



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR JANUARY 2, 2008

NATURAL GAS MARKET NEWS

A couple of Northeast citygates averaged more than \$38 Wednesday as prices rose at all points -- mostly by large amounts. Traders returned from the long New Year's weekend to find much of the U.S. and Canada enduring deep freeze conditions that were most intense in the eastern halves of both nations and could be expected to endure into Thursday.

Chesapeake Energy said today that it had sold a portion of its future natural gas production to UBS and Deutsche Bank for \$1.1 billion and plans to sell an addition \$2 billion in future production as well. The sale, under a volumetric production payment gives the buyers 210 million cubic feet equivalent of proved reserves and 55 million cfe of current gas production in Kentucky and West Virginia, or about 2% of the firm's reserves and production. The company said that the proceeds from the sale will be used to fund the company's drilling program, which has a projected rate of return in excess of 30%.

Golden Triangle Storage, a subsidiary of AGL Resources, said that it received an order from the FERC granting it a Certificate of Public Convenience and Necessity to construct and operate its proposed underground natural gas storage project as well as approving market-based rates for the services it will provide. The project is located in the Spindletop salt dome on the southern edge of Beaumont in Jefferson County, Texas. The company plans to initially offer up to 12 Bcf of working gas storage capacity in two caverns and, depending on market demand, could gradually enlarge the two caverns' capacity up to 16 Bcf of working gas in the future. Initial commercial operations are slated to begin in late 2010 to early 2011, with the second cavern coming online in 2013.

The Institute for Supply Management's manufacturing index plunged to 47.7 last month, its weakest level since April 2003.

Local tussles continued into the New Year with the ongoing comments and reactions to a draft environmental review of NorthernStar Natural Gas's proposed Bradwood Landing liquefied natural gas (LNG) terminal along the Columbia River in Oregon. Local county and FERC officials traded comments over the holiday period focusing on some third parties that are part of the debate.

Generator Problems

ERCOT – Luminant's 750 Mw Martin Lake #3 coal-fired power station restarted after fixing a boiler tube leak.

PJM – PSEG's 1,100 Mw Salem #1 nuclear unit restarted and is back online at 62% capacity after an unexpected outage over the weekend. Salem #2 continues to operate at full power.

SERC – TVA's 1,100 Mw Browns Ferry #1 nuclear unit shut over the weekend when a turbine generator load reject signal on the Main Generator prompted a reactor scram.

TVA's 616 Mw Paradise #1 coal-fired power station returned to service today following a major maintenance outage.

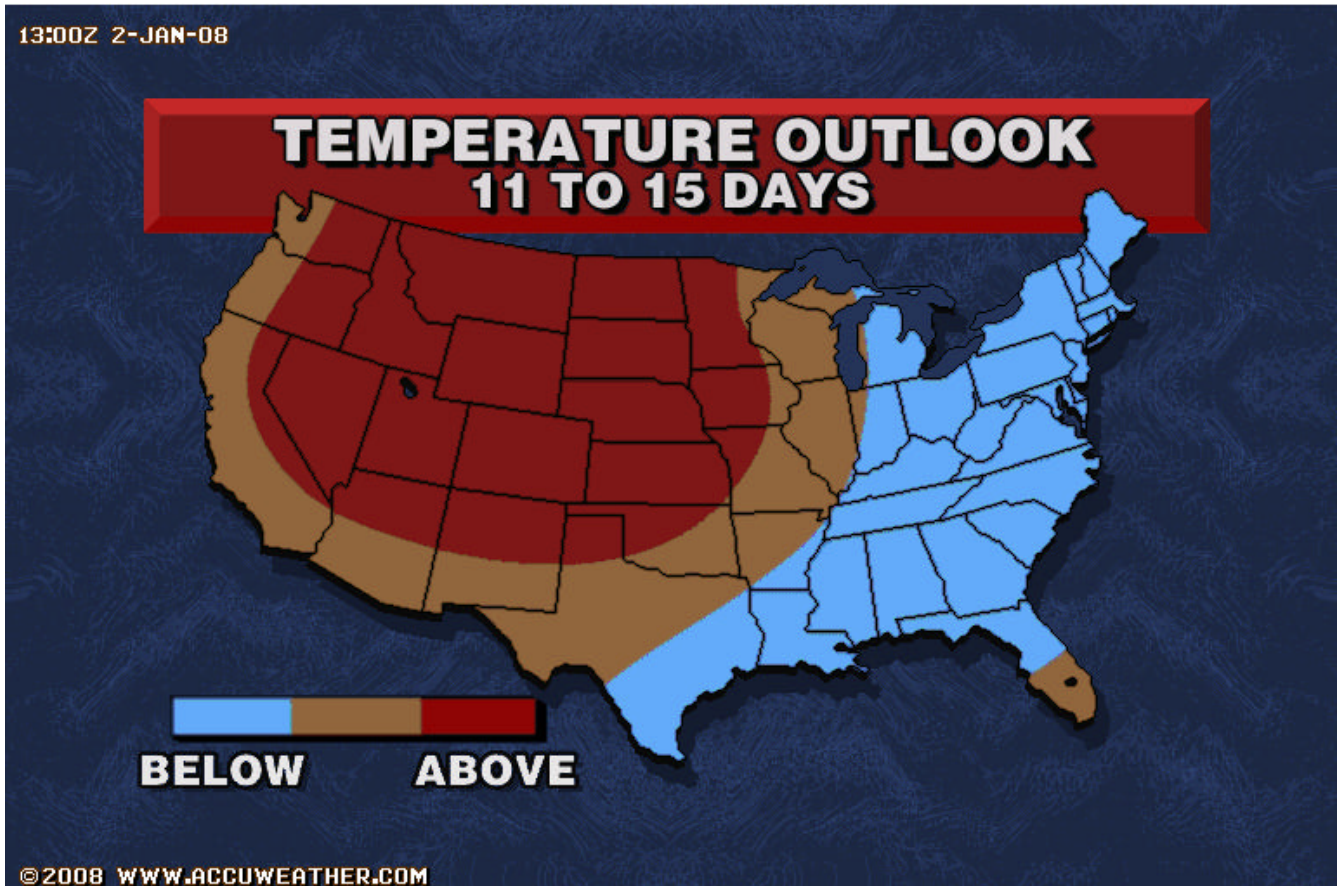
Canada – Ontario Power Generation's 490 Mw Nanticoke #4 coal-fired power station returned to service. The unit shut December 27.

OPG's 494 Mw Lambton #2 and #3 coal-fired power station returned to service by early today.

OPG's 515 Mw Pickering #1 nuclear unit shut for short work today. The unit is expected to return within a week.

The NRC reported that 91,639 Mw of nuclear capacity is online, down 2.54% from Friday, and down 5.68% from a year ago.

13:00Z 2-JAN-08



Due to the New Year's Day Holiday, the EIA's natural gas inventory report will be delayed one day until Friday, JANUARY 4TH AT 10:30 am est. The oil inventory report will also be delayed by one day until Thursday, January 3rd at 10:30 EST.

PIPELINE MAINTENANCE

ANR Pipeline Company said over the New Year's Eve holiday that it has completed engine repairs at its Bridgman Compressor Station in Michigan, located in the Northern Fuel Segment (ML-7). All associated capacity restrictions have been lifted.

TransColorado Gas Transmission reminded shippers that it will be performing maintenance at its Mancos Compressor Station on gas day January 3. Capacity through Segment 220 will be limited to 365 MMcf and capacity through Segment 240 will be limited to 415 MMcf. Based on the current level of nominations, AOR/IT, Secondary and Primary FT quantities are at risk of not being fully scheduled.

PIPELINE RESTRICTIONS

Florida Gas Transmission said that below-freezing temperatures are forecasted in Florida tonight; therefore, for today's gas day, FGT will notify customers in its Market Area that it is issuing an Overage Alert Day at 20% tolerance. FGT will not interrupt previously scheduled Market Area ITS-1 service below the elapsed prorated scheduled quantity.

Southern Natural Gas Pipeline said that while the following information is not an OFO notice, it is SoNat's best projection of the likelihood of implementing a Type 6 OFO for the following dates based on anticipated receipts and projected deliveries – today: OFO for short imbalances; January 3 and 4: OFO for short imbalances.

ELECTRIC MARKET NEWS

ERCOT said that utilities and other transmission providers in the region plan to add 2,538 miles of new transmission lines over the next five years at a cost of about \$3 billion.

MARKET COMMENTARY

The natural gas market started 2008 where it left off Monday, supported by short-covering based on sharply cold weather in the major markets and the crude contract's latest run at \$100. Physical natural gas prices were seen mostly higher today, supported by cold temperatures, snowy weather, and heating demand. The February contract gapped higher to start the New Year at the 7.60 level. With forecasts showing some immediate cold, natural gas continued its march higher, to a high of 7.875. The front month settled up 36.7 cents at 7.85.

However, above normal temperatures are expected over the weekend and for the next several weeks, which could prove unresponsive. Early forecasts for the next weekly natural gas storage report point to an above-normal drawdown near 100 Bcf versus an 89 Bcf five-year average. The supply situation remains bearish and with such a large short open interest, it is not surprising that the market reacted the way it did today. Spreads did not reflect the full brunt of what flat prices have done the past two sessions, suggesting that the supply situation is stable. We feel that this market will find resistance ahead of 8.00 and pull back toward 7.25-7.50. We see resistance at 7.935, 8.00, 8.089, 8.25 and 8.50. We see support at 7.785, 7.60, 7.50-7.45, 7.25, 7.15 and 7.00. We see further support at 6.94, 6.80 and 6.64.