



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR AUGUST 7, 2006**

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#### **NATURAL GAS MARKET NEWS**

Rockies Express Pipeline LLC, a partnership of Kinder Morgan Energy Partners, Sempra Pipelines & Storage and ConocoPhillips, was given the FERC go-ahead Friday to begin construction on the second segment of Phase I of the Entrega Pipeline Project, which has been integrated into the mammoth 1,663-mile Rockies Express project and will comprise the western end of the system.

Sky-high oil prices and record natural gas storage volumes have busted up the 6:1 Btu parity price relationship between oil and gas for the time being, but Raymond James & Associates Inc. expects gas prices to return to their 6:1 relationship with oil, in part due to the cost of emissions credits for burning oil-based products.

The National Hurricane Center this evening was watching a well defined area of low pressure centered about 1200 miles east of the Windward islands, that is moving westward at 15 MPH. Thunderstorm activity has been gradually increasing in the system today. Environmental conditions appear favorable for further development and forecasters said it could be a tropical depression later tonight or tomorrow. Current computer projections place this system in the eastern Caribbean on Friday. But the models are currently looking for the system to run into shearing conditions late in the week that would prevent further development.

#### **PIPELINE RESTRICTIONS**

Algonquin Gas Transmission said Tennessee Gas Mahwah and Mendon have been scheduled to capacity on its system.

Kern River Pipeline reported that linepack has returned to normal over its entire system.

Northern Natural Gas Company said that it has experienced a force majeure situation at its Spearman Compressor Station. The station dehy experienced another leak in the fire tube area as the system was being returned to service from the repairs this week. The station dehy capacity is being limited to 98 MMcf/d as a result of the fire tube issue. Repairs are anticipated to be complete by August 10.

Texas Eastern Transmission Corp. said that it has restricted and sealed receipts sourced between Longview and Crooksville for delivery downstream of Crooksville. No increases in receipts sourced between Longview and

#### **Generator Problems**

**ECAR**— Allegheny Energy's 640 Mw Harrison #1 coal-fired power station returned to service over the weekend.

**ERCOT**— TXU Corp.'s 750 Mw Martin Lake #2 coal fired power station will shut August 7-8 to fix a boiler tube leak. Martin Lake #3 restarted today following repairs to some tube leaks.

**PJM**— Exelon Corp.'s 619 Mw Oyster Creek nuclear unit ramped up to 91% of capacity by early today. On Friday, the unit was operating at 53%.

**SERC**— Tennessee Valley Authority's 1,121 Mw Watts Bar nuclear unit returned to full power over the weekend following a trip from full power on July 31.

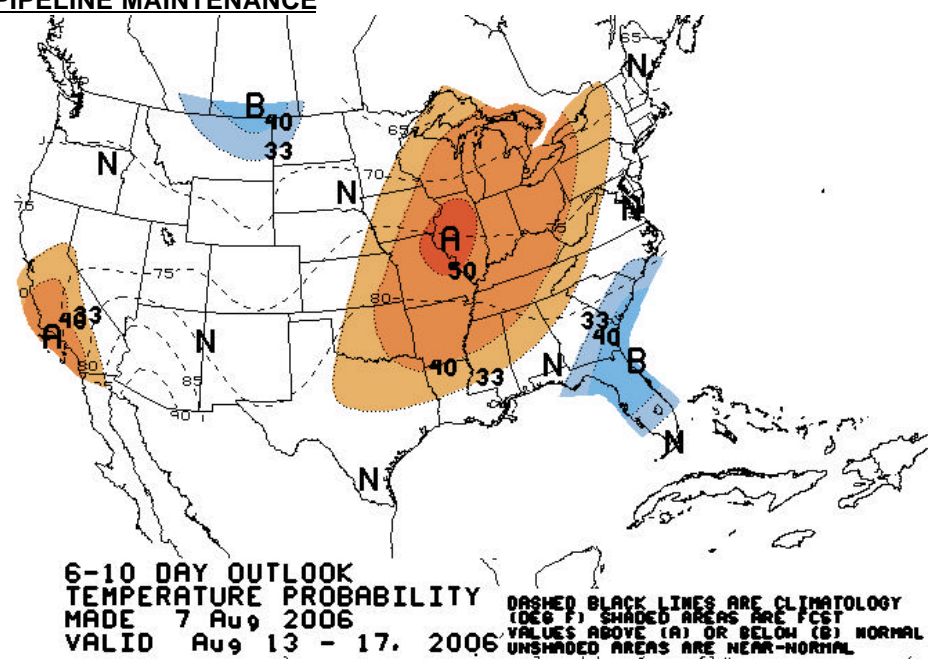
**WSCC**— LS Power Group's 739 Mw Moss Landing #6 natural gas-fired power station shut yesterday for unplanned reasons.

Arizona Public Service's 1,270 Mw Palo Verde #1 nuclear unit reduced power to 80% capacity. On Friday, the unit was operating at full power.

**The NRC reported that U.S. nuclear generating capacity was at 97,022 Mw up 1.22% from Friday and up 1.99% from a year ago.**

Crookville for delivery outside that area will be accepted. Tetco has restricted and sealed receipts sourced between Longview and Joaquin for delivery downstream of Joaquin. No increases in receipts sourced between Longview and Joaquin for delivery outside that area will be accepted. Tetco has also restricted and sealed receipts sourced between Mt. Belvieu and Longview. No increases in receipts sourced between Mt. Belvieu and Longview for delivery outside that area will be accepted. Finally, tetco has scheduled and sealed receipts sourced between Tompkinsville and Longview for delivery downstream of that area. No increases in receipts sourced between Tompkinsville and Longview for delivery outside that area will be accepted.

**PIPELINE MAINTENANCE**

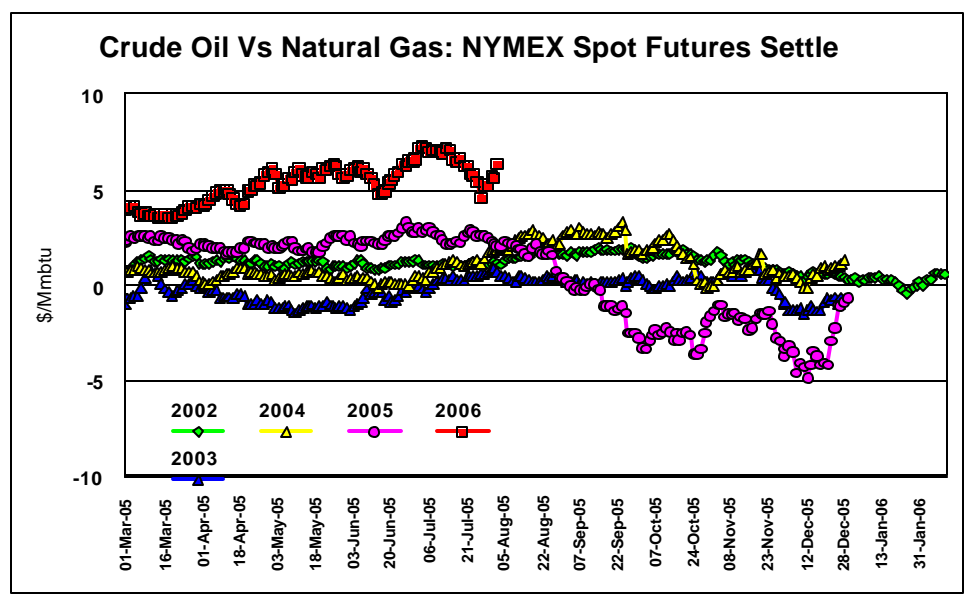


El Paso Natural Gas Company said that internal inspections will be run on the Havasu Crossover on August 8 and August 12. On each day, throughput on the crossover will be limited to 190 MMcf/d, a reduction of approximately 440 MMcf/d, for cycles 1 and 2. If no significant problems are encountered, the capacity will be raised to approximately 410 MMcf/d an increase of 220 MMcf/d for cycles 3 and 4. El Paso also said that construction designed to allow for internal inspection of the San Juan Crossover will be undertaken on August 10-11. No transportation capacity will be available on the San Juan Crossover during the work, a

620 MMcf/d reduction in EPNG's capacity to move gas from north to south.

Gulf South Pipeline said that it will perform scheduled maintenance at Kiln Compressor Station one unit beginning at 7:00 AM CT, August 8, and continuing for approximately eight hours. Capacity through Kiln Compressor Station, with this maintenance could be reduced by as much as 50 MMcf/d.

Williston Basin Interstate Pipeline Company said that planned maintenance will be performed on the Little Beaver Compressor Station Units 8 & 9 through August 9. At this time, Williston Basin does not anticipate any restrictions to the system. Williston also said that unplanned maintenance is being performed this week at the Cabin Creek Compressor Station. At this time, Williston Basin does not anticipate any restrictions to the system. Williston also said that hydrostatic testing due to HCA assessment



requirements will be performed on Line Section 15 south of whitewood to Krebs. During the testing period of August 14-18 maximum capacity will be approximately 35 MMcf/d from Deadwood to Rabid City. For the period August 21-25 maximum capacity will be approximately 39 MMcf/d from Piedmont to Rapid City. For the period August 28-September 1 maximum capacity will be approximately 43 MMcf/d from Ellsworth Air Force Base take off to Rapid City.

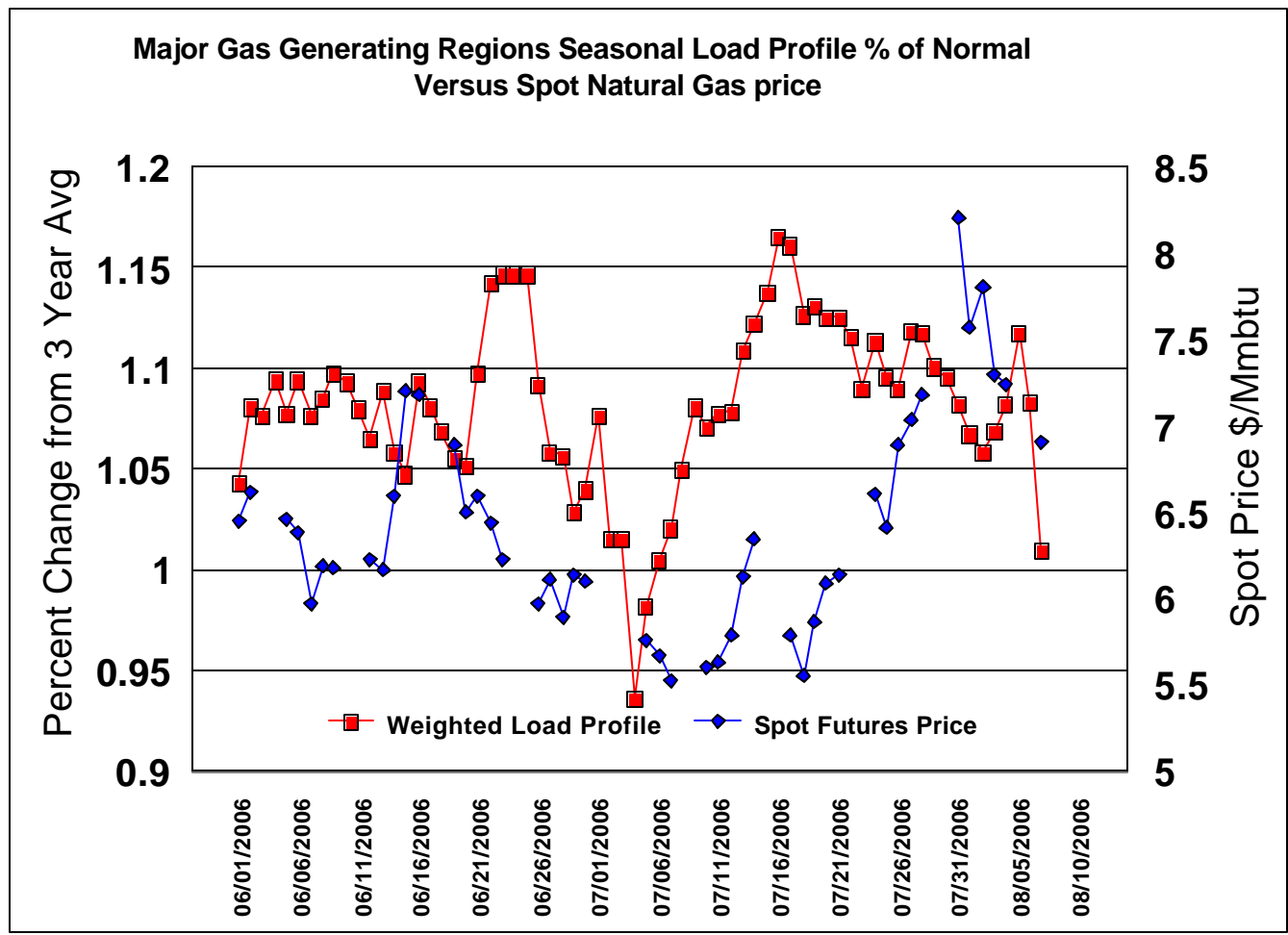
**ELECTRIC MARKET NEWS**

The FERC said that a disconnect between wholesale and retail power prices, a lack of incentives for utilities and state regulatory barriers have combined to hinder the use of demand-response resources in the power industry. Demand response includes payments for shifting or cutting load from utilities or independent system operators, time-of-use rates and critical peak pricing plans that trim peak demand and ease stress on the transmission grid as well as the need for new generation. As a substitute for generation, demand response can serve as a local peaking resource and assist resource adequacy in a region, but it is not being used to its full potential.

**MARKET COMMENTARY**

The natural gas market opened 41.6 cents lower as the heat wave has moved on and things have quieted down on the storm front for the time being. September natural gas traded as low as 6.81 early in the session, but rebounded with a screaming crude oil market to trade to a high of 7.02 by midday. Prices held the middle of that range for the remainder of the day to settle 6.907, down 33.9 cents.

With Tropical Storm Chris falling apart and temperatures moderating, undercutting air conditioning demand at the moment, the weight of the supply surplus, though declining, has prices way off their recent July 31 high of 8.26, however, a return to the 5.47 low of last month is unlikely as more than a month of summer is left and that surplus continues to decline. Early expectations for this week's report, which represents the oppressive heat



wave, range between a 10 Bcf draw and a 10 Bcf build, suggesting the continued surplus decline. We feel this market will explore support in the mid 6.00 range as it awaits fundamental support in the form of heat or tropical weather. We see support at \$6.75, \$6.50, \$6.43, \$6.32 and \$6.00. We see resistance at \$7.00, \$7.12, \$7.27 and \$7.54. We see further resistance at \$7.76, \$7.95 and \$8.25.

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Prev Settle	Volume	IV
ON	11	6	C	15	10/26/2006	0.182	0.246	5050	85.768
LN	3	7	P	8	02/23/2007	0.7379	0.7308	3850	71.036
LN	10	6	P	6	09/26/2006	0.3606	0.3056	3850	85.835
LN	10	6	P	5	09/26/2006	0.1064	0.0965	3800	83.537
LN	11	6	P	8	10/26/2006	0.8356	0.7866	3600	79.202
LN	10	6	C	11	09/26/2006	0.1838	0.2791	3000	97.169
LN	10	6	P	5.5	09/26/2006	0.2039	0.1803	2700	83.826
LN	12	6	P	8	11/27/2006	0.4635	0.4577	2600	67.844
LN	10	6	C	9.5	09/26/2006	0.3442	0.4875	2525	94.323
LN	3	7	P	5.5	02/23/2007	0.1311	0.1321	2400	67.935
ON	9	6	C	8	08/28/2006	0.245	0.402	2206	91.766
LN	10	6	C	15	09/26/2006	0.0358	0.0478	2100	101.13
ON	1	7	C	15	12/26/2006	0.829	0.896	2020	74.41
LN	3	7	P	5	02/23/2007	0.0778	0.079	2000	67.368