



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,
& Karen Palladino

(212) 624-1132 (888) 885-6100

www.e-windham.com

NATURAL GAS & POWER MARKET REPORT FOR FEBRUARY 23, 2011

NATURAL GAS MARKET NEWS

TransCanada said today that it is not yet able to take spot gas shipments on its mainline natural gas pipeline system. The company said that only Line #1 of its three mainline system is operating, shipping 1.8 bcf/d of contracted volume. Prior to the explosion on the line, shipments were averaging 2.1-2.9 bcf/d, including spot shipments. The company expects that Line #3 can return to operation in a few days once inspections are completed, while Line #2 will see repairs commence when given the green light by investigators.

Chesapeake Energy's CEO said today that his company plans more asset sales this year. He said his company is actively involved in advancing North American LNG projects. He sees U.S. industrial demand for natural gas increasing each year due to the relative low price of natural gas to oil. He sees long-term natural gas prices running \$6-\$7 per mcf, but he sees oil prices remaining strong for years, possibly "scary strong".

Deutsche Bank Research said in a report today that cross-indexation of gas prices to those of crude oil is no longer a correct formula in a world full of gas and where oil is getting more expensive. The bank's research arm said the decades old practice of index gas prices to oil prices has run its course. The bank researchers noted that the illusion of the oil price link continuing can lead to expensive errors of judgment in the shape of typical big investments such as new exploration or the construction of thousands of kilometers of new pipelines.

Poland's gas company PGNiG said it expects to have the first profitability studies completed on its unconventional gas exploration efforts in late 2012 or 2013.

Generation Outages

NPCC – Entergy's 685 Mw Pilgrim nuclear plant has been restarted and was at 1% power this morning. The unit has been off line since February 20th.

Entergy's 1025 Mw Indian Point #3 nuclear unit was expected to return to service by the end of the week. Operators shut the unit on Tuesday evening to repair a pipe that carry's cooling water from the river.

ERCOT – Maintenance on the Harrington #1 coal fired unit was going to be conducted today to test the electrical busses. Capacity at the unit was going to be reduced to just 180 Mw.

The NRC reported this morning that some 93,060 Mw of nuclear generation capacity is online, up 0.1% from yesterday and some 1.7% higher than the same day a year ago.

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	598,500	\$3.829	(\$0.065)	(\$0.037)	(\$0.125)	\$0.163
Chicago City Gate	619,800	\$4.004	(\$0.083)	\$0.138	(\$0.109)	\$0.152
NGPL- TXOK	695,700	\$3.734	(\$0.088)	(\$0.132)	(\$0.115)	(\$0.104)
SoCal	467,100	\$3.905	(\$0.062)	\$0.039	(\$0.088)	\$0.034
PG&E Citygate	819,900	\$4.064	(\$0.057)	\$0.198	(\$0.083)	\$0.193
Dominion-South	525,000	\$3.951	(\$0.089)	\$0.085	(\$0.115)	\$0.111
USTRade Weighted	20,372,700	\$4.177	(\$0.099)	\$0.311	(\$0.13)	\$0.163

But the company expects to have more of an idea on the potential size of its gas fields in the second half of this year

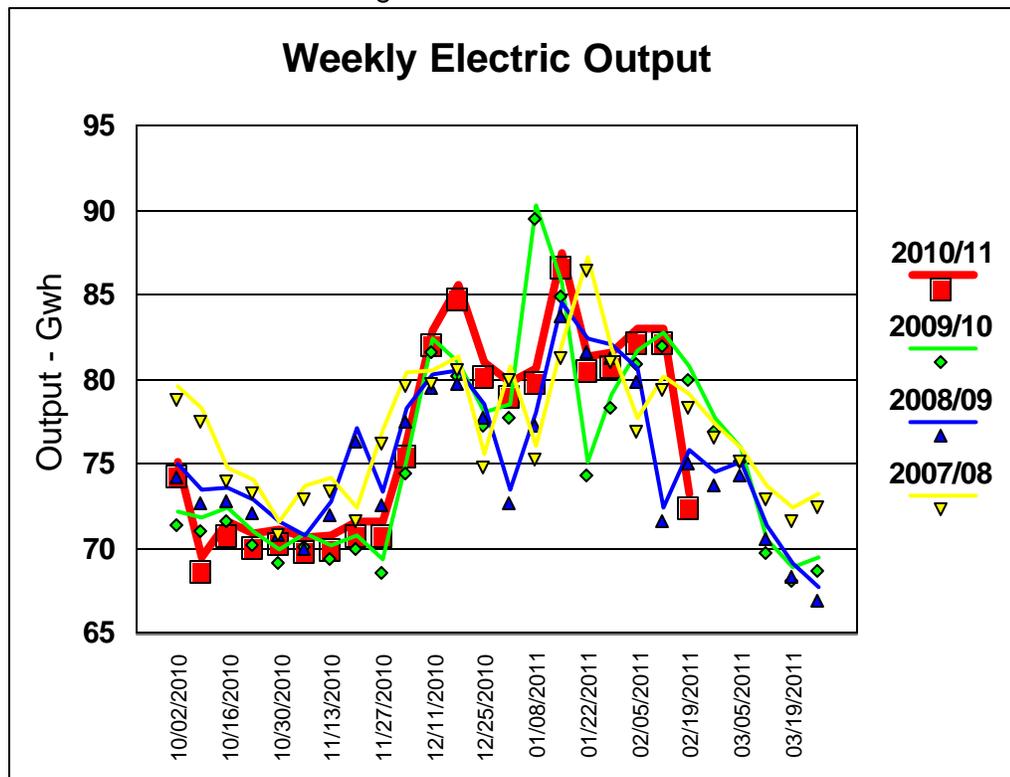
Italy's Industry Minister said today that Italy is not in danger of running out of natural gas supplies, despite the loss of Libyan imports. The country has the potential to boost imports via other supply sources such as Algeria, Russia and Norway. The country reportedly has increased its pumping of gas from northern Europe to 98% of capacity along the north south pipeline from 80% at present. Italian gas stockpiles are also estimated at 3.8 billion cubic meters.

Iraq's deputy prime minister for energy said today that the \$12 billion agreement between the Iraqi government and Shell Oil, under which Shell would produce gas from southern Iraqi oil fields has reached an advanced stage in discussions.

Indonesia said it may import 4.5 million metric tons of LNG per year starting in 2013 if the construction of three floating storage facilities is completed on schedule. BPMigas said it would consider buying LNG from Australia or Qatar if prices for those cargoes are lower than those set by producers in Indonesia.

The head of Centrica said today it has signed its first long term contract to buy LNG from Qatar. The agreement calls for 2,4 million tones of gas per year to be delivered to Britain and it will be priced off the UK wholesale market prices, not oil.

China National Petroleum Corporation has agreed in principle with KazMunaiGas to form an equally owned joint venture to develop the Urikhtau gas field in Kazakhstan. Production from the field is seen feeding the Kazakhstan gas pipeline, which is being built by the two countries to connect to the massive Central Asia-China gas trunk that starts from as far as Turkmenistan and runs to China.



ELECTRIC MARKET NEWS

The Edison Electric Institute reported today that for the week ending February 19th, U.S. power production stood at 72,488 Gwh, down 11.8% from the week before and some 10.4% less than a year ago. For the first eight weeks of this year power production has been 0.6% less than year ago.

ECONOMIC NEWS

The Mortgage Bankers Association said applications for

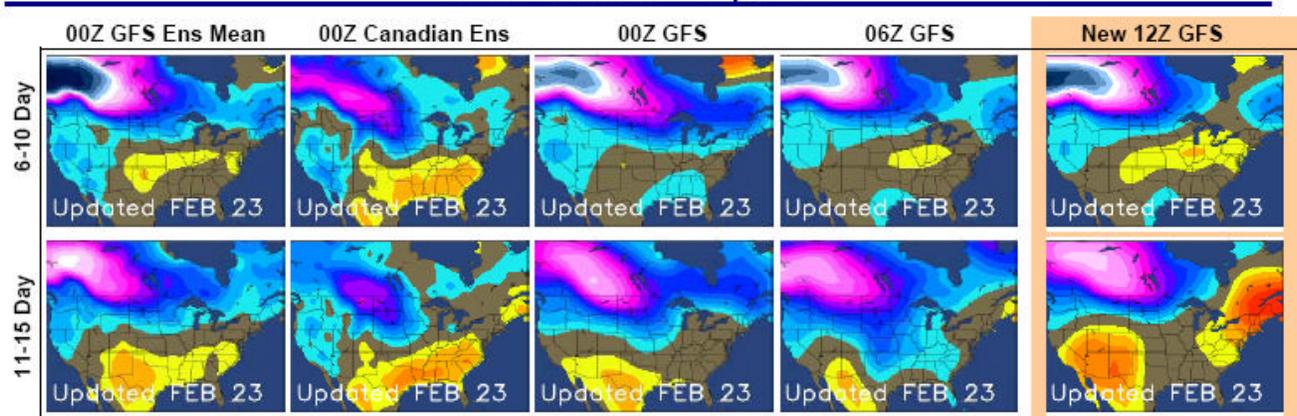
US home mortgages increased last week. It reported that its seasonally adjusted index of mortgage application activity, which includes both refinancing and home purchase demand, increased by 13.2%

in the week ending February 18th. The MBA's seasonally adjusted index of refinancing applications increased by 17.8% while the index of loan requests for home purchases increased by 5.1%.

The International Council of Shopping Centers and Goldman Sachs reported that US chain store sales in the week ending February 19th increased by 2.6% on the week and by 3% on the year to 505.

The Labor Department said mass layoffs in the US increased in January. US employers in January had 1,534 mass layoffs, up 51 from the previous month on a seasonally adjusted basis. January's mass layoffs resulted in 149,799 lost jobs.

Forecast Model Comparison



10 Day Observed U.S. Population Weighted Temperature Anomalies and 15 Day Ensemble Forecast



Dow Jones Indexes said total investment tracking the Dow Jones-UBS commodities indices increased to \$62 billion at the end of 2010 from about \$59 million at mid-year.

The American Trucking Associations' advance seasonally adjusted For-Hire Truck Tonnage Index increased by 3.8% in January after increasing a revised 2.5% in December last year. Year over year, the index increased 8%.

MARKET COMMENTARY

Despite a runaway oil market, the natural gas market spent most of the day in negative territory after an early attempt yesterday evening to reach the \$4.00 price level and a major option strike level failed. While prices sold off throughout the morning, the market failed to find any follow through selling at \$3.83-\$3.82 and as a result prices rebounded and were able to settle up on the day but at a price level that was a non-event for an option expiration day, basically in between two major option strikes, the \$4.00 and \$3.75 strikes. Given a weather forecast that appears relatively moderate with temperatures basically averaging seasonal levels for most of the next 15 days, this market has little fundamental reason to move significantly higher, especially after tomorrow's expiration of the March contract.

We would look for resistance tomorrow basis the April contract to be found at ~~\$\$~~4.00 followed by \$4.03-\$4.05. Additional resistance we see at \$4.22, \$4.331 and \$4.442. Support we see at \$3.86, \$3.82, \$3.71, \$3.656 and \$3.41.

Market expectation for tomorrow's EIA natural gas storage report is for an 85 bcf drawdown, versus a 174 bcf drawdown last year and a five year seasonal drawdown of 148 bcf.

The information contained in this letter is taken from sources, which we believe to be reliable, but is not guaranteed by us as to accuracy or completeness and is sent to you for information purposes only. The Windham Group bases its market recommendations solely on the judgment of its personnel. Reproduction in whole or part or other use without written permission is prohibited.