



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JANUARY 18, 2011

NATURAL GAS MARKET NEWS

The U.S. Climate Prediction Center reported today that they estimate that U.S. heating demand this week for gas customers will result in 231 HDD some 2.7% higher than normal but some 32% colder than the same week a year ago. Last week the center estimated that the U.S. saw 255 HDD on a gas home heating customer weighted basis some 12.3% colder than normal and 7.6% more than the same week a year ago.

TransCanada Corporation today said its \$600 million Bison pipeline began operating last week, carrying 407 million cubic feet of natural gas a day from the northeastern Wyoming to a connection on the company's Northern Border pipeline in North Dakota. The company said that all of the line's capacity is booked under long-term contracts. The line could be expanded to carry 1 bcf/d by the addition of extra compression if demand warrants.

Qatar announced it has replaced its energy minister Abdullah al-Attiyah with Mohammed Saleh al-Sada. While senior officials have said there will be no change in the country's energy policy, Attiyah had for 15 years overseen the build up of Qatar's gas capacity.

SOCAR reported that Total has begun drilling in Azerbaijan's Apsheron gas field in the Caspian Sea and expects to receive final results by early next year. The field is estimated to have reserves of 300 bcm of natural gas. The drilling program had originally been slated to begin last fall but had been delayed due to the late arrival of a drilling rig from the Kazakh sector of the Caspian.

According to port officials the Al Kharaitiyat LNG tanker is scheduled to arrive at the South Hook LNG terminal on January 20th with the Al Samriya LNG tanker slated to arrive on January 25th from Qatar. Meanwhile the 207,000 cubic meter LNG tanker, the Umm Al Amad is expected to arrive in the UK on February 3rd.

Generation Update

NPCC – OPG's 515 Mw Pickering #5 nuclear power plant was shut early Tuesday.

WSCC- Arizona Public Service's 1317 Mw Palo Verde #3 nuclear unit was back to full power on Tuesday morning. The unit had been at 87% power on Monday and down to 40% power on Sunday.

SPP – Entergy's 978 Mw River Bend nuclear unit remained shut today. The unit was taken off line on Saturday, after being at full power on Friday.

MISO – FirstEnergy's 879 Mw Davis Besse nuclear unit ramped up to 98% power over the weekend after being at just 17% power on Friday. The unit went off line on January 8th for planned maintenance.

Entergy's 778 Mw Palisades nuclear power plant returned to full power by early Monday from 60% on early Sunday.

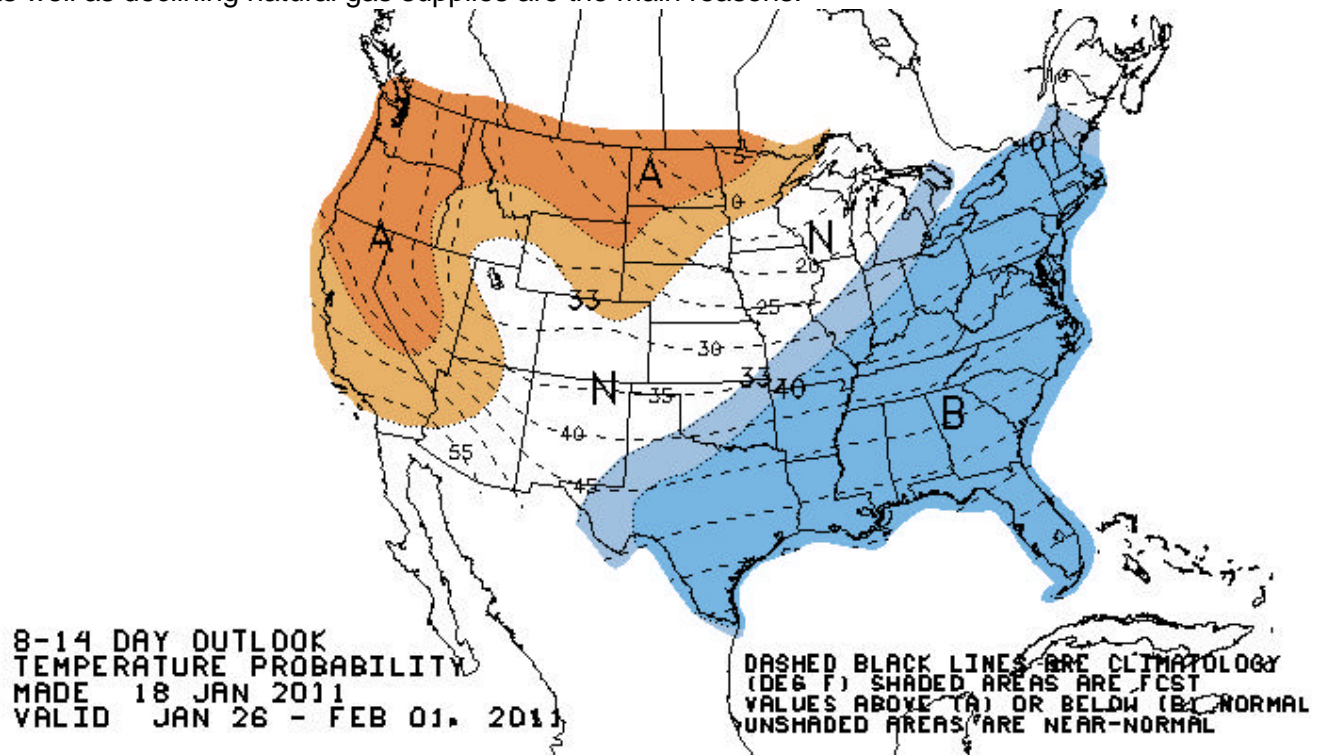
SERC – SCANA Corp's 966 mw Summer nuclear unit was shut early Tuesday. The unit had been at full power on Monday.

Southern's 876 Mw Hatch #1 nuclear unit dropped to 41% power this morning./ The unit had been at full power on Monday.

The NRC reported today that 91,995 Mw of generating capacity was online today, down 0.5% from yesterday and 1.8% higher than the same day a year ago.

Engineering and construction group Fluor Corporation was awarded a contract to build Santos Ltd's Gladstone LNG project in Australia. The plant has a planned capacity of 7.8 million tonnes per year of LNG as it will extract and liquefy gas from coal deposits.

Indonesia's oil and gas regulator, BPMigas said today that they expect Indonesian exports of LNG will fall to 362 cargoes in 2011 from the 427 recorded in 2010. While the regulator gave no reason for the expected decline in exports, it is believed that the increasing use of natural gas in the domestic market as well as declining natural gas supplies are the main reasons.



Dow Jones reported that Qatar is close to concluding a binding deal to supply 7 million metric tonnes of LNG to China. If the deals are finalized it would increase the total amount of LNG from Qatar under contract to Chinese buyers to 12 million tons.

ELECTRIC MARKET NEWS

The Queensland Resources Council reported today that only 15% of the 57 coal mines in Australia's Queensland state are in full operation currently with 60% operating under restrictions and 25% are yet to resume operations.

ECONOMIC NEWS

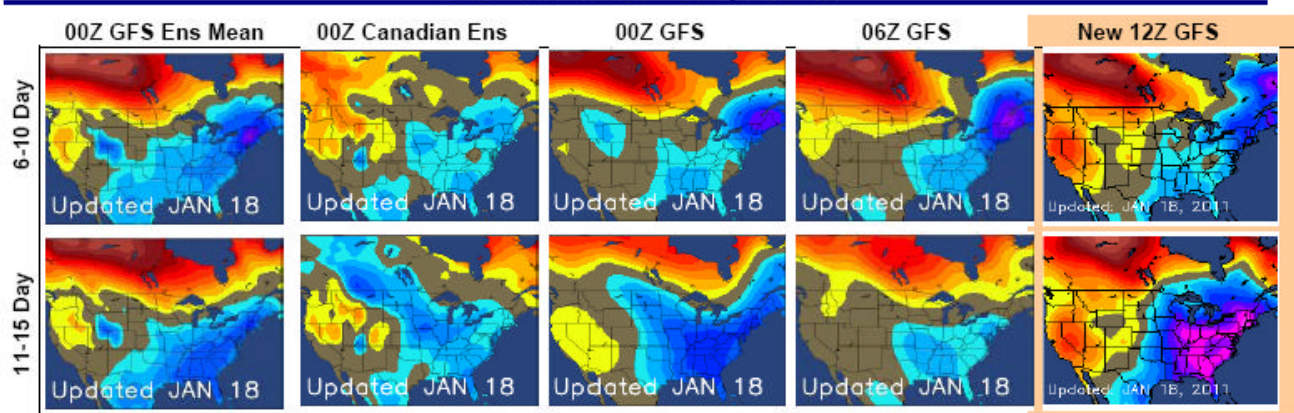
The New York Fed's Empire State general business conditions index increased 22 points to 10.57 in December from -11.14 in November. The increase was led by an increase in new orders and shipments. The new orders index increased to 2.6 in December from -24.38 in November while shipments increased to 7.11 from -6.13. The employment index fell to -3.41 in December, the lowest in a year from 9.09 in November. The index of business conditions six months ahead fell to 48.86 in December from 54.55 in November.

The National Association of Home Builders/Wells Fargo Housing Market Index was 16 in January, unchanged from December.

China Securities Journal reported that China's GDP grew 10.1% on the year. China's GDP totaled about \$6 trillion last year. It also reported that China's Consumer Price Index increased more than 4.5% in December and the annual CPI growth was likely in a range of 3.3% to 3.4% last year.

Japan's industrial output increased 1% in November. The figure was unchanged from the preliminary reading and followed a 2% decline in October.

Forecast Model Comparison



MARKET COMMENTARY

Despite relatively supportive weather forecasts for the next couple of weeks, the natural gas market finished lower today in light to moderate volume. It appears that the relatively inelastic production levels from shale plays continue to weigh on traders minds. This bearish mood was also reflected in the March-April spread, which today once again finished the day in negative territory.

For the sixth time out of the last seven trading sessions the February natural gas contract on the NYMEX continued to hover just above the 40 day moving average, which tonight was at \$4.361. It appears a break below this level could prompt some long liquidation by the hedge funds that have gotten long over the past several weeks. Potential downside targets could be the support initially at \$4.346 followed by \$4.27-\$4.26, \$4.196, \$4.152 and \$3.985. But with the outlook for temperatures to basically remain colder than normal on a customer weighted basis for the next two weeks it does not appear at this time that the 40 day moving average will be convincingly breached and spot futures settled below this level without a major change in the weather forecast. Thus most likely we are probably doomed to see this market remaining mired in a sideways trading pattern for most of the remainder of this month. Resistance we see at \$4.56, \$4.706, \$4.75, \$4.851 and \$4.951.

Despite the Martin Luther King holiday Monday, the EIA natural gas storage numbers will be released Thursday at 10:30 am EST, as usual.

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