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POWER MARKET REPORT FOR AUGUST 28, 2007

NATURAL GAS MARKET NEWS

The tropical wave in the western Caribbean continues to move westward and was expected to make landfall in Central America late Tuesday. Meanwhile the tropical development that was being called for by late this week in the northern Gulf of Mexico by the GFS model has now changed and now looks for the disturbed weather to form very close to land or onshore. The remaining system that the weather forecasters are watching is an area of showers and thunderstorms about 1000 miles west southwest of the Cape Verde Islands. The system continues to move westward at 15-20 MPH. While the current area of the tropical wave is located is not conducive for significant development given strong wind shear conditions, these should begin to diminish over the next 36-48 hours, and thus the system could become a tropical depression in the next two to three days. Two models have this system developing even further as it enters the Caribbean. One forecasting model has it moving toward Hispaniola and the other towards Puerto Rico by Sunday-Tuesday time period. After which point it appears that the Bahamas will be at risk by late next week. But by midday AccuWeather forecaster Joe Bastardi also warned while this tropical system may be more of a risk to the East Coast of the U.S. for next week, he also warned of a separate system developing in the Gulf of Mexico next week.

Generator Problems

NPCC – Entergy's 690 Mw Pilgrim nuclear plant was operating at 79% of capacity on Tuesday as operators performed planned maintenance on a condenser. It was expected that the plant would return to full power by late in the day.

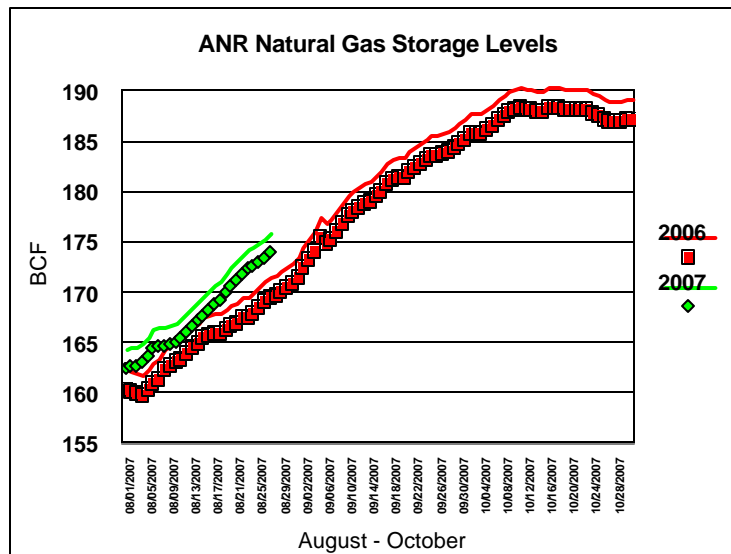
OPG's 490 Mw Nanticoke #7 coal fired power plant was shut Tuesday morning.

MAIN – Exelon's 1152 Mw Braidwood #2 nuclear unit was at 99% of capacity this morning up 12% from Monday's level.

ERCOT – The Martin Lake Steam Electric Station's #2 coal fired unit was undergoing maintenance this morning.

FRCC – FPL's 839 Mw St. Lucie #2 nuclear unit is expected to be restarted this week after repairs to a cracked seal injection line are completed.

SERC – TVA's 1155 Mw Browns Ferrv #3 nuclear



ANR Pipeline said Tuesday that it would restrict interruptible storage injections starting Wednesday as its underground natural gas storage levels rose. The company said that effective Wednesday and until further notice injections to rate schedules DDS and MBS would not be accepted. Additionally the company noted it was requiring those customers to reduce their remaining storage inventory volume to zero by October 31st.

Papua New Guinea's Petromin has signed a deal with LNG Japan that will form the basis of a "strategic partnership between the two firms. The agreement seeks to support Petromin in areas of project finance, marketing and transportation of LNG to Japan as well as providing training for human resource

development.

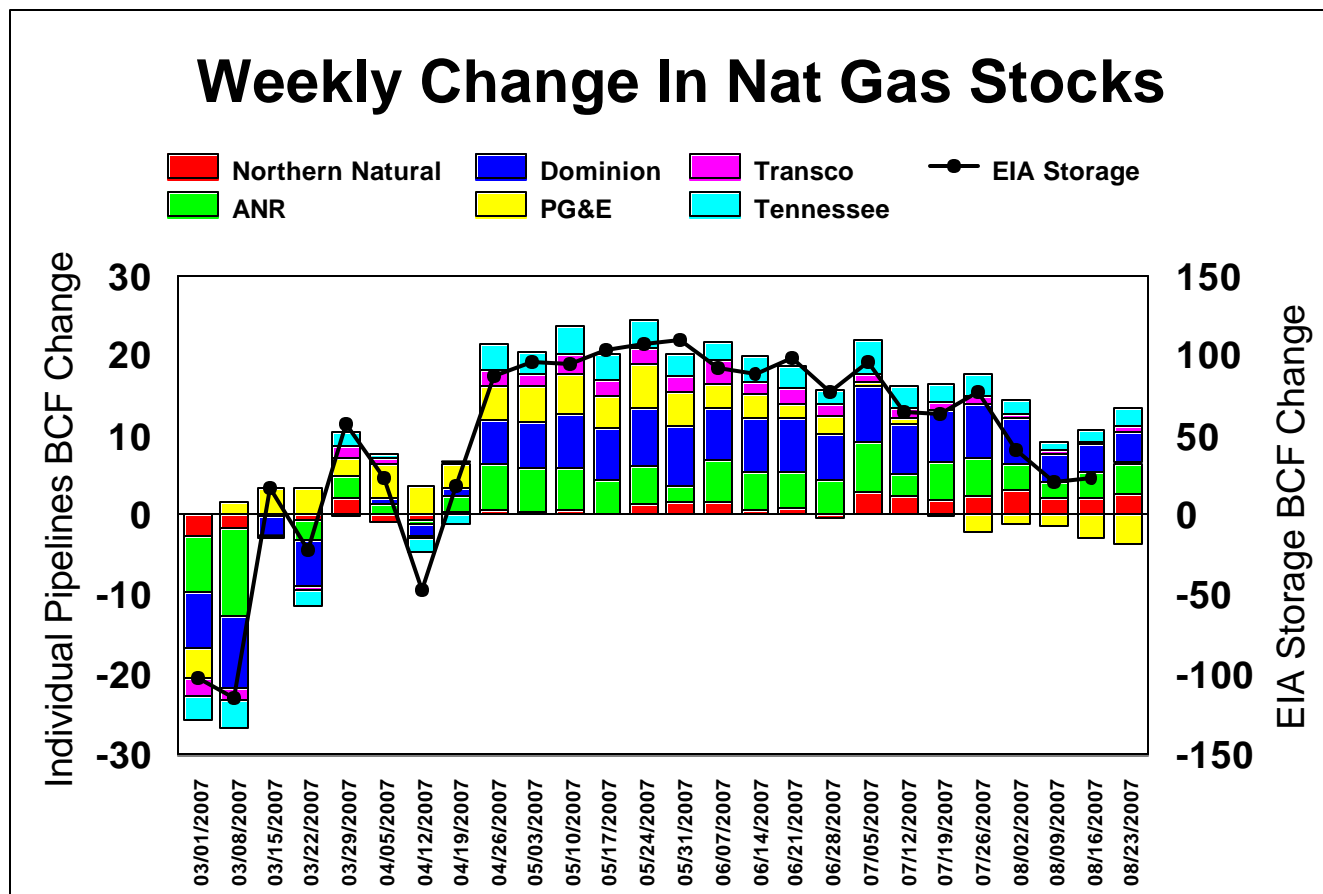
PetroQuest Energy said today that it is considering the sale of its 30,000 Mcf/d of its natural gas gathering system in the Woodford Shale tend in southeast Oklahoma. The system has 180 miles of gathering lines.

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	875,900	\$5.563	\$0.222	(\$0.305)	(\$0.166)	(\$0.111)
Chicago City Gate	330,300	\$5.523	\$0.261	(\$0.127)	(\$0.124)	\$0.010
NGPL- TX/OK	447,800	\$5.373	\$0.233	(\$0.277)	(\$0.153)	(\$0.144)
SoCal	1,037,800	\$5.358	\$0.298	(\$0.292)	(\$0.087)	(\$0.198)
PG&E Citygate	688,100	\$5.504	\$0.142	(\$0.146)	(\$0.243)	\$0.040
Dominion-South	291,700	\$5.799	\$0.201	\$0.149	(\$0.184)	\$0.392
Transco Zone 6	307,000	\$6.064	\$0.194	\$0.414	(\$0.191)	\$0.583

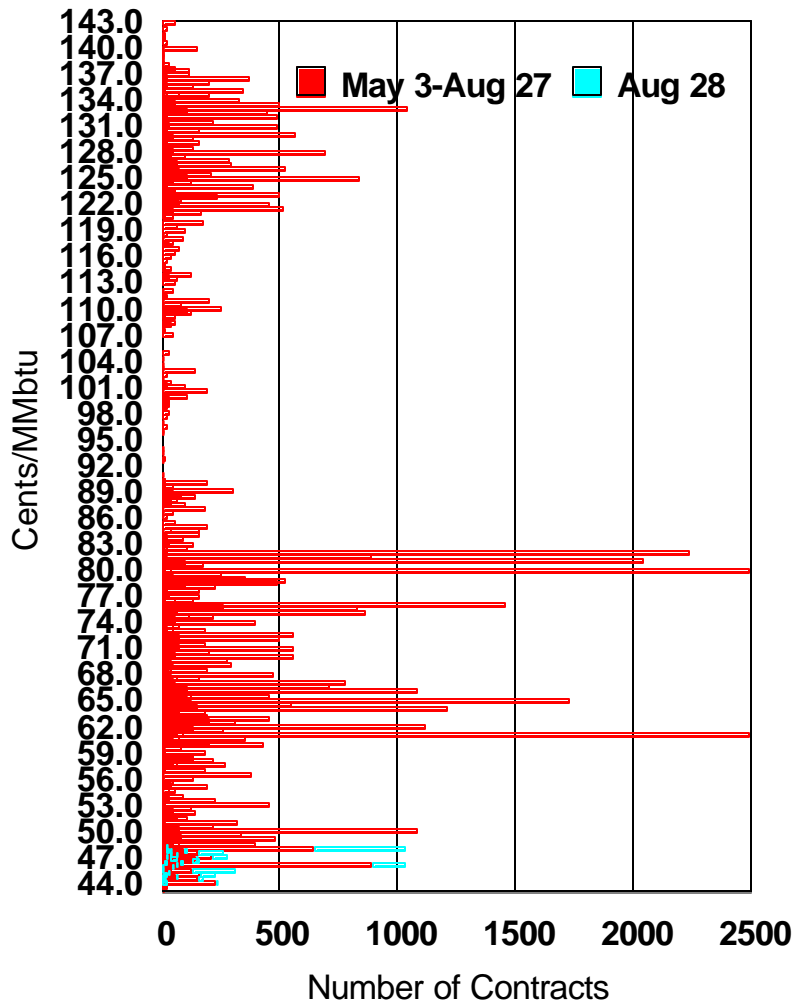
U.S. consumer confidence fell to its lowest level in a year. The Conference Board said its index on consumer sentiment fell to 105 in August from a downwardly revised 111.9 in July. In August 2006 the index stood at 100.2.

An analyst at Waterborne Energy, a firm that tracks LNG imports noted today that imports of LNG to the United States in September are expected to fall 22% from August levels as higher prices in Asia continue to pull extra spot supplies. The firm estimates August import levels at 81 bcf, down from its earlier estimate of 87 bcf, with September imports reaching 63 bcf. September imports would still be some 60% higher than the same month a year ago.

Ameranth Advisors and its former natural gas traders have filed joint and separate requests for the FERC to terminate a July show-cause order that accused the parties of indirectly influencing the price of jurisdictional



**NYMEX Nat Gas: March April Spread
Price Vs Volume Traded
Trade Weighted Settle: 46.64**



physical gas transactions in 2006 through manipulation of the NYMEX futures contract. In addition Energy Transfer Partners is seeking expedited rehearing of a July show cause order in which FERC accused it as well of manipulating the natural gas physical markets at the Houston Ship Channel and Waha trading hub.

Federal and state regulators have accepted as complete Clearwater Port's application for a deepwater port license to build, own and operate a LNG import terminal on a converted offshore oil production platform off the Oxnard, California coast. The project by NorthernStar Natural Gas calls for construction of a 1.2 bcf/d LNG receiving and regasification terminal atop the converted oil platform. The project is expected to be completed by 2011.

Marubeni said today that it would invest \$200 million to take a 10% stake in the Peru LNG project.

NYMEX announced that as of the close of business on Wednesday it would change margins for its natural gas futures and other related natural gas futures contracts. Margins on the first month of the Henry Hub natural gas, natural gas penultimate financial and natural gas last day financial futures contracts will decrease by \$675 to \$10,125 for customers. Margins on the second month will be cut by \$2025 to \$9450 for customers, while margins on the third month will move to \$8775 down \$1350. Margins for the fourth through the sixth contract months will be cut by \$675 to

\$8775 and for the seventh through eighteenth contract months the margin rate will also be cut by \$675 to \$6750.

PIPELINE RESTRICTIONS

FGT continued to issue an overage alert day with a 10% tolerance for Tuesday.

PIPELINE MAINTENANCE

El Paso Natural Gas Company said it will repair a leak on the three-finger duct today at Lincoln on the San Juan Crossover. Capacity was expected to be reduced by 25-80 Mmcf/d. The company also reported that it continues to experience operational issues at the Rome Compressor Station. Until repairs are completed it may be forced to allocate/limit interruptible capacity.

PG&E California Gas transmission has scheduled maintenance work on its Baja and Redwood paths. On the Baja system, Hinkley compressor K-12 will undergo alignment through September 7th reducing capacity by 16%. On the Redwood path, Bethany Compressor K-1 and K-2 outage will cut capacity by only 1%.

ELECTRIC MARKET NEWS

The influential proxy advisory firm ISS, Tuesday recommended that TXU shareholders vote in favor of the \$32 billion buyout of the Texas power company. ISS noted "at least some value will be irretrievably be lost" should shareholders vote against the deal. ISS also said that it appeared that KKR and TPG Capital had locked in the financing for the buyout at the top of the recent credit cycle.

Genscape reported that for the week ending August 27th, U.S. coal supplies registered a counter seasonal build last week, growing by 53,000 tons to 138.7 million tons. These inventory levels are 28.4% higher than a year ago or equivalent to 51 days of average coal burn.

NYMEX Natural Gas Options Most Active Strikes for August 28, 2007								
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LN	10	7	P	3	09/25/2007	0.0017	55,000	91.67
LN	10	7	P	5	09/25/2007	0.2325	8,600	89.48
LN	10	7	C	7	09/25/2007	0.2189	7,725	94.71
LN	10	7	C	6	09/25/2007	0.4731	7,085	90.71
LN	10	7	C	10	09/25/2007	0.0292	7,010	108.40
LN	10	7	C	9	09/25/2007	0.0544	5,900	104.32
LN	10	7	P	4	09/25/2007	0.038	5,650	90.21
LN	1	8	P	6	12/26/2007	0.1464	5,250	50.97
LN	12	7	C	9	11/27/2007	0.3782	5,050	52.90
LN	1	8	C	9	12/26/2007	0.5688	4,600	47.82
LN	10	7	P	6	09/25/2007	0.7111	4,550	90.79
LN	12	7	P	7.5	11/27/2007	0.7527	3,900	53.94
LN	10	7	C	8	09/25/2007	0.1065	3,400	99.78
LN	1	8	C	8	12/26/2007	0.8863	2,900	44.15
LN	10	7	P	5.5	09/25/2007	0.4327	2,650	89.63
LN	12	7	P	7	11/27/2007	0.5004	2,607	52.94
LN	1	8	P	7.5	12/26/2007	0.6493	2,600	54.34
LN	12	7	P	6.5	11/27/2007	0.3033	2,164	51.97
LN	1	8	C	12	12/26/2007	0.1785	2,100	56.31
LN	1	8	C	10	12/26/2007	0.3701	2,000	50.69
LN	3	8	C	9	02/26/2008	0.6894	2,000	45.57
LN	11	7	P	6.5	10/26/2007	0.6333	1,850	69.72
LN	1	8	P	8	12/26/2007	0.9147	1,500	55.79
LN	10	7	P	5.8	09/25/2007	0.589	1,500	89.92
LN	10	7	C	5.8	09/25/2007	0.5502	1,500	89.92
LN	12	7	C	8.5	11/27/2007	0.4926	1,500	55.64
LN	11	7	P	6.65	10/26/2007	0.7149	1,415	70.02
LN	11	7	C	6.65	10/26/2007	0.7605	1,415	70.04
LN	3	8	C	11	02/26/2008	0.3526	1,410	50.27
LN	1	8	P	7	12/26/2007	0.4318	1,400	53.05
ON	10	7	C	6	09/25/2007	0.473	1,358	90.70
LN	4	8	C	8	03/26/2008	0.5717	1,350	30.92
LN	2	8	C	8	01/28/2008	0.9753	1,300	41.27
LN	3	8	C	8	02/26/2008	0.9608	1,300	40.99
LN	12	7	C	7.5	11/27/2007	0.8326	1,300	53.97
LN	10	7	C	7.5	09/25/2007	0.1516	1,100	97.25
LN	10	7	P	4.5	09/25/2007	0.1042	1,100	89.36
ON	12	7	C	9	11/27/2007	0.379	1,003	56.56
LN	10	7	C	5.5	09/25/2007	0.6926	1,000	89.73
LN	11	7	P	4.5	10/26/2007	0.0514	1,000	69.16
LN	11	7	C	7.75	10/26/2007	0.403	1,000	72.12

Cal ISO seeing forecasts for the hottest weather of the year in California has called on power customers for voluntary cutbacks in power usage over the next several days.

TXU's Oncor power delivery unit in a filing with state regulators said it would not seek a rate increase this year even though it could justify higher rates. But since the utility has existing agreements with a number of cities not to seek rate increases until mid-2008. Thus any earlier rate hikes would impact mostly rural areas of North Texas.

MARKET COMMENTARY

Well we were simply wrong on how we thought this market was going to behave today. This market never made an attempt to challenge the lows from yesterday. Instead this market began to move higher this morning in what appeared some early short covering in front of tomorrow's futures expiration and received an additional boost at midday when the weather forecasters looked at updated computer models and saw that potential for a tropical system in the Caribbean over the Labor Day weekend, while AccuWeather warned of the potential for a tropical system springing up in the Gulf of Mexico as well. By the end of the day over

160,000 futures were booked. The stand out option trade was a spread posted on Clearport in the European October 2007 \$3.00 put which traded 55,000 times.

Tomorrow could be a wild expiration day, but we feel that the news of a potential tropical system in the cards over the weekend may have prompted early short covering in the September contract this afternoon. This we feel is supported by the fact that the cash market did not keep pace with futures and given that we are on the brink of a contract expiration we should see a closer convergence in prices not a 30 cent discount.

Market expectations for this week's EIA natural gas storage report appear to be running between a 32-50 bcf build. Our estimate is at the lower end of market expectations looking for a 33 bcf build.

We would look for the September contract tomorrow to see initial resistance at \$5.72 followed by \$5.771, \$5.924, \$5.956. More distant resistance we see at \$6.127, \$6.192 and \$6.428. Support we see \$5.415, \$5.365, \$5.20 and \$5.06.