



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JULY 1, 2010

NATURAL GAS MARKET NEWS

The Bureau of Ocean Energy management said that as of midday July 1st that some 877 MMcf/d of natural gas production remained shut in from Hurricane Alex, down 42 MMcf/d from yesterday.

Shell reported this afternoon that it was returning its workers to offshore platforms and it expects it will take 3-5 days to restore production. The company said it also shut down onshore gas drilling and production due to the storm.

EIA Weekly Report

	06/25/2010	06/18/2010	Change	06/25/2009
Producing Region	943	935	8	1000
Consuming East	1293	1251	42	1281
Consuming West	448	438	10	429
Total US	2684	2624	60	2711

*storage figures in Bcf

National Grid in its winter consultation report said that it sees British supplies of natural gas from offshore North Sea British platforms will be some 9% lower this winter versus this past winter. As a result the country will likely import more gas from Norway this winter. Flows of LNG could also be higher than last year to make up for this shortfall. National Grid forecasts average flows of 60 mcm/d with increased capacity at the South Hook and Isle of Grain terminals increasing import capacity to over 140 mcm/d. The company sees non-storage gas supplies for next winter ranging between 342 to 412 mcm/d with a base case of 367 mcm/day. This would be comparable to last winter's actual level of non-storage supplies.

The Australian press was reporting today that the Australian government and miners will announce a resources "super profits" tax deal on Friday, after reaching a compromise on the controversial tax today.

Generator Problems

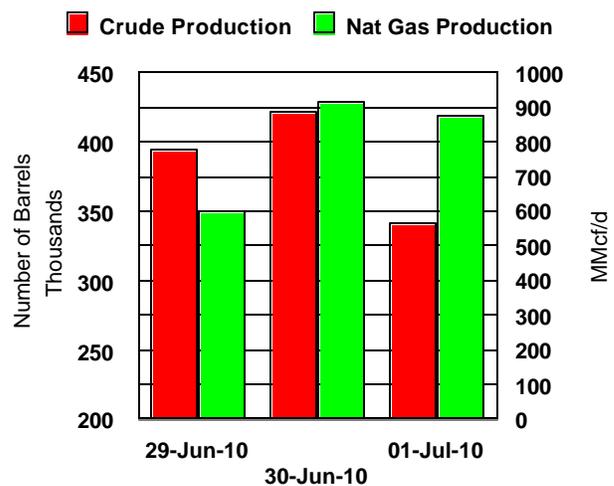
NPCC – Hydro-Quebec planned to restart the 675 Mw Unit #2 at the Gentilly nuclear power plant early next week. The unit shut for planned maintenance on April 9th.

ERCOT – The San Miguels #1 power plant reported an air shut down as operators repaired a tube leak.

The NRC reported this morning that some 95,680 Mw of nuclear generation was operating today, up 1.2% from yesterday and some 1.3% higher than the same day a year ago.

Milford Haven port authority reported that the LNG tanker the LNG Finima is scheduled to berth at the Dragon LNG terminal on July 4th. The cargo originated at Bonny Island, Nigeria.

U.S. Gulf Of Mexico Production Shut Ins



reaching a compromise on the controversial tax today.

JX Nippon Oil & Energy said today that it plans to build a LNG receiving terminal in Kushiro in northern Japan. The facility will have a 10,000 kl LNG tank and a berth for receiving domestic vessels. The facility would receive LNG from a separate, bigger LNG terminal that the company is set to begin operating in Hachinohe, in northern Japan in April 2015.

PIPELINE MAINTENANCE

Questar Pipeline reported that the follow up work related to the June 24th mechanical failure on Unit #2 at the Oak Springs compressor station was not completed as anticipated and the company said capacity will remain at 340,000 Dth/d for today. The unit was taken out of service on June 29th.

PIPELINE RESTRICTIONS

NGPL said that for July 1st and until further notice it has capacity available for deliveries at BP PROD-Hutchinson and limited capacity at Florida gas-Jefferson. Interruptible transportation service/authorized overrun and secondary firm transports are available.

Tennessee Gas Pipeline said that as of today it had lifted restrictions at Niagara Spur Backhaul and it will accept nomination increases to 27,000 Dth.

PG&E has again issued a system wide OFO, this time for July 2nd due to high inventory. The company set a 5% tolerance.

ECONOMIC NEWS

The US Labor Department reported that the number of US workers filing new claims for unemployment benefits unexpectedly increased by 13,000 to 472,000 in the week ending June 26th. Economists had expected claims to fall by 2,000. The previous week's level was revised upwards from 457,000 to 459,000. It reported that the four week moving average increased by 3,250 to 466,500 on the week. The Labor Department's report showed that the number of continuing claims increased by 43,000 to 4,616,000 from the preceding week's revised level of 4,573,000. The unemployment rate for workers with unemployment insurance in the week ending June 19th was 3.6%, unchanged on the week.

The Commerce Department reported that spending on construction in the US fell less than expected in May as a decline in the private sector was partially offset by rising public construction. Spending fell by 0.2% to a seasonally adjusted annual rate of \$841.89 billion compared with the prior month. Residential construction spending in May fell by 0.4% to \$270.24 billion after increasing a revised 5% in April. Spending on non-residential or commercial projects fell by 0.1%.

The National Association of Realtors' index for pending sales of existing homes fell to 77.6 from 110.9 in April. Pending home sales in May fell by 15.9% on the year.

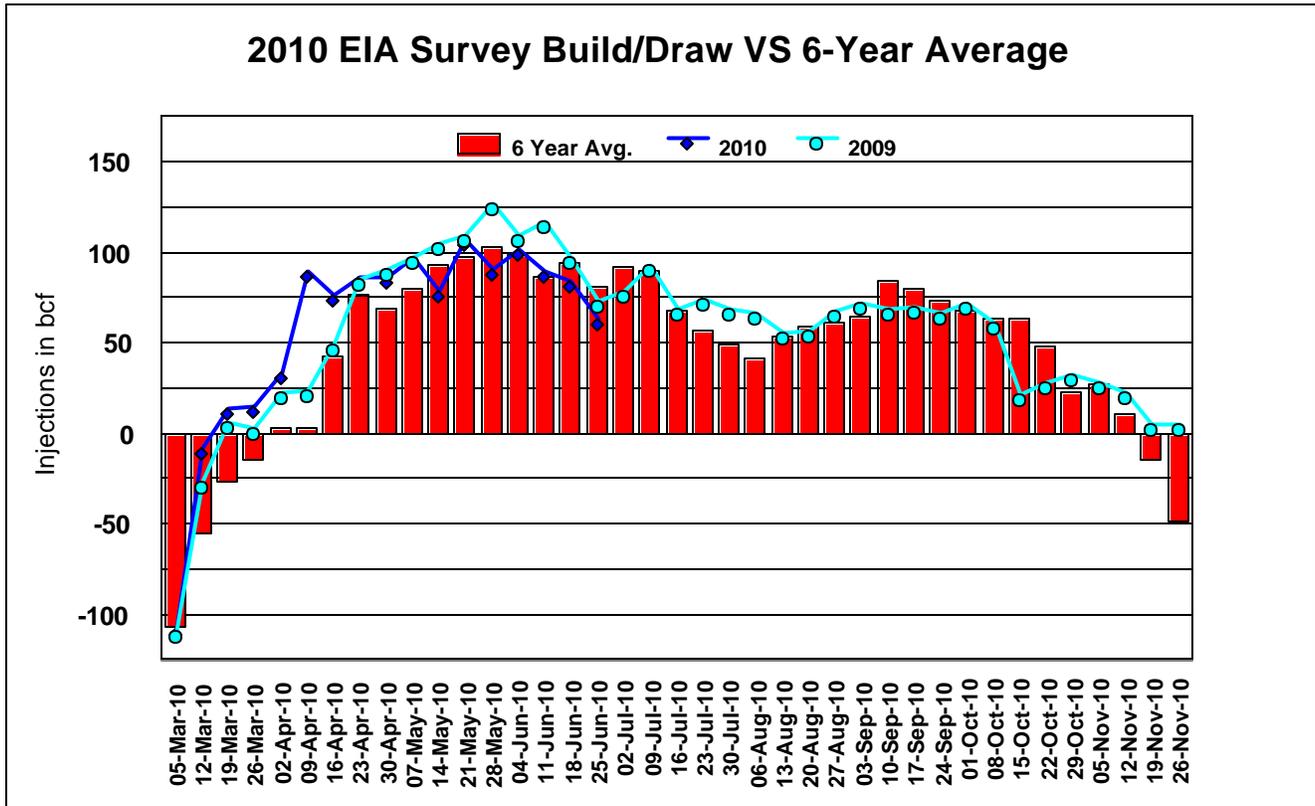
The US manufacturing sector grew in June for an eleventh consecutive month but at a slower rate than expected. The Institute for Supply Management said its index of national factory activity fell to 56.2 in June from 59.7 in May. The report's employment component fell to 57.8 from 59.8. New orders also fell to 58.5.

Euro zone manufacturing slowed in June to its weakest growth rate in four months. Markit said its June final manufacturing purchasing managers' index was 55.6, down from 55.8 in May. The manufacturing output index was revised down to 57.2 from 57.3 but was up from 56.8 in May.

MARKET COMMENTARY

The bulls received a pleasant surprise today as the EIA working gas storage report came in substantially lower than most market analysts had been expecting. As a result stocks now stand some 27 bcf behind year ago levels and only 287 bcf above the five year seasonal average. This coupled with the outlook for the return to warmer than normal temperatures for much of the nation east

of the Rockies allowed this market to retrace more than half of the sell off of the past two weeks. This price rebound came despite the dramatic sell off in the equities and oil markets as the result of bearish economic news today. While we feel the natural gas market can maintain these levels we would look for tomorrow to be a relatively quiet trading session and possibly a typical summer Friday inside trading session, especially in front of the holiday weekend. We continue to see this market for the next week or two to be contained with a \$4.40-\$5.25 trading range. We see initial resistance tomorrow at \$4.93 followed by \$4.954, \$5.01 and \$5.20-\$5.25. Support we see \$4.753, \$4.70 and \$4.647. More distant support we see at \$4.505-\$4.477.



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