



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR DECEMBER 10, 2010

NATURAL GAS MARKET NEWS

Baker Hughes reported today that for the current week the number of drilling rigs searching for natural gas stood at 948, down 13 from the previous week. The number of horizontal rigs, the type most often used to extract oil or gas from shale, was unchanged on the week, holding at the record high of 966 rigs first reached last week. Some two thirds of these rigs are believed to be drilling for natural gas.

Generation Update

PJM – Exelon’s 619 Mw Oyster creek nuclear power plant dropped to 25% power early Friday, down from 53% recorded on Thursday.

SPP – The 1166 Mw Wolf Creek nuclear unit rose to 72% power this morning, up 66% from yesterday

FRCC – NextEra Energy’s 693 Mw Turkey point #4 nuclear unit was shut early Friday. The unit had been at full power on Thursday.

The NRC reported today that some 94,163 Mw of generating capacity was online today, down 0.2% from yesterday but 6.2% higher than the same day a year ago.

The Vienna-based Central European Gas Hub began its futures trading market today. The hub, a unit of oil and gas group OMV is offering trading through the exchange systems of the Vienna Bourse. The market is hoped to create an international hub and gateway for gas trading in Central and Eastern

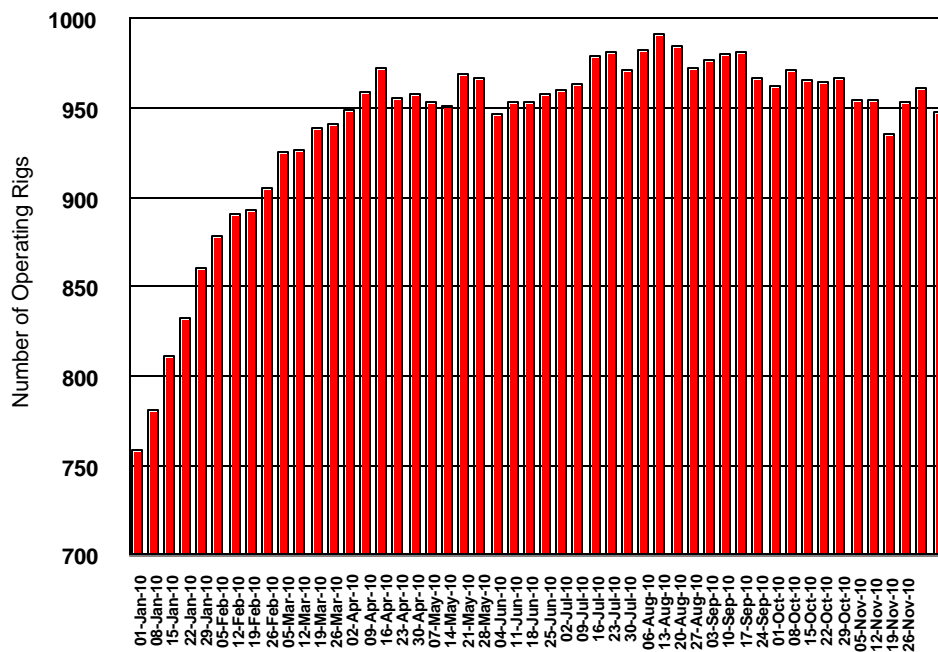
Europe. The hub is based around the Baumgarten compression station on Austria’s eastern border, which handles about a third of Russian gas exports to Europe.

Korea Gas Corp reported this morning that it has sold 2.97 million tones of LNG in November, up 13% from a year earlier. Some 57% of the LNG went to household and business consumption, while the remainder went to power generation.

Eni reported today

U.S. Natural Gas Drilling Rig Activity

Source: Baker Hughes



January 1 - December 10, 2010

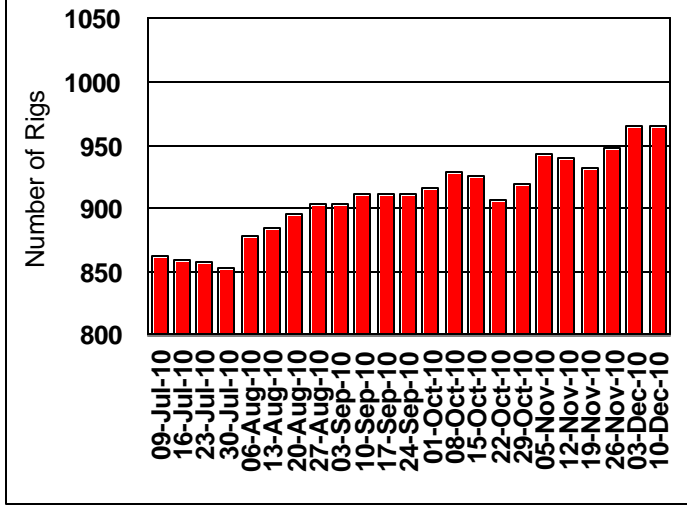
that it has reached agreement to buy Minisk Energy Resources and as a result will become operator of three licenses in the Polish Baltic Basin, a highly prospective shale gas play. Drilling operations are expected to start in 2011 with six exploration wells.

ELECTRIC MARKET

Genscape reported today that it estimates U.S. coal consumption this week by U.S. utilities increased by 9% from the previous week and was 23% greater than the same week a year ago.

Analysts at Macquarie Capital have tempered their recent downside expectations for the PJM forward capacity market. The firm now expects prices in the next auction in May 2011 will hold steady on the year. The firm had been looking for lower future power demand,

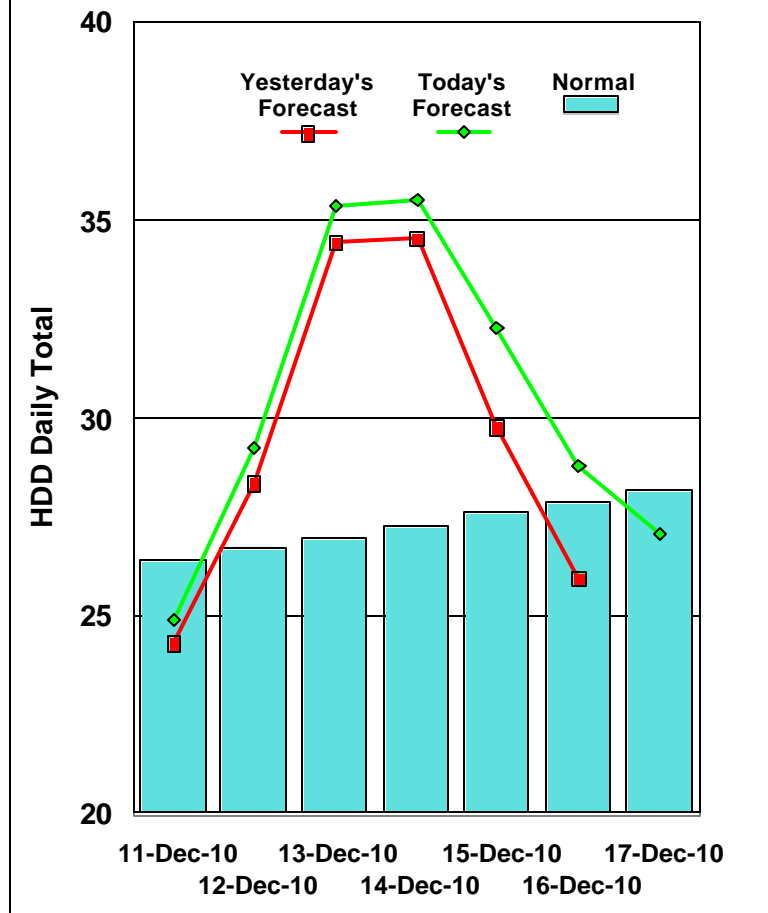
U.S. Horizontal Rig Activity



aggressive demand response bidding, delayed retirements of some coal plants and new subsidized peakers in New Jersey could potentially spoil the upcoming PJM capacity auction. Now the firm looks for PJM load forecasts to decline by less than they initially forecasted and the subsidized peakers in NJ seem unlikely to be approved. Analysts estimate that if PJM adopts its new forecasting methodology, its RTO load expectations for 2014-15 would drop an average of about 6300 Mw or 4.2% as compared to the PJM forecast from 2010.

Total HDD Daily Forecast

Population Weighted Basis on Gas Residential Usage



ECONOMIC NEWS

The US trade deficit unexpectedly contracted in October, as exports increased to their highest level in more than two years. The Commerce Department said the total US deficit in international trade of goods and services fell more than 13% to \$38.71 billion in October from an upwardly revised \$44.60 billion in September. The US trade deficit with China fell by 8.3% to \$25.52 billion as exports to the country increased by 29.8% to a record high of \$9.3 billion and imports fell to \$34.82 billion. US exports increased by 3.2% to \$158.72 billion, the highest level since August 2008. The US bill for crude oil imports in October fell to \$18.88 billion from \$20.96 billion in

September. The US paid \$24.99 billion for all types of energy-related imports, down from \$26.62 billion in September.

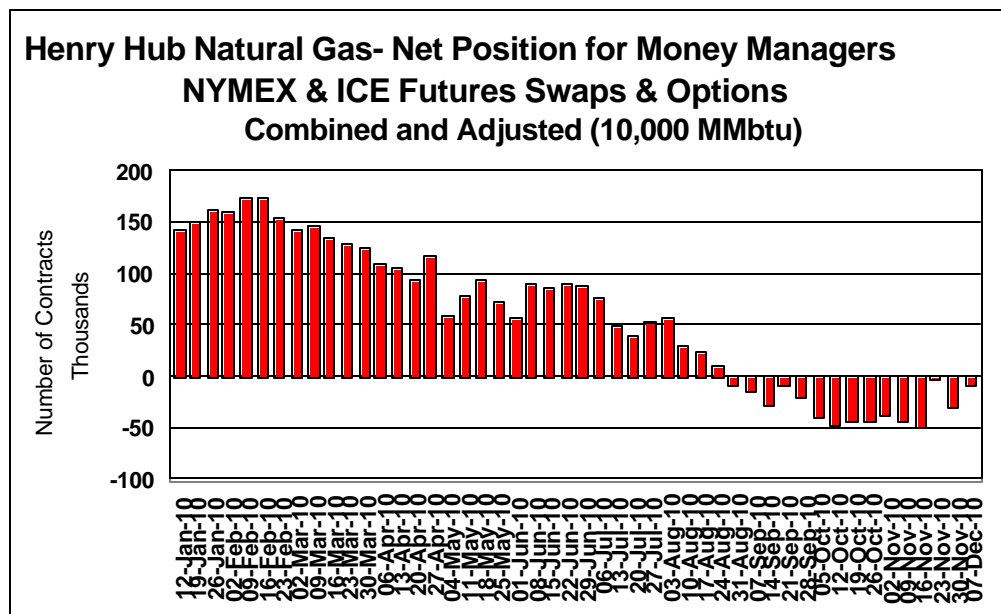
The US Labor Department said US import prices posted a second consecutive gain in November. The price of goods imported into the US increased by 1.3% compared to the prior month.

China's Central Bank said it will increase banks' reserve requirement ratio by 0.50 percentage points. It is the sixth interest rate hike this year. The increase, which takes effect on December 20th, is the latest move by China to curb inflation after the consumer price index in October increased by 4.4% on the year.

MARKET COMMENTARY

Moderating weather forecasts this morning and again this afternoon, especially for the 11-15 day period continued to dampen prices today. The hesitation by the bulls in this market came despite the fact that near term forecast for the next 7 days could be a bit colder than expected yesterday.

We would look for Monday's weather forecasts to set the tone for trading next week. We see key support for this market next week at \$4.349-\$4.33 followed by \$4.245 \$4.150 and \$4.126. Resistance we see at initially at \$4.46, \$4.491 and \$4.525 with more significant resistance at \$4.659 and \$4.681.



This afternoon's Commitment of Traders Report appears to show that the money managers or commodity funds decreased their net short positions over the week ending December 7th by 23,000 lots, and apparently the driving force to pushing this market higher.

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