



## ***ENERGY RISK MANAGEMENT***

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### **POWER MARKET REPORT FOR OCTOBER 27, 2006**

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#### **NATURAL GAS MARKET NEWS**

Baker Hughes reported that the number of rigs searching for oil and gas in the U.S. rose five to 1,744 in the week ending October 27. During the same week last year, there were 1,480 rigs active. The number of rigs searching for oil fell two to 289, while the number of rigs searching for gas rose eight to 1,450.

The NYMEX announced today that it set a daily volume record for natural gas futures contracts traded on the CME Globex electronic trading platform on Wednesday. Natural gas futures traded a record 54,213 contracts, exceeding the 48,235 contracts traded on October 18.

#### **PIPELINE RESTRICTIONS**

East Tennessee Natural Gas said that conditions on its system will allow for the resolution of due pipe imbalances. LMSMA parties who currently have due pipe positions should take steps to resolve as ratably as possible over the remainder of the month. With the exception of make up volumes, on a daily basis, ETNG requires shippers and point operators take action to balance receipts with scheduled deliveries.

Kern River Pipeline said that linepack has returned to normal across its entire system.

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. Tolerance was set at 9%.

#### **PIPELINE MAINTENANCE**

Gulf South Pipeline said that due to inclement weather conditions the scheduled maintenance at the Carthage Junction Compressor Station start date has been rescheduled to begin on October 27 and last through October 28.

Northwest Pipeline has rescheduled the pig runs between the Pleasant View and La Plata compressor stations that were originally scheduled to be completed in October. The first pig run will take place on November 1, and the available capacity at the Pleasant View compressor for that day will be 284 MMcf. The second pig run has been rescheduled for November 3 and the available capacity at the Pleasant View compressor for that day will be 302 MMcf.

#### **Generator Problems**

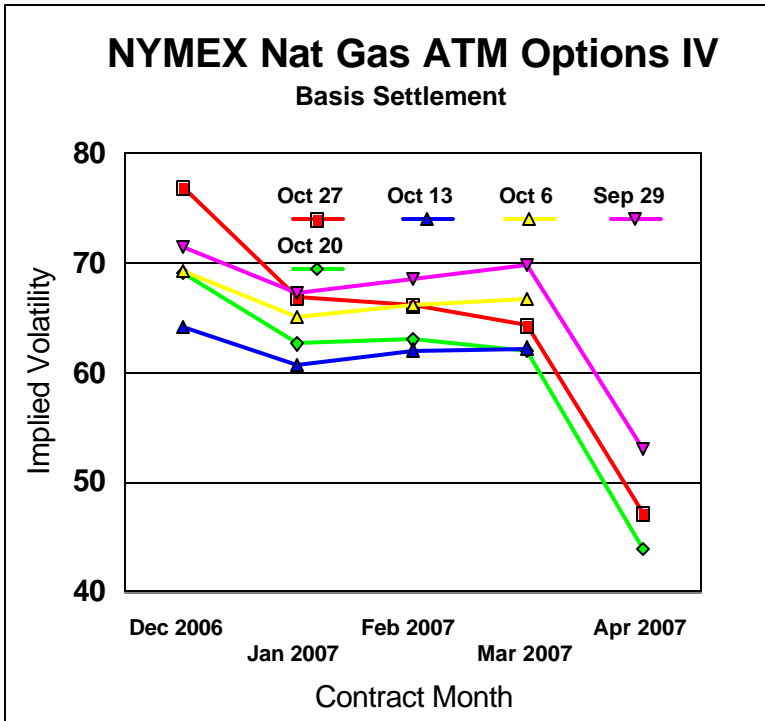
**ERCOT** – TXU's 1,150 Mw Comanche Peak #2 nuclear unit was manually shut this morning due the loss of both main feed pumps. Operators are testing the units. The unit just recently returned from a refueling outage. Comanche Peak #1 continues to operate at full power.

**MAIN** – Dominion Resources' 591 Mw Kewaunee nuclear unit ramped output to 40% capacity today. Yesterday, the unit was operating at 30% as it returns from a refueling outage.

**SERC** – Progress Energy's 710 Mw Robinson #2 nuclear unit exited an outage and ramped up to 30% by early today.

Entegy's 966 Mw River Bend nuclear unit returned to full capacity today. Yesterday, the unit was operating at 89% capacity.

**The NRC reported that 73,869 Mw of nuclear capacity is on line, up .63% from Thursday, but 8.00% lower than a year ago.**



Williston Basin Interstate Pipeline Company has extended work at both the Little Beaver Compressor Station and the Bismarck Compressor Station. Planned maintenance at the Little Beaver Compressor Station will now continue through October 31 at 3:00 PM MT. Williston does not anticipate any restriction to the system. Meanwhile, the company said that unplanned maintenance at the Bismarck Compressor Station will go through November 3. Maximum capacity at Bismarck will be approximately 35 MMcf/d. Williston also said that all repairs were made to the 8-inch looped line late Wednesday and operations on the line have resumed to normal. Finally, Williston said it has changed the start date for the Line Section 20 valve work, now projecting the work to begin November 7.

#### ELECTRIC MARKET NEWS

FERC told power grid operators to coordinate the scheduled and purchase of natural gas transportation with the gas pipelines to enhance electric reliability. In an order,

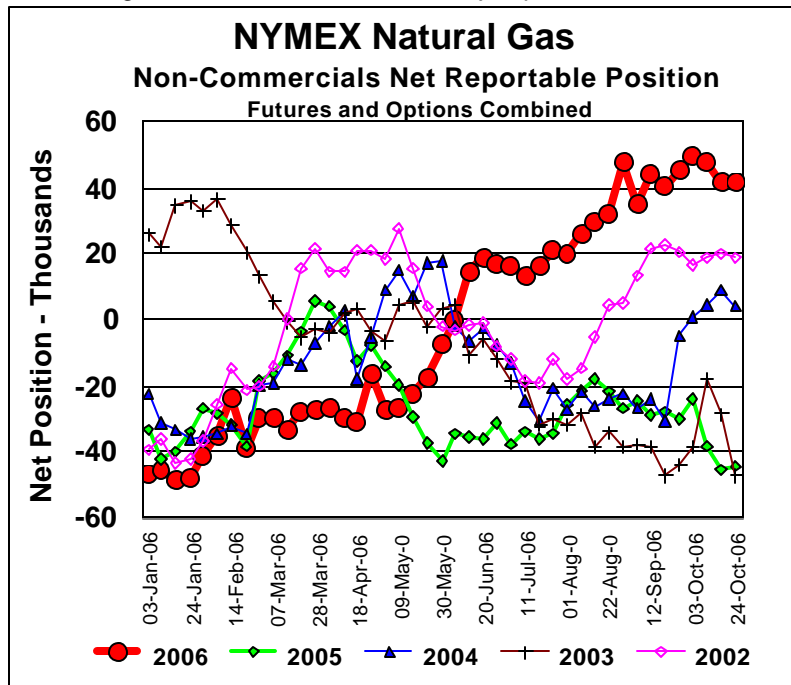
FERC told the regional transportation operators and independent system operators to file by January 16 proposals needed to change their scheduling and compensation systems or explain why such changes are unnecessary. FERC wants the grid operators to look at how gas-fired generators in their territories obtain gas when the grid needs their plants for reliability reasons, and to make sure those generators receive adequate compensation when volatility in gas prices creates difficulty in recovering high gas costs.

The southern California wildfire that killed four firefighters burned beneath a major power transmission line overnight but did not affect the flow of electricity and is not expected to alter performance of the line. Sagebrush under the 500-kilovolt Devers Valley line did not and will not burn high enough to affect the transmission line. The Devers Valley line runs between two substations, one in Romoland, California, and the other in Devers near Palm Springs, California.

American Electric Power's South Texas transmission utility completed replacement of a four-mile section of the Lon Hill-Nelson Sharp 345-kilovolt line on Friday. The transmission line returned to service at 10:45 AM CT. Storms moving through the region delayed the installation work.

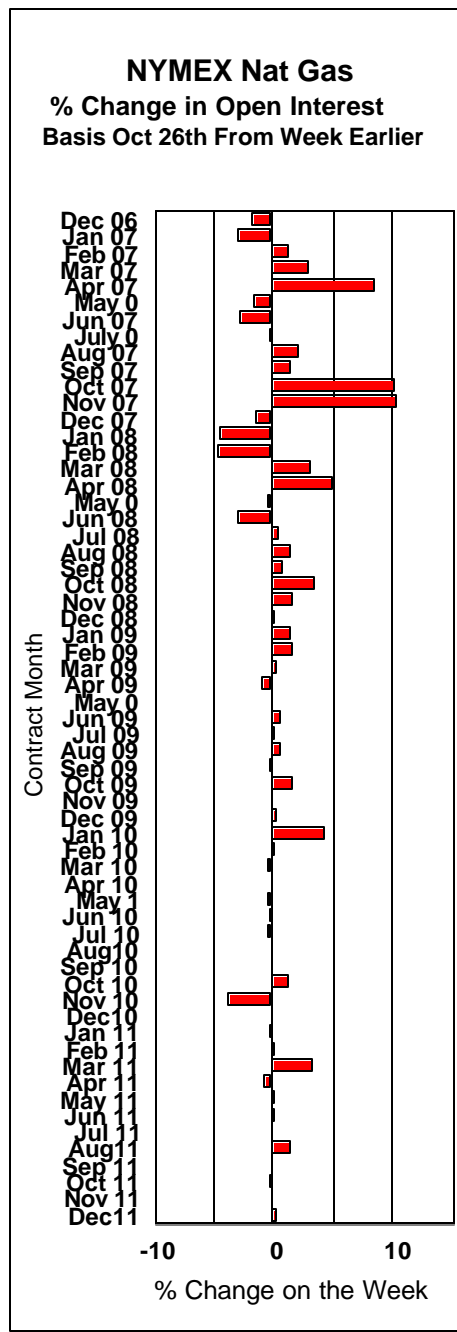
#### MARKET COMMENTARY

November natural gas opened 8 cents lower to start its final trading session. In typical choppy expiration trading, November natural gas rose early trading to a high of 7.72, but succumbed to the downtrend and broke below the early 7.40 support. November trailed off



November trailed off

the board, returning this week's premium as it traded to a low of 7.06 before finishing down 34.4 cents at 7.153. The new front month December traded to a high of 8.45 as it mirrored November, and sank as low as 7.74 before settling down 24 cents at 7.827, just above its 20-day moving average.



The Commitment of Traders report showed that non-commercial traders reduced their net long futures position by 948 lots to 41,233 contracts. In the combined futures and options report, non-commercial traders increased their net long position by 105 lots to 41,883.

Weather forecasts will continue to dictate the direction of the market, with any reports of moderation to temperatures pressuring natural gas lower. Our early expectations for the EIA's inventory report following this week's cold snap call for a draw of 8-9 Bcf, but with longer-term forecasts calling for moderating temperatures in the month of November, total stocks will still reach the record 3.5 Tcf. The technical base that the November contract put in place will serve as support as we enter the peak demand winter season. We see support in December at \$7.80, \$7.74, \$7.50, \$7.24 and \$7.00.

**NYMEX Nat Gas Options Most Active Strikes for October 27, 2006**

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
ON	12	6	P	6	11/27/2006	0.076	3,944	73.81
ON	12	6	P	8	11/27/2006	0.795	3,419	77.40
ON	1	7	P	6	12/26/2006	0.106	3,100	66.50
ON	5	7	C	9	04/25/2007	0.488	2,700	47.18
ON	1	7	C	10	12/26/2006	0.397	2,676	71.19
ON	12	6	P	7	11/27/2006	0.312	2,641	75.06
ON	12	6	P	6.5	11/27/2006	0.164	2,601	74.00
ON	2	7	C	9.5	01/26/2007	0.701	2,571	68.72
ON	12	6	C	9	11/27/2006	0.328	2,531	80.11
ON	2	7	C	11.5	01/26/2007	0.359	2,270	73.17
ON	12	6	C	8.5	11/27/2006	0.453	2,234	78.68
LN	12	6	P	5.5	11/27/2006	0.0292	2,200	74.71
ON	12	6	C	10	11/27/2006	0.171	2,178	82.85
ON	3	7	C	12	02/23/2007	0.365	2,025	71.72
LN	2	7	C	12	01/26/2007	0.2971	2,000	70.44
LN	3	8	P	5	02/26/2008	0.1828	1,700	47.78
LN	3	8	P	4	02/26/2008	0.0537	1,700	45.76
LN	12	6	P	6.5	11/27/2006	0.1642	1,350	75.58
LN	1	7	C	15	12/26/2006	0.0424	1,300	77.21
ON	1	7	C	9.5	12/26/2006	0.499	1,300	69.93
ON	3	7	P	8.6	02/23/2007	1.432	1,150	65.52
LN	3	7	C	15	02/23/2007	0.1508	1,150	71.25
ON	3	7	C	8.6	02/23/2007	1.01	1,150	65.25
LN	2	7	P	8	01/26/2007	0.8824	1,100	69.17
LN	12	6	C	12	11/27/2006	0.0445	1,100	85.29
LN	2	7	C	15	01/26/2007	0.1013	1,100	72.93
ON	3	7	C	8	02/23/2007	1.224	1,000	63.78
ON	12	6	P	10	11/27/2006	2.337	985	84.09
LN	3	7	P	7.25	02/23/2007	0.6424	950	64.43
LN	1	8	P	8	12/26/2007	1.0271	900	50.84
ON	1	7	C	9	12/26/2006	0.629	822	68.66
ON	3	7	P	6.75	02/23/2007	0.427	800	58.77
ON	1	7	P	8.75	12/26/2006	1.176	800	68.21
ON	1	7	C	8.75	12/26/2006	0.707	800	68.05
LN	10	7	P	8	09/25/2007	1.4496	775	57.84
ON	5	7	P	6	04/25/2007	0.292	700	45.95
LN	4	7	P	7.7	03/27/2007	0.9507	700	52.92
LN	4	7	C	7.7	03/27/2007	0.8353	700	39.89