



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR AUGUST 27, 2010

NATURAL GAS MARKET NEWS

While both Danielle and Earl strengthened over night they both remained no threat to United States coast line. Forecasters though are watching Invest 97-L, a "vigorous" tropical wave accompanied with a broad low-pressure system centered some 200 miles south of the Cape Verde Islands. While there was little additional development overnight, the system is in a favorable area for further development over the next couple of days and as a result forecasters are assigning a 70% probability that a tropical depression will form in the area within the next 48 hours. While some computer models have this storm later next week catching up to Hurricane Earl and being absorbed or ripped apart by that system, other models such as the Canadian and European models are seeing this storm becoming a very powerful hurricane near the Bahamas in ten days and being a significant threat to the U.S. Southeast Coast for Labor Day weekend. In addition forecasters are noting that the European model is calling for more tropical waves to exit the West African coast and develop into tropical cyclones over the next 10 days or so. Given the high pressure ridge in place and favorable environmental conditions, it appears we could see a very active period for tropical cyclones developing around the Cape Verde Islands for the first ten days of September with multiple storms moving across the Atlantic at the same time.

Baker Hughes reported this afternoon that the number of rigs searching for natural gas in the United States this week stood at 973 rigs, down 12 from last week. Bu the number of horizontal rigs operating in the U.S. hit a record high for a fourth straight week, climbing by 9 to 904.

Generator Problems

NPCC – The twin 515 Mw nuclear units at the Pickering nuclear power plant were returning to service this morning.

Dominion's Brayton Point 1600 Mw coal fired power plant powered down Thursday and was running near 530 Mw on Friday.

SERC – Duke Energy's 846 Mw Oconee #3 nuclear unit ramped up by 77% from yesterday and was at 97% power this morning.

Santee Cooper's Cross 2416 Mw coal fired power plant tripped off line Thursday and was back at 69% capacity this morning.

Entergy's 1700 Mw White Bluff coal fired power plant was back on line Friday and running near 47% power.

FRCC - FPL's 693 Mw Turkey Point #4 nuclear unit was reduced to 40% power this morning. The unit had been at full power on Thursday.

MISO – Missouri River Powder Basin's 575 Mw coal fired Laramie River Station #1 ramped back on line overnight and is running near 250 Mw early Friday.

MidAmerican Energy's 1777 Mw coal fired Council Bluffs power plant powered down overnight and was running at 70% power this morning.

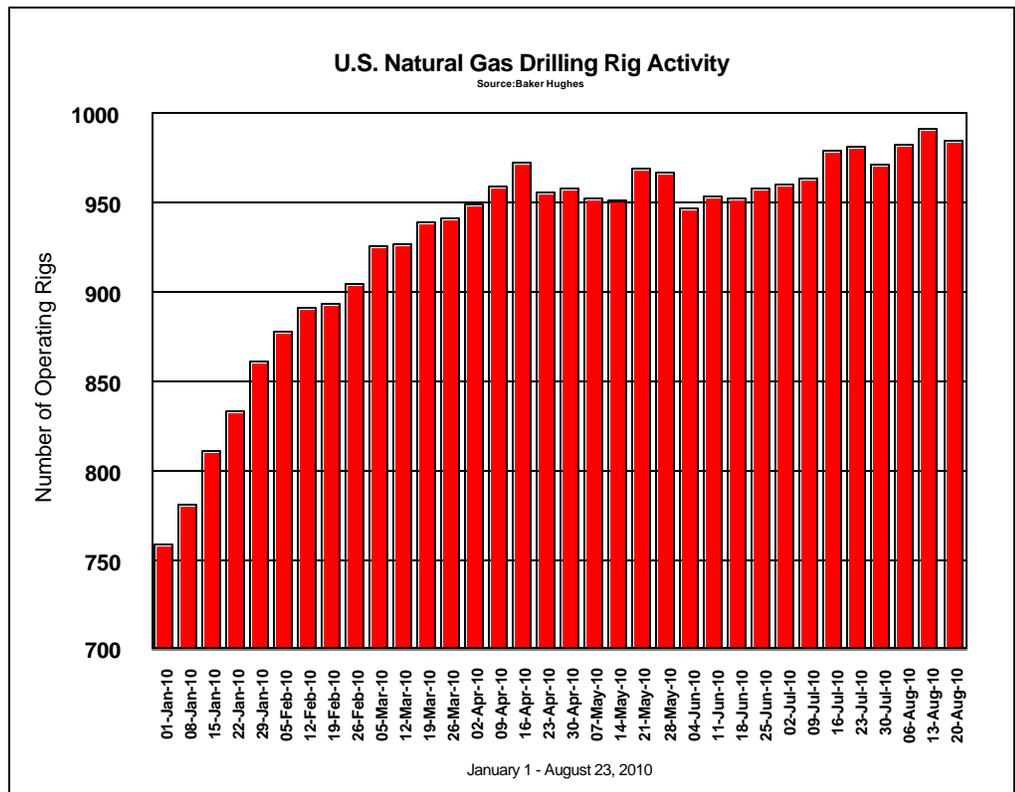
We Energies coal fired 2546 Mw Elm Road power plant powered down overnight and was back at 22% power this morning.

PJM – PPL's Montour 1642 Mw coal fired power plant powered down Thursday but was back at 46% capacity this morning.

ERCOT – Luminant's 568 Mw coal fired Unit #4 at the Sandow power plant, which was shut late Thursday for work on pollution control equipment, is expected to be restarted either late Friday or early Saturday.

The NRC reported this morning that some 95,801 Mw of nuclear generation was operating today, up 0.4% from yesterday and up 2% from the same day a year ago.

Centrica reported Friday that Britain's Rough gas storage site is so full that any shippers who have been storing on an interruptible basis must start withdrawing on September 2nd to make way for those with firm capacity rights. The facility was approaching 91% full on Friday.



Britain's St. Fergus Mobil facility was shut early Friday for planned maintenance, with flows dropping to zero from near 25 million cubic meters. Operations were expected to be restarted several hours later.

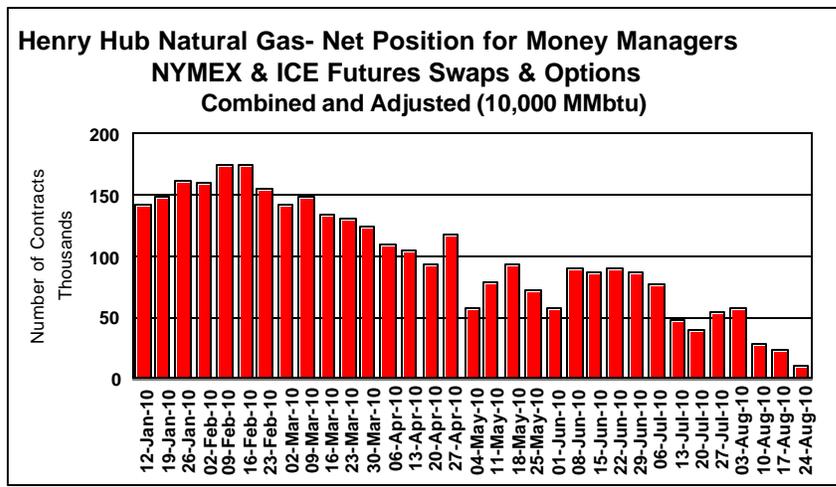
Norway said on Friday that oil and gas field development in the Sleipner area of the North Sea could lead to investments of \$12-\$16 billion with total new oil and gas

resources seen at 692 million barrels of oil equivalents.

State run Korea Gas Corporation announced today it is in the final stages of talks with Santos Ltd to buy LNG and purchase a 10% stake in Santos led Gladstone LNG project. The volume of the LNG purchase would be for more than 2 million tones per year. The final agreement is expected to be reached by the second week of September.

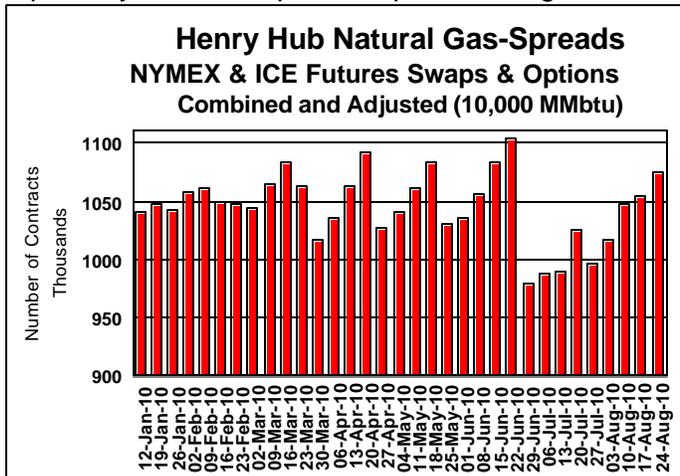
Norway scaled down the resource estimate for Shell's Gro discovery off of Norway, saying Friday that the gas resources were in the lower part of its previous estimate of 10-100 billion cubic meter range. Earlier estimates had point to this discovery as being one of the biggest finds off of Norway.

The Indian government reported today that natural gas production in the country reached 4.51 bcm in July up 20% on the year.



A Chinese news agency reported today that China was set to build a multimillion dollar research base on its east coast to facilitate its research and exploration activities in the deep ocean, to harvest rare metals and methane hydrates from the deep ocean floor.

Germany's RWE on Friday said it had signed a cooperation agreement with the Kurdish regional government in Iraq that included future gas supply for the Nabucco pipeline project. The agreement calls for up to 20 bcm of gas per year could be fed into the pipe for shipment westward. The deal reportedly would help develop and design domestic as well as export gas transport infrastructure.



Export revenues would be shared and available to the whole of Iraq, providing support for the country's reconstruction. The CEO of RWE said he hopes to reach a final agreement on planned supplies "very soon". The Nabucco Pipeline project, which would move gas from Turkmenistan, Azerbaijan and Iraq, has yet to reach a binding agreement with any of the potential supplies.

Gazprom said it expects demand for natural gas to reach pre-crisis levels again by 2012.

ELECTRIC MARKET NEWS

Genscape reported this morning that U.S. coal

use fell 3% this week from the prior week and was 7% below the rate recorded a year ago.

Greenpeace said today that China "urgently needs to reduce its dependency on coal" in order to resolve air pollution problems that are threatening its citizen health. China currently depends on coal to meet 70% of its energy needs.

ECONOMIC NEWS

The U.S. Commerce Department reported this morning that it has revised downward its estimate for 2Q2010 GDP by 0.8% to 1.6% growth. This was slightly less of a downward revision than what the market had been expecting. It appears the growth was dragged lower by the largest increase in imports in 26 years, as imports jumped by 32.4%, dwarfing the 9.1% increase in exports. The trade deficit sliced 3.37% of the GDP.

The U.K. economy expanded by a revised 1.2% in the second quarter, as the service and construction sectors gathered traction the government reported.

Federal Reserve Chairman Bernanke said today that the U.S. economic recovery has weakened more than expected and as a result the Fed is ready to take further steps if needed to spur slowing economic growth, but at this time FOMC has not decided on specific criteria or triggers for further action. He noted the central bank's purchases of long-term securities have been effective in lowering borrowing costs and that he believes the benefits of buying more such assets if needed would outweigh any disadvantages. He stressed that the high jobless rate remains a concern to policy makers and said the Fed would be vigilant against deflation, even though it currently is not a risk in the United States. He was confident that the U.S. recovery would not stall and noted that there appeared to be an upswing in consumer demand.

The Thomson Reuters/University of Michigan's Survey of Consumer Sentiment pulled back in late August from earlier in the month but still improved from late July. The survey's final August reading was at 68.9, but above the 67.8 reading at the end of July, which was the lowest level since November. The head of the survey noted that while an outright decline in consumer spending, on which 70% of the U.S. economy depends, is unlikely, the chances for a double dip recession is now "uncomfortably high" at 25%.

MARKET COMMENTARY

The expiration of the September futures contract saw the bears in total control. With the heart of the summer cooling season drawing to a close, the absence of any real threat to the Gulf of Mexico from hurricanes and the relative resiliency of gas drilling activity despite low prices, the bulls appeared unwilling to come anywhere close to this market. As a result gas futures plunged some 11.3% in value this week with the spot contract dropping over 10 cents in the final 30 minutes of trading this afternoon.

The outlook for the October contract next week will be dependent of weather. If in fact the tropics due heat up and the Gulf of Mexico does appear at risk, which we think it will for at least a short period of time, then prices will be able to stabilize and work back over the \$4.00 level but upside potential will be limited by the perception of the extent of the storm risk. We see support in October starting at \$3.697 followed by \$3.635-\$3.62, \$3.45, \$3.40 and \$3.25. Resistance we see at \$3.98-\$4.02, \$4.148, \$4.199, \$4.353 and \$4.508. We remain committed to holding the out of money calls.

This afternoon's Commitment of traders Report showed that hedge funds continued to liquidate their net length in the natural gas markets on both ICE and NYMEX for the week, dropping to their smallest net length for the year.

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