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POWER MARKET REPORT FOR DECEMBER 9, 2008

NATURAL GAS MARKET NEWS

The EIA released their latest Short Term Energy Outlook this morning and it showed the agency is looking for U.S. domestic production of natural gas this year to show an increase of 5.4% over 2008 levels, but this is production growth has been revised downward by 0.5% from last month's estimate. The agency also lowered their production forecast for 2009 seeing production averaging 58.76 bcf/d down 1.5% from last month's estimate. The agency increased slightly its LNG import estimate for this year by 3.2% from last months report, now estimating imports this year will average out at 0.98 bcf/d. Its estimate for imports of LNG for next year though remained unchanged at 1.13 bcf/d. On the consumption side of the equation, EIA estimates that average demand this year will reach 63.5 bcf/d, a 0.6% reduction in its estimate from last month and also lowered its estimate fro 2009 to 63.33 bcf/d. While the EIA sees demand growth in the residential, commercial and electric power sectors in 2010, the 2.3% contraction in industrial demand for natural gas will cause overall demand to contract by 0.3%. The EIA noted specifically the decline of production by chemical plants and its impact on natural gas production. Dow Chemical just this week announced closing 20 facilities. The agency projects that spot natural gas prices in \$2009 will average \$6.25 per Mcf.

Generator Problems

NPCC – Dominion's 1131 mw Millstone #3 nuclear unit was at 94% capacity this morning, down 6% from Monday.

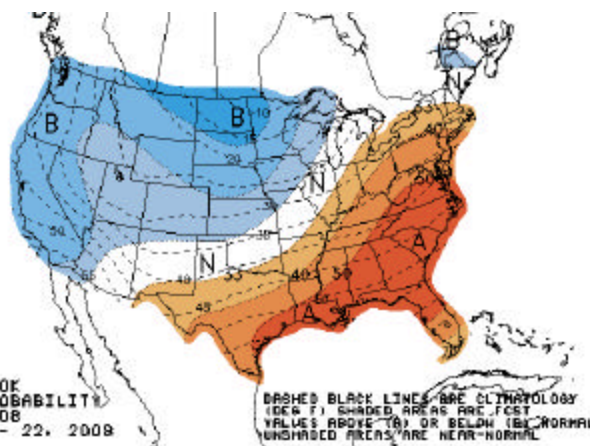
PJM – PSEG Nuclear's 1100 Mw Salem #1 nuclear unit was ramping up and was at full power this morning, up 9 % from yesterday.

MRO – Exelon' 1120 Mw Braidwood #2 nuclear unit returned to full power this morning up 12% from Monday.

Exelon's 855 Mw Quad Cities #2 nuclear unit is at 96% capacity, up 24% from Monday/

AmerGen Energy 1022 Mw Clinton nuclear power plant was at 80%, down 8% from Monday.

The NRC reported this morning that 93,239 Mw of nuclear generation capacity was on line, up 0.3% from Monday and 0.14% higher than the same time a year ago.



The California Energy Commission gas analysts in a report said Monday that economic declines, renewable energy and efficiency growth and ultimately greenhouse gas emissions controls are all pushing down natural gas demand in the near term in the state and as a result reducing the immediate need for LNG imports.

The Institute for Supply management said that economic growth in the United States will vary by industry and sector in 2009.

Their semi-annual report sees the “adverse conditions” experienced in the second half of 2008 continuing in 2009 especially in manufacturing. Business investment is expected to decline by 7.6%.

Hess Corp said that they plan to drill eight exploration wells off the northwest coast of Australia next year as it attempts to increase its search for natural gas in the area to determine the viability of supplying a fuel export project.

PIPELINE RESTRICTIONS

Northern Natural Gas said it has issued a force majeure at the Sunray Compressor Station. Receipt volumes will be limited to a maximum of 45,000 Mmbtu/d.

PIPELINE MAINTENANCE

Trunkline Gas Company reported today that it has revised its repair work schedule for the T-27 platform that was toppled during Hurricane Ike. The work will be done in two phases. The first phase will include capping the segment in Ship Shoal 274 to allow the flow to recommence from receipt points downstream of Ship Shoal 274 and upstream of T-25. The second phase will include reconnection of location 80261 in Ship Shoal 274 as well as the installation of a tie in valve for a future reconnection to Tarpon Transmission Company. Trunkline has secured long lead materials and contractors for the work. Trunkline now expects the work in the first phase to be completed by January 16, 2009 with the second phase being completed by the 2Q2009.

Gulf South Pipeline Company said it will be performing scheduled maintenance at the Kiln Compressor Station Unit #1 beginning 7 Am on December 18th and continuing through December 23rd. Capacity could be reduced by as much as 100,000 Dth during the work.

Sea Robin Pipeline said it has secured permits, materials and contractors for the repair work of its East Cameron 265 platform that had been toppled during Hurricane Ike and caused significant damage to Sea Robin’s West leg. The company said that based on its latest supply and construction schedule the company anticipates completing these repairs and returning the segment to service by January 25, 2009, barring no further weather delays.

Northwest Pipeline said it has begun integrity anomaly work on the Reno and Wenatchee laterals and the work should be completed by December 22nd.

ELECTRIC MARKET NEWS

U.S. Senator Boxer said yesterday that she is working with the incoming Obama administration on a bill that will set broad, market based goals and objectives for cutting greenhouse gas emissions. One possible path the legislation would take would be for the bill to layout goals and parameters and then let the EPA deal with the details of implementation. The senator said she continues to believe that a carbon emissions cap and trade program is better than a carbon tax to fight global warming.

Coal supplies at U.S. power plants rose 0.27% this week from last week and currently are 7.05% higher than the same time a year ago. These stocks equates to 58 days of average coal burn

The EIA in their monthly Short term Energy Outlook said it sees coal production and exports of coal should decline next year as global demand ebbs. They estimate coal production should decline by 2.6% in 2009 to 1,148 million tons as domestic electric generation declines and generation sources shift away towards more nuclear, oil, gas and wind generation. U.S. coal exports are seen falling by 11 million tons in 2009 to 71.9 million tons or off 13%. Total electric demand, which is seen to be flat this year, is seen decreasing in 2009 due to the slow growth in new housing construction and reduced demand from the industrial sector.

BPA said the north south capacity of the Los Angeles Department of Water and Power's Pacific DC Intertie climbed from 900 Mw to 2500 Mw by early Tuesday.

EDF said it plans to expand nuclear operations in the U.S. even if its offer to buy half of Constellation Energy's nuclear capacity is rejected.

U.S. Energy Secretary Bodman said today that the nation would need to build a second storage facility for spent nuclear fuel if capacity limits are not raised or eliminated at Yucca Mountain. The DOE said it projects that the Yucca facility could exceed limits by 2010.

OGE Energy announced it is looking to add some 300 Mw of new wind generation by late 2010.

MARKET COMMENTARY

The natural gas market basically took a breather today. While the Short Term Energy Outlook released at mid morning appeared to depress the market, as it painted a bleaker demand picture for natural gas, prices basically held around yesterday's lows and received a boost from the midday weather forecasts. The midday updated computer runs appeared to sow the seeds of doubt as divergence of opinions among forecasters appeared to pop up as a result of the large disagreement between the midday run and those done 12 hour prior. This coupled with some revised forecasts that snow may be in the cards for the interior northeast later this week and again next week appeared to prompt some short covering by the bears, looking to take profits after watching prices decline for the past five trading session.

It appears that this market may trend water tomorrow in front of Thursday's EIA Storage report. We would look for initial resistance at \$5.738, \$5.792, \$5.905 followed by \$6.039 and \$6.218. Additional resistance we see at \$6.397, \$6.535 and \$6.79. Support we see at \$5.458, \$5.352, \$5.245, and \$5.153.