



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 18, 2010

NATURAL GAS MARKET NEWS

The National Hurricane Center this morning was watching 99L a low pressure system in the Caribbean near the coast of Honduras and Nicaragua. While forecasters assigned a 30% probability that the system could develop into a tropical depression in the next 48 hours, it appears that the computer guidance models have this system either moving into Central America or move northeastward toward Cuba and thus not a threat to the Gulf of Mexico oil and gas production areas. Forecasters were also watching a weak low-pressure system in the eastern Atlantic that was some 850 miles southwest of the Cape Verde Islands. There was a very low probability, less than 10%, that this system would develop into a tropical depression in the next two days. Typically at this time of the hurricane season, tropical cyclone formation over this part of the Atlantic was not normally expected.

The NRC reported this morning that some 77,975 Mw of generating output was on line this morning, 1.5% yesterday but some 4.7% higher than the same time 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	715,100	\$3.361	(\$0.111)	(\$0.108)	\$0.051	(\$0.094)
Chicago City Gate	683,100	\$3.461	(\$0.068)	(\$0.008)	\$0.027	(\$0.057)
NGPL- TX/OK	629,600	\$3.296	(\$0.071)	(\$0.173)	\$0.024	(\$0.194)
SoCal	425,600	\$3.398	(\$0.083)	(\$0.071)	\$0.012	(\$0.071)
PG&E Citygate	914,400	\$3.848	\$0.037	\$0.379	\$0.132	\$0.286
Dominion-South	408,500	\$3.539	(\$0.055)	\$0.070	\$0.040	\$0.079
USTrade Weighted	20,905,300	\$3.405	(\$0.044)	(\$0.064)	\$0.05	(\$0.094)

The U.S. Freeport LNG terminal in Texas reportedly has the Excelerate tanker docked at the terminal this morning and was expected to be loaded with LNG for re-export on

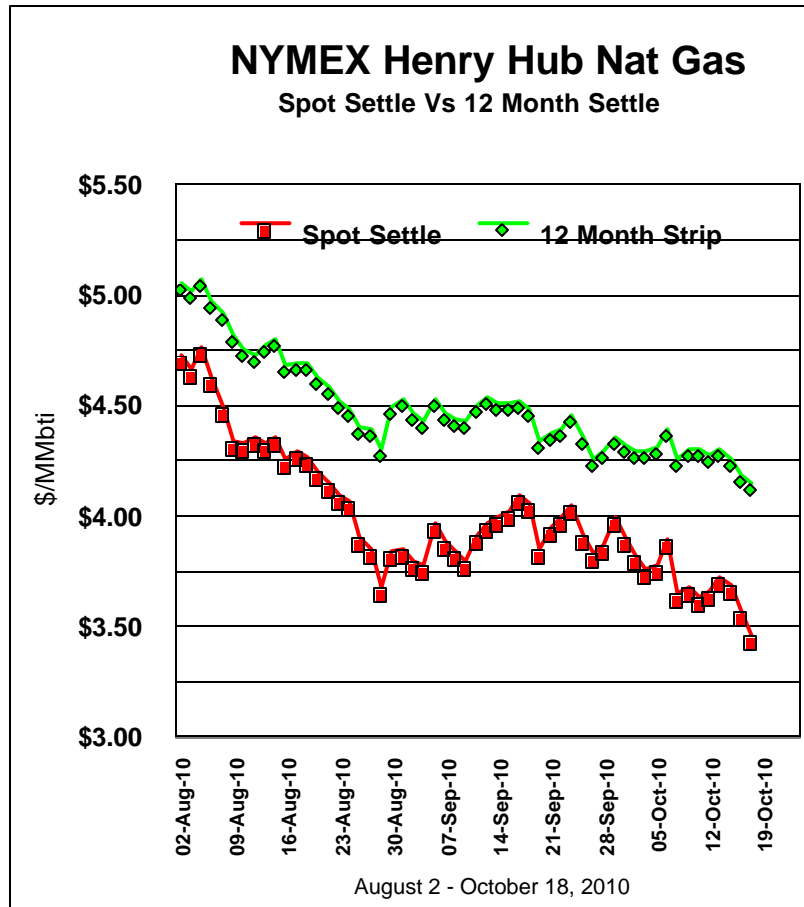
Wednesday. There has reportedly been 10 bcf of LNG that has been re-exported this year. Meanwhile AISLive ship tracker reported a LNG cargo was docked at Sabine Pass on Monday, but was unclear if this was an import cargo or a tanker arriving for loading.

Qatar announced today that its deal with Repsol to supply it with LNG would run for three years. The gas is destined solely for Canada's Canaport terminal. No details on volume or pricing though were given. Qatar's energy minister also said that Qatar is having additional supply discussions with other potential buyers and these agreements will be announced "when the time is right".

The AGA on Friday in its semi-monthly Natural Gas Market Indicators report noted that "expectations for coming weeks are for higher than average build in working gas stocks and should help push stock levels closer to the all time high of 3.837 tcf reached last November. The trade group said the likely final storage number should be between 3.7-3.75 tcf. While injections could continue into November the trade group estimates that this November should see a net 16 bcf withdrawal from gas inventories.

According to a document posted on a government website, Russia's largest independent natural gas producer, Novatek, will start building its first train at its LNG plant on the Yamal peninsula in 2012, with operations slated to begin by 2016. The start of construction of the second and third trains is set for 2013 and 2014 respectively and they are slated to be finished in 2017 and 2018. The publishing of this document comes one week after Prime Minister Putin visited the company's Arctic Yukharovskoye gas field and announced the government was considering tax breaks to LNG and offshore operators.

Croatia's state owned gas pipeline operator Plinacro said today that it plans to install a floating terminal for LNG as a temporary replacement for a much bigger but delayed LNG project. The company is waiting to receive governmental approval for the project. The floating terminal would have a capacity of 6 bcm of gas per year and be located off the coast near the location for the other planned terminal at Krk.



Gassco reported that capacity at the Norwegian Kollsnes gas processing plant remains limited for an undetermined period. Capacity has been constrained since September 27th at 120 million cubic meters per day versus a normal rate of 143 mcm per day. The issue still restraining production remains the NGL facility and limited export capacity. The company said it could not give any indication when the NGL unit will ramp up again.

National Grid reported that the LNG tanker Al Thumama berthed at the Isle of Grain import terminal on Saturday. With expected cooler than normal temperatures expected for Northwest Europe over the next five days, demand levels have been stronger that has boosted next day gas prices to their highest level since mid-July. Meanwhile Reuters reported that the

Al Thakhira LNG tanker is due to arrive at Belgium's Zeebrugge terminal on October 26th.

PetroChina said today that it plans to import 610 million tons of LNG to meet its expected strong gas demand this coming winter. The company normally supplies 70% of China's natural gas needs, said it plans to raise gas supply this winter and spring by 8% to avoid a repeat of severe shortages last winter.

The Turkish energy firm Bosphorus Gas, a unit of Gazprom said it seeks to import 1.5-2.0 bcm of gas annually from Russia's western line. Turkey currently imports 6 bcm of gas from Russia and these contracts are set to expire in 2011. Turkish firms are eager to buy up the contracts from the state controlled company, Botas.

Gazprom said today that it would supply Poland with 11 bcm of gas per year for ten years starting in 2012. This is an increase of 13% from levels expected to be supplied this year. The deal also calls for an increase of gas flows through Poland onto Germany until 2019.

The Indian government said today that it would launch bidding for the exploration of shale gas before the end of 2011. The country though at this point does not have firm estimates on the potential size of its shale gas reserves but is currently seeking data and technology from the United States to help it assess its potential reserves. The government said it is looking at proposing some legislative changes so that more than one operator can explore for oil, gas and shale gas at a single block at a particular time. State run explorer Oil and Natural Gas Corp had announced in September that it drilled the first exploratory shale gas well in eastern India.

The strikes across Europe have begun to impact LNG shipments as well. According to Marseille port officials there are currently 10 LNG tankers idled. The French CGT union said the Fos LNG terminal which has been operating at minimal output will be halted Tuesday due to a lack of gas.

Turkmenistan's deputy prime minister said Monday that his country expected an acceleration in its economic growth this year to 7.5% from last year's 6.1% growth last year. The country aims to triple its current annual output of 75 bcm per year within 20 years. The country in an attempt to diversify its economic base away from raw materials production is looking to develop a petrochemicals industry, as well as construction materials, textiles and electronics.

ELECTRIC MARKET NEWS

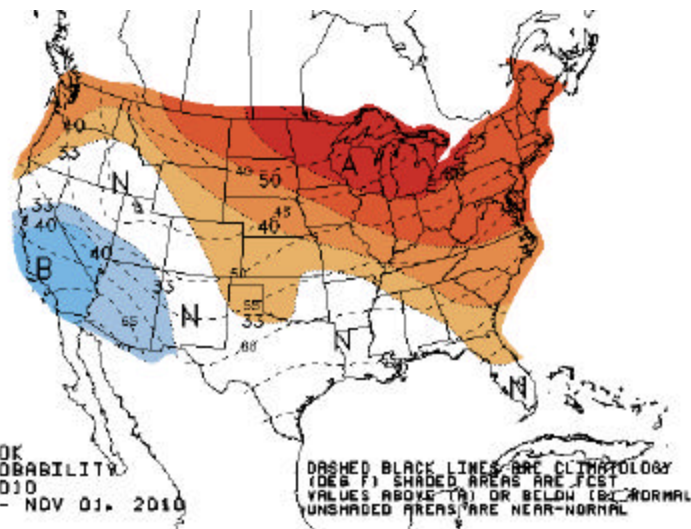
Northeast utilities said it will buy NSTAR in a \$4.17 billion all stock deal that will create a utility that will provide power and gas to more than half the customers in New England. Upon completion of the merger, Northeast Utilities would operate six regulated electric and gas utilities in Massachusetts, Connecticut and New Hampshire with nearly 3.5 million electric and gas customers. Regulatory approval of the deal is expected to take 9-12 months.

Genscape reported this morning that it estimates U.S. power output for the week ending October 14th rose 0.45% from the prior week and was 8% above the same week a year ago.

ECONOMIC NEWS

The Federal Reserve said US industrial production fell by 0.2% in September compared with August's 0.2% increase. Capacity utilization fell slightly to 74.7% in September from a revised 74.8% the previous month. Manufacturing fell by 0.2% in September.

8-14 DAY OUTLOOK
TEMPERATURE PROBABILITY
MADE 18 OCT 2010
VALID OCT 26 - NOV 01, 2010



Federal Reserve Bank of Chicago President Charles Evans said as part of a broader attempt to help stimulate economic activity, the Federal Reserve may have to allow inflation to overshoot levels consistent with price stability. The Federal Reserve Bank of Atlanta Dennis Lockhart is giving support to the Federal Reserve embarking on a program of asset buying to help spur growth in the US economy. His comments came as market expectations are increasing that Federal Reserve officials will soon restart a program to buy long term assets, in a bid to spur growth.

MARKET COMMENTARY

Well the market finally did it, it reached the \$3.50 price level and breached it today falling all the way down to \$3.412, the lowest level the spot contract has been at since September 16th of last year. The prospects of no real tropical threat for the near to intermediate term, moderate temperatures, coupled with a rather disappointing industrial production number for September all seemed to align to keep the bulls out of the market and the bears in control. The 12-month strip price for natural gas fell to \$4.119, a nearly eight year low. Despite the pressure in the spot month and the 12-month strip price some spread relationships remained relatively stable. The March-April 2011 spread while settling lower remained comfortably within the middle of the trading range recorded this month. This divergent price behavior makes us a bit wary and as a result would look to cash out or bearish positions such as the put spread in the November contract and move to the sidelines. Fundamentally we see the overhang of inventories, but with all likelihood we will enter this winter heating season with less gas in working gas storage, higher demand given slowly improving industrial activity, and the effective cutoff of most LNG imports given the value of natural gas here in the states running nearly half the value of those prices recorded in Asia or Europe. The key variable will be domestic production. According to EIA figures this production has leveled off and in the latest data has possible begun to decline possibly.



We see initial support in this market at today's low of \$3.41 followed by \$3.391, \$3.352 and \$3.282. More significant support we see at \$3.25-\$3.222, followed by \$3.00, \$2.823 and \$2.513. Resistance we see at \$3.50 followed by \$3.57 and \$3.609. Additional resistance we see at \$3.719, \$3.777, \$3.888. More distant resistance we see at \$4.093, \$4.304. and \$4.515.

The information contained in this letter is taken from sources, which we believe to be reliable, but is not guaranteed by us as to accuracy or completeness and is sent to you for information purposes only. The Windham Group bases its market recommendations solely on the judgment of its personnel. Reproduction in whole or part or other use without written permission is prohibited.