



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR NOVEMBER 1, 2010

NATURAL GAS MARKET NEWS

Forecasters at the National Hurricane Center continued to watch Tropical Storm Tomas. They noted that the system which had been downgraded earlier in the day due to wind sheer was seeing some deep convection increasing near its center this afternoon, but it remained poorly organized and lacks banding, possibly due to dry air near its core. While the storm is currently moving nearly due west, the storm is expected to turn and move northward in about three days and then move in a northeastwardly fashion later in the week and seen as no threat to the Gulf of Mexico.

The NRC reported today that some 79,903 Mw of generating capacity was online today, down 0.8% from yesterday and 7.7% higher than the same day a year ago.

Qatar's oil minister today said he expects the glut of global LNG will end in three years. He noted that his country is on track to reach its targeted capacity of 77 million tonnes per year by December 30th. He looked for strong LNG demand growth in India and China to help absorb most of the excess global LNG production. He noted that Qatar is increasing its LNG exports to China and India this year by 7 and 5 million tonnes respectively. He said that with the rise in shale gas production in the United States it is making LNG sales into that market as a challenge but that Qatar is in talks with additional customers across North and South America as well as in the Middle East. He also said the U.S. re-export of LNG will not be competitive as the cost of gas plus gasification and transport works out to almost \$10 per Mmbtu to Asia versus current values of spot LNG deliveries of \$9.50 per Mmbtu into Asia.

BG Group said on Sunday that it has given final approval to a \$15 billion project to develop a major LNG project in northeastern Australia.

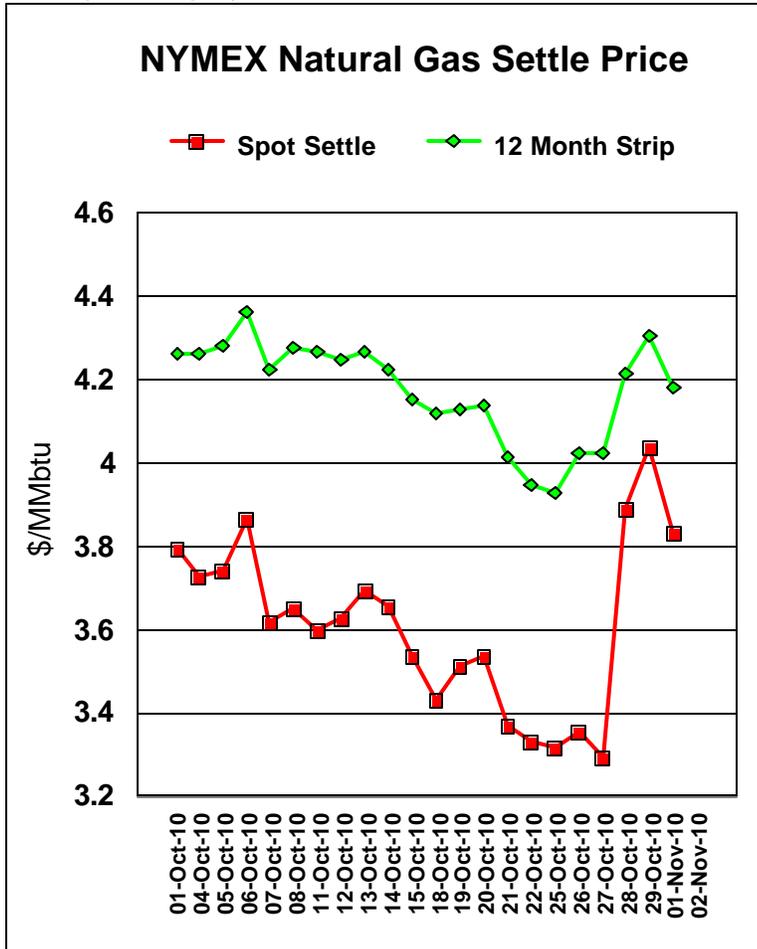
Royal Dutch Shell said it expects to start drilling in two shale gas blocks in southwestern China at the end of this year or early 2011.

Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
Location	Traded	Price		(As of 12:30 PM)		Moving Avg
Henry Hub	86,000	\$3.420	\$0.065	(\$0.477)	\$0.185	(\$0.293)
Chicago City Gate	833,200	\$3.540	\$0.013	(\$0.357)	\$0.112	(\$0.134)
NGPL- TX/OK	654,300	\$3.276	\$0.064	(\$0.621)	\$0.163	(\$0.412)
SoCal	304,600	\$3.342	\$0.057	(\$0.555)	\$0.156	(\$0.391)
PG&E Citygate	1,070,300	\$4.051	\$0.003	\$0.154	\$0.102	\$0.325
Dominion-South	494,100	\$3.579	\$0.170	(\$0.318)	\$0.269	(\$0.176)
USTRade Weighted	22,225,900	\$3.431	\$0.086	(\$0.466)	\$0.18	(\$0.293)

Shell said it looks for strong Asian growth in LNG demand will be enough to absorb growth in supply. It sees Chinese LNG demand to triple by 2020 and then double

again by 2030. Chinese demand for LNG just this year is up 70% so far. The company looks at natural gas as the cheapest way for Asian countries to utilize in order to meet their CO2 targets in the coming years.

Chevron said Monday that it's a \$43 billion Gorgon LNG project remains on target to start production in the third quarter of 2014, despite recent media speculation that construction delays would delay the start up of the project.



British gas traders noted that spot gas prices softened to start out the week as a result of gas supplies via the Langeled and BBL pipelines were strong and the expectation for additional LNG supplies over the next couple of weeks. The Mesaimmer (210,000 cubic meters capacity), Zarga (266,000 cubic meters capacity) and the Onaiza (210,000 cubic meters capacity) LNG tankers are due to arrive at Britain's South Hook from Qatar on November 4th, November 6th and November 8th respectively. Additionally, the Al Gharrafa (216,200 cubic meter capacity), last seen in the Caribbean Sea on Monday, is due at Britain's Milford Haven port on November 11. AIS ship tracking data did not specify whether the vessel was going to South Hook or Dragon LNG terminal.

The IEA said today that unless China's demand strengthens, the existing natural gas glut could continue for another decade. In late 2008, just as new LNG plants built to supply the United States were nearing completion, gas prices fell worldwide as the recession reduced

industrial fuel consumption in Europe and new technology cut production costs for alternative supplies in North America. Some experts feel the worst could be over however, after Asian demand has risen sharply in 2010 and with the IEA expecting global consumption to rise by up to 2 percent this year after falling an estimated 3 percent last year.

In October, Britain exported the highest amount of gas to Belgium since the subsea gas pipeline, which links the two markets, opened 12 years ago. Britain transported 16,000 gigawatt-hours (GWh) of gas to Belgium during the month, almost one quarter more than the previous October record high set in 2002. On October 5, 2010, daily gas export volumes from Britain to Belgium reached a seven-year high of 644 GWh as more expensive continental Europe gas prices led to a high level of imports from Britain, where gas prices were lower.

ECONOMIC NEWS

The US Commerce Department said US consumer spending increased by less than expected in September as income fell for the first time in 14 months. It said spending increased 0.2% after rising by an upwardly revised 0.5 in August. Meanwhile US incomes fell by 0.1% in September after a

revised 0.4% rise in August. With incomes declining, the national savings rate fell to 5.3% from 5.6% in August. Separately, the Commerce Department said US construction spending increased unexpectedly in September as investment in public projects reached the highest level in more than a year. It reported that construction spending increased by 0.5% to an annual rate of \$801.7 billion.

The Institute for Supply Management reported its monthly indexes of manufacturing activity for October increased to 56.9 in October from 54.4 in September.

China's manufacturing activity expanded at a faster pace in October compared with September. China's Purchasing Managers Index increased to 54.7 in October from 53.8 in September, the China Federation of Logistics and Purchasing. The input prices subindex increased to 69.9 from 65.3 in September, showing that inflationary pressures are rising. Meanwhile the HSBC Markit PMI for India increased to 57.2 in October from 55.1 in September.

British manufacturing growth increased last month for the first time since March Markit/CIPS's headline manufacturing Purchasing Managers' Index increased to 54.9 from September's 10 month low of 53.5, its highest level since July and in contrast to economist's expectations for a fall to 53.1.

ELECTRICITY NEWS

NextEra reported a degraded condition at its 580 Mw Duane Arnold nuclear power plant. A flaw was found with one of the welds at the 580-megawatt power station in Iowa, but the problem is not expected to delay the reactor's scheduled restart. The unit was taken down for scheduled maintenance on October 27th.

Genscape reported today that it estimated for the week ending October 28th, U.S. electric production rose 0.6% from the prior week and was 6.5% higher than the same week a year ago.

MARKET COMMENTARY

The natural gas market today posted its second outside trading session in the last three sessions. Despite another attempt to breach the resistance at \$4.20-\$4.23 in the December contract early this morning, updated forecasts this morning, the downgrading of Tomas and a 11-15 day forecast that points to heating demand being less than normal through the mid section of the country brought the bears back to the market and by the end of the day prices had tumbled back below \$3.85 once again, erasing the gains following last week's storage report. If weather forecasts remain bearish for the 8-15 day period then this market over the near term could make another run this week at back filling the gap on the spot continuation chart at \$3.654-\$3.391 after support at \$3.812 and \$3.762 is breached.. Resistance we see at \$4.234-\$4.252, \$4.321 and \$4.50.

The March-April natural gas spread today posted an outside trading session as well today, and its largest daily trading range since September 16th. While volume today was moderate, we would look for substantial long liquidation in this spread if the 1.5 cent support level of the past month is finally breached in the coming few days. This spread a year ago saw the March 2010 contract hold a 0.2-0.8 cent premium over the April contract, only to see the March drop to a 5 cent discount to the April contract by the end on November.

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