



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JANUARY 31, 2011

NATURAL GAS MARKET NEWS

Chesapeake Energy and China's largest offshore oil producer, CNOOC Ltd reached an agreement today in which Chesapeake will sell its second stake in shale gas assets to the Chinese company. This agreement calls for CNOOC to pay \$1.3 billion to acquire a 33.3% stake in Chesapeake's leasehold acres in northeast Colorado and Southeast Wyoming as well as funding 66.7% of Chesapeake's share of drilling and completion costs by the end of 2014. This deal follows an earlier agreement in which CNOOC bought a 33.3% interest in Chesapeake's 600,000 net oil and gas leasehold acres in the Eagle Ford Shale project in South Texas for \$1.1 billion.

Generation Update

NPCC – Constellation Energy's 621 Mw Nine Mile Point #1 nuclear unit was at only 50% power this morning, down from full power recorded on Sunday morning.

PJM – PPL's 1149 Mw Susquehanna nuclear unit ramped up to 97% power early Monday, up from just 15% power on Friday.

ECAR – DTE Energy's 1122 Mw Fermi nuclear power plant was shut Saturday from 73% power recorded earlier on Friday.

SERC – Duke Energy's 1100 Mw McGuire #2 nuclear unit ramped up to 99% power early Monday, up 30% from Friday's levels.

The NRC reported today that 93,615 Mw of generating capacity was online today, up 0.4% from yesterday but 1.6% less than the same day a year ago.

The Climate Prediction Center reported this morning that on a gas home heating customer weighted basis last week saw some 223 HDD recorded, some 0.9% more than normal and 9.8% more than the same week a year ago. For the current week ending February 5th the CPC is forecasting some 244 HDD, which would be nearly 13% more than normal and 8% more than the same week a year ago.

A Congressional probe released today warned that several energy companies may have violated environmental rules under the Safe Drinking Water Act by injecting diesel into the ground without permits as part of the hydraulic fracturing practice between 2005 and 2009. Up to twelve firms have been cited with following this procedure. In 2003, the EPA entered into a voluntary agreement with Halliburton, BJ Services and Schlumberger to eliminate the use of diesel fuel in hydraulic fracturing fluids injected into coal bed methane wells. In addition, a 2005 energy law exempted hydraulic fracturing from regulation under the Safe Drinking Water Act, except when diesel is used.

Reuters was reporting that the LNG tanker, the Al Kharsaah was slated to arrive at the Isle of Grain terminal on February 3rd. The ship has a capacity of 214,000 cubic meters. According to local port authorities, the LNG tanker the Al Mafyar is expected to arrive at the South Hook terminal on February 4th from Qatar.

Pipeline flows along the Langeled pipeline from Norway into Britain nearly doubled this morning to around 70 million cubic meters from yesterday's levels as a result of production resuming at the Troll and the Oseberg fields as a result of the completion of maintenance activities.

Japan's imports of thermal coal and LNG in 2010 reached their highest level in two decades. Imports of LNG last year exceeded 70 million tons with coal reaching 100 million tons, as a result of the worst heat wave in 100 years. Imports of LNG in December reached 6.3 million tons, up 9.8% from November. The Japanese paid \$10.95 per mmbtu for the gas in December. The three largest providers of LNG in December and overall for the year into the Japanese market remained Malaysia, Indonesia and Australia.

ELECTRIC MARKET NEWS

Power generation in the U.S. for the week ending January 27th rose by 4% from the prior week and was 12% more than the same week a year ago, according to a report released by Genscape this morning.

Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
<u>Location</u>	<u>Traded</u>	<u>Price</u>		(As of 12:30 PM)		<u>Moving Avg</u>
Henry Hub	465,000	\$4.423	\$0.157	\$0.091	\$0.044	\$0.213
Chicago City Gate	1,022,000	\$4.693	\$0.269	\$0.361	\$0.245	\$0.172
NGPL- TX/OK	1,230,100	\$4.371	\$0.201	\$0.039	\$0.177	(\$0.088)
SoCal	344,000	\$4.400	\$0.275	\$0.068	\$0.251	(\$0.141)
PG&E Citygate	1,395,900	\$4.459	\$0.200	\$0.127	\$0.176	(\$0.028)
Dominion-South	390,900	\$4.634	\$0.196	\$0.302	\$0.172	\$0.210
USTrade Weighted	25,073,200	\$4.613	\$0.068	\$0.281	\$0.04	\$0.213

The Greek cement company, Halyps Cement, said some 300,000 of its European carbon permits were stolen from the Greek emissions registry. The company did not say when the permits values around \$5.99 million were stolen, but the Greek registry informed the company about "unusually large moves" in its account on January 18th.

The U.S. Senate has seen a bill introduced that seeks to strip the EPA of its regulatory authority over the management of green house gases.

ECONOMIC NEWS

The US Commerce Department reported that the US consumers accelerated their spending at the end of 2010. Consumer spending increased by 0.7% in December while incomes increased by 0.4% for the second consecutive month. The December saving rate fell to 5.3% from 5.5% the month before. It showed the core price index for personal consumption expenditures, excluding food and energy prices, was up 0.7% on the year after increasing by 0.8% in November. The overall PCE price index increased by 1.2% in December compared to a year earlier.

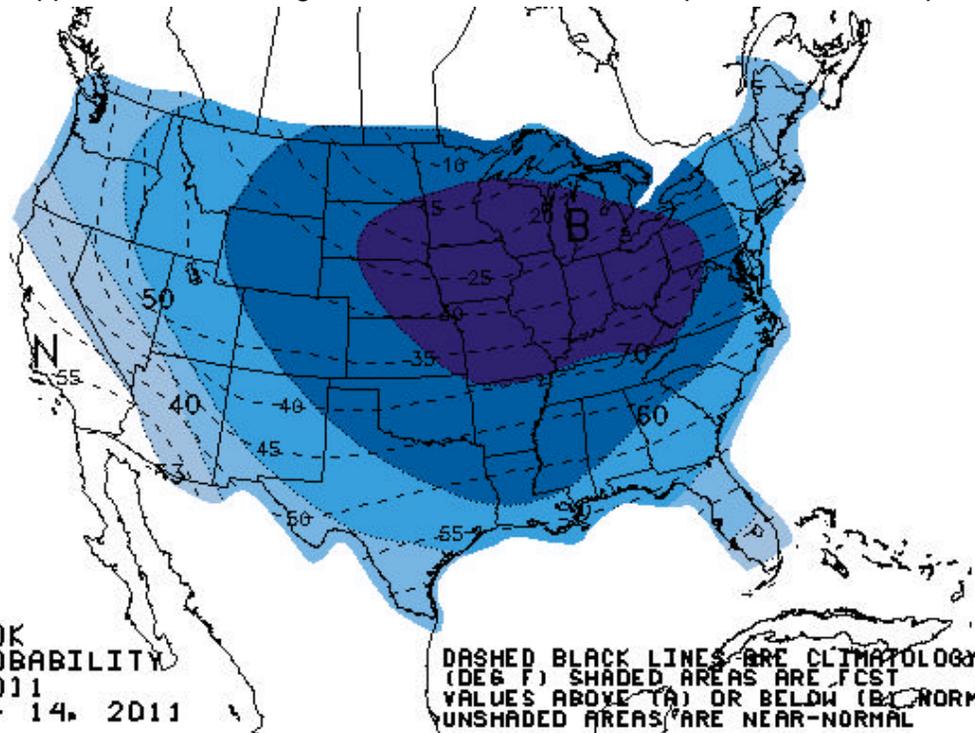
Inflation in the euro zone accelerated to its fastest pace in 27 months in January. Consumer prices in the 17 countries were up 2.4% from January a year ago.

Statistics Canada said Canada's GDP grew by 0.4% in November due to increased oil and gas extraction as well as higher wholesale and retail prices. It also reported that Canada's industrial product price index for December increased by 0.7%.

Industrial output in Japan and South Korea increased more than expected in December. The data from Japan is encouraging as it supports the central bank's view that the economy will likely resume growing this quarter after a contraction expected in the fourth quarter following the expiry of government incentives for car purchases. Japan's industrial output increased 3.1% in December. Rising factory output also increased expectations that the Bank of Korea will increase interest rates further this year to cut inflationary pressures. South Korea's seasonally adjusted reading in industrial output index increased 2.8% in December.

MARKET COMMENTARY

Escalating oil prices and a mega winter storm sweeping across the nation to be followed by yet another arctic chill today supported the natural gas market. These events helped the market to post its



strongest gains since January 19th and nearly retrace 38% of its sell off from last week. While we feel that this market may still have another 15-20 cents left to this mini rally we continue to feel that this market will not break out to the upside but rather remain mired in a sideways trading pattern that it basically has been in for the past couple of months. We see resistance tomorrow at \$4.47 followed by \$4.538 and \$4.605. Additional resistance we see at \$4.823, \$4.879 and \$4.924. Support we see at \$4.236 followed by \$4.067, \$3.98 and \$3.879.

The natural gas market saw the suspension of trading for a brief time this afternoon on Globex as a result of a computer glitch. The exchange though did get the market back up and running some 45 minutes before the close.

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