



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 4, 2010

NATURAL GAS MARKET NEWS

The National Hurricane Center today was watching Invest 97-L an area of disorganized showers and thunderstorms that was associated with a low-pressure system located over the northeastern Caribbean. The system is expected to pass through an area of slightly friendlier environmental conditions for further development as it moves west-northwestward. Forecasters are assigning a 20% chance it could become a tropical depression over the next 48 hours. But based on current steering winds the system is expected to be pushed sharply to the northeast and away from the U.S. coastline later in the week. Forecasting models are looking for a possible tropical development in the southwestern Caribbean later this week or weekend, but if a storm comes out of this area long range models either have it heading towards the Bahamas or into Central America and as a result not a threat to the Gulf of Mexico.

Generator Problems

The NRC reported this morning that some 84,384 Mw of U.S. nuclear generation capacity was online this morning down 7.3% from Friday but some 7.6% higher than the same time a year ago.

Reuters published the results of its recent poll in which it found that natural gas prices would have to fall below \$3.00 possibly to \$2.70 before producers began to curb production significantly. Meanwhile FirstEnergy Capital in a research note to clients said today it was scaling back its price estimates for natural gas and warned of a growing downside price risk for 2011 and 2012. The firm now looks for Henry Hub prices in 2010 to average \$4.40, down 20 cents from last month's price outlook and \$4.75 for 2011. The company warned that the market may be setting up for additional weakness and that prices may get worse before they get better during some point in 2011.

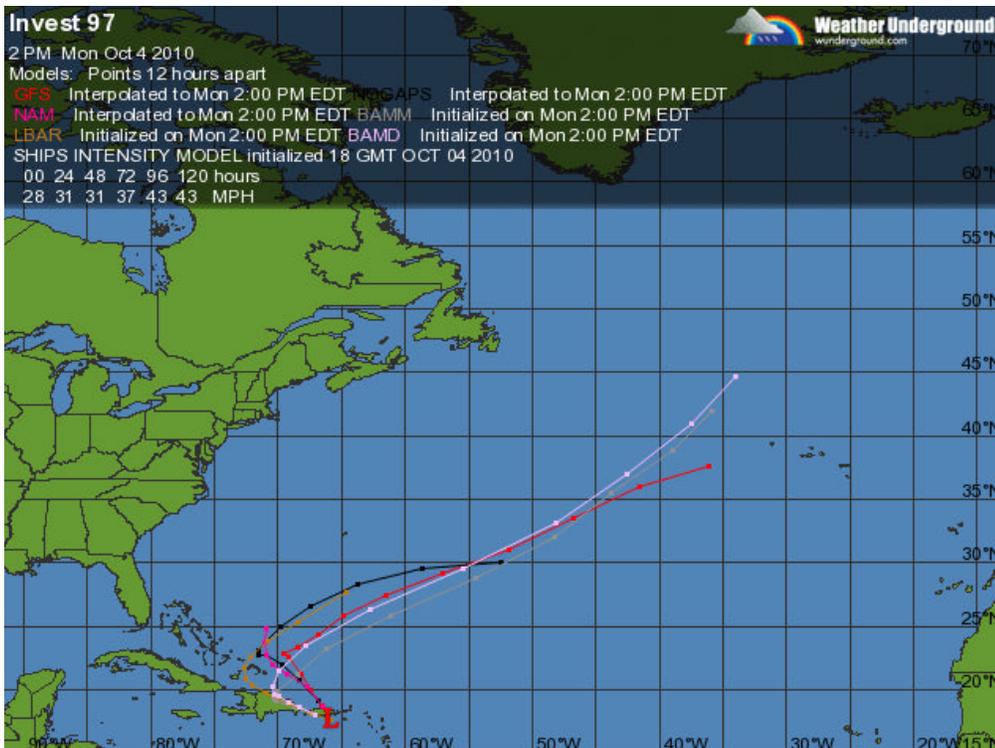
Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	937,000	\$3.563	(\$0.105)	(\$0.139)	\$0.033	(\$0.156)
Chicago City Gate	431,300	\$3.633	(\$0.040)	(\$0.069)	\$0.056	(\$0.081)
NGPL- TX/OK	756,000	\$3.446	(\$0.085)	(\$0.256)	\$0.011	(\$0.246)
SoCal	426,100	\$3.503	(\$0.047)	(\$0.200)	\$0.049	(\$0.167)
PG&E Citygate	777,000	\$3.822	(\$0.034)	\$0.120	\$0.063	\$0.148
Dominion-South	504,100	\$3.694	(\$0.066)	(\$0.008)	\$0.030	(\$0.008)
USTrade Weighted	21,506,900	\$3.528	(\$0.063)	(\$0.174)	\$0.03	(\$0.156)

Statoil said Monday that its gas production would be lower than planned this year as it deferred some production until next year due to current low prices. The

company though noted its 2010 overall production guidance of 1.925-1.975 mbd for oil should be realized. The company declined to specify how much production would be deferred. Another reason for lower production total this year is that the company was not able to produce as much gas from the Ormen Lange field as anticipated. The company noted it has had some extensive discussions with some of its long-term contract customers to address the "challenges in the market". The company though noted that it would maintain the existing pricing formula, such as the oil index formula, for the

majority of its sales volumes and has reduced the volumes that are exposed to new price reviews until after 2012.

Cheniere Energy reported in a filing with the FERC that it has shut its high-pressure boil off gas compressor at the Sabine Pass LNG import terminal for extended maintenance. Four temporary HPBOG compressors will be delivered to the terminal and will remain there until a second permanent compressor is delivered no later than the 3Q2011. Without the temporary compressors, boil off gas at the terminal would have to be flared or vented into the air. The compressors will have a total capacity to regasify up to 28 million cf/d of gas. The facility is the biggest LNG import terminal in the U.S. with a capacity normally of 4 bcf/d however has only seen sporadic volumes this year. The company late in the day said the plant was operating normally.



Chesapeake Energy announced today it has sold the future production from its wells in the Barnett Shale field for \$1.15 billion to an affiliate of Barclays Plc. The five-year volumetric production payment includes about 390 bcf of proved reserves and about 280 mmcf of production per day in 2011. The company has completed eight volumetric production payment deals since December 2007 covering about 1 tcf in proved reserves for total proceeds of \$4.7 billion or 4.70 mcf.

Russian natural gas production rose in September by 14.4% from the prior month and was 5.3% better than a year ago as it reached 1.60 bcm per day.

PAA Natural Gas Storage has filed with regulators for the construction of an additional 32 bcf of working gas storage capacity at the Pine Prairie.

ONEOK Partners announced it would invest more than \$300 million in additional natural gas processing capacity in the Bakken Shale region.

ELECTRIC MARKET NEWS

Genscape reported today that U.S. power output for the week ending September 30th fell about 1% from the prior week and was some 9.1% above a year ago levels.

ECONOMIC NEWS

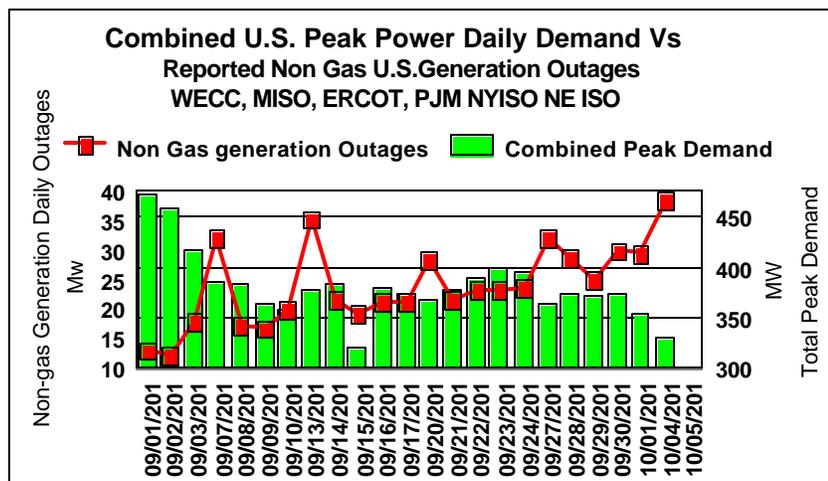
The Commerce Department reported that US factory orders fell more than expected in August, the third decline in the past four months. US manufactured goods orders fell by 0.5% to \$408.94 billion. Orders in July increased 0.5%, revised from a previously reported 0.1% increase.

US pending home sales increased for the second consecutive month in August. The National Association of Realtors' index for pending sales of used homes increased by 4.3% to 82.3. Year over year, the pending sales index was 20.1% below a level of 103 in August 2009.

Delegates warned at a carbon conference that the global carbon market will not be worth \$1-2 trillion a year by 2020 if the US does not speed up efforts for a federal emissions trading scheme. Some expect the \$144 billion global carbon market to grow to \$1-2 trillion/year by 2020, as demand for carbon credits increases after 2012 when the UN's Kyoto Protocol is due to expire.

MARKET COMMENTARY

With no tropical threat on the horizon, the natural gas market broke down today and saw the November contract make new contract lows. While non-gas generation outages reached new recent highs the drop off in power demand muted any supportive effect it may have on the market and cash market values. While the market after three consecutive lower settlements may see a short term bounce we feel that bears ultimately will remain in control of this market and look to test support at \$3.64-\$3.62 followed by \$3.58-\$3.565. Aggressive bears will be looking for an ultimate objective of \$3.00-\$2.80. Resistance we see at \$3.869, \$3.9011, \$3.968, \$4.035 and \$4.25.



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.