



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,
& Karen Palladino

(212) 624-1132 (888) 885-6100

www.e-windham.com

NATURAL GAS & POWER MARKET REPORT FOR SEPTEMBER 16, 2010

NATURAL GAS MARKET NEWS

Tropical Storm Storm Karl crossed the Yucatan Peninsula and is now in the Bay of Campeche and by midday had strengthened into a hurricane. Forecasters look for the storm to strengthen further over the next 24 hours and is seen making landfall on the mainland of Mexico south of Tampico as an upper level Category 1 or possible low end Category 2 hurricane, late Friday night or early Saturday morning.

The NRC reported this morning that some 94,325 Mw of U.S. nuclear generation capacity was online this morning up 0.7% from yesterday and 7.2% higher than the same time a year ago.

EIA Weekly Report

	09/10/2010	09/03/2010	Change	09/10/2010
Producing Region	1010	974	36	1108
Consuming East	1766	1712	54	1870
Consuming West	491	478	13	471
Total US	3267	3106	161	3449

*storage figures in Bcf

Private weather forecaster EarthSat at midday today released a forecast that calls for a tropical system to form in the eastern Caribbean over the next five days and tracks westward and becomes a hurricane in 6-10 days. Its long range forecasting

models have this storm moving into the Gulf of Mexico in the 11-15 day period as it becomes an intense hurricane before making landfall in on the east coast of Louisiana. The forecasting group though did assign a low level of confidence for the forecast. This forecast appears to be based on the GFS model. Other models though assign a much slower intensification of this potential system. Many forecasters though continue to look for tropical activity to remain elevated and the threat to the U.S. coastline high as we go into October.

Canadian Gas Association

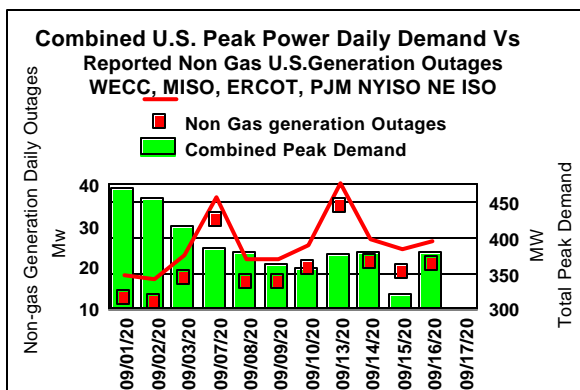
Weekly Storage Report

	10-Sep-10	03-Sep-10	11-Sep-09
East	193.6	185.4	227.4
West	367.7	359.7	343.3
Total	561.3	545.1	570.7

storage figures are in Bcf

The National Weather Service said today that it expects above normal temperatures for a wide swath of the U.S. from the desert southwest across the central U.S. and into the inland Northeastern U.S. for the October through

December period. For the December through February period forecasters see the south central part of the nation warmer than normal with the major heating areas of the Midwest, Great Lakes and Northeastern U.S. near normal.



The energy hedge fund Sandridge Capital, which trades the natural gas market predominately, reportedly saw a 7% gain in August after reporting heavy losses in the prior two months, an investor told Reuters today. Despite its August success, the fund reportedly was still down 17% for the year, with funds under management

reportedly dropping to \$700 million at the end of August, down from \$1 billion in mid-June. According to Hedge Fund Research, energy hedge funds in general were up 2.4% in August and overall up 1.3% for the year.

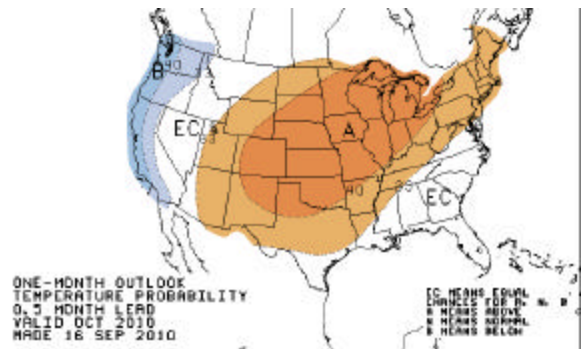
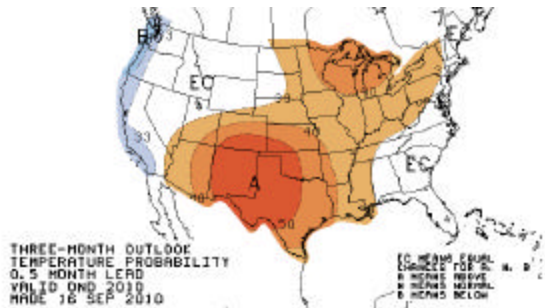
Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	809,900	\$4.090	\$0.029	\$0.029	(\$0.064)	(\$0.024)
Chicago City Gate	636,800	\$4.129	\$0.005	\$0.068	(\$0.064)	\$0.033
NGPL- TX/OK	608,200	\$4.016	\$0.011	(\$0.045)	(\$0.058)	(\$0.069)
SoCal	797,000	\$4.041	\$0.039	(\$0.020)	(\$0.030)	(\$0.076)
PG&E Citygate	798,900	\$4.273	(\$0.017)	\$0.212	(\$0.086)	\$0.191
Dominion-South	398,000	\$4.189	(\$0.009)	\$0.128	(\$0.078)	\$0.095
UTrade Weighted	19,166,900	\$4.058	\$0.005	(\$0.003)	(\$0.06)	(\$0.024)

Ukraine's foreign minister today called for Russia to scrap its planned South Stream gas pipeline, which would move gas supplies bypassing the Ukraine, saying

the line is not economically justified and thus would impact European customers by higher prices and also cost Russian taxpayers. Not surprising the Ukraine again called for a more cost effective solution which would be the modernization of the Ukraine pipeline network, possibly done via a joint venture with Russian investors.

The CEO of Noble Energy said today that permits for well completions in the Gulf of Mexico have been very hard to obtain from the federal government, and he expects the process to remain very slow for the remainder of the year. The company said that even if the drilling halt is lifted in November, it does not expect to restart its exploration program in the Gulf

until later in 2011.

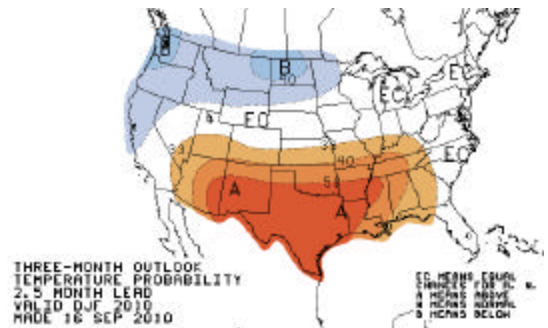


Chesapeake Energy's CEO said the company is still investing heavily in leasehold and the company expects to strike a joint venture deal for its Eagle Ford acreage in the next 30 days.

Reuters reported that spot prices of LNG in Asia rose some 50 cents over the last week as a result of Japanese buyers actively seeking to replenish stocks, which had been drawdown as a result of a long hot summer. Prices were reportedly running near \$9.00 per mmbt for late October delivery and as a result will continue to draw spot cargoes eastward.

Energy consultant Ed Kallio said today that gas shales may provide 24-25 bcf/d of natural gas production by 2020 with the Marcellus Shale yielding 5 bcf/d.

The Simaisma LNG tanker is expected to arrive at Belgium's Zeebrugge terminal on September 28th. The 145,000 cm tanker reportedly is coming from Qatar.



ECONOMIC NEWS

The Federal Reserve Bank of Philadelphia said mid-Atlantic manufacturers saw activity contract slightly in September. It reported that its index of general business activity for factories in its district moved to -.07 from -7.7 in August after it was at 5.1 in July.

The US Labor Department said initial claims for unemployment benefits unexpectedly fell in the week ending September 11th. Initial claims fell by 3,000 to a seasonally adjusted 450,000, the lowest since the week ending July 10th. Analysts had expected claims to increase to 460,000 from the upwardly revised level of 453,000 during the previous week. The four-week moving average fell by 13,500 to 464,750. The number of continuing claims fell by 84,000 to 4,485,000 from the preceding week's revised level of 4,569,000. The unemployment rate for workers with unemployment insurance in the week ending September 4th was 3.5%, down 0.1% from the prior week's revised rate of 3.6%.

The Labor Department also reported that US producer prices increased for the second month in a row in August as energy costs increased. The Producer Price Index increased to a seasonally adjusted 0.4% for finished goods in August from July. In July, wholesale prices were up 0.2%. The report showed that for the 12 months ended in August, the producer price index increased by 3.1%, slowing down from a 4.2% annual rise in July. Energy prices increased by 2.2% in August.

The Commerce Department said the current account deficit for the second quarter widened to \$123.3 billion from a revised \$109.2 billion in the first quarter.

CONTRACT	SETTLE	EST. VOL	PRIOR SETTLE	PRIOR VOL
LNV10 P3500	0.0077	22758	0.0121	4700
LNV10 P3750	0.0369	12574	0.0517	1425
LNV10 C4300	0.0609	5800	0.0455	75
LNX10 P3500	0.0316	4600	0.0379	2950
LNX10 P4000	0.1513	4550	0.17	2400
LNX10 C5000	0.0544	4295	0.0511	800
LNX10 C4500	0.158	3550	0.1451	950
LNV10 C4250	0.0742	3380	0.0561	825
LNH11 P3500	0.084	3275	0.0829	2000

MARKET COMMENTARY

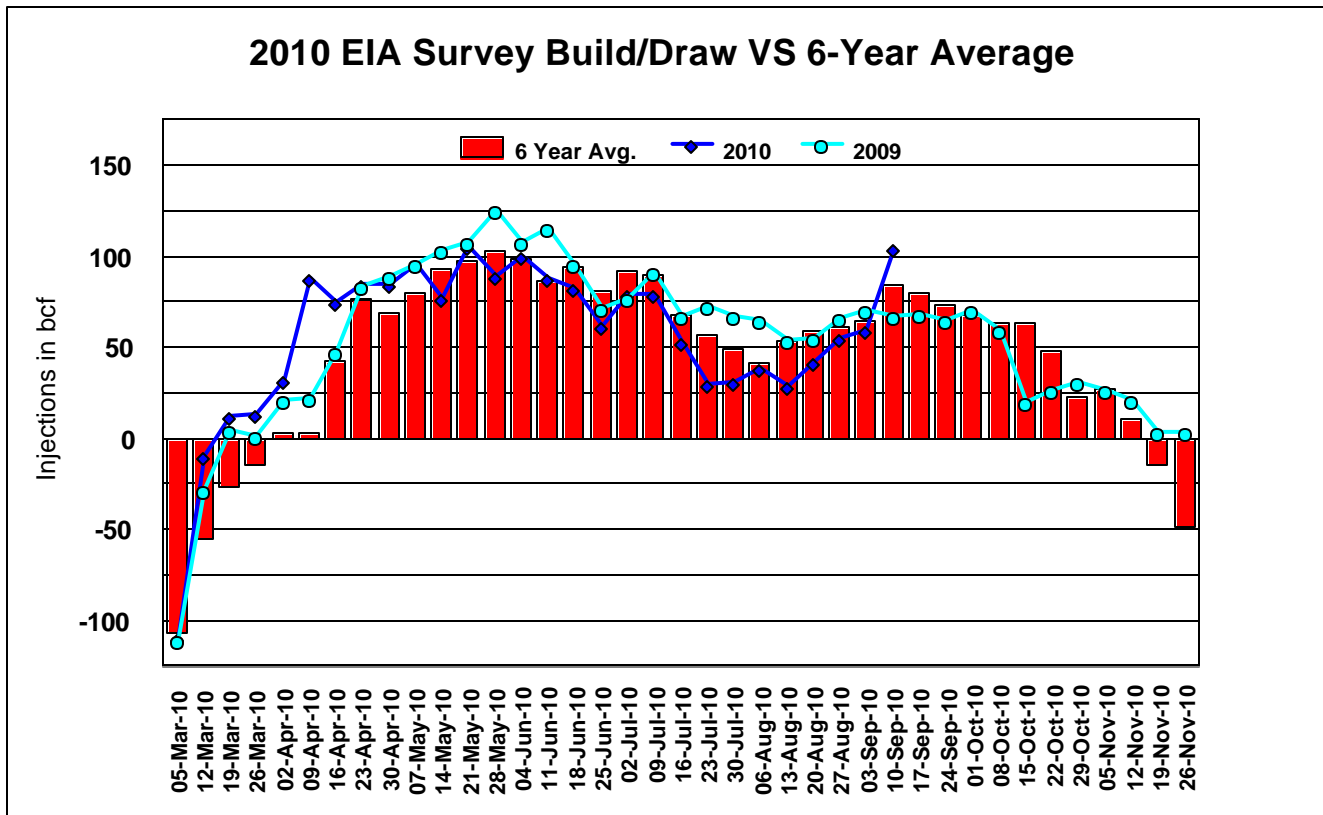
The natural gas market this morning once again was flirting with the \$4.00 price level as cash prices remained firm as power demand took a slight uptick today while non-gas generation outages also increased. But with the release

of a bearish weekly EIA storage report at mid-morning, the market quickly tumbled lower finding support around the lows recorded on Tuesday. But at midday when private weather forecaster, EarthSat, notified its clients that it saw the possibility of an "intense" hurricane could find its way into the Gulf of Mexico in 11-15 days and actually make landfall on the eastern Louisiana coast, prices quickly rallied, triggering stops and prices rallied nearly 30 cents in just two hours. The October contract saw values not seen since August 23rd as it settled above the \$4.00 price level finally for the first time, since that trading session. Volume today was outstanding as the October contract saw volume some 66% higher than Wednesday's recorded volume, as over 201,000 futures in just the spot contract traded today. Option activity was also stunning today as over 153,000 lots traded versus just 63,300 booked yesterday. The October \$3.50 and \$3.75 puts were the most active natural gas options trading 22,758 and 12574 lots respectively.

Today's wild price action also sparked a dramatic jump in trading interest in the March 2011-April 2011 spread. The spread which had dropped to a new low of only 4.5 cents, turned quickly on a dime with the release of the weather forecast and rallied back up to 9 cents before settling at 8.6 cents a level not seen since late August. Volume in the spread basis Globex trading was over 7900 lots, some 175% more than recent average daily volume in this spread.

It appears to us the recent movement of the hedge funds into a net short position in the natural gas market has made this market extremely jittery towards any bullish news, such a major hurricane potentially threatening the market. It stuns us that this market is that sensitive to a forecast of a storm that has not even formed yet and would still be 14-15 days away from making landfall, not the most reliable forecast we have ever seen. Even the private weather forecasting service making the call,

assigned a low level of confidence in their own forecast. But this shows to us one can not attempt to pick the top of this market by selling futures but rather only can look toward the purchase of puts as the safest path to follow until the hurricane season dies down. We would look for any further rallies to



provide a buying opportunity to purchase November \$4.00 puts on a scale down basis one they fall below 10 cents in value. Tonight these settled at 15.13 cents. We see resistance tomorrow in the October contract at \$4.144 followed by \$4.196, \$4.219 and \$4.352. Additional resistance we see at \$4.507. Support we see at \$3.976, \$3.923, \$3.882-\$3.871 and \$3.758. More significant support we see at \$3.70-\$3.69 and \$3.50

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