



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR FEBRUARY 15, 2011

NATURAL GAS MARKET NEWS

Gulf South Pipeline's Carthage Junction natural gas compressor station in Texas was damaged by a fire late Monday, forcing a reduction of flows through the system due to damage to the compressor at the station. The company said this morning that 75% of the volumes were still flowing through the system there, having been reduced from 1.3 bcf/d on Monday to 1 bcf/d on Tuesday. No injuries were reported and there was no estimate on when flows would return to normal.

Generation Update

NPCC – The Vermont Yankee nuclear unit saw a modest reduction in output from Monday, off 6% this morning at 94% power.

PJM – Constellation Energy's Calvert Hills #2 nuclear unit remained off line today.

MISO - The LaSalle #2 nuclear unit was completely off line today.

The NRC reported today that **91,278 Mw** of generating capacity was online today, up 0.3% from yesterday and 3.6% down than the same day a year ago.

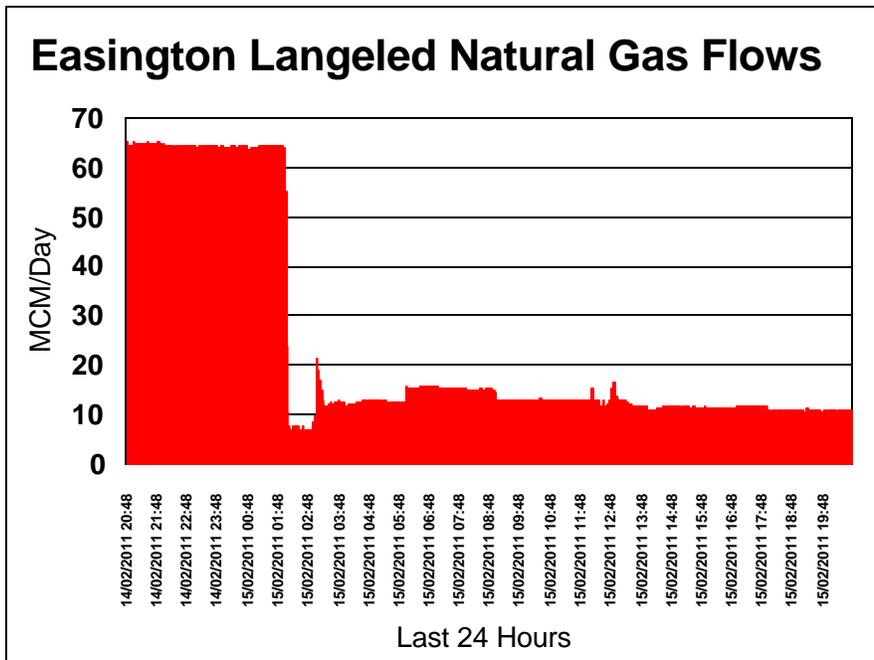
Sempra Energy reported that local Mexican officials attempted to shut down their Costa Azul LNG facility last Friday, in part to a long running dispute with a local rancher over land use codes and environmental and safety regulation infractions. But state and federal officials moved in to quickly prevent any disruption to plant operations. A small number of Mexican federal troops remain at the facility to safeguard the ability of the plant to remain open and operating and not interfered with by local officials. The \$1.2 billion LNG receiving terminal has been operating since 2008. Federal officials said that despite local objections, the LNG plant has each and every one of the permits it needs to operate. Federal officials also told local officials that the nation's Energy Regulatory Commission has the sole authority to declare a plant's closure if it represents a danger to the public or to property.

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	704,200	\$3.922	\$0.028	(\$0.056)	(\$0.063)	\$0.126
Chicago City Gate	867,400	\$4.048	\$0.042	\$0.070	(\$0.042)	\$0.175
NGPL- TX/OK	735,600	\$3.828	\$0.029	(\$0.150)	(\$0.055)	(\$0.035)
SoCal	563,600	\$3.885	\$0.037	(\$0.093)	(\$0.047)	(\$0.015)
PG&E Citygate	1,099,400	\$4.045	\$0.052	\$0.067	(\$0.032)	\$0.081
Dominion-South	444,800	\$4.032	\$0.001	\$0.054	(\$0.083)	\$0.191
USTRade Weighted	20,606,100	\$3.957	\$0.021	(\$0.021)	(\$0.06)	\$0.126

Gas flows through the Langed pipeline from Norway to Britain fell on Tuesday morning from more than 60 mcm to less than 20 mcm/d. Gassco did report that gas export

capacity at the Kaarstoe plant was cut by 40% to around 50 mcm late on Monday, but exports were ramping up again on Tuesday morning. Normal capacity at the plant is around 88 mcm/d. The shortfall in production was the result of another technical glitch at the plant and another power supply problem. The company also reported that the Kollsnes gas plant also saw production reduced as a result of a brief shutdown of Norway's biggest gas platform, the Troll A gas platform.

Azerbaijan said it may double its current gas output to 50-52 bcm by 2020 after finding a new major gas deposit last December at the Umid field in the Caspian Sea. Drilling at the field is scheduled to begin in March or April of this year.



Local port officials reported that the LNG tanker from Qatar, the Shagra is expected to arrive at the South Hook terminal on February 22nd.

Gazprom said it expects to resume talks with China on gas supplies this coming March. Gazprom noted that if deal parameters can be agreed upon this year the first gas could begin flowing to China in 2015.

Gazprom said the development of the Shtokman gas export project would probably be unthinkable without a LNG export part of the development plans. The gas pipeline export part of the plant is expected to start first. The final investment decision on the project is expected to be made in 2011.

A senior share holder in the ITGI pipeline said today that he sees the possibility of the proposed Nabucco and ITGI pipelines could be merged together since one pipeline is enough to serve Europe's gas needs. The ITGI with its 10 bcm of capacity would move gas from the Caspian via Turkey to Italy while the 31 bcm Nabucco pipeline seeks to move Caspian gas across Turkey into southeast Europe.

Gazprom said today that it expects to send the first commercial gas to Germany along the Nord Stream pipeline by the fourth quarter of 2011. Test flows are slated to begin this summer. The company also said it looks for 2011 export revenues will reach \$72.4 billion in 2011, exceeding the 2008 record by some \$2 billion.

ELECTRIC MARKET NEWS

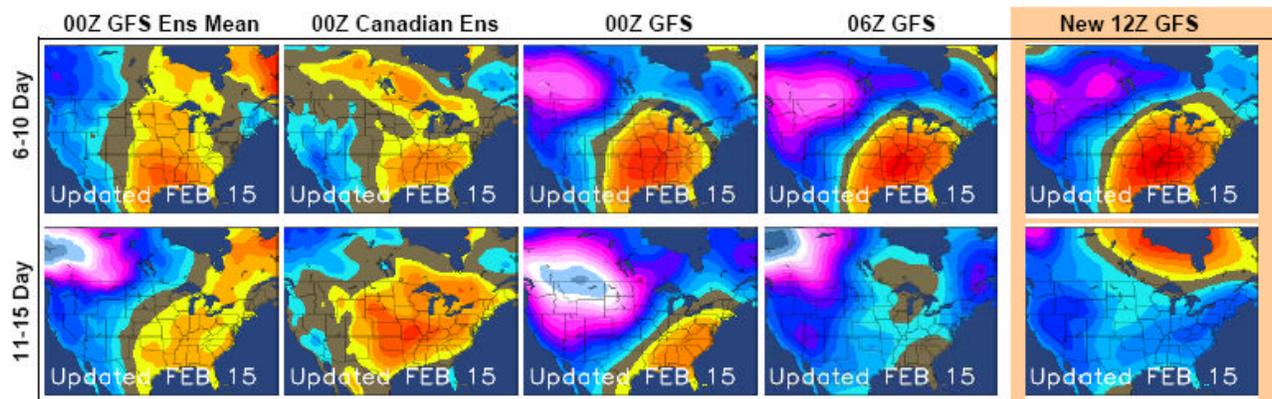
Texas legislators said today that the rolling blackouts that were experienced across the state earlier this month caused by frozen instrumentation and controls at dozens of power plants as "unacceptable". The legislators sitting on the Texas State Senate Committee on Business and Commerce and the Committee on Natural Resources investigating the outages, said today that state regulators and agencies must have the necessary authority to ensure power plants are properly weatherized. The market also needs to give clear signals to generators to be online during extreme weather events and make sure natural gas is always available. A member of the Texas Railroad Commission said his agency may need additional authority from lawmakers to be able to limit the export of natural gas to other states in certain supply emergencies. At legislators' insistence, ERCOT disclosed a partial list of power plants that tripped on February 2nd. These included natural gas units owned by GDF Suez 2300 Mw; Centrica 1100 Mw; PSEG 2000 Mw, Meanwhile Luminant Energy confirmed that it lost four of its coal fired power plants, exceeding 2700 Mw on February 2nd. The head of Texas Public Utility Commission said today that despite the weather driven plant failures and a spike in demand that resulted in rolling blackouts, there is no initial evidence of market manipulation, as spot

power prices moved from \$50 per Mwh to \$3,000 per Mwh.. The commission though has asked ERCOT to formally investigate the matter.

ECONOMIC NEWS

The US Commerce Department said US retail sales increased in January for the seventh consecutive month. It reported that retail and food services sales increased by 0.3% on the month to \$381.57 billion. Sales in December were up a revised 0.5%. The US Commerce Department also reported that US business inventories increased slightly more than expected in December. It stated that inventories increased by 0.8% to \$1.44 trillion, the highest level since January 2009 after increasing by an upwardly revised 0.4% in November. Business sales increased by 1.1% to \$1.15 trillion in December after increasing by 1.4% the prior month.

Forecast Model Comparison



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



The US Labor Department said US import prices increased more than expected in January as costs increased for energy, food and industrial supplies. It reported that the price of goods imported to the US in January increased by 1.5% following an upwardly revised 1.2% gain in December. Import prices are up 4.3% over the past three months. Petroleum import prices in January increased by 3.4% on the month and by 14.3% on the year. Excluding petroleum, import prices increased by 1.1% from December.

The New York Fed's Empire State general business conditions index increased to 15.43 in February, the highest level since June and up from 11.92 in January. The inventories index increased to 9.64 in February from 4.21 in January. It however reported that the index for the number of employees fell to 3.61 in February from 8.42 in January while the average employee workweek index increased to 6.02 from 2.11. The index for business conditions six months ahead fell to 49.4 in February from 58.95 in January.

The International Council of Shopping Centers and Goldman Sachs reported that US chain store sale index in the week ending February 12th fell by 1.4% on the week but increased by 2.7% on the year to 492.3.

The National Association of Home Builders/Wells Fargo Housing Market Index was unchanged at 16 in February as expected.

Euro zone fourth quarter growth stood at 0.3% on the quarter and 2% on the year.

MARKET COMMENTARY

The natural gas market posted its second consecutive positive trading session today, the first time this has been seen this month. Once again while prices appeared a bit weaker overnight, once traders had come in for the morning session, prices marched albeit slowly, higher throughout the day. Prices nearly challenged the \$4.00 price barrier by the end of the day. Partly the outlook for a return of more seasonable temperatures appears to be lending some minor support to this market.

We continue to look for this market to retrace this month's earlier losses as it bounces back from an extremely oversold technical situation. The daily stochastics finally crossed back to the upside today for the first time since January 24th. We see initial minor resistance at \$4.012 and \$4.049. We see more significant resistance at \$4.065, \$4.128-\$4.149, \$4.228, \$4.342 and \$4.455. Support we see at \$3.925-\$3.915, \$3.86, \$3.818, \$3.71 and \$3.63.

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