



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR SEPTEMBER 21, 2010

#### NATURAL GAS MARKET NEWS

The National Hurricane Center this morning announced that Tropical Storm Lisa had formed. Forecasters look for the system to move slowly westward but will pass through relatively dry area and cooler water temperatures that will limit intensification process for the next several days, and as a result will likely keep it at tropical storm strength. Forecasters were also watching an area of showers and thunderstorms over the Windward Islands and the southeastern Caribbean Sea that are associated with a tropical wave. As the system moves westward over the next 48 hours, the probability of it becoming a tropical cyclone at 60%. But

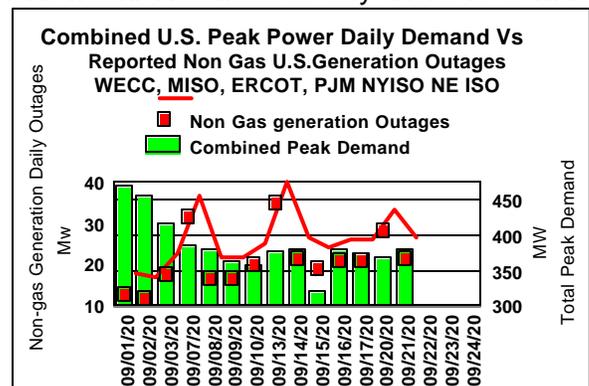
The NRC reported this morning that some 92,142 Mw of U.S. nuclear generation capacity was online this morning down 0.5% from Monday but some 9.6% higher than the same time a year ago.

| 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                | 463,000       | \$3.953   | (\$0.052) | \$0.036                | (\$0.112) | \$0.015                |
| Chicago City Gate        | 738,800       | \$3.954   | (\$0.056) | \$0.037                | (\$0.135) | \$0.092                |
| NGPL- TX/OK              | 637,700       | \$3.854   | (\$0.037) | (\$0.063)              | (\$0.116) | (\$0.016)              |
| SoCal                    | 523,900       | \$3.987   | (\$0.018) | \$0.070                | (\$0.097) | \$0.036                |
| PG&E Citygate            | 726,600       | \$4.188   | (\$0.019) | \$0.271                | (\$0.098) | \$0.262                |
| Dominion-South           | 558,500       | \$4.061   | (\$0.027) | \$0.144                | (\$0.106) | \$0.173                |
| USTRade Weighted         | 19,307,800    | \$3.931   | (\$0.033) | \$0.014                | (\$0.11)  | \$0.015                |

forecasters believe this system could be a tropical storm by the end of the week. Currently the long range GFS model has this system moving into Central America and then turning

northeastward early next week and eventually tracking over Cuba and the Bahamas, while the Canadian model has the storm tracking into Central America and then moving slowly up to the Yucatan before moving back into the Gulf of Mexico next week. Needless to say there is a wide divergence in track forecasts.

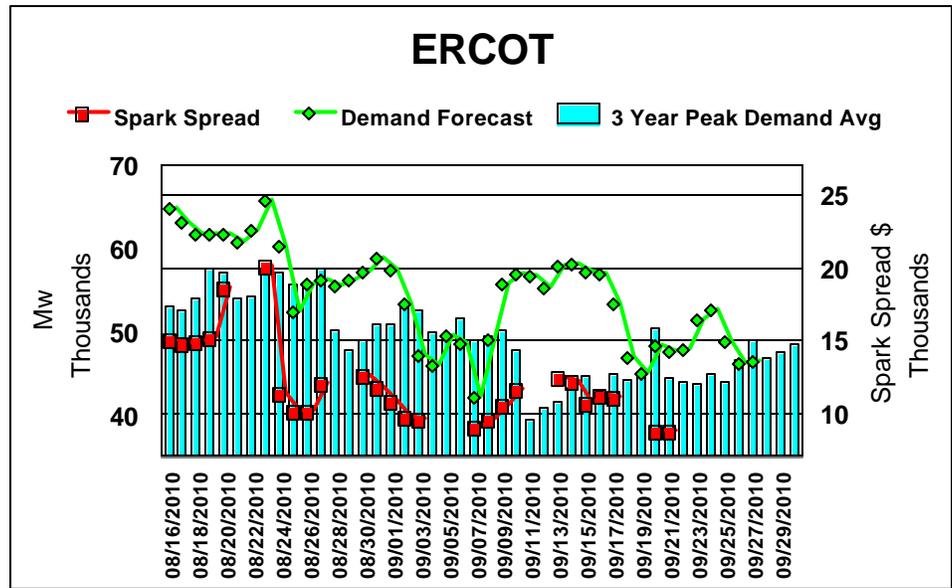
The European Parliament today supported new rules on the security of gas supply for members. The rules will seek to reduce the vulnerability to future disruptions and boost infrastructure development at national and EU level. The law calls for EU countries to have emergency plans to face possible sudden gas shortages. It would also grant the commission stronger coordinating powers in case of an emergency across the EU, which would be declared at the request of at least two member countries. The law seeks to increase investments in the gas infrastructure to make sure of the capacity to flow gas among EU countries to offset disruptions.



Russia's Deputy Prime Minister said today that China and Russia have again failed to agree on a gas supply deal and may not reach a deal until next year. The stumbling block remains the price parameters of the deal.

**ELECTRIC MARKET NEWS**

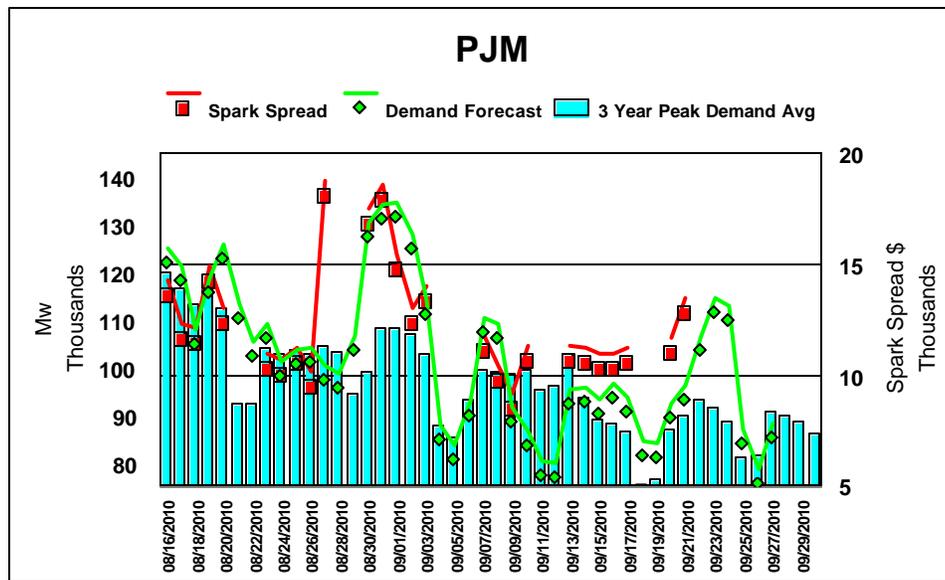
Genscape reported today that coal stockpiles at U.S. power plants rose 1.1% for the current week versus the prior week, but were 20.5% less than the same time a year ago.



U.S. Senators Brownback, Bingaman, Drogan, Udall and Collins are introducing a bill to require U.S. utilities to generate 15% of their power from renewable resources such as wind and solar by 2021

**ECONOMIC NEWS**

The US Commerce Department said US housing starts unexpectedly increased by 10.5% in August to a seasonally adjusted annual rate of 598,000. Economists had expected overall housing starts to fall by 0.2% to 545,000 in August. It revised down July's figure to 541,000 from 546,000. Single family housing starts increased in August by 4.3% to an annual rate of 438,000 while building permits increased by 1.8% to a seasonally adjusted annual rate of 569,000.

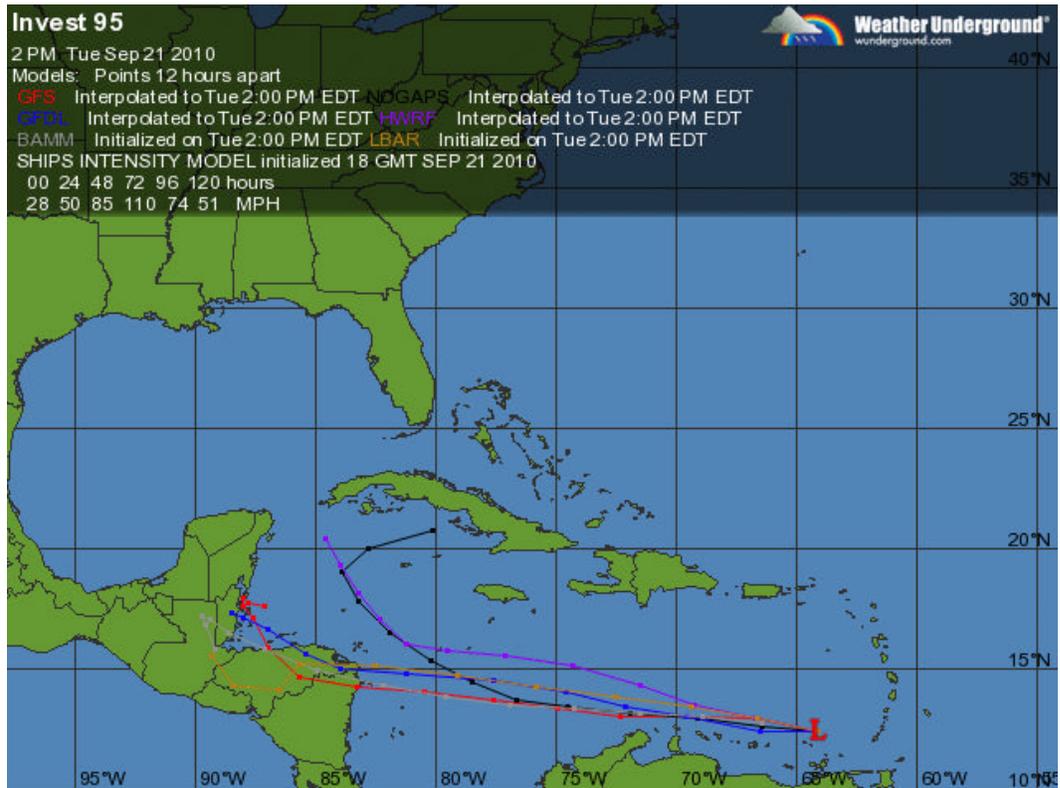


The Federal Reserve signaled that it is uncomfortable with the recent very low levels of inflation and said they expect the economy's recovery from a deep recession to be modest in the near term. It however deferred taking any new

steps to increase the recovery. The fading boost from the fiscal stimulus and growing business uncertainty about taxes and regulation are expected to stimulate growth. Fed officials reaffirmed they expect short term interest rates to remain close to a record low close to zero for an extended period due to low inflation and high unemployment.

Commodity Futures Trading Commission chairman Gary Gensler said it will propose new rules for derivatives clearinghouses and set a deadline for firms to report their swap trades. At a meeting scheduled for October 1<sup>st</sup>, the commission will vote on proposals to implement the over-the-counter derivatives

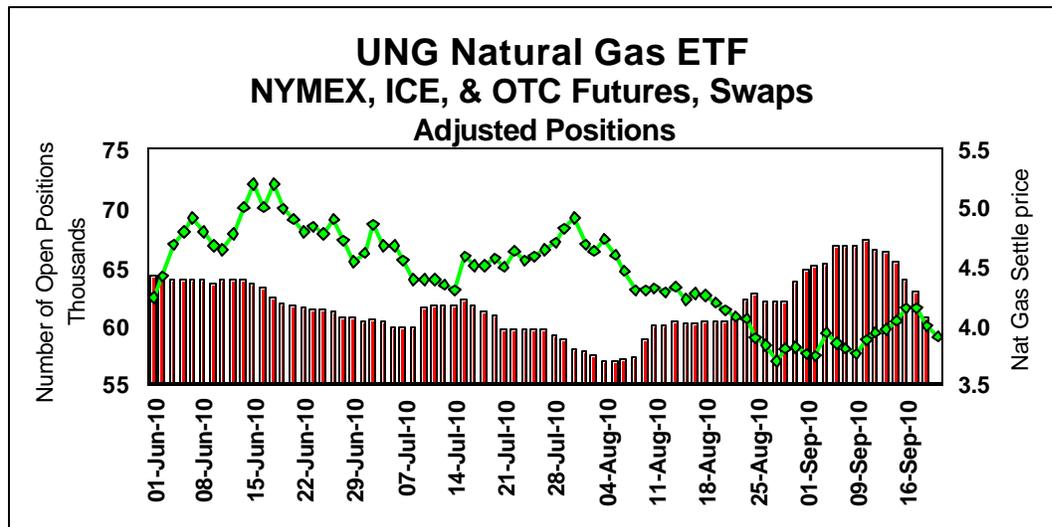
provisions in the Dodd Frank Wall Street law enacted in July. The CFTC chairman said the agency will propose governance procedures at clearinghouses, exchanges and swap trading platforms. It will also propose rules targeting clearing venues that are deemed systemically important to the US financial market. The Dodd Frank law gives the CFTC and the Securities and Exchange Commission broad new powers to regulate the over-the-counter derivatives market. It will require players in the market to execute many of their deals on trading platforms and route their swaps through clearinghouses. If the swap is not suitable for clearing, then each counterparty to the trade will have to post collateral and abide by stricter capital requirements.



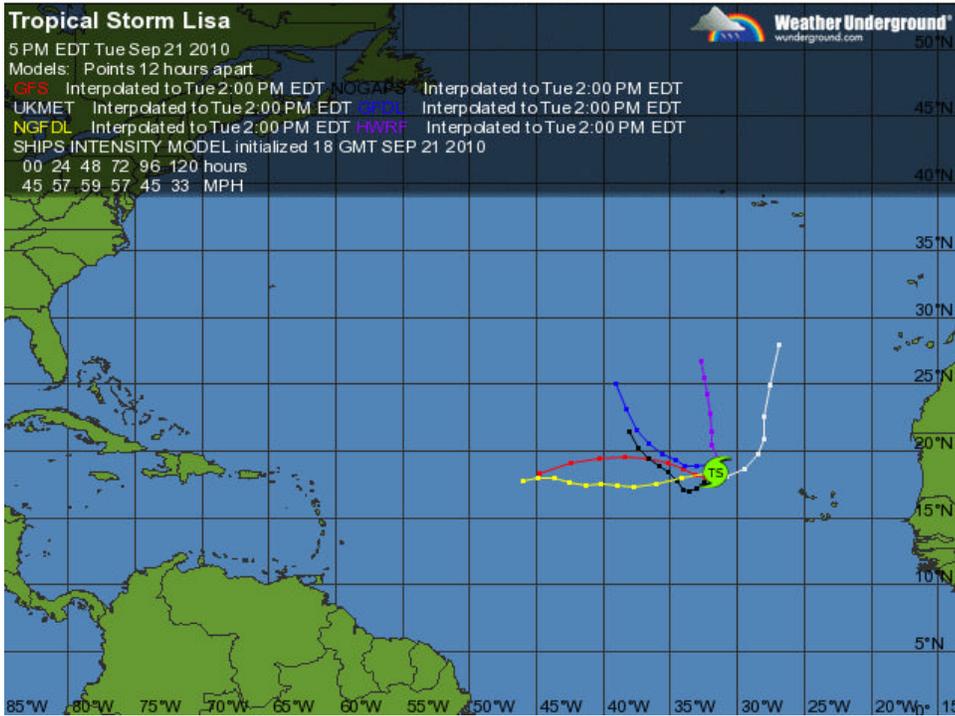
**MARKET COMMENTARY**

The natural gas market finished higher today as forecasters began to focus on the potential

development of Invest 95 in the eastern Caribbean over the next several days and its possible threat to the Gulf of Mexico. Its direct threat though remained questionable and as a result the market failed to recapture the total losses from yesterday. The



price action on the day though did backfill the gap in the daily charts from Sunday evening's gap lower opening, but once again there does not seem to be the interest or commitment to keep this market above the \$4.00 price level once again and as a result prices moved away from the price level in the second half of the day.



We continue to look for this market to remain mired in this \$3.70-\$4.00 trading range for the next week or two as traders remain noncommittal to breaching this trading range without a significant indication on price direction from the weather forecast whether it be bearish or bullish. Judging by the open interest in the UNG natural gas ETF it seems the speculative interest in this market has been diminishing over the last week.

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