



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JANUARY 5, 2011

NATURAL GAS MARKET NEWS

ConocoPhillips shut its natural gas processing plant at Lysite, WY on Tuesday morning.

Encana Corporation, North America's second largest natural gas producer said today that it would spend less money on operations in 2011 as prices for the fuel remain weak. While the company has yet to announce its capital spending budget, the president of the company said today he expects that budget will be in the range of \$4 to \$4.5 billion with the expectation that production will increase by a single digit percentage range.

Iran's official IRNA news agency reported that the country's daily natural gas output from the South Pars Gas field reached 240 million cubic meters. The weekly production of nine phases of the South Pars Gas field has reached 1.68 billion cubic meters.

The Hungarian Energy Office suspended the trading license of gas retailer Emfesz as of January 13th for a period of 90 days. Emfesz, which controls about a fifth of the Hungarian gas market, has had problems paying its gas suppliers in recent weeks. The Hungarian Energy Office said that uninterrupted supply of gas to consumers is secure and that added that it would designate another license with adequate supply to serve Emfesz's customers.

The Al Deebel liquefied natural gas tanker is due to unload at Belgium's Zeebrugge terminal on January 21st. The tanker has a capacity of 147,700 cubic meters and is arriving from Qatar.

The Fraiha liquefied natural gas tanker is due to arrive at Britain's Milford Haven port on January 14th. The vessel has a capacity of 210,000 cubic meters and was last seen in the Gulf of Suez.

Taiwan's Bureau of Energy reported that the country's imports of liquefied natural gas in November increased by 13.1% on the year but fell by 10.9% on the month to 825,841 metric tons. In the first eleven months of 2010, Taiwan imported 10.13 million tons of LNG, up 24.3% on the year.

ELECTRIC MARKET NEWS

Generation Update

ERCOT – Xcel Energy's 346 Mw Harrington Station coal fired Unit #1 is expected to restart between January 5th and 7th. The unit was shut on January 4th for a short maintenance outage.

NPCC – The natural gas fired Greenfield #3 power plant in Ontario is expected to be restarted today. The unit has been off line since the end of December.

OPG's Nanticoke #5 coal fired unit was reported to be back in service today.

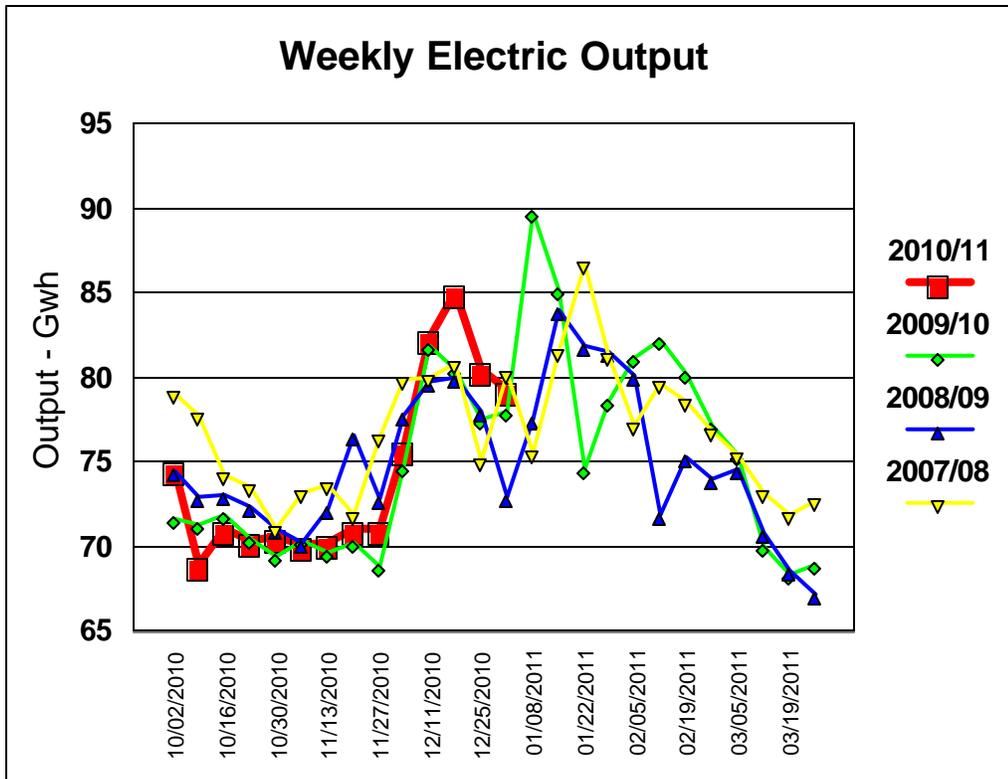
Entergy's Indian Point #2 nuclear unit saw operations reduced for short term maintenance.

FRCC – Progress Energy said today that it expects to restart its Crystal River nuclear reactor in late March of this year.

WSCC – PG&E Corp's 530 Mw Gateway natural gas fired power plant came back online late Tuesday following a one-day outage.

The NRC reported today that 94,405 Mw of generating capacity was online today, up 0.01% from yesterday and 0.13% higher than the same day a year ago.

The Obama administration is facing pressure to delay its efforts to limit greenhouse gases. President Barack Obama has vowed that the EPA would enforce legal requirements to keep the air clean if Congress was not up to the task. Some lawmakers have however vowed to stop the EPA in its tracks. The EPA has already started regulating emissions with new rules for power plants and refineries that went into effect on January 2nd. The Center for American Progress Action Fund said until the issue is settled it will be almost impossible to pass any energy legislation.



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The Edison Electric Institute reported today that for the week ending January 1st, power production in the United States reached 79,113 Gwh, down 1.4% from the prior week but some 1.8% higher than the same week a year ago.

ECONOMIC NEWS

According to ADP, private sector payrolls expanded at a very strong pace in December. Private sector jobs in the US

increased by 297,000 in December compared with market expectations of a gain of 100,000. The estimated change in employment for November was revised to show an increase of 92,000 compared with the initially reported 93,000. The report showed that large businesses with 500 employees or more added 36,000 employees, medium-size businesses added 144,000 workers in December and small businesses with fewer than 50 workers hired 117,000 new employees. It reported that service sector jobs increased by 270,000 while factory jobs increased by 23,000.

The US non-manufacturing sector grew in December at its fastest pace in more than 4 years. The Institute for Supply Management said its index of national services activity increased to 57.1 in December from 55 in November. The report's employment component fell to 50.5 from 52.7 in November while new orders increased to 63 from 57.7.

MARKET COMMENTARY

The natural gas market today saw nervous longs run to cash out their recent gains as the last few GFS forecasting model runs began to suggest that warmer than normal temperatures may develop in the Southwest and then attempt to build eastward over the 6-15 day period. As a result prices began ease this morning and then tumbled lower at midday as the new model runs were released. The selling pressure sent values tumbling down by more than 20 cents and thus back filling the gap in the daily charts from Monday's higher opening following the New Year holiday.

Market expectations for tomorrow's EIA Storage Report for the period ending December 30th are ranging between 115-150 bcf draw down with most expectations centered around a 135 bcf draw

down. For the same week a year ago stocks fell an adjusted 149 bcf while the five year seasonal average drawdown is just a 79 bcf draw.

While the market will obviously await tomorrow's storage report for potential help in setting price direction, but if the report falls within most market expectations, we would expect prices tomorrow to look to stabilize barring a further significant erosion in the temperature outlook. We see the recent stream of positive economic news coupled with declining rig counts to possibly hold off bears from making a strong run again to the downside. We see support at \$4.447-\$4.431 followed by \$4.346 and \$4.261. Resistance we see at \$4.71 followed by \$4.853 and \$4.974.

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