



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 JANUARY 14, 2011

NATURAL GAS MARKET NEWS

Baker Hughes reported that the natural gas drilling rig count has fallen for the sixth straight week, dropping on the week by 12 rigs to 902. The number of horizontal rigs operating though increased by 1 to set yet another new record of 967.

TransCanada said Friday that the Canadian National Energy Board has rejected its interim mainline toll agreement that would have lowered the cost of shipping on its mainline natural gas transportation network. The company noted that the NEB has set 2011 interim tolls equal to the 2010 tolls currently in effect. The company warned that the current toll structure will not allow mainline service to have a more competitive price structure despite lagging volumes. The company expects to file an application for the approval of final tolls early this year.

Generation Update

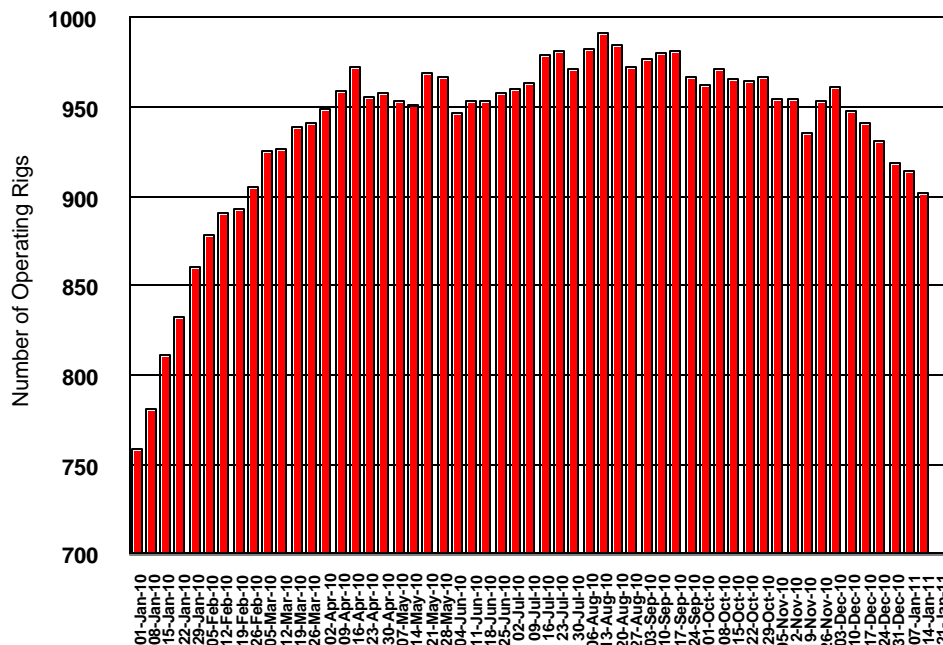
ERCOT – Luminant’s 1150 Mw Comanche Peal #1 nuclear unit was shut Thursday afternoon due to a problem with a reactor coolant pump.

NPPC – OPG’s 490 Mw coal fired Nanticoke #5 unit was taken off line yesterday.

The NRC reported today that 92,429 Mw of generating capacity was online today, down 0.8% from yesterday and 0.9% higher than the same day a year ago.

U.S. Natural Gas Drilling Rig Activity

Source: Baker Hughes



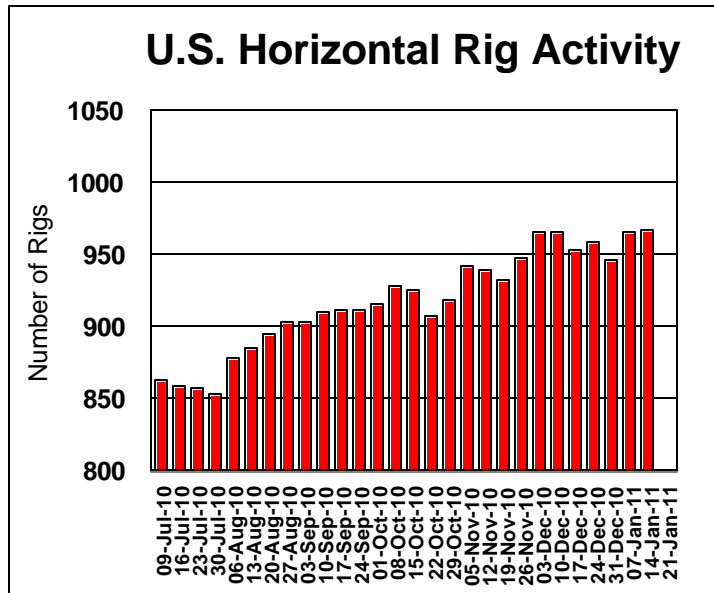
January 1, 2010 - January 14, 2011

Reuters reported today that according to an investor in John Arnold’s Centaurus Energy hedge fund, the fund posted a near 4% loss in 2010, its first annual deficit. The Houston based hedge fund manages more than \$5 billion in assets. The fund returned 300% in 2008 and 30% in 2009. Some market participants felt the fund’s trading style was cramped by the recent trading limits imposed by the CFTC. The fund was fined \$15,000 this month by the CME for violating

position limits for natural gas on the exchange.

A Reuters survey of natural gas market analysts published today showed that the group was expecting U.S. imports of LNG in 2011 to remain relatively low averaging around 1.21 bcf/d, nearly identical to 2010 levels. The analysts expect that imports would remain constrained by ample domestic supplies, while overseas demand remains strong at a time that global LNG production should be relatively static.

National Grid warned that the escalation of a pay dispute with its trade union in Britain may impact the company's power and gas supplies at the end of the month if no progress is made in talks on a new two-year deal with the workers union.



ELECTRIC MARKET NEWS

Entergy reported today that a problem with new steam generators to be installed at its Waterford nuclear plant that during the facility's spring refueling outage will now have to delay their installation.

ECONOMIC NEWS

The US Commerce Department said US retail sales increased by 0.6% in December following an increase of 0.8% in November.

		Natural Gas Cash Market					
		ICE Next Day Cash Market					
	US	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		725,500	\$4.427	(\$0.051)	(\$0.026)	(\$0.273)	\$0.303
Chicago City Gate		937,100	\$4.595	(\$0.074)	\$0.142	(\$0.101)	\$0.217
NGPL- TX/OK		701,300	\$4.364	(\$0.002)	(\$0.089)	(\$0.029)	(\$0.067)
SoCal		304,700	\$4.287	(\$0.028)	(\$0.166)	(\$0.055)	(\$0.094)
PG&E Citygate		1,105,400	\$4.419	(\$0.052)	(\$0.034)	(\$0.079)	\$0.026
Dominion-South		452,800	\$4.599	(\$0.046)	\$0.146	(\$0.073)	\$0.224
USTrade Weighted		20,491,200	\$4.574	(\$0.246)	\$0.121	(\$0.27)	\$0.303

It was the sixth consecutive increase in retail sales. The market was expecting an increase of 0.9%.

The Commerce Department also reported that US business inventories increased in November less than expected. Inventories increased 0.2% on the month to a seasonally adjusted \$1.422 trillion. October inventories increased by 0.8%, revised up from a 0.7% increase. US business sales increased by 1.2% to \$1.133 trillion following a revised 1.5% gain in October.

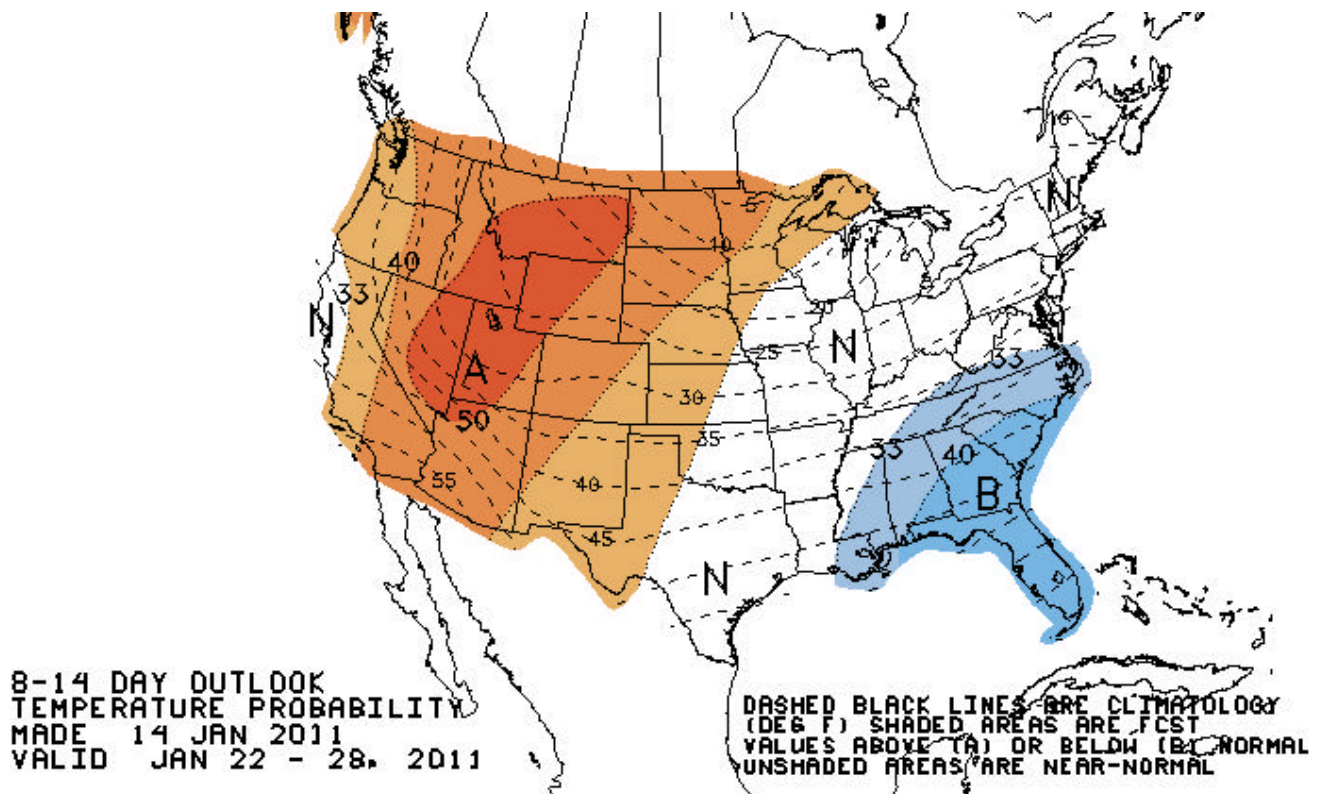
The US Labor Department said US consumer prices in December increased to its fastest pace since June 2009. It reported that the seasonally adjusted Consumer Price Index in December increased by 0.5% from November. For all of 2010, consumer price inflation increased by 1.5%. The core CPI in December increased by 0.1%.

The Federal Reserve reported that US industries increased production in December. Industrial production increased by 0.8% in December following a revised gain of 0.3% in November. Capacity utilization increased to 76% in December from 75.4% in November.

Thomson Reuters/University of Michigan Surveys of Consumers' preliminary January consumer sentiment fell to 72.7 from 74.5 in the final December reading.

China's Central Bank said it will increase the banks' reserve requirement ratio by 50 basis points. The increase, which takes effect on January 20th, is the latest move by China to curb inflation after the consumer price index increased by 5.1% in November from a year earlier. It was the seventh increase in required reserves since early 2010.

JPMorgan Chase & Co's commodities trading risk steadied in the fourth quarter amid a rally in oil, metals and grains. Value at Risk for commodities at JPMorgan stood at \$14 million in the fourth quarter from \$13 million in the third quarter.



MARKET COMMENTARY

The natural gas market inched higher today, as midday weather forecasts appeared to boost the market and keep it above the 40-day moving average yet again. The late day rally allowed prices to settle in positive territory for the fourth time this week and retrace most of yesterday's sell off, but the market still ended up posting an inside trading session, which bodes well for a volatile trading session once this market fully gets under way on Tuesday. This evening's NWS 8-14 day forecast offers little insight for traders since NWS forecasts assigned its forecast the lowest level of confidence in its accuracy.

We would look for this market to find some direction from the weather forecasts to start out next week. We feel that in order to convincingly break this market to the upside, we will need to see a strongly bullish weather forecast, otherwise we look for this market to remain range bound until the next storage report. We see key technical resistance at \$4.478 followed by \$4.554 and \$4.71. Support we see at \$4.36 followed by \$4.32, \$4.24, \$4.17-\$4.16, \$4.01 and \$3.985.

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.

**Henry Hub Natural Gas- Net Position for Money Managers
 NYMEX & ICE Futures Swaps & Options
 Combined and Adjusted (10,000 MMBtu)**

