



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR SEPTEMBER 23, 2009

NATURAL GAS MARKET NEWS

A company that tracks capacity release activity on more than 50 companies said despite lower prices and demand destruction in the natural gas market, the first eight months of the year has seen an increase in capacity release activity.

According to a study by research firm HIS Herold Inc and upstream consultant Harrison Lovegrove & Co Ltd, world oil and natural gas reserve replacement fell to 88% of production in 2008, despite a 23% increase in development spending in that year. It was the first year since 2004 when world production was not replaced. Oil reserve fell about 3% in 2008 mostly due to a 5.2 billion decline in revisions on a steep drop in commodity prices. Natural gas reserves maintained a 3% annual increase seen in the previous five years while production increased nearly 5% to 44.2 trillion cubic feet.

XTO Energy Inc said 55% of its 2010 projected production is now hedged at \$9.62/mcfe as it expects a rebound in natural gas prices next year.

Independent oil and natural gas producers protested President Barack Obama's pledge before the UN Tuesday to phase out subsidies for oil, natural gas and coal to help reduce greenhouse gas emissions.

The Bahia Blanca LNG terminal in Argentina is set to receive a cargo of LNG on Oct. 7 from Trinidad. The 138,000-cubic meter Excalibur tanker was last seen on Wednesday offshore Trinidad heading to Argentina

According to Russia's Economic Development Ministry, Russia's natural gas output is expected to amount to 580 billion cubic meters in 2009. Expectations for 2010 are set between 605 and 623 bcm, between 614 and 634 bcm in 2011 and between 185 and 193.8 bcm in 2012. Exports for 2009 are expected to amount to 161.9 bcm, between 179 and 190.3 bcm in 2010, between 185 and 193.8 bcm in 2011 and between 194 and 203.2 bcm in 2012.

Iranian Deputy Oil Minister, Azizollah Ramezani, predicted on Wednesday that Iran will increase its gas imports from Turkmenistan by 40% this winter. He added that the country plans to complete the construction of a 30-kilometer gas pipeline to import the Turkmen natural gas. In August,

Generator Problems

NPCC – OPG's 490 Mw Nanticoke #2 coal fired power plant returned to service after being shut for work early Tuesday.

OPG's 494 Mw Lambton #4 coal-fired power station shut early Wednesday.

WSCC – PG&E's 1122 Mw Diablo Canyon #1 nuclear unit has started to exit its outage and was at 78% power this morning. The unit went off line back on Monday.

The NRC reported this morning that 84,990 Mw of nuclear generation capacity was on line, up 1.09% from yesterday and off 1.98% from the same time a year ago.

Turkmenistan agreed to pump around 6 billion cubic meters of natural gas from its southeastern field of Dolatabad into Iranian territory.

Ukraine may buy 1.8 billion cubic meters of natural gas from Gazprom in September, according to Russian news agency RIA Novosti. Ukraine has pumped 26.1 billion cubic meters of gas into its storage facilities. Gazprom deputy Chief Executive, Valery Golubev said in early September that Ukraine needed to store at least 28 billion cubic meters of Russian gas to meet its requirements and ensure uninterrupted gas transit to Europe.

PIPELINE MAINTENANCE

Pigging maintenance, which was slated for Sept. 22, has been canceled at Gulf South's Longview-Waskom plant. The company said it will reschedule the work for a later date.

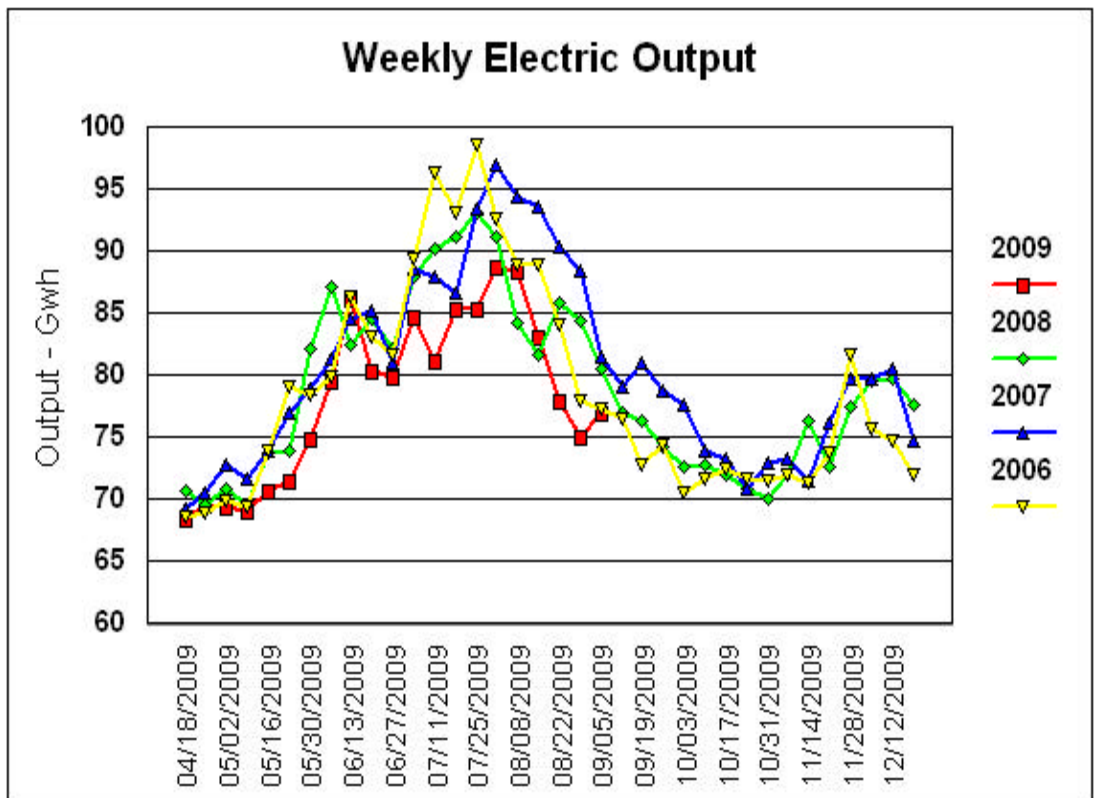
PIPELINE RESTRICTIONS

CGT has issued a system wide operational flow order in effect for gas day Sept. 23 and Sept. 24 due to high inventory.

WIC has issued a force majeure at its Laramie Compressor Station effective for intraday one, cycle 3, for gas day Sept. 22 and timely cycle for gas day Sept. 23. Capacity will be reduced from 793.0 MMcf/d to 657.0 MMcf/d for the duration of the outage.

ELECTRICITY NEWS

The Edison Electric Institute reported that for the week ending September 19th, US power production totaled 76,936 Gwh, up 2.51% on the week and down 0.03% on the year. For the first 38 weeks of the year, power production totaled 2,892,073 Gwh, down 4.2% on the year.



MARKET COMMENTARY

The natural gas market rallied higher today following Tuesday's mostly neutral trading session, amid the strength in the cash market. The market rallied early in the session despite the fairly mild weather and the sharp sell off in the crude market following the release of a bearish DOE weekly petroleum stock report. The natural gas market bounced off a low of \$3.596 and never looked back amid some short covering ahead of Thursday's release of the EIA natural gas storage report. It rallied over 32 cents as it posted a high of \$3.935 in afternoon trading. It however erased some of its gains ahead of the close and settled up 25.1 cents at \$3.86.

Expectations for this week's natural gas storage report from EIA, range from a build of 63 bcf to a build of 78 bcf, with an average build of 68 bcf. In the same week last year, EIA reported a small 54-bcf build as the industry recovered from Hurricane Ike, which moved through parts of the Gulf of Mexico on Sept 9–13, 2008. The five year average build of the week is 69 bcf.

While the natural gas market saw a strong rally today, we still see limited upside, with storage at record highs and no storms on the horizon to threaten Gulf Coast gas production. The natural gas market is seen finding resistance at its high of \$3.935 followed by \$3.998, \$4.136 and \$4.337. Support is seen at \$3.80, \$3.70, \$3.659, \$3.568, basis its support line, \$3.458 and \$3.32.

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