



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR FEBRUARY 4, 2011

NATURAL GAS MARKET NEWS

Due to supply constraints caused by cold weather, El Paso Natural Gas EP.N has declared a force majeure on its Texas natural gas pipeline system. El Paso is said to be pulling maximum gas volumes out of its Washington Ranch field in New Mexico to make up for supply shortfalls. Unusually cold weather has affected supply equal to 5% of U.S. consumption, shutting power plants and causing rolling blackouts.

During the month of January, Con Edison delivered a record amount of natural gas to residential and business customers in NY, delivering 25.14 million dekatherms. This breaks the record of 23.86 million dekatherms set in January 2009. Con Edison set its monthly, daily and hourly records when counting delivery of natural gas to electric and steam generation facilities in January. According to the company, the monthly record was 36.77 million dekatherms, the daily record was 1.34 million dekatherms and the hourly record was 66,431 dekatherms.

Weather curbed gas flows from two major gas-processing plants in Norway. Strong winds mixed with rain caused staff reductions at the Kollsnes and Kaarstoe plants. Capacity at Kollsnes was reduced to 50 mcm/day versus full capacity of 143 mcm/day and Kaarstoe was reduced to 58 mcm/day from 88 mcm/day. Statoil, Norway's largest platform operator has reported staff reductions but no reduction in capacity.

Strong winds have caused the delay of the arrival of Qatar's Al Kharsaah LNG tanker's arrival at the Isle of Grain Terminal in the UK. Capacity of this vessel is 214,200 cubic meters of super-cooled gas.

According to Royal Dutch Shell, the decision to invest in its Prelude LNG project in Australia is in its final stages, denying reports that it has delayed consideration on what would be the world's first floating LNG plant. A final investment decision is expected to be reached by the first half of 2011 and is estimated to cost anywhere from \$8 billion to \$10 billion.

Generation Update

NPCC – OPG's 494 Mw Lambton #3 coal fired power plant is back on line after an outage on Wednesday.

Bruce Power LP's 822 Mw Unit 5 nuclear power plant shut late Thurs. No reason was given.

Atco Ltd 570 Mw gas fired power station shut by early Friday. No reason was given.

SERC – Dominion's 710 Mw Chesapeake coal/oil-fired power plant in VA returned to full power Saturday after going offline Jan. 26 due to a small fire.

ERCOT – NRG's 831 Mw unit 1 at the Limestone coal-fired power plant in TX is expected to return to service by Friday. The unit was shut Thurs. for repairs.

The NRC reported today that 92,109 Mw of generating capacity was online today, down 0.01% from yesterday and 0.41% less than the same day a year ago.

Natural gas rig count in the U.S. slipped by two this week from 913 the previous week. That was down 8 percent from the 2010 peak of 992 set in mid-August, the highest since February 2009 when 1,018 rigs were drilling for gas.

ELECTRIC MARKET NEWS

AEP's TX unit has urged customers in the Rio Grande Valley to try and conserve power due to continued cold weather, which may cause further power plant problems leading to more rolling blackouts.

U.S. coal consumption fell 5 % this week as winter weather caused widespread power outages and reduced activity.

ECONOMIC NEWS

The US economy added few jobs in January even as the unemployment rate fell to its lowest level since April 2009. The Labor Department reported that nonfarm payrolls increased by 36,000 in January, far below market expectations of an increase of 136,000. The unemployment rate fell to 9% last month. It reported that about 13.86 million people who would like to work can't get a job. The December payroll number was revised to show an increase of 121,000 jobs from a previous estimate of 103,000.

MARKET COMMENTARY

Initially, natural gas traded to the upside, trading slightly above the previous day's high. Market participants were trying to move the market higher off of the recent cold weather and on expectations that stocks would post withdrawals. Light short covering ahead of the weekend also provided a lift to the market early in the session. Natural gas declined later in the session as weather forecasts for later in the month showed milder weather. U.S. gas inventories despite falling 189 billion cubic feet remain at a surplus to the five-year average. With the recent shut in of processing plants being a temporary issue for this market and the forecasts calling for warmer weather, we would look for natural gas to come under additional pressure at the start of next week.

We see support at \$4.265-\$4.259, and \$4.111. More distant support we see at \$4.067 and \$3.875. Resistance we see at \$4.496, \$4.538-\$4.566 and \$4.605-\$4.639. More distant resistance we see at \$4.823, \$4.879 and \$4.983.

The Commitment of Traders disaggregated combined futures and options report showed that managed money funds increased their net short position by 18,143 contracts to 88,227 contracts in the week ending February 1st. It also reported that producers/merchants increased their net short position by 1,837 contracts to 39,039 contracts.