



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,
& Karen Palladino

(212) 624-1132 (888) 885-6100

www.e-windham.com

NATURAL GAS & POWER MARKET REPORT FOR AUGUST 18, 2009

NATURAL GAS MARKET NEWS

Hurricane Bill, the first hurricane of the 2009 Atlantic season continues to strengthen. The now Category 2 hurricane should continue to intensify as it moves over warmer water for the rest of the week. It should also encounter very favorable upper-level wind flow. The drier air that weakened Ana is no longer a problem in this area of the Atlantic Basin. These favorable conditions should allow Bill to become a Category 3 hurricane on Wednesday and possibly Category 4 hurricane by the end of the week. Most computer models show the upper level high north of the hurricane splitting, creating a weakness. The weakness will cause Bill to track on a more northwest, then more northerly course late this week and this coming weekend. If this happens, Bill will not be a threat to the US but could become a major threat to Bermuda. Meanwhile Ana was downgraded to a tropical wave Monday evening. There is still a slight chance however that remnants of Ana could reorganize over the eastern Gulf of Mexico on Wednesday night and Thursday.

Generator Problems

The NRC reported this morning that 96,355 Mw nuclear generation capacity was on line, up 2.25% from Monday and up 1.83% from the same time a year ago.

Price forecasts for 2009 and 2010 of U.S. Henry Hub natural gas have been lowered due to the continuing recession. According to a Dow Jones survey of 10 financial institutions, third quarter natural gas prices were reduced by 3.2%, compared with the previous month at \$4.00 a million Btu's. The forecasts for the fourth quarter were reduced by 3.4% to \$5.17/MMBtu, with first quarter of 2010 lowered by 1.2%, with the outlook for the second quarter unchanged at \$6.00/MMBtu. The average price for 2009 fell 6.6% to 4.26% and the outlook for 2010 was down 1.3% at \$6.30/MMBtu.

The Maran Gas Coronis LNG tanker has set sail for the Everett terminal in Boston from Egypt. No set time of arrival has been given. Separately, the Canaport LNG terminal in New Brunswick is set to receive its fourth cargo soon. Imports of LNG to the U.S. have slipped in August to 308,000 tons compared with 487,000 tons in July, with Elba Island and Everett being the only terminals receiving regular cargoes. Activity at Cove Point, Lake Charles and Cameron has dropped off considerably.

Three tankers carrying cargoes of super-cooled LNG have arrived at Britain's LNG ports. Sonatrach's Berg Arzew, which can carry 138,088 cubic meters of LNG, was moored in the Isle of Grain port near London. The Maran Gas Asclepius tanker, which can hold 147,700 cubic meters, arrived at the Dragon LNG terminal on Monday. Port data also showed Exxon Mobil's Umm Slal, which can carry 266,000 cubic meters arrived on Monday at South Hook. Both terminals were injecting a combined total of 25 million cubic meters of gas into the system.

Australia's Santos Ltd. has sold a 60% stake in some Australian gas field to France's GDF Suez. This partnership was made to develop a floating LNG project off northwest Australia in GDF's first foray into

Asia. Under the deal, Santos will sell a 60% stake in its Petrel, Tern and Frigate gas fields in the Bonaparte basin of northwest Australia to GDF for \$200 million in cash.

Despite political ties being on the fritz, Australia has agreed to sell China liquefied natural gas in a deal worth \$41 billion. The Australian government said U.S. major ExxonMobil Corp had inked a deal to sell liquefied natural gas from its share of an LNG project in Australia to Petro China in a deal worth about \$41.29 billion.

Transcontinental Gas Pipe Line LLC and Florida Gas Transmission Co. LLC filed plans on Aug. 14 for the Pascagoula Expansion Project, a \$59 million Greenfield pipeline that will transport supply from the Gulf Energy LNG import terminal through the Gulf LNG Pipeline for delivery to interconnections with the Mobile bay lateral. The Gulf LNG terminal is currently under construction in Jackson County, Miss. Under this project, a receipt meter will be constructed and operated at Gulf LNG Pipeline's terminus near Pascagoula in Jackson County and approximately 15.54 miles of 26-inch pipeline. This will extend the receipt point to two new interconnections near Grand Bay in Mobile County, AL.

FERC approve a settlement on Aug. 17 between Hardy Storage Co. LLC and its firm customers, raising the minimum amount of gas they must have in storage in order to allow withdrawal of their maximum daily storage quantity. The new storage ratchets will now set the minimum amount of gas at 40%. Hardy explained that in order to meet its full deliverability obligations of 176,000 Dth with 30% of storage contract quantity remaining for the upcoming 2009–2010 winter heating season and in the future, the company would need to either purchase and inject additional base gas into the storage facilities, or increase the storage ratchets to 40% of the shipper's storage contract quantity. As a result of the agreement, shippers wanting to withdraw up to 100% of their hardy maximum daily storage quantity in the facility. To withdraw 80%, customers must have between 30% and 40%, and withdraw 50% they must have 20% to 10% of their HSCQ in inventory.

PIPELINE MAINTENANCE

The Britannia gas field in the North Sea is back in production after planned maintenance according to operator ConocoPhillips. Britannia began its summer maintenance on July 30 and feeds gas into Britain's St. Fergus terminal in Scotland.

System compressor maintenance will be performed on both units T-1000 and T-2000 at Gulf South's Vixen Compressor Station. The maintenance will be done one unit at a time. During this maintenance capacity could be reduced by as much as 25,000 Dth.

PIPELINE RESTRICTIONS

Effective intraday cycle 2, for the gas day of Aug. 17, due to nomination increases in excess of capacity, Tennessee restricted the Rivervale, New Jersey Meter. Approximately 90% supply to market intraday cycle 2 nomination increases pathed for delivery to the Rivervale, New Jersey. Separately, effective intraday cycle 1 for the gas day of Aug. 18, due to reduced nominations, Tennessee will accept increases for nominations sourced from the Niagara River Meter.

On gas day Sept. 2 and continuing through Sept. 3, Trailblazer will perform required maintenance on units #1 and #2 at station 602, located in Lincoln County, Neb. This work will require a reduction in capacity through Segment 20 impacting Trailblazer shippers. Capacity will be reduced to a minimum of 91% of maximum daily quantities for each contract with primary or secondary in-path rights through Segment 20, assuming that each such contract is nominated at full applicable contract MDQ through Segment 20. Interruptible storage/authorized overrun and firm secondary out-of-path transport will not be available.

ELECTRICITY MARKET NEWS

The U.S. Department of Energy has agreed to reevaluate its energy efficiency standards for electricity distribution transformers by October 2011 despite not being legally bound for two years after previous evaluations. This is in response to lawsuits filed by several environmental groups and the state of California. In 2006 the DOE proposed new standards that many considered to be too weak. Although the agency strengthened those standards before they were finalized in October 2007, some industry interests asserted that the standards still needed to be more stringent. The final rule specifically adopted energy conservation standards for the million of liquid-immersed and medium-voltage, dry-type distribution transformers that sit atop utility poles across the nation, and will apply to transformers manufactured for sale in, or imported into the U.S. on or after Jan. 1, 2010.

The Center on Budget and Policy Priorities on Aug. 11 released a report taking aim at a July request by the Edison Electric Institute that the U.S. Senate grant additional greenhouse gas emission allowances to utilities than the number included in the climate change bill passed by the House on June 26. EEI called for a larger allocation of free allowances to the electricity sector than the share it would receive under the House climate bill, as well as a more protracted phase-out of these allowances. CPPB said the Senate should "skeptically" examine the EEI's claims as it drafts climate legislation and should "resist" the request to increase the allocation to electricity utilities or to delay its phase-out. In addition, the policy group does not believe that free allocations to electricity local distribution companies would provide consumer protection as EEI claims.

Coal inventories in the U.S. electric power sector ended the month of July down from the record levels seen in May and June, but stockpiles continue to run extremely high in comparison to those of last year. U.S. power generators closed the month of July with 182.0 million tons of coal on the ground, or roughly 144.2 million tons, according to EIA. While the July total is down from the record high of 198.1 million tons set in May the current stockpile level is very high on a historical basis. In 2005, when U.S. coal deliveries were slowed by serious transportation issues in the Wyoming Powder River Basin, coal inventories in the electric power sector fell to as low as 98.2 million tons in September 2005. One reason current stockpiles are so high is because coal consumption among U.S. power generators plummeted in the spring and early summer due to various factors, including the weak global economy, low natural gas prices and relatively mild weather.

MARKET COMMENTARY

The natural gas market retraced some of its previous losses and posted a high of \$3.239 early in the session following its sharp losses on Monday. The market however erased some of gains and looked set to post an inside trading day amid the dissipating storm concerns as Hurricane Bill is not expected to pose any threat to the US Gulf of Mexico as it is forecast to track towards Bermuda. The market sold off to a low of \$3.09 ahead of the close and settled down 6.7 cents at \$3.096. It later traded to a low of \$3.088, a level not seen since August 19, 2002.

Technically, the natural gas market is still seen trading lower as it remains in a downward trend channel. It will likely see some recovery in prices after the oil market traded sharply higher today. However we are still of the opinion that the natural gas market's gains will be limited. The market is seen find support at \$3.088, \$3.044 and \$2.993. Further support is seen at \$2.94, basis its trendline, and \$2.895. Resistance is seen at \$3.11, \$3.15, \$3.193 and \$3.239. More distant resistance is seen at \$3.291 and \$3.342.

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