



ENERGY RISK MANAGEMENT

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

www.e-windham.com

POWER MARKET REPORT FOR JANUARY 14, 2009

NATURAL GAS MARKET NEWS

The Russian-Ukraine gas dispute continues to drag on. While normally Gazprom should be exporting some 300 mcm/day of natural gas through the Ukraine only 98.8 mcm of gas appears to have been sent to Ukraine. The Ukraine continues to say that such small volumes coupled with the location of the delivery on the pipeline system has made it difficult if not impossible to flow the gas westward without shutting down its own domestic customers. The EU said today that its team of monitors dispatched to the region while resolving its disputes over access with Russian officials, still was denied access to key locations Ukrainian officials. The EU warned both Russian and the Ukrainian gas companies of legal action if the dispute is not quickly settled since both parties would be seen as not reliable suppliers. Political pressure continues to build on both parties to resolve the dispute, and this morning the Ukrainian Prime Minister said she has been seeking to hold a meeting with Russian Prime Minister Putin in the near future to end the standoff. But the difficulty in just trying to set up a definitive agreement for the date of the meeting makes it appear a resolution is still days away. Meanwhile Russian President Medvedev proposed today to hold a summit of EU gas importers in Moscow on January 17th.

Generator Problems

MAIN – Exelon’s 1163 Mw LaSalle #2 nuclear unit was at 87% capacity, down marginally on the day. The unit reportedly is coasting down to a refueling outage.

SPP – Entergy Nuclear reported this morning that its 930 Mw Arkansas Nuclear One Unit #2 was at 59% capacity this morning.

The NRC reported this morning that 95,912 Mw of nuclear generation capacity was on line, basically unchanged from yesterday and 8% higher than the same time a year ago.

Meanwhile Reuters reported that due to the Russian gas shortfall to start January, gas storage levels in Germany, Britain, Belgium, Austria, the Czech Republic,

Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
<u>Location</u>	<u>Traded</u>	<u>Price</u>		(As of 12:30 PM)		<u>Moving Avg</u>
Henry Hub	545,400	\$5.468	(\$0.236)	\$0.426	\$0.151	\$0.239
Chicago City Gate	1,129,700	\$6.337	\$0.068	\$1.295	\$0.301	\$0.791
NGPL- TX/OK	1,125,500	\$4.777	(\$0.236)	(\$0.265)	(\$0.003)	(\$0.371)
SoCal	328,100	\$4.595	(\$0.193)	(\$0.447)	\$0.040	(\$0.519)
PG&E Citygate	798,200	\$5.235	(\$0.271)	\$0.193	(\$0.038)	\$0.212
Dominion-South	558,500	\$7.691	\$1.193	\$2.649	\$1.426	\$1.198
USTrade Weighted	19,760,200	\$5.674	(\$0.082)	\$0.632	\$0.15	\$0.239

Hungary and Slovakia fell by 8-10% in the week ending January 12th. Slovakia’s prime minister said today that it has only 11 days of gas reserves left and after that time the country would be forced “to resort to measures never seen in our history. “

Qatar, the world's largest LNG producer, reported today that it had halted production of LNG at its Qatargas-1 plant on January 8th due to a mechanical problem. The production trains at the facility have a combined capacity of 10 million tons of LNG per year.

The U.S. Minerals Management Service reported this afternoon that offshore oil and gas operations in the Gulf of Mexico continue to slowly rebound in the wake of last year's Hurricanes Gustav and Ike. As of midday the agency reported that approximately 11% of the oil production in the Gulf of Mexico still remained offline or 143,532 b/d. Some 15% of the natural gas production in the Gulf of Mexico, or 1.089 bcf/d was estimated to still be shut in. Since the last report a month ago some 40,329 b/d of crude production and 372 MMcf/d of natural gas production has returned to service. The MMS will issue their next update on the production situation in the Gulf of Mexico on February 11th.

Royal Dutch Shell is considering taking part in the project of Japan's Inpex to build a \$19.6 billion floating LNG plan in Indonesia.

The State of Maryland yesterday asked the FERC to withhold approval of the controversial AES Sparrows Point LNG

terminal and Mid-Atlantic Express pipeline until the concerns of state and local officials are fully addressed.

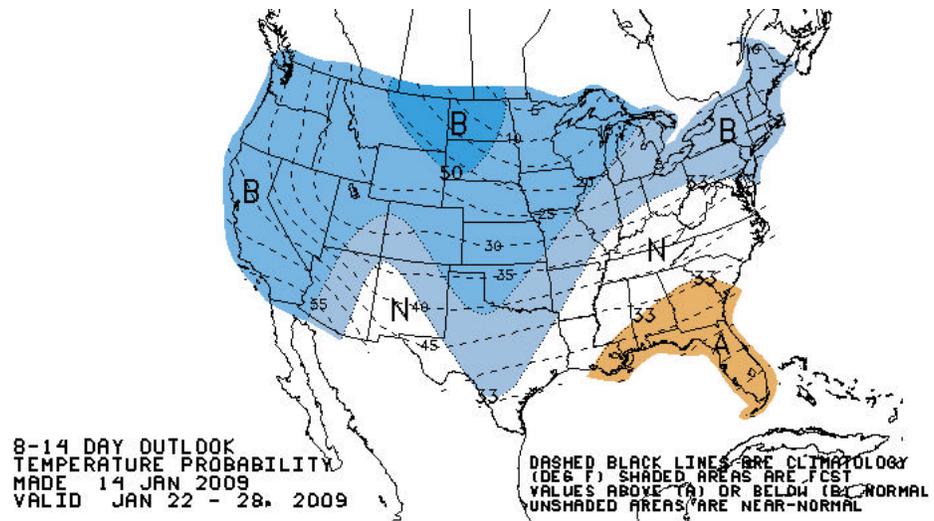
Doug Schantz, president of Sequent Energy Management, a subsidiary of AGL Resources, estimated that as many as 10% of the participants of the natural gas derivatives trading market have already "fallen out" of market participation, and even more will leave the market as financial entities continue to "de-levering" their balance sheets. He noted evidence of this fact in the lower liquidity in the market currently and the wider bid-ask spreads. Meanwhile Moody's Investor Service released a report on Tuesday echoing these comments, as it said "given the spate of recent counterparty exits, we believe that utilities will have fewer counterparties with which to trade; that bid-ask spreads will widen sharply; and that the terms required at the expiration of purchase power contracts may become more onerous than exists today" Moody's said that while the pullback of financial counterparties has not yet become "a major problem" it nonetheless believes "the challenges loom around the corner".

A Commerce Department report showed that US business inventories fell by 0.7% while sales fell by a record 5.1% in November after falling by a revised 3.9% in October. The inventories to sales ratio increased to 1.41 months, the highest reading since September 2001, when the ratio was 1.44 months.

PIPELINE MAINTENANCE

Tennessee Gas Pipeline said it completed the repair of its Bluewater East Leg 36-inch pipeline over this past weekend and has begun repressurizing the line and testing for leaks over the next several days.

PIPELINE RESTRICTIONS



Iroquois Gas Transmission announced today that its new Milford Compressor Station has been placed into service. The project was part of the 2008/09 Phase 2 Expansion Plan.

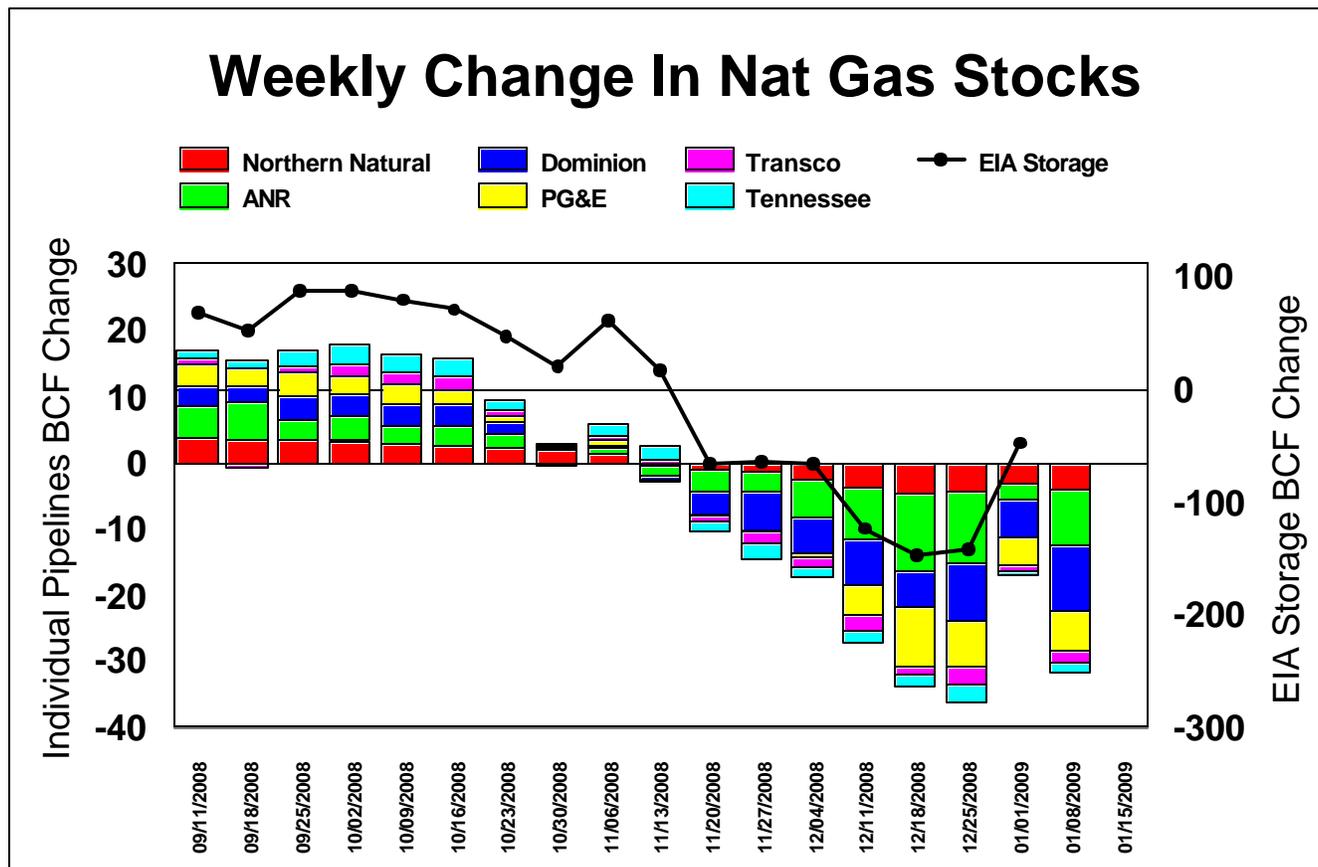
Questar Pipeline said that until further notice, Southwest Gas Corporation has issued a Stage 3 OFO due to high line pack on upstream pipelines and continued banking on the system.

CIG said it will continue the underperformance caps on its interconnects at Saddle Draw, Table Rock Residue, Sand Wash and Desert Springs and will continue the underperformance warning at Madison and Black Fork locations.

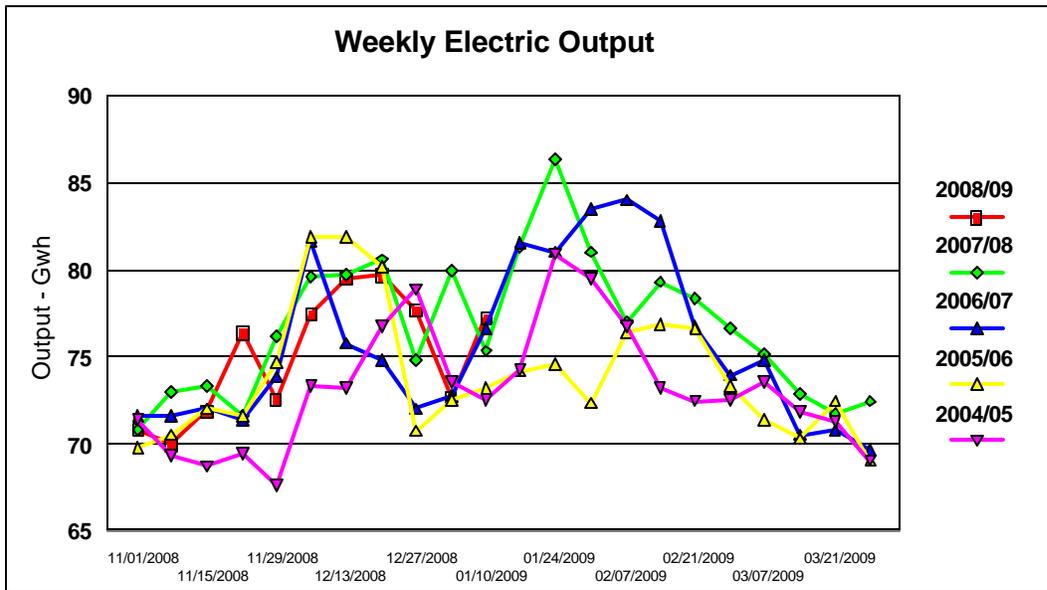
NGPL said effective for today and until further notice it is at capacity for deliveries to Trunkline-Lakeside. ITS/AOR and Secondary transports are at risk of not being fully scheduled. The company also reported that until further notice it is at capacity for gas going northbound through Segment 18 as well as for deliveries at Columbia Gulf-Chalkey. ITS/AOR and Secondary Firm transports are at risk of not being fully scheduled.

Tennessee Gas Pipeline said that due to colder temperatures in its service territory and in order to maintain line pack, it is issuing an OFO for January 15th for all LMS-PA Balancing Parties, LMS-MA, and LMS-PL Balancing Parties with meters located in Zones 1, L and 2.

FGT said that due to cold temperatures in Florida, it has issued an Overage Alert Day for today with a 25% tolerance.

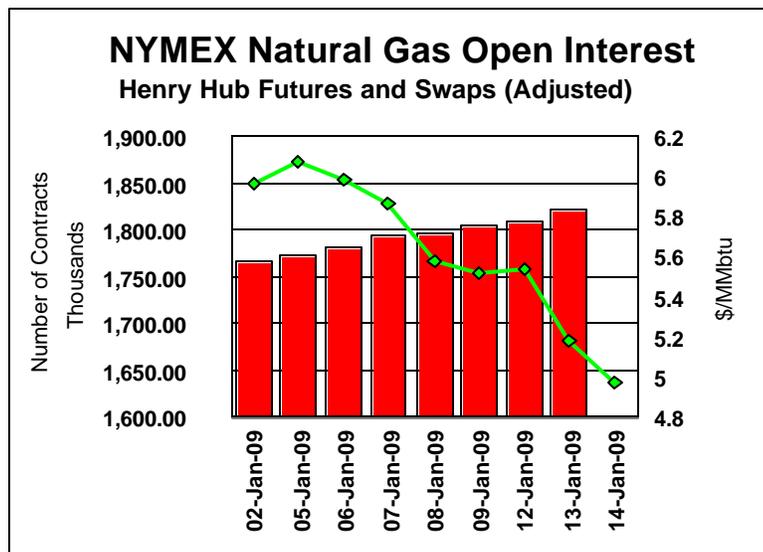


The Midwest Independent Transmission System Operator said earlier this week that it will not stand in the way of Aquila's plan to withdraw its membership, but it must be required to honor financial obligations that could exceed \$11 million before doing so. Aquila in a filing with the FERC seeking approval of the move to SPP explained that since it currently straddles two regional transmission organizations, the MISO and SPP, and takes service from both, it is seeking to transfer all of its responsibilities to one RTO. Since the Missouri Public Service Commission in October rejected its proposal to transfer all of its responsibilities to MISO, since the commission found if it switched to being a full member of SPP it would save four times as much than being a MISO member.



The Edison Electric Institute reported today that for the week ending January 10th some 77,282 Gwh of electricity was produced in the United States. This is a 6.35% increase over the previous week and some 2.6% higher than the same week a year ago.

While Entergy earlier this month announced it was no longer seeking loan backing for proposed reactors in Louisiana and Mississippi that it recently suspended development on, Unistar Nuclear, a joint venture of Constellation Energy and EDF Group, has also dropped its New York nuclear project from the application process. The company though is still moving forward in seeking additional federal loan funding for its Maryland project.



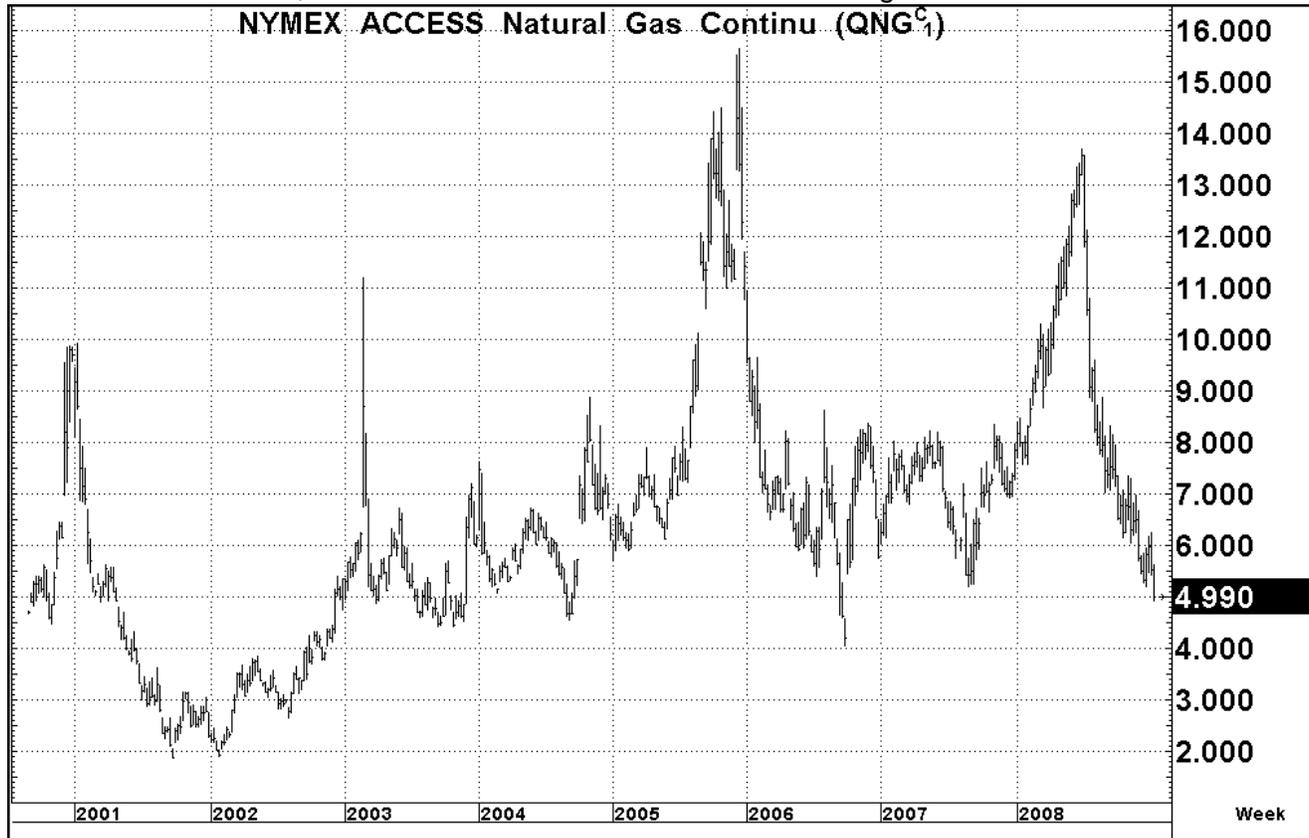
The Electric Power Research Institute reported that energy efficiency programs in the United States could realistically reduce the rate of growth for electricity consumption by 22% over the next two decades if key barriers can be addressed, such as consumer behavior and sufficient funding and regulatory streamlining.

MARKET COMMENTARY

Despite the arctic air mass beginning to spread across the eastern half of the nation today, with the New York area looking at its coldest three-day period in over 15 years, natural gas prices moved

lower today, falling below \$5.00 Mmbtu for the first time since September 2006. Bearish economic news coupled with declining oil prices weighed on natural gas futures values today.

Open interest reported at midday showed that on a combined adjusted basis for the Henry Hub futures and swaps contracts increased for the seventh consecutive trading session, and the largest daily increase for the month, in what has to be seen as new shorts coming into the market.



Market expectations for tomorrow's EIA Storage Report for working stocks of natural gas seem to be centered around a 105 bcf decline. Our estimate though based on declines in pipeline stocks seems to be a bit higher looking for potentially a 135 bcf drop. For the same week a year ago the decline was 91 bcf, with the five-year seasonal average showing a 88 bcf decline.

Given our supportive outlook for tomorrow's storage report, we feel that if this stock estimate is realized we would get a bounce, but we continue to feel that the overall trend over the next month remains locked in a bearish spiral lower, and thus any rally will probably be taken as selling opportunity. We see resistance tomorrow at \$5.15, \$5.34 and \$5.43-\$5.45. More distant and major resistance we see at \$5.90 and \$6.058. We see initial support tomorrow at \$4.86 followed by \$4.75-\$4.74, and \$4.57. Over the past 6 years the spot continuation chart has shown significant support at \$4.55-\$4.42 with one isolated plunge down to \$4.05.

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