



ENERGY RISK MANAGEMENT

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POWER MARKET REPORT FOR OCTOBER 28, 2008

NATURAL GAS MARKET NEWS

EarthSat this morning released their updated Winter 2008/2009 Outlook. It reported that its consensus outlook trends colder and as a result we could see the coldest winter in five years. The major rationale for this forecast change among weather forecasters appears to be the potential development of a weak La Nina winter. The shift towards a colder forecast was centered around the Midwest and the East Coast was the second most changed forecast. Meanwhile AccuWeather forecaster Joe Bastardi was looking for temperatures to be warmer than normal into the first half of November, but then a new 6 week cycle will take hold and the second half of November through December will be colder than normal.

The U.S. Minerals Management Service reported today that slow progress continued to be made in returning shut in production in the Gulf of Mexico. As of this morning some 58,415 b/d of crude oil production had returned to service since the agency's last report back on October 23rd. As of today some 27.8% of the total crude oil production of the Gulf of Mexico remains shut in. Natural gas production though continues to limp back into service. Only 77 MMcf/d of production has returned to service in the last five days, still leaving 2.476 bcf/d or 33.5% of Gulf of Mexico natural gas production still shut in.

Reuters reported today that according a source, roughly half the investors in T. Boone Pickens' BP Capital hedge fund have asked to withdraw their money after the fund posted losses of up to 60% this year. The fund reportedly has lost \$2 billion in value after peaking in late June. The source for Reuters confirmed that Pickens had moved the fund almost entirely into cash a few weeks ago to allow investors flexibility in riding out the volatility of recent global market turmoil. Hedge Fund Research, a Chicago-based performance tracking group estimates that hedge funds through September overall have lost on average 9.41% and energy and basic materials hedge funds for the year through September are down

Generator Problems

PJM – Dominion's 799 Mw Surry #1 nuclear unit was shut early Tuesday for brief repair work.. The unit was at full power on Monday morning.

Exelon's 1134 Mw Limerick #2 nuclear unit dropped to 40% capacity Tuesday for repairs on a chiller in the drywall. The unit had been at full power on Monday.

FirstEnergy's 832 Mw Beaver Valley #2 nuclear unit exited its outage and was up to 36% power on Tuesday. The unit had been shut for repairs back on October 24th.

NPCC – Constellation's 621 Mw Nine Mile Point #1 nuclear unit was at 74% power up 49% from yesterday.

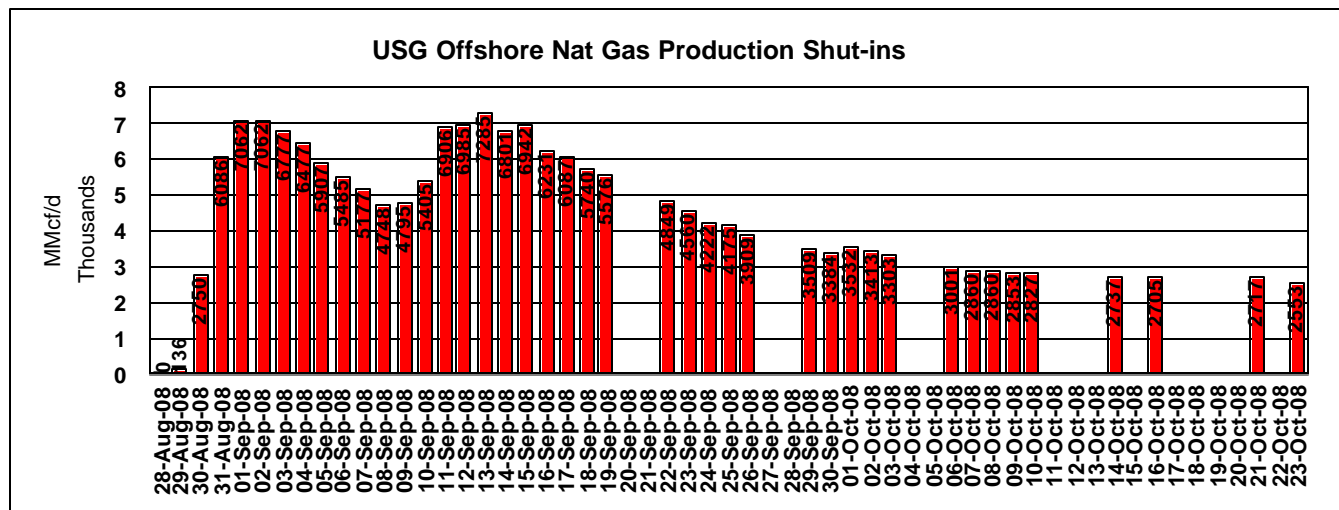
OPG's Lennox #3 oil and natural gas fired unit and its Nanticoke 8 coal fired unit returned to service today.

SPP – Entergy's 1266 Mw Grand Gulf nuclear power plant has begun to be restarted and was at 14% power Tuesday morning. The Unit was shut back on shut on October 26th.

The NRC reported this morning that some 77,047 Mw of nuclear generating capacity was online this morning, down 0.9% from Monday and down 3.03% more than the same day a year ago.

20.84%. Meanwhile George Soros said today that he expects the global financial crisis to reduce the hedge fund industry to as little as one third of its current size.

U.S. consumer confidence plunged to a record low in October as a worsening financial crisis left Americans on edge. The Conference Board said its index measuring consumer sentiment tumbled to 38 in October from an upwardly revised 61.4 in September. That was the lowest reading since the index began in 1967. The previous low was 43.2 in December 1974.



TransCanada said Tuesday that it could offer equity stakes in its proposed \$26 billion natural gas pipeline to Alaska's three major producers in return for long term shipping commitments. The proposed pipeline would carry 4.5 bcf/d of Alaskan natural gas southward to Canada and the lower 48 U.S. states.

A study sponsored by the American Gas Foundation found that the U.S. will be "a desirable and dependable destination" for LNG imports and is likely to exceed those headed toward Europe within the next decade, despite to poor relative short-term outlook for LNG imports into the U.S. this year. The group sees LNG imports reaching 13 bcf/d by 2016 up from around 1 bcf/d recorded this year. If imports reached this level they would be responsible for 16% of U.S. demand, which the group estimates would reach 27.7 tcf, a growth of 3.3% each year, while domestic production will average only a 2.1% growth rate. The report looks for Trinidad and Nigeria to be the two largest suppliers of LNG to the United States.

Export Development Canada said today in its Global Export Forecast that Canadian energy exports are expected to increase 36% in

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	580,900	\$6.397	\$0.131	\$0.172	\$0.021	(\$0.528)
Chicago City Gate	590,100	\$6.626	\$0.034	\$0.401	(\$0.064)	\$0.361
NGPL- TX/OK	1,031,100	\$5.760	(\$0.024)	(\$0.465)	(\$0.122)	(\$0.267)
SoCal	500,100	\$4.360	\$0.192	(\$1.865)	\$0.094	(\$1.985)
PG&E Citygate	491,100	\$5.923	\$0.046	(\$0.302)	(\$0.052)	(\$0.220)
Dominion-South	542,700	\$7.101	\$0.329	\$0.876	\$0.231	\$0.580
USTrade Weighted	19,466,300	\$5.789	\$0.119	(\$0.436)	\$0.02	(\$0.528)

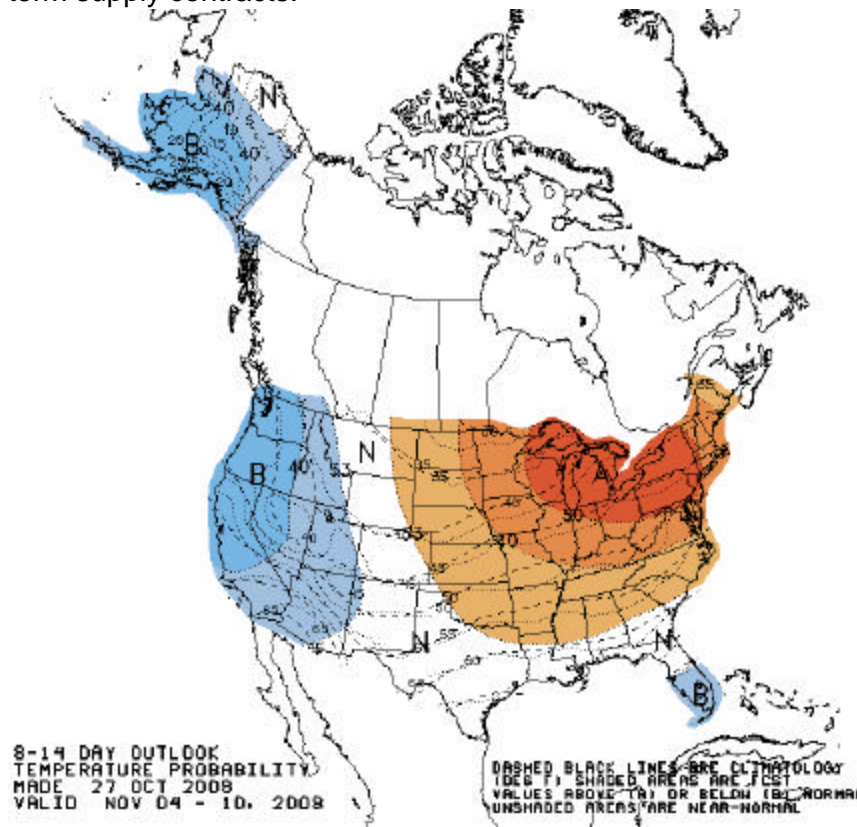
2008, before falling to a 9% growth rate in 2009 largely on lower crude oil prices. The group forecast that despite a 3% increases in Canadian crude export volumes next year, lower oil prices will result in a 15% drop in oil earnings. The group sees U.S natural gas production should outpace demand growth

in 2009 and Canadian exports will rise early in 2009 with the expected startup of the Canaport LNG terminal in New Brunswick. Absent Canaport, Canadian export volumes of natural gas are expected to fall in 2009 due to slow drilling activity, stable production and rising domestic Canadian gas use.

Kuwait is in talks with Qatar to import 500 MMcf/d of Qatari gas on a daily basis during the summer months over the next five years. The gas will be used to meet increasing power consumption during the summer months. The gas imports are seen as a temporary measure until the completion of Al Zour refinery project and the development of the second and third stages of the Kuwaiti gas fields project.

Indonesia will ship LNG from its Tangguh project to South Korea and China as scheduled, even if talks aimed at setting new, higher price for the LNG are not concluded. The first commercial shipment is due in the first quarter of 2009. The Tangguh project is in Bintuni Bay will have two liquefaction trains and produce at least 7.6 metric tons per year of LNG.

Gazprom said today that it intends to fulfill the government order to grant independent gas producers access to the company's vast Russian pipeline network. The Russian government earlier this year called on Gazprom to publically declare spare pipeline capacity and accept all applications for long term supply contracts.



The NYMEX reported this week that it will begin trading on its Clearport system two new plastics futures contracts starting November 2nd, for the trade date of November 3rd. The contracts will be 47,000 pounds in size and will have physical delivery in Houston. The contracts will be listed for 24 consecutive months beginning with January 2009. The two contracts are polypropylene (P1) and polyethylene (P6).

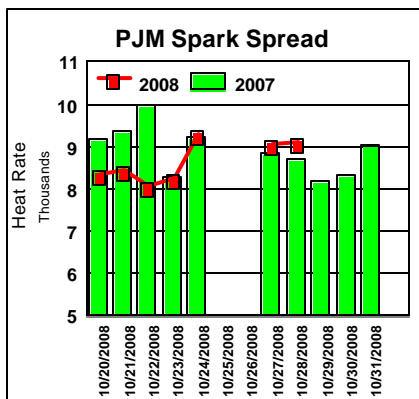
ELECTRIC MARKET NEWS

Genscape reported that coal inventories at U.S. power plants rose 2.2% last week, and stand at 55 days of average coal burn. While stocks overall stand some 5.3% above year ago levels parts of the East continue to have tight supplies. The Mid Atlantic region continues to see stocks less than

half of where they were a year ago, or at 25 days of average burn.

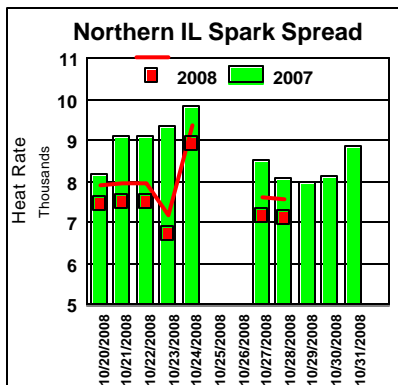
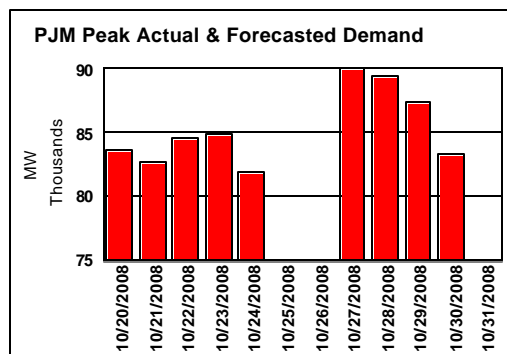
Export Development Canada said today in its Global Export Forecast that Canadian electricity exports will increase by 12% in 2009, boosted by the falling Canadian dollar and expected approval of higher electricity prices in the U.S.

The Texas Public Policy Foundation's Center for Economic Freedom reported today that Texas consumers and taxpayers could pay more than \$2.2 billion a year in subsidies and higher transmission cost to take advantage of the state's abundant wind generation resources. Texas leads the nation in 6,000 Mw of installed wind turbines. The study cites the federal production tax credit for wind, state renewable energy credits and a Texas plan to construct \$5 billion in new high voltage power lines as major "hidden" costs of wind energy. Other costs for back up generation and market-disruption expenses tied to variable nature of wind could push annual costs to \$4 billion a year. The group called for wind power only to be employed to the extent that it passes economic benefit muster and to the extent it is technologically feasible. By 2025, the study warns the price tag could total \$60 billion as Texas reaches a potential 10,000 Mw of wind capacity.



MARKET COMMENTARY

The natural gas market today appeared to take its cue from the stock market. While the market seemed to receive a boost from the release of supportive winter forecasts at mid morning the market appeared to stall and back slide a bit at midday when the stock market rally stalled. But as the equity market surged higher in the afternoon the natural gas market was dragged up especially after the close of the floor session. The natural gas market as a result never seriously challenged the \$6.00 price level where there was some 23,285 open positions in the expiring November \$6.00 puts. Just yesterday there seemed to be significant nervousness in the market as the November \$6.00 put was at risk as it was the most active energy option on the NYMEX with over 10,000 lots traded and as it turned out looks to have been short covering as traders reduced their open position in this contract by over 6800 contracts. Volume today was good with 211.430 lots booked in the Henry Hub futures and swaps contracts on a combined adjusted basis.



Despite the bounce in the flat price of natural gas, the March April spread continued to flounder down at its lows that it has posted over the past week at 4.9-5.0 cents. In fact the spread repeated for the second day in a row its smallest trading range since the end of June, as just 1783 lots were traded in the spread on Globex today between 7.1 and 4.9 cents. It appears traders will not look favorably upon this spread until sustained winter heating demand takes root and given the current forecasts it will not be in the cards for the next couple of weeks at least.

Tomorrow is expiration day for the November natural gas Henry Hub futures and swap contract. On an adjusted combined basis current spot open interest levels are some 30,000 lots less open contracts than a month ago and as a result could signal a relatively non-descript expiration. We would look for initial support tomorrow at \$6.144, \$6.068, \$5.99, \$5.95, \$5.866 and \$5.833. Additional support we see at \$5.725 and \$5.19. Resistance we see at \$6.303, \$6.409, \$6.42, \$6.539, and \$6.668. More distant key resistance we see at \$7.087 and \$7.424.

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