



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR OCTOBER 5, 2010

NATURAL GAS MARKET NEWS

The National Hurricane Center said today there is a chance for the low pressure system just north of the Virgin Islands could become a tropical depression over the next 48 hours. The NHC raised the probability of this event up to 80% this afternoon. Computer models though continue to project that this system would not be a threat to the Gulf of Mexico, as they point to the system turning to the northeast and move back out over the Atlantic. Forecasters continue to watch an area of low pressure in the Atlantic that is some 950 miles east of the eastern Caribbean. But no near term strengthening is expected.

Generator Problems

The NRC reported this morning that some 83599 Mw of U.S. nuclear generation capacity was online this morning down 1% from Friday but some 7.5% higher than the same time a year ago.

The Natural Gas Supply Association said today that it looks for U.S. natural gas demand this winter to rise by 2.4% over last year but supplies will be plentiful and that will maintain pressure on prices. They see gas demand being strongest in the electric utility and industrial sectors rising 7% and 5% respectively. In the power generation sector they see coal to gas switching remaining strong and adding to the demand for gas. Residential and commercial sectors though are expected to see lower demand this winter. The group sees domestic production to be among the highest levels in decades.

Reliance Industries said it has broken off talks with Chesapeake Energy over a potential stake in the company's Eagle Ford shale in South Texas.

| Natural Gas Cash Market | | | | | | |
|--------------------------|------------|---------|-----------|------------------|-----------|-------------|
| ICE Next Day Cash Market | | | | | | |
| | Volume | Avg | Change | Basis | Change | Basis 5-Day |
| Location | Traded | Price | | (As of 12:30 PM) | | Moving Avg |
| Henry Hub | 1,050,100 | \$3.507 | (\$0.056) | (\$0.223) | (\$0.019) | (\$0.157) |
| Chicago City Gate | 445,200 | \$3.630 | (\$0.002) | (\$0.100) | (\$0.030) | (\$0.074) |
| NGPL- TX/OK | 685,400 | \$3.421 | (\$0.025) | (\$0.310) | (\$0.053) | (\$0.250) |
| SoCal | 456,700 | \$3.547 | \$0.044 | (\$0.183) | \$0.016 | (\$0.172) |
| PG&E Citygate | 904,100 | \$3.930 | \$0.108 | \$0.200 | \$0.080 | \$0.155 |
| Dominion-South | 571,100 | \$3.703 | \$0.009 | (\$0.027) | (\$0.019) | (\$0.003) |
| USTrade Weighted | 21,368,900 | \$3.538 | \$0.009 | (\$0.192) | (\$0.02) | (\$0.157) |

The Danali Pipeline project a joint venture by BP and ConocoPhillips said late Monday it has received bids for "significant" capacity from companies during

its recently completed open season for pipeline space on the proposed line. "As expected, the bids, include conditions, some of which are outside of Denali's control." The company said it would evaluate these bids and their conditions and continue to work towards reaching binding agreements. Neither bidders nor capacity bid for were identified. The project is for a 1700-mile gas pipeline passing through Alaska to Alberta, plus a large gas processing facility at Prudhoe Bay. The line would have the capacity to ship 4.5 bcf/d at a total cost of over \$35 billion.

Port officials reported today that the Shagra LNG tanker is expected to arrive at the South Hook LNG terminal from Qatar on October 12th. Meanwhile Belgium port officials reported that the Qatari LNG tanker, Al Kharsaah is expected to arrive at the Zeebrugge terminal on October 23rd. The vessel has a 214,000 cm capacity.

Spectra Energy's East Tennessee Natural Gas issued an OFO effective Thursday that will result in limited operating flexibility on its system. The company also reported that its Egan Hub natural gas hub has issued a capacity constraint notice due to an OFO on Tennessee Gas Pipeline.

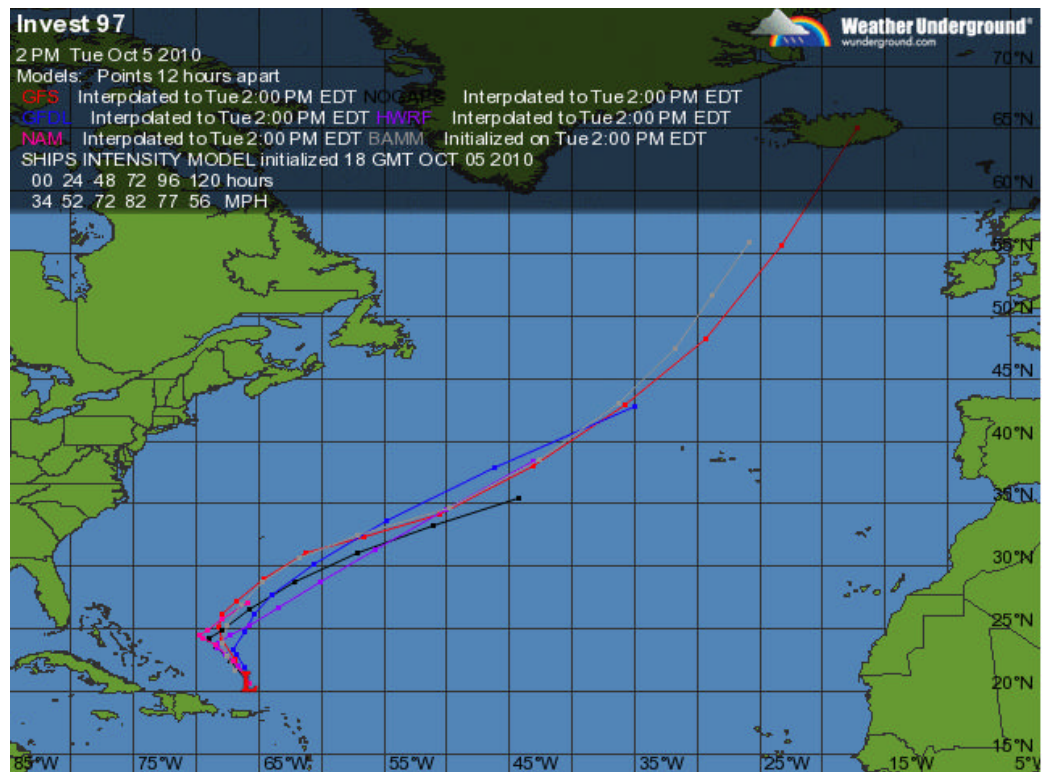
The Department of Energy said Tuesday that U.S. imports of LNG in August fell to their lowest monthly level in more than two and a half years as low domestic prices discouraged imports. Volume in August fell to 21.6 bcf, down from the 34.6 bcf imported in August 2009 and the 36.3 imported in July 2010. The majority of August imports came from Trinidad at 16.5 bcf with 5.1 bcf coming from Yemen. Most of the volumes were delivered to Distrigas's Everett terminal in Boston. Some 13.3 bcf went to this terminal with 8 bcf going to Elba Island. The landed price of cargoes was mostly in the \$4.50-\$5.00 per Mmbtu range.

Noble Energy warned that it would take Israel to the International Court of Justice if that nation's government goes forward with a proposal to almost double royalties on off-shore gas finds. Israel currently has a 12.5% royalty rate that it is potential looking at raising to 20%.

Wintershall denied market speculation that the company might join the South Stream gas pipeline project lead by Gazprom. The company said it was instead looking at expansion of upstream activities in Russia as a priority.

Sempra Pipelines and Storage said it has placed into service Cavern #4 at its Bay Gas Storage Terminal in Alabama. The cavern will add 5 bcf of working gas capacity to the facility. The company noted that construction of Cavern #5 is underway which will add another 5 bcf of capacity.

Retuers reported today that the Golar Maria, a LNG tanker was heading to Brazil from Belgium today. The 143,000 cubic meter tanker was believed to be heading to brazil as a result of utilities there seeking to make up for low hydropower levels.



ELECTRIC MARKET NEWS

TVA said on Monday that it has awarded the engineering and development contract to Areva to work on the potential completion of the 1200 Mw Unit #1 at the Bellefonte nuclear power plant in northern Alabama. Construction of the plant had been suspended in 1988.

Genscape reported today that coal stockpiles at U.S. power plants rose just 1.7% this week and were 19.7% smaller than a year ago.

ECONOMIC NEWS

The Institute for Supply Management said the US non-manufacturing sector expanded at a higher than expected pace in September. The ISM's non-manufacturing purchasing managers' index increased to 53.2 in September from 51.5 in August. The business activity/production index fell to 52.8 from 54.4 in August. The new orders index increased to 54.9 in September from 52.4.

Chicago Federal Reserve Bank President Charles Evans said the US Federal Reserve should do more monetary easing to spur an economic recovery.

The European Union's statistics office Eurostat said Euro zone retail sales in August fell by 0.4% on the month but increased by 0.6% on the year. Consumer demand is weak because unemployment in the euro zone is at an almost 12 year high of 10.1% and is expected to rise further.

South Korea's Finance Ministry said the country's industrial output is expected to post limited growth in September from the previous month on sustained export growth and higher production by major industries. Industrial output in August fell by a seasonally adjusted 1% from July.

The International Monetary Fund said global financial stability in the past six months has been set back by sovereign debt risk in Europe and continued real estate problems in the US. It trimmed its estimate of total global bank write downs related to the financial crisis between 2007 and 2010 to \$2.2 trillion from its April estimate of \$2.3 trillion.

Nobel Prize winning economist Joseph Stiglitz said ultra loose monetary policies by the US Federal Reserve and the European Central Bank are bringing chaos rather than helping the global economic recovery.

Germany's Chancellor Angela Merkel supported a French plan for tighter controls on commodity trading, deepening an alliance against financial speculators by the euro zone's top two economic powers. France and Germany may also struggle to persuade their global partners to back their position.

MARKET COMMENTARY

While most of the commodity markets were climbing significantly higher today as the U.S. dollar continued to erode in value, the natural gas futures market did not. With the tropics relatively quiet and overall power demand limited it allowed spot cash values to fall at most trading points for the eighth straight session. Some pricing points saw their lowest values in more than ten months. While the futures market which had spent much of the trading session in negative territory was able though to hold yesterday's lows and settle a couple of pennies higher but in moderate volume at best. While trading tomorrow may continue to move sideways in front of Thursday's storage report, we continue to feel that this market will once again challenge the recent contract lows over the next several trading sessions. We continue to look for \$3.69-\$3.686 to be key support and if this is breached we would look for additional support at \$3.62 and \$3.563. Resistance we see at \$3.788, \$3.857, \$3.915, \$3.962 and \$4.133.

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