



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR NOVEMBER 2, 2011

NATURAL GAS MARKET NEWS

North America

El Paso's third quarter production volume rose 8% in the third quarter from the third quarter a year ago to 827 mmcf/d. The company estimates that its fourth quarter production will be between 850 and 890 mmcf/d.

Generation Outages

WECC- The San Onofre nuclear power station in San Diego, CA issued a Level 3 alert. A Level 3 alert means there could be a lost radioactive device or near accident but as of Tuesday afternoon plant officials said there was no risk to the public.

The NRC reported this morning that some 82,741 Mw of nuclear generation was online, up 0.03% from yesterday and up some 5.01% from the same day a year ago.

Magellan Midstream Partners lowered the expected cost of reversing the Houston to El Paso pipeline by \$30 million to \$245 million. Magellan lowered estimates because it believes the company will be able to save money by using an existing pipeline between Odessa and Crane Texas.

Bank of America Merrill Lynch has lowered its 2012 average for US natural gas price forecasts to \$4.30 mmBtu from \$4.70 mmBtu due to an increase in production and a decrease in demand.

US natural gas stocks are expected to have climbed by 69 bcf last week when the EIA releases the weekly data on Thursday at 10:30 AM EST.

International

Eni has restarted production at its Sabratha offshore natural-gas platform off the coast of Libya. The platform is a part of the Western Libyan Gas Project which produces natural gas for both domestic consumption and export. The company announced that gas production will reach 11-13 million cubic meters per day when all 15 wells on the platform reopen.

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	1,535,100	\$3.392	(\$0.101)	(\$0.397)	(\$0.001)	(\$0.190)
Chicago City Gate	942,100	\$3.633	\$0.030	(\$0.156)	\$0.052	(\$0.032)
NGPL- TX/OK	882,300	\$3.315	(\$0.031)	(\$0.475)	(\$0.009)	(\$0.334)
SoCal	598,500	\$3.558	(\$0.039)	(\$0.231)	(\$0.017)	(\$0.162)
PG&E Citygate	931,300	\$3.951	\$0.084	\$0.162	\$0.106	\$0.101
Dominion-South	629,600	\$3.423	(\$0.079)	(\$0.366)	(\$0.058)	(\$0.141)
USTRade Weighted	25,687,000	\$3.477	(\$0.023)	(\$0.312)	(\$0.00)	(\$0.190)

Chevron has started drilling its first shale gas exploration well in south-eastern Poland. Geological estimates say that Poland may have substantial undiscovered natural gas resources totaling 5.3 tcm of recoverable gas, which would be the largest reserves in Europe. The country hopes to start the production of shale gas in 2014 at an annual rate of at least 200 million cubic meters.

Russian natural gas production increased by 13% in October to 1.799 bcm per day. The country produced 1.592 bcm per day in September. Gazprom increased production to 1.35 bcm per day in October from 1.17 bcm per day in September but was down 9.2% when compared to October 2010.

Russia may start transporting natural gas to South Korea via a pipeline through North Korea in 2017. Gazprom is currently in talks with Korea Gas Corp. to supply 12 bcm of gas per year. Some analysts are skeptical about the proposal due to tensions on the Korean peninsula.

A new consortium will be created to build a pipeline that will carry gas from the Shah Deniz II project in Azerbaijan through Turkey to Europe. The consortium members will be picked by the Azerbaijan government and the companies developing the Shah Deniz field. The pipeline will have a minimum capacity of 16 bcm/y with 6 bcm destined for Turkey and 10 bcm for Europe by 2017.

The Chief Executive of Singapore's upcoming LNG terminal said that more flexible LNG supply contracts will allow unsold cargoes to be diverted to the spot market, allowing for more trade of the fuel. The spot market now accounts for 20% of the world market helping to ease concerns that LNG supplies will be available for purchase.

Many legislators in the Australian government will not support the planned mining tax without first coming to an agreement on issues around coal sea gas production. The topic is becoming a major issue in Australia sparking conflict between farmers, environmentalists and large corporations over damaging water supply and endangering food security.

Electric Market News

Illinois Attorney General has filed a suit with federal energy regulators opposing a settlement in the proposed merger of Exelon and Constellation Energy and PJM's market monitor. The claims that settlement with PJM does not consider the effects on the Northern Illinois power market.

US power grid operator PJM plans to reduce rates its members pay for the cost of operating the transmission system and the wholesale electric markets from 30 cents per MWh to 29 cents per MWh.. The new pricing is expected to be in affect for at least five years depending on market conditions. PJM is the sole US grid operator that uses fixed long term rates to recover its costs

As of Wednesday more than 1.2 million homes and businesses remained powerless in Northeast after Saturday's storm. Power outages peaked at about 4.3 million homes and businesses over the weekend.

For the week ending on October 29th US power output fell 1.1% from the same week last year. Total US power production in 2011 is 0.1% less than power production in 2010.

ECONOMIC NEWS

According to ADP, private businesses added slightly more jobs than expected in October. It reported that private sector jobs in the US increased by 110,000 in October. The September data were revised to show a rise of 116,000 versus 91,000 reported a month ago. The report showed that large businesses with 500 employees or more cut 1,000 employees from their staff while medium sized businesses added 53,000 workers in October and small businesses that employ fewer than 50 workers hired 58,000 new workers.

The world's manufacturing economy stagnated in October with the euro zone the worst performing region. The JPMorgan Global Manufacturing PMI increased slightly to 50 in October from 49.8 in September. It noted growth in China, Russia and India while manufacturers in the US stagnated and the euro zone factory activity saw an alarming decline last month. The downturn in euro zone manufacturing in October was higher than previously believed.

The decline in euro zone manufacturing in October was larger than previously reported. The final Markit Eurozone Manufacturing Purchasing Managers Index for October fell to 47.1, revised down from a preliminary reading of 47.3 and down from 48.5 in September. It is the third consecutive month

the manufacturing PMI has fallen below the 50 level that divides contraction for growth with the output and new orders indexes plunging to levels not seen since mid-2009. The new orders index for euro zone manufacturers fell for the fifth month to 43.4, the fastest decline since May 2009.

Market Commentary

The natural gas market traded in and out of positive territory before ending the session in negative territory for the second consecutive day. The market posted the day's trading range early in the morning as it traded to a high of \$3.804 and a low of \$3.73 ahead of the open outcry session. The market later bounced off its low and traded back towards the \$3.80 level by midday, only to erase those gains ahead of the close. The natural gas market settled down 3.2 cents at \$3.749.

The market is expecting Thursday's release of the EIA natural gas storage report to show a build of 69 bcf. Natural gas inventories built by an adjusted 67 bcf in the same week last year and built 35 bcf on average over the past five years.

Without any change in weather forecasts, the natural gas market's gains are seen limited. Weather forecasts are calling for the eastern half of the US to experience above normal temperatures for the next several weeks. The market is also seen remaining pressured amid the expectations of a large build in natural gas stocks. Technically, the natural gas market is seen finding resistance at \$3.792, \$3.80, its high of \$3.804, \$3.835 and \$3.866. More distant resistance is seen at its previous high of \$3.955. Support is however seen at its low of \$3.73, \$3.724, \$3.718, \$3.687 and \$3.644.

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