



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR OCTOBER 1, 2008

NATURAL GAS MARKET NEWS

Late yesterday the EIA released their July data for natural gas production and consumption in the United States. It estimated that dry natural gas production in the United States continued to surge higher in July, at 57.6 bcf/d, up 0.7% from June and some 8.6% above a year ago. Net imports on the month totaled 8 bcf/d, while some 10.5% better than recorded in June but still way off a year ago levels, down 28.5% from July 2007. LNG imports totaled only 1 bcf in July, some 68% less than a year ago. Meanwhile consumption of natural gas in the U.S. was up 6.7% from July 2007. All four sectors; residential, commercial, industrial and power generation all recorded higher demand than July 2007 levels. While residential demand was up a modest 0.8%, industrial, commercial and power generation showed strong gains, up 2.1%, 4.1% and 10.6% respectively. The monthly report estimated that working gas inventories of natural gas were at 2.516 tcf at the end of July, some 13.1% less than a year ago but 7 bcf higher than the adjusted inventory level as reported by the EIA weekly inventory report.

Generator Problems

NPCC – OPG's 490 Mw coal fired Unit #1 at the Nanticoke power station was returned to service this morning. The unit had been off line since September 26th.

ERCOT – Operators at Luminant's 575 Mw coal fired Unit #2 at the Big Brown power station said it would extend the outage at the unit to repair a boiler tube leak. The unit was taken off line yesterday.

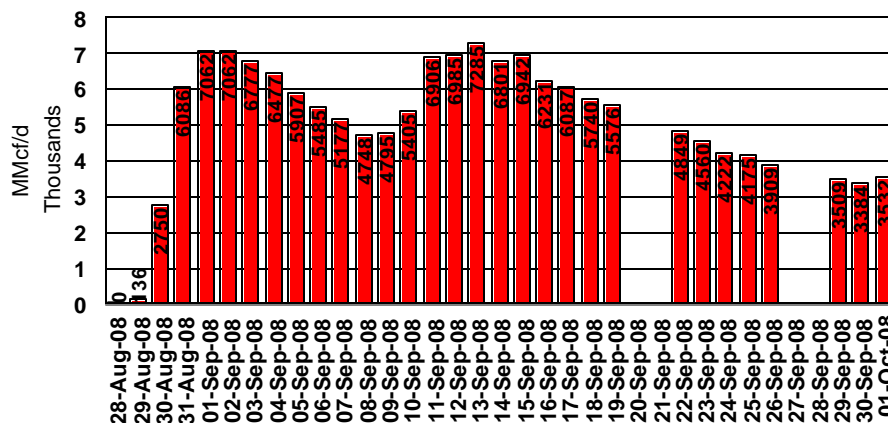
South Texas Project Nuclear Company said its 1250 Mw nuclear #2 unit remained at 88% of capacity. The unit is expected to enter a refueling outage this weekend.

MRO – Exelon's 912 Mw Dresden #2 nuclear unit remains off line as the reactor runs at 18% of capacity. The unit was restarted on Tuesday.

WECC – APS reconnected to the grid its 1270 Mw Palo verde #3 nuclear unit this morning. The unit was at 32% of capacity up 20% from yesterday.

According to the NRC some 85,641 Mw of generating capacity was in operation in the U.S. this morning, up 0.5% from Tuesday, and 0.75% higher than same time a year ago.

USG Offshore Nat Gas Production Shut-ins



Chesapeake Energy reported that it has entered into a 10-year agreement for firm transportation of 375 MMcf/d of natural gas production from the Fayetteville Shale production area. The company also said it has an option to transport an additional 125 MMcf/d on

the Fayetteville Express Pipeline which is expected to be in service by late 2010 or early 2011. Southwest Energy also said it would be a “foundation shipper” on the new pipeline looking to transport 1,200,000 Dth/d.

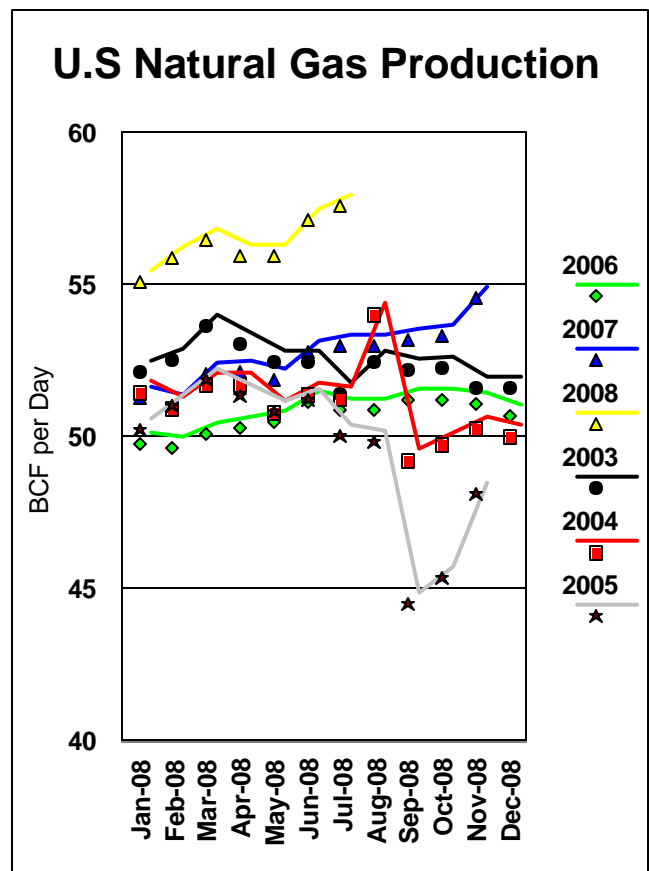
Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
Location	Traded	Price		(As of 12:30 PM)		Moving Avg
Henry Hub	912,600	\$7.170	\$0.040	(\$0.243)	\$0.004	(\$1.033)
Chicago City Gate	549,900	\$6.930	\$0.487	(\$0.483)	\$0.371	(\$0.809)
NGPL- TX/OK	740,200	\$6.547	\$0.434	(\$0.866)	\$0.318	(\$1.074)
SoCal	483,300	\$5.760	\$0.159	(\$1.653)	\$0.043	(\$1.795)
PG&E Citygate	738,100	\$6.527	\$0.130	(\$0.887)	\$0.014	(\$0.977)
Dominion-South	191,100	\$7.290	\$0.148	(\$0.124)	\$0.032	(\$0.019)
USTrade Weighted	15,621,300	\$6.347	\$0.120	(\$1.066)	\$0.00	(\$1.033)

The CFTC said today that it would co-chair an international task force to review oversight of global commodity markets. The CFTC and the United Kingdom’s Financial

Services Authority will head the panel that was created by the International Organization of Securities Commissions in response to the wild swings in commodities markets. The CFTC said it would share with international regulators the steps it has taken to improve transparency and oversight of U.S. markets.

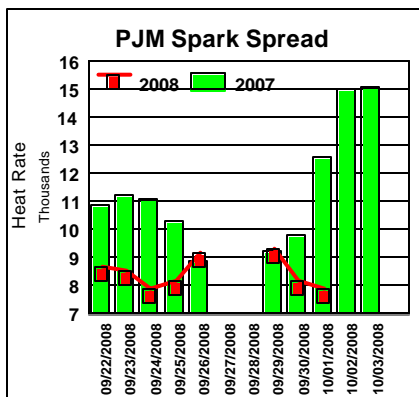
Dr Gray’s Tropical Weather team at Colorado State University updated their tropical weather forecast for the 2008 season. The group called for a very active October, with three named storms and two of these to become hurricanes and one of which will reach Category 3 or higher strength. This would be nearly twice as active as a normal October. They noted that low sea level pressures and warm sea surface temperatures across the tropical Atlantic will lead to an active October. They noted that while the second half of September became relatively inactive, they see the season entering into another period of heightened activity that will last for two to three weeks.

While the National Hurricane Center saw no tropical disturbances in the Atlantic basin currently that were a threat for further development, the computer models are pointing to a potential upswing in activity in coming weeks. The GFS model is forecasting that activity may pick up again as we near the middle of October. This model is currently looking for up to four tropical systems to form by October 16th, in part due to the return of the MJO upward motion pulse that will be traversing the Caribbean and Atlantic during the next two to three weeks. The MJO pulse was also tied to the prior two bursts of hurricane activity this season. Some private forecasters are noting that some “homegrown” type of tropical activity could spring up this weekend or early next week between the Bahamas to the western Caribbean.

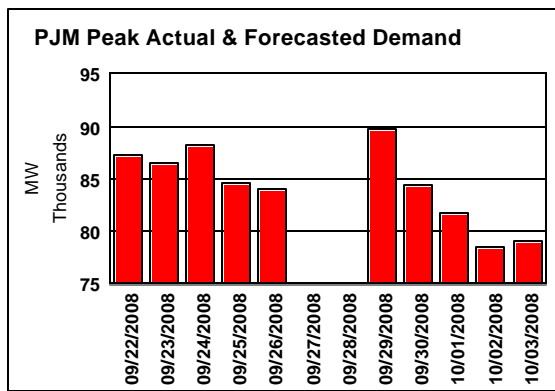


On the economy today, the Institute of Supply Management said its index of national factory activity fell to 43.5 in September from 49.9 in August, under the level of 50 that separates contraction with expansion. It is the worst reading since October 2001. Meanwhile payroll provider ADP reported that the private sector shed jobs in September for the third time in four months.

OG&E has notified the Oklahoma Corporation Commission that it will not need to further increase customers bills to recover additional fuel cost deferred from earlier this year when natural gas prices were higher, but since prices have fallen over the summer the company has decided not to increase the fuel cost recovery from the current level.



Southern Union said today that it has no hedging or other contractual counterparty exposure to Lehman Brothers or its subsidiaries or affiliates. The company also reported today that inspections had identified only

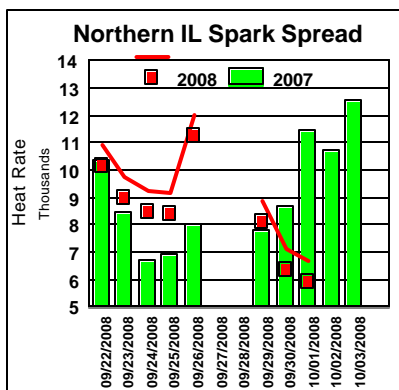


limited and isolated damage at onshore Texas and Louisiana transportation and storage facilities, including Trunkline Gas, Trunkline LNG and FGT. Offshore facilities, including Sea Robin Pipeline and Trunkline's Terrebonne system, suffered damage to several platforms and continue to experience reduced volumes. While the company's gathering and processing facilities were not affected by the storms, a third party NGL fractionator sustained significant damage to its Mont Belvieu, Texas site due to Hurricane Ike.

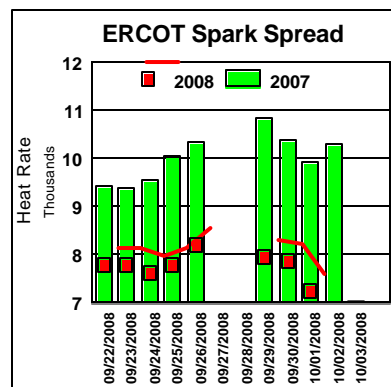
PIPELINE RESTRICTIONS

TransColorado gas Transmission said the Aspen Mesa Reeder location has a gas quality program. A reduction in scheduling quantities may be necessary.

CIG said it has lifted, effective immediately, the strained operating condition issued on September 3rd has been lifted.



Sea Robin Pipeline said that following conclusive inspections after the Hurricane Gustav and Ike, it was lifting its OFO originally issued on August 30th for 25 offshore receipt points along the pipeline.



PIPELINE MAINTENANCE

TransColorado Gas Transmission said it was performing maintenance at its Whitewater Compressor Station today. Capacity through Segment 240 was limited to 390,000 Dth as a result.

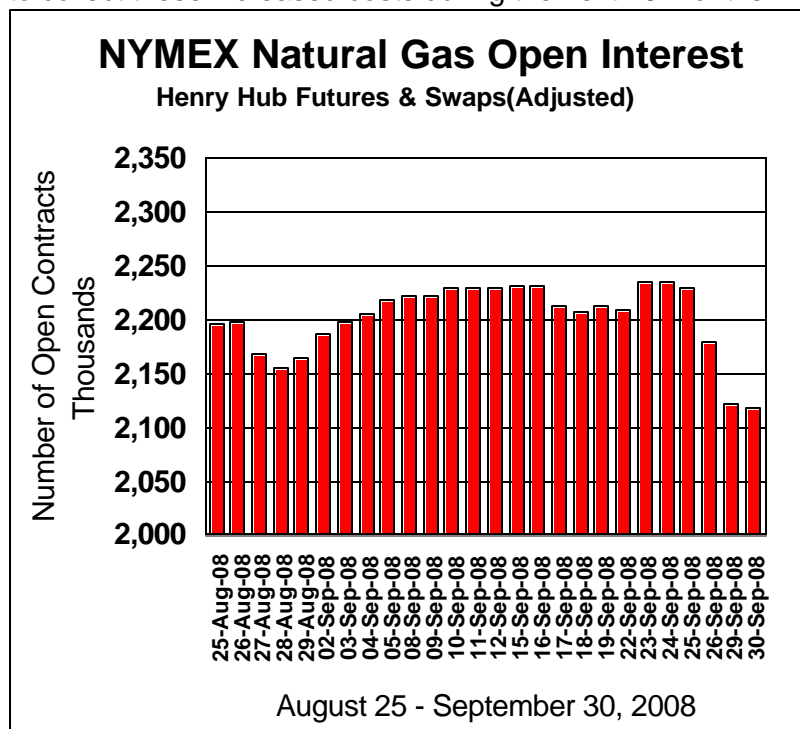
ELECTRIC MARKET NEWS

ERCOT said AEP has scheduled a five day outage of its 600 Mw transmission link that allows power to flow between Texas and states in the Eastern Interconnection from October 6th through October 10th.

Nebraska Public Power District, Omaha Public Power District and Lincoln Electric System have signed membership agreements with the Southwest Power Pool. These agreements are scheduled to take effect in April 1st. The agencies submitted membership agreements to the FERC for approval.

The Edison Electric Institute reported today that power production in the U.S. for the week ending September 27th stood at 76,398 Gwh down 0.7% from a week ago and some 6.1% less than the same week a year ago.

PG&E advised its customers today that power prices will be increasing effective today due to higher power purchase costs as incurred in 2008. Below normal seasonal rainfall, which resulted in drought conditions reduced hydroelectric power that PG&E had access to for its customers. This and the higher costs for natural gas are the two main reasons leading to the rate hike. The utility has proposed to collect these increased costs during the next 15 months. The rate increase is approximately 6%.



Unistar filed an application with the NRC to build a new nuclear reactor at Constellation's Nine Mile nuclear station in New York.

Santee Cooper said that a fourth, 600 Mw coal fired unit has begun operating at the Cross generating Station in South Carolina.

Centerpoint Energy has restored power to more than 2.12 million customers who lost service due to Hurricane Ike, leaving only 35,000 without service.

MARKET COMMENTARY

While it appeared that the short-term surge of cold air into the Midwest for the next several days helped to support regional cash prices, the

natural gas market had several other supportive factors. One was a rebounding oil market that was able to shake off a relatively bearish the oil inventory report. A second factor appears to have been short covering trend that has been underway in the market over the past several sessions. The final supportive fact was a technical buying spark that was triggered as prices breached the highs of the prior two days at \$7.542-\$7.665. Once this level was breached prices were able to rally all the way up to \$7.938 before some profit taking backed prices off by 50% of the morning's gains and then settled into a sideways trading range for the remainder of the day. Traded volume today was significantly higher than the yesterday with over 150,000 futures traded, some 57% better.

This market will continue to watch and react to the global macro news in the market place, and tonight's Senate action on the bailout/rescue legislation will obviously help set a tone for tomorrow's market action. But the EIA storage report will also play a major role in whether this market can break above the \$8.00 price level or be sent back down to the lows of earlier this week. We see resistance tomorrow at \$7.938 followed by \$7.98, \$8.19-\$8.21, \$8.45 and \$8.594. Support we see at \$7.652, \$7.473,\$7.217, \$7.14, \$7.02 and \$6.98.

