



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR AUGUST 28, 2008

NATURAL GAS MARKET NEWS

Weather forecasters continued to follow closely the track of Tropical Storm Gustav throughout the day. Computer track models basically still had the storm headed towards Louisiana and strength of the storm at the time of landfall anywhere from a category 2 to a category 4 storm, with the NWS consensus forecast ranging through the day between a Category 2 and Category 3 hurricane. Meanwhile Tropical Storm Hanna formed this morning and its path appears to be threatening the Atlantic coast but there were models leaving open the possibility of it being a threat to Florida and possibly even the eastern Gulf of Mexico later next week.

While private weather forecasting service Planalytics warned this morning that Gustav was on an ominous track toward the U.S. Gulf Coast and would

strengthen into a major hurricane before making landfall would disrupt a quarter of U.S. oil production and about 10% of U.S. domestic natural gas production, but by the afternoon it was telling their clients that damage to offshore oil rigs and platforms in the Gulf of Mexico was not expected to be long lasting.

While energy companies today began evacuations in earnest from off shore platforms by midday the U.S. Minerals Management Service reported that it had records of just one drilling rig and two production platforms being evacuated and that no production had been lost as a result of these actions. Several producers though noted that if the storm remains on its current track their offshore operations would be shut in by Sunday.

EIA Weekly Report

	08/22/2008	08/15/2008	Net chg	Last Year
Producing Region	777	752	25	903
Consuming East	1609	1540	69	1644
Consuming West	371	363	8	410
Total US	2757	2655	102	2957

*storage figures in Bcf

Generator Problems

ERCOT – Luminant's 575 Mw Bog Brown #1 coal fired power plant, which was shut on Monday, was ramping back up today. The sister unit remained off line though.

SPP- Operators at Entergy's 1091 Mw Waterford nuclear plant said they are getting ready to take the unit off line some 24 hours before hurricane winds are forecast to reach the area.

The NRC reported today that some 96,404 Mw of generation was being supplied by nuclear power plants, basically unchanged from Wednesday and some 0.6% less than the same time a year ago.

WECC reported that it was looking for peak demand today to reach 140,201 Mw, up 2.5% that was recorded on Wednesday. Generation outages today were expected to be 13,590 Mw down 8.7% from Wednesday's levels.

PJM reported that peak demand was seen running at 94,000 Mw today down 0.4% from Wednesday's peak demand. Friday's peak demand was forecasted at just 97,000.

MISO reported that 7,140 Mw of outages in the region today 8.2% more than Wednesday. Peak demand today was seen at 82,000 Mw some 3.8% more than Wednesday's peak demand. Friday's peak demand is seen at 85,240 Mw.

Energy Transfer Partners reported that it had suffered a rupture on a portion of its 16-inch

natural gas pipeline in a “remote” area of Texas between San Antonio and Austin. The company said it was not immediately sure of the volumes of gas flowing at the time of the incident. The pipeline serves a refinery near Stairtown, Texas.

Enterprise Products Partners said today that they expect production from the Barnett Shale play will increase to about 6 bcf/d by 2011. Current production from the area is estimated at just over 4 bcf/d. The company said today that its affiliates have signed new long term agreements with producers in the region for 900 MMcf/d of capacity on its 1.1 bcf/d Sherman Extension pipeline, which is due to go into operation in the fourth quarter. The company also announced plans to build a 40-mile lateral to increase takeaway capacity from the region by another 1 bcf/d.

Alaska’s governor Wednesday signed a bill giving the state authority to award TransCanada a license to build and operate a natural gas pipeline that could ship up to 4 bcf of North Slope natural gas production to Canada and the U.S. While two big producers, BP and ConocoPhillips are pushing a competing natural gas pipeline plan, the license for TransCanada would ensure that the state would not negotiate with any other developer. The bill goes into effect in 90 days, after which the state officials will have the power to officially award the license. Producers BP, ConocoPhillips and Exxon all

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	996,800	\$8.364	(\$0.179)	\$0.506	\$0.266	(\$0.411)
Chicago City Gate	423,400	\$8.167	(\$0.210)	\$0.309	\$0.340	(\$0.065)
NGPL- TX/OK	720,500	\$7.931	(\$0.167)	\$0.073	\$0.383	(\$0.306)
SoCal	339,500	\$7.322	(\$0.421)	(\$0.536)	\$0.129	(\$0.622)
PG&E Citygate	654,500	\$7.898	(\$0.286)	\$0.040	\$0.264	(\$0.164)
Dominion-South	298,100	\$8.618	(\$0.197)	\$0.760	\$0.353	\$0.381
USTrade Weighted	15,976,700	\$7.758	(\$0.284)	(\$0.100)	\$0.27	(\$0.411)

declined to submit bids for a state license, saying the law had overly rigid mandates that they could not meet.

PSE&G said that due to recent decreases in the

wholesale cost of natural gas, it has proposed to lower the increase it will need in residential gas supply rate this fall by about one third, to approximately a 14.3% increase.

The NYMEX reported that it was increasing margins for customers on its Henry Hub futures contract by 15.1% for the spot month and by 9% on the November and December contracts.

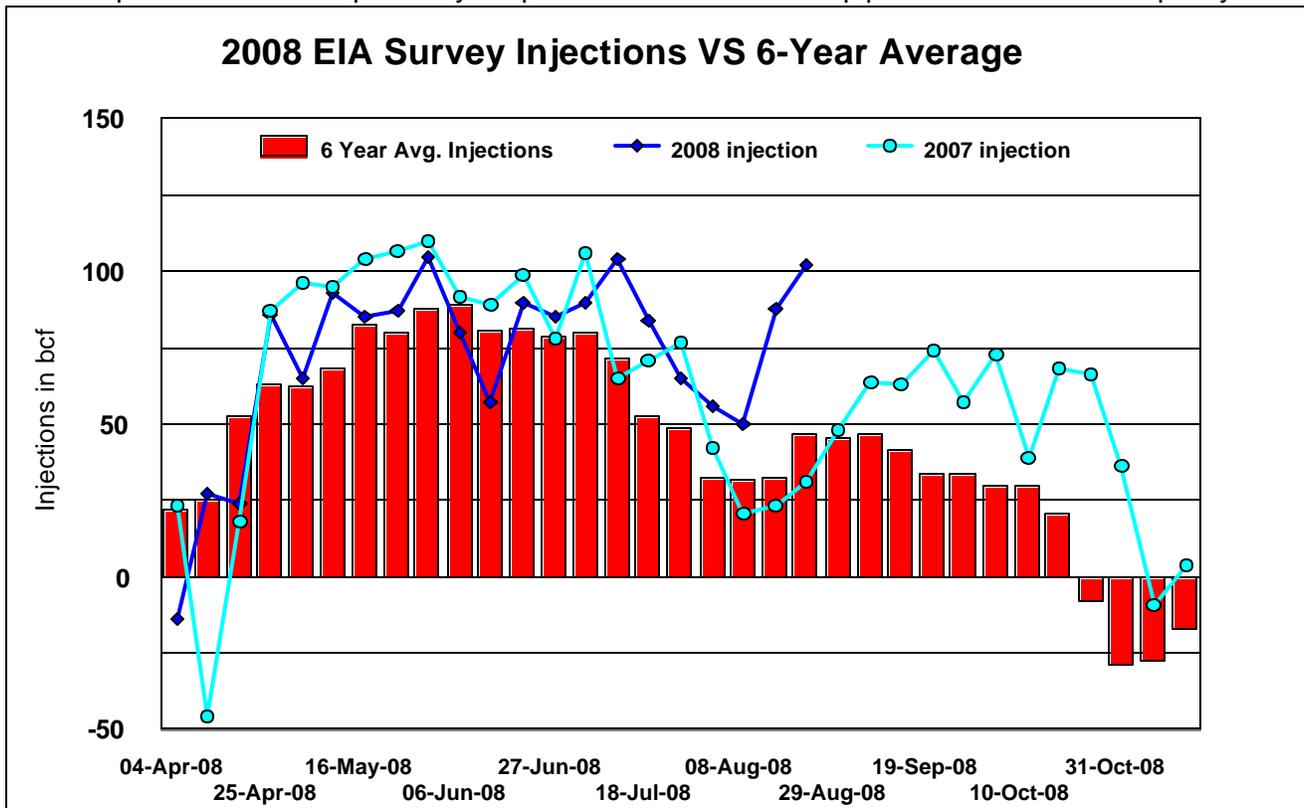
A Total official said today that it hope to decide within the next year whether to proceed with the proposed \$8.5 billion Brass LNG project. Total has a 17% stake in the project.

The German government is reportedly considering build a natural gas reserve to become more autonomous if a crisis hampers gas imports. Storing gas for an additional 90 days of supplies would cost some \$3 billion a year, according to a trade association estimate. Germany currently imports about one third of its natural gas from Russia.

PIPELINE RESTRICTIONS

Gulf South said in preparation for the anticipated impact to its pipeline operations from Tropical Storm Gustav, it is requesting all shippers in locations east of Bayou balance their transportation and storage contracts by conforming receipts into the system with deliveries being taken, and receive and deliver quantities at a uniform hourly rate of flow as practicable. The company warned it might be forced to declare an OFO otherwise.

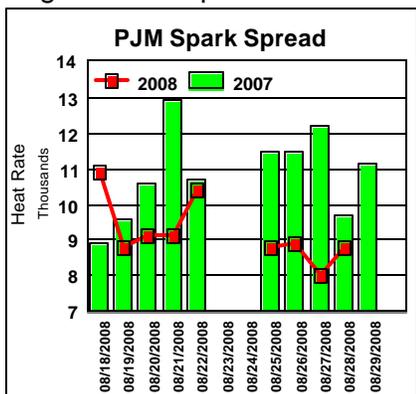
Destin Pipeline said that effective August 30th it was declaring a force majeure until further notice due to the expectations of disruptions by Tropical Storm Gustav. The pipeline has a 1.2 bcf capacity.



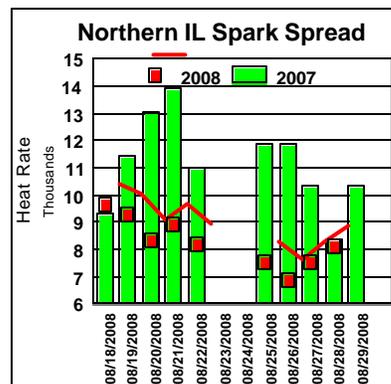
FGT issued an Overage Alert today with a 25% tolerance due to 90-degree temperatures across its service area.

PIPELINE MAINTENACE

ConocoPhillips said Wednesday that its Magnolia platform in the Gulf of Mexico had been shut in since August 25th for planned overhaul.



Colorado Interstate Gas Company said that its Trinidad Compressor Station will be out of service from September 9th to 11th for planned work. Capacity through the Campo Lateral will be reduced from 414 to 315 MMcf/d. Meanwhile the company said the planned outage at the Table Rock Compressor Station scheduled for September 9th has been moved back to October 9th.



El Paso Natural Gas said rod bearing and piston/liner work at Flagstaff has been extended through today. The company also said it would postpone pigging operations scheduled for today on Line 1208, MP 124 to the Navajo station until a later date due to weather conditions.

Sea Robin Pipeline said that it has shut in its system after pigging operations that began on August 25th in the line segment between Vermilion 149 and the Sea Robin Condensate Facility due to high levels of condensate and water that exceeded capacity.

ELECTRIC MARKET NEWS

The EIA reported this afternoon that coal production in the United States stood at 23.150 million tons for the week ending August 23rd, up 0.3% from the previous week. Year to date production had been running 1.3% above year ago levels.



MARKET COMMENTARY

Well we were totally caught off base by this market today. While we thought the weather would be the driving force, in fact it had a minor impact on prices. The market moved on the defensive this morning following oil markets lower after the announcement that the International Energy Agency and later the DOE were prepared to release crude oil strategic stocks if there was any damage to oil production infrastructure in the Gulf of Mexico from the approaching storm. But the major blow to the market came with the release of the EIA Storage report at 10:35 AM EDT, which showed a 102 bcf build in working gas inventories on the week. This not only was way above market expectations it was a record weekly injection rate during the month of August. Suddenly traders bullish storm perceptions had evaporated and changed into a bearish perspective since with just 10 weeks left in the injection season, working gas levels

could comfortably reach 3.4 tcf with injections matching the 5-year seasonal injection rate, a pace that the market has clearly been exceeding for the past two months.

Volume today was excellent, especially for a day following an expiration as 264,763 futures traded, with 62,053 lots in the penultimate contract and 131,194 lots in the swaps contract. While it seemed



someone yesterday had an inclination of a extremely bearish EIA Storage Report was in the cards as over 27,000 November \$6 puts changed hands, boosting open interest by over 20,000 lots or nearly one third of the total put option increase in open interest on the day, today's option activity seemed was surprisingly opposite to today's price action, as the most active strike traded was the October \$15 call which traded over 10,000 times and was settled at just 0.79 cents.

While the talk of a potential strategic stockpile release helped to drag oil prices lower today and natural gas with it, one must remember there is no strategic stockpile of natural gas, so if this storm does in fact strike offshore production facilities this loss of production will have a direct impact on the supply into the market place and we feel that this will be felt in the prices for natural gas. One seems to forget that the loss of the Independence Hub over the past few months did have an impact on prices levels for this commodity. The potential loss of daily production over the coming week should help support prices even if oil prices head lower. As a result we would look to be a buyer of call spreads in this market tomorrow at the opening to be held at least into the latter part of next week.

Basis flat price we see support for this market at \$7.72, \$7.617, \$7.579, \$7.107 and \$6.50. Resistance we see at \$8.665 \$8.80, \$8.88 \$9.17, \$9.279, \$9.60 and \$9.751.