



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 19, 2010

NATURAL GAS MARKET NEWS

The National Hurricane Center today continued to watch 99-L, a large area of low pressure located in the northwestern Caribbean Sea. The system appears to have become a little better organized and environmental conditions appear to be improving for further development over the near term. As a result forecasters raised their probability that this system could become a tropical depression within 48 hours to 50%. The system continues to drift slowly to the north-northwest.

The NRC reported this morning that some 79,696 Mw of generating output was on line this morning, 2.2% yesterday and some 9.5% higher than the same time a year ago.

Reuters reported today that according to ship tracking services, the Exquisite LNG tanker has left the Sabine Pass LNG terminal in Louisiana today bound for the China Sea. The tanker is expected to arrive in China by December 27th. Excelerate Energy is expected to re-export a second LNG cargo this week as well.

Occidental Petroleum reported its third quarter results today. The company reported that its natural gas production in the United States in the third quarter averaged 656 mmcf up 0.5% from the same quarter a year ago. For the first nine months of this year natural gas production for the company in the United States averaged 671 mmcf, up 6.3% from the same period a year ago. The company noted that it is still having problems with gas processing and gas gathering in Elk Hills, California. It sees its gas and NGL output to be flat in the fourth quarter. It also said it was more cautious about its natural gas drilling program and may reevaluate 2011 natural gas drilling plans. It noted it was shifting to drilling oil

wells in California due to current prices and expects to increase its oil output in the fourth quarter.

| 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 | 808,500 | \$3.361 | (\$0.000) | (\$0.119) | (\$0.001) | (\$0.082) |
| Chicago City Gate | 734,200 | \$3.500 | \$0.039 | \$0.020 | \$0.028 | (\$0.029) |
| NGPL- TX/OK | 425,700 | \$3.289 | (\$0.007) | (\$0.191) | (\$0.018) | (\$0.187) |
| SoCal | 352,200 | \$3.410 | \$0.012 | (\$0.070) | \$0.001 | (\$0.065) |
| PG&E Citygate | 829,400 | \$3.893 | \$0.045 | \$0.413 | \$0.034 | \$0.314 |
| Dominion-South | 520,900 | \$3.513 | (\$0.026) | \$0.033 | (\$0.037) | \$0.074 |
| USTrade Weighted | 20,709,400 | \$3.415 | \$0.010 | (\$0.065) | (\$0.00) | (\$0.082) |

A Turkmen official said today that Petronas was on the verge

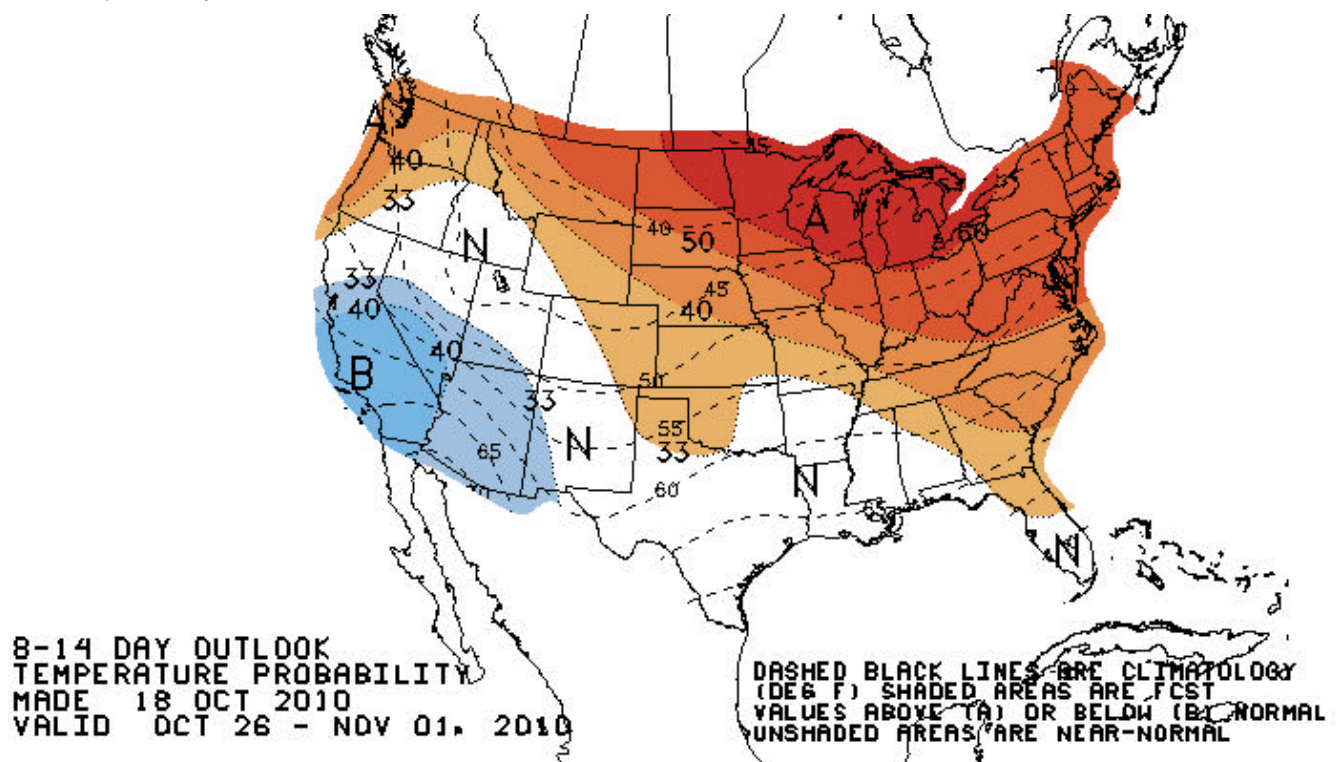
of starting its natural gas commercial operations in Turkmenistan. The company's target is to ship 5 bcm of gas next year with production increasing to 10 bcm at a later date. The company did not say where it would export the gas, but obviously the Nabucco pipeline project may be an option in coming years.

Reuters reported the Al Nuaman LNG tanker was en route to Britain and expected to arrive sometime around October 28th. Meanwhile port officials at the South Hook terminal reported that the Umm Slal LNG tanker is expected to arrive from Qatar on October 26th. The vessel has a capacity of 240,000 cubic meters.

British cash natural gas prices eased across the board today as supply remained strong from Norway and the likelihood for more LNG cargoes may be diverted to Britain. It was reported today that the BW Suez Everett LNG tanker, which had been slated to offload at the French LNG terminal at Montoir has now been diverted to the Isle of Grain terminal and is expected to arrive on October 23rd.

The Chinese press reported today that according to a Chinese official, the country's consumption of shale gas is expected to reach 15 bcm by 2020 or 0.45% of total energy use by then. The country is at the preliminary stage of developing unconventional gas such as shale and coal bed methane. Shale production in the country has yet to start while coal bed methane gas output is small. Coal bed methane demand is also expected to grow reaching 23 bcm by 2020 or 0.7% of total energy demand by that time.

Turkey reported that Iran temporarily halted flows of natural gas to Turkey on Sunday due to technical reasons. The Turkish energy minister said the disruption in supply is expected to last 12 days. Iran supplies approximately one third of Turkey's energy needs. Russian gas supplies are expected to make up for any shortfall.



ELECTRIC MARKET NEWS

Genscape reported today that stockpiles of coal at U.S. power plants rose 2% this week but were 17.1% smaller than the same week a year ago.

ECONOMIC NEWS

The five commissioners of the CFTC voted 50 today to advance a proposed rule creating swap position report for public comment. The agency is looking for a comment period of 30 days with a target of the rule becoming operational in 6-10 months. Currently the CFTC is looking for the rule to

cover 46 commodities including energy, metals and agricultural products. The threshold for reporting would be position limits in any one futures equivalent month comprised of 50 or more economically equivalent swaps. Currently 180 clearing members and swap dealers and five clearinghouses are expected will have to report. Meanwhile the CFTC chief counsel said today that the CFTC has the flexibility on what date position limits rule becomes effective. He noted that the CFTC could establish a formula for position limits, but wait until data is available to make it effective.

The US Commerce Department said US home construction unexpectedly increased in September by 0.3% to a seasonally adjusted annual rate of 610,000, a five month high. Building permits fell by 5.6% to a seasonally adjusted annual rate of 539,000. Economists expected overall housing starts to fall by 4.2% to 573,000. Single family housing starts increased by 4.4% to an annual rate of 452,000.

China's central bank unexpectedly increased its interest rates for the first time in three years. It raised its benchmark one-year deposit and lending rates by 25 basis points each. The move reflects its concern about rising domestic asset prices and inflation. As a result, the US dollar surged as the US said it would not devalue the dollar. Gold prices fell as much as 2.7% on Tuesday.

Goldman Sachs' commodities trading risk increased modestly in the third quarter for a year ago but fell slightly from the previous quarter. It assumed a Value at Risk worth \$29 million for commodities during the third quarter compared with \$27 million a year ago and \$32 million in the second quarter.

MARKET COMMENTARY

The natural gas market today posted its first up day in four trading sessions. The market late yesterday afternoon initially worked lower setting yet another new low only to stabilize and climb steadily higher throughout the night session and into the day session. The market though finally found resistance at yesterday's high of \$3.53 right on the close. It appears that this rebound while finding little fundamental support was driven by more by probable short covering in front of this week's storage numbers and a market that had fallen 30 cents in just two days and nearly forty cents in three trading sessions. Volume today appeared to be smallest in over a week.

While the market posted a rebound today it still is not sufficient amount to prompt us to look to sell this market once again. As a result we remain comfortable in remaining on the sidelines of this market and watching. We see resistance tomorrow at \$3.53 followed by \$3.631, \$3.696 and \$3.81. Additional resistance we see at \$4.00, \$4.14 and \$4.193. Support we see at \$3.41-\$3.395 followed by \$3.341-\$3.321, \$3.25 and \$3.00.

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