



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR AUGUST 23, 2006

NATURAL GAS MARKET NEWS

A tropical storm now forming in the Atlantic Basin is "a storm with the potential we are really looking out for," a Wood Mackenzie energy analyst said Wednesday. If the developing storm becomes the next hurricane, to be named Ernesto, "it has a much more favorable pathway to affect Gulf of Mexico (GOM) production" and "could turn into a threat by the end of this week potentially," said Eugene Kim, Wood Mac's senior analyst for North American natural gas research. Late this evening the National Hurricane Center noted that this system which was some 230 miles east-southeast of the Windward Islands should become a tropical depression within the next 24 hours and potentially a tropical storm by the weekend as it moves westward. One computer model has this system off the coast of Cuba by Sunday as it reaches hurricane status, and should be a threat to the western Gulf Coast (Texas) by next week.

BP said that its plans to build a LNG terminal on Pelican Island, which is just north of Galveston, Texas, are on hold. The project drew organized opposition from some Galveston residents against the project for a variety of reasons, including safety reasons. BP said it would renew its lease option with the Galveston Wharves Board for the planned site for a third and final year. BP said it was not moving forward at the moment due to its assessment of the project's economics. The project was expected to cost about \$650 million and construction was pegged to start in 2007.

Southeast Supply Header has signed an agreement with Florida Power and Light Company for firm transportation service on its proposed pipeline that will bring natural gas from east Texas and north Louisiana to growing U.S. markets. The agreement subscribes approximately half of the planned 1 Bcf/d capacity on the proposed Southeast Supply Header pipeline, which is expected to be in service in June 2008. The agreement is contingent upon a decision by the Florida Public Service for FPL to recover the costs it will incur under the agreement. That approval is expected in the fall of this year.

PIPELINE RESTRICTIONS

Algonquin Gas Transmission said Tennessee Gas Mahwah has been scheduled to capacity on its system.

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 low from Muddy Creek to Elberta and normal downstream of Elberta.

Generator Problems

ERCOT – AEP's 450 Mw Pirkey #1 coal-fired power station shut to repair precipitator rappers. The maintenance is expected to be completed by August 25.

SERC – TVA's 1,100 Mw Browns Ferry #3 nuclear unit decreased output back down to 80%. Yesterday, the unit was operating at 96%. Browns Ferry #2 continues to operate at full power.

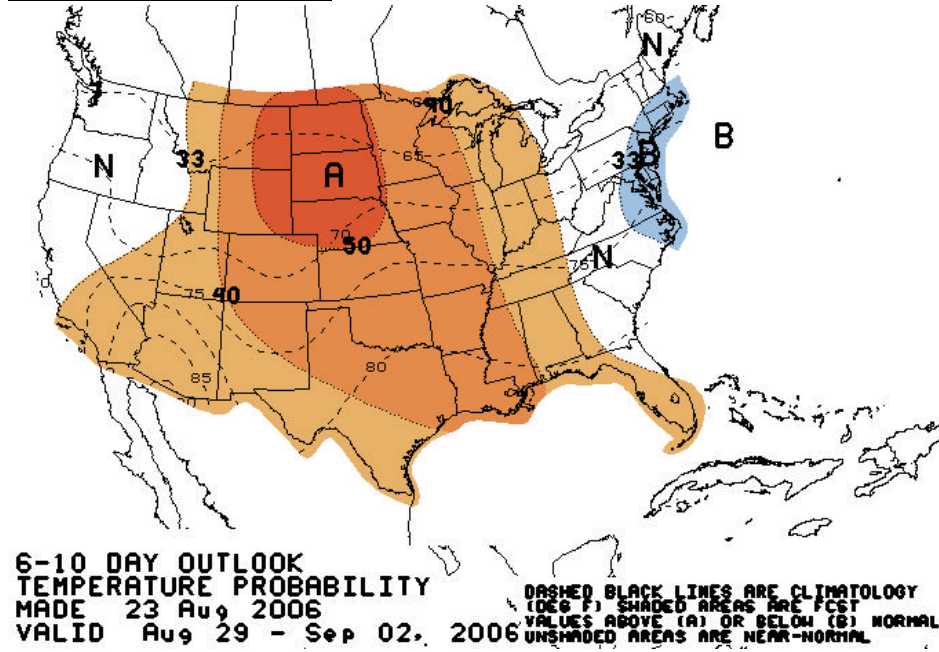
Progress Energy's 938 Mw Brunswick #1 nuclear unit restarted and is warming up offline at 2%. Brunswick #2 continues to operate at full power.

Duke Power Company's 846 Mw Oconee #3 nuclear unit increased output to full capacity today. Oconee #1 and #2 continue to operate at full power.

The NRC reported this morning that 95,381 Mw of nuclear generating capacity were on line, .013% higher than Tuesday, and .75% higher than last year levels.

Texas Eastern Transmission Corp. said that it has restricted and sealed M1 and M2 24-inch to capacity. No increases between Little Rock and Batesville for delivery outside that area will be accepted. Tetco has restricted and sealed receipts in ETX. No increases in receipts sourced in ETX for delivery outside ETX will be accepted.

PIPELINE MAINTENANCE



El Paso Natural Gas Company said that the Flagstaff 2 compressor must be taken down to replace a turbocharger on August 23 and 24. This outage combined with the previously scheduled outages at Navajo Station on the same dates will reduce the capacity of the North Mainline from a base capacity of 2,200 MMcf/d: August 23 – 245 MMcf/d; August 24 – 90 MMcf/d.

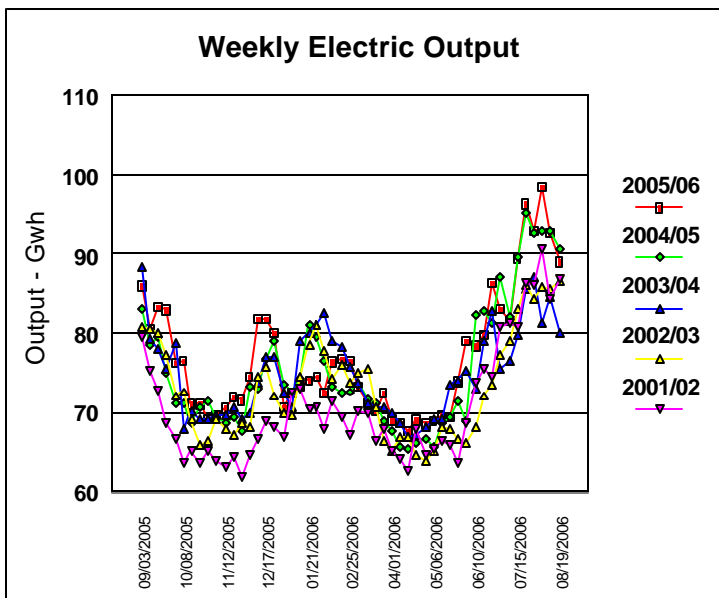
Northwest Pipeline said that while performing a leak detection survey following the July 28 Reno Lateral line failure, Northwest found two small leaks on the lateral at mileposts 30.5 and 31.5. Northwest is currently

developing a work plan to bypass and repair the leaks. The current available capacity on the Reno Lateral is 86 MMcf/d. Additional flow restrictions may be required during live-line welding and while the temporary bypass line is in place, the company warned. Based on current nominations, Northwest does not anticipate any interruption to customer nominations as a result of this work.

Westcoast Energy said that midstream and Duke Peggo will be conducting a Heat Exchanger Plate exchange this afternoon. The work will commence at 2:00 PM MT and finish at 6:00 PM MT. The Duke Tooga plant will offload as much of the extra gas as possible during this time. Upstream customers will experience higher pressures and lost production will be approximately 30.8 MMcf/d.

ELECTRIC MARKET NEWS

The New York Independent System Operator issued a Comprehensive Reliability Plan, calling for 3,105 Mw of new resources by 2015, including generating plants, transmission, imports and demand reductions. The plan stems from NYISO's Resource Needs Assessment. The assessment, issued in December 2005, predicted capacity shortfalls if no steps are taken. NYISO developed the reliability plan in conjunction with market participants. The plan calls for development of 1,200 Mw of new merchant generation in New York City and Long Island and identifies three already proposed projects. It also recommends deferring the retirement of a 900 Mw plant that the New York Power Authority owns in NYC. In the transmission area, NYISO wants 466 Mw of new lines, upgrades and reactive power supplies. It also urges arranging to import 990 Mw



of generation committed to New York and boosting demand-reduction programs to provide 449 Mw of capacity when needed.

NYMEX Natural Options Most Actively Traded for August 23, 2006									
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Prev Settle	Volume	IV
LN	10	6	P	6	09/26/2006	0.3116	0.2832	5850	91.468
ON	3	7	C	20	02/23/2007	0.83	0.859	4276	89.074
ON	4	7	C	11	03/27/2007	0.641	0.644	4275	52.026
ON	3	7	P	6	02/23/2007	0.222	0.222	3250	72.29
ON	3	7	P	5	02/23/2007	0.082	0.088	3000	70.329
LN	9	6	P	6	08/28/2006	0.0176	0.0145	2880	78.596
LN	9	6	C	8	08/28/2006	0.0563	0.0652	2525	109.59
ON	12	6	C	20	11/27/2006	0.197	0.206	2101	85.835
ON	12	6	C	16	11/27/2006	0.464	0.481	2100	83.508
LN	9	6	P	6.5	08/28/2006	0.1193	0.0973	1850	85.979
LN	9	6	P	7	08/28/2006	0.3664	0.309	1800	94.016
ON	9	6	C	9	08/28/2006	0.016	0.016	1720	126.74
ON	9	6	C	8	08/28/2006	0.056	0.065	1505	110.01
ON	9	6	P	6	08/28/2006	0.018	0.015	1441	78.442
LN	9	6	C	8.5	08/28/2006	0.0295	0.0334	1400	118.51
ON	9	6	C	7.5	08/28/2006	0.115	0.153	1387	101.48
ON	4	7	P	6	03/27/2007	0.227	0.211	1200	49.651
LN	1	7	C	15	12/26/2006	1.0163	1.0233	1135	77.5
LN	10	6	P	6.5	09/26/2006	0.5289	0.4759	1125	94.938
LN	1	7	P	8.5	12/26/2006	0.5762	0.5571	1100	74.083
LN	12	6	P	10	11/27/2006	1.274	1.2327	1075	78.063
LN	8	8	C	15	07/28/2008	0.371	0.3785	1000	32.665
LN	9	6	C	9	08/28/2006	0.0158	0.0163	1000	126.12
LN	2	7	P	8.5	01/26/2007	0.7269	0.7039	1000	75.193
LN	11	6	P	8.5	10/26/2006	0.9608	0.943	1000	86.455
LN	12	6	P	8.5	11/27/2006	0.5811	0.5607	1000	74.232
LN	3	7	P	8.5	02/23/2007	0.9633	0.9526	1000	79.077
LN	10	6	P	4.5	09/26/2006	0.0351	0.0293	1000	91.516
LN	8	8	P	5	07/28/2008	0.2231	0.22	1000	41.471
LN	3	7	P	8	02/23/2007	0.7648	0.7538	1000	78.168

The Edison Electric Institute reported that electricity demand in the continental U.S. was down modestly last week compared to the same week a year ago. Americans used 88,941 GWh in the week ended August 19, down 1.8% from a year ago and 4% below the 92,651 GWh used last week.

MARKET COMMENTARY

The natural gas market opened a couple pennies lower today and quickly rallied above 7.00, as rumors in the tropics are building and

strong cash prices continue from warm conditions in the south and storage operators looking to top off their stocks ahead of the peak of the storm season. Natural gas ignored the bearish oil inventory reports, which saw crude trade almost \$2.00 lower. September natural gas traded to a high of 7.18, before the continued selling in the oil complex overflowed into natural gas. The overall bearish feel in the energies, coupled with expectations for a larger build to natural gas stocks than the past few weeks, pressured prices back below 7.00. September natural gas traded back into negative territory to a low of 6.75 before settling down 13.3 cents at 6.875.

The formation of Tropical Storm Debby and the potential development of a tropical wave 230 miles east-southeast of the Windward Islands has kept a premium to the market and reinforced the support at the 6.50 level. But without an actual threat, staying above 7.00 has proven to be an issue. With tomorrow's inventory report expecting to show a build of between 30 to 67 Bcf and most looking for an average injection of 52 Bcf, well above the injections of the past few weeks, market players took some longs off the table in the second half of the trading session. Our model expects a build of between 46-50 Bcf and only a surprise build above expectations would really have much impact on the market, as the risk remains to the upside on the basis of a storm heading toward energy interests in the Gulf. We see support at \$6.70, \$6.60, \$6.45, \$6.43, \$6.32 and \$6.10. We see resistance at \$7.12, \$7.19, \$7.30, \$7.90 and \$7.95. We see further resistance at \$8.00, \$8.25 and \$8.44.