



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR FEBRUARY 8, 2011

NATURAL GAS MARKET NEWS

The EIA today released its latest Short Term Energy Outlook. In the course of one month the agency went from seeing 2011 domestic dry natural gas production decline by 0.4% from 2010 levels to now expecting gas production this year to actually grow by 0.8% to 59.53 bcf/d some 0.9 bcf/d more than last month's estimate. The EIA also revised upward its estimate fore 2012 production, to 60.19 bcf/d. LNG imports in 2011 are seen at just 1.13 bcf/d unchanged form last month's estimate while pipeline imports from Canada are seen averaging 8.7 bcf/d, 0.1 bcf/d more than last month's estimate but still 4.2% less than a year ago. Consumption for natural gas in 2011 is estimated at 66.17 bcf/d, a growth of 0.3% over 2010 level, as a result of the higher than expected heating demand. The EIA also raised their price outlook for Henry Hub natural gas prices for this year from last month's estimate of \$4.14 per mcf to \$4.29. Price estimates for 2012 were also revised higher by 7 cents to \$4.71.

Generation Update

NPCC- OPG's 490 Mw Nanticoke #7 coal fired power plant was shut Monday evening for short-term maintenance.

ERCOT - Unit #1 at the Martin Lake coal fired power plant was undergoing maintenance this evening and was expect3d to be completed by Wednesday morning.

The NRC reported today that 92,118 Mw of generating capacity was online today, basically unchanged from yesterday and 0.2% down than the same day a year ago.

Reuters reported that according to ship tracking services a tanker of LNG departed on Tuesday from the Freeport LNG terminal in Texas. The tanker was reportedly headed toward the eastern Mediterranean. The last Freeport re-exported cargo of 2010 was sold by Conoco-Phillips to Excelerate

Energy on December 28th for \$7.15 and went to India. Asian spot LNG prices are currently running around \$10.50 per Mmbtu.

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	841,300	\$4.245	(\$0.079)	\$0.183	\$0.093	\$0.565
Chicago City Gate	1,252,400	\$4.631	(\$0.272)	\$0.568	(\$0.204)	\$0.652
NGPL- TX/OK	1,293,100	\$4.235	(\$0.015)	\$0.173	\$0.053	\$0.243
SoCal	678,200	\$4.168	(\$0.049)	\$0.106	\$0.019	\$0.642
PG&E Citygate	1,262,100	\$4.177	(\$0.096)	\$0.115	(\$0.028)	\$0.119
Dominion-South	437,900	\$4.663	(\$0.239)	\$0.601	(\$0.172)	\$0.605
USTRade Weighted	27,221,700	\$4.575	\$0.025	\$0.513	\$0.09	\$0.565

Texas reported this afternoon that explosions were continuing at Enterprise Products Partners natural gas liquids plant at Mont Belvieu, Texas. Officials said the blaze has been contained. No injuries have been reported. The company said the fire at the facility occurred after a "failure of some kind" hit one or more of the pipelines that ship natural gas liquids into the storage facility. The company said that the complex's main facilities were not damaged and remained operational. Propane prices at Mont Belvieu rose some 7 cents following the fire.

An official at Chamber County,

The city of Buffalo, New York today in a mostly symbolic gesture banned the use of hydraulic fracturing within the city and this includes the storing, transferring, treating or disposing of fracking waste within the city's limits. There are currently no drilling projects planned in Buffalo, but city officials were concerned that fracking wastewater from nearby operations was reaching the city sewer system. Pittsburgh, Pennsylvania has enacted a similar ban. Meanwhile New York State's acting Department of Environmental Conservation Commissioner Joe Martens told the state legislature today that the agency's guideline for allowing high volume hydraulic fracturing in New York would be completed by about June 1st. The agency would then allow a 30 day period for public comment.

The U.S. EPA issued a draft plan today outlining how it will study hydraulic fracturing and if it harms supplies of drinking water, as ordered by Congress. The EPA said it expects the study to be released by the end of 2012. The agency said it would investigate reported instances of drinking water contamination in three to five sites across the country where fracking has occurred. In addition the EPA will conduct two to three prospective case studies, to take samples before, during and after water extraction, drilling and production of gas. The EPA's science advisory board will review this draft plan on March 7-8.

Enel SpA expects its 8 bcm LNG import terminal in Sicily to be operational in 2015. The terminal is located at Sicily's Porto Empedocle and will have a price tag of \$1.2 billion.

Yemen LNG said today that it has signed a contract with Yemen's Tanmia Oil and Construction to build a new LPG storage facility that will boost LPG production capacity by 12,000 b/d from the summer of 2011 onward.

Gassco reported today that production at the Kollsnes gas processing plant was running at normal levels on Tuesday. The plant had seen capacity reduced on Monday after a third power failure in four days.

ELECTRIC MARKET NEWS

AEP's Southwestern Electric Power Company reported that demand for power in their territory reached a new winter peak on February 4^h as extreme cold and snow and ice froze its Texas-Arkansas-Louisiana service area. The company reported that February 4^h saw 4,627 Mw of electricity demand, some 8.3% higher the projected load peak for this winter.

ERCOT today has forecasted electric consumption for early Thursday to reach a new record, as another cold front is expected to move across the state starting Wednesday evening. The grid operator is forecasting demand could exceed 57,900 Mw early Thursday, surpassing the winter record set just on February 2nd at 56,334 mw when ERCOT was forced to use rolling blackouts to balance the system. ERCOT reported that some 3700 Mw of generation continues to be offline. The grid operator warned residents to conserve power in coming days to avoid a repeat of last week's rolling blackouts. It noted though it had no immediate concerns for power supplies. Meanwhile a representative of the natural gas pipeline and the electric industry told the three members of the Railroad Commission of Texas that gas was delivered to all customers that paid for firm transportation last week, while some customers that paid less for non-firm delivery were interrupted. While the cold weather created some isolated problems, the pipeline system operated as designed. He noted that this was the first real winter test since electricity was deregulated in Texas.

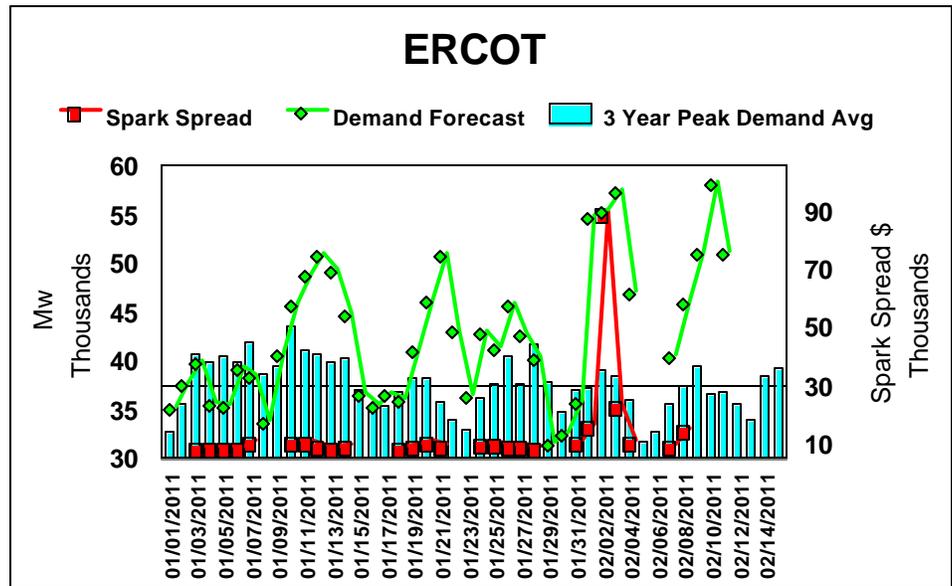
The EIA in the Short term Energy Outlook also raised its demand forecast for coal this year by 0.5% over last month's estimate to 1039.6 million tons. Demand in 2012 is seen growing to 1077.8 million short tons. Demand in 2010 was estimated at 1048.1 million short tons. Coal production has also been revised higher to 1089.6 and 1128.3 million short tons respectively for 2011 and 2012. Power demand

this year is estimated at 10.26 billion Kwh/d, down 0.1% from 2010 but seen growing again in 2012 to 10.52 billion Kwh/d.

ECONOMIC NEWS

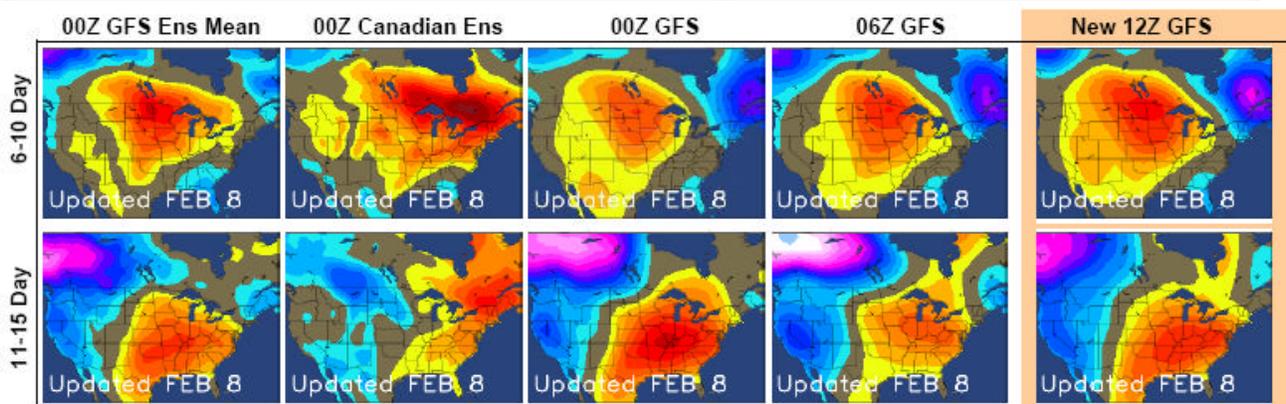
Confidence among small US business owners increased to a three year high in January. The National Federation of Independent Business' optimism index increased by 1.5 points to 94.1, the highest reading since December 2007, when the recession started.

The Labor Department said in its monthly Job Openings and Labor Turnover Survey that US job openings fell in December by 139,000 to a seasonally adjusted 3.1 million. The job openings rate fell to 2.3% from 2.4% in November. Layoffs and discharges fell to 1.84 million from 1.85 million in November.



Richmond Fed President Jeffrey Lacker said the Federal Reserve should seriously consider pulling back on its \$600 billion stimulus program given stronger growth and better employment prospects. He expects the US economy to expand by about 4% in 2011, a rate he believes should be sufficient to

Forecast Model Comparison



10 Day Observed U.S. Population Weighted Temperature Anomalies and 15 Day Ensemble Forecast

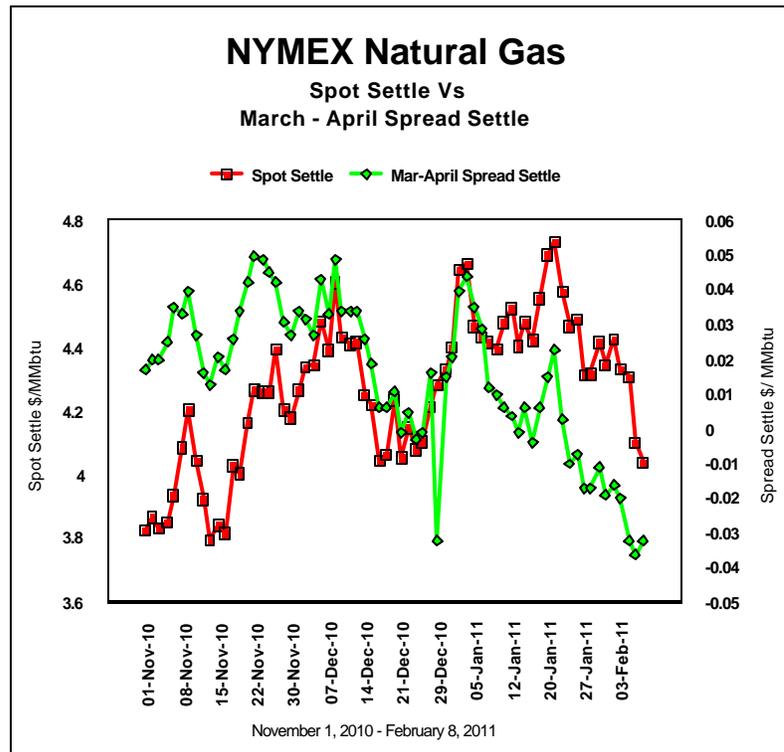


increase hiring and lower unemployment.

China's central bank raised its interest rates on Tuesday, its second increase in just over a month. Even though annual inflation fell to 4.6% in December, it is expected to increase in January with food prices increasing.

German industrial output fell unexpectedly in December. Industrial output fell by 1.5% on the month in seasonally adjusted terms compared with an expected 0.3% increase.

Commodities risk at UBS increased for the second consecutive quarter following a series of declines. The bank's average value at risk, VaR, increased to 4 million Swiss Francs or \$4.2 million in the fourth quarter from 3 million in the third quarter. Overall VaR for UBS increased to 66 billion Swiss Francs in the fourth quarter from 58 million in the previous quarter.



The New Jersey Board of Public Utilities said today that it will announce the results of its recent auction to provide power for the state's four investor owned utilities on Wednesday, February 9th. The auction was for about 8600 Mw of power for up to three years worth an estimated \$7 billion.

MARKET COMMENTARY

The NYMEX natural gas futures market on Monday set a new volume record with a total of 510,442 lots changing hands, eclipsing the previous record of 475,466 lots set on January 20th. This was the sixth record volume session recorded over the last seven months. Given the jump in open interest reported this afternoon by 17,466 basis basis Monday's trading followed by a gain of 21,666 lots on Friday has to point to a flood on new shorts returning to this market. Given the relative good volume recorded today coupled with a further decline in prices, has to lead us to believe that new shorts continued to come into this market today but at a slower pace.

We feel that this market may be ready for a potential pause in its four-day uninterrupted sell off of nearly 47 cents. A potential warning for this has been the rebound today in the March April spread which today posted a stronger settlement out of the last four trading sessions. But the extent of any flat price rally though will be limited until there is a significant change in the longer term weather forecast and or a surprise from Thursday's storage report which would show a larger than expected draw down.

We would look for support in the March contract at \$4.03-\$4.00 followed by \$3.98, \$3.951 and \$3.875. Resistance we see at \$4.127 followed by \$4.257-\$4.274. Additional resistance we see at \$4.305-\$4.332, \$4.426 and \$4.519.

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