



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR SEPTEMBER 26, 2011

NATURAL GAS MARKET NEWS

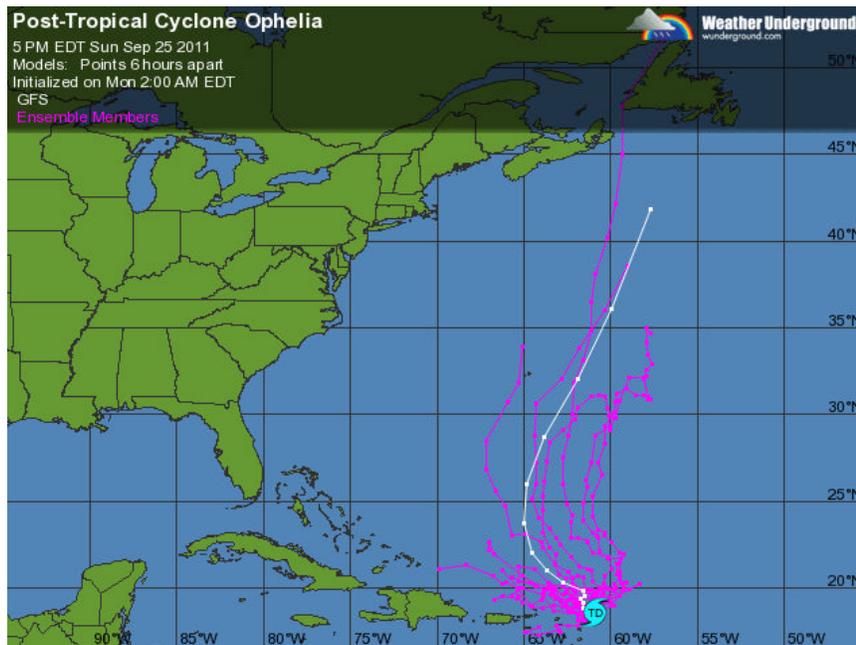
North America

Over the weekend Ophelia disbanded but had winds of 60mph early on Monday and may strengthen into a tropical storm later in the week as it moves into favorable conditions, but is not seen as a risk to the U.S. mainland. Tropical Storm Philippe is expected to pass through a more hostile environment over the next several days but is not expected to make landfall. Meanwhile most computer models currently are suggesting that any tropical development will not be possible in the western Caribbean until at least mid-October.

Generation Outages

NPCC- Entergy Corp's 620MW Vermont Yankee nuclear power plant was operating at 38% so engineers could make repairs to one of the reactor's recirculation pump motor generator sets. No timetable has been released for the time it will take to return to full power.

The NRC reported this morning that some 87,636 of nuclear generation was operating this morning, down 0.9% from yesterday off some 5.2% from the same day a year ago.



The Jordan Cove Energy Project has filed papers seeking approval to export natural gas from the West Coast. The Oregon based project said exports can begin as early as 2017 if federal regulators can approve the project by the end of 2013. Jordan Cove plans to export 9mpta of LNG for 30 years from Coos Bay County.

Petroleum Development Corp. has come to an agreement to acquire approximately 90,000 acres in the Marcellus Shale for \$152.5 million.

The National Petroleum Council released a study that found gas production in the US and Canada

equals 25% of the world supply and the region accounts for 25% of the world's demand. The report also said that under current conditions domestic gas could supply consumption requirements for the next 50 to 90 years.

Exxon Mobil's natural gas production in Mobile Bayore Alabaama will remain offline until workers fix a leaking salt-water pipeline in the area. Exxon shut in some 280 mmcf/d in the area last Tuesday after a sheen was detected on the surface of the water one mile south of Dauphin Island. The company said there was no time for when production will resume.

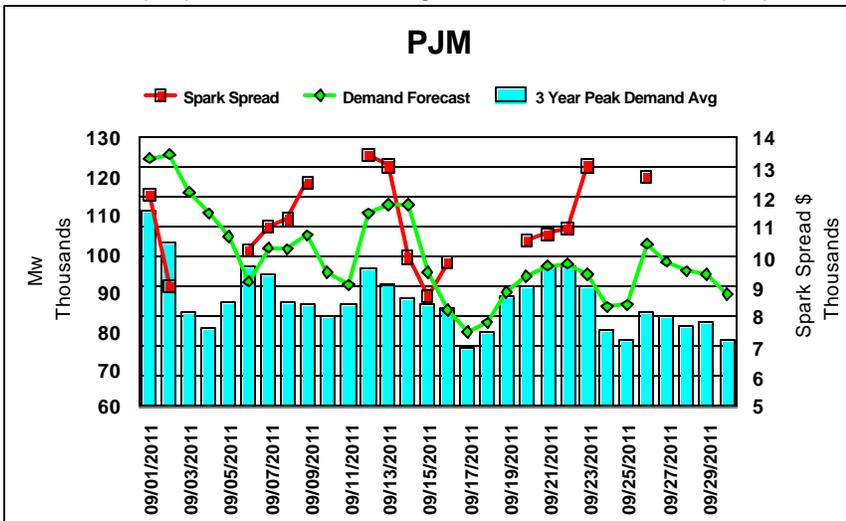
The Climate Prediction Center reported this morning that cooling demand on a population weighted basis for the week ending September 24th reached 35 CDD, some 16.7% higher than normal but 27% less than the same week a year ago. For the current week, the CPC is forecasting 37 CDD which would be 54.2% higher than normal and 8.8% more than the same week a year ago.

Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	1,188,000	\$3.802	\$0.066	\$0.015	\$0.024	\$0.055
Chicago City Gate	420,900	\$3.901	\$0.082	\$0.114	\$0.016	\$0.103
NGPL- TX/OK	804,300	\$3.746	\$0.060	(\$0.041)	(\$0.006)	(\$0.043)
SoCal	611,600	\$4.004	\$0.077	\$0.217	\$0.011	\$0.238
PG&E Citygate	706,800	\$4.168	\$0.067	\$0.381	\$0.001	\$0.401
Dominion-South	582,800	\$3.888	\$0.076	\$0.101	\$0.010	\$0.119
USTrade Weighted	18,550,000	\$3.847	\$0.090	\$0.060	\$0.02	\$0.055

International

Chevron Corp is not expecting a price increase for its \$37 billion Gorgon LNG project off the coast of

Western Australia. Many natural gas projects in the country are facing cost pressures due to the high number of projects and a shortage of skilled labor. The project is about 30% complete and is expected



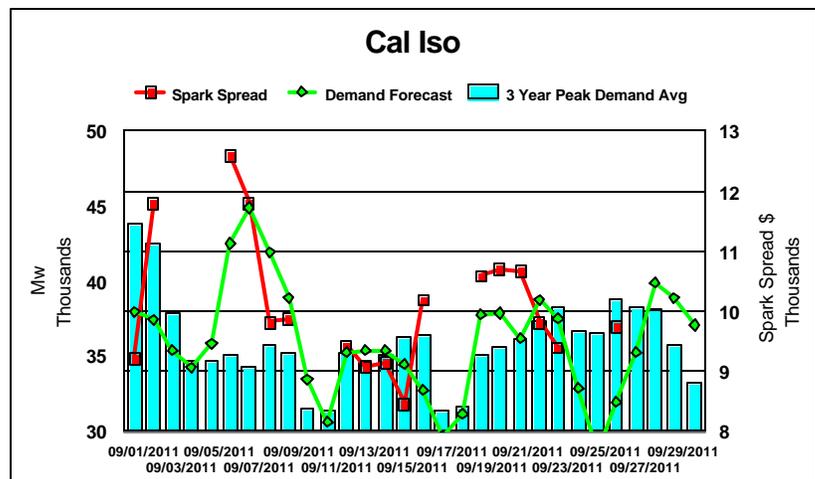
to produce 15mpta by 2014. The company is looking into acquiring a new buyer for billions of dollars worth of LNG from its Wheatstone project in Australia. Wheatstone is expected to produce 8.9mpta initially and have the ability to expand to 25mpta. The first gas projection is expected in 2016.

China may treat shale gas different from other conventional hydrocarbons to bring in smaller companies and mitigate the roll of the state owned companies. China is still in the early stages of

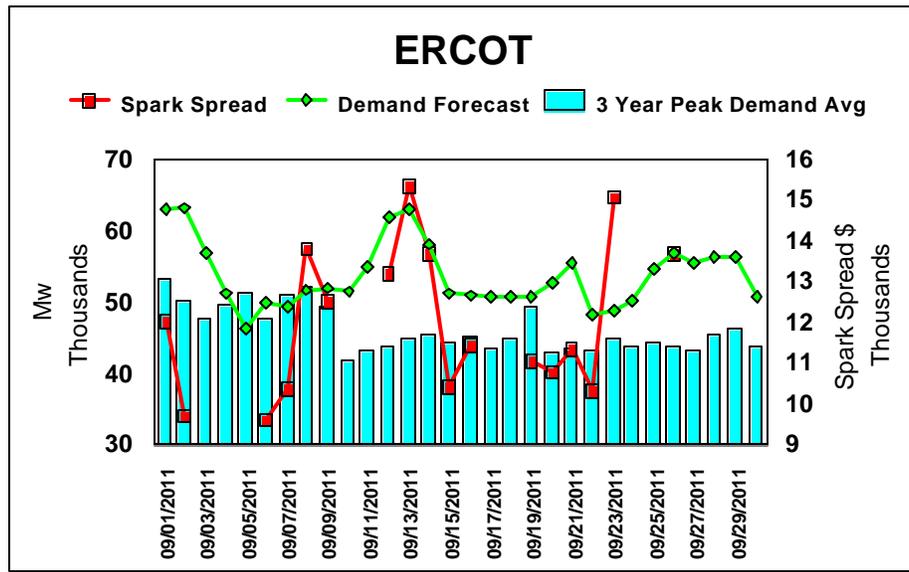
gas exploration and does not have any commercial production. The country is also studying the American experience with shale gas and the policy incentives the government provided. It is estimated that China may hold the world's largest shale gas supplies at 26 tcf.

KOGAS plans to build LNG inventory to 2.26 million tonnes by the end of 2011 and 2.77 million tonnes by the end of September in order to meet demand in the winter. The company also said that it would have to import an additional 10.22mpta from 2015 through 2020.

Bangladesh has begun the process of building its first floating LNG import terminal. The country has already made an investment of \$500 million and hopes the project to be completed by 2013. The terminal will have the ability to build up 1.5 km from



Moheshkhali Island in the Bay of Bengal. Manufacturing firms and electricity-producing plants use natural gas to generate 80% of their energy. The high demand for natural gas has created a shortage and without new finds the country expects to stop producing natural gas domestically by 2015.



Saudi Aramco wants to develop its unconventional gas resources to help meet rising domestic demand but the cost of production is still too high. The government is currently trying to create a new technology that will bring production costs down. Another problem is the industrial gas sales price is only \$0.75 making unconventional gas prospects unappealing.

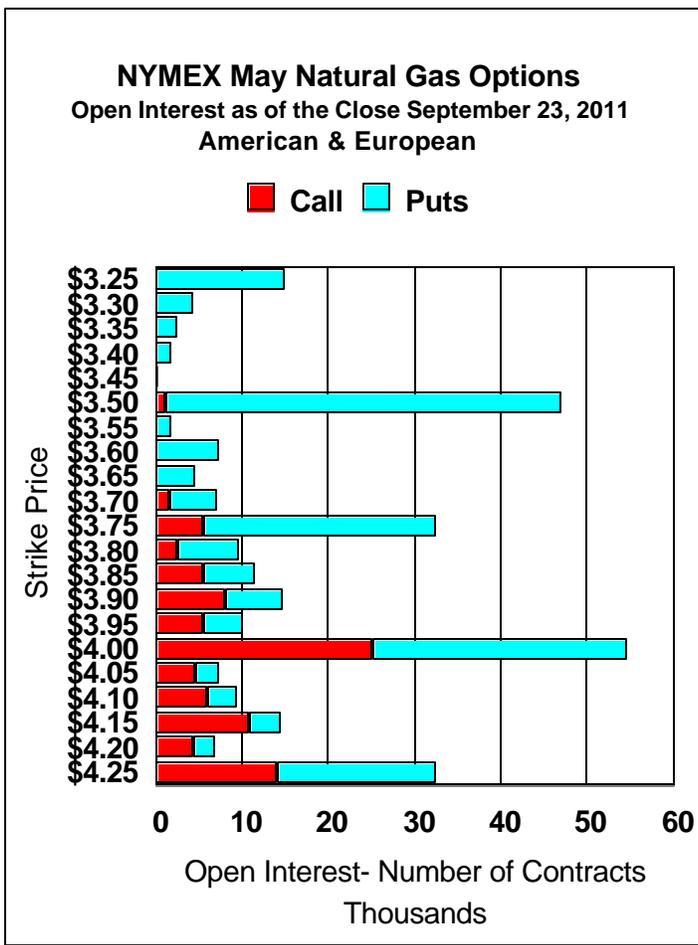
Dana Gas of UAE released a statement saying that it was

still optimistic Egypt would pay for its overdue gas deliveries despite the increase in money due from \$180 million to \$200 million.

Iran has halted gas exports to Turkey on a Turkish request to check for a possible fault in the pipeline.

Russia and Ukraine were unable come to an agreement on a new gas deal over the weekend when the two countries presidents met. Ukraine believes that it is paying too much under the current deal and wants a new contract. Russia wants the Ukraine to join its currency union but that would prevent Ukraine from coming to a free trade agreement with the European Union. Details of the meeting were released on Monday that the two countries have managed to reach an agreement on reviewing the contract. Ukraine Prime Minister said that Russia had agreed to establish an association between Ukraine and the EU to manage and upgrade Ukraine's gas pipeline network.

Statoil, which owns Europe's only LNG producing facility, said it might ship more LNG to Japan and Asia countries due to large price differences. Statoil said Europe will remain their biggest market but it will seek opportunities to ship its gas to the highest bidder.



PX hopes to restart its Teesside gas terminal in the UK by the end of the week. The terminal has been shut since September 2nd.

The Al Samriyla LNG tanker from Qatar is expected to arrive at UK's South Hook LNG terminal on October 2nd.

ELECTRIC MARKET NEWS

US power output for the week of September 22nd fell 9.29% from the previous week and was 2.14% lower than the same week last year.

Governor Cuomo of New York wants to shut the Indian Point nuclear power plant when its reactors original 40-year licenses expire in 2013 and 2015. In an online forum over the weekend the governor said the state could replace the power generated by the plant without offering details. The plant generates 25% of the power used in New York City and Westchester.

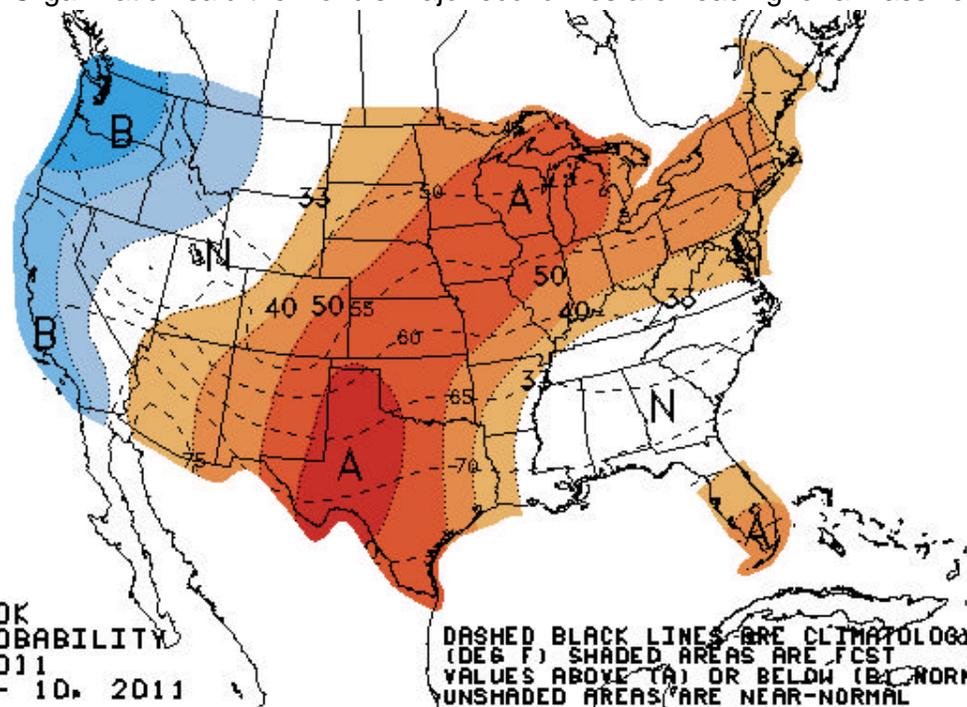
ECONOMIC NEWS

The US Commerce Department said new home sales fell for the fourth consecutive month in August by 2.3% to a seasonally adjusted annual rate of 295,000. Sales in July were revised upward slightly to a rate of 302,000 from a previously reported 298,000.

The Federal Reserve Bank of Chicago's national activity index in August stood at -0.43 from 0.02 in July.

The Federal Reserve Bank of Dallas' Texas monthly manufacturing index fell to -14.4 in September from -11.4 in August.

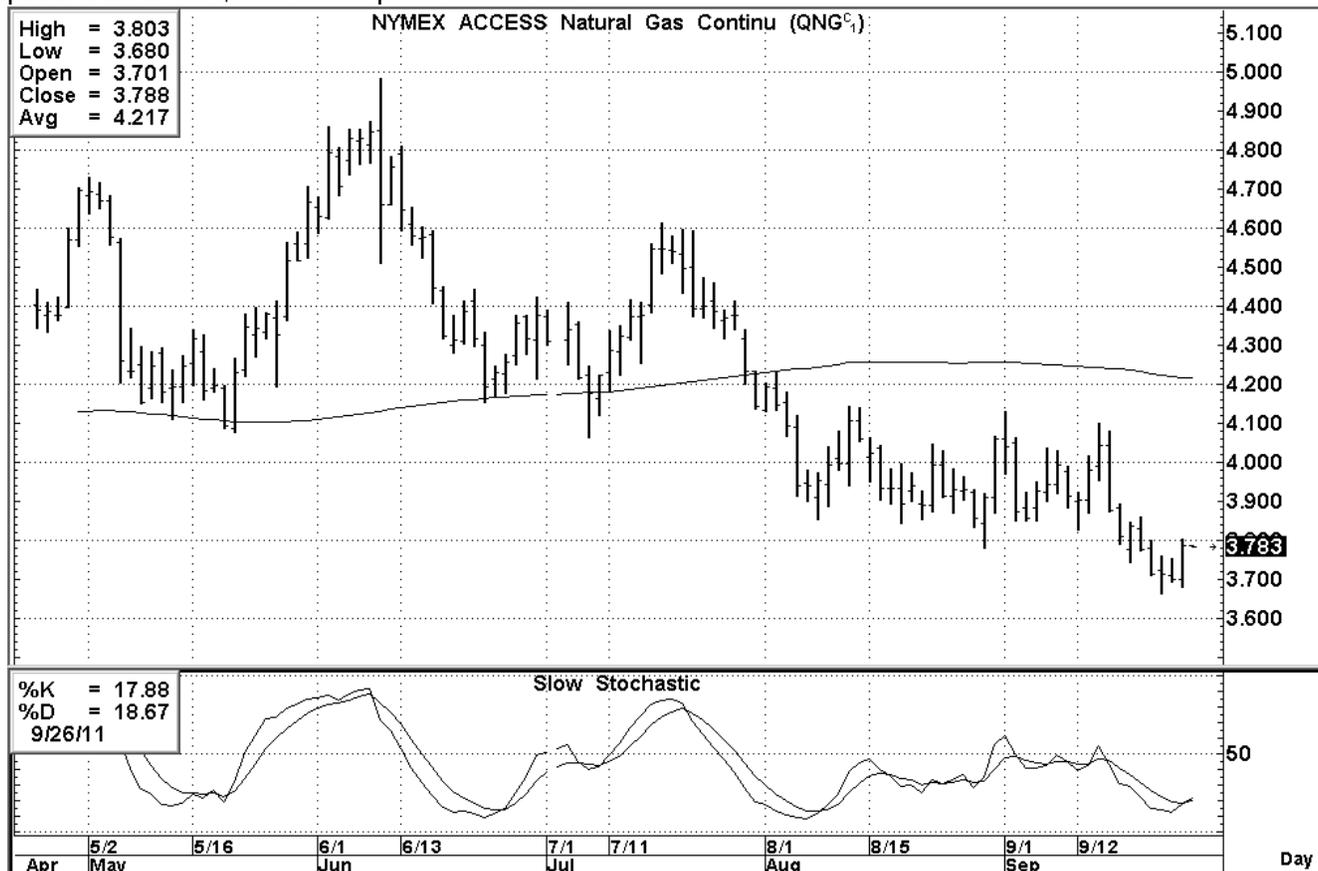
The International Labor Organization said the world's major economies are heading for a massive jobs



shortfall by the end of next year if governments do not change their policy. It said the group of developing and developed countries had seen 20 million jobs disappear since the financial crisis in 2008. At current rates it would be impossible to recover them in the near term and there was a risk of the number doubling by the end of next year.

Market Commentary

The natural gas futures market today posted an outside trading range as prices finished higher for only the first time out of the last five trading sessions. It appeared that the general price rebound in global commodity and equity markets did not hurt the bulls nor the higher than normal expected power demand this week coupled with declining nuclear generation. We continue to feel that this market will hold steady at these current levels and a new attempt to test support will come after the November contract becomes the spot contract. The October natural gas options contract is set to expire tomorrow and given the recent open interest skew of strike prices, it would seem most likely that prices will be pinned near the \$3.75 strike price tomorrow.



Technically it is interesting to note that the daily stochastics crossed back to the upside today for the first time since September 15th when prices finished the day at \$3.878, after starting that session over \$4.00. We feel though that upside potential is limited. We see resistance at \$3.829, \$3.9881 and \$3.932, with more distant resistance at \$4.095. We see minor support at \$3.749-\$3.733 followed by \$3.689, \$3.662-\$3.656, \$3.519 and \$3.391.

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