



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR AUGUST 29, 2006

NATURAL GAS MARKET NEWS

Tropical Storm Ernesto is expected to make land fall early tomorrow morning on Florida's southern coast. The system is packing sustained winds of 40 mph and is moving north-northwest at 15 mph. Meanwhile the National Hurricane Center was watching one tropical wave located several hundred miles southwest of the Cape Verde Islands as well as a tropical wave some 1300 miles east of the northern Leeward Islands. While some computer models are leaving open the possibility of further development of one or both systems, any potential development will be slow.

Egan Hub Storage LLC, a subsidiary of Duke Energy Gas Transmission, informed FERC on Monday that it has placed in service 5.5 Bcf of additional capacity at its natural gas storage facility in Acadia Parish, LA.

FERC on Tuesday initiated audits of several energy companies to determine whether they are complying with the agency regulations governing the reporting of prices on natural gas trades to published indexes.

The EIA today released their latest Natural Gas Monthly report today for the period ending in June of this year. It showed that domestic production of natural gas stood at 50.3 bcf/d some 3.1% lower than the previous month and some 2.3% less than June 2005. Net imports of natural gas into the U.S. stood at 9.1 bcf/d down 0.7% from May but some 3.4% higher than June 2005 levels. This import level was helped by LNG imports which in June posted its second consecutive month of seeing 2 bcf/d of imports into the U.S. Consumption in the U.S. in June was estimated at 50.1 bcf/d down some 1.4% from year earlier levels. While electric and commercial consumption of natural gas was equal to levels of a year ago, residential and industrial demand for gas on the month was some 2.4% and 4% less than June 2005.

PIPELINE RESTRICTIONS

Florida Gas Transmission said that due to warm temperatures and low linepack, it is issuing an Overage Alert Day at 15% tolerance.

Kern River Pipeline said that line pack has returned to normal across its entire system.

Generator Problems

ERCOT – AEP's 550 Mw Harrington #1 coal-fired power unit shut for a planned 2-3 day outage to perform maintenance on the precipitator.

TXU's 545 Mw Sandown #4 coal- and oil-fired power station restarted late yesterday. The unit shut early on Monday due to an oil pressure problem on a boiler feed pump.

FRCC – Florida Power and Light said it would reduce the output of both 693 Mw units at the Turkey Point nuclear power station to about 50% today as Tropical Storm Ernesto approaches.

MAAC – PPL's 1,140 Mw Susquehanna #2 nuclear unit returned to full power. The unit was operating at 74% yesterday after being cut over the weekend.

SERC – Progress Energy's 938 Mw Brunswick #1 nuclear unit returned to full power overnight. The unit restarted yesterday after shutting August 11 to work on a generator. Brunswick #2 continues to operate at full power.

Southern Co.'s 1,149 Mw Vogtle #2 nuclear unit remains shut as some cables are replaced into the motor on a reactor coolant pump. The unit is expected to return to service in a couple days.

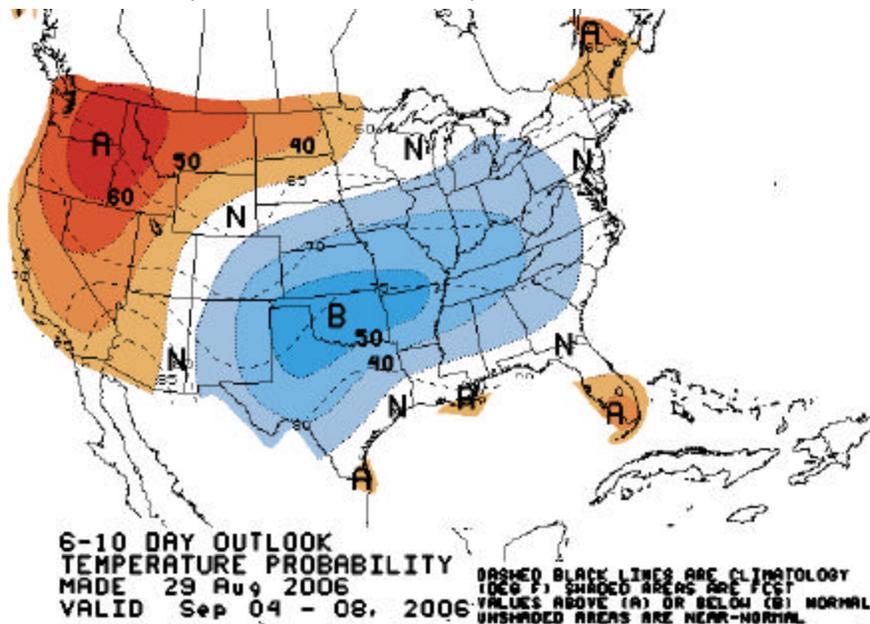
The NRC reported this morning that 93,872 Mw of nuclear generating capacity were on line, .11% higher than Monday, but .64% lower than last year levels.

Natural Gas Pipeline Company said that from September 12-17, it will be making pipeline modifications on the Gulf Coast #3 line south of Station 304 (Harrison County, Texas) to make Station 304 capable of reverse flow. This work is in Segment 26 of Natural's Texok Zone and should not impact transport scheduling in this segment.

PIPELINE MAINTENANCE

Alliance Pipeline said that minor maintenance will require the Kerrobert Compression Station in North Dakota to be off-line for 48 hours beginning on August 29. System throughput (AOS) will be affected but will be determined closer to the outage date.

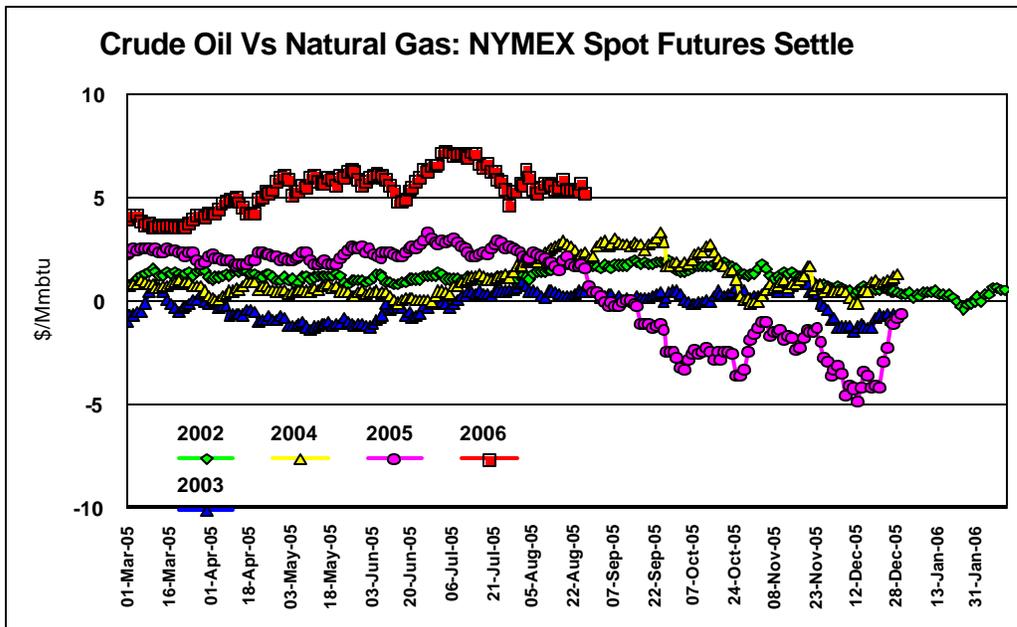
Florida Gas Transmission said that it will be performing maintenance on the pipeline between Compressor Stations #6 and #7 in Zone #1. Mainline pressures will have to be reduced during this outage maintenance. This outage is scheduled for the gas days of September 12-13. During this work FGT will schedule up to approximately 200 MMcf/d through Compressor Station #6. During normal operations FGT schedules up to 300 MMcf/d through Compressor Station #6. During this work FGT will schedule up to approximately 300 MMcf/d through Compressor Station #7. During normal operations FGT schedules up to 465 MMcf/d through Compressor Station #7.



PG&E California Gas Transmission has scheduled a vibration testing at the Delvan Compressor K-1 on September 5-9. Capacity on the Redwood Line will be reduced to 2,030 MMcf/d, roughly 98% of capacity.

MARKET COMMENTARY

The natural gas market opened 28 cents lower in follow through selling and the expiring September contract quickly descended down the chart to a low of 6.08, a five-week low, on a lack of supportive weather. The market trended higher through the afternoon to the 6.20 level, but as the 30 minute closing range approached, a short covering rally boosted the September and October contracts into positive territory. September traded to a high of 6.95 before settling up 34.4 cents at 6.816. The new front month contract, October, traded to



high of 6.96 before settling at 6.876, up 6.4 cents.

Expiration short covering boosted the market, but there's no weather and no storms threatening energy interests, so we feel natural gas will succumb to the bearish fundamentals and return to its lows from earlier today. Early expectations for Thursday's EIA storage report call for a build of between 45 and 60 Bcf. This will compare to last year's 59 Bcf injection and the five-year average build of 67 Bcf. With no immediate storm threat, this market will lack any upside traction or momentum. Also keeping the lid on prices is crude oil settling under 70.00, after a couple attempts to get prices back above that psychological level. We see support at \$6.45, \$6.24, \$6.10 and \$5.95. We see resistance at \$6.96, \$7.08, \$7.23, \$7.30 and \$7.50. We see further resistance at \$7.71, \$7.95 and \$8.24.