



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR DECEMBER 23, 2008

NATURAL GAS MARKET NEWS

The U.S. Commerce Department reported this morning that the U.S. economy contracted in the third quarter at 0.5% annual rate, the worst rate since 2001. Meanwhile the National Association of Realtors reported today that the pace of existing home sales plunged a record 8.6% in November and prices fell 13.2% on an annual basis. This was the fifth consecutive month that the average U.S. home contracted in value.

Venezuela's energy minister told a meeting of Gas Exporting Countries Forum in Moscow, that the world's largest producers of natural gas should seek to adopt the "same principles" as OPEC. He noted that the group needs to have mechanisms and tools that will let the group better interact between gas exporters to avoid competition. The Russian energy minister said today "a new organization was born today" and the group of gas exporters has chosen Doha as the group's new headquarters. Russian Prime Minister Putin warned that the "era of cheap gas" is coming to an end." He noted that escalating costs for developing new production fields are rising sharply and these costs will have to be passed on. He warned that the current financial crisis will have a more serious effect on the gas industry than the oil business and its recovery will take longer. He also noted that LNG is likely to increasingly influence the global demand and supply of energy resources and in particular natural gas. Meanwhile an analysis undertaken by a high level committee for the group of gas exporting nations found that it would be impossible to abandon the gas pricing mechanism that links gas prices to crude oil, given the possibility of consumers ability to switch fuels, but the group does not rule out the possibility of including non-crude indicators to the gas price in the future. The group noted that gas maintains its competitiveness due to such benefits as low emissions and convenient usage.

WSI Corporation released their latest forecast for temperatures for January through March. The private weather forecasting service sees the U.S. Northeast averaging below normal in February and March but will be warmer than normal in January. The Midwest though is seen being "unusually" cold from January through March, with the western U.S. being colder as well for the period. The Southeastern U.S. should see above normal temperatures for the first quarter of 2009. Meanwhile weather

Generator Problems

NPCC – Entergy's 670 Mw Pilgrim nuclear unit was at 23% power this morning, up 22% from Monday.

OPG's 490 Mw Nanticoke #3 coal fired unit was shut early Tuesday. The company also reported that its 535 Mw Lennox oil and gas fired Unit #4 was also taken off line.

PJM – PSEG Nuclear's 1100 Mw Salem #1 nuclear unit #1 was back to full power this morning, up 10% from Monday.

MRO – Exelon's 855 Mw Quad Cities #2 nuclear unit was at 96% power this morning up from 23% operating level on Monday.

Ameren's 1190 Mw Callaway nuclear power station was warming up and was at 7% capacity this morning.

WSCC – SCE's 1080 Mw San Onofre #3 nuclear unit was at 65% power this morning, up only 3% from yesterday.

The NRC reported this morning that 95,787 Mw of nuclear generation capacity was on line, up slightly by 0.1% from Monday's level and 0.95% higher than the same time a year ago.

forecasters were looking for colder than normal temperatures to return to much of the northern half of the nation just after the New Year's holiday and this forecast was re-enforced at midday.

Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	692,700	\$5.375	(\$0.011)	(\$0.195)	(\$0.497)	\$0.104
Chicago City Gate	610,400	\$5.787	(\$0.169)	\$0.217	(\$0.471)	\$0.455
NGPL- TX/OK	419,600	\$5.026	(\$0.069)	(\$0.544)	(\$0.371)	(\$0.273)
SoCal	308,200	\$5.087	(\$0.163)	(\$0.483)	(\$0.465)	(\$0.117)
PG&E Citygate	562,600	\$5.892	(\$0.088)	\$0.322	(\$0.390)	\$0.663
Dominion-South	214,900	\$5.699	(\$0.330)	\$0.129	(\$0.632)	\$0.565
UTrade Weighted	14,325,000	\$5.313	(\$0.195)	(\$0.257)	(\$0.50)	\$0.104

WSI Corporation also called for the 2009 hurricane season to be unusually active given the warm temperatures of the ocean and existing wind conditions that will be conducive

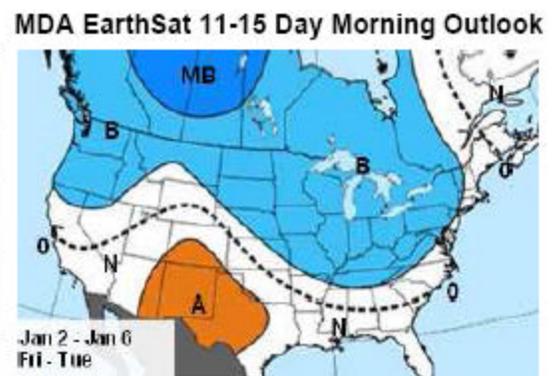
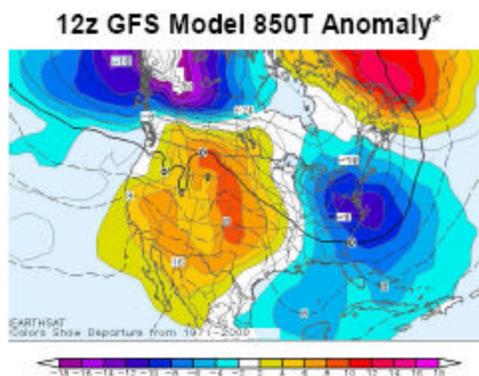
for storm development. WSI is looking for 13 named storms, seven hurricanes and three storms that reach Category 3 or higher. This would be just shy of this season's storm totals.

Analysts at Raymond James & Associates on Monday in a research note to clients lowered their 2009 price outlook for natural gas from \$6.75 down to \$5 per Mcf. They noted that U.S. producers might have to shut in around half or 800 Bcf of output in the coming year in order to balance the market.

Transco Pipeline announced that it has placed into service the first phase of its Sentinel expansion into service, increasing the firm capacity into the northeastern U.S. by 40,000 Dth/d.

OG&E received approval from the Oklahoma Corporation Commission for the company's request to waive a requirement that the company use October 31st data to set its fuel recovery rate for 2009. Instead the company is

11 to 15 Day



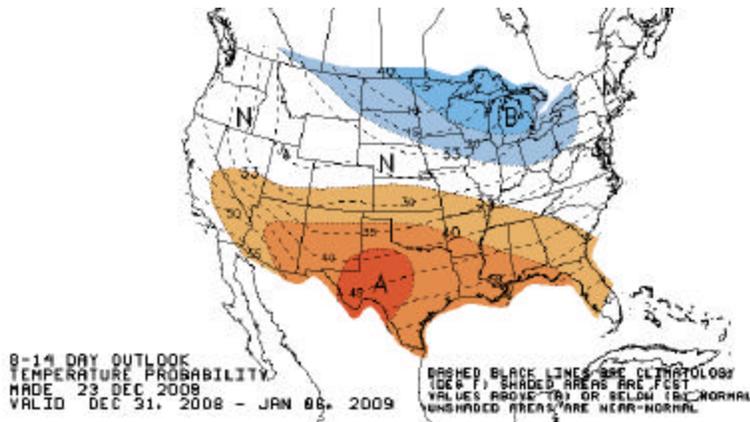
asking to use December 31st data. By using the year-end figures, the company will take advantage of the reduced price for natural gas. While the cost of natural gas prices have dropped in recent months, the company's cost of coal, which is also used to generate electricity, will increase in 2009, offsetting a portion of the reduction from lower natural gas fuel costs. The company sees higher coal costs in 2009 as a result in part to higher rail transportation costs.

PIPELINE RESTRICTIONS

Transco Pipeline said that it has lifted a system wide OFO issued late last week due to the below normal temperatures that were expected for its market service area

CIG said it will continue the underperformance cap on the following locations until further notice: Natural Buttes; Saddle Draw; and Table Rock Residue. The company also reported that due to cold

weather forecast and high market demand anticipated, it warned of strained operating conditions this week.



Questar Pipeline said that beginning January 1, 2009, it would allow ISS Injection at Clay Basin, as capacity is operationally available.

NNG said that due to very cold temperatures, it is posting a SOL for the New Market, MN TBS #1.

TransColorado Gas Transmission said effective for today's gas day and until further notice, it is at capacity for

delivered quantities to Southern Trails Hare Canyon. Based on the current level of nominations, IT/AOR and secondary quantities are at risk of not being fully scheduled.

PIPELINE MAINTENANCE

Panhandle Eastern said there would be an outage at the Mullinville Interconnect on December 30th for meter maintenance. The meter is expected to be shut in for approximately 8 hours. Nominations up to 100,000 Dth/d will be accepted.

SoNat said it has completed work between Gate 7 and gate 6 on its Olga and gate 6 Platforms. This section was placed into service today. This will allow the Cox Bay receipt point to resume flow.

ELECTRIC MARKET NEWS

A federal court on Tuesday said that the Clean Air Interstate Rule that created emission-trading program for coal fired power plants can stay in place until the EPA fixes it in accordance with an earlier order that threw out the rule. The EPA issued CAIR in 2005 to create an emissions cap and trading program for 28 eastern states and the District of Columbia in an effort to reduce the region's nitrogen oxide and sulfur dioxide emissions by 61% and 73% respectively by 2015. Duke Energy challenged the rule for its treatment of SO₂ allowances and by Entergy for treatment of its Nox allowances under the trading program. North Carolina challenged the rule over whether it would allow emissions from outside its borders to interfere with it meeting its clean air standards. The court though did not set a deadline for EPA for revising CAIR as requested by petitioners.

The EPA today said that 211 counties or regions of counties across the country do not meet compliance standards for fine particle pollution. The pollution which is sourced from on and off road mobile sources as well as stationary facilities such as power plants, will have to take measures to reduce the pollution. Such measures could include requiring cleaner burning fuels, cleaner engines and emission controls.

Genscape reported that U.S. coal supplies fell 1.1% this week versus last week and were some 7.9% higher than the same time a year ago.

The U.S. first off shore wind farm moved forward today, as the Massachusetts Department of Environmental Protection approved the proposed undersea cables to transmit power to the mainland. The Cape Wind Project, which seeks to place 130 turbines some 5 miles off shore of Cape Cod, would provide "greater public benefit than detriment" the regulator found. The \$1 billion project still is waiting

on state and local permits, as well as U.S. Coast Guard approval. The developers of the project expect permitting to be completed by March.

MARKET COMMENTARY

Despite eroding cash prices due to moderating near term temperatures and contracting industrial demand due to the upcoming holiday period, the futures market staged its largest rally in a month as traders found support in the bullish 11-15 day temperature outlook coming from private weather forecasts and some computer forecasting models. Prices received a significant bump higher at midday as the midday computer models appeared to point to significantly colder temperatures in the eastern United States especially relative to this morning's forecast. Prices basically for the next two hours trended higher back to the resistance levels of the past three weeks before running out of steam.

We though are not a believer of a rally of this significance, especially given the outlook for poor heating demand for much of the nation over the next 7-10 days. We are always amazed how natural gas traders react to a forecast 11-15 days out, especially how unreliable these forecasts can be, but at the same time overlook modification in temperature outlooks for short durations. This seems to be a classic example of the current period, as forecasters this morning were significantly moderating their temperature outlooks for near term heating demand. O compound our skepticism of today's price move is the fact it came during a holiday shortened week, in which many traders are absent from the market. As a result we would stay with our short positions from last week and would look for resistance to be found tomorrow from \$5.85-\$6.00. Support we see initially again \$5.445 area with additional support at \$5.20, \$5.00 and \$4.72.

Market expectations for tomorrow' EIA Storage Report appear be centered on a 135-140 bcf drawdown. The report is being released tomorrow, a day earlier than normal, at 12 noon EST due to the Christmas holiday. For the same week a year ago, stocks were drawn down by 153 bcf, while the five day seasonal average is for a 132 bcf draw.

Please note the NYMEX floor will close early at 1:30 pm EST on Wednesday and will be closed Thursday for the Christmas holiday. Normal trading hours will be observed on Friday. Electronic trading on Globex will close at 5:15 pm EST on Wednesday and reopen at 6pm EST on Thursday for the Friday session.

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