



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR OCTOBER 30, 2009

NATURAL GAS MARKET NEWS

The EIA reported that gross daily natural gas production in the lower 48 states increased by 0.8% in August from the previous month as wells were brought back on line and drilling in shale plays bolstered output. Natural gas production in August averaged 63.17 bcf/d.

BP's LNG tanker British trader was expected to arrive at the Cove Point LNG terminal from Trinidad on Friday.

Chevron reported this morning that its production of natural gas in the United States during the third quarter averaged 1.42 bcf/d, down 0.8% from a year ago and for the first 9 months of 2009, the company's U.S. domestic production is off 10.5% from a year ago.

Southwestern Energy yesterday announced its third quarter results. The company noted that its gas and oil production reached 73.2 Bcfe, up 38.6% from the same quarter a year ago. This production level included 58.8 Bcfe from the company's Fayetteville Shale play, which a year ago saw production of 37.2 Bcf/d. These production gains came despite the shut down for part of the period of the Fayetteville Lateral and the Greenville Laterals, which hampered production. The company reported that as a result of its hedging activities its average gas price realized was raised by \$2.21 per Mcf in the third quarter versus a decrease of 26 cents during the same period a year ago. The company noted that it has approximately 33 Bcf of its remaining 2009 projected natural gas production hedged through fixed price swaps and collars at a weighted average floor price of \$8.41 per Mcf.

ExxonMobil said today that it continues to work on advancing the Mackenzie Valley gas pipeline. The company said that backers of the pipeline continue to work with the federal government of Canada to set up an appropriate fiscal regime to ensure this project is economically viable and can be developed.

Generator Problems

PJM – Dominion's 903 Mw North Anna #1 nuclear unit has exited its maintenance outage and ramped up to full power this morning. Operators had taken the unit off line back on October 26th due to a pinhole leak.

Dominion's 800 Mw Surry #2 nuclear unit was at 82% capacity Friday as it was coasting down to a planned refueling outage tentatively scheduled for November 1st.

NPCC - OPG's 535 Mw Lennox #4 gas and oil fired power plant was shut early Friday.

OPG's 494 Mw Lambton #3 coal fired power unit was shut for short-term maintenance today.

MISO – Exelon's 912 Mw Dresden #2 nuclear unit was at 94% capacity as it is expected to be shutdown next week for its scheduled refueling outage.

SERC- TVA's 1100 Mw Browns ferry #3 nuclear unit remained only at 43% today.

ERCOT - Luminant's 1150 Mw Comanche peak #2 nuclear unit has exited its refueling outage and was up to 6% power this morning. The unit has been off line since October 8th.

The NRC reported this morning that total U.S. nuclear generation stood at 74,493 Mw up 1.3% from yesterday and down 5.5% from a year ago.

Tennessee Gas Pipeline said today that it has received requests for 31 new taps in the Marcellus Shale play for connection to its pipeline. The company said these requests have the potential for 3 bcf/d of takeaway capacity. Spectra said in the same area it has received requests for 74 new taps, which would be for about 4.1 bcf/d of capacity.

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	921,300	\$4.107	\$0.002	(\$0.972)	\$0.029	(\$0.225)
Chicago City Gate	1,036,900	\$4.363	\$0.019	(\$0.716)	\$0.042	(\$0.128)
NGPL- TX/OK	918,000	\$4.059	(\$0.012)	(\$1.020)	\$0.010	(\$0.404)
SoCal	356,800	\$4.319	(\$0.009)	(\$0.761)	\$0.013	(\$0.148)
PG&E Citygate	656,800	\$5.072	(\$0.145)	(\$0.007)	(\$0.123)	\$0.531
Dominion-South	343,600	\$4.438	\$0.177	(\$0.641)	\$0.199	(\$0.143)
USTrade Weighted	21,169,700	\$4.254	\$0.007	(\$0.825)	\$0.03	(\$0.225)

The FERC today reaffirmed its decision to require the conversion of a transportation agreement between Williston Basin Interstate Pipeline and Northern States Power to an open access contract.

The California Public Utilities Commission approved PG&E's request for revisions to its energy commodity hedging practices to provide more options for the utility to execute physical and financial trades. The commission authorized PG&E to make changes in the types of procurement products, brokerages and exchanges the utility is authorized to deal with, as well as guidelines for hedging and responding to changes in the company's liquidity position. The commission noted that "most of the changes to the list of procurement products are based on PG&E's need to reduce liquidity risk, which has become an increased concern recently due to tighter lending practices. PG&E was also authorized to engage in more types of derivative transactions so that rather than trading on the underlying commodity itself, the utility can seize more opportunities to make financial exchanges and hedges to mitigate risk. PG&E was authorized to add margin free financial swaps without posting collateral when commodity prices move in favor of the counterparty beyond amounts that would typically trigger margin calls. In return for that exemption, PG&E's counterparties will charge an added fee. PG&E also was authorized to add credit intermediation arrangements to its list of authorized products. In such arrangements, PG&E would sign a contract with a bank or other intermediate entity that agrees to assume PG&E's hedging agreement obligations with the utility's counterparties. In return, PG&E would pay a fee and agree to a financial swap with the intermediate entity, and thus PG&E would avoid having to post margin in response to unfavorable mark-to-market values. The PUC also authorized PG&E to employ counterparty sleeves for financial as well as physical natural gas transactions. The utility was authorized to use swaps including location or basis spreads, time and calendar spreads and cross-commodity or heat rate spreads as financial options for both natural gas and electricity.

Russian Prime Minister Putin today warned that the Ukraine could again have problems paying for Russian gas, thus raising the threat of another supply disruption this winter. The European Commission on Friday said it has proposed to the EU governments that they lend the Ukraine \$741 million. Meanwhile the Ukraine central bank said it has enough foreign currency reserves for Naftogaz to pay its Russian gas bills.

Gazprom will increase gas supplies to Poland to 11 bcm, up 4 bcm from last year. The agreement between the two sides appears to include an extension of the existing supply contract until 2037 and involves the operations of EuRoPol Gas, the operator of the Polish section of the Yamal-Europe gas pipeline and the tariff policy for EuRoPol Gaz.

The Norwegian Oil Directorate said Friday that Royal Dutch Shell and its partners may be forced to cut their reserve estimates for the giant Ormen Lange gas field, as recent appraisal wells appear to

question the original upside potential can be realized. At the start of this year it had been estimated the field held gas reserves of 381.6 bcm and 27.4 million cubic meters of condensate.

Japanese government data showed that Japan's utilities paid 51% less for LNG in September from a year ago. The average price paid was \$8.35 per Mmbtu. Imports of LNG were down by 3.3% from a year ago. In the April-September period LNG imports were off 9.2% from the prior year.

The ICE said the natural gas basis trades reported on its system that the CFTC claims it should establish regulatory review over, are in fact do not rise to the level of performing a significant price discovery function that could trigger CFTC oversight.

The oil and equities market were placed on the defensive this morning following the release of a report by the U.S. Commerce Department that showed consumer spending dropped for the first time in five months. The Commerce Department reported that spending fell 0.5% in September.

PIPELINE RESTRICTIONS

NGPL said it has limited capacity at Florida Vermillion for deliveries. Limited interruptible transportation service/authorized overrun and secondary firm transports are available.

Tennessee Gas Pipeline said that effective for October 30th it has restricted approximately 100% of market to supply interruptible service nominations pathed through the Niagara Spur Backhaul.

PG&E issued a system wide OFO for October 31st due to high inventory. A 5% tolerance was set.

ELECTRIC MARKET NEWS

U.S. coal consumption during the past week fell 1% from the previous week due to poor power demand and was 6% below the same week last year.

MARKET COMMENTARY

The natural gas market this morning rallied 25 cents as supportive long range weather forecasts appeared to point to colder than normal temperatures returning to the eastern third of the nation by 8-14 days. But the morning's rally could not be sustained as the dollar's rebound placed equities and the oil markets back under pressure once again. While natural gas prices gave back their gains prices they were still able to settle on the day just a couple of pennies lower on the day.

Despite the setback in prices on the day it appears that the December contract is trying to build a base of support around the \$5.00 price level. Fundamentally the slight modification back to a more normal or even a slightly cooler than normal temperature forecast for the eastern half of the nation on the 8-14 day period coupled with a nuclear generation level that remains severely constrained could help this market to build support at this \$5.00 level and at least make a run back to back filling the gap in the charts at \$5.458-\$5.473, an area where we feel a bear must wait to see before entering into a new position. But the reports by various producers this week that domestic production in the United States appears to be stabilizing with producers in the shale plays showing remarkable gains, could once again place price pressure on this market with industrial demand remaining limited and the eventual return of nuclear generation.

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