



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JULY 7, 2011

NATURAL GAS MARKET NEWS

North America

Goldman Sachs increased slightly its price forecast for U.S. natural gas prices by 25 cents. The investment bank now expects U.S. spot natural gas prices to average \$4.13 for the remainder of this year. The bank though left unchanged its price forecast for 2012 at \$4.25.

Generation Outages

The NRC reported this morning that some 94,300 Mw of nuclear generation was online, down 0.1% from yesterday and 1.4% below levels recorded a year ago.

Morgan Stanley late yesterday released their latest commodity price outlook. While the investment bank remains bullish on oil, particularly in the second half of the year, it remains bearish on natural gas prices. The negative view on natural gas prices is based on continued robust domestic production of natural gas and the expectation of a narrowing of the year on year storage deficit in the weeks ahead.

Canadian Gas Association

Weekly Storage Report

	01-Jul-11	24-Jun-11	02-Jul-10
East	143.6	131.8	149.6
West	263.5	254.7	308
Total	407.1	386.4	457.6

storage figures are in Bcf

The National Hurricane Center this morning was watching two areas of interest. The first was an area of cloudiness and showers extending from the Yucatan across the southwestern Gulf of Mexico to southern Florida, Invest 96-L. This system is expected to drift north-northwestward with little chance of additional development over the next two days. The center assigned only a 20% chance it could demonstrate additional tropical cyclone development over the next 48 hours. The

system is expected to come ashore along the Florida panhandle by this weekend. The other system is an area of disturbed weather associated with a tropical wave centered some 500 miles east-southeast of the southern Windward Islands. Forecasters see only 10% chance of further development and this system appears will impact only the South American coast. But this system may eventually influence an established monsoonal low-pressure system in the southwestern Caribbean by next week and the entire southwestern Caribbean may need to be watched for development next week.

EIA Weekly Report

	07/01/2011	06/24/2011	Change	07/01/2010
Producing Region	987	970	17	959
Consuming East	1189	1127	62	1334
Consuming West	351	335	16	457
Total US	2527	2432	95	2751

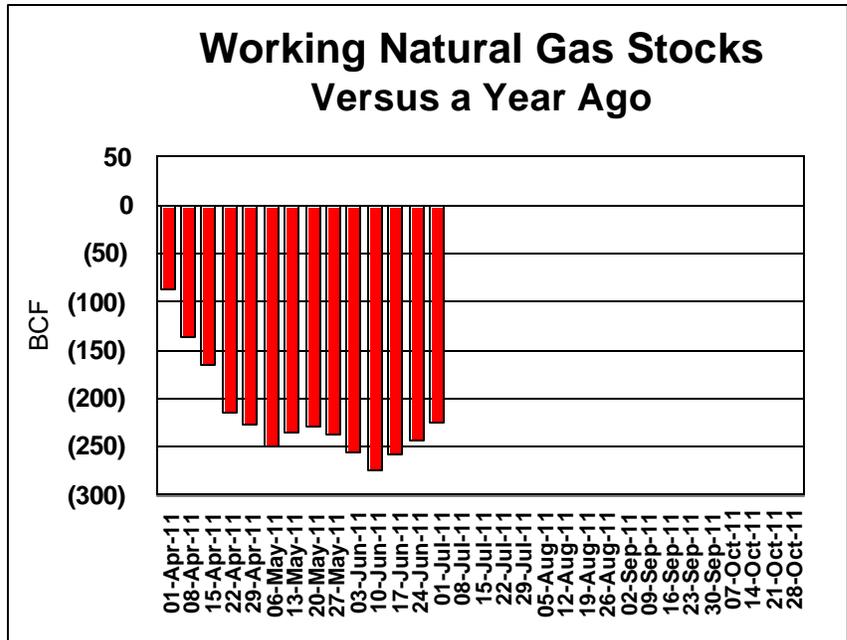
*storage figures in Bcf

The U.S. Climate Prediction Center said today that the La Nina weather condition could possibly be revived this autumn. The CPC in its monthly report noted that wind circulation consistent with La Nina was persisting in the central Pacific Ocean where the anomaly is usually first found. The CPC noted the chances have thus increased of its return but that most computer models indicate the current neutral conditions will persist into 2012.

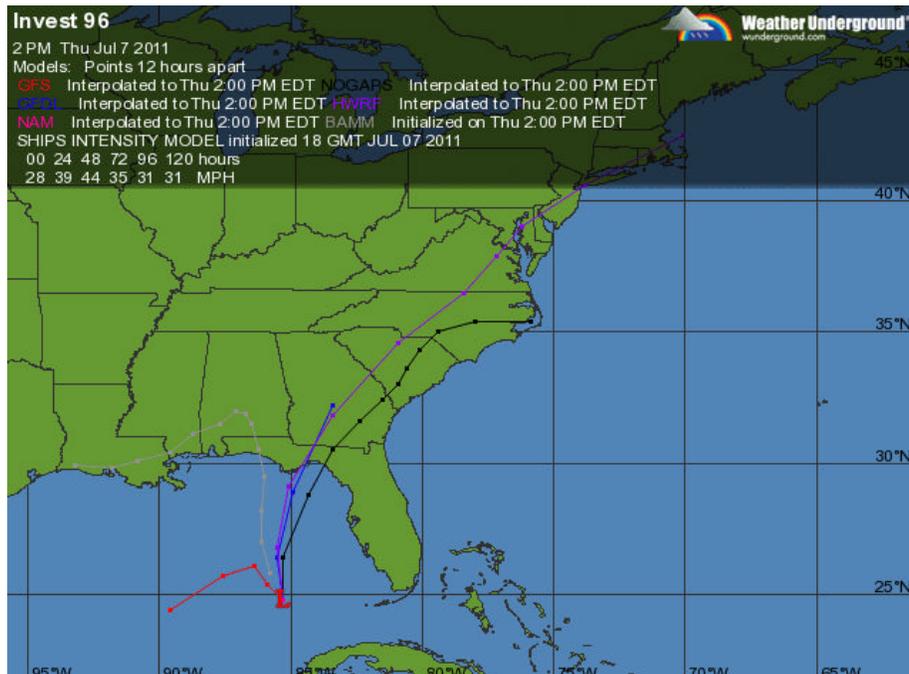
International

Goldman Sachs in their commodity research note to clients said it sees ongoing tightening of LNG markets will lead to rising UK gas prices and result in a reconnection of the spot gas market to the oil-indexed longer term prices in Europe. The bank also looks for further increases in commodity returns later this year and into 2012 and as a result is maintaining an overweight long position in commodities.

Chubu Electric Power, Japan's third-biggest power company, said on Thursday it expects to secure all its additional fossil fuel needs for the business year ending next March to make up for lost output for its sole Hamaoka nuclear plant. The utility said it expects to secure an additional 3.2 million tons of LNG, mainly from Qatar, and 1.3 million kiloliters of oil from oil firms and trading houses.



Polish state gas operator Gaz System is very likely to build a gas link with Lithuania at a cost of about 1 billion zlotys (\$362 million), Gaz System head Jan Chadam said on Thursday. The company said earlier it was looking into the feasibility of the project and that no final decisions were made. Gaz System wants the link, which could have a capacity of 4-5 billion cubic meters, to become a part of the European Union's push to better integrate Europe's energy markets. The link could be ready as soon as 2017. Poland wants to develop its connections with neighboring countries to help diversify its gas supplies away from Russia, from which it gets nearly all imported gas, which covers two-thirds of the country's needs. It aims to cut Russia's share in imports to about 40 percent thanks mainly to a planned LNG terminal but also by increasing gas links between the EU's largest ex-communist economy and its western and southern neighbors.



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Al Utouriya LNG tanker, which has a 216,000 cubic meter capacity, is expected to arrive at Britain's Isle of Grain terminal on July 13, according to AIS Live ship tracking data on Reuters. The Maersk Marib LNG tanker, which has a 166,000 capacity, is expected to arrive at the terminal on July 19.

ELECTRIC MARKET NEWS

The Edison Electric Institute estimated that for the week ending July 2, 2011, power production in the United States totaled 82,798 Gwh, down 0.5% from the prior week and some 1.4% less than the same week a year ago.

Tokyo Electric Power Co said Thursday that it stopped the cooling system for a reactor at the Fukushima Daini power plant in Fukushima Prefecture for three and a half hours due to an electrical system problem, Kyodo News reports.

Cooling operations were suspended for the No. 1 reactor and an adjacent pool for spent nuclear fuel from around

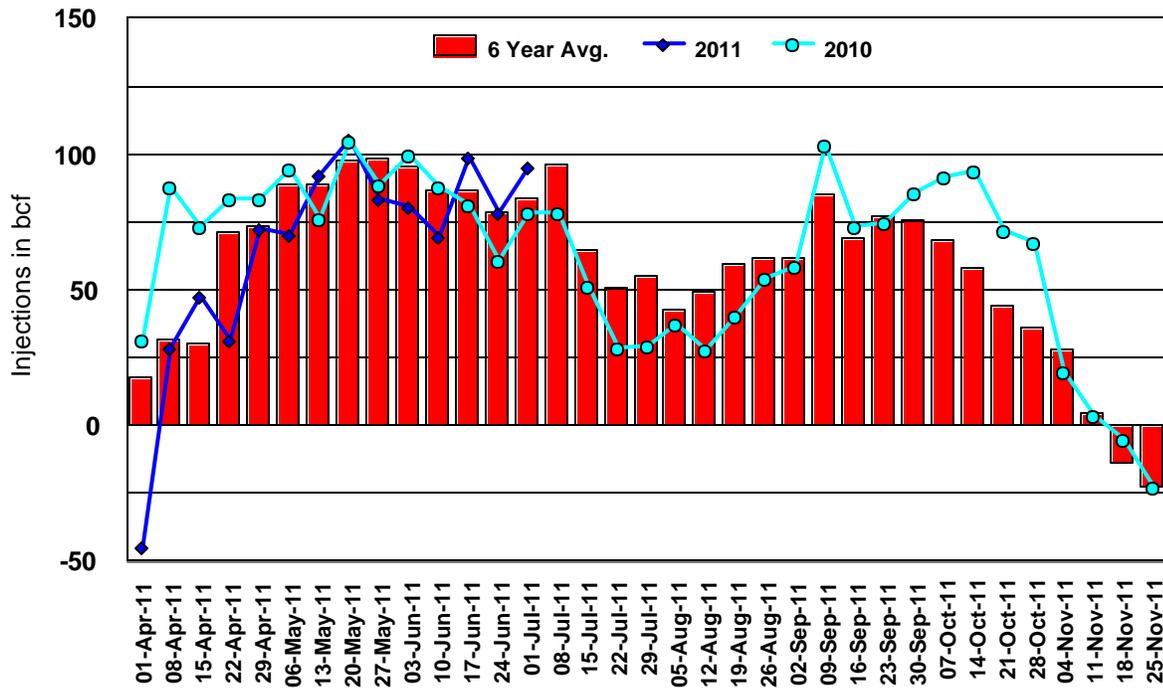
Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
Location	Traded	Price		(As of 12:30 PM)		Moving Avg
Henry Hub	646,400	\$4.249	(\$0.095)	\$0.113	\$0.023	\$0.059
Chicago City Gate	496,900	\$4.303	(\$0.072)	\$0.167	\$0.056	\$0.076
NGPL- TXOK	790,200	\$4.202	(\$0.077)	\$0.066	\$0.051	(\$0.030)
SoCal	755,100	\$4.401	(\$0.085)	\$0.265	\$0.043	\$0.156
PG&E Citygate	718,500	\$4.538	(\$0.081)	\$0.402	\$0.047	\$0.311
Dominion-South	1,016,900	\$4.327	(\$0.129)	\$0.191	(\$0.001)	\$0.118
UTrade Weighted	20,532,300	\$4.274	(\$0.105)	\$0.138	\$0.02	\$0.059

5:30 pm to shortly past 9 pm while Tepco, the operator, looked into why sparks came from a power panel at a building adjacent to that housing the reactor. Temperatures for the reactor and the fuel storage pool are believed to have risen slightly from about 25 C to 35 C and from 26 C to 27 C, respectively during the suspension. The reactor and the pool must be kept cooled because nuclear fuel inside them emits heat as it decays, even though the reactor has gone offline and has been brought into a stable condition called "cold shutdown" following the March earthquake and tsunami. The other three reactors at the Fukushima Daini plant located to the south of the crisis-hit Fukushima Daiichi nuclear power complex, have also been in cold shutdown-mode since the disasters.

The US Environmental Protection Agency finalized a rule that will cap emissions of certain pollutants from coal-fired power plants on Thursday. The rule would affect plants in 27 eastern and Midwestern states. It included Texas, which was expected to be a late addition and was the subject of last-minute lobbying in recent days. The rules would require reductions in the emissions of sulfur dioxide and nitrogen oxide that cross state lines, beginning as early as January 2012. The pollutants react in the atmosphere and contribute to smog and soot, which are linked to health problems, EPA said. Combined with other pending federal regulations, the rule could lead utilities to close aging coal plants. Supporters said the rule's economic and health benefits far outweigh its costs. But the agency is under fire from the coal industry, manufacturers, and other groups that are lobbying to slow or stop its regulatory agenda, saying it would do economic damage. The groups have targeted several rules including a proposal related to ground-level ozone standards, which the agency has put off three times but a decision is due this month. The agency also issued a new proposal Thursday that would require Iowa, Kansas, Michigan, Missouri, Oklahoma, and Wisconsin to reduce nitrogen oxide emissions during the summer. Overall, the final rule would reduce emissions slightly more than its original proposal—sulfur dioxide would be reduced by 73% and nitrogen oxide by 54% from 2005 levels by 2014 (better than 71% and 52% respectively).

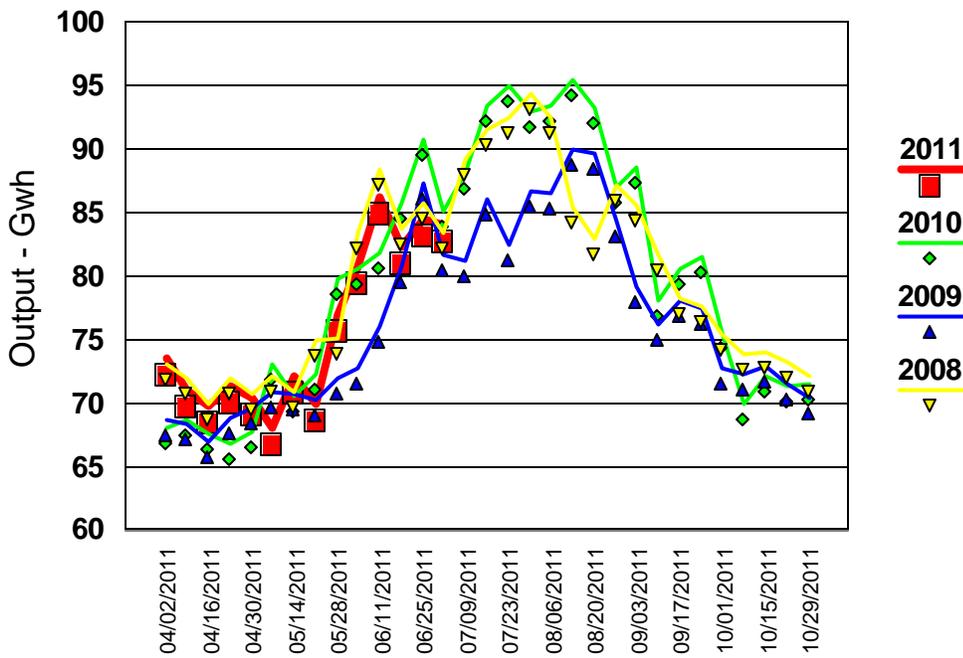
Japan's government scrambled to assure the wary public on Thursday that stress testing nuclear reactors did not call into question their safety after confusion over the plan threatened to delay the first restart of reactors since the March 11 earthquake triggered a radiation crisis. Wednesday's announcement of planned tests prompted the mayor of the southern town of Genkai, who had accepted earlier safety assurances, to call off a planned restart of two reactors at a local plant run by Kyushu Electric Power 9508. The government has hoped that Genkai's approval would encourage

2011 EIA Survey Build/Draw VS 6-Year Average

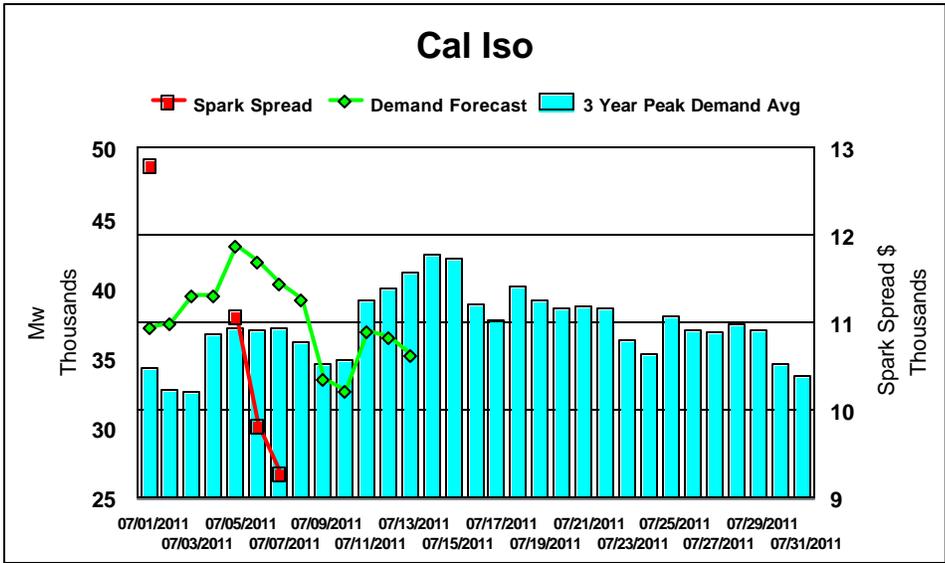


other communities to give a green light to reactor restarts and help avert crippling power blackouts at a time when the Japanese economy is still recovering for the post-quake slump. Trade Minister Banri Kaieda told reports stress tests would serve as an additional assurance, suggesting, but not saying explicitly, that local officials did not have to wait with their decisions for the test results.

Weekly Electric Output



An official at Japan's Nuclear and Industrial Safety Agency that is due to oversee the tests, quoted by the Kyodo agency was more direct, telling residents of another town hosting a nuclear plant that it could be restarted without a stress test. Kaieda, who took the blame for the confusion, indicated he was prepared to resign, but that this was not the right time to do so, "I'll take responsibility when a time comes...But for now I need to tackle

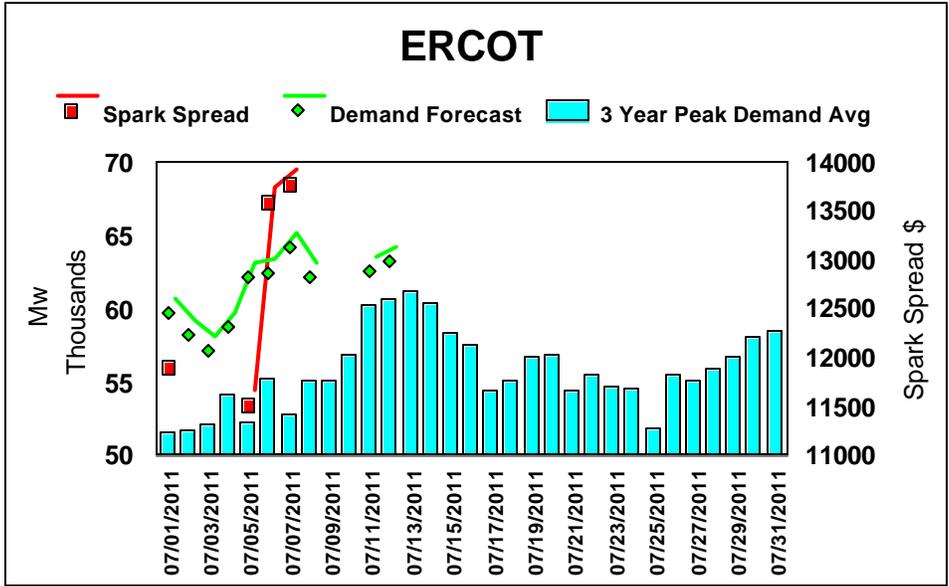


the tasks that are piling up.” Kaieda’s departure would add to problems faced by increasingly isolated Prime Minister Naoto Kan, who has just lost his reconstruction minister after barely a week in office and faces calls for resignation from the opposition and members of his own party. Kan’s government has been reviewing its energy policy to reduce the nation’s reliance on nuclear energy but says restarting

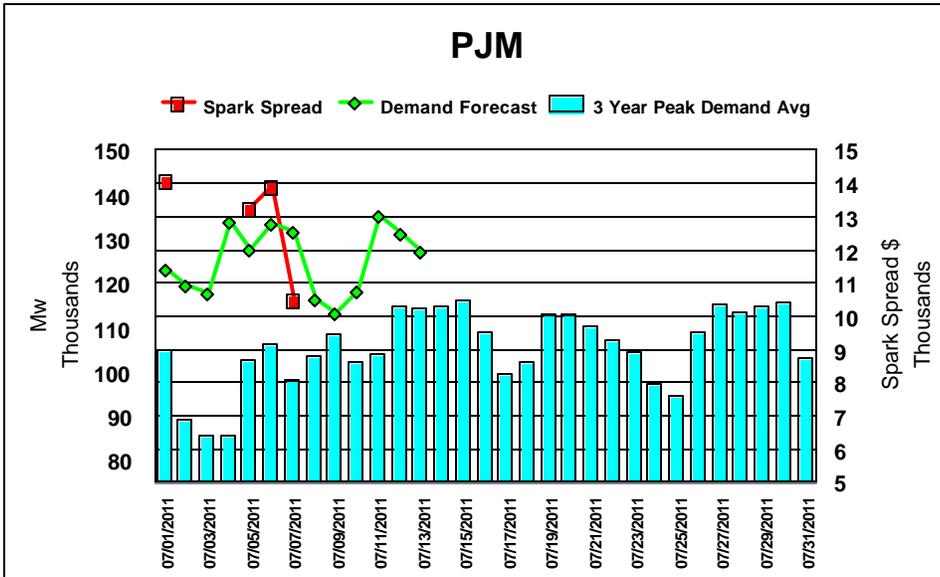
reactors is essential to meet peak energy demand, and hoped the tests would ease the public mistrust of the nuclear industry. That backfired however, and sowed confusion among local governments, prompting investors to sell utility stocks out of fear that the tests could lead to prolonged shutdowns forcing power companies to depend more on costly imported fuels. Shares of Genkai plant operator Kyushu Electric Power Co fell 7.5 percent, while Kansai Electric Power Co was down 8.4 percent. The tests will use simulations to confirm how well each reactor could withstand a severe event such as the March earthquake and tsunami that triggered meltdowns at Tokyo Electric Power Co’s Fukushima plant.

ECONOMIC NEWS

The US Labor Department said the number of new claims for unemployment benefits fell more than expected by 14,000 to a seasonally adjusted 418,000 in the week ending July 2nd. It reported that the four-week moving average of new claims fell by 3,000 to 424,750. The number of continuing unemployment benefit claims fell by 43,000 to 3,681,000 in the week ending June 25th. The unemployment rate for workers with unemployment insurance fell to 2.9% in the week ending June 25th compared with the previous week’s revised rate of 3%.



According to ADP, private businesses added more jobs in June than expected. The number of private sector jobs in the US increased by 157,000. Economists had expected ADP to report a gain of 95,000 jobs last month. The May data was revised lower to show an increase of 36,000 compared with the previously reported 38,000.



European Central Bank President Jean-Claude Trichet said there are downside risks to growth. This followed the ECB's decision to increase interest rates by 25 basis points to 1.5%. It was the second time the ECB raised interest rates this year.

MARKET COMMENTARY

The natural gas market plunged lower following the release of the EIA storage report this morning, pushing the spot

contract through the a three month trend line and the 200 day spot contract moving average. Prices fell to a new three month low, with the August contract falling all the way to \$4.064 before stabilizing and bouncing back and retracing some 50-62% of the post report release sell off.

While overnight both Morgan Stanley and Goldman Sachs released bullish price forecasts for oil, both investment banks though maintained their negative outlook for natural gas prices. The underlying focus of these bearish gas outlooks seems to be the underlying strength of domestic production levels and thus the anticipated closing of the year on year deficit in stocks basis the weekly EIA storage report in the coming weeks.

With the relatively positive economic news released today that lent support to the oil markets, we feel that in coming days this should potentially help support natural gas prices or at least prevent a further hard sell off in values. We would thus not recommend establishment new shorts down at these levels but potentially look at the purchase of some out of the money calls looking for a tropical weather threat to bring these options back into the money. As a point of reference the September \$4.50 calls settled tonight at 7.6 cents with the October \$4.50 calls settling at 14.7 cents.

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