The Windham Group
Energy Futures Brokerage

# *ENERGY RISK MANAGEMENT*

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## NATURAL GAS & POWER MARKET REPORT FOR OCTOBER 14, 2009

### NATURAL GAS MARKET NEWS

The National Hurricane Center has noted that the current hurricane season has been the quietest in more than a decade and while the tropical Atlantic basin remain very quiet this week, the forecasting computer models are begin to warn of the potential for a the birth of a tropical system late next week either in the Gulf of Mexico or the Caribbean.

Accuweather yesterday came out and released their updated winter temperature outlook. Chief meteorologist Joe Bastardi said he was looking for a cold, snowy winter will grip New England through North Carolina, but the Midwest and Central Plains will be comparatively mild with below normal snowfall.

The Natural Gas Supply Association said in their annual winter outlook that big inventories of natural gas are likely to push down gas heating bills for consumers this winter compared with last year. While the trade group does not release price outlooks they see weather as having the biggest impact on gas prices this winter, as it sees demand creeping up slowly from the economic recovery. The group estimates that U.S. working gas storage will end the injection season at 3.822 tcf. The group noted that 123 bcf of new storage was added this year.,

**Generator Problems**

**MISO –**.NextEra Energy has ramped its 615 Mw Duane Arnold nuclear unit up to 95% capacity, up 10% from yesterday.

**RFC**- PSE&G has shut its 1130 Mw Salem #2 nuclear unit on Tuesday for planned refueling and maintenance.

Exelon's 1140 Mw Peach Bottom #3 nuclear unit has reconnected to the grid and was at 33% power.

**SPP & ERCOT- SERC** – Duke Power's 1100 Mw McGuire #2 nuclea runit was running at 100% power , up 22% from Tuesday.

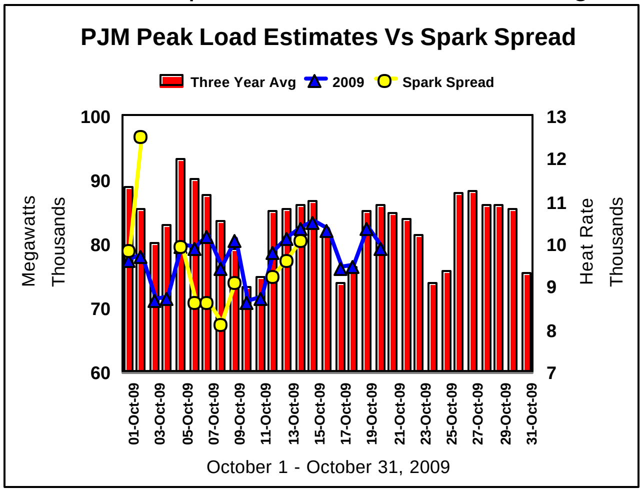
SCE&G said its Summer 986 Mw nuclear unit was back on line again and at 55% power up 52% from Tuesday.

**The NRC reported this morning that total U.S. nuclear generation stood at 75,146 Mw down 0.2% from yesterday and down 6.3% from a year ago.**

Natural Gas Cash Market
ICE Next Day Cash Market

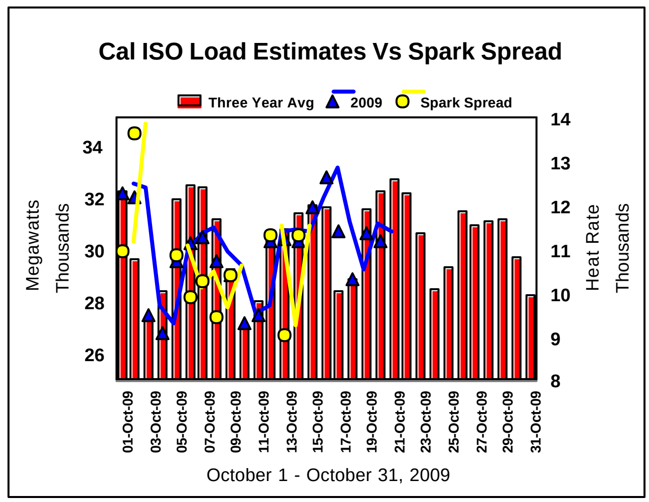
| Location | Volume Traded | Avg Price | Change | Basis (As of 12:30 PM) | Change | Basis 5-Day Moving Avg |
|---|---|---|---|---|---|---|
| **Henry Hub** | 1,707,100 | $3.818 | ($0.214) | ($0.605) | $0.019 | ($0.591) |
| **Chicago City Gate** | 890,800 | $4.493 | ($0.096) | $0.070 | $0.030 | ($0.274) |
| **NGPL- TX/OK** | 1,127,500 | $3.856 | ($0.117) | ($0.568) | $0.009 | ($0.801) |
| **SoCal** | 415,200 | $4.107 | ($0.110) | ($0.316) | $0.016 | ($0.572) |
| **PG&E Citygate** | 670,200 | $5.044 | ($0.089) | $0.621 | $0.037 | $0.244 |
| **Dominion-South** | 420,100 | $4.351 | ($0.067) | ($0.072) | $0.059 | ($0.472) |
| **USTrade Weighted** | 23,956,300 | $4.104 | ($0.107) | ($0.319) | $0.02 | ($0.591) |

The CEO of Chesapeake Energy said today that he does not see LNG flooding the U.S. market in the coming years, as demand from China will absorb higher supplies of LNG globally. He noted that it takes a $7.00-$9.00 mcf natural gas price to generate a return on the vast majority of U.S. supply. As a result he sees production in the United States cannot do anything but decline in 2010. He noted his company would not consider exiting the Barnett Shale play, but might take on more partners in order to reach its goal of raising $1.075 to $2.075 billion in cash through the end of 2011.The company also warned investors that early results from its Bossier shale play indicate there is a little less natural gas in place than its higher performing Haynesville shale acreage. The first well drilled in August has been flowing at a rate of 9.4 million cf/d, below average rates seen in Haynesviille.



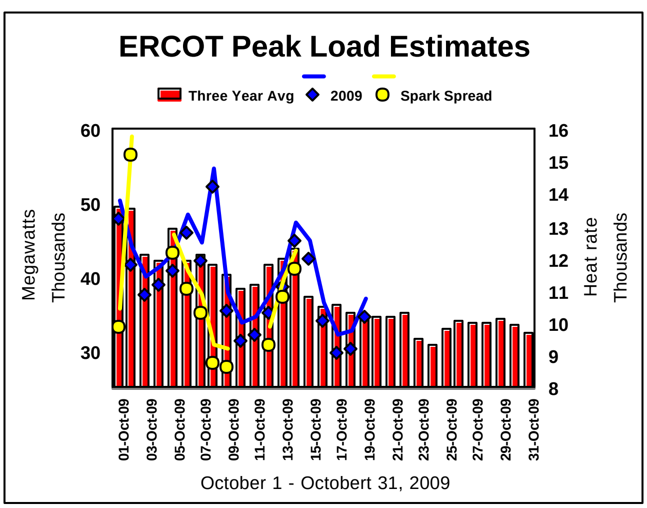

Newfield Exploration and Hess Corp have signed a joint exploration deal in Marcellus Shale. The agreement covers up to 140,000 gross acres in Susquehanna and Wayne counties, Pennsylvania.

National Grid's Winter Outlook noted that the UK has sufficient supplies of natural gas to meet demand for the coming winter months, due in part to the new surge in LNG imports. The company looks for the global LNG supply overhang will take time to clear due to a combination of the economic downturn and new production capacity. The company looks for UK gas demand to be lower this winter as the recession in Britain continues to dampen demand.




French utility company EDF said today that it sees British gas exports to Belgium via the Interconnector pipeline will be low this winter due to high European storage levels and the pressures of take-or-pay contracts.

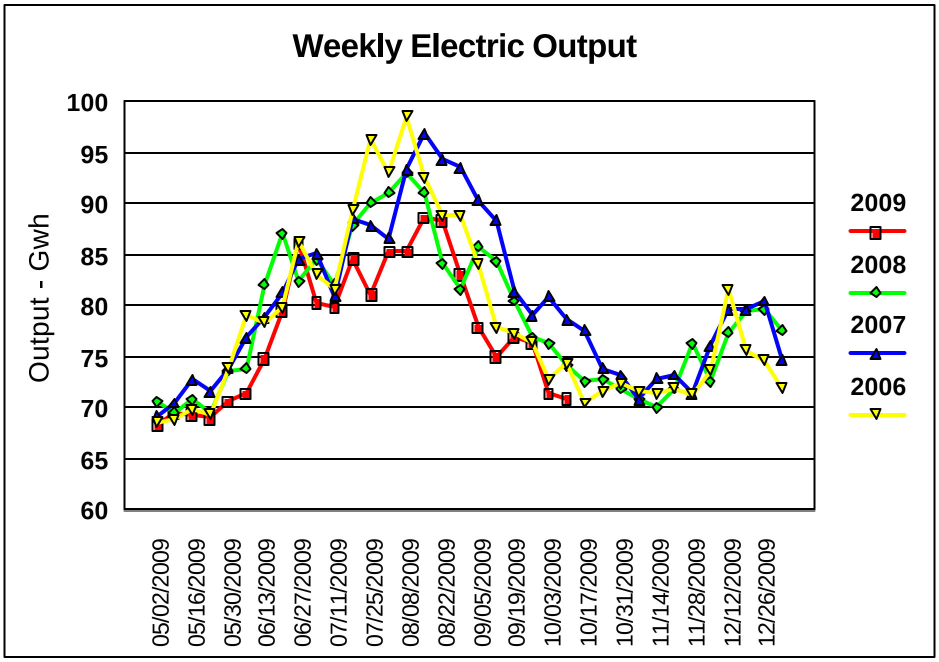
Gazprom said it has agreed to tie the price of its gas deliveries to China to Asian oil prices.




Sinopec reportedly will shortly sign a long-term deal to buy LNG from the ExxonMobil led LNG project in Papua New Guinea. The import of 2 million tons a year under the contract would feed a LNG terminal Sinopec is building in eastern Shandong province that is scheduled to come on line in 2014.

Hungarian oil and gas company MOL said today that deliveries of Ukrainian gas to Hungary have been halted since Tuesday due to a technical problem coming from high winds and a snow storm in the region.

Guangdong Dapeng LNG said it sees no need for more spot LNG purchases this year. The company

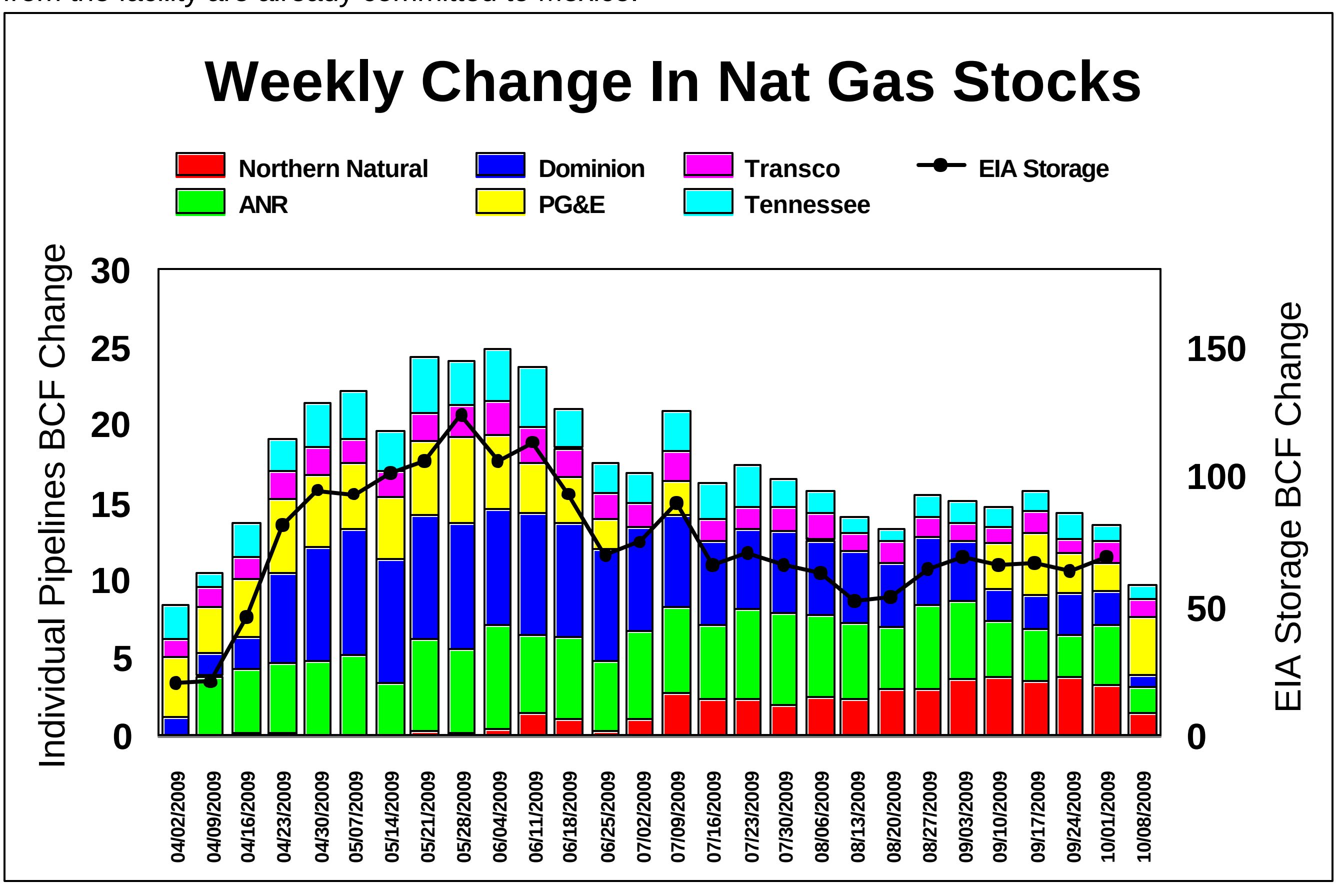



has bought 12 spot cargoes this year and supplies from Qatar under CNOOC's long-term contract would replace demand for spot cargoes.

An official at Total SA said growing demand will absorb a hefty increase in global LNG supplies in coming years and shortages of LNG may loom in the marketplace by 2012. He noted LNG supplies should increase by 20% by 2012 from 2008 levels, with LNG demand coming from India and China.

Turkish officials said today that despite the firing of the head of its pipeline company Botas, the country remained committed to its full support of the Nabucco pipeline project.

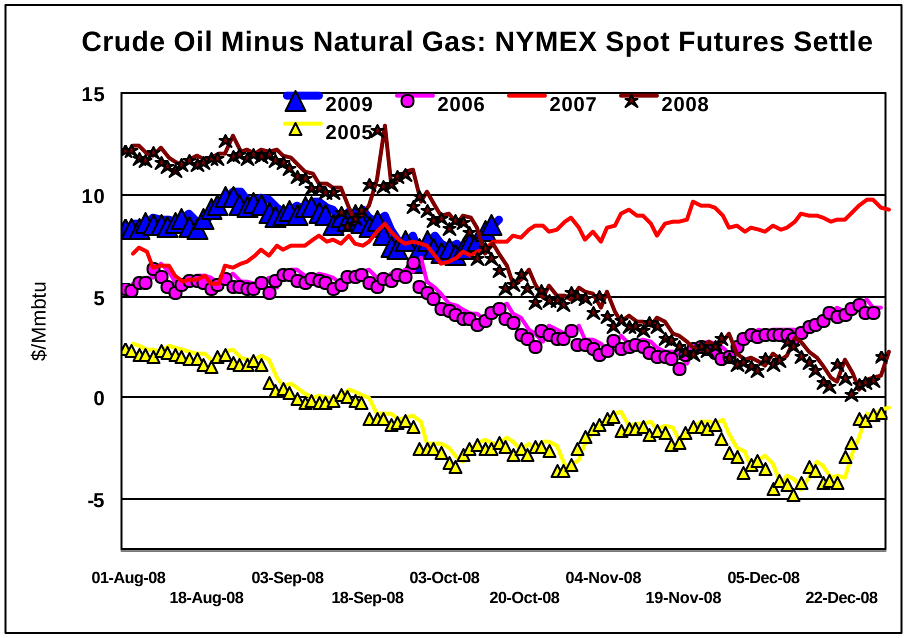
Repsol YPF SA said it plans to supply China with LNG from its Peruvian LNG plant. The facility a joint venture with Hunt Oil has a 4.2 million metric tons per year capacity. Seventy percent of the supplies from the facility are already committed to Mexico.



Overnight the Chinese reported that in September exports of Chinese products in September fell at the slowest pace in nine months, dropping 15.2% on the previous year. This was a slight improvement over August data, when exports contracted 23%.

## PIPELINE RESTRICTION

Rockies Express Pipeline said that effective October 14th and until further notice it is at capacity for delivered quantities to NNG Gage. Based on the current level of nominations, interruptible transportation/authorized overrun and secondary quantities are at risk of not being scheduled.




## ELECTRIC MARKET NEWS

The Edison Electric Institute reported today that electric production in the United States for the week ending October 10th stood at 71,113 Gwh down 2.1% from a year ago and down 0.5% from the previous week.

PG&E said today that it planned to return to service a 500-Kv line from Moss Landing to Los Banos later today. The line had been knocked out of service due to storm damage yesterday. The company reported that more than 60,000 customers were still without of service after upwards of 710,000 had lost power.

## MARKET COMMENTARY

The euphoria experienced in the oil and equity markets that the economic revival is in place and the economic expansion is underway seems to have been lost in translation for the U.S. natural gas market. The cash and futures markets headed lower this morning and when traders were provided with yet another 11-15 day temperature forecast at midday that was even warmer than this morning's outlook or yesterday's outlook helped to push values to their lows for the day and to their lowest level in the November contract since October 2nd.

We were a bit shocked at midday when the NYMEX reported that despite yesterday's sell off in price, open interest in the natural gas futures and swaps jumped on a combined and adjusted basis by over 35,000 lots in what has to be seen as new shorts coming into the market not the long liquidation that we had suspected yesterday evening. As a result we would have to believe that the near term highs for the November contract have probably been put in place.

Market expectations for tomorrow morning's EIA natural gas storage report are running between a 35-65 bcf build with consensus centered around a 52-54 bcf build. Our estimate is at the lower end of expectations of just a 35 bcf build. Last year saw injections on an adjusted basis of 81 bcf and the five-year seasonal average is a 64 bcf.

We would look for our estimate to be supportive for this market if realized but we feel that it would allow natural gas values only to return to a $4.60-$4.85 trading range for the next couple of days. We see initial resistance tomorrow at $4.76 followed by $4.845, $4.896, $4.96-$4.99 and $5.12. Support we see at $4.717, $4.306 and $4.113.