



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR OCTOBER 5, 2007

NATURAL GAS MARKET NEWS

The National Hurricane Center said today it did not expect any tropical cyclones to form over the next day or so from the many low-pressure systems in the Atlantic Ocean and in the Gulf of Mexico it was watching. In the Gulf, the development if any of a non-tropical low in the northwestern Gulf would be slow to occur as the system moves at about 10 mph west-northwest toward the coasts of Texas and Louisiana. Near the Bahamas, another low-pressure system remained disorganized and the winds were not favorable for development. The NHC added that any development would be slow to occur as the system moved slowly west-southwest toward the Gulf of Mexico. Elsewhere, a tropical wave about 25 miles east of the southern Windward Islands is being heavily sheared and is not a threat for further development.

As it remains ambivalent about importing new liquefied natural gas (LNG) supplies, California faces increased competition from other parts of the nation in obtaining adequate future gas supplies and it can expect the prices to be higher in years to come. That is one of the key conclusions in the latest draft of the California Energy Commission's (CEC) 2007 Integrated Energy Policy Report (IEPR), which was recently released for public review.

Baker Hughes reported that for the week ended today the total rig count in the U.S. fell by five to a total of 1,755, 31 more rigs than the 1,724 counted during the same week in 2006. Some 1,431 rigs were looking for natural gas, down 12 on the week, and 318 were drilling for oil, up seven.

The recent decline in the U.S. dollar compared with other currencies could make it more difficult for the country to attract spot LNG cargoes. While LNG imports were expected to drop once demand and prices began to pick up in European and Asian countries this fall, LNG imports barely exceeded 1 Bcf/d last week. According to consultant Pan EurAsian Enterprises, U.S. LNG imports averaged 2.7 Bcf/d in August and about 1.5 Bcf/d in September. With the weaker dollar, sellers with the option to take cargoes to Europe will go to the currency that is worth more. In particular, some of the majors, such as Shell and BP, have created the ability to swing cargoes to the highest priced market.

Belgian natural gas grid operator Fluxys is at year-end to canvass interest in reserving additional new long-term capacity at the Zeebrugge LNG terminal. Fluxys said that a pre-feasibility study carried out jointly with the port of Zeebrugge had shown that the LNG's terminal's capacity could be increased even further after the current expansion. Capacity at the 20-year old LNG terminal is currently being doubled to 9 billion cubic meters a year.

PIPELINE RESTRICTIONS

Generator Problems

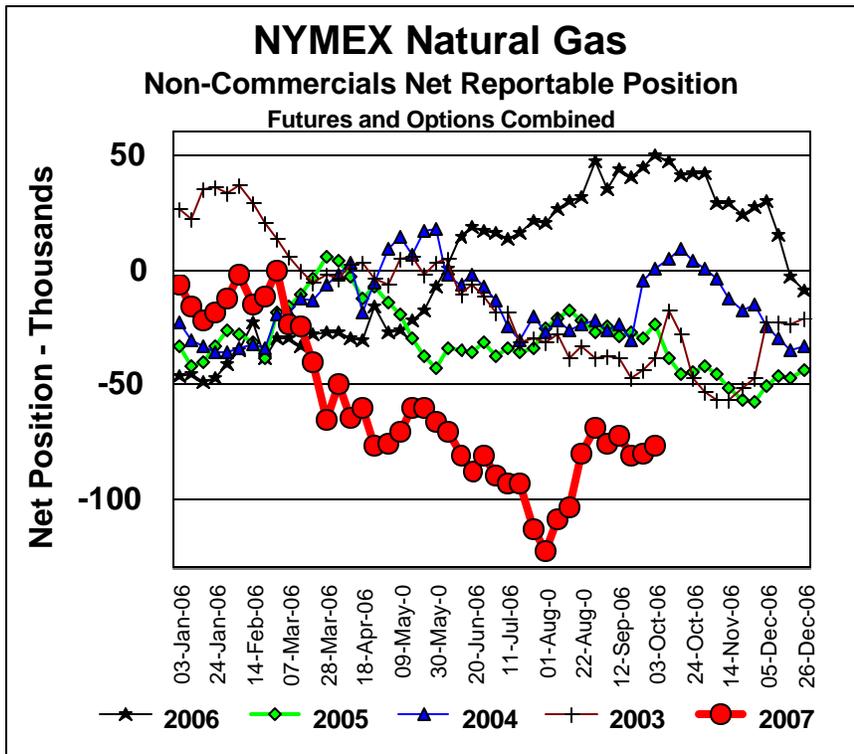
MAIN – Dominion Resources' 556 Mw Kewaunee nuclear unit shut to replace the hydrogen coolers on the main generator. The unit is expected to return within a week.

SERC – TVA's 1,150 Mw Sequoyah #1 nuclear unit shut for planned refueling. The unit is expected to return in about a month. Sequoyah #2 continues to operate at full power.

Canada – Alberta Electric's 495 Mw Genesee #3 coal-fired power station shut today.

The NRC reported that 82,771 Mw of nuclear capacity is on line, down .46% from Thursday, and up 2.12% from a year ago.

El Paso Corp said there were no service disruptions on its Tennessee Gas natural gas pipeline system despite declaring force due to a failure at a compressor station in Mississippi. The force majeure was reported at compressor station 847 due to equipment failure.



ELECTRIC MARKET NEWS

Genscape's U.S. weekly coal burn index rose 12.7% in the week ended October 4 as power plant units in the East, West and South restarted from outages. The index was up about 9% over the same week last year.

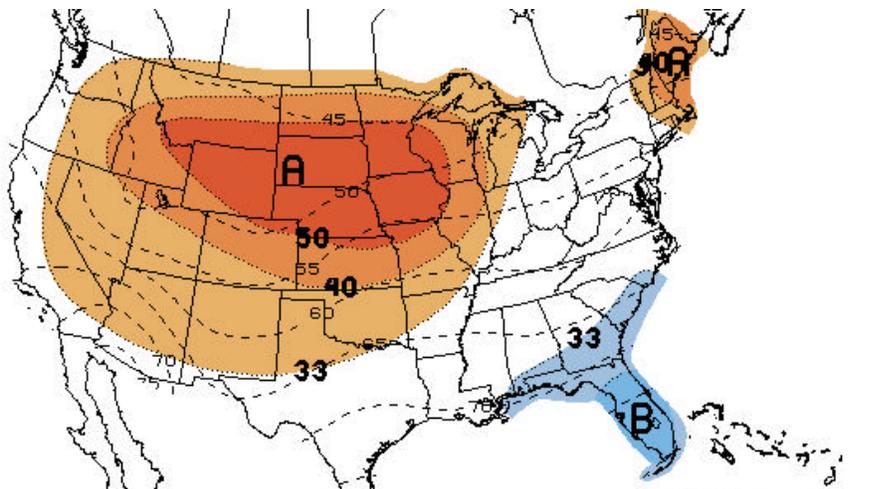
California energy giant Clipper Windpower is to develop a new generation of giant offshore wind turbines in the northeast of England. Regional development agency One North East has agreed to invest a \$10.7 million package of support into Clipper's "Project Britannia," a plan to develop a very large 7.5 Mw offshore wind turbine.

MARKET COMMENTARY

The natural gas market erased this week's price action today as none of the potential tropical threats intensified to pose a problem to production facilities. The November contract did not trade above yesterday's settlement today and was under pressure the entire session.

U.S. spot natural gas prices fell at nearly every price point today for the second day in a row as heat in much of the nation was seen easing over the weekend and early next week. The market traded to a low of 7.026 by the end of the session and settled down 33.9 cents at 7.073.

The Commitment of Traders Report showed that non-commercial traders reduced their net short futures position by 9,099 lots to 54,761 contracts. They also reduced their combined futures and options net short position by 2,933 lots to 76,798 contracts. Open interest increased in the early part of the week as market players bought the seasonality of the November contract, but with such fundamental weakness, we feel the market still has another downside move before winter forecasts and heating demand support the market. Also, with more seasonal temperatures expected, weakness in the cash market will further pressure prices.



We see support at 7.00, 6.88, 6.80 and 6.70. We see resistance at 7.40, 7.55, 7.652 and 8.00.