



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JULY 1, 2011

NATURAL GAS MARKET NEWS

North America

Baker Hughes reported this afternoon that for the current week ending July 1st it estimated some 874 rigs were searching for natural gas in the United States, up one from the previous week.

Barclay's Capital said it expects an oversupply of natural gas will continue in the North American market until late 2012, but it expects enough drilling rigs will move from natural gas to oil services by then to change gas supply and price patterns. While the bank is looking for oil prices to move higher this year it expects gas prices to remain stagnant,

Generation Outages

NPCC – Bruce Power reportedly is nearing a restart for its refurbished Bruce #2 nuclear unit.

OPG's 490 Mw Nanticoke #2 coal fired power unit returned to service following a 1-day outage.

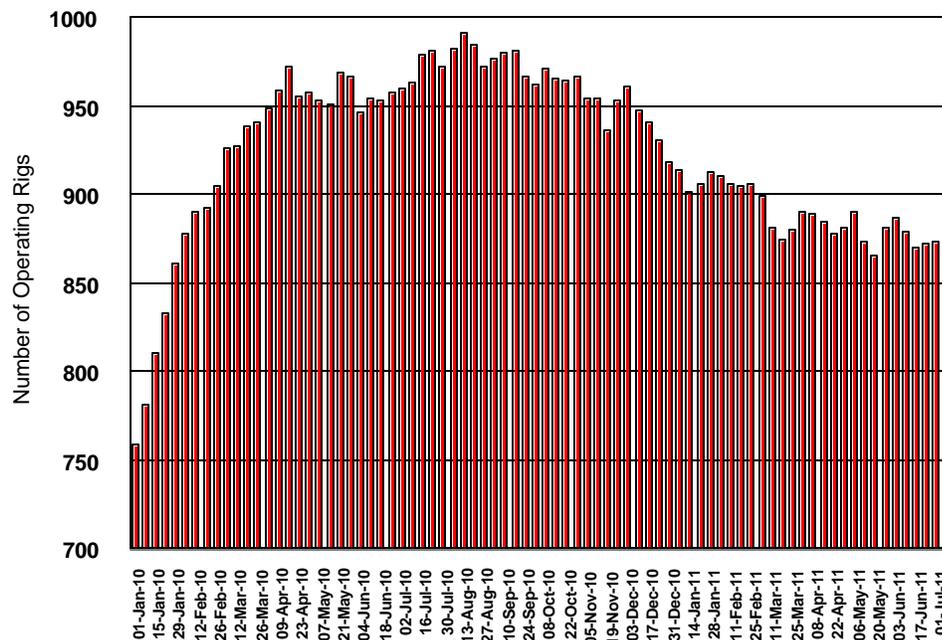
ERCOT – Luminant's 583 Mw Monticello #2 coal fired power plant tripped Friday due to an electrical failure.

SPP – The 1166 mw Wolf Creek Nuclear unit was up to 60% power this morning

The NRC reported this morning that some 93,764 Mw of nuclear generation was online, up 0.8% from yesterday and 1.67% below levels recorded a year ago.

U.S. Natural Gas Drilling Rig Activity

Source: Baker Hughes



January 1, 2010 - July 1, 2011

further pushing producer to reduce their natural gas efforts in favor of oil drilling. The bank's research staff sees natural gas supply in North America growing by 1.7 bcf/d in 2011, led by 2.9 bcf/d growth in the United States, which will offset declines in Canadian production and LNG imports.

With the remnants of tropical Storm Arlene located over central Mexico this morning, the rest of the tropical Atlantic was quiet and expected to remain that way through the

holiday weekend. Computer models though are beginning to point to the potential for some tropical development between July 8th and July 18th possibly between the Cape Verde Islands and the Caribbean, as the Madden Julian Oscillation is in a favorable state and low wind shear conditions are expected across much of the area.

The FERC Thursday issued favorable environmental assessments of Tennessee Gas Pipeline's and Dominion Transmission's proposed system expansions to deliver Marcellus Shale gas to growing Northeast markets

International

The managing director of the Trans Adriatic Pipeline project which is seeking to carry gas to Europe from the Caspian said it is willing to finance the estimated \$2.1 billion cost of building a Greek section, providing some potential relief to the debt ridden government of Greece. The TAP is one of three pipeline projects vying to carry gas from Azerbaijan to Europe, with the other two being the Nabucco project and the Interconnector Turkey-Greece. The director said the TAP offered the shortest and most financially efficient route to the European market. He noted a decision should be forthcoming after October 1st when competitive proposals are to be submitted to the Shah Deniz consortium in Azerbaijan. Shah Deniz is offering 10 bcm in contracts.

Shell's Saint Fergus gas terminal in Scotland was shut down Friday morning for planned maintenance work and was expected back in service in 24 hours.

Lithuania has hired Fluor Corp to be its lead advisor on its proposed floating LNG terminal that it is seeking to build by 2014 at Klaipėdos port.

ELECTRIC MARKET NEWS

An official in the German cartel office said today that Germany's move to phase out its nuclear power generation assets and move toward more green power could come at the cost of competition in the energy industry. He noted that Germany's new policy focus on renewables and the phase out of nuclear power, was supporting subsidized energy, without as yet introducing market based mechanisms. He noted that renewable energy accounts for 20% the country's power generation, with the government looking to expand this share to 35% by 2020. He noted that with the shift toward "temperamental wind and solar power" policymakers are discussing whether to build and pay stand by premiums for conventional round the clock power plants or capacity market. He said it "can not be desirable that the state is to decide what sort of power plant will be situated where."

Tokyo Electric Power said today that has boosted power supply by 1% or 600 Mw for this summer and will do all it can to avoid rolling blackouts. The company currently is estimating peak demand of 55,000 Mw and it currently estimates its supply capacity of 55,600 Mw. The company though has dropped plans to import 1000 Mw of power from utilities in the western part of Japan. Meanwhile today the Japanese trade ministry estimated that nuclear plant utilization at Japan's 10 nuclear power companies fell to an average 36.8% in June versus 66.1% a year earlier. This was the lowest level in 32 years. In May the utilization rate was 40.9%.

ECONOMIC NEWS

The US Commerce Department said construction spending fell by 0.6% to a seasonally adjusted annual rate of \$753.48 billion. It was the sixth consecutive decline and the lowest seasonally adjusted level since September 1999. Spending in April was revised down to a fall of 0.6% compared with a previously estimated increase of 0.4%.

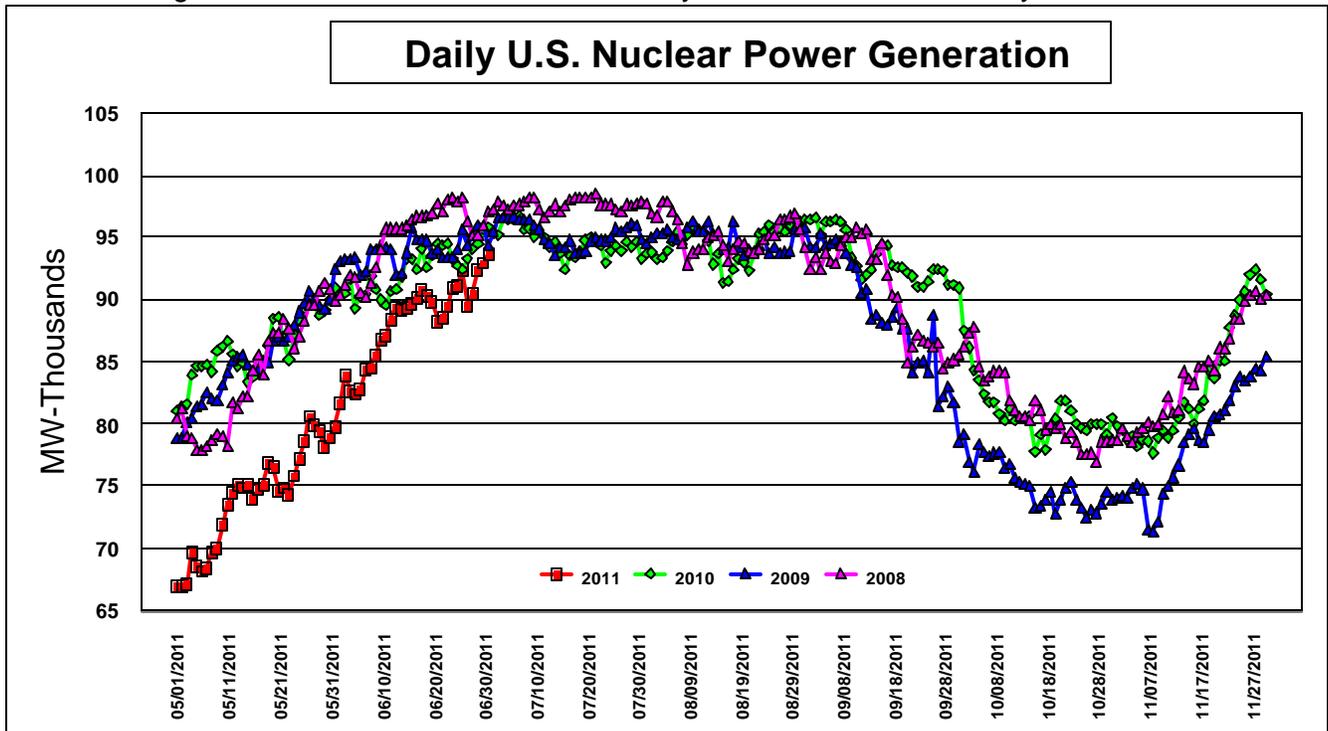
The pace of growth in US manufacturing increased for the first time in four months in June. The Institute for Supply Management said its index of national factory activity increased to 55.3 in June

from 53.5 in May. The prices paid index fell to its lowest level since August 2010 at 68 from 76.5 while inventories increased to 54.1 from 48.7. The consumer sentiment index in June fell to 71.9 from 74.3.

The Thomson Reuters/University of Michigan's consumer sentiment index stood at 71.5 in June, down from 74.3 in May. The survey's index of current economic conditions increased to 82 from 81.9 in May.

The Economic Cycle Research Institute said its Weekly Leading Index fell to 126.4 in the week ending June 24th from 127 the previous week. The index's annualized growth rate fell to 2% from 2.9% a week earlier.

The global manufacturing sector grew at its slowest pace in June in nearly two years. The Global Manufacturing PMI fell in June to 52.3 from 53 in May, its lowest level since July 2009.



Britain's manufacturing sector grew at its slowest pace in almost two years. The Markit/CIPS manufacturing PMI index fell to 51.3 in June from May's downwardly revised 52.

European Union's statistics office Eurostat said Euro zone unemployment was stable at 9.9% of the workforce in May. It said 15.51 million people were without jobs in the Euro zone.

A euro zone government source said a final agreement on a second bailout package for Greece could be held off until September. Earlier this month, European Commissioner for Economic and Monetary Affairs Olli Rehn had set July 11th as a deadline for taking decisions on a second Greek bailout package, including a private sector contribution. In recent days, national authorities have been discussing the nature of private sector participation with banks and other financial firms. Separately, the board of the Institute of International Finance said European governments and international organizations will need to backstop Greek banks until fiscal changes take hold. It added that Greece would require significant cash flow support for some years.

China's factory sector grew at its slowest pace in 28 months in June as new orders expanded less quickly. The China Federation of Logistics and Purchasing said the official purchasing managers'

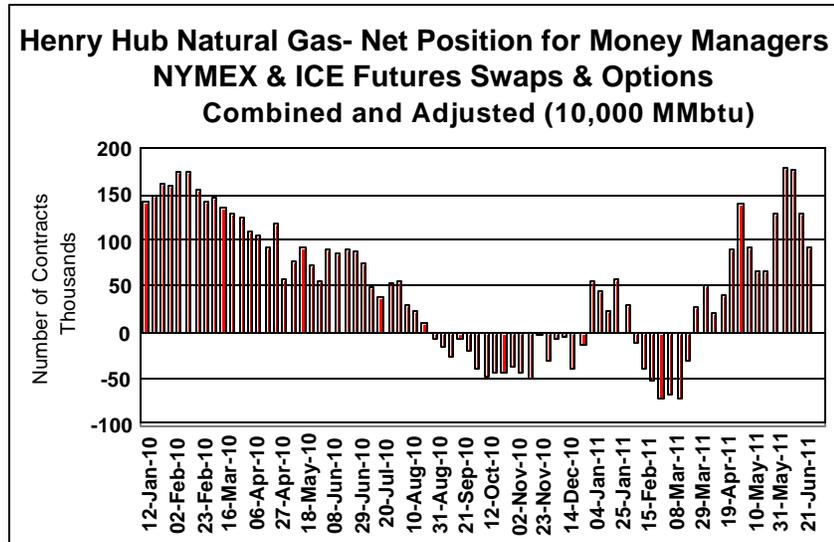
index fell to 50.9 in June from 52 in May. Meanwhile, the HSBC Markit Purchasing Managers' Index stood at 50.1, with output falling for the first time since July 2010.

India's manufacturing sector slowed down in June as output declined sharply. The HSBC Markit Purchasing Managers' Index fell to 55.3 in June from 57.5 in May, its lowest level since September last year and the largest fall since November 2008.

MARKET COMMENTARY

The natural gas market as expected posted an inside trading session on the get away day for the July 4th holiday weekend. Volume was at best light to moderate. The August natural gas futures settled lower today by just over 6 cents, as prices in the contract basically gave back half of the gains they enjoyed following the release of yesterday's storage report. The disappointing economic news coupled

with rebounding nuclear generation levels and a decline in industrial demand for natural gas due to the holiday weekend helped to keep the bulls away from this market today.



We would look for traders to return to the market next week and they will most likely look to weather as the key to direct their trading decisions. Cooling demand and the tropics will be the main forecasts that will be widely watched. But with nuclear generation levels finally returning back to normal seasonal levels and the continued high level of hydro generation in the west, we

feel any upside moves for this market will be extremely limited and tempered without a significant hurricane threatening the Gulf of Mexico.

Tonight's Commitment of Traders Report this afternoon showed that for the week ending June 28th money managers decreased their net long position in the NYMEX and ICE Henry Hub futures, swaps and options on a combined and adjusted basis by over 37,000 contracts and back to their smallest net long position in five weeks or back to the start of the late May and June rally that saw prices jump by 80 cents. We expect that money managers will probably look to maintain there net length around these current levels given a probable desire to hold not only commodity length in general but also to remain somewhat long going into the hurricane season.

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