



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 AUGUST 31, 2011

NATURAL GAS MARKET NEWS

North America

A tropical wave over the northwest Caribbean has a 30% chance of becoming a tropical cyclone in the next 48 hours. The latest computer models show that this storm may stall in the western Gulf of Mexico from Monday through Wednesday of next week. It has the potential to end the drought in eastern Texas as well. There are favorable conditions for the storm to intensify as ocean water temperatures have been measured in the upper 80s.

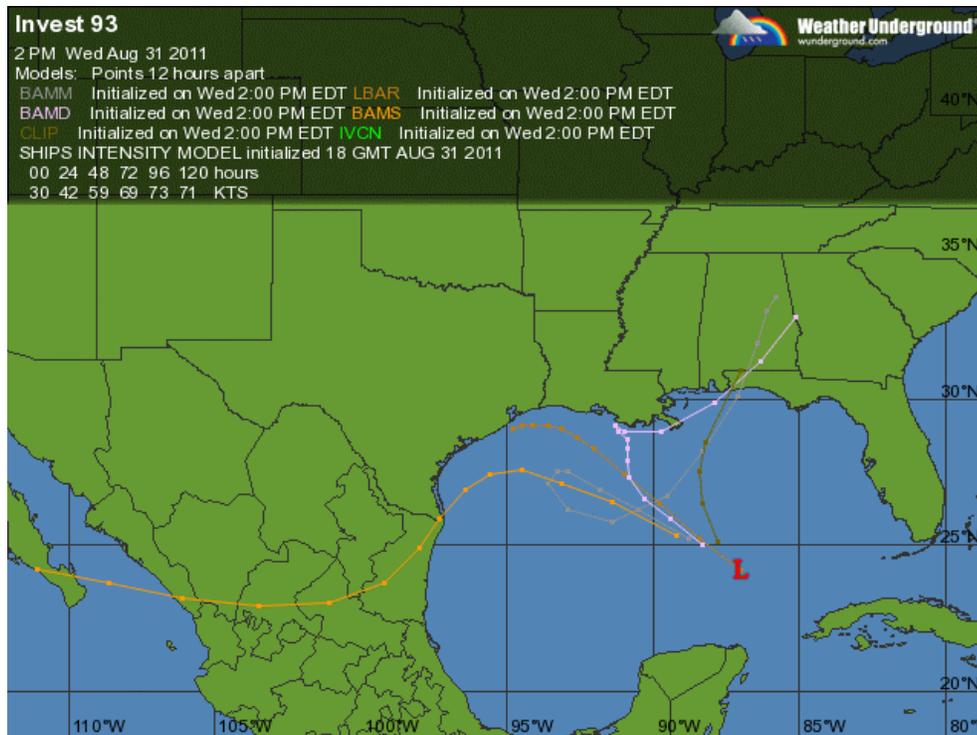
US oil companies have been monitoring this storm system closely.

Generation Outages

ERCOT The Oklaunion coal fired power plant in Texas unexpectedly closed late on Wednesday due to a boiler tube leak. The American Electric Power Co. said its plant would remain shut until September 2nd.

PJM Exelon Corp's Oyster Creek nuclear power plant was ramped up to full power from 30% power on Tuesday. The unit was idled on Saturday due to Hurricane Irene. Unit 1 at the Calvert Cliffs nuclear power plant in Maryland has began to exit an outage due to Hurricane Irene. Constellation Energy Nuclear Group LLC's plant was automatically turned off when a piece of aluminum siding became dislodged. PSE&G's Unit 1 at the Hope Creek-Salem nuclear power plant in New Jersey reduced to 69% power. Unit 2 has remained operating at full capacity.

The NRC reported this morning that some 92,927 Mw of nuclear generation was operating this morning, 0.70% more than yesterday but down 3.67% than the same day a year ago.



The Williams Partners have received approval from the FERC to expand its Transco pipeline by 23 miles in the Southeast. The cost of the project is estimated at \$217 million.

The National Transportation Safety Board (NTSB) blamed the utility's relaxed approach and weak government oversight for last year's natural gas explosion that killed eight people and destroyed a neighborhood. The rupture occurred on September 9, 2010

when a 28 foot section of pipe was ejected, which, ignited a fire that destroyed 38 homes and damaged many more. The findings show that the pipeline did not meet certain specifications and the welds were poorly constructed.

BP's Destin Pipeline declared force majeure due to operational problems that affect offshore Gulf of Mexico natural gas production. Destine released a statement saying they will not provide transportation services and will reject nominations from any of its offshore receipt points due to high levels of fluid at the liquid handling facility at the Pascagoula compressor station. The 255 mile pipeline has the capacity to transport 1.2 bcf/d.

International

Eni, the biggest exporter of Libyan gas hopes to resume exports along its 540 km pipeline from western Libya to Gela, Sicily by the middle of October. While even the head of the Italian energy company says the goal is ambitious as engineers have yet to inspect the compressor station in Libya he fears that if supplies from either Russia or Algeria are interrupted than supply will be tight in the winter months. The pipeline accounted for 11% of Italy's gas imports last year.

Germany's energy regulator will not keep spare nuclear capacity open on standby over the winter months. The announcement ended speculation that Germany could reopen nuclear facilities if renewable power output is low or if prices sharply increase.

Norway's pipeline operator Gassco is conducting a study to be published this winter on a 1,400km pipeline extension to the Russian boarder in the Barents Sea. Earlier this month Gassco completed a study examining a potential pipeline from the Snoehvit field in the Barents to the Heidrun complex at the north end of Aasgard pipeline.

PgiNG expects to settle its dispute with Gazprom in arbitration court as it hopes to decrease gas prices by 10% in its long term contract. PgiNG imports roughly two-thirds of its 14 bcm of gas sales from Russia. In other news PgiNG may face further delays in the development of its Skarv oil and gas field depending on the weather conditions.

Ukraine also plans to take Russia to arbitration court in Stockholm if the two sides fail to end their latest energy dispute. Ukraine is trying to reduce the price they pay which is higher than the price Russia charges to other European countries. Russia has proposed a deal to lower prices if Ukraine will join a customs union and give up a 50% stake in state run energy company Naftogaz.

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	863,500	\$3.972	\$0.125	(\$0.052)	(\$0.033)	\$0.042
Chicago City Gate	573,100	\$4.085	\$0.139	\$0.061	(\$0.000)	\$0.067
NGPL- TX/OK	808,600	\$3.930	\$0.107	(\$0.094)	(\$0.032)	(\$0.057)
SoCal	538,500	\$4.188	\$0.075	\$0.164	(\$0.064)	\$0.196
PG&E Citygate	819,600	\$4.421	\$0.201	\$0.397	\$0.062	\$0.324
Dominion-South	701,000	\$4.026	\$0.139	\$0.002	\$0.000	\$0.045
USTrade Weighted	20,513,100	\$4.023	\$0.106	(\$0.001)	(\$0.03)	\$0.042

Shell and Ukraine's state-run gas and oil company Naftogaz will sign a deal on shale gas exploration in Ukraine. Ukraine hopes the deal will decrease the countries dependence on Russian gas. 60% of gas used for domestic consumption comes from Russia. Shell will invest \$800 million into the project with \$200 million going toward probing and the other \$600 million toward investments.

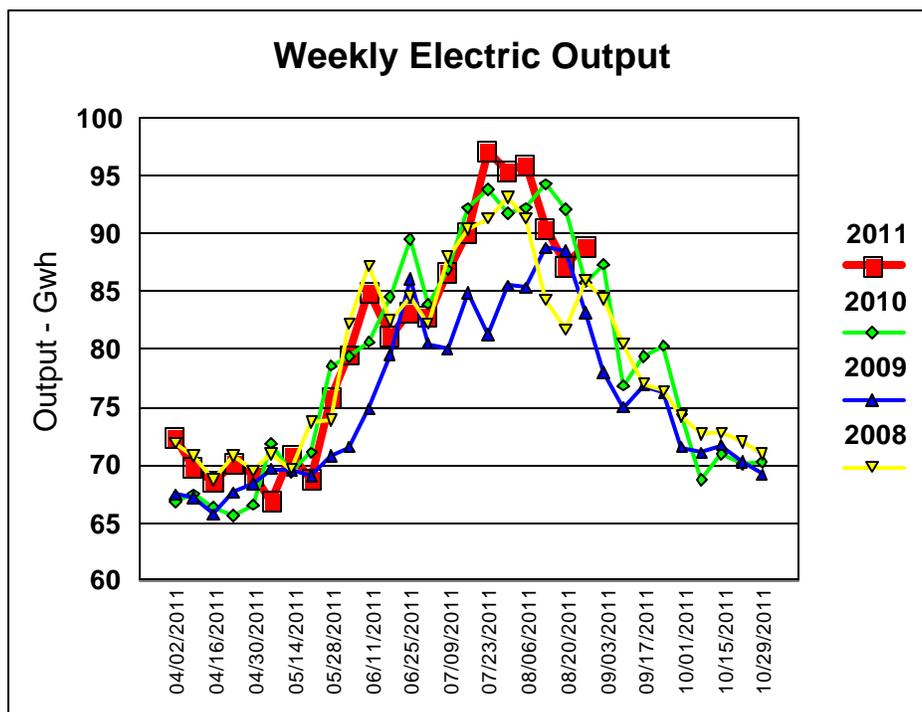
Korea Gas Corp (Kogas) plans to sign the final contract to develop one of Iraq's largest oil fields in September. Kogas owns a 75% stake in the Akkas venture and Iraq's state run North Oil Co. owns the other 25%.

The British Isle of Grain is expecting a 210,000 cubic meter delivery of LNG from the Al Khuwair LNG tanker on September 5th. The Al Thumana LNG tanker is expected to deliver its 217,000 cubic meter cargo to the British Isle of Grain on September 11th.

ELECTRIC MARKET NEWS

Entergy's Indian Point nuclear power plant has overcome a technical step in the renewal of its operating license as the NRC safety evaluation concluded that the plant is take sufficient steps to safely handle aging. Entergy is hoping for a 20 operating extension on both reactors, which are scheduled to expire in 2013 and 2015. The plant supplies about 25% of the power for New York City.

Texas was saved by the wind as a nuclear unit and a large coal plant went offline on Tuesday. Strong winds were able to generate 5,000mw of power, double the amount of power being produced by wind farms earlier this month. The increase in wind power was able to offset the loss of the other two plants so Texas was able to avoid rolling blackouts.



ECONOMIC NEWS

Atlanta Fed President Dennis Lockhart said the Federal Reserve could ease monetary policy further if economic conditions deteriorate and should not rule out any policy options.

The US Commerce Department said US factory orders, driven by strong car and airplane demand, increased in July more than expected. It reported that orders for manufactured goods increased by 2.4% on the month in July to \$453.17 billion. Orders in June fell 0.4%, revised up from a previously estimated 0.8% decline.

According to ADP, private businesses added a modest number of jobs in August. It reported that private sector jobs in the US increased by 91,000 in August. The July data was revised down to show an increase of 109,000 compared with 114,000 reported earlier. The latest ADP report showed large businesses with 500 employees or more added only 3,000 new employees, medium sized businesses added 30,000 workers while small businesses that employ fewer than 50 workers hired 58,000 new workers.

Macroeconomic Advisers LLC said that US jobs report for August could come in a good deal weaker than the private sector employment report released by ADP.

The Labor Department said unemployment rates in most metropolitan areas in the US fell during July on the year. The jobless rates were lower in 257 of the 372 metropolitan areas measured. Unemployment rates were higher in 94 areas and unchanged in 21 areas. The data also showed 232 metropolitan areas reported year over year increases in non-farm payroll employment while 133 reported decreases and seven had no change.

According to a report from consultants Challenger, Gray & Christmas, Inc, the number of planned layoffs at US firms declined by 23% in August after increasing for three consecutive months, with the government sector leading the job cuts. Employers announced 51,114 planned job cuts, down from 66,414 in July. The planned job cuts in August were up 47% on the year. For 2011 so far, employers have announced 363,334 cuts.

The Chicago Federal Reserve said that financial conditions in the US have reached their tightest level since June 2010, though remain looser than would be expected at this stage in the economic cycle. Its weekly National Financial Conditions Index increased to -0.31 in the seven days to August 26th from a revised -0.38 a week earlier and moved to -0.67 from -0.74 when adjusted for current economic conditions.

The Institute for Supply Management-Chicago said its index of Midwest business activity fell in August to 56.5 from 58.8 in July.

The Thomson Reuters/PayNet Small Business Lending Index, which measures the overall volume of financing to US small businesses, in July increased 13% on the year. This followed a revised 22% gain in June and a 27% gain in May.

Market Commentary

The natural gas market saw a dramatic rebound in values today as prices settled over 14 cents higher the biggest single day gain in the spot contract since July 15th. The likelihood that a tropical system may develop in the Northern Caribbean and the Gulf of Mexico over the next several days brought buyers back to this market. In addition the news that Destin Pipeline was forced to declare a force majeure event also lent support to prices.

Market expectations for tomorrow's storage report from the EIA appear to be running between a 50-80 bcf build with most analysts looking for a 60 bcf build in working gas stocks. For the same week a year ago stocks rose by an adjusted 52 bcf while the five-year seasonal average is for a gain of 60 bcf. If weekly stock builds through October match the five-year average injection rate for this period of time, then inventories will begin the upcoming heating season at 3.548 tcf or 7.6% below last November's record high storage level of 3.84 tcf. For inventories to exceed last year's storage levels by November 1st weekly injections will have to average 85 bcf for the remaining 11 weeks of the injection season.

We see resistance tomorrow at \$4.10 followed by \$4.159, \$4.196 and \$4.287-\$4.30. Support we see at \$3.965, \$3.93 and \$3.894.

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