



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JULY 12, 2011

NATURAL GAS MARKET NEWS

North America

The EIA said today in its latest Short Term Energy Outlook that it has sharply raised its estimate for domestic natural gas production growth in 2011, and as a result looks for production to grow this year by 5.8% from 2010 levels. It now estimates 2011 production will reach a new record of 65.39 bcf/d, up sharply from its June outlook of 64.61 bcf/d. The agency also raised its 2012 production estimate to 65.97 bcf/d, a 1.3 bcf/d increase over its estimate from last month. These production gains though were partially offset by reduction in the EIA's estimates for net imports, which were reduced by 16 MMcf/d in 2011 and 34 MMcf/d for 2012. Meanwhile consumption estimates were also increased, with 2011 levels pegged at 67.43 bcf/d up 37 MMvfd from last month and in 2012 demand should reach 67.32, up 80 Mmcf/d from its prior estimate. The EIA estimated that for the 3Q2011 Henry Hub prices for natural gas should average \$4.27, up 3 cents from last month's estimate. But the agency lowered the 4Q2011 price estimate to \$4.51, down some 8 cents from a month ago. In 2012 the EIA also lowered its price forecast by 5 cents to \$4.67.

Generation Outages

ERCOT Luminant's 1150 Mw Comanche Peak #1 nuclear unit was shut today. The unit had been at 60% power yesterday.

The NRC reported this morning that some 95,472 Mw of nuclear generation was online, down 0.1% from yesterday but 1.3% above levels recorded a year ago.

Chesapeake Energy Corp, the second largest producer of natural gas in the United States plans to invest up to \$1 billion in the next ten years in companies and technologies to replace gasoline and diesel with fuels derived from natural gas. The company plans to invest \$150 million in Clean Energy

Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	751,200	\$4.375	\$0.022	\$0.040	(\$0.081)	\$0.106
Chicago City Gate	548,500	\$4.451	\$0.018	\$0.116	(\$0.038)	\$0.123
NGPL- TX/OK	894,800	\$4.328	\$0.029	(\$0.007)	(\$0.027)	\$0.014
SoCal	625,800	\$4.389	(\$0.036)	\$0.053	(\$0.092)	\$0.150
PG&E Citygate	848,400	\$4.602	\$0.030	\$0.267	(\$0.026)	\$0.316
Dominion-South	786,900	\$4.516	(\$0.026)	\$0.181	(\$0.082)	\$0.185
USTrade Weighted	21,761,700	\$4.418	(\$0.025)	\$0.083	(\$0.08)	\$0.106

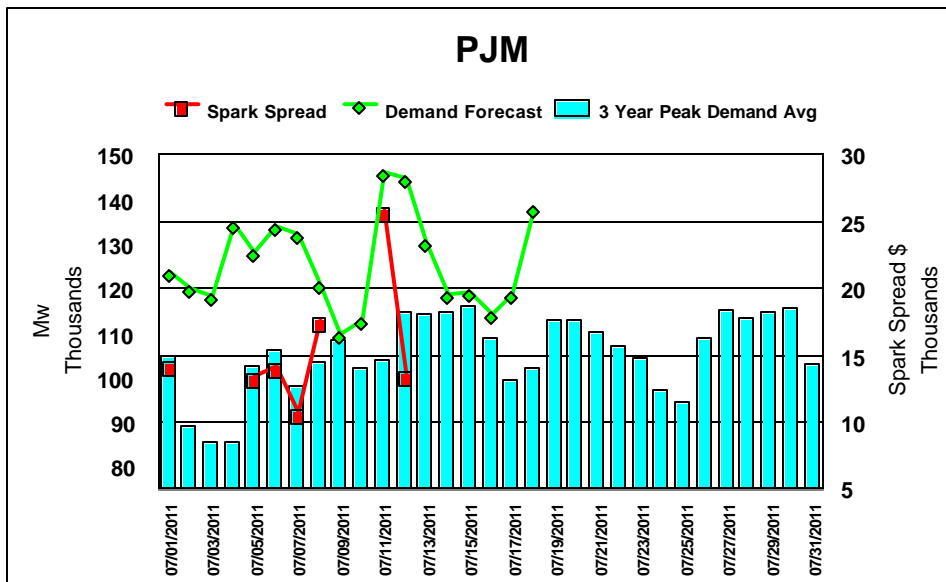
Fuels Corp. to build LNG truck fueling stations. In addition Chesapeake plans to invest another \$155 billion in Sundrop Fuels Inc. a company that makes 'green gasoline' from

natural gas and waste cellulosic material.

T. Boone Pickens said he sold his \$8 call options, bought \$6 call options and sold \$5 put options in 2015 NYME natural gas futures with the belief that prices will not drop below \$5 will rise to a level somewhere between \$6 and \$8.

International

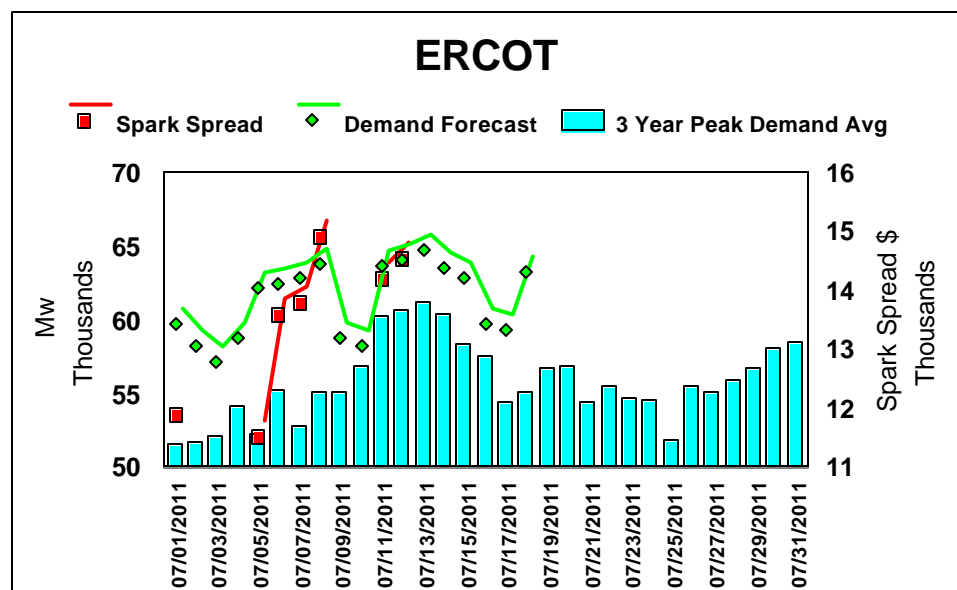
Japanese utility demand for LNG in June reached 4.03 million tones up nearly 31% from the same month a year ago. This was the highest monthly consumption total since January 2011 when 4.12 million tones were consumed.



Royal Dutch Shell, Mitsubishi, and the Iraqi Oil Minister signed a preliminary \$12 billion gas deal that will increase Iraq's gas production by more than 1 billion cubic feet per day after four years of delays over the pricing of the produced gas. All that remains is the ratification of the bill by the Iraqi Cabinet, which, should occur within a week or two according to Thamir Ghadhban, the top energy advisor to Iraqi Prime Minister Nuri al-Maliki.

An Egyptian pipeline was attacked for the fourth time this year early Tuesday morning. The price of gas the line produced has drawn scrutiny since President Mubarak resigned as critics claim the line provides Israel with gas below market value. Although Israel claims that it pays market value Egypt has recently tried to renegotiate gas prices.

Norway's Statoil is starting to think about the prospect of building the second processing train at its LNG in the Arctic by 2018 to process gas from Barents Sea. The recent discovery of a 500 million barrel well has led to increased interest in the Barents Sea as firms are starting to take a second look in the region. Norway will spend more than two years determining whether the well will be beneficial and a decision is not expected until the end of 2013.

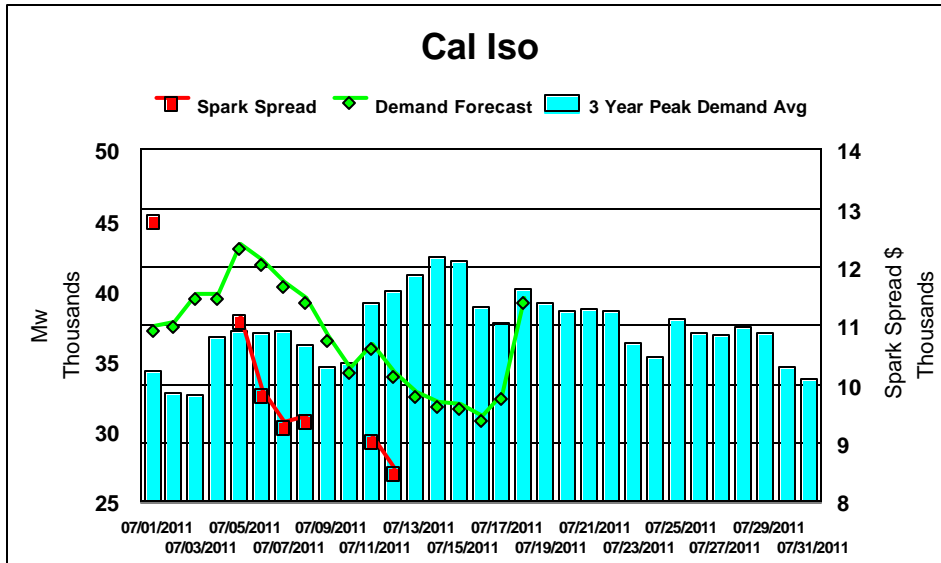


Petronas has opened a gas-processing plant on the Caspian Sea on Tuesday that has the potential to ship 25 percent of Turkmenistan's gas shipments to Europe. Petronas is the first supplier with the opportunity to supply gas to the Nabucco pipeline, which would shift Turkmenistan's gas exports away from Russia and toward European countries. Turkmenistan has the fourth-largest natural gas reserve and plans on tripling its natural gas output by 2030 to 230 bcm per month.

Vietnam plans to increase gas production by 40 percent or 14 bcm per year 2015. Vietnam also stated that it plans to increase its gas imports through trans-ASEAN pipeline.

The Italian government has approved the construction of a new LNG import terminal 16km off the Adriatic coast by Api Nova Energia. The project has already received support from environmentalist and safety regulators. In addition, Enel hopes that the Italian top court will overturn a previous ruling

next week to build an 8 bcm LNG import terminal in Sicily.



ELECTRIC MARKET NEWS

Power grid operators in the U.S. Northeast said this morning that they have enough power resources to meet expected high demand for the region today. PJM was forecasting peak demand today at 145,500 Mw, which is some 3,500 MW less than the grid operators' peak demand

forecast for this summer. NY ISO forecasted demand today would reach 31,300 Mw, the highest level for this summer but still less than its forecasted seasonal peak of 32,700 Mw and less than the all time record of 33,939 Mw.

The EIA in their latest short-term energy report sees power demand in the United States this year averaging 10.66 billion Kwh/d up 0.1% from last month's estimate. Demand for 2012 is seen growing to 10.86 billion Kwh/d unchanged from last month's estimate. The EIA expects the natural gas share of generation in the West will gradually rise later this year as the level of hydropower comes down. Generators in the East will likely continue the trend of substituting natural gas for coal fired generation and as a result natural gas generation share of the U.S. generating market should increase by 1.6% during 2011 and by 1.2% next year.

ECONOMIC NEWS

The US Commerce Department said the US trade deficit increased in May to its highest level in over two and a half years by 15.1% to \$50.23 billion from \$43.63 billion in April. The April trade gap was originally reported as \$43.68 billion. The total amount paid for crude imports was \$29.92 billion in May from \$26.03 billion in April. The amount of oil imported increased to 275.25 million barrels after falling to 252.25 million barrels in April. Meanwhile the trade deficit with China expanded 15.6% to 24.96 billion in May.

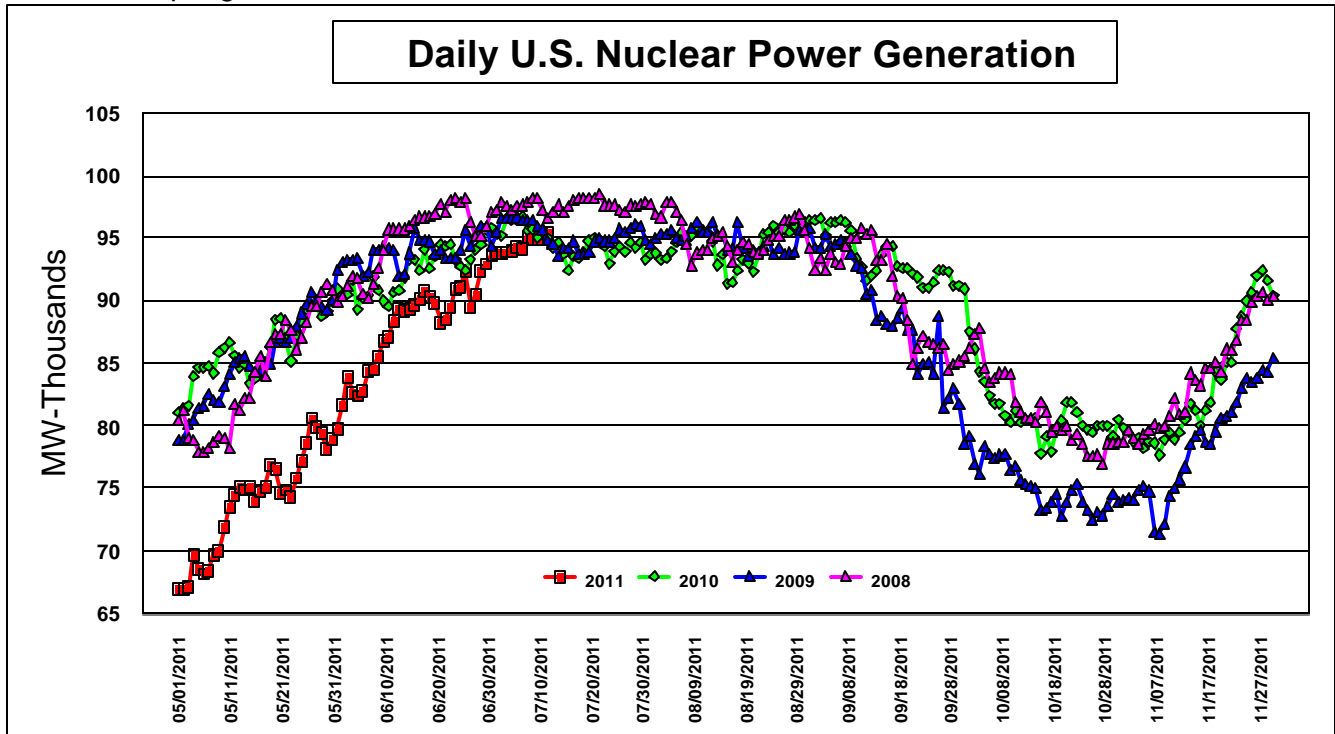
According to the Labor Department's Job Openings and Labor Turnover Survey, there was little turnover in the US labor market in May. It said there were about 2.97 million jobs available at the end of May, up from April's 2.95 million. The rate of hires for US nonfarm jobs remained at 3.1% and the separations rate increased slightly from 2.9% in April to 3.1% in May.

Bank of America-Merrill Lynch said the high price of oil will remain a significant stress on Europe's economy. It however said that the economic weakness may start moderating the strength of North Sea Brent later this year. It said Brent crude futures would remain firm due to production problems

facing North Sea streams, low crude oil inventories in Europe and prolonged disruption to Libyan oil exports due to unrest.

Bank of Japan Governor Masaaki Shirakawa said that global economic growth was slowing. However he said there was no change to the central bank's view that the world economy would be the main driver of Japan's growth once supply constraints ease.

India's industrial output in May increased by a lower than expected 5.6% from a year earlier. April's industrial output growth rate was revised down to 5.8% from 6.3%.



Moody's Investors Service cut Ireland's credit rating to junk status, saying the country will likely need additional rounds of official financing before it can return to international capital markets. It cut Ireland's ratings by one notch to Ba1 from Baa3 and kept a negative outlook on the rating.

MARKET COMMENTARY

The natural gas futures market finished higher for the third consecutive trading session as strong cooling demand across much of the nation supported not only spot market values but futures prices as well. But with trading volume moderate at best there appears to be waning interest by the bulls in this market, especially as the heat in the eastern half of the nation looks to begin to moderate. In addition with today's new production estimates revised upward by the EIA in their latest Short Term Energy Outlook we feel that should help to temper additional gains in the futures market, especially now that nuclear generational levels are finally back to seasonal levels..

We continue to look for this market to spend much of the next few weeks contained in a relative sideways trading pattern from \$4.45-\$4.20. We see resistance tomorrow at \$4.389 followed by \$4.4422 and \$4.485. More distant resistance we see at \$4.532 and \$4.642. Support we see at \$4.276, \$4.241, \$4.207 and \$4.173. Additional support we see at \$4.064 and \$3.99.

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