



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR OCTOBER 27, 2009

NATURAL GAS MARKET NEWS

The CFTC reported in its latest quarterly index assessment data that positions held by commodity indices are equivalent to about 20-25% of all open positions in major U.S. futures and options contracts. Total investment in commodity indices amounted to \$117 billion at the end of June 2009. Around \$95 billion was invested in components linked to U.S. commodity contracts, with \$22.5 billion in components linked to overseas contracts. The largest investments are in contracts linked to NYMEX crude oil (\$30 billion), U.S. natural gas (\$9.5 billion), gold (\$6.7 billion), soybeans (\$6.4 billion).

The chairman of the CFTC said position limits would guard against excessive concentration in the energy futures market. He noted that the financial crisis last fall showed the risk posed by "large concentrated actors on the financial stage." He also said today "transactions between swap dealers and end users, even if the end users are exempt from margin requirements, should still be traded on exchanges or swap execution facilities."

ExxonMobil said its natural gas output in Qatar would reach 4 bcf/d when all its projects in the country reach full capacity. The Al-Khaleej 2 project is expected to come on line in the next couple of months and it will have a capacity to pump 1.25 bcf/d.

Generator Problems

PJM – Dominion's 800 Mw Surry #2 nuclear unit was at full power this morning, up 15% from yesterday.

MISO- Exelon's 1043 Mw Clinton nuclear power plant ramped up to 96% capacity on Tuesday, up 46% from yesterday.

Exelon's 1043 Mw Clinton nuclear unit was at 96% capacity, up 47% from Monday.

SERC – Southern Nuclear's 876 Mw Hatch #1 nuclear unit was operating at 97% capacity this morning, up 8% from a the prior day.

Southern's 1200 Mw Vogtle #1 nuclear unit was at full power this morning up 6% from Monday.

Cal ISO reported this afternoon that 15,023 Mw of generation was off line, some 52% of which was non-gas generation assets.

The NRC reported this morning that total U.S. nuclear generation stood at 73,185 Mw up 1.1% from yesterday and down 5% 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	547,300	\$4.517	(\$0.000)	(\$0.028)	\$0.021	\$0.046
Chicago City Gate	502,100	\$4.755	\$0.048	\$0.210	\$0.001	\$0.176
NGPL- TXOK	702,000	\$4.457	\$0.006	(\$0.088)	(\$0.041)	(\$0.135)
SoCal	485,500	\$4.725	\$0.060	\$0.180	\$0.013	\$0.142
PG&E Citygate	686,400	\$5.358	\$0.226	\$0.813	\$0.179	\$0.603
Dominion-South	312,100	\$4.751	\$0.093	\$0.206	\$0.046	\$0.138
UTrade Weighted	18,957,400	\$4.659	\$0.068	\$0.114	\$0.02	\$0.046

The tropical Atlantic basin today remained fairly quiet and no tropical development was expected over the next couple of days as wind shear across the much of the Gulf of Mexico and

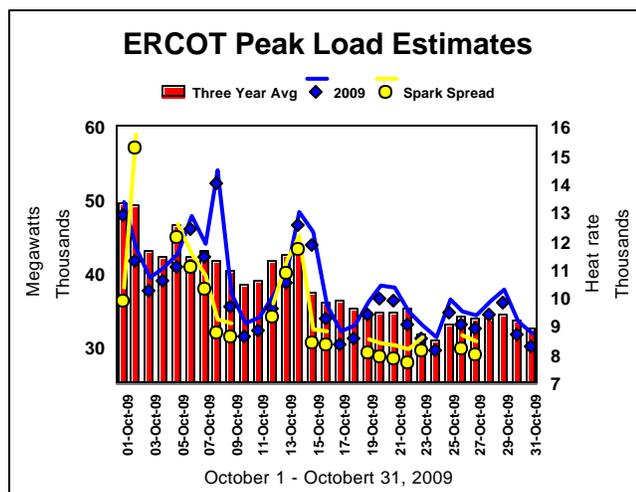
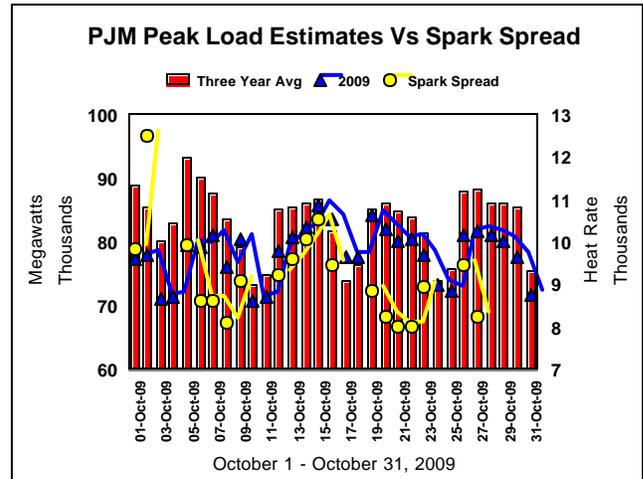
parts of the Caribbean kept conditions unfavorable for development.

Qatar's oil minister said today that Qatar is diverting around 10% of its LNG exports to China from the United States or around 5 million tonnes, as a result of depressed prices in the United States. China received its first LNG cargo from Qatar last week.

The Golden Pass LNG import terminal in the United States is expected to come on-stream by the middle of 2010. The facility on the U.S. Gulf Coast is expected to have an import capacity of 2 bcf/d. Qatar Petroleum would own 70% of the terminal with ExxonMobil and ConocoPhillips holding a 30% stake.

Imperial Oil said today that it was unaware of any changes in the Canadian government's support for the Mackenzie Valley natural gas pipeline. A Canadian newspaper reported today that according to unnamed sources, the federal government had turned down a financial assistance package for the project that had been proposed by Environmental Minister Prentice, due to cost overruns.

The Clean Energy LNG tanker arrived at the Elba Island LNG terminal late Monday.



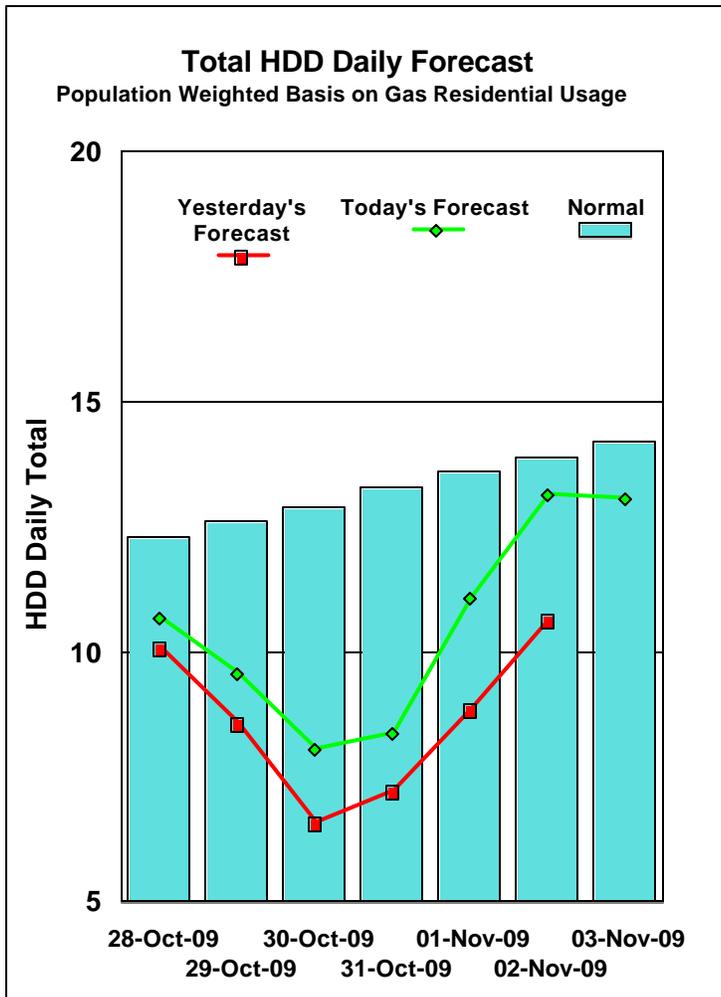
Qatar's Bu Samra LNG is expected to arrive at the South Hook import facility on November 2nd.

The Excalibur LNG tanker reportedly is en route to the Gulf of Mexico from Trinidad.

The deputy prime minister of the Ukraine said today he did not expect that there would be a new end of year dispute between the Ukraine and Gazprom over gas supplies. He did note though that there has been economic hardship on his country in meeting monthly gas payments to Russia. He noted that the upcoming January 17th election though could make the economic problems of the nation critical. He noted that gas

payments could be threatened if the government was forced to raise the minimum wage as supported by the prime minister's main rival, which would result in additional government spending at least \$1 billion or more. In addition if this minimum wage is raised it could also threaten the disbursement of \$3.8 billion of the \$16.4 billion bailout plan that the IMF put in place earlier this year. The Ukrainian industrial sector has been estimated to have contracted this year by 15%.

The Turkish news agency reported today that Turkey would start exploration work on Iran's South Pars gas field in November. The Turkish state owned exploration and production company is seeking to produce an annual 35 billion cubic meters of gas from the field and that at least half of the production would be made available to Turkey for re-export to Europe. The government also reported that Turkey was willing to make additional payments to Azerbaijan for gas bought since April 2008. Azerbaijan has criticized its gas contract with Turkey, in which it sells the gas at a discount.



The Conference Board reported this morning that U.S. consumer confidence fell to lower than expected levels in October, to 47.7 from a slightly upward revised number in September 53.4. The index is at its lowest level since July.

PIPELINE MAINTENANCE

Gulf South announced that its plans to conduct pigging operations on Index 430 have been postponed. The work had been scheduled to begin Wednesday and last for approximately 10 days. The company said it would perform necessary compressor maintenance to the Hall Summit Compressor Station Unit #3 starting October 28th and last for some eight hours. Capacity through the station could be reduced by as much as 125,000 Dth.

PIPELINE RESTRICTIONS

Southern Natural reported that due to demand exceeding market area supply a capacity allocation will be implemented effective for the timely cycle for October 27th and until further notice for 10 Savannah Line, 164 Albany to Douglas, 165 Tallahassee Line, 166 Albany to Pavo Group, 167 Pavo to Occidental Tap, 168

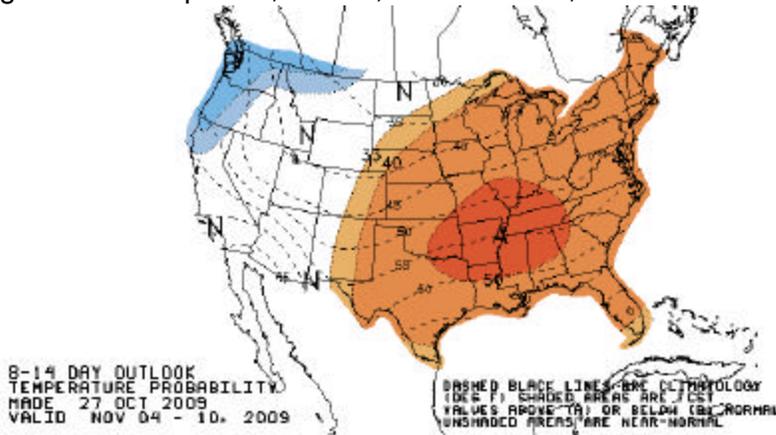
Occidental to Florida Power, 169 Jacksonville Line and 170 Cypress Line. The company will determine the amount of interruptible capacity that can be scheduled.

ELECTRIC MARKET NEWS

U.S. coal supplies at power plants this week grew by 0.08% over last week according to Genscape. Current stocks though remain well above last year's level by 18%. As of Tuesday there was approximately 70 days of forward supply of coal at power plants.

The Natural Gas Supply Association said Monday that it opposes the CFTC's proposal to bring 13 financially settled natural gas contracts offered for trade on the ICE under regulation, including position limits. The trade group said that the contracts do not possess all of the characteristics necessary to define them as ones that perform significant price discovery functions. The group noted that the contracts in question were materially different from the financially settled Henry Hub swap. The contracts under question generally contain a pricing term that consists of the Henry Hub NYMEX futures expiry price for the month and the basis differential, and that the CFTC has already taken steps to secure the Henry Hub basis contract from risk of excessive speculation. Thus the trade group noted that the contracts do not have a material effect on other agreements, contracts or transactions listed for trading, as is required to be designated a SPDC. The group also pointed to the July 14th analysis by a former CFTC member, William Albrecht, which found the U.S. natural gas commodity and financial markets are the most transparent in the world and lawmakers should not impose overly restrictive regulations that would stifle their effectiveness.

President Obama announced Tuesday the U.S. government was issuing \$3.4 billion in grants to help build a “smart” electric grid. This was the largest award made in a single day from the \$787 billion stimulus package approved recently by Congress. The grants range from \$400,000 to \$200 million, will go to 100 companies, utilities, manufactures, cities and other partners in 49 states



FPL's NextEra Energy Resources has completed a 200-mile, 345 Kv private transmission line from its Horse Hollow and Callahan Divide wind farm in West Texas to a substation in San Antonio. The company reportedly paid higher than normal for easements to complete the project. The project was completed with little public input, as it bypassed the Texas Public Utility Commission's Competitive Energy Resource Zones process. As a result some transmission

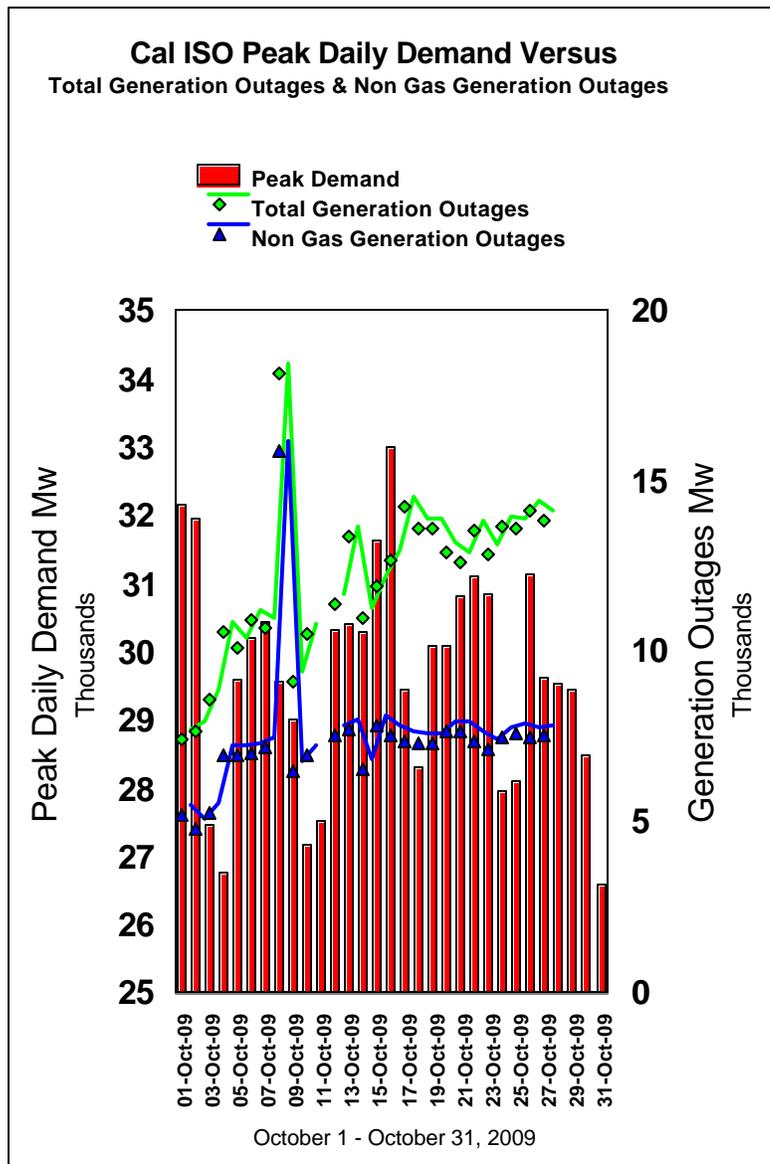
zone developers worry that land owners will expect higher prices now for easement needed to build CREZ routes.

Tonbridge Power said Tuesday it closed on the \$161 million of financing from the Western Area Power Administration to fund construction of a power line between Montana and Alberta. Construction is expected to begin by the end of this year and take 18 months to complete. The line is expected to have a capacity of 230-kV.

MARKET COMMENTARY

The November natural gas contract today posted its smallest daily trading range since September 9th as the expiring November options appears to have kept prices from challenging the \$4.50 level. The market seemed to find a little support today from weather forecasts that this morning and midday that were not as warm especially for the next week or so, as well as stronger oil prices. But while the November contract posted an inside trading session the December contract moved this morning to its lowest level since September 22nd and came within a penny of posting a 50% retracement of the up move from the past two months.

Once the November contract expires tomorrow, we feel that the December contract will become even more sensitive to the daily fluctuations in the



near term weather forecasts, especially with the prospects of even more LNG cargoes potentially headed this way. We would look to move back to the sell side of this market and ideally would begin to be a scale up seller of this market from \$5.48-\$5.70. Initial resistance we see as a target on the upside would be the gap left in the daily charts from two days ago at \$5.458-\$5.473. Additional resistance we see at \$5.581, \$5.677 and \$5.989. Support we see at \$5.165 followed by \$4.97 and \$4.35.

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