



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 19, 2011

NATURAL GAS MARKET NEWS

North America

While Tropical Storm Bret slowly began to move away from the U.S. mainland it was beginning to show signs of weakening as strong northeasterly shear began to impact the storm as well as relatively dry mid-troposphere air. Meanwhile forecasters continued to watch a tropical wave in the eastern Atlantic. While satellite imagery this morning was showing some signs of organization, the tropical wave was lacking deep convection at this time. Environmental conditions in front of this wave appear will become favorable for development over the coming days. The latest global model guidance has only the Canadian model forecasting some type of tropical development from this wave. The European model, which over the past two days had been calling for, some type of development has currently backed away from that forecast. In addition the GFS and NOGAPS models forecast no development from this tropical wave. Current track guidance has this wave tracking westward over the next several days moving through the Leeward Islands and Virgin Islands and into the Bahamas by early next week.

Generation Outages

NPCC – Entergy’s 620 Mw Vermont Yankee nuclear unit dropped to 75% power on Tuesday morning. The unit had been at full power on Monday.

PJM – PSEG’s 1158 Mw Salem #2 nuclear unit was at 17% power this morning as it begins to emerge from its recent outage. The plant had been shut back on July 15th after a leak was discovered on the reactor coolant system.

ERCOT – Luminant’s 1209 Mw Comanche Peak #1 nuclear unit started to exit its recent outage. The unit was at 71% power this morning. The unit had been shut since July 11th to address a maintenance issue.

The NRC reported this morning that some 94,712 Mw of nuclear generation was online, up 1.1% from yesterday and basically at unchanged levels recorded a year ago.

Chesapeake Energy announced yesterday that its Buffalo Creek 1-17 well located in Beckham County, Oklahoma, recently surpassed the rare cumulative gross production total of more than 60 bcf of natural gas. The well originally spudded in May 2002 and reached a depth of 21,000 feet had its first sales beginning in

December 2002. The well averaged 41 MMcf/d for the first two years of production and is still producing at 8 MMcf/d.

Energy Transfer Energy has topped an offer

by Williams Cos Inc to acquire Southern Union Co. The bid submitted by Energy Transfer would pay \$44.25 in cash or in common stock for each Southern Union Co. share.

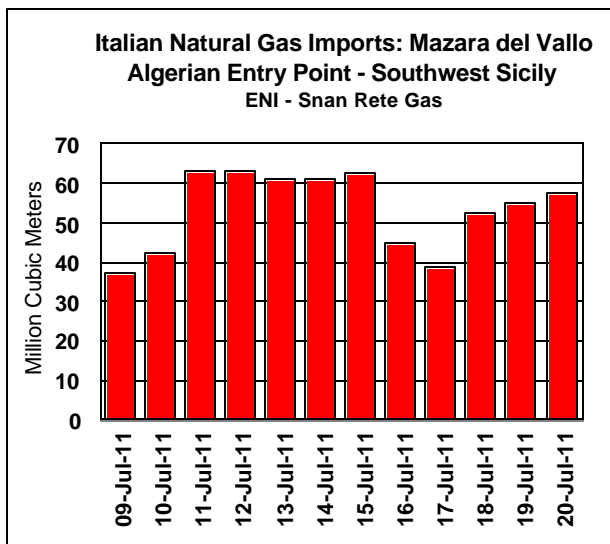
Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	691,700	\$4.604	\$0.009	\$0.080	\$0.132	\$0.030
Chicago City Gate	763,600	\$4.710	\$0.038	\$0.186	\$0.100	\$0.098
NGPL- TXOK	1,026,200	\$4.521	\$0.007	(\$0.003)	\$0.069	(\$0.045)
SoCal	678,000	\$4.517	(\$0.015)	(\$0.007)	\$0.047	(\$0.065)
PG&E Citygate	1,046,400	\$4.709	\$0.000	\$0.185	\$0.062	\$0.171
Dominion-South	1,060,700	\$4.811	\$0.028	\$0.287	\$0.090	\$0.156
USTrade Weighted	24,194,700	\$4.684	\$0.070	\$0.160	\$0.13	\$0.030

China's number two energy company, Sinopec, is looking to invest in North America's shale gas sector within two to three years.

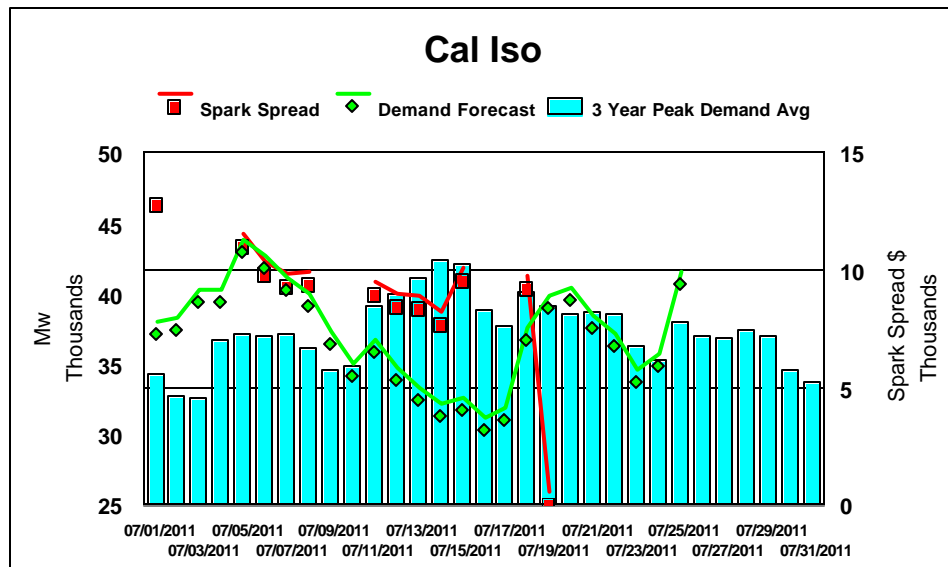
International

A pipeline that delivers gas from Algeria to Italy via Tunisia was rocked by an explosion in northern Tunisia on Monday, but continues to "function normally" a Tunisian interior ministry spokesman reported. The government believed the explosion was most likely an act of sabotage.

Russia's deputy prime minister, Victor Zubkof stated that Russia could supply Europe with an unlimited amount of natural gas. Russia, which holds 33 trillion cm of gas deposits currently, has gas agreements with Germany and other European countries through 2030 and 2031. Russia plans to export the gas through Russian gas supplies in the North Stream and Yamal Europe.



Australian energy firm Woodside Petroleum increased second quarter production by 4 percent to 16.3 million barrels, which was still below last year's second quarter production of 17.3 million barrels. The increased production is due to improved LNG operational performance.



The Artic Voyager LNG tanker is scheduled to leave Belgium's Zeebrugge terminal on July 28 and arrive at England's Dragon terminal on July 31.

Exxon Mobil is seeking a partner for a coal bed methane project in Kalimantan, Indonesia. Exxon is offering a stake in three blocks where drilling results have been good.

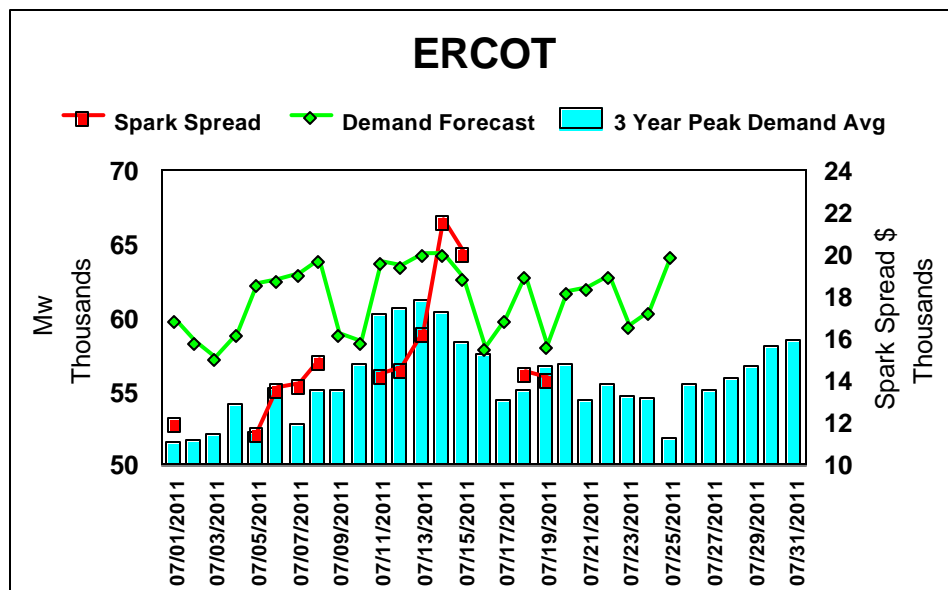
Spain's gas demand fell by 3.3 percent in the first six months of this year when compared to the first half of last year. In addition, Spain, the fourth largest LNG importer decreased imports by 25 percent in June 2011 than June 2010.

ELECTRIC MARKET NEWS

A federal rule to reduce coal-plant emissions that will take affect next year may cause power outages in Texas. The EPA recently ruled that some Texas power plants needed to reduce their emissions. Some fear that in order to comply with the new regulations that there will be shortages of power since there is not enough time to meet the new requirements.

The US Nuclear Regulatory Commission (NRC) said that the Omaha Public Power's District 478-megawatt Fort Calhoun nuclear plant in Nebraska needed additional oversight after a failed

maintenance test. One of the four electrical contracts failed in an automatic shutdown system. The test also revealed that the problem had existed for 63 days before the test. The NRC said it will return to the plant at the end of the month signaling that the plant will be shut for several more weeks.



NRC Chairman Gregory Jaczko wants to quickly change the rules governing the nuclear power industry but faces opposition from other members of the NRC. The other members first want to hear from the industry and the public. Jaczko wants to respond within 90 days on industry changes and have new guidelines in place in five years because he feels

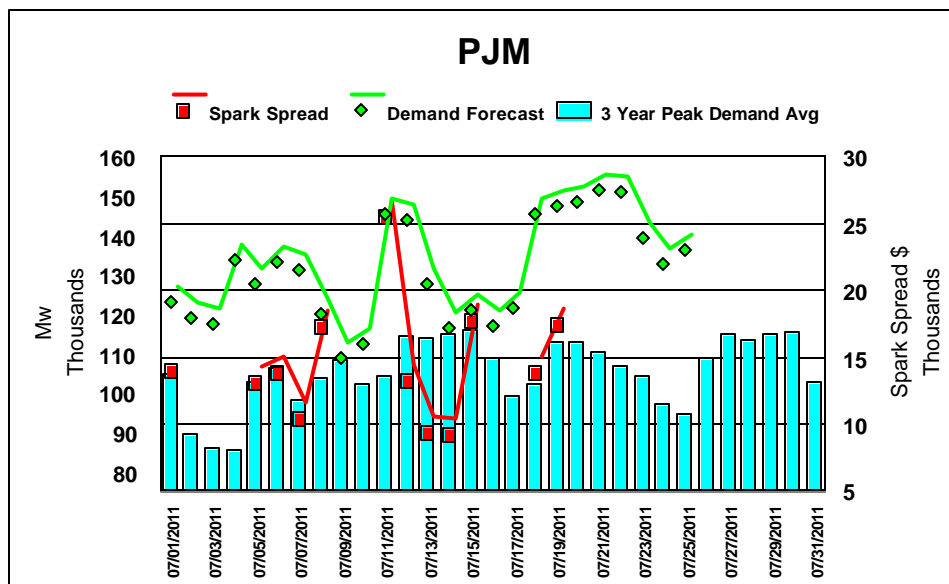
that a delay will put future projects on hold until the new guidelines are in place.

ECONOMIC NEWS

The US Commerce Department said US home construction increased in June to the highest level in five months. Construction of homes and apartments in June increased 14.6% on the month to a seasonally adjusted annual rate of 629,000. The level for May was revised downward to an annualized pace of 549,000. Compared with the same month a year earlier, new home construction in June was up 16.7%. Newly issued building permits increased 2.5% from a month earlier to an annual rate of 624,000, the highest level since December.

The International Council of Shopping Centers and Goldman Sachs reported that the US chain store sales index in the week ending July 16th increased 0.4% on the week and by 4.5% on the year to 535.4.

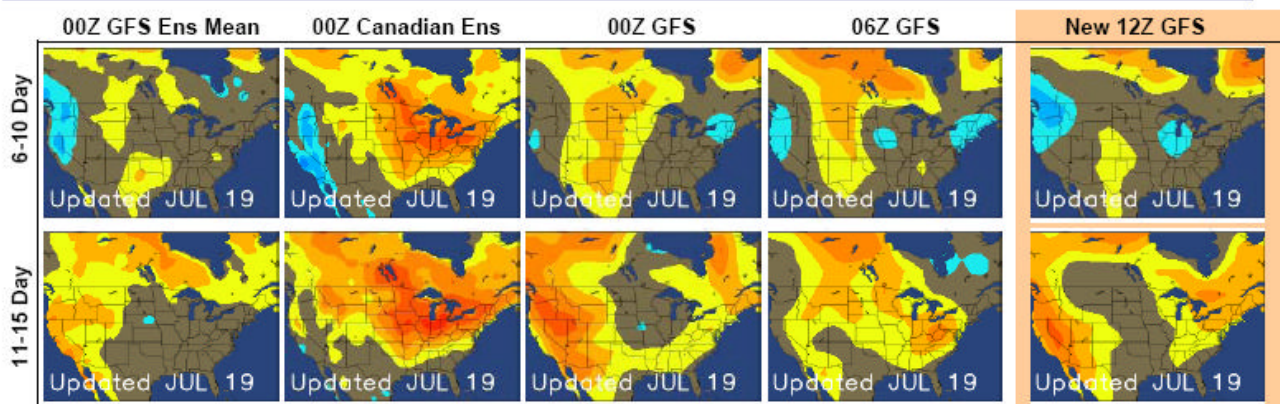
Redbook Research reported that its Johnson Redbook Retail Sales Index in the week ending July 16th increased by 3.8% on the year.



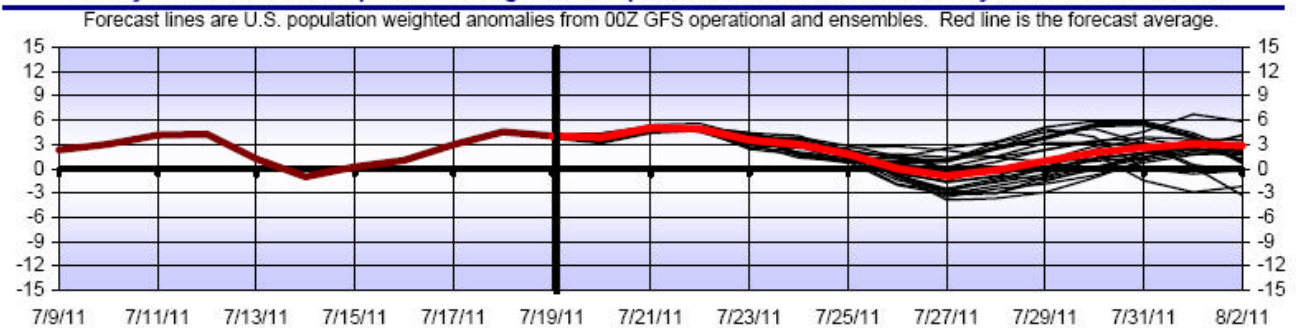
President Barack Obama praised a \$3.7 trillion deficit reduction plan that would modify entitlement programs such as Social Security and rework the tax code. He said the proposal represents a significant step forward in deficit talks that have so far failed to produce a deal. He said he wants congressional leaders to begin working on a final solution on Wednesday.

Germany's Chancellor Angela Merkel said a meeting of euro zone leaders on Thursday will not be the final step in the resolution of Greece's debt crisis. Euro zone leaders will try to agree on a second rescue package for Greece however she warned it was not politically responsible to agree on a hasty solution. She said in order to solve Greece's problems, the euro zone needs to consider the options for reducing its indebtedness and increasing its competitiveness.

Forecast Model Comparison



10 Day Observed U.S. Population Weighted Temperature Anomalies and 15 Day Ensemble Forecast



Goldman Sachs Group Inc's commodities trading risk increased slightly in the second quarter from the first. Its Value at Risk for commodities averaged \$39 million per day in the second quarter, up 5% from \$37 million in the first quarter. It said commodities was the only area it took additional risk in the second quarter as it cuts its VaR in the trading of equities, currencies and interest rates. Goldman reported its sixth consecutive quarterly decline. Its fixed income, currency and commodities trading revenue fell 53% to \$1.6 billion in the second quarter from \$4.3 billion in the first quarter and \$3.4 billion a year.

Barclays Capital said investors pulled out \$3.9 billion of net investments in commodities in the second quarter. It said the majority of outflows in the second quarter were in commodities indices, which saw withdrawals of \$5 billion while structured products saw issuance of \$3.5 billion, the highest for three years.

MARKET COMMENTARY

The spot cash market as well as the futures market for natural gas today appeared to stall. Spot prices were mixed on the day with some gains and some losses recorded at various pricing points while the futures market posted an inside trading day and saw a settlement price for the third day in a row that was within a tenth of a cent of the previous two day's settlements. The recent strength in the cash market especially in the South Central U.S. appeared to suffer a setback as a result of a dramatic lowering of peak demand forecasts for the next seven days by ERCOT as well as the return of the Comanche Peak #1 nuclear unit.

While this market is giving the appearance that the rally may finally be running out of steam, we would watch closely the 9 day stochastics to roll over to the downside as a clear signal that the bears could find comfort in coming back in force into this market. We see support tomorrow coming in at \$4.485 followed by \$4.402. Additional support we would look for at \$4.338, \$4.273 and \$4.204. Resistance we see tomorrow starting at \$4.585 followed by \$4.612, \$4.841 and \$4.983-\$5.00.

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