



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR AUGUST 3, 2010

NATURAL GAS MARKET NEWS

Tropical Depression 4 was upgraded to Tropical Storm Colin overnight, but by midday it was appearing to forecasters to be a bit ragged as its convection seemed to have weakened as some wind shear appeared to be having an impact as well. Forecasters later said Tropical Storm Colin degenerated into a remnant low pressure area. Elsewhere there was a tropical wave in the eastern Caribbean. While this system could become a tropical depression or a tropical storm in a few days, its guidance track is to keep moving westward and eventually making landfall at Honduras, Belize and the Yucatan later this week. There are also two tropical waves east of Tropical Storm Colin. The first is fairly disorganized but the one currently emerging of the western coast of Africa may find some favorable conditions in a couple of days for future development.

The Aamira LNG tanker was reported to be scheduled to arrive at the UK Milford Haven terminal on August 9th. The 268,000 cubic meter ship is carrying LNG from Qatar.

PIPELINE MAINTENANCE

Gulf South will perform pipeline maintenance on Index 381 west of Jackson Compressor Station starting on August 9th and continuing for about three days. The company does not anticipate any impact on shippers.

PIPELINE RESTRICTIONS

Pacific Gas and Electric Co issued a system wide operational flow order in effect for gas day August 4th due to high inventory.

Florida Gas Transmission has issued an overage alert day at 10% tolerance for its market area for gas day August 3^d, due to high temperatures. It will not interrupt previously scheduled market area interruptible transportation service below the elapsed prorated scheduled quantity.

Southern Natural Gas Co has implemented a capacity allocation effective with the evening cycle August 3 and continuing until further notice for all points downstream of Ocmulgee Compressor Station.

Generator Problems

NPCC – OPG's 515 Mw Unit #8 at the Pickering nuclear power plant returned to service early Tuesday. The unit had been shut on July 22^d.

SERC- All three reactors at TVA's Browns ferry nuclear power plant were running at reduced rates of 50% this morning due to high temperature readings in the Tennessee River. Yesterday the units had ramped up to 70% power.

The NRC reported this morning that some 93,256 Mw of nuclear generation was operating today, down 0.62% from yesterday and off 2.24% from the same day a year ago.

Natural Gas Pipeline Co of America said effective for gas day August 3 and continuing until further notice, it has capacity available for deliveries at MEP-Lamar. Interruptible transportation service/authorized overrun and secondary firm transports are available.

ELECTRIC MARKET NEWS

Genscape reported today that they estimate coal stockpiles at U.S. power plants fell 1.2% this week and were 17.2% smaller than the same time a year ago. Genscape noted the week to week decline of 1.8 million tons is consistent with seasonal supply-demand patterns every summer.

The Northwest River Forecast Center reported today that they estimate water runoff at the Dalles Dam for the April – September period should average 84% of normal, unchanged from their prior estimate given back on July 27th. Water flows at the Grand Coulee Dam were seen averaging 79% of normal also unchanged from its prior forecast.

Duke Energy Corp said the absence of clear carbon emissions rules in the US will prevent power companies from building new coal or nuclear power plants for the next several years. Duke Energy's chairman and chief executive Jim Rogers said most power companies will instead build natural gas fired power plants, betting that new US gas fields will keep supplies abundant. Energy legislation being debated in the US Congress omitted regulations that would have established a market for companies to trade the right to emit carbon dioxide.

ECONOMIC NEWS

The Commerce Department said US factory orders fell by more than expected in June from May, providing further evidence that the economy may be weakening. New orders for US manufactured goods fell by 1.2% in June to \$406.41 billion. It was the second consecutive decline, with factory orders in May falling by 1.8%. Orders for durable goods were revised in June to reflect a 1.2% decline.

The Commerce Department also reported that US consumer spending was flat in June as incomes stopped growing and prices remained unchanged. Consumer spending was unchanged last month after growing a revised 0.1% in May.

The National Association of Realtors' index for pending sales of used homes fell by 2.6% to 75.7. Home sales have declined for two consecutive months after a tax credit for buyers expired on April 30th. Year over year, the pending sales index was 18.6% below its level of 93 in June 2009.

MARKET COMMENTARY

The natural gas market continued to retrace its recent upmove as the market found little support from economic news and the weather forecasts. Demand from the industrial sector remains weak. According to the Commerce Department, consumer spending and personal incomes stagnated in June while factory orders fell more than expected. The National Weather Service sees average temperatures in the Northeast, Southeast and across much of the west for the next 6 to 10 days while the 8 to 14 day forecast shows average and below average temperatures for most of the East. The natural gas market rallied to a high of \$4.825 early in the session. However the market gave up its gains and retraced more than 50% of its move from a low of \$4.29 to its recent high of \$4.733 as it sold off to a low of \$4.625. The market later traded in a sideways pattern and settled down 6.2 cents at \$4.639.

The natural gas market is seen testing its support amid the lack of any supportive news. It is seen finding support at \$4.625, \$4.5648, its 62% retracement level, \$4.496 and \$4.368. Resistance is seen at \$4.70, \$4.768, \$4.896 and \$4.968.

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