



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR FEBRUARY 11, 2011

NATURAL GAS MARKET NEWS

El Paso Corp on Friday declared a force majeure on its Tennessee Gas Pipeline following the failure of a section of the 36-inch pipeline near Station 214 in Ohio. The leak triggered an explosion late Thursday night along the line in Columbiana County, Ohio.

Baker Hughes reported this afternoon that the number of drilling rigs searching for natural gas in the United States fell for the second straight week, slipping by five to 906. This was the eighth decline out of the last 10 weeks but is still above the 11 month low of 902 recorded last month. The company also reported that the number of horizontal rigs fell by 1 to 980

Generation Update

NPCC – OPG's 490 Mw Unit #5 at the Nanticoke coal fired power plant was shut late Thursday.

ECAR- DTE Energy's 1122 Mw Unit #2 at the Fermi nuclear power plant has begun to be restarted and it has ramped up to 2% of power. The unit was shut on January 29th to replace a condenser pump.

MISO- Exelon's 1118 Mw LaSalle #1 nuclear unit returned to service early Friday. The unit dropped off line on February 1st.

SPP – Entergy's 978 Mw River bend nuclear power plant has started to exit its recent outage and has ramped up to 1%. The unit was shut on January

The NRC reported today that 92,043 Mw of generating capacity was online today, basically unchanged from yesterday and 2.7% down than the same day a year ago.

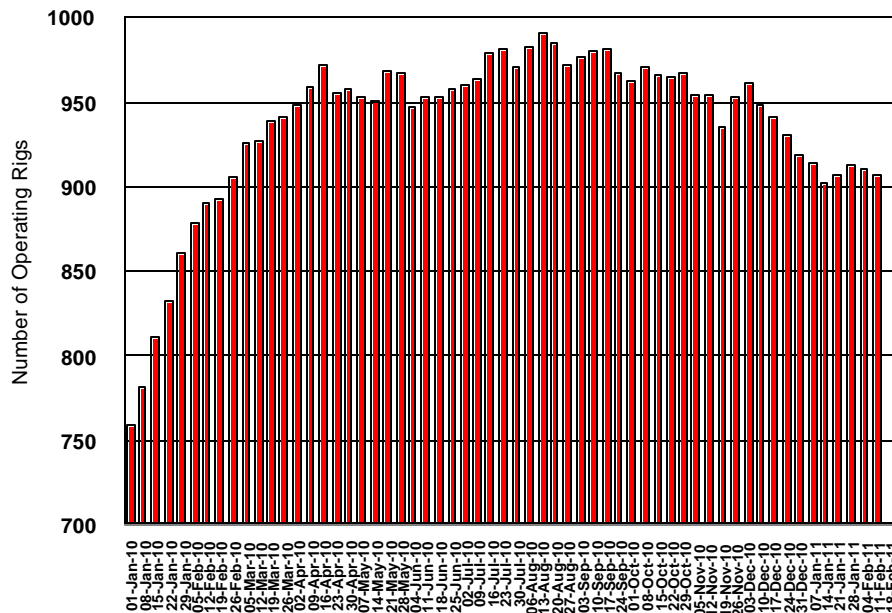
after reaching a new record last week.

Cheniere Energy said Friday that it has signed a pact with subsidiaries of Basic Energy to supply up to 600,000 tonnes of LNG per year from the proposed Sabine Pass export terminal. The non-binding agreement is dependent on Cheniere building the proposed export project, which it said could be online in 2015.

The Canadian Industry Minister said today that Canada would review PetroChina's proposed \$5.5 billion purchase of

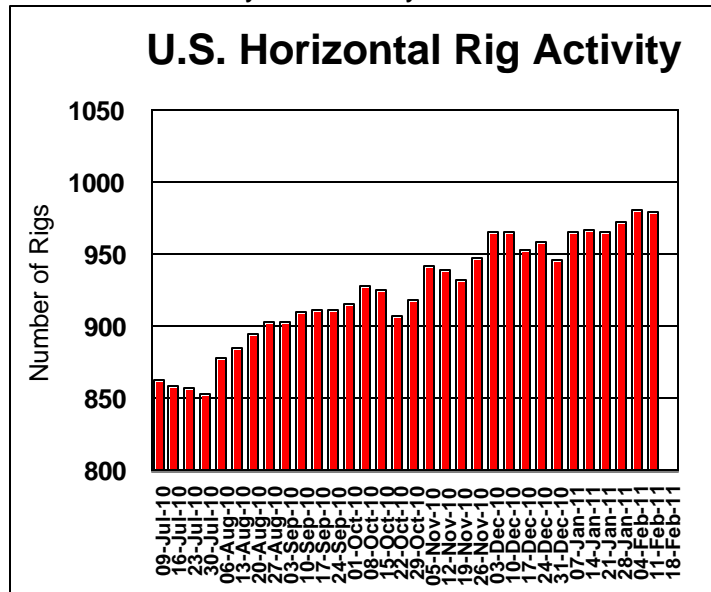
U.S. Natural Gas Drilling Rig Activity

Source: Baker Hughes



January 1, 2010 - February 11, 2011

half of the shale assets in the Cutback Ridge area from EnCana Corp, under the auspicious of the Investment Canada Act. Under this act, the Canadian government must review any proposed foreign investment of more than C\$299 million. Once the proposed deal is filed with the government, the review will normally take 45 days to decide if the investment would be a net benefit to Canada.



Operators at the Ormen Lange gas field in the North Sea reported that production was shut down Friday morning after a technical glitch was experienced. Operator Royal Dutch Shell said the company was working to restart the production as soon as possible.

The Maersk Arwa LNG tanker is expected to arrive at the Isle of grain terminal on February 18th.

South Korea's state-owned Korea Gas Corp said today that it had sold 4.9 million tones of LNG in January, up 21.5% from a year earlier. Of the total sold, 3 million tones were for household and business consumption, with the remainder directed to power generation.

Reuters reported today that Gazprom is looking to ramp up its sales of natural gas to Europe and increase average gas prices by 14% on the back of the recent rebound in fuel demand recovery amid improved economic situation. Gazprom reportedly is looking to increase sales to Europe to over 152 bcm in 2011 up from 140 bcm shipped in 2010. Price for its gas is slated to reach \$352 per 1000 cubic meters in 2011 from \$308 in 2010. Gazprom said it expects to sign a gas contract with China by mid-2011 and that its Altai pipeline would begin deliveries to China by the end of 2015, while its east corridor pipeline would start deliveries to China after 2017.

Morgan Stanley reportedly has won a tender to supply a cargo of LNG to Argentina in April at \$8.50 per Mmbtu. Argentina imported 62 bcf of LNG in 2010, up 34% from 2009.

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	773,400	\$3.955	(\$0.158)	\$0.015	(\$0.164)	\$0.308
Chicago City Gate	716,700	\$4.044	(\$0.202)	\$0.104	(\$0.129)	\$0.407
NGPL- TX/OK	789,300	\$3.839	(\$0.201)	(\$0.101)	(\$0.128)	\$0.073
SoCal	508,600	\$3.866	(\$0.140)	(\$0.074)	(\$0.067)	\$0.052
PG&E Citygate	1,163,800	\$3.995	(\$0.105)	\$0.055	(\$0.032)	\$0.099
Dominion-South	604,200	\$4.032	(\$0.233)	\$0.092	(\$0.160)	\$0.427
US Trade Weighted	20,211,400	\$3.950	(\$0.237)	\$0.010	(\$0.16)	\$0.308

ELECTRIC MARKET NEWS

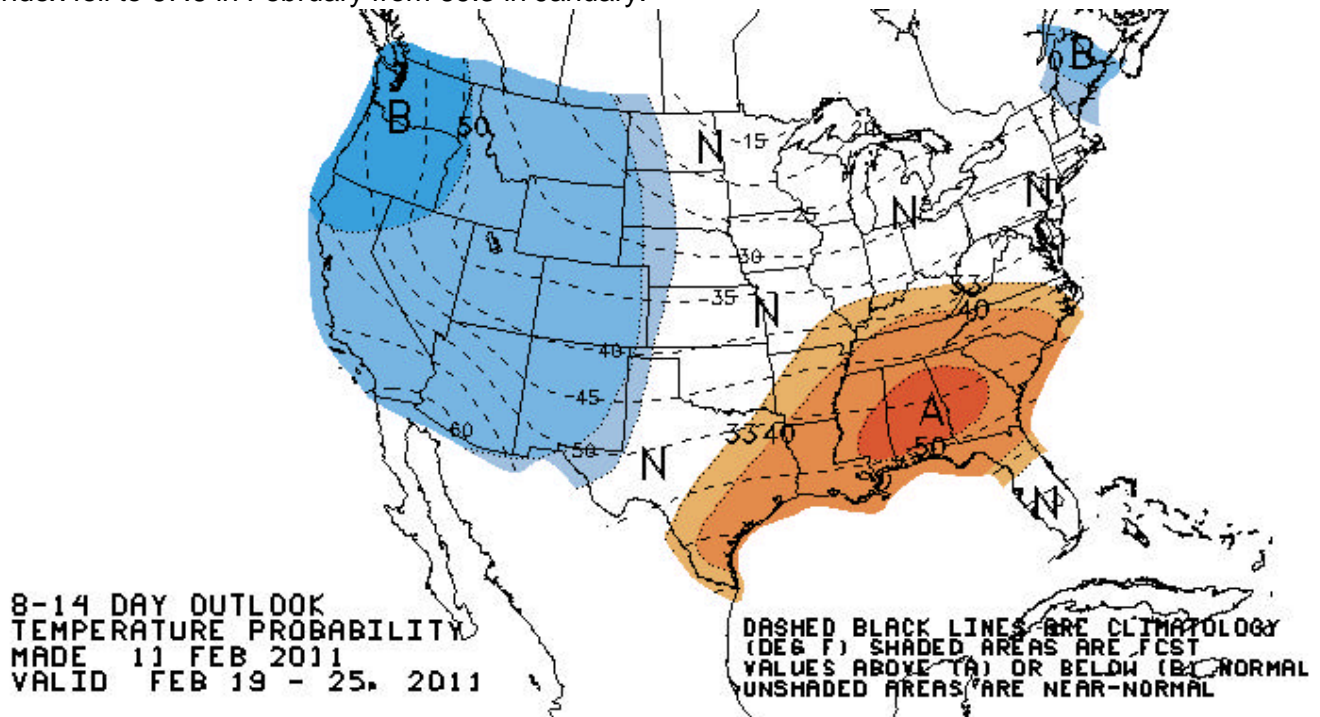
Abacus, a small power retailer in Texas failed following the price spike during last week's rolling blackouts.

ECONOMIC NEWS

The US Commerce Department reported that the US trade gap widened in December, with the full year trade gap registering its largest percentage increase in 10 years. It reported the US deficit in international trade of goods and services increased by 5.9% to \$40.58 billion from a slightly revised \$38.32 billion in November. The US trade deficit with China shrank to \$20.68 billion from \$25.63 billion in November, as exports to China increased by 6.8% to a new high of \$10.12 billion. Imports fell by

12.3% to \$30.8 billion. For the full year, exports expanded by 16.6% to \$1.83 trillion however a 19.7% increase in imports pushed the trade deficit up to \$497.82 billion. The 32.8% expansion in the trade gap was the largest in 10 years.

The Thomson Reuters/University of Michigan Surveys of Consumers' preliminary February consumer sentiment increased to 75.1 from 74.2 in January. It is at its highest level since June 2010. The current conditions index increased to 86.8 in February from 81.8 in January while its expectations index fell to 67.6 in February from 69.3 in January.



The Economic Cycle Research Institute said its Weekly Leading Index increased to 130.2 in the week ending February 4th from 128.8 the previous week, which was originally reported at 128.9. The index's annualized growth rate increased to 4.5% from 3.6% a week earlier.

The Federal Reserve Bank of Philadelphia's survey showed that the US economy and job markets are expected to grow more strongly in the first quarter than previously expected. The survey shows the economy is expected to grow at an annual rate of 3.6% in the current quarter, up from a previous estimate of 2.4%. The economy is expected to grow at an annual rate of 3.5% in the second quarter, up from 2.7% previously. The unemployment rate was forecast at 9.3% in the fourth quarter. The survey also showed that core consumer price inflation is expected to be 1% in the first quarter, down from a previous estimate of 1.1%.

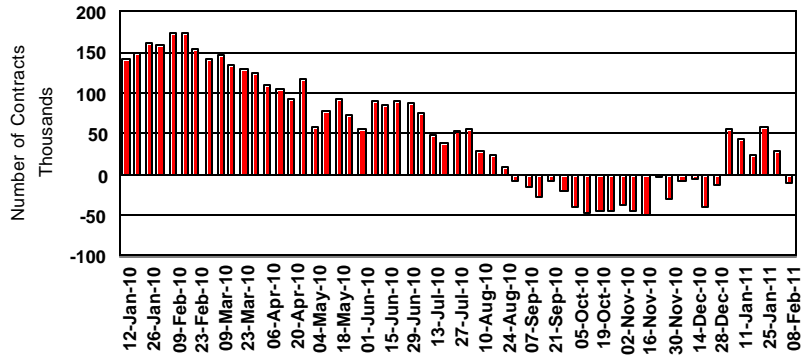
India's industrial output in December increased at a slower than expected rate of 1.6% from a year earlier.

MARKET COMMENTARY

The natural gas market while seeing lighter volume as is typical for a Friday stayed on a steady downward glide path today as traders continued to see next week's temperature moderation as a huge burden on this market despite the prospects of yet another supportive inventory report next week. It appears that while this market remains extremely oversold, the market needs to see a return of colder than normal temperatures before sellers will be prompted to possibly cover their shorts and take some profits. We continue to recommend against establishing new shorts at this level, but to buy the market one can only approach it by buying calls or call spreads.

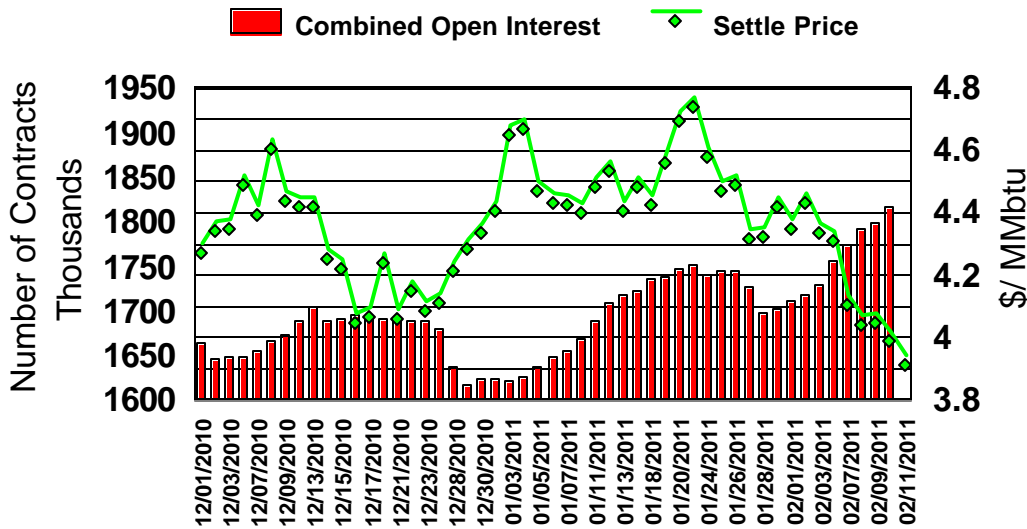
This afternoon's Commitment of Traders report showed that hedge funds had moved back toward a net short position once again for the week ending February 8th. Over the period this group in the market saw an over 30,000 lots of selling via the Henry Hub options, swaps and futures. Judging by the pace of the growth in open interest over this week and the associated decline in price, we would feel that this group will show further increases in their net short position by next week's report.

**Henry Hub Natural Gas- Net Position for Money Managers
NYMEX & ICE Futures Swaps & Options
Combined and Adjusted (10,000 MMBtu)**



We see support for this market next week at \$3.895 followed by \$3.854, \$3.725 and \$3.656. More distant support we see at \$3.41 and \$3.225. Resistance we see at \$4.00, \$4.149-\$4.161, \$4.21 \$4.249, \$4.359 and \$4.469.

**NYMEX Henry Hub Natural Gas
Adjusted Open Interest of Futures and Swaps
Versus Spot Settlement Price 2010/11**



The CME reported this morning that volume on the exchange set a new record for natural gas trading with 526,280 lots traded on February 10th.

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