



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR OCTOBER 7, 2010

NATURAL GAS MARKET NEWS

The government's Climate Prediction Center said today that it expects La Nina condition will last until spring of 2011, thus raising the prospect for more rain and snow in the Pacific Northwest and the chance of storms late in the hurricane season, especially in the Gulf of Mexico.

Generator Problems

The NRC reported this morning that some 81,743 Mw of U.S. nuclear generation capacity was online this morning down 1% from yesterday but some 5.2% higher than the same time a year ago.

The Director of the National Hurricane center said today that while the 2010 Atlantic hurricane season has been very active in the number of storms, (this being only the third time since 1950 that we have seen this many named storms by October 6th) it is likely to go down as a non-event for most people in the United States due to limited number of storms making landfall. The Center had assigned a very high degree of probability for a major hurricane making landfall on the U.S. coast before the season started this year. He felt that with the hurricane season peak having passed and the season winding down in the next two weeks or so, the chances of a major impact on the U.S. mainland or in the Gulf of Mexico are ebbing. He felt the eastern portion of the Gulf of Mexico, the Caribbean and southern Florida are still at most risk, given the relatively warmer than normal water temperatures in those areas. Meanwhile the National hurricane Center today noted that Tropical Storm Otto as expected was moving out to sea and posed no threat to the U.S. mainland. Forecasters were watching an area of low pressure in the western Caribbean that has a very low chance of developing into a tropical depression at this time. In addition the computer models which yesterday were pointing toward tropical development in this area either late this weekend or early next week that could potentially be a threat to the U.S. now seemed to have changed and now assign a higher probability that any such storm would be blocked from moving towards the U.S. and rather will be pushed toward Central America or be pulled towards the Bahamas. Thus the threat level to the U.S. Gulf remains very low at this time.

Repsol said today that it expects the first cargoes of Qatari LNG to arrive at Canada's Canaport LNG terminal in late 2010 as it announced it had reached a long-term supply deal with Qatar. Imports into the terminal are expected once Qatargas production train #6 comes on line.

Reuters reported today that the Qatari LNG tanker Al Dafna is heading to the United States carrying what could be the second test cargo for the new Golden Pass LNG terminal. The tanker could arrive around October 18th. The company is still awaiting approval from the FERC to take its first test cargo.

Turkey said today that it supports combining the Nabucco and Interconnector Turkey-Greece-Italy pipeline efforts since both are targeting supply from the Azerbaijan Shah Deniz gas field.

Total SA has postponed exploratory drilling in the Caspian Sea in Azerbaijan until early next year due to delays in delivery of a rig. The rig has been slated to explore in the Apsheron gas field which has estimated reserves of 300 bcm.

National Grid said today that it looks for Britain's peak winter gas demand to reach 3.8% higher than last year. The company has raised its peak demand forecast after seeing gas demand spike last year during one of the coldest winters in decades and an expected increase in demand for gas for power generation, due to new plants starting in 2010. The grid operator is looking for ample supply as LNG import capacity will be higher this winter due to the expansion of the Isle of Grain facility as well as additional capacity at the South Hook that was added earlier this year, as well as the expansion of the Dutch-British BBL gas pipeline. National Grid sees domestic British gas production will fall by 9% from year ago levels.

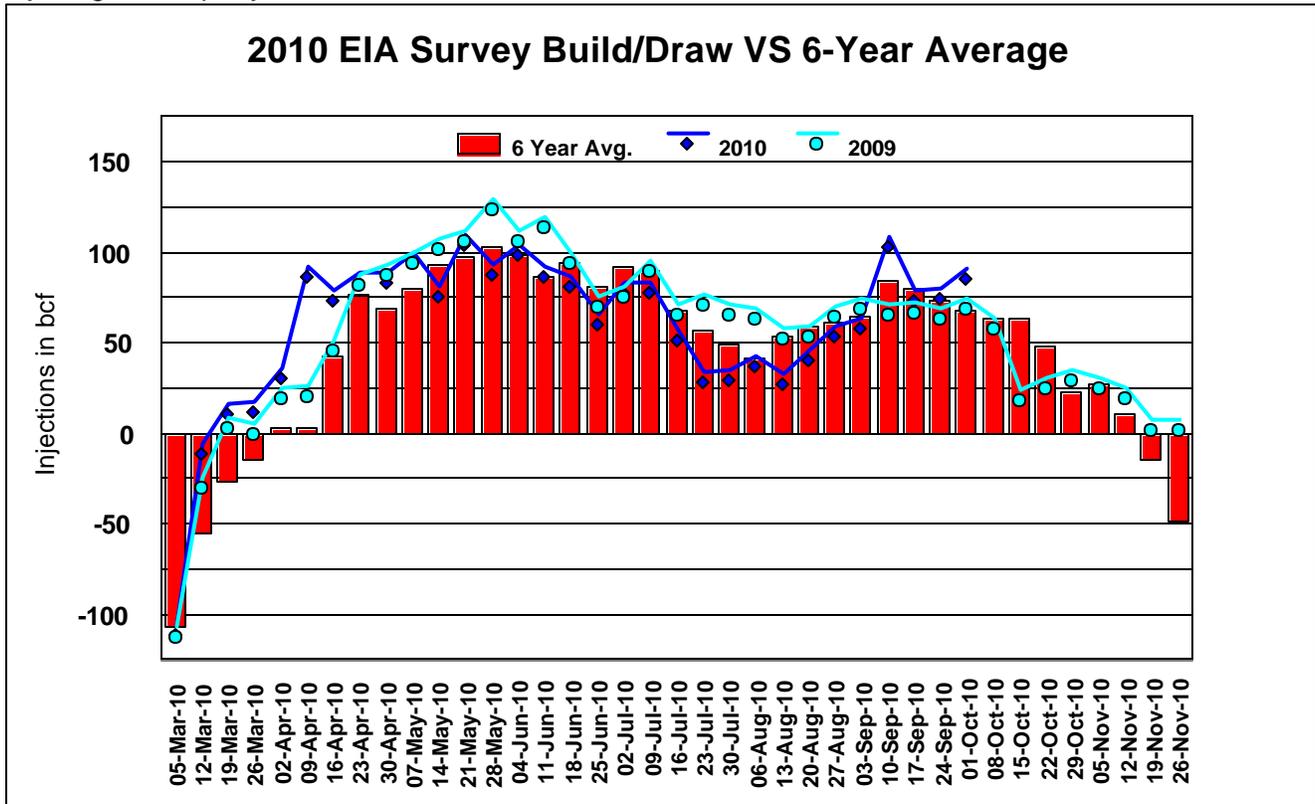
**Canadian Gas Association
Weekly Storage Report**

	01-Oct-10	24-Sep-10	02-Oct-09
East	212.3	205.2	239.2
West	383.5	376.7	357.3
Total	595.8	581.9	596.5

storage figures are in Bcf

Capacity at the Kollsnes gas processing plant remains restricted due to maintenance activities that started on September 27th that restricted capacity by 16% to some 120 mcm. Gassco, the operator though expects capacity will be restored in a matter of "days not weeks". The company also confirmed that yesterday's reported minor gas leak at the terminal has not impacted gas deliveries.

Ukrainian President Yanukovich said today that the Ukraine and Russia continue to discuss setting up a joint gas company.



ELECTRIC MARKET NEWS

Data released from the U.S. Army Corps of Engineers today showed that total hydroelectric generation in the U.S. Northwest in September ran some 14.9% less than in August, but was some 4.3% better than September 2009 levels.

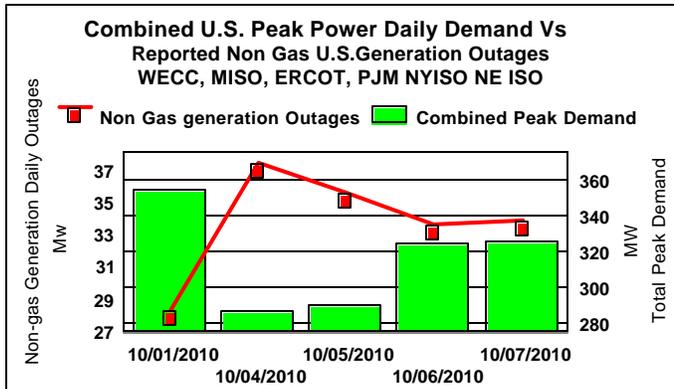
ECONOMIC NEWS

Sempra Energy and Royal Bank of Scotland have agreed to sell most of the remaining assets of their commodity trading joint venture RBS Sempra to JP Morgan for about \$220 million. The assets include

the company's North American wholesale natural gas and power trading books. The deal will require FERC approval is expected to close later this year.

The US Labor Department reported that initial claims for unemployment benefits fell to a near three month low last week. Initial claims fell by 11,000 to a seasonally adjusted 445,000, the lowest level since the week ending July 10th. Economists had forecast claims would increase to 455,000 from the previously reported 453,000. It reported that the four week moving average of unemployment claims fell by 3,000 to 455,750. The number of continuing claims fell by 48,000 to 4.46 million in the week ending September 25th. The insured unemployment rate fell to 3.5% from 3.6% the prior week.

According to Thomson Reuters, US retail same-store sales increased by 2.8% in September compared with a forecast of a 2.1% increase.



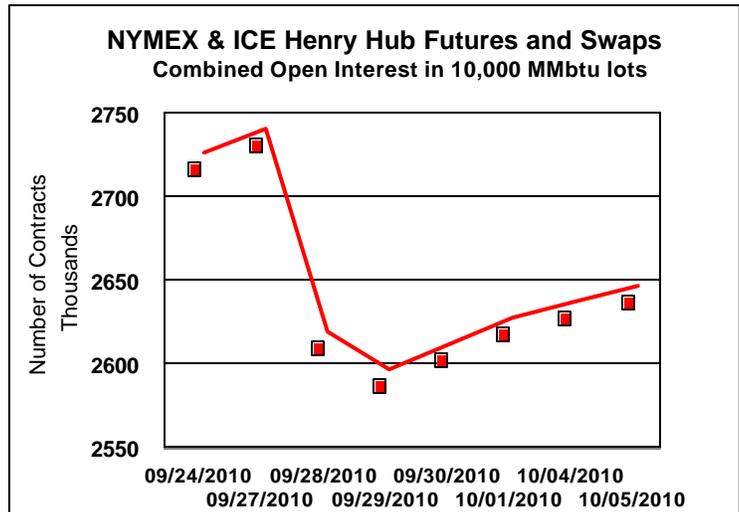
Kansas City Federal Reserve Bank President Thomas Hoenig, who has dissented against the US central bank's easy money policies, said he opposes any additional easing. He said the recovery proceeding modestly and reiterated his belief that the Fed should raise benchmark rates to 1% and hold to see how the recovery proceeds.

European Central Bank President Jean-Claude Trichet said economic recovery in the euro

zone will continue at a moderate pace in the second half of the year with the underlying momentum remaining positive. He also stated that it is more important than ever that exchange rates reflect economic fundamentals and excessive volatility of such rates is best avoided. He said excess volatility and disorderly movements in exchange rates have adverse effects for economic and financial stability. The ECB and European governments have shown little sign of action to cap recent gains for the euro, in contrast to policies in Japan, China and the US which have led to warnings of a currency war of competitive devaluations. The EU is expected to keep the urging China to revalue the yuan even though China may not respond to foreign pressure.

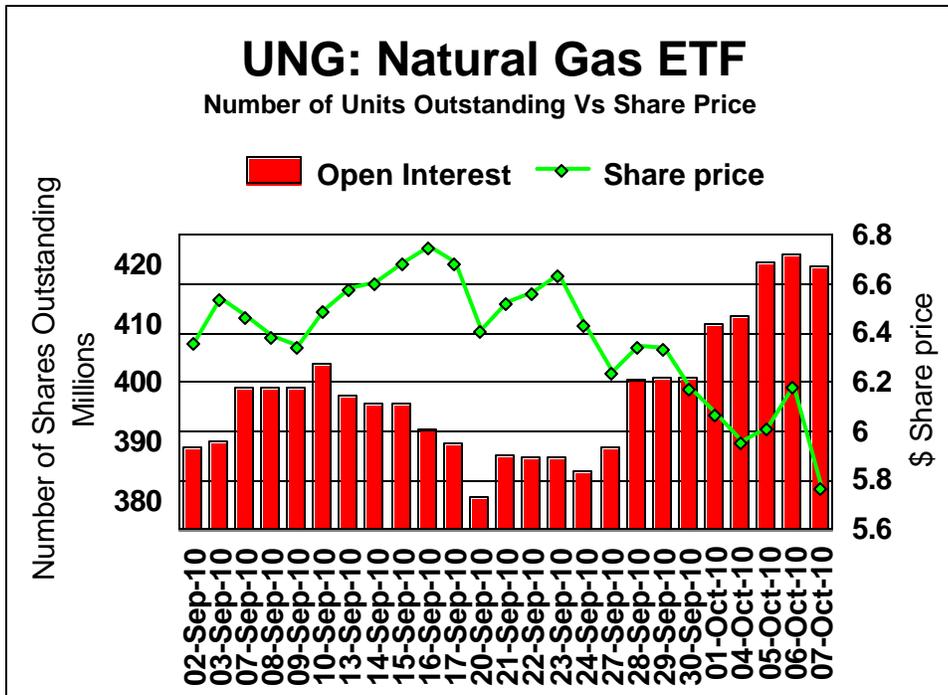
MARKET COMMENTARY

The natural gas market in very active trading posted significant losses, with the November contract settling 24.8 cents lower on the day and with the back months posting lesser degree of losses. This morning's EIA storage report came in higher than expected and continued the trend of the past four weeks in which current injections are running at a higher pace than a year ago. This sent the bulls fleeing for the exits and pushed prices below yesterday's lows falling some ten cents and eventually breaching this week's earlier lows at \$3.686 before finding some support or at least a pause in the selling pressure at midday. But on the close another wave of selling in good volume swept through the market pushing prices down another nickel and breaching the recent spot continuation low of \$3.62 recorded in late August. As a result spot natural gas futures price is now at its lowest level since September 23, 2009, causing many traders to search their charts for new major support points. We see initial support at \$3.61 followed by \$3.566



and \$3.50. Beyond these levels we see \$3.368 and \$2.732. One should be aware that the November

put option contract has over **38,000 open contracts** in the November \$3.50 strike. If this level is breached it should unlock another wave as selling as put sellers rush to cover exposed positions. Below this major strike there is just over 8600 lots open in the November \$3.25 put and 14,000 lots in the November \$3.00 put. Resistance points for this market we see at \$3.788 followed by \$3.988 and \$4.127. Additional resistance we see at \$4.198, \$4.345-\$4.35 and \$4.572.



Judging by open interest in the UNG natural gas ETF and the open interest reports for Henry Hub futures and swaps on the IPE and NYMEX in recent days, it appears that the speculative buying that had begun to creep into this market earlier this week was reversed today as these new longs quickly ran for the exits. Volume was estimated at over 486,000 futures traded some 85% higher than yesterday's volume and potentially a new record.

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