



## ENERGY RISK MANAGEMENT

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### NATURAL GAS & POWER MARKET REPORT FOR OCTOBER 8, 2010

#### NATURAL GAS MARKET NEWS

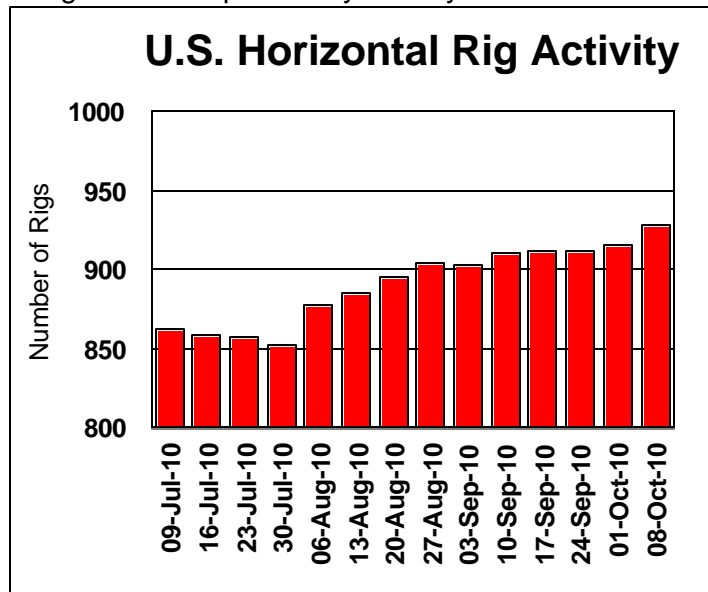
The National Hurricane Center today was watching an area of cloudiness and showers associated with a weak low-pressure system in the southwestern Caribbean Sea that remained relatively disorganized and stationary. Forecasters though continue to look for environmental conditions over the next day to two to be conducive for some slow development. Forecasters though assigned a low probability of only 10% that it could become a tropical depression over the next 48

#### Generator Problems

The NRC reported this morning that some 81,795 Mw of U.S. nuclear generation capacity was online this morning basically unchanged from yesterday but some 5.1% higher than the same time a year ago.

hours. But forecast models do have this system becoming a tropical storm by early next week. But currently this system is not expected to be a threat to the Gulf of Mexico, since if it does attempt to move northward into the Gulf it would be ripped apart by expected strong westerly winds aloft in the Gulf region.

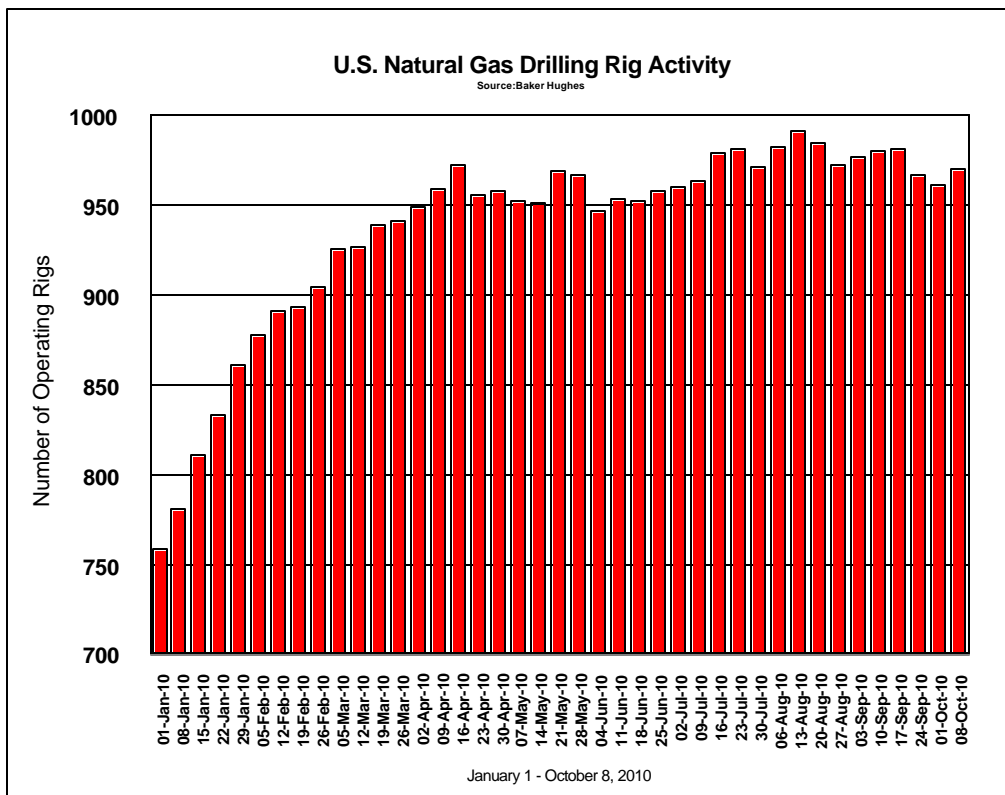
Baker Hughes reported this afternoon that they estimated the number of rigs drilling for natural gas in the United States this week rose by 9 from last week to 971 rigs. This was the first gain in three weeks. The number of horizontal rigs, the type most used for extracting gas from shale areas, was estimated at 929, up 13 for yet another new record.



GDF Suez reportedly will sign an agreement over this weekend with China to supply a substantial volume of LNG, possibly for 2.5 million tons. Just last month the company signed an agreement to supply 2.5 million metric tons of LNG to Korea Gas between now and March 2014.

| 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                | 876,000    | \$3.359 | (\$0.258) | (\$0.290)        | (\$0.207) | (\$0.225)   |
| Chicago City Gate        | 552,200    | \$3.372 | (\$0.272) | (\$0.277)        | (\$0.221) | (\$0.146)   |
| NGPL- TX/OK              | 784,100    | \$3.263 | (\$0.262) | (\$0.386)        | (\$0.211) | (\$0.298)   |
| SoCal                    | 370,300    | \$3.288 | (\$0.276) | (\$0.361)        | (\$0.225) | (\$0.228)   |
| PG&E Citygate            | 895,500    | \$3.702 | (\$0.206) | \$0.053          | (\$0.155) | \$0.125     |
| Dominion-South           | 497,700    | \$3.459 | (\$0.259) | (\$0.190)        | (\$0.208) | (\$0.063)   |
| USTrade Weighted         | 20,381,000 | \$3.311 | (\$0.258) | (\$0.338)        | (\$0.21)  | (\$0.225)   |

An Austrian press report said today that a final investment decision on the Nabucco pipeline will definitely not occur this year and will be delayed until sometime in 2011, because gas supply talks with Azerbaijan have been progressing slowly. The pipeline project was expected to begin construction next year with commercial operations beginning in 2014. The Nabucco pipeline project and Russia's Gazprom appear to be the main contenders in securing these supplies.



East Timor said today that Woodside Petroleum has changed its position and will consider processing gas from East Timor's vast Greater Sunrise LNG at a facility in East Timor. The company though Friday denied there had been a change in its position. East Timor said the company is considering three options: building pipelines to Darwin, Timor's Leste or building a floating processing plant. Woodside has been adamant that the best economics for the

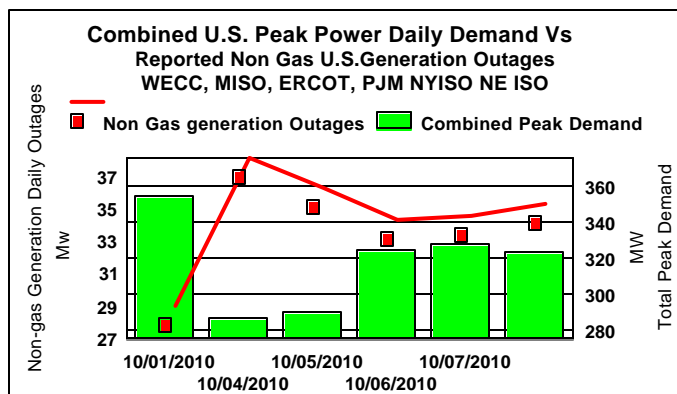
project revolve around the gas being processed at a floating facility and not being piped ashore to East Timor. The greater Sunrise gas fields are estimated to hold some 5.13 tcf of gas and 226 million barrels of condensate.

### ELECTRIC MARKET NEWS

The EIA reported late Thursday that for the week ending October 2<sup>nd</sup>, U.S. production of coal reached 21.171 million short tons, down 1.3% from the prior week but some 5.7% above the same week a year ago. Year to date production is running some 1.1% behind a year ago.

### ECONOMIC NEWS

The US Labor Department said the US payrolls fell in September for the fourth consecutive month as government payrolls fell and private hiring slowed. Nonfarm payrolls fell by 95,000 compared with expectations that overall payrolls would be unchanged. Private employment increased by 64,000 after increasing by 93,000 in August. The US unemployment rate in September stood at 9.6%, unchanged on the month.



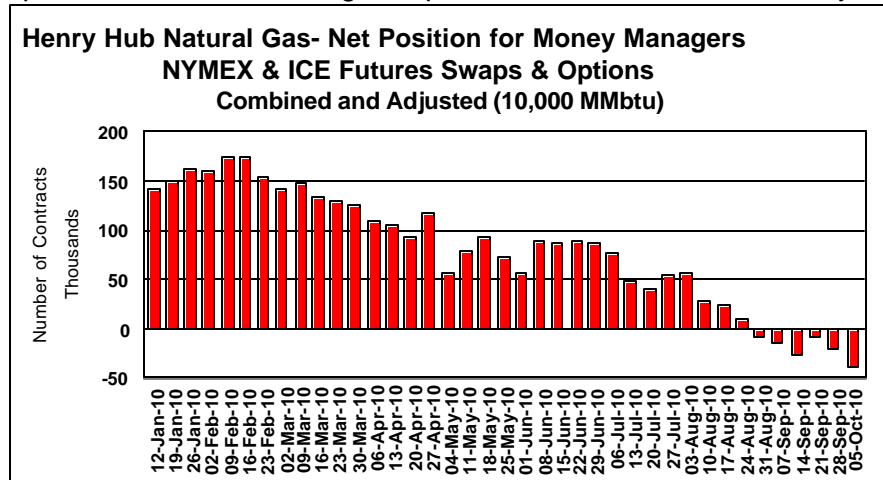
The US Commerce Department said inventories at US wholesalers in August increased more than expected. Inventories increased by 0.8% to a seasonally adjusted \$409.43 billion. July inventories were revised up to a 1.5% increase from an originally estimated 1.3% increase. Sales of wholesalers increased by 0.5% to \$352.44 billion.

Germany's Federal Statistics Office reported that German exports in August fell for the second consecutive month. Exports fell by 0.4% on the month while imports increased by 0.9%.



### MARKET COMMENTARY

The November futures contract early this morning prior to the start of the floor session breached the \$3.60 area and fell to a new contract low of \$3.583, before it appeared some profit taking appeared to spark some short covering and prices bounced some 10 cents just after the start of the floor session.

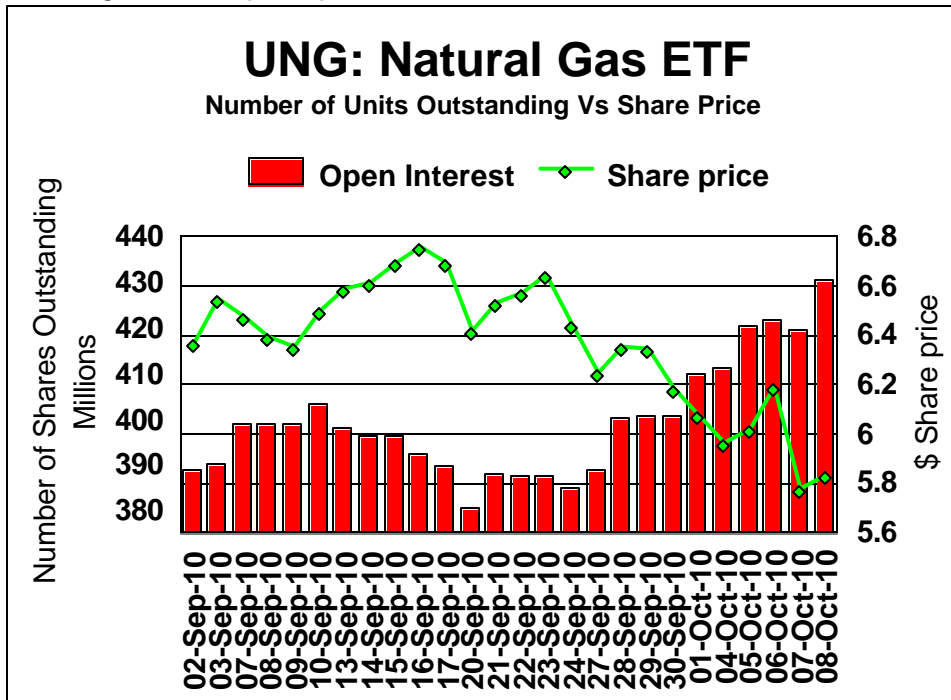


Prices though never challenged for the remainder of the session, the morning's low or high and instead stayed basically in a tight 5 cent trading range centered around the \$3.65 level ending the week at \$3.651. This price level though is interesting since despite the spot contract breaching the low from last August it still was unable to settle below the low of that week, instead matching the settle of that week at \$3.651.

This price level on the weekly charts though appears to have a vacuum below it if it is breached next week and can be settled below it, since the next weekly settlement below it is the from last September when the spot contract finished the week of September 7<sup>th</sup> at \$2.96.

We continue to look for this market next week to challenge the downside, barring a significant tropical risk on the horizon. Moderate temperatures coupled with continued strong drilling rig activity, especially

in shale production areas should keep bears comfortable with their positions next week. Given the large number of open positions in the November \$3.50 puts we feel that this will draw selling pressure to this market and the potential for a brief charge lower if this price level is breached and prompts covering of short option positions.



This afternoon's Commitment of Traders Report for the week ending October 5<sup>th</sup> showed that the hedge funds continued to increase their net short position on the week, building it to the largest short position this year. This selling pressure though seems to have been balanced by speculative bargain hunters, especially today, in which the natural gas ETF saw a dramatic jump in outstanding open interest, its highest long position in the market

since May.

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