



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR NOVEMBER 2, 2010

NATURAL GAS MARKET NEWS

The eastern United States should be warmer than normal this winter as a strong La Nina event in the tropical Pacific dominates the upcoming heating season. MDA Earth Sat Weather, the Rockville, Maryland-based private forecaster, said that the December-February heating season for the lower 48 states would be noticeably warmer in 2010-2011 compared to last winter. It also positioned this winter warmer than the 10- and 30-year norms on a gas-weighted heating degree day basis. Compared to all winters since 1950, this upcoming winter is expected to be the 48th coldest. The Central Pacific La Nina looked to be at least one of the strongest since records began in 1950, producing the mildest conditions in the South and East and allowing for cool, wet conditions in the Pacific Northwest. The winter precipitation outlook also strongly reflects a La Nina pattern, with above-normal moisture expected along the northern tier of the United States and in the Midwest, while the South will have moisture below to much below normal. Two main risks could affect the winter outcome—a significant weakening of the La Nina event and/or a weak Pacific jet that would allow more cold air to penetrate into the lower 48.

The NRC reported today that some 79,403 Mw of generating capacity was online today, down 0.6% from yesterday and 7.1% higher than the same day a year ago.

EOG Resources reported today that it suffered a quarterly loss compared to a year ago profit and the company has lowered its production outlook for the year, citing weak natural gas prices. Due to weak cash flows and delays in securing hydraulic fracturing equipment, the company said it now expects 2010 oil and gas production growth of 9% versus a prior expectation of a 13% gain. Decreases in North American natural gas drilling activity account for 70% of the 2010 volume reduction. Over the next two years the company expects crude oil and condensate production increases of 53% and 30%

respectively, to drive total company production growth for the two year period.

| 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 | 836,800 | \$3.200 | (\$0.221) | (\$0.656) | (\$0.130) | (\$0.404) |
| Chicago City Gate | 813,900 | \$3.348 | (\$0.192) | (\$0.507) | (\$0.150) | (\$0.267) |
| NGPL- TX/OK | 459,700 | \$3.102 | (\$0.174) | (\$0.753) | (\$0.132) | (\$0.537) |
| SoCal | 371,600 | \$3.137 | (\$0.205) | (\$0.718) | (\$0.163) | (\$0.496) |
| PG&E Citygate | 832,700 | \$3.896 | (\$0.154) | \$0.041 | (\$0.112) | \$0.216 |
| Dominion-South | 407,900 | \$3.414 | (\$0.165) | (\$0.441) | (\$0.123) | (\$0.278) |
| USTRade Weighted | 21,830,500 | \$3.259 | (\$0.172) | (\$0.596) | (\$0.13) | (\$0.404) |

remained down on the same period in 2009. This past September saw imports of 28.6 bcf, up from 21.6 bcf in August but down from 32.2 bcf in September 2009. As during the rest of the year, the

U.S. imports of LNG rose in September from the 2 and half year lows seen in August, but

majority of the imports were at the Everett terminal in Massachusetts, 10.7 bcf and the Elba Island terminal with 11.8 bcf.

The CEO of Singapore's Energy Market Authority said today that Singapore is seeking to become a trading hub for LNG and as a result is planning to build a third tank at its proposed LNG terminal in an attempt to meet rising demand for LNG in Asia. He noted the supply contract with BG Group would be increased to 2 million tonnes per year from 1.5 million tpy that was negotiated earlier. The first phase of the facility is scheduled to be in operation by early 2013.

ExxonMobil's Nigerian subsidiary said it made a rich gas condensate discovery approximately 75 km off the coast of Akwa Ibom state in the southeast of the country. Mobil Producing Nigeria, a joint venture with state-run Nigerian National Petroleum Corporation (NNPC), said that the discovery well in the Awawa Field in OML 104 was drilled to almost 3,500 meters and encountered 50 meters of condensate. Nigeria said today that its current gas reserves are estimated at 188 tcf and it has the potential gas reserves of 600 tcf. The country still struggles to capture the gas it flares with associated oil production, as its collection system is not sufficient. The government said today that its LNG plant at Brass in Bayelsa state is scheduled to begin production in 2012/13.

The Russian energy ministry today reported that Russian gas production in October rose 1.87 bcm from September to 58.094 bcm. This was a 17.3% month gain and was 6.3% higher than the same month a year ago. Gazprom accounted for the lion share of the production, producing 46.096 bcm in October, up 20.6% from September and up 2.6% from the same time a year ago.

The European Commission is "satisfied" with the new gas supply deal between Russia and Poland. Last week, Poland signed a new gas deal with Russia that will increase deliveries to about 10 billion cubic meters a year but had yet to receive the EU's blessing over concerns about pipeline access and shareholder control.

Qatar, the largest LNG exporter, will discuss joint gas projects and sign a memorandum of understanding with a top Russian bank during the Qatari emir's visit this week. Qatar is interested in Russian independent gas producer Novatek's LNG project in Arctic Russia, while export monopoly Gazprom has been invited to tender for oil and gas projects in the Gulf state.

In an effort to reduce its dependence on Russian gas imports, Ukraine plans to launch its first LNG terminal in the Black Sea region in 2015 with a capacity of 5 billion cubic meters. The government is expected to announce a tender to work out a detailed blueprint for the terminal later this month. The terminal could cost about \$4 billion and its capacity could rise to 10 bcm per year in late 2016. Currently, Ukraine, which imports approximately 60 percent of its domestic gas needs from Russia, has repeatedly said that the high gas prices prevent Ukrainian goods from competing in global markets. Ukraine is also seeking to increase its domestic gas output by way of shale gas (natural gas trapped in layered rock) exploration in eastern Ukraine. TNK-BP, the company whom signed the memorandum with Kiev, seeks to plough between \$1 billion and \$2 billion into the project in the next 25 years "if conditions are favorable" and hopes to produce some 5 bcm of shale gas in 5 to 7 years. Azerbaijan looks to be the most attractive source for the gas with the Ukrainian Black Sea port of Odessa, Ochakov in Mykolayiv region and Feodosia in Crimea receiving consideration for the terminal site. The Ukraine would create a consortium next year to build and finance the terminal and the Ukrainian share could vary between 5-10 percent to 51 percent.

An ExxonMobil official told a market conference today that Exxon Mobil expects strong demand in Asia Pacific to absorb fresh gas supplies after doubling its third-quarter output from a year ago on production from new LNG trains in Qatar. However, a lack of pipeline infrastructure in Asia will slow development of unconventional gas even as ExxonMobil plans to start exploratory drilling in coalbed methane block in Indonesia. The senior executive went on to say that Asia's developing countries'

total energy demand will double in the next 20 years while natural gas demand will increase by 125 percent.

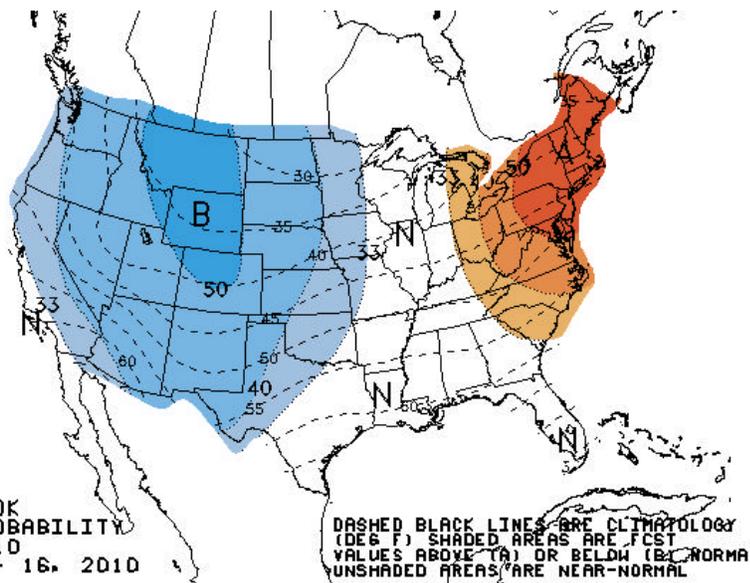
ExxonMobil's available gas supplies for sales have risen to 12 billion cubic feet per day in the third quarter, up from last year's third quarter figure of 8 billion cubic feet per day. Meanwhile supplies from Asia Pacific and the Middle East are around 5 billion cubic feet per day. Producers have targeted Asias to provide homes for new capacity as the world struggles to absorb supplies with many developed economies still in recovery mode. Although Qatari oil minister Abdullah al-Atiyya said that demand and supply could become balanced in three years, the International Energy Agency states that the oversupply could last a decade. ExxonMobil and Qatar petroleum started up four 7.8 million tonne-per-year LNG trains in between 2009 and 2010. The US energy major also has stakes in two LNG projects, set for completion in 2014, in Australia and Papua New Guinea with total output of 21.6 million tpy.

In Indonesia, ExxonMobil has signed agreements with state utility Perusahaan Listrik Negara (PLN) and fertilizer producer PT Petrokimia Gresik (PKG), for evaluating gas sales from the Cepu block in Java which contains 2-3 trillion cubic feet of proven and potential natural gas reserves. ExxonMobil said in January that it expected its Cepu block's peak crude oil production of 165,000 barrels per day to be delayed until the end of 2013.

ECONOMIC NEWS

The Federal Reserve started a two day meeting on Tuesday that was expected to lead to a decision to launch a new round of bond purchases. The Fed is expected to announce its decision at about 2:15pm on Wednesday. The market expects the Fed to announce a new program to buy \$500 billion in longer term Treasuries over a period of about six months.

The Markit Eurozone Manufacturing Purchasing Managers Index increased to 54.6 in October, revised up from the earlier estimate of 54.1 and higher than the final reading of 53.7 for September. Eurozone unemployment increased slightly to 10.1% in September.



US and European officials on Tuesday pledged their support for strong new regulations to regulate the \$615 trillion over-the-counter derivatives market. CFTC chairman Gary Gensler and European Commissioner Michel Barnier issued a joint statement following meetings with industry officials.

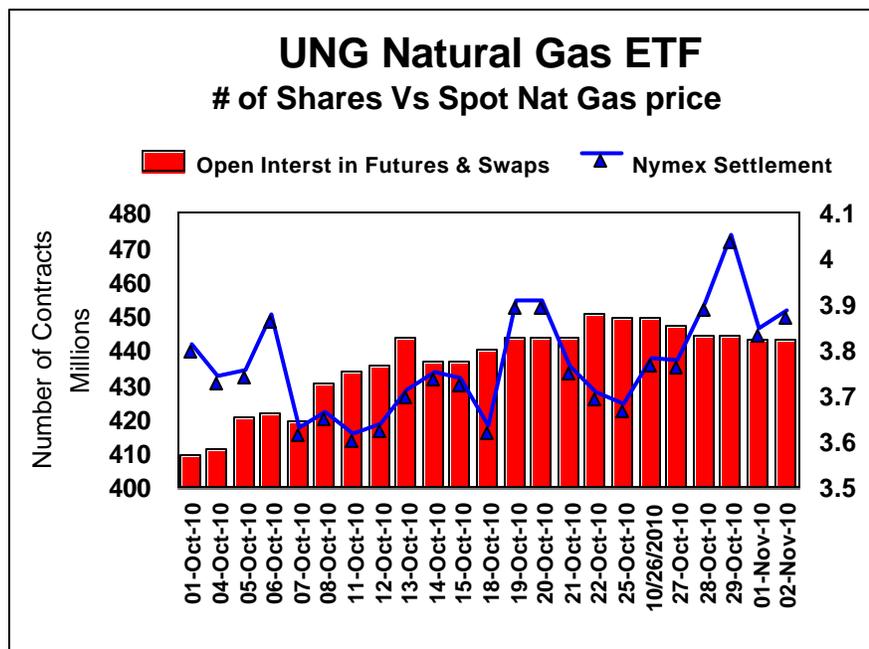
ELECTRICITY NEWS

Genscape reported today that it estimates coal stockpiles at U.S. power plants rose 1.2% for the week ending November 1st but were 14.2% less than the same week a year ago.

The Intercontinental Exchange reported today that it would cut some 40 staff jobs from its U.S. environmental exchange, the Chicago Climate Exchange by the end of the year and will probably

make further cuts in 2011. Activity on the exchange has virtually ground to a halt after a U.S. climate bill which outlined a national emissions trading scheme was slimmed down in July and cap and trade provision was abandoned. ICE bought the exchange in April and has been working toward consolidating operations.

Next Era Energy Inc has completed work to replace a section of corroded steel liner at the 693-megawatt Unit 3 at the Turkey Point nuclear power plant in Florida as the unit prepares to return to service, a spokesman for the U.S. Nuclear Regulatory Commission said. The corrosion was discovered on October 22nd and the unit has been shut for refueling since September 24th. The affected area was successfully pressure-tested after a new section of steel was welded into place, allowing the unit to move ahead to exit the refueling outage. The company declined to say whether the line repair would extend the current outage as electricity traders expected the unit to return in early November.



MARKET COMMENTARY

The natural gas market opened this morning basically on its lows as prices completed a 62% retracement of the rally since October 25th. But futures prices moved higher throughout the morning driven for the most part by the expectations for colder to much colder than normal temperatures for much of the nation east of the Mississippi over the next 25 days. But this market has limited upside potential as the futures market has gotten out ahead of the next day cash market which today actually lost some 17-20 cents, as a well as expectations for

above normal temperatures returning to much of the nation east of the Rockies for the 6-15 day period. With no apparent increase in shares in the natural gas ETF, UNG, through today, we still have not seen any speculative interest in returning to this market. As a result despite escalating oil prices we would look for the natural gas futures market to remain trading water tomorrow in front of Thursday's EIA storage report, in probably lighter volume than recorded so far this week. We see support at \$3.721, \$3.656-\$3.41 and \$3.255. Resistance we see at \$3.917, \$3.969 and \$4.02. Additional resistance we see at \$4.167, \$4.20-\$4.234, \$4.338 and \$4.522.

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