



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR OCTOBER 10, 2007

NATURAL GAS MARKET NEWS

The National Hurricane Center reported that the area of low pressure over the Yucatan Peninsula is drifting westward and is forecast to remain near or over the peninsula during the next couple of days, therefore development of this system appears unlikely. But Accuweather forecasters continued to see the possibilities of some potential development and a threat to the Gulf late in the week.

Canadian natural gas output could skid by as much as 15% in the next two years because oil companies have cut back on drilling to cope with high costs, middling prices and a strong domestic currency. The National Energy Board said gas delivery from Canada, the main source of imported supplies for the U.S., could fall to 14.5 billion to 15.8 billion cubic feet a day by 2009 from 17.1 Bcfd at the end of 2006.

Midcontinent Express Pipeline said it filed an application with U.S. regulators to construct and operate a 500 mile natural gas pipeline to meet growing needs in the eastern U.S. Subject to approval from FERC, the \$1.27 billion Midcontinent Express line, a joint venture of Kinder Morgan Energy Partners and Energy Transfer Partners would begin construction in August 2008, with service by the first quarter of 2009. The pipeline, with an initial capacity of up to 1.4 Bcf/d, will extend from southeast Oklahoma, across northeast Texas, northern Louisiana and central Mississippi, to an interconnection with the Transco Pipeline near Butler, Alabama.

The Australian federal government has given its environmental approval for the proposed Gorgon LNG project on Barrow Island off Western Australia. The project calls for a two-train liquefaction plant on Barrow Island to produce 10 million mt/year of LNG.

Shell expects in the next few months to sign a loan deal with western banks to finance its Sakhalin 2 LNG train project in Russia's Far East. Sakhalin 2 shareholders are negotiating a total of \$5-6 billion loan with a number of foreign banks.

Inergy announced today that its wholly-owned subsidiary, Inergy Midstream, is conducting a non-binding Open Season for firm storage services in central New York. Inergy is considering the development of both a depleted gas reservoir and conversion of certain salt dome caverns to natural gas storage in Steuben County, New York, and surrounding areas with interconnects to Tennessee Gas Pipeline, Columbia Gas Transmission and potentially Dominion Gas Transmission, Empire Pipeline, and Millennium Pipeline. The anticipated initial in-service date for the facilities is the fall of 2009.

Generator Problems

ERCOT – TXU Corp.'s 575 Mw Big Brown #1 coal-fired power station shut and quickly returned to service today after a booster fan tripped.

NPCC – New York Power Authority's 1,056 Mw Blenheim-Gilboa pumped storage hydro power shut for repairs. Units #2, #3 and #4 are expected to return in November and unit #1 in June 2008.

PJM – PSEG's 1,050 Mw Hope Creek nuclear unit decreased output to 88% as it coasts down for a scheduled refueling and maintenance outage.

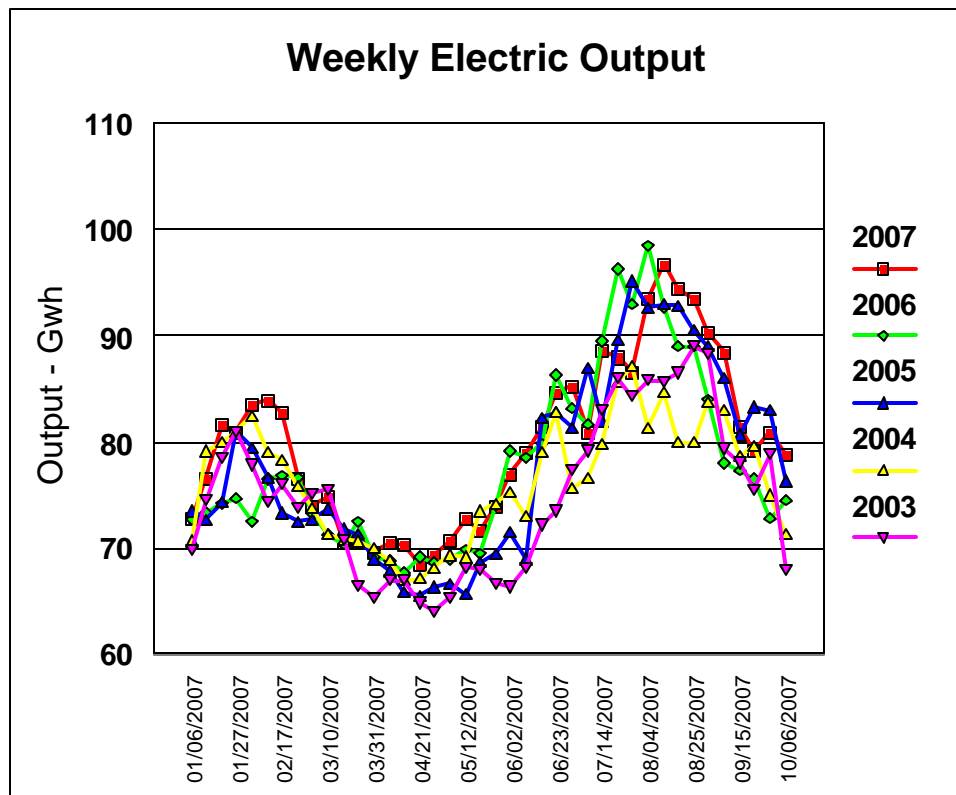
PPL's 1,115 Mw Susquehanna #1 nuclear unit is scheduled to shut this weekend for a refueling and maintenance outage.

WSCC – Southern California Edison's 1,080 Mw San Onofre #3 nuclear unit remained shut for a second day. The unit was taken offline yesterday for maintenance.

The NRC reported that 81,953 Mw of nuclear capacity is online, down .03% from Tuesday, and up 11.42% from a year ago.

PIPELINE RESTRICTIONS

El Paso Natural Gas Company said that Keystone B will remain unavailable through October 10 for a reduction through Keystone of 100 MMcf/d.



ELECTRIC MARKET NEWS

Edison Electric Institute reported that power production in the continental U.S. for the week ended October 6 rose 5.9% from the same 2006 week to 78,867 GWh. This is roughly 2.6% lower than the amount of electricity used last week.

The Montreal Climate Exchange applied to Quebec's Financial Markets Authority for approval to go ahead with its plan to trade carbon futures by the end of this year.

Private equity firm Natural Gas Partners and industry executive Paul Prager said they have agreed to buy a portfolio of generation and transmission assets from the city of Vernon, California in a

deal valued at \$342 million.

Summer-like temperatures across Michigan prompted residents and businesses to turn on their air conditioners, producing an hourly peak record for October for Consumers Energy's electric system. Record demand was 7,166 Mw, approximately 8% higher than the former October peak record of 6,644 Mw set on October 4, 2005.

Ralph Izzo, President, Chairman and CEO of PSEG testified today before the U.S. House of Representatives' Select Committee on Energy Independence and Global Warming. In his testimony, Izzo called upon Congress to enact a national, cap-and-trade program and to allocate emissions allowances in a manner that would reward efficiency and innovation, and spur development and deployment of new, low-carbon technologies.

MARKET COMMENTARY

The natural gas market maintained its seasonal tendency to move higher, clawing its way back above 7.00 despite overwhelming bearish fundamentals. The November contract traded to a high of 7.08, supported by firm cash prices and a stronger crude oil market. Choppiness persists

Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	1,613,300	\$6.793	\$0.165	(\$0.331)	(\$0.046)	(\$0.460)
Chicago City Gate	560,900	\$6.876	\$0.035	(\$0.104)	(\$0.093)	(\$0.296)
NGPL- TX/OK	958,400	\$6.642	\$0.082	(\$0.338)	(\$0.046)	(\$0.482)
SoCal	1,032,300	\$6.691	(\$0.013)	(\$0.289)	(\$0.141)	(\$0.454)
PG&E Citygate	762,700	\$6.952	\$0.002	(\$0.028)	(\$0.126)	(\$0.110)
Dominion-South	327,400	\$6.927	\$0.037	(\$0.054)	(\$0.091)	(\$0.132)
Transco Zone 6	393,100	\$7.186	(\$0.001)	\$0.206	(\$0.129)	\$0.228

throughout the session, with the market posting the day's high and low early in the session and then trading sideways for the remainder of the day. The front month settled up 14.7 cents at 7.01.

The industry is expecting an above-average build of between 60 and 80 Bcf in this week's report from the EIA, with most reports looking for an injection of 70 Bcf. For the same week last year, domestic stocks rose an adjusted 63 Bcf, while the five-year average gain for that week is 63 Bcf. An injection as expected will leave total stocks roughly at a plump 3.3 Tcf, and with current winter forecasts leaning towards more above-average temperatures for the season, it is hard to believe that the bulls will be able to push this market above the current range. We see support at 6.88, 6.739, 6.70, 6.643 and 6.50. We see resistance at 7.173, 7.395, 7.505 and 7.60.