



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR DECEMBER 9, 2010

NATURAL GAS MARKET NEWS

Tennessee Gas Pipeline reported that its pipeline ruptured near East Bernard, Texas, some 50 miles west of Houston on Wednesday afternoon. The 24-inch line did not suffer an explosion or fire and appeared just to be a blowout. The company said on Thursday the blowout would have little effect on deliveries since the gas has been rerouted. The cause of the problem is being investigated.

Barclays Capital in a research note this week said that natural gas producers see gas prices in 2012 under \$4 per Mmbtu as demand lags growth in supplies. They noted that producers as a whole are hedged for next year and have set capital spending plans with gas prices at an estimated price of \$4.00, but unhedged production and wells that need to be completed in 2012 will deluge the market with unwanted gas. By 2013, enough drilling in shale plays should have shifted from gas to oil to curb some production.

EIA Weekly Report

	12/03/2010	11/26/2010	Change	12/03/2009
Producing Region	1246	1263	-17	1198
Consuming East	2002	2053	-51	2065
Consuming West	477	498	-21	518
Total US	3725	3814	-89	3782

*storage figures in Bcf

TransCanada announced it has reached an agreement on tolls with customers on its main natural gas pipeline that should lower the cost of shipping along the line. The company said it has filed the toll agreement with Canadian regulators. The deal calls for shipping one gigajoule or 0.95 million btus will drop to C\$1.23. Without the agreement the toll would have risen to C\$2.45 per gigajoule. The company said it was able to cut tolls by lowering 2011 depreciation charges on the mainline by C\$150 million and deferring recovery of C\$300 million in revenue shortfalls that arose from overestimating the amount of gas that would be shipped on its lines this year.

Sinopec Corp said today that it has begun exploring the Pengshui shale block in southwest China, collecting seismic data on a 453 square kilometer area. China has yet to disclose any proven reserves of shale gas, even though some companies have been active in the development of these unconventional reserves since 2008.

Generation Update

NPCC – TransCanada’s 683 Mw Halton Hills natural gas fired power plant in Ontario was shut on Thursday.

WECC- NextEra Energy’s 514 Mw Blythe natural gas power plant was shut Wednesday afternoon for unplanned maintenance.

MRO – AEP’s 1060 Mw Cook #2 nuclear unit ramped up to 90% power this morning, up 26% from yesterday.

The Great Plains Iatan #2 coal plant returned to service.

The 1166 Mw Wolf Creek nuclear unit was restarted this morning and was at 6% power. The unit was shut on December 7th, due to a problem with an emergency generator.

The NRC reported today that some 94,396 Mw of generating capacity was online today, up 0.4% from yesterday and 9.2% higher than the same day a year ago.

Canadian Gas Association

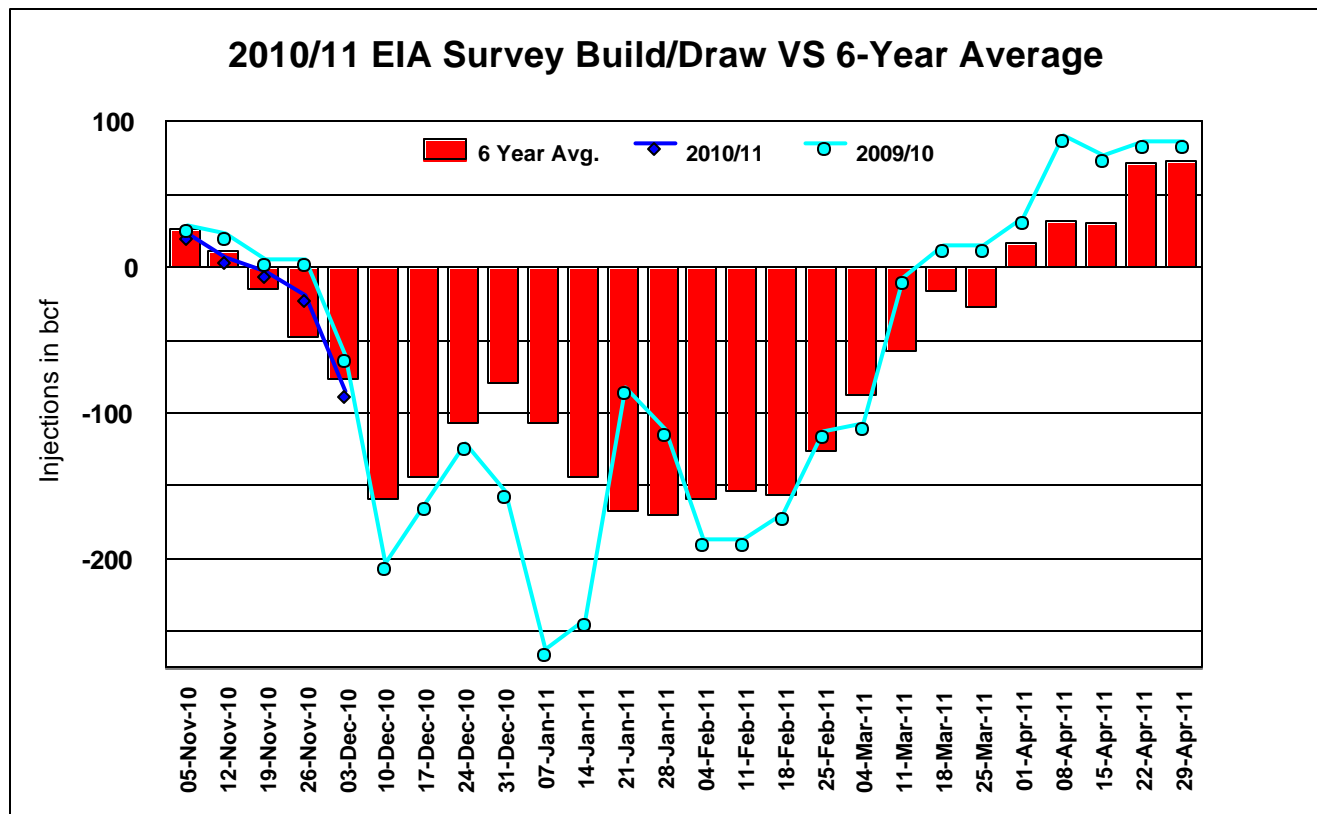
Weekly Storage Report

	03-Dec-10	26-Nov-10	04-Dec-09
East	231.8	236.8	235.5
West	379.2	390.4	370.8
Total	611	627.2	609.3

storage figures are in Bcf

PetroChina reported that it has begun work on building four new natural gas storage depots, which should be operational by 2015. The four terminals will be located in the city of Pingdingshan in Henan province, Yunying in Hubei province, Huai'an city in Jiangsu province and Yunnan province's Anning city.

The Duhai LNG tanker is slated to arrive at the South Hook terminal on December 16th. The 210,000 cubic meter tanker is coming from Qatar. Meanwhile National Grid confirmed this morning that the Al



Thumma LNG tanker has berthed at the Isle of Grain terminal.

The U.S. Climate Prediction Center said today that the La Nina weather pattern will peak in January but continue into the Northern Hemisphere spring of 2011. Most computer models suggest the pattern will dissipate by the end of spring, but a few models suggest it could last into the summer of 2011. The CPC said above average snow and rain will be seen in the hydroelectric dependent Pacific Northwest, Northern Rockies, the Great Lakes and the Ohio Valley.

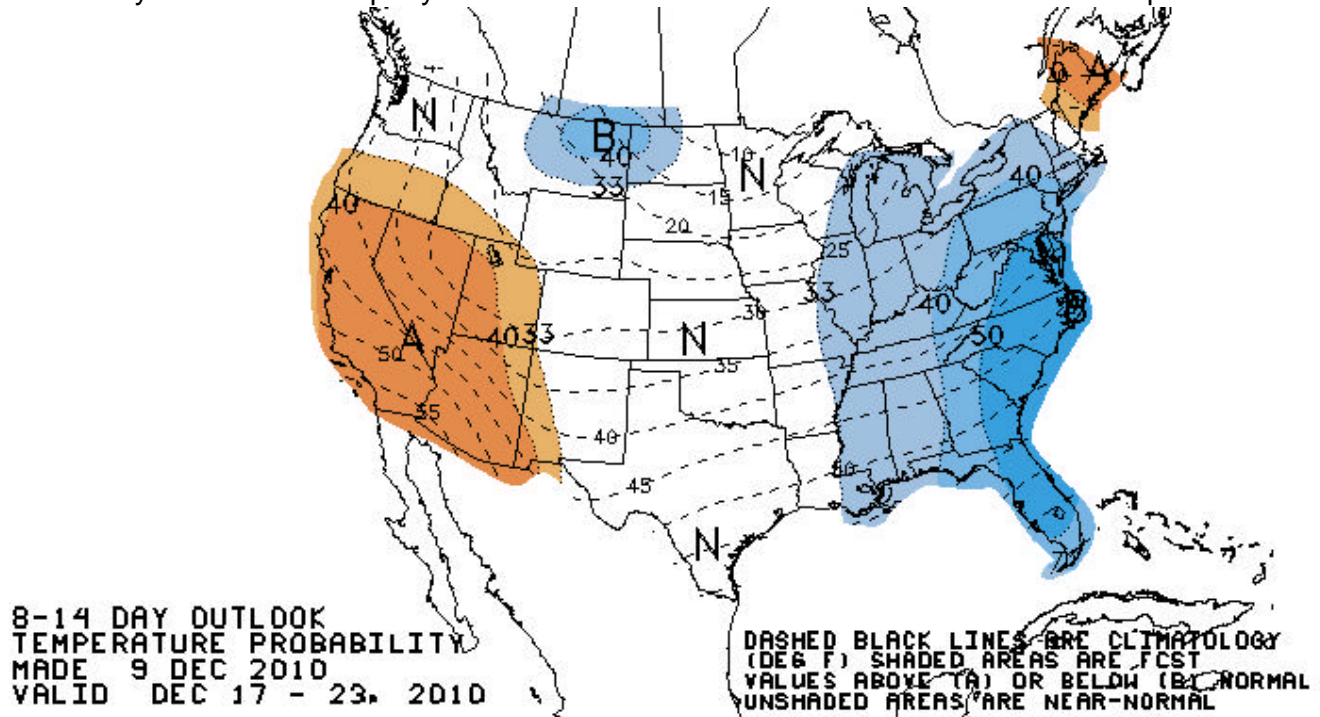
ELECTRIC MARKET

Exelon reported today that it will shut its 619 Mw Oyster creek nuclear power plant in 2019, some 10 years prior to the expiration of its operating license. The company reached this agreement with state regulators; after the state was

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	824,400	\$4.524	\$0.059	\$0.048	\$0.014	\$0.158
Chicago City Gate	971,500	\$4.730	\$0.029	\$0.254	\$0.108	\$0.235
NGPL- TX/OK	956,100	\$4.381	\$0.023	(\$0.095)	\$0.102	(\$0.129)
SoCal	372,500	\$4.388	\$0.007	(\$0.088)	\$0.086	(\$0.101)
PG&E Citygate	1,197,300	\$4.554	\$0.005	\$0.078	\$0.084	\$0.070
Dominion-South	279,700	\$4.833	(\$0.037)	\$0.356	\$0.042	\$0.344
USTrade Weighted	21,376,100	\$4.709	(\$0.065)	\$0.233	\$0.01	\$0.158

seeking the company to build expensive cooling towers to protect fish and other aquatic life in Barnegat Bay. The utility had estimated the towers would have cost \$800 million to build.

The consulting firm The Brattle Group said in a report this week that emerging U.S. EPA regulations may result in over 50,000 Mw of coal power plant retirements and up to \$180 billion in compliance costs for remaining power plants. These regulations do not even deal with carbon dioxide but are seeking to further restrict sulfur dioxide, nitrogen oxide, particulates and mercury, as well as reducing water use for cooling. Most of the retirements they expect will come in merchant power plants and be in the Midwest ISO, ERCOT and PJM. The group estimates that this would reduce coal demand by 15% by 2020 and boost natural gas demand to 5.8 bcf/d or about 10% of total natural gas use. The group estimated that if the lost coal generation is replaced by natural gas generation, CO2 emissions could fall by 150 million tons per year or about 7% of all CO2 emissions from the electric power sector.



Saudi Oil Minister Naimi said today that the U.N. climate talks should agree to include ways to encourage carbon capture and storage in the Clean Development Mechanism in the global talks.

MARKET COMMENTARY

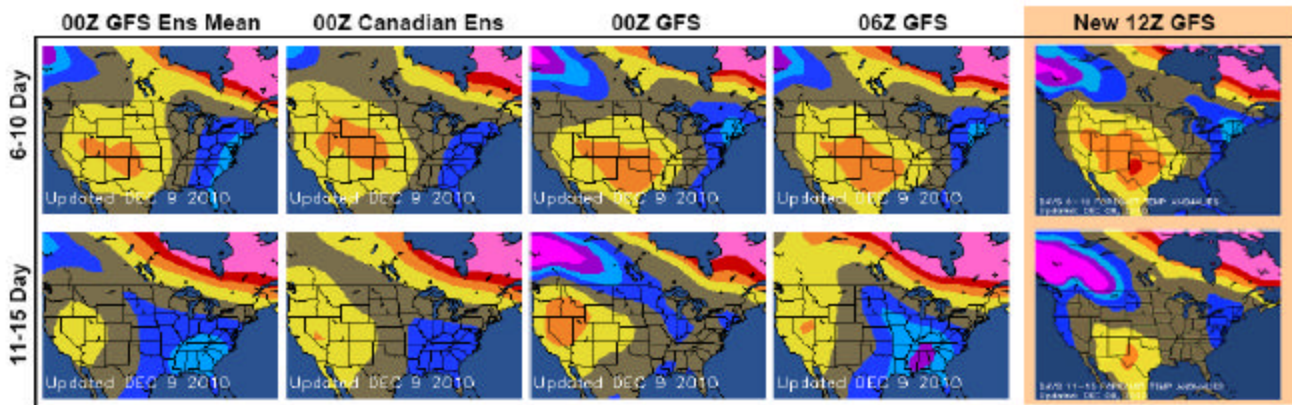
The natural gas market started the day holding onto the strength from yesterday, but following the release of a slightly larger anticipated drawdown basis the EIA Storage Report at midmorning the brief rally that followed was quickly jumped upon as a selling opportunity and prices fell some 20 cents over the next couple of hours. This sell off found additional pressure from the ever changing weather forecast which for the 11-15 day period showed a dramatic reversal from the morning's colder forecast to one of normal to above normal for much of the nation.

Late this afternoon though the National Weather Service released their updated 8-14 day outlook and it appeared to be more supportive than many of the private forecaster's outlooks from midday. They continue to look for below normal temperatures for the eastern third of the nation as they noted the ensemble mean solutions are in fairly good agreement and as a result they assigned a relatively high confidence factor in their forecast.

With the outlook for bitter cold temperatures to return the eastern two thirds of the nation next week we feel today's price pull back will be viewed as a pause and there will be a return of the bulls next week.

While early estimates for next week's EIA Storage report are for a strong 185 bcf drawdown, this will still fall short of the 207 bcf drawdown recorded for the same week a year ago and as a result this year's storage levels should narrow the gap once again with last year's record storage levels.

Forecast Model Comparison



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