



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR OCTOBER 3, 2011

NATURAL GAS MARKET NEWS

North America

Philippe was moving westward Monday morning with winds of 50mph down from 70mph on Sunday. The storm is expected to weaken over the next few days before heading northeast. Philippe still does not pose any threat to land. Elsewhere there is some potential for tropical development in the southwestern Caribbean by Thursday or Friday. It is expected to track north-northeast toward the Cayman Islands by the beginning of next week before strengthening off the North Carolina coast around the end of next week. The storm may then track up the east coast around October 18th and 19th.

In response to criticism from environmentalists Pennsylvania announced stricter guidelines and increased the cost of drilling for natural gas. The governor proposed a \$160,000 free for each new well drilled in the state. The measure is expected to raise \$120 million in its first year and increase to \$200 million within six years. In addition, the proposal calls for doubling fines for civil violations and drilling limits near water sites.

The Climate Prediction Center reported this morning that for the week ending October 1st it estimated the U.S. saw some 34 cooling degree days on a population weighted basis, some 41.7% more than normal but 2.9% less than the same week a year ago. The CPC sees this cooling demand to continue to post a seasonal drop off quickly, with just 14 CDD projected for the current week, which would be 26.3% less than normal. Meanwhile heating demand for natural gas is also expected to remain restrained with on 33 HDD off more than 31% of normal and 22% less than the same week a year ago.

International

Generation Outages

NPCC- The Vermont Yankee nuclear plant increased power to 95% early on Monday from 46% power on Friday. The Entergy Corp Vermont plant reduced power last week due to repairs on one of the reactor's recirculation pump motor generator sets.

PJM- Salem Unit 1 at the Hope Creek-Salem nuclear power plant owned by Public Service Enterprise Group Inc. reduced to 70% power early on Monday from full power on Friday.

SERC- Unit 2 at the Robinson nuclear power plant in South Carolina increased power from 18% on Friday to full power on Monday. The Progress Energy Inc owned plant suffered an automatic reactor trip on Sept 27. Browns Ferry in Alabama ramped up power to 88% on Monday while it continues to increase power following a turbine trip last Wednesday.

ERCOT Unit 1 at Luminant's Comanche Peak nuclear plant was shut early on Monday have reducing power over the weekend. Unit 2 at the Texas plant has remained at full capacity. The company also plans to restart Unit 2 at the Martin Lake coal fired facility on Sunday and Monday following repairs over the weekend. Limestone Unit 1 was shut over the weekend after going offline to repair a boiler water wall tube leak. Repairs at the NRG Energy Inc plant are expected to last through October 7th. American Electric Power Co. Inc. plans to restart its Unit 2 at the Welsh coal fired power plant. The start up is expected to last through October 15th.

MRO- First Energy Corporation's Perry nuclear facility shut on Monday to repair the startup transformer. The company also shut its reactor at the 879MW Davis-Besse nuclear plant in Ohio. Entergy Corp's Palisades nuclear power plant ramped up to 80% power as it continues to exit an outage from a reactor trip on September 30th. NextEra Energy Inc's Unit 1 at the Point Beach plant in Wisconsin was shut on Monday after operating at full power on Friday.

WECC- Arizona Public Service's Unit 1 at the Palo Verde plant increased power to 80% from 39% on Friday. Energy Northwest's Columbia nuclear power plant finished exiting an outage on Monday after reconnecting to the power grid on Wednesday following a refueling outage.

The NRC reported this morning that some 85,222 Mw of nuclear generation was operating this morning, up 1% from yesterday and up 1% from the same day a year ago.

Chevron's \$3.1 billion Platong II natural gas project is expected to come online in late October. The project is expected to have an initial capacity of 330 million standard cubic feet.

Singapore's piped gas imports are expected to rise by about 12% from Indonesia when it starts to

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	920,500	\$3.566	(\$0.116)	(\$0.058)	(\$0.024)	\$0.030
Chicago City Gate	569,500	\$3.584	(\$0.145)	(\$0.040)	(\$0.061)	\$0.071
NGPL- TX/OK	702,900	\$3.469	(\$0.127)	(\$0.155)	(\$0.043)	(\$0.066)
SoCal	689,400	\$3.630	(\$0.133)	\$0.006	(\$0.049)	\$0.154
PG&E Citygate	1,117,000	\$3.864	(\$0.135)	\$0.240	(\$0.051)	\$0.335
Dominion-South	458,900	\$3.620	(\$0.094)	(\$0.004)	(\$0.010)	\$0.093
USTRade Weighted	20,508,500	\$3.554	(\$0.108)	(\$0.070)	(\$0.02)	\$0.030

receive an additional 86 million standard cubic feet daily. The deal has angered Indonesian officials who want to reduce exports and use the gas domestically.

BP will make a decision early next year on whether to develop Oman's first major unconventional gas project. Oman is trying to increase production of unconventional gas to meet rising domestic demand. BP has been appraising the project since 2007 and has already invested about \$1 billion. If BP decides to go forward with the project the minimum investment would be \$5 billion.

Qatar is currently looking into investing in Australian LNG supplies. The move would give Qatar a larger control over world LNG supplies and would allow firms to avoid domestically self-imposed production limits. The Australian LNG industry has grown rapidly in recent years with \$217 billion export projects under construction or scheduled for construction.

Rasgas, a Qatari LNG producer has scheduled plant maintenance at seven of its facilities in 2012.

BP has received three bids for 10 bcm of gas from its Shah Deniz project. The Nabucco project is the largest with a proposed 2,500 mile pipeline with an estimated cost of \$10.6 billion. The project would transport gas from the Caspian Sea to Central Europe. The Trans Adriatic Pipeline would transport the Caspian Sea gas to Italy along a similar route as the Interconnector Greece-Italy Poseidon. BP is expected to award the project to one of the bidders around the end of the year but some believe that none of the pipelines are economically feasible and BP is considering a fourth option of building the pipeline itself.

After failing to win a discount Turkey has withdrawn from its 6 bcm a year of natural gas from Russia. Turkey imported 18 bcm from Russia last year, or 60% of its total domestic gas consumption.

Russian natural gas production increased 8.6% in September to 1.692 bcm from 1.465 bcm in August. Gazprom's gas exports through the first three quarters of 2011 increased by 25 bcm when compared to the same period in 2010.

Gazprom executives are open to meeting with European Union regulators after they launched their antitrust probe. Prime Minister Putin said the government will pay close attention to what happened at Gazprom and asked the company to look into measures for boosting cooperation with the Asian market.

Eni expects the first gas flows from Libya to occur in October depending on security concerns.

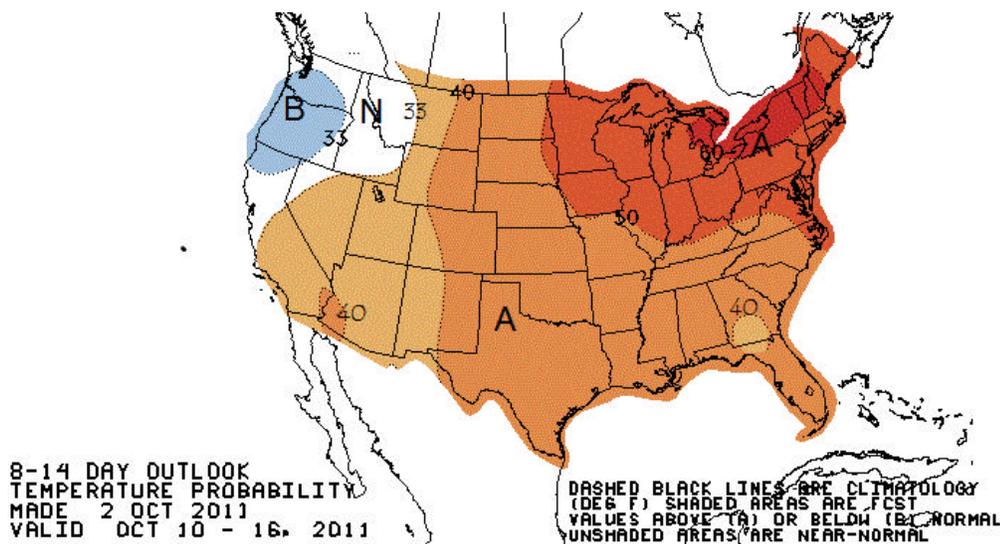
Denmark's new government plans on drafting legislation that will reduce the countries greenhouse gas emissions by 40% of the 1990 level in 2020.

The French Government will cancel three shale gas exploration permits. After legislation passed in July banning hydraulic fracturing the holders of 61 of 64 exclusive permits decided to halt prospecting for shale gas.

UK's South Hook terminal is expecting the Bu Samra LNG tanker to arrive on October 8th. The Mozah LNG tanker is also scheduled to arrive at UK's South Hook LNG terminal on October 10th from Qatar. Belgium's Zeebrugge terminal is expecting the Golar Viking LNG tanker to arrive on October 10th. The terminal is also expecting the Ejanan LNG tanker to arrive on October 16th.

ELECTRIC MARKET NEWS

US power output for the week ending on September 29th rose 6.59% when compared to the previous week. Power output increased by 5.34% for the week ending September 29th when compared to the same week last year.



A review from an inspection team of Dominion's North Anna power plant found that the plant had not sustained any significant damage. The NRC said in a statement that the plant's safety functions were maintained and the plant's staff reacted to the events in an appropriate manner. The inspection did uncover some

anomalies that will require further review before the plant is allowed to reopen.

The FERC has given Duke Energy and Progress Energy conditional approval for a proposed merger subject to mitigation measures to determine if the merger would have negative effects on competition in the Carolinas power market. The companies believe that the merge will provide customers with increased benefits and protections. If the FERC approves the deal it will create the nation's largest electric utility.

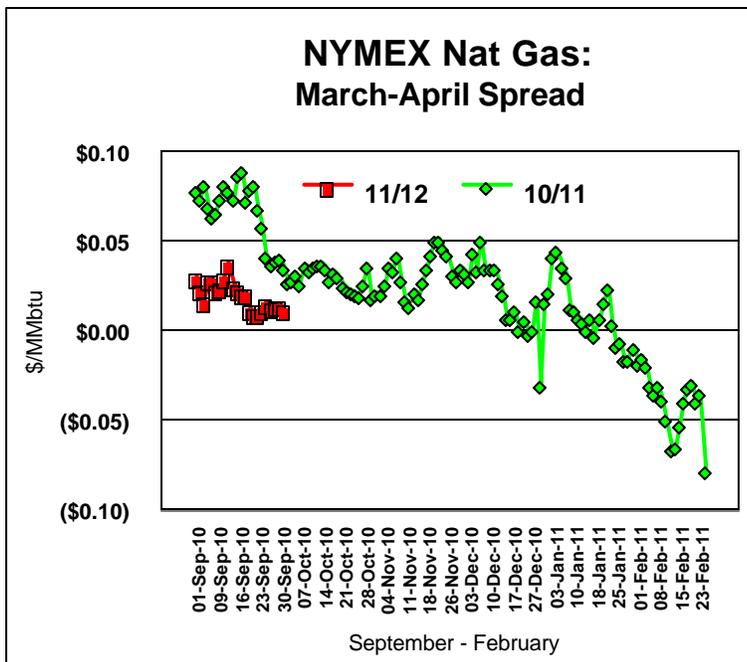
ECONOMIC NEWS

US factory activity expanded at a faster pace than expected in September as production and hiring increased. The Institute for Supply Management reported its monthly index of national factory activity for September increased to 51.6 in September from 50.6 in August. Its index of factory employment increased to 53.8 in September from 51.8 in August.

Global manufacturing contracted for the first time in over two years in September, reinforcing fears of another recession. The Global Manufacturing PMI, compiled by JPMorgan and research and supply organizations, fell in September to 49.9 from 50.2 in August. In Europe and Asia, factory activity fell in September to levels not seen since the financial crisis. Markit's Eurozone Manufacturing Purchasing Managers Index fell to a final reading of 48.5 in September from 49 in August. The HSBC Purchasing Managers' Index for China's services sector increased to 53 in September, recovering from an all time low of 50.6 in August. Meanwhile, India's manufacturing output recorded its largest monthly decline

since late 2008. In Japan, the manufacturing sector contracted in September for the first time in five months.

The US Commerce Department said its seasonally adjusted annual rate of construction spending in August increased by 1.4% to a seasonally adjusted annual rate of \$799.15 billion following a decline of 1.4% in July.



Dallas Federal Reserve Bank President Richard Fisher said he believed US inflation would trend towards 2%. He also stated that he expected the economy to grow at under a 2% annual pace for the remainder of the year. He said job creation is the largest challenge in the country and the Federal Reserve has created the right conditions for it. He said there is ample liquidity.

Preliminary figures released by Greece on Sunday showed it may miss a deficit target set just months ago in a bailout package, suggesting the steps taken to avert bankruptcy may not be enough.

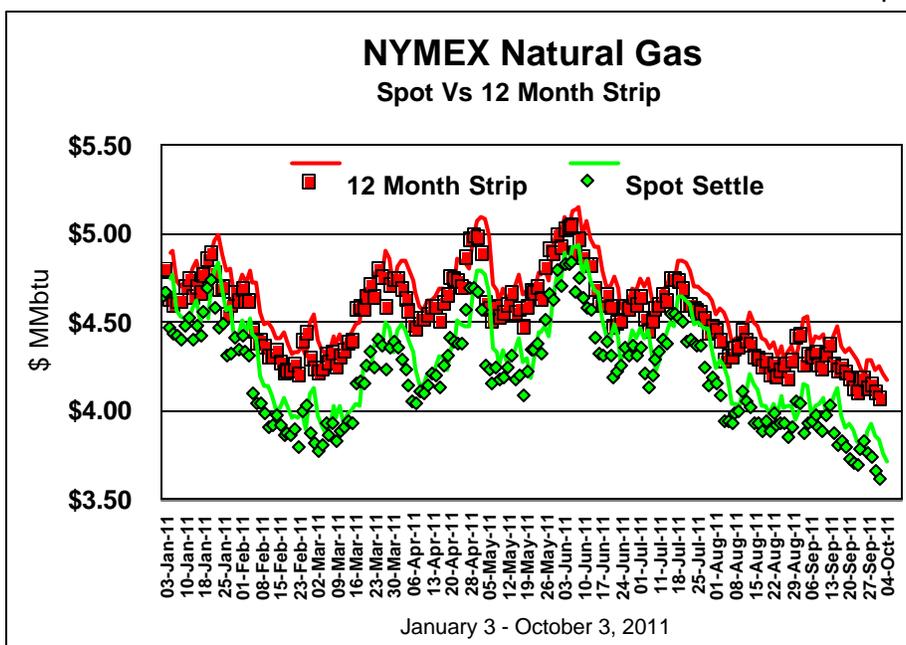
The chairman of the CFTC, Gary Gensler said delays on a long awaited rule on

position limits is of little concern as long as they yield improved rules. Last month, the CFTC delayed by another two weeks to October 18th its meeting to consider the ruling on position limits or a cap on the number of contracts traders can hold in commodity markets.

Market Commentary

The natural gas futures market drifted lower today as traders saw little weather related demand on the horizon that could support this market, especially in the current overall bearish environment for commodity and equity markets. Prices settled down for the fourth consecutive session, with the spot contract posting its lowest settlement since October 27, 2010. Technically while this market is approaching an oversold situation, there is not significant support for this market until \$3.472. Additional major support we see at \$3/391 and \$3.212. Resistance we see at \$3.785, \$3.814, \$3.845, \$3.883-\$3.905, \$3.92 and \$3.952.

It is interesting to note though that despite the continued sell off in the flat price the March-April spread has remained relatively



stable and in fact remains probably undervalued relative to last year's seasonal levels given current inventories. Since September 21st the November contract has lost nearly 20 cents in value while the March-April spread which initially lost a half cent in value has for the last week ended the day basically unchanged and at values equal to or slightly better than the settlement of September 21st.

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