



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR SEPTEMBER 6, 2006

NATURAL GAS MARKET NEWS

The National Hurricane Center reported that Tropical Storm Florence has strengthened a bit and further strengthening is forecast. The system continues to move West-Northwest near 13 mph and is not likely to affect energy interests in the Gulf. The NHC continues to monitor the tropical wave several hundred miles west of the Cape Verde Islands. This system is poorly organized, but there is still some potential for development during the next couple of days.

Joining the ranks of forecasters who are slashing their 2006 Atlantic hurricane activity predictions, Andover, MA-based WSI Corp. downgraded its outlook Wednesday for the second time in two months. WSI said it now expects the tropical season to have 13 named storms, six hurricanes and three intense hurricanes (Category 3 or greater). These numbers are still larger than the long-term averages of 9.6 named storms, 5.9 hurricanes, and 2.3 intense hurricanes, but are much smaller than last year's record numbers.

As part of a broader strategy to emphasize its natural gas business and deemphasize independent power generation, San Diego-based Sempra Energy is considering putting its Port Arthur, TX, liquefied natural gas (LNG) import terminal on hold while expanding its more advanced LNG projects in North Baja California and Cameron, LA.

Natural gas production from the Barnett Shale of Texas in the past three years has been nothing short of remarkable, but few realize that at least 84% of the entire play still remains untapped. Its full potential will rely on new technology not yet available, Devon Energy Corp. CEO J. Larry Nichols said Tuesday.

Sen. Pete Domenici (R-NM), chairman of the Senate Energy and Natural Resources Committee, considers legislation opening new areas of the Outer Continental Shelf (OCS) to oil and natural gas leasing to be a "top priority," and he "got off the ground running by reaching out to the House" Tuesday as lawmakers returned from their month-long recess, a spokeswoman for Domenici said.

PIPELINE RESTRICTIONS

Algonquin Gas Transmission said that effective September 6, it cannot accept requests for due pipe resolution. AGT requires that shippers schedule their contracts balanced, and point operators to perform according to nominated volumes. Any party with a due shipper imbalance is requested to resolve it as soon as is practicable.

East Tennessee Natural Gas said that effective today, it cannot accept nominations for due pipe imbalance resolution. Shippers are required to schedule their contracts balanced, and point operators to perform according to nominated volumes. Any party with a due shipper imbalance is requested to resolve it as soon as is practicable.

Generator Problems

ECAR – First Energy's 935 Mw Davis-Besse nuclear unit shut from full power due to an issue with a condenser.

ERCOT – AEP's 550 Mw Pirkey #1 coal fired power unit shut to repair precipitator rappers.

SERC – Duke Energy's 846 Mw Oconee #2 nuclear unit returned to online and ramped up to 55% of capacity by early today. Yesterday the unit was operating at 18%. Oconee #1 and # continue to operate at full power.

The NRC reported this morning that 94,962 Mw of nuclear generating capacity were on line, down .67% from Tuesday but some .40% higher than a year ago.

Texas Eastern Transmission said that it will not accept due pipe resolution nominations. Any party with a due shipper imbalance is requested to resolve it as soon as is practicable. Tetco also requires that shippers and TABS parties schedule their contracts balanced, and point operators to perform according to nominated volumes. Tetco will force balance TABS-1 pools or restrict the system as required. Tetco has scheduled and sealed receipts sourced at Monroe Station. No increases in receipts sourced at Monroe will be accepted.

Williston Basin Interstate Pipeline Company said that 019 Madden-Worland and 020 Worland-Lovell are in pipeline capacity constraint for receipts on the timely cycle of gas day September 6. Penalties will be imposed.

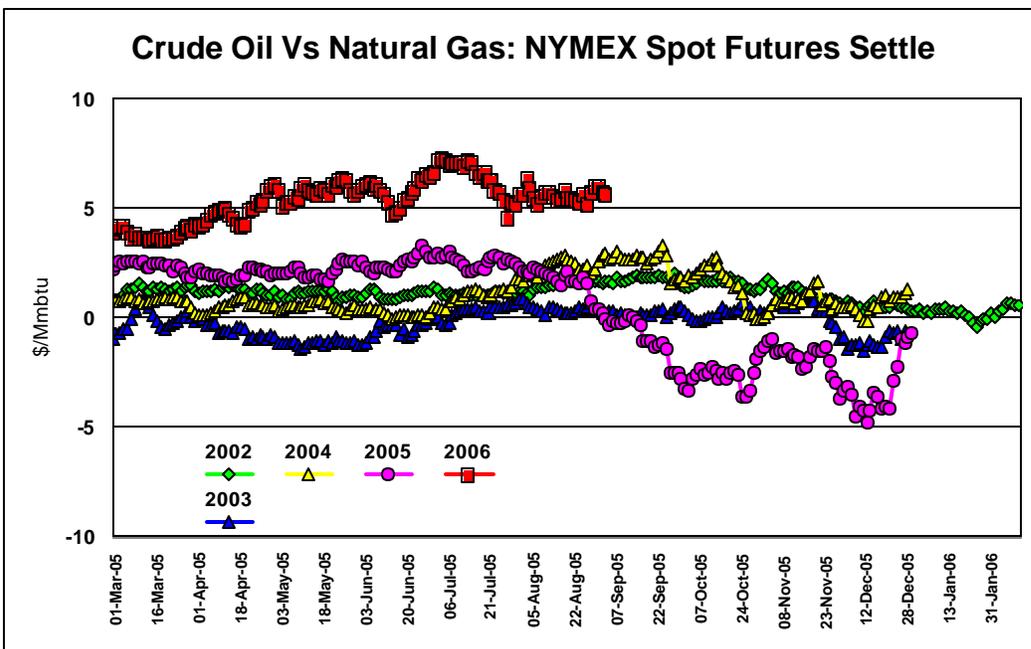
PIPELINE MAINTENANCE

PG&E California Gas Transmission has scheduled a general maintenance at the Gerber Compressor K-1 on September 27. Capacity on the Redwood Line will be reduced to 2,040 MMcf/d, roughly 98% of capacity.

Williston Basin Interstate Pipeline Company said that the unplanned maintenance being performed on the Elk Basin Compressor Station has been extended to September 8. At this time, Williston does not anticipate any restrictions to the system.

ELECTRIC MARKET NEWS

NRG Energy chief executive David Crane said soaring demand for electricity across the United States in July and August has raised concern about future supply among state regulators and utilities that don't generate their own supply. Record power consumption from New York to California over the summer elevated the need to secure long-term supplies from new power sources.



Peak usage in Texas and New England rose by more than 4% over 2005 peaks, while demand in the Mid-Atlantic states jumped 8% and California use rose 10%. However, construction of new generation will move ahead cautiously so as to avoid the financial disaster that occurred in the last construction boom earlier this decade, when a glut of new natural gas-fired generation depressed power prices and bankrupted NRG and other independent power producers. Going forward, NRG said it will only build plants that have signed contracts to sell a sizeable portion of their output under long-term contract.

The Bonneville Power Administration Pacific DC tie-line that delivers power from the Pacific Northwest into California returned to service yesterday afternoon. The line can supply California with about 2,600 Mw of electricity mainly from hydroelectric sources in Oregon and Washington.

MARKET COMMENTARY

The natural gas market opened a penny stronger today amid rising cash prices and continued awareness that the hurricane season is not over yet. October natural gas traded as high as 6.13 but spent the majority of session not too far from the 6.00 level. With the crude oil market slumping another 1.00 and a surge lower at the close, natural gas pushed to a low of 5.955 before settling down 4.5 cents at 5.994.

Expectations for tomorrow's EIA inventory report range from 54 to 78 Bcf with an average expected injection of 66 Bcf. This figure will be bearish compared to the last 6 or so reports and to last year's 39 Bcf injection. But with the frequency of tropical systems and still almost 2 months left in the hurricane season, new short money is reluctant to pressure the market. Market players are finding comfort at the 6.00 level for now and we feel the market will chop around this level until the hurricane season subsides. We see support at \$5.78, \$5.60, \$5.50 and \$5.47. We see resistance at \$6.08, \$6.24, \$6.35, \$6.53, \$6.64 and \$7.08.