



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR OCTOBER 29, 2010

NATURAL GAS MARKET NEWS

The National Hurricane Center reported that a tropical wave in the Atlantic strengthened on Friday and has an 80% chance of becoming a depression in the next 48 hours as it moves towards the Caribbean. The wave is unlikely to reach the Gulf of Mexico, at least in the next five days or so. The NHC later stated that Tropical Storm Tomas will likely form in the Atlantic. Elsewhere in the Atlantic, the NHC continued to watch two other systems, Tropical Storm Shary and a weakening low pressure system in the central Atlantic. Tropical Storm Shary is expected to hit Bermuda later on Friday before moving northeast away from land toward the northern Atlantic. The low pressure system is about 1,300 miles northwest of the Cape Verde Islands with a 10% chance of developing.

The NRC reported today that some 79,997 Mw of generating capacity was online today, up just .004% from yesterday's level of 79,994 Mw and 7.39% higher than the same day a year ago.

National Grid's NGL Isle of Grain LNG terminal is due to receive its first shipment of cargo on Friday for its phase 3 expansion. The expansion allows for storage capacity of up to one million cubic meters and has the capacity to receive the world's largest LNG tanker, Q-max with capacity of 265,000 cubic meters of gas. The expansion also allows for additional above ground storage.

According to Iran's OPEC governor, the price of global natural gas is too low which is causing a lack of interest in investment. Mohammad Ali Khatibi had said that the price of natural gas in comparison to crude is too low and would lead to the stoppage of development in gas field projects, which in turn would cause concerns for consumers.

According to an EIA report, gross natural gas production in August in the lower 48 U.S. states increased by 1.8 percent. This is up from upwardly revised figures in July. The report indicated that "wet" gas output in August totaled 65.79 billion cubic feet per day, up 1.16 bcf per day from the upwardly revised July output of 64.63 bcf daily.

The U.S. natural gas rig count rose by two this week to 967. This is the first increase in three weeks. According to analyst's estimates, two-thirds of horizontal rigs are drilling for natural gas, with the rest drilling for oil.

The Federal Energy Regulatory Commission has given its approval for the Golden Pass LNG terminal in Texas to receive test cargoes. Approval has yet to be given for the terminal to receive commercial deliveries. The first tanker arrived at the terminal last week but was not able to unload before approval was given to run test LNG through the terminal.

ECONOMIC NEWS

The US economy expanded at a slightly faster pace in the third quarter as consumer spending increased. The Commerce Department said GDP increased at an annual rate of 2% after increasing by 1.7% in the second quarter. Economists were expecting GDP to increase by 2.1% in the third quarter. The price index for personal consumption expenditures, excluding food and energy, increased at an annualized 0.8% in the third quarter, down from the second quarter's 1% increase. The overall price index for personal consumption expenditures increased by 1% in the third quarter.

The US Labor Department said US employment costs increased 0.4% in the third quarter, slightly below market forecasts. Wages and salaries increased just 0.3% and were up 1.5% compared to a year earlier.

ELECTRICITY NEWS

According to a Genscape report, U.S. coal use increased 6 percent from week to week and was up 3 percent from the same week last year. The recent increase was attributed to weather conditions. The longer-term outlook for use is showing signs of weakness due to cheap natural gas and tighter environmental rules. Coal consumption in the East was up 10 percent on the week and up 6 percent year on year. In the West, coal consumption rose 1 percent week-to-week and was up 5 percent from the same week last year.

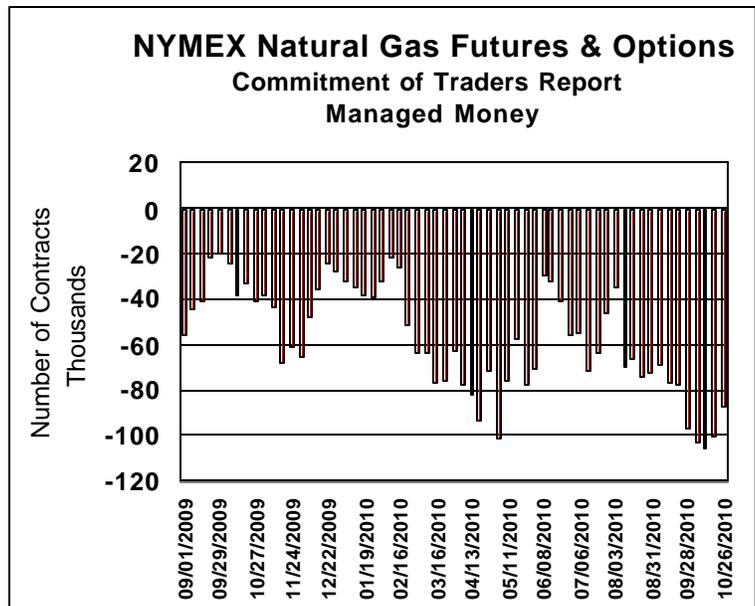
The EIA reported that US coal production in the week ending October 24th fell to 21.164 million tons, down from 21.606 million tons during the previous week.

MARKET COMMENTARY

Yesterday's higher move saw follow-through today, still reeling from the less-than expected storage report. Oversold market conditions and storm activity in the tropics, added to the price advancement. The spot month contract reached a five-week high, peaking the session at \$4.055. Below average temperatures are expected for the U.S. East Coast and parts of the Gulf of Mexico from November 3 through November 7. We may start to see seasonal demand pick up, however we expect that the overall fundamentals of this market will keep a lid on prices.

Our objective yesterday was to be very short-term sellers up around the \$4.00 mark. Well, today's activity has us licking our wounds and rethinking our market position. From a technical standpoint, prices may make a run for the high of September, which is \$4.144. We would look to reevaluate the market up at this level. Additional resistance can be seen at \$4.20, \$4.41 and \$4.443. We see downside support starting at \$3.708 followed by \$3.656 and \$3.50. More distant support we see at \$3.41 and \$3.263.

The Commitment of Traders' disaggregated futures and option report showed that managed money funds continued to cut their net short position for the second consecutive week, by 13,359 contracts to 86,762 contracts in the week ending October 24th.



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