



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,
& Karen Palladino

(212) 624-1132 (888) 885-6100

www.e-windham.com

NATURAL GAS & POWER MARKET REPORT FOR JULY 15, 2011

NATURAL GAS MARKET NEWS

North America

Baker Hughes reported today that the number of drilling rigs searching for natural gas in the United States rose by 12 rigs to 885 rigs, the third gain in four weeks. The number of horizontal rigs searching for oil and or gas jumped by 13 rigs, the first increase in three weeks to a new record high of 1086 rigs

Generation Outages

NPCC – OPG's 494 Mw Lambton coal fired Unit #3 was shut late Thursday night.

OPG's 490 Mw Nanticoke #1 coal fired unit was shut overnight.

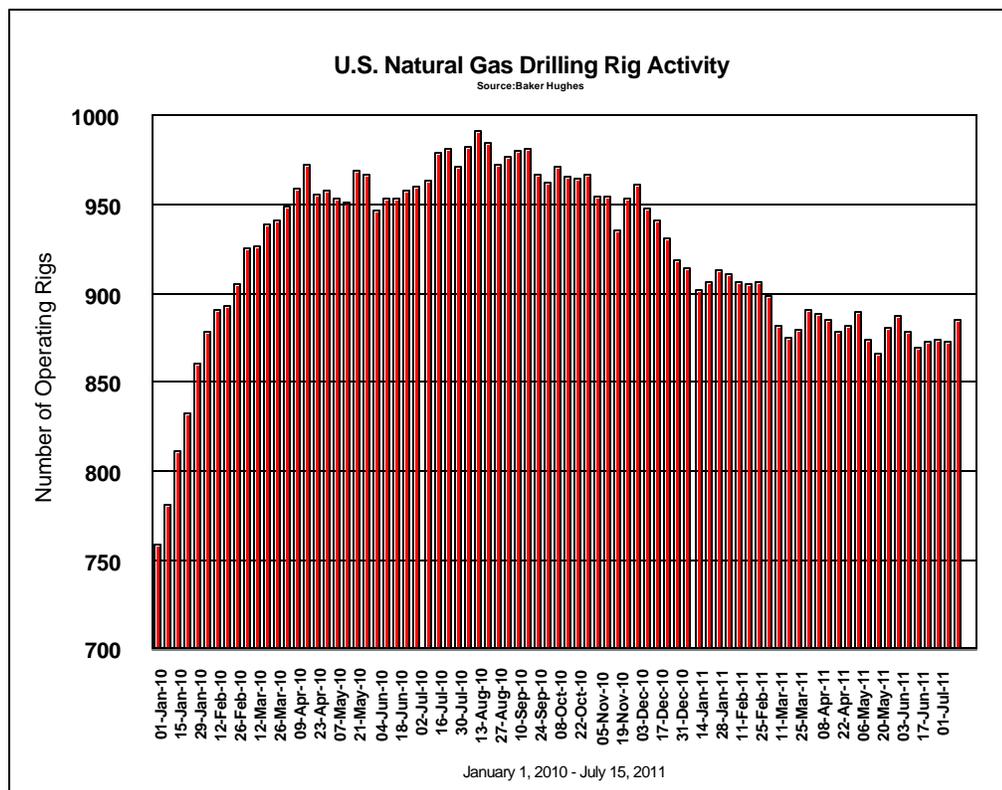
RFC – PSEG's 1158 Mw Salem #2 nuclear unit was shut today due to a leak on the coolant system. The sister unit, Unit #1 remained at full power..

MISO – Exelon's 1178 Mw Braidwood #1 nuclear unit was at 86% power this morning, up 65% from yesterday.

The NRC reported this morning that some 93,393 Mw of nuclear generation was online, down 0.1% from yesterday and but 1% better than levels recorded a year ago.

In the Caribbean an area of disturbed weather was moving inland over Nicaragua and Costa Rica today and posed not threat for additional tropical development. It is interesting to note that the latest European model seasonal forecast for August, September and October continues to forecast a large area of below average barometric pressures over the main development region for Atlantic hurricanes.

As a result this should bode well for an active hurricane season.



Texas Governor Rick Perry today signed energy legislation to encourage more natural gas production and require energy companies to disclose chemicals used in hydraulic fracturing. With this legislation becoming law, Texas becomes the first state to require energy companies to disclose chemicals used in the fracking process. Perry also signed into law incentives for heavy duty natural gas powered vehicles and requiring more air

quality monitoring in the Barnett Shale.

BHP Billiton announced today it was buying gas producer PetroHawk Energy for \$12.1 billion. This purchase follows on the heels of its prior purchase of Chesapeake Energy's interest in the Arkansas shale gas field for \$4.75 billion.

Royal Dutch Shell said today that it is looking to sell its Mackenzie Delta natural gas assets.

The FERC confirmed that

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	767,300	\$4.487	\$0.064	(\$0.027)	(\$0.079)	\$0.041
Chicago City Gate	594,000	\$4.549	\$0.094	\$0.035	(\$0.051)	\$0.097
NGPL- TX/OK	1,130,400	\$4.411	\$0.064	(\$0.103)	(\$0.081)	(\$0.027)
SoCal	566,200	\$4.329	\$0.024	(\$0.185)	(\$0.121)	(\$0.013)
PG&E Citygate	818,200	\$4.619	\$0.036	\$0.104	(\$0.109)	\$0.222
Dominion-South	852,900	\$4.555	\$0.060	\$0.041	(\$0.085)	\$0.147
USTrade Weighted	19,978,500	\$4.444	\$0.066	(\$0.070)	(\$0.08)	\$0.041

Williams Partners this week received regulatory approval to expand its Transco natural gas pipeline in the mid-Atlantic region by adding 142,000 Dekatherms of gas capacity.

Millennium Pipeline Company announced today that it has filed an application with the FERC to license and construct a compressor station in Minisink, NY to increase the capacity of its pipeline by 150,000 dekatherms to 675,000 dekatherms per day. Construction is slated to begin in the first quarter of next year and be completed by the 4Q2012.

International

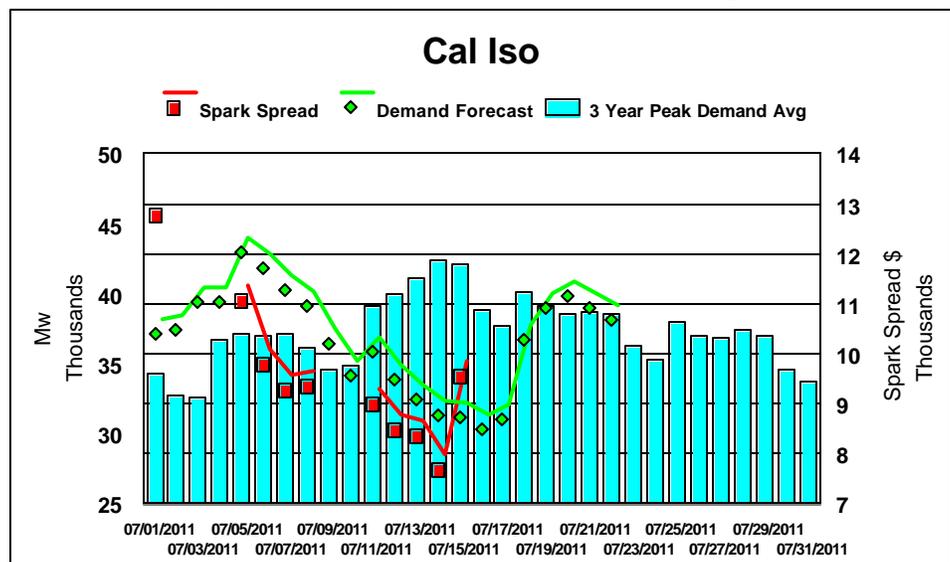
Azerbaijan and Turkey are scheduled to resume talks at the end of July on reaching an agreement to transport new Azeri gas from the Shah Deniz field through Turkey. Azerbaijan is looking to sell Turkey some 6 bcm of gas per year from the second phase development of the Shah Deniz gas field and ship another 10 bcm through Turkey and onto Europe.

German government data showed that Germany's gas import bill totaled 12.1 billion euros in the first five months of this year, up 30.1% from a year earlier. The government trade office reported that Germany imported 1.1% more gas for the period.

Statoil reported that its Snoehvit LNG plant is down for maintenance. The facility, which had been

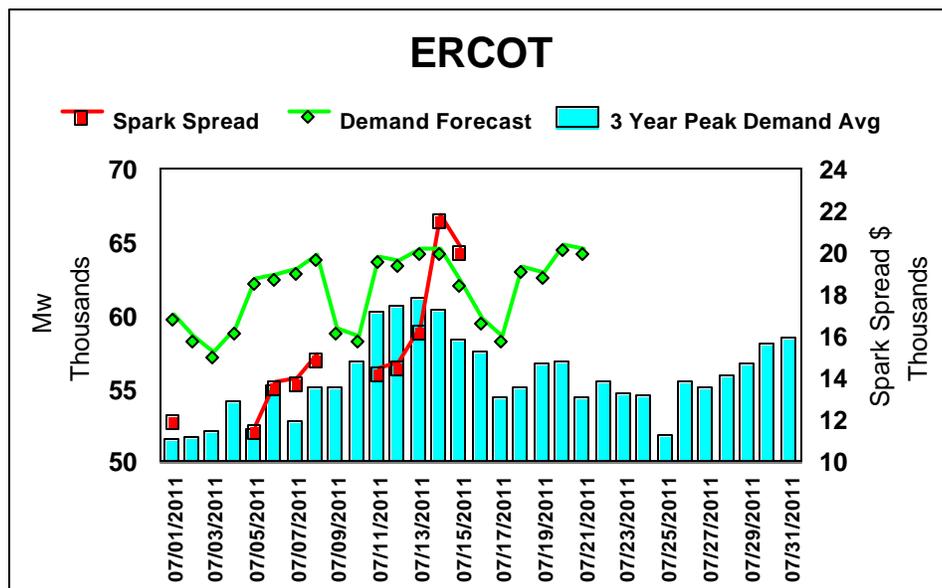
down for maintenance between April 29th and mid June, had been back in operation for the past month. The company said the plant was off line due to technical problems and was expected to be back on stream within a week. The company reported problems with a heat exchanger. The facility has a capacity of 5.76 bcm per year.

The Bu Samra LNG tanker is expected to arrive at the South Hook LNG terminal on July 18th.



South Korea's Custom Service reported today that South Korean imports of LNG rose 5% in June from a year earlier. Korea imported 2.12 million tons of LNG during the period with Qatar, Indonesia and Yeman being the three largest suppliers.

Russian Prime Minister Putin said today that Russia may build a third line on the Nord Stream pipeline. The first line is expected to be operational by October of this year with the second line coming online by November 2012. The line will deliver Russian gas to Germany via a pipeline under the Baltic Sea.



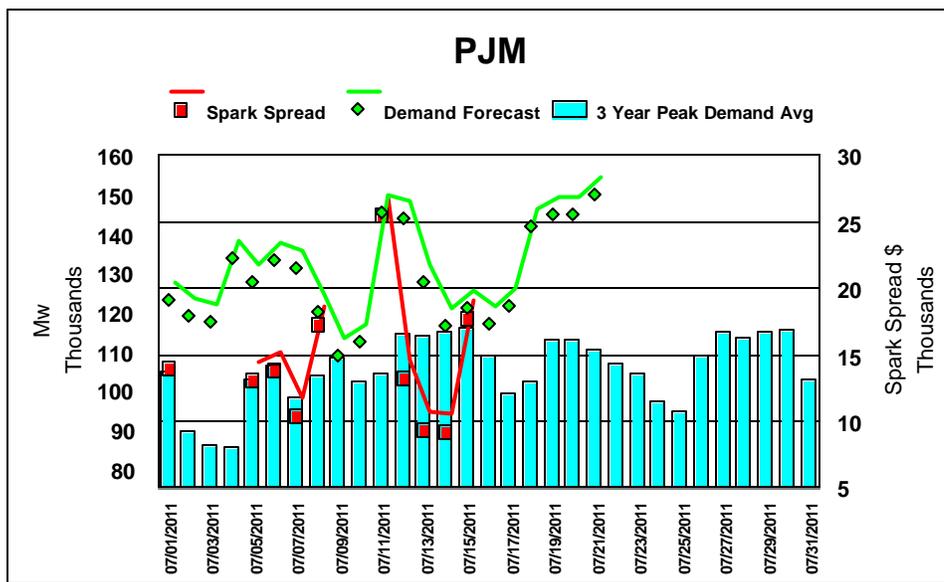
Societe Generale in a research note to customers said that as a result of mild weather and economic weakness it was lowering its European natural gas and power demand estimates for 2011. The bank cut its demand prediction for gas to a 6% fall year on year from a prior estimate of only a 4% decline. For the first 6 months of this year natural gas demand was off 9.2%. It noted that higher gas prices and greater use of renewables have had an impact as well. Power

demand it expected to fall by 2% this year versus a previous estimate for a 1% decline.

ELECTRIC MARKET NEWS

Genscape reported today that U.S. coal consumption rose 4% in the past week as a result of hot weather boosting power demand across the nation. Coal use though was still 4% less than the same week a year ago.

Morgan Stanley in a research report is estimating that if Japan moves away from nuclear energy, it could result in the country needing to import an additional 350,000 b/d of crude oil and fuels to make up for the short fall. This would equate to 8% of total oil demand in Japan. In addition the country would probably need an extra 20 million tons of LNG or the equivalent of a third of annual demand. Meanwhile Tokyo Electric Power announced today that it has boosted its summer power supply outlook by 500 Mw to 57,300 Mw



as of the end of July and it should be sufficient to meet expected peak demand of 55,000 Mw. The company was able to boost supply from hydroelectric output that the utility will receive from another firm from July 15 until September 2nd. The new supply is being generated from using surplus power from non-peak hours to pump water into storage to be released during peak hours. The company also restarted today the 1000 Mw oil fired Unit #4 at its Hirono plant. The unit had been down since March 11th. This is the fourth unit at the five-unit plant to be restarted following the March earthquake.

The Japan Center for Economic Research said in a report today that Japan would face a serious electricity shortage if all of its 54 nuclear reactors stopped operating, since the country would be unable to bridge the gap with just fossil fuel. The Center estimated fossil fuels could supply just about 30% of Tokyo Electric's peak electricity demand. Meanwhile Japan's nuclear safety agency on Friday also failed to provide a timetable for stress tests announced earlier this week but said the tests would hopefully be completed by year-end.

Japan's Kansai Electric Power said it is likely to be able to raise summer power supplies further to help prevent the possibility of blackouts, but declined to provide revised power supply and demand projections. The company said today that it would shut two reactors in July for planned inspections.

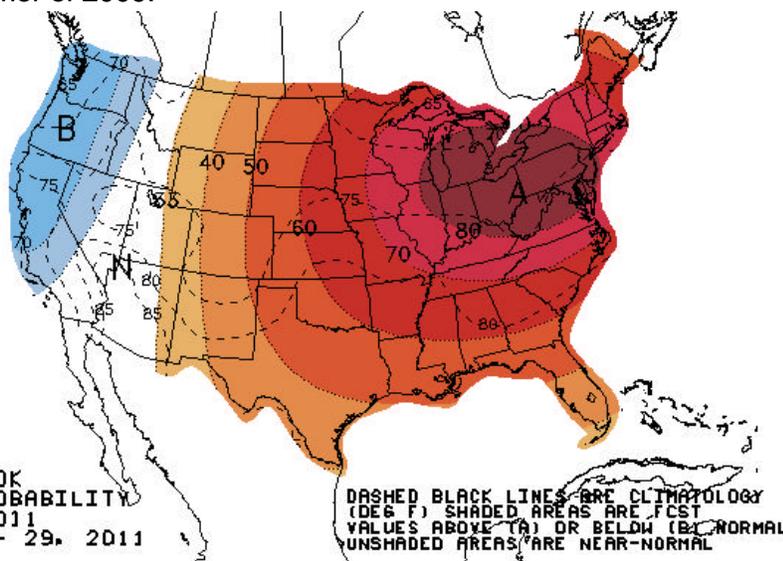
ECONOMIC NEWS

The Economic Cycle Research Institute said its Weekly Leading Index rose to 128.4 in the week ending July 8th, the highest since May 27th. The index's annualized growth rate remained constant at 1.7%.

Thomson Reuters/University of Michigan Surveys of Consumers Sentiment for July fell to 63.8 from June's reading of 71.5.

Morgan Stanley in a research report is estimating that if Japan moves away from nuclear energy, it could result in the country needing to import an additional 350,000 b/d of crude oil and fuels to make up for the short fall. This would equate to 8% of total oil demand in Japan. In addition the country would probably need an extra 20 million tons of LNG or the equivalent of a third of annual demand.

The Federal Reserve reported this morning that it estimated U.S. industrial output in June rose 0.2%, while May's slight gain was revised downward to a 0.1% decline. The gains were helped by strength in mining and utilities, but manufacturing production stagnated in part due to supply disruptions in the auto sector. As a whole 2Q2011 factory activity was the slowest for any quarter since the recession ended in the summer of 2009.



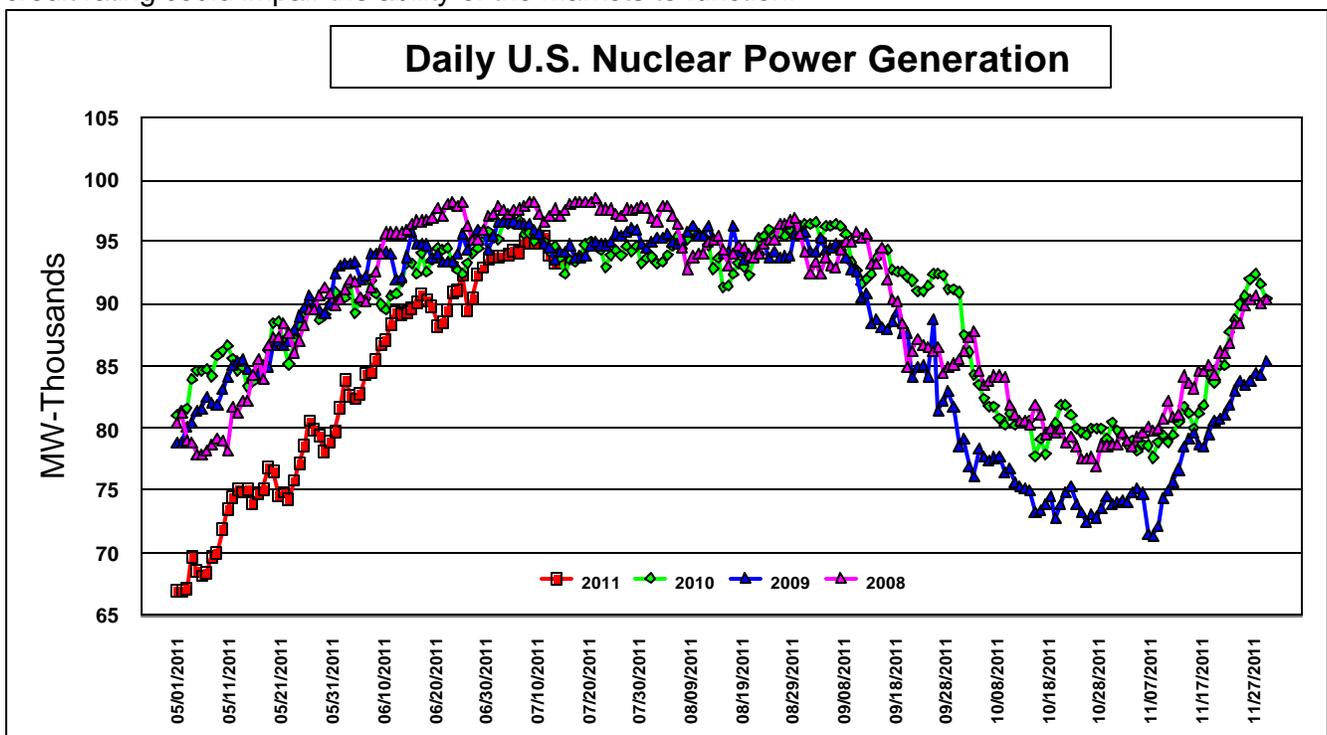
The New York Federal Reserve Bank reported this morning that its gauge of manufacturing in New York State showed an unexpected decline for the second month in a row as new orders worsened. The pace of the decline did moderate somewhat in July from the month

before, standing at -3.76 from a minus 7.79 in June. Market expectations had been for a $+4.50$ reading.

The U.S. Labor Department this morning reported that the CPI index for June fell 0.2% after increasing 0.2% in May. Market expectations had been for a -0.1% decline. Today's reported drop in the CPI was the largest droop in a year and was driven by weaker gasoline prices. Stripping out food and energy costs, the core CPI rose 0.3% after a similar gain in May.

Iran reportedly is stepping up centrifuge development work aimed at making its nuclear enrichment more efficient. Two newer and more advanced models are being installed for large scale testing at a research site near Natanz..

S&P warned today that it may lower its AAA ratings of the three major U.S. clearing houses and the Depository Trust Company due to the U.S. federal government's credit potentially being downgraded. The credit agency said the financial turmoil that would result from a lowered U.S federal government credit rating could impair the ability of the markets to function.



Tens of thousands of Bahrainis rallied for political reform in that country again today. The main opposition party said it would decide on Sunday whether to withdraw from national reform talks.

The European Banking Authority this afternoon said that out of the 90 European banks it reviewed, eight of them failed its stress test, far fewer than what the market expected.. None of the major banks failed to pass the test. An EU official said the "results of the test show the region's banking sector is increasingly strong and better able to resist shocks."

MARKET COMMENTARY

While hot summer temperatures helped to keep spot cash prices strong going into the weekend, the futures market moved even higher today as technical resistance was breached first at \$4.422 and then \$4.485 early this morning triggering a wave of fresh buying as longer term forecasts such as the 8-14 day period appeared to be even warmer than yesterday's outlook and not to mention strong spark spreads in ERCOT given its recent high demand period. But given the fact that we have seen an over

30 cent price swing in just a little over 24 hours makes us believe that today's rally is a bit over done especially given the fact that there is not a major threat to supply, such as from a tropical weather system. In fact given rebounding natural gas rig counts production will be maintained or even increased slightly in coming weeks. This coupled with seasonal nuclear generation and higher hydroelectric production in the West should reduce the direct impact of higher cooling degree-day totals will have on natural gas demand. Finally less than stellar economic news does not seem to point to a dramatic increase in industrial or commercial demand in the coming weeks either.

As a result we would probably look to be a light scale up seller of the market here looking for the next major level of resistance being found at \$4.63-\$4.642 and then followed by \$4.81 and \$5.00. We would not become aggressive in this action though until the daily stochastics roll back over to the downside. Support we see at \$4.371, \$4.327-\$4.312, and \$4.253.

A side note on this market is the fact that the judging by changes in open interest in the futures and swaps or in the shares outstanding in the UNG, natural gas ETF , there does not appear to be any groundswell of new speculative long positions coming into this market to this point.

The information contained in this letter is taken from sources, which we believe to be reliable, but is not guaranteed by us as to accuracy or completeness and is sent to you for information purposes only. The Windham Group bases its market recommendations solely on the judgment of its personnel. Reproduction in whole or part or other use without permission is prohibited.