



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR SEPTEMBER 4, 2009

NATURAL GAS MARKET NEWS

Tropical Storm Erika overnight was quickly downgraded all the way down to just an area of low pressure. While the shower and thunderstorm activity with the remnants of the storm had increased this morning, upper level winds remain unfavorable for the re-development of this system. Forecasters were now turning their attention to a broad area of low pressure associated with a tropical wave located near and to the south of the Cape Verde Islands. The system continues to move westward at 10-15 mph.

Baker Hughes reported that the number of drilling rigs searching for natural gas in the United States for the week ending September 4th stood at 701, up 2 rigs on the week.

Gazprom confirmed that the Ukraine has paid in full for Russian gas delivered in August.

The BBL gas pipeline from the Netherlands to Britain was expected to be restarted Saturday morning. The line has been offline since August 31st due to unplanned maintenance.

E.ON Ruhrgas one of the partners in the Nord Stream gas pipeline said this week that support for the line remains strong and it expects the consortium to remain on scheduled for planned construction once the final approvals from the Swedish and Finnish governments are received by the end of this year. The pipeline is expected to begin construction in the summer of 2010 and the first tranche of gas should begin to flow by October 2011.

The U.S. Department of Labor reported this morning that a lower than expected 216,000 non-farm jobs were lost in August, while the unemployment rate rose to a 26 year high of 9.7%. Manufacturing sector lost 63,000 jobs, with a total of 2 million lost since the start of the recession. The service sector on the month saw a loss of 80,000 jobs while the construction sector lost 65,000 jobs. Education and health sectors saw an increase of 52,000 jobs.

PIPELINE RESTRICTIONS

Generator Problems

WSCC – Energy Northwest's 1131 Mw Columbia nuclear unit was at 49% of capacity up from 23% on early Thursday.

NPCC – OPG's 490 Mw Nanticoke #2 coal fired power plant returned to service Friday morning after a four day outage.

OPG's 515 Mw Pickering #6 nuclear unit was shut early Friday.

FRCC – Fpl's 839 Mw St Lucie #1 nuclear unit was at 99% power this morning, up 14% from Thursday.

SPP & ERCOT – AEP's 528 Mw Welsh #3 coal fired power plant was expected to be taken off line for maintenance work on Friday.

SERC – Duke Power's 846 Mw Oconee #1 nuclear unit was at 87% capacity early Friday, after being off line earlier this week.

The NRC reported this morning that 95,366 Mw nuclear generation capacity was on line, up 1.2 unchanged from yesterday and up 1.6% from the same time a year ago.

NGPL said that effective for gas day September 4th and lasting until further notice, Louisiana Line Segments 23,24 and 25 has capacity available for eastbound transports.

PIPELINE MAINTENANCE

Midcontinent Express Pipeline said it will be performing a cleaning pig-run from the Centerpoint Delhi Interconnect to the MEP mainline through Segment 160. Effective for gas day September 22nd, Segment 160 will only be available for receipts at the Centerpoint Delhi Richland location. Deliveries to the Centerpoint Delhi Richland will not be scheduled.

Gulf South said it would begin scheduled maintenance on unit #2 at the Bistineau Compressor Station beginning the morning of September 8th and lasting for three days. Injection capacity could be reduced by as much as 100,000 Dth.

CIG said it has extended the outage of one unit at the Elk Basin Compressor Station to September 11th. The unit was taken out of service August 21st for an unexpected repair.

ELECTRICITY NEWS

Genscape reported that U.S. coal consumption at U.S. power plants during the past week fell 8% from the previous week and was 11% less than the same week a year ago. The reported noted that 17 coal fire plants were off line this week versus only 4 plants last year at this time. Genscape noted that low priced natural gas is cutting into coal usage after August in which hot weather and economic upticks led generators to restart coal plants.

The EIA reported late Thursday that U.S. coal production for the week ending August 29th reached 21.536 million short tons up 1.2% from the prior week but down 8% from the same week a year ago. Year to date production is some 6.3% less than a year ago.

MARKET COMMENTARY

The natural gas market while tumbling to a new low of \$2.409 prior to the opening of the floor was able to finally settle higher for the first time in seven trading sessions. The market appears to have finally found its long awaited technical bounce from its extreme oversold condition. Prices posted their strongest gains since August 3rd. But while the futures markets were posting a price bounce today the underlying cash market was heading in the opposite direction. The spot Henry Hub price fell 23 cents today and finished the day at \$1.83, the lowest spot cash price since December 2001. While we feel the supply overhang in this market will continue we would not be surprised to see some addition follow through to this technical inspired rally, but without some stability and uplift in the cash market, these gains could be short lived. We would look for initial resistance in the October futures on Monday at \$2.778 followed by \$2.814, \$2.892 and \$3.006. More distant resistance we see at \$3.178 and \$3.415. Support we see next week at \$2.511 followed by today's low of \$2.403. Additional support we see at \$2.39, \$2.295 and \$2.18.

We would hold the option play we recommended from yesterday, being long the January \$5.00-\$7.00 call spread, but given the current weakness in the cash market will may well have a chance to add to this position on further future declines.

The CFTC released their Commitment of Traders reports today and it included their new breakdown for the report which sorts out the producer/merchant/processor, swap dealers, managed money as well as non-reportable positions. Unfortunately the CFTC has yet to release back data on the new categories nor did it release the data on the NYMEX Henry Hub Swaps. But basis the combined options and futures natural gas contract the break down is as follows:

It appears that the new report's managed money and other reportables easily and directly adds up to the old non-commercial number, but the new report's producer/merchant and swap dealers category does not at all add up to the old commercial category levels.

NYMEX Natural Gas Futures and Options						
For the Week Ending September 1, 2009						
Total Open Interest 950,785 Contracts						
	Long	Short	Spreading	% Long	% Short	% Spreading
Producer/Merchant	113,607	111,706		11.9	11.7	
Swap Dealers	122,777	90,399	136,366	12.9	9.5	14.3
Managed Money	133,925	189,856	229,319	14.1	20.0	24.1
Other Reportables	29,443	51,415	91,751	3.1	5.4	9.6
Non Reportables	93,597	49,973		9.8	5.3	
Commercial	372,750	338,472		39.2	35.6	
Non-Commercial	163,368	241,270	321,070	17.2	25.4	33.8
Non-Reportable	93,579	49,973		9.8	5.3	

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