



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR JANUARY 10, 2005

NATURAL GAS MARKET NEWS

AccuWeather forecasters call for an Artic Blast to bring the unseasonably mild temperatures to an abrupt halt by the weekend. "The cold air brewing over northwest Canada and Alaska will dive southward throughout the week," according to AccuWeather. Such an outlook could mean higher demand for heating oil and natural gas after a prolonged reprieve that has allowed stockpiles of fuel to increase. The cold temperatures are expected to reach the northwest U.S. by Wednesday and move through the plains, reaching the deep South by Friday. The northeast is expected to average above normal temperatures through Friday before dipping to near to below normal through the weekend and into early next week. Long-range forecasters have said the end of January and much of February could bring colder-than-normal temperatures after a milder-than-expected November and December.

Private forecaster EarthSat reports that the Eastern U.S. should experience a colder February than normal, with the first sustained cold beginning this weekend. Heating degree-days should be 6% above normal from mid-January to March 31, said EarthSat in a revised winter forecast. Starting late this week, the Midwest will begin to see the artic blast, as temperatures dip below 0 Fahrenheit. EarthSat's 11- to 15-day forecast calls for "much below" temperatures in New England while the rest of the Northeast and Mid-Atlantic regions should see "below" normal temperatures. EarthSat has adjusted its February to 3 F below normal from 2 F below normal for most of the country east of the Mississippi River. Heating degree-days are expected to be 6% above normal from Jan. 7 to March 31, will 2,350 HDDs compared to the normal 2,223 HDDs. A stronger than expected El Nino has boosted temperatures so far this winter, and a

Generator Problems

ECAR – Nuclear Management manually shut Michigan-based CMS Energy Corp.'s 789 Mw Palisades unit due to lowering main condenser vacuum on Jan. 9. At the time of the trip, the unit was operating at 75%.

ERCOT – Martin Lake's 750 Mw restarted today following boiler tube leak repairs.

FRCC – FPL's 693 Mw Turkey Point #3 exited an outage and ramped up to full power. On Friday, the unit was operating at 1% of capacity as it started to exit an outage. Turkey Point #4 continues to operate at full power.

Canada – Ontario Power Generation's 881 Mw Darlington #1 nuclear unit returned to service early Monday, after being shut for a short-term forced outage on Jan. 5.

MAPP – Nebraska Public Power's 800 Mw Cooper nuclear unit is down 1% at 84% in anticipation of a refueling outage.

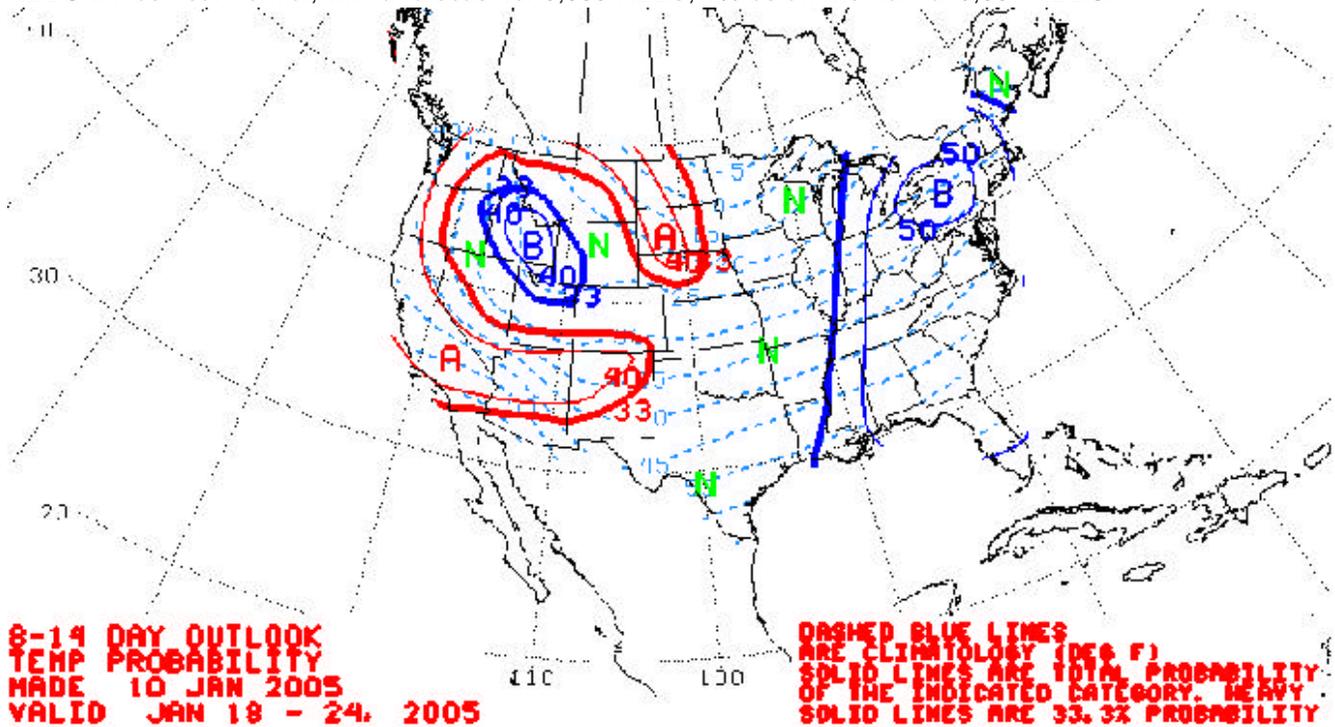
WSCC – Arizona Public Service Co.'s 740 Mw Four Corners #4-5 coal-fired units returned to service over the weekend after being shut Jan. 4 for tube leak repairs.

Duke Energy's 750 Mw Moss Landing #6-7 natural gas-fired units shut late Sunday due to water damage to some electrical equipment caused by a rainstorm battering Southern California. Both units were available for service Friday. Moss Landing #1-2 are operating at full power.

Southern California Edison reduced output at its 1,120 Mw San Onofre #2 and #3. Unit #2 is off 8% since Friday at 92%, and unit #3 is off 2% since Friday at 68%. The problems resulted from a recent deluge of rain and the subsequent flooding.

The NRC reported that U.S. nuclear generating capacity was at 91753 Mw today down .29% from Friday.

weaker El Nino is forecasted for the remainder of the season. For the full winter of Nov. 1 to March 31, overall HDDs will be near normal, with a forecast for 3,855 HDDs, 1% below the normal 3,861 HDDs.



The Climate Prediction Center this morning reported that for the week ending January 8th the nation saw some 182 heating degree days on a gas home heating customer weighted basis. This was nearly 10% colder than forecasted last Monday, but still 19.2% warmer than normal. The Center is forecasting a nearly identical level of heating degree days for the current week ending January 15th, with some 184 HDD, some 18.6% less than normal.

Lawmakers debate over the energy bill will be focused around growing concerns about the nation's supply of natural gas. The Senate Energy Committee plans to hold a special conference Jan. 24 to consider proposals to boost gas supplies, citing EIA's forecast that gas demand will rise from 22 trillion cf in 2003 to 31 trillion cf by 2025. The recent surge in natural gas demand, coupled with tight supplies have kept prices high, resulting in rising natural gas and electric bills, sharp increases in the price of the chemicals used to make plastics and raising questions about the long-term future of U.S. chemical makers. Lawmakers hope to hear some new ideas to help increase domestic drilling, ease regulatory burdens and bolster gas imports through construction of new LNG terminals. The Energy Committee has been bombarded with proposals from oil and gas producers, chemical makers and environmental groups. Oil and gas producers want lawmakers to open up the eastern Gulf of Mexico, the Atlantic, and the Pacific coasts to drilling. All of those places have serious opposition. Environmental groups are encouraging lawmakers to push for greater energy efficiency and use of renewable energy sources. Drilling in the Arctic National Wildlife Refuge has met fierce opposition, and Republicans plan to attach its verbiage to a budget resolution to avoid a filibuster with an Arctic National Wildlife Refuge proposal on an energy bill.

The Interstate Natural Gas Association of America issued comments to the U.S. Senate Energy and Natural Resources Committees concerning LNG, stating that LNG "should not be mistaken as a 'cure all' that alone will solve the [US] natural gas problem." The association said definitively that expanding production in the Rocky Mountains or the Outer Continental Shelf, building an Alaska natural gas pipeline, or importing more LNG will not solve the current the country's current natural gas challenges. Despite these statements, the INGAA concluded that because of its long and outstanding safety record, LNG should prove a vital component of the US supply picture.

Peoples Gas today again denied charges filed by the city of Chicago and Illinois regulators, that it had allegedly overcharged customers by at least \$149 million as a result of an illegal profit sharing deal with Enron during the winter of 2000-2001.

Raymond James analysts warned today that the market may be “significantly underestimating” the likelihood of natural gas storage levels being contracted to below 1 tcf, even without a significantly colder winter. The company continues to believe that by the end of this heating season, U.S. storage levels of working gas will be below this mark.

PIPELINE RESTRICTIONS

Natural Gas Pipeline Company of America is at capacity for gas received upstream of Compressor Station 155 in Wise County, Texas in Segment 1 going northbound. All Louisiana Line Segments (25,23 and 24) are at capacity for eastbound transport volumes. Deliveries to Columbia Gulf-Chalkley (PIN 11295) are at capacity today.

PIPELINE MAINTENANCE

Williston Basin Interstate Pipeline Co. said that maintenance could affect a pair of points this week. Due to scheduled maintenance at the Monarch Plant, deliveries for line section 11 may be affected from 9:00am MT to 5:00pm MT Jan. 11, and no restrictions are anticipated for the system. Also, due to maintenance at the Baker Booster scheduled for 9:00am MT to 3:00pm Mt Jan. 13, the capacity at current conditions for Point ID 04018 Baker Area Mainline will be affected by approximately 3 MMcf/d.

El Paso Natural Gas Co. said that Line 2000 maintenance between Afton and Lordsburg stations scheduled for Jan.17-20 and Florida Station maintenance scheduled for Jan. 21 will begin one day earlier. The capacity for the South Mainline will be reduced by 235 MMcf/d Jan. 16 –19 and by 60 MMcf/d on Jan. 20. These outages will have no effect on markets.

Gulf South Pipeline said it will be performing scheduled maintenance on Index 8 beginning today at 7:00am CT and continuing for approximately 48 hours. Due to this maintenance, force majeure conditions on Index 8 will affect Gulf South’s ability to provide service to the following locations: Water Injection Plant at Wright Mountain; Corley C.P. #1; Cowan G U #2; Perry G U #1; Eckerd Heirs #1; Overton Field CP; CW Resources CP; Dyer #1 Well; and aynard #1.

Alliance Pipeline said that Carson Creek #1 Compression Station will be offline for 6 hour starting at 9:00am MT on Jan. 12 for a routine inspection. Station capacity will be lowered to 13.54 MMcf/d. The Teepee Creek Compressor will also be unavailable on Jan. 12 for a routine inspection, and station capacity will be lowered to 33.9 MMcf/d.

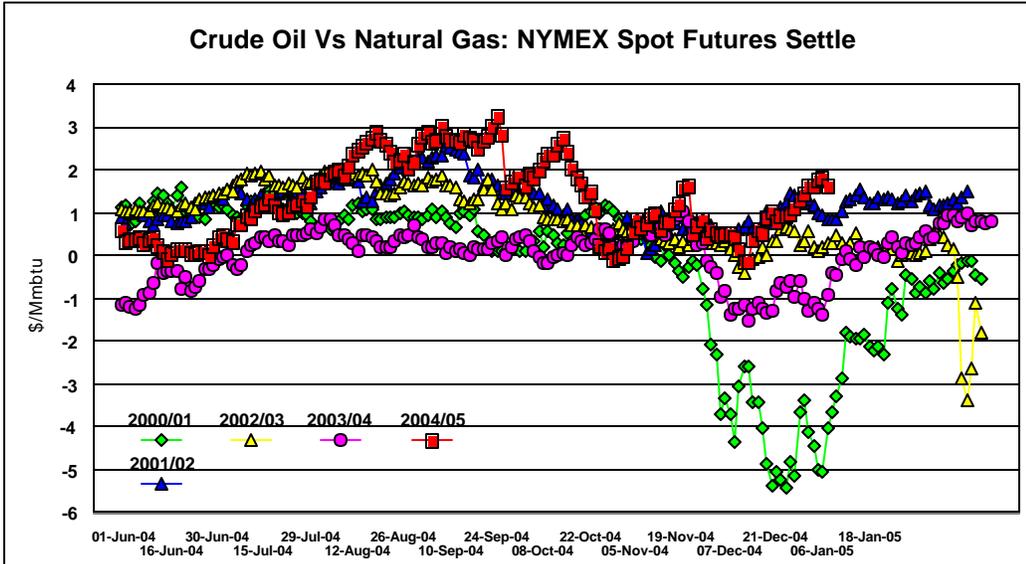
Colorado Interstate Gas adjusted its January maintenance schedule. One unit at the Rawlings Compressor Station will be out of service Jan. 4-25 due to unexpected maintenance. Capacity will be reduced by 50 MMcf/d. As a result, the scheduled maintenance at the King Compressor Station will be moved to February.

Westcoast Energy has posted its work schedule for the month of January. In the Fort St. John Field Services area, a 2,500-hour inspection and maintenance outage is planned for Kobes ME #3, beginning at 8:00am PT today and lasting until 4:30pm PT Jan. 12. No impact is expected. Also beginning today is a cooling fan motor replacement at the Bluehills Allison unit in the Fort St. John Field at 8:00am PT till 4:30pm PT. Again, no impact is expected. An 8,000-hour inspection outage is planned for Beg Jedney in the Fort St. John Field Services area beginning Jan. 24 at 8:00am PT and ending Jan. 27 at 4:30pm PT. No impact is anticipated.

ELECTRICITY MARKET NEWS

The North American Electric Reliability Council proposed new standards to improve the reliability of the power transmission system. NERC has been working on improving its existing reliability standard since the Aug. 2003 blackout left some 50 million people in the dark. The industry blamed the lack of proper tree trimming in Ohio as the primary cause of the blackout, and noted that transmission companies could have reduced the impact of the event if they had only followed the NERC reliability standards already in place. However, NERC’s reliability rules are voluntary. The U.S. Congress tried to make the rules mandatory, but the energy bill failed to pass last year.

Some regional grid operators, however, have required their transmission company members to follow the reliability standards.

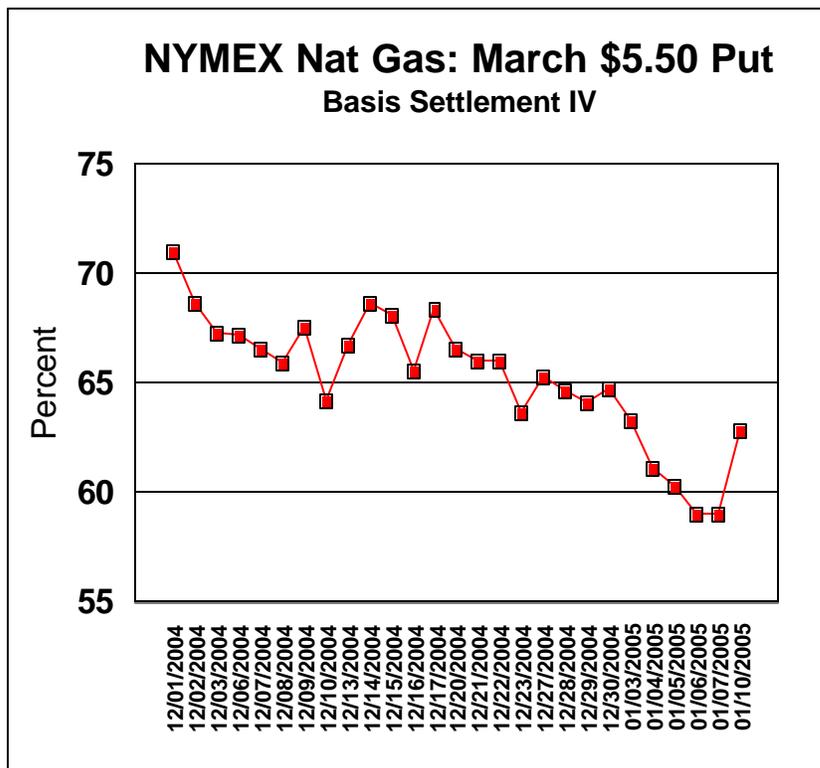


Southern California Edison and Pacific Gas & Electric both saw some 90,000 customers each lose power over the weekend due to the storms that have battered the state. But both utilities reported today that most customers have had their power restored with just 13,000 customers statewide still without power.

PSEG said Monday that it expects to restart its Hope Creek nuclear unit shortly after a public meeting with NRC officials later this week. The unit has been offline since October.

MARKET COMMENTARY

The natural gas market gapped higher this morning as the bulls stampeded back into the market, driven by weather reports from both public and private weather forecasters that declared winter was in fact not over and should return to the eastern half of the nation by the end of the week. Below normal temperatures were also expected to stay in place over much of the eastern half of the nation for next week as well and possibly into the end of the month according to a couple of private weather forecasters. This appeared to trigger short covering that helped to drive prices higher through mid morning before running into resistance just in front of a three-month trend line in the February charts, which today stood at \$6.565. It appeared that some traders sensing the loss of momentum to the upside, then turned seller in the late morning and into the afternoon as natural gas prices began a downward journey that by the close had nearly given back three quarters of the day's gains and had nearly backfilled the gap created at the start of the day. Volume today was the highest in the natural gas futures market since December 2nd as 76,000 futures changed hands. Volume in the latter half of the day was nearly equal to the trading activity of the first two hours, thus leading us to believe that the bulls of the morning session did not have the conviction to hold significant length overnight and might continue to be shy in doing so until possibly late in the week once they get on the other side of the inventory report.



The option market for natural gas did not reflect a panic situation either. In fact only 26,708 contracts traded today with puts accounting for over 64% of the day's activity. By far the most active strike on the day was the March \$5.50 put which traded over 3,000 times on the day between 15-18 cents

We feel that this market got ahead of itself today, seeing its first bit of true bullish news in quite awhile and thus possibly flushing some of the large non-commercials out of the market. While we continue to feel that there is more than ample supplies in this market, we feel that additional short covering could still be in the cards, especially from the commodity funds and thus would not recommend jumping in with both feet to sell this market as of yet. In addition the relative oversold nature of natural gas relative to the oil markets also does not signal to us the time is right to initiate new shorts. We see support initially at \$6.13-\$6.10, the remaining part of the gap created from today's price action, followed by \$6.03, \$5.91, \$5.76 and \$5.71. Resistance we see at \$6.49, \$6.55, \$6.665-\$6.69, with more distant resistance at \$6.89 and \$6.954.