



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR OCTOBER 22, 2004

NATURAL GAS MARKET NEWS

The New York Mercantile Exchange announced that it will increase some of the margins on its natural gas futures. Margins on the first and second months of the standard-sized natural gas futures contract will increase to \$7,500 from \$6,500 for the first month and from \$6,000 for the second month for clearing members; to \$8,250 from \$7,150 for the first month and from \$6,600 for the second for members; and to \$10,125 from \$8,775 for the first month and from \$8,100 for the second for customers. Margins on the third month will increase to \$7,250 from \$6,000 for clearing members; to \$7,975 from \$6,600 for members; and to \$9,788 from \$8,100 for customers. The fourth month will increase to \$7,000 from \$6,000 for clearing

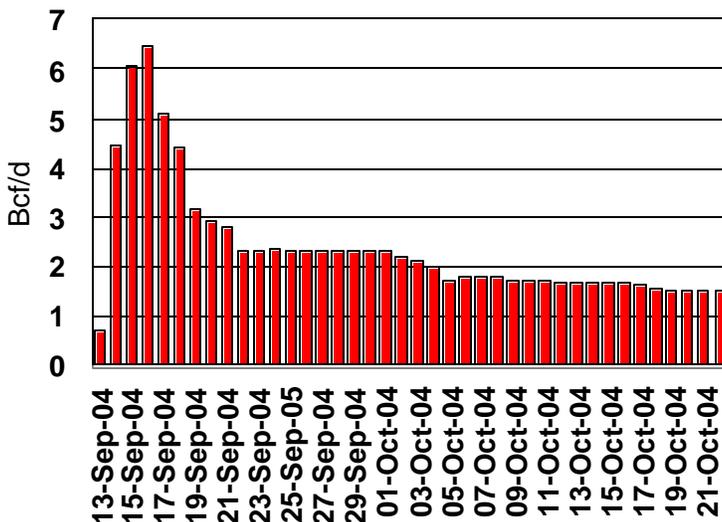
Generator Problems

MAAC – The 1,148 Mw Peach Bottom 2 nuclear unit is currently operating at 60% power, down 40% on the day. Reasons for the reduction are still unknown.

SPP – The 966 Mw River Bend nuclear unit was taken offline this morning, after operating at 98% capacity yesterday. Reasons for the shut have yet to be disclosed.

Based on the latest NRC reports, total nuclear generation output this morning reached 80,108 Mw down 1,320 Mw or 1.6% from yesterday's levels. Total generation was some 2.67% more than the same date a year ago.

**USG Natural Gas Production Shut In
 Basis Reports from MMS
 Combined Shut in from Ivan 97.154 BCF**



members; to \$7,700 from \$6,600 for members; and to \$9,450 from \$8,100 for customers. The fifth month will increase to \$6,500 from \$5,500 for clearing members; to \$7,150 from \$6,050 for members; and to \$8,775 from \$7,425 for customers. The sixth month will increase to \$4,000 from \$3,500 for clearing members; to \$4,400 from \$3,850 for members; and to \$5,400 from \$4,725 for customers. Margins on all other months are unchanged.

The MMS reported that there was some small improvement in the amount of production shut in the Gulf of Mexico. It said there was still about 1.521 bcf/d of natural gas still shut in on Friday, down from 1.544 bcf on Thursday.

Baker Hughes reported that the number of rigs searching for oil and natural gas in the US increased by 25 to 1,250 in the week ending October 22nd. The number of rigs searching for

natural gas increased by 14 to 1,071.

Spinnaker Exploration Company updated its expectation as to the impact of Hurricane Ivan and weather-related production curtailments for the third quarter. Spinnaker believes that total net production of 0.6 Bcfe of gas was lost in the third quarter due to weather-related shut-ins. A majority of that production deferral relates to Hurricane Ivan. With the effects of Hurricane Ivan included, the company now expects to have produced net volumes of 11.2-11.3 Bcfe during the third quarter, versus original guidance of 11.5 Bcfe.

Today, President Bush signed into law a \$140 billion corporate tax cut bill that provides a host of tax incentives and credits for natural gas, electricity, renewable energy and other fuels.

Shell is confident of signing a final agreement this year on the long-awaited Mariscal Sucre LNG project in Venezuela, according to a company official. Shell Venezuela president Joaquin Moreno told local daily Panorama, "We are confident that by the end of the year we can move on the next phase, which is setting up the company." Moreno said negotiations with partners Mitsubishi and Venezuelan state oil company PDVSA had resumed after being interrupted by Venezuela's national referendum in August. The partners have missed several self-imposed deadlines for finalizing the JV agreement after a preliminary development agreement was signed in 2002.

ChevronTexaco Inc. has put on hold the construction phase of Port Pelican LNG terminal, a spokeswoman said. The construction of the facility will be delayed until the company secures long-term LNG supply contracts, Nicole Hodgson said today from ChevronTexaco's San Francisco offices. The offshore terminal has recently completed engineering work, with the next step slated to be construction. The construction was expected to begin this year. The supply could come from the company's LNG and natural gas operations in Venezuela, Nigeria or Angola. Hodgson said that it is too early to say what sort of long-term commitments the company will negotiate. The Port Pelican development is slated to consist of an LNG ship receiving terminal, LNG storage and regasification facilities, and pipeline interconnection to existing offshore infrastructure to deliver the gas into the U.S. interstate gas pipeline network via the Henry Hub. The site's gasification facilities will be able to handle 1.6 Bcf/d. Commissioning had projected for 2007, followed by start-up operations.

PIPELINE RESTRICTIONS

Florida Gas Transmission said that due to high demand and low linepack, it is issuing an Overage Alert Day at 15% tolerance for today.

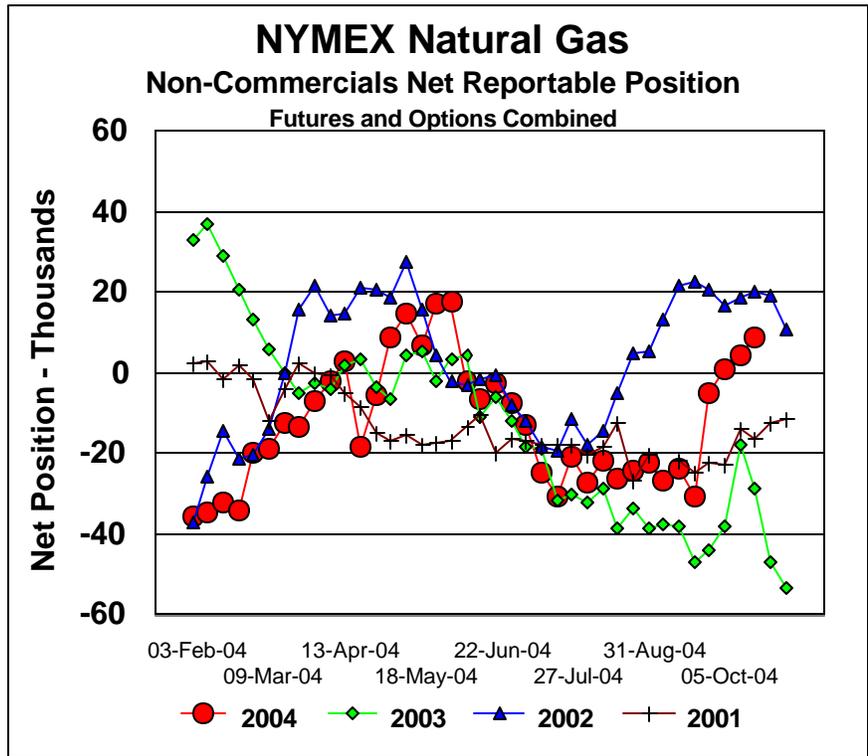
Transwestern said that modifications were made at the Transwestern Blanco interconnect effective Monday, October 18, which increased the point capacity from 260 MMcf/d to 475 MMcf/d.

Tennessee Gas Pipeline stated that due to nominations in excess of available capacity, Tennessee anticipates restricting through a pro-rata portion of secondary-out-of-path nominations pathed from meters located on the Central Texas Gathering System including the Transco Wharton meter effective today.

PG&E California Gas Transmission has called a system wide operational flow order on its California natural gas pipeline for today's gas flow. PG&E issued the restriction because of high gas supplies on its system. The pipeline restriction has a 6% tolerance, with shippers who violate the OFO subject to a monetary penalty.

Panhandle Eastern Pipeline Company affirmed that the E-301 (Seiling) Compressor outage has been completed as of yesterday.

Algonquin Gas Transmission announced its interconnect with Tennessee Gas Pipeline in Mahwah, NJ has been restricted to capacity for today.

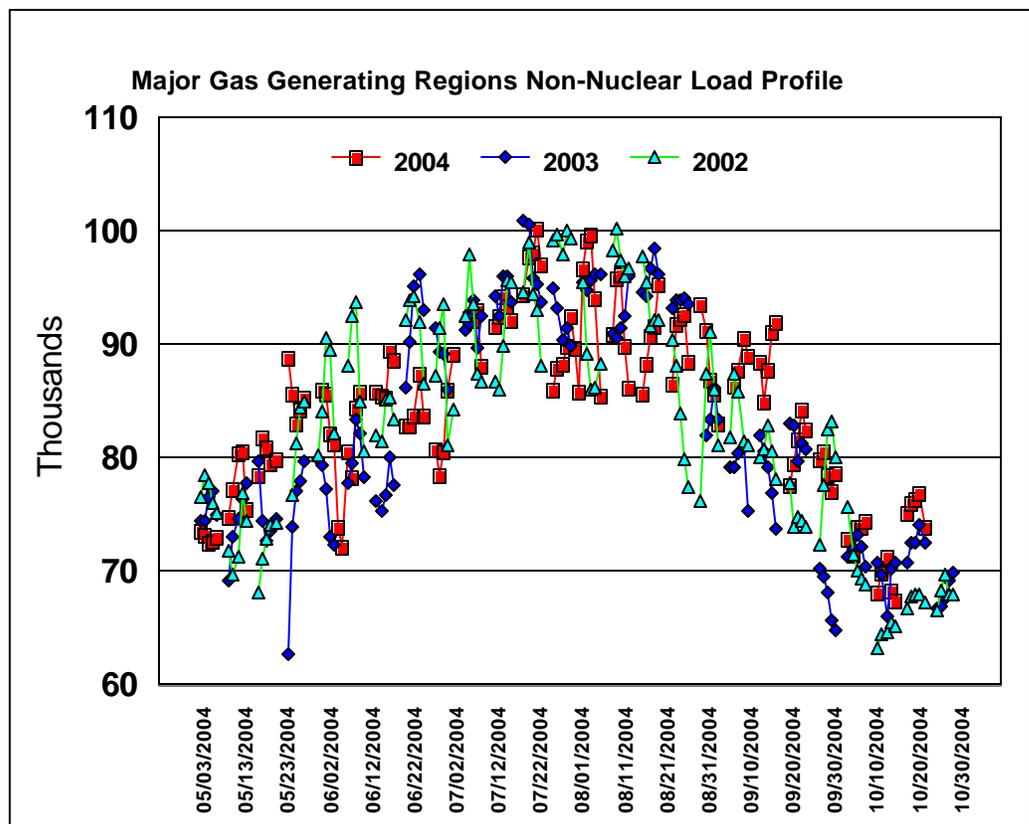


PIPELINE MAINTENANCE

Natural Gas Pipeline Company of America said that the tie-in work at Compressor Station 802 in Lamar County, Texas was completed yesterday. Effective today, capacity will return to normal levels and nominations will be scheduled accordingly.

Alliance Pipeline recently reported several maintenance projects next week. Scheduled maintenance at Paddle River station in Alberta will require the lateral compressor to be unavailable for 36 hours on October 27. Station capacity will be reduced to zero. Scheduled maintenance will require the Carson Creek Unit 2 lateral

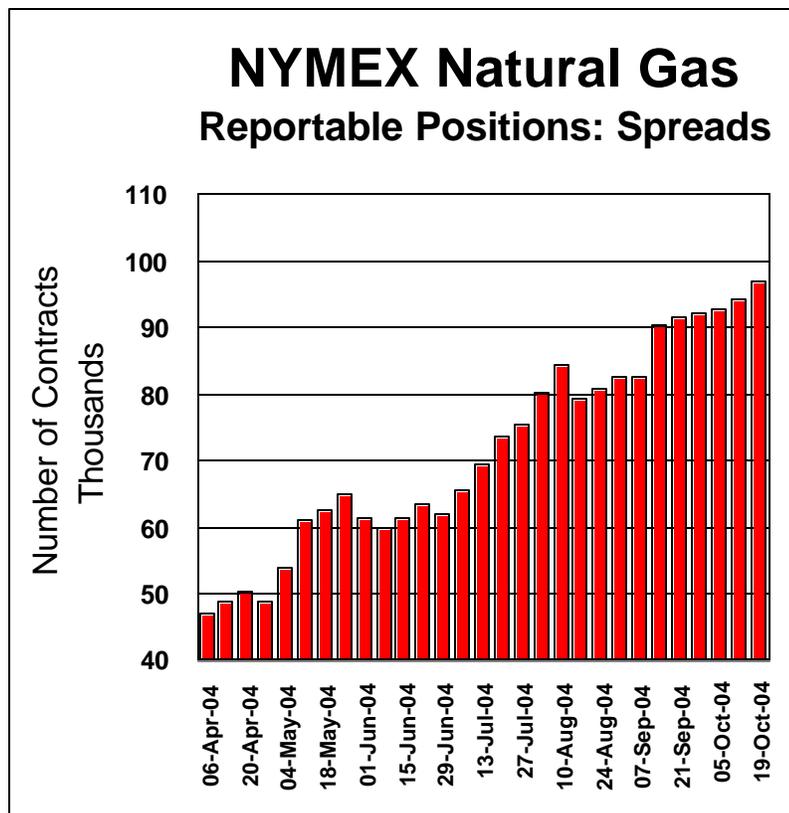
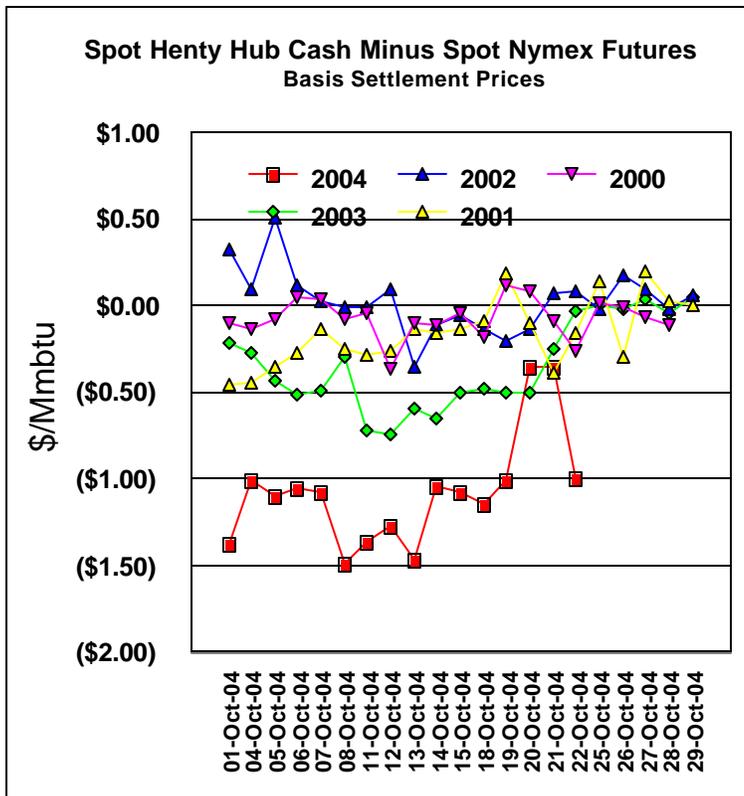
compressor to be unavailable for 8 hours on October 26. Station capacity will be reduced to 14.04 MMcf/d. Scheduled maintenance will require the Teepee Creek lateral compressor station to be unavailable for 8 hours on October 27. Station capacity will be reduced to 30.1 MMcf/d. Regular scheduled maintenance will require the Loreburn Compression Station to be offline for 60 hours starting at 9:00 AM MT on October 26. System throughput will be affected and will be



determined closer to the outage date.

ELECTRIC MARKET NEWS

The Midwest Independent Transmission System Operator will start operating its energy market sometime next month, when it opens its financial transmission rights auction and begins system testing, more than 3 months before its official start date of March 1. "You could say our market is starting in November," said Jim Torgerson, MISO President and CEO Jim Torgerson at a Platts' transmission conference in Arlington, VA. MISO must furnish a status report to the FERC 30 days before March 1, about "how we're getting ready," Torgerson said. MISO plans to send the FERC the "readiness advisory" December 1. The advisory will examine 88 issues and their status before the ISO goes to market. Starting next month, the ISO will, among other things, test its ability to accept bids, run 5-minute dispatches, post locational marginal price dispatches, and complete settlements.



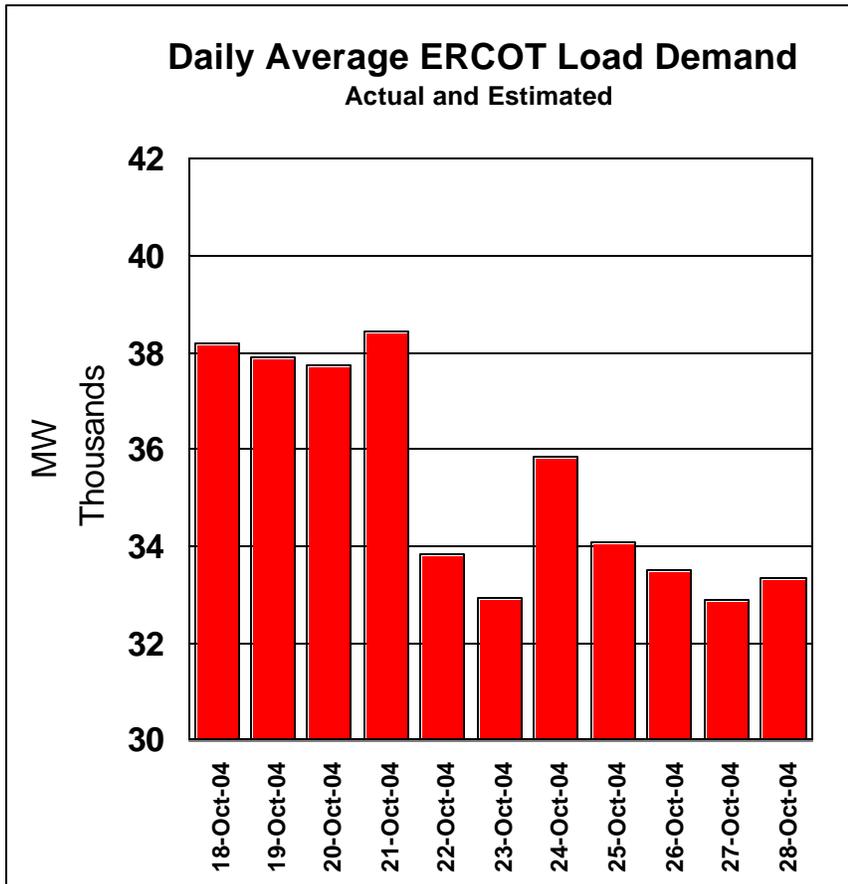
California wholesale power market participants Friday during a conference call complained that Cal ISO's new system for penalizing generators who fail to follow the grid operator's dispatch instructions may be based on inaccurate data. The penalty scheme began on October 1st, as a part of the next phase of the ISO's market redesign. Currently the ISO is calculating the fines for generators but is not imposing them.

MARKET COMMENTARY

The bulls seemed to awake early Friday, as buyers started to flood into the market during the final 90 minutes of trading on Access as prices surged nearly 30 cents higher and once again made shorts of the out of the money of calls nervous. Coming into this morning some 6600 positions were open in the November \$8.00 calls with 4600 in the December \$9.00 calls. Protective

buying by these shorts coupled with spill over buying from the bullish fever from the oil markets helped

to propel these markets to yet new contract highs for the third consecutive trading session, despite cash prices moving in the opposite direction. Final volume on the day though was relatively light with just 50,000 futures traded.



Once again the Commitment of Traders Report offers little insight into the market, as its reporting period ended Tuesday, October 19th, when prices were over a dollar less than those reached Friday. Despite this time lag the report did show that non-commercials increased their long positions in this market for the fourth straight week basis futures and the third week in a row basis the combined futures and options position. The report also showed reportable spread positions also sat an all time high of 96,949 contracts. With the November-December spread contracting by over 30 cents since the reporting period ended, we would believe that this number will be significantly lower come next week's report.

We continue to feel that with the expectation of moderating

weather demand, for both heating and cooling next week, that cash prices will once again come under pressure and we feel that this will drag futures prices for November lower early next week. We feel that the drive to force additional shorts of out of the money calls to cover before November's expiration will be difficult given that the two strikes with significant open interest remaining are the \$8.50 and \$9.00 call strikes are limited with just 3008 and 6125 lots respectively.

We see resistance coming Monday at Friday's high of \$8.23 followed by \$8.50, \$9.00, \$9.60, \$10.10. Support we see at \$8.00, \$7.82, \$7.57, \$7.44, \$7.37 and the gap at \$7.32-\$7.16.