



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR AUGUST 1, 2008

NATURAL GAS MARKET NEWS

Just when the National Hurricane Center had written off a tropical disturbance in the eastern Atlantic yesterday, it was back looking at the system this morning and assigning it a 20-50% probability for further development over the next 48 hours. The NHC noted that while there is limited shower activity currently, the system will be moving into a more favorable area of development as it moves over warmer waters to the west. Elsewhere private forecasters continued to note that several forecasting models, including the widely watched GFS model, continued to point to the possibility of a low pressure system forming over the northern Gulf of Mexico this weekend, that could then slowly move towards the southwest, towards coming ashore in South Texas. While this area of low pressure developing into a tropical threat may be a long shot it is not out of the question and there is some historical events that could support a quick formation of a tropical system, especially given the warm temperatures of the waters of the Gulf of Mexico and conducive atmospheric conditions in the surrounding area of the U.S. mainland. A minor threat is also seen in the probable movement of a tropical wave that is currently in the east-central Caribbean that could emerge into the Gulf of Mexico by next Tuesday. None of the computer models at this time forecast development of this system, environmental conditions would be favorable for development though in the region.

Generator Problems

NPCC - OPG's Nanticoke 1 coal fired unit returned to service today.

MRO - Xcel Energy's 551 Mw Prairie Island #1 nuclear unit was shut down on Thursday for a "short term outage" following routine testing.

SERC - Southern's 888 Mw Farley 1 nuclear unit ramped up to 98% capacity, up 68% from yesterday.

The NRC reported that 97,798 Mw of nuclear capacity is online, down 0.1% from yesterday and up 0.24% from the same day a year ago.

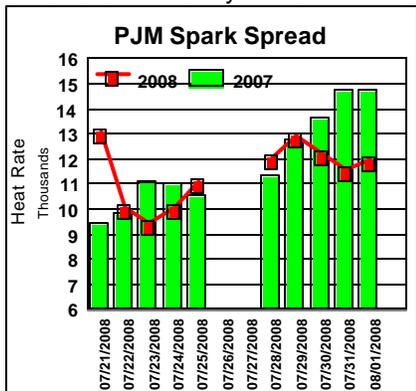
Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
Location	Traded	Price		(As of 12:30 PM)		Moving Avg
Henry Hub	952,500	\$9.048	(\$0.208)	(\$0.320)	(\$0.384)	(\$0.431)
Chicago City Gate	731,500	\$8.946	(\$0.215)	(\$0.423)	(\$0.418)	(\$0.179)
NGPL- TX/OK	64,400	\$8.644	(\$0.156)	(\$0.724)	(\$0.359)	(\$0.515)
SoCal	753,500	\$8.003	(\$0.187)	(\$1.365)	(\$0.390)	(\$0.948)
PG&E Citygate	832,000	\$8.410	(\$0.191)	(\$0.958)	(\$0.394)	(\$0.606)
Dominion-South	316,900	\$9.617	(\$0.243)	\$0.249	(\$0.446)	\$0.525
USTrade Weighted	18,501,800	\$8.603	(\$0.181)	(\$0.765)	(\$0.38)	(\$0.431)

The Institute for Supply Management reported this morning that U.S. factory activity was unchanged in July from June, much better than market expectations which had been looking for a contraction

during the month. The group's index had shown four consecutive monthly declines prior to June. The report suggested that manufacturing sector was holding up reasonably well with the help of export boosting effects of a weak dollar despite overall weakness in the economy. The group reported that inflation pressures had subsided but remained at a relatively high level. The index for prices paid fell to 88.5 in July from 91.5 in June, which had been the highest-level since July 1979. Prices paid had been rising since March.

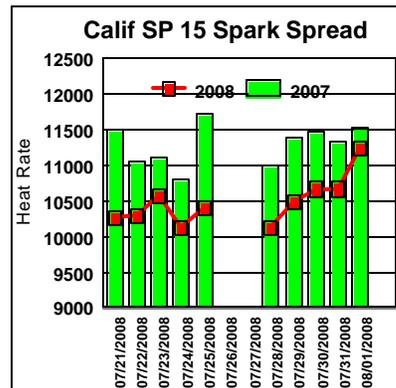
The Economic Cycle Research Institute said its Weekly Leading Index fell to 128.1 in the week ending July 25th, from 129.5 in the previous week. They noted that "with the WLI level falling to a new low for this cycle, a business

cycle upturn is still not on the horizon.” But the group noted its U.S. Future Inflation Gauge, designed to anticipate cyclical swings in the rate of inflation, slipped to 112.4 in July from 114.9 in June. The reading was the lowest since August 2002. They noted that with the Index at a 71 month low, underlying inflationary pressures “are in a decisive cyclical downswing”.



Chevron reported today that its U.S. domestic natural gas production in the second quarter of 2008 averaged 1.588 bcf/d down 6.8% from the same time a year ago. For the first 6 months of this year production has averaged 1.627 bcf/d down 5% from a year ago.

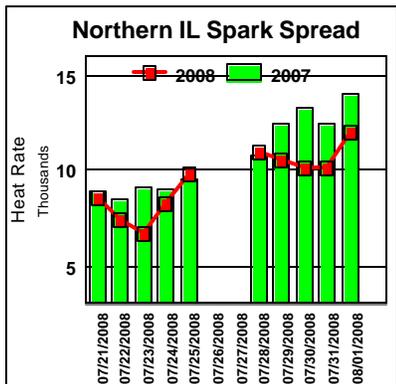
China National Offshore Oil Corp is studying the feasibility of building another LNG terminal in Shenzhen. Details of the size and start date of the proposed terminal were not disclosed. The existing Dapeng LNG terminal in the area, which began operations in



2006 and has three storage tanks of 160,000 cubic meters each. This facility also has the potential to be expanded as well.

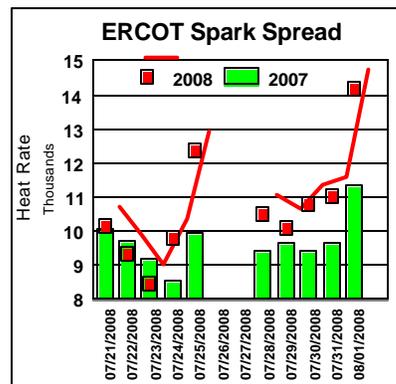
The Reuters-Jefferies CRB Index, an index of 19 commodity futures with a bias towards energy products, saw its biggest decline in 28 years in July. The index lost 10% during the month, the steepest drop since it fell 10.5% in March 1980.

Southern Natural Gas Pipeline has announced an open season for bids for receipt point amendments to firm transportation contracts on its system. The open season will last through August 5th.



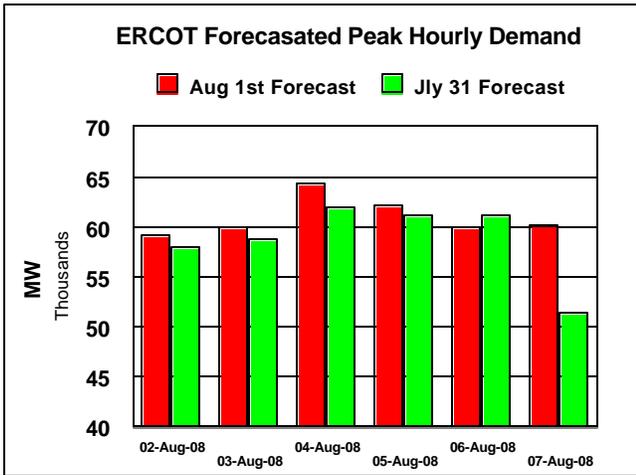
Steve Johnson of Waterborne Energy, a Houston based firm that monitors the global flow on LNG, estimates that for the remainder of this year continued international demand for LNG coupled with softer prices for natural gas in the U.S. will restrict LNG flow to the United States resulting in total U.S. LNG imports for the year reaching only 420 bcf, well below the 770 bcf imported last year and also some 65 bcf less than the current estimates coming out of the EIA. But he noted that 2009 to be a banner year for U.S. LNG imports, as new global production capacity comes on line and sharply boosts spot supplies of LNG. He sees this as a production bubble that is set to dramatically shift the dynamics of the global LNG market.

Two U.S. senators proposed legislation this week that would tax the profits earned by oil speculators at the same rate as ordinary income in effort to curb excessive speculation in the energy markets. Current tax law taxes speculators at the lower capital gains tax rate of no more than 15% on their profits and tax exempt investors, such as pension funds and university endowments, pay no tax at all. The senators noted that commercial hedgers pay at the ordinary tax rate that reaches as high as 35% of their profits from such trading. Thus they noted “everyone directly purchasing oil and natural gas or related products like diesel fuel, or indirectly through futures contracts, commodity index funds or other investment strategies, would be taxed as if they were commercial commodity traders.” They noted that speculative trading in the oil futures markets has grown from 37% of the total trading on the NYMEX in 2000 to more than 70% this year. The likelihood of this legislation passing this year is slight given the limited time Congress will be in session between now and election day.



PIPELINE MAINTENACE

Alliance Pipeline reported that it scheduled maintenance on August 7th at its Wimbledon Compression Station will require the station to go down for 4 hours. AOS will not be impacted.

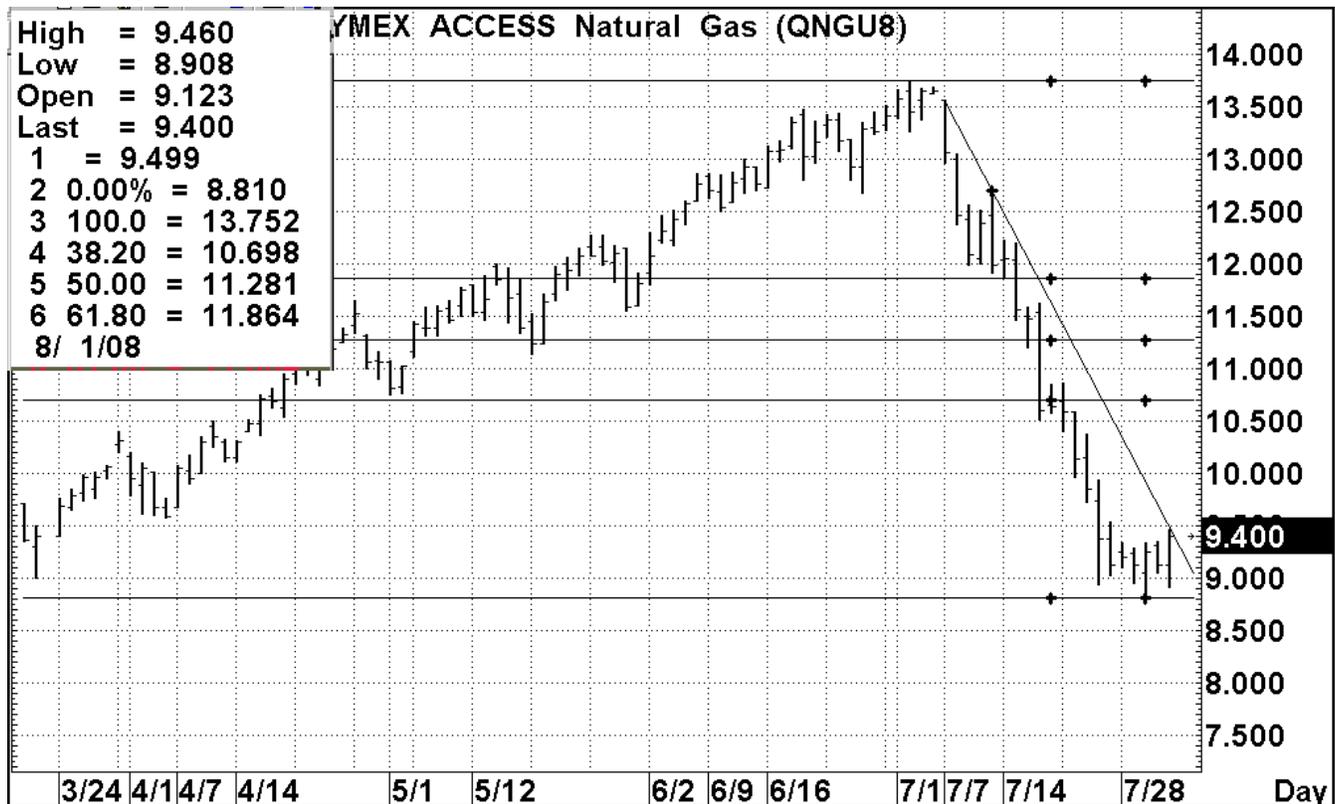


Gulf South Pipeline said the unscheduled maintenance on the Carthage Junction Compressor Station Turbine Unit T6 is complete. As a result the Force Majeure, which had been in effect since July 30th has been lifted. The company also reported that it has completed scheduled maintenance at the Bistneau Storage Dehydration Plant.

Colorado Interstate Gas Company said the Force Majeure outage remains in effect at its Kim compressor on the Camp Lateral. The Force Majeure, which began on July 24th, has reduced operational capacity on the Lateral by 59,000 Mcf/d to 355,000 Mcf/d. The work is not expected to be completed until possibly August 6th.

ELECTRIC MARKET NEWS

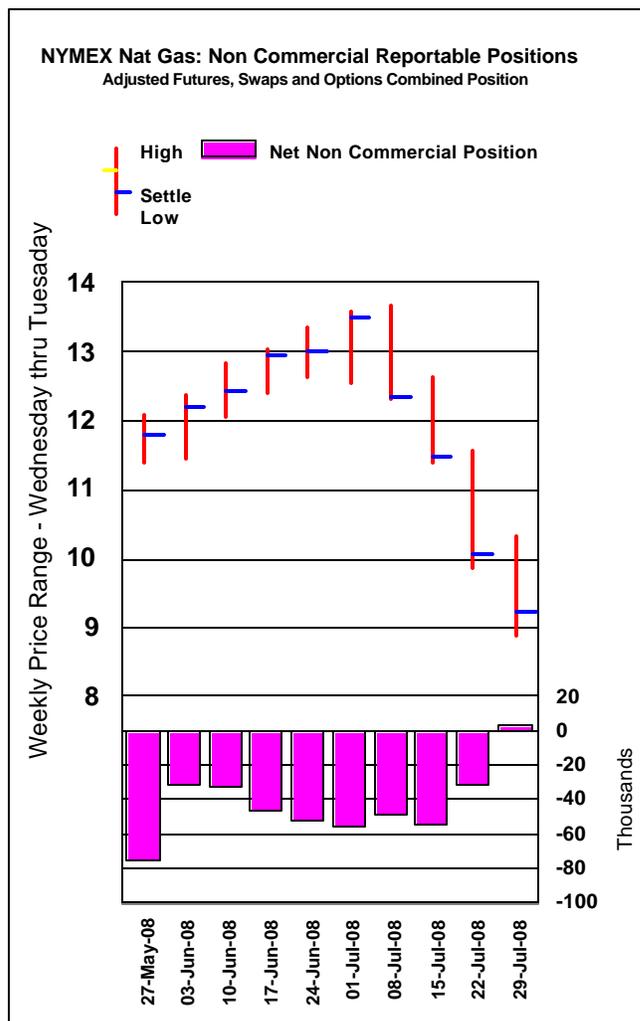
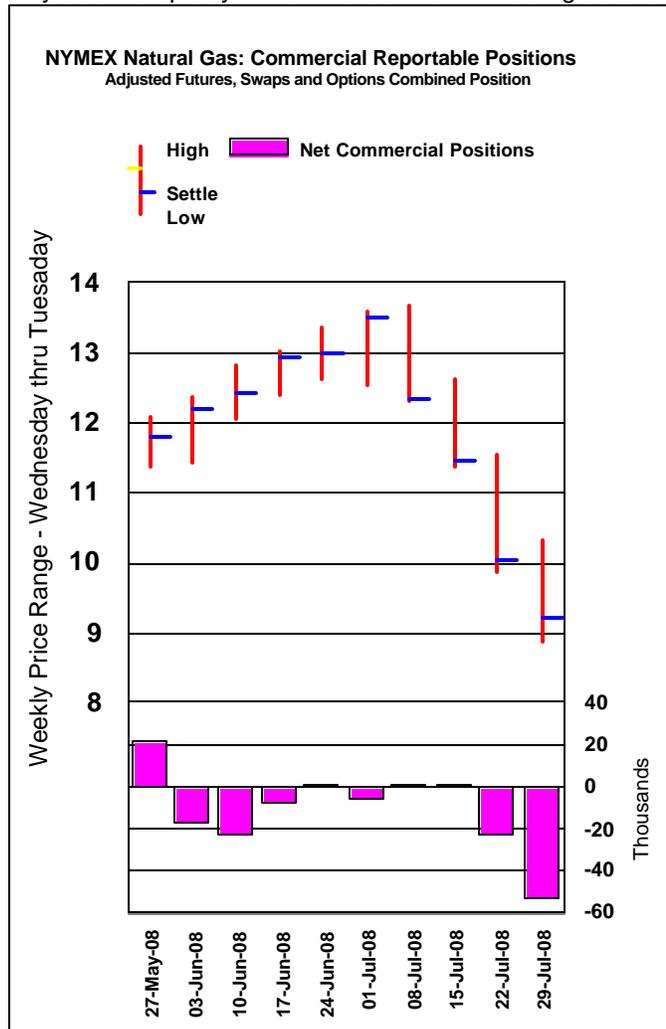
ERCOT demand forecast for five of the next six days jumped this morning over yesterday's forecasted demand levels, as Monday's forecast is now some 3,800 Mw higher than yesterday, and would now place electric demand on Monday well above the all time summer record of 62,339 Mw set in August 2006. Over all the power demand in ERCOT over the Saturday –Wednesday period is seen running some 8.3% higher than the prior three year average.



Progress Energy filed for a construction license with federal regulators to build two nuclear reactors in Levy County, Florida, the company reported today. The company is looking to build two 1100 Mw reactors near its Crystal River nuclear plant at a total cost of \$17 billion for the plants and related transmission upgrades. Last month state regulators had given the company their approval on the project.

MARKET COMMENTARY

It appears that the natural gas market finally took notice of the upcoming heat wave especially for the mid section of the country next week. While the market started out the trading session below yesterday's lows, the initial rally in the oil markets dragged the natural gas market higher, taking the September natural gas contract up to the trend line resistance point of the last month's sell off. But as buyers took profits on the early morning rally in the oil market allowing oil prices to retrace nearly two thirds of the morning's gains, natural gas prices basically held firm and moved sideways for the remainder of the trading session. This price action allowed the market to post its only second up day out of the last eleven trading sessions.



This afternoon's Commitment of Traders Report showed that for the week ending July 29th, while commercial reportable positions increased their net short position, in futures, swaps and options on a net adjusted basis, by 31,475 contracts, non-commercials were going the other direction by going long by 34,669 lots and now hold a net long position in the market.

We feel that this market continues to build a base of support and if the month long downward channel can be broken that some technical buying could be triggered to lift this market. While the upper end of this channel was \$9.499 today will be only at \$9.286. Other points of resistance we see at \$9.597, \$9.804, \$10.00 and \$10.149. Support we see at \$8.91, \$8.81, \$8.70 and \$8.493.

