



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR JULY 7, 2005

NATURAL GAS MARKET NEWS

A Wood Mackenzie analyst reported that natural gas prices in the U.S. will stay above \$4/Mcf for at least five years because of the cost of producing the fuel from fields in the Rocky Mountains. The region is set to become the biggest U.S. onshore source of natural gas, and its importance in setting prices is growing. The region's gas deposits are considered "unconventional" because they are mostly locked in coal seams and sandstone formations that are more expensive to tap. Should prices drop near \$4/Mcf, gas producers would limit drilling in the region and you've got a supply crunch. Wood Mackenzie estimates U.S. gas prices will average \$6/Mcf in 2006 and decline to \$4.69 in 2010 as new supply, such as LNG, reaches the market.

Generator Problems

ERCOT— TXU Corp.'s 750 Mw Martin Lake #1 coal-fired power unit is expected to restart today or tomorrow following a recent repair outage. The unit shut in early June.

WSCC— Arizona Public Service's 1,270 Mw Palo Verde #3 would remain offline for a week to repair an oil seal on a reactor feed-pump. The unit was operating at 99% yesterday. Palo Verde #1 is operating at 99% and Palo Verde #2 is operating at full power.

The NRC reported that U.S. nuclear generating capacity was at 93,159 Mw down 1.34% from Wednesday and down 3.48% from a year ago.

The U.S. Minerals Management Service reported this afternoon that as of 1 Pm today some 366.22 mmcf/d of natural gas production remained shut in following in the wake of Tropical Storm Dennis. Some 1.683 Bcf of total gas supply had been lost as a result of the storm. Meanwhile BP reported that it had begun evacuating both essential and non-essential personnel from its offshore platforms in the Gulf of Mexico in preparation for the arrival of Hurricane Dennis in the region this weekend.

EIA Weekly Report

	07/01/2005	06/24/2005	Net chg	Last Year
Producing Region	717	711	6	1076
Consuming East	1136	1091	45	294
Consuming West	333	321	12	662
Total US	2186	2123	63	2031

Canadian Gas Association

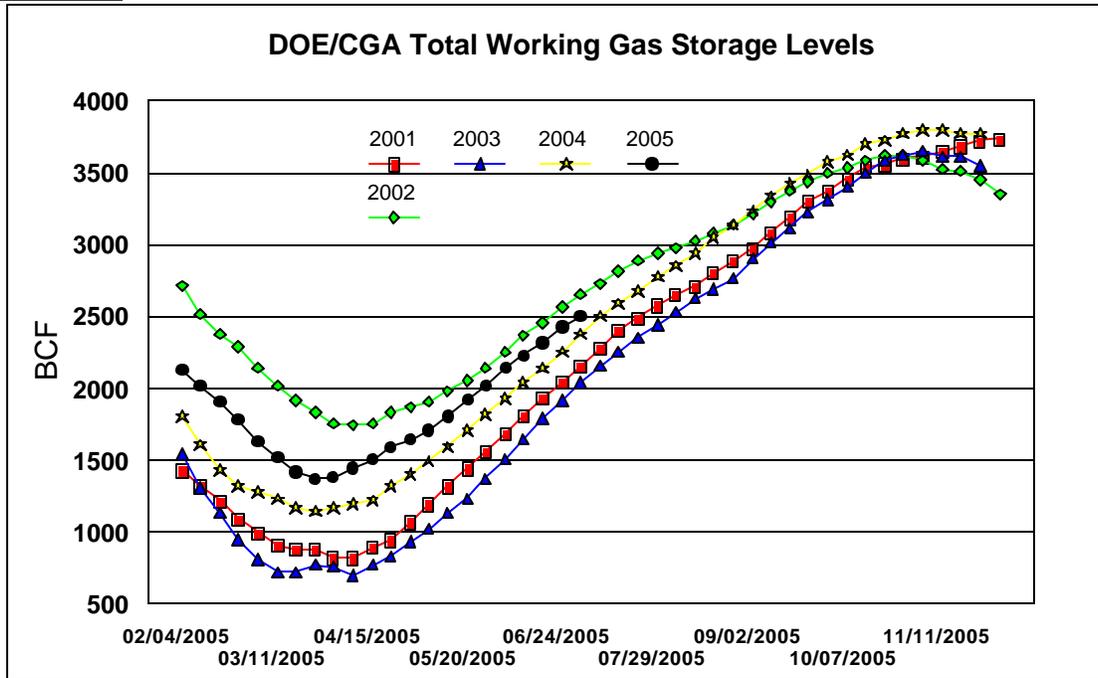
Weekly Storage Report

	01-Jul-05	24-Jun-05	02-Jul-04
East	135.7	128.7	157.5
West	179.1	171.6	166.0
Total	314.7	300.3	323.5

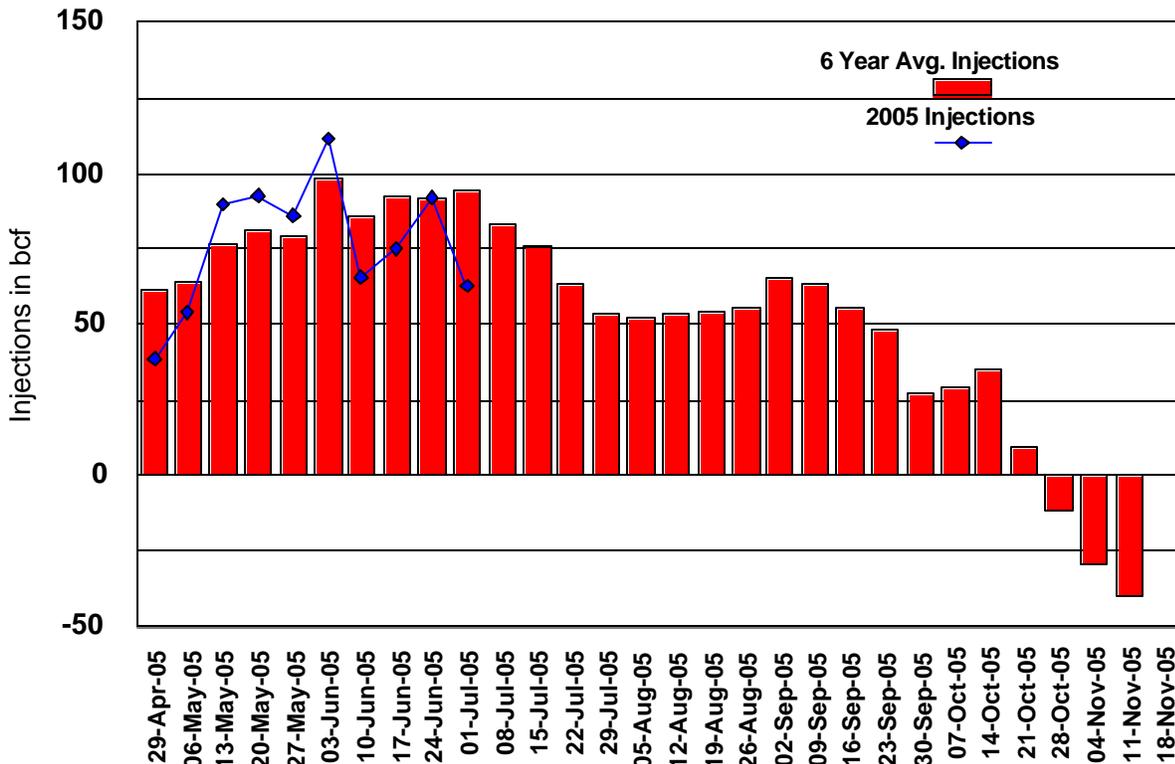
The 5 PM update from the National Hurricane Center this afternoon noted that Hurricane Dennis has continued to strengthen during the day and could possibly reach a Category 4 storm before moving across central Cuba in tomorrow. The latest model runs though appear to point to the storm making landfall along the Florida panhandle, a bit more eastward than earlier forecasts. Accuweather though late this afternoon continue to point to the UK model, which continues to point to the storm coming ashore in central Louisiana. Accuweather continues to look for the storm to make landfall at the mouth of the Mississippi River. In general forecasting models though expect the storm to regain some strength after it passes over Cuba and enters into the Gulf of Mexico, but they note wind shear in the northeast Gulf of Mexico should hinder additional storm development in that area.

PIPELINE RESTRICTIONS

Natural Gas Pipeline Company of America said that the force majeure is still in affect due to the failure that occurred on May 13 on the Gulf Coast #3 mainline. In other news, all Louisiana Line Segments (25, 23 and 24) are at capacity for eastbound transport volumes. Deliveries to Florida Jefferson are at capacity. NGPL is at capacity for gas received upstream of Compressor Station 155 in Wise County, Texas in Segment 1 going northbound. ANR South Joliet #2 is at capacity for deliveries.



2005 EIA Survey Injections VS 6-Year Average

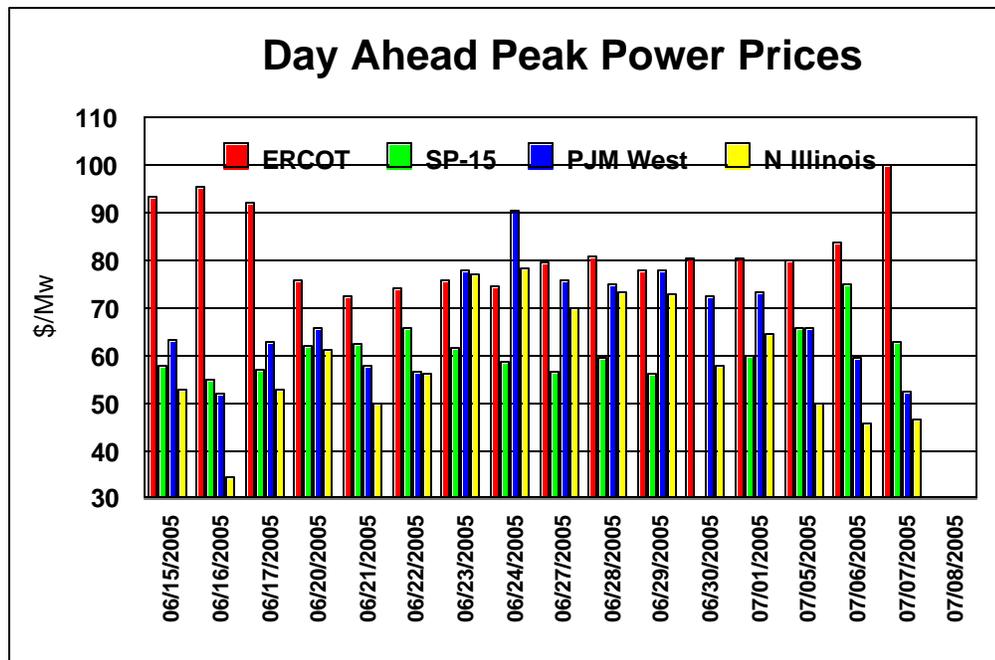


Texas Eastern Transmission Corp. said that M1 24-inch and M2 24-inch have been scheduled to capacity. Nomination increases between Little Rock and Batesville will not be accepted.

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 9% tolerance, with shippers who violate the OFO subject to a \$1.00/Mcf monetary penalty.



PIPELINE MAINTENANCE



Centerpoint Gas Transmission said it will be performing unscheduled repairs at its Custer Station. Unit #4 at the Custer Station will be out of service for unscheduled repairs effective today at 9:00 AM ET. The estimated duration for this work is unknown at this time. As a result of these repairs, the capacity on Line 2 will be limited to 100 MMcf/d. Currently, CEGT anticipates no impact on its ability to meet primary firm receipt obligations.

Southern Natural Gas Pipeline said that repairs to its facilities that were damaged by Hurricane Ivan in September 2004 were suspended due to inclement weather associated with Tropical Storm Cindy. Currently, Southern said that it expects that repair work will resume by Thursday, however work likely will be suspended again by Saturday July 9 due to an expected deterioration in weather conditions as a result of Hurricane Dennis.

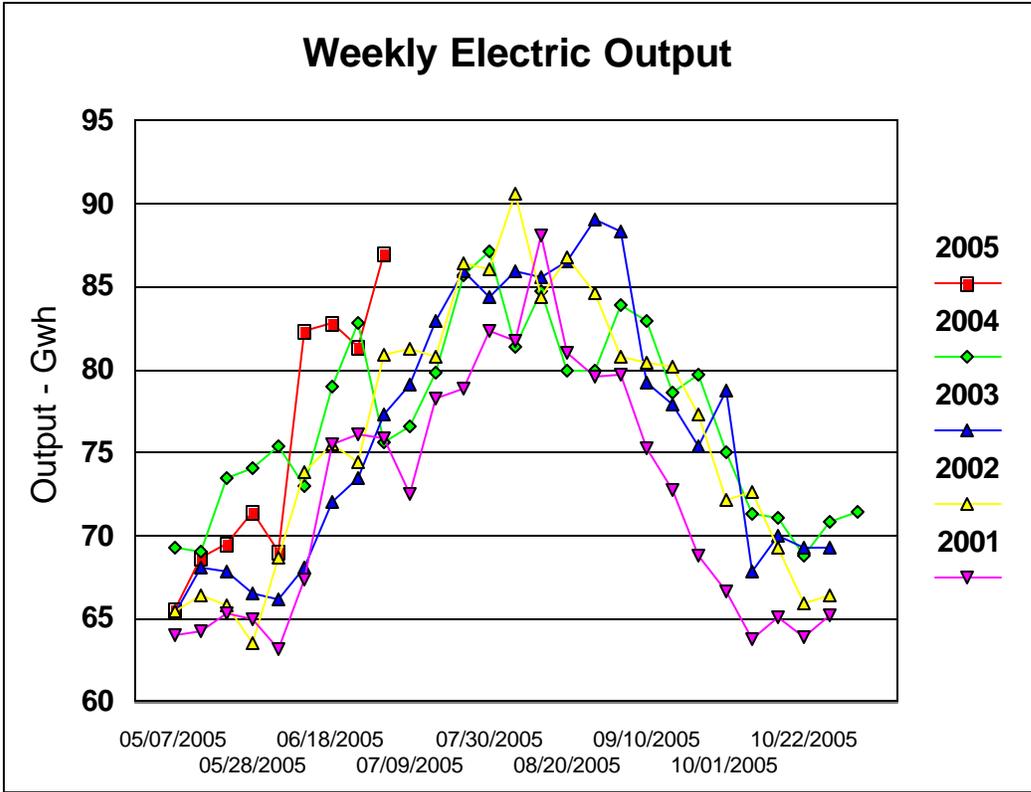
Transcontinental Gas Pipe Line Corp. said the Department of Transportation replacement on No. 2 Harris County, Texas has been rescheduled to begin on gas day Tuesday, August 2, and continue through gas day Saturday, August 6. The work was originally planned to start August 10. During the outage, Transco will not accept any nominations that have receipts upstream of Station 35 for delivery downstream of Station 35 and any backhaul nominations with receipts downstream of Station 35 for delivery upstream of Station 35.

ELECTRICITY MARKET NEWS

The Edison Electric Institute reported that electricity production in the continental U.S. for the week ended July 2 rose 13.7% from the same 2004 week to 87,022 GWh. For the first 27 weeks of the year, production is up 1.5% from the same period last year. In the 52 weeks ended July 2, production is up 1.4% from the corresponding period in 2004.

Entergy Corp. reported that it had restored electricity to about 70,000 customers in southeast Louisiana who lost power last night when Tropical Storm Cindy swept through the region. A total of 271,000 customers lost power.

Progress Energy said its 1.5 million electricity customers in Florida set a record for summer power usage on Wednesday. The company said its customers used 8,992 MWh of electricity, edging out Tuesday's record of 8,991 MWh. Still, Progress Energy said it had ample capacity to meet the recent high demand.



The California Energy Commission announced today that 500 Mw of additional generation is now available to serve southern California. The completion of the second phase of Calpine's Pastoria Energy Center brings the total capacity at the facility to 750 Mw. The first phase of the project commenced operation on May 4. The Pastoria Energy Center is located on Tejon Ranch in southern Kern County between Bakersfield and Los Angeles.

PSEG Power officially welcomed the 750 Mw Bethlehem Energy Center into its generating fleet today in a dedication ceremony that included New York State Public Service Commission Chairman William M. Flynn and a gathering of company, state, and local officials. The event celebrated the completion of BEC, a natural gas-fired combined cycle power plant that replaces the more than 50-year old Albany Steam Station, a 385 Mw oil-fired facility that was retired in February to make way for operation of the new facility. BEC is expected to start commercial operation this month. BEC represents the first project in the Hudson Valley in which an older, existing power plant was replaced by new, cleaner electric generating technology. BEC almost doubles the power output of Albany Steam station while dramatically reducing air emissions and use of Hudson River water.

MARKET COMMENTARY

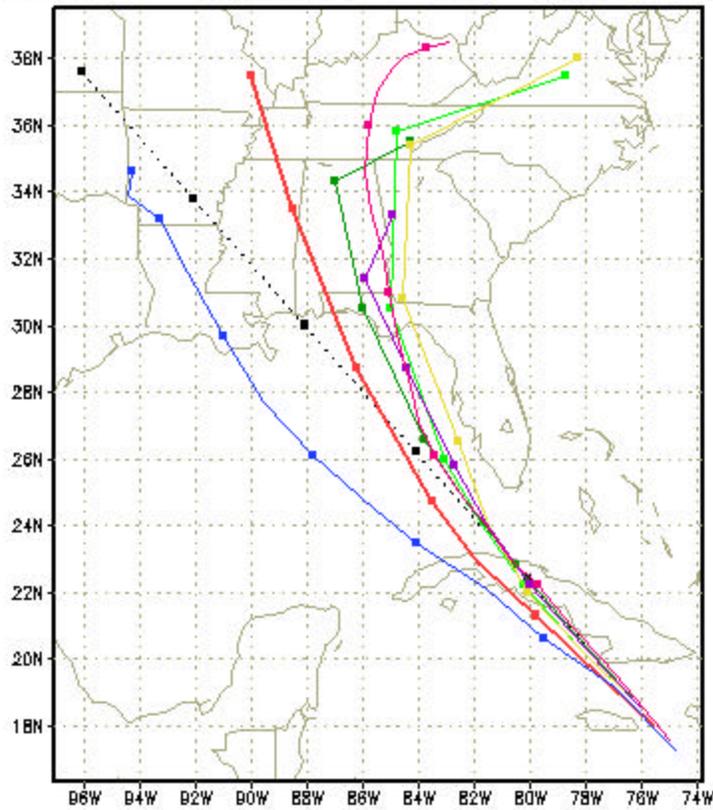
The natural gas market opened lower this morning following in the wake of the hard sell off the energy markets had seen following the news reports of the terrorist bombings in London. While the EIA storage report was seen as supportive for the market, marking the third time out of the last four weeks which saw injection rates falling substantially below seasonal norms, the price rebound was short-lived as bearish inventory reports for the distillate market seemed to drag the oil markets lower through the late morning and early afternoon as traders digested the impact of the oil stock report. But following the 2 PM update from the National Hurricane Center the energy markets in general rallied back as traders began to focus on the news of continued advancement of Hurricane Dennis and its potential impact on offshore gas and oil production as well as refining activity along the Gulf Coast.

While today may have seen some profit taking by new longs which had been coming into this market over the past week, (open interest has grown by 11,000 contracts in the prior four trading sessions, with 5663 new positions being added on Wednesday), we feel that come tomorrow with the prospects of a Category 3 hurricane moving through the Gulf of Mexico, it will drive prices higher once again, once the knee jerk reaction of an economic downturn from today's terrorist action is discounted. One must look at the potential loss of domestic production for an extended period of time. Just the first two tropical storms of this season have already taken some 4.8 bcf from the market. Last year the first month of shut ins following a similar size storm Hurricane Ivan, kept some 70 bcf of natural gas from reaching the market. This action alone would go a long way in erasing the storage overhang from last year, not to mention the recent higher demand for gas from industrial and electric generators, which over the last month has reduced the storage overhang by nearly 100 bcf.

We would look for support again at the \$7.25- \$7.20 level followed by \$6.91. Resistance we see initially at \$7.42 followed by \$7.475 and \$7.53. More significant resistance though we see again at \$7.70, \$7.84 and \$8.07. We would not be tempted to sell this market unless prices once again move back over \$8.00.

Model Forecast Courtesy of South Florida Water Management District:

..... XTRAP 07/1804Z ——— BAMD 07/1804Z ——— NHCA98E 07/1804Z ——— UKMET 07/1712Z
 ——— NHC ADV 07/1500Z ——— BMM 07/1804Z ——— LBAR 07/1804Z ——— GFDL 07/1731Z



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NHC Advisories and County Emergency Management Statements Supersede This Product.
 This graphic should complement, not replace, NHC discussions.
 If anything on this graphic causes confusion, ignore the entire product.

