



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR AUGUST 11, 2006

NATURAL GAS MARKET NEWS

Energy analysts cite that an influx of LNG to Southern California could prompt the need for additional pipeline capacity out of the San Juan Basin. Sempra Energy's Baja California LNG terminal currently under construction will bring up to 1 Bcf/d to northern Mexico starting in early 2008 and much of that will be piped to Southern California. Walter Simmons, a principle with Wood Mackenzie projects that more pipe capacity is needed to move San Juan Basin natural gas east to markets that need it.

Baker Hughes reported that the number of rigs searching for oil and gas in the U.S. rose 23 to 1,728 in the week ending Friday. The number of rigs searching for oil in the U.S. rose 10 to 315, while the number searching for natural gas rose 13 to 1,409.

PIPELINE RESTRICTIONS

Algonquin Gas Transmission said that mild demand conditions leave Algonquin with limited operational flexibility to absorb due-shipper imbalances. Customers should take immediate steps to resolve any existing due-shipper imbalances. In addition AGT cannot accept requests to resolve due-pipe imbalances.

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

Kern River Pipeline said that line pack is still low on the north end and continues to be normal on the south end of its system. It is still very important for Kern River to maintain line pack until Opal comes up from its 24-hour shutdown.

Natural Gas Pipeline Company said that a gas quality problem has been reported at the receipt from Oneok-Stinnett Plant in Moore County, Texas (Segment 10 of Natural's MidContinent Zone). Effective today and continuing until further notice this point is unavailable for scheduling.

Texas Eastern Transmission Corp. said that it has limited flexibility to absorb due shipper imbalances or allow for due pipe resolution. Shippers and point operators are required to flow scheduled volumes and not create due shipper imbalances or resolve due pipe imbalances during this period. No nominations to create due shipper imbalances or resolve due pipe imbalances will be accepted until further notice. Shippers and point operators are expected to take immediate action to adjust activity at their meters to minimize the creation of due shipper imbalances as well as take any action to resolve due shipper imbalances that may exist. Due to pipe replacements throughout August and into September, Tetco may have limited operational flexibility to manage imbalances, dependent upon system conditions on a day-to-day basis.

PIPELINE MAINTENANCE

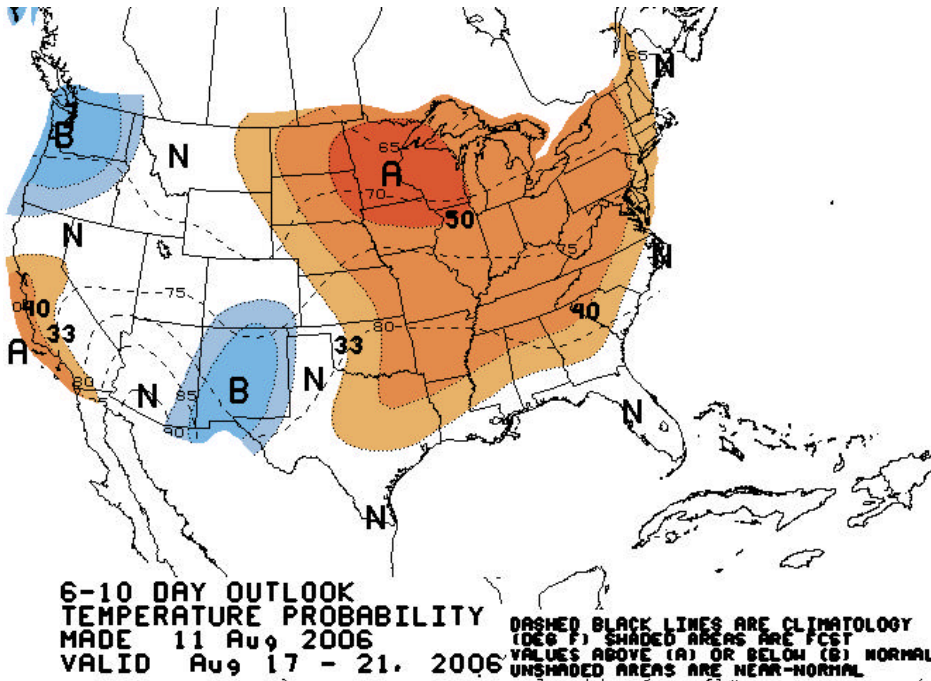
Generator Problems

SERC— Progress Energy's 938 Mw Brunswick #1 nuclear unit shut from full power today. Unit #2 continues to operate at full power.

Southern Nuclear's 862 Mw Hatch #1 nuclear unit decreased output to 60% today. Yesterday, the unit was operating at 80% capacity. Hatch #2 continues to operate at full power.

Canada— Ontario Power Generation's 490 Mw Nanticoke #7 coal-fired power station shut for maintenance while unit #2 exited a maintenance outage.

The NRC reported that U.S. nuclear generating capacity was at 96,200 Mw down .88% from Thursday and up 1.16% from a year ago.



Northwest Pipeline said that the Douglas Pass work has been completed early and is now available for nominations.

Southern Natural Gas Pipeline Co. said that it has identified a need to perform unscheduled repairs at its Wrens Compressor Station in Georgia. Although the total project will last about three weeks, currently Sonat expects that the only significant operational impact will occur only on the weekends of August 12-13 and August 19-20. On those weekend days, its ability to accept interruptible nominations from Southern LNG could be reduced by about 30 MMcf/d.

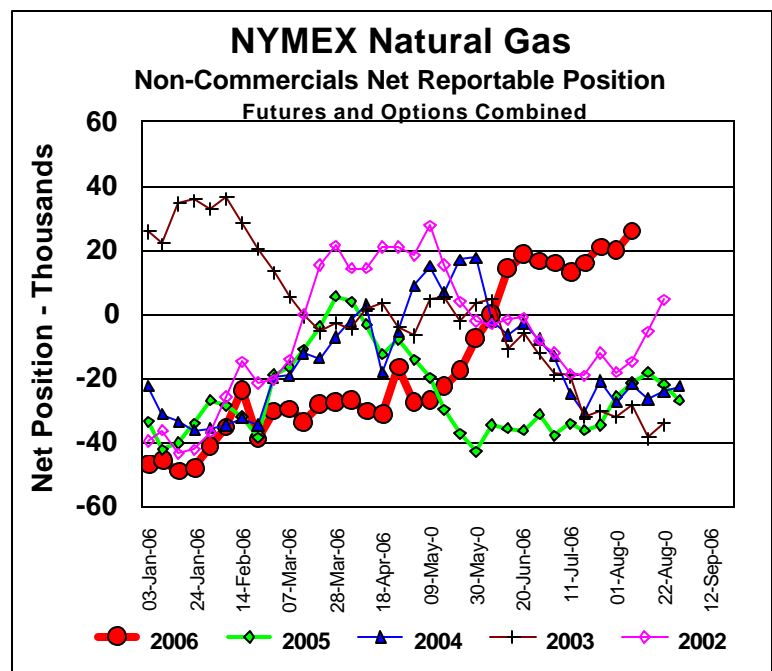
Transcontinental Gas Pipe Line said that work being done associated with the lowering of the North High Island Gathering System has been delayed. Transco anticipates the outage will continue through gas day of August 18 weather permitting. Transco will begin accepting nominations at the NHI lateral locations for gas day August 19.

Williston Basin Interstate Pipeline Company said that planned maintenance will be performed on the Mott-New England Lateral August 15. At this time, the company does not anticipate any restrictions to the system. Meanwhile, planned maintenance will be performed on the Golva-Beach Lateral on August 17. At this time, Williston Basin does not anticipate any restrictions to the system.

ELECTRIC MARKET NEWS

Southern Company yesterday set a new system peak demand record for electricity use, marking the first time in the company's history that electricity demand exceeded 38,000 Mw. Yesterday, preliminary peak demand for electricity averaged approximately 38,056 Mw between 3:00 PM and 4:00 PM ET. Southern Company has set a new system peak demand record for electricity use four times in the last eight days. Yesterday's record demand surpassed the previous peak record of 37,990 Mw set on August 7.

Preliminary results from an independent air modeling analysis requested by state and local officials and released by the Texas Environmental Research Consortium find that TXU's environmental commitments will actually result in a slight improvement in DFW air quality. State and local elected officials requested the study to examine the impact on air quality of the 17 coal-fired power units proposed by several companies. In the DFW



Metroplex, the study found reductions in ozone levels. TXU plans to invest more than \$10 billion to build eleven of the new coal-fired plants, which it said will add much needed power and will lower wholesale power costs by \$1.7 billion annually.

MARKET COMMENTARY

The natural gas market opened 10.9 cents softer on a lack of supportive news. September natural gas slipped down the charts in quiet trading as market players pointed to mild weather, a softer cash market and a quiet storm season. The front month dipped as low as 7.24, back filling the gap in the charts from Wednesday, before settling down 26 cents at 7.269. This week's volatility saw prices move between 6.81 and 7.94 and finish just two cents higher than last week.

The lack of supportive fundamentals has the market in a wait and see pattern, as bears are timid to pressure with summer still threatening. The Commitment of Traders reports shows that non-commercial traders increased their net long futures position by 4,454 contracts to 29,565 lots, with the combined futures and options report showing an increase of 5,828. With forecasters calling for a warmer than usual finale to the summer season, and the storage surplus continuing to shrink, we feel that this market will maintain an upside bias looking for that heat or storm to give it a boost back to the recent highs. We see support at \$7.20, \$6.89, \$6.75-\$6.76 and \$6.50. We see further support at \$6.43, \$6.32 and \$6.00. We see resistance at \$7.90, \$7.94, \$8.00, \$8.25 and \$8.44.

