



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JANUARY 3, 2011

NATURAL GAS MARKET NEWS

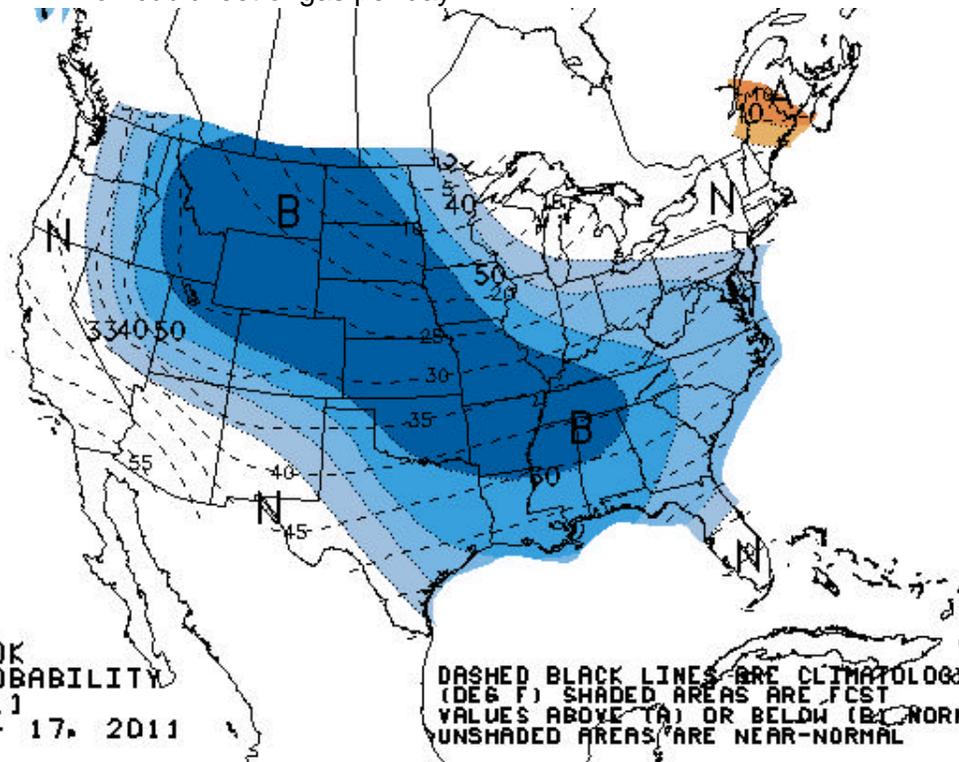
ExxonMobil's oil and gas production platform in the Gulf of Mexico, the block West Delta 73 had been shut due to a small leak the company reported to government regulators. The leak was described as a "pinhole" leak in a fuel scrubber that caused a discharge of about 5 gallons of natural gas condensate into the Gulf, creating a mile long sheen. ExxonMobil confirmed the rig was shut down on Saturday but repairs have been completed and that the rig was restarted within 24 hours. The West Delta 73 is a mature block, located near Grand Isle, Louisiana. The company has more than one platform operating in the block. Last July, production from the entire block of 10 operating wells was 1,063 barrels of oil and 2.4 million cubic feet of gas per day.

Generation Update

NPCC – OPG's Brighton Beach natural gas power plant returned to service.

FRCC – NextEra Energy's 839 Mw Unit #2 at the St. Lucie nuclear power plant was shut early Monday for planned refueling.

ERCOT – AEP's Oklaunion coal fired power plant was reportedly shut today, while the company planned to restart the Pirkey coal unit this week.

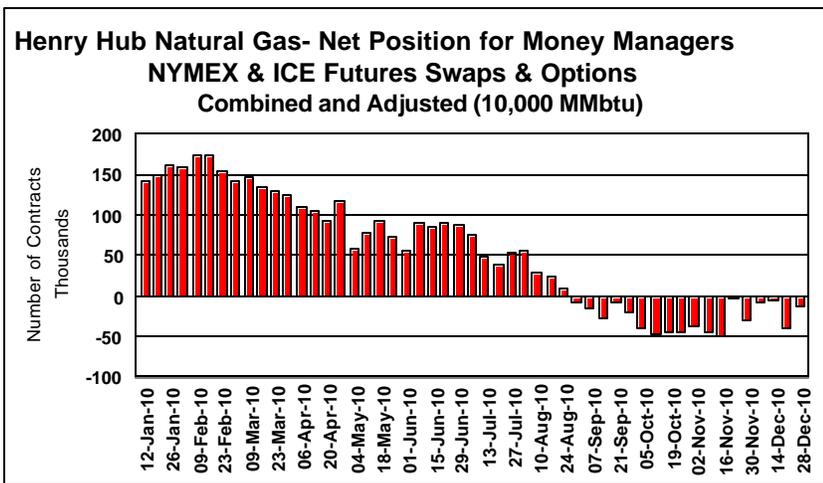


An Israeli government committee recommended the government should sharply increase its income from natural gas production to as much as 62%. The committee recommended that the country keep its royalties on oil and gas revenues at 12.5% but also levy a progressive tax of 20-50%. Policy makers

expect Israel's production of natural gas to soar in coming years as a result of the recent discovery of two large fields off its Mediterranean coast, which could make Israel an exporter of natural gas. The Tamar field, discovered in 2009 by a group led by Noble Energy and Delek Energy, has estimated reserves of 8.4 trillion cubic feet. Last week the companies confirmed the discovery of another reserve in the Leviathan field and that this field could be twice as big as it earlier discovery. Taxes would not be collected until the companies recoup 150% of their investment. Energy companies though have warned such a tax policy will discourage gas production in the country.

Spanish demand for gas declined 0.3% in 2010, its grid operator Enagas said on Monday due to a drop in gas burned by generators slightly outweighing an increase in domestic and business usage. Algeria remained the biggest supplier of natural gas to the country accounting for 30% of supplies.

UGI Storage says storage facilities acquired from UGI Central Penn Gas are operational and storage service will be available to the marketplace beginning with the gas injection season on April 1, 2011. An open season will begin on January 17, 2011 and will close on February 16, 2011.



The US National Weather Service reported that US heating demand this week is expected to be 0.5% above normal. Demand for heating oil this week will average 4.3% below normal, while heating demand for natural gas is expected to average 0.9% above normal. Last week, heating demand was 2% below normal.

ECONOMIC NEWS

The Institute for Supply Management said the US manufacturing sector grew for the

17th consecutive month in December. Its index of national factory activity increased to 57 in December from 56.6 in November.

The US Commerce Department reported that US construction spending increased a third consecutive month in November. Spending on construction projects increased by 0.4% to a seasonally adjusted annual rate of \$810.23 billion compared to the prior month. Spending increased 0.7% in October and 1.2% in September.

MARKET COMMENTARY

Despite the expectations last month for a warmer than normal January, traders started the new year with forecasts for a colder to a much colder than normal temperature outlook for much of the nation for the first half of January. As a result spot natural gas futures gapped higher today and moved to new five month highs. The market bulls also found comfort in the news from last week that the U.S. gas drilling rig count had fallen for the fourth straight week and appears to finally be pointing to the long awaited production decline. It appears that without a dramatic shift in the long term weather forecasts, the bulls will remain in control of this market for the near term. We would look for initial resistance tomorrow to be at \$4.689 followed by \$4.77-\$4.78, \$4.941 and \$5.007. Support we see at today's gap at \$4,491-\$4.454, followed by \$4.423, \$4.341 and \$4.258.

With the March-April spread before Christmas finally reaching our target of negative values, we feel that the rebound of this spread over the past week will probably break through resistance at 5.5-6 cent March premium, especially given the net short position of the commodity funds in this market. We feel

that given a supportive weather picture for the next week or two that this spread could be headed toward a March premium over April of 9-10 cents.



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