



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR SEPTEMBER 8, 2009

NATURAL GAS MARKET NEWS

While Tropical Storm Fred in the eastern Atlantic is expected to become a hurricane within the next day or two, it does not appear to be a threat as it is expected to curve northward and remain out at sea. The computer models though this morning are warning of the potential formation of some type of tropical development in the western Gulf of Mexico later this week and into this weekend. The latest model guidance has a low-pressure system forming in the western Gulf Thursday evening or Friday morning, with the system moving northward into eastern Texas or the Louisiana coast late this weekend.

Bentek released a report on Friday that said industrial demand for natural gas in the United States is showing signs of improvement, but a full recovery to pre-economic recession levels is not expected until the third quarter of 2011. Bentek said its survey showed demand by August had increased by 10% from the lows recorded in May. This August demand gain was the most significant for any month this year and came from increases in demand from the chemical, metals, ethanol, fertilizer, farm tap, lumber and wood and textile industries. Even with demand improvement for the remainder of the year, the company still looks for 2009 will average some 1.2 bcf/d less than a year ago.

Jordan Cove Energy Project LP and Pacific Connector Gas Pipeline LP have called on the FERC to approve their requests for certificates to build the LNG import terminal and associated pipeline facilities. The

Generator Problems

NPCC – Bruce Power's 750 Mw Unit #4 nuclear unit was taken off line Saturday and remains off line this morning.

OPG shut two 490 Mw coal fired units at the Nanticoke power station. Units 5 and 8 were shut.

OPG's 515 Mw Pickering #6 nuclear unit returned to service today. The unit had been shut on Friday.

OPG's 494 Mw Lambton #3 coal unit was taken out of service today while Unit #1 was returned to service.

PJM – Exelon's 1140 Mw Peach Bottom #2 nuclear unit was at 90% capacity this morning down marginally over the Labor Day weekend. The unit is coasting down to a planned September 12th refueling outage.

MISO – Xcel Energy said its 538 Mw Prairie Island #2 nuclear unit was at 94% capacity this morning down 6% from Friday.

SPP & ERCOT –Luminant's 750 Mw Martin Lake #2 coal fired unit was expected to be taken off line for tube leak repairs this afternoon. The unit is expected back in service by the morning of September 11th.

SERC – Duke Energy's 846 Mw Oconee #1 nuclear unit was back to full power this morning. The Unit had tripped off line back on September 2nd and was restarted last week and was at 87% power on Friday.

Duke Energy's 1100 Mw McGuire #2 nuclear unit was shut early Monday for scheduled refueling. The unit had been at 89% power on Friday.

FRCC – FPL's 864 Mw St Lucie #2 nuclear unit was at 76% capacity this morning down 24% from yesterday.

WSCC – Energy Northwest's 1150 Mw Columbia nuclear generating station was at 85% power up from 49% level recorded on Friday.

The NRC reported this morning that 94,611 Mw nuclear generation capacity was on line, down 0.8 unchanged from Friday and off 0.5% from the same time a year ago.

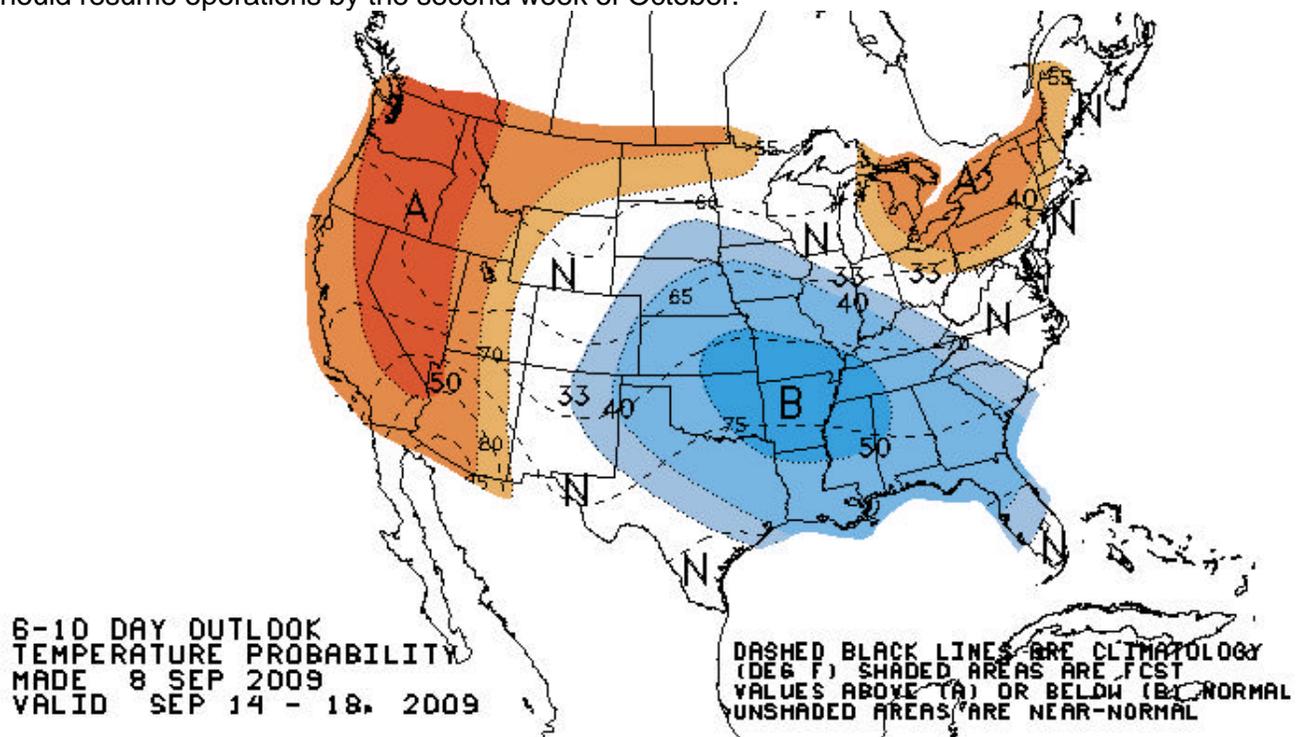
companies said the delay in receiving the necessary approvals is threatening the project's viability.

Qatargas has begun LNG output at its Train 5 production facility the company reported today. They said its Train 6 would begin operation in 2010. Train 5 will have 7.9 million tones per annum capacity. The Qatari oil minister today said Qatar is ready to divert cargoes of LNG from the U.S. market if prices there are too low. He said that they have retained that right to divert cargoes in their supply contracts.

Repsol's Bilbao Knuttsen LNG tanker is expected to arrive at the Canaport LNG terminal in New Brunswick from Trinidad on September 16th. This would be the fifth cargo to head to Canaport since it began operations in June.

Two LNG tankers are scheduled to berth at South Hook on September 10th and September 14th. Both vessels are carrying LNG from Qatar.

The Indonesian Oil Minister said today that trial runs at the second LNG train at the Tangguh project began last week. He also noted that the first train which has been down for unscheduled maintenance should resume operations by the second week of October.



The Chinese Shanghai LNG project is expected to receive its first cargo of LNG from Malaysia around September 20th.

An Iraqi government official warned today that the multibillion-dollar deal between Royal Dutch Shell and the Iraqi government to jointly develop gas infrastructure in Iraq's south could be delayed until after the January elections.

PIPELINE RESTRICTIONS

El Paso Natural Gas said the probability of declaring a strained operating condition or critical operating condition has been set too high due to a high line pack condition.

CGT has issued a system wide OFO for September 8th due to high inventory. The company set a 5% tolerance.

ELECTRICITY NEWS

Genscape reported that coal supplies at U.S. power plants this week were up 0.8% from last week and were some 27.3% above year ago levels. This supply currently covers 66 days of forward supply.

U.S. power output in the week ending September 3rd fell 6.7% from the previous week and was 5.5% less than the same week a year ago Genscape estimated today. The company said that weather and the economy were the reasons for the decline.

MARKET COMMENTARY

The natural gas jumped higher this morning supported by strong commodities values in the oil and precious metals markets as the U.S. dollar weakened significantly. But despite two price rallies the natural gas market was unable to maintain all of its gains from the morning, as cash prices continued to lag the futures markets as well as temperature outlooks that continued to restrict power demand especially east of the Mississippi for the next couple of weeks. But the market did finish the day higher for the second straight trading session.

Technically this market could see resistance tomorrow at \$2.893 followed by \$3.007. More significant resistance we see at \$3.178 and \$3.415. But we feel the continued over supply of this market, as judging by the lag of the cash market and the lack of a storm threat makes the October contract ripe for another test of the \$2.50 level before its expiration. Thus feel we would be a scale up buyer of the October \$2.50 put. Support we see at \$2.734-\$2.705 followed by \$2.649, \$2.623 and \$2.592.

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