



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JULY 13, 2010

NATURAL GAS MARKET NEWS

Pennsylvania regulators today announced fines for EOG and its drilling contractor of over \$400,000 for its recent gas well blowout. Regulators found that untrained personnel were a root cause of the well blowout. But regulators will allow EOG to resume gas well completions.

Generator Problems

ERCOT – The coal fired Unit #1 at the Limestone electric generating station was being restarted today.

The NRC reported this morning that some 94,256 Mw of nuclear generation was operating today, down 0.8% from yesterday and off some 2.7% from than the same day a year ago.

The API reported today that the number of oil and natural gas wells completed in the U.S. soared 38% in the second quarter over the same time a year ago. An estimated 10,358 oil wells, natural gas wells and dry holes were completed in the quarter. Gas well completions were up 22% over last year, while oil well completions surged 59%.

El Paso Corporation announced it has received a Bureau of Land Management right-of-way grant for its Ruby Pipeline project. The company expects to begin construction on the line once it receives its final regulatory approval, a FERC Notice to Proceed and Construct. The \$3 billion project is scheduled to be in service in March 2011. The 42-inch 610-mile line is to run between the Rockies Opal trading hub to interconnections near Malin, Oregon. The line has an initial design capacity of 1.5 bcf/d.

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	717,800	\$4.461	\$0.037	\$0.096	\$0.099	(\$0.017)
Chicago City Gate	587,000	\$4.434	\$0.053	\$0.069	\$0.113	\$0.054
NGPL- TX/OK	767,800	\$4.279	\$0.041	(\$0.086)	\$0.101	(\$0.094)
SoCal	489,000	\$4.101	(\$0.018)	(\$0.265)	\$0.042	(\$0.312)
PG&E Citygate	588,500	\$4.131	(\$0.041)	(\$0.234)	\$0.019	(\$0.233)
Dominion-South	579,800	\$4.755	\$0.044	\$0.390	\$0.104	\$0.357
USTrade Weighted	21,510,100	\$4.370	\$0.039	\$0.005	\$0.10	(\$0.017)

Reliance Industries was rumored to be in negotiations for a third shale gas deal in North America. The deal is said to be larger than its previous two shale gas

investments. The deal is believed to involve in the company receiving a 50% or larger stake in this producing company.

Chevron announced today a new natural gas discovery in the Carnarvon Basin offshore Western Australia. This discovery along with other recent discoveries are seen as underpinning its Gorgon and Wheatstone LNG projects.

PIPELINE MAINTENACE

Southern Natural Gas said it has experienced an unscheduled compressor outage at the Ocmulgee Compressor Station on the south main line system in central Georgia. The outage has forced the implementation of a capacity allocation for all points downstream of the compressor station effective until further notice. The company does not anticipate any impact to firm deliveries at this time.

PIPELINE RESTRICTIONS

Tennessee gas Pipeline Company said it will accept nomination increases of 34,000 Dth capacity at Rivervale delivery meter today.

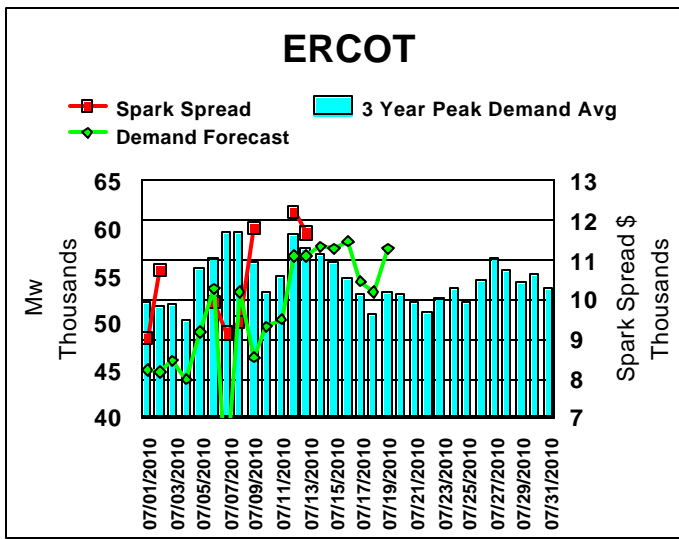
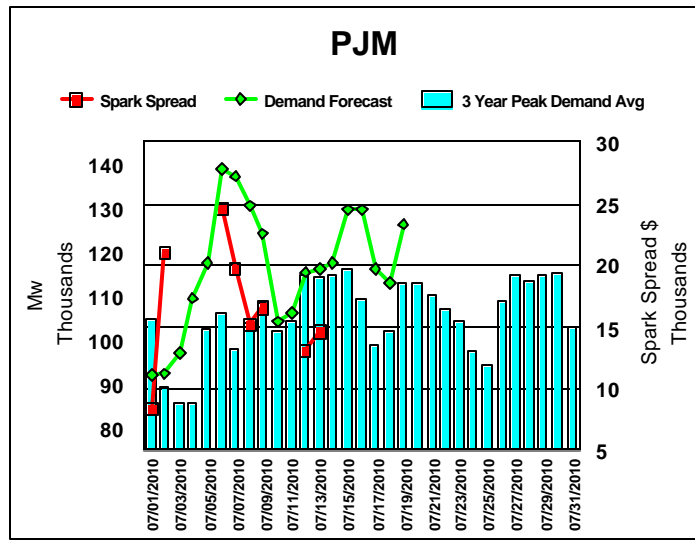
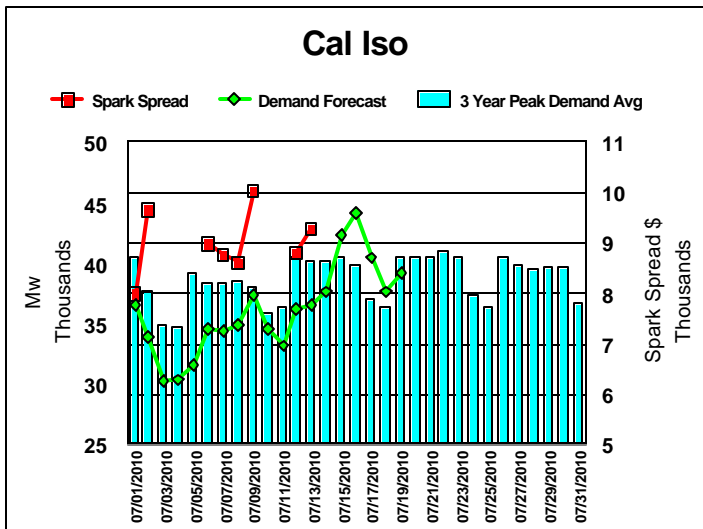
PG&E has issued a system wide OFO for July 14th with a 5% tolerance due to high inventory on the system.

ELECTRIC MARKET NEWS

SDG&E has received approval from the U.S. Forest Service to move forward with construction of the \$1.9 billion, 120 mile Sunrise Powerlink transmission line. The line is seen as boosting the region's power grid reliability as it transports power generated from renewable sources, such as solar, wind and geothermal from remote areas of Southern California's Imperial Valley to residences and business in the San Diego area. The 500 kV line is expected to be completed in 2012.

Senate Majority Leader Reid said today that the U.S. Senate would take up legislation seeking to cap electric utility emissions as early as the week of July 26th. The bill would also address the Gulf of Mexico oil spill cleanup and aim to reduce energy consumption as well as providing incentives for renewable energy technologies.

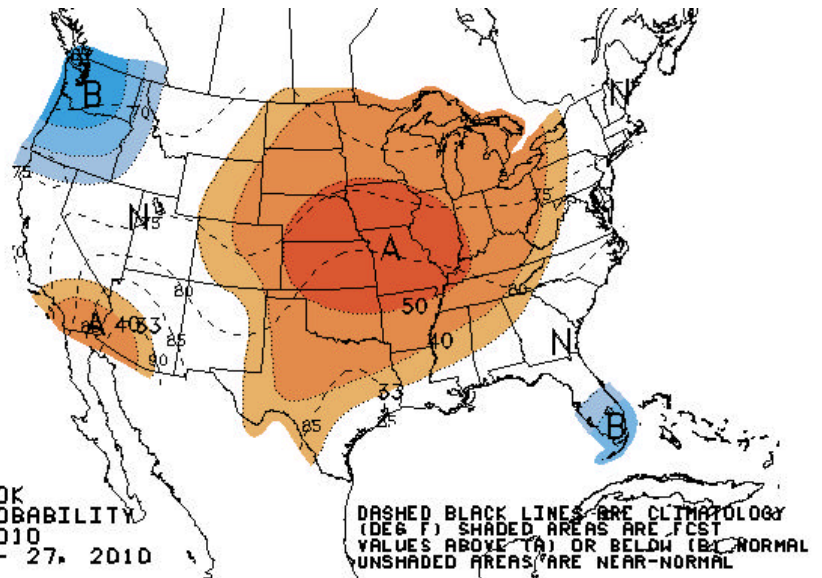
The Regional Greenhouse Gas Initiative gave notice today of its September auction of CO2 allowances. This will be the organization's ninth allowance auction. It will auction for sale 45.5 million allowances for the current control period (2009 to 2011) and more than 2.1 million CO2 allowances for the future control period (2012 to 2014). The RGGI, emissions will be capped at current levels until 2014 and then reduced 2.5% per year from 2015 through 2018, resulting in a cut of 10%. The June auction saw the clearing price for CO2 emissions allowances tumble to a record low of \$1.86-\$1.88 per allowance.



MARKET COMMENTARY

The natural gas market today posted an outside trading session. It appeared the futures market found early support from temperature forecasts and a stronger cash market, only to see the morning's gains by midday erased and the market spend the majority of the remaining

8-14 DAY OUTLOOK
TEMPERATURE PROBABILITY
MADE 13 JUL 2010
VALID JUL 21 - 27, 2010



time in the trading session trading at negative values. Despite the doom and gloom talk of the upcoming heat wave next week, traders seem unwilling to step back in on the long side until they see tropical weather threats once again or bullish supply and demand news from either the EIA Storage Report for the Baker Hughes Rig Report.



It is interesting to note that while it appears the Oct-Jan and March-April spreads have stabilized in the their price erosion of recent days, the 12 month natural gas strip continues to head lower. While we have been a bear in the natural gas market over much of this year, we just do not feel the risk reward

potential justifies shorting this market at these current levels, looking for limited downside gains while holding substantial upside weather risk. As a result we would continue to look to be a seller of the August \$4.00 and \$4.25 puts and would even entertain buying out of the money calls for the eventual rally from a tropical threat. We would look at \$5.00 calls in the October contract, which would provide coverage through the heart of the peak hurricane season as well as the peak cooling season. This option tonight settled at 24.5 cents. A month ago this option was trading at over 80 cents.

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