



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR NOVEMBER 9, 2010

NATURAL GAS MARKET NEWS

The National Hurricane Center today was watching a nearly stationary low-pressure system in the Caribbean some 100 miles north of Aruba and Curacao. At the moment forecasts were assigning a very low probability, only 10% that this system, 93-L, could develop into a tropical cyclone in the next 48 hours. Computer models though do not show that this system if it develops would be a threat to the U.S. as it is expected to move northward eventually and then out into the Atlantic.

The NRC reported today that some 77,722 Mw of generating capacity was online today, down 1.1% from yesterday and 7.7% higher than the same day a year ago.

The EIA raised its estimate for domestic natural gas production in 2010, expecting total output this year to be up 2.5 percent from 2009 levels. In its November Short-Term Energy Outlook, EIA said it expected marketed natural gas production to be up 1.51 billion cubic feet per day in 2010 to 61.49 bcf. In 2011, EIA expects marketed gas production to slip 1.2 percent to 60.77 bcf per day, primarily due to a sharp decline in offshore Gulf of Mexico gas output. EIA said the bulk of the 2010 increase in demand was due to strong growth in the power generation and industrial sectors. Hot summer weather and relatively low natural gas prices drove power sector demand up by about 7.6 percent this year.

Chevron announced this morning that it was acquiring Atlas Energy for \$4.3 billion. This deal will not only continue to expand Chevron's share in the natural gas sector, but provide it with a foothold in the Marcellus Shale region, especially in southwestern Pennsylvania. Atlas Energy has drilling rights to some 486,000 net acres of the Marcellus Shale.

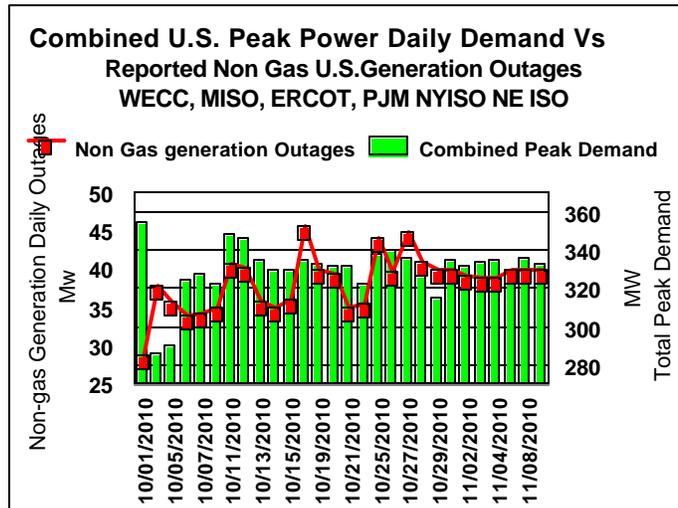
Qatari LNG vessels are expected to arrive in Britain and Belgium over the coming weeks. Onaiza (210,000 cubic meters), Al Mafyar (216,200 cubic meters) and Al Ghuwairiya (266,000 cubic meters) are expected to arrive at the UK's South Hook terminal on November 9, November 13 and November 16 respectively. Trinity Glory (154,200 cubic meters), Ejnan (145,000 cubic meters) and Al

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	784,100	\$3.763	\$0.269	(\$0.373)	\$0.250	(\$0.307)
Chicago City Gate	688,300	\$3.994	\$0.301	(\$0.142)	\$0.210	(\$0.178)
NGPL- TX/OK	670,500	\$3.647	\$0.277	(\$0.489)	\$0.186	(\$0.486)
SoCal	203,100	\$3.911	\$0.359	(\$0.225)	\$0.268	(\$0.355)
PG&E Citygate	900,100	\$4.518	\$0.379	\$0.382	\$0.288	\$0.201
Dominion-South	385,800	\$4.020	\$0.303	(\$0.116)	\$0.212	(\$0.157)
USTrade Weighted	22,380,200	\$3.922	\$0.341	(\$0.214)	\$0.25	(\$0.307)

Sheehaniya (210,000 cubic meters) are scheduled to arrive at Belgium's Zeebrugge on November 10, November 19 and November 25 respectively.

Two vessels are scheduled to arrive at the Britain's Isle of Grain's port—Maersk Meridian (166,000 cubic meters) from the US on November 18 and Maersk Marib (166,000) from Yemen on November 19-20. Al Gharrafa (216,000 cubic meters) is scheduled to arrive at Britain's Dragon port from Trinidad on November 12.

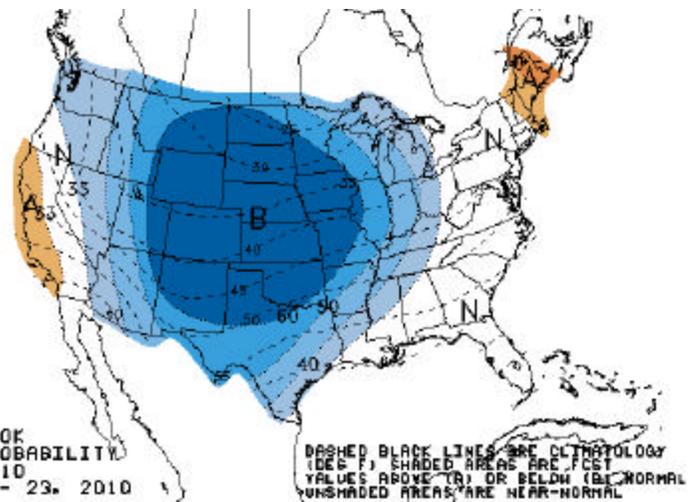
The International Energy Agency warns that a prolonged natural gas glut will hit efforts to develop renewables. Global oversupply of gas is set to rise above 200 billion cubic meters next year and capacity is likely to exceed demand for another 10 years, despite rising gas use. All IEA scenarios forecast gas demand will increase, but it said that demand would take until 2020 to absorb swelling global gas supplies, which are due largely to a surge in North American shale gas and LNG production. Qatar, the world's biggest LNG producer and exporter, said in early November it expected gas demand to match supply before the middle of the decade. Cheap gas makes more expensive low-carbon technologies less attractive for investors, unless governments offer large subsidies to encourage spending less economic green energy production.



Iraqi gas is unlikely to be exported to Europe via the planned Nabucco pipeline before 2020, London-based consultant Jennifer Coolidge said on Tuesday. European gas companies have been hoping to import gas from Iraq to allow them to diversify their sources of supply but political and logistic difficulties are likely to prevent this from happening quickly.

The US Environmental Protection Agency said on Tuesday it has issued a subpoena to Halliburton for not revealing information about liquids used in a natural gas drilling technique, called "fracking". In September, the EPA had asked nine companies that practice fracking to reveal the mix of chemicals they use in the drilling practices opposed by environmental groups worried about its effect on drinking water. All but Halliburton provided the necessary information, the EPA said. The technique extracts unconventional yet abundant reserves of shale gas, but homeowners near some shale field developments say fracking has made their tap water toxic for their families and in some cases flammable gases have escaped through their spigots. Halliburton said it has been working with the EPA on its request and it has provided some 5,000 pages of documents as of last week.

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ECONOMIC NEWS

The US Commerce Department said inventories at US wholesalers increased in September more than twice as much as expected. Wholesale inventories increased by 1.5% to a seasonally adjusted \$416.95 billion. Sales of distributors increased by 0.4% to \$353.88 billion.

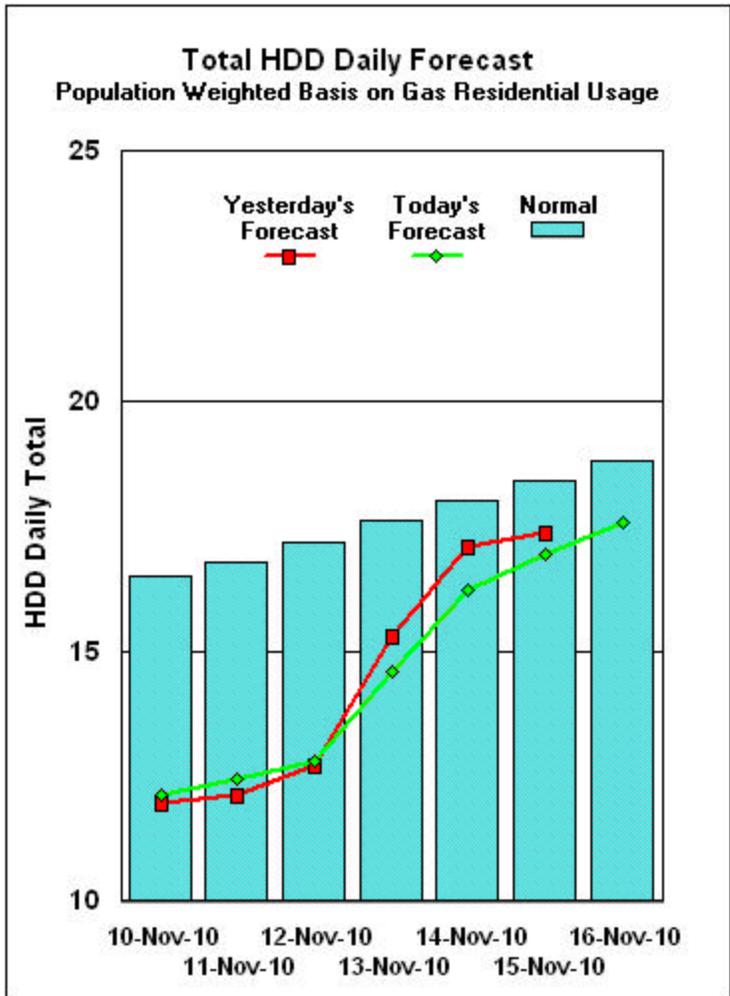
The US Labor Department said in its monthly Job Openings and Labor Turnover Survey that job openings fell by 163,000 to a seasonally adjusted 2.9 million. August job openings were downwardly revised to 3.1 million. In September, the job openings rate fell to 2.2% from 2.3% in August.

The National Federation of Independent Business said its small business index for October increased by 2.7 points to 91.7, the third consecutive monthly increase. It said small business owners continued to liquidate inventories and weak sales trends gave little reason to order new stock.

BarclayHedge said Commodity Trading Advisors saw global assets under management increase by 9% in the third quarter to \$245.9 billion from \$223.4 billion in the second quarter. It said the average CTA had returned 2.5% over the quarter while the largest CTAs had averaged a return of 3.7%.

ELECTRICITY NEWS

Coal stockpiles at US power plants rose 1.1 percent this week, but were 13 percent smaller than last year at this time. As of Monday, power generators—which rely on coal to fuel about half of the US electricity output—had 60 days of coal on hand, unchanged from last week. The week-to-week increase in stockpiles reflected the “shoulder season” build—a name inspired by a fever-line graph showing typically flat demand for power in fall as well as spring. The yearly change is a reaction to last year’s oversupply of coal as power demand fell in the recession. The overage has shrunk as buyers and sellers adjusted and the economy rebounded.



MARKET COMMENTARY

The promise for the this season’s first significant cold outbreak of below normal temperatures setting up across much of the nation for the 8-14 day period continued to propel the natural gas futures market higher. The futures market posted its fourth consecutive higher settlement today, an event not seen in the spot contract since the middle of September. Today’s rally helped the spot contract retrace basically 50% of its sell off from June through October. Volume for the day was brisk with the December contract trading over 143,470 lots, the best volume day since October 29th.

We remain skeptical that this cold outbreak will be long lasting as several long term forecasts that we have seen for week 3 and 4 have yet so show anything but basically normal temperatures expected for much of the nation, and given a storage level that will continue to grow over the next two storage

reports, it will leave the U.S. with more than ample stocks of natural gas even after a week of below normal temperatures in mid November.

As a result we continue to look to be a scale up seller of this market, and would also look to be an aggressive seller of the March-April 2011 spread, starting at a March premium of 5 cents over the April up to a 10 cent premium. This spread today reached a high of 4.6 cents and settled at 4.2 cents, levels not seen since late September.

A reminder that due to the Veteran's Day holiday on Thursday the EIA will release their storage report a day early, on Wednesday, November 10th at 12 noon EST. Current expectations are for a 20-25 bcf build. Stocks rose an adjusted 25 bcf for the same week a year ago while the five-year seasonal average reflects a 30 bcf build.



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