



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR MAY 16, 2007

NATURAL GAS MARKET NEWS

Lehman Brothers today raised its WTI crude oil price forecast for 2007 and 2008, and it noted that crude oil prices have more upside potential than natural gas. The company's analysts feel that natural gas prices will be capped by residual fuel prices throughout the refill season. The company raised its natural gas price estimate for 2007 from \$7.25 to \$7.50, while raising its 2007 estimate for WTI by \$3.00 to \$63.00 per barrel and in 2008 up its estimate by \$5.00 to \$60.00 per barrel. Meanwhile analysts at Raymond James said today that the first half of 2007 should see similar prices for producers as was recorded last year, but looks for the second half of this year and into 2008 for gas price strength.

ICAP Energy said today that its electronic auctions, covering natural gas storage reports as well as daily settlement of natural gas futures will end as of Friday May 18th. The company said "...it was the NYMEX's decision to end the auctions...they spearheaded the move to end them. Our team is still going to be launching new electronic products, but we can't hold an auction without a clearing house [NYMEX]'. The company felt if there had been more market participation in the auction process, despite many participants watching the auction process, it would have become a more viable product for NYMEX to continue to participate in.

Generator Problems

SERC – Progress Energy's 710 Mw Robinson #2 nuclear unit was automatically shut at late Tuesday. The unit had been at 67% of capacity earlier in the day following its restart over the weekend.

NPCC – Constellation Energy's 497 Mw Ginna nuclear unit returned to full power this morning, up 33% from yesterday.

PJM – Reliant's 850 Mw Conemaugh #1 coal fired unit was reportedly shut mid day Wednesday.

The NRC reported that 86,741 Mw of nuclear capacity is on line, up 0.46% from Tuesday, and up 0.11% from a year ago.

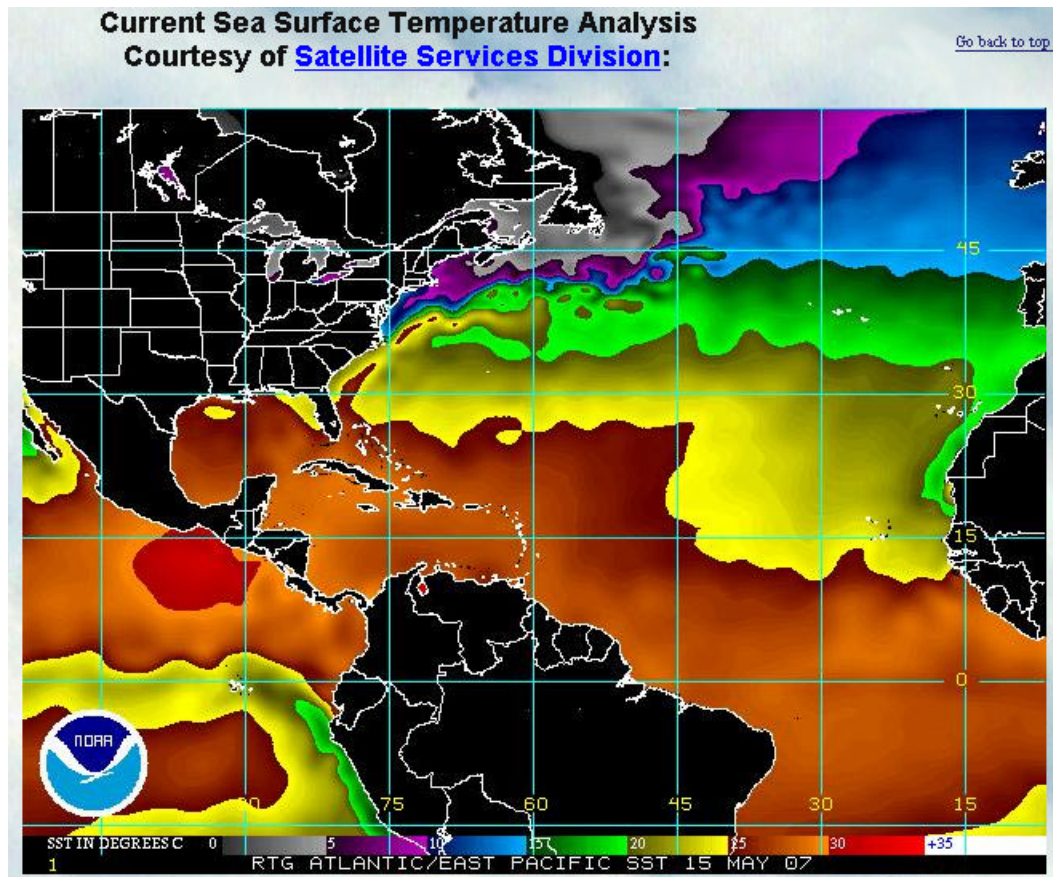
Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	1,589,400	\$7.620	(\$0.058)	(\$0.440)	(\$0.009)	(\$0.455)
Chicago City Gate	461,200	\$7.692	\$0.025	(\$0.143)	\$0.079	(\$0.274)
NGPL- TX/OK	518,800	\$7.387	(\$0.026)	(\$0.448)	\$0.028	(\$0.548)
SoCal	667,200	\$7.284	(\$0.129)	(\$0.551)	(\$0.075)	(\$0.555)
PG&E Citygate	628,100	\$7.618	(\$0.076)	(\$0.217)	(\$0.022)	(\$0.283)
Dominion-South	577,900	\$8.142	(\$0.071)	\$0.307	(\$0.017)	\$0.267
Transco Zone 6	238,500	\$8.206	(\$0.099)	\$0.371	(\$0.045)	\$0.367

A survey by analysts at SunTrust Robinson Humphrey and the Gerdes Group sees U.S. natural gas production among the 40 largest producers as stabilizing, as they see only a 0.2% decline in the first quarter's domestic production of natural gas versus the 4Q06 levels.

The Norwegian Energy Secretary said today the gas market lags the oil market in price transparency. But she stressed that the government will leave setting prices to commercial companies and that the government will not get involved in this. She noted that Norwegian natural gas production had reached 300 million cubic meters for a single day for the first time last year and that annual production had reached 85 billion cubic meters. The nation's

natural gas production is expected to grow to between 125 and 140 billion cubic meters by the middle of the next decade.

National Grid reported that it has now received planning approval, which had been delayed by judicial review, for its project to transport gas from a new natural gas import facility in Wales to the rest of the UK gas network. The company said it would now go ahead with building work on the Cilfrew gas pressure reduction station, which is needed to bring the gas from the new Milford Haven-to-Aberdulais pipeline, reduce its pressure and feed it into the existing lower pressure network serving South Wales. Once completed the pipeline will carry over 20% of Britain's natural gas needs.



The New York Public Service Commission today authorized ConEd to expand its natural gas efficiency program in its service territory for the upcoming 2007-2008 heating season.

The Los Angeles Department of Water and Power once again has approved the one-year storage contract with Southern California Gas. This is the fourth year in a row the agency has approved this storage contract, which this year will pay the company \$1.795 million for storage service to help the municipal utility manage its fuel supplies for its gas

fired generation plants in the Los Angeles region.

Seminole Energy reported that it has started its open season today for capacity bids on the NRC pipeline. The open season will run through June 15th. The company plans to build a 150-200 mile natural gas pipeline to serve central Nebraska market. The pipeline has a projected spring 2009 start up date.

Williams Northwest Pipeline announced today that it has received FERC approval to place its 30-inch Parachute Lateral Pipeline project into service. The 38-mile pipeline and related facilities is expected to move 450,000 Dkth of natural gas supply from production facilities in Garfield County, Colorado to the Greasewood Hub in Rio Blanco County, Colorado.

PIPELINE RESTRICTIONS

Tennessee Gas Pipeline reported the following restrictions this morning: At Station 850, it had restricted through approximately 99% of Supply to Market Secondary Out of Path nominations; At Niagara River Meter it has restricted through approximately 14% of Supply to Market Secondary out of Path Nominations. The company though due to reduced nominations was accepting increases for nominations pathed from meters on the Carthage Line Lateral.

ELECTRIC MARKET NEWS

The Edison Electric Institute reported that for the week ending May 12th, U.S. electric production reached 72,758 Gwh, up 3.1% from the previous week and 3.98% from the same week a year ago.

The NRC today approved the restart of the Browns Ferry nuclear power plants. Browns Ferry 1 has been off line since 1985. No restart date was given though at this time by the TVA., the operator of the plant.

Reliant Energy today told shareholders that they see early signs that the U.S. wholesale power market has begun to turn upward, as generation supply begins to tighten. It is this reason the company noted that it made the decision to restart its 822 Mw natural gas fired Choctaw power plant, which it had mothballed back in May of 2004. The CEO noted that the annual capacity auction held last month by the PJM Interconnect is evidence that markets have absorbed the output of new power plants built in the past decade. But he noted the forward price curves for power have yet to fully react to this supply demand future situation.

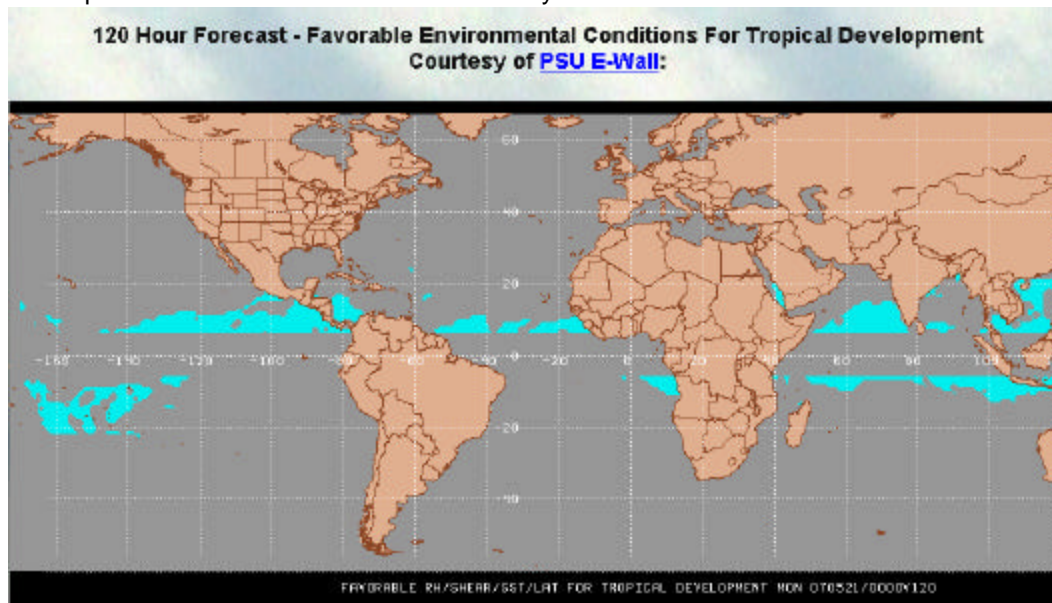
Virginia state regulators have approved a \$24 million rate increase for AEP's Appalachian Power subsidiary. This is substantially less than the \$198.5 million hike the utility was seeking from last year. While the company had been charging the higher rate to its customers since October, it was ordered by regulators to adjust its rates to reflect the regulators rate decision and to refund over collected amounts to ratepayers.

PSEG Power has completed the sale of its Lawrenceburg Energy Center to AEP Generating. The 1096 Mw gas fired generating plant and inventory was sold for \$325 million.

Duke Energy Carolinas has issued a RFP to purchase power or generation assets of 2000 Mw of Peaking Supply by 2013.

MARKET COMMENTARY

The natural gas market opened lower this morning as forecasts for near term cooling demand overall across the nation was seen to be below normal, with one private weather forecasting service estimating cooling demand some 40% less than normal. But starting at midday several weather forecasting models began to raise the possibility of a tropical weather system developing in the western Caribbean and eastern USG by the middle to latter part of next week. While the widely watched GFS model sees wind sheer killing any significant



development of this system, other models though continue to point to favorable conditions for development. While one private forecaster noted that the kind of pattern that these models are picking up on for this storm development is seen typically in June, the warm water temperatures in the region, warrant a watchful eye on the region. As a result natural gas prices

rallied through the afternoon and settled in positive territory up on its highs. The market after the close of floor trading continued to work higher and finally found resistance up at \$7.95 level. Volume today was moderate with just over 80,000 lots traded.

Market expectations for tomorrow's storage report appear to be centered around a 94 bcf build. Year ago the same reporting week saw a 90 bcf build with the five-year seasonal build of 77 bcf.

Unless tomorrow's storage report shows a significant deviation from market expectations, we will look for prices to be driven over the next several days by forecasts for the Caribbean and USG next week and the potential for the season's first threat to USG production areas. We feel that the market is jumping way ahead of itself over its fears of an early and active hurricane season, but this could be an opportunity for bears to resell this market over \$8.00 once again. We see resistance tomorrow at \$7.95, \$7.978-\$7.987, \$8.00, \$8.066, \$8.137. More distant resistance we see at \$8.18 and \$8.289-\$8.35. Support we see at \$7.85, \$7.794, \$7.681, \$7.644 and \$7.601.

Weekly Electric Output

