



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 13, 2010

NATURAL GAS MARKET NEWS

The EIA released their latest Short Term Energy Report today and it revised its 2010 U.S. domestic dry gas production to an estimate of an average of 61.29 bcf/d up 1.3% from last month's estimate. But given its lowered estimate for net imports of natural gas to average only 7.29 bcf/d, down 3.2% from last month's. projected total net supply of production and net imports will be 65.9 bcf/d down 0.2% from last month's estimate. The EIA is now looking for dry gas production next year to average 57.72 bcf/d, down 1.5% from 2010, but this estimate is some 340 MMcf/d better than last month's estimate. The EIA sees the pace of drilling for natural gas to moderate slightly. They see the growing spread between petroleum liquids and natural gas prices has also favored a shift towards drilling in shale formations that contain higher proportion of liquids. On the consumption side, the agency estimates demand in 2010 to average 65.16 bcf/d and 65.22 bcf/d in 2011. These are estimates that were revised up 1.8% and 0.5%. The EIA also lowered its price estimate for Henry Hub spot price in the 4th quarter by 12 cents from last month's estimate to \$4.29 per mcf and now estimates the average price in 2011 to be \$4.72, some 18 cents per Mcf less than last month's estimate.

The NRC reported this morning that some 80,484 Mw of generating output was on line this morning, up 0.2% from yesterday and some 7.1% higher than the same time a year ago.

The National Hurricane Center continues to watch Hurricane Paula today and its projected path today takes it a bit further north and east than yesterday's computer runs had it moving. But this storm is still not seen as a threat to the production areas of the Gulf of Mexico. But computer models continue to

| Natural Gas Cash Market | | | | | | |
|--------------------------|---------------|--------------|---------|------------------|---------|-------------------|
| ICE Next Day Cash Market | | | | | | |
| | Volume | Avg | Change | Basis | Change | Basis 5-Day |
| <u>Location</u> | <u>Traded</u> | <u>Price</u> | | (As of 12:30 PM) | | <u>Moving Avg</u> |
| Henry Hub | 954,500 | \$3.581 | \$0.184 | (\$0.124) | \$0.058 | (\$0.172) |
| Chicago City Gate | 576,000 | \$3.626 | \$0.187 | (\$0.079) | \$0.042 | (\$0.137) |
| NGPL- TX/OK | 620,800 | \$3.527 | \$0.196 | (\$0.178) | \$0.051 | (\$0.249) |
| SoCal | 459,000 | \$3.681 | \$0.220 | (\$0.024) | \$0.075 | (\$0.164) |
| PG&E Citygate | 743,200 | \$4.048 | \$0.211 | \$0.343 | \$0.066 | \$0.217 |
| Dominion-South | 504,200 | \$3.830 | \$0.209 | \$0.125 | \$0.064 | (\$0.006) |
| UStTrade Weighted | 20,140,600 | \$3.636 | \$0.203 | (\$0.069) | \$0.06 | (\$0.172) |

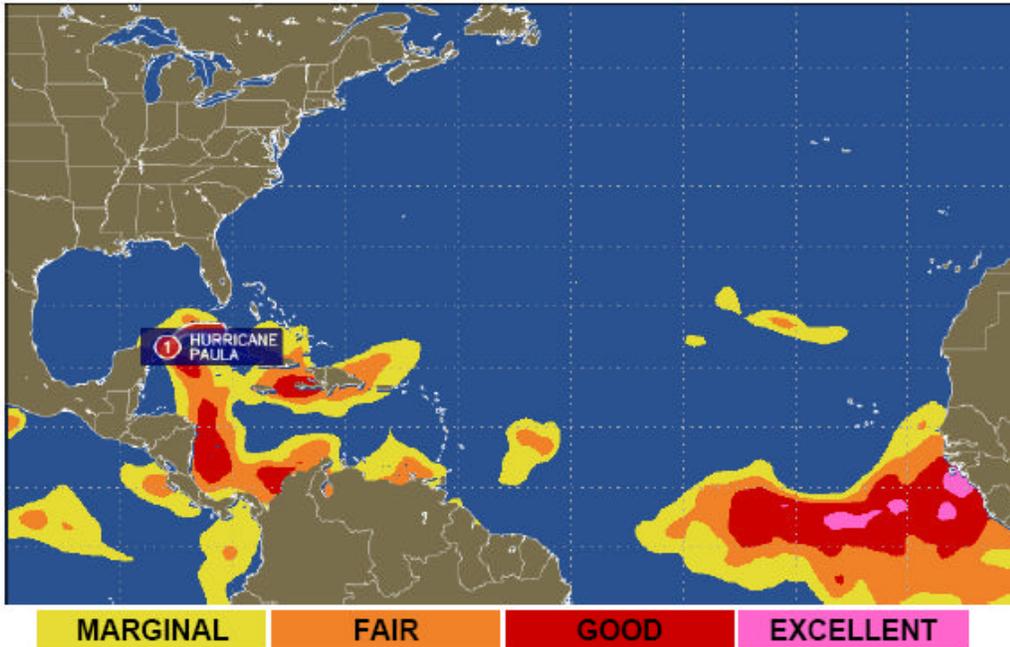
point to the development of a tropical storm possibly early next week in the southwest Caribbean. The ultimate track of this potential system though remains cloudy at best.

The CEO of Chesapeake said today that he sees Niobrara joint venture deal signed by the end of 2010, and could strike another joint venture asset deal by midyear of 2011.

The Deputy economy minister said today that Gazprom plans to significantly increase its investment program in 2011 from this year's levels. He noted that the ministry thought the investment plans are too big.

The CEO of BNK Petroleum said today that shale gas could be making a significant contribution to Europe's supply within five years. He looks for shale gas basins to start producing at economic rates in the next 2-3 years, with the best-case scenario seeing production ramping up to significant levels in 3-5 years. The company is looking to drill its first shale gas test well in Poland in November and expects to have a good estimate of how much gas could be produced from that play by late 2011. It expects to drill more test wells in Germany in late 2011 or early 2012.

Development Potential



Gazprom said today that it looks for the first gas to flow to Europe via the South Stream gas pipeline project before the end of 2015. The head of the project estimated that the pipeline project will definitely cost more than 10 billion euros but said there will be no problem with financing the pipeline.

The southern leg of the Swiss-Italian Transitgas pipeline is slated to open at the beginning of

December, Swiss regulators said today. The line has been out of service since July 23rd. The operator of the line started construction work earlier this week to rebuild and strengthen the existing pipeline. The reinforcement is a temporary measure to ensure gas exports into Italy can resume as quickly as possible. Italy's industry ministry said it had been analyzing alternative sources of gas supply for this winter in case Transitgas was to remain shut until the end of March. The operator though has said the pipeline from early spring 2011 onward would run via a safer route to prevent the same damages to recur next summer. Building work on the new section is scheduled to begin in November and run in parallel with works on the existing pipeline.

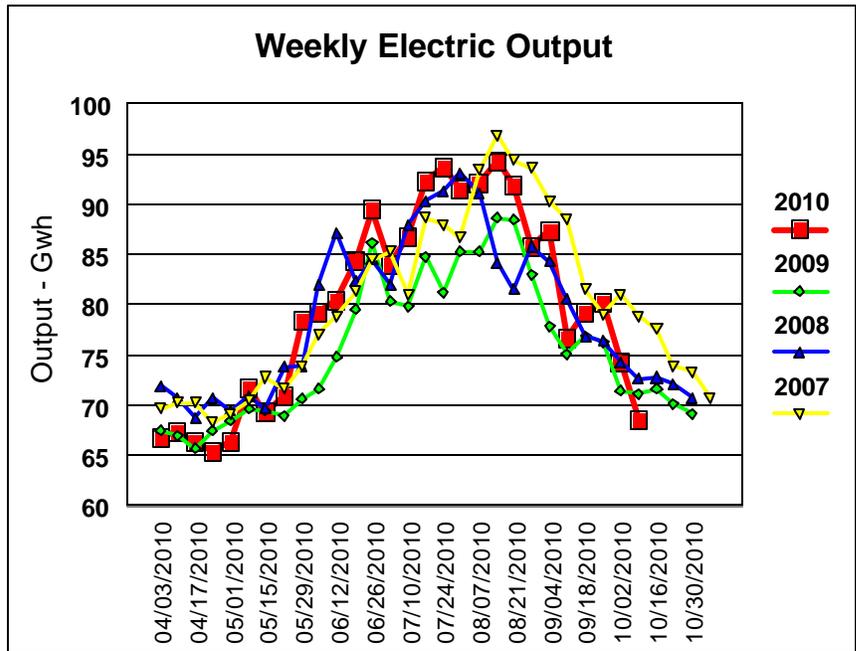
The Ukraine's state prosecutor has filed a lawsuit to cancel a January 2009 gas deal under which the country's state gas company, Naftogaz paid \$1.7 billion to Gazprom. Under the deal, Naftogaz took 11 bcm of gas from an intermediary company in a move that has since been judged in breach of contract by a Swedish arbitration court.

The Vice president of Sinopec Economics and Development Research Institute said today that he sees Chinese imports of LNG increasing over the next 10 years as local production will be unable to keep pace with rising domestic demand for natural gas. He sees China's annual LNG imports to reach 80 bcm in 2020 from about 10 bcm currently. China expects to produce 150 bcm of natural gas in 2015, including 15 bcm of unconventional gas, with output rising to 200-250 bcm in 2020 with 30 bcm coming from unconventional gas. Chinese natural gas production this year is expected to be 100 bcm.

China National Offshore Oil Corporation said it expects to receive around 1.4 million metric tons of LNG at its Shanghai terminal this year.

ELECTRIC MARKET NEWS

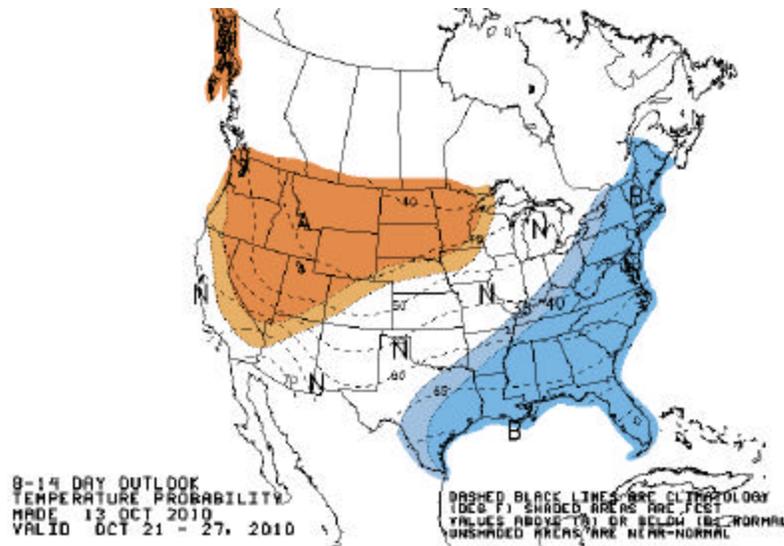
A U.S. bankruptcy court on Tuesday approved the bidding procedures that will guide power plant operator Boston Generating asset sale process. In August Constellation Energy agreed to buy five power plants in New England from Boston Generating for about \$1.1 billion through a bankruptcy court supervised auction. The court action today was seen by Boston Generating as providing other parties with the opportunity to compete with Constellation Energy for those generating assets and thus the existing bid will set a floor price for the assets.



The Edison Electric Institute reported that for the week ending October 9th, power production in the United States reached 68,660 Gwh, down some 7.6% from last week and off 3.6% from the same week a year ago

The EIA in its Short Term Energy Outlook saw electric demand in 2010 would average some 5% higher than a year ago, due to the higher cooling demand this summer. With the expectations for next

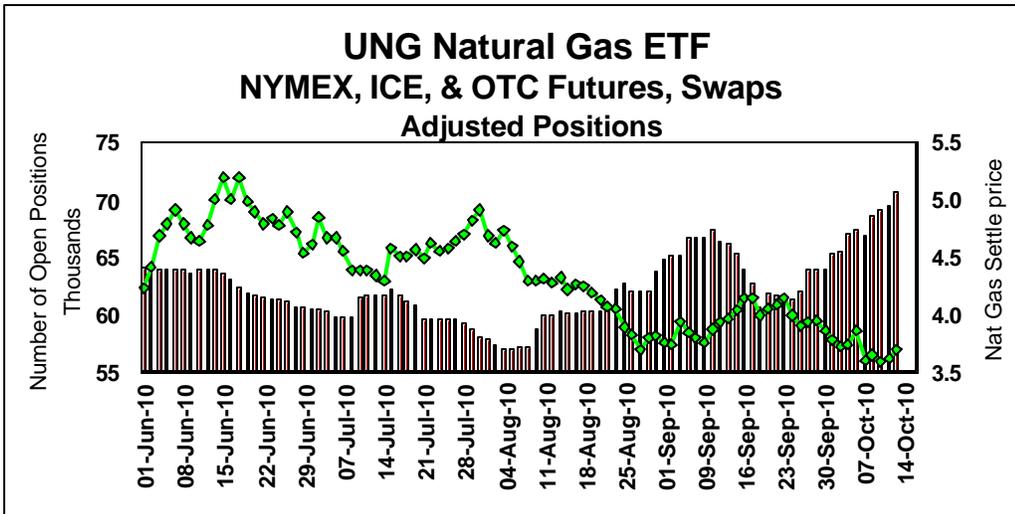
year to see temperatures to return to more normal levels, power consumption in 2011 should reach 10.72 billion kw per day, down 0.3% from 2010. Power generation in 2010 is estimated to see coal account for 47% of the fuels used, versus 22.5% from natural gas. In contrast the fuel shares for coal and natural gas in 2009 were 45.9% and 22% respectively. In 2011 the agency sees increases in nuclear and renewable generation of 1.4% and 13% respectively, and declines in coal and natural gas generation of 2% and 1.2% respectively.



The PJM said today that its board of directors has authorized an additional \$1.8 billion in transmission upgrades to help keep the electric grid stable.

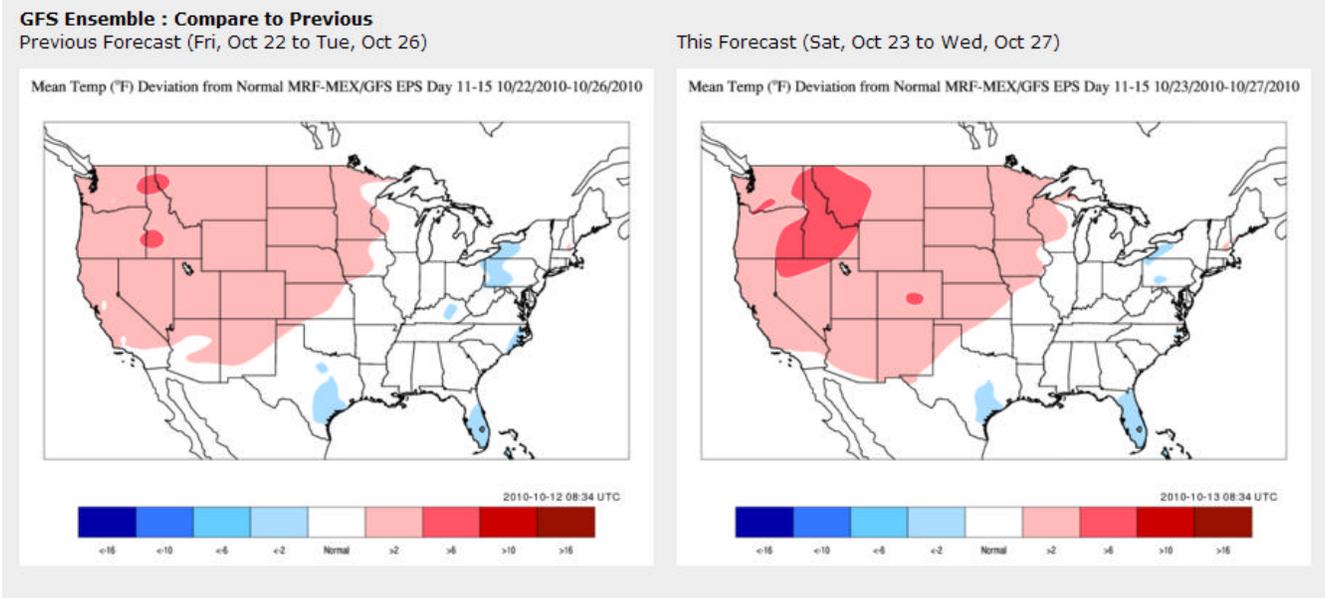
MARKET COMMENTARY

The natural gas market today received a boost it appeared from weather forecasts. The tropical forecast continued to point to the possibility of yet another hurricane brewing in the southwest Caribbean next week, while temperature forecasts both short term and for the 8-14 day period appeared to point to the central and eastern United States seeing cooler than normal temperatures. Nearly every cash trading point for next day gas saw higher values this morning as the futures market posted its second day in a row of firmer prices. Technically the natural gas futures market received follow through buying this morning when the highs of the previous three sessions at \$3.667-\$3.683 were breached. This follow through buying, probably short covering ahead of tomorrow's storage report, pushed values nearly another dime higher before handing back this afternoon nearly two thirds of the rally off of yesterday's lows to this morning's highs.



Basis the open interest gains in the natural gas ETF, UNG it appears that speculative longs have moved back into this market over the past three weeks and have been possibly one of the best areas of support to the underlying futures market. This ETF alone has added some 10,000 futures length to this

market over this period. But we feel that this market will resume its drive toward the \$3.50 key support



area in coming days as limited demand and more than ample inventories weigh on this market. We look at the tropics and see that while a tropical system may spawn in the Caribbean over the next week or two, the current conditions in the north of this area in the Gulf of Mexico are not particularly conducive for intensification of any storm, especially given dry air in the region, sheering winds and cooler than normal water temperatures in the western Gulf of Mexico. In addition there appears to be some dissention in long range forecasting models which by this afternoon appeared to have some leaning away from higher heating demand to one of normal to slightly less than normal heating

demand, with cooling demand being lesser than normal around the Gulf Coast. This coupled with nuclear generation levels are at seasonal lows, they are still running some 6-7% better than year ago levels. As a result of all of these factors one could look for ample injection rates heading into the end of the injection season. As a result we would look to be a scale up seller of this market start at \$3.77. We see additional resistance at \$3.788 followed by \$3.845, \$3.888 and \$3.915. More distant resistance we see at \$4.00 and \$4.298. Support we see at \$3.633, \$3.545, \$3.50 and \$3.433.



Market expectations for tomorrow's EIA natural gas storage report is for stocks to grow by 65-95 bcf with most estimates centered around a 85-88 bcf build. For the same week a year ago stocks grew by an adjusted 60 bcf while the five-year seasonal average is for a 64 bcf increase.

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