



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR DECEMBER 12, 2006

NATURAL GAS MARKET NEWS

The EIA reported in its Short-Term Energy Outlook Report for December 2006, that recent warmer-than-normal weather in November has kept pressure off the Henry Hub natural gas spot price, which averaged 7.63 for the month. Heating degree-days in November were down 36% from normal in the East North Central region and 27% below normal in both New England and the Mid-Atlantic regions. The EIA opines that with high amounts of gas in storage and mild temperature forecasts, spot natural gas prices through the heating season are expected to stay below 9.00. The Henry Hub price is expected to average 7.06 in 2006 and 7.87 in 2007. Total natural gas consumption is projected to decline by 0.5% for 2006 as a result of warmer-than-normal weather in the early part of the year. With the return of normal weather, consumption is expected to recover in 2007 and grow by 1.5%. Residential and commercial sector consumption is expected to grow by 6.9% and 3.6%, respectively, in 2007. The EIA reported further that consumption in the industrial sector, which dropped 1.0% in 2006, is expected to reach its highest level since 2004 with a 1.8% rise in demand in 2007. On the storage front, domestic dry natural gas production is expected to increase by about 2.3% in 2006, but drop slightly by 0.7% in 2007. Imports in 2006 declined by 5.0% due to high storage levels and the reduction of residential and commercial sector demand by 7.3% and 3.5%, respectively. The EIA expects net imports to remain basically unchanged in 2007, with a sizeable increase in LNG imports offsetting a decline in pipeline shipments from Canada.

Raymond James energy analyst Marshall Adkins warned that the natural gas storage surplus will increase during the remainder of December before shrinking again in January and February, emphasizing to clients to avoid getting caught in what he called the "gas bear trap." Adkins sees the year-over-year surplus growing by 100 to 200 Bcf in the next three weeks due to mild temperatures, though Adkins predicts that the roughly 350 Bcf surplus will reverse itself to a 300 Bcf deficit by February.

Kevin Norrish of Barclays Commodity Research, said he sees very strong long-term fundamentals in oil thanks to substantive supply constraints in the sector. Barclays is very bullish on oil prices for 2007, resulting in support for higher natural gas demand. As more LNG shipments reach the U.S. market, U.S. gas prices will become more closely and more permanently linked to crude oil movements.

Generator Problems

ERCOT – TXU Corp.'s 750 Mw Martin Lake #2 coal-fired power station shut yesterday after a fire and explosion damaged the main transformer. No one was injured.

MAPP – The Omaha Public Power District's 492 Mw Fort Calhoun nuclear unit increased production to 98%. Yesterday, the unit was operating at 85% capacity.

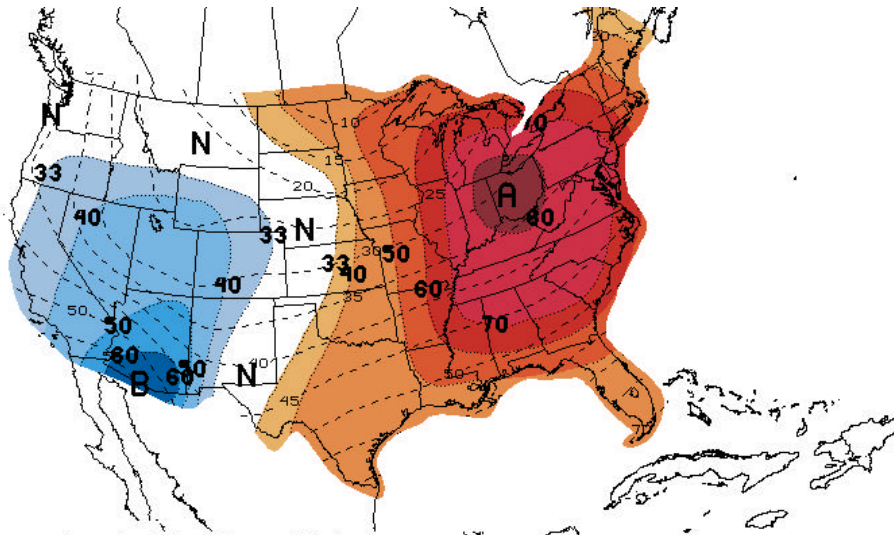
SERC – Duke Energy Corp.'s 1,129 Mw Catawba #2 nuclear unit returned to full capacity by early today. Yesterday, the unit was operating at 50% power. Catawba #1 remains shut for a refueling, though is expected to return in mid-December.

The TVA's 1,100 Mw Browns Ferry #3 nuclear unit inched higher to 91% capacity from 89%. Browns Ferry #2 remains at full power.

WSCC – AES Corp.'s 495 Mw Alamos #6 natural gas-fired power station returned to service yesterday.

Southern California Edison's 1,080 Mw San Onofre #3 nuclear unit ramped output to 18% and reconnected to the grid. Yesterday, the unit was warming up at 2% as it restarted following a refueling outage.

The NRC reported that 89,821 Mw of nuclear capacity is on line, up .96% from Monday, but 3.24% lower from a year ago.



6-10 DAY OUTLOOK TEMPERATURE PROBABILITY
 MADE 12 Dec 2006
 VALID Dec 18 - 22, 2006
 DASHED BLACK LINES ARE CLIMATOLOGY (DEG F) SHADED AREAS ARE FCST VALUES ABOVE (A) OR BELOW (B) NORMAL UNSHADED AREAS ARE NEAR-NORMAL

PIPELINE RESTRICTIONS

Kern River Pipeline said line pack is high across its entire system 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.

LONGER RANGE

December's final weeks



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; Cleveland-Mapleton; and Portal-Tioga.

PIPELINE MAINTENANCE

Gulf South Pipeline said that it will be performing scheduled pigging maintenance on FPL 22 into Index 8 beginning at 8:00 AM, December 12 for approximately three hours. Gulf South does not anticipate any effect to capacity or 24-hour flow rates as a result of this maintenance activity. Gulf South also said that it will be performing

scheduled pigging maintenance on Index 8 beginning December 13 for approximately eight hours. Gulf South does not anticipate any effect to capacity or 24-hour flow rates as a result of this maintenance activity.

Transwestern Pipeline said its La Plata natural gas compressor station Unit 2 in Colorado would be taken down for unplanned repairs on the cooler system December 13-14. Unit 1 will remain on line, but will operate under reduced capacity of 275,000 MMBTUs/d from a normal 500,000 MMBTU/d. Transwestern expects the station back at full capacity on December 15.

Williston Basin Interstate Pipeline said that unplanned maintenance at the Manning Compressor Station will continue through today, during which the maximum capacity will be approximately 82 MMcf.

ELECTRIC MARKET NEWS

The EIA reported in its Short-Term Energy Outlook Report for December 2006 that residential electricity demand in 2006 is estimated to have increased by 0.3% over 2005 demand. Cooling degree-days in 2007 are assumed to be about 10% lower than 2006, keeping residential electricity demand growth low at a rate of 0.6%. Commercial electricity consumption follows a similar pattern and demand is expected to grow 2.2% for 2006

TEMP FLIP-FLOP AHEAD

The first 7 days (Dec. 12-18):

THE WARM PHASE



The second 7 days (Dec. 18-25)

A COLDER PHASE



NYMEX Nat Gas Options Most Active Strikes for December 12, 2006

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LN	1	7	C	8	12/26/2006	0.1366	5,458	56.95
ON	1	7	C	8.5	12/26/2006	0.058	4,827	59.91
ON	5	7	P	6.25	04/25/2007	0.302	4,501	48.46
LN	5	7	C	10	04/25/2007	0.2572	2,750	47.17
LN	4	7	C	9	03/27/2007	0.3322	2,340	46.98
LN	4	7	C	13	03/27/2007	0.0366	2,275	53.37
ON	1	7	P	11.25	12/26/2006	3.82	2,145	101.05
LN	7	7	C	9	06/26/2007	0.6142	2,100	41.59
LN	1	7	C	15	12/26/2006	0.0001	2,000	98.44
LN	2	7	C	15	01/26/2007	0.0031	2,000	71.98
LN	3	7	C	15	02/23/2007	0.0133	2,000	66.02
LN	4	7	C	15	03/27/2007	0.0168	2,000	57.26
LN	5	7	C	15	04/25/2007	0.0263	2,000	53.26
LN	6	7	C	15	05/25/2007	0.0466	2,000	51.72
LN	10	7	C	10	09/25/2007	0.7374	1,900	43.22
LN	5	7	C	9	04/25/2007	0.4144	1,840	44.80
LN	6	7	C	9	05/25/2007	0.5044	1,840	42.87
LN	8	7	C	9	07/26/2007	0.7284	1,700	41.26
LN	9	7	C	9	08/28/2007	0.8442	1,700	41.04
LN	10	7	C	9	09/25/2007	0.968	1,700	40.82
LN	2	7	C	8.5	01/26/2007	0.3072	1,650	57.66
LN	2	7	P	6	01/26/2007	0.07	1,600	56.24
LN	4	7	C	7.5	03/27/2007	0.7786	1,525	42.84
LN	4	7	C	10	03/27/2007	0.1863	1,500	48.86
ON	5	7	P	8	04/25/2007	1.12	1,500	49.16
LN	5	7	P	7	04/25/2007	0.5761	1,400	52.68
ON	1	7	P	11	12/26/2006	3.57	1,350	95.52
LN	3	7	P	5	02/23/2007	0.0204	1,350	53.83
ON	3	7	P	7	02/23/2007	0.453	1,150	55.72
LN	4	7	P	7	03/27/2007	0.5089	1,100	52.50
LN	6	7	P	7	05/25/2007	0.6098	1,100	51.94
LN	4	8	C	12	03/26/2008	0.3331	1,050	30.83
ON	3	8	C	9	02/26/2008	1.737	1,000	45.43
LN	4	7	C	8.5	03/27/2007	0.4434	1,000	45.86
LN	4	7	P	5	03/27/2007	0.0391	1,000	50.64
LN	5	7	P	5	04/25/2007	0.0641	1,000	51.24
LN	6	7	P	5	05/25/2007	0.0777	1,000	49.95
LN	6	7	C	10	05/25/2007	0.3322	1,000	45.35
LN	7	7	C	10	06/26/2007	0.4226	1,000	43.99
LN	7	7	P	5	06/26/2007	0.0978	1,000	50.00
LN	8	7	P	5	07/26/2007	0.1235	1,000	50.86
LN	8	7	C	10	07/26/2007	0.5182	1,000	43.49
LN	9	7	P	5	08/28/2007	0.1511	1,000	51.44
LN	9	7	C	10	08/28/2007	0.6268	1,000	43.44
LN	10	7	P	5	09/25/2007	0.1764	1,000	52.53
ON	12	7	C	15	11/27/2007	0.424	1,000	50.08

and a more modest 1.1% in 2007.

Chicago-based independent power producer Midwest Generation said it had reached an agreement with Illinois Governor Roc Blagojevich on a plan that will allow the company to begin reducing mercury emissions from its power plants 18 months ahead of federal regulations, followed by multi-year programs to further cut other emissions at each of the company's six plants in the state. The company estimates that the plan, which will run through 2018, could cost it between \$2.71 and \$3.41 billion.

MARKET COMMENTARY

The natural gas market opened a couple pennies higher, as it backfilled the gap from yesterday, trading to a high of 7.565. The thinly traded front month contract stumped through familiar ground as it traded to a low of 7.33 after filling the gap and with no new fundamental news, was content consolidating at these levels as it keeps an eye on ever-evolving weather reports. The front month finished the session up .003 cents at 7.43.

Some forecasts calling for more seasonal weather to enter the Western U.S. in the third week of December provided some support early, though that weather is just expected with a variance of 3 to 8 degrees. The market still has to get through this

week's EIA report where expectations call for a withdrawal of between 120-155 Bcf. However, this will compare favorably to last year's 181 Bcf pull and the five-year average draw of 111 Bcf. Despite the large withdrawal this week, the year-on-year surplus is expected to average near 350 Bcf by the end of December as mild conditions dominate the country resulting in miniscule withdrawals in the weeks ahead. We see support at \$7.22, \$7.13, \$7.00, \$6.75 and \$6.40. We see resistance at \$7.50, \$7.88, \$8.00, \$8.13, \$8.29-\$8.30, \$8.70 and \$9.05.

