



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR FEBRUARY 24, 2011

NATURAL GAS MARKET NEWS

Chesapeake Energy confirmed Thursday that a fire had broken out at a natural gas drilling site in Washington County, Pennsylvania late Wednesday. The fire burned for three hours before being extinguished and had been caused by a flash fire in a gas liquids storage tank. The company confirmed that it had shut its wells at the drilling site. The drilling wells were not directly affected by the fire. The wells involved had already been completed, including hydraulic fracture simulation on the wells.

Generation Outages

NPCC – Entergy’s 685 Mw Pilgrim nuclear unit ramped up from 1% power yesterday to 95% power today.

ERCOT –Luminant’s 583 Mw Monticello #2 coal fired power plant was shut for a scheduled outage today.

The NRC reported this morning that some 92,651 Mw of nuclear generation capacity is online, down 0.4% from yesterday and some 0.4% higher than the same day a year ago.

Anadarko Petroleum said today that in 2010 the company significantly increased its drilling activity, expanded infrastructure and secured necessary service agreements to facilitate rapid growth in the Eagleford and Marcellus shale plays. The company said that it plans to allocate some 10% of its capital program towards these areas in 2011. During 2011 the company plans to continue accelerating growth in these shale plays and by the end of this year expects shale production to account for approximately 10% of the company’s total daily sales volumes. In the Eagleford shale area the company plans to double its drilling activity to more than 200 wells in 2011. In the Marcellus Shale area the company is looking to enhance well

EIA Weekly Report

	02/18/2011	02/11/2011	Change	02/18/2010
Producing Region	687	698	-11	616
Consuming East	880	937	-57	949
Consuming West	263	276	-13	313
Total US	1830	1911	-81	1878

*storage figures in Bcf

performance, where estimated ultimate recoveries are trending toward the higher end of the company’s previous estimates of 4-6 bcf per well. Anadarko expects to operate 10 rigs there in 2011 and to participate in more than 250 wells during the year. The Marcellus will continue to be the only domestic dry natural gas field where the company will be actively drilling, due to the proximity to premium natural gas markets that enhance the already robust economics. The company expects its United States based production of natural gas in the first quarter of this year will average 2.325-2.375 bcf/d. As of February 24th the company said it has hedged 570 MMBtu/d of natural gas production for 2011 through fixed price and thee way collars and some 500 Mmbtu/d hedged for 2012 using collars. The company also noted that it expects to announce an Eagle Ford deal in the coming weeks.

Canadian Gas Association

Weekly Storage Report

	18-Feb-11	11-Feb-11	19-Feb-10
East	84.4	84.4	90
West	208	208	202.8
Total	292.3	292.3	292.7

storage figures are in Bcf

Reuters reported that the LNG tanker, the Fraiha is expected to arrive at the Isle of Grain terminal on March 2nd. The ship has a capacity of 210,000 cubic meters.

The Chinese government reported today that Chinese imports of LNG in January fell 20% from December's record highs to 814,186 tones. January imports though were still some 4.8% higher than the same month a year ago. Imports from Qatar were the most expensive on the month averaging

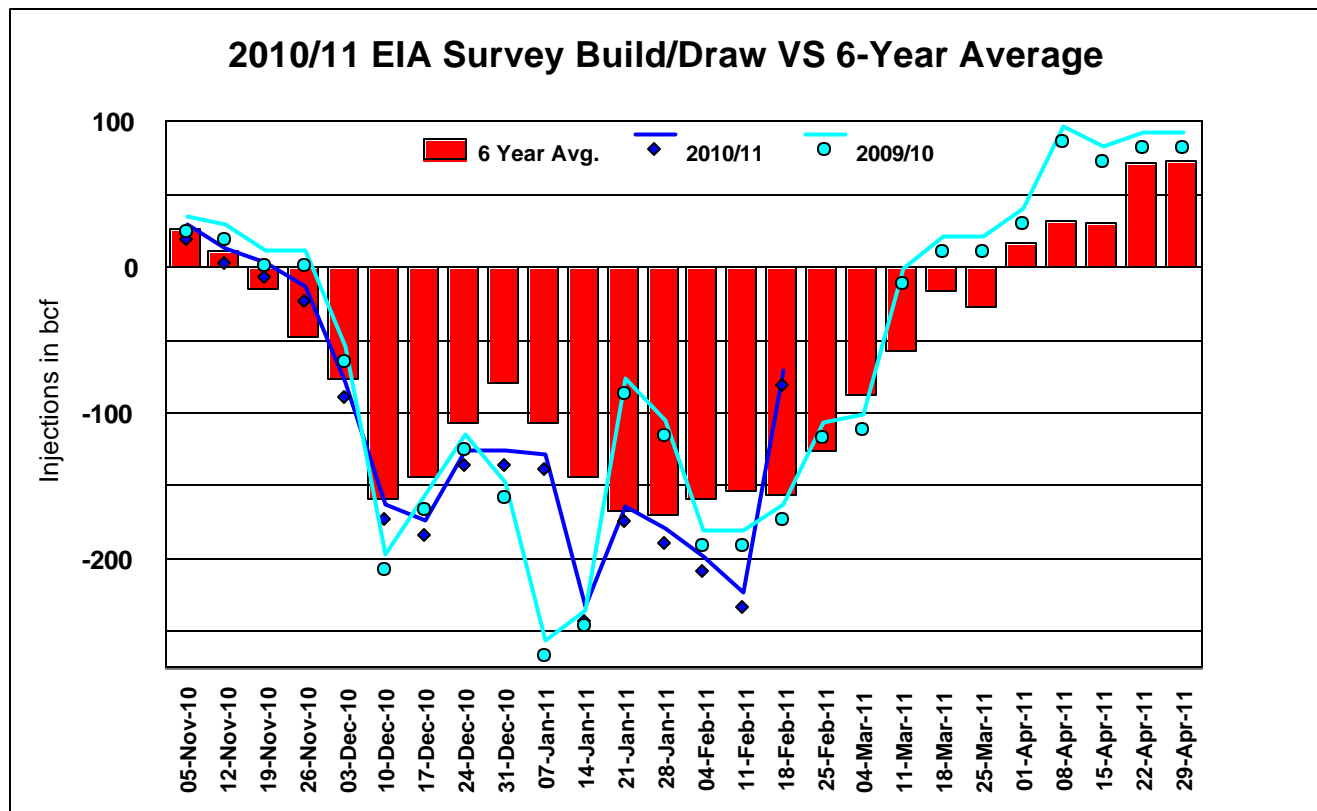
Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	6,000	\$3.830	\$0.001	\$0.007	(\$0.174)	\$0.192
Chicago City Gate	751,200	\$4.004	\$0.000	\$0.181	\$0.043	\$0.171
NGPL- TX/OK	752,200	\$3.733	(\$0.000)	(\$0.090)	\$0.043	(\$0.093)
SoCal	476,600	\$3.900	(\$0.005)	\$0.077	\$0.038	\$0.057
PG&E Citygate	941,600	\$4.068	\$0.004	\$0.245	\$0.047	\$0.216
Dominion-South	561,600	\$3.948	(\$0.003)	\$0.125	\$0.040	\$0.126
USTRade Weighted	20,555,000	\$3.960	(\$0.217)	\$0.137	(\$0.17)	\$0.192

\$7.12 per Mmbtu, compared with imports from Malaysia at \$4.01 and Australian imports that cost just \$3.21. China also reported that it imported 559,147 tonnes

of gas via the pipeline from Turkmenistan at a cost \$7.44 per Mmbtu.

Credit Suisse in a research report today noted that Asia should consume two-thirds of global LNG supplies in 2015, up from current levels of 50-55%. Not surprisingly, China and India are expected to lead the way in this higher demand level. The bank group saw that starting in 2013 the global LNG should become a sellers market once again.

A senior Indian official said today that the government expects Indian imports of LNG may reach 20 million tones by 2017, more than double the levels recorded just in 2009.



Yemen LNG said Thursday that recent protests in the country have not impacted production and in fact the company expects its output to reach full capacity in the next six months. The company sees shipments to its key customers such as South Korea will also increase.

Centrica said today that it expects to make less profit from selling gas storage space this year as a shrinking gap between summer and winter wholesale prices makes storing the fuel less attractive, due in part to rising reliance of LNG supplies.

Russian Prime Minister Putin said today that the unrest in North Africa makes the security of gas supplies pumped to Europe from Russia even more important than ever. Putin also noted that the EU rules governing the ownership of gas pipeline infrastructure amounted to "confiscation" of property that could force up the cost of energy to consumers.

BP said today that it estimates there are 15 tcf of gas resources in the 23 blocks that it just bought into in its \$7.2 billion deal with Reliance Industries. The company said that the Indian market has the potential to see higher gas prices and if necessary the two companies would build a terminal to import LNG to take advantage of an increasing appetite for market priced gas.

The Iraqi oil ministry once again has postponed the signing on an initial deal with KOGAS and KazMunaiGas to develop the Akkas gas field in western Anbar province. The delay was due to continuing issues with provincial officials in Anbar province.

The Argentina state energy company, Enarsa said today that it expects to import between 45-50 LNG cargoes in 2011, double the quantity it imported in 2010. Argentina expects to open its second LNG receiving terminal at the beginning of May.

Italy's gas network operator Snam Rete Gas said its imports of Russian gas via the Tarvisio entry point in Italy's northeast rose to 79.3 mcm on February 23rd. The day before imported volumes at this point were 68.3 mcm. Imports from Libya via the Gela entry point on Sicily fell to zero on February 23rd from 6.8 mcm on the day before. Meanwhile imports from Algeria via the Mazara del Vallo entry point in the south-west of Sicily were little changed at 96.7 mcm on February 23rd from 97.6 mcm on February 22nd.

ELECTRIC MARKET NEWS

The NRC has renewed the license for Dominion's Kewaunee nuclear power station in Wisconsin.

ECONOMIC NEWS

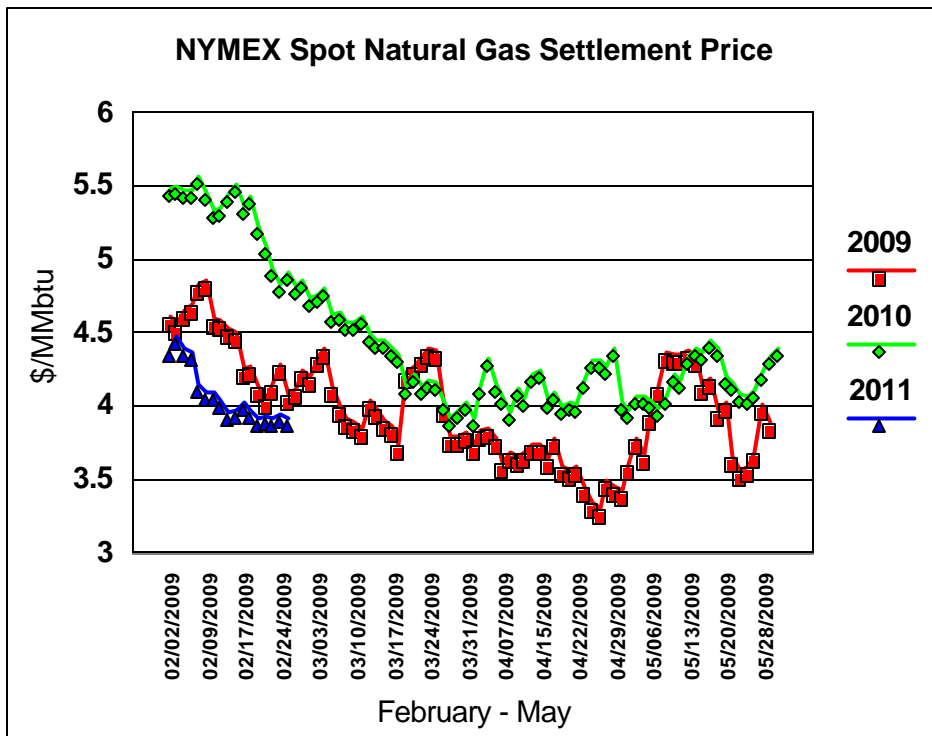
The US Labor Department reported that new initial claims for unemployment fell by 22,000 to a seasonally adjusted level of 391,000 in the week ending February 19th. The previous week's level was revised to 413,000 from 410,000. The four week moving average of new claims fell by 16,500 to 402,000 on the week. The report showed that the number of continuing claims fell by 145,000 to 3,790,000 in the week ending February 12th. The unemployment rate for workers with unemployment insurance was 3% in the week ending February 12th, down from 3.1% the previous week.

The Commerce Department said new US single family home sales fell more than expected in January. New single family home sales fell by 12.6% to a seasonally adjusted 284,000 unit annual rate after a downwardly revised 325,000 unit pace in December. Sales were down 18.6% on the year. The median sales price for a new home fell by 1.9% in January from December to \$230,600.

The Federal Reserve Bank of Kansas City's manufacturing index increased to 23 in February from 11 in January.

The CFTC's chairman Gary Gensler said the CFTC is working on a proposed rule for testing and supervision of algorithmic trading. The CFTC may further define what will be targeted in the agency's new authority to crack down on disruptive trading practices that were outlawed by the Dodd-Frank law. The CFTC is considering a proposal that would clarify how the agency would identify certain trading practices that Dodd-Frank prohibits, such as spoofing or the practice of intentionally canceling orders before they can be executed.

BlackRock Inc, CME Group Inc and Intercontinental Exchange are urging the US CFTC to lower a proposed limit for transactions that occur on centralized futures markets. The CFTC proposed that 85% of all transactions in a futures contract must be done through a market's central limit order book system, with the remaining 15% allowed to be done off-exchange in block trades. The proposal is meant to protect price discovery for futures by limiting non-public block trading. BlackRock suggested the CFTC lower the limit to 75%.



MARKET COMMENTARY

The natural gas market today broke lower following a slightly bearish inventory report from the EIA. While prices breached the recent support basis the April contract at \$3.87-\$3.86, the sell off was brief and stabilized at the \$3.83-\$3.822 area. The market saw some late in the day short covering on the heels of the March contract's expiration, which effectively returned the April natural gas price to the levels recorded just prior to the release of the storage numbers.

While it appears that this market wants to work lower, we remain doubtful on just how far this market can fall given that current inventories are smaller than a year ago and below the five year seasonal average as well. This stock situation comes at a time that industrial and commercial demand appears to be recovering in line with the economy's slow rebound, while domestic gas production may be leveling off finally. A year ago this market during the month of February traded between \$4.80 and \$3.80 and then basically traded between \$4.40 and \$3.80 for the months of April and May. We do not expect that any weather event can spike this market significantly higher given the waning days of the winter heating season and still months away from the hurricane season. Thus we feel last year's trading range should be a road map for this year. Given the relatively low level of IV for the options one might need to look at sell strangles in the May options or just use the key price levels as entry and exit points.

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