



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR SEPTEMBER 22, 2004

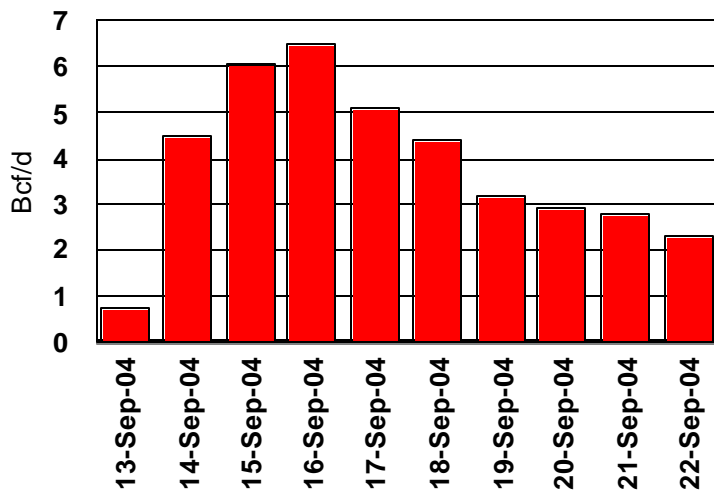
NATURAL GAS MARKET NEWS

The US Minerals Management Service stated that a total of 9.1 million barrels of crude oil and 38.6 bcf of natural gas has been shut in due to Hurricane Ivan. It stated that 2.4 bcf/d of natural gas remained shut in the wake of the hurricane.

The EIA reported that US natural gas reserves increased by 1.1% to over 189 tcf in 2003. It said discoveries of dry gas reserves last year were 19.286 tcf, up 8% from 2002. New gas reserves replaced 111% of natural gas production in 2003.

The NYMEX announced that it will increase margins on the first two months of its Henry Hub natural gas futures starting Friday. The exchange said that margins on spot

USG Natural Gas Production Shut In
 Basis Reports from MMS
 Combined Shut in from Ivan 38.552 BCF



Generator Problems

MAAC – The 650 Mw Oyster Creek nuclear reactor was warming up offline at 4% power as of early this morning. The plant shut on September 14 to repair a steam valve.

MAPP – The 800 Mw Cooper nuclear facility is currently running at just 75% capacity, off 25% on the day. Output has been cut in order to inspect the loss of a reactor feedpump. The unit curtailed production at about 2:00 AM CT this morning.

SERC – The 1,170 Mw Watts Bar continues to ramp output operating at 26% power. The unit was offline at 13% power yesterday after restarting earlier this morning.

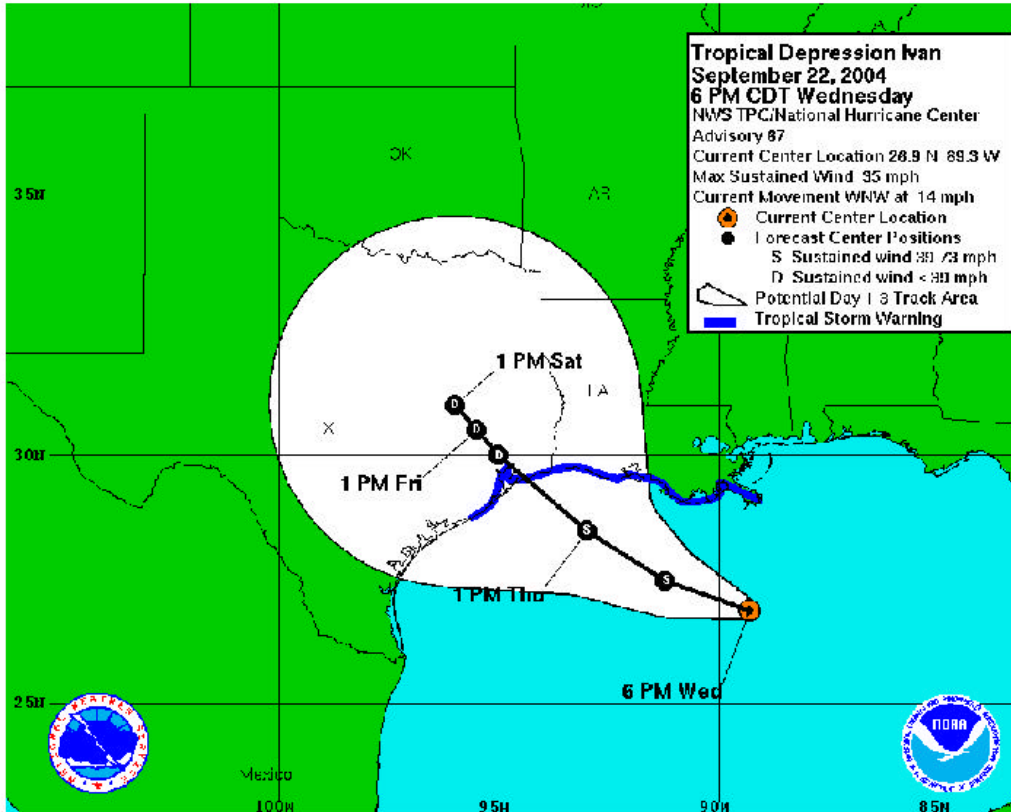
SPP – The 966 Mw River Bend nuclear power station has curtailed production to 77% capacity, after reporting at full power yesterday.

WSCC – The 755 Mw Moss Landing 6 and 7 natural gas-fired power units shut yesterday due to a tube leak in a shared startup auxiliary boiler. The units are scheduled to be in service on Friday.

Based on latest NRC reports, total nuclear generation output this morning reached 89,822 Mw down 261 Mw or .29% from yesterday's levels. Total generation was some 11.80% higher than the same date a year ago.

futures contract will increase from \$5,400 to \$6,750 for non-members while margins on the second month will increase from \$5,400 to \$6,075. The NYMEX is also increasing its margins on natural gas swap futures and e-miNYs futures contracts. The margins on the spot

natural gas swap futures will increase from \$1,350 to \$1,688 while for the second month it will increase from \$1,350 to \$1,519. The margins for the e-miNYs futures contracts will increase from \$2,700 to \$3,375 and \$3,038 for the spot and second month contracts, respectively.



The FERC has denied requests to reconsider its approval of plans for a gas pipeline that would run through southwest Virginia. West Virginia resident Jim Williams wrote the commission to argue that the 279-mile Greenbrier Pipeline Project, running from West Virginia through Virginia to North Carolina, could destroy natural streams in the Appalachian

highlands. He also stated the pipeline's owner, Greenbrier Pipeline Company, has not complied with environmental conditions recommended for the project. On Monday the commission ruled that since the company has been given an extension to November 2007 to build the pipeline, it would be given time to complete all required survey consultations and mitigation measures. But the point might be moot; Greenbrier Pipeline's parent company announced in November it was suspending work on the pipeline.

Ivan is back. Late this afternoon the National Hurricane Center noted that the remnants of Hurricane Ivan, which had re-entered the Gulf of Mexico yesterday, had in fact developed convection once again and an area of surface circulation. As a result the Center classified the system as a Tropical Depression and was expected to reach Tropical Storm status by tomorrow. But the storm at this time is not expected to reach hurricane strength and is expected to make landfall on the Texas coast by late Thursday or early Friday. While Hurricane Jeanne, Karl and Tropical Storm Lisa pose no threat to the USG, the National Hurricane Center was watching an area of disturbed weather centered about 950 miles west of the Cape Verde Islands and nearing Tropical Storm Lisa. The system is moving slowly west-northwestward. Forecasters expected it would become a tropical depression either tonight or tomorrow.

PIPELINE RESTRICTIONS

PG&E California Gas Transmission has called a system-wide operational flow order on its California natural gas pipeline for today's gas flow. PG&E issued the restriction because of high gas supplies on its system. The pipeline restriction has 2% tolerance, with shippers who violate the OFO subject to a \$1.00/MMcf monetary penalty.

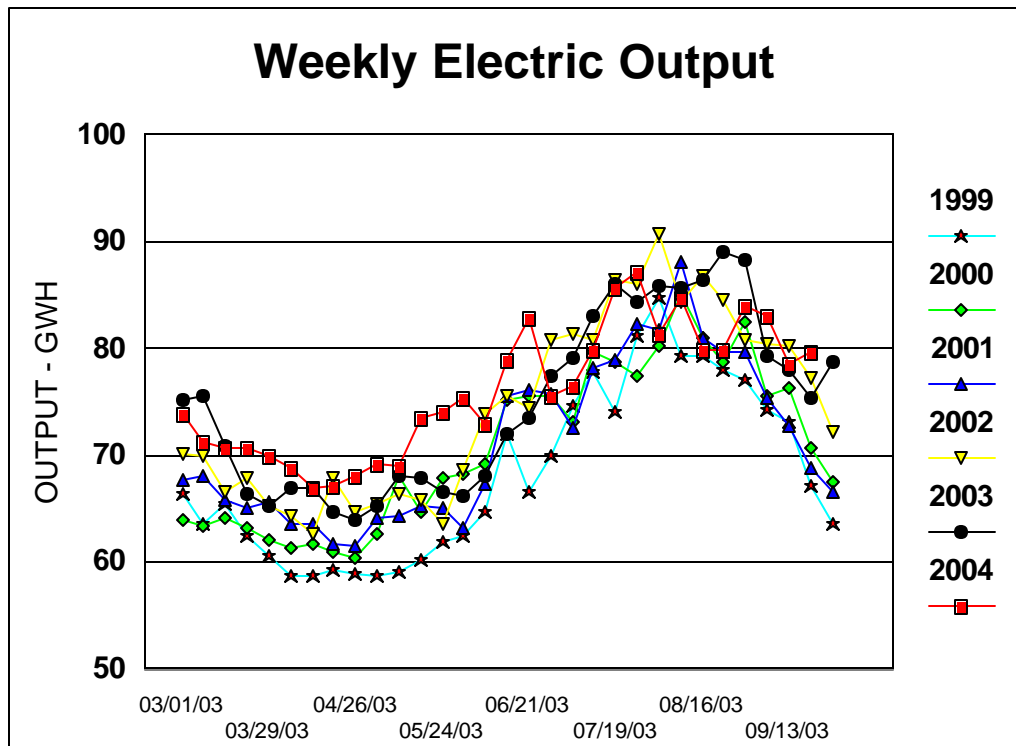
PIPELINE MAINTENANCE

National Fuel Gas said it will be performing unplanned maintenance on line YM-52 starting today and finishing on September 30. During this period capacity from Ellisburg to Transco will decrease from 530 MMcf/d to 380 MMcf/d. This reduction in capacity is not expected to affect any services during the maintenance.

Questar Pipeline Company said that after evaluating two pipeline bends that caused cancellation of the ML 40 smart pigging originally scheduled for September 14-15, Questar has determined that they must be replaced. The line work is scheduled to take place from October 2-4 to replace the bends and complete the smart pigging activity. During the bend replacement, no physical flow can be accommodated at Price Station. The company expects to limit the West Fidler scheduling point capacity to approximately 20 MMcf on Saturday. Questar is requesting that impacted producers be offline by 6:00 AM MT on October 2 to facilitate the line work. Questar also anticipates scheduling at the ML 80 and Rifle scheduling points during this period. Questar anticipates returning to normal operation on October 5.

Natural Gas Pipeline Company of America recently updated its maintenance schedule for October and November. From October 4 to November 19, NGPL will be upgrading the Oklahoma Extension #1 between Station 184 and Station 111. This project involves hydrostatic testing, internal cleaning and running Linolog pigs. From October 11 to November 25, NGPL will be performing maintenance to one of the compressor unit at Station 184 in Beckham County, Oklahoma. On October 12-13, NGPL will be running cleaning pigs in the Louisiana 1 and 2 lines from Station 343 to Station 342. This is in Segments 25 and 23. From October 12-14, NGPL will be performing pipeline maintenance and tie-in work at Compressor Station 802 in Lamar County, Texas. During this time ITS/AOR and secondary out-of-path transports through Segment 17 will be unavailable. At this time NGPL expects that forward haul primary firm and secondary in-path transports through Segment 17 will be at risk of not being scheduled during this 3-day outage. In addition, NGPL may be requiring shippers to use in-the-path

transportation to inject gas into NSS storage during this outage.

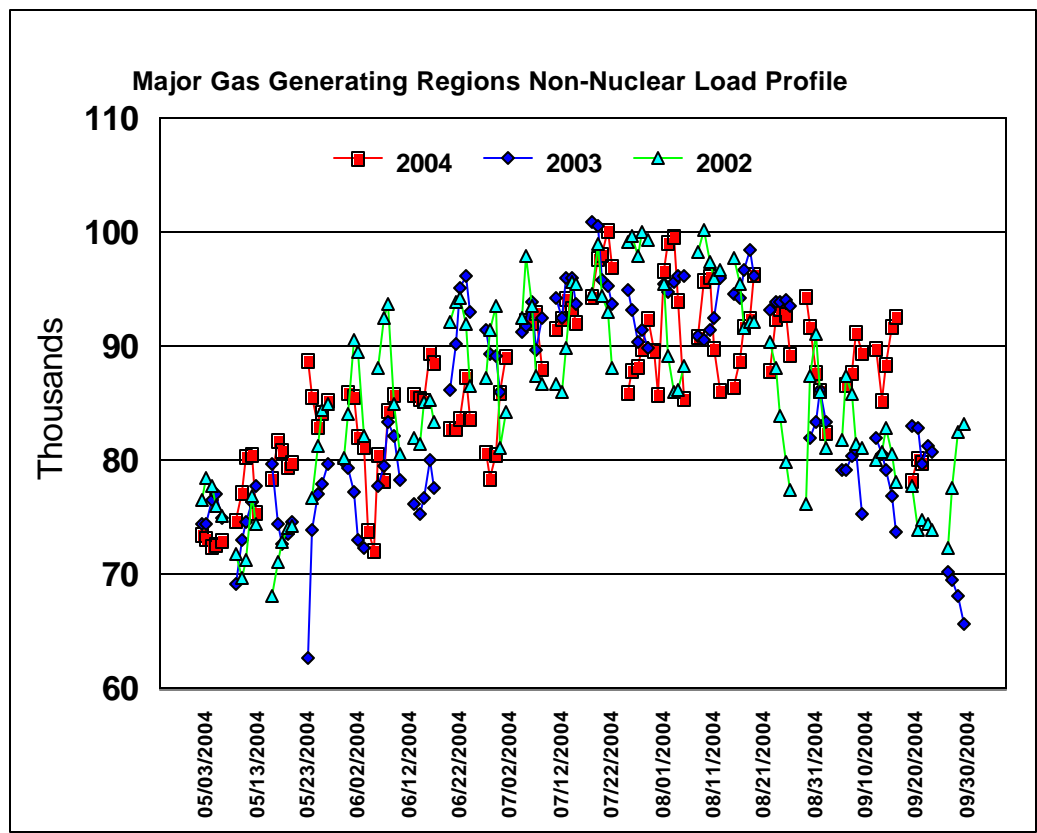


Trailblazer Pipeline Company recently announced its maintenance plans for October. On October 12, Trailblazer will be performing maintenance on Unit 2 at Compressor Station 602 in Lincoln County, Nebraska. Interruptible flow, authorized overrun and secondary out-of-path transports will be unavailable. Primary firm and

secondary in-the-path transports may be at risk of not getting scheduled during this work. From October 19-20, Trailblazer will be performing maintenance on Unit 1 at Compressor Station 603 in Kearny County, Nebraska. Also on these days, maintenance work is scheduled at Compressor Station 601 in Logan County, Colorado. Unit 1 at Station 601 will be unavailable on October 19 and Unit 2 will be unavailable on October 20. These projects are being coordinated to minimize the overall impact on Trailblazer shippers. ITS/AOR and secondary out-of-path transport will be unavailable during these days. Primary firm and secondary in-the-path transports may be at risk of not getting scheduled.

ELECTRIC MARKET NEWS

Electricity production in the United States for the week ended September 18 rose 7.9% from the same 2003 period to 79,719 GWh, according to the Edison Electric Institute. The South Central U.S. showed the largest year-on-year percentage gain in output, rising 21.8% to 13,305 GWh. The new England region, meanwhile, showed the only year-on-year percentage decline in output, falling 2.2% to 2,498 GWh. For the first 38 weeks of the year, production totaled 2,844,056 GWh, up 1.6% from last year.



TXU Corp. and Atmos Energy Corporation announced today that with the approval by the Missouri Public Service Commission, which is the final required regulatory approval, the sale of TXU Gas Company operations to Atmos Energy for \$1.925 billion in cash is expected to close by October 1.

The EPA reported today that emissions of the six principal pollutants identified in the Clean Air Act dropped again in 2003. The agency reported that emissions have continued to fall even as the size of the US economy has grown by 150%.

The EPA reported today that emissions

MARKET COMMENTARY

The natural gas market today opened a few pennies weaker but was dragged higher through mid morning by escalating oil prices on the back of bullish oil inventory numbers as well as the reports of a continued difficulties in getting some USG natural gas production back on line. But prices stalled up at the \$5.70 level as it appeared short covering based buying appeared to be finished by mid day. As a result values began to back slide in the early afternoon. But the drift off in prices appeared to be halted near the end of the day on fresh news from the MMS that some 2.3 bcf of offshore production still remained shut in from last week's storm. As a result the October contract settled higher for the fourth

day in a row, but posting its smallest gain of just 2.1 cents. In the back months though, the bullish fever remains stronger with the December contract pushing over the \$7.00 for the first time since June 24th, before settling at \$6.782. Final volume on the day was excellent with over 132,000 futures traded.

At mid day the open interest report showed a net decline of 6,274 contracts with nearly half of the contraction being found in the spot contract and over 80% being concentrated in the first three contract months.

The market appears to be looking for a rather small injection basis tomorrow's report with most expectations appear to be centered around only a 65 bcf build in working gas stocks on the week. But basis the calculation we come up with from the MMS shut-in report, only some 17 bcf of production was lost last week before the reporting deadline, as a result we look for the injection rate to run more in the range of 75-80 bcf.

We feel that the natural gas market should continue to have difficulty in clearing the resistance at the \$5.70-\$5.75 area. We do not feel that the increase in margins should have a significant impact tomorrow given the sizable short covering that we feel that the market has seen over the last several days. In addition unlike last week when the market saw a relatively high seasonal call for natural gas from electric generators, this week the call on gas seems relatively limited. We see additional resistance at \$5.815, \$5.836, \$5.88 and \$5.96. Support we see at \$5.51, \$5.42, \$5.37-\$5.26, \$5.25 and \$5.11. More distant support at \$4.97 and \$4.78-\$4.75.