



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR SEPTEMBER 9, 2009

NATURAL GAS MARKET NEWS

While Hurricane Fred was upgraded to a Category 2 hurricane this morning, most forecast models have the storm curving northward over the next several days and posing no threat to land. One model this morning though has this storm veering back westward and in 10 days near 60 degrees longitude. Meanwhile the threat for a tropical system forming in the western Gulf of Mexico later this week appears to be diminishing. Most forecasting models look for an area of disturbed weather slowly tracking out of the Bay of Campeche over the next 2-3 days and then moving just off shore of the Texas coast from Brownsville and Corpus Christi Saturday night and Sunday and then into the upper Texas coast and inland on Sunday night and Monday. It appears this system will only reach tropical depression of storm strength before moving ashore.

Generator Problems

MISO – Exelon's 867 Mw Quad Cities nuclear unit was shut early Wednesday. The unit had been at full power on Tuesday.

Xcel Energy's 538 Mw Prairie Island #2 nuclear unit was at 91% power down 5% from yesterday. The unit appears to have begun coasting down to its scheduled refueling outage set to begin around September 15th.

Exelon's Quad Cities #1 nuclear unit has been shut down after operators discovered a pinhole leak.

WSCC –TransAlta's 450 Mw Genesee #3 coal fired power unit in Alberta was back in service on Tuesday after a brief outage.

The NRC reported this morning that 93,667 Mw nuclear generation capacity was on line, down 1% unchanged from yesterday and off 1.5% from the same time a year ago.

The EIA released their updated Short Term Energy Outlook this morning. It looks for domestic production of natural gas in 2009 to average 59.1 bcf/d a 0.9% increase from a year ago and a 0.8% increase over its 2009 production estimate a month ago. The agency sees 2010 production declining

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	708,900	\$2.720	\$0.287	(\$0.209)	\$0.180	(\$0.384)
Chicago City Gate	616,200	\$2.827	\$0.245	(\$0.102)	\$0.165	(\$0.383)
NGPL- TX/OK	676,200	\$2.712	\$0.250	(\$0.217)	\$0.170	(\$0.486)
SoCal	602,900	\$2.935	\$0.239	\$0.006	\$0.159	(\$0.164)
PG&E Citygate	930,700	\$3.318	\$0.255	\$0.389	\$0.175	\$0.197
Dominion-South	262,200	\$2.857	\$0.275	(\$0.072)	\$0.195	(\$0.370)
USTRade Weighted	20,848,400	\$2.819	\$0.260	(\$0.110)	\$0.18	(\$0.384)

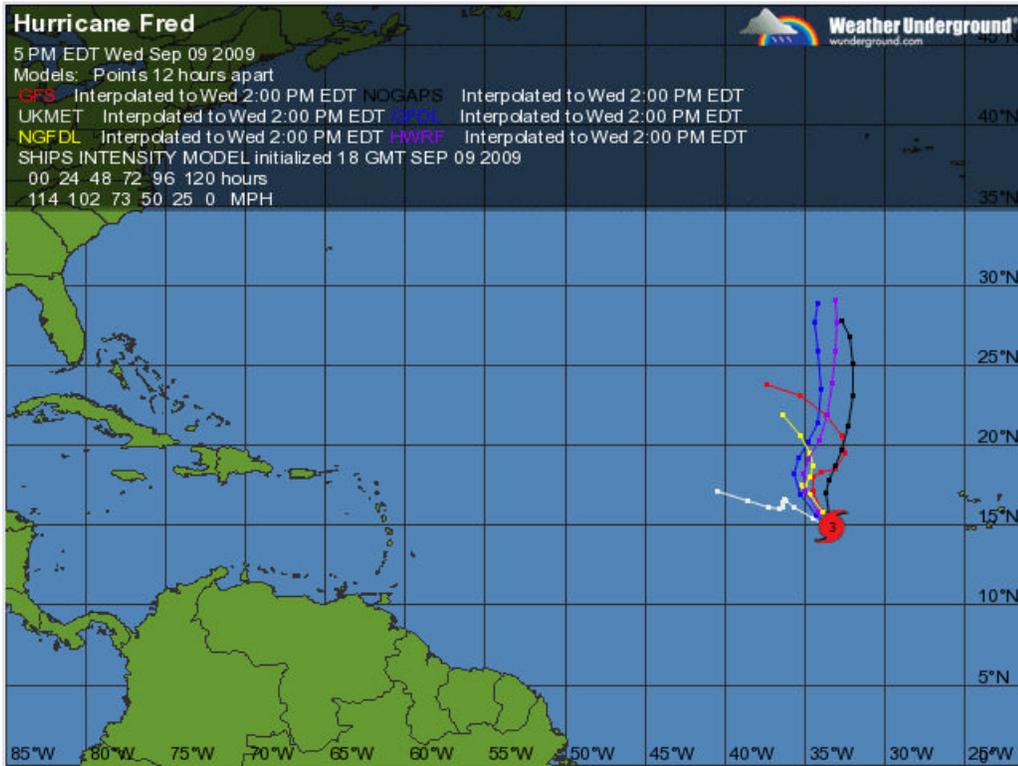
to 57.04 bcf/d, a slight upward revision from last month's estimate. The EIA though lowered its import estimate for 2009 to 7.33 bcf/d down 0.41 bcf/d from last month. Its estimate for imports next year

has been revised as well to 7.86 bcf/d. The agency has raised its consumption of natural gas estimates. For 2009 the EIA sees U.S. domestic demand reaching 61.87 bcf/d, up 0.2% from last month's estimate and off 2.5% from a year ago. Demand next year is estimated to slip slightly falling to 61.82 bcf/d. a downward revision of 0.4% from last month's estimate. The agency now sees fourth

quarter prices this year averaging \$3.03 basis Henry Hub,(a downward revision of 79 cents from last month) and in 2010 averaging \$4.78(a downward revision of 27 cents from last month).

Cheniere Energy has bought a second cargo of LNG, which is slated to arrive at its Sabine Pass terminal in Louisiana today. The cargo originated in Trinidad.

Energy Transfer Partners has filed a formal application for its proposed 175-mile Tiger Pipeline system. The company calls the proposed system critical to the development of the growing Haynesville Shale project. The pipeline will connect to ETP's dual 42-inch system near Carthage, Texas, extended



through the Haynesville shale and end near Delhi, Louisiana, with interconnections to at least seven interstate pipelines.. The pipeline would have an initial capacity of 2 bcf/d that could be increased up to 2.4 bcf/d. The cost of the project is slated at \$1.2 billion.

Conoco said it has signed an exploration and evaluation deal with Poland to search for shale gas in northern Poland. The company expects to

drill its first well in the first quarter of 2010. The agreement calls for ConocoPhillips to have the option to earn 70% and operate on 1 million acres.

Port officials said the Lijmiliya LNG tanker has been rescheduled to arrive at the South Hook import terminal on September 16th, two days later than originally scheduled.

PIPELINE MAINTENANCE

El Paso Natural Gas updated its force majeure event for Williams #5B saying the crankshaft work will be extended through October 2nd. The work is resulting in a reduction of 30 MMcf/d.

Gulf South said it will be performing system maintenance at the Hall Summit Compressor Station on Unit #2 beginning September 22nd and lasting for four days. Capacity through the station could be reduced by as much as 125,000 Dth for the duration of the work.

ELECTRICITY NEWS

The EIA in its Short Term Energy Outlook estimated U.S. emissions of the main greenhouse gas carbon dioxide should fall 6% this year as a result of the recession curbing demand for coal. The EIA estimates that demand for coal, which emits twice the amount of CO2 as natural gas per unit of energy, should fall nearly 10% in 2009 because of fuel switching. A month ago the agency had been predicting a 5% decline in emissions this year.

The EIA said today that it expects electricity demand to fall 3.3% this year, pushed lower for the most part by weaker industrial demand which they see falling 10.1% this year. Power demand they see will rebound in 2010 by 1.2% with residential and commercial sector's increasing their demand by 1.9% over 2009 levels. Industrial demand though is seen continuing to decline next year at a modest 0.4%.

The chairman of the CFTC said this morning that if Congress creates a cap-and trade system to control carbon emissions, futures and cash trading of the emissions should come under the regulation of the CFTC with no exceptions. But the head of the regulatory agency said his agency would need additional staff and equipment to regulate the expanded carbon market.

MARKET COMMENTARY

While the NYMEX natural gas market was able to finish higher yet again today, the futures market gave back most of the day's gains by mid afternoon, as oil prices began to erode as the U.S. dollar bounced off its morning's lows. The market though this morning nearly reached back to the \$3.00 price level basis the October contract a price level not seen since the first day of September. While cash prices continued to firm throughout the morning they remain at a discount to the spot futures.

Market expectations for tomorrow EIA Storage Report are running between a 60-100 bcf build with the consensus focused around a 70-75 bcf build. Stocks rose an adjusted 63 bcf for the same week a year ago while the five year average gain for the same week was a 67 bcf build.

We would look for resistance tomorrow at \$3.007 followed by \$3.178, \$3.415 and \$3.692. We would expect this market to see sellers return if the report matches expectations or comes in even higher. Support we see at \$2.837 followed by \$2.773, \$2.704 and \$2.634. More distant support we see at \$2.50 and \$2.409. Since we remain bearish on this market over the intermediate term we would look to be a seller of the Oct natural gas and a buyer of the January contract if this price differential narrows a bit more into \$2.00-\$1.93 October discount to the January. We would look for the October contract to return to being under pressure as the month draws to a close.

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