



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR MARCH 17, 2010

NATURAL GAS MARKET NEWS

BofA Merrill Lynch in a research note today said that the weakness in U.S. natural gas prices would not dissipate anytime soon. As a result the bank lowered their 2010 price forecast by \$1.00 to \$5.00 per mmbtu. They noted that despite the recent sharp price declines, producers in some key shale plays have managed to remain profitable.

“Unless even lower prices force producers to slow down horizontal drilling, natural gas production could soon recover to last year’s levels.” The bank looked for rising imports coupled a sluggish demand recovery could also “weaken the balance this summer” with inventories likely to end the injection season at 3.7 tcf. They estimated that the break-even costs in the major shale plays are between \$1.50-\$3.00 per mmBtu.

Generator Problems

WSCC – TransAlta’s 406 Mw Sundance #4 coal fired unit was shut today.

ERCOT & SPP - Entergy’s 1207 Mw Grand Gulf nuclear unit was at 58% power down from 76% from yesterday.

The NRC reported that there was some 83,188 Mw of nuclear power generated today, down 0.2% from yesterday and 6.1% lower than a year ago.

Barclays Capital in a research report this week forecasts Canadian natural gas production will average 14.7 Bcf/d in 2010, down by 0.5 bcf/d from 2009 levels, as the number of rigs operating has dropped by 40%. The bank looks for Canadian exports to the United States which dropped by 1.2 bcf/d in 2009, will decline by an additional 0.8 bcf/d in 2010 to an average of 6.2 bcf/d.

Reuters reported today that the U.S. Cove Point LNG terminal is expected to receive a LNG cargo from Egypt shortly. Meanwhile the Elba Island terminal is expected to receive a cargo from Trinidad on March 24th, while the Everett terminal received a cargo on Tuesday

World Gas Intelligence reported that several pipeline companies are now proposing to reverse current southbound flows from Canada into the U.S. in order to move incoming and growing supplies of Marcellus Shale gas north into Ontario, Canada.

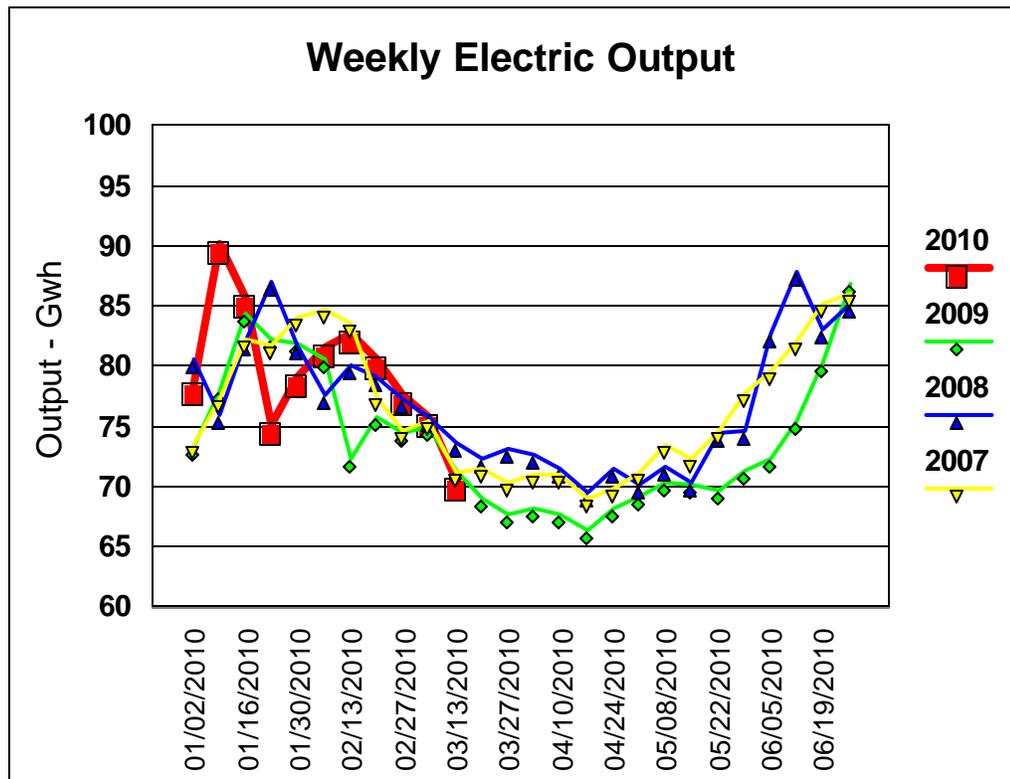
Energy Intelligence reported that partners in the Nord Stream pipeline have wrapped up the \$5.3 billion project financing deal with banks, enabling construction of the first of the 2.66 bcf/d twin pipelines to start next month. The gas that E.On would ship on the line by late next year will remain 100% oil-indexed.

The Deputy Chairman of Gazprom said this week he sees the Nord Stream pipeline system would be operating at full capacity “sooner rather than later”. He also thinks the oil and gas price equilibrium will be restored by 2012.

It appears that the six LNG cargoes slated to arrive in Britain over the next week should arrive without problem. The potential strike action at Milford Haven that would have disrupted tankers from berthing was canceled. The Arctic Lady LNG tanker, which had been due to berth at the Dragon terminal on March 21st, is no longer expected to dock within a week and may have been diverted to another market. Norwegian pipeline flows through the Langeled pipeline though were running at only 40 mcm/day versus a capacity of 70 mcm/day.

Spain's Iberdrola said it would supply about 1 bcm of LNG a year to the Danish utility company, Dong Energy for ten years starting at the end of next year. The agreement has an option for a five-year extension.

Germany's economic and foreign trade statistics office reported that German gas imports in January 2010 were some 15.3% higher than the same month a year earlier.



Reuters reported that the Costa Azul LNG terminal in Baja California, northern Mexico, is expected to receive a cargo of LNG from the Tangguh LNG plant in Indonesia.

Oman LNG said it plans to keep its LNG output steady at around 8 million tonnes annually for the foreseeable future, but is ready to utilize its spare capacity to increase production if market conditions warrant it. The country has 20% of spare production capacity.

TransCanada said it will hold a short-term firm transportation open season on March 18th through March 25th.

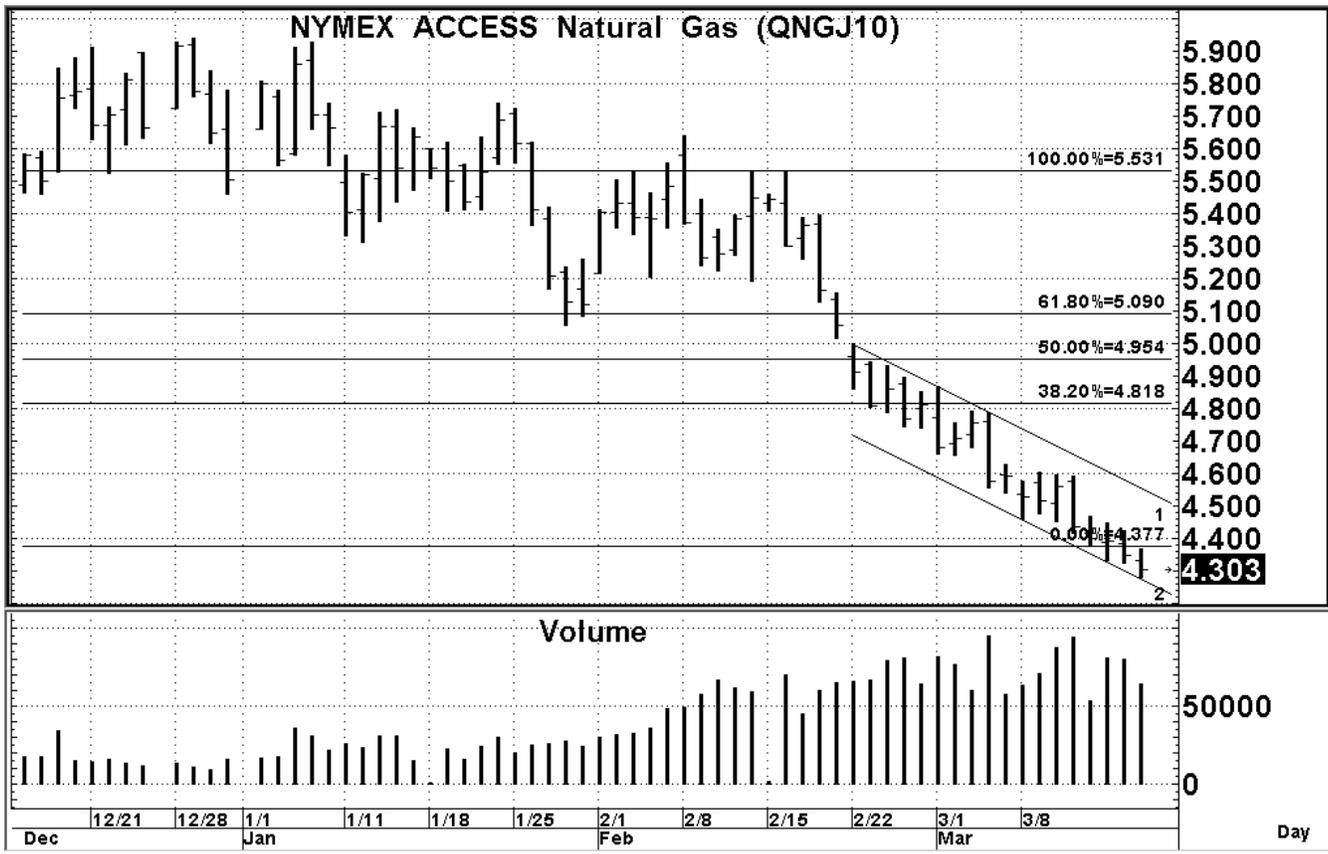
Tenaska Midstream Services said yesterday that it would team up with Superior Appalachian Pipeline to develop a 16-mile natural gas gathering line to serve an area of West Virginia. The line would be completed by the fourth quarter and would transport gas from wells in Preston County, West Virginia to Columbia Gas Transmission.

PIPELINE RESTRICTIONS

NGPL said that effective today and until further notice NNG Mills has capacity available for deliveries. Interruptible transportation service/authorized overrun and secondary firm transports are available.

TransCanada said that due to scheduled maintenance, available STFT capacity for the Foothills BC Pipeline may be limited at times from April through August.

Rockies Express pipeline said it is at capacity for deliveries through Segment 650 (Rock Springs to Wamsutter) effective March 17th and until further notice. Based on the level of nominations, authorized overrun/interruptible transportation and secondary out of path quantities are at risk of not being fully scheduled.



ELECTRIC MARKET NEWS

The Edison Electric Institute reported that power production in the continental U.S. for the week ending March 13th slipped to 69,785 Gwh, down 7.2% from last week and off 1.15% from the same week a year ago.

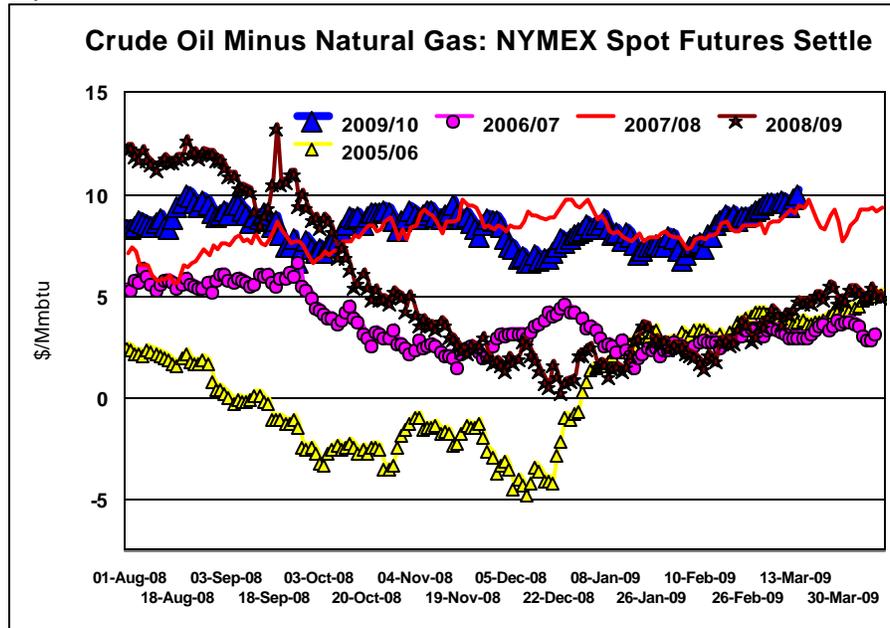
California energy regulators today approved the construction of the 200 Mw Canyon natural gas fired peaking power plant located near Anaheim. The \$200 million facility is expected to take 12 months to build.

Privately owned transmission developer TransWest Express LLC and the Western Area Power Administration are in talks to share ownership of Transwest's proposed four state transmission line. TransWest said it and the government agency are working on a partnership agreement under which Western would acquire a 50% equity stake in the 725 mile Transwest Express transmission project. The 600 kV direct current line would run from Wyoming through Colorado, Utah and Nevada. The project has a projected cost of \$2.6 billion. Environmental and regulatory approval could be completed by 2012.

The director of the New Jersey's department of Environmental Protection said today that New Jersey Governor Christie has decided to move the \$65 million from New Jersey's Global Warming Solutions Fund to Its General Fund. The money for the Global Warming Solutions comes from New Jersey's share of the quarterly auctions of permits allowing power plants to emit CO2 from the Regional Greenhouse Gas Initiative. This follows New York State decision last year to use \$90 million from its share of the RGGI auctions to help ease that state's deficit.

MARKET COMMENTARY

The natural gas market today again failed to find support from other markets, in particular the oil market. While crude oil surged back toward recent near term highs, following the heels of stronger equity markets, the natural gas market again set new contract lows in the April contract. This downward move once again came in the morning as the lower end of the trading channel was challenged only to find support and then seeing traders moving to the sidelines. Today also saw traders less than eager to establish new position in front of tomorrow's release of the latest storage report.



Market expectations for tomorrow's EIA Storage report is for a 25-30 bcf drawdown. For the same week a year ago stocks fell an adjusted 42 bcf while the five-year average decline for this week was a 65 bcf draw.

We continue to look for this market to post a technical corrective rebound. Basis the close tonight, the daily stochastics have moved into single digits while the 9-day RSI stood at 10.66 tonight clearly pointing to this market standing in an oversold

condition. We would look for significant support tomorrow to be found at \$4.248 followed by \$4.15, \$4.00 and \$3.822. Minor resistance we see \$4.36 followed by \$4.405 and \$4.442, with more significant resistance at \$4.528, \$4.60 at \$4.75 and \$4.90.

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