



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 DECEMBER 7, 2010

NATURAL GAS MARKET NEWS

Barclays Capital reportedly is in talks with Malaysia's Petronas to secure import capacity at the Dragon LNG terminal in Britain. Petronas owns a 30% share of the Dragon LNG terminal. Barclays earlier this year gained import rights into the U.S. when it secured space at the Cameron LNG terminal in Louisiana.

Texas Eastern Transmission reported that it had an outage Tuesday at its Entriken compressor station in Pennsylvania. The outage was resulting in a capacity reduction of about 225 mcf/d of downstream supply.

The EIA released their latest Short Term Energy Outlook this morning. In this report the EIA raised its estimate for domestic natural gas production in 2010 by 1% from last month's estimate to 62.09 bcf/d. It also raised its production estimate for 2011 to 62.01 bcf/d, a 2% increase over last month's estimate. The agency estimated that natural gas consumption in 2010 will average 65.88 bcf/d and 65.40 bcf/d in 2011. This is 1.4% increase from last month's estimate for 2010, while 2011 was left unchanged. The EIA estimated prices for natural gas will average \$4.46 per Mmbtu at Henry Hub, up 2 cents from last month's estimate.

Turkmenistan reported that its natural gas exports during the January-November period are up 21% from a year ago.

The Ejan LNG tanker is scheduled to unload at Belgium's Zeebrugge terminal on December 22nd. The ship is reportedly carrying 145,000 cubic meters of LNG from Qatar. Meanwhile National Grid reported today that the LNG tanker, the Fraiha has berthed at the Isle of Grain terminal.

Leonid Bokhanovsky, the secretary general of the Gas Exporting Countries Forum, said today he sees Russia regaining its spot as the world's largest gas producer in the near future as new projects come on stream, especially the Yamal and Shtokmam proposed projects. He noted that natural gas prices are undervalued relative to crude oil prices, and noted that producing members have agreed it is necessary to bring natural gas prices to parity with oil prices.

Private equity firm, Kohlberg Kravis Roberts and Company has agreed to invest up to \$625 million in a partnership with El Paso Corp to develop natural gas processing plants and pipelines. KKR will invest \$125 million for a 50% stake in El Paso's Altamont gas gathering and processing assets. KKR will also

Generation Update

WECC – SCE's 1080 Mw San Onofre #3 nuclear unit currently has seen some 60% of its maintenance work completed. The unit was shut back on October 10th for a planned four month refueling and maintenance outage.

SPP – The 1166 Mw Wolf Creek nuclear unit was shut early Tuesday. The unit had been operating at full power on Monday.

MRO – DTE Energy's 1122 Mw Fermi #2 nuclear unit was at 60% power this morning, down 15% from yesterday. Operators have reduced operations to examine the control system for one of the plant's feedwater pumps.

The NRC reported today that some 93,897 Mw of generating capacity was online today, down 0.79% from yesterday and 6.66% higher than the same day a year ago.

spend up to \$500 million in future projects such as the Marcellus Ethane Pipeline System in the Marcellus shale and the Camino Real Pipeline in the Eagle Ford Shale, two of the fastest growing gas fields in the country.

The Ukraine's fuel minister said today that Russian gas exports to Europe via the Ukraine will be no less than 112 bcm a year for the next five years basis newly signed amendments to gas contracts. The minister said that this agreement brings certainty to gas flows for the first time since the January 2009 dispute between the two countries. The Nord Stream pipeline, which will move 55 bcm of Russian gas to Europe, bypassing the Ukraine, is expected to begin operations by the end of the year.

The energy supply director at Scottish and Southern Energy said today that he sees Britain's dependence on LNG imports to grow to 40% of total supply by 2020, while he sees the U.S. becoming an exporter of LNG in the coming years. He sees the U.S. becoming the next global exporter of LNG as a result of its expanding shale production.

ELECTRIC MARKET

The Texas Attorney General's office said today in briefs filed with the U.S. Court of Appeals, that the U.S. EPA has violated federal law in rejecting state operating permits for Texas refineries, chemical plants and power plants. The EPA rejected the permits, which were granted under the state's flexible operating permits starting back in 1994. The EPA contends the flexible permits, which provide a single emissions limit for a facility, do not allow accurate assessment for pollution coming from multiple sources within a plant. The EPA in recent months has warned these plants holding flexible permits will face unspecified increased enforcement action if they do not move to the federal permits.

ECONOMIC INDICATORS

The Institute for Supply Management said the US manufacturing and services sectors are expected to grow in 2011, with manufacturing revenue expected to increase by 5.6%. Revenue in the non-manufacturing sector, which comprises mostly service sector businesses, is expected to increase by 3.4% next year. It stated that manufacturing sector capital investment should increase by 14.5% in the year while non-manufacturing sector capital investment is expected to increase by 3.7%.

MARKET COMMENTARY

Early session gains were quickly given back, as it became evident that supplies will be sufficient enough to meet winter heating demand. This is the first sell-off in natural gas futures in five days. Initially, the January natural gas contract traded as high as \$4.545, continuing yesterday's cold weather rally. Despite continued cold weather forecasts, a report by the EIA estimating natural gas production to be 3.5 percent above last year's level, proved too much for this market to bear. The January contract appears to have found support around the \$4.380 level. Technical indicators are calling for additional downside movement. Currently, there is a support at the \$4.353 trend line. Coming into tomorrow's session, we would look for a test at this level and are quite confident that a penetration will occur. Based on this, we would sell breaks below this trend line, looking for a test at \$4.120.