



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JANUARY 11, 2011

NATURAL GAS MARKET NEWS

The EIA released their latest Short Term Energy Outlook today and it forecasted U.S. domestic natural gas production would fall slightly in 2011 to 58.63 bcf/d, some 0.4% lower than 2010 levels. Dry gas production is then seen rebounding in 2012 to 59.91 bcf/d. The latest estimate for 2011 is some 1.1% less than last month's estimate. Meanwhile consumption of natural gas in 2011 in the United States is seen averaging 65.42 bcf/d only slightly more than the 65.40 projected last month. Net imports this year are estimated to be only 6.86 bcf/d, down 4.6% from last year. In 2012 net imports are expected to decline yet again by 5.4% as

Canadian imports continue to contract. Demand in 2012 is seen growing to 66.49 bcf/d led by industrial and electric generation sectors, which see their respective demand for gas to grow by 1.9% and 2.9%. The EIA though revised lower its price estimate for 2011 from last month. The agency now sees Henry Hub prices averaging this year at \$4.14 and \$4.64 in 2012. Last month the agency had been looking for this year's price to average \$4.46.

The Russian Energy Ministry reported today that Russian natural gas production in December rose to 2.03 bcm/d up 2.5% from November and up 0.9% from the same month a year ago. Meanwhile Gazprom said today that it expects to reach pre-crisis gas production levels by the end of 2011.

India's Petronet LNG said it may import four spot cargoes of LNG in the January-March period, as demand from the power and fertilizer sectors continues to grow.

Statoil reported today that its Snorre and Vigdis oil fields in the North Sea had been shutdown after a gas leak was discovered at the Snorre A platform overnight. The company had no idea when the fields would be restarted.

RBS Sempra Commodities said today that it has reached agreement to sell some North American power and gas assets to Societe Generale for cash. The value of the deal was not disclosed. Societe Generale will be taking on a team of more than 130 gas and power traders who will join the bank's existing commodity markets group.

Generation Update

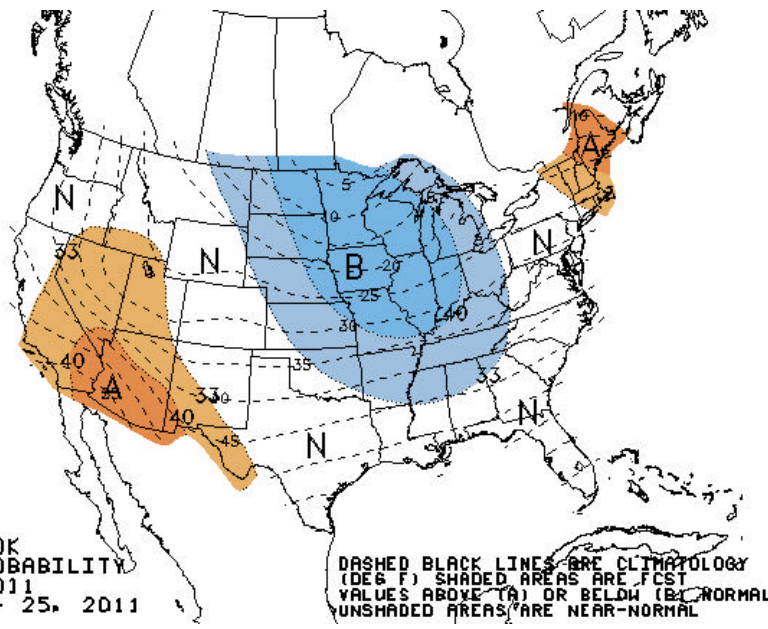
NPCC – Bruce Power's 822 mw Bruce #6 nuclear unit was shut early Tuesday.

Entergy's 852 Mw FitzPatrick nuclear power plant saw operations cut to 75% of capacity early Tuesday to allow work activities on the station's condenser water boxes.

ERCOT – Luminant's 617 Mw Big Brown #1 coal fired power plant is expected to be restarted Tuesday afternoon, following completion of repairs of a boiler tube leak.

SPP – Entergy's 1268 Mw Grand Gulf nuclear power station ramped up to 96% of capacity this morning up 27% from Monday.

The NRC reported today that 93,014 Mw of generating capacity was online today, basically unchanged from yesterday and 2.4% higher than the same day a year ago.



ELECTRIC MARKET NEWS

The EIA in their Short Term Energy Outlook called for U.S. consumption of electricity to fall slightly in 2011 to 10.59 billion kWh/d and then grow by 2.6% in 2012 to 10.86 billion kWh/d. The agency sees hydroelectric generation rebounding by 6% in 2011 as a return of near normal precipitation levels is expected. The EIA

also sees a 13% increase in generation from other renewable sources, mostly wind in 2011. These gains should help to reduce coal-fired generation by 2.4% in 2011, as natural gas generation levels should decline by 1%. The EIA sees 2012 power generation sector should expand by 2.6%.

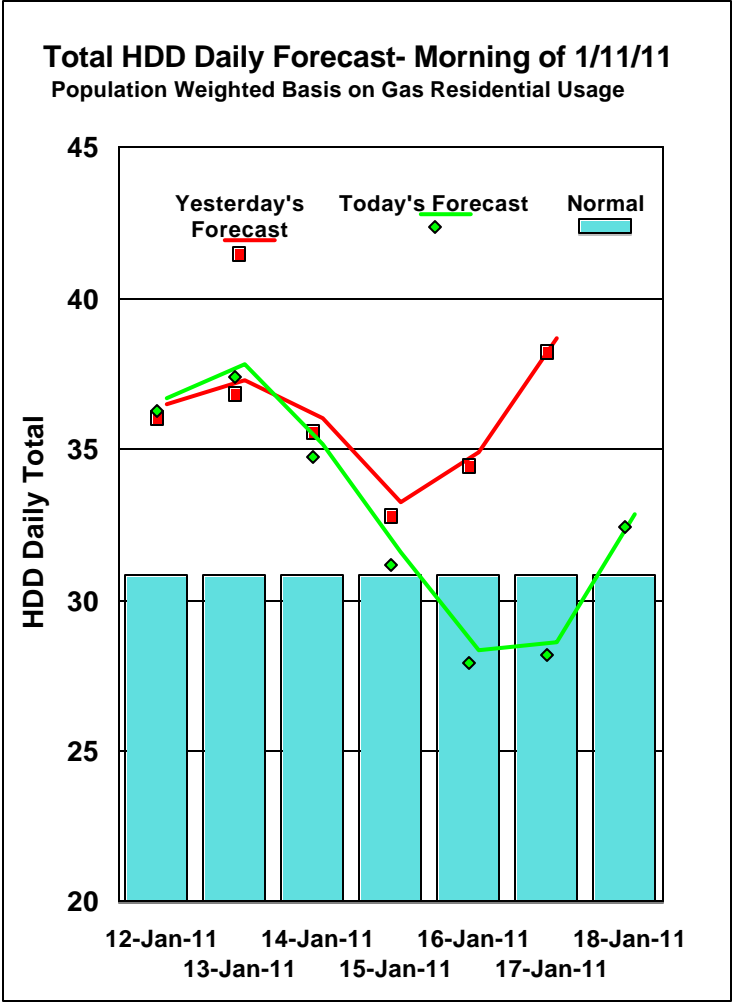
The EIA estimates that domestic coal production in 2011 should remain relatively flat, after growing by 1% in 2010.

The Northwest River Forecast Center reported today that it sees projected water runoff at the Dalles Dam on the Columbia River should be 93% of normal for the January-July period, up 6% from last week's forecast. This outlook would be some 14% better than last year's poor water flows.

ECONOMIC NEWS

The Commerce Department said US wholesale inventories unexpectedly fell in November as wholesale sales increased more than expected. It said wholesale inventories fell by 0.2% to a seasonally adjusted \$425.5 billion. Wholesale sales in November increased by 1.9% to a seasonally adjusted \$370.1 billion. The inventory to sale ratio fell in November to 1.15 months, down from a downwardly revised 1.17 months in October.

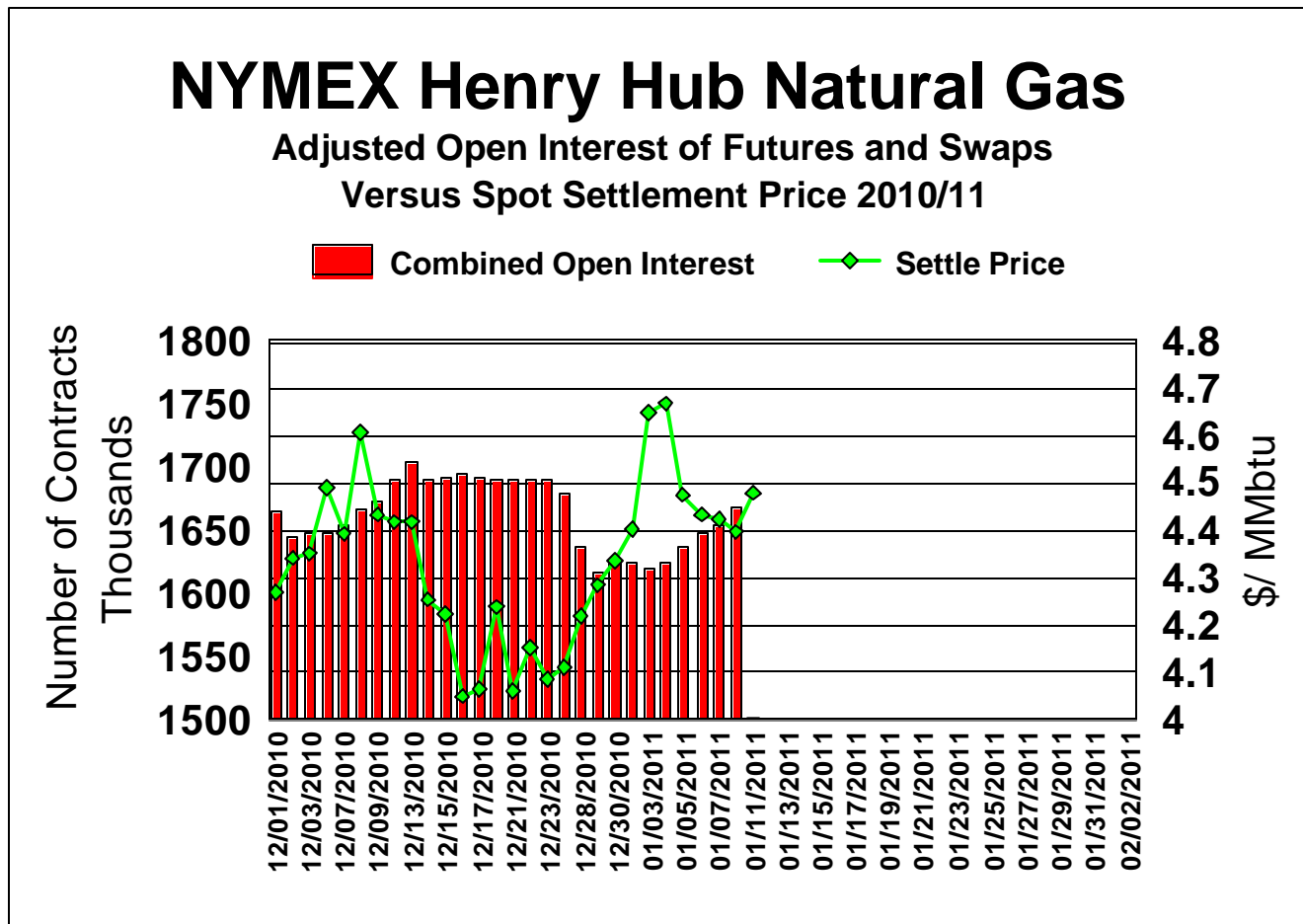
The Labor Department said in its monthly Job Openings and Labor Turnover Survey that US job openings fell in November by 80,000 to a seasonally adjusted 3.25 million. October job openings were downwardly revised to 3.33 million.



MARKET COMMENTARY

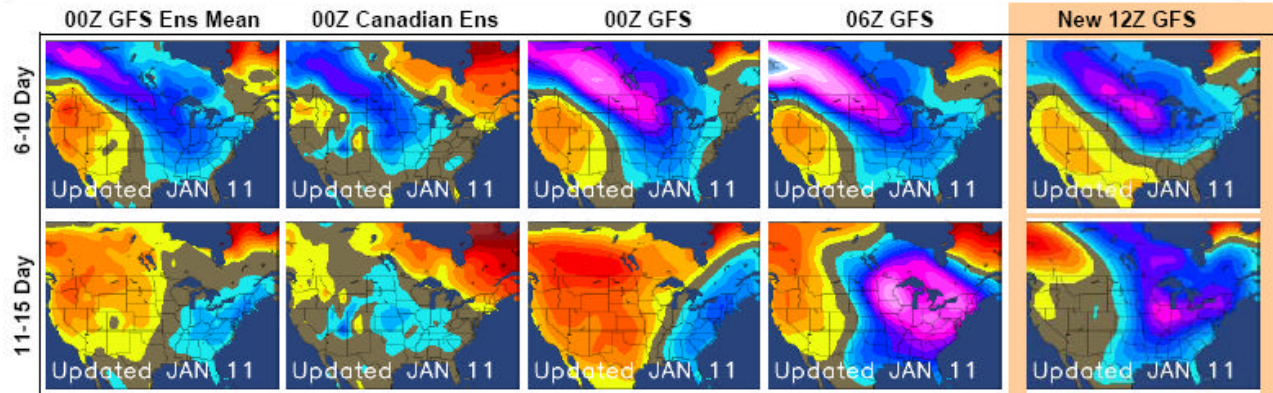
The natural gas market finally broke out of its prior two session trading range helped for the most part by supportive midday weather forecasts which showed a colder forecast than was depicted yesterday or earlier this morning. While the Midwest and Northeast forecast was made colder for the 11-15 day period, overall confidence in this forecast remained low by some forecasters. Prices as a result finished the day stronger, posting the first positive daily gain out of the last five trading sessions. Prices retraced nearly 50% of the sell off from the last week in moderate to good trading volume. But despite the flat price gains for the day the March-April spread continued to weaken finishing today at less than a penny, March premium over the April contract.

Open interest reported at midday by the exchange showed that the Henry Hub futures and swaps on the CME continued to see a gain in open interest on a combined and adjusted basis for the fifth consecutive session through yesterday, which has to be seen as new shorts coming into the market. Thus it would not surprise us that today's price action may have been driven by some nervous short covering in the face of some more supportive weather outlooks.



While there may be some additional short covering tomorrow if the weather forecasts continue to show a colder bias for the next two weeks, we suspect though that prices will most likely tread water in front of Thursday's storage report. We see resistance tomorrow at \$4.515-\$4.532 followed by \$4.56-\$4.583, \$4.623 and \$4.71-\$4.73. Support we see at \$4.42 followed by \$4.384, \$4.322, \$4.287, \$4.24-\$4.23, \$4.19.

Forecast Model Comparison



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