MARKET NEWS**

Oil and gas Production in the Gulf of Mexico remain 10% below normal levels. The delayed return of oil and gas production in the region are the result of extensive pipeline damage from mudslides and the pounding from a 75-foot rogue wave after September's Hurricane Ivan. Delays in repairs are attributed to underwater avalanches, which caused havoc on pipelines, disrupting supply. Also, seven oil platforms are offline following the 75-foot rogue wave. U.S. Minerals Management Service expects oil output to reach 96% in February from a little over 90% currently. The remainder is expected to take as long as a year to come back online. ChevronTexaco, the largest producer in the region, says 50,000 barrels per day remain shut in. Its Petronius platform, one of the seven oil platform casualties is not expected to return to production till

Generator Problems

ECAR – Detroit Edison's 1,139 Mw Fermi nuclear unit increased its power by 20% to 22%.

FRCC – Florida Power and Light ramped up its 693 Mw Turkey Point #3 unit to 94% up from 60% yesterday, following refueling and maintenance.

MAAC – Exelon Generation Co's 875 Mw Three Mile Island 1 nuclear unit increased its output by 20% to 85% on Tuesday.

MAIN – Exelon Corp. returned its 1,144 Mw LaSalle #1 unit to full power, up from 66% yesterday. Unit #2 remains at full power.

MAPP – Nuclear Management's 574 Mw Kewaunee nuclear unit cut its power by 9% overnight to 49%.

NPCC – Constellation Energy Group increased its power by 13% at its 1,158 Mw Nine Mile Point 2 nuclear unit to 86% of capacity.

SERC – Duke Energy ramped up its 1,129 Mw Catawba #1 unit to 7% as it exited an outage. The unit was automatically tripped off line Nov. 5 due to moisture separator reheater problem.

Dominion returned its 800 Mw Surry 1 nuclear unit to full capacity on Tuesday.

WSCC – Arizona Public Service continued to exit a refueling outage with its 1,270 Mw Palo Verde #3 unit, ramping it up to 11%. The unit had been down since Oct. 2. The adjacent 1,270 Mw #1 unit and the 1,335 Mw #2 unit continue at full power.

The California Department of Water Resources increased the potential power output of its 933 Mw Hyatt-Thermalito hydropower plant following curtailing over the weekend and Monday.

AES Corp. returned its 320 Mw gas-fired Alamitos #4 unit to service. The unit shut for unplanned reasons around Dec. 3. AES states that of the 7 units at Alamitos, all are available for service except #3.

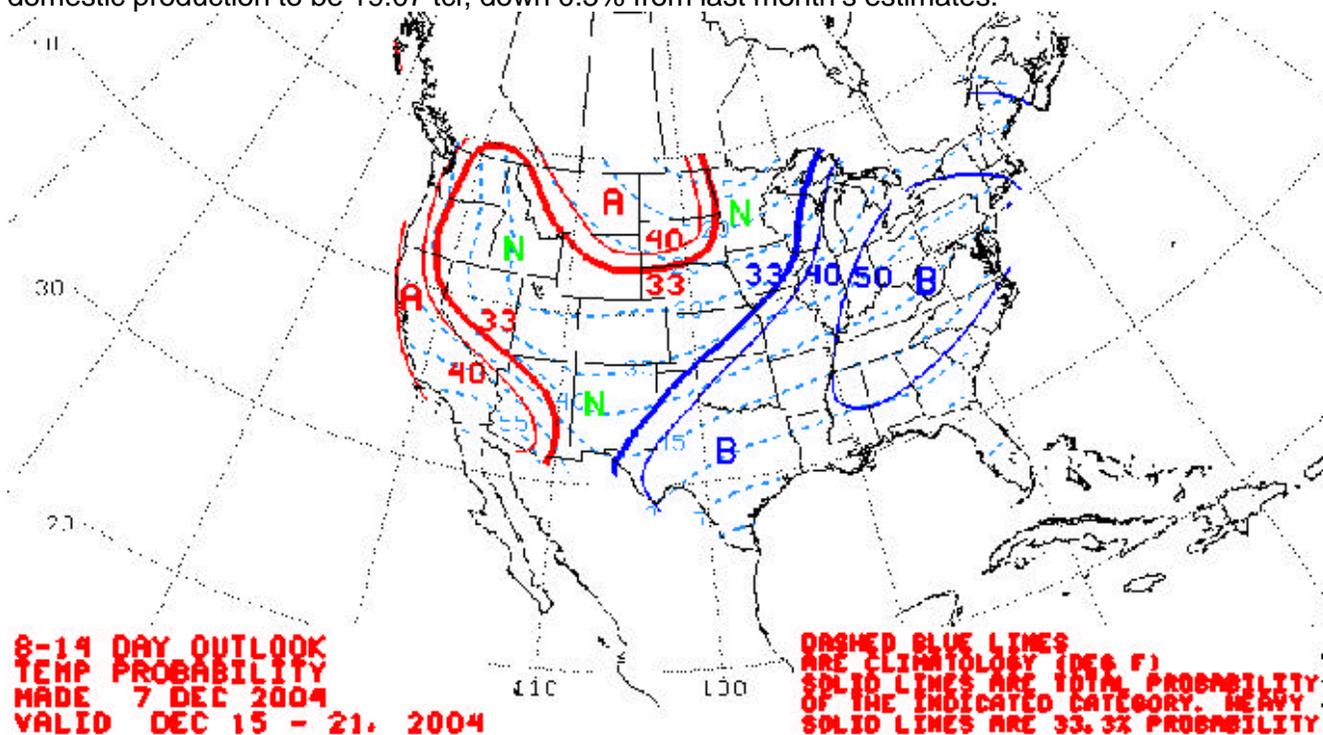
Southern California Edison unexpectedly shut its 790 Mw Mohave #2 coal-fired unit. The unit was available for service on Monday. SCE kept unit #1 curtailed by 90 Mw.

Duke Energy shut its 750 Mw Moss Landing #6 natural gas-fired unit. The unit recently returned from planned service and was available for service Monday.

The NRC reported that U.S. nuclear generating capacity was at 84,699 Mw today up 1.7% from yesterday.

early next year. The company's most recent quarterly profit fell short of forecasts.

The EIA released their latest Short Term Energy Outlook today and it lowered its price outlook for natural gas at Henry Hub in the first quarter of next year to \$6.14 down 65 cents from just last month's outlook. The agency also lowered its overall 2005 price outlook to \$6.01 off 5.1% from its prior estimate. Basically the main reason behind these lower price projections is the expectations for working gas stock levels at the end of this month will be a bit higher due to the slow start to the heating season and as a result stocks should stand at 2.77 tcf versus the prior expectation of just 2.65 tcf. Economic growth though is continued to remain good next year and as a result the EIA increased their demand projection for gas in 2005 by 1% to 22.74 tcf. Despite expectations for higher drilling rates in 2005, which should lead to higher production over 2004, the agency did revise lower their estimate for domestic production to be 19.07 tcf, down 0.5% from last month's estimates.



The Center for Public Integrity complained today that the FERC is aggressively undermining the authority of state and local governments to reject LNG import terminal projects due to the undue influence that energy companies have over the Commission's chairman and the agency.

Niagara Mohawk which currently provides gas to nearly 560,000 customers and power to 1.5 million customers in upstate New York, has signed an 11 month natural gas portfolio management agreement with New Jersey Resources subsidiary, NJR energy Services.

Retail gas prices reached expectations, with double-digit increases. Kentucky Public Service Commission Chairman Mark David Goss is resolute the situation will not change. Five major Kentucky distribution companies filed cost adjustments 13% higher on average than the same time last year. In nominal terms, a typical residential customer using 10 Mcf/month will pay an average \$9.75/month more compared with last December.

PIPELINE RESTRICTIONS

East Tennessee Natural Gas said a portion of secondary out of path deliveries downstream of station 3313 on the 3300 line will be restricted on Tuesday.

Questar Pipeline Co said that based on recent levels of withdrawal at its Clay Basin Storage facility, it is evaluating the need to continue mandatory ISS withdrawal. It expects to lift the ISS withdrawal requirement effective, Tuesday, December 14.

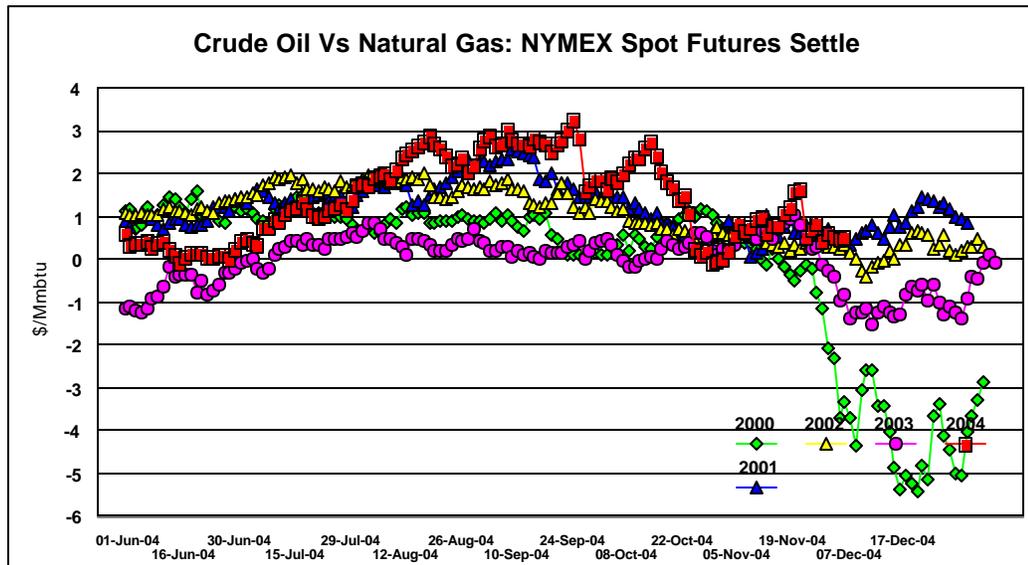
Natural Gas Pipeline Co of America said it is at capacity for gas received upstream of Compressor Station 155 in Wise County, Texas in Segment 1 going northbound. NGPL is at capacity for transportation going northbound through and downstream of Compressor Station 109 and 110 and through Compressor Station 801.

PIPELINE MAINTENANCE

Trunkline Gas Co said its LNG Lateral expansion work has been completed and the pipeline has resumed normal operations.

Williston Basin Interstate Pipeline Co said that due to maintenance at Monarch Plant Point scheduled for December 8,

WBI-Aggregate Storage may potentially be affected.



Westcoast Energy said it has discovered a leak on the Silver Dahl pipeline in Fort St. John Gathering System. The company has isolated the leak and will perform the necessary repairs. All flow from the

remaining portion of the pipeline and upstream interconnects have been diverted to the Umbach.

ELECTRIC MARKET NEWS

EIA looks for electrical demand to increase in 2005 by 2.8% following a growth rate of 1.7% in 2004. The commercial sector demand growth is seen as leading the way up 3.5% next year, with industrial usage up 2.8% and residential usage up 2.3%. Coal demand in the electric power-generating sector is expected to post a gain of 2.6% in 2005 as coal remains a competitively priced generating fuel relative to gas and oil. Gas generating though will continue to march higher expected to grow by 5.4%. Hydro generation is expected to post a rebound of 12.9% due to favorable weather conditions, while nuclear generation is expected to be off a modest 0.2% and oil fired generation declining by 3.4%.

The EIA said today that changes in the U.S. power industry have outpaced the government's ability to verify that existing and planned transmission capability is adequate and will prevent future blackouts. It noted that neither the industry nor the government has the data to adequately provide for detailed cost-benefit analyses of transmission related investments to enhance reliability. The agency noted that

much of this information though could be gained by modifying existing information forms, including the high-quality power flow models, which the industry is required currently to submit to the government. It also noted that much of the data that is currently collected is not being made available for policy analyses. It noted this was the case for the NERC's power flow and curtailment data, which is "not routinely available for use in assessing how transmission constraints affect wholesale power markets".

A transmission tower in Quebec channeling electricity to the U.S. was attacked by an anti-globalization group, which opposes exports to the U.S. The damage did not interrupt the flow of electricity on the 450,000-volt line.

Puget Sound Energy and a group of government entities, Indian tribes, fisheries interests, environmental organizations and other parties announced their ratification of a proposed set of long term license conditions for PSE's Baker River Hydroelectric Project. The group's agreement, if approved by the FERC will enable PSE to continue generating low cost hydropower at its North Cascades facility. The settlement recommends that FERC grant the utility a new Baker Project license lasting at least 45 years.

The FERC today approved a settlement today that will require Duke Energy and a number of its subsidiaries to pay \$207.5 million to resolve allegations that the company acted improperly during the 2000-2001 California energy crisis. Duke will provide \$207.5 million in "monetary consideration", including assigning the company's Cal ISO and Power Exchange receivables to the California parties that include the state's three investor owned utilities, payments to a refund escrow account established for distribution to settling with participants entitled to refunds, payments into a separate escrow account, the transfer of amounts paid or set to be paid by Duke under earlier settlements with the FERC and payments available to class action plaintiffs for court approved attorneys fees.

AEP reported today that it has signed a 3-year deal to supply power to Texas-based Rayburn Country Electric Cooperative beginning in June 2005. The Cooperative has a peak load in excess of 700 Mw.

An economist at the Federal Trade Commission today called for the FERC to proceed with its plan to prevent U.S. utilities from unfairly dominating markets in their home service territories by scrapping the decades old "hub and spoke" method that focused on grid layout, and pursue the creation of independent grid managers.

Idaho Power hydrologists said today that for the month of November, temperatures were nearly 1.5 degrees lower than normal while precipitation was just 46% of the norm for the past 50 year period. As a result inflows into its Brownlee Reservoir for the month averaged only 69% of normal.

MARKET COMMENTARY

The continued poor heating demand for gas this week, as well as lower oil prices appeared to weigh on natural gas prices to start the day. While long term weather forecasts from both the government and private sectors continued to point to below normal and possibly much below normal readings in the east for the second half of this month, it appeared that the market consensus was that these reports have not proved accurate for the past month, so why should they be now. As a result prices by mid morning challenged yesterday's support at \$6.80, while this initially held, the breaching of the \$42.05 support from last week's lows in the crude oil market just before lunch time, provided natural gas prices the shove through the \$6.80 support and elected a few sell stops that sent prices tumbling through not only last week's lows of \$6.69 but down to \$6.64 before support was found. But a late round of selling across all the energy markets pushed gas prices lower yet again on the day, tumbling down to \$6.58 before settling at \$6.621, off 30.2 cents on the day. Volume was moderate with 74,000 futures traded.

While we may have been early in returning to this market on the long side today via bull spreading the January-March spread, we remain convinced that this market will rebound by the latter part of the week, given the growing consensus that next week will finally see winter like heating demand, especially in the east. This market may still be dragged lower tomorrow if the bears in the oil market receive the bearish oil inventory reports that they all appear to be looking for currently. We see support in this market at today's low of \$6.58, with more significant support at \$6.505, \$6.425 and \$6.394. Additional support we see at \$6.308 and \$5.78. Resistance we see at \$6.76 and \$6.95 followed by \$7.05, \$7.20, \$7.39 and \$7.50. Additional resistance we see at \$7.77-\$7.785, and \$7.89.