



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR SEPTEMBER 27, 2011

NATURAL GAS MARKET NEWS

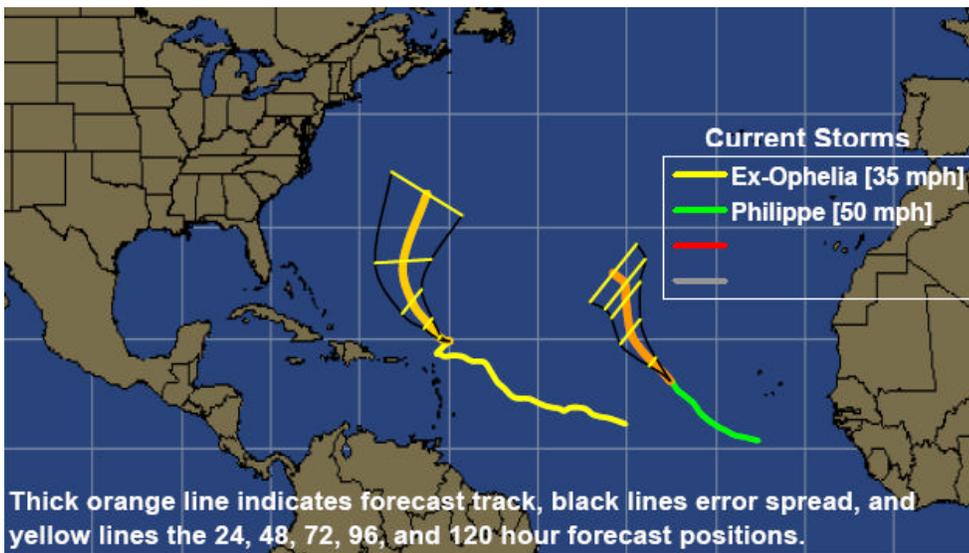
North America

The remnants of Ophelia are slowly starting to organize and it appears that the system may reorganize within the next couple of days. Even if Ophelia does redevelop it does not pose a threat to the United States. Philippe continues to move northwestward as winds have died down to 50mph do to increased shear that is expected to weaken the storm further over the next couple of days. The path cannot be determined beyond 4 to 5 days but the storm may meet favorable conditions. Philippe is not a threat to the United States in the near or long term. There are no other systems currently being watched in the Atlantic.

Generation Outages

SERC - The 710MW Unit 2 at the Robinson nuclear plant owned by Progress Energy Inc in South Carolina went offline early Monday morning due to an automatic reactor trip. The cause of the trip has yet to be determined and is currently being investigated.

The NRC reported this morning that some 86,989 of nuclear generation was operating this morning, down 0.8% from yesterday off some 5.8% from the same day a year ago.



The number two producer of natural gas in the United States, Chesapeake Energy Corp, has accumulated 320,000 acres in the Bakken formation in North Dakota.

Canada will more than likely set a record for new wind energy capacity this year by adding 1,338MW of power. The new energy brought online will bring Canada's total capacity

to 5300MW, enough power for more than 1.5million homes. The growth can partly be attributed to government green energy policies but industry insiders believe more stable policy mandates are needed to encourage future expansion.

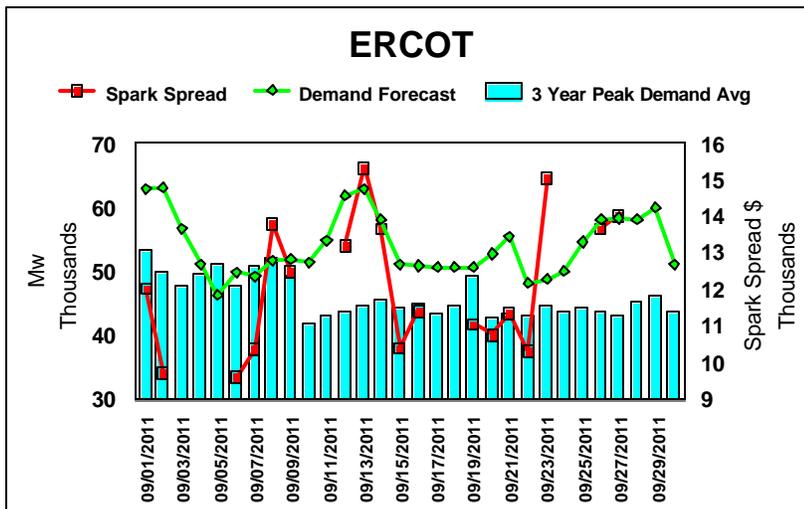
The New York Times reported that everyday more than 100 million cubic feet of gas is flared. The fires across western North Dakota are not wildfires but the deliberate burning of natural gas by oil companies that are extracting oil from the Bakken shale field. About 30% of the natural gas produced in North Dakota is burned as waste. The flared gas releases at least 1 million tons of carbon dioxide into the atmosphere every year, as much as 384,000 cars or a medium sized coal fired power plant would emit, alarming some environmentalists. With few government regulations that limit the flaring,

more burning is also taking place in the Eagle Ford shale field in Texas and some environmentalists and industry executives say it could take place in Oklahoma, Arkansas and Ohio as drilling expands in new fields. The oil companies say economic reality is driving the flaring in the Bakken shale field. They argue that they cannot afford to pay for pipelines and processing plants to capture and sell the gas until they actually drill oil wells and calculate how much gas will come out of the oil. With oil prices high and leases as short as five years for land in the Bakken, drillers have found it more profitable to grab the oil and burn the gas.

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	1,171,400	\$3.915	\$0.114	\$0.117	\$0.091	\$0.072
Chicago City Gate	513,600	\$3.981	\$0.080	\$0.183	\$0.069	\$0.120
NGPL- TX/OK	823,300	\$3.833	\$0.088	\$0.035	\$0.077	(\$0.028)
SoCal	994,500	\$4.082	\$0.078	\$0.284	\$0.067	\$0.241
PG&E Citygate	910,700	\$4.234	\$0.067	\$0.436	\$0.056	\$0.408
Dominion-South	971,000	\$4.032	\$0.145	\$0.234	\$0.134	\$0.133
USTrade Weighted	20,183,600	\$3.948	\$0.102	\$0.150	\$0.09	\$0.072

International

A new report by Merrill Lynch showed that gas prices in the first quarter of 2012 might rise by 10 pence per therm above current prices in the UK. It also said that the UK supply may fall by 30 to 40 percent from the previous year and 2012 imports could fall by 11 million cubic meters per day. The report sites a further demand for LNG in Asia and that price needs to rise to the level of oil-indexed contracts in Europe as the reasoning behind its projections.



Britain gas demand is now expected to fall 2% this winter because an increase in gas prices will cause power plants to choose cheaper coal to generate power. In addition gas production from the North Sea gas fields is expected to fall 7% this winter.

The European Commission has carried out raids in several EU member states on firms that deal directly with supply, transmission, and storage of natural gas. The commission did not release the names of the corporations or the countries they raided but said they were looking for signs of anticompetitive practices. The commission suspects that there has recently been exclusionary and exploitative behavior in the industry. Germany's RWE said that the commission was examining the possible anti-competitive clauses in supply contracts with Gazprom. The following companies reported being raided throughout Europe today, Gazprom in Germany and Czech Republic, EON in Germany, PGNiH in Poland, and OMV in Austria.

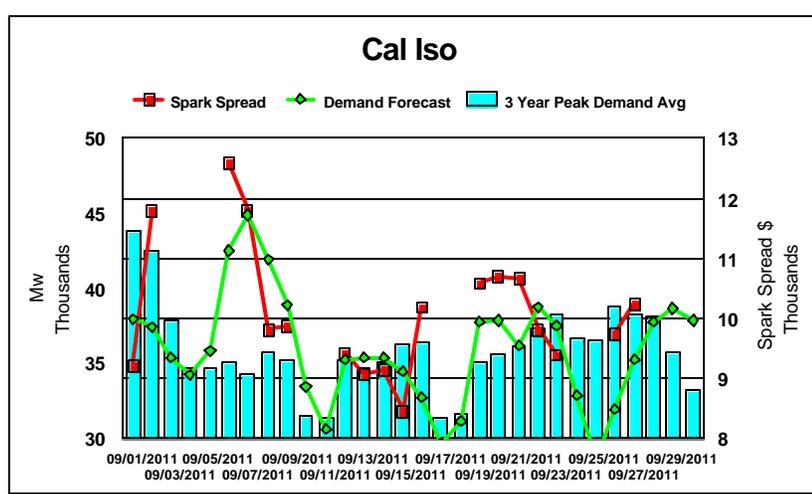
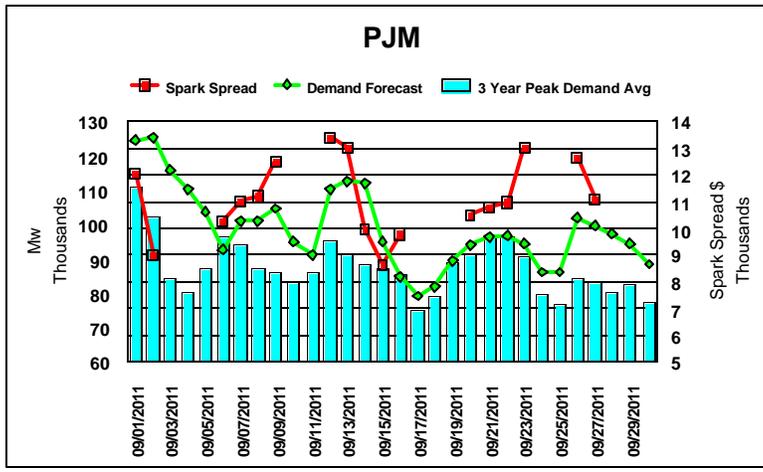
Ukraine plans to complete the renegotiation of its current gas contract with Russia in October.

Russian energy company Gazprom has begun talks with KOGAS of South Korea to supply the country with 12 bcm/y via a pipeline through North Korea. The talks come after Russian and North Korean leaders met last month in Siberia.

BP has submitted its own pipeline plan for consideration in transporting gas from the Shah Deniz to Europe after going frustrated over the three proposals that have been submitted. The South East Europe Pipeline would be 1,300km long about a third of the size of the Nabucco project. BP is afraid that the Nabucco pipeline is too big and would require finding additional sources of gas to make it economically feasible. BP's opinion matters because it is operator of the Shah Deniz field.

Iran is demanding to be compensated by Turkey due to delays in repairing Iranian gas to Turkey. The tension between the two countries has intensified recently when Turkey agreed to allow NATO to place a missile shield within its borders.

Iran believes that Turkey has been slow to repair the pipeline that has been closed four times this year due to Kurdish rebels because it is able to import cheaper gas from Russia.



The Iraqi cabinet approved a contract with KOGAS to develop Akkas, the countries largest oil field. The deal is expected to be signed on October 15th.

The Papua New Guinea government is calling for InterOil to review plans for its \$6 billion LNG project because the company is building a different project than what the government agreed upon. The state said it approved a project that would have production at 7.6 to 10.6mtpa but the company is reporting that the starting capacity will be 2mtpa with the ability to expand to 8mtpa in addition to a 2mtpa floating LNG capacity.

The Maersk Marib LNG tanker arrived at Belgium Zeebrugge with a load of 166,000 cubic meters from Yemen on Tuesday.

ELECTRIC MARKET NEWS

NRG Energy Inc. the second largest electric power producer in Texas believes it will not have to shut units to comply with the new EPA mandate to cut air pollution. Texas and Kansas have both asked for a stay because they believe that five month notice was not enough time for them to meet new stricter standards.

ECONOMIC NEWS

The US Conference Board said US consumer confidence was little changed in September. Its index of consumer attitudes increased to 45.4 from an upwardly revised 45.2 in August. Its present situation index in September fell to 32.5 from 34.3 in August while its expectations index increased to 54 from 52.4.

State Street said investor confidence increased slightly in September but remained at levels indicating strong risk aversion. Its global investor confidence index increased to 89.9 in September from 88.1 in August. Its North American index fell to 85.1 from 86.2 a month earlier while its Asian confidence index increased to 100.7 from 95.2 and European confidence increased to 95.7 from 90.1.

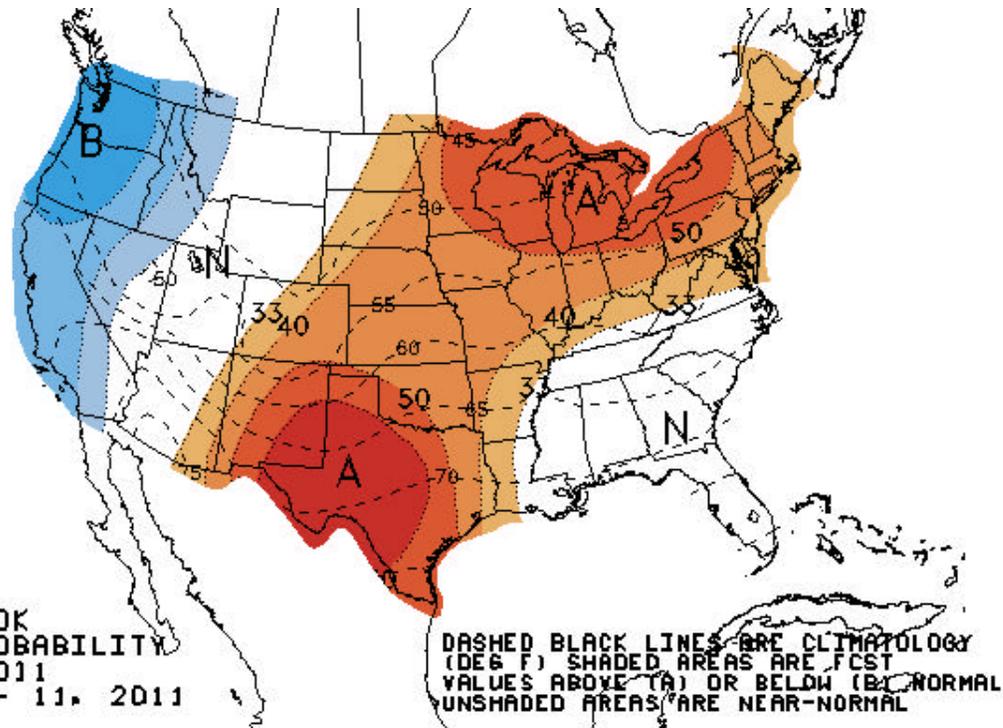
The Federal Reserve Bank of Richmond said economic activity among manufacturers in the central Atlantic region is still contracting this month. The bank's manufacturing general business index improved to minus 6 this month from minus 10 in August. The shipment index increased to minus 2 from minus 178 and the employees index increased to 7 from 1. The new orders index however worsened to minus 17 from minus 11.

The S&P/Case Shiller composite index of single family homes in 20 metropolitan areas was unchanged in July from a month earlier when adjusted for seasonal factors. Prices declined 4.1% from July 2010.

The International Council of Shopping Centers and Goldman Sachs reported that US chain store sales in the week ending September 24th fell 0.2% on the week but increased by 2.7% on the year to 516.1.

Dallas Federal Reserve chief economist Harvey Rosenblum said the AUS economy is on the edge between growth and contraction and monetary policy tweaks do not seem to be helping. He said the US job market has lost momentum and could be set for further backtracking. He also said there is credible risk of rising inflation. He however said that the Federal Reserve is not out of bullets to help the economy.

Atlanta Federal Reserve President Dennis Lockhart said the US economy is likely to avoid another period of contraction despite recent weakness in the economy, although the threats to growth have



increased.

High frequency trading is estimated to account for about 25% of average daily global spot foreign exchange turnover in 2010, according to the Bank for International Settlements. It said there is indirect

evidence that the increase in the US of HFT has been one of the principle drivers of an increase in foreign exchange turnover in recent years. It estimates that about 24.7% of total spot fx turnover for 2010, amounting to \$393 billion, can be attributed to HFT. HFT firms are among the top customers of electronic trading platform EBS, with most participants concentrated in three cities of Chicago, New York and London.

Market Commentary

The natural gas market like the oil market posted its second consecutive higher settlement today as most of the global commodity and equity markets worked higher as fears of a European financial collapse appeared to recede a bit. Continued strong power demand in many areas, coupled with declining nuclear generation levels, helped to boost the cash market for natural gas around the country today with the weighted average price posting over a dime improvement from yesterday's values. The expiration of the October option contracts posted little excitement today and with just over 26,000 lots open in the October futures contract coming into the day today there appears to be a high likelihood that tomorrow's expiration should be rather orderly.

We would look for this market tomorrow to take its directional cue from the global financial markets, but would not surprise us to see values work again slightly higher. We would look for the November contract to find initial resistance at \$3.926 followed by \$3.959 and \$4.01. Additional resistance we see at \$4.158-\$4.175, \$4.243 and \$4.306. Minor support we see at \$3.856, \$3.834 and \$3.812. Major support we see at \$3.742, \$3.662 and \$3.509. Looking at tonight's 8-14 day temperature outlook it does not appear that first half of October will provide an early start to the upcoming heating season and that could in fact begin to weigh on the November contract as we get into October.

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