



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,
& Karen Palladino

(212) 624-1132 (888) 885-6100

www.e-windham.com

NATURAL GAS & POWER MARKET REPORT FOR FEBRUARY 18, 2011

NATURAL GAS MARKET NEWS

Credit Suisse said in a research note this week that the volatile price swings in regional U.S. natural gas prices have been calmed over the past two years and will ease even further in coming years as a result of both improved infrastructure and vast new reserves of shale gas. Between 1998 and 2008 more than 20,000 miles of new natural gas pipelines were put into service, adding more than 100 bcf/d of capacity, which has helped move more gas to regional markets and flatten price distortions. The bank noted that the spread between nine major U.S. price points and Henry Hub on average has narrowed over the past five years by \$1.00. But the EIA noted today in a research note today that due to pipeline congestion in the Northeast this winter, spot natural gas prices at Atlantic Coast trading points are up 90 cents to \$1.20 per Mmbtu through January when compared to the same period last winter. The agency noted that

Generation Update

NPCC – OPG's 490 Mw Nanticoke #7 coal fired power plant has exited its outage and returned to service Friday. The unit had been shut on Wednesday.

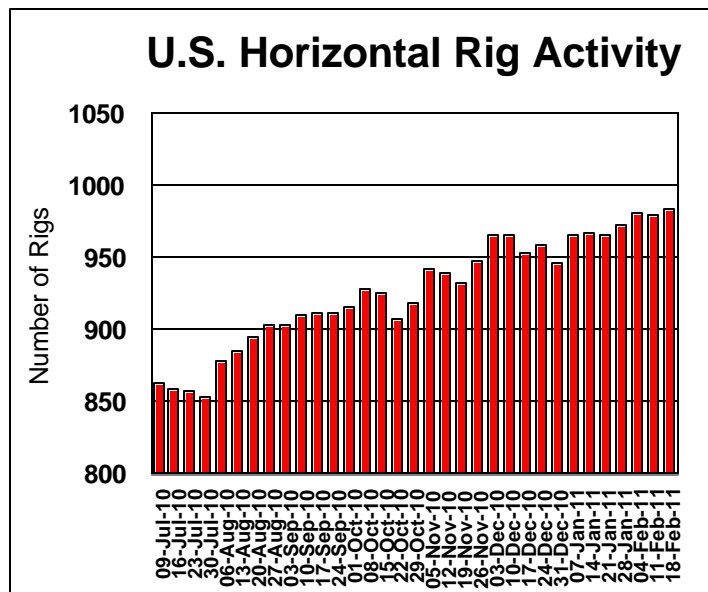
SERC - Dominion Resources 799 Mw Surry #2 nuclear unit has exited its outage and had ramped up to 59% by early Friday morning. The unit had been shut on February 3.

Southern's 860 Mw Farley #2 nuclear unit has exited its outage and ramped up to 12% on Friday.

MISO - AEP's 1009 Mw Cook #1 nuclear unit dropped to 48% power on Thursday to facilitate repairs on a valve in a high-pressure turbine. While repairs were completed late yesterday, operators will continue to operate at a reduced level until it can calibrate instruments during regular power ascension.

WSCC - SGE's 1080 Mw San Onofre #3 nuclear unit reconnected to the grid overnight the company said today and was running at 19% power.

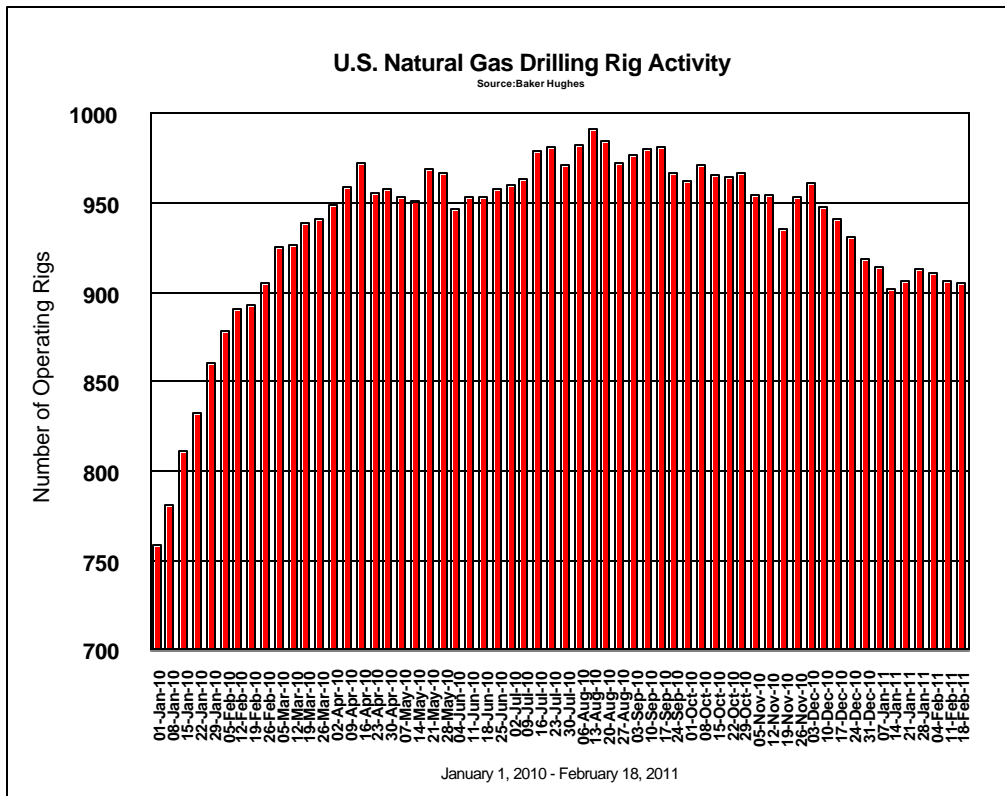
The NRC reported today that 91,532 Mw of generating capacity was online today, down 0.3% from yesterday and 1.1% down than the same day a year ago.



pipelines moving gas to the Northeast markets this season have been fuller than last winter. Downstream Northeast pipelines have been 87% full compared to 78% full last winter. It noted that growing constraints within the Northeast have limited the ability of pipelines to simultaneously to deliver new gas production from Marcellus shale, inflows from other regions and gas from Pennsylvania storage fields on to Atlantic coast markets.

Baker Hughes reported this afternoon that it estimates the number of drilling rigs searching for natural gas in the United States this week stood at 905 down one from the prior week and marking the third weekly decline. The number of horizontal wells operating though increased by four on the week to a new record of 984.

Reuters reported that the LNG tanker, the Al Thumama is scheduled to arrive at the Isle of Grain terminal on March 5th. The vessel can carry up to 216500 cm of gas.



The manager of the Nabucco consortium said today that the pipeline project does not need to merge with the ITGI project in order to succeed. He noted that the Nabucco project was closer to securing a supply agreement for Azeri gas after a meeting to discuss volumes with Azeri officials on Thursday.

Ukraine's Naftogaz said Friday that it has signed a memorandum of understanding with ExxonMobil to jointly develop unconventional

natural gas resources in the Ukraine. The companies will jointly study Ukraine's potential for shale gas, methane production from coal and other unconventional energy sources. The Ukraine imports about 60% of its natural gas needs from Russia.

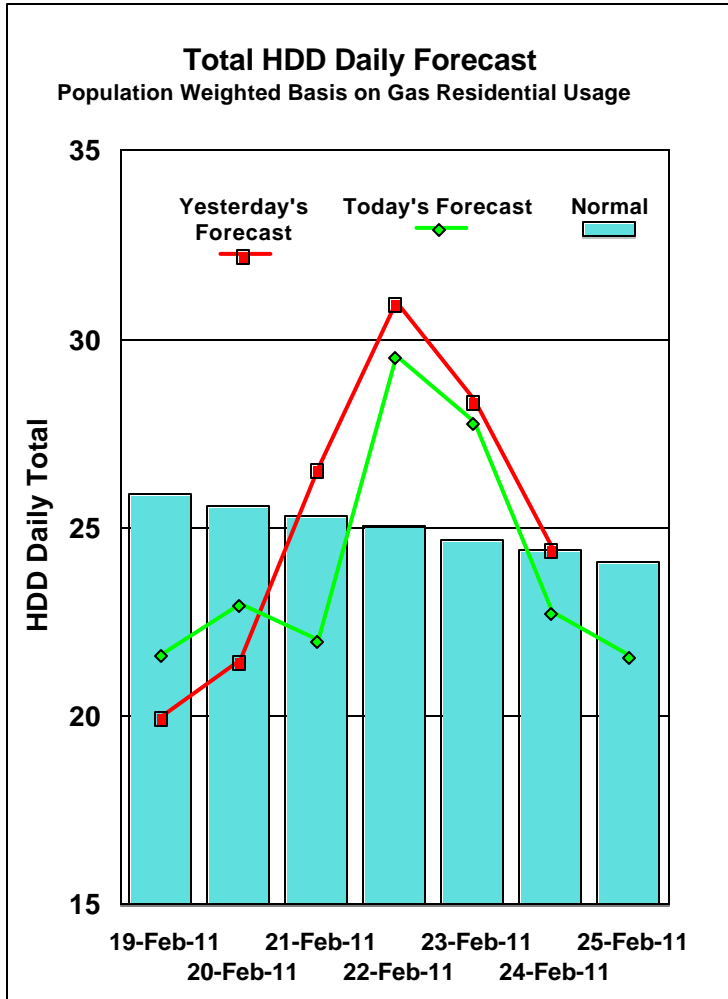
Gazprom's Turkish unit, Bosphorus Gas, said today that it is in talks with various companies on acquiring a gas network within Turkey along with building power plants in the country as well. Turkey is sell off its state run municipal gas networks

The flow of natural gas to Italy via the Swiss Transitgas pipeline will be interrupted for around a week in May as the gas flow is re-routed through a new by-pass Transit through the southern leg of the system resumed temporarily on December 24th after damage from falling rocks shut the line for five months in the summer..

ELECTRIC MARKET NEWS

Genscape reported today that U.S. coal consumption fell 10% this week from the prior week and was 13% less than the same week a year ago.

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	562,800	\$3.837	(\$0.058)	(\$0.026)	(\$0.000)	\$0.018
Chicago City Gate	612,200	\$4.016	\$0.004	\$0.153	\$0.015	\$0.111
NGPL- TX/OK	966,600	\$3.725	(\$0.063)	(\$0.139)	(\$0.052)	(\$0.123)
SoCal	447,100	\$3.861	(\$0.057)	(\$0.002)	(\$0.046)	(\$0.027)
PG&E Citygate	911,200	\$4.017	(\$0.056)	\$0.154	(\$0.045)	\$0.131
Dominion-South	435,800	\$3.978	(\$0.000)	\$0.115	\$0.011	\$0.092
UTrade Weighted	20,204,800	\$3.900	(\$0.011)	\$0.037	(\$0.00)	\$0.018



The EIA reported late Thursday that U.S. coal production for the week ending February 12th was at 20.708 million short tons, up 1,2% from a week ago and some 3.7% better than the same week a year ago. Year to date production has been running 3.1% ahead of a year ago.

The Minnesota House of Representatives on Thursday overwhelmingly voted to lift the ban on the construction of new nuclear power plants in the state. The prior moratorium had been in place since 1994. The bill now proceeds to the Senate

ECONOMIC NEWS

The Economic Cycle Research Institute said its Weekly Leading Index fell to 129.5 in the week ending February 11th from 130.2 the previous week. The index's annualized growth rate increased to 4.9% from 4.6% a week earlier, originally reported as 4.5%.

China increased its banks' reserve requirements for the second time this year. It increased the reserve requirement by 50 basis points.

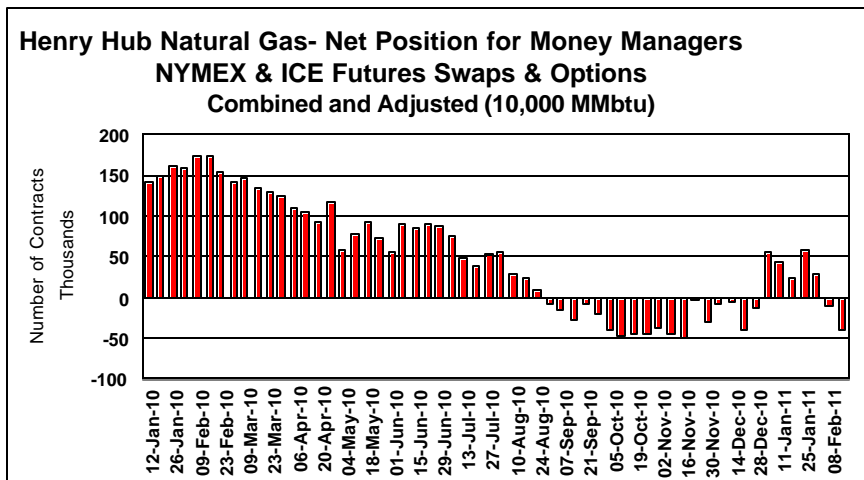
China Association of Automobile Manufacturers said the country's auto sales in January increased by 13.81% to 1.89 million units.

It reported that passenger vehicle sales in China increased by 16.7% to 1.53 million units in January.

A panel of experts advising on how to avoid another flash crash said US regulators need to overhaul market structure and increase its supervision. The advisers offered 14 recommendations for the SEC and CFTC, including new proposals for fees to cancel trades and alternative trade routing requirements. They recommended the evaluation of the need for a second tier or pre-trade risk safeguards.

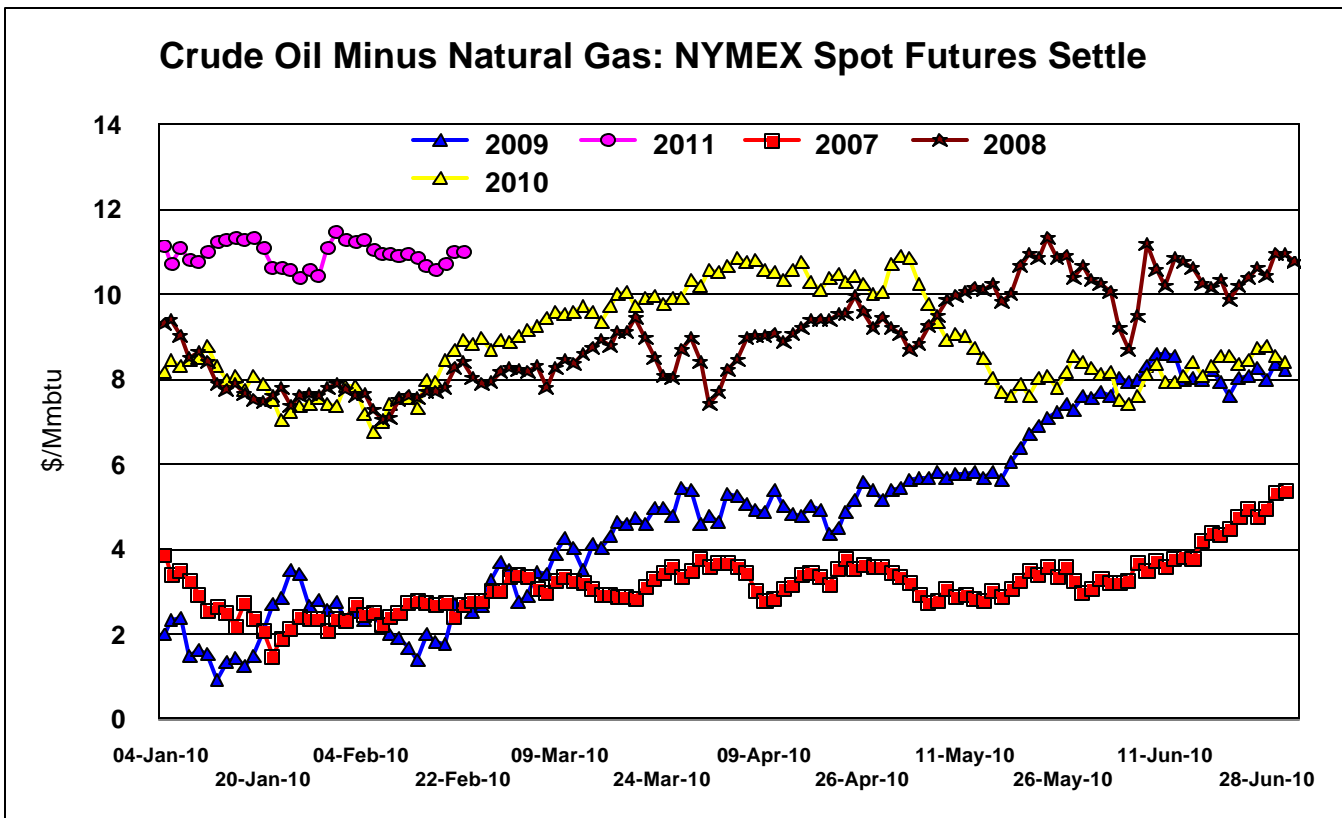
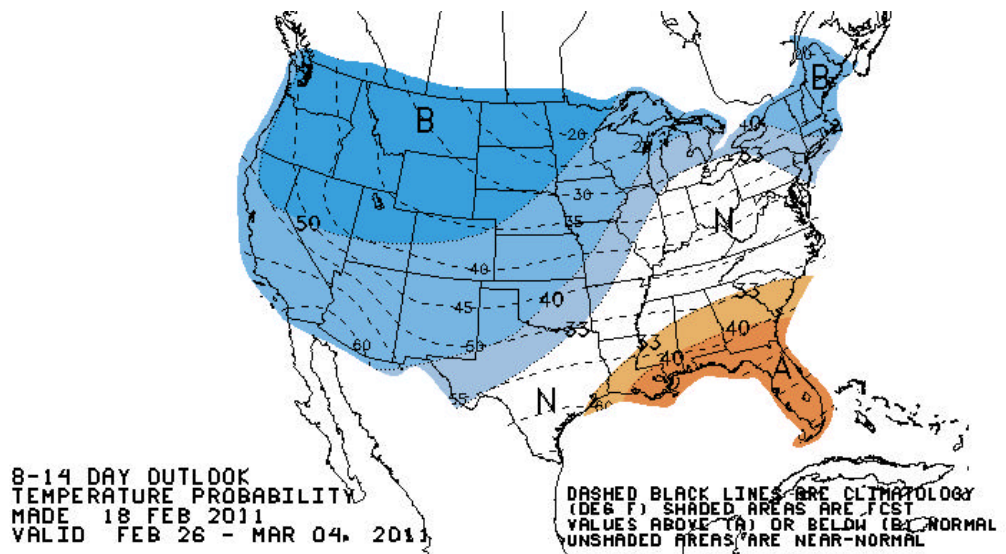
MARKET COMMENTARY

The natural gas market today saw not only an inside trading session in front of the holiday weekend but the spot contract's smallest trading range since April 22, 2009. Traders seemed un-interested to take a new position in a market that seems to be oversold but at the same time is not at risk of



seeing a significant demand spike on the horizon. While the forecast for the next seven days seemed to moderate a bit from yesterday this appeared to be offset by the 8-14 day outlook which moved toward a bit cooler outlook.

This afternoon's Commitment of Traders Report showed that hedge funds appeared to continue to add to their net short positions in both the futures, swaps and options market for the week ending February 15th. This group increased their net short position by nearly 30,000 contracts.



Our outlook for this market remains basically unchanged but we fear once the March contract goes off the board there could be a return of price pressure on the April or May contracts. While there has been little discussion in recent weeks of the price relationship between gas and oil, we feel though this market could receive some support if oil and coal prices continue to escalate higher.

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