



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JANUARY 28, 2011

NATURAL GAS MARKET NEWS

The EIA today released their latest Natural Gas Monthly Report. The agency estimated that domestic dry natural gas production in November stood at 60.6 bcf/d up 1% from an upwardly revised November estimate and nearly some 9% higher than the same month a year ago. Louisiana was the state where production grew the most, up 1.5% from the prior month and up 42% from a year ago. Imports were estimated at just 6 bcf/d in November, down 10.4% from October and down 9.1% from November 2009. LNG imports during the month averaged only 1.06 bcf/d down 13.2% from November 2009. Consumption meanwhile in November was estimated at 65.8

Generation Update

NPCC – OPG’s 490 Mw Nanticoke #2 coal fired power plant was shut late Thursday

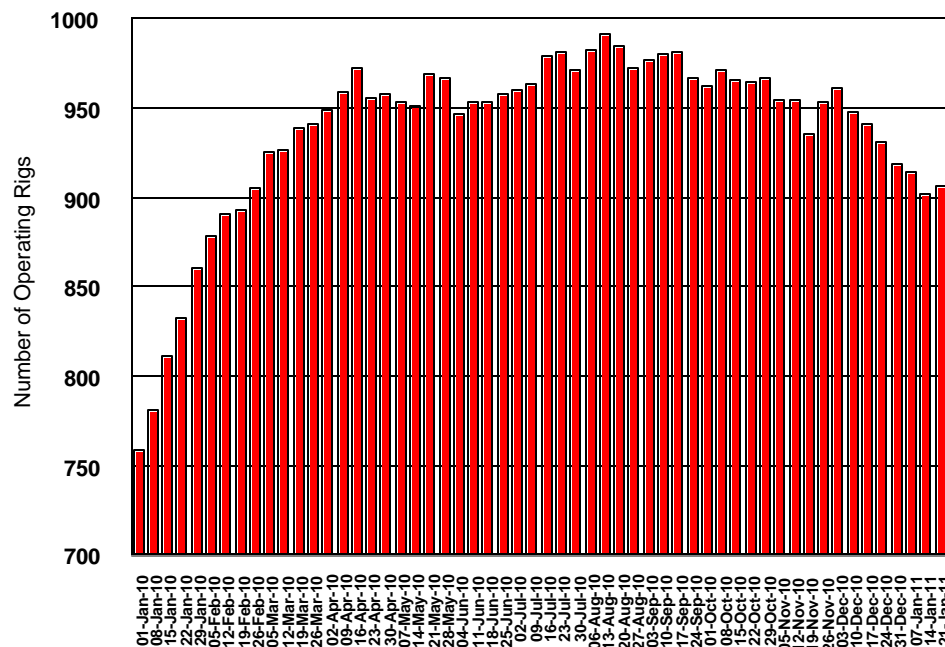
PJM – PPL’s Susquehanna #1 nuclear unit has exited its outage and was up to 15% power this morning. The unit was manually shut on January 25th due to a steam leak from a feedwater heater bay area.

ERCOT – AEP’s 670 Mw Oklaunion coal fired power plant tripped off line today due to a furnace tube leak. The unit was expected to return to service on Saturday.

The NRC reported today that **9,247 Mw** of generating capacity was online today, up 0.5% from yesterday but 2.5% less than the same day a year ago.

U.S. Natural Gas Drilling Rig Activity

Source: Baker Hughes



January 1, 2010 - January 28, 2011

bcf/d up 11.5% from a year ago. Residential and commercial demand on the month showed the greatest year on year monthly gain, growing by 21.8% and 16.7% respectively. Electric power generation demand for natural gas was also up 9.5% in November while industrial demand was up 4.5% from the same month a year ago. Working gas inventories at the end of November stood at 3.773 tcf some 10 bcf higher than the weekly inventory report had reported.

Baker Hughes reported this afternoon that the number of rigs searching for natural gas in the United States increased for the second straight week, rising by 7 from last week and standing at 913 rigs. The number of horizontal drilling rigs operating in the United States stood at 973, up seven from the prior week and setting yet another new record high.

Reuters reported that Qatar's LNG tanker, the Al Aamriya was slated to arrive at Britain's Isle of Grain terminal on February 14th. The vessel has a capacity of 210,100 cubic meters. Meanwhile port officials reported that the Umm Slal was scheduled to arrive at the South Hook terminal from Qatar on February 4th. This tanker has a capacity of 240,000 cubic meters. Belgian port officials reported that the LNG tanker, the Simaisma was expected to arrive at the Zeebrugge terminal on February 12th from Qatar.

Azerbaijan today has agreed to cooperate with the Ukraine in supplying LNG to a planned Ukrainian LNG terminal. It was not clear if the memorandum on cooperation would have Azerbaijan supply its own gas or transship gas from other suppliers, nor did it specify volumes. The Ukraine plans to launch its first LNG terminal on the Black Sea by 2015 with a capacity of 5 bcm. The Ukraine consumes 55-60 bcm of gas per year with a domestic gas production of 20 bcm

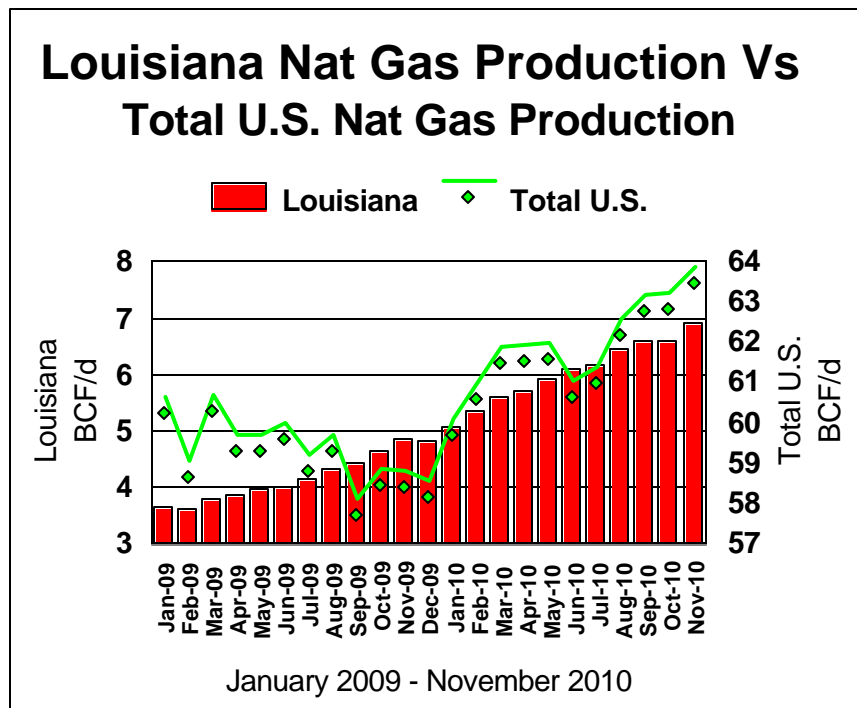
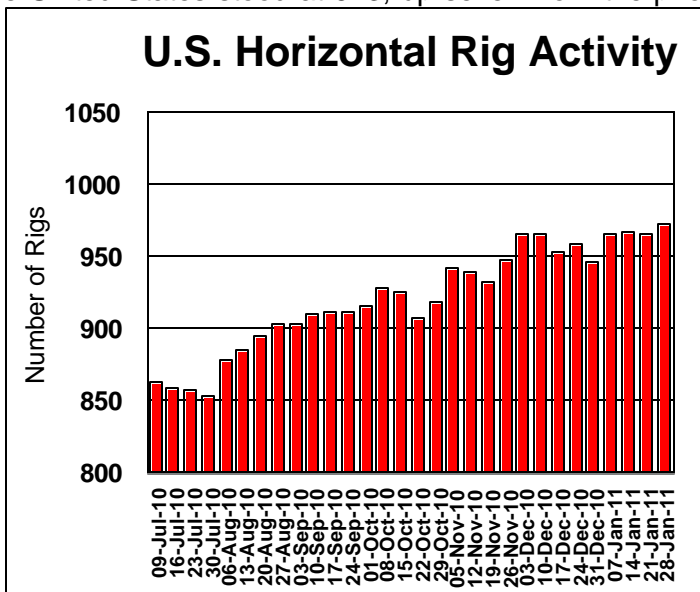
The Chinese National Energy Administration said today it looks for Chinese natural gas consumption reaching 130 bcm this year, up 20% from 2010. Domestic natural gas production is expected to grow by 16% to 110 bcm.

Woodside Petroleum said today it has agreed to sell up to 19 uncommitted LNG cargoes from its Pluto

LNG project to Petronas starting in August of this year through 2014.

Indonesia's Pertamina said today that it plans to convert the Arun LNG plant in Aceh province to be a regasification terminal to meet domestic demand. Using the current capacity the plant would have a regasification unit of 800 mmscfd. Shipments of LNG from the plant were expected to drop from 36 cargoes in 2010 to only 31 in 2011. The plant had been estimated to stop operations by 2014 due to declining gas supply. The conversion of the plant would cost \$100 million and take 16-20 months.

Reuters published its latest survey of market analysts price estimates



for 2011 and 2012 for natural gas. The survey found the average 2011 price outlook is now at \$4.43 down 32 cent from its prior survey. Analysts expect 2012 prices will average \$5.11.

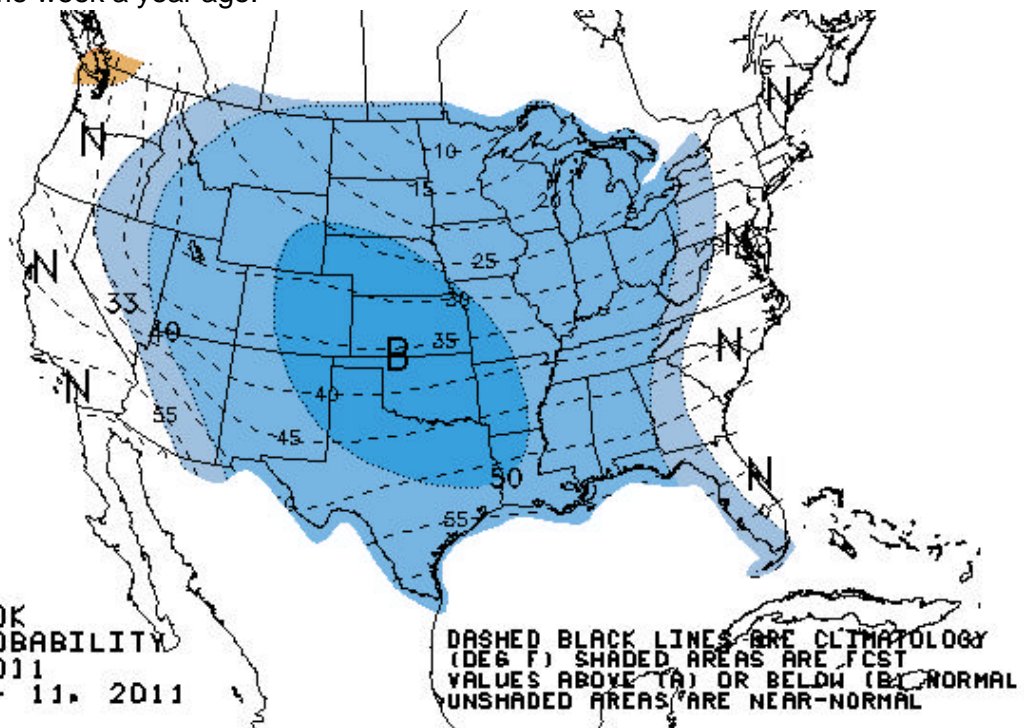
Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis	Change	Basis 5-Day Moving Avg
				(As of 12:30 PM)		
Henry Hub	650,800	\$4.266	(\$0.140)	(\$0.042)	(\$0.065)	\$0.191
Chicago City Gate	619,900	\$4.424	(\$0.076)	\$0.116	(\$0.023)	\$0.150
NGPL- TX/OK	913,700	\$4.170	(\$0.104)	(\$0.138)	(\$0.051)	(\$0.102)
SoCal	318,600	\$4.125	(\$0.077)	(\$0.183)	(\$0.024)	(\$0.193)
PG&E Citygate	1,099,800	\$4.259	(\$0.053)	(\$0.049)	\$0.000	(\$0.063)
Dominion-South	412,600	\$4.437	(\$0.165)	\$0.129	(\$0.112)	\$0.195
USTRade Weighted	20,811,600	\$4.545	(\$0.118)	\$0.237	(\$0.07)	\$0.191

Bentek Energy reported that some 42 bcf of natural gas storage capacity is under construction in the U.S. this year, down from 99.7 bcf built in 2010 and the 124

billion added in 2009. SNL Financial estimates that some 58.7 bcf of storage projects have been canceled or postponed this year

ELECTRIC MARKET NEWS

Genscape reported today that U.S. coal consumption rose 1% this week from the previous week and was up 5% from the same week a year ago.

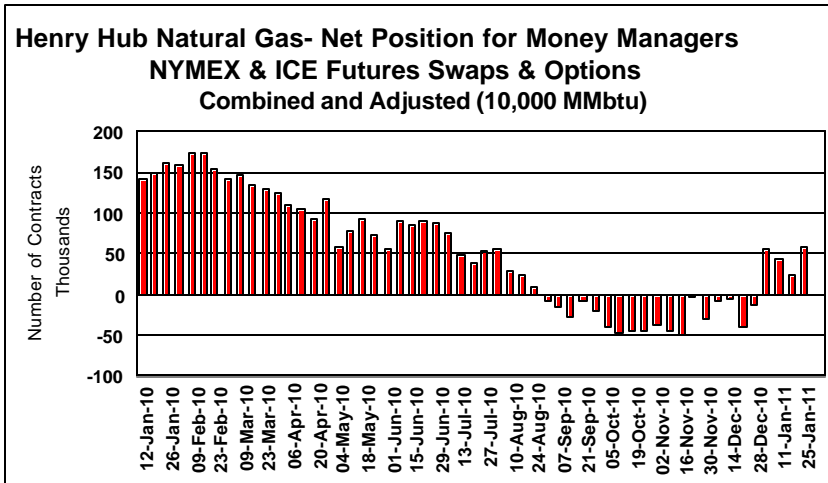


As a result of this week's snowstorm some 130,000 customers were reportedly still without electrical service in the northeast.

ECONOMIC NEWS

The US Commerce Department said US economic growth accelerated in the fourth quarter of 2010. GDP increased at an inflation adjusted annual rate of 3.2% in the fourth quarter. GDP increased by 2.6% in the third quarter, by 1.7% in the second quarter and by 3.7% in the first quarter of last year. It reported that consumer spending increased at a 4.4% rate in the fourth quarter. The Commerce Department also reported that the price index for personal consumption expenditures or PCE, excluding food and energy, increased by an annualized 0.4% in the fourth quarter. It is down from the third quarter's 0.5% increase. The overall price index increased by 1.8% in the fourth quarter.

US consumer sentiment improved in late January. Thomson Reuters and the University of Michigan's index on consumer sentiment ended January at 74.2 compared with 74.5 in December. It is above a preliminary January reading of 72.7 and median forecast of 73.2. The index of current economic conditions was 81.8 in late January, down from 85.3 in December, but up from 79.8 in the preliminary January report. The survey's gauge of consumer expectations increased to 69.3 from 67.5 in December. The one year inflation expectations increased to 3.4% from 3.3% earlier this month and from 3% in December.



The US Labor Department reported that US labor costs increased less than expected in the final quarter of 2010. The employment cost index increased 0.4% in the fourth quarter. Wages and salaries increased 0.4% while benefit costs were also 0.4% higher than in the previous quarter.

MARKET COMMENTARY

The natural gas market today despite seeing some early morning pressure on prices began to rebound on the back of positive economic news and then the upward flight of oil prices on the evolving Egyptian civil unrest. But by mid-morning there appeared little appetite by traders to take this market significantly higher as volume on the day following the February contract's expiration, was light as would be expected. The front two months ended the day up modestly supported by bullish weather forecasts for the next couple of weeks. But the back month's finished the day a penny to a dime lower, as the long term bearish cloud remained hanging over this market. The news that EIA production estimates continued to show the effects of higher shale gas production on overall production totals coupled with a rebounding drilling rig report all joined to keep the mood in these back months negative today.

This afternoon's Commitment of Traders Report showed that commodity funds through the week ending Tuesday January 25th reversed a two week trend and resumed building their net long position , adding some 32,000 contracts on the week. This is now the largest net long position since the beginning of July 2010.

The market appears to be swaying back and forth around the midpoint of its trading range of the past two months. As long as the weather forecasts remain supportive we do not see this market breaking down and challenging the \$4.00 price level in the March contract. But on the other side of the coin, we do not see a price spike in the cards as the winter heating season begins to wane. Thus we feel that this week's high of \$4.823 may very well remain the top of prices for this month.

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