



ENERGY RISK MANAGEMENT

Howard Rennell & Pat Shigueta
(212) 624-1132 (888) 885-6100

www.e-windham.com

POWER MARKET REPORT FOR AUGUST 5, 2005

NATURAL GAS MARKET NEWS

William Gray of Colorado State University, a noted storm forecaster, said the Atlantic hurricane season, already a record-breaker, will produce 20 tropical storms, 10 of which will become hurricanes. Gray said he expected six of the 10 hurricanes to become "major" storms with sustained winds of more than 110 mph. Meanwhile in the Atlantic, Tropical Depression Nine formed today and continued to moving to the west-northwest at 15-20 MPH. Forecasters though see this system posing little risk to the U.S. even if it is able to survive over the next few days.

Baker Hughes reported that the number of rigs searching for oil and gas in the U.S. rose by 24 to 1,436, compared to 1,235 last year. The number of rigs exploring for oil and gas in Canada was up 36 at 557, compared to 384 last year. The number of rigs searching for gas in the U.S. rose 14 to 1,235.

A group of state legislators from around the Southeast adopted a proposal earlier this week that calls for expeditious consideration by state and the federal regulators of applications to build liquefied natural gas (LNG) import terminals.

Chevron announced today that it had bought the remaining stake in its Bridgeline Holdings natural gas pipeline and storage system, which it did not already own. Financial terms were not disclosed in its purchase of the 40% stake that Targa Resources held in the intrastate pipeline in southern Louisiana.

PIPELINE RESTRICTIONS

Natural Gas Pipeline Company of America said that the force majeure is still in effect on the Gulf Coast #3 mainline. In other news, Segment 17 is at capacity. All Louisiana Line Segments (25, 23 and 24) are at capacity for eastbound transport volumes. Deliveries to Columbia Gulf-Chalkley are at capacity. 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.

Algonquin Gas Transmission said that Tennessee Gas Mahwah has been nominated to capacity today. Nomination increases for receipts sourced at Mahwah will not be accepted.

East Tennessee Natural Gas said nominations sourced upstream of the Bristol compressor station for delivery downstream of Bristol have been restricted to capacity.

Generator Problems

ERCOT— Topaz Power Group expects to restart the 632 Mw Coletto Creek coal-fired power station on August 7 following unexpected tube leak repairs. The unit shut on August 5-6 for the repairs.

San Antonio City Public Service shut the 415 Mw JT Deely #2 coal-fired power unit on August 4-9 for repairs on the electrostatic precipitator, a boiler tube leak and the boiler superheat finishing section.

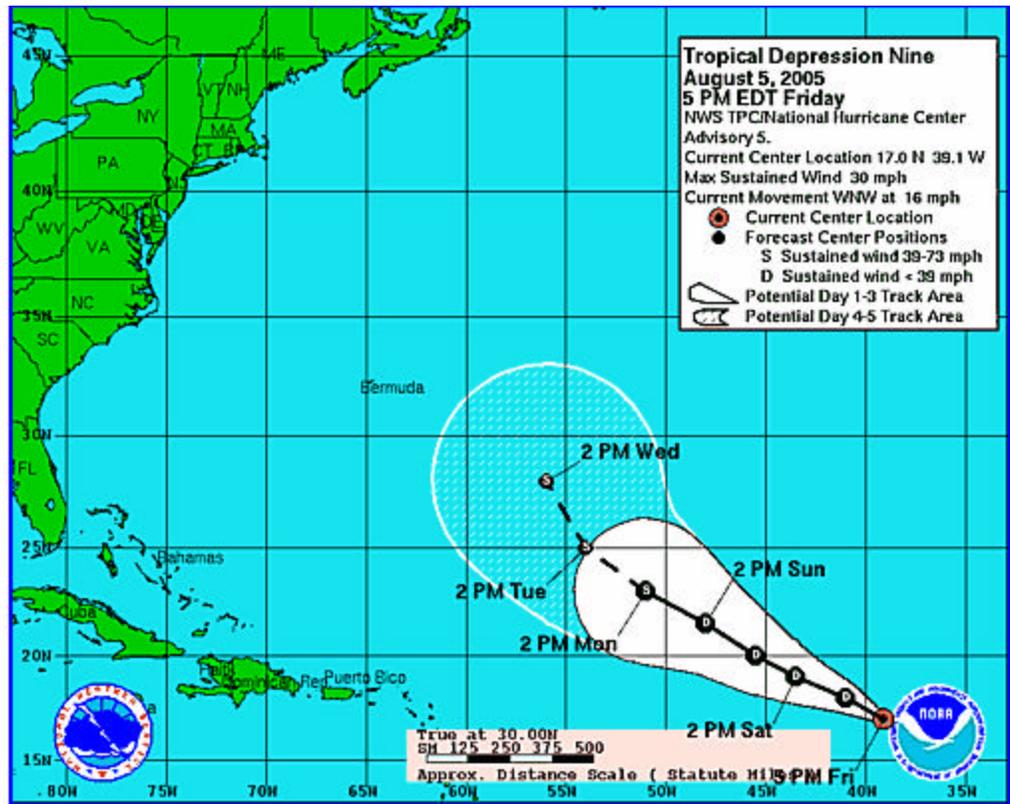
WSCC— Intermountain Power Agency's 820 Mw Intermountain #2 coal-fired power unit shut by midday yesterday for a second time this week for tube leak repairs. The unit will likely return to service over the weekend.

The NRC reported that U.S. nuclear generating capacity was at 97,141 Mw down .02% from Thursday and up 3.33% from a year ago.

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

Gulf South Pipeline said that based upon its initial review of nominations, NNS demand, and other factors, Gulf South may be required to schedule available capacity and implement scheduling reductions on the Tyler 12-inch Index 8/Palestine 8-inch, Index 11 and 70/Dallas 18-inch Index 1 from Montpelier to Kosciusko.

Texas Eastern Transmission Corp. said that the STX zone has



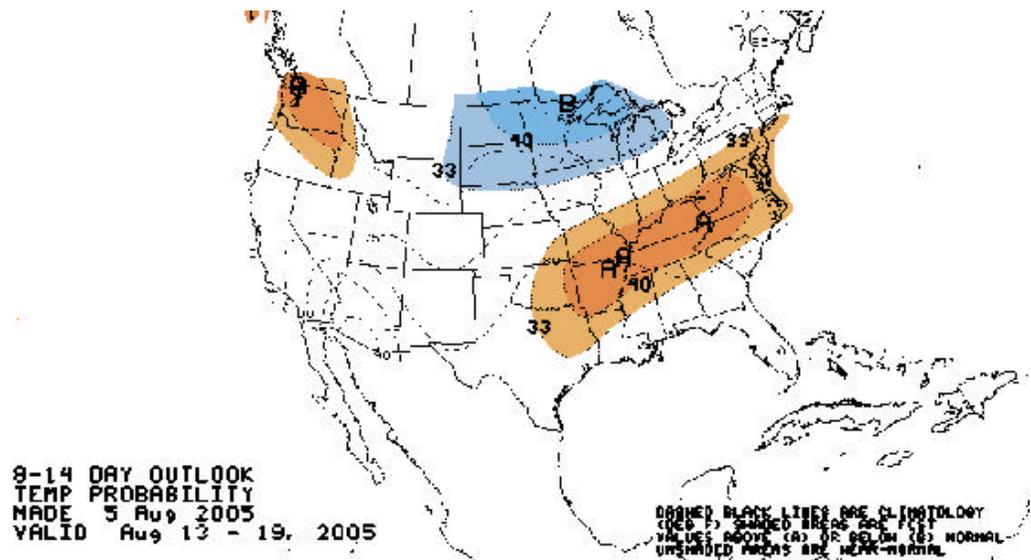
been force balanced. Nomination increases sourced between Mont Belvieu and Little Rock will not be accepted. M1 24-inch and a portion of M2 24-inch has been sealed to capacity. Nomination increases sourced between Little Rock and Oakland City will not be accepted.

PIPELINE MAINTENANCE

Alliance Pipeline said that routine inspections will require the Carson Creek Unit #1 compressor in Alberta to be offline for six hours starting at 9:00 AM MT on August 10. Station capacity will be lowered to 17 MMcf for the day.

Minor maintenance requirements dictate that both the Elk Island and Scotford meter station be offline together for four hours on August 10. Station capacity at each site will be lowered accordingly for that day.

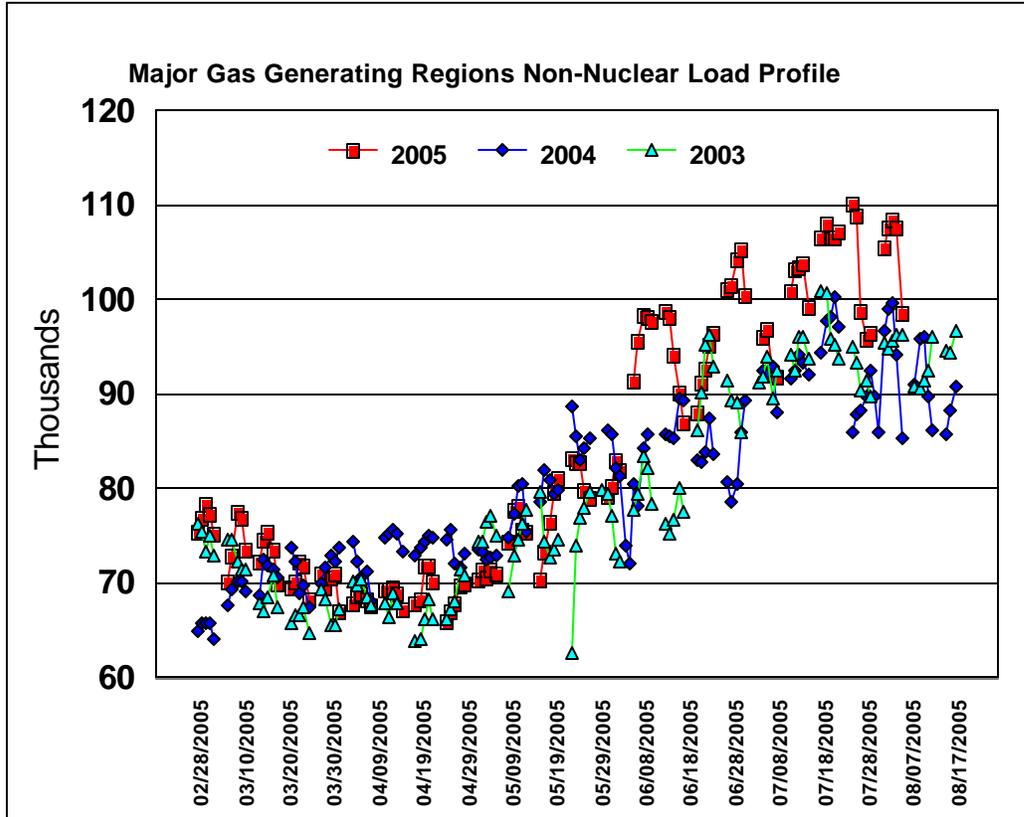
Texas Eastern Transmission said pipe replacement between Oran and Lick Creek scheduled to



conclude on August 7, is now scheduled to finish ahead of schedule. Therefore, the pipe replacements from Princeton to French Lick and French Lick to Seymour will impact customers from Princeton to French Lick on August 6-16, and from French Lick to Seymour on August 17-24.

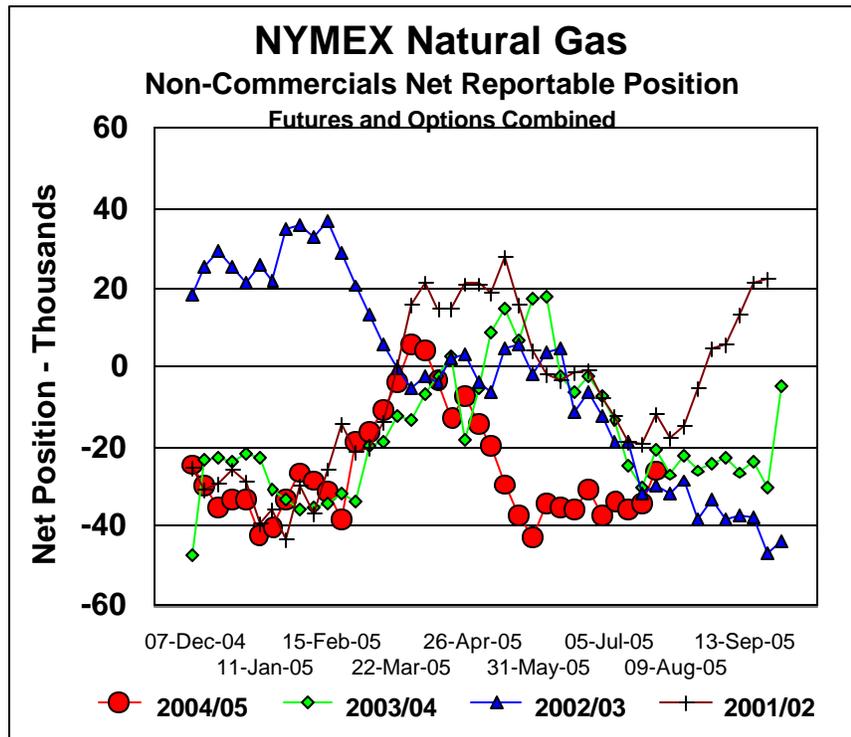
ELECTRIC MARKET NEWS

BPA announced that transmission capacity on the California/Oregon AC and Pacific DC power lines are expected to climb by 500 and 600 Mw respectively by Monday.



ECONOMIC NEWS

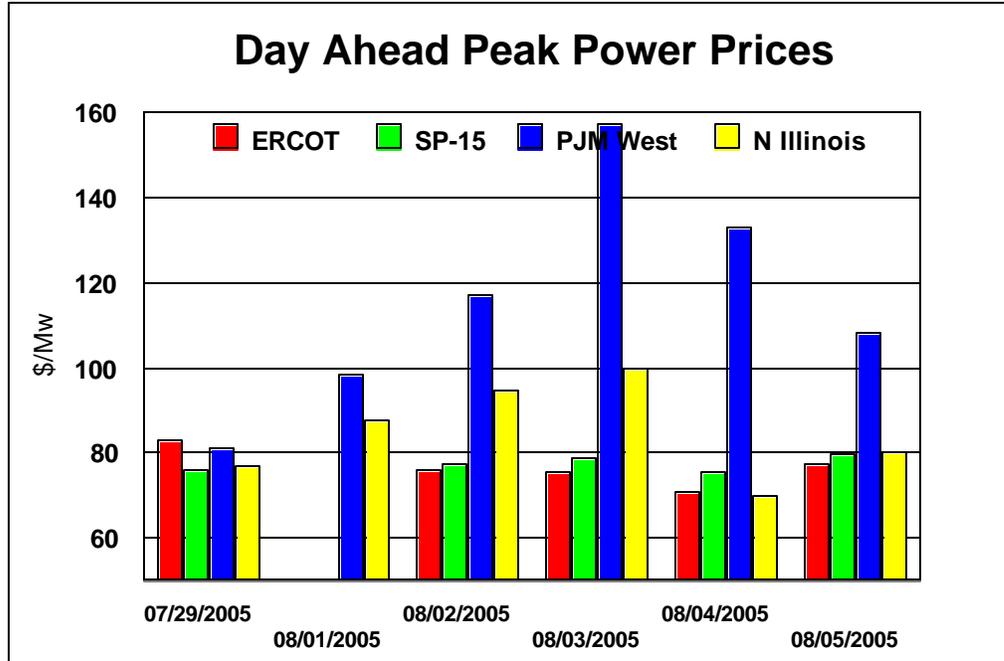
The U.S. Labor Department reported this morning that the U.S. saw some 207,000 new jobs added in July, a bigger increase than had been expected, as well as wages growing at the fastest pace in a year, suggesting U.S. companies are gaining confidence as the economy picks up speed.



MARKET COMMENTARY

The natural gas market opened five pennies higher on strength in the oil complex overnight and positive economic news in the unemployment situation. The market moved up to the \$8.60 level in the morning, testing it before falling back to the \$8.50 level for sideways trading. At midday, the market caught some momentum, on news of Dr. Gray's forecast for increased hurricane activity, and traded up through the \$8.60 level. Natural gas finished the session as the strongest on the board, up 22.9 cents at \$8.70, another nine-month high.

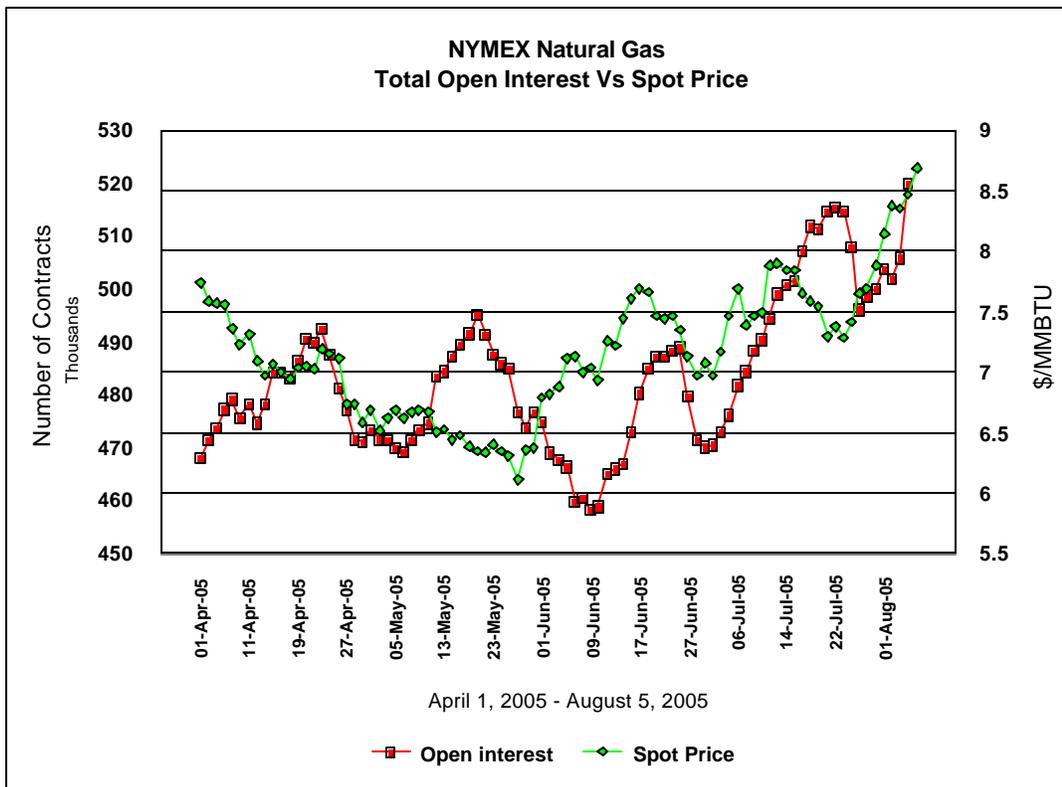
Short-term weather forecasters are calling for normal temperatures that should reduce air conditioning demand and reduce spot power prices, ultimately giving natural gas a bit of a reprieve. Judging by the call on non-nuclear generating assets in the Cal ISO, ERCOT and PJM areas today appear to point to today's price action as possibly being a bit excessive.



This afternoon's Commitment of Traders Report showed that the non-commercial sector of the natural gas

market decreased their net short position for the week ending Tuesday, August 2nd by over 11,100 contracts in the futures market and in the combined futures and options market by 8,426 lots. This reduction has come about through the addition of new gross long positions rather than liquidation of shorts. Judging by the continued increase in open interest over the last two days (Thursday's gain of 13,843 was the largest single day gain in open interest since May 3, 2004) appears to clearly point to this group continuing to alter their net position in the market. Some of these gains over the last couple of days have come through the purchase of out of the money

call spreads and outright call option purchases. On Thursday the second most active strike had been the March 2006 \$20 call, which traded over 7330 times between 13 and 15 cents. While this strike did not see as much volume today it still saw some 550 lots changing hands at 13 cents even though the underlying futures was up over 22 cents. But we feel that this option is way overpriced with an implied volatility of over 60% and thus appears as an



interesting selling opportunity if buyers remain aggressively seeking this strike again Monday. To look at the value of this option in a different light one could say that if this strike reached being in the money, and the current

\$1.50 per mmbtu differential between crude oil and natural gas was maintained, it would mean that crude oil prices would be approaching \$125 per barrel. This in our mind would definitely be causing severe havoc in the global economic market place. Currently the March \$90 calls in crude oil are nearly equally priced to the March \$20 natural gas calls, and if one purchased the March \$100 calls versus the \$20 natural gas calls one could still collect 8-9 cents theoretically on a Mmbtu basis.

