



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR OCTOBER 26, 2011

NATURAL GAS MARKET NEWS

North America

Hurricane Rina was downgraded to a Category 1 hurricane on Wednesday with winds of 85 mph. Rina was located about 180 miles south southeast of Cozumel earlier today and was traveling northwest at 6 mph. The storm is expected to move off the east coast of the Yucatan peninsula on Thursday before turning east on Friday.

The US EPA said it will delay by a month final standards on emissions from hydraulic fracturing, its third postponement of air pollution rules since early September. The EPA and environmental groups that sued the agency agreed to a 35 day extension of for the finalization of the proposed standards to reduce air pollution from oil and gas drilling operations. The EPA had intended to finalize the rules on oil and natural gas drilling by February 28, 2012 but now plans to do so on April 3rd.

Generation Outages

FRCC- NextEra Energy was forced to shut down its Unit 1 at the Saint Lucie nuclear power plant for repairs on unspecified equipment. A plant spokesman for the company did not say when the unit is expected to return online but he did say the maintenance was on a non-nuclear, non-safety piece of equipment.

SERC- The 1,065MW Unit 1 at the Browns Ferry nuclear power plant was operating at 40% power early on Wednesday following repairs on a pump motor. The pump was returned to service on Tuesday after shutting automatically on Monday due to an issue with the component that supplies electricity to the pump motor.

MRO- American Electric Power Co Inc's Unit 1 at the Cook nuclear power station started to exit an outage and had ramped up to 19% power by early Wednesday morning. The reactor had been shut since September 21st for planned refueling.

The NRC reported this morning that some 79,293 Mw of nuclear generation was online, down 0.3% from yesterday and off some 0.9% the same day a year ago.



International

Cheniere Energy Partners and BG have signed a twenty year LNG sale and purchase agreement. The deal states BG will buy 3.5 mpta of LNG and pay a fixed sales charge for the full annual contract quantity.

France's Mediterranean Marseille port area received 35% more LNG imports from January through September this year when compared to last year. The port has received 5.3 mt million of LNG so far this year because Fos Cavaou entered operation in 2010 which has helped increase commercial operations.

Poland plans to move forward with shale gas projects if it is unable to renegotiate its current gas contract with

Russia. Poland currently imports two-thirds of its annual gas consumption and has been looking to diversify its supplies. Poland hopes to start shale gas production in 2014. The US EIA has estimated that Poland has 5.3 tcf of recoverable gas.

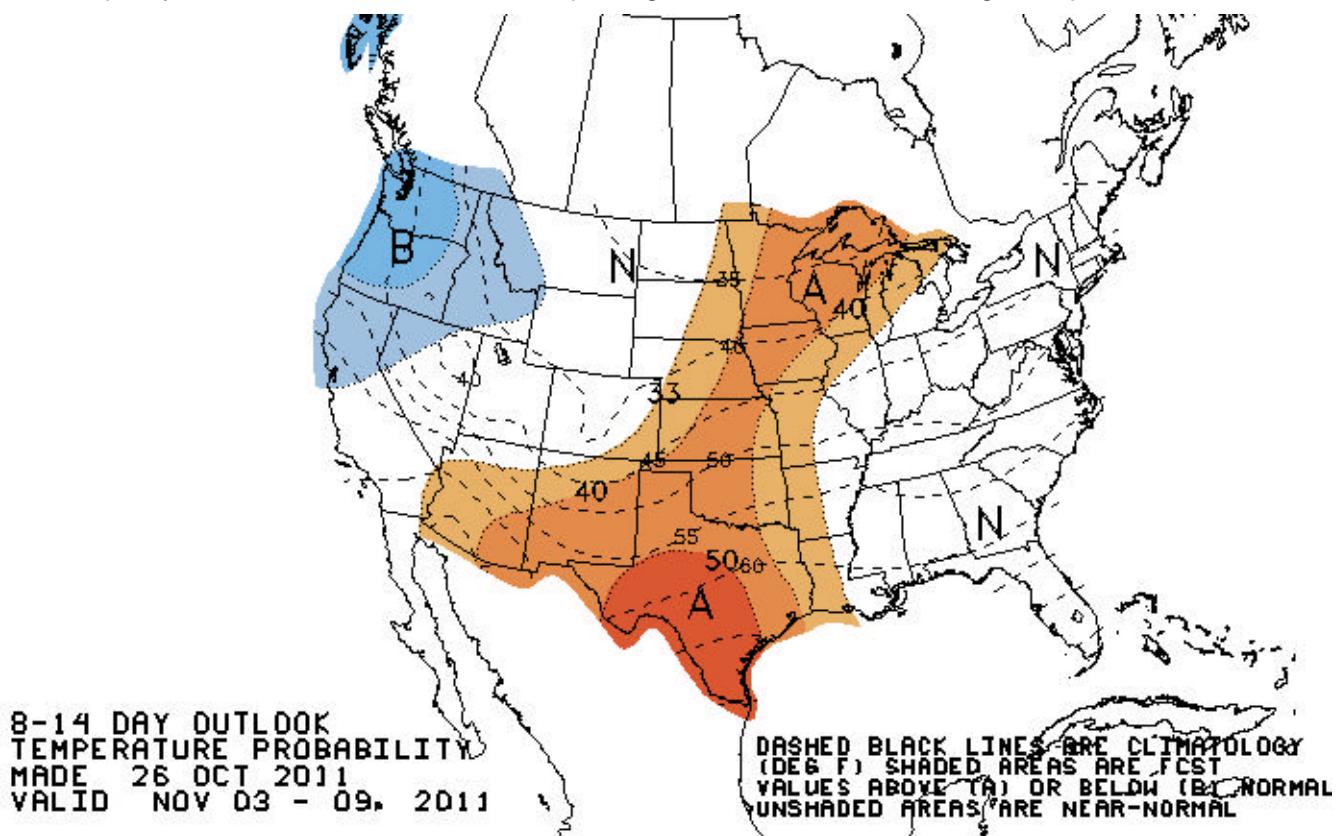
Turkey and Azerbaijan's gas purchase deal will bring 6 bcm of gas to Turkey from the Caspian Sea by 2017 and will allow the transit of 10 bcm of gas to Europe from Turkey.

Pakistan's government has made capacity allocations to import 500 mmcf/d of LNG from three companies. The first of the deliveries is expected from Global Energy in October of 2012, then Engro Corporation in December 2012, and Pakistan Gasport in 2014. Each company was required to provide a \$10 million performance guarantee.

Thailand's PTT reported that its natural gas sales volumes have fallen by 6% due to the flooding in the country's central provinces. Several of PTT's terminals were suspended or running below capacity on Wednesday. PTT has risk insurance that covers damage from flooding.

Natural Gas Cash Market						
	ICE Next Day Cash Market					
Location	Volume	Avg	Change	Basis	Change	Basis 5-Day
	Traded	Price		(As of 12:30 PM)		Moving Avg
Henry Hub	738,300	\$3.645	\$0.028	\$0.068	\$0.166	\$0.002
Chicago City Gate	899,700	\$3.998	\$0.112	\$0.421	\$0.189	\$0.228
NGPL-TX/OK	680,900	\$3.567	\$0.012	(\$0.010)	\$0.089	(\$0.088)
Socal	2,048,000	\$3.700	\$0.033	\$0.123	\$0.110	\$0.003
PG&E Citygate	1,185,500	\$3.924	\$0.045	\$0.347	\$0.122	\$0.199
Dominion-South	591,500	\$3.841	\$0.116	\$0.264	\$0.193	\$0.086
USTrade Weighted	22,197,000	\$3.739	\$0.089	\$0.162	\$0.17	\$0.002

An executive from GDF Suez said the company expects Chinese demand for LNG to increase five-fold to 44 mtpa by 2020 in addition to 10 new importing countries in Asia seeking 27 mpta of demand each



year. The executive also said that LNG demand in the Middle East and Asia is expected to grow by 95 mpta between 2010 and 2020.

Shell, the majority owner in Woodside Energy has not been in a rush to sell its 24% stake in the Australian company. Shell sold a third of its stake in the company last year and said it would not sell any more of Woodside until after November 8th. Woodside has volunteered to help market Shell's shares when they are ready to make a sale.

Woodside's Pluto LNG project of Western Australia said that it is still on schedule to ship its first cargo of LNG in March 2012. Woodside would not say when a final decision on the second train would be made but it has said plans for the second LNG train have been delayed due to a lack of gas resources.

ECONOMIC NEWS

The US Commerce Department said durable goods orders in September fell by 0.8% on the month to \$200.33 billion. Durable goods fell by 0.1% in August. The decline in September was the third in the past four months. Durable goods orders excluding transportation increased by 1.7% after falling 0.4% in August.

The Commerce Department also reported that sales of new homes increased for the first time in five months in September. New home sales increased by 5.7% on the month to a seasonally adjusted annual rate of 313,000. Sales in August fell 0.3% to 296,000, up from a previously reported 295,000.

The National Hurricane Center said Hurricane Rina weakened to a category one storm on Wednesday as it moved towards Cancun and other international tourist resorts.

China's Ministry of Industry and Information Technology said the country's industrial firms face increased difficulties due to weakening global demand. Growth of China's industrial output is likely to slow further in the coming months while inflation could remain at a relatively high level. The factory sector is on track to expand by an annual 11% this year and maintain the same pace in 2012. China's industrial output increased by 13.8% in September from a year earlier. China's annual inflation fell to 6.1% in September.

Market Commentary

The natural gas market today basically was a mirror image or opposite of yesterday's trading pattern. This time natural gas futures saw their highs set during overnight and early morning trading only to see values begin to erode once the floor session got underway. By the time the market settled all the gains from yesterday were erased and then some. It appeared that despite the outlook for increased heating demand over the next 5-7 days, the cold spell is not expected to be sustained and especially in the east and mid section of the country temperatures will return to normal or warmer than normal for the 8-14 day period. This changing forecast coupled with fears of a large build in working gas stocks tomorrow being reported by the EIA, also probably sent some recent bullish traders to the sidelines. Once again natural gas futures find themselves back around their recent comfort level of \$3.60-\$3.65. With a non-descriptive option expiration today, we do not expect tomorrow will see an exciting futures expiration either, unless there is a dramatic deviation from expectations of the storage report or if there is a major change in the temperature or tropical forecast. One interesting note is that the daily stochastics have crossed to the downside today for the first time in the November contract since October 7th.

Market expectations for tomorrow's report appear to be ranging between 85-90 bcf build. For the same week a year ago stocks increased by an adjusted 74 bcf while the five year seasonal average is for a 47 bcf build.

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