



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR SEPTEMBER 1, 2010

NATURAL GAS MARKET NEWS

While most media attention remained focused on Hurricane Earl, forecasters though were watching Invest 98-L, which this morning was some 800 miles west-southwest of the Cape Verde Islands and had officially become Tropical Depression Nine by mid morning. This storm system by this afternoon was upgraded yet again, this time becoming Tropical Storm Gaston, the seventh named storm of the season and the fourth tropical storm in the last eleven days. The model guidance as a whole is becoming more supportive that this could be a significant storm next week and a threat to the Lesser Antilles by later next week.

Russia said it would strike a deal this week to purchase more gas from Azerbaijan in 2011 and 2012 than previously agreed. In January of this year Gazprom said it was planning to buy 2 bcm of gas from the Azeri state energy firm in 2011. Deliveries this year is set at 1 bcm. Russia appears to be rushing to not only secure supplies for its planned South Stream Pipeline but also possibly limit the amount of gas that could be available for the competing Nabucco pipeline. But later in the day Azerbaijan said it expects to resolve all of its details on a supply deal with Turkey by the end of March 2011. Such a deal would go a long way in helping to supply the EU-backed Nabucco pipeline project. Officials said at that time three documents would be signed; one on the purchase and sale of

gas from Shah Deniz II, the second on a transit deal and the third on the price of gas from Shah Deniz I.

ELECTRIC MARKET NEWS

The Edison Electric Institute

Generator Problems

NPCC – NextEra Energy Resources Wyman 856 Mw oil fired power plant was shut down overnight.

PJM – Dayton Power's 690 Mw coal fired Killen Station ramped up overnight and was at 520 Mw on Wednesday morning.

SERC – TVA's Browns Ferry #1 nuclear unit returned to full power today up 13% from yesterday and only the second time it has been at full power since mid July.

MISO – MidAmerican Energy's 856 Mw oil fired power plant while trying to ramp back up Tuesday night was since shut down.

ERCOT – Luminant's 1980 Mw coal fired power plant powered down overnight and was running at 70% power this morning.

The NRC reported this morning that some 96,472 Mw of nuclear generation was operating today, up 0.1% from yesterday and up 2.4% from the same day a year ago.

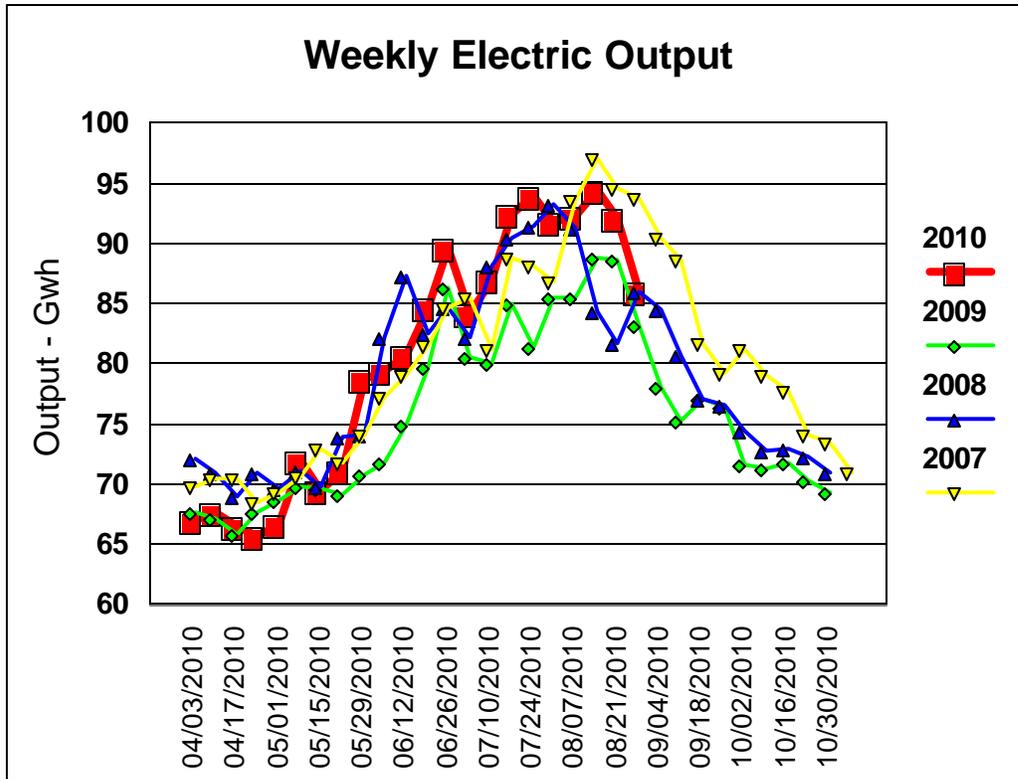
Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	796,600	\$3.730	(\$0.065)	(\$0.032)	\$0.046	(\$0.113)
Chicago City Gate	696,900	\$3.770	(\$0.038)	\$0.008	\$0.010	(\$0.020)
NGPL- TX/OK	664,700	\$3.654	\$0.004	(\$0.108)	\$0.052	(\$0.139)
SoCal	439,100	\$3.534	\$0.064	(\$0.228)	\$0.112	(\$0.290)
PG&E Citygate	1,046,000	\$3.711	\$0.099	(\$0.051)	\$0.147	(\$0.163)
Dominion-South	738,900	\$3.957	(\$0.053)	\$0.195	(\$0.005)	\$0.139
USTRade Weighted	23,944,700	\$3.705	(\$0.002)	(\$0.057)	\$0.05	(\$0.113)

reported that for the week ending August 28th it estimated U.S. power production to be some 85,804 Gwh, down 6.8% from the prior week but some 3.1% more then the same week a year ago.

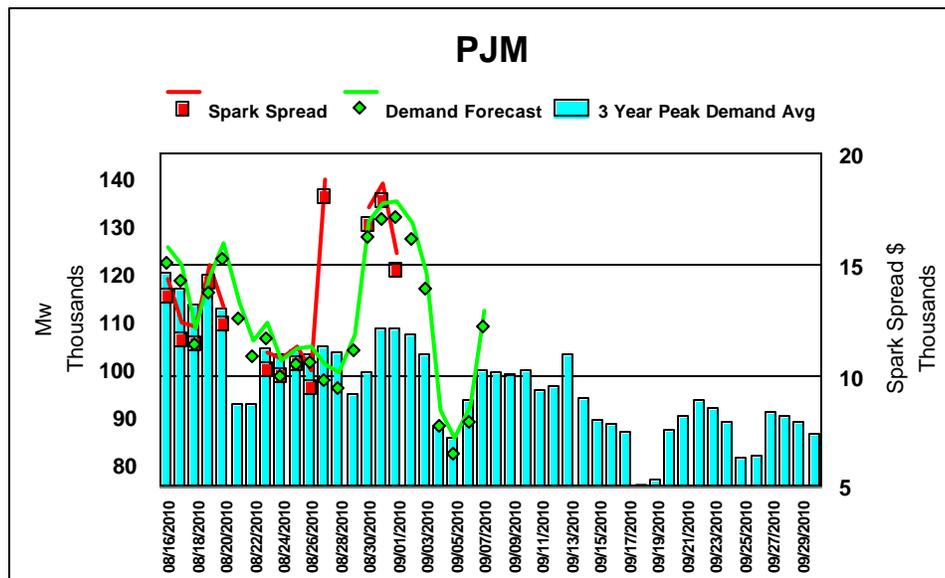
Operators at nuclear power plants along the eastern seaboard were keeping a watchful eye on the path of Hurricane Earl, but as of this time winds were not expected to be severe enough to prompt precautionary shutdowns.

ECONOMIC NEWS

According to ADP's national employment report, private sector jobs in the US fell by 10,000 in August compared with



expectations of job gains of 17,000. The estimated change in employment for July was revised to a gain of 37,000 from an increase of 42,000 initially reported. The August unemployment rate is projected to increase to 9.6% from 9.5% in July. The latest ADP report showed that large businesses with 500 employees or more added 1,000 new employees while medium sized businesses cut 5,000 workers in August and small businesses that employ fewer than 50 workers cut payrolls by 6,000. Friday's non-farm payroll report is expected to show a fall of 100,000 jobs in August.

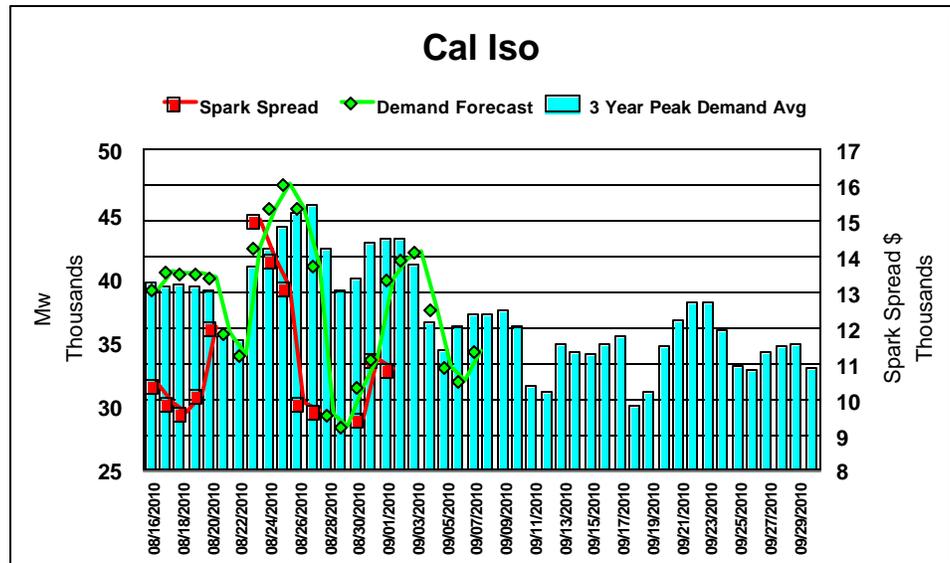


The US manufacturing sector grew more quickly than expected in August. The Institute for Supply Management manufacturing index increased to 56.3 in August from 55.5 in July. The report's employment component increased to 60.4 from 58.6 in July.

The Commerce Department said US construction spending fell in July to the lowest level in 10 years. Spending on construction projects fell by 1% to a seasonally adjusted annual rate of \$805.16 billion compared to the prior month. June spending was revised down, falling by 0.8% compared with an initial estimate of an increase of 0.1%. The report showed that spending on US residential projects fell by 2.5% to \$250.52 billion after falling by a revised 1.6% in June.

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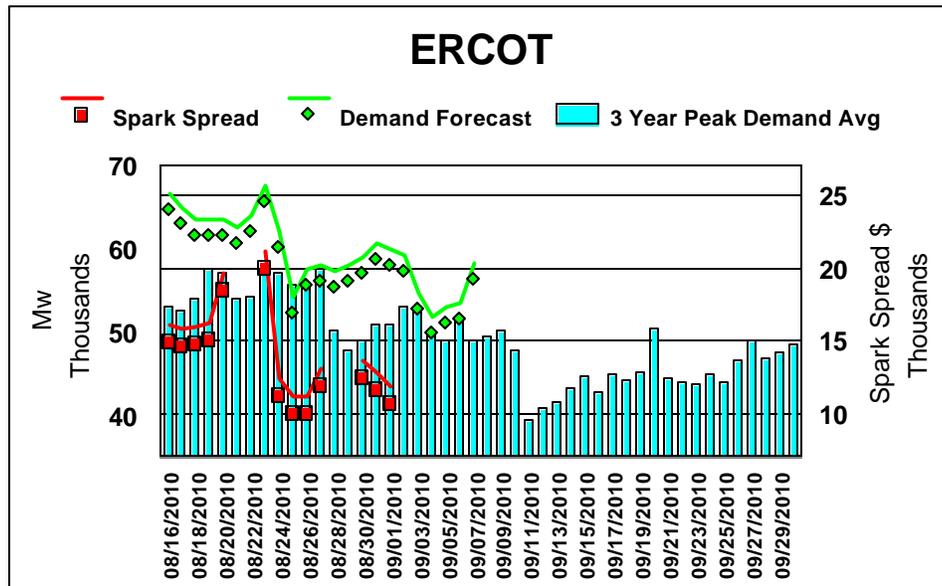
Growth in Britain's manufacturing sector slowed more than expected in August, led by the weakest expansion in new orders for more than a year. The Markit/Chartered Institute of Purchasing and Supply Manufacturing PMI fell to 54.3 in August, down from a downwardly revised 56.9 in July. Britain's manufacturing new orders index fell to 52 in August, down from 58.5 in July.



China's manufacturing sector had a moderate rebound in August after slowing for several months amid government measures to rein in credit and deter property speculation. HSBC's Purchasing Managers' Index increased to a three month high of 51.9 in August from 49.4 in July. China Federation of Logistics and Purchasing's PMI increased to 51.7 from 51.2.

MARKET COMMENTARY

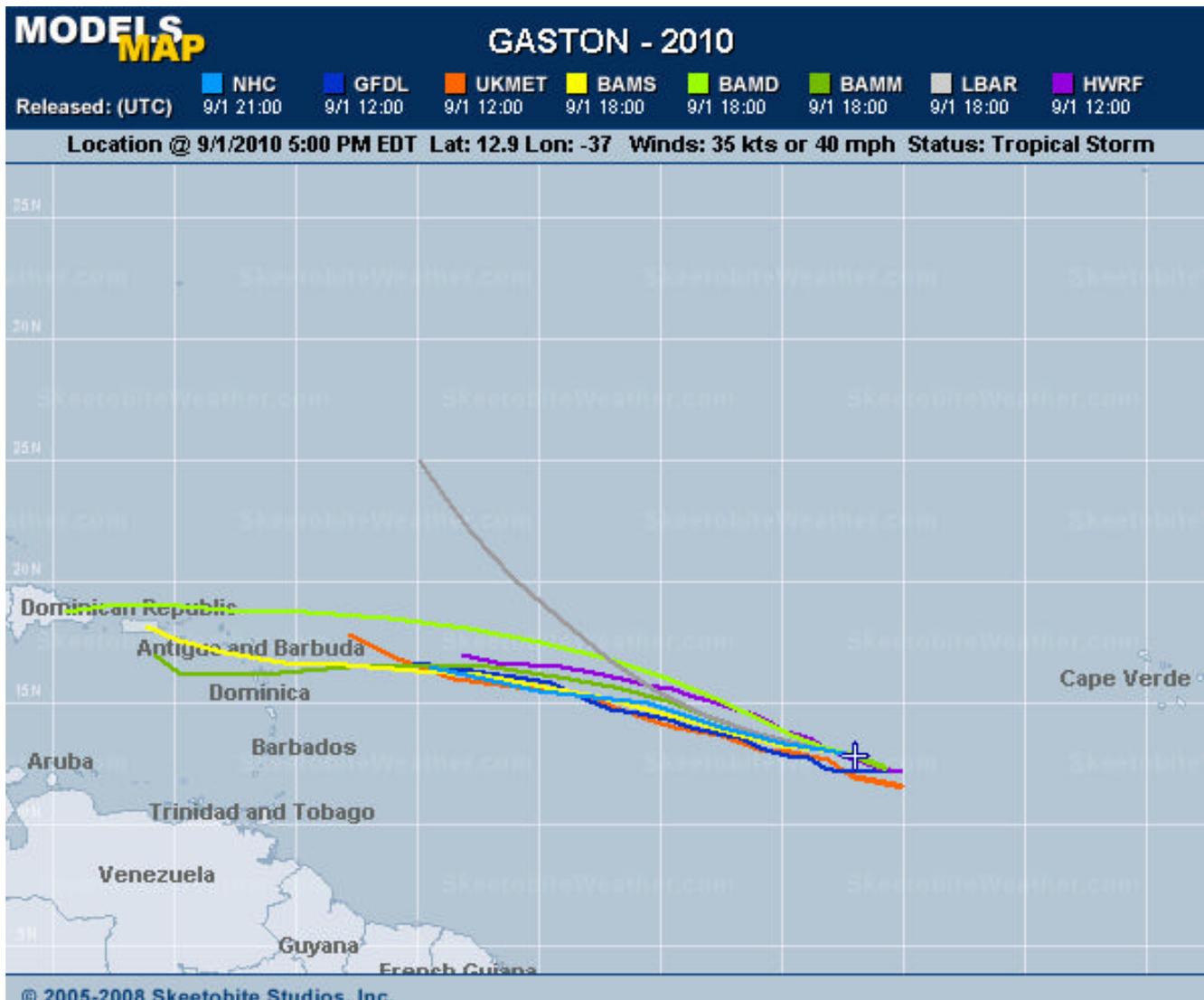
The natural gas market settled lower today as the next day cash markets appeared to stabilize and or move slightly lower today as power generation needs began to back off from high levels in both ERCOT and PJM as temperatures began to moderate and we approached the slack demand period of the holiday weekend. October futures continued to remain boxed in the sideways trading range of the past four days of strong resistance at \$3.878-\$3.883 and a floor of \$3.708-\$3.693. Despite this uninspiring trading range, and being the day before the storage report, the October contract today



posted surprisingly strong volume today with over 120,000 lots booked via Globex. This may possibly be explained by some book squaring in front of the holiday period as some traders looked to clean up positions before leaving early for an extended holiday weekend.

Market expectations for tomorrow's EIA storage report appear to be running between 40-60 bcf build with most estimates centered around a 52-54

bcf increase. Stocks a year ago rose an adjusted 64 bcf for the same week while the five year seasonal average is for a 62 bcf build.



We continue to look to the tropics as a more of a key to break this market out of its near term trading range than tomorrow's storage report. With the prospects of Tropical Storm Gaston headed toward the central Caribbean next week, we may finally see a tropical threat to the Gulf of Mexico for the first time in a month. As a result we would be surprised if many traders did not want to scale back some of their short positions before going home for a long holiday weekend. Some evidence of this approach may be found today in the October-January natural gas spread traded for much of the day above yesterday's levels and settled higher for the first time in six trading sessions.

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