



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR OCTOBER 15, 2010

NATURAL GAS MARKET NEWS

The National Hurricane Center down graded Tropical Storm Paula to a tropical depression this morning and by midday had been downgraded even further to a remnant low. Forecasters continued to watch the southwestern Caribbean for the potential development of yet another tropical system which could become Tropical Storm/Hurricane Richard. But the forecasting models, which had been pointing to the possible development of a tropical cyclone by this weekend, now have delayed this potential development until early next week at the earliest. In addition the models while divergent in the potential direction of any storm now appear to point to either a westwardly track into Central America or an northeasterly path out of the Caribbean, which under either scenario appear to pose little or no threat to the U.S. coastline.

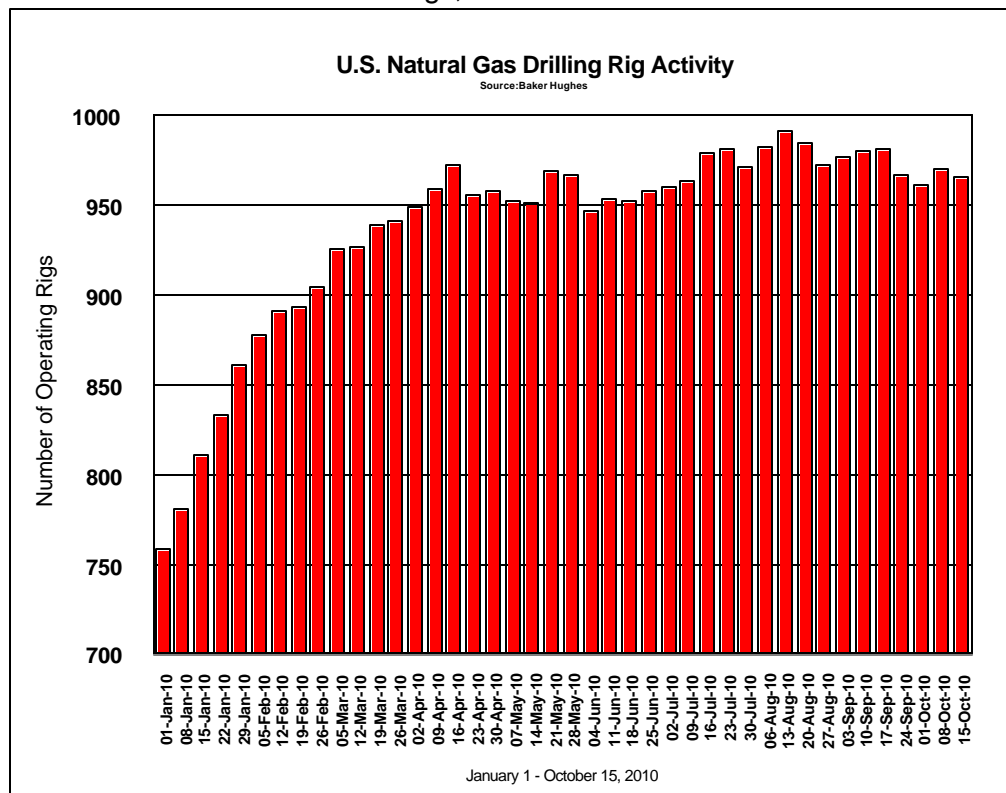
The NRC reported this morning that some 80,717 Mw of generating output was on line this morning, up 0.3% yesterday and some 10.2% higher than the same time a year ago.

Baker Hughes reported this afternoon the number of drilling rigs searching for natural gas in the United States this week stood at 966 rigs, down 5 from last week. The number of horizontal rigs operating on

the week, also fell by 3 rigs to 926. This was the first weekly contraction in horizontal rigs since the end of August.

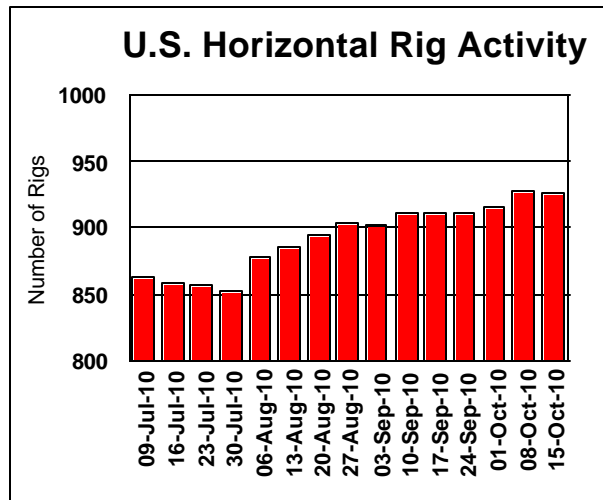
Golden Pass LNG said today that it expects to receive its first LNG cargo from Qatar at its LNG terminal in Texas on October 21st.

Turkmen television reported today that a subsidiary of the Russian energy firm Itera has raised the capacity of a gas export pipeline from Turkmenistan to Russia by up to 5 bcm



of natural gas a year. Gazprom in the past has bought up to 50 bcm of gas annually, or two thirds of Turkmenistan's total output, for resale to the Ukraine and Europe. But due to the lack of demand for gas this year, Gazprom plans to purchase only slightly more than 10 bcm. As a result Turkmenistan has commissioned a China bound gas pipeline as well as been a supporter of the Nabucco pipeline in an attempt to diversify the buyers for its gas.

Maersk said it looks to fix a problem at Tyra East over the weekend allowing production to be restarted from the North Sea production area.



Russia's energy minister said today it was considering Ukraine's request for it to lower the price of the gas it sells to the country via the change in the gas pricing formula.

ELECTRIC MARKET NEWS

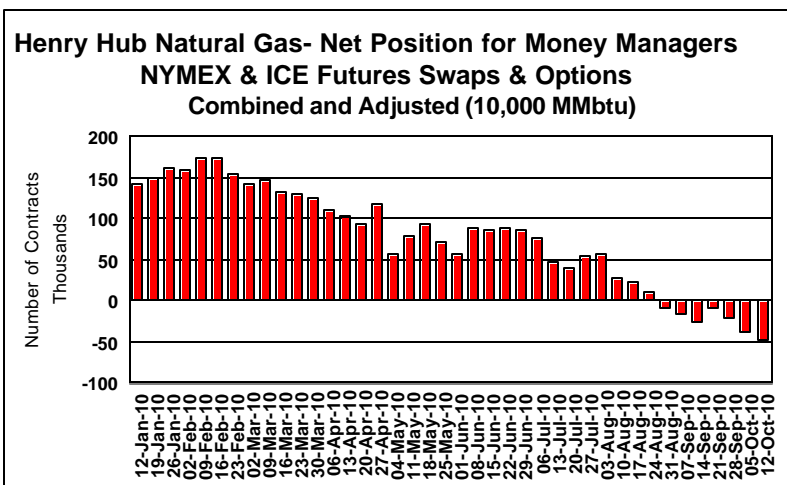
The consulting firm ICF International warned today that the U.S. might not have all the generation it needs if the U.S. economy rebounds quickly. The group noted that this past summer saw record electric consumption even as the economy sputtered, which should serve as a wake up call to utilities that have delayed plans to add to their generation capacity due to the recession as well as uncertainty regarding

government requirements for renewable generation and carbon restrictions. The NERC meanwhile said it was concerned that lower demand projections and the prospects of retirements of older power plants could result in a generation shortage if the economy recovers quickly after 2014. The grid agency sees the tightest reserves margins occurring in Florida, parts of the Rocky Mountains and the upper Midwest

ECONOMIC NEWS

The New York Federal Reserve Bank reported this morning that its "Empire State" manufacturing activity index jumped to 15.73 from 4.14 in September. Market expectations had been for only a reading of 6.5.

Federal Reserve Chairman Ben Bernanke made the case for new steps by the Fed to increase economic growth, saying inflation was running below the Fed's objective of 2% and that the economy was on course to grow too slowly to bring down unemployment. He said the Fed is still prepared to provide additional support to a weak economy if needed to return inflation over time to levels consistent with its mandate. He said while the Fed contemplates doing more, officials will take account of the potential costs and risks of pursuing unconventional policies and added that anything that is done will be contingent on incoming information about the economic outlook and financial conditions. He stopped short of calling for new action



The Thompson Reuters/University of Michigan's preliminary reading of its consumer sentiment unexpectedly dropped in October to its weakest level since July. The overall index came in at 67.9, down from 68.2 in September and below the 69 median forecast among economists.

Atlanta Federal Reserve President Lockart said today that U.S. economic growth is too weak at the moment to bring down unemployment and inflation is running at levels that raise concern about deflation.

The Commerce Department reported this morning that inventories at U.S. businesses in August rose 0.6%, slightly more than market expectations, but business sales in August rose only 0.1%, causing the inventory to sales ratio to increase to 1.27, the highest level since November.

MARKET COMMENTARY

With little perceived risk to the Gulf of Mexico from any near term tropical activity, and the moderate temperature outlook for the next couple of weeks, natural gas futures resumed its downward trend today. The November futures breached its recent lows and set yet another new contract low as prices fell down to \$3.52 before clawing back a penny or two before settling the week lower for the fourth consecutive week. For the spot continuation chart this was the lowest weekly settlement price in 13 months. We continue to look for this market to grind lower and look to test the \$3.50 level before the November natural gas options expire on October 26th. There currently are nearly 37,000 open positions in the American and European November \$3.50 puts, which we still feel, will act as a magnet for prices to move toward. Tonight's Commitment of Traders Report for the period ending October 12th saw commodity funds increase their net short position by nearly 8500 lots on the week.

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