



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR SEPTEMBER 7, 2005

NATURAL GAS MARKET NEWS

The EIA Short-Term Energy Outlook for September 2005 reported that the Henry Hub natural gas spot price is expected to average \$8.82/mcf in 2005 and \$8.42/mcf in 2006. Depending on the speed of recovery from the supply losses in the Gulf of Mexico due to Katrina, the average price across the recovery cases for the fourth quarter of 2005 ranges from \$11 to \$13 per mcf. In August, spot prices averaged over \$9, as hot weather in the East and Southwest increased natural gas-fired electricity generation for cooling demand. The market is expected to stay tight over the next couple of months, and prices are expected to ease going into 2006 as the effects of Katrina fade. However, prices at the Henry Hub are likely to remain above \$10/mcf until peak winter demand is over. Citygate prices and end-use prices are expected to exhibit double-digit percent increases for the second year in a row in most regions. Natural gas demand is projected to fall slightly by 0.7% in 2005, but recover by 2.4% in 2006 due to an assumed return to normal weather and continues strength in consumption for electric power production. Domestic natural gas production in 2005 is expected to drop by 1.5% mainly due to the major disruptions to infrastructure in the Gulf from both Ivan and Katrina. LNG imports for 2005 are expected to be approximately 710 Bcf compared to 650 Bcf in 2004.

Generator Problems

MAAC— Public Service Enterprise Group's 1,049 Mw Hope Creek nuclear unit returned to full power by early today. Yesterday, the unit was operating at 40% of capacity after exiting an outage over the weekend.

SERC— Duke Energy Corp.'s 846 Mw Oconee #3 nuclear unit exited an outage and ramped up to 18% of capacity by early today. Oconee #1 and #2 continue to operate at full power.

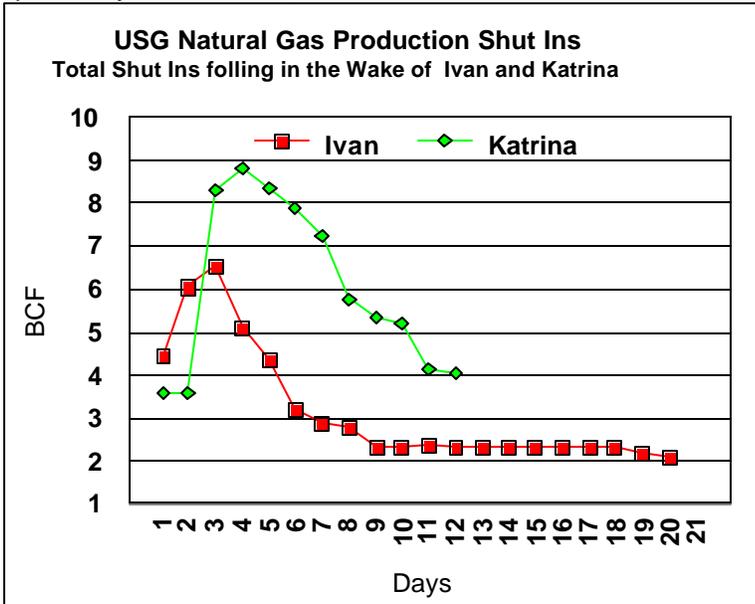
The NRC ended its monitoring of Entergy Corp.'s 1,089 Mw Waterford #3 nuclear unit. The unit shut Aug. 28 as Katrina approached. A restart depends on approval of the NRC, FEMA, and the ability of the grid to accept the reactor's output.

Dominion Resources said its offshore operations were currently producing less than half of the natural gas that the company had expected to produce at the end of September due to disruptions caused by Hurricane Katrina. The company was producing between 240-245 MMcf/d yesterday. At the end of August, they had produced about 435 MMcf/d, and they had been expected to produce about 525 MMcf/d at the end of September. Only one of the company's platforms, which was producing about 11.5 mmcf/d before it was shut down, is expected to be down for an extended period of time.

Dynergy's CEO, Bruce Williamson, said that two gas plants operated by the company may be down for three to six months. The 1.85 Bcf/d Yscloskey plant and the 1.3 Bcf/d Venice plant were both reported to have suffered flooding resulting from the hurricane. A third plant, the 1.1 Bcf/d Toca facility may be down for a few weeks according to a company statement. Salt water against metal is a bad combination. Damage to the pipelines and platforms does not appear to be severe in most cases, but the prolonged outages at the three treatment plants could prove to be a bottleneck to restoring supplies.

The Minerals Management Service reported that 4.035 Bcf/d of natural gas is still shut in as a result of Katrina. That is approximately 40.36% of the daily gas production in the GOM.

Tropical Storm Ophelia has become better organized with winds around 50 mph, but the location of the storm three day from now is divided between a couple forecasters opinions. The storm is located off the eastern coast of Florida, north of where Katrina started, between Daytona Beach and West Palm Beach. The National Hurricane Center shows a northwestward and northward drift but the bottom line is that Ophelia will likely meander just off the Northern Florida and Southeast Georgia coasts for the next five days. The AccuWeather forecast sees Ophelia having pressures in category 1 intensity by tomorrow morning, if not sooner. The path of the storm is seen meandering off the coast of Florida over the next 24-36 hours and then move across Florida farther north than Katrina did. AccuWeather did forecast that the track is such that the central Gulf Coast, specifically New Orleans, is threatened.



PIPELINE RESTRICTIONS

East Tennessee Natural Gas said nominations sourced on the Nora line have put that line at capacity. ETNG has sealed the Nora line at the current nominated levels. No increases in physical supply sourced on the Nora line will be accepted.

Florida Gas Transmission said that due to hot weather and reductions in receipt volumes into Zone 3 due to Hurricane Katrina, it is issuing an Overage Alert Day at 50% tolerance.

Gulf South Pipeline said that based upon its initial review of nominations, NNS demand, and other factors, Gulf South may be required to schedule available capacity and implement scheduling reductions from East Texas – Koran Area; Tyler 12-inch Index 8 / Palestine

and Bayou Sale to Napoleonville.

Kern River Pipeline said line pack has returned normal levels.

Natural Gas Pipeline Company of America said that a force majeure is still in effect due to the pipeline failure that occurred on May 13, on the Gulf Coast #3 Main Line in Harrison County, Texas located in Segment 26 just south of Compressor Station 304.

Texas Eastern Transmission said it has restricted receipts from production that remains shut-in due to Hurricane Katrina. Tetco will continue to take action to ensure physical receipts are commensurate with physical deliveries. Shippers are reminded to closely monitor their supply in the event of interruption due to the storm. M1 24-inch has been restricted to capacity. Receipts between Little Rock and Fagus for delivery outside of this area will not be accepted.

PIPELINE MAINTENANCE

ANR Pipeline Company said that due to unforeseen engine maintenance, it will begin work on its Sandwich Compressor Station located in Illinois in the Southwest Central Fuel Segment (ML-6), which will reduce the total SWML capacity by the following: 50 MMcf/d from September 6-9. Based on current nominations through the SWML, it is anticipated that the above reductions will result in the curtailment of firm secondary and IT nominations.

Gulf South Pipeline said it will be performing scheduled maintenance on the Jackson Compressor Station Unit #4 beginning September 12 and continuing until further notice. Capacity through the Jackson Compressor Station will be affected as much as 125 MMcf/d for the duration of this maintenance.

PG&E California Gas Transmission scheduled general maintenance at the Tionesta Compressor Station for September 21. Capacity on the Redwood Line will be reduced to 2,030 MMcf/d, 98% of capacity.

Williston Basin Interstate Pipeline Company said that maintenance will be performed at the West Short Pine Hills Compressor Station. Therefore, volumes from receipt point 04435 will be zero for gas day September 12 and reduced to approximately 570 Mcf for gas day September 13. Maintenance also will be performed at the Belle Fouche Compressor Station Unit #4 sometime between September 19 and October 17. Under current operating conditions, Williston Basin is not anticipating any effect on the system. Williston also said that maintenance to replace approximately 13.25 miles of mainline on the Cabin Creek to Williston Line will be performed for one day between October 10 and December 9.

ELECTRIC MARKET NEWS

The EIA Short-Term Energy Outlook for September 2005 reported that electricity demand is expected to increase by 2.5% in 2005 and 1.9% in 2006 due largely to weather conditions as well as continuing economic growth. Very hot weather conditions generated a large increase in demand in the third quarter of 2005. Seven out of the ten regions are expected to show substantial increases in residential demand for electricity in 2005, compared with 2004. Coal demand in the electric power sector is expected to increase by 3.1% in 2005 and 0.4% in 2006. Power sector demand for coal continues to increase as oil and natural gas prices continue to rise. U.S. coal production is expected to grow by 1.9% in 2005 and by an additional 2.0% in 2006.

Progress Energy said that Florida utility regulators approved an agreement to keep its Progress Energy Florida unit's electricity rates at current levels through late 2007. The agreement, negotiated by Progress Energy Florida, the state attorney general and other groups, is effective Jan. 1.

ECONOMIC NEWS

Hurricane Katrina could cost as many as 400,000 U.S. jobs and slash economic growth by up to 1% point, the Congressional Budget Office said today. The Director of the CBO said "evidence to date suggests that overall economic effects will be significant but not overwhelming."

Morgan Stanley reduced its global and U.S. GDP growth forecasts, mainly to reflect the sharp rise in its baseline oil price. The gross domestic product cuts are heavily concentrated in the U.S., with the investment bank now forecasting 2005 U.S. GDP growth at 3.5%, down from 3.8%. For 2006, the bank sees GDP growth at 3.3%, compared with 4.0% forecast earlier.

Eight days after Hurricane Katrina made landfall, Mississippi Power employees and outside workers have restored service to 65% of the company's customers who can receive power.

MARKET COMMENTARY

The natural gas market opened down 36 cents as reports came in of a speedy return of Gulf production. Mild weather across much of the Midwest and Northeast has made for weak demand of natural gas as an electricity generation fuel, lending to the market's slide today. The market traded in a 33 cent range, posting a high of 11.38 early in the session and a low of 11.05. The market moved sideways range bound between those extremes for the remainder of the session and settled down over 45 cents at 11.201.

Natural gas analysts and traders expect tomorrow's storage report to show a rise in inventories of 29 Bcf for the week ending September 2. The range of predictions was from a build of 10 Bcf to a build as high as 49 Bcf with a median expectation of a build of 30 Bcf. The wide range of storage expectations shows that analysts are working with limited information on how much demand was blunted by the storm. The storage injection will be one of the lowest ever seen during the summer as Hurricane Katrina shut in approximately 49 Bcf of production from the Gulf of Mexico through Friday morning. Prior to Katrina, estimates for the week's storage injection were in the range of 70-75 Bcf but, according to analysts at ICAP Energy, about 19 Bcf of potential demand was destroyed as a result of the storm. We look for resistance tomorrow initially at the gap from today's open between \$11.38 and \$11.46. Further resistance we see at \$11.80, \$11.90 and \$12.25. Support we see at \$10.65 and \$10.05.