



ENERGY RISK MANAGEMENT

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

www.e-windham.com

POWER MARKET REPORT FOR FEBRUARY 26, 2009

NATURAL GAS MARKET NEWS

Chevron reported this morning that its U.S. production of natural gas in 2008 averaged 1.501 bcf/d, down 12% from the prior year, with declines in the Gulf of Mexico leading the way, off 24% from the prior year. The company reported that as of December 31st the 95%/one day VaR for crude oil was \$39 million, up \$10 million, from a year ago, refined products were at \$45 million up \$22 million from 2007 while natural gas hedges were valued at \$5 million, up \$2 million from a year ago. The company reported that its hedging activities in 2008 yielded \$143 million gain, a \$110 million improvement over 2007.

The CME Group announced late yesterday new petroleum product swap futures and options contracts that will begin trading on March 8th for the trade date March 9th. Some of these new swap futures contracts include Balance of the Month contracts for propane, natural gasoline, ethane and butane for trading on its Clearport system. The exchange also reported that it will launch new average price options contracts for Mt. Belvieu propane, natural gasoline, ethane and butane. There will be 20 strike prices in increments of a penny per gallon above and below the at the money strike for a total of at least 41 strikes. The contracts will expire on the last business day of the underlying calendar month. Consecutive monthly contracts will be listed for the balance of the current year plus three additional years beginning with the March 2009 contract. The contracts will be available through Clearport and the New York trading floor.

TransCanada announced today that it has secured shipper commitments for firm transportation contracts of 378 million cubic feet per day for the Horn River Project. The project is expected to cost \$340 million and move shale gas from the Horn River basin north of Fort Nelson, British Columbia to its Alberta system.

Generator Problems

SERC- TVA's 1065 Mw Browns Ferry #1 nuclear unit was shut this morning after it failed to restart. The unit had been at just 3% power on Wednesday.

PJM - Exelon's 619 Mw Oyster creek nuclear unit was taken off line this morning to connect a new transformer. Expectations are that the unit will be off line for several days. The unit had been at 40% capacity yesterday.

SPP - Operators at AEP's 675 Mw Pirkey coal fired power station look to restart the unit over the next week. The unit was shut on February 22nd due to an electric fault.

ERCOT - Luminant's 750 Mw Martin Lake #1 coal fired unit is expected to be restarted today. The unit was taken off line on February 23rd to fix a boiler tube leak.

NPCC - OPG's 490 Mw coal fired Nanticoke Unit #7 was shut for short-term maintenance.

Bruce Power's 795 Mw #8 nuclear unit returned to service Wednesday night after tripping off line earlier that day.

Constellation Energy's 621 Mw Nine Mile Point #1 nuclear unit returned to full power early Thursday. The unit had been at 45% power yesterday.

The NRC reported this morning that 89,897 Mw of nuclear generation capacity was on line, down 0.05% from yesterday but 0.7% higher than the same time a year ago.

Despite market rumors to the contrary, El Paso Corp today confirmed its 680-mile Ruby Pipeline project is still on track. The pipeline would carry Rocky Mountain gas to the West Coast.

Calypso LNG said it has informed the Maritimes Administration and the U.S. Coast guard that it will withdraw its application for a deepwater port license to build a LNG facility off the southeastern coast of Florida.

Developers of the Islander East natural gas pipeline project have dropped their appeal of a Connecticut permit ruling to the U.S. Department of Commerce. This effectively marks an end to the proposed 260,000 Dtm/d pipeline that would have run from North Haven Connecticut to Yapank, New York, under Long Island Sound.

The NYMEX reported that effective at the close of business today it was lowering its customer margin rates for its natural gas futures, penultimate and Henry Hub Swap Futures contracts by 13%. For Tier 1 contracts the customer futures margin will be set at \$6,750.

Reuters reported today that a LNG tanker is unable to off load its cargo at Exceletrate Energy's Northeast Gateway terminal offshore of Boston because of liquid in the pipeline connecting to the onshore grid. The cargo has been anchored at the terminal for six weeks awaiting full offload.

Steve Johnson, president of Waterborne Energy, told a LNG conference today that his firm estimates that more than a trillion cubic feet of LNG is headed to the United States this year, smashing the record 770 bcf recorded in 2007.

President Obama's budget outline released today calls for the elimination of substantial tax breaks and increasing fees for oil and the natural gas industry, while boosting funding for cleaner fuel development. The plan would levy an excise tax on Gulf of Mexico oil and natural gas raising \$5.3 billion in revenue from 2011-2019. This new 13% tax on all oil and gas production in the Gulf would only affect those companies that are currently not paying any royalties due to a loophole in the current tax regime.

EIA Weekly Report

	02/20/2009	02/13/2009	Change	Year ago
Producing Region	723	737	-14	581
Consuming East	876	947	-71	881
Consuming West	296	312	-16	201
Total US	1895	1996	-101	1662

*storage figures in Bcf

The U.S. Commerce Department reported today that new orders for durable goods fell for a sixth consecutive month to a six year low in January. The Department of Labor reported that the number of U.S. workers continuing to claim jobless benefits notched a fresh record in the second week of February, while new claims

were the highest since 1982. The Commerce Department also reported that sales of newly built U.S. single family homes slumped to a record low in January, down 10.2% while prices fell to their weakest level in five years.

While exact details remain sparse, it appears that FCStone Group this week became the latest firm to suffer losses in the natural gas market. The company reported this week that it expects to incur an additional \$60 to \$80 million pre-tax bad debt provision for the second quarter of this year in connection with a previously reported losses by "a significant energy trading account" for which the firm serves as the clearing firm.

Canadian Gas Association

Weekly Storage Report

	20-Feb-09	13-Feb-09	22-Feb-08
East	85.1	92.9	93.5
West	175.6	187.8	148.1
Total	260.7	280.7	241.6

storage figures are in Bcf

StatoilHydro said today that it is making progress towards expanding its Snoehvit LNG export project. The company noted that there is space and room for another liquefaction train but declined to give a

timeline for the expansion. The project came online in late 2007 but has been plagued by technical problems for the past year.

Total SA said it has not yet made a final investment decision on the Nigerian \$8.5 billion Brass LNG project. While an investment decision had originally been promised by 2006, the company said it expects to make the decision this year.

The European Commission said it has no plans to intervene in bilateral talks between Russian and the Ukraine on commercial gas supplies. The Russian media earlier today reported that Gazprom had threatened to cut off supplies again to the Ukraine on March 8th if the \$400 million that the Ukraine owes for February supplies is not paid by March 7th. The EU though said it still had a team of monitors on the ground to evaluate any problem with supplies from Russia via the Ukraine. If supplies are once again disrupted the EU said that the gas industry would take measures to prioritize household customers, EU governments taking national measures and convening the EU gas coordination group.

PIPELINE RESTRICTIONS

Northern Natural Gas said effective for today it has issued an OFO for Carlton Resolution Obligation until further notice.

NGPL said effective today and until further notice it has limited capacity available for northbound flow through Segment 13 in Iowa. A limited amount of its ITS/AOR and Secondary out of path Firm Transports may get scheduled. The company also reported that effective for today's gas day and until further notice, it is at capacity for deliveries to trunkline Lakeside. ITS/AOR and Secondary out of path

Firm transports are at risk of not being fully scheduled.

Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
Location	Traded	Price		(As of 12:30 PM)		Moving Avg
Henry Hub	807,500	\$4.082	(\$0.119)	(\$0.018)	(\$0.353)	(\$0.321)
Chicago City Gate	770,400	\$3.833	(\$0.122)	(\$0.267)	(\$0.142)	(\$0.037)
NGPL- TX/OK	1,062,900	\$3.157	(\$0.082)	(\$0.943)	(\$0.102)	(\$0.784)
SoCal	257,600	\$3.083	(\$0.283)	(\$1.017)	(\$0.303)	(\$0.750)
PG&E Citygate	638,500	\$4.056	(\$0.140)	(\$0.044)	(\$0.160)	\$0.089
Dominion-South	260,400	\$4.394	(\$0.101)	\$0.294	(\$0.120)	\$0.494
UStTrade Weighted	15,286,900	\$3.493	(\$0.333)	(\$0.607)	(\$0.35)	(\$0.321)

Dominion Transmission said it has lifted an OFO for its system north of Lindley Gate Station and Stateline facilities

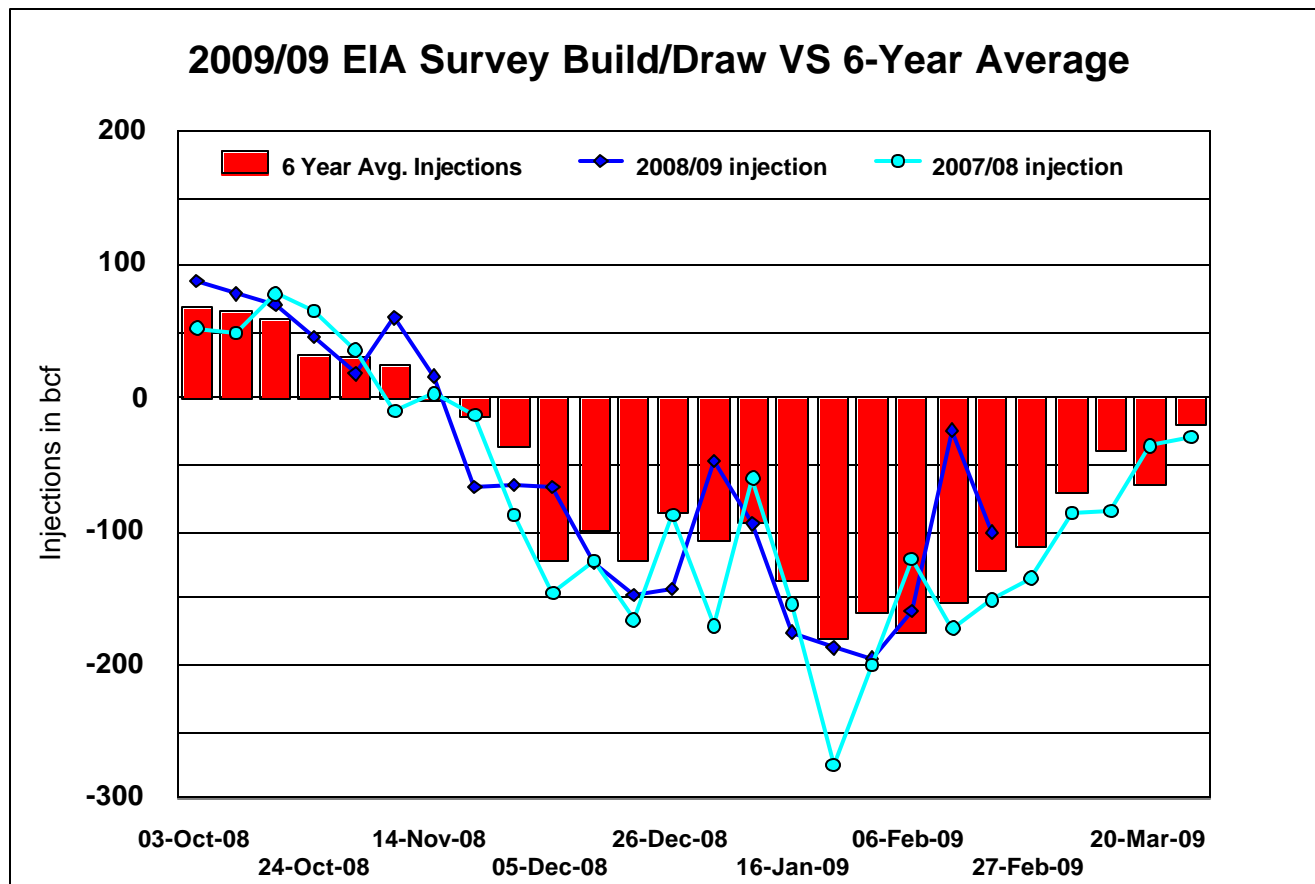
in the northern portion of its operating area issued on February 16th.

PIPELINE MAINTENANCE

CIG said it has declared a force majeure event at the Kim Compressor Station in Southern Colorado due to an unforeseen mechanical outage. Although physical flows at the Picketwire Constraint will be reduced from 414 MMcf/d to 335 MMcf/d, the reductions to firm nominations are not expected to be required. Repairs are expected to extend through March 26th.

ANR Pipeline said it has completed engine maintenance on its Sulphur Springs Compressor Station on its Southeast Central Fuel Segment in Indiana. All associated capacity restrictions to ANR Glen Karn have been lifted. The company also reported that it will be performing unscheduled maintenance at its Birmingham compressor station located on the Southwest Central Fuel Segment in Iowa. This will reduce the total SW mainline-CFTP by 11 MMcf/d. Based on current nominations, it is anticipated that this reduction may result in the curtailment of Firm Secondary and IT nominations.

Sabine Pipe Line said it expects to complete repairs at the Port Neches compressor station by February 28th. Due to a loss of compression and a loss of capacity, Sabine declared a force majeure at its Jefferson interconnects with Houston Pipeline, KM Texas Pipeline and the Tejas Pipeline.



ELECTRIC MARKET NEWS

The U.S. Northwest River Forecast center on Thursday reported that predicted water runoff at the Dalles Dam on the Columbia River will be 79% of normal for the April-September period, unchanged from last week's estimate and 20% less than last year levels. The water flows at the Grand Coulee Dam are expected to be 85% of normal 1% less than forecasted last week.

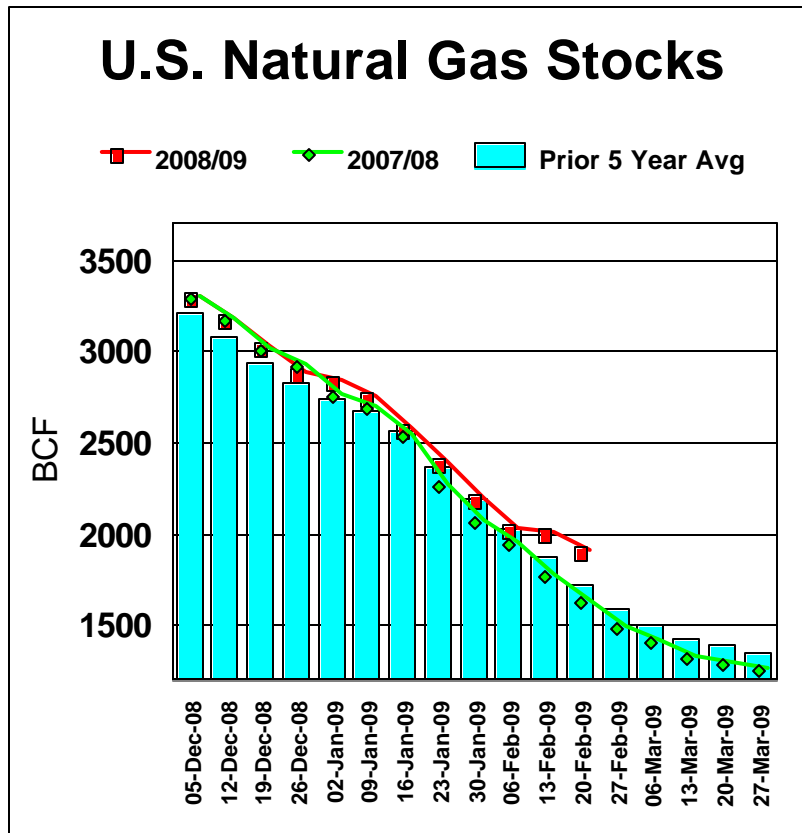
President Obama's budget released today assumes \$646 billion in "climate revenues" from the auction of greenhouse gas emission allowances in a national cap and trade system beginning in 2012. The climate program would raise about \$80 billion per year through 2019. The program would force utilities, oil refineries and heavy industry to purchase 100% of their carbon allowances in auction. The budget calls for GHG emissions to be cut by 14% below 2005 levels by 2020 and 83% below 2005 levels by 2050.

Florida's Office of Public Counsel has asked state regulators to order Progress Energy Florida to refund \$61 million to customers from extra costs incurred from the utility's failure to burn an 80:20 mix of bituminous and sub-bituminous coal at its Crystal River units 4 and 5. OPC said that Progress Energy designed and built the 720 Mw coal fired units to burn a mix of coal types but the utility only has burned the more expensive bituminous coal, and for years did not pursue an air permit allowing it to burn a mix. This resulted in coal costs that were \$51 million higher and extra sulfur dioxide emission credit costs of \$10 million in 2006 and 2007.

The Obama Administration today said that despite the 20 years of planning and the \$9 billion spent so far the Yucca Mountain nuclear waste facility would not become a reality. The Secretary of Energy said today that the new administration is starting the process of finding a better solution for management of nuclear waste. The Obama administration will not curtail work on new reactors though.

MARKET COMMENTARY

Despite some news agencies reporting that the strength in natural gas today was found in market speculation that the Obama administration plan to boost the economy would improve the demand of fuels, we feel that natural gas's modest gains were simply a spill over from the oil markets where expectations for another OPEC production cut would be realized at the cartel's next meeting next month. In fact the cash market did not even match the futures markets as most trading points saw lower values today as heating demand was moderating. The April contract today posted an inside trading session which is not too surprising given that today was the day following a contract expiration and this morning's storage report fell within market expectations.



While the oil market may remain on its upward path for the next couple of weeks, we continue to feel the natural gas will lag behind and remain on the defensive as storage overhang over last year and the five year seasonal average continues to be a weigh on this market. We would look for resistance tomorrow at \$4.128 followed by \$4.206. More distant resistance we see at \$4,326, \$4.44, \$4.55 and \$4.72. Support we see at \$4.00, \$3.95, and \$3.813.

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