



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JULY 20, 2011

NATURAL GAS MARKET NEWS

North America

A study by current and former Penn State University researchers, funded by the natural gas drilling industry said on Wednesday that Pennsylvania's economy will get a \$12.8 billion boost from natural gas drilling this year, more than double the amount from 2009, while generating nearly 140,000 jobs. The study though did not address the issue of a lack of a state tax on extracted gas and possible water pollution from drilling activities. The study estimated the state economy would get a boost of \$14.5 billion in 2012. The report found that the state until recently was a net importer of natural gas and could surpass Texas as the top exporting state within the next decade. It estimated of the 1405 wells in the state were producing 2 bcf/d at the end of 2010 and that by the end of this year there would be 2300 wells producing nearly 3.5 bcf/d or over 5% of total U.S. production.

Generation Outages

NPCC – Entergy's 620 Mw Vermont Yankee nuclear unit ramped back to full power this morning. The unit had been at 75% power on Tuesday.

OPG's 535 Mw oil and gas fired Lennox #4 power unit was shut Tuesday afternoon.

PJM – PSEG's 1158 Mw Salem #2 nuclear unit was back at full power this morning. The unit had been at only 17% power on Tuesday morning.

WSCC – Energy Northwest's 1131 Mw Columbia nuclear plant has exited its seasonal outage and was back at full power this morning. The unit had been off line since April 4th for its biennial refueling outage and other maintenance work. On June 21st the company extended its refueling and maintenance work due to problems with replacing the main condenser.

ERCOT - Luminant's 1209 Mw Comanche Peak #1 nuclear unit returned to full power on Wednesday. The unit had been at 71% power on Tuesday.

The NRC reported this morning that some 97,226 Mw of nuclear generation was online, up 2.7% from yesterday and up 2.2% from recorded a year ago.

The FERC yesterday approved a request by ETC Tiger Pipeline LLC to place a 400 MMcf/d expansion of its system into service.

Halliburton's CEO said earlier this week that the demand for oilfield services in North America's onshore, especially hydraulic fracturing, is growing faster than companies can add equipment.

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	695,800	\$4.641	\$0.037	\$0.121	\$0.172	\$0.092
Chicago City Gate	843,100	\$4.806	\$0.097	\$0.286	\$0.101	\$0.136
NGPL- TX/OK	1,341,200	\$4.559	\$0.038	\$0.039	\$0.042	(\$0.032)
SoCal	619,700	\$4.597	\$0.080	\$0.077	\$0.084	(\$0.047)
PG&E Citygate	971,200	\$4.771	\$0.062	\$0.251	\$0.066	\$0.175
Dominion-South	976,300	\$4.900	\$0.089	\$0.380	\$0.093	\$0.206
USTrade Weighted	25,041,900	\$4.853	\$0.168	\$0.333	\$0.17	\$0.092

The CEO of Bentek said this week that with the boom in shale gas production, an oversupply of natural gas is likely to outstrip demand and keep prices under the \$5.00 level.

International

Italy's top administrative court has overturned a previous ruling that blocked the utility Enel from building a LNG terminal in Sicily. The move will allow Italy to decrease its demand for supplies from Libya where they import 13% of their gas from the turbulent country. Enel also issued a statement that the terminal will take 54 months to build.

Thailand's top energy firm, PPT, is expecting a shipment of LNG from Indonesia's Tangguh plant to offset the loss in supply that occurred when a leak was detected in one of the company's off shore plants. The leak could result in a loss of 600 mmcf/d or 14% of the gas supply for the country that uses natural gas for 70% of its electricity.

Russian energy company Gazprom has agreed to supply 2.5 million tons of LNG a year to the Indian Oil Corp. This is the fourth deal that Gazprom has signed with Indian companies this year. The three prior deals were also for 2.5 million tons of LNG per year.

Gazprom has also rejected a Turkish government plan to privatize contracts from Russian imports of natural gas on the Blue Stream Pipeline. Turkey will continue to negotiate as it seeks entry in the European Union and hopes to become a major supplier of natural gas to Europe.

Moldovan gas imports will increase from \$321.70 tcm to \$361.20 tcm and may even reach \$395.20 by the end of the year as Gazprom calculates the price for it's the former Soviet republic based on what it sells to Europe and global fuel prices.

Like Moldova, Ukraine will also seek an increase in gas prices from Russia. The price is expected to rise to \$354 per 1000 cubic meters in the third quarter from \$297 per 1000 cubic meters in the second quarter. The current agreement that exists between Russia and Ukraine bases gas prices on the price of oil and oil products. Ukraine has tried to renegotiate the deal but Russia has been unwilling to negotiate.

Total has been granted permission from the Russian government to acquire 20.5% of Novatek's Arctic gas project. Production is scheduled to start in 2016 with 5 million tonnes of gas and increase production to 15 million tonnes by 2018.

Europe is seeing it lose LNG imports to the Asian market led by Japan who are willing to pay more. Waterborne's LNG analysts are expecting a 9.3% decline in European imports compared to last year.

Japan Petroleum Exploration Co. plans to start investing in natural gas as demand increases in Japan to fill the void left by nuclear energy. The company also plans to increase its foreign investment to 60% of total spending.

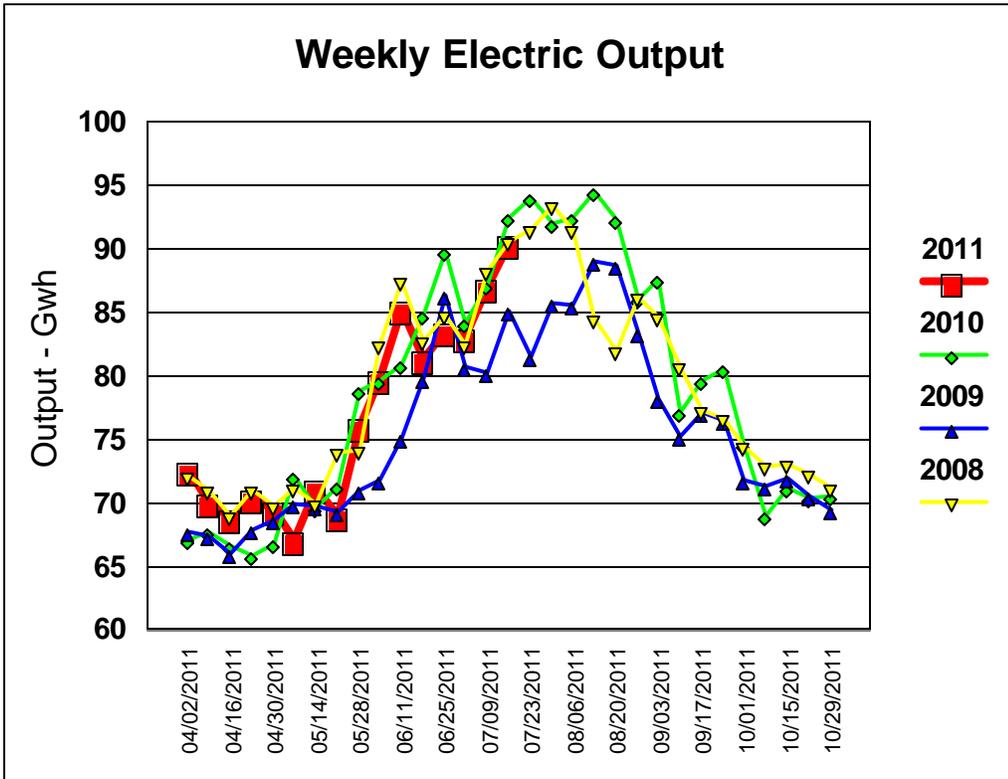
Venezuela has increased its natural gas reserves by 11.3 tcf bringing total reserves to 195.1 tcf. Venezuela has been slow to develop a natural gas reserve with continual delays of a LNG terminal and its large supply of extra-heavy oil in the Orinoco Belt.

China's Customers Statistics Information Center reported today that China has imported a record 1.04 million tonnes of LNG in June. Year to date Chinese LNG imports have been running some 26.7% above 2010 levels.

ELECTRIC MARKET NEWS

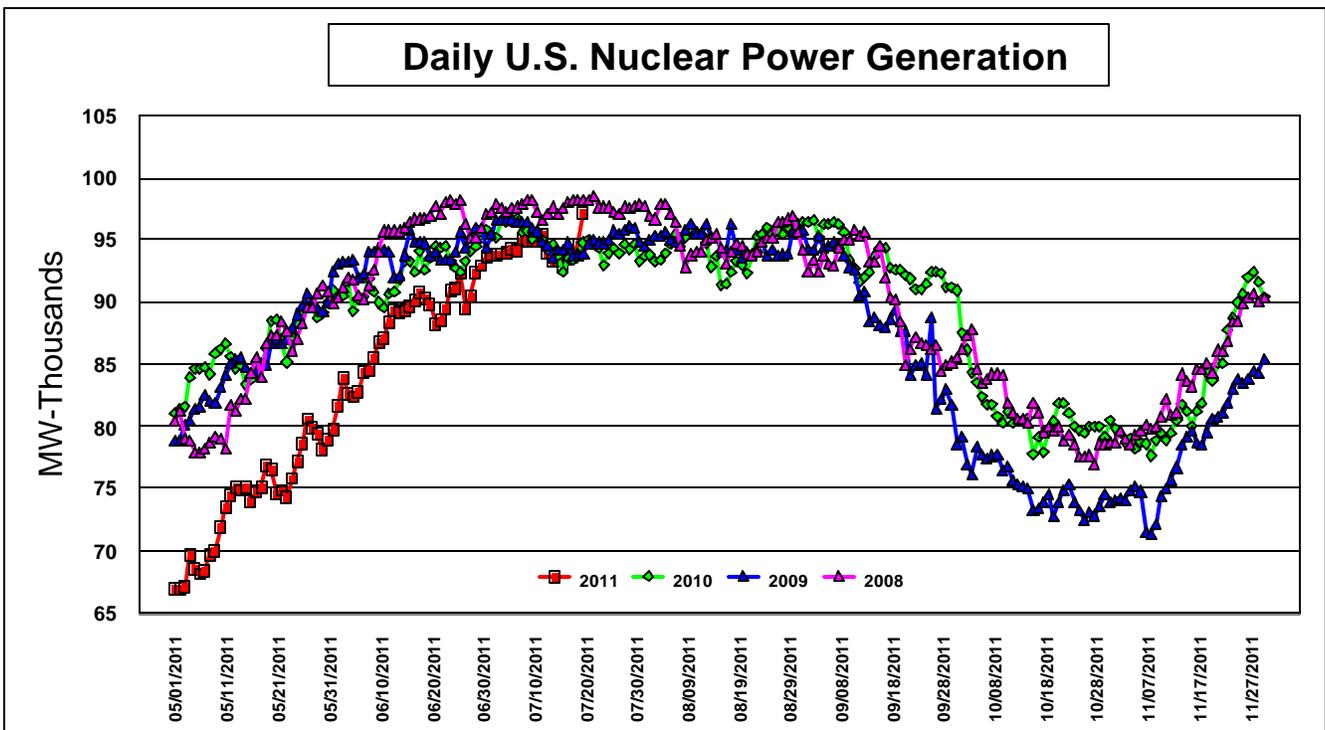
The U.S. Northwest River Forecast Center this week estimated water flows through the Dalles Dam for the April – September period will be 140% of normal, down 1% from its last estimate a week ago but still far better than the 84% recorded a year ago.

The Edison Electric Institute reported that for the week ending July 16th it estimated U.S. power production reached 90,273 Gwh, up 4.1% from the prior week but 2.2% less than the same week a year ago.

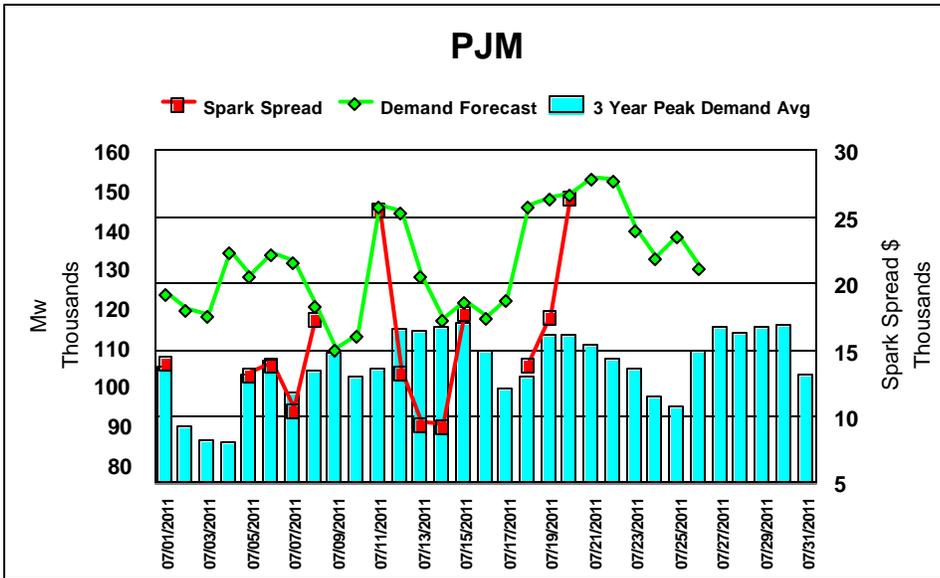


PJM forecast demand would reach 155,000 Mw on Thursday and 151,000 Mw on Friday. Both these demand estimates would exceed the originally forecasted seasonal peak demand forecasted before the summer cooling season of 149,000 Mw. The all time PJM peak demand was 158,448 Mw set back in August 2006. Meanwhile MISO was forecast demand today would reach 103,440 Mw and 100,004 Mw on

Thursday, both days exceeding its earlier summer project demand of 93,000 Mw. The all time MISO demand record is 112,026 set back in July 2006.



The Bonneville Power Administration urged federal regulators to dismiss a complaint filed by wind farm owners, saying that the agency's policy to cut wind generation without compensation is needed to maintain grid reliability.



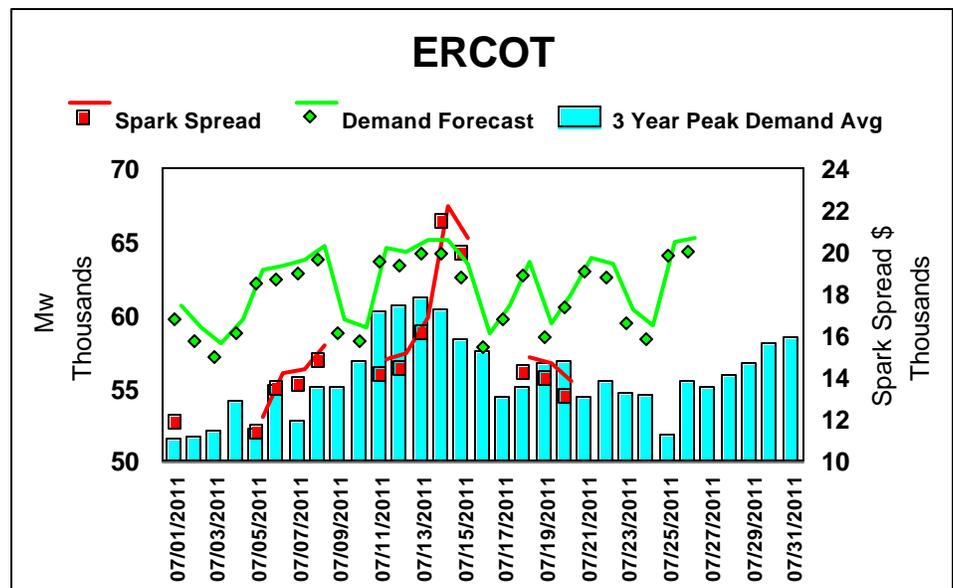
While BPA had offered to replace wind farm output with hydropower so that wind generators could still get paid by their customers, wind generators noted that they can lose money in other ways, including lost production tax credits and renewable energy credits. From mid-May to July 10th, BPA cut 97,557 Mwh of wind generation.

Japan's trade ministry said that they did not expect

rolling blackouts in the western Japan despite power shortages. The electric supply will fall 1.2% short of the forecasted peak demand for August. The shortages are due to unplanned closings of a nuclear reactor and a coal-fired plant. The Japanese government is asking citizens to restrict the use of the power to avoid blackouts.

PSEG's Hope Creek nuclear reactor has received permission from the Nuclear Regulatory Commission (NRC) to operate an additional 20 years from its previous expected close date. The 1,060-megawatt plant's license was scheduled to expire April 11, 2026 but now will be able to remain open until April 2046.

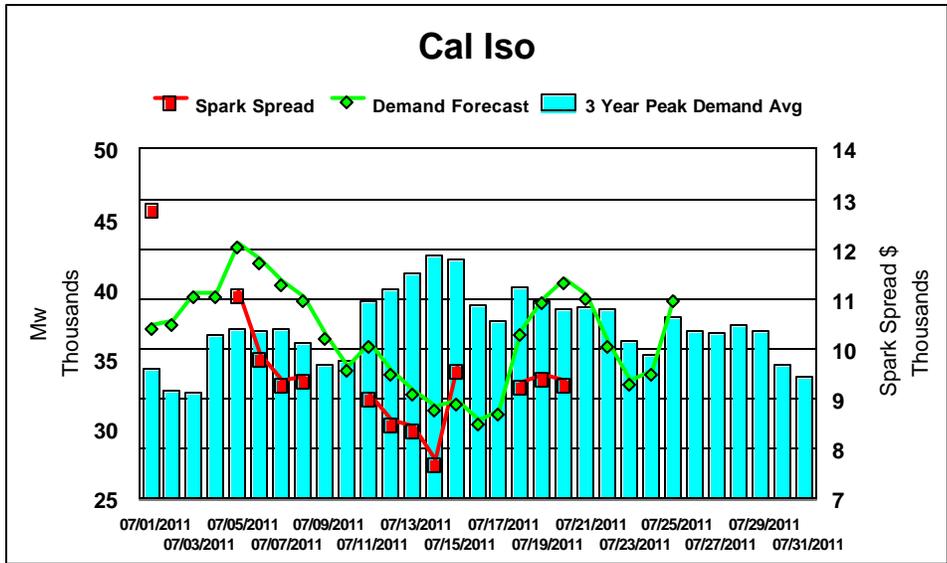
Duke Energy has agreed to buy a minority interest in the new Summer, South Carolina nuclear power reactors from Scana and Santee Cooper. The project is waiting approval from the NRC in 2013.



ECONOMIC NEWS

The Mortgage Bankers Association's seasonally adjusted index of US home mortgage applications increased 15.5% in the week ending July 15th. It was the largest increase since early March. Its seasonally adjusted index of refinancing applications increased by 23.1% however the index of loan requests for home purchases fell by 0.1%. Meanwhile the National Association of Realtors reported today that existing home sales in June fell 0.8% versus an expectation for an increase of 2.9%.

According to fund flows tracker EPFR Global, investors switched into commodity funds in the first two weeks of July. It said commodity funds, including physical commodity funds, attracted \$1.465 billion in assets in the first two weeks of July. The majority of the net inflows came in the second week of July as investors sought the safe haven of gold and precious metals as the euro zone crisis intensified. It also coincided with a warning from S&P that the US credit rating may be downgraded if an agreement on its debt ceiling was not reached.



MARKET COMMENTARY

While spot natural gas prices in the New York region jumped today to their highest level since last winter, as a result of the current heat wave ratcheting up in the region, the natural gas futures continued to work lower. This lower settlement came despite posting a rather volatile outside trading session, following yesterday's inside trading session. Natural gas futures appeared to be

pressured at the start of the morning's floor session on the reports of not only the return to full power by the Comanche Peak #1 nuclear reactor but other facilities around the country. The NRC reported this morning that nuclear generation output in the U.S today stood at its highest level since December 2008. But at midday with the market hovering near its lows and nearly retracing 38% of the rally from the last two weeks the market received a boost from the midday updated 6-10 day weather forecasts which pointed to temperatures being a bit warmer than forecasted yesterday especially for the central and eastern U.S. While natural gas prices were able to retrace two thirds of the morning's sell off, prices were unable to remain in positive territory and by the close settled off 3-4 cents and at its lowest level since July 14th as many tradres appeared content to head to the sidelines until after tomorrow's storage report.

Market expectations for tomorrow's EIA Storage Report are running between a 50-80 bcf build with most expectations centered around a 60-62 bcf build. For the same week a year ago stocks rose an adjusted 55 bcf while the five year seasonal average is for a 67 bcf build.

While the bulls may be prompted to return to this market tomorrow given the ongoing heat wave and if the storage report is neutral to supportive, the fact that the 9 day stochastics are on the verge of crossing to the downside for the first time since the first week of July will keep us away from taking a long position and if anything looking to establish a light short position. We see resistance tomorrow at \$4.522 followed by \$4.612-\$4.632. Additional resistance we see at \$4.841 and \$5.00. Support we see tomorrow at \$4.44 followed by \$4.443-\$4.403, \$4.338 and \$4.273.

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