



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR JUNE 4, 2008

NATURAL GAS MARKET NEWS

While the tropics remain a bit unsettled in the western Caribbean, the potential for any significant development seems remote given relatively strong wind shear in the region coupled with quite a bit of dry stable air over much of the Gulf of Mexico. As a result all the computer models do not appear to point to any problems over the near to intermediate term. While forecasters are watching a tropical wave with an area of low pressure some 1500 miles east of the Lesser Antilles, it too is moving toward an area of large dry air that should dampen any further development. Meanwhile Storm Exchange, a weather risk management service said its Summer 2008 Weather Risk Outlook is calling for an 84% probability of an U.S. hurricane strike this year, a 4% higher risk than normal. They see the probability of a strike in the USG at 58%, a 5% increase of risk over last year. They see the probability of a Category 3 or stronger hurricane making landfall in the USG at 23%

Generator Problems

SERC – Duke Power's 846 Mw Oconee nuclear power plant was at 98% capacity up from 73% on Tuesday.

SPP – Entergy's 1091 Mw Waterford nuclear power plant was at 76% of capacity up 50% from yesterday.

NPCC – Entergy's 956 Mw Indian Point #2 nuclear unit was operating at only half power today, after running at full power on Tuesday.

Hydro-Quebec said it expects its Gentilly 2 nuclear unit to return to service next week following completion of its ongoing maintenance outage.

OPG's 490 Mw Nanticoke #5 coal fired generating unit was taken off line for short term work this morning

WSCC – Southern California Edison's 1070 Mw San Onofre #2 nuclear unit was at 53% of capacity, up only 1% from Tuesday.

APS Palo Verde nuclear unit #2 is in start up mode and is expected to reconnect to the grid this coming weekend.

Calpine's 811 Mw Delta natural gas fired power station returned to service. The unit had been off line since April 27.

The NRC reported that 91,190 Mw of nuclear capacity is online, up 0.9% from Monday and down 2.8% on the year.

The biggest weather issue for traders remains the approach of hot temperatures into the Midwest and the then the northeast over this weekend. Accuweather continues to stress that we possibly could see the hottest weather of the summer for the northeast and Midwest. Other private forecasters continue to ramp up their cooling

demand levels, some by 6-7% from just yesterday for the week ending June 12th.

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	973,400	\$12.170	(\$0.105)	(\$0.235)	(\$0.428)	(\$0.927)
Chicago City Gate	581,300	\$12.153	(\$0.097)	(\$0.252)	(\$0.241)	(\$0.153)
NGPL- TX/OK	930,400	\$11.673	(\$0.149)	(\$0.732)	(\$0.293)	(\$0.562)
SoCal	1,028,000	\$10.476	(\$0.598)	(\$1.929)	(\$0.742)	(\$2.116)
PG&E Citygate	457,700	\$11.384	(\$0.233)	(\$1.021)	(\$0.377)	(\$0.757)
Dominion-South	191,600	\$12.670	(\$0.106)	\$0.265	(\$0.250)	\$0.341
Transco Zone 6	136,600	\$13.161	(\$0.047)	\$0.756	(\$0.19)	\$0.676

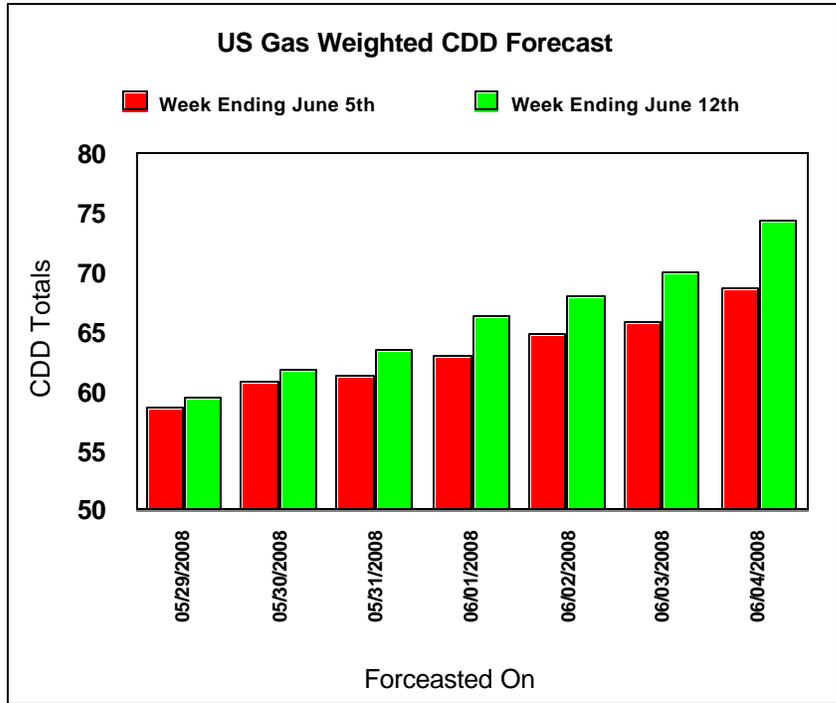
The Department of Energy today announced it has approved a request for energy companies to continue exporting for two more years

LNG from Alaska to Asian markets. ConocoPhillips and Marathon Oil requested authority to export up to 98.1 bcf of natural gas from April 1, 2009 through March 31, 2011.

Williams said it is holding an open season for up to 150,000 Dth of additional firm transportation services on the Discovery pipeline system. The open season will end on June 30th.

The CFTC testifying before the Senate today, said that the agency needs increased funding and staff members to carry out its mission to oversee the energy and other commodity markets.

ExxonMobil officials today said the company was on track to start up to LNG terminals that will deliver gas to Europe this year. The South Hook LNG terminal in Wales and the Adriatic LNG terminal in Italy both are expected to start operation later this year.



PIPELINE RESTRICTIONS

FGT announced this morning that it was extending its Overage Alert Day, and as a result the tolerance remained at 25%.

PIPELINE MAINTENANCE

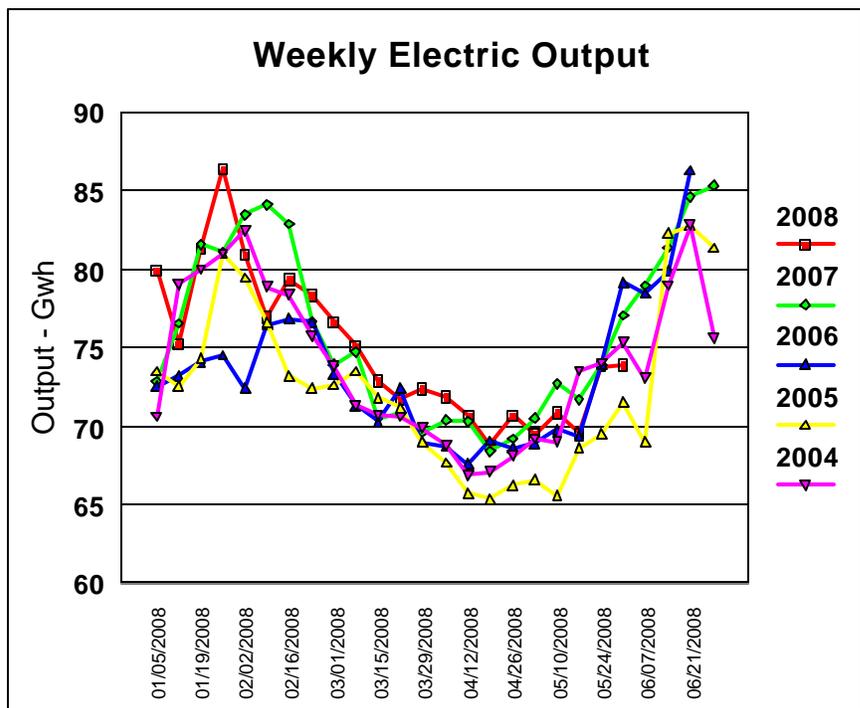
Northern Natural Gas said that annual emergency system testing and inspections will take place at the Sublette Compressor Station, forcing the station to be taken off line on June 10th.

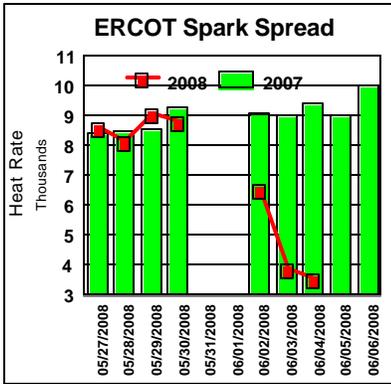
Westcoast Energy said yesterday that its Fort Nelson Gas Plant experienced a tube leak in the Sulfur Plant, which forced the company to take out of service Sulfur Train #10 for repairs. The expected start up is slated for Thursday morning.

ELECTRIC MARKET NEWS

The Edison Electric Institute reported today that for the week ending May 31st U.S. electric production reached 73,959 Gwh, up 0.22% from the prior week but 4.16% less than the same week a year ago.

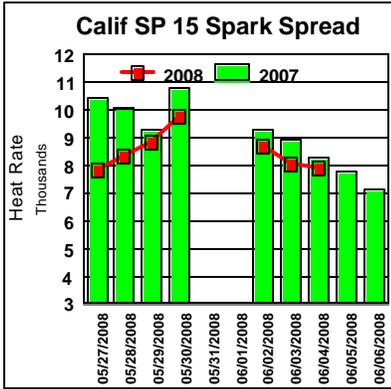
The FERC today approved three separate settlements totaling more than \$4 million from the Western energy crisis of 2000-2001. The





off line for maintenance work.

FPL has filed a mid-year application with the Florida Public Service Commission seeking approval of a significant increase in the fuel portion of its retail rates to reflect much higher costs for generating fuels. The company is seeking to raise the average residential customer's bill by 16%. The company noted that the price of natural gas, which fuels 50% of the company's electric generating needs, has risen by 32% from July of 2007, while fuel oil has increased by 54%. If the regulators approve the request at their July 1st meeting the company would institute the increase for customers bills from August through December. Last week, Progress Energy made its first mid year request for a fuel rate hike of 8%.



Topaz Power Group reported that its small 32 Mw Laredo Power Station which unexpectedly dropped off line on Monday had created an emergency situation in the Laredo area that had become so critical given the power demand in the area that ERCOT warned Monday and Tuesday of the possibility of rolling outages. ERCOT though canceled the warning late today as the unit returned to service.

Electric utility regulators and customers in Maryland, Delaware, Pennsylvania and New Jersey have asked the FERC to stop the PJM from raising electric costs in the 13 state region by \$12 billion over the next three years. The buyers group has complained that the new pricing scheme has resulted in enormous windfalls for existing power without adding much new generation.

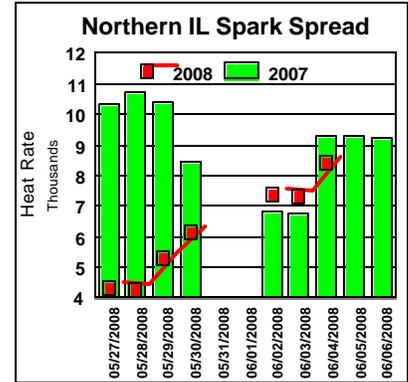
MARKET COMMENTARY

Simply the continued talk of the approaching heat wave and the continued revision in these forecasts to even hotter than previous forecasts kept the bears in the natural gas market firmly on the sidelines. Even the start of the return of production of the Independence Hub nor the further declines in the oil market could keep natural gas prices down and thus the July contract pushed to new highs and settled above the \$12.00 mark for the second straight session.

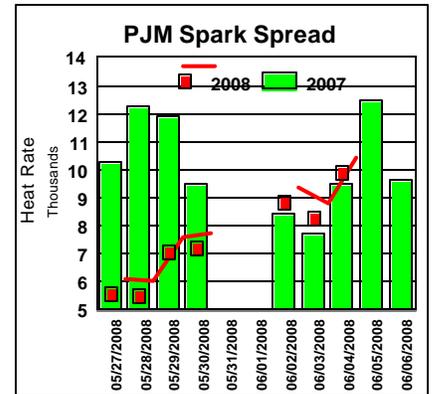
Despite tomorrow being a Storage Report day, the weather report will remain the primary key for traders tomorrow and thus it will dictate the direction of prices. The market seems overly sensitive to temperature forecasts for the next 1-2 weeks, but it is the season's first heat wave and traders will most likely overreact to it.

settlements are between the California Parties and the cities of Riverside, CA, Anaheim, CA and Azusa, CA. The California parties include PG&E, Southern California Edison, San Diego Gas & Electric and the California Department of Water Resources, along with the state Electricity Oversight Board and the California Public Utilities Commission.

NYPA's Blenheim-Gilboa pumped storage power project has returned to service following completion of maintenance work on the second of four pump turbine generating units. The unit had been out of service since September of last year. The agency reported that in September the third unit would be taken



NERC today issued the first two fines to two utilities that failed to keep trees clear of power transmission lines, which resulted in outages last year. Baltimore Gas & Electric and MidAmerican Energy were fined \$180,000 and \$75,000 respectively.



But lurking in the background is the return of 1 bcf/d of offshore production that will eventually weigh on prices as well as a drop off in temperatures given this is early June not August.

We see the four-month trend line tomorrow again acting as resistance for this market. Today this trend line came in at \$12.494, and today's high reached \$12.475. Tomorrow this line will be at \$12.528. Additional resistance we see at \$12.544, \$12.709, \$12.895 and \$12.943. Support we see at \$12.145, \$12.076, \$12.026. More distant support we see at \$11.911, \$11.746 and \$11.649. While we remain bullish on this market we can not justifying buying at these levels and thus will await a retracement.

Expectations for tomorrow's EIA storage report appear to range between a 99 to a 109 bcf with the median build at 103 bcf. Our model is a bit more modest which is looking for a 96-98 bcf build on the week. For the same week a year ago there was a gain of 110 bcf in working gas inventories and the five-year seasonal build is for 98 bcf.

