



ENERGY RISK MANAGEMENT

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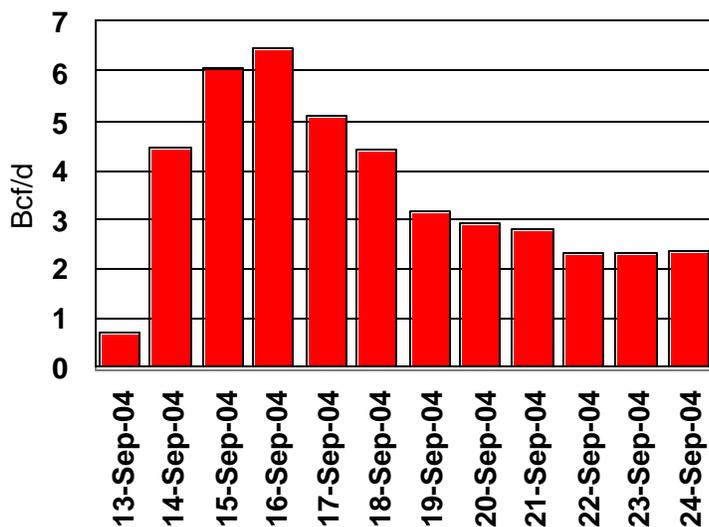
POWER MARKET REPORT FOR SEPTEMBER 24, 2004

NATURAL GAS MARKET NEWS

The US Minerals Management Service said that more than 10.03 million barrels of oil and 43.3 bcf of natural gas has been shut by Hurricane Ivan since September 13. Natural gas production is still down nearly 2.33 bcf/d.

The Texas Railroad Commission set October natural gas production allowable from prorated fields to meet market demand of 25.4 billion cubic feet. The allowable represents a decrease of about 4.4 Bcf or 14% when compared with actual production of 29.9 Bcf in October of last year. In setting the allowable for next month, the commission used historical production figures from October 2003 and producer forecasts for October 2004

USG Natural Gas Production Shut In
Basis Reports from MMS
Combined Shut in from Ivan 43.304 BCF



Generator Problems

MAAC – The 650 Mw Oyster Creek nuclear reactor has been boosted to 97% capacity, increasing output by 5% overnight. The unit restarted September 22 after shutting September 14 to repair a steam valve.

MAIN – The 900 Mw Dresden nuclear unit 2 restarted today and is currently running at 15% capacity. The unit shut on September 19 to realign a vibrating turbine.

SERC – The 1,170 Mw Watts Bar nuclear plant ramped output back to full power, increasing production by the final 32% overnight. The unit restarted September 21 after being manually tripped on September 19.

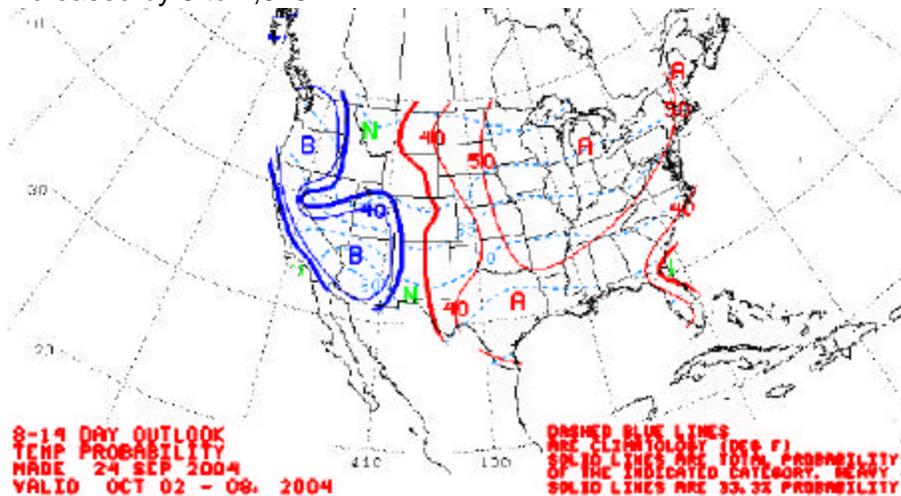
WSCC – The 1,080 Mw San Onofre unit 3 is expected to be taken down on Monday for a planned outage scheduled to last 55 days. The outage is longer than usual for maintenance and refueling.

Based on latest NRC reports, total nuclear generation output this morning reached 91,847 Mw up 764 Mw or .84% from yesterday's levels. Total generation was some 13.11% higher than the same date a year ago.

demand, adjusting figures for changes in well capability, the construction of new wells and other factors. The commission reported 305.2 Bcf in Texas natural gas storage in August compared with 245 Bcf in August 2003. The September gas storage estimate is 314.5 Bcf. Gas well gas from prorated fields accounts for 7% of total gas well production in the state,

down from 9% a year ago. The next hearing is set for October 20.

Baker Hughes reported that the number of rigs searching for oil and natural gas in the US increased by 7 to 1,239 in the week ending September 24th. It said the number of rigs searching for natural gas increased by 5 to 1,073.



El Paso Corp. and DKRW Energy LLC announced today that they have entered an agreement to develop up to 350 miles of natural gas pipeline within Sonora, Mexico by 2008. The pipeline will transport natural gas provided by Sonora Pacific LNG, a 1.3 Bcf/d LNG facility proposed for Puerto Libertad on the Gulf of California. Initial operations are targeted for the 2008 time frame. A total of 500 MMcf/d

of gas is expected to be consumed in Sonora, primarily in the power generation sector, while 800 MMcf/d is planned to be shipped to the U.S. The project will positively impact air quality in the region through the conversion of 1,200 Mw of existing residual fuel oil burning power station capacity in Sonora to cleaner-burning natural gas.

Northern Border Pipeline Company announced yesterday it has received commitments from shippers to support a proposed 130 MMcf/d expansion of its system into the Chicago market area.

Standard & Pors reported today that volume and price uncertainty in the rapidly growing LNG market may frustrate project financing for parts of the LNG supply chain, especially receiving terminals. They expected that many potential buyers will not want to commit to multi-billion dollar, 20-25 year purchase contracts, but rather will seek shorter contracts and the flexibility to take smaller volumes of LNG and deferrals without penalty so that they can match LNG supplies to their own near term business needs.

PIPELINE RESTRICTIONS

Florida Gas Transmission stated that due to high demand and warm temperatures, it is issuing an Overage Alert Day at 5% tolerance for today.

Gulf South Pipeline Company said that based upon its initial review of nominations, NNS demand, and other factors, Gulf South will be required to schedule available capacity and implement scheduling reductions for today. In East Texas/Capacity Allocation Area 8/Zone 1 Gulf South will notify affected parties when final scheduled quantities are available.

Northern Border Pipeline said the outage at Northern Border Pipeline's Compressor Station No. 18 is progressing as planned. At this time, it appears that Station 18 will not return to service earlier than originally projected. Consequently, the probability is high that the capacity curtailment condition related to this outage will be lifted for tomorrow.

Texas Eastern Transmission Corp. has several restrictions in place for today. Receipts on the 24-inch system have been restricted to capacity. Physical increases of receipts sourced between Longview and Fagus will not be accepted. Point operators are required to flow at no more than scheduled

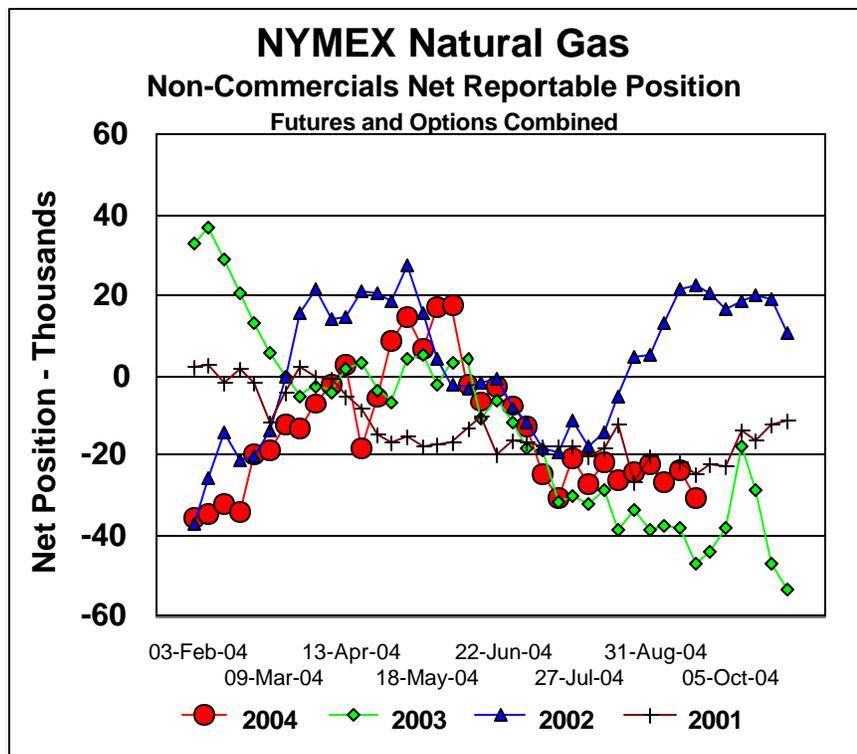
volumes in zones STX, ETX and M1-24. This work is scheduled to be done September 30. The Monroe Line in Zone ELA has been scheduled to capacity based on supply nominations for this lateral. Due to the impact of Hurricane Ivan, Tetco will not accept nominations from any meter on the South Pass system, line 40-G, until there is verification that the VGS processing plant has resumed full processing operations.

PIPELINE MAINTENANCE

Natural Gas Pipeline Company of America said that the completion date maintenance at Compressor 812 may possibly be delayed until October 2, which would allow scheduling back to normal levels effective gas day Sunday, October 3. Natural has been performing overhaul maintenance on one of the compressor units at Station 812 in Atoka County, Oklahoma. During this outage ITS/AOR and Secondary out-of-path transports in Segment 16 are at risk of not getting scheduled due to this reduced capacity.

Questar Pipeline Company said that it has experienced a mechanical failure at Fidar Station. Complete evaluation of the problem and the required repairs cannot be completed without unit 4 offline. As a result, Questar will schedule the ML 80 scheduling point at approximately the 150 MMcf/d level today and tomorrow.

El Paso Natural Gas Company said that Gallup B turbine maintenance has been completed ahead of schedule. The capacity of the San Juan Basin will return to full capacity effective today.



ELECTRIC MARKET NEWS

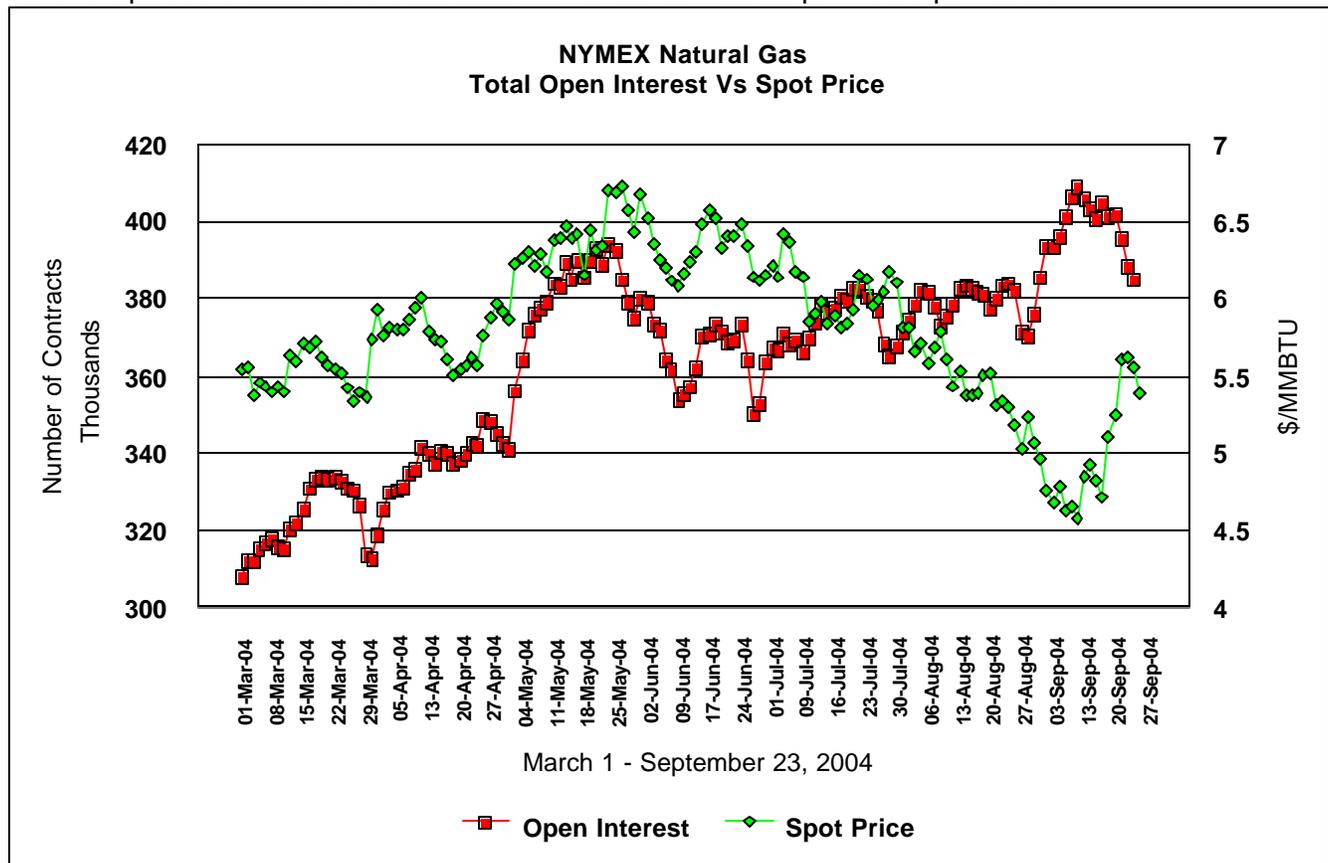
Kentucky's two largest electric utilities, Louisville Gas & Electric and Kentucky Utilities, have told the state Public Service Commission that they want to quit the Midwest Independent Transmission System Operator and operate on a stand-alone basis if the PSC will allow them to recover through rates of the \$23 million they would have to pay MISO in exit fees. In a testimony filed with the PSC Wednesday by Paul Thompson, LG&E Energy's vice president of energy services, the utilities said a MISO exit would best serve their interests and their customers. A stand-alone

operation would allow LG&E and KU to reduce and control current operational costs and risks, while at the same time maintaining historic reliability levels and largely preserving the regional trading opportunities attendant to membership in the MISO. The utilities added that if they are not allowed by the FERC to leave MISO under reasonable terms, then their least-cost option would be to remain in MISO.

The DC Intertie, a key transmission link between the Pacific Northwest and southern California, is due to be taken down at the beginning of next month for a major \$118 million modernization project which should make the line more reliable. The line, which has a maximum capacity of about 3,000 Mw and is one of two major transmission links between the Northwest and California, is not scheduled to return to service until the beginning of 2005.

MARKET COMMENTARY

The natural gas market opened a few pennies weaker to start the final day of trading for the week. The limited demand for gas near term kept pressure on the October and November contracts as each fell by double digits. But continued background support for the winter months kept these contracts contained within an inside trading. But in general trading interest was light with just 56,000 futures traded as many participants felt comfortable to await until Monday to assess the further recovery efforts of production in the USG from Hurricane Ivan as well updated tropical forecasts.



This afternoon's Commitment of Traders Report for the week ending September 20th surprised us in the fact that non-commercials during the week actually had increased their net short position by 3812 contracts in the futures only report and by 6827 contracts in the futures and options report. This seemed to run counter to the open interest reports especially from late last week and into this week, which had showed an overall decline in over 20,000 contracts in the last week. We can only partially explain this by the net position being distorted by the spread positions in this market, which continue to reach record all time highs.

We would look for weather to play a key component in the direction of prices for this market on Monday, especially for the October and November contracts. If the threat for further disruptions of production from Hurricane Jeanne or the rebirth yet again of Ivan in the southwestern Gulf of Mexico is removed then we think October prices will continue their downward path and look to backfill not only

the gap from Tuesday down at \$5.26 but challenge support levels at \$5.25 and \$5.11 before expiration on Tuesday. Judging by the open interest in the October natural gas options contracts which are set to expire on Monday, it would appear that the market may remain bracketed between \$5.25-\$5.50.

