



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JANUARY 13, 2011

NATURAL GAS MARKET NEWS

The CME announced today that effective January 14th, it was lowering the margin requirements on Henry Hub natural gas futures by 12.5%.

George Taylor, who was the prior co-head of Credit Suisse's global commodities business, and known for taking large bets on the natural gas market, said today that when he launches his new hedge fund on February 1st he would not initially be looking to be active in the natural gas market. He noted that the natural gas "market is caught between too much storage and too

EIA Weekly Report

	01/07/2011	12/31/2010	Change	01/07/2010
Producing Region	1059	1079	-20	920
Consuming East	1510	1590	-80	1553
Consuming West	390	428	-38	417
Total US	2959	3097	-138	2890

*storage figures in Bcf

had gained a "major breakthrough" in supplying the proposed EU backed Nabucco pipeline. The EU received a written commitment from Azerbaijan to supply a "sufficient" amount of natural gas to the pipeline. This provides Europe direct access to Caspian basin natural gas and not relying on the gas to move via the Russian pipeline system.

The Australian energy firm Santos announced it has given the final approval to proceed forward with its \$16 billion Gladstone LNG export project. The project will have two trains and is expected to produce 7.8 million tones per annum by 2015. The company has already secured 7 million tones in long-term supply contracts.

The Turkish energy minister today said that the Turkish government is looking to privatize contracts to import 6 bcm of Russian gas on the Blue Stream pipeline. The government is looking to extend state owned Botas' contract to import gas on a second, western link with Russia.

Canadian Gas Association

Weekly Storage Report

	07-Jan-11	31-Dec-10	08-Jan-10
East	172	179.9	175.7
West	319.6	300.6	278.1
Total	491.5	480.5	453.8

storage figures are in Bcf

The commissioning of India's third LNG terminal has been postponed to November due to delays in dredging work. The 5 million ton a year terminal should see dredging begin in February and take seven months to complete.

Generation Update

NPCC – Bruce Power's 822 Mw Unit #6 at the Bruce nuclear unit returned to service early Thursday. The unit had been shut since January 11th to fix a valve.

The NRC reported today that 93,142 Mw of generating capacity was online today, basicall unchanged from yesterday and 2.2% higher than the same day a year ago.

much supply". As a result he see "limited opportunity relative to what you have seen in the past. You need a break in the supply/demand balance to get back that volatility."

The European Union said Thursday that it

Northern Indiana Public Service has agreed to settle allegations it violated the Clean Air Act and invest about \$600 million in pollution control technologies, the U.S. Justice Department and EPA announced today.

The head of the U.S. Department of Interior's Bureau of Ocean Energy Management said he expects new deepwater permits should be approved in the coming months and would be "stunned" if no deepwater drilling permits were approved during the first half of 2011. But he noted his department was considering a number of options to expand enforcement for offshore drilling, such as raising the penalties for rule violations, as well as considering companies safety records before awarding new drilling leases.

Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
Location	Traded	Price		(As of 12:30 PM)		Moving Avg
Henry Hub	688,300	\$4.479	(\$0.074)	\$0.053	(\$0.051)	\$0.322
Chicago City Gate	1,070,200	\$4.670	(\$0.058)	\$0.244	(\$0.003)	\$0.246
NGPL- TX/OK	701,700	\$4.366	(\$0.064)	(\$0.060)	(\$0.009)	(\$0.054)
SoCal	249,400	\$4.315	(\$0.089)	(\$0.111)	(\$0.034)	(\$0.040)
PG&E Citygate	1,161,100	\$4.471	(\$0.051)	\$0.045	\$0.004	\$0.066
Dominion-South	378,100	\$4.645	(\$0.080)	\$0.219	(\$0.026)	\$0.255
USTrade Weighted	21,137,600	\$4.820	(\$0.106)	\$0.394	(\$0.05)	\$0.322

Shares in Encana Corporation, Canada's largest natural gas producer, jumped higher today on speculation that the company may be close to adding another joint venture partner to speed development of its gas properties. Expectations are that a joint venture deal with China National Petroleum Corporation is in the making that will grant the company a stake in Encana's Horn River and Montney shale gas properties.

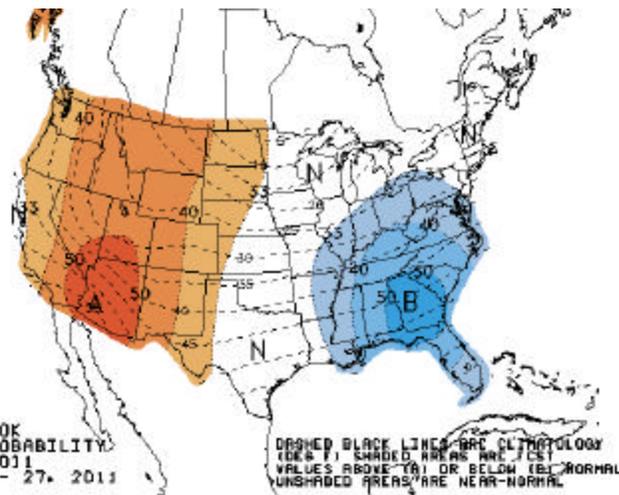
ELECTRIC MARKET NEWS

The CRU Group said today that strong demand and a tight uranium market will push the price of uranium to more than \$100 a pound over the next 5-10 years. The current price is at \$66 per pound. The group noted that nuclear generating capacity in China is on track to increase by over 800% to 80 Gw in the next ten years, with strong growth also in India and South Korea.

PSEG Power announced it would sell two large; natural gas fired power plants in Texas for \$687 million. The two plants are the 1,000 Mw Guadalupe and 1,000 Mw Odessa combined cycle gas plants.

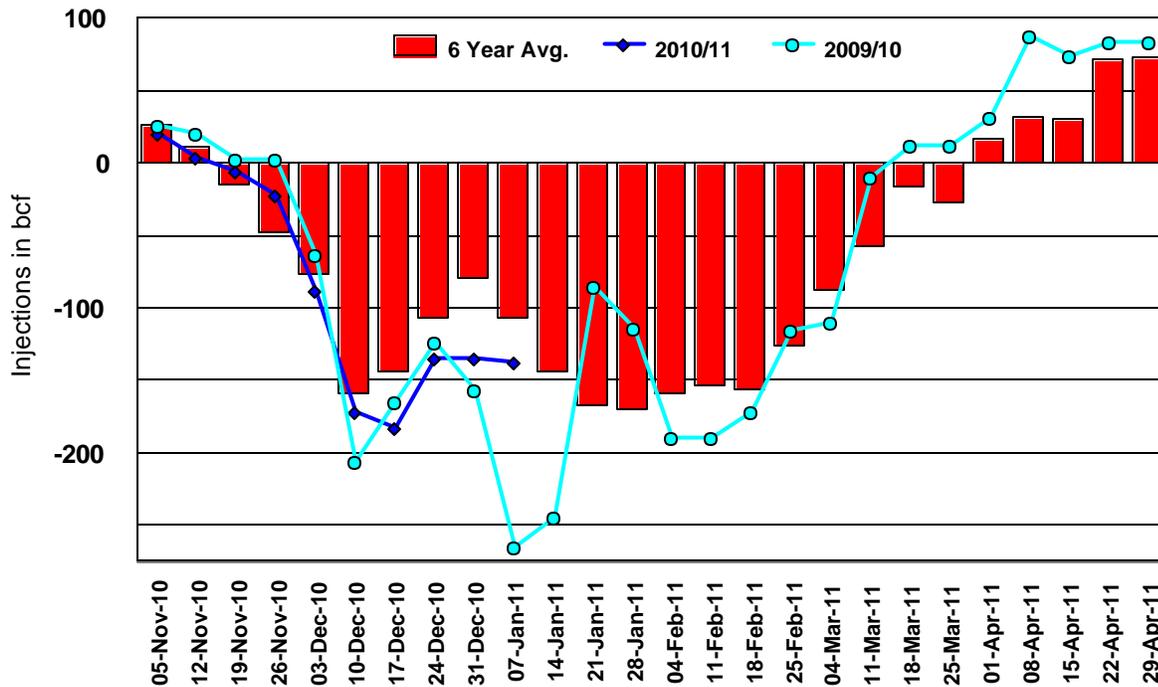
ECONOMIC NEWS

U.S. Federal Reserve Chairman Bernanke said today that the U.S. economy should grow around 3-4% this year, better than the 2010 rate, but not enough to bring down unemployment as much as policymakers would like.



The CFTC today advanced its proposed position limit plan for speculators in energy, agricultural and metal markets. The plan would now be open to public comment. The future of the plan though was thrown into doubt after Commissioner Dunn said publically that he was not convinced the plan was needed. He said more evidence is needed to clearly indicate that such a position limit is needed. In

2010/11 EIA Survey Build/Draw VS 6-Year Average

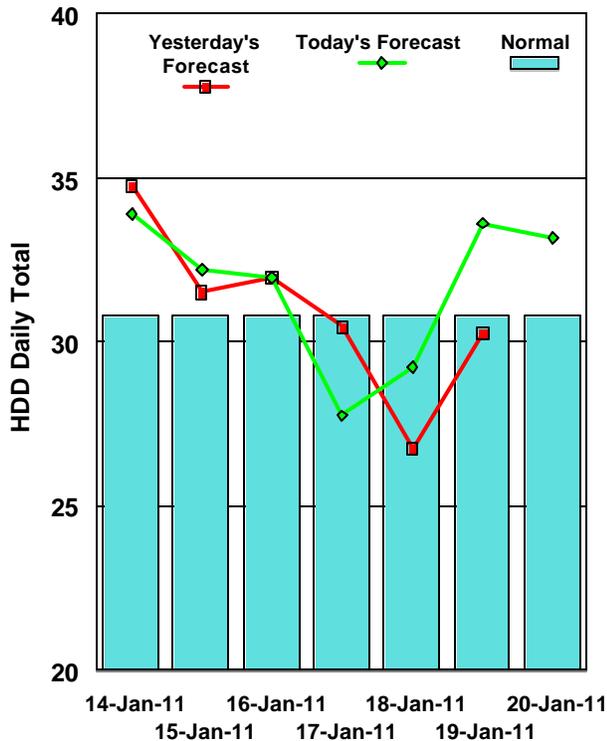


fact he noted that this plan might be a “cure for a disease that does not exist.” The comment period is expected to last 60 days. The position limit plan is falling months behind schedule. The CFTC was also

supposed to vote today on implementing a final rule designed to limit banks voting power in derivatives clearing and trading venues, but the rule was pulled of the agenda for today’s meeting as some commissioners felt that it went too far while others felt it lacked sufficient teeth. The chairman of the CFTC declined today to provide a date when the rule would be considered.

Total HDD Daily Forecast

Population Weighted Basis on Gas Residential Usage
Basis 6 AM Model Run



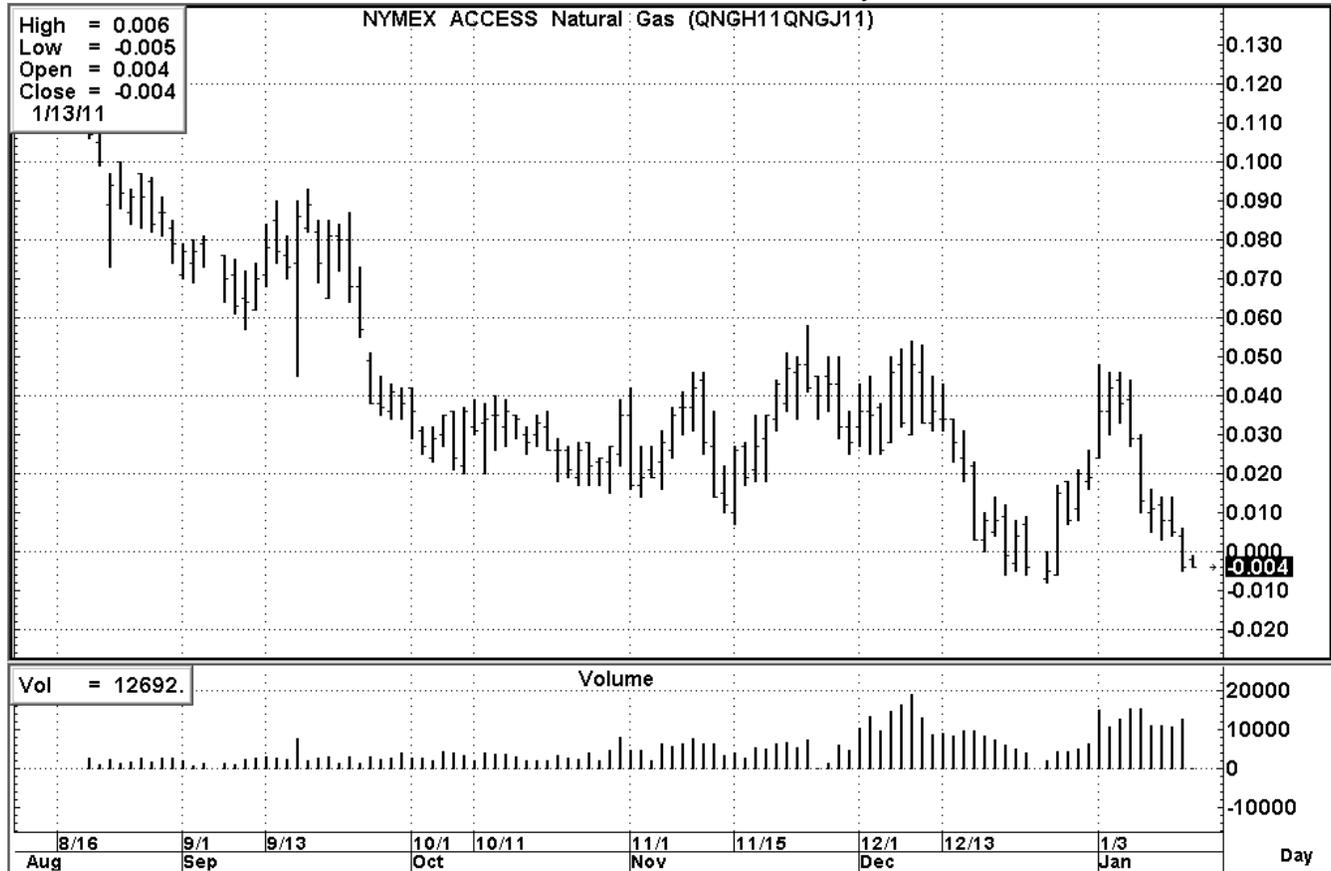
The CFTC today sanctioned a commodity-trading advisor for “recklessly trading” E-mini S&P 500 futures with an algo trading system. The CTA had entered and exited the same position “over and over again, thousands of times” for two customers.

The US Labor Department reported that US producer prices increased in December due to higher energy and food costs. The Producer Price Index increased a seasonally adjusted 1.1% in December. It was the largest monthly gain since January and the sixth consecutive monthly increase. In 2010, wholesale inflation increased by 4% following a 4.3% increase in 2009. The core PPI increased by 0.2% in December. For all of 2010, the core PPI increased by 1.3% following a gain of 0.9% in

2009. The report showed that energy prices increased by 3.7% in December while food prices increased 0.8%.

The US Labor Department also reported that the number of US workers filing initial unemployment claims increased by 35,000 to 445,000 in the week ending January 8th. The previous week's level was revised to 410,000 from 409,000. It reported that the four week average increased by 5,500 to 416,500. The number of continuing claims fell by 248,000 to 3,879,000 in the week ending January 1st from an upwardly revised 4,127,000 the previous week. The unemployment rate for workers with unemployment insurance was 3.1% in the week ending January 1st, down from 3.3% the prior week.

The Commerce Department reported that the US trade gap fell to \$38.3 billion in November from \$38.4 billion in October. November's deficit was the lowest since January 2010.



The Philadelphia Federal Reserve stated that factory activity growth in the US Mid-Atlantic region accelerated less in December than originally reported. Its factory activity index in December was 20.8 compared with the originally reported 24.3. The employment index stood at 4.3 compared with the originally reported 5.1. The new orders index was revised down to 10.6 from 14.6.

MARKET COMMENTARY

The bulls in the natural gas market suffered a setback today as the EIA storage report showed a smaller than expected draw down in working gas stocks for the week ending January 7th. As a result prices finished down today 10-12 cents, posting the lowest settlement for the week and back at price levels recorded for much of last week. As expected, for a storage report day, traded volume was good with nearly 150,000 lots traded in the spot contract on the day.

The bearish inventory report also triggered active trading in the March-April spread, which continued to decline for the seventh consecutive trading session. The spread once again saw the March contract move back to a discount to the April contract, an event we have not seen since mid to late December

when the market was on the defensive with the prospects of the December cold snap coming to an end.

As we are on the verge of moving into the second half of the winter, with average or normal heating degree day totals beginning to decline, on a daily basis, the bears may begin to regain the upper hand in this market as storage levels remain stubbornly high. Current storage levels are some 69 bcf above year ago levels and 161 bcf more than the 5 year seasonal average. As a result we remain comfortable in sticking with our March \$4.25-\$3.90 put spread which settled this evening at 9.8 cents. Flat price we see support at the 40-day moving average which tonight is at \$4.348. The market has not settled below this average since December 27th. Additional support we see at \$4.24, \$4.128 and \$3.985. More distant support we see at \$3.91-\$3.894. Resistance we see at \$4.50, followed by \$4.53, \$4.575 and \$4.707. More distant resistance we see at \$4.84-\$4.857.

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