



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR JULY 26, 2005

NATURAL GAS MARKET NEWS

A new study has found that when the price of crude oil is more than \$31/bbl, heavy-duty natural gas powered vehicles (NGV) that meet strict emissions standards are more cost-effective to own, operate and maintain over their lifetime than comparable diesel-powered vehicles.

House and Senate negotiators in the early hours of Tuesday wrapped up work on an omnibus energy bill that promotes expanded production of oil, natural gas, electricity and renewable fuels, as well as the construction of new liquefied natural gas (LNG) terminals, pipelines and gas storage facilities.

BP said Tuesday that the Thunder Horse platform, which is located in the Mississippi Canyon area of the Gulf of Mexico, is unlikely to begin commercial production before the end of 2005. The platform, which was expected to start producing a large amount of gas and oil later this year, was found listing 20 degrees following Hurricane Dennis' trip through the Gulf earlier this month.

PIPELINE RESTRICTIONS

Natural Gas Pipeline Company of America said that the force majeure is still in effect due to the pipeline failure that occurred on May 13 on the Gulf Coast #3 mainline. In other news, Segment 17 is at capacity today. 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.

Florida Gas Transmission said that due to hot temperatures in its market area, it is issuing an Overage Alert Day at 25% tolerance.

KM Interstate Gas Transmission said that until further notice, it has capacity available for deliveries to Panhandle Pony. Based on the level of nominations, interruptible flow, authorized overrun and secondary volumes may be scheduled.

Texas Eastern Transmission said that M1 24-inch and M2 24-inch have been scheduled to capacity. Nomination increases sourced between Little Rock and Sarahsville for delivery outside of that area will not be accepted.

PIPELINE MAINTENANCE

Generator Problems

MAAC— PPL's 1,115 Mw Susquehanna #1 nuclear unit increased output to 94% today. The unit was operating at 73% yesterday to fix a feedwater valve. Susquehanna #2 is operating at full power.

MAIN— Exelon's 855 Mw Quad Cities #1 nuclear unit increased output to 85%, it was operating at 75% late Monday. Quad Cities #2 is operating at 98% capacity.

NPCC— Entergy Corp.'s 506 Mw Vermont Yankee nuclear unit shut late yesterday due to a failure in the transmission switchyard. Earlier in the day, the unit was operating at full power.

WSCC— Southern California Edison's 790 Mw Mohave #2 coal-fired power station returned to service by late yesterday. The unit shut July 22 for unplanned reasons.

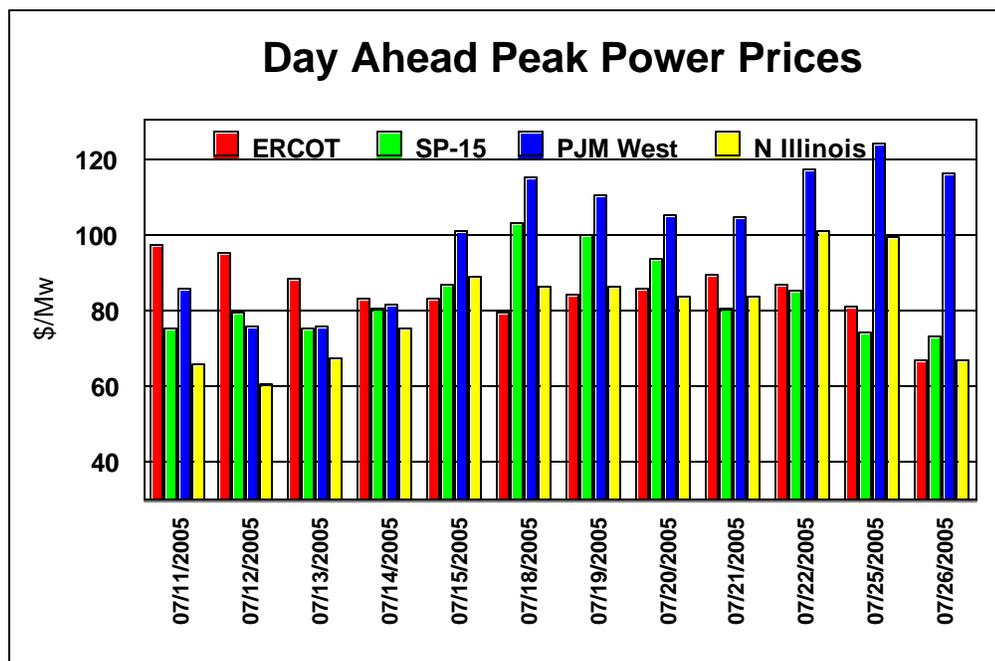
The NRC reported that U.S. nuclear generating capacity was at 96,626 Mw up .37% from Monday and up .24% from a year ago.

El Paso Natural Gas Company said that Alamo Lake 1 turbine repairs will be more extensive than originally estimated. The unit will be down August 9 through 12, reducing the capacity of the Havasu Crossover by 45 MMcf/d from the base capacity of 650 MMcf/d.

Williston Basin Interstate Pipeline Company said that a mainline regulator will be installed at the Cabin Creek Compressor Station on August 2. There may be potential delivery restrictions in East Mon-Dak and Sheyenne Sub-Systems depending on quantities nominated, however based upon traditional summer time operating conditions, such a restriction is not anticipated at this time. El Paso Natural Gas Company said that Alamo Lake 1 turbine repairs will be more extensive than originally estimated. The unit will be down August 9 through 12, reducing the capacity of the Havasu Crossover by 45 MMcf/d from the base capacity of 650 MMcf/d.

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ELECTRICITY MARKET NEWS

Sempra Generation has completed its purchase from Reliant Energy of Reliant's 50% interest in El Dorado Energy, a 480 Mw natural gas-fired combined-cycle power plant in Boulder City, Nevada. Sempra Generation now owns the entire plant. The total transaction value for Reliant's 50% interest, including project debt, is approximately \$132 million, including a cash payment to Reliant of

approximately \$76 million.

TVA met the highest demand for electricity ever recorded in its seven-state service area exceeding the previous record by more than 1,500 Mw without a single sustained interruption to its customers. The TVA system met a demand of 31,703 Mw at 4:00 PM CT when the average temperature across the Tennessee Valley region reached 94 degrees.

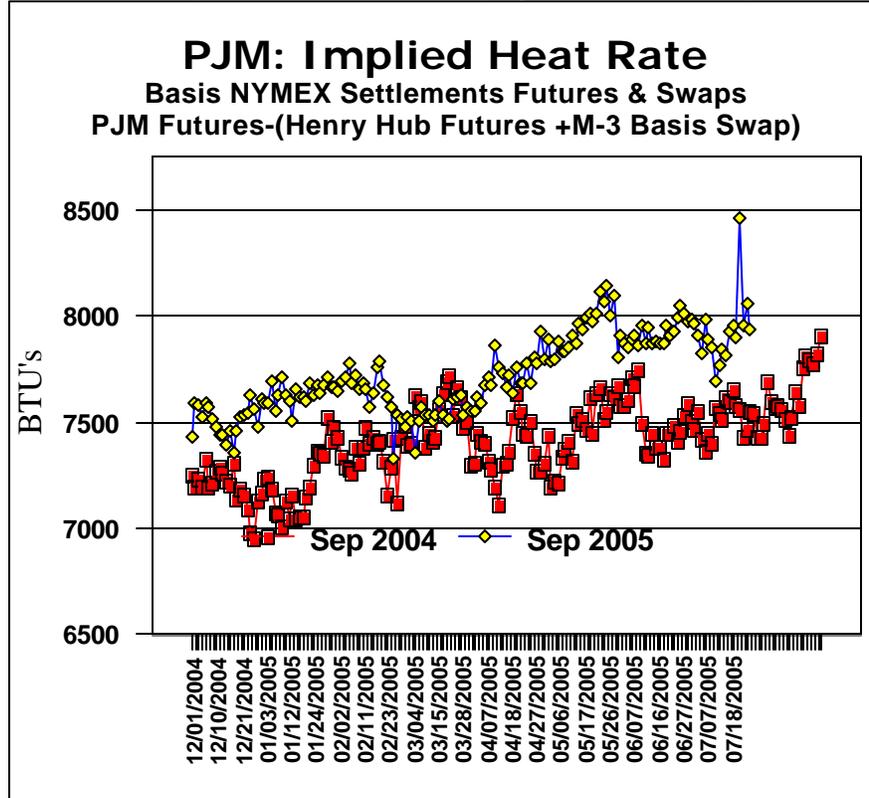
ECONOMIC NEWS

U.S. consumer confidence unexpectedly fell this month from a three-year high as gasoline prices surged to a record. The Conference Board's sentiment for July dropped to 103.2 from 106.2 in June. The decline was the first since April and well below the street's median forecast of a gain to 106.3.

MARKET COMMENTARY

The natural gas market opened down just over 2 cents at what would turn out to be the low of the day, as traders feeling the heat wave bid the market, rallying it to the 7.40 level. After consolidation in the mid morning, natural gas broke the 7.40 level to post a high of 7.47. The days trading session finished with sideways trading settling up 14 cents at 7.425 with 76,000 contracts booked on the day.

Above average temperatures across the eastern half of the country will keep air conditioners running and with reports of peak generation across the electrical grid system setting records, the natural gas market will remain well bid. We expect tomorrow's inventory figures in the oil complex to dictate direction for the natural gas market.



Yesterday's low of 7.14 continues to be a support level and bearish figures will test that level with the next downside target being 7.00. Bullish figures will extend the markets upward trend with price targets initially at \$7.51, \$7.62, \$7.73, with the gap in the August contract at \$7.78-\$7.81. More distant resistance we see at \$8.07-\$8.10. But with tomorrow as expiration day in the August contract we do not expect an explosive settlement, rather looking for the contract to go out in the \$7.50-\$7.60 area.