



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR SEPTEMBER 2, 2009

NATURAL GAS MARKET NEWS

Tropical Storm Erika continued to be the focus for weather forecasters at the National Hurricane Center. The storm this morning seemed to be a bit disorganized as the vertical wind shear increased earlier than expected and as a result forecasters were struggling to pinpoint the center of the storm. The track of the storm at midday was shifted a bit further south of the morning's track forecast and by this evening the track was again shifted southward. But as the day progressed forecasters saw the storm weakening especially over the next five days, and by this evening forecasters were calling for the possibility that wind shear in the area could actually dissipate the storm as it passes by Hispanola. The two tropical waves further out in the Atlantic appear to be restrained in further development by wind shear conditions and some dry dusty African air as well.

Generator Problems

WSCC – Energy Northwest's 1131 Mw Columbia nuclear power unit rose to 24% capacity this morning as the unit returned to service from a four week unplanned outage.

SPP – Entergy's 995 Mw Unit #2 at the Arkansas Nuclear One power station was shut. The unit had been at full power on Tuesday.

NPCC – OPG's 515 Mw Pickering #8 nuclear unit was restarted this morning. The unit had been off line since August 31st.

SERC – Duke Energy's 846 Mw Unit #1 at the Oconee nuclear power station was shut this morning. The unit had been at 93% capacity yesterday.

The NRC reported this morning that 94,200 Mw nuclear generation capacity was on line, down 1.8% from yesterday and up just 0.8% from the same time a year ago.

Reuters reported that the BG Group LNG tanker, the Methane Princess was expected to arrive at the Elba Island LNG terminal from Egypt on Thursday.

The EIA said today that it plans to expand the data it reports on energy markets as it seeks to boost transparency in oil and gas trading. The plan calls for the EIA to improve its oil and gas price forecasts by collecting and using more market data, including data obtained from financial regulators.

The Commerce Department reported this morning that new orders received by U.S. factories in July while increasing for the fourth consecutive month, rose a smaller than expected 1.3%. While aircraft orders jumped 18.5% in July, when transportation was excluded, factory orders actually would have fallen 0.7%.

ADP Employer Services reported that according to its data, U.S. private employers cut 298,000 jobs in August, fewer than a revised 360,000 jobs lost in July. But this report was much larger than market expectations of just a 250,000 job reduction.

The CME today warned that merging of regulations between the CFTC and SEC into a "single set of one-size-fits-all rules administered by separate agencies will do substantially more harm than good."

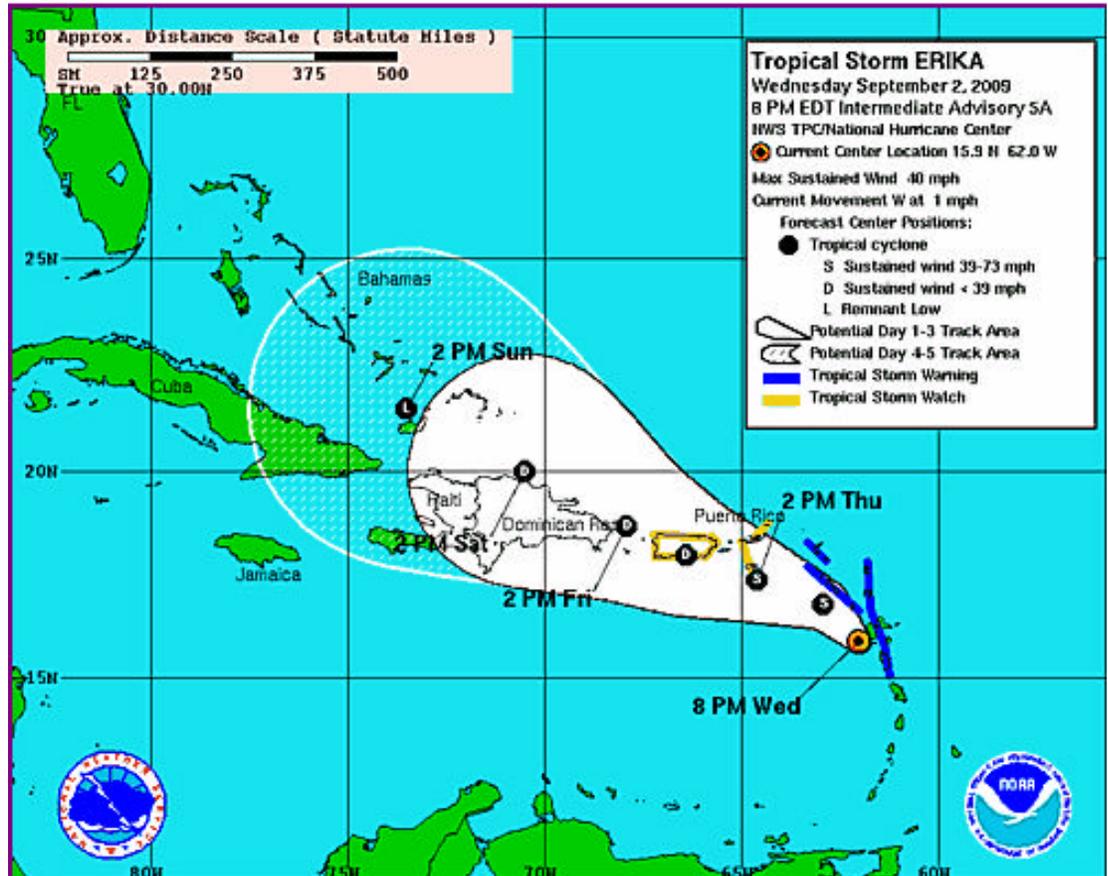
The CFTC announced today that the agency would begin implementing its new commodity market transparency efforts on Friday as it disaggregates the data in its weekly Commitments of Traders Reports and will begin releasing, on a quarterly basis, data collected from an ongoing special call on swap dealers and index traders in the futures markets.

BP announced today that it has made a “giant” discovery of oil and gas in the Lower Tertiary trend near the Kaskida discovery. The prospective field, Tiber, is some 250 miles southeast of Houston and is in waters some 4,132 feet deep. The test well was drilled to a depth of almost 31,000 feet. The company though still will need to conduct further tests to confirm that the field will be commercially viable.

Sonatrach’s Berge Arzew LNG tanker arrived at the Isle of grain terminal on Wednesday.

Gazprom said today that the Ukraine has pumped 25 billion cubic meters of Russian gas into storage this summer and as a result should be able to ensure uninterrupted gas supplies to Europe this winter.

Meanwhile the Ukrainian energy company, Naftogaz said it expects to hike its tariff for the transit of Russian gas to Europe by 57-60% in 2010.



Russian natural gas production rose 4.7% in August versus July. Production though is still 10% less than in August 2008.

Reuters reported that Japan’s TEPCO and Chubu Electric have bought at least four spot cargoes of LNG from Sakhalin for September, as a result of planned maintenance at their nuclear power plants.

PIPELINE MAINTENANCE

Gulf South Pipeline said it will be performing its storage inventory verification test at its Bistineau Storage facility beginning October 12th and running through October 22nd. During this period, physical injections and withdrawals at the facility will not be available.

TransCanada said that ongoing second investigation of the NPS 20 Peace River Mainline has been further extended and is expected to be completed by September 3^d. During this investigation, the Segment 1 capability is restricted to 3500 MMcf/d or 92% of capacity.

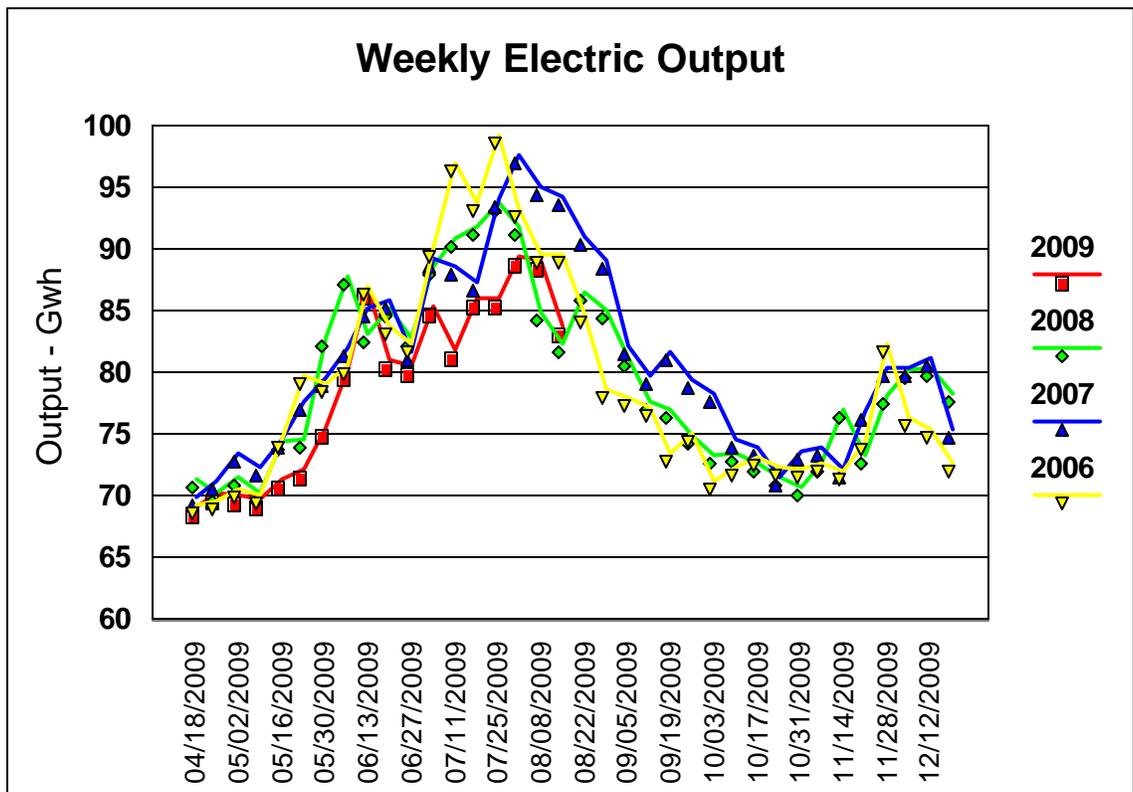
ELECTRICITY NEWS

The Edison Electric Institute reported that for the week ending August 29th, U.S. power production stood at 83,129 Gwh, down 6.1% from the prior week and was some 3.3% less than the same week a year ago

MARKET COMMENTARY

The natural gas market while attempting to bounce back this morning supported by a stronger oil market following the release of a supportive oil inventory report, could not hold onto the gains and was back in negative territory by the afternoon, as the outlook for Tropical Storm Erika being a threat to the US Gulf was rapidly diminishing. In addition the negative economic news on the day also weighed on prices and as a result natural gas futures settled lower for the fifth consecutive trading session, with the October contract settling below the \$2.75 level for the first time and as a result placing the nearly 16,000 lots of the \$2.75 October puts in the money. While this market appears extremely oversold technically

given the daily stochastics in single digits and the 9 day RSI down to a low of 13.7, this market could still find additional downside pressure if the \$2.50 price level is challenged given there is nearly 35,000 October \$2.50 puts open as of the close Tuesday.



Market expectations for tomorrow's EIA natural gas storage report appear to be running between a 55-75 bcf build with most traders looking for a 65-67 bcf build. A build of 70 bcf or more we feel will in fact drive this market lower to test the \$2.50 level, especially if the oil market does not post a dramatic rally tomorrow.

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