



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR SEPTEMBER 30, 2009

NATURAL GAS MARKET NEWS

The tropical Atlantic basin remains extremely quiet. The only area of interest appears to be a tropical wave at 45 West Longitude. This system though continues to be in an area that is not conducive for development given high wind shear levels. This wind shear is evident across much of the basin along with an expansive area of very dry air, has combined to inhibiting many areas of organized showers and thunderstorms. None of the computer forecast models are looking for any significant tropical development for at least the next week or so.

Barclays Capital analysts warned that the NYMEX might be pricing 2010 based on forecasts for a strong recovery in demand and declining supply. But they noted that they see a modest recovery as being more likely next year with prices averaging \$5.05 per Mmbtu, more than a dollar below current levels.

Generator Problems

MISO – Exelon's 1043 Mw Clinton nuclear unit was shut down. The unit had been at 96% power on Tuesday.

SPP & ERCOT – NRG Energy's 836 Mw Limestone #1 coal fired power plant was planned to be restarted over the next day. The unit had been shut on Monday due to a tube leak.

Operators at the Monticello power plant took the coal fired Unit #3 off line for maintenance for a short period of time this morning.

FRCC – FPL has restarted its 853 Mw St Lucie #2 nuclear unit. The unit has reconnected to the grid and was expected to be back at full power later in the day. The unit has been out of service since September 10th.

SERC – TVA's 1104 Mw Browns Ferry #2 nuclear unit was taken off line as a condensate pump tripped. The unit had been at full power yesterday.

Progress Energy's 937 Mw Brunswick #2 nuclear unit started to exit from an outage that began on September 20th. The unit was at 1% power.

The NRC reported this morning that 81,766 Mw of nuclear generation capacity was on line, down 1.5% from yesterday and off 4.5% from the same time a year ago.

Anadarko Petroleum said Wednesday the majority of the scheduled maintenance on the Independence Hub natural gas production platform has been completed during the third quarter of

Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis	Change	Basis 5-Day Moving Avg
				<small>(As of 12:30 PM)</small>		
Henry Hub	984,100	\$3.245	(\$0.053)	(\$1.589)	(\$0.009)	(\$0.747)
Chicago City Gate	1,013,900	\$3.360	(\$0.051)	(\$1.474)	\$0.000	(\$0.700)
NGPL- TX/OK	1,145,600	\$3.195	(\$0.065)	(\$1.639)	(\$0.014)	(\$0.845)
SoCal	583,500	\$3.440	(\$0.138)	(\$1.394)	(\$0.087)	(\$0.626)
PG&E Citygate	501,200	\$4.116	\$0.101	(\$0.718)	\$0.152	(\$0.166)
Dominion-South	206,700	\$3.277	(\$0.096)	(\$1.557)	(\$0.045)	(\$0.745)
USTrade Weighted	22,531,700	\$3.310	(\$0.060)	(\$1.524)	(\$0.01)	(\$0.747)

2009. The company spokesman said that the platform was expected to run at about 700 million cf/d of more through the end of the year. The platform has a daily capacity of 1 bcf/d.

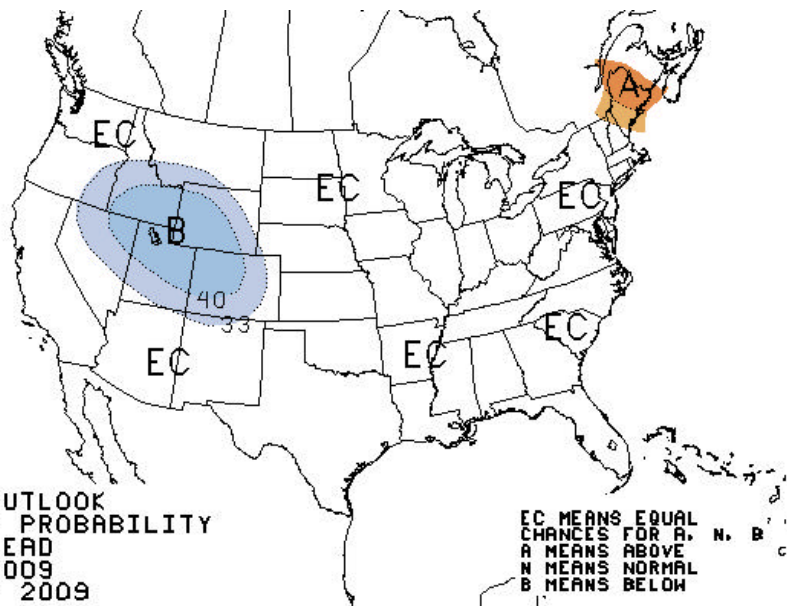
NOAA said Wednesday that its forecasters have dropped their expectation that October temperatures in the Western U.S. will be above normal. NOAA had originally issued its October forecast at mid-month. The agency now sees equal chances of normal, above normal or below normal temperatures across the region.

ExxonMobil said there were no reports of quake-related damage to its Arun LNG plant in Indonesia on Wednesday.

ExxonMobil's Umm Sial LNG tanker from Qatar was expected to arrive at the British South Hook LNG terminal on October 4th.

Belgium port authorities expect the LNG Borno LNG tanker to arrive at Zeebrugge terminal on Wednesday and two more Qatari tankers are scheduled to arrive at the port on October 6th and October 14th.

ONE-MONTH OUTLOOK
TEMPERATURE PROBABILITY
0.0 MONTH LEAD
VALID OCT 2009
MADE 30 SEP 2009



French power group EDF said today that it was in talks with Gazprom over acquiring a minority stake in the South Stream gas pipeline. The Wall Street Journal reported that the company was looking to acquire a 10% stake by the end of November.

Gazprom's gas production this year was reported will decline by 13.8% this year to its lowest level in history as low demand in Russia and Europe prompted the decline. Demand in the former Soviet republics was off 30% while internal Russian demand for gas was off an estimated 11%.

Poland's prime minister's office said the country hoped to strike a gas supply deal with Russia for 2010 by October or November, Poland which imports about two-thirds of its natural gas from Russia, faces an annual shortfall of some 2.5 bcm in 2010, with Russia as the only supplier that can make up for the shortfall.

Uzbekistan reportedly has halted natural gas supplies to neighboring Tajikistan due to a \$18 million debt. This comes on the heels of Uzbekistan reducing gas supplies to Kyrgyzstan earlier this week due to back debts.

Germany's energy regulator has instructed 10 operators of long distance gas pipelines to cut their fees from October 1st. The cut is to be by 25% and last through October 1, 2013.

Ukraine's Naftogaz reportedly will pay out its regular coupon on its \$500 million Eurobond by its scheduled deadline of today.

Dow Jones reported this afternoon that Deutsche Bank is restructuring its giant PowerShares commodity tracking funds amid a crackdown by regulators on holdings of individual commodity contracts. The bank said today that it will change the composition of the \$3.3 billion PowerShares DB Commodity Index Tracking Fund and the \$2.2 billion Powershares DB Agriculture Fund to “satisfy position limits” imposed by the CFTC. The CFTC reportedly had told the bank that it had to reduce its positions in corn and wheat by the end of October. The CFTC also reportedly had revoked the banks exemption previously granted allowing the bank to build a position larger than existing position limits in agricultural products. The bank said it will reduce not only its holding in corn and wheat but also in crude oil, and sugar and add coffee, cocoa, live cattle, copper, natural gas and gasoline. The bank said for the first time the fund will invest in a non-U.S. energy commodity: Brent crude oil. The DB Commodity Fund will now see its weighting in WTI futures traded on the NYMEX be lowered from 35% to 12.4%. Brent crude oil, gasoline and natural gas will be added accounting for 12.4%, 12.4% and 5.5% respectively. Earlier this month Deutsche Bank closed down its popular crude oil ETN. The National Stock Exchange noted that holdings in exchange traded fund products have ballooned to \$59.6 billion in August, an inflow of \$22.8 billion since the beginning of the year.

The SEC and the CFTC issued a statement today that noted the two agencies would issue a report on October 15th outlining where their regulatory frameworks differ and ways to bridge those gaps. The two agencies said they would recommend to Congress and the White House steps to strengthen enforcement powers, investor protection and an ongoing coordination process. In addition the report will discuss risk-based portfolio margining, insider trading rules, product listing and customer protection standards for advisors and broker dealers.

The US Commerce Department said GDP fell at a 0.7% annual rate from April through June, revising its earlier estimated 1% decline. The largest component of GDP, consumer spending, fell 0.9% compared to the previously estimated 1% decline and the first quarter’s 0.6% decline. The government’s price index for personal consumption increased 1.4% in the second quarter compared to the previously estimated 1.3% increase and the first quarter’s 1.5% decline. Business investment fell at a 9.6% rate in the second quarter instead of 10.9%.

The Institute for Supply Management-Chicago said its business barometer fell to 46.1 in September from 50 in August.

ADP Employer Services’ survey showed private employers cut 254,000 jobs in September, more than the 210,000 layoffs the market had been expecting. The decline however was less than the 277,000 jobs lost in August.

PIPELINE MAINTENANCE

Rockies Express Pipeline has revised the dates for its Bainbridge Compressor Station maintenance. It has delayed the work by one day and it will now run between October 14-16. Capacity through Segment 340 will be limited to 1320 MDth/d during the work. Based on the current nominations the company does not expect an impact to shippers.

Wyoming Interstate Company said the Laramie WIC Compressor Station is back in service. The unit had been taken out of service on September 22nd due to the loss of the exhaust system on one unit. Capacity during the work had been reduced by 136 MMcf/d.

PIPELINE RESTRICTIONS

PG&E has issued a system wide OFO for October 1st due to expected high inventory.

ELECTRICITY NEWS

TransCanada said today that it plans to build a \$1.2 billion power plant in southern Ontario. The natural gas fired combined cycle plant is scheduled to start commercial operations by the end of 2013.

Edison Electric Institute reported that power production in the United States for the week ending September 26th slipped by 0.8% from the prior week and was off 0.1% from the same week a year ago at 76,310 GWh.

President Obama said today that his administration was “deeply committed” to passing a new energy law that would set caps on greenhouse gas emissions. He welcomed a new draft proposal introduced into the Senate today.

California regulators late last week approved modifications on the nation’s first statewide carbon fee on electric utilities, natural gas pipelines and other industries. The modifications will set the billing on a fall schedule and the fee collection will begin in fiscal year 2010-2011 rather than in 2009-2010. Initially the staff of the California Air Resources Board had expected to collect \$50 million a year, but based on the revisions now looks to raise some \$63 million per year. The fees collected will be used to pay the administrative costs of implementing California’s global warming law, which seeks to reduce California greenhouse gas emissions to 1990 levels by 2020. Regulators estimate the administrative fee will be about 15.5 cents per ton of emissions.

NRG Energy has begun a pilot project at its Big Cajun II generating station in Louisiana to evaluate the use of switch grass and high biomass sorghum as renewable biomass fuels to be used in substituting coal as a generating fuel.

The U.S. EPA said today that 79 permits for mountain top mines in Appalachia would be delayed in order to facilitate additional evaluation by the EPA and the Army Corp of Engineers.

MARKET COMMENTARY

While the oil markets saw a surge in activity today and the return of significant price volatility, the natural gas market acted as if it was not an energy commodity and a totally different asset class. The front months today posted an inside trading session as it appeared traders were willing to await tomorrow’s inventory report before mapping their trading path moving forward. While the continued oversupply condition in the cash markets appeared to weigh on the November contract, the positive outlook for the economy moving forward seems to be reflected in the relative strength of the back months which again closed higher today and settled higher for the fifth time out of the last six trading sessions.

Market expectations for tomorrow storage report appear to be running between a 55-65 bcf build in working storage levels. For the same week a year ago stocks rose an adjusted 62 bcf, while the five year average had a 62 bcf build.

We still question the market wisdom that the economic rebound is just around the corner that will rescue this market from an oversupply situation. As a result we still feel that the bears will return to this market and we would look to be a buyer of put spreads. We see outright resistance in this market at \$4.99 followed by \$5.133 and \$5.473. Support we see at \$4.728 followed by \$4.417, \$4.241 and \$4.064.

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