



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR JULY 8, 2008

NATURAL GAS MARKET NEWS

While Hurricane Bertha's continued strengthening in the Atlantic has been attracting most forecasters attention, despite its low or no risk to the U.S. mainland, the forecasting models are pointing quietly to the possibility of some sort of new tropical development in the far eastern Atlantic over the next few days. Currently there is an area of disturbed weather in the far eastern Atlantic around 20-30 West Longitude. While convection with this disturbance had decreased a bit this morning as it passes through some area of less than favorable conditions for development, the GFS model is pointing to this system moving into a more favorable area for development west of 40 West Longitude. The model is looking for this system to develop further or one currently further east ready to move of the coast of Africa as it reaches the area around 40 West Longitude. The model is looking for this system then to move towards the U.S. and British Virgin Islands and the northern Lesser Antilles by next Tuesday. It appears the UKMET model is also supporting the development of a tropical system in the area of 40 West Longitude this weekend as well.

T. Boone Pickens on Tuesday called for greater investment in natural gas and wind power, as he rolled out his "Pickens Plan" in which he will spend \$10 million to herald the pressing need of the United States to address and reduce its staggering dependence on imported oil. He said his plan calls for investing in power generation from our domestic renewable resources such as wind and using our abundant supplies of natural gas as a transportation fuel. He estimates that this could replace one third of our imported oil and save more than \$230 billion a year.

El Paso said today that it would expand its Colorado Interstate Gas natural gas pipeline. The expansion plan would provide 130 Mmcf/d of incremental firm capacity from the Raton Basin in Las Animas County, Colorado, northward along the Front Range of Colorado to the Cheyenne Hub. The expected cost of the project is \$146 million and is expected to begin construction in 2009 and be in service by 2Q2010.

National Grid reported today that the British-Belgium gas pipeline was switching back to UK export mode Tuesday afternoon. The pipeline only yesterday had flipped to UK import mode for the first time since early May.

The EIA released their latest Short Term Energy Outlook this morning and it showed that the agency has revised slightly downward its estimate for U.S. consumption on natural gas this year by 0.1% to 64.48 bcf/d a 2.1% increase over 2007. The agency noted that year on year increases are expected in every consuming sector in

Generator Problems

SERC – Southern's 876 Mw Unit #1 at the Hatch nuclear power plant has reconnected to the grid and was at 39% of capacity up 36% from yesterday. The unit tripped off line this past weekend.

SPP – AEP's 528 Mw unit #1 at the Welsh coal fired power plant was expected to be restarted this week. The unit was taken off line on June 30th due to a fire in the bunker.

NPCC – Bruce Power shut its 822 Mw Unit #7 at the Bruce B nuclear power station this morning due to pump repairs

WSCC – AES Corp's 495 Mw unit #6 at the Alamitos natural gas fired power plant was taken off line Monday afternoon for unplanned maintenance.

ATCO's 368 mw coal fired Unit #5 at the Battle River power station in Alberta was taken off line on Monday.

Mirant's 682 Mw gas fired Pittsburg Unit #7 was taken off line for repairs yesterday.

The NRC reported that 97,971 Mw of nuclear capacity is online, up 0.3% from Monday and up 1.8% on the year.

2008 and have been largely weather driven so far. In 2009, residential and commercial sectors demand for gas is expected to be relatively unchanged while natural gas consumption for power generation is expected to increase by 3.2%. Growth in the industrial sector continues its near term up trend, while demand for natural gas based fertilizers is expected to continue to grow as farmers begin to replant following the floods in the Midwest. Consumption in the industrial sector is expected to increase by 1.6% in 2008 and by 0.6% in 2009. Both of these estimates on industrial growth are stronger than last month's estimates. Domestic production in 2008 is seen at 58.75 bcf/d, up 0.4% from last months estimate and now pegs 2009 production levels to reach 59.66 bcf/d up 0.4% as well. Net imports though are seen lower in this month's report with 2008 seeing 8.43 bcf/d and 9.04 in 2009. While LNG imports is part of this decline, Canadian imports as well though appear to be the majority of this decline.

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	978,700	\$12.466	(\$0.489)	(\$0.005)	(\$0.154)	(\$0.701)
Chicago City Gate	890,500	\$12.335	(\$0.521)	(\$0.136)	(\$0.072)	(\$0.381)
NGPL- TXOK	641,100	\$11.837	(\$0.495)	(\$0.634)	(\$0.046)	(\$0.851)
SoCal	1,250,300	\$11.856	(\$0.699)	(\$0.615)	(\$0.250)	(\$1.023)
PG&E Citygate	996,100	\$11.806	(\$0.812)	(\$0.665)	(\$0.363)	(\$0.823)
Dominion-South	398,800	\$13.179	(\$0.479)	\$0.708	(\$0.030)	\$0.533
USTRade Weighted	21,234,100	\$11.969	(\$0.603)	(\$0.502)	(\$0.15)	(\$0.701)

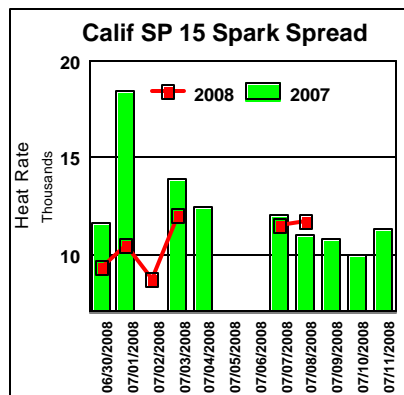
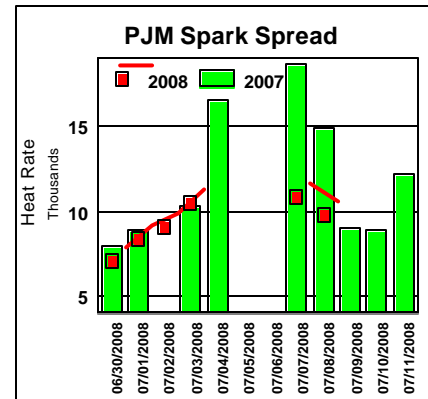
Gazprom warned today that its import bill for gas purchases from Central Asia production areas may more than double next year and this could lead to higher selling prices that the Ukraine may see

starting at the start of the year. Given that 80% of the European Union's gas supplies cross the Ukraine, the pricing dispute between the two nations may result in another supply disruption at the start of next year.

PIPELINE RESTRICTION

FGT as expected declared an Overage Alert Day this morning at a 25% tolerance.

PG&E California Gas Transmission has issued a system wide OFO.



PIPELINE MAINTENANCE

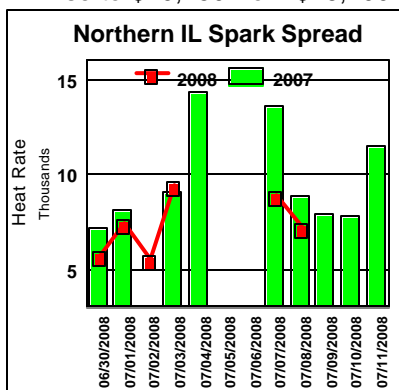
Gulf South pipeline said it has begun unscheduled maintenance on the Clarence Compressor Station Unit #3 on Monday and will last until further notice. Capacity through the compressor station could be reduced by as much as 100,000 Dth during this work. The company also said it will be performing scheduled maintenance on the Longview #2 Compressor Station Unit. The work will last for 10 hours on July 9th and capacity could be reduced by as much as 40,000 Dth. Based on current nomination levels the company does not anticipate any impact on service.

ELECTRIC MARKET NEWS

Cal ISO, due to high temperatures and regional wildfires, declared a Flex Alert for July 8th through July 10th. As a result utilities are asked to restrict maintenance on power plants and transmission lines during the period. Peak demand this week could approach the record peak demand of 50,270 Mw set back in July 2006.

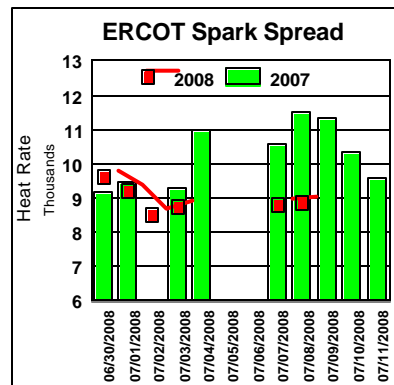
The NYMEX today announced margin changes for its NYISO Zone J peak electricity futures contract at the close of business Wednesday. Margins for the first month will remain unchanged while the margins on the second through sixth months will increase by \$2025 to \$8,775 for customers.

The NYMEX also announced it would raise the margins on its Central Appalachia coal futures contract. Margins will rise to \$20,250 from \$16,200 for customers.



The EIA's Short Term Energy Outlook warned that residential electricity prices this year are expected to grow this year by 5.2% and 9.8% in 2009 as fuel costs rise rapidly. These price estimates are up significantly from last month's forecast. The agency though lowered its outlook for power demand, now looking for only a 0.2% expansion this year and a 1.6% growth in 2009. As a result power generation demand for coal this year should grow by only 0.6%, down from 1.9% in 2007. Expected increases in other sources of generation, from natural gas to wind, should result in coal demand by utilities to grow by

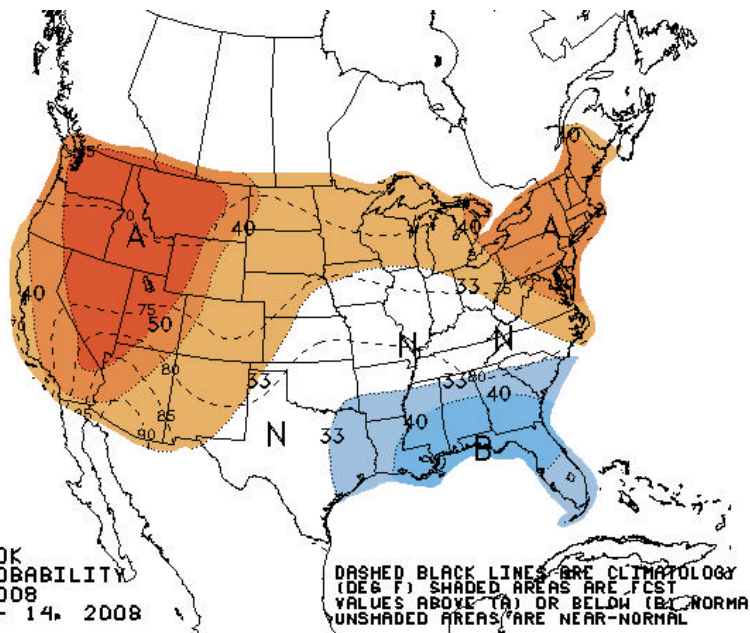
only 0.4% in 2009. Consumer stocks of coal are expected to remain stable in 2008 and grow by an average of 2.8% in 2009.



Genscape reported this morning that U.S. power plants saw a 2% reduction in coal stocks last week. Coal stocks though are some 1.3% higher than the same week a year ago.

MARKET COMMENTARY

The natural gas market opened lower this morning in sympathy with weaker oil prices and power prices. While by late morning prices attempted to stabilize and retrace some of the early morning losses, by the end of the lunchtime prices again returned to being under pressure and by the close went out on the lows of the day. The market posted its lowest settlement in over a month. The cash market values were even weaker than the futures as basis weakened across all the major hubs on the day, as power prices basically were flat or weaker as well. This sell off has also deflated the spreads with the March April spread falling to its lowest level since May 29th, settling tonight at \$1.84.



8-14 DAY OUTLOOK
TEMPERATURE PROBABILITY
MADE 30 JUN 2008
VALID JUL 08 - 14, 2008

value, this market could quickly reverse on a bullish oil or gas inventory report or a greater discussion on a potential tropical system development for some time next week. As a result we would look to begin to be a scale down buyer of this market. We have particular interest in the October call spreads looking to be a buyer of the October \$13.50 call and a seller of the \$16.00 call. The spread was settled tonight at 50.4 cents, its lowest level since June 3rd. We would begin to look to build a position at this level and be more aggressive if the spread returns to the trading range of 35-45 cents, the trading range that spread spent the majority of its time during April and May.

Tomorrow we look for support in the August contract to be found initially at \$12.19 followed by \$12.145, \$12.05 and \$11.921. More distant support we see at \$11.509. Resistance we see at \$12.60 followed by \$12.781, \$12.826, and \$13.00. Additional resistance points we see at \$13.158, \$13.193 and \$13.417.