



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR SEPTEMBER 30, 2010

NATURAL GAS MARKET NEWS

While the remnants of Tropical Storm Nicole raced up the eastern seaboard this morning, forecasters were watching a large area of disturbed weather associated with two tropical waves some 600 miles east of the Windward Islands. It has been designated at Invest 97.

Forecasters were assigning a 30% chance it could become a tropical depression within the next 48 hours. Currently long range computer models have it potentially reaching Hispaniola in some five days and with a slight possibility reaching the U.S. Gulf of Mexico in 7-8 days, but more likely more of a threat to the U.S. East Coast. .

Generator Problems

The NRC reported this morning that some 91,277 Mw of U.S. nuclear generation capacity was online this morning basically unchanged from yesterday and some 16% higher than the same time a year ago.

Canadian Gas Association

Weekly Storage Report

	24-Sep-10	17-Sep-10	25-Sep-09
East	205.2	200.1	235
West	376.7	3372.6	351.5
Total	581.9	572.7	586.6

storage figures are in Bcf

EarthSat this week released its preliminary winter forecast. It calls for a moderate to strong La Nina period making this winter more similar to winters of the 1950's rather than those La Nina winters of the late 1990's. It sees the warmest month nationally to be January, with the coldest risk for November/December and March. Regionally it sees Texas, the Southwest and Southeast U.S. should see a warmer winter this year versus last year, with the West Coast, Pacific Northwest and western Canada seeing

colder temperatures than last year. Also the private weather forecaster is looking for 115-120% of normal precipitation for the Pacific Northwest and Western Canada that should result in higher than normal snow packs for the region.

The Pennsylvania House of Representatives Wednesday passed a bill to tax natural gas extraction in the state for the first time. Pennsylvania currently is the only state not to tax natural gas production. The bill's fate though is uncertain when it is taken up by the state Senate. The proposal passed by the House would tax drillers 39 cents per thousand feet extracted, with provisions for increases in the fee if gas prices rise above \$5.50 per Mmbtu. Industry groups' are looking for the Senate to amend the rate to a lower level.

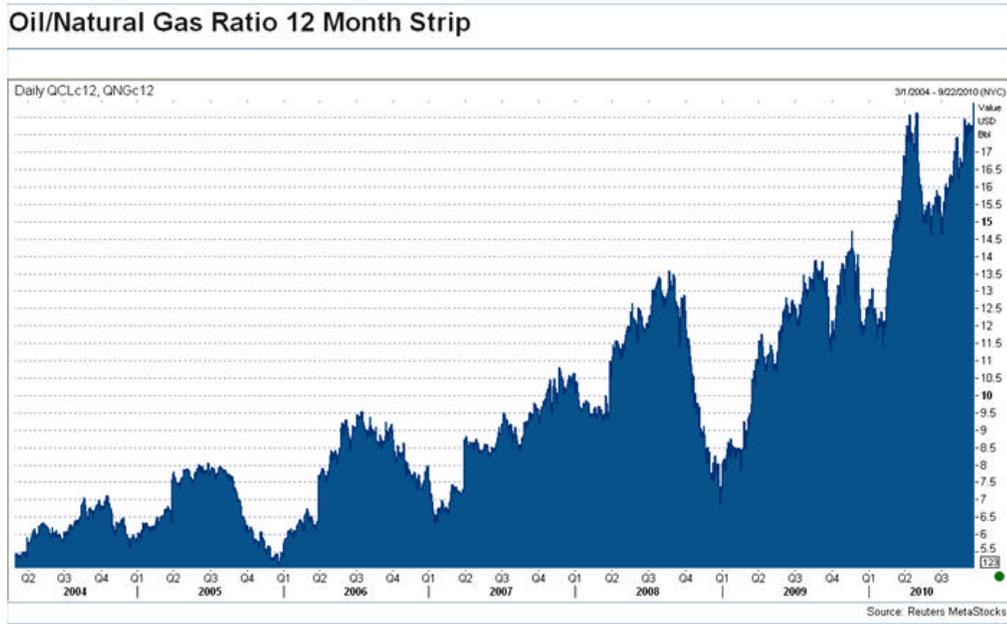
EIA Weekly Report

	09/24/2010	09/17/2010	Change	09/24/2009
Producing Region	1050	1029	21	931
Consuming East	1867	1819	48	1845
Consuming West	497	492	5	436
Total US	3414	3340	74	3212

*storage figures in Bcf

Meanwhile Pennsylvania state officials announced today that the village of Dimock, Pa in the heart of the Marcellus shale region and which had become the symbolic rally point for opponents of the fracking process will receive a new public water supply to replace wells contaminated by methane. The state will initially pay for a \$11.8 million water system for 18 home owners and then seek to recover the funds from Cabot Oil and Gas which operates the faulty gas wells.

Qatar's Aamira LNG tanker is scheduled to arrive at Britain's South Hook LNG terminal on October 7th. The ship can carry up to 268,000 cubic meters of LNG. Meanwhile Reuters reported the Alshahle LNG tanker is due to arrive at the Isle of Grain terminal from Qatar on October 8th. Meanwhile the 147,600 cubic meter LNG tanker the Neva River is scheduled to load at Belgium's Zeebrugge terminal on October 10th.



The head of the EU-backed gas group Nabucco pipeline said today that Iraq is probably the "most real, most viable gas supplier. But the official went on to warn Azerbaijan, that it should not be tempted by offers to buy its gas based solely on high prices. The pipeline project is competing with the Russians in securing Azerbaijan gas supplies. Russia proposes to buy the

gas at the Azeri border without allowing Azerbaijan to export gas to Europe directly. Nabucco expects to have the first gas from Iraq, 10 bcm, and another 8 bcm from Shah Deniz in 2015. Meanwhile the Turkish Energy Minister said today the Turkish government should be wary about the feasibility of the Nabucco pipeline project and it may be forced to turn to Iran as a potential supplier of natural gas if the Nabucco project does not reach completion.

The CME reported that some 2,625 lots of October natural gas went into delivery. Some 2,285 lots were issued by BNP Paribas house account, while Barclays Capital for a customer account was the largest receiver of 1685 lots.

Qatar said Thursday it has sold most of the expected output from its latest new production lines, Qatargas trains 6 and 7 which are expected to open over the next few months, some of which will be bound for Europe, but most destined for Asia. Train 6 is scheduled to start loading



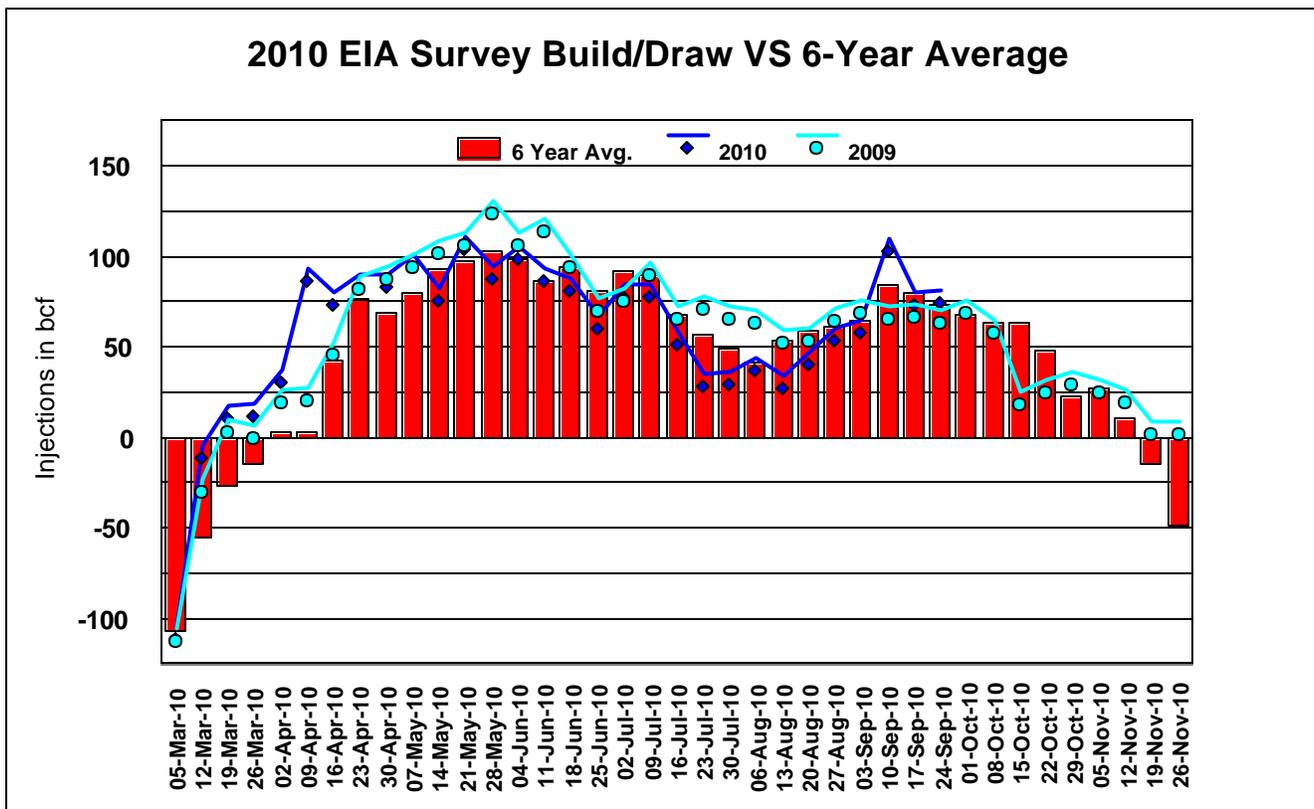
in late November or early December, while Train 7 was slated to begin in February 2011.

The Propex report which will be published in full on Friday estimated gas trading volumes grew in all of the major European national markets between 2008 and 2009 and continued to rise in the first half of 2010. European gas trading volumes rose by around 11% while consumption has declined by 6.3% during the period. The UK market remains Europe's largest by far and sees the greatest participation of financial institutions and other traders without direct involvement in physical gas supply. The report shows a notable increase in exchange based futures trading on ICE, but a decline in the amount of OTC forward and derivatives trading.

The Ukrainian press reported that the Ukraine is likely to increase its imports of Russian gas in 2011 to about 41 bcm, up 12.3% from 2010 expected levels. The paper quoted a Ukrainian official that notes the two countries had almost completed a new volume accord.

Malaysia's first LNG import terminal may be operational as soon as the end of 2012. The project's accelerated timeframe means the plant's operators will need to buy spot LNG cargoes or enter into short-term contracts for several years until the start of long-term supplies recently secured from Australia. At the same time, gas demand in peninsular Malaysia, where the terminal is located and where much of the country's industrial base is located, is outpacing local supplies.

The British Department of Energy and Climate Change estimated today that domestic natural gas production in 2009, which averaged 57.3 bcm for the year, would fall to 53.8 bcm in 2010. These production levels will continue to decline each succeeding year and by 2015 will total only 42.6 bcm.

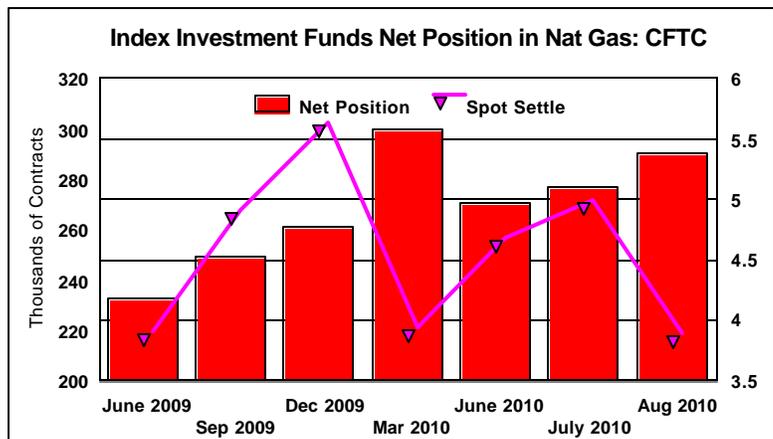


Japan's ambassador to China has warned China not to unilaterally develop a gas field in the disputed area of the East China Sea, despite the two countries agreeing in principle to jointly develop the gas fields in the area. Political tensions have risen in recent days with the detention of a Chinese fishing boat and the detention of four Japanese nationals.

ELECTRIC MARKET NEWS

The Kentucky Public Service Commission granted conditional approval to PPL Corp’s \$7.6 billion purchase of E.ON AG’s U.S. regulated utility business, including Louisville Gas & Electric and Kentucky Utilities Company. Approval was granted on the condition that PPL would not seek to raise rates for either utility to pay for transaction costs, cut jobs or move the current headquarter locations from their current locations for at least 15 years. PPL is seeking to diversify itself from its current volatile merchant power business.

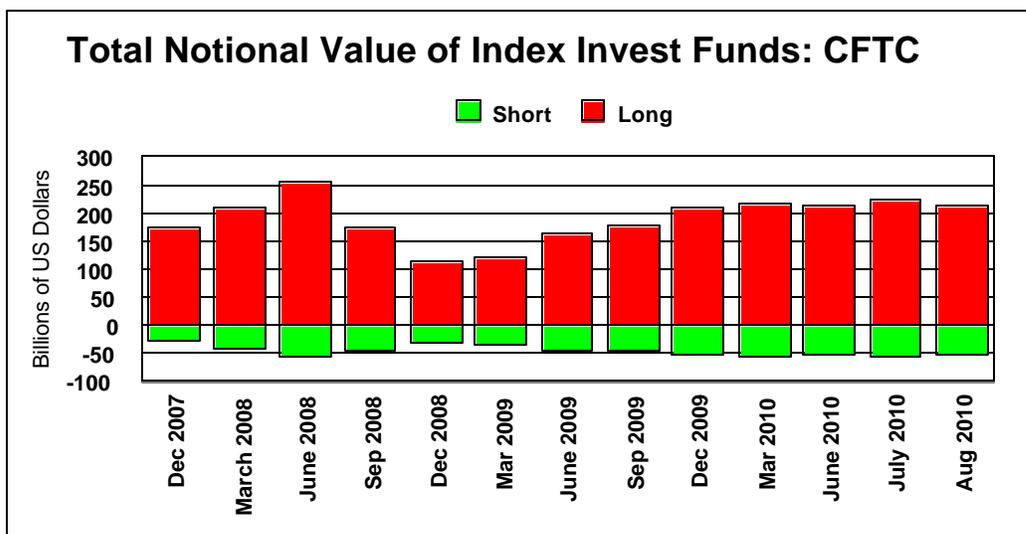
The COO of ERCOT said the nodal pricing system is currently undergoing its final market tests and hopes to roll out the nodal system as of December 1st. The system creates price points for thousands of nodes or generation locations, to identify transmission congestion within ERCOT. The specific price information should lead to more efficient dispatch of power plants, reduce the use of natural gas as a generating fuel and the shuttering of older and less efficient power plants. The launch will actually begin 10 days prior to December 1st with non-binding market activity. Unlike nodal programs used in PJM and other markets in which pieces were introduced over time, ERCOT’s plan calls for the introduction of day-ahead and real time market and settlement programs all at once. It appears that market tests have produced unexpectedly high power prices, which could translate into larger collateral requirements for retail companies that buy electricity. As a result some market watchers fear the zonal market will drive some players out of the day ahead market.



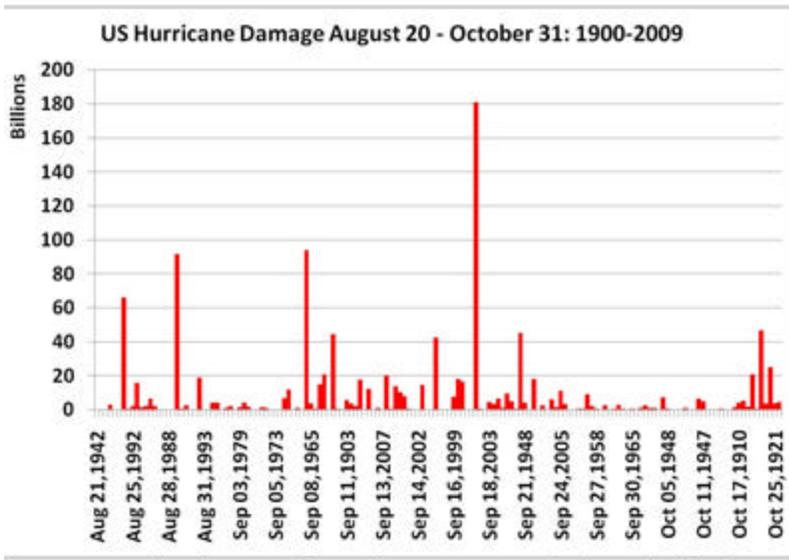
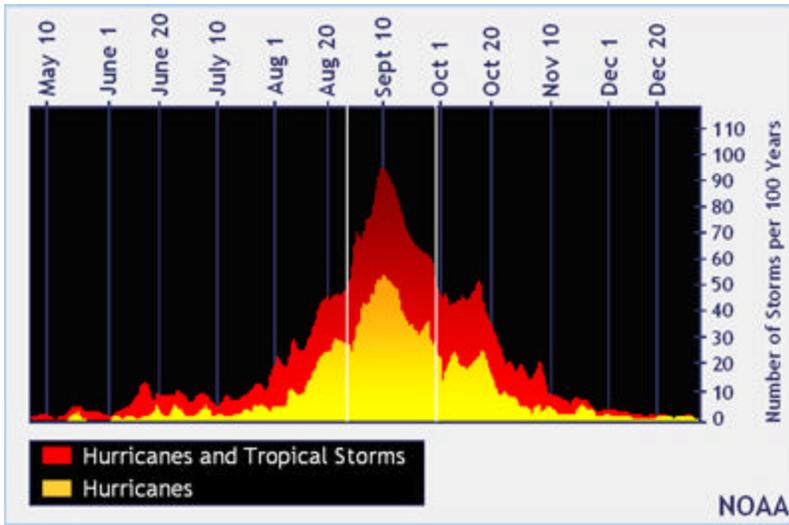
According to a new study released by NYISO, New York State could reliably boost power generation from wind from the current total of 1275 Mw to 8000 Mw by 2018. Energy companies have submitted proposals to the New York ISO to build more than 7,000 Mw of wind projects in the state

MARKET COMMENTARY

The market finished down today and this was only fitting for a contract that finished the third quarter down 16% and off 30.5% year to date. The market found fresh selling pressure following the release of the EIA Storage Report which came in higher than



expected and posted its third consecutive weekly injection rate that outpaced year ago levels. Prices in the November contract breached recent lows and fell quickly to a new contract low of \$3.78 before retracing a bit and finishing the day back near the prior lows.



The bulls appear to be getting nervous that they will not receive the much anticipated and forecasted hurricane to the Gulf of Mexico that could seriously disrupt natural gas production. As the calendar turns to October we take a major step downward in the chances for named tropical activity, with the next major downward reduction of risk coming in the third week of October. Currently long-range forecasts show no risk on the horizon to the US Gulf for at least the next week. As a result it appears the bears will probably remain in control of this market and will make further attempts to probe to the downside. We see support at \$3.78 followed by \$3.732, \$3.703 and \$3.62. Resistance we see at \$3.978, \$3.995, \$4.039 and \$4.10-\$4.13. More distant resistance we see at \$4.298

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