



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR DECEMBER 3, 2010

NATURAL GAS MARKET NEWS

Baker Hughes reported this afternoon the number of drilling rigs searching for gas in the United States during the current week rose by eight to 961 rigs. This was the second consecutive weekly gain, but still below the 992 near term high set this past August. The number of horizontal drilling rigs though rose by 18 on the week, setting yet another weekly record. Analysts estimate that two-thirds of the horizontal rigs operating are searching for natural gas, primarily in shale plays.

China National Petroleum Corp said today that it plans to complete construction of a third natural gas pipeline linking Beijing with Shaanxi province by the end of this month, some two months behind schedule. The pipeline has a capacity of 15 bcm per year.

Generation Update

ERCOT – Luminant’s 545 Mw Sandow #4 coal fired power plant was slated to be taken down Friday for planned maintenance over the weekend.

CPS Energy said it expects its 750 Mw coal fired JK Spruce #2 power plant should return to service in the next few weeks. The unit has been off line since September.

SERC – TVA’s 1065 Mw Browns Ferry #1 nuclear unit ramped up to 90% power this morning, up 48% from yesterday.

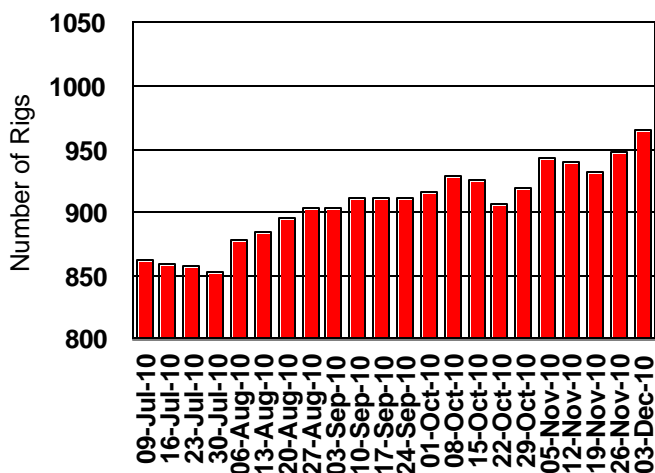
Dominion’s 799 Mw Surry #1 nuclear unit ramped up to 50% power on early Friday after exiting its recent outage on Thursday.

MRO - NextEra Energy’s 580 Duane Arnold nuclear unit started to exit its recent refueling outage today and was at 4% power.

The NRC reported today that some 92,538 Mw of generating capacity was online today, up 0.9% from yesterday and 7.5% higher than the same day a year ago.

National Grid reported today that the Arctic Voyager LNG tanker berthed Friday at the Isle of Grain terminal. Meanwhile the UMM Al Amad LNG tanker is slated to arrive at the South Hook terminal from Qatari on December 20th.

U.S. Horizontal Rig Activity



ELECTRIC MARKET NEWS

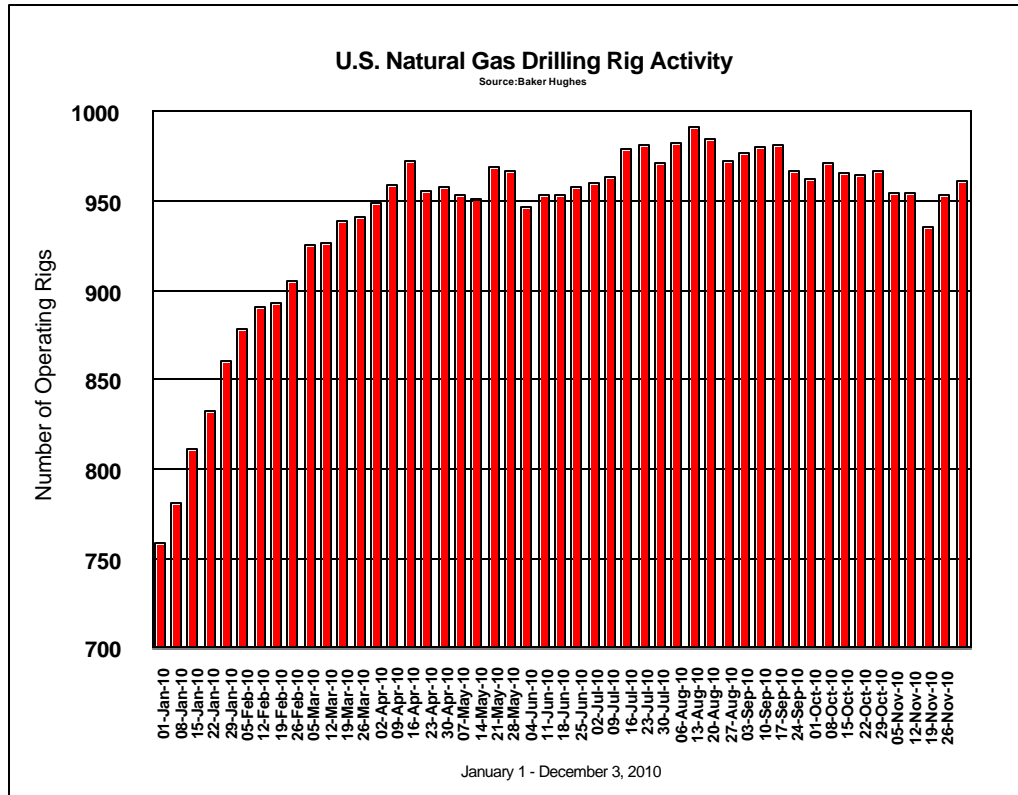
The California Energy Commission has approved the construction of the 850 Mw Sentinel natural gas fired power plant in Riverside County. The plant is expected to be fully operational by 2013.

ECONOMIC INDICATORS

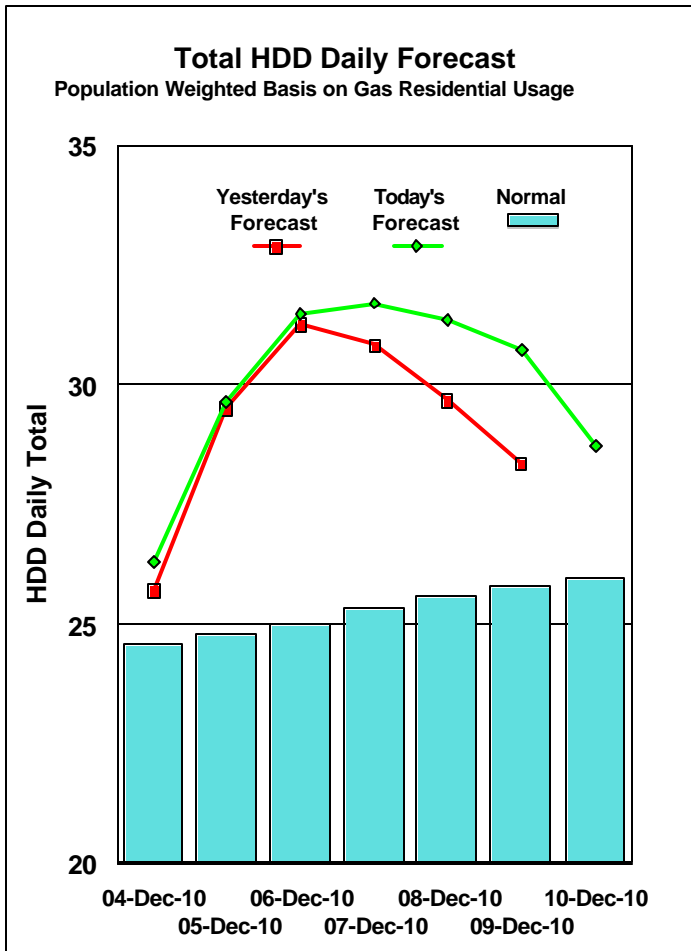
The US Labor Department reported that nonfarm payrolls increased by 39,000 in November as private sector employers added only 50,000 jobs. Economists were expecting payrolls to increase by 144,000 on the month. The October number was revised up slightly

to show a 172,000 increase from a previous estimate of 151,000. The unemployment rate unexpectedly increased to 9.8% in November from 9.6% in October.

The US Commerce Department said factory orders fell for the first time in four months in October. Orders for manufactured goods fell by 0.9% to \$420.09 billion. Factory orders in the previous month were revised up to a 3%. Demand for durable



goods fell by a revised 3.4% in October.



The Institute of Supply Management reported that the US non-manufacturing sector expanded in November. Its non-manufacturing purchasing managers' index increased to 55 in November from 54.3 in October. It said October's business activity/production index fell to 57 from 58.4 in October while its new-orders index strengthened to 57.7 from 56.7. The ISM employment index increased to 52.7 from 50.9 in October. Meanwhile, it reported that price pressure fell. Its price index fell to 63.2 from 68.3.

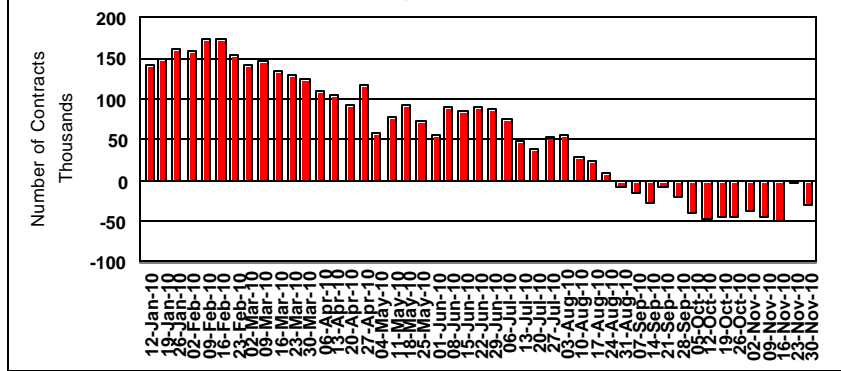
Shell Trading said the definition by the CFTC of what constitutes a swaps dealer is too broad and could include entities that engage in swaps as part of normal business practices. It said the companies may include commodity market participants with large physical positions.

MARKET COMMENTARY

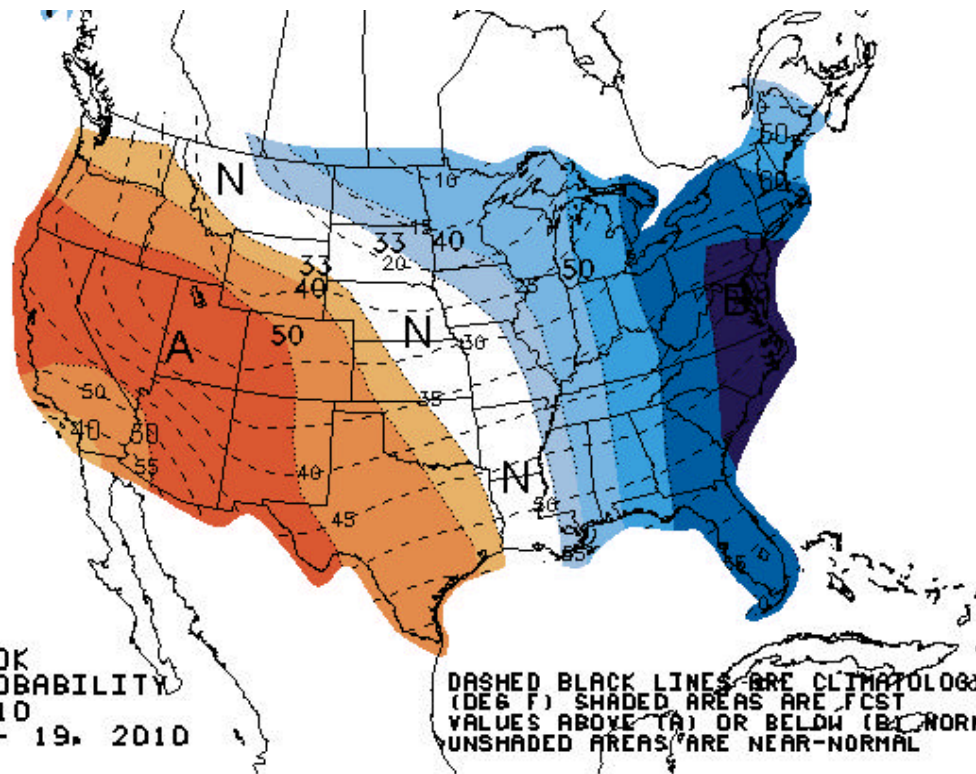
While the oil markets remained locked in on their two week old rally the natural gas market remained extremely sensitive to the weather forecast. Even though the short term forecasts appeared to be a bit colder than yesterday's outlook's the change in the 11-15 day forecast prompted nervous longs to take their profits and

run at midday. The midday computer models appeared to show warmer than normal temperatures moving into the mid section of the country and the colder than normal temperatures in the east moving out prompting 10 price drop at mid day. The market while recovering in the early afternoon, as oil prices continued to soar higher, was dealt a second set back following the release of the Baker Hughes drilling rig report which showed that total and horizontal drilling rigs both increased on the week, thus showing little sign of the long anticipated production cutback has in fact begun.

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



Friday afternoon's Commitment of Traders Report showed that through Tuesday November 30th, the commodity funds have continued to hold a bearish view on this market as they appear to have begun rebuilding their net short position.



Weather forecasts though will continue to drive this market next week and we will look for the Monday morning forecasts to set the tone for the week.

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