



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,
 & Karen Palladino
(212) 624-1132 (888) 885-6100

www.e-windham.com

POWER MARKET REPORT FOR DECEMBER 31, 2008

NATURAL GAS MARKET NEWS

The dispute between Gazprom and the Ukraine was going down to the wire today. The European Commission called Wednesday for a “negotiated settlement” between the two parties over the pricing and supply dispute. Russian officials have said it is seeking to charge the Ukraine 40% more for gas from next year at \$250 per 1,000 cubic meters but still more attractive than the \$500 per 1000 cubic meters gas prices are currently in Europe. Gazprom officials said that the Ukraine’s position in talks over a new contract for gas supplies in 2009 was “unconstructive”. Gazprom publically said that they hoped that the remaining hours of December 31st the two sides could come to an agreement and that gas supplies would continue through January 1st. But if no agreement was reached Gazprom would have no legal grounds to supply gas to the Ukraine. Late in the day though the Ukrainian government not only squashed rumors of the Ukrainian prime minister personally traveling to Moscow to resolve the impasse but it also reported that the Ukraine’s President Yushchenko in fact had instructed the head of Ukrainian energy firm Naftogaz to suspend gas talks in Moscow and return to Kiev. To further muddy the waters Gazprom officials also said Wednesday that it had not received any payments from the Ukraine on its accounts as part of payment for gas supplied to the country this year. This runs counter to Ukraine’ claims that it had bank confirmation that \$1.522 billion had been sent to Russian intermediaries and that its debt had been paid in full. Meanwhile the Ukraine said it guaranteed supplies of Russian gas through its territory to Europe, contradicting Gazprom allegations that Kiev was planning to confiscate fuel bound for Europe if Moscow cuts off supplies destined for Ukraine’s own use.

Generator Problems

MAIN – Exelon’s 1178 Mw Braidwood #2 nuclear unit was at full power on Wednesday morning up 37% from Tuesday.

ERCOT – Luminant’s 575 Mw Big Brown coal fired unit #2 was expected to restart Wednesday following boiler repairs. The company also reported that its 750 Mw Martin Lake #3 coal fired unit was expected to be shut today for short-term repairs.

The NRC reported this morning that 96,200 Mw of nuclear generation capacity was on line, up 4.98% from Monday’s level and 0.5% higher than the same time a year ago.

EIA Weekly Report

| | 12/26/2008 | 12/19/2008 | Net chg | Last Year |
|-------------------------|------------|------------|---------|-----------|
| Producing Region | 888 | 909 | -21 | 927 |
| Consuming East | 1589 | 1689 | -100 | 1619 |
| Consuming West | 400 | 422 | -22 | 400 |
| Total US | 2877 | 3020 | -143 | 2946 |

*storage figures in Bcf

The federal Bureau of Land Management yesterday issued Record of Decision, which effectively would permit the development of coal bed methane in Wyoming’s Powder River Basin over the next 20 years, with the drilling of up to 18,000 natural gas wells.

The FERC on Tuesday approved a request for a temporary waiver of the agency’s capacity-release rules to facilitate the acquisition by Barclays Bank of UBS natural gas trading portfolio in the United States. The transaction was expected to close December 31st.

A federal district court upheld the U.S. Maritime Administration’s decision designating the State of New Jersey as an “additional adjacent coastal state” that has the power to block Atlantic Sea Island Group LLC’s proposed deepwater LNG terminal to be sited on a man-made island off the coasts of New York and New Jersey.

Canadian Gas Association

Weekly Storage Report

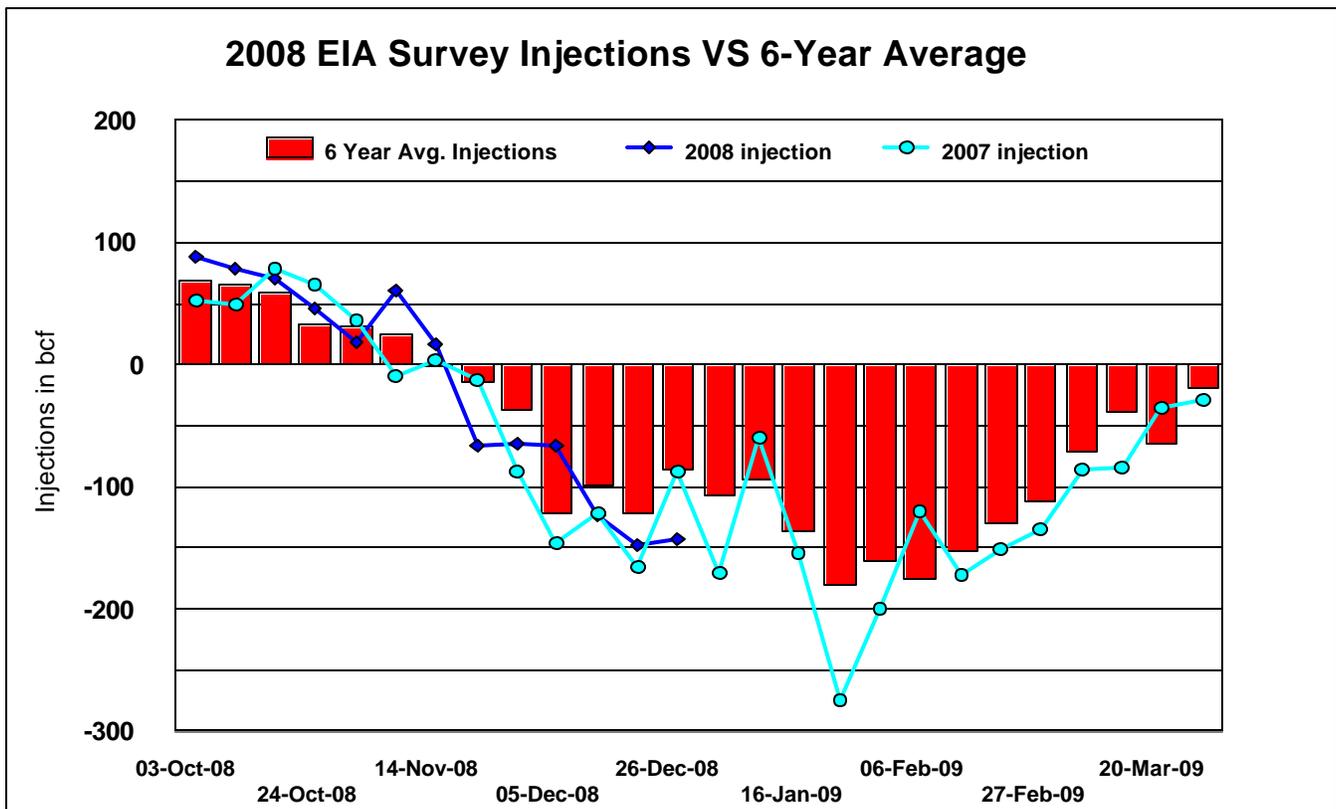
| | 26-Dec-08 | 19-Dec-08 | 28-Dec-07 |
|--------------|-----------|-----------|-----------|
| East | 163.6 | 176.5 | 194.8 |
| West | 293.2 | 312.3 | 273.6 |
| Total | 456.8 | 488.8 | 468.5 |

storage figures are in Bcf

The State of Utah moved last week to discontinue its price subsidy for compressed natural gas as transportation fuel and allow it to move up to reflect its actual cost. Currently there are 91 CNG filling stations in Utah of which 20 are open to the public. This spring it was estimated that Utah had 6,000 CNG vehicles. The current price of 80 cents will increase to \$1.43 a gallon starting July 1, 2009.

PIPELINE RESTRICTIONS

Transco Pipeline updated the status of its continued repairs to its mainlines following the rupture downstream of Appomattox, Virginia on September 14th. The company reported that it has completed mitigation procedures on two of the three lines that must be performed before the three mainlines can be returned to normal operating pressures. Mainlines “A” and “B” have been restored to full operating pressure. Mainline “C” work has not been completed and it is expected that mainline “C” will continue



to operate at reduced pressure for the next 2-3 months. As a result of the reduced operating pressure on Mainline “C”, the company will continue to have limited operating flexibility and reduced availability of Interruptible and Secondary Firm transportation capacity.

CIG said it is lifting the warning for the following interconnects: Blue Forest, Horse Trap, Lost creek and Wapiti.

Dominion Transmission has issued an OFO for today's gas day based upon forecasted weather calling in the northern portion of its service territory at systems north of Lindley Gate Station and Stateline facilities.

FGT said because temperatures forecasted for northern Florida over the next several days, it was warning customers that there is the potential that it may issue an OFO.

TransColorado Gas Transmission said it is lifting the force majeure issued on December 29th at the Redvale Compressor Station following repairs.

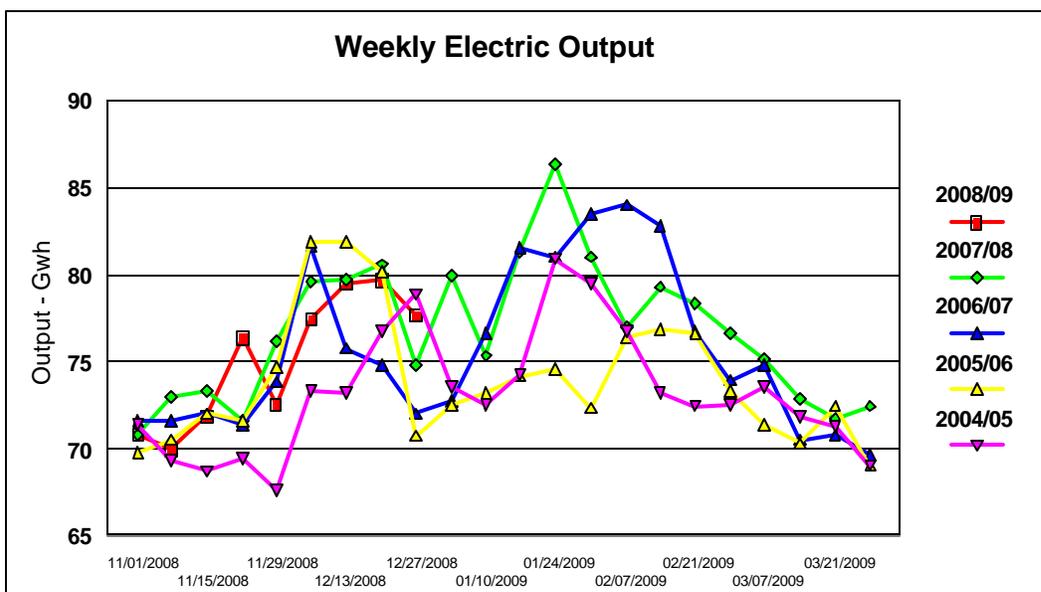
PIPELINE MAINTENANCE

Gulf South Pipeline said it will be performing scheduled maintenance at the Kiln Compressor Station Unit #1 beginning January 5, 2009. The work is expected to last for three days. Capacity through Kiln could be reduced by as much as 100,000 Dth during this maintenance.

Discovery Gas Transmission said that it has started the dewatering phase of repairs to the 30-inch mainline following damage during Hurricane Ike

ELECTRIC MARKET NEWS

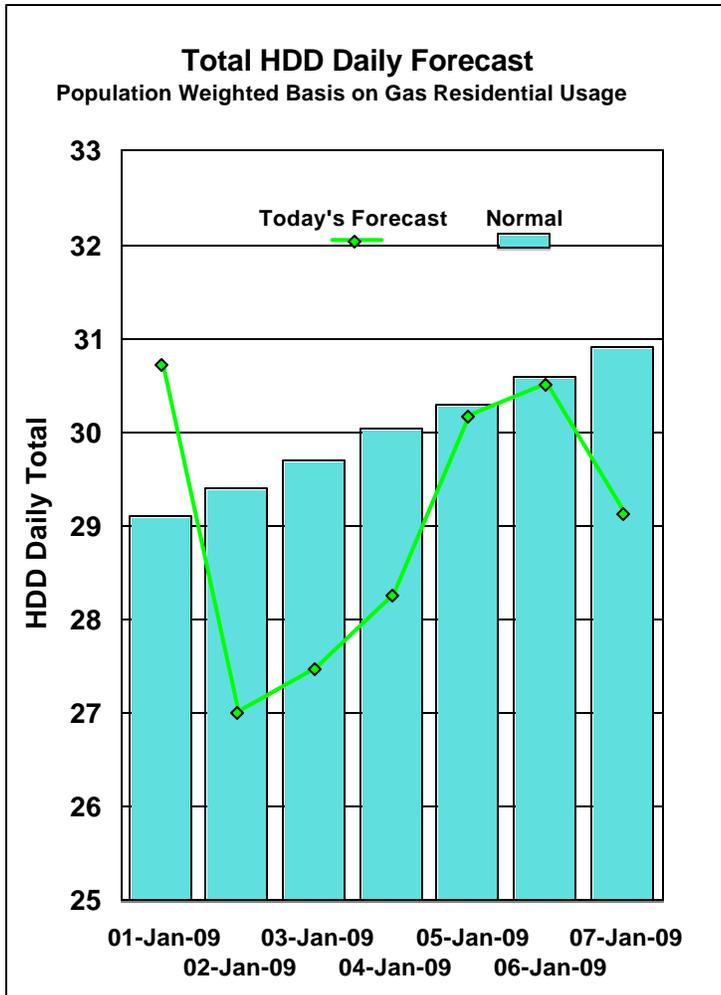
The FERC on Tuesday accepted Nstar Electric's agreement to transfer its transmission



rights on the Hydro Quebec Interconnection to a marketing unit of the Canadian utility, HQ Energy Services. As a result the FERC rejected a claim that the transfer should be awarded through a competitive bidding process and not the proposed five-year, bi-lateral agreement that takes effect January 1st.

MARKET COMMENTARY

The natural gas market for the second day following the January expiration saw yet light trading session and another down session. The market broke below yesterday's lows earlier this morning as weather forecasts while still looking for colder temperatures to move into the eastern third of the nation for the 11-15 day period, still could not overcome near term forecasts that looks for heating demand to remain basically normal for the nation as a whole over the next week. But prices broke significantly lower at midday as the EIA Storage Report was released. The Gas Storage Report which showed a 143 bcf withdrawal, which was significantly higher than the last year's 109 bcf drawdown and the five year seasonal draw down of 100 bcf, was still seen as a bearish report for the market as expectations had been pegged around a 150-155 bcf pull. While prices did stabilize around the \$5.50 level and did retrace back some 50% of the sell off from this morning, helped in part by surging oil prices, natural gas values could not come close to keeping pace with oil prices and as a result saw its discount to crud eoil widen back out by \$1.20 per Mmbtu and to levels not seen since the middle of this month.



We feel that despite the rally for the past week, the past two day's sell off has technically erased any support that the charts were beginning to show. This coupled with the lack of any sustained and severe cold outbreak expected over the majority of the United States, should put the bears back in the drivers seat as we kick off the new year. The bears should also find support by some analysts calculations that the rebalancing of the S&P GSCI and the DJ-AIGCI indexes at the start of the new year could result in the reduction of over 15,000 long positions.

We see support starting Friday at \$5.45, followed by \$5.27-\$5.24, and \$5.21. Additional key support we see at \$5.03 and \$4.55. Resistance we see at \$5.82-\$5.85, \$6.02, \$6.10 and \$6.18.

Please note the NYMEX floor will be closed Thursday for the New Year's holiday. Normal trading hours will be observed on Friday. Electronic trading on Globex will reopen at 6pm EST on Thursday for the Friday session.

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