



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR AUGUST 23, 2011

NATURAL GAS MARKET NEWS

North America

Hurricane Irene became a Category 3 Hurricane today as winds reached 120 mph. The storm is still expected to touch the Outer Banks of North Carolina late on Saturday. From there it becomes more uncertain as forecasters have made projections ranging from the storm going as west as central New Jersey and as east as western Nova Scotia. The storm is still expected to bring tropical force winds and rain to the east coast from the Mid-Atlantic through New England as it travels north. Elsewhere in the Atlantic Ocean there are two developing storm systems but neither pose a threat to the United States.

A US Geological Survey now estimates that the Marcellus Shale contains 84 trillion feet of recoverable natural gas, which, is a significant increase over the 2 trillion cubic feet the USGS estimated in their last assessment in 2002.

International

Iran may reach a daily gas reception of 300 million cubic meters if gas injections into the country increase. The managing director of the South Pars Gas Complex (SPGC) also said that eight refineries would become operational once Phases 15 through 18 at South Pars come online.

The world's biggest mining company, BHP Billiton Ltd. (BHP), may expand shale gas outside the US after the purchase of Petrohawk Energy Corp. for \$12.1 billion and the purchase of assets from Chesapeake Energy Corp. BHP expects shale gas will be a major factor in energy in the long term and is considering an expansion of their LNG division.

Generation Outages

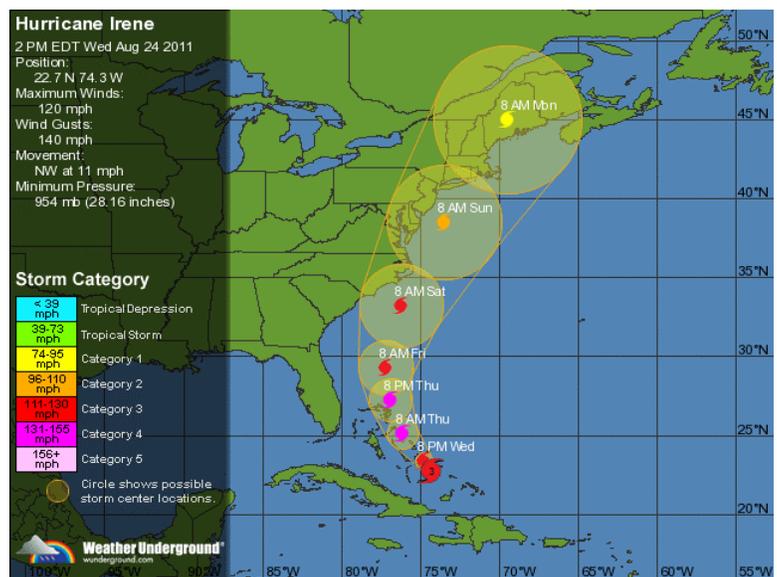
PJM- Dominion's North Anna nuclear station was restored to full power (1,806mw) late on Tuesday after lowering power in the wake of the 5.9 magnitude earthquake that hit Virginia. Following the restart the station was on 'alert' the second lowest of the four emergency ratings by the US Nuclear Regulatory Commission until 11:16 AM EST Wednesday.

Exelon Corp's Oyster Creek nuclear power plant in New Jersey reduced power to 70% on Wednesday from full power on Tuesday. The plant also is no longer under the classification of 'unusual event,' the lowest of the US Nuclear Regulatory Commission's emergency rankings.

The Susquehanna nuclear power station in Pennsylvania came back online Tuesday after being shut down on Friday due to scheduled equipment testing. The plant owned by PPL Corp was not affected by Tuesday's earthquake.

WECC-Palo Verde's Unit 3 increased power on Wednesday to 71% from 12% on Tuesday. Units 1 and 2 remained operating at full power at the Arizona Public Service plant during the shutdown of Unit 3.

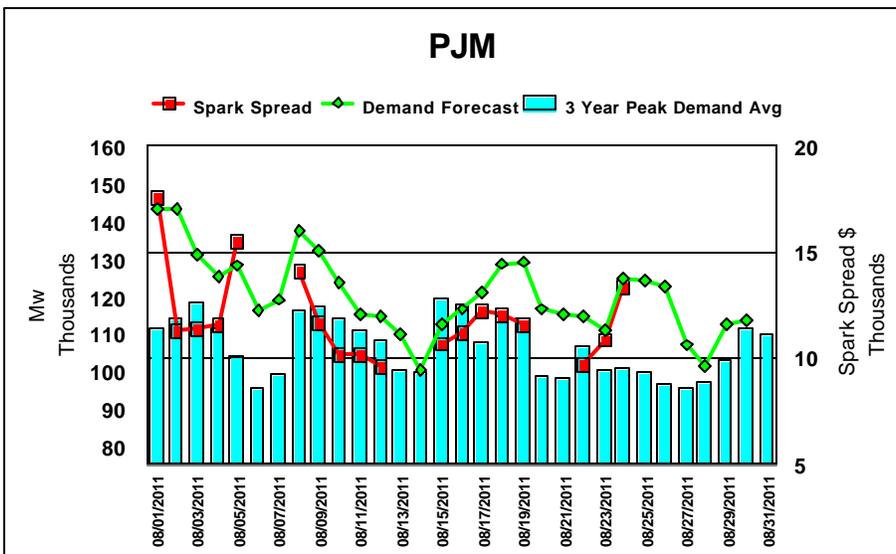
The NRC reported this morning that some 91,757 Mw of nuclear generation capacity was online, down 1.2% from yesterday and some 4.4% less than the same day a year ago



Noble Group of Hong Kong has chartered the LNG carrier LNG Taurus. The ship was built in 1979 and has a capacity of 126,000 cubic meters. The deal will give Noble Group control of the vessel for two years starting in 2012.

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	759,300	\$4.097	\$0.088	\$0.155	\$0.100	\$0.118
Chicago City Gate	573,500	\$4.166	\$0.090	\$0.224	\$0.117	\$0.153
NGPL- TX/OK	772,400	\$4.041	\$0.075	\$0.099	\$0.102	\$0.040
SoCal	611,900	\$4.227	\$0.075	\$0.285	\$0.102	\$0.233
PG&E Citygate	1,174,200	\$4.324	\$0.050	\$0.382	\$0.077	\$0.356
Dominion-South	1,009,200	\$4.150	\$0.101	\$0.208	\$0.128	\$0.126
USTrade Weighted	20,888,100	\$4.120	\$0.073	\$0.178	\$0.10	\$0.118

Australian coal and coal to LNG developers have been blindsided by an alliance of farmers and Greens. The two groups have come together to protest the projects worth an estimated \$100 billion for environmental reasons. These developments will be delayed for an indefinite amount of time until the situation can be resolved legally so countries that were planning on importing from Australia are going to have to look elsewhere for supply.



Chile's GasAtacama plans to invest \$250 million to build the country's third LNG regasification facility 2km off the coast of Mejillones Bay. The gas would be used to meet power demand from expanding mining projects

with excess gas going to meet residential and industrial customers as well as GasAtacama's parent company, Endesa Chile.

Russian President Medvedev announced they have support from North Korean leader Kim Jong-Il to build a pipeline that would carry gas from Russia to South Korea through North Korea. The proposed pipeline would carry 10 bcm/y and stretch over 1,700km.

Sasol, a South African petrochemicals group reported on Wednesday that a fire occurred at their Secunda coal to liquids plant. The fire has since been controlled but the cause has yet to be determined.

Maple Gas' natural gas operations have remained operating in Peru's Amazon after a 7.0 magnitude earthquake struck Pucallpa near the Brazilian border. Meanwhile Duke Energy and Southern Copper both said their natural gas plant operations in Peru's Amazon was operating normally as well.

Gassco reported today that the Norway-Germany Europipe 1 gas pipeline would shut on Thursday until September 5th for planned maintenance at a metering station on the German side is carried out. The 12-day maintenance is not expected to impact operations on the Europipe 2 or Norpipe pipelines.

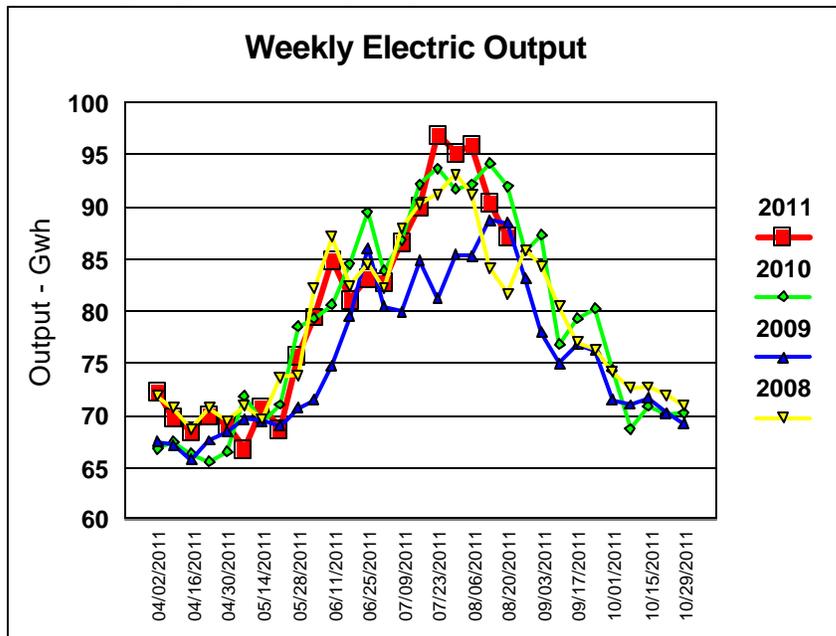
LNG TANKER	CAPACITY (Cubic meters)	Expected Arrival	From	Destination
Castillo De Vilalba		August 23, 2011 (A)	Nigeria	Dahej, India
Al Aamriya	210,000	August 23, 2011 (A)	Qatar	Isle of Grain, Britain
Al Mayeda	266,000	August 26, 2011	Qatar	South Hook, Britain
N/A	266,000	September 1, 2011	Qatar	Rotterdam, Netherlands
Simaisma	145,000	September 2, 2011	Qatar	Zeebrugge, Belgium

(A) Arrived (D) Delayed

ELECTRIC MARKET NEWS

The Texas power grid initiated an electric emergency on Tuesday as power levels strained to meet air conditioning loads as the start of school year increased cooling demand. There were no reported rolling outages but grid operators begged residents to reduce electric use between 3 and 7 PM local time, in order to avoid this occurrence. This is the fifth time this month the grid operators have initiated an electric emergency.

The US nuclear safety regulator released a statement on Wednesday saying he is considering inspecting Dominion's North Anna's nuclear power plant to inspect if the plant was able to withstand the 5.8 magnitude earthquake that occurred several miles away on Tuesday.



US weekly power output fell 5.3% for the week ending August 20th to 87,165 GWh. The central industrial region had the largest decline at 10.6% and the south central region had the largest increase rising 3.4% to 16,469 GWh.

The U.S. Northwest River Forecast Center said today that it estimates water flows through the Dalles Dam on the Columbia River will only be 102% of normal for the April – September period. This was a substantial reduction from its forecast a week ago that estimated water flows of 137% of normal. The Center also posted a large downward revision for the Lower Granite facility. Dropping its estimate to 109% from last week's 151% estimate. Other locations though saw more modest changes with the Arrow Lakes dam in British Columbia cut by just 4% to 96% of normal, while it increased its estimates for Mica, BC by 2% to 101%. Both Rock Island and Grand Coulee dams were left unchanged from its prior forecast of 128% and 127% of normal water flows.

ECONOMIC NEWS

The US Commerce Department said demand for durable goods increased in July however a decline in a key measure of capital spending indicates continued weakness in the US economy. It reported that orders for factory goods increased by 4% in July to \$201.45 billion. However orders for nondefense capital goods, excluding aircraft, fell by 1.5%. The increase in factory orders in July following a 1.3% decline in June.

The Chicago Federal Reserve said that financial conditions in the US tightened for the third consecutive week, though they are still looser than would be expected at this stage in the economic cycle. The bank's weekly National Financial Conditions Index fell to -0.39 in the seven days to August 19th from -0.40 a week earlier and moved to -0.66 from 0.76 when adjusted for current economic conditions.

The Mortgage Bankers Association said US home mortgage applications for purchases fell to a 15 year low last week. Its seasonally adjusted index of mortgage application activity, which includes refinancing and home purchase demand, fell by 2.4% in the week ending August 19th. The seasonally adjusted index of loan requests for home purchases fell by 5.7% to its lowest level since December 1996. Refinancing demand also fell as interest rates increased with the refinance index falling 1.7%.

The US Federal Housing Finance Agency reported that its home price index increased by 0.9% in June to 183.7 following a 0.4% increase to 182 in May.

Eurostat reported that Euro zone industrial new orders unexpectedly fell in June as major industries appeared to cut back on spending. It reported that new orders fell by 0.7% on the month compared with expectations for a 0.5% increase. In the year to June 2011, new orders increased by 11.1%.

Barclays Capital said investments flows into commodities rebounded strongly in July by \$8.3 billion following a weak second quarter. The investment bank said commodities assets under management increased to \$431 billion at the end of July.

Market Commentary

Despite positive economic news this morning coming from the stronger than expected U.S. durable goods order report and strong power generating needs in ERCOT, natural gas futures finished the day lower as traders appeared to erase the price premium put into the market yesterday, as it became apparent there was no damage to natural gas pipelines or nuclear generating facilities on the East Coast from yesterday's earthquake. The market finished the day posting an inside trading session and basically finishing the day back at levels near the prior month's resistance line which would have been at \$3.929. We were a bit surprised though that yesterday's open interest in the Henry Hub futures and swaps on a combined and adjusted basis saw only a minor increase and not a contraction which would have been prompted by some short covering in our mind.

Market expectations for tomorrow's storage report appear to be looking for a 70-80 bcf build with most estimates centered around a 68-74 bcf build. For the same week a year ago stocks increased by an adjusted 38 bcf with the five-year seasonal average reflecting a 55 bcf build. As a result the market continues to look for the storage deficit to shrink again this week. Over the last four weeks storage has increased by 162 bcf or 41 bcf per week versus a year ago with inventories increased by 124 bcf for the four week period with the five year average gain for the period of 176 bcf.

We continue to feel that this market will in all likelihood remain in the current congestion area and trading range of \$3.85-\$4.15 we mentioned yesterday. We see minor support at \$3.90, with more significant support at \$3.855-\$3.835, \$3.795 and \$3.731. Resistance we see at \$4.039, \$4.127-\$4.143, \$4.215-\$4.234 and \$4.302.

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