



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR MARCH 9, 2005

NATURAL GAS MARKET NEWS

FERC Chairman Pat Wood will meet next week with Rhode Island's congressional delegation and state officials who oppose KeySpan Corp.'s proposed LNG project. KeySpan has asked FERC to approve its plan to upgrade and expand an existing LNG storage facility near Providence so it can receive marine tanker shipments of the super-cooled gas. Currently, the facility trucks in LNG supplies from the Distrigas LNG import terminal near Boston. Rhode Island officials oppose the project, saying the large security zones needed for LNG tankers would disrupt recreational use of Narragansett Bay. They are also concerned about potential risks of an LNG spill in a densely populated area. Rhode Island Gov. Donald Carcieri last month urged FERC to take a regional approach regarding new LNG facilities. He said the solution to New England's need for more natural gas is to build a single, large terminal on Canada's eastern coastline. He stated "there simply is no justification for accepting the known risks associated with LNG import activities in densely populated locations like the city of Providence, particularly given viable alternatives of locating LNG terminals offshore or in more remote coastline locations." Rhode Island officials are citing the U.S. Energy Department's Sandia National Laboratory, which concluded in a report in December that an attack on an LNG tanker could produce a fire that would burn nearby buildings, damage steel holding tanks and cause blistering burns on people a half-mile away.

Soaring steep prices could delay the construction of the proposed Papua New Guinea to Queensland gas pipeline project. The PNG gas project, which will enter front end engineering and design soon, will cover a total length of 3000Km, travel underground, underwater and connect two countries. The pipeline will be a significant engineering and construction job and it will involve welding 500,000 tonnes of specially made steel pipe, delivered in 12m or 18m lengths, into one ribbon of steel.

Recent natural gas discoveries have solidified Trinidad and Tobago's position as the number one player in the Americas in the LNG sector and boosted its aspirations to expand its downstream petroleum products industry. The recent discoveries were made by BP Trinidad and Tobago in an offshore field named Chacalaca, which has an estimated 2 Tcf of gas, and by ChevronTexaco and British Gas in their Manatee 1 field, which has an

Generator Problems

ERCOT— STP Nuclear Operating Co.'s 1,280 Mw South Texas #1 shut early today. Yesterday, the unit was operating at 81% of capacity as coasted down for a planned one-month refueling and maintenance outage expected to start in early March. South Texas #2 continues to operate at full power

TXU Corp. will soon restart the 570 Mw Big Brown #1 coal-fired unit on March 10 following repairs.

SERC— Entergy Corp.'s 978 Mw River Bend nuclear unit returned to full power early today. The company reduced power to about 75% early Tuesday for a control rod pattern adjustment.

Entergy Corp.'s 1,000 Mw Arkansas Nuclear #2 unit shut early today for a planned month-long refueling and maintenance outage. The unit was operating at full power yesterday. Arkansas Nuclear #1 continues to operate at full power.

WSCC— Edison International's 1,070 Mw San Onofre #2 ramped up to 78% of capacity early today. The unit was operating at 31% yesterday after exiting an outage. San Onofre #3 continues to operate at full power.

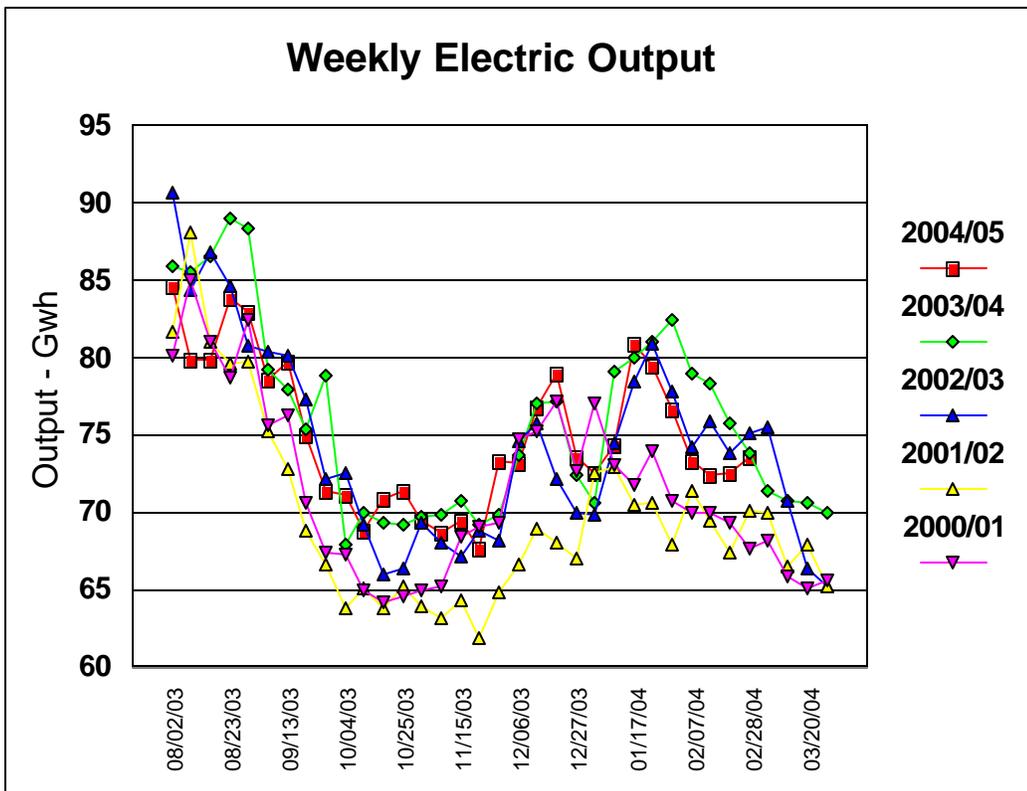
The NRC reported that U.S. nuclear generating capacity was at 81,747 Mw today down 1.65% from Tuesday and down 4.70% from a year ago.

estimated 1.5 Tcf of gas. Trinidad and Tobago's energy minister, Eric Williams, is optimistic about these discoveries, as "they are not from our three Ps—Proven, Probable, and Possible—but they're coming out from exploration potential." The twin-island nation's "3P" picture totals 33.33 Tcf. With these reserves, Trinidad and Tobago has become the hemisphere's LNG powerhouse, supplying over 70% of U.S. imports of LNG.

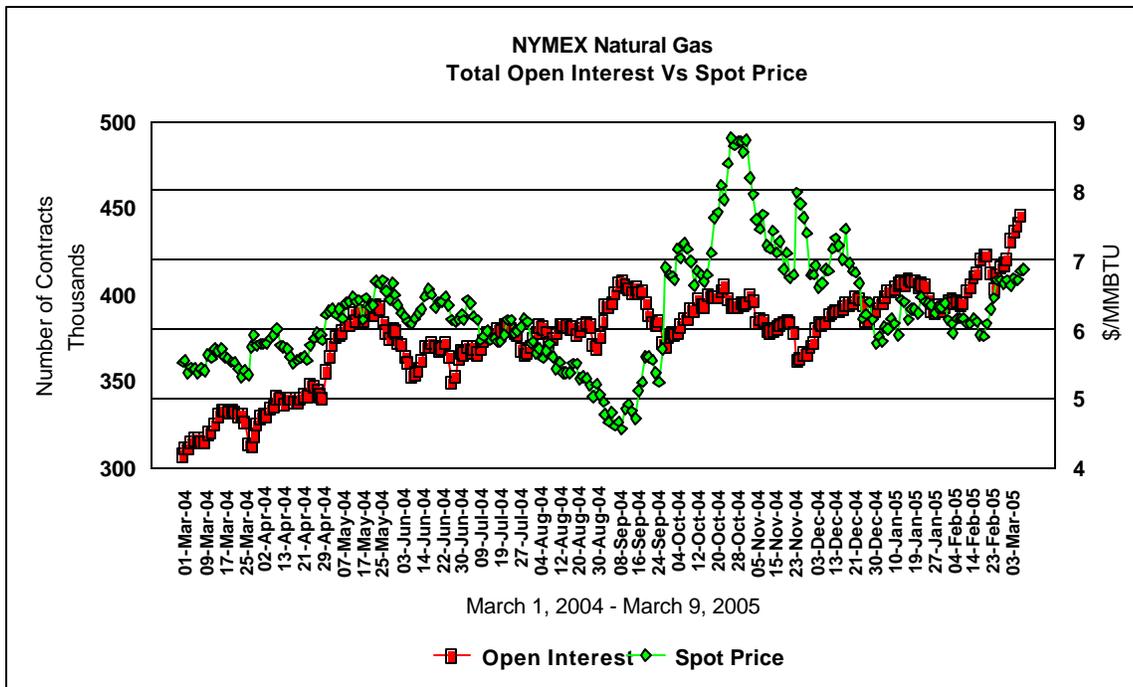
Natural gas appears to be gaining in the battle with heating oil to gain market share in the Northeast home heating market, but the war is far from won. The region has traditionally used heating oil to keep homes warm during long cold winters, making it the world's largest heating oil market. But according to data from the U.S. government, distillate fuel is being eclipsed by natural gas as the heating fuel of choice in some parts of the region, in part because it is considered cheaper and cleaner-burning. Heating oil prices have climbed to record highs on the back of a crude oil surge, while natural gas prices have been less volatile. Fewer new U.S. homes are installing heating oil burners, mainly opting for natural gas, which may in a few years lead to less demand, according to the EIA. Residential distillate fuel demand is expected to decline 1.0% a year in the long term. Currently heating oil is clinging to about 34% of the share of Northeast homes, while natural gas's share is about 52%. The remainder is made up mostly of electric heat. Residential natural gas use from 2002 through 2025 is expected to grow by 0.7% annually. In New England, the natural gas infrastructure does not exist, and heating oil accounts for 48% of all heat. Jack Sullivan, head of New England Fuel Institute, noted that most new homes there are fueled by oil, natural gas is just not accessible. Sullivan said even if heating oil prices on the NYMEX rise, seasonal lock-in contracts can guarantee prices for customers and hedging can ensure profits for the distributors. But natural gas customers are also protected by price swings on the futures exchange, because most utilities that supply the fuel are regulated and regulated state bodies set customers' rates.

ELECTRICITY MARKET NEWS

The Edison Electric Institute reported that electricity production in the continental U.S. for the week ended March 5 rose 7.1% for the same 2004 week to 73,582 GWh. The Central Industrial region showed the largest year-on-year percentage increase in output, gaining 11.3% to 13,357 GWh. The Pacific Northwest, meanwhile, showed the biggest year-on-year percentage loss in output, falling 3.1% to 2,829 GWh. For the first 10 weeks of the year, production totaled 749,419 GWh, up 0.8% from last year. For the 52 weeks ended March 5, production rose 1.9% from the corresponding period in 2004 to 3,855,384 GWh.



The U.S. Nuclear Regulatory Commission extended its review of Baltimore-based Constellation Energy Group's application to renew the 1,755 Mw Nine Mile Point nuclear power station's operating license for an additional 20 years. The agency said its staff extended the review schedule, which usually takes about 22 months, due to issues with information related to how Constellation would maintain the plant if the license is renewed. The NRC is committed to public health and safety and therefore needs complete and up-to-date information on Nine Mile Point before they can



reach a decision on whether the operating license can be renewed. Since 2000, the NRC has approved of new operating licenses for 26 of the nation's 104 reactors. More owners are expected to apply for renewal.

NRC staff will meet with Duke Energy

Corp.'s Duke Power subsidiary on Monday to discuss Duke's possible application for a combined construction and operating license for a new nuclear power plant. To date, three other nuclear operators have applied for combined licenses, Dominion Resources, Entergy Corp., and Exelon Corp. The companies however, have not decided whether to build a new nuclear power reactor, that depends on such factors as the cost of alternative fuels like oil and natural gas, demand for more electricity and federal and state regulations among other things.

ECONOMIC NEWS

All 12 Fed districts reported economic activity increased in early 2005, but the pace varied with relatively brisk growth in the New York and San Francisco districts, some acceleration in the Dallas district and some deceleration in the Richmond, Va., district, the Fed said in its latest "beige book" report summarizing economic activity throughout the country. Manufacturers in districts including Boston, Cleveland, Kansas City and Dallas said they have been finding it "increasingly easy to pass along price increases," and producers in the Philadelphia district expect to have greater ability to pass along costs "in the near future." In the Cleveland and Atlanta districts, truckers said they have been offsetting rising fuel costs with surcharges. Crude oil prices have risen more than 20% since the start of the year. This report was for the most part in line with the previous one, but noted that products prices have increased a bit as import costs are increasing with the rise in energy and metal commodities.

MARKET COMMENTARY

The natural gas market opened higher for the second day in a row and established a range, while the oil complex awaited its weekly inventory figures. The bearish figures, indicating large builds in crude oil, were shrugged off by traders, as crude's front month rallied to match its all time high of \$55.65. The natural gas, which posted its intraday high of \$6.95 on the opening, sold off to a low of \$6.83 in sympathy with the rest of the complex. However the market later bounced off its low and remained in its sideways trading pattern as it awaits its inventory numbers on Thursday. The natural gas market settled up 3.3 cents at \$6.88. Volume was good with over 78,000 lots booked on the day. Open interest in the natural gas as of Tuesday's session built by 6,209 contracts to 447,366 amid the rally in prices. The May contract alone saw a build in open interest of 3,205 contracts.

The street is expecting draws of 100-150 bcf, with most focused around a drop of 135 bcf. Mild temperatures a year ago yielded just a 51 bcf draw, and the five year seasonal average shows an 82 bcf decline. We are anticipating a 143 bcf decline. If the report shows a lower than expected draw, we would expect the market to come off its highs as inventories remain at comfortable levels. Also, even though the 8-14 day temperature

outlook continues to look bullish for heating demand as below normal temperatures is seen for most of the country, some seem to have forgotten that the average highs continue to increase as we head towards the end of winter.

Technically, the market is seen holding resistance at its high of 6.95 followed by \$7.04, \$7.16, and \$7.24. Support is however seen at its low of \$6.83 followed by \$6.78 to \$6.72. More distant support is seen at \$6.64-\$6.63, \$6.585-\$6.55, \$6.475, \$6.375 and \$6.275.