



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR FEBRUARY 26, 2007

NATURAL GAS MARKET NEWS

Wood Mackenzie said today that in 2006 roughly 160 million tons of LNG were produced worldwide. But given the rising cost structure of planned LNG projects they fear that some projects currently planned will not be realized and as a result there appears to be a LNG shortage developing longer term. They noted that with all the existing supply works as expected and projects under construction proceed as planned, there will be just enough capacity to meet demand in 2010. The IEA has estimated production capacity of LNG by 2010 will stand at 320 million tons. LNG currently accounts for only 7% of world gas supply, of which only 1% is fully flexible or traded at spot prices.

TransCanada Pipelines said today that it has reached a five-year settlement with shippers that will result in a proposed C7.5cent/GJ increase in Eastern Zone tolls for 2007 to C\$1.02/Gj and will give the pipeline several operational performance incentives. The agreement also sets tolls and costs for 2008-2011 on the Canadian Mainline as well.

The NYMEX announced Monday that it will change margins for its Henry Hub natural gas futures and other related natural gas futures contracts. Margins for the first month of the natural gas, natural gas penultimate and natural gas last day futures will decrease to \$8775 from \$10,125 for non-member customers. Second month margin rates for customers will decrease by \$1,300 to \$8,100 and in the third month margins will decrease by \$675 for non-member customers to \$7,425. Back months will also see declines of just under 10%.

A staff report by The New York State Public Service Commission said today that it recommended that the PSC not approve the proposed \$7.3 billion merger of National Grid and KeySpan unless it makes several major changes to the deal. The staff report noted that improvements were needed regarding reliability of service and various

Generator Problems

ERCOT – TXU's 1150 Mw Comanche Peak #1 nuclear unit was shut today for planned refueling outage expected to last for 10 weeks.

TXU's 750 Mw coal-fired Unit #1 at Martin Lake was restarted on Saturday following a disruption on Friday due to an electrical malfunction.

Texas Municipal Power Agency's 462 Mw coal-fired Gibbons Creek was taken off line on February 25th due to an equipment failure.

TXU's 545 Mw Unit #4 at the Sandow coal fired power plant was expected to be restarted following difficulties at the unit late last week.

AEP's 528 Mw Unit #3 at the Welsh coal fired power station is expected to be taken off line for a month long maintenance work.

WSCC – APS 1314 MW Palo Verde #2 nuclear unit was restarting and was ramping up to 12% of capacity this morning. The unit has been offline since February 19th due to an oil leak.

MAIN – Exelon's 1120 Mw LaSalle #2 nuclear unit was taken off line Monday for its planned refueling outage that was expected to take some four weeks.

SERC – Duke Energy's 846 Mw Unit #1 at the Oconee nuclear power station exited its recent refueling outage and stood at full power this morning.

PJM – Constellation Energy's 862 Mw Unit #2 at the Calvert Cliffs nuclear station went off line today as it entered a month long refueling and maintenance period.

FRCC – Progress Energy's 838 Mw Unit #3 at the Crystal River power station had exited its recent refueling outage and stood at 75% of capacity this morning.

The NRC reported that 90,048 Mw of nuclear capacity is on line, down 1.6% from Friday, but 1.02% higher from a year ago.

Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
Location	Traded	Price		(As of 12:30 PM)		Moving Avg
Henry Hub	751,900	\$7.731	\$0.202	(\$0.228)	\$0.136	(\$0.401)
Chicago City Gate	615,100	\$7.638	\$0.180	(\$0.017)	\$0.131	(\$0.234)
NGPL- TX/OK	642,100	\$7.109	\$0.197	(\$0.547)	\$0.148	(\$0.753)
SoCal	672,500	\$7.186	\$0.119	(\$0.469)	\$0.070	(\$0.533)
PG&E Citygate	412,400	\$7.731	\$0.139	\$0.076	\$0.090	(\$0.052)
Dominion-South	275,700	\$8.224	\$0.114	\$0.569	\$0.065	\$0.350
Transco Zone 6	183,600	\$8.490	\$0.138	\$0.835	\$0.089	\$0.697

accounting, financial and ratemaking issues. The staff noted that the quality of service at Niagara Mohawk, which was acquired by National Grid in 2002 has deteriorated since the merger. The staff also warned that the proposed merger will “produce unreasonably high” natural gas and

Grid to earn excessive profits.” National Grid said it would file a response to the report in the first half of March.

PIPELINE RESTRICTIONS

The Alberta/BC border receipt capability will be reduced to 2.259 bcf/d starting 8:00 MT on March 6th and continuing to an undetermined date. Firm service levels, including contract levels and fuel requirements for the months of March and April of 2.167 bcf/d and 2.167 bcf/d respectively at the ALTBC Border. During this maintenance period there may be interruptions and curtailments of firm service. These reductions are being made to facilitate further excavations and repairs to be made on the next section of the Foothills BC Mainline. The work is expected to take several months.

Natural Gas Pipeline Company announced over the weekend and until further notice, NGPL was at capacity for gas received upstream of Compressor Station 155 in Wise County, TX. ITS/AOR and secondary out of path Firm transports are at risk of not being fully scheduled.

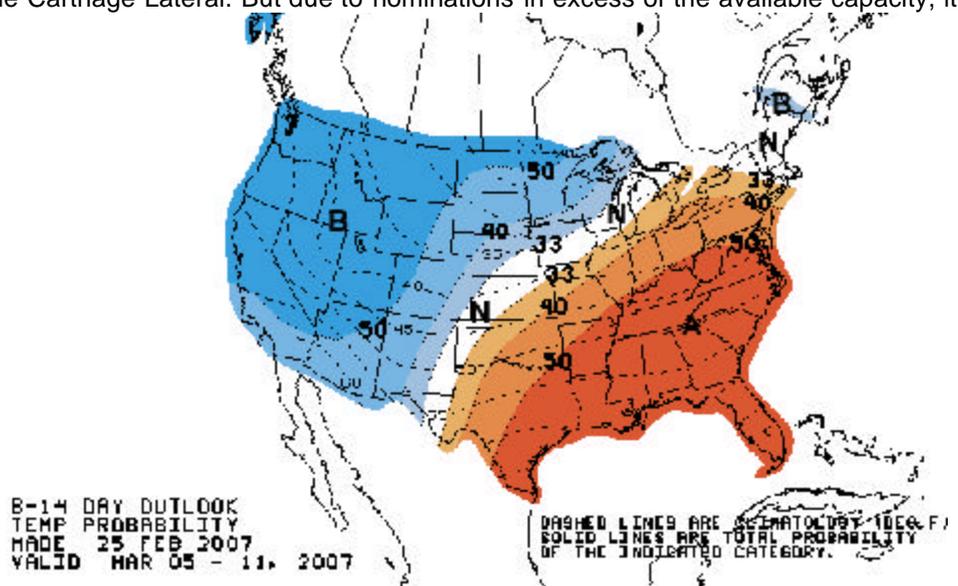
Texas Eastern Transmission Corp. said that it has extended restrictions for the system today. The company said it has scheduled nominations flowing through Batesville. Increases in nominations for receipts sourced upstream of Batesville for delivery downstream will not be accepted. In addition, Texas Eastern has restricted nominations sourced in zones STX and ETX for delivery outside that area. No increases in receipts between Little Rock and Mt. Belvieu for delivery outside that area will be accepted.

Tennessee Gas Pipeline said that effective 9:00 AM CT today, due to reduced nominations; it will accept increases for nominations on the Carthage Lateral. But due to nominations in excess of the available capacity, it still had restrictions in the following places: at Station 321; at the Harrison Storage Meter; at Grand Chenier 507 – A Line.

PIPELINE MAINTENANCE

Tennessee Gas Pipeline reported that due to a leak repair on the 509A-300 Line will cause 011076 East Cameron 254B to be out of service along with 102722 Meri Josey.

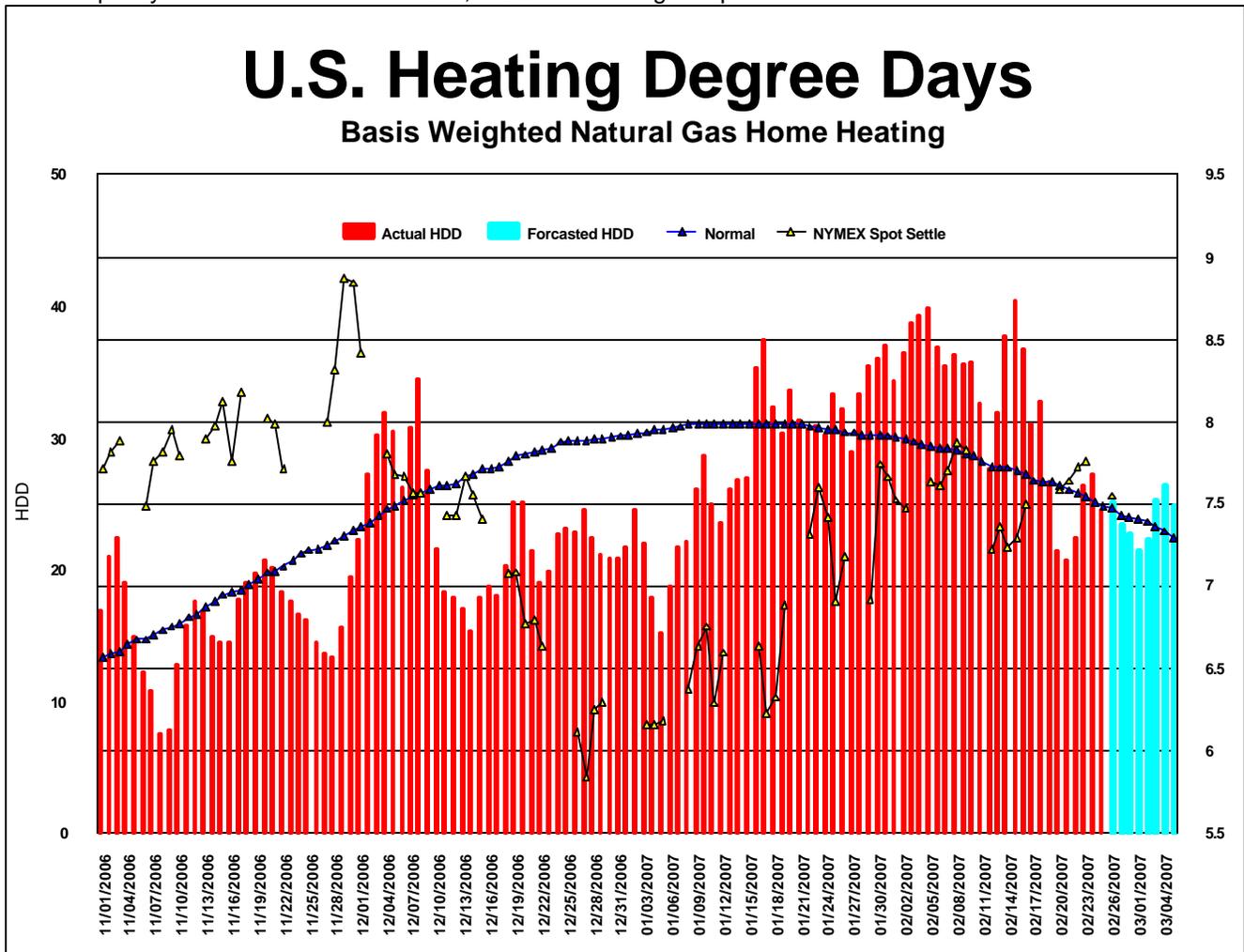
Alliance Pipeline announced two maintenance projects for this week. Scheduled maintenance will require Unit #21 at the AB 48



Whitecourt lateral Meter/Compressor Station to be unavailable for eight hours today. Station capacity will be reduced to 659 e3m3/day. Also the Loreburn Compression Station will undergo routine maintenance and be unavailable for six hours on March 1st. System capacity (AOS) may or may not be impacted.

Northwest Pipeline said it will use its Jackson Prairie storage to mitigate any impact to customers as a result of the Burley Compressor Station maintenance work scheduled for February 27th and 28th. Therefore north flow capacity will remain at 539,000 Dth/d during the planned maintenance.

Questar Pipeline said that repairs have been completed at the company's Oak Spring compressor station. As a result capacity there has increased to 385,000 Dth/d starting this past weekend.



ELECTRIC MARKET NEWS

TXU Corporation announced Monday that it had agreed to be acquired by a group lead by private equity firms Kohlberg Kravis Roberts & Company and Texas Pacific group for \$31.8 billion. TXU said as a private company it will strengthen environmental policies, cut the number of planned coal-fueled generation plants, and implement 10% price cuts that will result in more than \$300 million of annual savings for residential customers. The company had been looking to double its coal fired generating units in Texas. The company also said it would support the mandatory cap and trade program to regulate carbon emissions. Environmental groups appeared to support the planned buyout. The company would look at restarting 1600 Mw of mothballed gas generation to meet the shortfall created in the wake of canceling coal fired generation projects. But as the day went on, several Texas political officials voiced opposition to the planned deal.

Southern California Edison's president Friday said that California utilities may have problems meeting the state's ambitious climate change law and a newly introduced legislation that would seek utilities to obtain up to 33% of their power supplies from renewable resources by 2021. He noted the utility was already struggling to meet a 20% renewable target by 2010.

NYMEX Nat Gas Options Most Active Strike for February 26, 2007								
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LN	5	8	C	20	04/25/2008	0.0172	7,800	35.16
LN	6	7	C	13	05/25/2007	0.0177	4,000	48.10
ON	4	7	P	6	03/27/2007	0.007	3,700	44.14
LN	6	7	P	7	05/25/2007	0.2329	3,000	42.18
LN	7	7	P	7	06/26/2007	0.288	1,950	42.74
ON	5	7	C	9	04/25/2007	0.168	1,599	44.26
LN	5	7	P	7	04/25/2007	0.1835	1,550	43.24
ON	4	7	C	8	03/27/2007	0.254	1,476	43.76
LN	5	7	C	10	04/25/2007	0.0621	1,400	44.03
ON	5	7	C	8	04/25/2007	0.417	1,362	41.74
LN	6	7	C	9	05/25/2007	0.2616	1,300	38.53
LN	9	7	C	9	08/28/2007	0.6185	1,300	36.77
LN	5	8	C	10	04/25/2008	0.3599	1,200	25.04
LN	6	8	C	10	05/27/2008	0.4016	1,200	24.51
LN	7	8	C	10	06/25/2008	0.457	1,200	24.33
LN	8	8	C	10	07/28/2008	0.5165	1,200	24.11
LN	9	8	C	10	08/26/2008	0.5906	1,200	24.49
LN	9	7	C	12	08/28/2007	0.1864	1,200	43.67
LN	10	8	C	10	09/25/2008	0.6953	1,200	25.08
LN	11	8	C	10	10/28/2008	0.8316	1,200	21.92
LN	12	8	C	10	11/21/2008	1.0168	1,200	19.71
LN	4	7	C	8.5	03/27/2007	0.129	1,175	43.45
LN	9	7	C	8	08/28/2007	0.9575	1,170	33.07
LN	4	7	C	11.5	03/27/2007	0.0016	1,100	52.29
LN	5	7	C	11.5	04/25/2007	0.0152	1,100	47.45
LN	6	7	C	11.5	05/25/2007	0.041	1,100	44.20
LN	7	7	C	11.5	06/26/2007	0.0871	1,100	42.93
LN	8	7	C	11.5	07/26/2007	0.1423	1,100	42.18
LN	8	7	C	10	07/26/2007	0.2967	1,100	39.22
LN	9	7	C	11.5	08/28/2007	0.2255	1,100	42.82
LN	10	7	C	11.5	09/25/2007	0.3224	1,100	43.63
ON	4	7	C	8.5	03/27/2007	0.129	1,077	45.20
LN	9	7	C	10	08/28/2007	0.4043	1,000	39.45
LN	10	7	C	20	09/25/2007	0.0378	1,000	54.35
LN	2	8	P	9	01/28/2008	1.1778	900	50.39
LN	10	7	C	12	09/25/2007	0.2773	900	44.66
ON	4	7	P	7	03/27/2007	0.102	898	41.95
LN	4	7	P	7	03/27/2007	0.1016	850	43.48
LN	9	7	P	6	08/28/2007	0.152	825	44.39
LN	5	7	C	12	04/25/2007	0.0101	800	48.76
LN	6	7	C	10	05/25/2007	0.1212	800	40.90
LN	7	7	C	10	06/26/2007	0.2044	800	39.62
LN	10	7	C	10	09/25/2007	0.5311	800	40.27
LN	11	7	C	10	10/26/2007	0.7566	800	36.86
LN	12	7	C	10	11/27/2007	1.0125	800	33.72
LN	5	7	P	7.25	04/25/2007	0.2597	775	43.25
LN	6	7	P	7.25	05/25/2007	0.3245	775	43.20

Meanwhile the governors of five western states today committed to a greenhouse-gas reduction plan with a market-based program to implement it. The plan, called the Western Regional Climate Action Initiative, attempts to build on other efforts by the states, principally California, Washington and Oregon, which had earlier formed a climate change action plan, with the new effort including Arizona and New Mexico. The group said it will adopt pollution reduction goals, with a mechanism like an emissions cap-and-trade program, within 18 months. Under a regional market-based program, an emissions cap would be set for all five states.

TransAlta said today that it will start building the Keephills 3 power project near Edmonton, Alberta, together with Epcor Utilities. The C\$1.6 billion project is expected to be completed by the first quarter of 2011. The facility will have a 450 Mw of coal fired generating capacity.

MARKET COMMENTARY

The March natural gas futures contract expired today. Our original expectation had been for this contract to see a volatile trading session today given the large open interest still showing in the spot contract as of the close of trading on Thursday. But the day started with limited trading interest shown both on the floor and on Globex and by midday it became clear as

why there was such a lack of interest in the market. The NYMEX reported at midday the open interest in the natural gas market as of the close on Friday saw an over 84,000 contract contraction, a record daily decline, of which 50,251 lot decline was recorded in the March contract and a 35,057 lots decline in the April contract. Prices seemed to be on the defensive throughout the trading session as a result of some longer term forecasts still calling for moderate temperatures despite the weekend snowstorm across the Midwest and eastern U.S. which helped to boost spot natural gas prices to their highest levels overall since February 16th. At Henry Hub cash values finished the trading session up 21 cents from Friday, despite the March futures finishing down 20.8 cents. Final volume on the day was estimated at just over 40,000 lots basis the floor, and a net volume of over 54,000 lots on Globex during the same time period.

Given the fact we are entering the tail end of the heating season with a moderate to normal temperature outlook we do not expect to see the natural gas market to probably trade outside of the \$7.00-\$8.35 for the next month, and as a result would look to sell option strikes outside of this range. We see initial resistance in the April contract starting at \$7.90, followed by \$7.93-\$7.96, \$8.01, \$8.05 followed by more distant resistance at \$8.34-\$8.36. Support we see at \$7.493-\$7.48, followed by \$7.41, \$7.306, \$7.25, \$7.123 and \$7.05.