



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 22, 2011

NATURAL GAS MARKET NEWS

Kohlberg Kravis Roberts Natural Resources announced it has agreed to acquire certain Barnett Shale properties from ConocoPhillips. The assets contain 93 bcf of total net proved reserves of which 90% are proved developed producing. This is the second investment made by KKR Natural Resources.

Spectra Energy reported this morning that natural gas production from the Sable Island Offshore Energy Project was decreased today. It was not immediately known what caused the production cutback. The project, which has the capacity to produce between 400-500 mmcf/d, recently has been producing around 330 mmcf/d.

TransCanada said today that it would again ask regulators to approve a new interim tolling scheme for its cross-country natural gas pipeline. The company is proposing to charge shippers a long haul rate of C\$1.89 per gigajoule of gas, up from the C\$1.23 under the rejected proposal. In order to lower the toll on the regulated line, it will defer recovery of C\$237 million owed by shippers, instead of the C\$300 million initially proposed. The company is seeking to keep its tolls on its mainline system competitive despite lagging volumes. The system currently carries 3.1 bcf/d versus its prior volume of 6 bcf/d as production has declined in Western Canada due to aging fields and some shut ins due to low prices.

National Grid reported today that its customers in the New York City area set an all time record demand of 1.24 bcf/d yesterday

The World Meteorological

Organization said on Tuesday that the La Nina weather pattern is expected to persist through the first quarter of 2011 and possibly into the second quarter.

Generation Update

PJM – PPL’s 1149 Mw Susquehanna #1 nuclear unit was manually shut due to leakage of steam from a feedwater heater bay area. The utility said power supply in its area is adequate to meet the increased demand for electricity due to the recent cold weather.

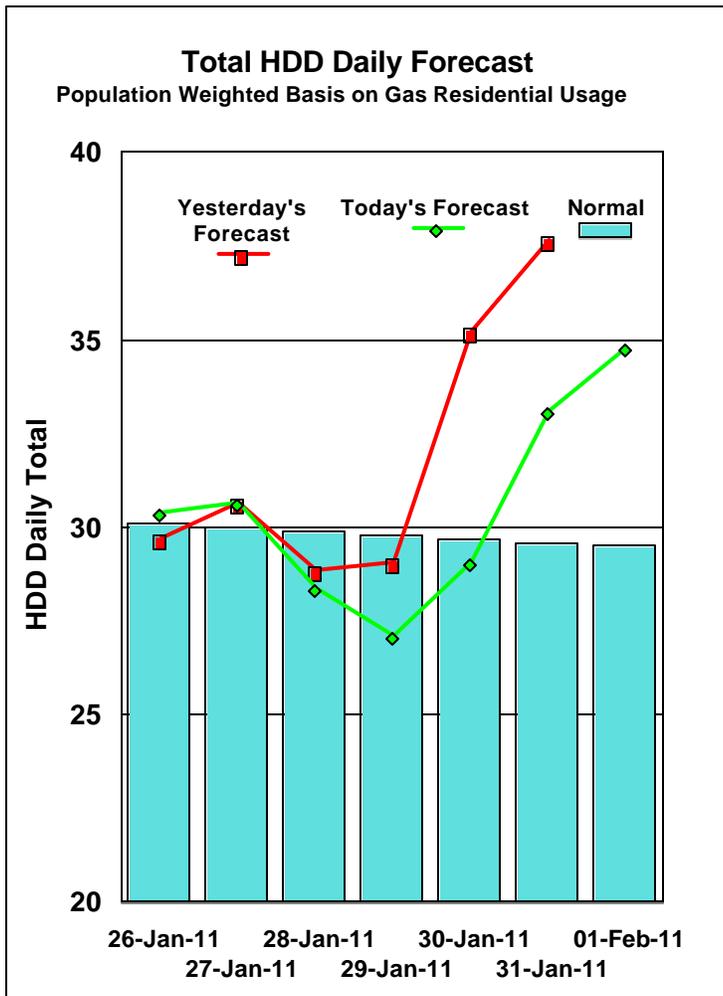
ECAR – Entergy’s 778 Mw Palisades nuclear unit has exited its outage and was back up to 6% power this morning. The unit tripped off line on Sunday.

SERC – Duke Energy’s 1100 Mw McGuire #1 nuclear unit has exited its outage which began on January 21st and was back to 20% power Tuesday morning.

The NRC reported today that 91,617 Mw of generating capacity was online today, up 0.5% from yesterday but 4% less than the same day a year ago.

Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	599,200	\$4.457	(\$0.260)	\$0.040	(\$0.059)	\$0.231
Chicago City Gate	626,700	\$4.607	(\$0.270)	\$0.190	(\$0.059)	\$0.197
NGPL- TXOK	664,100	\$4.322	(\$0.271)	(\$0.095)	(\$0.060)	(\$0.125)
SoCal	207,300	\$4.241	(\$0.194)	(\$0.176)	\$0.017	(\$0.255)
PG&E Citygate	1,007,800	\$4.391	(\$0.189)	(\$0.026)	\$0.022	(\$0.118)
Dominion-South	429,000	\$4.620	(\$0.236)	\$0.203	(\$0.025)	\$0.205
UTrade Weighted	19,544,500	\$4.527	(\$0.270)	\$0.110	(\$0.06)	\$0.231

Algeria said it has enough LNG production capacity to meet demand, despite mothballing an old plant because it was too old and consumed too much energy to be profitable.



Spanish gas demand set a new record on Monday due to a cold snap. Enagas estimated demand on Monday was some 112 million cubic meters, some 1.1% higher than the previous record.

Lithuania's dispute with Gazprom continued to fester today. Lithuania Tuesday complained to the European Commission that it needs to investigate the market abuse by Gazprom due to its dominant position as a market supplier. It noted that Gazprom is seeking to prevent the emergence of competition in the market by refusing to separate supply and distribution or unbundling of its services.

Kuwait said it would resume imports of LNG in March to meet rising demand for summer power generation needs. The country will look for imports from mid-March through mid-November. The government is looking to import around 1-14 shipments.

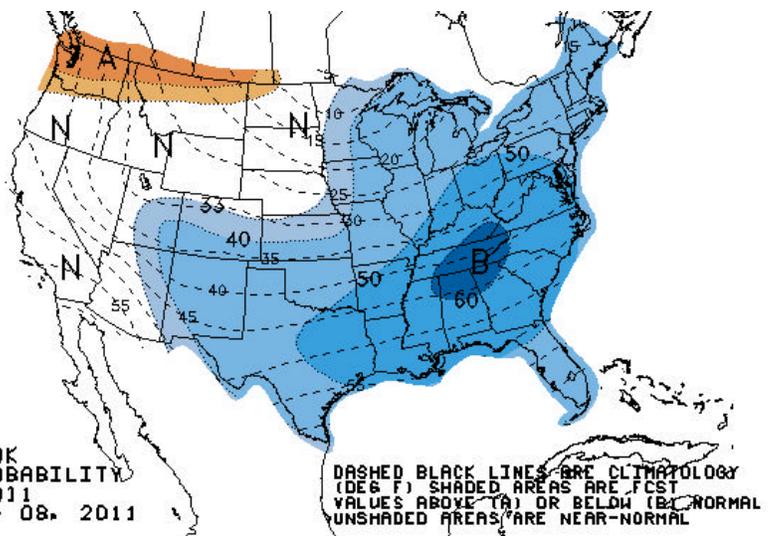
Reuters reported today that according shipping sources the Maersk Marib LNG tanker is scheduled to arrive at the Isle of Grain terminal on February 12th. The vessel will be carrying 166,000 cubic meters of gas from Yemen.

Gassco confirmed that its Kollsnes gas processing plant had returned to full capacity on Monday and remained operating at full capacity this morning

ELECTRIC MARKET NEWS

PPL reported that it set a new morning power peak record on January 24th, as it delivered 7432 Mw for the hour ending 8 am EST, surpassing its prior record of 7,163 set back on February 11, 2008. The company noted

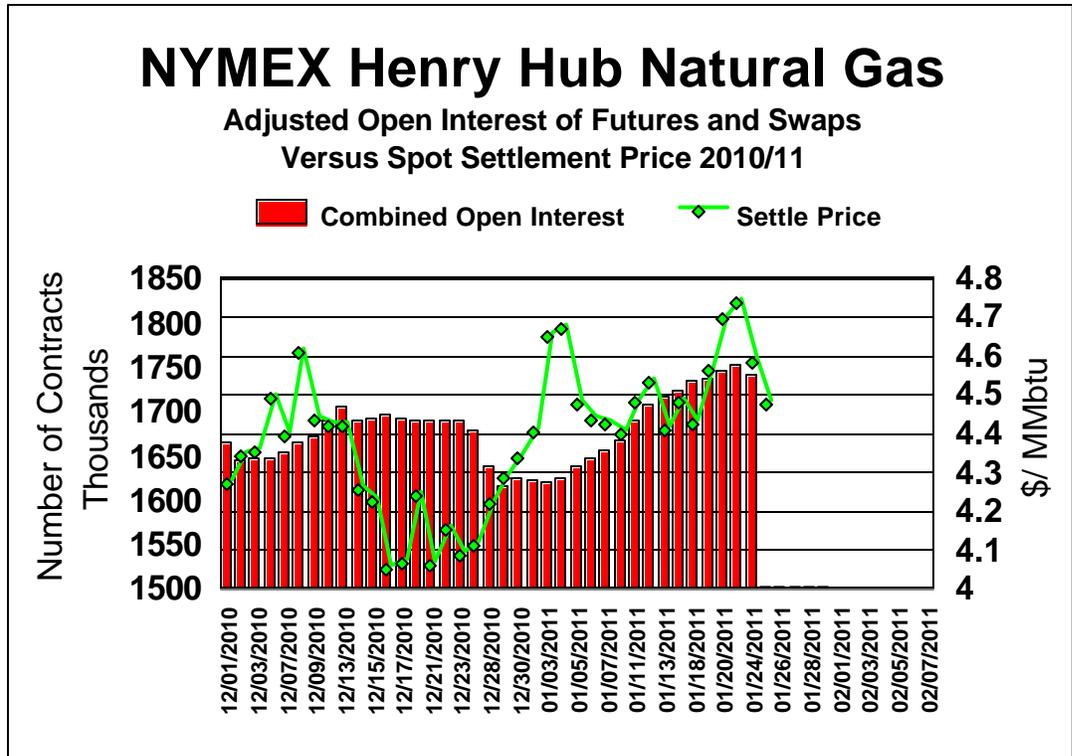
8-14 DAY OUTLOOK
TEMPERATURE PROBABILITY
MADE 25 JAN 2011
VALID FEB 02 - 08, 2011



that Monday's peak was the highest system load since February 5, 2007, when it reached an all time peak of 7557 for the hour ending 7 pm.

The Northwest River Forecast Center released their latest Ensemble Stream Flow Prediction and they lowered their outlook for water flows at the Dalles Dam for the January-July period by 1% to 97% of normal. A year ago this period saw water flows at only 79% of normal.

Point Carbon said today that some carbon registries will remain shut for at least a week after the EU lifts a ban on January 26th. The EU Commission last week suspended carbon transfers at all of the bloc's 30 registries until January 26th after 1 million permits went missing from six accounts at the Czech Republic were channeled through registries in several European



countries including Poland, Estonia and Liechtenstein. It said that only registries that could demonstrate adequate security measures will reopen tomorrow. Some believe it will take the Polish registry some two weeks to reopen

ECONOMIC NEWS

The Labor Department reported that payrolls fell in 35 states in December while the unemployment rate increased in 20 states. New York led the nation with 22,800 job cuts in December, followed by Minnesota with 22,400 firings and Florida with 17,900 firings.

According to the Federal Housing Finance Agency's home price index, home prices in November fell by 4.3% on the year. The previously reported 0.7% price increase from September to October was revised downward to a 0.2% price increase.

The S&P/Case-Shiller index of home values in 20 cities fell by 1.6% from November the prior year.

The Conference Board's consumer sentiment index increased to 60.6 in January, the highest level since May, from 53.3 the prior month.

Britain's economy unexpectedly contracted in the fourth quarter of 2010. Britain's Finance Minister George Osborne said the 0.5% contraction would not derail its austerity plans, blaming the decline in output on the harshest December weather on record.

According to a Reuters survey, oil prices are expected to average slightly more than \$90/barrel this year. Brent crude is expected to average \$91.17/barrel, up from the previous estimate of \$86.85/barrel while WTI crude is expected to average \$90.40/barrel, up from a previous estimate of \$86.26/barrel.

In its World Economic Outlook, the IMF said the global economic recovery was gaining traction but warned that it was still at risk because of eurozone debt and a lack of financial reform. The IMF said the world economy would likely expand 4.4% this year, up from a previous estimate of 4.2% in October. It revised up its 2011 growth projection for advanced economies to 2.5% from an October forecast of 2.2%. It said the US economy would likely grow 3% this year, a sharp upward revision from its 2.3% October forecast. It maintained its October forecast for the euro zone at 1.5% and estimated growth would accelerate to 1.7% next year. For China, the IMF maintained its 2011 growth forecast at 9.6% and added that growth next year would slow slightly to 9.5%.

The American Trucking Association's advance seasonally adjusted For-Hire Truck Tonnage Index increased by 2.2% in December to a seasonally adjusted 111.6 after falling a 0.6% in November.

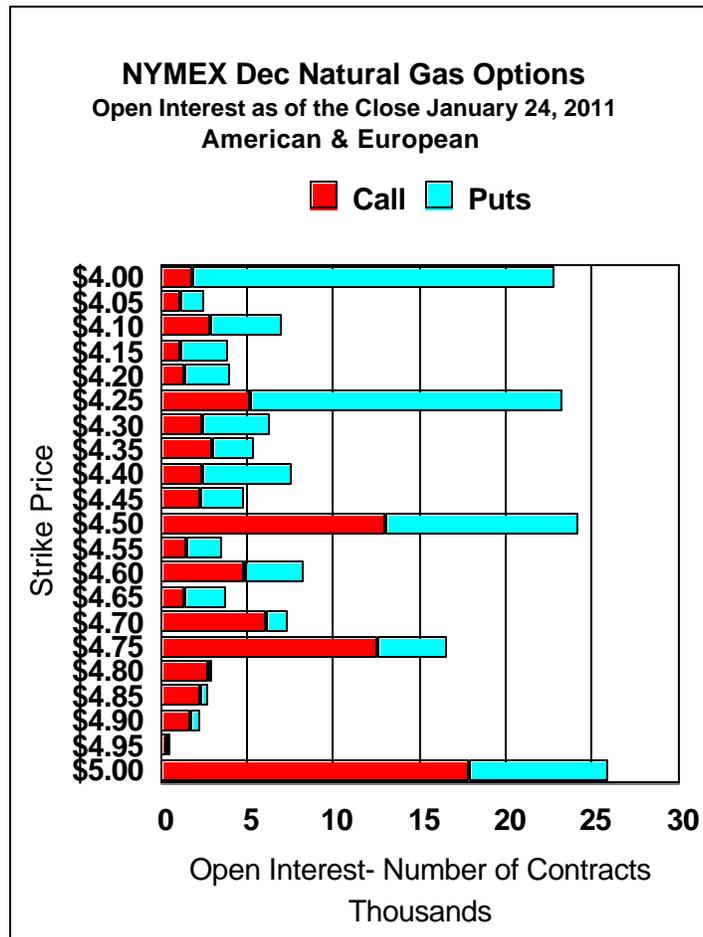
MARKET COMMENTARY

The natural gas market today posted its second consecutive significant lower session as it appeared recently arrived bulls were running for the exits in front of the expiration of the February contract. The spot contract has seen its largest two-day decline basis settlement since November 11th in falling nearly 25 cents in just two sessions and over 40 cents from Monday's highs to today's lows. These price declines in the futures market come at a time when the recent cold snap has moderated and allowed spot cash prices to decline but heating demand for the nation is still seen higher than normal for the next two weeks. Prices today tumbled overnight through midday before finally finding support once again as the futures approached their 40-day moving averages. The March contract has not traded below this moving average since December 30th or settled below this average since December 27th.

Open interest reported at midday by the CME showed that the Henry Hub futures and swaps contracts on a combined and adjusted basis finally posted their first decline since January 3rd, falling by nearly 11,000 lots.

The March-April contract also settled lower today, falling back into negative territory with the March contract finishing the day \$0.008 discount to the April contract. We continue to look for this spread to rebound later this week once the February contract goes off the board and heating demand remains strong.

With the February natural gas options set to expire tomorrow it appears that the tendency of this market will most like gravitate toward the \$4.50 strikes. We see support in the March contract at \$4.40-



\$4.39 followed by \$4.372, \$4.302. Resistance we see at \$4.557 followed by \$4.60 and \$4.64. More significant resistance we see at \$4.754 and \$4.823

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