



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR OCTOBER 12, 2004

NATURAL GAS MARKET NEWS

The U.S. Minerals Management Service reported after the close that as of today some 1.705 bcf of natural gas production remained shut in. This was only a modest improvement of 4% since Friday's report, due in part to the passage of Tropical Storm Matthew, which passed through the central USG and was responsible for shutting in some 142 MMcf/d of natural gas production. On a cumulative basis some 90.9 bcf of natural gas production has been lost in the past several weeks due to the damage from Hurricane Ivan.

El Paso's Southern Natural Gas Co. today said that total throughput on its Main Pass line was 350 MMcf/d, down 9% from yesterday. The company has 43 of 69 receipt points running on its Main Pass Line.

Prior to Hurricane Ivan, Southern Natural Gas was receiving about 800-850 MMcf/d of natural gas at 69 points

Generator Problems

MAAC – The 1,148 Mw Peach Bottom nuclear unit 2 is operating at 91% capacity, after boosting power 80% on the day. The plant restarted on Friday after being taken offline September 15 for its fall refueling outage.

The 1,100 Mw Hope Creek 1 nuclear reactor was taken offline Sunday after the plant experienced a manual reactor scram due to a steam leak in the turbine building. The plant is currently offline as officials look to investigate the cause of the steam leak.

MAIN – The 500 Mw Point Beach 2 nuclear unit continues to operate at 49% capacity today after being down powered 51% on Saturday.

SERC – The 800 Mw Surry nuclear 2 unit has restored output to 100% capacity. On Friday, the unit was cut to 18% capacity in order to perform maintenance on a secondary steam system drain tank valve.

The 921 Mw North Anna nuclear unit 1 has returned to full power. The unit restarted October 6, after going offline September 12 for a scheduled refueling and maintenance outage.

The 830 Mw Brunswick 1 nuclear unit was brought to full power yesterday after reducing production to 70% capacity on Friday. The unit's power was reduced in order to perform maintenance work on the transmission system and breakers.

The 870 Mw Crystal River 3 nuclear unit is running at 85% capacity, down 15% on the day. The unit has trimmed output to perform routine maintenance in the condenser.

The 846 Mw Oconee nuclear unit 3 has been shut for a scheduled refueling outage. On Friday, the unit was operating at 98% capacity.

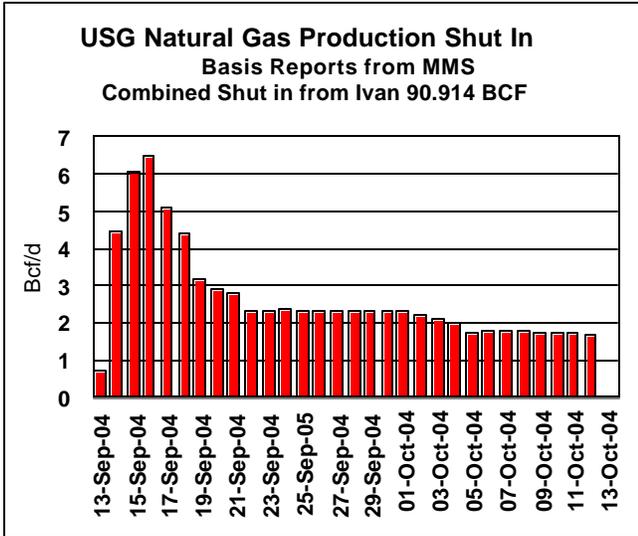
ERCOT – The 444 Mw coal fired Unit #4 at the Sandow Steam Electric Station was expected to be taken off line for 24 hours for slag removal from waterwall tubes in the boiler.

SPP – The 1,135 Mw Wolf Creek nuclear plant has trimmed output and is currently operating at 81% capacity. The reason for today's reduction was not immediately available.

The 966 Mw River Bend nuclear power gained 77% over the weekend and is now running at full capacity. The plant was operating at 23% capacity on Friday after being restarted on Thursday.

Based on the latest NRC reports, total nuclear generation output this morning reached 84,503 Mw down 254 Mw or .30% from yesterdays' levels. Total generation was some 8.59% more than the same date a year ago.

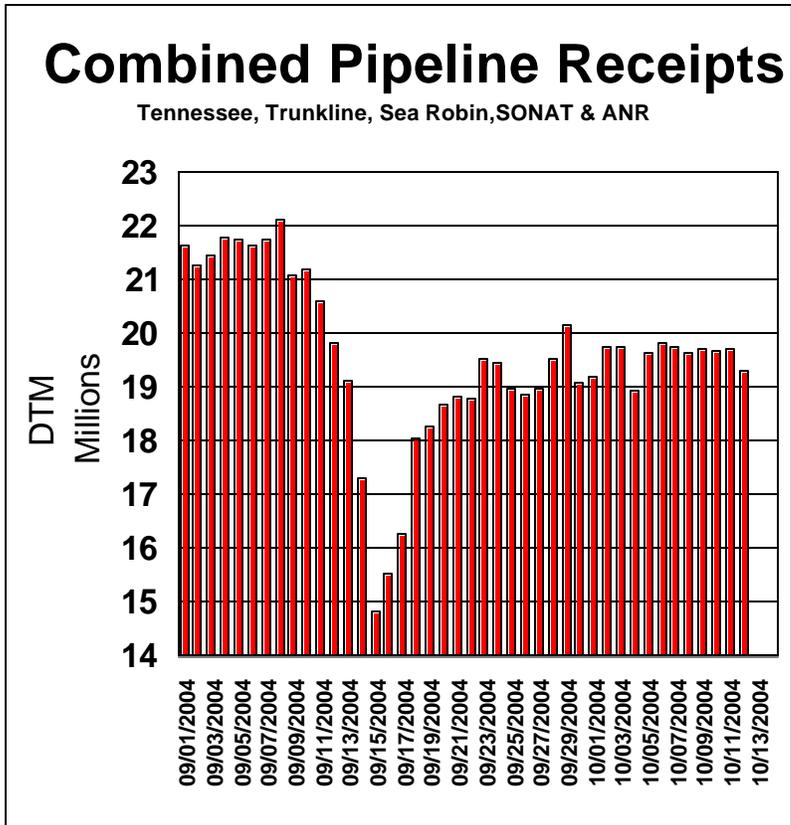
upstream of its Toca Compressor Station. The 43 receipt points were flowing about 500 MMcf/d before Hurricane Ivan.



A general lack of demand and lack of storage space in the region has occurred over the last two weeks. Another 26 receipt points upstream of Toca shut in under the force majeure were flowing 340 MMcf/d prior to Hurricane Ivan. Lines east of Main Pass 298 include nine of the 26 receipt points and Southern said yesterday it hopes to have this part of the system back in service in about 4-6 months. Prior to Ivan, the nine receipt points east of Main Pass 298 were flowing about 240 MMcf/d. The company also stated that its Main Pass 289 may not be back in service until February. Southern hasn't yet been able to complete a damage assessment to its gas lines east of Pass 298, but considers damage in the area extensive. The pipeline's Mississippi Canyon 194 line is expected to be back in service this week. The company continues to assess damage on its Main Pass 311 and 301 Lines but has been unable to make a repair estimate. The Main Pass

293 pipeline junction platform was completely destroyed by Ivan and the company has still not located the Main Pass 289 line or outgoing Main Pass 293 line, both apparently moved a significant distance to the south by Hurricane Ivan. In the meantime, total throughput on Southern's Main Pass line for 43 of 70 receipt points was at 385 MMcf/d, up 4% from last week. Light demand has back some of the output.

BP and its partners in the Tangguh Liquefied Natural Gas Project have signed a long term sales and purchase agreement with Sempra Energy LNG to supply LNG from Indonesia to markets in Mexico and the U.S. Developed with BPMIGAS, Indonesia's executive agency for oil and gas, the agreement represents the first long-term supply of Asia Pacific gas to North American markets. Under the agreement, up to 3.7 million tons of LNG a year will be delivered from the BP-operated Tangguh LNG project in Indonesia over a period of 20 years beginning in 2008 to Sempra Energy's proposed LNG receiving terminal near Ensenada in Baja California, Mexico. Once the terminal is completed it will have the capacity to process up to 1 Bcf/d, approximately 7.5 million tons per year of LNG inputs. Sempra will market the gas to Mexico and the West Coast of the U.S.



Consumer confidence in the U.S. economy rose in early October, helped by growing optimism about the government's economic policies, according to a survey released today. Investor's Business Daily and TechnoMetrica Market Intelligence said their economic optimism index rose in October to 57.5 from 54.3 in September. A reading above 50 indicates optimism.

PIPELINE RESTRICTIONS

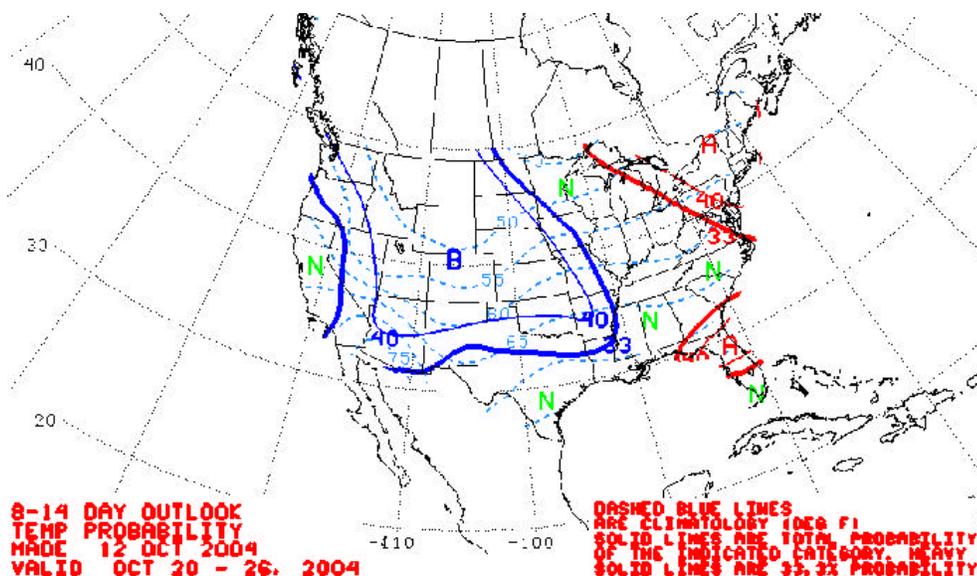
Florida Gas Transmission said that due to high demand and warm temperatures, it is issuing an Overage Alert Day at 25% tolerance for today.

National Fuel Gas said that due to fall shut-in testing of system storage, it will have limited or no excess/interruptible injections available through October 15.

TransColorado affirmed that it and El Paso are continuing to work to resolve the gas quality issue at the El Paso Blanco interconnect. However, due to the continued presence of liquid substances in the pipeline, the force majeure will continue until further notice. This past weekend the situation did not improve, therefore TransColorado reduced the capacity available through this interconnect. As of October 9 and until further notice, interruptible flow, authorized overrun, secondary out-of-path, secondary in-path and primary volumes remain at risk of not being scheduled.

Texas Eastern Transmission Corp. said that due to a pipe replacement at Batesville, receipt points between Longview station and Batesville station have been restricted to the capacity required to run the pigs. No

increases of physical supply between Batesville and Longview will be accepted.



Transwestern announced that due to unplanned station maintenance on the P-2 Power Turbine, Transwestern will be allocating through the P-3 Compressor Station located on the Panhandle Lateral down from 263 MMcf/d to approximately 230 MMcf/d through October 15.

Panhandle Eastern Pipe Line Company said that its

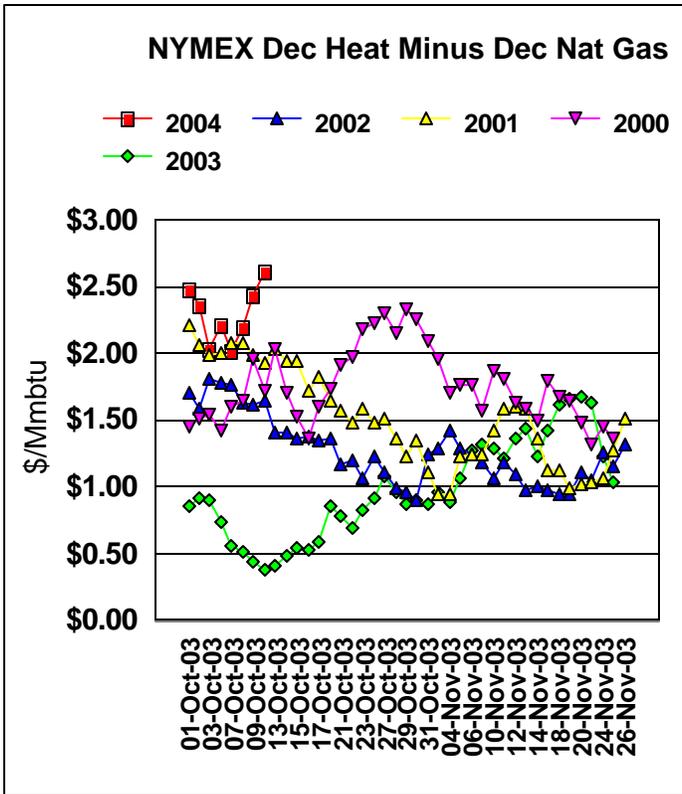
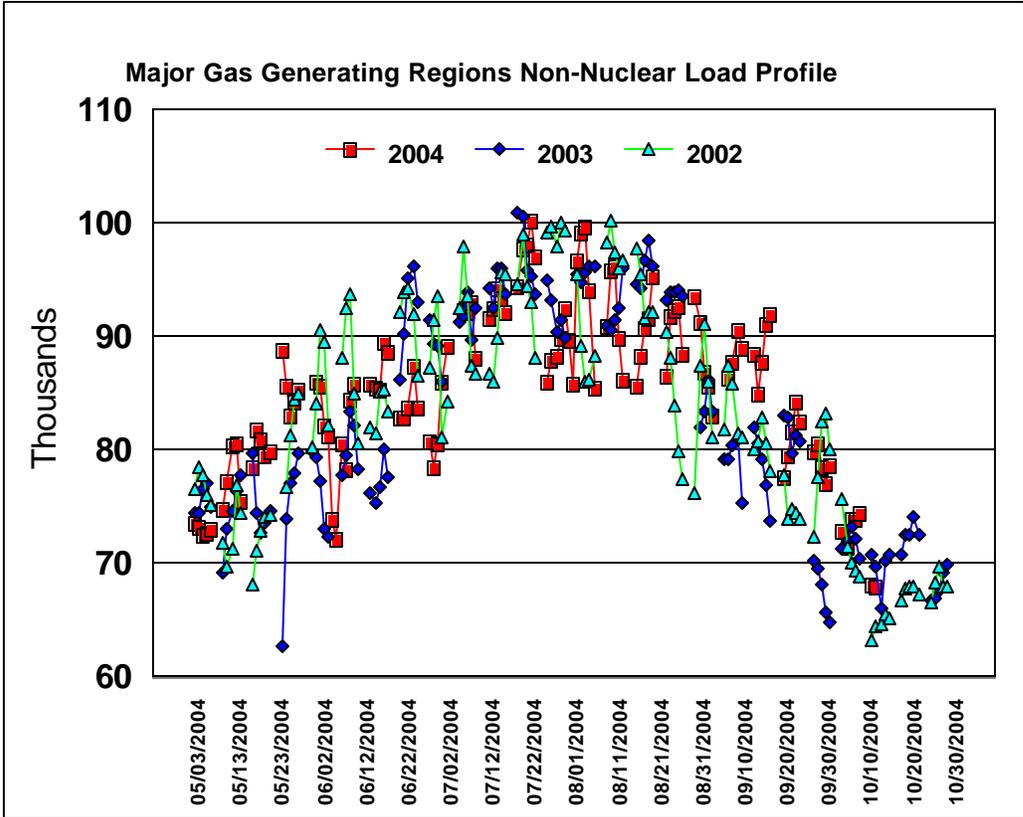
unscheduled outage at the Liberal Unit's 315 and 317 has changed. Unit 317 will be back in service on October 14. However, Unit 315 will remain out of service through the end of October. The operational capacity through Liberal is currently 800 MMcf/d.

Transcontinental Gas Pipe Line said that its physical storage inventories and customer inventories are approaching maximum levels. These high inventories have reduced the operational flexibility normally available to manage shipper transportation and OBA imbalances. Further, the continued forecast of moderate market area temperatures is expected to result in reduced customer demands along the Transco system. Effective today, Transco will not approve any requests for excess storage injections under any of its firm storage services. The company will reduce the allowable pool schedule tolerance to 1%. Transco will not enforce the pool schedule tolerance during the timely nomination cycle. However the pools will be limited to the 1% tolerance during the evening, and ID1 nomination cycles and Transco will balance the aggregation and disaggregation nominations prior to the conclusion of the ID2 cycle. Transco will also not allow any gas to be parked on its system and nor will it allow any loan payback until further notice. Finally, Transco will not accept payback nominations from shippers with imbalances due-from-shipper.

PIPELINE MAINTENANCE

Southern Natural Gas Pipeline Company said it will be conducting pipeline integrity work between the Pickens and Louisville compressor stations that will require deliveries from Southern to Texas Eastern-Kosciusko and Gulf South-Kosciusko to be discontinued Tuesday, October 12, through Wednesday, October 20.

Centerpoint Gas Transmission stated that it will be performing annual maintenance and compressor overhaul on the #1 unit at Delhi Station on Monday, November 1. The estimated duration for this work is two weeks. As a result of this maintenance and overhaul, the delivery capacity at Columbia Gulf/Perryville will be limited to between 250 MMcf/d and 270 MMcf/d. No interruptible services will be scheduled during this time and to the extent necessary, firm delivery nominations will be reduced and scheduled in accordance with the tariff.

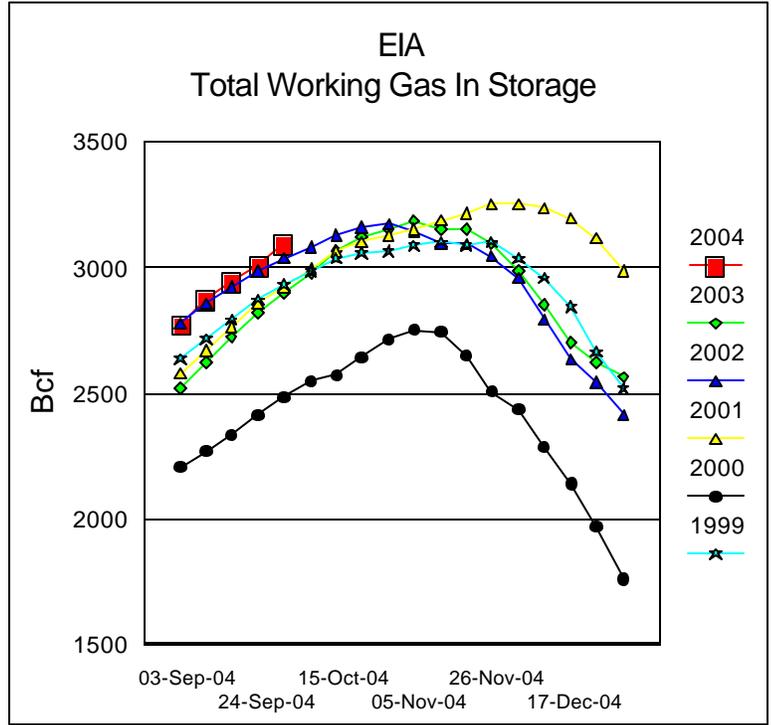


Trunkline Gas Company stated that the Texas outage from the Kountze compressor station to Valve Section 43-1 is expected to be back in service on October 13. The pipeline will accept nominations beginning on October 12 for October 13 business.

MARKET COMMENTARY

The absence of any meaningful heating or cooling demand, more than adequate nuclear generation levels, and storage levels that continue to approach record levels continued to weigh on natural gas cash and spot futures levels today. Even with oil prices opening higher and setting new contract highs in the crude oil and heating oil contracts, the natural gas market gapped lower breaking below the upward trend line of the past several weeks, which this morning stood at \$6.953. While the natural gas market retraced some 62% of the morning's sell off by midday, the inability of prices to reach back to the opening price levels and then make a challenge of the previous support line, seemed to weigh on the market, and thus when oil prices began to push lower later in the day, natural gas values dropped some 15 cents by the close, settling at its lowest level since September 28th, down 35.7 cents at \$6.636. Final volume on the day

was good with over 91,000 futures contracts traded with excellent volume recorded in the final 30 minutes of trading, when values made the strong push downward to the new lows for the day.



The natural gas market has come upon a major area of support in the charts at \$6.605-\$6.62, followed by \$6.596. More distant support we see at \$6.37 and \$6.335. While we look for the November contract to remain under pressure in the next several days given bulging storage levels, we feel that December natural gas may begin to search for support, given the continued delay in getting the remainder of USG production back on stream. We also feel that the premium in heating oil over natural gas in the December contracts has widened out to levels that are just not justified given current level of heating oil stocks. As a result we think the spread between these two commodities is an appealing trade. One could look to sell December natural gas puts and buy December heating oil puts taking advantage of the nearly 20% difference in IV's between these two commodities. We would look to begin to establish a position in this spread by first looking to sell the \$7.60 December puts and buying the \$1.43 December puts at close to even money. This spread basis settlements would have yielded 0.55 cents per Mmbtu and we feel come tomorrow, one could pocket even more premium or look to lower the natural gas strike on establishing this spread.

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