



## 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 6, 2009

#### NATURAL GAS MARKET NEWS

Forecasters this morning noted that the tropical disturbance, Invest 91L some 500 miles east of the Leeward Islands appeared to have become a little less organized overnight. Upper level winds no longer appeared conducive for development as it moves northwestwardly, but they noted that after 48 hours conditions may appear more conducive for development once again. Only one forecasting model had the system becoming a tropical depression by later this week as it nears Puerto Rico and the Virgin Islands. But by midday forecasters had modified their forecast for the system and now looked for the system to begin to turn away from the Caribbean over the next few days and remain in the Atlantic. But simply two hours later the National Hurricane Center had issued a special advisory noting that the tropical system had recorded a rapid increase in thunderstorm activity this afternoon and the system had tropical force winds and as a result the NHC had named the storm Tropical Storm Henri. The system was expected to move northwestward well north of the Lesser Antilles. By the 5 Pm update the NHC noted the system may be short lived as relatively strong wind shear conditions are expected to weaken the storm to a tropical depression over the next 24 hours, with most of the global models forecasting Henri to dissipate by 48 hours.

#### Generator Problems

**MISO** – Exelon's 1043 Mw Clinton nuclear unit was at 83% capacity this morning, down 12% from yesterday.

**NPCC** – Constellation Energy shut its 621 Mw Unit #1 at the Nine Mile Point nuclear unit. The unit had been at full power on Monday.

OPG's Nanticoke #8 coal fired generating unit was shut for maintenance.

Calpine/Matsui's Greenfield #1 and #4 gas generating units were shut Tuesday morning but returned to service by the afternoon.

**WSCC** – Energy Northwest's 1150 Mw Columbia Generating station was at 92% power, down 4% from Monday.

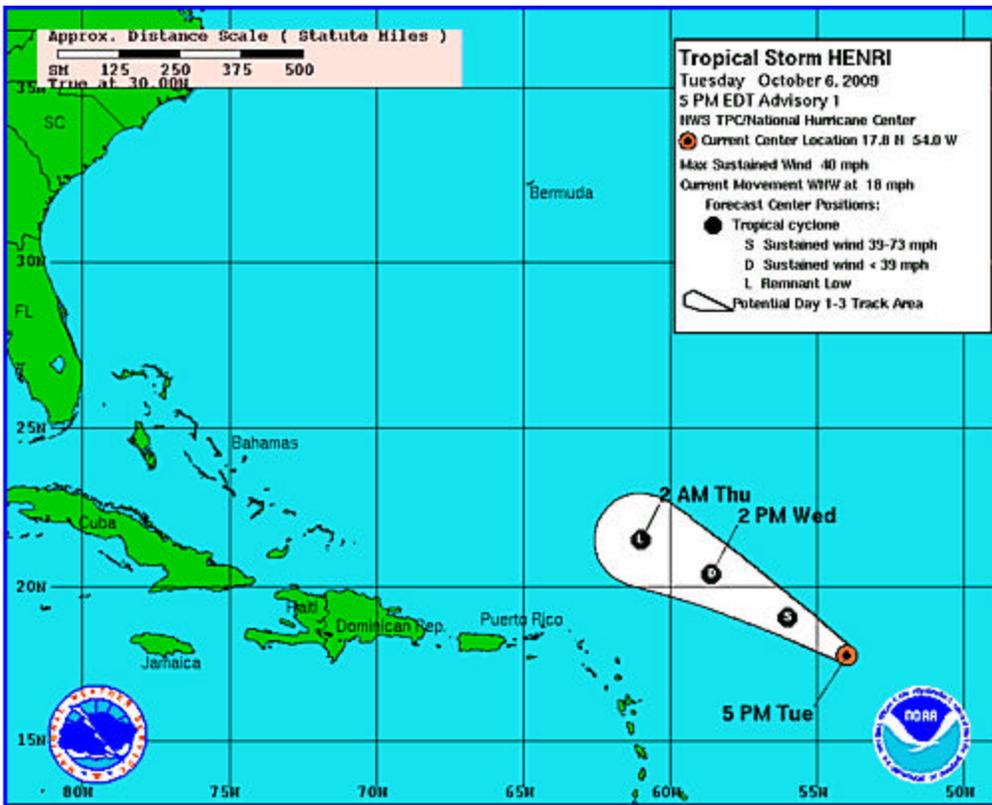
**SERC** – TVA's 1100 Mw Browns Ferry #2 nuclear unit was at 92% power this morning, up from 37% power on Monday.

**The NRC reported this morning that 77,746 Mw of nuclear generation capacity was on line, down 0.9% from yesterday and off 7.3% from the same time a year ago.**

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	1,116,200	\$3.225	\$0.338	(\$1.752)	\$0.349	(\$1.769)
Chicago City Gate	673,500	\$3.516	\$0.465	(\$1.461)	\$0.394	(\$1.704)
NGPL- TX/OK	912,600	\$3.228	\$0.402	(\$1.749)	\$0.331	(\$1.909)
SoCal	490,100	\$3.440	\$0.361	(\$1.537)	\$0.290	(\$1.668)
PG&E Citygate	711,800	\$4.138	\$0.386	(\$0.839)	\$0.315	(\$0.969)
Dominion-South	258,700	\$3.472	\$0.469	(\$1.505)	\$0.398	(\$1.760)
USTRade Weighted	20,918,100	\$3.401	\$0.420	(\$1.576)	\$0.35	(\$1.769)

The EIA released their latest Short Term Energy Outlook Tuesday morning. The agency raised its estimate for domestic natural gas production in 2009 but said declining well productivity and

the steep pullback in drilling should finally result in sharply lower output next year. The agency estimates that production this year should average 59.47 bcf/d up 0.6% from last month's estimate and 1.5% higher than a year ago. But the agency sees production next year averaging only 57.19 bcf/d, some 3.8% less than 2009 but still some 0.3% higher than last month's forecast. The EIA in its latest report estimated net imports averaging just 7.39 bcf/d in 2009 and 7.85 bcf/d in 2010. Meanwhile the agency has revised higher its estimate for 2009 consumption of natural gas by 0.5% from last month to 62.16 bcf/d as a result of its estimate that electric generation will be some 2.6% higher than originally forecasted. The EIA though sees 2010 demand for natural gas will be just 62.03 bcf/d, as electric power generation for gas will slip back. The EIA's price forecast has also been raised. It now sees the Henry Hub spot price in the 4Q09 averaging \$3.63 up nearly 20% from last months forecast and in 2010 prices will average \$5.02 up 5% from last month's forecast. The EIA looked for natural gas inventories to set a new record high at the end of this year's injection season, reaching to more than 3.8 tcf.

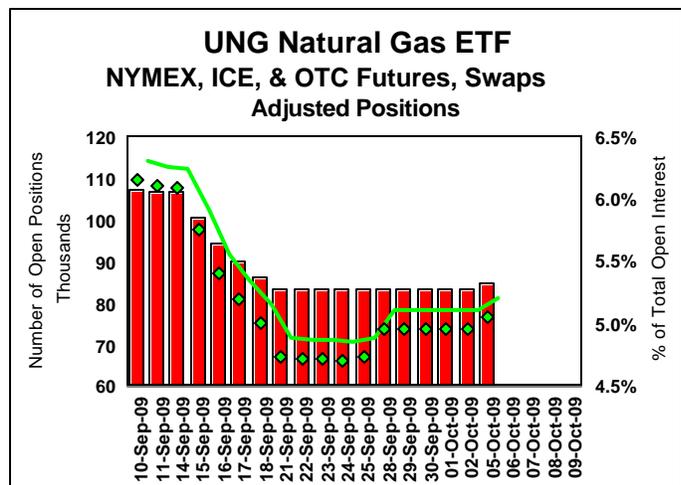


The EIA said it expects households heating primarily with natural gas to spend some 12% this winter than last year.

Chevron said it has stopped drilling in the Piceance Basin in Colorado due to low gas prices. The company had earlier reported that it had slowed development activities in the region. The company said today that "there is no drilling activity at Piceance) but the resource will still be there when natural gas markets improve."

Analysts at SunTrust Robinson Humphreys said Monday that with the U.S. natural gas rig count down dramatically, domestic gas supplies should fall by 2 bcf/d or more or by 4% by year's end, setting up a peak to trough decline of almost 5 bcf/d or 9% by the middle of 2010.

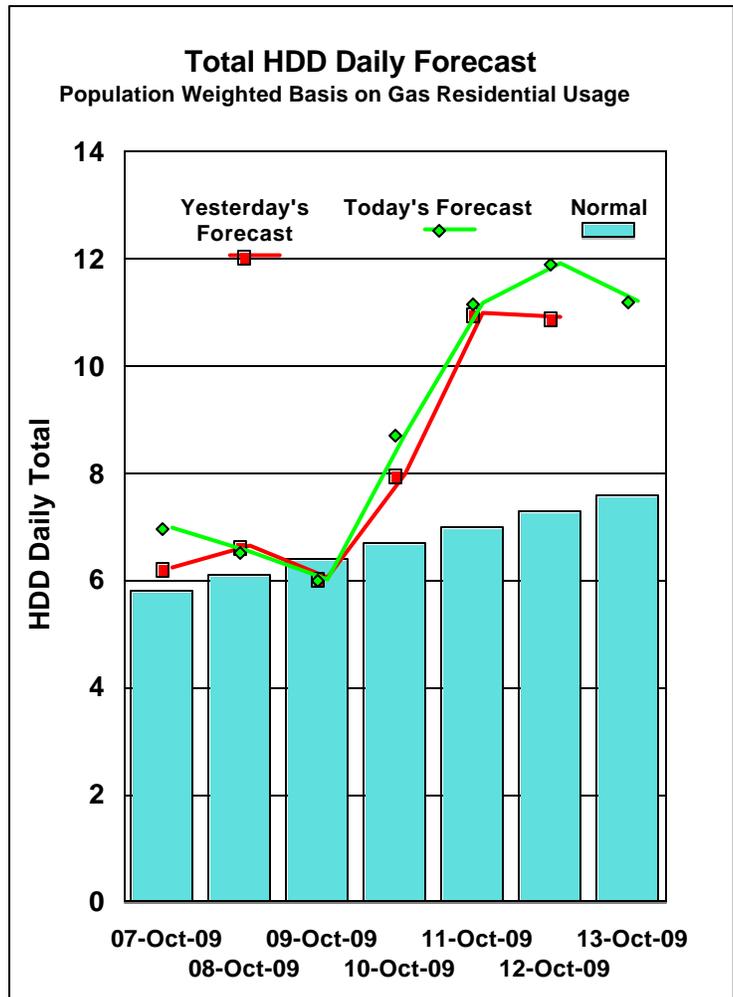
Repsol said global LNG supplies will exceed demand until 2013. It sees the global economic crisis has temporarily depressed natural gas demand at a time when many new LNG production projects have begun production. However, the postponement of new projects could result in a supply deficit by 2014.



A senior Qatari LNG official said today the postponement of planned LNG facilities amid the current global slump in natural gas prices would lead to tight supplies by 2015. He warned that consuming nations needed to prepare themselves for the coming tight supply situation.

Qatargas Operating Company said today that its LNG output will reach 77 million tons by the end of 2010, as the start up of Qatargas's seventh train at Ras Laffan 3 was expected to come on stream by the fourth quarter of 2010. Company officials said the company could quickly add additional production capacity by removing bottlenecks once Qatar Petroleum lifts the current cap on output. Qatar Petroleum has been cautious to this point as it wants to make sure that the reservoirs can handle additional output. Qatargas said it believes it could boost output by at least 2 million tons annually at each of the company's six megatrans in a "short time".

The chairman of the gas transporter GAIL (India) said the company will start importing LNG cargoes every month from the end of October or November to meet growing demand for natural gas in India.



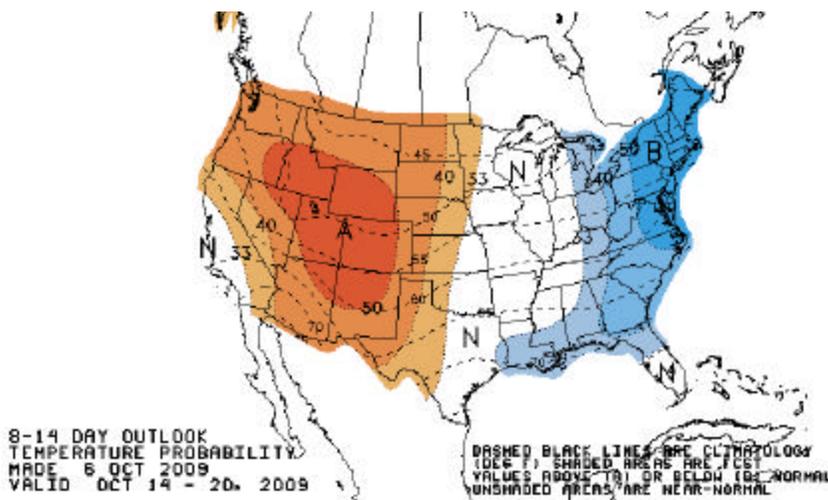
The LNG tanker Fraiha was scheduled to arrive at the Isle of Grain terminal on October 9<sup>th</sup>.

Gas flows into the St. Fergus terminal in the UK from the Alwyn gas field were affected by a technical issue the terminal operator Total said this afternoon. Flows had dropped to 6 million cubic meters, National Grid reported.

The BBL gas pipeline from the Netherlands to Britain is scheduled to undergo its annual maintenance from August 30<sup>th</sup> until September 28, 2010. The annual maintenance period this year lasted only for a week. During that time there was no gas flow.

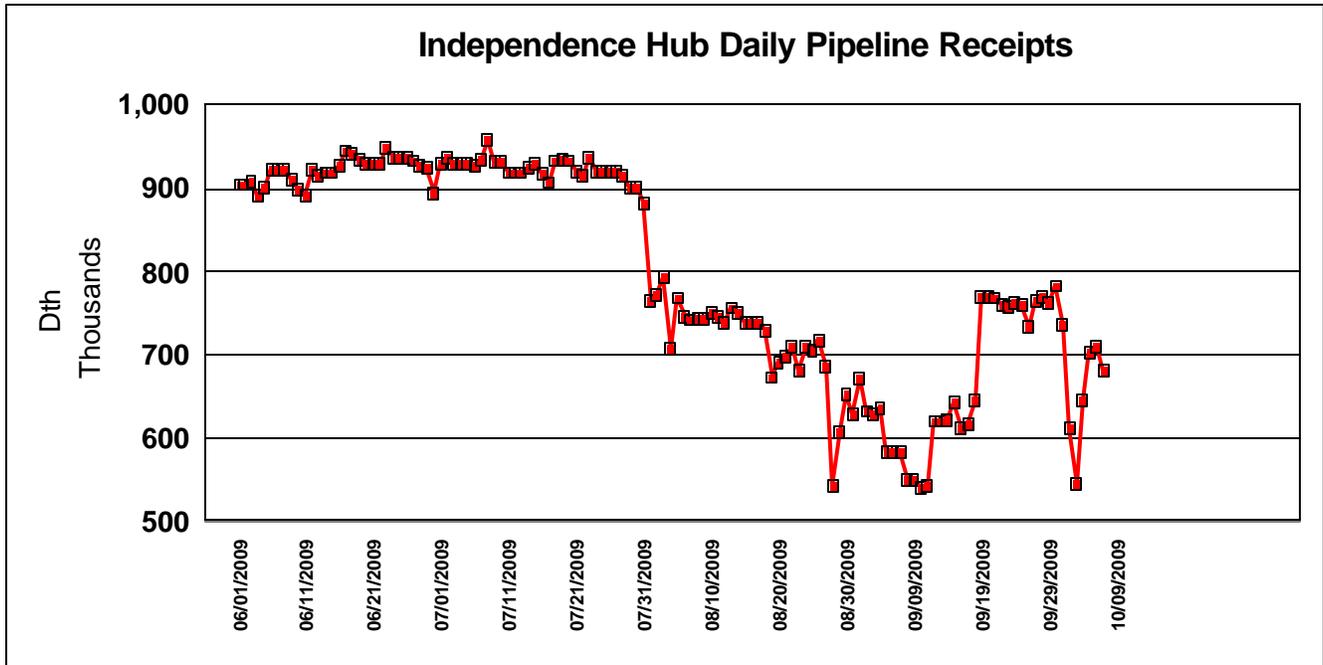
Gazprom said today that it expects the South Stream pipeline to be completed by 2015.

Operators at the South Hook LNG terminal said the facility has completed commissioning process for Phase 1 at the terminal, and as a result any spare capacity at the terminal that ExxonMobil or Qatargas is not utilizing will be

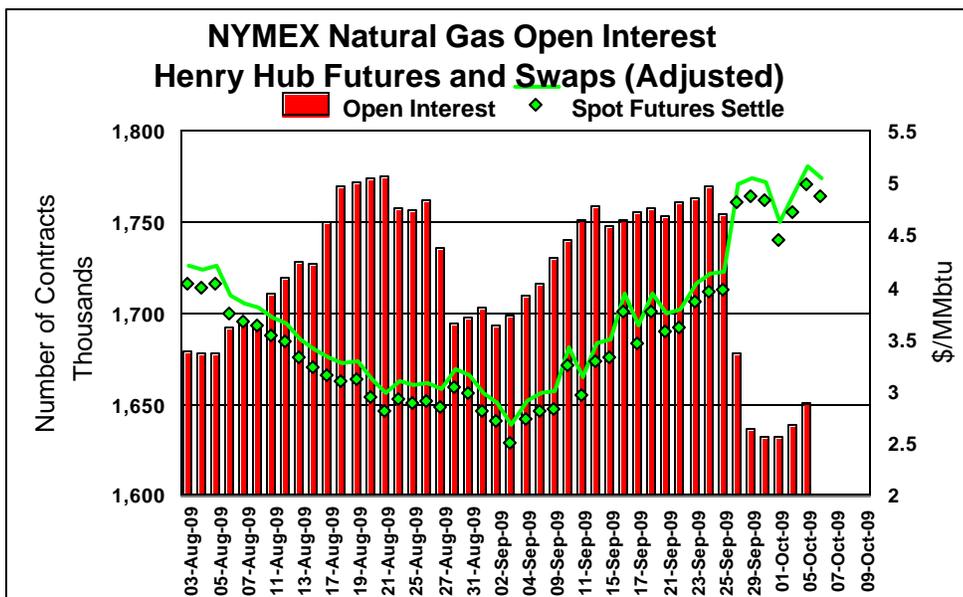


advertised for potential shippers to utilize. The port is currently commissioning phase two, which should be completed by the first quarter of 2010, which would at 11 bcm of capacity bringing the terminal up to a 21 bcm capacity.

The Ukrainian energy company Naftogaz said it has paid in full and on time for all of its September gas purchases from Gazprom. The company said the payment was for \$400 million for some 2 bcm of gas consumed in September.



T. Boone Pickens was back in the news today as he told CNBC that he has increased his long oil and natural gas positions in recent weeks. He said that oil prices could spike to as high as \$100 a barrel next year if there is a rebound in the global economy. He expected oil prices to end this year around \$75 per barrel and \$85 by the end of 2010. He said it is essential for the U.S. to pass climate legislation otherwise oil prices would soar to \$300 per barrel in 10 years. He also looked for oil to natural gas price ratio to return to 10-1 over the next two to three years.



Chevron's president of Global Gas said Tuesday that global natural gas demand will begin to recover next year, but prices in the United States could remain under pressure in the medium term as ample supply weighs on the market.

A study released today by the International Gas Union found that global natural gas production will need to grow by 70% if the world is to start

reducing carbon dioxide emissions quickly enough to avoid the worst effects of climate change. The study estimates that world gas demand will rise to 4.8 tcf/d by 2030 from 2.8 tcf/d recorded today. The group found that demand for natural gas will increase from traditional sectors and natural gas will also play a new role as a complementary fuel to renewables by enabling increased deployment of energy supply from intermittent renewable technologies.

**PIPELINE MAINTENANCE**

Transco said it will be conducting line lowering work on the 14 inch North Markham Lateral from October 20<sup>th</sup> through November 10<sup>th</sup>. During this work, Glaze #1 and KM Wharton will not be available for flow. No other impact to gas flow is expected.

Gulf South will perform system maintenance at the Clarence Compressor Station on Unit #1 from October 12<sup>th</sup> through October 19<sup>th</sup>. Based on system operations and nominations, the company does not expect any impact to shippers utilizing the facility.

TransCanada said the investigation of the NPS 20 Peace River Mainline would be completed today. As a result Segment 1 capability will be returned to 3800 MMcf/d its normal capacity.

**PIPELINE RESTRICTIONS**

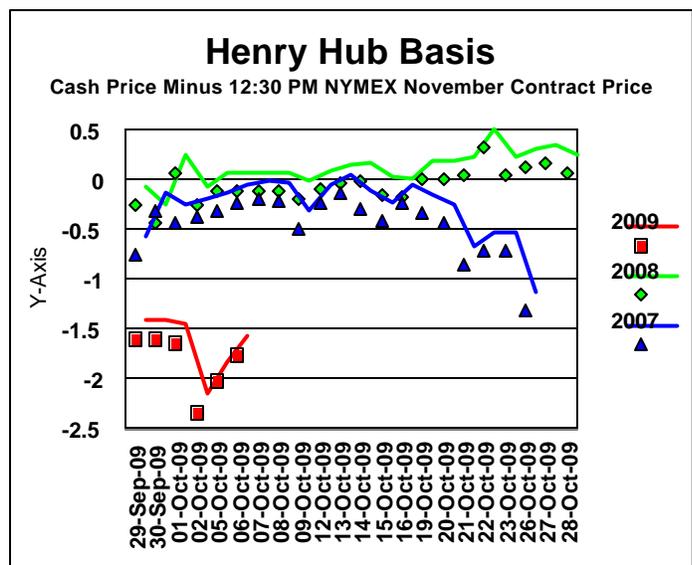
NGPL said that effective for today and until further notice Florida Vermillion is at capacity for deliveries. Interruptible transportation services/authorized overrun and secondary firm transports are at risk of not being fully scheduled.

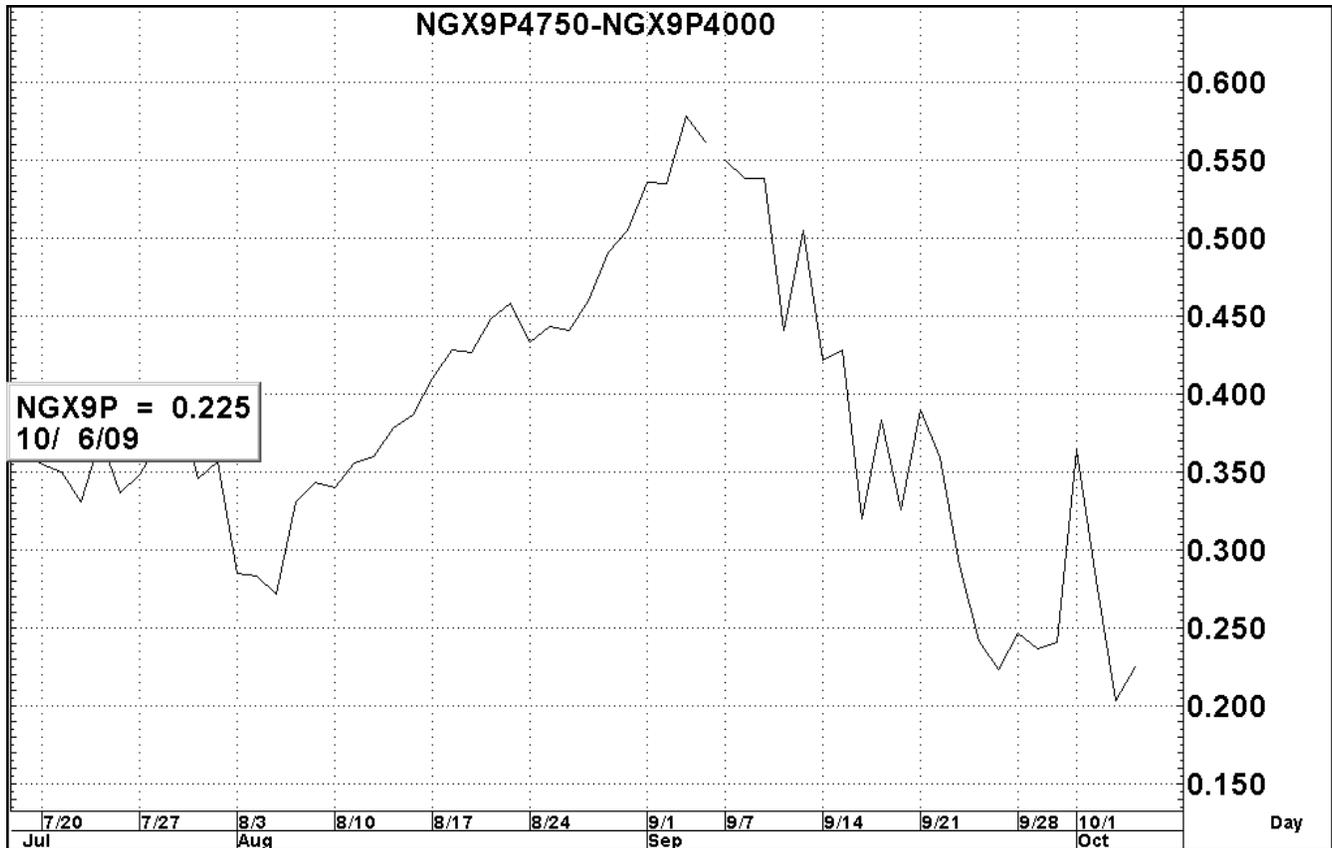
**ELECTRIC MARKET NEWS**

The EIA in its Short Term Energy Outlook sees coal demand in the fourth quarter averaging 256.7 million short tons down 1.2% from its forecast just a month ago due to a significant drop in demand from the electric power sector. In 2010 the EIA sees coal demand growing by 2.5% over 2009 levels but this forecast is some 0.3% less than the agency's projection last month. In the power sector the EIA sees electric supply to average 10.49 billion Kwh per day, in the fourth quarter of 2009 and 11 billion Kwh in 2010, basically unchanged from last month's forecast.

Carbon dioxide emissions from fossil fuels are expected to have fallen 5.9% in the United States during 2009. Coal leads the drop in 2009 CO2 emissions, falling by 10.1%. Changes in energy consumption in the industrial sector, a result of the weak economy and changes in electricity generation sources are the primary factors for the decline in CO2 emissions. The projected recovery in the economy contributes to an expected 1.1% increase in CO2 emissions in 2010.

Coal supplies at US. power plants rose 0.8% this week from last week and were 23.8% above the same week a year ago. As of Tuesday, U.S. generators had an estimated 69 days of forward supply of coal. Genscape said today that coal may regain lost market share in power generation this fall as more nuclear power plants than usual go off line for refueling. Genscape had noted that with weaker industrial demand due to the recession had led power companies to shut coal fired power plants and keep cheaper to operate nuclear units running to meet shrunken baseload demand this summer. But as gas becomes less competitive to coal as we enter the winter coupled with record power plant coal supplies, all could lead





to growing coal generation levels and shrinking need for natural gas as a generating fuel.

**MARKET COMMENTARY**

The natural gas market early this morning challenged the two-month highs in the November contract at \$5.133 as it appeared new speculative buyers continued to flock to the market. But with some moderation in the 8-14 day forecast from yesterday the premature bullish weather frenzy appeared to falter and some profit taking took place bringing prices back a bit. The market appeared to receive a secondary push lower at midday when the National Hurricane Center appeared to downgrade the risk of Invest 91 L (which would later in the day become Tropical Storm Henri) noting that the storm would not be a risk to the U.S. coast line.

The march of bulls to this natural gas futures and swaps market was reconfirmed at midday when the NYMEX reported that the open interest in the Henry Hub futures and swaps on a combined adjusted basis grew by over 11,551 contracts, the largest single day gain since early September. Even the natural gas ETF basis yesterday's trading posted its first open interest gain since early July.

Even with the cash market gaining on the futures market today the basis differential continues to lag significantly behind the prior two years on a seasonal basis and has to act as a restriction on further gains for the futures market. As a result we continue to look to be a scale up buyer of put spreads on any flat price rally. We see resistance tomorrow at \$5.133, followed by \$5.217, \$5.385 and \$5.471. Support we see at \$4.826, \$4.736, \$4.645 and \$4.42.

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