



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR DECEMBER 11, 2006

NATURAL GAS MARKET NEWS

The Supreme Court Monday in a 7-0 decision came down on the side of the Interior Department's Minerals Management Service in its nearly decade-long dispute with BP America Production to obtain additional royalties for production from natural gas leases in New Mexico's San Juan Basin.

While its sponsors continue to talk confidently, the proposed liquefied natural gas receiving terminal in the Long Beach, CA, harbor Monday was suspended in a political vise about to be squeezed between the city political leaders and the separate Port of Long Beach. Port officials are dragging their feet on completing a final environmental impact statement and report jointly with FERC. That final report now is not expected to be released until the first quarter next year, if ever.

South Korea's demand for LNG fell 1.4% in November from a year ago on mild weather and a drop in oil prices. Although LNG usage for individual housing rose 3% to 1.36 million tones from a year ago, that of power generators fell 8.2% from a year ago as lower oil prices encouraged them to turn to cheaper fuel oil to run power.

PIPELINE RESTRICTIONS

Kern River Pipeline said line pack is now high and shippers are asked to stay on rate.

Texas Eastern Transmission Corp. said that it has scheduled to capacity receipts sourced between Little Rock and Batesville for delivery downstream of Batesville. No increase of receipts between Little Rock and Batesville for delivery downstream of Batesville will be accepted. Tetco has restricted receipts sourced between Mt. Belvieu and Little Rock for delivery outside of that area. No increase of receipts between Mt. Belvieu and Little Rock for delivery outside of that area will be accepted.

Generator Problems

FRCC – FPL's 693 Mw Turkey Point #4 nuclear unit exited a refueling outage and ramped up to 48% capacity. Turkey Point #3 continues to operate at full power.

MAIN – Dominion Resources' 560 Mw Kewaunee nuclear unit reduced output to 46% for repairs. On Friday, the unit was operating at 99% capacity.

MAPP – The Omaha Public Power District's 492 Mw Fort Calhoun nuclear unit increased output to 85% capacity today. On Friday, the unit was operating at 70% capacity.

SERC – TVA's 1,100 Mw Browns Ferry #3 nuclear unit decreased output to 89%. On Friday, the unit was operating at full power. Browns Ferry #2 remains at full power.

Duke Power's 1,129 Mw Catawba #2 nuclear unit reduced output to 50% capacity. Catawba #1 remains at full power.

TVA's 1,121 Mw Watts Bar nuclear unit increased output to 90% as it returns from a long refueling outage. On Friday, the unit was operating at 83% capacity.

WSCC – Southern California Edison's 1,080 Mw San Onofre #3 nuclear unit started to exit and outage and ramped up offline to 2% capacity. San Onofre #2 continues to operate at 99% power.

PG&E's 1,100 Mw Diablo Canyon #2 nuclear unit shut after noting high temperature in the reactor coolant pump stator. Diablo Canyon #1 remains at full power.

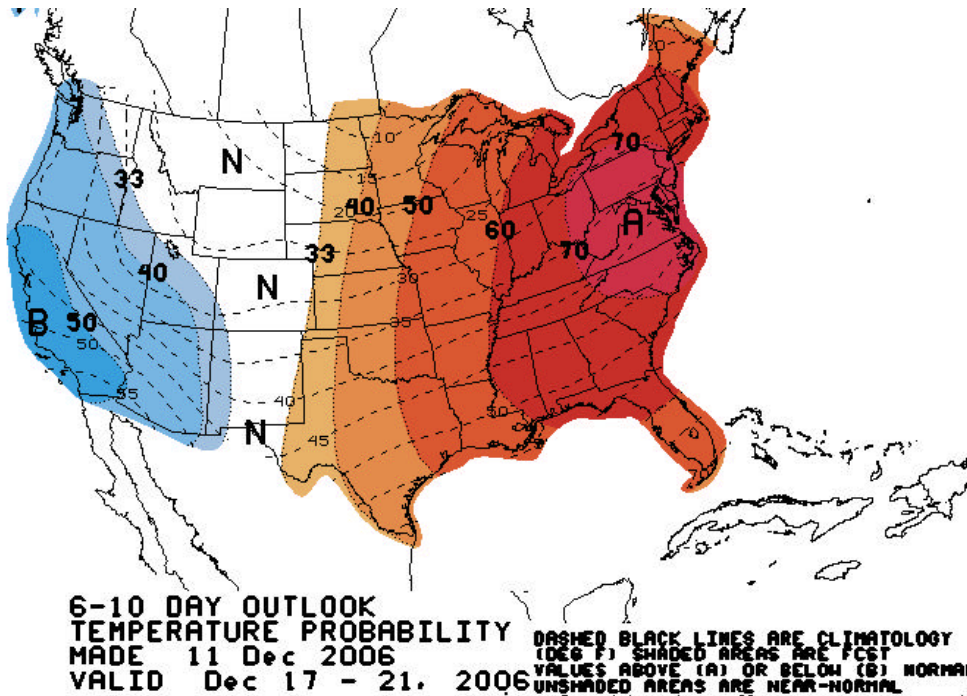
Canada – Ontario Power Generation's 494 Mw Lambton #2 coal-fired power station started to exit a maintenance outage. The unit shut November 20.

The NRC reported that 88,964 Mw of nuclear capacity is on line, down 1.73% from Friday, and 3.62% lower from a year ago.

Williston Basin Interstate Pipeline Company said that several line sections remain in pipeline Capacity Constraint through today. Penalties will be imposed for the timely cycle for delivery at the following line sections: Dickinson-Bismarck; Bismarck-Cleveland; Cleveland-Grafton; Williston-Bismarck; and Cleveland-Mapleton.

PIPELINE MAINTENANCE

Alliance Pipeline said that inspections and maintenance require the Tampico compression station in Illinois to be unavailable for eight hours on December 12. System throughput (AOS) will be impacted but will be determined closer to the outage date. Alliance also said that routine inspections require the Paddle River compression/meter station in Alberta to be unavailable for 12 hours on December 12-13. Station capacity will be lowered to 28.1



MMcf/d for December 12-13. Alliance Pipeline said that routine inspections require the Teepee Creek Lateral compression/meter station to be unavailable for eight hours on December 13. Station capacity will be lowered to 43.3 MMcf/d for December 13. The Teepee Creek Station is located in Alberta. Alliance Pipeline said that routine inspections require the Gold River Lateral compression/meter station to be unavailable for five hours on December 14. Station capacity will be lowered to 41.9 MMcf/d for December 14. The Gold Creek Station is located in Alberta.

ELECTRIC MARKET NEWS

The Texas Public Utility Commission has stepped up their enforcement of power reliability rules, assessing hundreds of thousands of dollars in penalties in the past year against companies that fail to keep the lights on. CenterPoint Energy agreed to a \$58,000 fine in November for not meeting service quality and reliability standards on certain circuits from 2001-2004. An earlier this month the PUC approved a settlement with TXU that will have the firm pay \$100,000 fine and spend \$125,000 on energy-efficiency measures for residential customers in the areas with the most service problems. The penalties may seem insignificant, but they are just the first round of enforcement actions, companies can expect future penalties to be more severe.

Mirant Corporation announced that it has entered into a definitive purchase and sale agreement with a consortium of The Tokyo Electric Power Company and Marubeni Corporation for the sale of its Philippine business for a purchase price of \$3.424 billion plus working capital.

MARKET COMMENTARY

The natural gas market opened 30 cents lower as selling pressure associated with warmer than normal temperatures sold the market off through last week's support level of 7.50 in overnight trading. The January contract traded to a front month low of 7.22, the lowest point for the front month contract since October 31. The market rebounded modestly during the afternoon, to a high of 7.44 before settling down 13.4 cents at 7.427, below key support at 7.50.

NYMEX Nat Gas Options Most Active Strikes for December 11, 2006

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LN	4	7	P	6	03/27/2007	0.1829	4,200	50.88
LN	1	7	P	7	12/26/2006	0.1562	3,603	57.41
LN	5	7	P	6	04/25/2007	0.2343	3,250	51.25
LN	10	7	P	6	09/25/2007	0.4164	3,200	53.29
LN	9	7	P	6	08/28/2007	0.3857	3,200	52.50
LN	8	7	P	6	07/26/2007	0.3461	3,200	52.10
LN	7	7	P	6	06/26/2007	0.2997	3,200	50.93
LN	6	7	C	10	05/25/2007	0.3267	3,200	45.15
LN	6	7	P	6	05/25/2007	0.2625	3,200	50.53
LN	10	7	C	10	09/25/2007	0.7325	3,150	42.91
LN	9	7	C	10	08/28/2007	0.6283	3,150	43.42
LN	8	7	C	10	07/26/2007	0.5281	3,150	43.93
LN	7	7	C	10	06/26/2007	0.423	3,150	44.08
LN	5	7	C	10	04/25/2007	0.2486	3,150	46.78
LN	4	7	C	10	03/27/2007	0.2004	3,150	50.32
ON	1	7	P	7	12/26/2006	0.156	2,213	56.02
LN	1	7	P	6.5	12/26/2006	0.0451	1,850	56.45
ON	3	7	C	9	02/23/2007	0.361	1,676	61.02
ON	3	7	P	9	02/23/2007	1.765	1,600	61.93
LN	2	7	C	10	01/26/2007	0.104	1,600	62.35
LN	3	7	C	15	02/23/2007	0.0136	1,500	66.02
LN	2	7	C	15	01/26/2007	0.0034	1,500	71.83
LN	2	7	P	6.5	01/26/2007	0.1829	1,500	58.94
LN	12	7	C	12	11/27/2007	0.7749	1,250	39.56
LN	11	7	C	12	10/26/2007	0.6029	1,250	42.89
ON	2	7	P	6	01/26/2007	0.073	1,201	54.66
LN	9	7	C	8	08/28/2007	1.1675	1,200	38.37
LN	3	7	C	7.5	02/23/2007	0.8047	1,200	52.03
LN	10	7	C	12	09/25/2007	0.4548	1,100	47.04
LN	9	7	C	12	08/28/2007	0.3695	1,100	47.33
LN	8	7	C	12	07/26/2007	0.2839	1,100	47.38
LN	7	7	C	12	06/26/2007	0.2014	1,100	46.99
LN	6	7	C	12	05/25/2007	0.1442	1,100	48.43
LN	5	7	C	12	04/25/2007	0.0958	1,100	49.85
LN	4	7	C	12	03/27/2007	0.067	1,100	53.04
LN	3	7	C	12	02/23/2007	0.071	1,100	63.60
LN	2	7	C	12	01/26/2007	0.0248	1,100	66.91
LN	1	7	C	12	12/26/2006	0.0002	1,100	71.37
ON	3	7	P	7	02/23/2007	0.465	1,040	55.73
LN	2	7	C	8.5	01/26/2007	0.3123	1,020	57.60
LN	3	7	C	9	02/23/2007	0.3598	1,010	57.72
LN	12	7	C	9	11/27/2007	1.5336	1,000	31.10
LN	4	7	C	7.5	03/27/2007	0.7679	1,000	42.87
LN	3	7	C	20	02/23/2007	0.0017	1,000	71.37
LN	3	7	P	10	02/23/2007	2.6032	1,000	73.41
LN	3	7	P	13	02/23/2007	5.3964	1,000	90.84
LN	3	7	C	10	02/23/2007	0.2139	1,000	60.70
LN	3	7	C	13	02/23/2007	0.0402	1,000	64.41
LN	1	8	C	9.25	12/26/2007	1.6573	1,000	29.53

Forecasts continue to call for mostly warmer than normal temperatures for the next two weeks, and with the market breaking through two-month old support, we look for this market to take on the 7.00 level. Despite expectations for a triple digit draw from storage this week due to last week's cold snap the market has priced that in and is focusing on dismal heating demand looking forward and the record gas that will be left in storage at the end of winter. We see support at \$7.22, \$7.13, \$7.00 and \$6.75. We see resistance at \$7.50, \$7.88, \$8.00, \$8.13, \$8.29-\$8.30, \$8.70 and \$9.05.