



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR OCTOBER 10, 2011

NATURAL GAS MARKET NEWS

North America

A non-tropical area of low pressure has moved out of the Gulf of Mexico and across Florida at speeds of 10 to 15 mph. The system had sustained winds of 40 mph with gusts of 50 mph earlier today. The storm is expected to track across Florida into Georgia today and then travel up the east coast this week. The system is expected to reach the southern Mid-Atlantic States on Tuesday and be in New England by Wednesday, Wednesday night.

The U.S. Climate Prediction Center reported this morning that for the week ending October 8th it calculated the U.S. saw some 12 cooling degree days on a population weighted basis some 37% less than normal. For the current week ending October 15th, the CPC estimates the U.S. will see 18 CDD some 28.6% more than normal. Meanwhile the CPC estimated that the U.S. saw only 46 HDD last week some 4.2% less than normal and some 20% less than the same week year ago. For the current week the CPC is estimating some 65 HDD will be recorded some 17% less than normal and 6% less than the same week a year ago.

Generation Outages

NPCC- The 877MW Unit 3 at the Millstone nuclear power plant shut on Saturday for a planned refueling outage. The Dominion Resource owned plant plans to replace a third of the nuclear fuel and inspect service water piping.

SECC- Unit 2 at Southern Co's Farley nuclear facility in Alabama was shut by early Monday. The Watts Bar nuclear power shut Unit 1 early on Monday. The unit was running at full power on Friday.

MRO- Excelon Corp's Unit 2 at the Byron power station started to exit an outage on Monday. The facility had been shut since September 18th for a planned refueling.

ERCOT American Electric Power Co Inc shut its Unit 2 at the Welsh coal-fired plant for planned maintenance on auxiliary equipment. The plant is expected to start exiting the outage on Wednesday. After repairs on the boiler to fix a water wall tube leak the NRG Energy Inc owned Unit 1 at the Limestone coal fired power plant restarted on Saturday. Monticello's Unit 3 shut on Friday to fix a boiler leak tube. The Luminant owned plant started to exit the outage following repairs on Saturday. Unit 1 at Martin Lake, another Luminant owned facility, also shut do to a boiler tube leak. The plant was shut on Saturday and the startup is expected to occur from October 10-11.

WECC- The Arizona Public Service owned Palo Verde nuclear power plant shut its Unit 1 early on Monday for planned refueling. The unit is expected to remain shut until November 8th.

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	819,300	\$3.410	\$0.013	(\$0.134)	\$0.031	(\$0.123)
Chicago City Gate	768,300	\$3.371	\$0.065	(\$0.173)	\$0.009	(\$0.089)
NGPL- TX/OK	854,300	\$3.319	\$0.047	(\$0.225)	(\$0.009)	(\$0.168)
SoCal	513,600	\$3.353	\$0.154	(\$0.191)	\$0.098	(\$0.089)
PG&E Citygate	616,500	\$3.512	\$0.081	(\$0.032)	\$0.025	\$0.132
Dominion-South	396,400	\$3.427	\$0.029	(\$0.117)	(\$0.027)	(\$0.035)
USTrade Weighted	19,043,900	\$3.339	\$0.087	(\$0.205)	\$0.03	(\$0.123)

Boardwalk Pipeline Partners and Southwestern Energy Company have come to an agreement on a \$90 million natural gas gathering system in the Marcellus Shale for 15 years with an expected delivery capacity of 275,000 Dth/d. The gathering system will connect with the Tennessee Gas

Pipeline Company in Susquehanna County Pennsylvania.

ExxonMobil's natural gas production in Mobile Bay offshore Alabama remains shut since September 20th due to a salt water pipe rupture. The company has kept its 280 MMcf/d of production of natural gas shut in as it awaits results of pipeline testing. The company has given no timeline for the restrt of

production. It did note that customers' needs were being met from other sources while the shut-in is in place.

International

South Korea has raised gas rates by an average of 5.3% on Monday to help cut losses to state run gas company KOGAS. The move comes as an attempt to tame inflation led by costlier energy and commodities prices.

Russia released a statement saying that no gas deal with China will be agreed upon during Russian Prime Minister Putin's visit to China.

French bank Societe Generale said that UK gas prices will be lower in the summer of 2012 as a result of falling demand and Norwegian and Russian gas supplies that have not been factored into the market yet. The bank also said European gas demand between January and August fell 8.8% from the previous year and these numbers have yet to be factored into prices in the gas market

E.ON has uncovered an 'encouraging' gas discovery in the southern North Sea. The discovery came after drilling in the Tolmount prospect, which E.ON jointly operates with Dana Petroleum.

Deutsche Bank said that rising dependence on energy imports could make Britain household energy bills less affordable, which may cause 25% of the country into fuel poverty by 2015. Falling production from North Sea gas fields has caused the self-sufficient market to turn into net importers. This has exposed consumers to the volatilities in the energy markets, which has increased at a higher rate than income growth in the country.

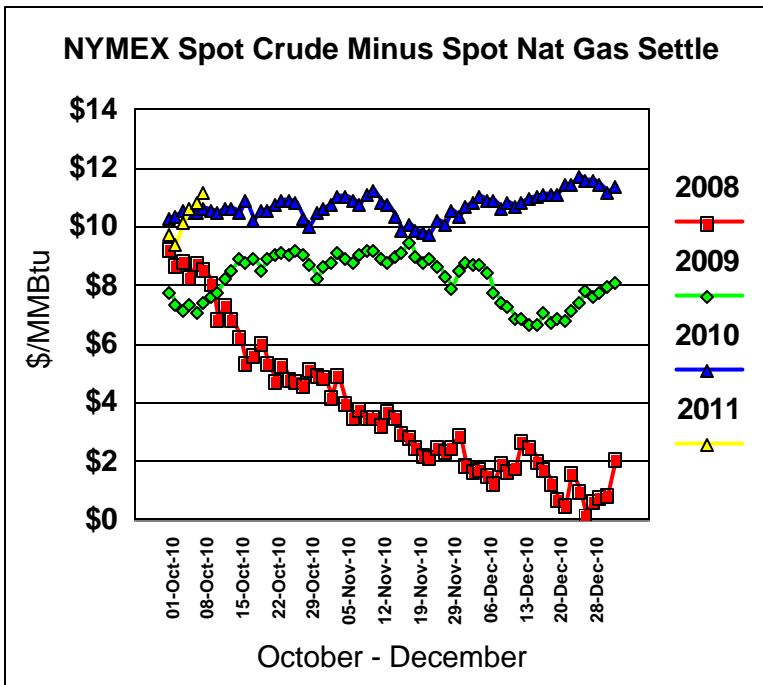
<u>LNG TANKER</u>	<u>CAPACITY (CUBIC METERS)</u>	<u>EXPECTED ARRIVAL</u>	<u>FROM</u>	<u>DESTINATION</u>
Mozah	266,000	Oct. 11	Qatar	South Hook
Al Shamal	217,000	Oct. 14	Qatar	Isle of Grain
Al Ghuwairiya	266,000	Oct. 14	Qatar	South Hook
Al Ghariya	210,000	Oct. 17	Qatar	Isle of Grain
Al Gattara	216,000	Oct. 19	Qatar	Milford Haven

ELECTRIC MARKET NEWS

US power output decreased by 12.6% in the week that ended on October 6th when compared to the previous week and rose 2.51% when compared to the same week last year.

Goldman Sachs issued a research note on Sunday that said revised air pollution rules for power plant emissions have the potential to increase natural gas demand from power generators starting next year. Goldman estimated the increase in demand for natural gas as a result of the EPA's new regulations for power plant emissions of oxides of sulfur and nitrogen could lead to policy induced coal to gas switching of up to 2.7 bcf/d next year, increasing to 6.2 bcf/d in 2014. But the investment bank warned that the EPA's Cross State Air Pollution Rule (CSAPR) would not necessarily lead to a meaningful tighter gas market next year, given the potential for further changes and delays for implementation due to strong opposition from utilities and politicians in affected states. The bank analysts said "even if CSAPR is implemented as planned, the weather-adjusted oversupply is likely large enough that price-induced coal to gas switching may still be needed next year, especially as there is clear upside risk to production relative to our forecast". Goldman said it expects regulatory changes like CSAPR will lead to a gradual displacement of price induced coal to gas switching by policy-induced switching and further tighten the balance over time, ultimately allowing natural gas prices to move higher.

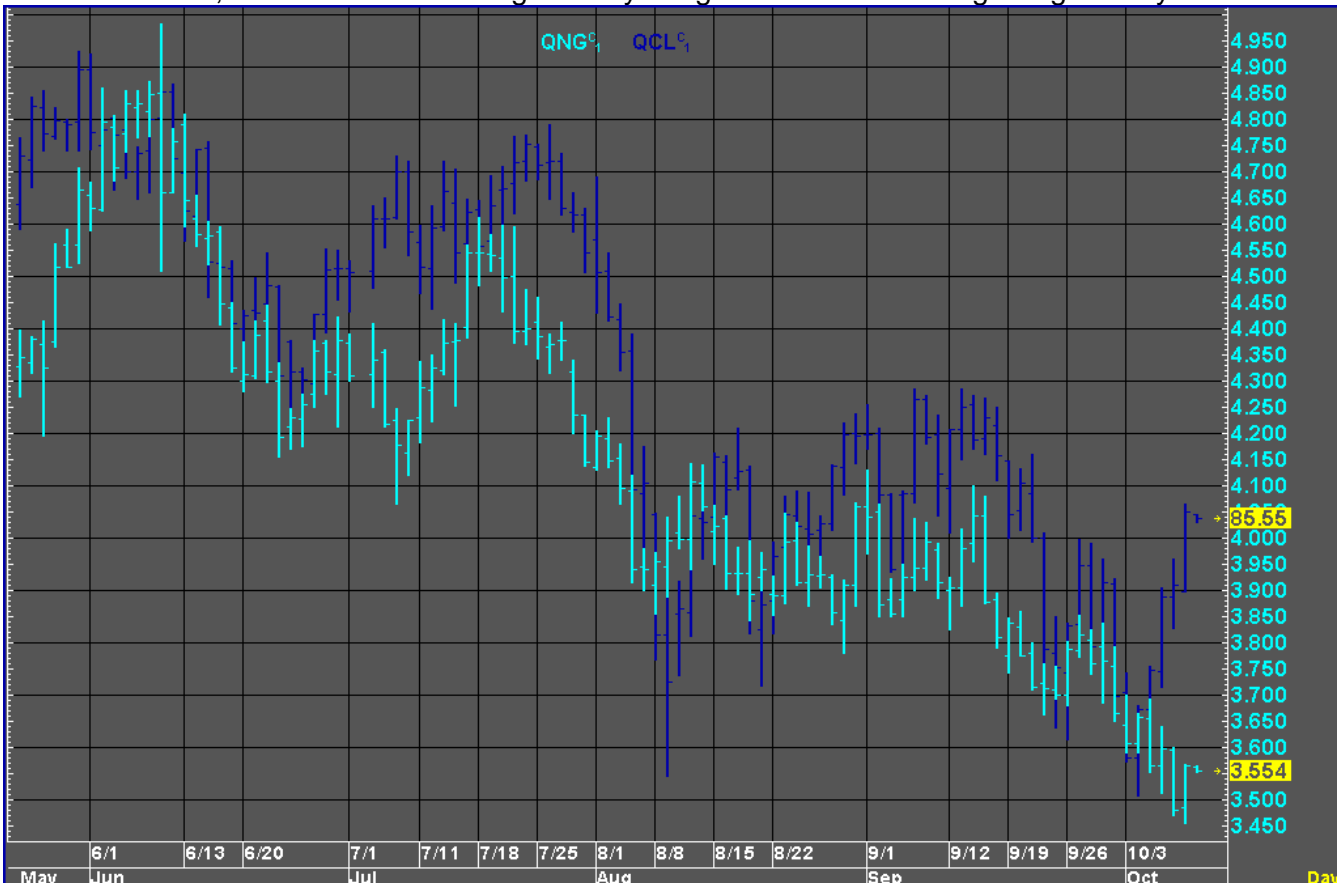
ECONOMIC NEWS



The Organization for Economic Cooperation and Development said its composite leading indicator for its 33 member countries fell for a fifth consecutive month in August to 100.8 from 101.4 in July and signaling a slowdown in economic activity. Only Germany, Russia and the US kept readings above 100 while Japan was the only country not yet headed for a clear slowdown, registering a 1 point decline in its composite leading indicator to 102.5 from 102.6.

China's economy is likely to grow an annual 9.4% in 2011 before slowing further to 9.2% in 2012. The Chinese Academy of Social Sciences cut its forecast on China's economic growth this year from a previously estimated 9.6%. It said that the full year inflation is likely to

be 5.5% in 2011, well above the 4% target set by the government at the beginning of the year.



Market Commentary

The bullish mood of the oil, currencies and equities markets appeared to spill over into the natural gas market early this morning and helped to bounce prices off new near term lows recorded overnight to finishing the day once again in positive territory. While the spread between the natural gas and crude

market has continued to widen over the past several sessions, there had been a general correlation between the two markets over the past several months (see chart above).

We feel that despite the poor weather outlook near term for natural gas, nuclear refueling outages should help to fundamentally counter limited heating demand near term. This coupled with the macro belief that it will be difficult for natural gas to continue to remain divorced from the significant oil price directional movement for much longer points us to be looking for a further price bounce. Technically it appears basis the daily stochastics that this market once again has bottomed out and may be ready to trend higher at least to retrace some 38% of the recent sell off of the last three weeks, which tonight would be a \$3.635 target. Additional resistance we see at \$3.691, \$3.73-\$3.746, \$3.815, \$3.90 and \$3.91-\$3.926. Support we see at \$3.455, \$3.425 and \$3.391-\$3.385.

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