



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR NOVEMBER 9, 2004

NATURAL GAS MARKET NEWS

The EIA today released its Short Term Energy Outlook and it now estimates that the U.S will see demand for natural gas reaching 5.59 tcf, in the 4Q2004 down 0.8% from last month. Estimates for demand for natural gas in 2005 are placed at 22.51 tcf, an increase of nearly 0.2% from last month. Prices for natural gas are seen averaging this quarter at \$6.97 basis Henry Hub some 33 cents higher than last month's estimate. Prices in 2005 are now seen averaging \$6.33 some 15 cents higher than last month's estimate.

ChevronTexaco Corp. stated today it signed a 20-year agreement for 700 MMcf/d of capacity at Cheniere Energy Inc.'s Sabine Pass LNG Terminal in Louisiana. The terminal use contract calls for Chevron USA to pay Sabine Pass up to \$20 million in reservation payments, starting with the unconditional payment of \$5 million within 15 days. Under the terms of the contract, Chevron will pay 32 cents per million Btu, with a clause for inflation, for the 700 MMcf/d of regasification capacity for a 20-year period beginning no later than July 1, 2009. Chevron USA has the option to reduce its capacity to 500 MMcf/d or increase to 1 Bcf by December 1, 2005 at the same tariff. The companies also continue to negotiate agreements for ChevronTexaco to make a \$200 million equity investment in Sabine Pass LNG, which will own and operate the terminal, for a 20% stake. The agreement is subject to corporate approval, including approval by ChevronTexaco's

Generator Problems

ECAR – The 1,090 Mw D.C. Cook 2 nuclear unit restarted this morning warming up at 1% capacity. The plant shut on October 2 for refueling, and a schedule for the return to full power was not immediately available.

MAAC – The 1,100 Mw Susquehanna 1 nuclear unit ramped output 5% and is currently operating at 80% capacity. Output was reduced 25% over the weekend to repair a pump, and it is too early to tell when the unit will resume full power.

The 1,100 Mw Salem 1 and 2 nuclear units have been restored to full power. The unit reduced output on Sunday due to a solar magnetic disturbance.

MAPP – The 800 Mw Cooper nuclear facility is currently running at 56% capacity, up 36% on the day. The plant restarted yesterday morning after being taken offline on October 18 to investigate turbine vibrations.

SERC – The 900 Mw Harris nuclear unit shut to investigate a problem with water moving into one of the reactor's steam generators. The unit restarted on October 7 and planned to synchronize to the grid later that day, but stopped the process and shut due to the water flow issue. The unit did not return to service on Sunday and has remained offline since October 16 when it shut for a planned refueling and maintenance outage. The unit was operating at 3% yesterday.

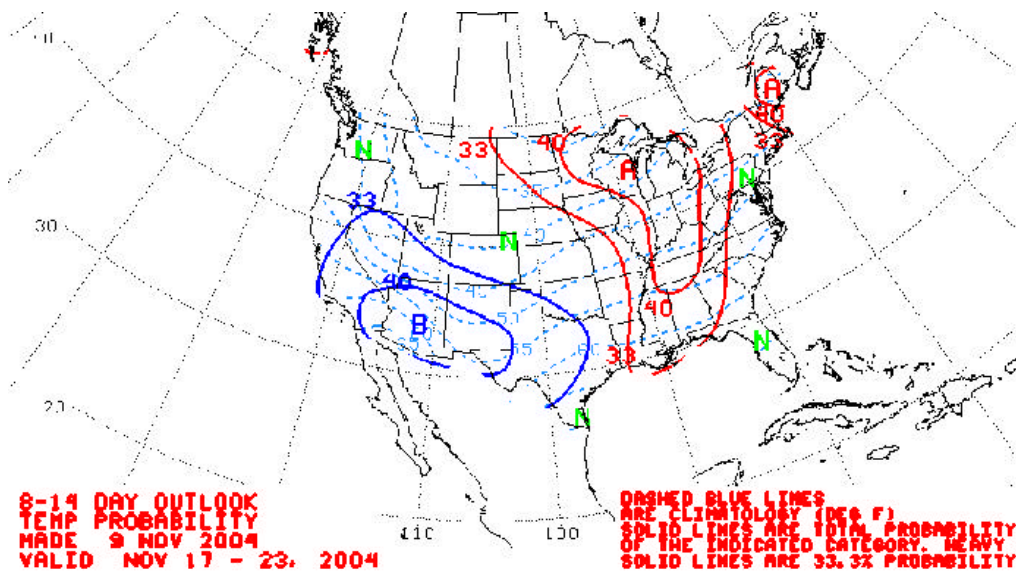
CANADA – The 881 Mw Darlington 1 and 4 nuclear units shut yesterday for short-term maintenance. Both units are expected to back in service in a week.

The 494 Mw Lambton 4 coal unit returned to service early this morning after a short-term outage that began November 7th.

Based on the latest NRC reports, total nuclear generation output this morning reached 76,645 Mw up 915 Mw or 1.2% from yesterday's levels. Total generation was some 4.27% lower than the same date a year ago.

board, by December 20, 2004. Cheniere's 2.6 Bcf/d Sabine Pass LNG profit received its environmental impact statement from federal regulators in August 2004. Construction is scheduled to begin by the end of the first quarter of 2005.

The U.S. Minerals Management Service reported today little gains had been made in returning shut in production from Hurricane Ivan again today. Only 10 b/d of production was returned to service since Monday and just 3.7 Mmcf/d of natural gas production. Since Thursday only 159 b/d of production has been returned and just 5 Mmcf/d of natural gas production.



A 4 inch gas line explosion Monday in rural Kentucky burned 4 houses and injured 9 people. The cause of the blast was not immediately known. Officials from the federal Office of Pipeline Safety will begin investigation once the blaze burns out and should be able to determine quickly if the line was tampered with. The

high-pressure gas line belonged to Kentucky-West Virginia Gas, a division of Equitable Gas in Pittsburgh. Meanwhile it appears another small transmission line was broken and exploded near Walnut Creek California today.

Dynegy Inc. has completed the sale of its Sherman Natural Gas Processing Facility in Sherman, Texas to Dallas-based Dornick Hills Midstream, Ltd. The transaction resulted in a pre-tax gain for Dynegy of approximately \$17 million.

TransCanada Corp. and Shell U.S. Gas & Power LLC said today they plan to develop an offshore LNG regasification terminal in Long Island Sound in New York State waters. The companies estimated the cost of constructing the terminal, named Broadwater Energy, would cost about \$700 million. Broadwater Energy LLC would operate the facility, while Shell will own the capacity and supply the LNG. The proposed terminal would be capable of receiving, storing, and regasifying imported LNG with an average send-out capacity of about 1 Bcf/d. TransCanada and Shell officials said in a statement the project would supply the New York and Connecticut regions.

The head of Purvin & Gertz's North American natural gas analysis said yesterday that he did not think natural gas prices will fall much further. He sees prices returning to the \$8.00 range for December, January and February

Private weather forecasting service WSI said yesterday that despite an outlook for a warmer than normal November, much of the East and Southeast will see colder than normal temperatures emerging in December.

Investor's Business Daily and TechnoMetrica market Intelligence said their economic optimism index eased in November to 55.1 from 57.5 in October. A reading above 50 indicates optimism.

PIPELINE RESTRICTIONS

Texas Eastern Transmission Corp. said that Zone STX, ETX and M1-24 have been scheduled to capacity. No increases in physical receipts between the Vidor compressor station and Fagus will be accepted.

Southern California Gas Company has declared an Operational Flow Order for today. SoCalGas will limit all nominations to the Transportation Service Access Quantity in the fourth operating cycle.

PIPELINE MAINTENANCE

El Paso Natural Gas Company said repairs on Line 1201 began yesterday but one of the isolation valves is leaking. It is necessary to take an additional section of pipe out of service, making San Juan Mainline compressor station unable to run. The additional outage reduces the capacity of the San Juan Basin by a total of 70 MMcf/d. The new reduction became effective Cycle 4, November 8 and Cycle 2, November 9 and will continue through November 11. Based on recent scheduled volumes through the point, this outage will have no effect on markets.

Williston Basin Interstate Pipeline Company said that due to unscheduled maintenance at the Baker Booster Compressor Plant, Point ID 04015 Baker Area Grasslands Mainline may potentially be affected. The work started on Monday morning and is expected to continue through November 23. At this time, Williston does not anticipate any restriction to the system.

Gulf South Pipeline Company said that it will be performing scheduled maintenance on the Koran Compressor Station Unit #4 beginning today and continuing until further notice. Capacity through the Koran Compressor Station could be reduced as much as 15 MMcf/d during the duration of this maintenance.

Trunkline Gas Company stated that emergency repairs have been completed at the Cypress Compressor Station. The pipeline will continue to run at reduced pressure, which will limit capacity to 250 MMcf/d until November 16. On November 16 at 9:00 AM CT, the pipeline will be shut-in for 7 days to complete final repairs and perform a hydrostatic test. During this second outage, Trunkline will be unable to schedule receipts and deliveries between the Cypress Station and GV 34. Also during this second outage, all receipt upstream of the Cypress Station must have nominated deliveries upstream of Cypress. Trunkline expects to return to normal operating conditions on November 24 at 9:00 AM CT.

ELECTRIC MARKET NEWS

The EIA said today in its Short term Energy Outlook that U.S. electricity demand in the fourth quarter of 2004 should reach 909.4 billion Kwh, up 0.5% from last month's forecast, but the agency lowered slightly its forecasted demand for 2005 to 3833.4 billion Kwh from 3834.7 billion Kwh. This demand level though is still seen some up some 2.4% from 2004. In the generation sector, the agency lowered its expectation for petroleum based generation to drop 11.5% from last month's estimates while natural gas generation is seen up some 0.7%.

The Midwest Independent Transmission System Operator got the final word from the U.S. FERC Monday to proceed with its so-called "Day-Two" phase, which will include, among other things, real-time and day-ahead energy markets and a financial transmission rights market for transmission capacity. MISO plans to start the markets in March. FERC's order addresses all the issues that various parties raised in seeking rehearing of the commission's August conditional approval. On most major

issues, FERC said, it reaffirmed the August order; the issues include market start-up safeguards, the resource adequacy plan, the system supply resource program and others. Commissioner Joseph Kelliher dissented on one part of the order, saying he would have reconsidered the must-offer requirement that MISO's tariff includes, in the absence of compensation in the form of capacity payments.

The NYMEX said it was considering trading the rights for power plants to emit sulfur dioxide. Prices for these allowances have tripled since the start of the year. The Chicago Climate Exchange, is set to launch an SO2 allowance futures trade program on December 6th.

Wisconsin Public Service Corporation entered the construction phase of the \$752-million, 500 Mw power plant addition to the company's 50 year old Weston Power Plant site in Marathon County, a few miles south of the city of Wausau. Weston Unit 1 began operating in 1954. Weston Unit 2 began operating in 1960 and Weston Unit 3 became operational in 1981. The new Weston 4 facility is expected to be operating in 2008 and will be located on the land adjacent to Weston Unit 3. The new power plant will burn low sulfur coal in a high-efficiency boiler and use state-of-the-art emission control systems. Weston 4 will take about 4 years to build using about 1,200 construction workers. About 40 new permanent jobs will be created when the plant becomes operational. The project was announced in fall 2002 and was presented to regulators in fall 2003. On September 23, the project received approval from the Public Service Commission of Wisconsin.

MARKET COMMENTARY

The inability of natural gas traders to find a supportive intermediate term weather forecast this morning, unlocked the bears to come charging into the market at the opening bell. Prices gapped lower and immediately sought to challenge support from the upper half of the gap left in the daily charts since September 29th at \$7.30. Prices bounced off this support level and rallied back some 30 cents before running out of steam at mid morning. Prices basically retraced some 50% of this morning's bounce as they settled into a rather modest sideways trading range this afternoon. Volume was still rather modest with just 68,000 futures traded today.

We estimate that given the 17.4% higher heating demand overall for the period ending November 5th, we should see an EIA storage report that should show a 31-bcf injection rate for the period down from the 44 bcf reported the week before. A year ago the same week saw a 32-bcf-injection rate with the 5-year seasonal average posting just a 12-bcf injection rate. Market expectations seem to be centered around a 20-40 build.

Without a significant deviation in tomorrow's EIA storage report from market expectations, weather will continue to be the driving force for this market's direction. Given tonight's NWS rather bearish outlook for above normal temperatures next week, it appears that sellers will continue to challenge support levels in this market. We see support again tomorrow \$7.30 followed by \$7.03, \$6.79-\$6.73. We see resistance at \$7.60 followed by \$7.81, \$7.99 and \$8.13 and \$8.385.

