



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JULY 8, 2011

NATURAL GAS MARKET NEWS

North America

Forecasters at the National Hurricane Center over the last 24 hours continue to change their minds on the potential of Invest 96-L in the Gulf of Mexico would develop into a tropical cyclone or not. Overnight the probability had grown to a 40% chance it would

become a tropical depression or storm within the next 48 hours, but by morning this probability had dropped to 20% and then only a 10% and then by midday seen as having no chance for tropical development at all and the NHC was no longer going to provide updates on the system. The area of disturbed weather is expected to fully come ashore over the next day or two. Meanwhile the tropical wave just now impacting the Windward Islands, which had been seen by some computer models as supporting the tropical development of a system in the southern Caribbean or in the Gulf of Mexico next week, is no longer expected to spark any development at all.

The EIA released a new study today that estimates the United States holds technically recoverable reserves of 750 tcf of natural gas and 23.9 billion barrels of oil in onshore shale plays. Although the figures represent only a technically recoverable resource base, the latest natural gas reserve estimates would account for more than 30 years of U.S.

Generation Outages

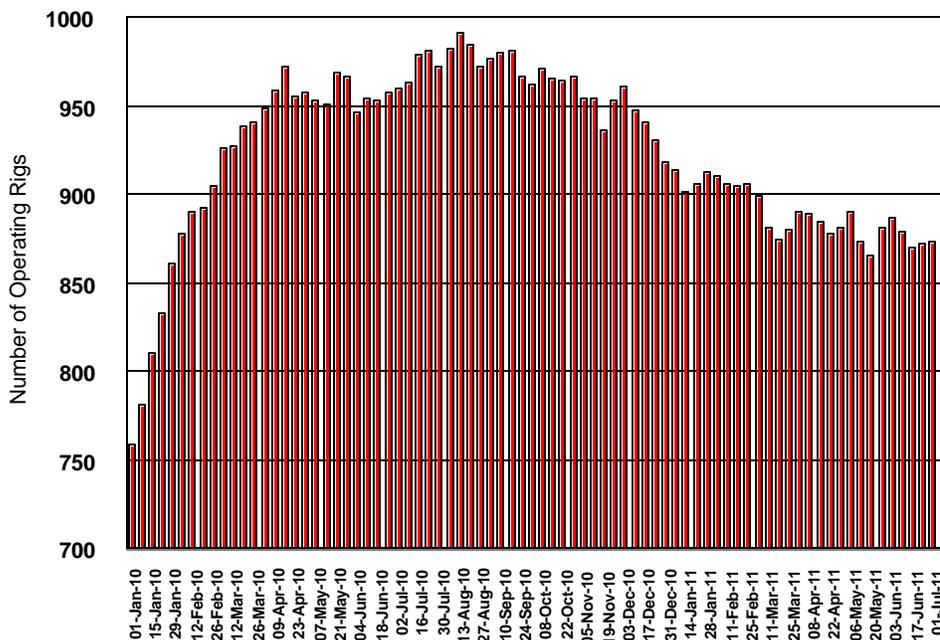
SPP – The 1166 Mw Wolf creek nuclear unit ramped up to 75% power today up 28% from Thursday.

PJM – PPL’s 1149 Mw Unit #1 and Unit #2 at the Susquehanna nuclear plant both ramped up over the past 24 hours and were at 60% power.

The NRC reported this morning that some 95,153 Mw of nuclear generation was online, up 0.9% from yesterday and only 0.6% below levels recorded a year ago.

U.S. Natural Gas Drilling Rig Activity

Source: Baker Hughes



January 1, 2010 - July 8, 2011

natural gas needs if brought to market. The shale oil reserve estimates would also account for nearly 10 years of U.S. crude oil import demand. The report done by the research firm, INTEK, identified the Marcellus shale in northeastern U.S. as the largest source of technically recoverable natural gas with an estimated 410.3 tcf reserve. The Haynesville shale, which has 74.7 tcf of estimated reserves, was cited as the second largest source of technically recoverable natural gas in the country. The study sees the Bakken shale oil play in the Williston basin in North Dakota and Montana could contain 3.65 billion barrels of oil with the Eagle Ford play in South Texas holding 3.35 billion barrels.

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	447,600	\$4.239	(\$0.009)	\$0.061	(\$0.112)	\$0.078
Chicago City Gate	452,500	\$4.243	(\$0.060)	\$0.065	(\$0.102)	\$0.096
NGPL- TX/OK	795,900	\$4.154	(\$0.048)	(\$0.024)	(\$0.090)	(\$0.003)
SoCal	815,800	\$4.243	(\$0.159)	\$0.065	(\$0.201)	\$0.167
PG&E Citygate	906,100	\$4.443	(\$0.095)	\$0.265	(\$0.137)	\$0.327
Dominion-South	937,700	\$4.275	(\$0.052)	\$0.097	(\$0.094)	\$0.134
USTRade Weighted	20,238,200	\$4.205	(\$0.070)	\$0.027	(\$0.11)	\$0.078

Baker Hughes reported this afternoon that the number of natural gas drilling rigs operating in the United States dropped by one rig from the week before and stood at 873. The

number of horizontal rigs operating in the United States was unchanged at 1073 rigs from the week prior.

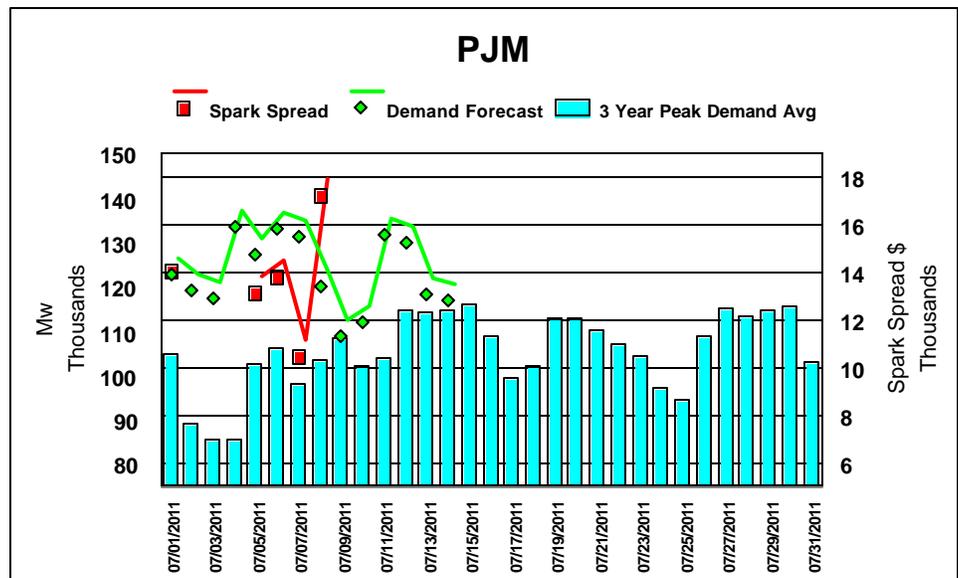
The U.S. Forest Service official said today that “there is no Forest Service discussions or efforts under way to develop a national policy to ban horizontal drilling” and hydraulic fracturing. Officials with the Bureau of Land Management also confirmed to Congress that there is no such policy effort underway in that agency.

Chief Oil & Gas LLC announced yesterday that separate investigations by the company and the Pennsylvania Department of Environmental Protection have concluded that the company was not responsible for contaminating the water well of a woman in Bradford County, PA who has been a vocal critic of hydraulic fracturing.

Six major natural gas producers in the Marcellus Shale told the EPA earlier this week that they expect to recycle or inject all of their wastewater by the end of the year.

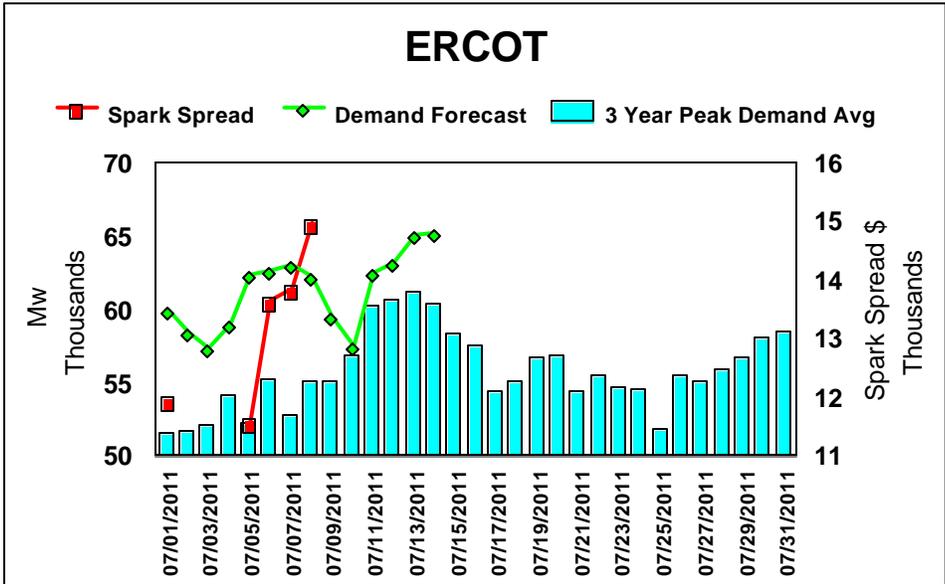
International

Russia’s largest independent gas producer Novatek reported that its second quarter gas output rose by 44% to 12.13 bcm compared to the same period a year ago.



Royal Dutch Shell, Mitsubishi and Iraq reportedly have settled pending legal issues that have delayed the \$12 billion gas deal for more than two years and an initial pact could be signed by the middle of next week, an Iraqi official said Friday. The agreement seeks to capture and exploit the huge volume of gas flared from three giant southern oil fields of Rumaila, Zubair and West Qurna Phase 1.

British Gas began to notify their customers that it would raise domestic tariffs for gas by an average 18% starting on August 18th.



Gazprom confirmed today that the Shtokman Partners would make a final investment decision on the LNG project by the end of this year.

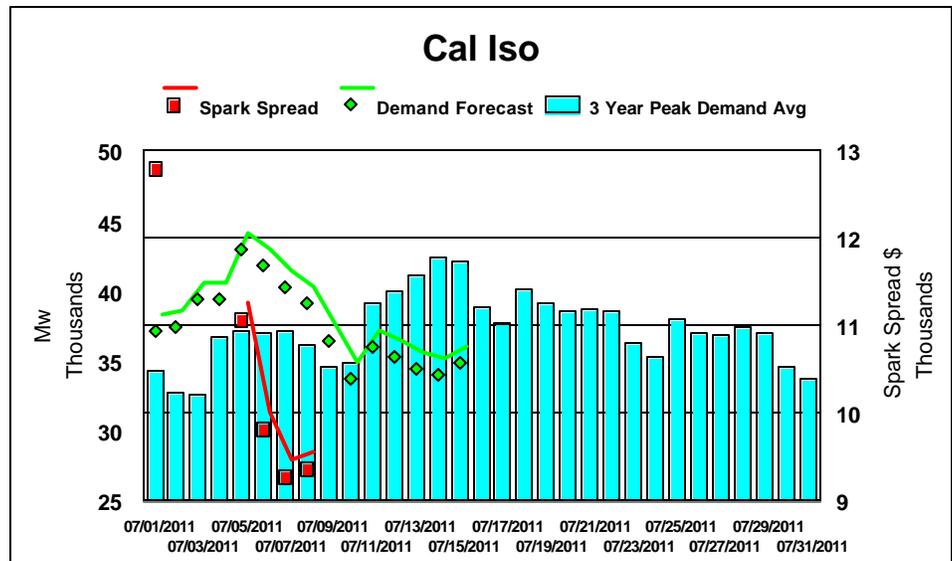
The CEO of Royal Dutch Shell told the press today that his company would produce more gas than oil from 2012 onwards.

Gujarat State Petronet said today that a consortium led by the company has been authorized by India's Petroleum and Natural Gas

Regulatory Board to lay three cross country natural gas pipelines at an investment of \$2.75 billion.

ELECTRIC MARKET NEWS

Tokyo Electric Power reported today that it used nearly 26% more LNG for power generation in June than the year before and 2.7% more than May 2011. LNG's share of generation increased as the company's total power demand dropped 11.7% as a result of cooler weather and energy conservation efforts. Meanwhile Shikoku Electric Power, a Japanese utility in the western part of Japan announced today that it will delay the planned restart of one of its nuclear reactors, because of public opposition. No new restart date was given. This decision comes a day after the mayor of the southern town of Genkai withdrew his decision to support the restart of a nuclear reactor there, as the government's plans to conduct stress tests on all reactors cast doubts on its previous assurances that the reactors were safe. The Japanese Chief Cabinet Secretary told a news conference today that the Japanese government's highest priority should be given to ensuring the safety of nuclear plant operations than to a stable energy supply.



Genscape reported that U.S. coal consumption was up 4% in the past week

driven in part by stronger power demand in the northern U.S. over the Fourth of July weekend. But the coal consumption was 4% versus the same week a year ago.

ERCOT was forecasting that demand for next Wednesday could reach 65,257 Mw, which would exceed the 63,900 Mw peak demand the grid operator had been forecasting for this summer cooling season. The all time demand record for the region though is 65,776 Mw set last August.

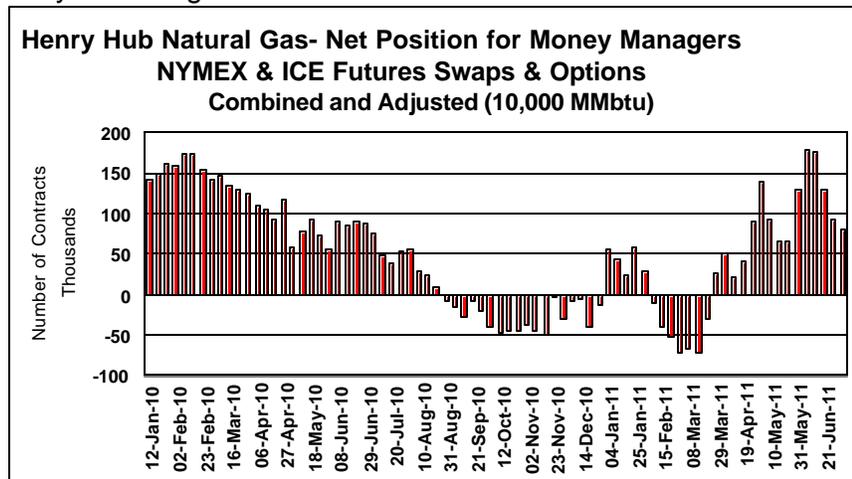
ECONOMIC NEWS

The US Labor Department reported that nonfarm payrolls increased by 18,000 in June, less than the expected increase of 125,000 payrolls. Payroll data for the previous two months were revised down by a total of 44,000 to show increases of 25,000 jobs in May and 217,000 in April. The unemployment rate increased for the third consecutive month to 9.2% in June from 9.1% in May. It was the highest level since December. The Labor Department also reported that the average hourly earnings fell by 1 cent to \$22.99 in June.

The US Commerce Department said US wholesale inventories increased more than expected in May. It said inventories increased 1.8% in May to a seasonally adjusted \$456.26 billion, above forecasts for a 0.7% gain, following an upwardly revised 1.1% increase for April. Wholesale sales however fell 0.2%.

According to a Federal Reserve report, US consumer credit increased by another \$5.08 billion in May, despite the tight job market. The increase in May came after a revised \$5.67 billion increase in April, surpassing expectations of an increase of \$4 billion. The total of all consumer credit outstanding in May was \$2.432 trillion, up from a total of \$2.427 trillion in April.

Clive Capital, a commodities fund with more than \$4 billion under management and energy-focused BlueGold, with about \$2 billion, suffered losses for the second month in June due in part to a series of sharp declines in oil prices. Clive Capital lost about 8% in June, increasing its year to date decline to nearly 10% while BlueGold lost 5% in June and increased its year to date loss to about 12%. Meanwhile, Ospraie, with about \$2 billion under management, lost 3.1% in June but was up 1.7% in the year through June.



China's Central Bank Governor Zhou Xiaochuan said China will tolerate some inflation as the country moves ahead with its transition from a centrally planned economy. China's annual inflation is expected to increase to 6.3% in June from 5.5% in May.

Eric Hunsader, a founder of Nanex, said the sharp price and volume moves demonstrated in the WTI contract yesterday afternoon could have

demonstrated a micro "flash crash" which was almost imperceptible. He noted that at 1:35 PM EDT on Thursday crude oil futures plunged 30 cents a barrel in less than a second as volume spiked, before rebounding. The quick sell off was repeated again seconds later before prices stabilized once again. The analyst thought that this trading pattern was a massive arbitrage algorithm that simultaneously operates between the crude futures and the crude oil ETFs.

MARKET COMMENTARY

While most pricing points in the spot natural gas market fell for the third consecutive day today, natural gas futures finished higher as futures prices began to grind higher from this morning and throughout the day as it appeared the market staged a technical correction to yesterday's sharp sell off. By the

end of the day prices finished up near their highs and had retraced approximately 50% of the prior three-day sell off. Volume today was the lightest for the week as the August contract posted an inside trading session which was typical for most Friday sessions in the summer.

With the daily stochastics flipping back to the upside we feel a bit more comfortable in our outlook voiced earlier this week that this market is still going to languish in a relative sideways trading pattern for the next several weeks just that this range may be a bit wider than we had expected earlier. We still look for the \$4.40-\$4.45 area as the upper end of the trading range with \$4.20 as the lower end of the range with an occasional attempt to probe additional support at \$4.10-\$4.05.

Tonight's Commitment of Traders Report showed that commodity funds for the week ending July 5th decreased their net length for the fourth consecutive week, dropping this last week by 11,370 contracts.

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