



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR DECEMBER 27, 2011

NATURAL GAS MARKET NEWS

North America

Repsol and SandRidge Energy have agreed to buy 1,500 km of oil and gas assets in the Mississippi Lime play in Oklahoma and Kansas. Repsol plans to drill 200 horizontal wells in 2012 and exceed 1,000 wells by 2014. The company also plans invest \$1 billion into the project.

International News

Eni and Repsol have signed a deal with Venezuela's state oil company PDVSA to develop the Perla gas project, which is estimated to contain the largest gas deposits found off the coast of any OPEC nation. The project has proven reserves exceeding 15 tcf and is expected to kick start the natural gas industry in Venezuela. Early production is expected to begin in October of next year with a capacity of 80 mcf per day.

UK gas supplies were tight on Tuesday after a storm halted Norwegian North Sea gas flows to Britain however do the holiday's creating low demand supplies were unthreatened. Langeded flows to Britain average about 60 to 70 mcm per day but fell to 10 mcm on Monday and were about 25 mcm on Tuesday.

Natural Gas				
Month	O.I	Prior O.I	Change	% OF TTL
DEC	24779	32780	-8001	2.464%
JAN	182559	178719	3840	18.150%
FEB	227456	225207	2249	22.614%
Dec-12	24634	24624	10	2.449%
Dec-13	8096	8100	-4	0.805%
TOTAL	1005834	1005997	-163	

Syria's state news agency announced that terrorists had blown up a section of a gas pipeline near Homs on Tuesday. The news agency said 150 square meters of gas had leaked from the site of the pipeline explosions before the operators were able to shut the flow of gas.

Turkey and Azerbaijan signed a pipeline deal for the Trans-Anatolian gas pipeline project that will carry Azeri gas across Turkey and into Europe. The pipeline will have an initial capacity of 35 bcm and be expanded to have a capacity of 60 bcm. The pipeline is expected to begin operation in 2017.

Generation Outages

NPCC- Entergy Corp plans to close the 685MW Pilgrim nuclear plant to repair a safety relief valve. The plant initiated a controlled shutdown on Monday because of a suspected leakage of safety relief valve that made it inoperable.

The NRC reported this morning that some 91,810 Mw of nuclear generation was online, down 0.65% from Friday and down 3.83% from the same day a year ago.

Gazprom's said that the implementation of the South Stream underwater gas pipeline project will depend on the gas talks with Ukraine. The South Stream pipeline was designed to have the ability to carry 63 bcm of gas a year from the Caspian region to Europe in 2015.

Gazprom expects its net profits to increase by 25% to \$40 billion this year due to higher gas prices and a larger number of sales. In addition, Gazprom sees further growth next year when it will increase gas sales to Europe from 152 bcm this year to 164 bcm in 2012.

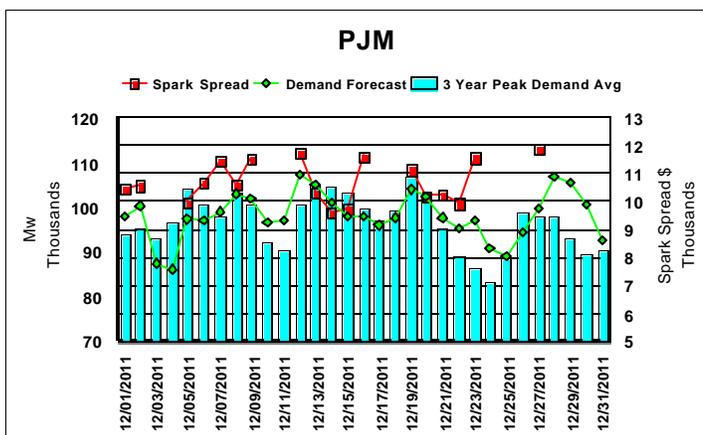
Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
Location	Traded	Price	(As of 12:30 PM)		Moving Avg	
Henry Hub	400,300	\$3.088	\$0.123	(\$0.004)	\$0.268	\$0.051
Chicago City Gate	684,700	\$3.182	\$0.180	\$0.090	\$0.228	\$0.022
NGPL- TX/OK	638,300	\$3.029	\$0.112	(\$0.063)	\$0.160	(\$0.111)
SoCal	712,700	\$3.386	\$0.068	\$0.294	\$0.116	\$0.258
PG&E Citygate	686,000	\$3.466	\$0.010	\$0.374	\$0.058	\$0.340
Dominion-South	394,200	\$3.189	\$0.214	\$0.097	\$0.262	(\$0.012)
USTrade Weighted	18,078,800	\$3.270	\$0.220	\$0.178	\$0.27	\$0.051

Bangladesh Petroleum Exploration and Production Company said that it had discovered a significant amount of new gas reserves at a field in the country's northeast. Early estimates show the find has potential reserves of 404 bcf, of which 283 bcf could be extracted. The company expects that it will be able to extract 40 mcf per day from the newly found well.

China has developed a new pricing system for natural gas that ties prices to imported fuel oil and liquefied petroleum gas (LPG). The new formula gives a 60% weight to fuel oil and a 40% weight to LPG to calculate an alternative price for natural gas with equivalent calorific value and discounted the outcome by 10%. The new system was put into place in southern China on Monday.

Electric News

Westmoreland Coal said it agreed to purchase the Kemmerer mine in Wyoming from Chevron for \$179 million plus about \$14 million in working capital. The Westmoreland mine has produced an average of 4.7 million tons of high-quality sub-bituminous coal over the past five years.



The National Weather Service estimates of US heating demand this week is 20.3 percent below normal. Demand for heating oil is expected to average 17.3 percent below normal and natural gas will average 20.6 percent below normal.

The US Northwest River Forecast Center said that projected water runoff at The Dalles Dam on the Columbia River in Oregon is expected to climb to 88 percent of normal for January-July on Tuesday.

Economic News

The Conference Board said its index of consumer sentiment increased to 64.5 from a downwardly revised 55.2 in November. The survey's present situation index increased to 46.7 in December from 38.3 in November. The expectations index surged to 76.4 from 66.4 in November.

US single family home prices fell more than expected in October. The S&P/Case Shiller composite index of 20 metropolitan areas fell 1.2% on an unadjusted basis. Prices fell 0.6% in September. For the year, home prices fell 3.4% in October.

The Federal Reserve Bank of Dallas' Texas monthly manufacturing index fell by 3% in December compared with an increase of 3.2% in November. Its manufacturing output index fell 1.3% in December compared with a decline of 5.1% in November.

Market Commentary

The natural gas market ended the session nearly flat as it gave up its early gains in light volume following the Christmas holiday. The natural gas market posted its low of \$3.078 in overnight trading and traded to a high of \$3.181 at the start of the open outcry session. The market was supported as a private weather forecaster said cold temperatures could hit the east coast over the next six to ten days. The market however gave up its gains and traded back towards its lows in afternoon trading as noon computer weather models turned milder. The market later retraced some of its losses and settled down just 2 ticks at \$3.112.

The natural gas market will likely remain pressured as the weather forecasts are still not showing a sustained cold pattern. The market is seen finding resistance at \$3.169, its high of \$3.181, \$3.201, \$3.227 and \$3.272. More distant resistance is seen at \$3.306, its 38% retracement off a high of \$3.72 to a low of \$3.05, \$3.385, its 50% retracement level and \$3.464, its 62% retracement level. Support is seen at \$3.078, \$3.066, \$3.021 and \$2.963.

