



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 MARCH 3, 2009

NATURAL GAS MARKET NEWS

WSI Corporation has issued its temperature outlook for March through May, calling for the three month period to average colder than normal across the northern half of the nation, with above normal temperatures in the South, especially Texas and the Gulf states. The forecaster said that these early warmer than normal temperatures will boost peak loads especially in ERCOT where scheduled generator maintenance will boost natural gas generator demand.

Raymond James analyst Marshall Adkins warned that the natural gas price "bloodbath is not over" and as a result he lowered his price outlook for this quarter to \$3.25 and for the whole of 2009 will average \$3.73 Mcf. He warned that prices in the third quarter of this year could fall to as low as \$2.50 Mcf. He also lowered his price outlook for 2010 by 25% and now expects prices next year to average \$6.00 mcf.

The GAO staff warned Congress Tuesday that as a result of sinking energy prices, oil and gas producers could begin to press the Department of the Interior for a new round of royalty relief, potentially cutting the revenue that the Obama administration is looking as an income stream. The Department of Interior raised royalty rates in 2007, as crude oil prices and natural gas prices soared.

Generator Problems

NPCC – OPG's 490 Mw coal fired Unit #5 at the Nanticoke power station returned to service by early Tuesday. The unit went off line on Monday. The company though reported that its 490 Mw coal fired Unit #7 returned to service. The unit went off line on February 26th.

MISO – FPL Group's 580 Mw Duane Arnold nuclear unit was shut early Tuesday after the unit failed to restart on Monday. The unit was at 8% of capacity on Monday.

The NRC reported this morning that 89,727 Mw of nuclear generation capacity was on line, down 0.1% from yesterday and up 2.6% from the same time a year ago.

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	1,078,100	\$4.434	\$0.078	\$0.212	(\$0.122)	(\$0.252)
Chicago City Gate	882,900	\$4.241	(\$0.160)	\$0.019	(\$0.253)	(\$0.075)
NGPL- TX/OK	792,900	\$3.462	(\$0.006)	(\$0.760)	(\$0.099)	(\$0.839)
SoCal	257,100	\$3.388	\$0.161	(\$0.834)	\$0.068	(\$0.939)
PG&E Citygate	567,800	\$4.299	\$0.053	\$0.077	(\$0.040)	\$0.016
Dominion-South	400,800	\$5.157	(\$0.503)	\$0.935	(\$0.596)	\$0.714
USTrade Weighted	16,701,000	\$4.237	(\$0.029)	\$0.015	(\$0.12)	(\$0.252)

But as prices have backslid, the GAO warned that some deepwater offshore projects become unprofitable with crude oil prices hovering near \$40.00 per barrel.

Centerpoint Energy Gas Transmission has executed a definitive agreement with Chesapeake Energy to transport Chesapeake's growing Haynesville shale natural gas production. The long-term forward

haul agreement provides for 230 million cf/d of transportation capacity when the pipeline company's Phase IV Line CP compression expansion goes into service, currently projected for April 2010.

Alberta's Energy Minister today said the province has softened its stance on royalty increases for oil and gas producers, offering a one year, 5% royalty rate on new oil and gas production and a royalty credit of C\$200 per meter drilled, based on 2008 production levels.

The National Association of Realtors reported that that its Pending Home Sales Index, based on contracts signed in January, plunged 7.7% to 80.4, the lowest level since the NAR started tracking sales in 2001.

The IMF said today that global commodity prices are unlikely to recover in the short term as global activity continues to slow.

Chevron's massive Gorgon LNG venture in Australia could cost as much as \$32 billion, an Australian official was quoted as saying today. Chevron is expected to make a final investment decision on the project by the middle of 2009. The Gorgon gas fields have certified gas reserves of over 40 TCF.

Goldman Sachs latest natural gas research report, while noting excess global supplies of natural gas will end up landing in the United States this summer, additional shut ins of domestic supplies of natural gas may not be needed to balance this market. The note that due in part to shrinking export markets for coal it will drive producers to restrict coal production and prompt some fuel switching to natural gas for electric generation, especially if natural gas prices remain at or below coal breakeven cash costs of around \$4.40 Mmbtu through the summer. Natural gas since mid-January has remained below coal generation costs especially in the eastern U.S.

Algeria said deliveries from its new Skikda LNG plant now are not expected to start until 2013, some two years later than the date originally expected. Officials said the plant is being built and is 20% completed, with procurement of 70% of construction materials accomplished as well. Algeria is building a 4.5 million ton per year facility to replace the export plants destroyed in an explosion in 2004. Algeria's Oil Minister said that bad weather on Algeria's coast in January and February meant that LNG and oil tankers could not be loaded for at least 35 days. Sonatrach was forced to invoke force majeure

Petrobras' new LNG terminal in Rio de Janeiro is expected to receive its first LNG cargo on March 11th. The cargo was believed to have originated from Trinidad & Tobago.

Investors and officials in the Adria LNG consortium said today that they are confident in securing a location permit early next year to build the Adriatic LNG terminal in Croatia. The facility could become operational by 2014 and have a capacity of up to 15 bcm of gas per year.

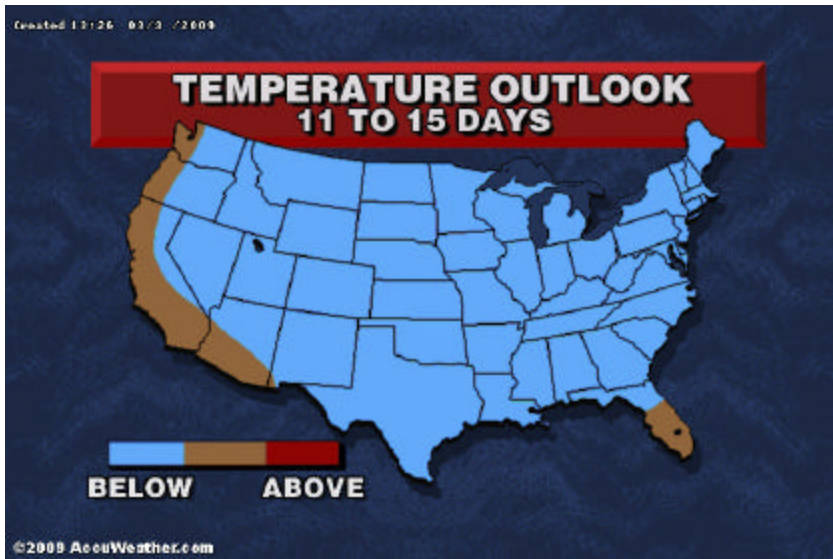
Iran's state gas exporting company said it was holding talks with Turkey to adjust the price of Iranian natural gas exports due to rising output costs. Iran delivers some 12-15 million cubic meters of gas per day to Turkey

Ukraine's Naftogaz said it has the money to pay Gazprom for its February supplies of gas, easing concerns of another gas dispute with Russia. Their payment is due to be made on Saturday.

InterOil Corp, operator of a proposed second LNG venture in Papua New Guinea, said it and venture partner Pacific LNG Operations have bought Merrill Lynch's 35% share in the Liquid Niugini Gas Ltd venture. The project is seeking to tap gas from the Elk and Antelope fields in the Gulf of Province to produce between 6-9 million metric tons a year of LNG at a capital cost of \$7 billion possibly by 2014.

PIPELINE RESTRICTIONS

NGPL said effective for today and until further notice, it will require in-path transportation for NSS storage withdrawals on the Gulf Coast System for northbound transports through Segment 27. ITS/AOR and Secondary out of path Firm transportation associated with NSS withdrawals will not be scheduled. The company also reported that effective today and until further notice Florida Vermillion is at capacity for deliveries. ITS/AOR and Secondary Firm transports are at risk of not being fully scheduled. The company also reported that effective today and until further notice Gulf South Goodrich is at capacity for deliveries. ITS/AOR and Secondary Firm transports are at risk of not being fully scheduled.



Iroquois Gas Transmission System said effective for today's gas day that due to colder weather and higher demand it is notifying point operators to adhere to their scheduled volumes. No due unscheduled shipper gas will be available.

FGT said that due to cold temperatures forecasted this evening for much of its service territory, the company was issuing an Overage Alert Day for today at a 25% tolerance.

PIPELINE MAINTENANCE

Sabine Pipe Line said it completed repairs at the Port Neches compressor and has lifted the resulting force majeure at its Jefferson interconnects with Houston Pipeline, KM Texas Pipeline and Tejas Pipeline issued February 25th.

Northern Natural Gas said the force majeure on the Matagorda Offshore Pipeline System remains in place as repairs continue on a 24-inch coupling that failed back on February 18th.

SoNat said it will be conducting maintenance at the Gwinville Compressor station for approximately four days. During this time flows through the station into the south mains could be impacted. The work could start either Wednesday or Thursday.

ELECTRIC MARKET NEWS

Members of the Northwest and Intermountain Power Producers Coalition today called on the FERC to prod BPA into acting to integrate the measures of FERC order 890, which involves pro-forma open access transmission tariff guidelines which would help in getting renewable energy generation sources such as wind connected to the grid..

Genscape reported that coal supplies at U.S. power plants rose 1.5% this week from last week and are 11.3% greater than the same time a year ago. Meanwhile data released today showed that U.S. auto sales.

A U.S. government official said today that initial draft guidelines for the development of "smart grid" technology to modernize electricity transmission across the nation may be available by the summer.

He noted that many of the standards will be set by the private sector, but the National Institute of Standards and Technology would help coordinate the process.

MARKET COMMENTARY

The natural gas market today was able to finish higher as heating demand over the next few days in the east was now seen will be even stronger than expected just a few days earlier. Also longer term forecasts those 11-15 days out, and even the next few months were seen as supportive for heating and cooling demand. But prices still could not break above yesterday's high and as a result posted an inside trading session today and should be seen as a potential warning flag that tomorrow could be an explosive and volatile trading session. While we continue to feel that this market will retest recent lows we would look for a technical spike higher as a potential selling opportunity. We would not begin being a scale up seller until prices reach the 50% retracement of February's sell off which stands at \$4.419. Additional resistance we see at \$4.538 (62% retracement) followed by 40 day moving average, which tomorrow will sit, around the \$4.60 level. The April contract has not been able to settle above the 40 day moving average since July of last year. Support we see at \$4.18-\$4.16 followed by \$4.13, \$4.079 and \$3.916. Longer-term price target would be the \$3.50 level.

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