



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR OCTOBER 10, 2008

NATURAL GAS MARKET NEWS

The National Hurricane Center this morning noted that a tropical depression could form from a low-pressure system currently in the Central Atlantic. While the NHC assigned this system a 20-50% chance of forming into a tropical system, current track models have this system not a threat to the United States. But forecasters though continue to see tropical threats to the U.S. mainland over the next 10 days. One system that could develop off the Carolinas and or Northern Florida and could move southwestward and end up in the Gulf of Mexico potentially next week and be a disruptive influence in the central Gulf of Mexico. Meanwhile many long-range computer models are calling for a potential tropical cyclone to develop somewhere in the western-southwestern Caribbean next week.

The U.S. Minerals Management Service reported this afternoon that U.S. crude oil production in the Gulf of Mexico rose slightly on Friday, but only by 1064 b/d, leaving 43.3% of output now shut in. On the natural gas side production returned over the last 24 hours totaled only 26 MMcf/d, leaving 38.2% or 2.827 bcf/d still shut in.

Generator Problems

NPCC- Entergy's 852 Mw FitzPatrick nuclear unit has exited its refueling outage and was at 20% capacity this morning.

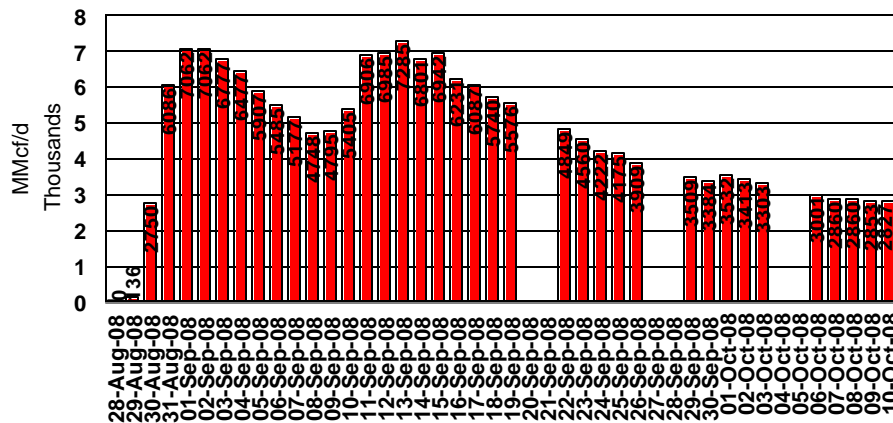
SERC – TVA's 1155 Mw Browns Ferry #2 nuclear unit was at 94% capacity Friday, up 71% from Thursday.

ERCOT – AEP reported that it was planning work on its 675 Mw Pirkey coal fired power plant through next Tuesday. The unit was shut on Thursday due to a malfunction.

Luminant's 575 MW Unit 1 at the Big Brown coal – fired power station in TX shut early Friday. It is not yet known when the unit is expected back in service.

According to the NRC some 84,125 Mw of generating capacity was in operation in the U.S. this morning, down 0.1% from Thursday and 4.1% higher than the same time a year ago.

USG Offshore Nat Gas Production Shut-ins



The API said today that U.S. natural gas exploration and production activity in the third quarter continues to outpace last year's levels and is nearly twice the level seen in the 1990's. They noted that natural gas continues to be the primary target for domestic drilling with an estimated 8,467 natural gas wells completed in the third quarter up 6% from last year and double the completion rate of a decade ago.

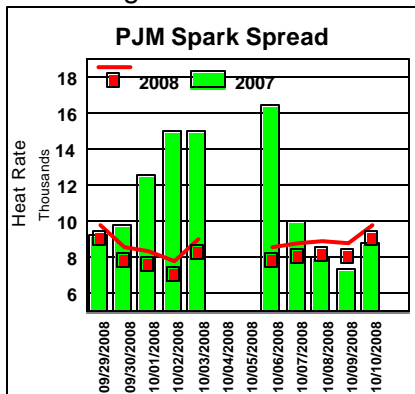
Baker Hughes reported that for the week ending October 10th, some 1548 rigs were drilling for natural gas in the United States, up 4 on the week and but off 58 from a month ago.

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	628,400	\$6.524	(\$0.162)	(\$0.193)	(\$0.289)	(\$1.250)
Chicago City Gate	602,800	\$5.914	(\$0.371)	(\$0.803)	(\$0.302)	(\$0.557)
NGPL- TX/OK	666,600	\$5.764	(\$0.311)	(\$0.953)	(\$0.242)	(\$0.753)
SoCal	373,800	\$2.528	(\$2.305)	(\$4.189)	(\$2.236)	(\$2.436)
PG&E Citygate	399,100	\$6.133	(\$0.292)	(\$0.584)	(\$0.223)	(\$0.457)
Dominion-South	186,300	\$6.503	(\$0.237)	(\$0.214)	(\$0.168)	(\$0.058)
USTRade Weighted	13,521,600	\$5.189	(\$0.358)	(\$1.528)	(\$0.29)	(\$1.250)

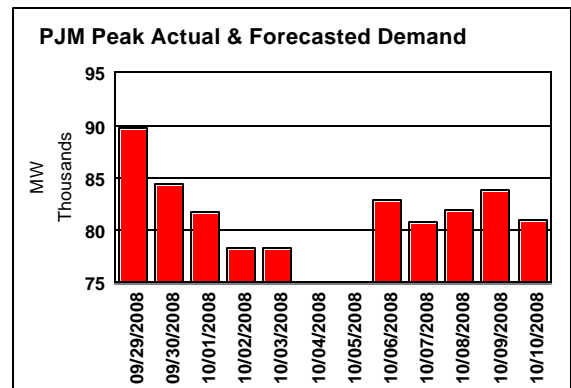
The U.S. federal government said this week it sold to four energy companies 76 bcf of royalty-in-kind

natural gas from federal lands worth \$384 million. The gas was sold to the companies under 5 or 12 month contracts with deliveries beginning on November 1st. The gas was produced in Wyoming.

Chesapeake Energy said today that it is keeping their rigs count flat to down in 2009 and 2010, but sees its production growth outlook of 18% for 2008 and 16% for 2009 and 2010. It also reported that its financial exposure to Lehman Brothers include amounts for unpaid natural gas sales, amounts due and owing under various derivative contracts.



CMS Energy said late yesterday in a filing with government regulators that the company has recently drawn or sent notice to draw in the aggregate \$420 million from its \$550 million secured revolving credit facility in order to have cash

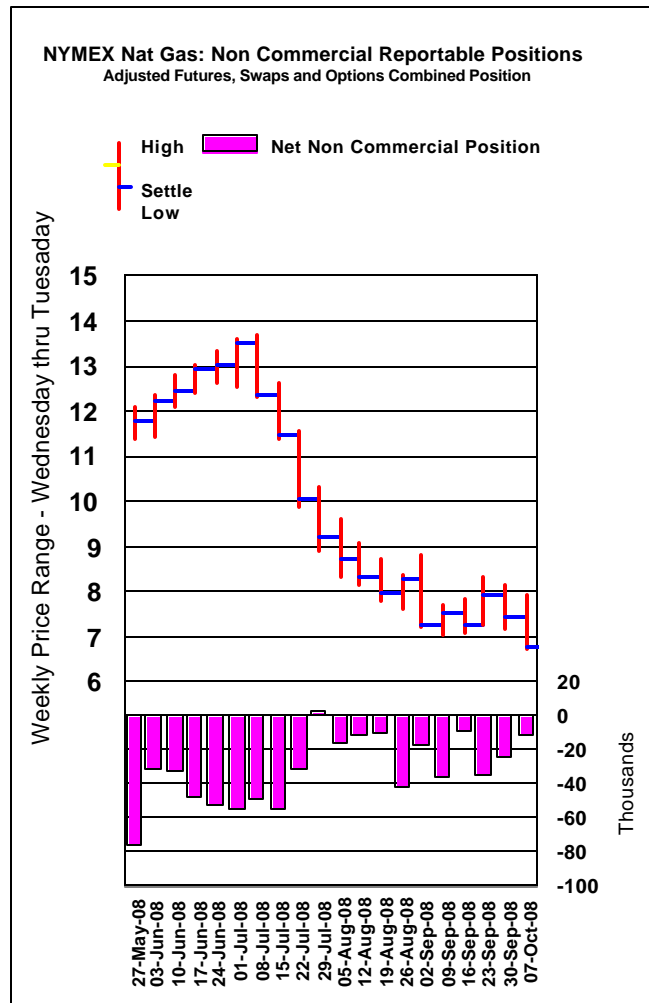
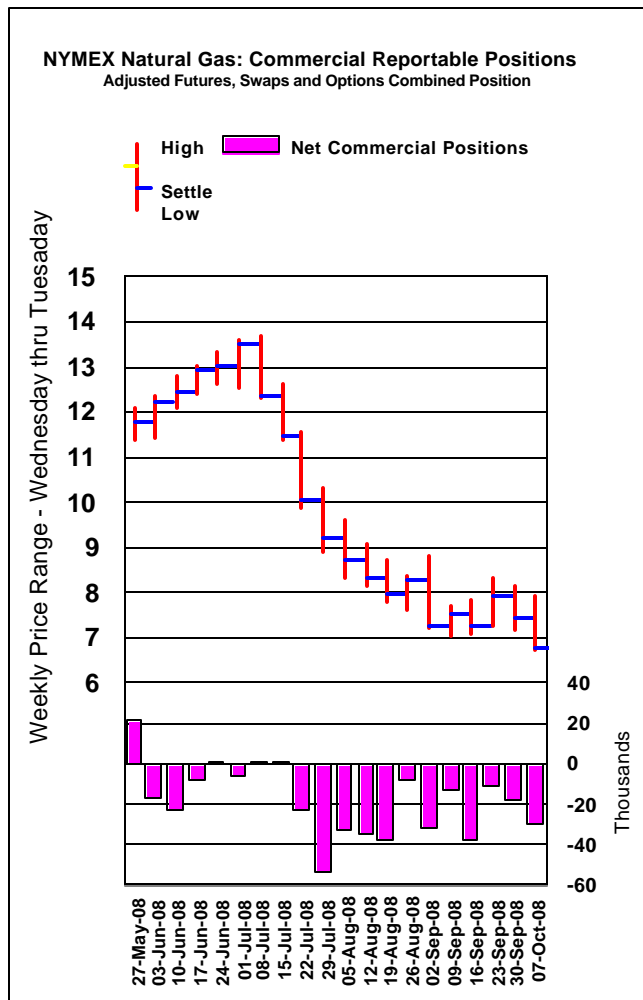


on hand if hedge fund investors tender convertible securities and for "other general corporate purposes."

The NYMEX reported that effective trade date October 20th it will be launching 18 new natural gas swap and index contracts for its Clearport clearing system. The new futures contracts and their commodity codes are: NGPL STX natural gas basis swap (T5); Algonquin Citygate natural gas basis swap (B4); TCO natural gas index swap (Q1); TETCO STX natural gas index swap (Q2); Tennessee Zone 0 natural gas index swap (Q4); Transco Zone 3 natural gas index swap (Y6); Tennessee 500 leg natural gas index swap (Y7); MichCon natural gas index swap (Y8); CIG Rockies natural gas index swap (Z8); TCO natural gas swing swap (A1); TETCO STX natural gas swing swap (T2); Tennessee Zone 0 natural gas swing swap (T4); Malin natural gas swing swap (W9); Stanfield natural gas swing swap (Q3); Transco Zone 3 natural gas swing swap (T6); Tennessee 500 leg natural gas swing swap (T7); MichCon natural gas swing swap (T8); and CIG Rockies natural gas swing swap (U8). The basis and index swap futures contracts will be listed for 36 consecutive months, and the swing swap futures contracts will be listed for two consecutive months. The first listed month for all contracts will be November 2008. The contract will be 2,500 mmBtus (10,000 million British thermal units) in size with a minimum price fluctuation of \$0.0025 per mmBtu.

ELECTRIC MARKET NEWS

Genscape reported that its U.S. coal burn index was down 3% for the week ending October 9th from the prior week and off some 9% from the same week a year ago.



PPL Corporation has filed an application with the NRC for a license to build and operate a new nuclear power plant under consideration near Berwick, Pennsylvania, near its Susquehanna nuclear power plant. Approval of the application may take several years.

MARKET COMMENTARY

The natural gas market surprisingly held up well today, despite closing nearly 30 cents lower on the day. The possibility of tropical threats next week near the Gulf of Mexico, colder temperatures moving into the mid continent in 7-10 days and the continued slow pace of returning natural gas production shut in from the Gulf of Mexico made this market once again the “most stable” of the energy futures markets. In fact despite the oil markets collapsing and making yet another new near term low today as oil dropped below the \$80 price barrier, natural gas prices could not even challenge the lows set from Wednesday, as prices failed to challenge the \$6.50 level. As a result natural gas once again saw its price discount to crude continue to contract today settling at \$6.86 Mmbtu, the lowest level since October 8, 2007.

Tonight's Commitment of Traders Report showed that the non-commercials continued to decrease their net short position in the natural gas markets, this week contracting their reportable position on a net adjusted basis in futures, swaps and options by 13,340 lots. Meanwhile commercials net short reportable position rose by 11,356 lots and they now hold their largest net short position in a month.

As we have been preaching for over a week, this market's overall price direction is set by the economic outlook from the global financial markets. But this market continues to be performing relatively well considering the price collapse in the oil markets. If the oil market and global stock markets can stabilize we would potentially look for natural gas market to work higher and as a result would begin to look for call spreads possibly in the January contract months. On Monday we continue to look for key support in the natural gas market to be at \$6.51-\$6.47 followed by \$6.45, \$6.39-\$6.377 and \$6.232. More distant support we see at \$5.725. Resistance we see at \$6.68, \$6.825 \$6.886-\$6.904. Additional resistance we see at \$7.055, \$7.224, \$7.393 \$7.938-\$7.96.