



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JULY 6, 2011

NATURAL GAS MARKET NEWS

North America

The National Hurricane Center this afternoon noted that a large but disorganized area of cloudiness and thunderstorms stretching from the southwestern Gulf of Mexico to Cuba to South Florida that is associated with a tropical wave interacting with an upper level low has a 10% chance of becoming a tropical cyclone during the next 48 hours as it drifts northward.

Generation Outages

PJM – PPL’s 1149 mw Susquehanna #1 nuclear unit saw power output fall by 25% overnight and was at 75% capacity this morning. Unit #2 at the plant remained at only 37%.

PSEG’s 1158 mw Salem #2 nuclear unit was back at full power on Wednesday, up 50% from yesterday.

The NRC reported this morning that some 94,429 Mw of nuclear generation was online, up 0.3% from yesterday and 2.3% below levels recorded a year ago.

International

The Al Mayeda LNG tanker is expected to arrive at the UK’s South Hook LNH terminal on July 13 from Qatar, according to the local port authority.

The Israel Electric Corp Ltd said Wednesday its natural gas supply from Egypt has been resumed at only 30% to 40% of normal volume, after sabotage had closed the pipeline for almost two days, according to Ampal American Israel Corporation, which owns 12.5% of East Mediterranean Gas

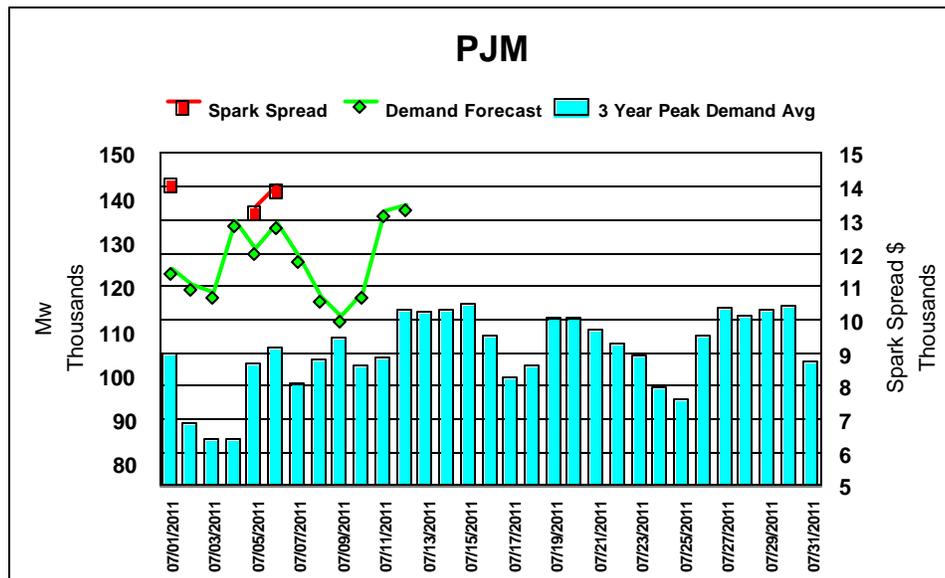
Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis	Change	Basis 5-Day Moving Avg
				(As of 12:30 PM)		
Henry Hub	699,600	\$4.344	(\$0.060)	\$0.080	(\$0.027)	\$0.047
Chicago City Gate	516,800	\$4.375	(\$0.082)	\$0.111	(\$0.038)	\$0.067
NGPL- TX/OK	950,400	\$4.279	(\$0.063)	\$0.014	(\$0.019)	(\$0.049)
SoCal	718,600	\$4.486	(\$0.068)	\$0.222	(\$0.024)	\$0.134
PG&E Citygate	1,129,200	\$4.619	(\$0.067)	\$0.355	(\$0.023)	\$0.289
Dominion-South	780,600	\$4.456	(\$0.046)	\$0.192	(\$0.002)	\$0.111
USTrade Weighted	21,604,900	\$4.379	(\$0.071)	\$0.115	(\$0.03)	\$0.047

Company, an Egyptian company that sells natural gas to Israel. The electric company said it will still be able to meet its fuel needs because it recently started purchasing Israeli

natural gas from a local consortium, and has increased its use of other energy sources, including coal and diesel. Earlier this week, the EMG pipeline in Egypt’s Sinai Peninsula was sabotaged for the third time since December, when civil unrest and protest against the country’s former president Hosni Mubarak began. Israel buys 40% of its natural gas from Egypt, but recently-discovered reserves offshore Israel are expected to begin producing late next year, partially freeing Israel from dependence on foreign energy.

UK Winter 2011/2012 peak gas demand will be manageable at 474 million cubic meters per day and at lower levels than last year as energy efficiency and higher prices dampen demand, National Grid said on Wednesday. The National Grid said, "the 2011-2012 winter demand forecast is slightly lower than the 2010/2011 weather corrected demands. Winter should be manageable, but as always there is never room for complacency as the unexpected can always occur."

The maximum potential supply National Grid expects to UK offshore gas fields to be capable of this coming winter is 153 million cubic meters a day, compared with 184 million last winter, it said in its



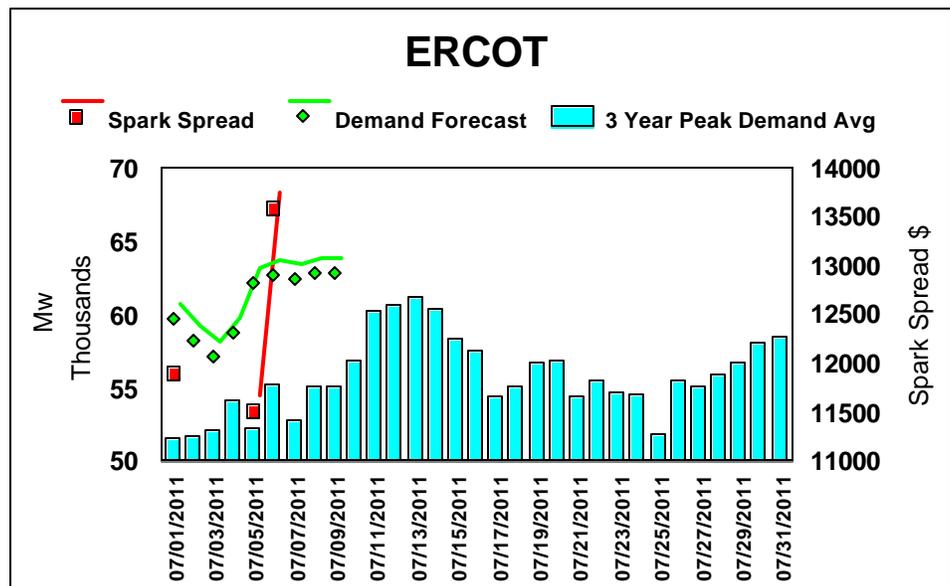
regular Winter Consultation Report.

Gazprom brings forward launch of giant Bovanenkovo gas field to Q2 of 2012, which may increase output to 120 bcm by 2014.

China has awarded two out of four shale gas blocks offered in its first auction of the unconventional gas resource, and Sinopec Corp and a provincial coal seam gas firm each won

one block, a government official said on Wednesday. "Both blocks are in Chongqing area. The contracts will be signed shortly," an official with the Ministry of Land and Resources told Reuters.

Norway's gas production and exports are seen at an average 320 million cubic meters per day in the coming winter season, about 2 percent higher than 2010/2011, according to estimates from National Grid. Exports to the UK are seen at an average 95 million cubic meters per day for the winter of 2011/2012, compared to 85 million in the 2010/2011 period.



ELECTRIC MARKET NEWS

For the second time in a month, Duke Energy announced plans today to build a large-scale wind farm. Duke Energy Renewables, a commercial business unit of Duke Energy, will build, own and operate the 131-megawatt Cimarron II Windpower Project in Gray County—approximately 200 miles west of Wichita. The company purchased the fully developed and contracted wind power project from Silver Spring, Md-based CPV Renewable Energy Company. Project acquisition terms were not disclosed. CPV will continue to own the first phase of the wind project—Cimarron I. Kansas City Power & Light

will purchase all of the electricity and associated renewable energy credits produced by Cimarron II under the terms of a 20-year agreement (originally announced in May). Duke Energy Renewables plans to start construction of Cimarron II Windpower Project in the fall of 2011 and achieve commercial operation by June 2012.

The wind farm, which will be sited on 16,000 acres of leased farmland, will be capable of generating enough electricity to power nearly 40,000 homes.

The NRC said today that it began a special inspection of the Oconee nuclear power plant to evaluate an issue related to the plant's standby shutdown facility. The inspection work is expected to take a week.

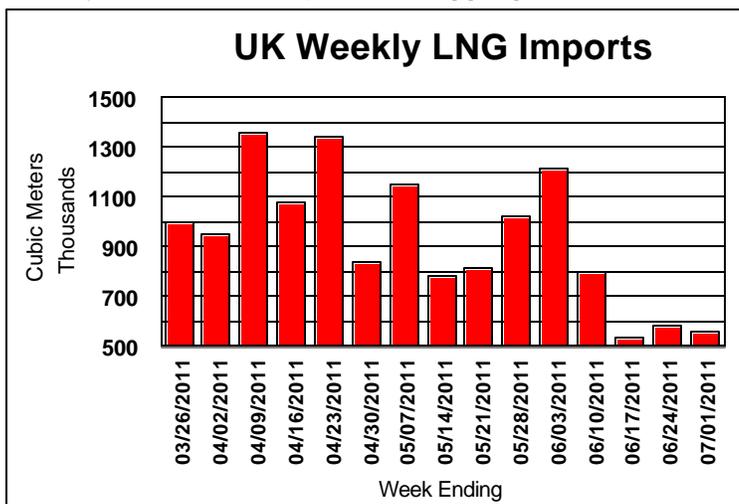
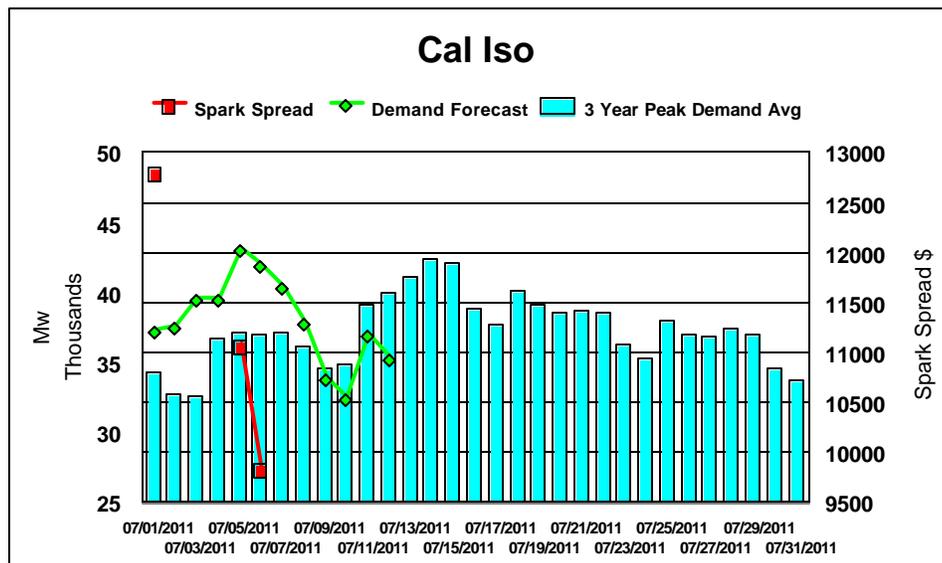
Japan's government is considering conducting stress tests on nuclear reactors to ease safety concerns which have blocked the restart of idled reactors since the March quake and tsunami including several that have completed maintenance and complied with new, stiffer safety standards. Japan is struggling with a drawn-out crisis after meltdowns at the crippled Fukushima Daiichi atomic plant, site of the world's worst nuclear incident in 25 years.

Tokyo worries that without the restart of reactors outside the quake-hit region, the country is at risk for power shortages during peak demands in the summer.

The cost of building power plants in North America and Europe is increasing after years of steady decline, with pricier steel and copper fueling the rise, data from global information firm HIS Inc showed on Wednesday. Power capital costs will continue to rise in the near term, though a downward correction in metal prices could counteract the increases, Colorado-based HIS said. The data company's cost index for North America rose 2 percent over the six months through March 31 to a score of 219, IHS said, indicating a portfolio of power plants that cost \$100 billion in 2000 would, on average, cost \$219 billion now. North American costs had been on a prolonged decline since the first quarter of 2008 before bottoming for the third quarter of 2009 through the first quarter of 2010, IHS said, noting that until now the costs had remained flat since IHS senior director of cost and technology Candida Scott said "The latest rise in costs...represents a substantial shift in momentum. We have now moved past a bottoming-out and costs have begun their slow march upward."

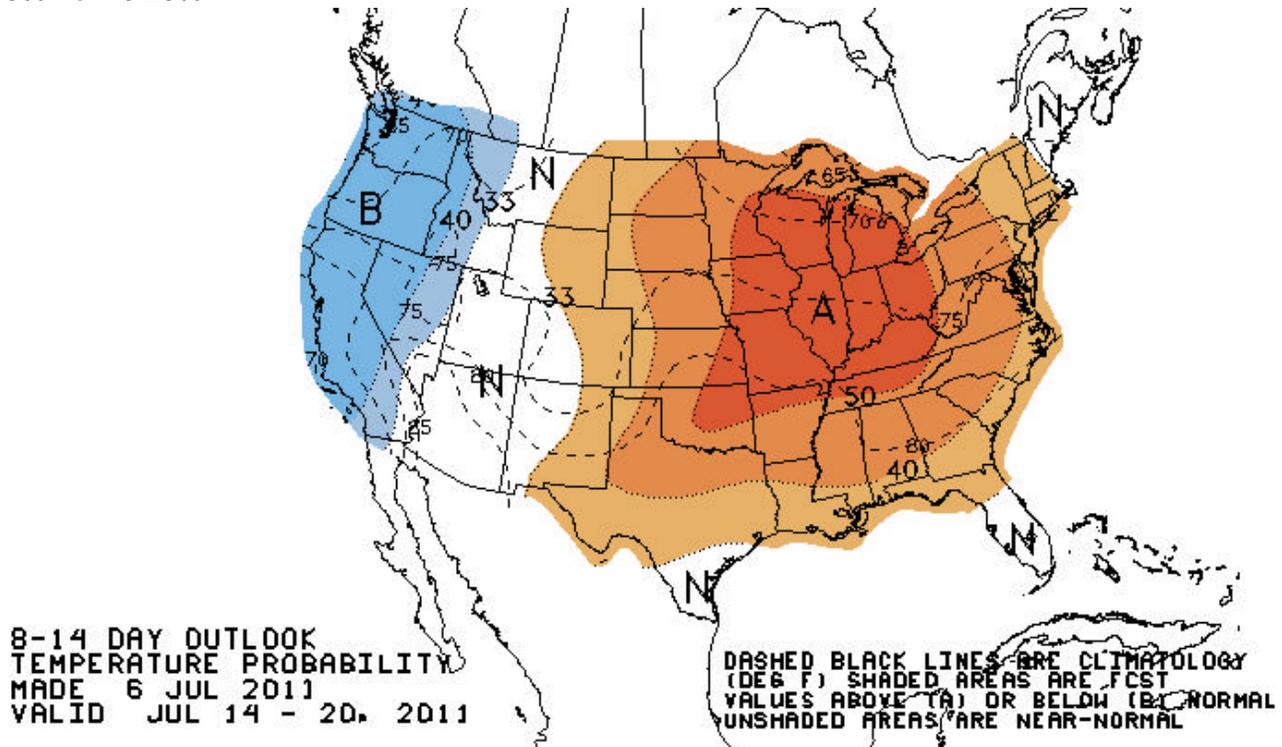
ECONOMIC NEWS

The Institute for Supply Management reported that its non-manufacturing purchasing managers' index fell to 53.3 in June from 54.6 in May. It said its business activity/production index fell to 53.4 from 53.6.



The new orders index fell to 53.6 from 56.8. The ISM employment index was relatively unchanged at 54.1 from 54 in May.

The People's Bank of China said it will raise its benchmark deposit and lending rates by 0.25%, the third rate increase this year and its fifth rate increase in the latest round of tightening. It said it will increase the one year yuan lending rate to 6.56% from 6.31% and the one year yuan deposit rate to 3.5% from 3.25%.



China Construction Bank Chairman Guo Shuqing said debts incurred by local Chinese governments was a big issue for the country, echoing widespread concerns that China's debt burden could destabilize the economy.

Germany's Economy Ministry said the country's industry orders in May increased mainly due to domestic purchases while foreign demand fell. Industry orders increased by 1.8% on the month in May.

MARKET COMMENTARY

The natural gas market today erased yesterday's gains and then some. Pressure on prices was relatively constant from the start of the floor session this morning and then throughout the day, as prices ended the session down on the lows of the day. It appeared general bearish economic news coupled with rebounding nuclear generation levels and a weaker cash market seemed to keep the bulls at bay. But we feel with the midday forecast model runs looking for the 11-15 day period being a bit warmer than this morning's forecast that this market should hold the lower end of the recent trading range and bounce back a bit. But we are a bit more cautious in holding this view than we were last night due to the fact that the daily stochastics, which we have seen to be very effective in catching major trends in this market in recent weeks, rolled over today and crossed to the downside. As a result we would probably await tomorrow's storage report before entering into a new position.

Market expectations for tomorrow's EIA storage report appear to be running between a 70-90 bcf build with most estimates centered around a 80 bcf build. For the same week a year ago stocks increased by an adjusted 76 bcf, while the five year seasonal injection rate is 80 bcf.

We would look for support tomorrow at \$4.20 followed by \$4.186-\$4.179 and \$4.154. If this support is breached then we technically could be justified in seeing a price assault on the \$4.00 price level. More distant support after that would be \$3.792. Resistance we see tomorrow at \$4.40-\$4.42 followed by \$4.50, \$4.593 and \$4.689.

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