



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JULY 7, 2010

NATURAL GAS MARKET NEWS

The showers and thunderstorms associated with a broad area of low pressure, Invest 96-L, located off the northwestern coast of the Yucatan Peninsula remained disorganized this morning. While environmental conditions appeared only marginally conducive for some development of this system as it moves west-northwestward at 10-15 mph, the National Hurricane Center by Wednesday evening noted the system had become better organized during the afternoon and was assigning a 80% chance that this system could become a tropical cyclone before it moves inland over Mexico or southern Texas in a day or so. But forecasters were keeping a watchful eye on the eastern Atlantic as long range guidance like the GFS and the European model are strongly pointing to tropical development in the eastern Atlantic around July 17th to July 19th and producing the season's first Cape Verde long track storm. The GFS model hints that this storm could then be on the door step of the Lesser Antilles less than a week later. The GFS model is also pointing to some potential for tropical development occurring just north of Puerto Rico around July 17th.

Generator Problems

PJM – PSEG's 1174 Mw Salem #1 nuclear unit was shut this afternoon after one of the unit's transformers tripped today.

NPPC – Hydro-Quebec said it planned to restart its 675 Mw Unit #2 at the Gentilly nuclear power plant on Wednesday. The unit has been shut since April 9th for planned maintenance.

The NRC reported this morning that some 96,667 Mw of nuclear generation was operating today, up 0.3% from yesterday and up some 0.3% from than the same day a year ago.

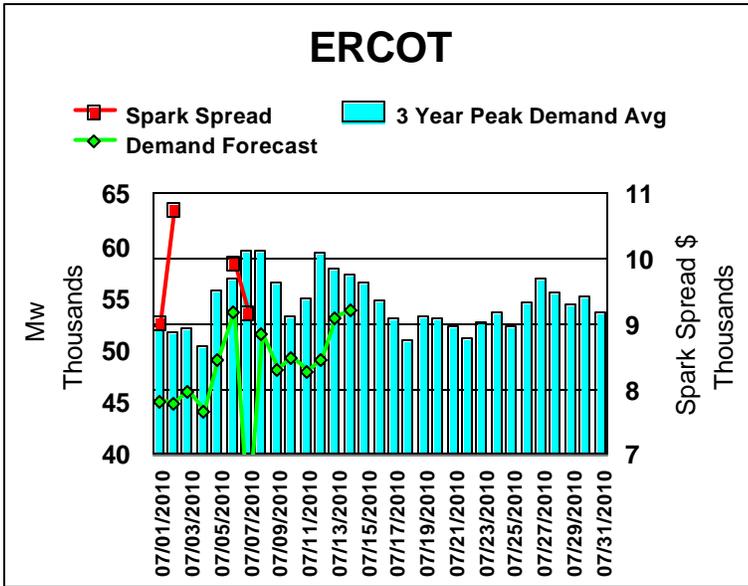
Natural Gas Cash Market

ICE Next Day Cash Market

Location	Volume Traded	Avg Price	Change	Basis	Change	Basis 5-Day
				(As of 12:30 PM)		Moving Avg
Henry Hub	1,141,500	\$4.764	(\$0.084)	\$0.182	\$0.072	(\$0.134)
Chicago City Gate	666,700	\$4.727	(\$0.092)	\$0.145	\$0.099	(\$0.059)
NGPL- TX/OK	657,800	\$4.557	(\$0.101)	(\$0.025)	\$0.090	(\$0.196)
SoCal	367,100	\$4.262	(\$0.060)	(\$0.321)	\$0.131	(\$0.443)
PG&E Citygate	710,400	\$4.370	(\$0.005)	(\$0.212)	\$0.186	(\$0.351)
Dominion-South	779,900	\$5.032	(\$0.280)	\$0.450	(\$0.089)	\$0.207
USTRade Weighted	21,994,800	\$4.649	(\$0.119)	\$0.067	\$0.07	(\$0.134)

Exxon Mobil said it had begun on Tuesday the evacuation of non-essential personnel from offshore Gulf of Mexico facilities that could be in the path of Invest 96-L.

The EIA released their latest Short Term Energy Outlook this morning. It has raised its price forecast for 2010 for Henry Hub natural gas spot prices to average \$4.70 per Mmbtu this year, up 21 cents from last month's forecast. The agency now sees gas prices in 2011 to average \$5.17 per Mmbtu, up 11 cents from last month's outlook. On the supply side the EIA sees domestic dry gas production in 2010 will average 58.56 bcf/d some 2% better than last year and 40 MMcf/d higher than last month's estimate. In 2011 it sees domestic production declining only slightly to 58.1 bcf/d. The EIA though did make a rather noticeable change in its estimates for pipeline imports which in 2010 it now sees averaging 8.77 bcf/d, some 1.3% higher than last month's estimate, while it has revised lower its LNG



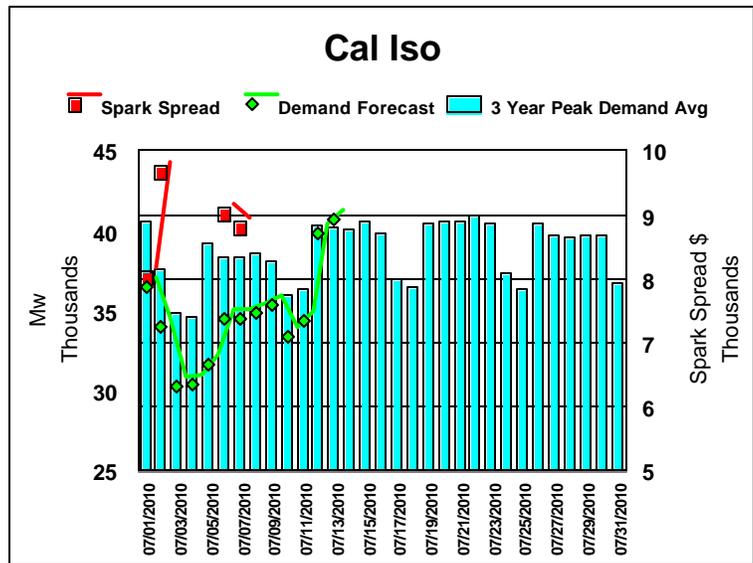
import estimate to 1.37 bcf/d from last month's estimate for 2010 at 1.51 bcf/d. The EIA still sees LNG imports rebounding next year to 1.52 bcf/d. Despite this warmer than normal spring and early summer, the EIA lowered its demand outlook for natural gas in 2010 to 64.67 bcf/d, down 0.4% from last month's estimate. The largest downward revision came in the commercial sector where the agency lowered its demand estimate almost by 1%. But for 2011 the EIA sees U.S. consumption of natural gas at 64.76 bcf/d driven higher by a 1% gain in industrial demand.

Shell Eastern Trading, a unit of Royal

Dutch Shell, and Osaka Gas Company Wednesday signed a binding agreement for long term supply of LNG. The 25-year term deal starting in April 2012 calls for Shell to supply up to 800,000 metric tonnes per year to the Japanese utility.

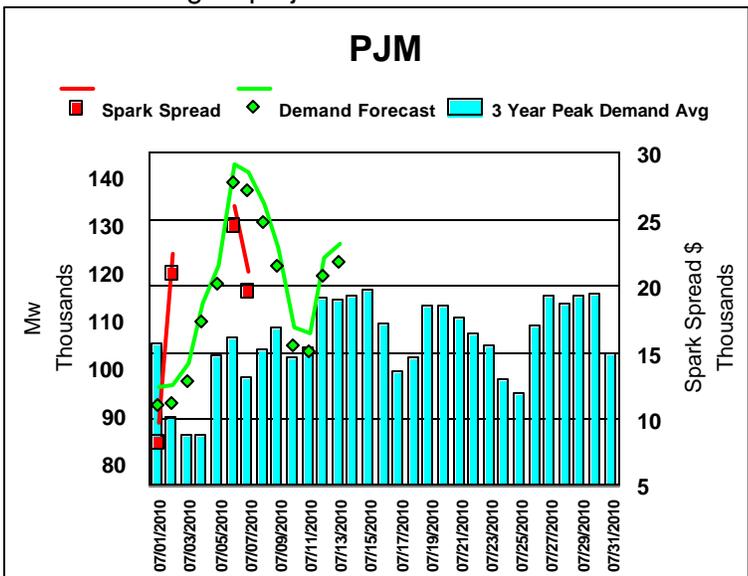
Ukraine's Ukrtransgas transport monopoly said Wednesday that the volume of Russian gas transported through the Ukraine to Europe rose 31.2%, to 49.3 bcm for the first 6 months of the year versus a year ago.

Royal Dutch Shell said Wednesday that it had started production from a new major oil and gas facility in Nigeria. The Gbaran-Ubie oil and gas project will be able to



produce 1 bcf/d of gas, nearly a quarter of the country's current output and 70,000 b/d of crude oil when it becomes fully operational next year. The project is slated to supply gas for both LNG production as well as gas for power generation needs. Currently the project's gas processing plant is already producing 200 mmcf/d from the first two of 33 planned wells.

Hercules Offshore said Wednesday that Chevron Corp has rescinded its bid to cancel a drilling rig contract after Chevron received a permit for a new offshore well in shallow waters in the Gulf of Mexico. The move was the second time in a week an oil and gas producer canceled a



planned force majeure that had sought to nullify a contract for a drilling vessel in shallow waters of the Gulf. The approval of the new wells by the Bureau of Ocean Energy Management has raised industry hopes activity would increase on the continental shelf.

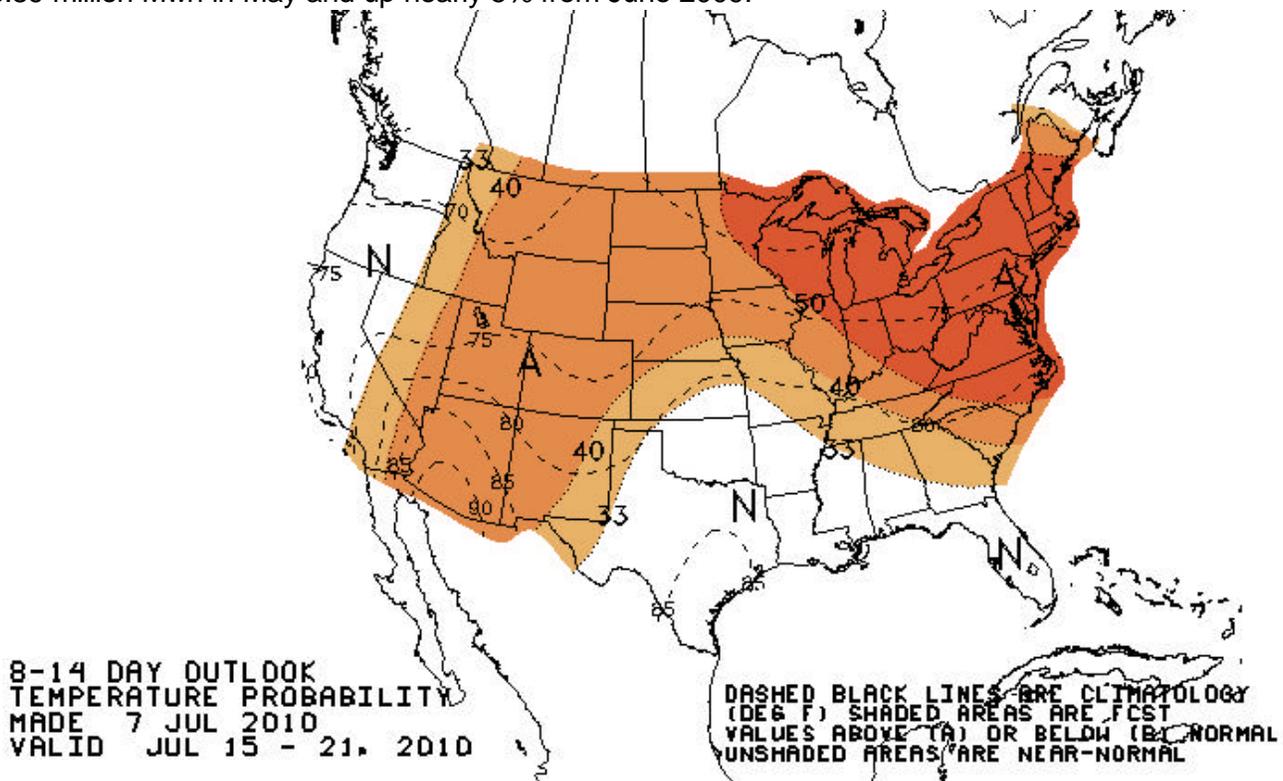
The Peruvian government said today that it plans to charge higher royalties on exports of natural gas in order to correct price distortions that have resulted in domestic consumers paying more than exporters for natural gas.

PIPELINE RESTRICTIONS

Tennessee Gas Pipeline announced today that it has lifted restrictions for today and will accept nomination increases of 3500 Dth of capacity at the Leidy delivery meters and 20,000 Dth of capacity at Rivervale delivery meter.

ELECTRIC MARKET NEWS

According to the most recent data provided by the U.S. Army Corps of Engineers, total hydropower production at 23 hydro plants across the Pacific Northwest in June reached 8.78 million Mwh, up from 5.89 million Mwh in May and up nearly 5% from June 2009.

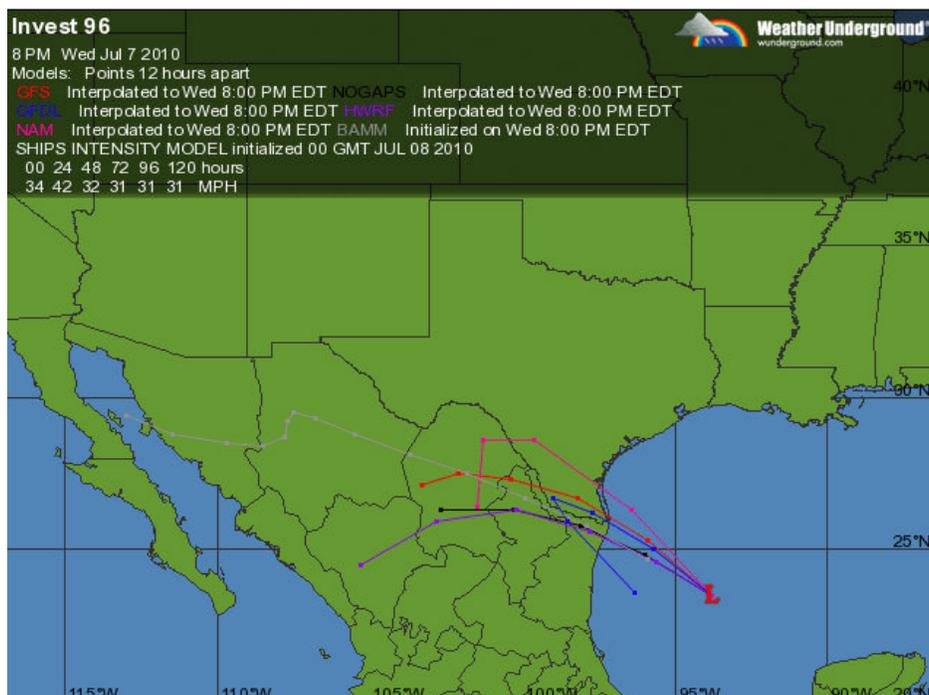


The U.S. Northwest River Forecast Center said yesterday that it looks for water flows at the Dalles Dam this year for the April – September period will run 84% of normal. This is a 2% reduction from last week's estimate. Water flows at the grand Coulee Dam are seen as running at 79% of normal also 2% less than the prior week's forecast.

The heat wave across the U.S. Northeast continued again today. PJM reported that it expects power usage today will reach 137,800 Mw on Wednesday afternoon. Tuesday saw the region post 136,398 Mw of power demand the highest since 2007 but well short of its all time record in August of 2006. NYISO said its peak demand on Tuesday reached 33,452 MW, just short of its all time record of 33,939 Mw from August 2006. For Wednesday the grid operator was looking for peak demand to be just over 31,000 Mw. ISO New England forecasted demand on Wednesday will reach 27,000 Mw for the second day in a row but still more than 1000 Mw shy of its all time record.

ECONOMIC NEWS

According to Germany's Economy Ministry, the country's manufacturing orders fell for the first time this year in May. Orders fell 0.5% on the month. Euro zone orders fell by 3.3%.



MARKET COMMENTARY

The natural gas futures market this morning came under pressure as a result of weakening cash market values as well as a tropical forecast that appeared to be less threatening as the forecast track of the storm appeared to be moving further south than yesterday's outlook as it was now seen coming ashore at the Mexican/Texas border or even further south with less than hurricane force winds. The market received an additional shove to the

downside from the EIA's Short Term Energy Outlook that continues to frustrate bulls by showing little or no decline in domestic production levels. Technically the market saw selling pressure as yesterday's low was breached but found support at the trend line of the lows of May 25th and June 30th.

Market expectations for tomorrow's natural gas storage report appear to be running between a 65-85 bcf build with the market consensus centered around a 72 bcf build. Stocks a year ago rose an adjusted 74 bcf for the same week while the five year seasonal average shows a 80 bcf build.

We feel that it will take a substantially higher than expected build in working gas stocks to send this market significantly lower tomorrow. With the prospects for above normal temperatures returning to much of the nation for the 6-15 day period we feel will help to keep the sellers at bay. We see support tomorrow at \$4.562-\$4.555 followed by \$4.477 and \$4.22. Resistance we see at \$4.78, \$4.841 and \$4.934-\$4.954. Additional resistance we see at \$5.20 and \$5.249.

In the spreads we are a bit surprised by the continued price erosion in the Oct-Jan and the March-April. We would look for the Oct-Jan spread to find support tomorrow at 77.5-80 cent Oct discount and feel this would be worth taking a bull spread position at these levels with a relatively tight stop at 85 cents, and an upside target of a 65-60 cent Oct discount.

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