



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 OCTOBER 2, 2009

NATURAL GAS MARKET NEWS

ConocoPhillips warned today that its third quarter exploration and production results are expected to be impacted by continued weakness in North America natural gas prices. Total third quarter production on a barrel of oil equivalent per day basis is anticipated to be 1.78 million BOE per day down world wide by 5% from the second quarter.

The U.S. Natural Gas Fund, the largest exchange traded natural gas fund said it has found it more difficult than expected to create units using a

new process that has purchasers trade natural gas swaps for shares. The manager for institutional sales at the fund said that many investors appear to prefer swaps of a few weeks or less, while the fund wants to utilize 6 month swaps. The complex swaps for shares creation process may take several weeks he said. The \$3.9 billion fund has grown 11 fold since the start of the year and currently has 347.4 million shares outstanding. The fund on its website today noted that it will begin offering new shares today.

Generator Problems

MISO – Northern States Power said that its 613 Mw Monticello nuclear plant was at 48% power this morning down from full power on Thursday.

WSCC – Energy Northwest said it has restarted its 1150 Mw Columbia Generating nuclear unit. The unit was at 1% power this morning. The unit has been off line since September 26th and shutdown since September 28th.

SERC – Progress Energy continues to ramp up operations at its Brunswick nuclear power plant. Both units have reconnected to the grid. Unit #1 was at 90% power while Unit #2 was at 30% power.

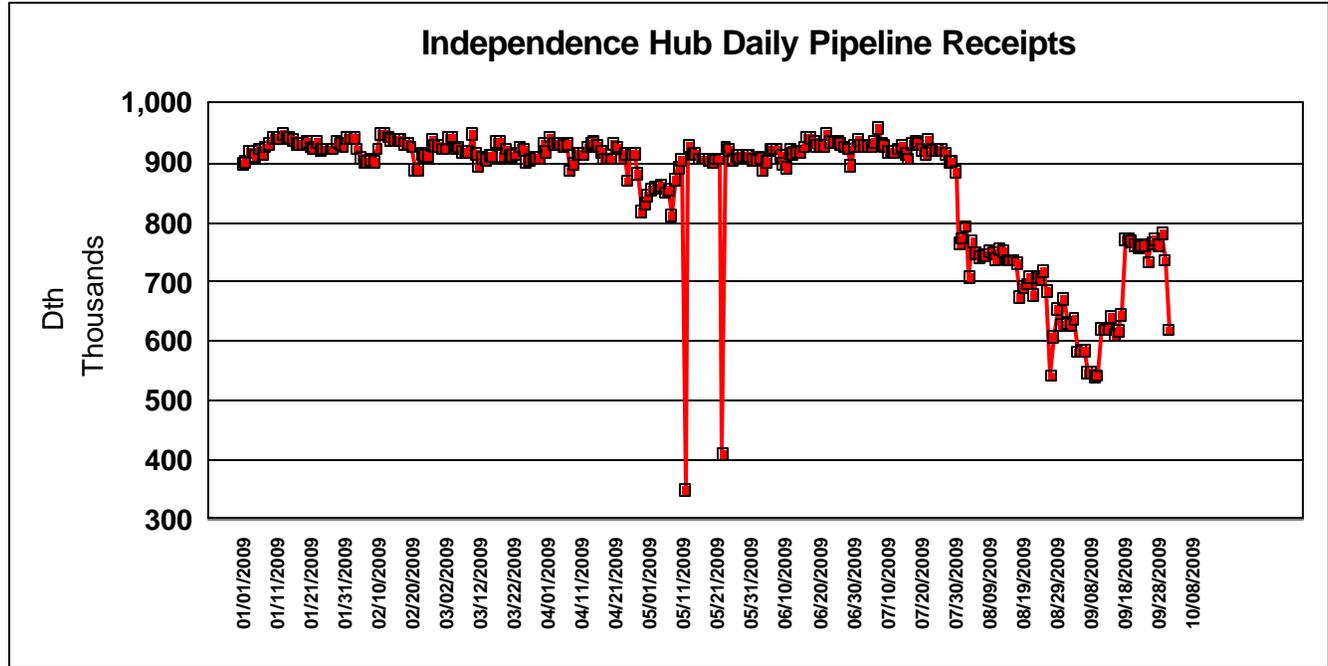
The NRC reported this morning that 79,160 Mw of nuclear generation capacity was on line, up 0.6% from yesterday and off 9.4% from the same time a year ago.

Bloomberg News reported that Judith Cohen, director of seasonal forecasting at Atmospheric and Environmental Research, appears to be contradicting a forecast coming

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	1,099,100	\$2.319	(\$0.595)	(\$2.322)	(\$0.707)	(\$1.405)
Chicago City Gate	726,600	\$2.412	(\$0.623)	(\$2.229)	(\$0.726)	(\$1.356)
NGPL- TX/OK	1,041,500	\$2.265	(\$0.574)	(\$2.376)	(\$0.677)	(\$1.521)
SoCal	548,500	\$2.451	(\$0.697)	(\$2.190)	(\$0.800)	(\$1.263)
PG&E Citygate	684,200	\$3.135	(\$0.776)	(\$1.507)	(\$0.879)	(\$0.670)
Dominion-South	249,400	\$2.394	(\$0.557)	(\$2.247)	(\$0.660)	(\$1.419)
UStTrade Weighted	20,218,300	\$2.378	(\$0.604)	(\$2.263)	(\$0.71)	(\$1.405)

out of the Commodity Weather Group earlier this week. Her group is noting that due to limited early snowfall in Siberia it appears to indicate to them that Artic wind patterns may reduce cold air flows into the Northeast U.S. this winter. As a result her group is looking for this winter to be "pretty warm" in the

Northeast. Commodity Weather group has been calling for the possibility of this winter being the coldest in a decade.



Baker Hughes reported the number of rigs drilling for natural gas in the United States increased by two on the week to 712. The U.S. natural gas drilling rig count has increased by 10 rigs over the last eleven weeks.

Azerbaijan said Friday that it could supply around 7 bcm of natural gas to be transported through the Nabucco Pipeline, when and if it becomes operational. The country has yet to sign an agreement with the Nabucco consortium. But the estimated production supply would be 25% of the proposed pipeline's capacity. Azerbaijan earlier in the week had been rumored to offer Romania the option to receive 7.3 bcm gas through the Nabucco project, under the provision that the line would be operational before the South Stream project.

According to the Labor Department, nonfarm payrolls fell by 263,000 in September. The largest job losses were in construction, manufacturing, retail trade and government. Economists had expected a 175,000 decline. The unemployment rate increased by 0.1% to 9.8% in September. The average hourly earnings increased by \$0.01 last month to \$18.67. Separately, on Thursday Fed Chairman Ben Bernanke reiterated that unless economic growth is high, it could take some time for the labor market to improve.

The US Commerce Department said US factory orders in August fell by 0.8%, more than was expected. July orders increased by 1.4%, revised from a previously estimated 1.3% gain. Durable goods fell more than first thought, down 2.6%.

The Institute for Supply Management said its manufacturing index for September fell to 52.6 from 52.9 in August.

PIPELINE RESTRICTIONS

Tennessee Gas Pipeline said that due to limited operational flexibility, high storage levels and mild weather, the company was issuing a system wide OFO Action Alert effective Saturday for all balancing parties.

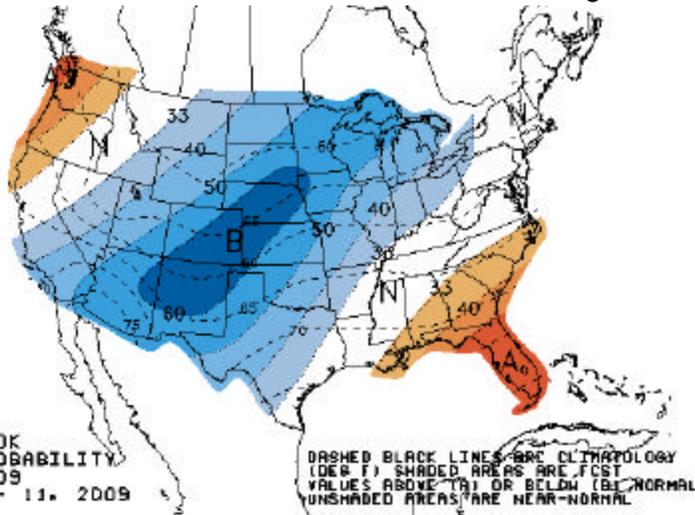
Southern Natural Gas Pipeline said that due to historically high storage inventory levels and projected high injection requirements for the upcoming weekend it was implementing an OFO Type 6 for long imbalances on its system starting October 3rd and lasting until further notice.

PG&E has issued a system wide OFO for Friday and Saturday due to high inventories.

ELECTRIC MARKET NEWS

Genscape reported that U.S. coal consumption during the week ending Thursday fell 2% from the previous week and was 8% less than the same week a year ago.

North Carolina regulators have approved Progress Energy Carolina's plan to build new natural gas fueled power generation in Wayne County, to replace the H.F. Lee coal fired power plant. The proposed 950 Mw combined cycle power plant would be placed near the coal plant. The cost of the new plant is estimated at \$900 million. Construction would begin in 2011.

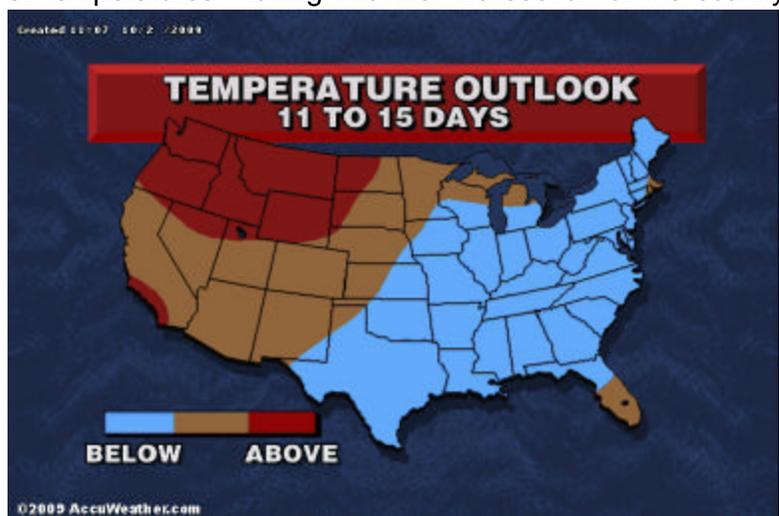


The EIA reported late Thursday that U.S. coal production for the week ending September 25th stood at 20.1 million tons, some 3.5% less than the prior week and 12.3% less than the same week a year ago.

MARKET COMMENTARY

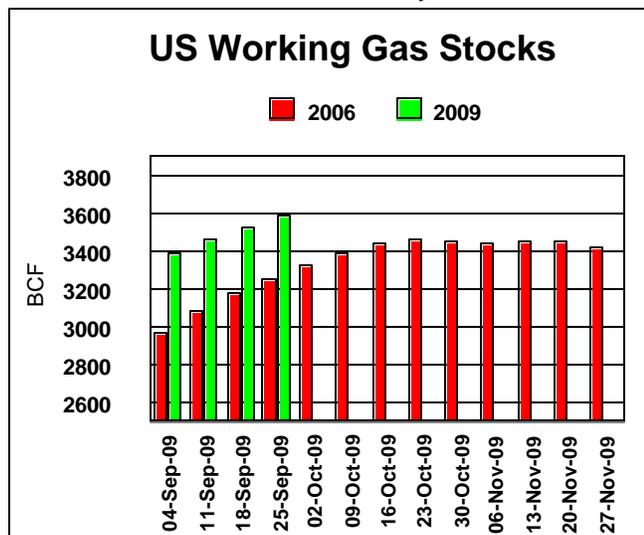
The cash markets today plunged lower on average 60 cents on the day due to the outlook for limited demand going into the weekend

coupled with bloated storage levels. But the futures market appeared to look past this event and rallied higher settling up on the day in the November contract by 23.3 cents, the biggest one-day gain in the contract since September 23rd. It appears the limited fundamental support for this market came from a weather forecast, which sees below normal temperatures moving into the mid section of the country over the 6-10 day period and slowly moving eastward in the 11-15 day period. In addition we feel the market received a technical jump start by traders expectations that the UNG natural gas ETF buying was finally going to return to the market as evidence by comments on its website. November future prices by the end of the day had come within a couple of pennies of retracing 62% of the sell off of the past week.



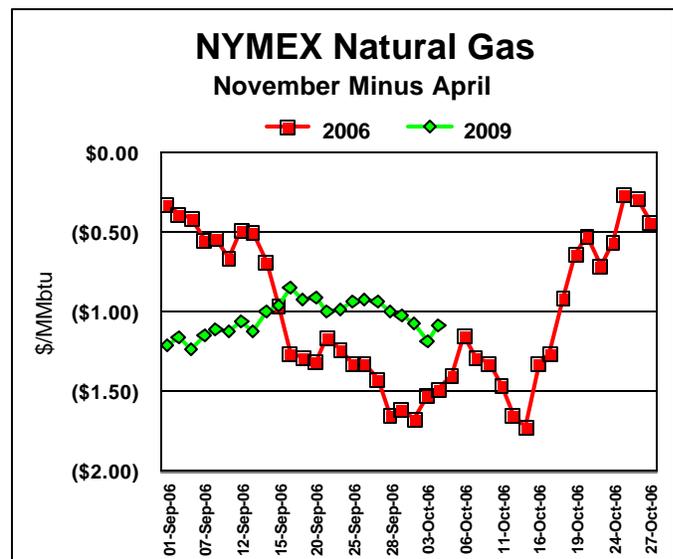
We feel though that the bulls have gotten ahead of themselves. Today's economic news of manufacturing nationwide contracting is not the "green shoots" that traders have been looking for over the past several months. In addition the bulls seem to be reacting to weather reports like it is in the heart of the winter heating season not early autumn. As a result we cannot buy into this market on the long side

and still look for opportunities to hold short-term shorts in the November contract through put spreads. In addition we would look for any additional bounce in the November-April spread in which November's discount's narrows to April to be an opportunity to bear spread this and sell the November contract.



Current stocks of gas are some 200+bcf higher than the autumn of 2006 when stocks were extremely high. When this spread went out as wide as at -\$1.72 by mid October in 2006 before contracting by expiration into 30-40 cent discount.

We feel that using this as a reference point one must view current values as mispriced at least for the next couple of weeks



This afternoon's Commitment of Traders Report showed that while the producer/merchant and swap dealers decreased their position in the NYMEX futures and options, the managed money sector actually increased their overall position on the week ending September 29th. The commercial sector net short position increased by 1183 lots while the swap dealers and managed money sectors increased their net length by 1824 and 1032 lots respectively.

The information contained in this letter is taken from sources, which we believe to be reliable, but is not guaranteed by us as to accuracy or completeness and is sent to you for information purposes only. The Windham Group bases its market recommendations solely on the judgment of its personnel. Reproduction in whole or part or other use without written permission is prohibited.