



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JULY 22, 2010

NATURAL GAS MARKET NEWS

The energy markets received a jolt this morning when the National Hurricane Center unexpectedly released a "special update" on Invest 97- L warning the market that by late morning this system could be upgraded into a tropical depression. Forecasters noted that the system this morning had quickly began to intensify and a surface circulation had finally been detected. This was confirmed at 11 AM when the NHC formally designated the system as Tropical Depression Three. But this late morning update noted that the NHC forecasters did not expect that this system would see significant intensification, as all the forecasting models were failing to point to significant intensification.

Generator Problems

The NRC reported this morning that some 94,866 Mw of nuclear generation was operating today, down 0.3% from yesterday and basically unchanged from the same day a year ago.

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	706,300	\$4.668	(\$0.032)	\$0.033	(\$0.180)	\$0.009
Chicago City Gate	622,400	\$4.642	(\$0.060)	\$0.007	(\$0.194)	\$0.073
NGPL- TX/OK	782,100	\$4.469	(\$0.025)	(\$0.166)	(\$0.159)	(\$0.105)
SoCal	392,600	\$4.387	(\$0.025)	(\$0.248)	(\$0.159)	(\$0.208)
PG&E Citygate	664,000	\$4.409	(\$0.041)	(\$0.226)	(\$0.175)	(\$0.183)
Dominion-South	655,500	\$4.976	(\$0.054)	\$0.341	(\$0.188)	\$0.353
USTrade Weighted	22,144,000	\$4.589	(\$0.046)	(\$0.046)	(\$0.18)	\$0.009

The path of the storm is seen moving on a west-northwestward track across the Florida Straits and into the Gulf of Mexico. But wind speeds are currently not seen reaching

beyond 45 knots. The NHC assigned only a 15% chance that the system could reach hurricane strength but a 64% probability it could reach tropical storm strength.

BP has suspended some skimming operations in the Gulf of Mexico in front of the approach of Tropical Depression Three and Shell yesterday began evacuating non-essential personnel from offshore drilling and production rigs. BP did report at midday that it has begun evacuating nonessential personnel from facilities in the Gulf. Pipeline operator Enbridge said it plans to evacuate on Friday 20-30 nonessential personnel offshore from facilities connected to its regional offshore gas pipelines, which have a combine capacity of 2.3 bcf.

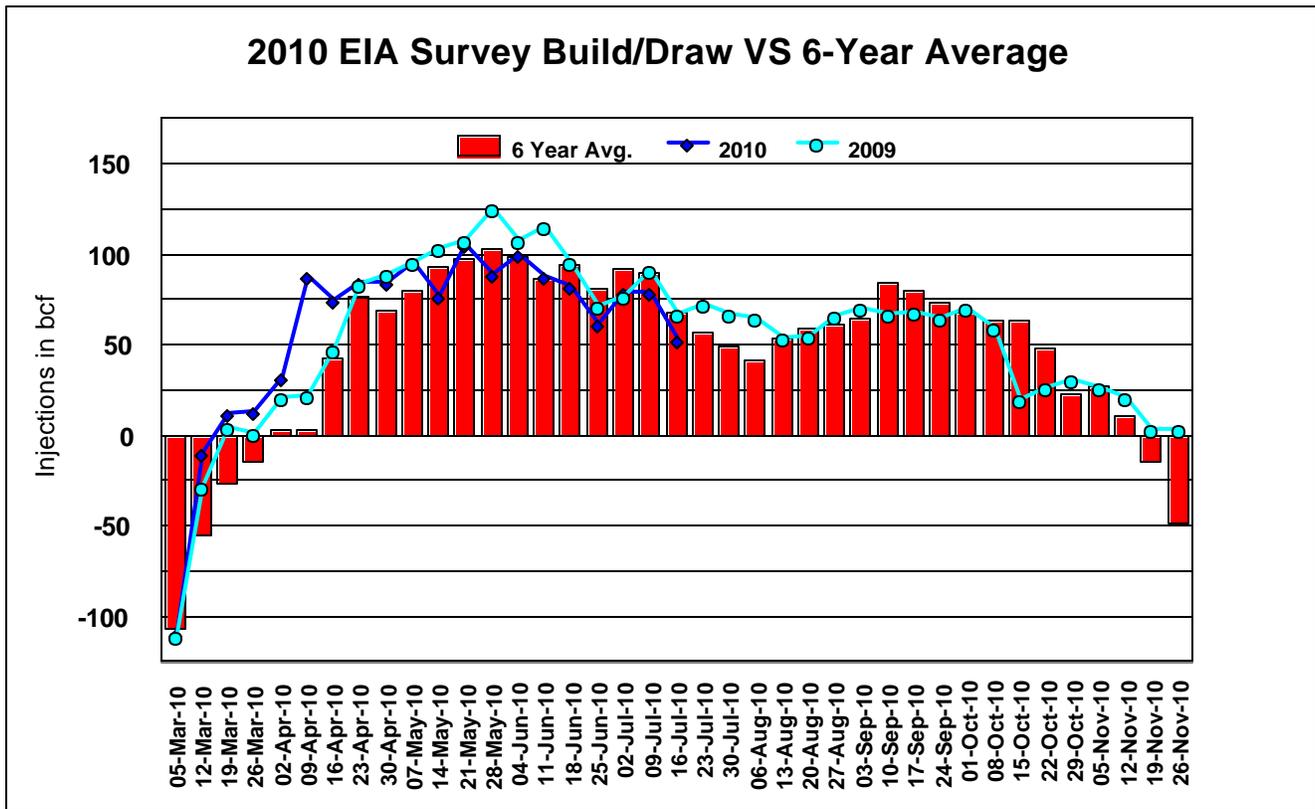
EIA Weekly Report

	07/16/2010	07/09/2010	Change	07/16/2009
Producing Region	992	986	6	1041
Consuming East	1425	1384	41	1459
Consuming West	474	470	4	442
Total US	2891	2840	51	2943

*storage figures in Bcf

Following the signing of the Wall Street Reform and Consumer Protection Act this week, the CFTC has released a list of some 30 areas of rulemaking to implement. The agency noted that the rule-writing

areas have been divided into eight groups: Comprehensive Regulation of Swap Dealers and Major Swap Participants; Clearing; Trading; Data; Particular Products: Enforcement: Position Limits; and Other Titles.



A study shows the importance that independent oil and gas companies play in the Gulf of Mexico. The Economic Impact of the Gulf of Mexico Offshore Oil and Natural Gas Industry and the Role of the Independents show that in 2009 about half of the nearly 400,000 oil and gas jobs in the Gulf were generated by independents. Independents generated \$38 billion in economic value and \$10 billion in federal, state and local revenue. The study also shows that independents represent a large and growing portion of the deepwater segment.

PIPELINE MAINTENANCE

Southern Natural reported it has completed maintenance pigging on its 16 inch Logansport Supply Line and the 14-inch Logansport Line in north Louisiana west Bienville compressor. The force majeure implemented on July 20th has been canceled.



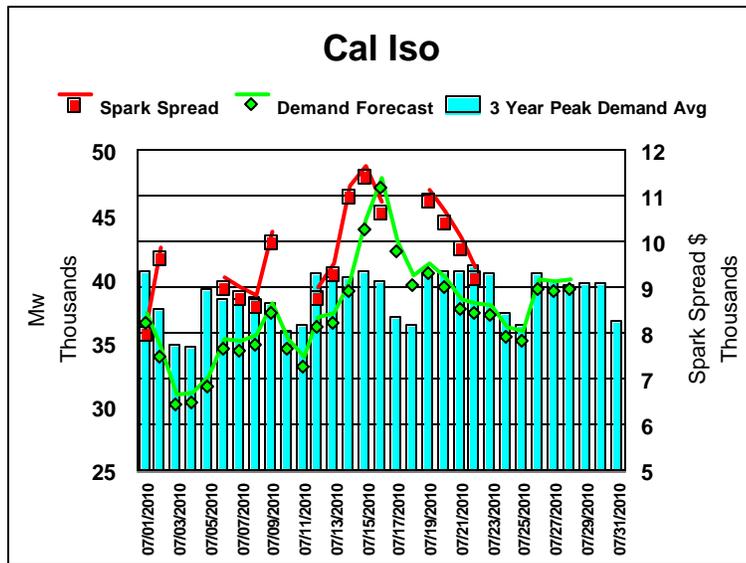
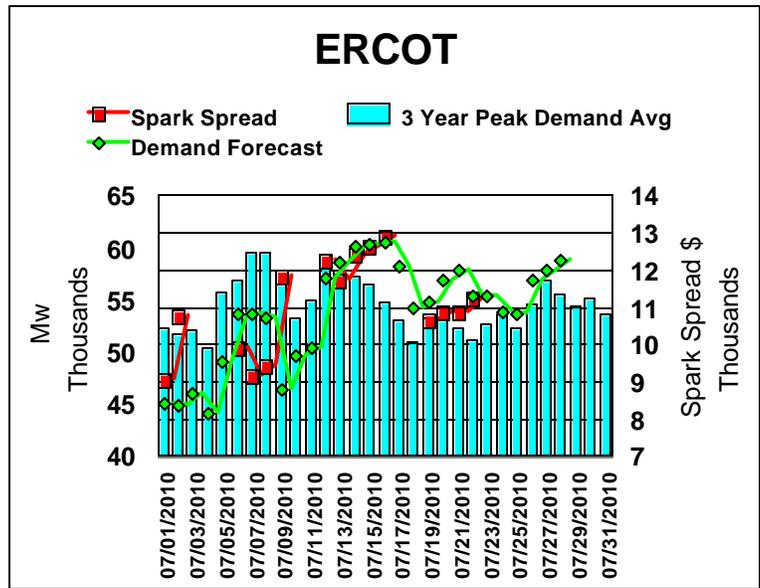
PIPELINE RESTRICTIONS

Tennessee Gas Pipeline said it would accept nomination increases to 17,000 Dth available capacity at Carthage Line Lateral; 2600 Dth at Leidy delivery meters; 31,000 Dth at Station 321 and 13,000 Dth at Rivervale delivery meter.

PG&E has issued a system wide OFO for July 23rd due to high inventory levels. A 5% tolerance was set.

ELECTRIC MARKET NEWS

U.S. Senator Kerry, the main proponent of congressional action on climate change, acknowledged on Thursday it would be "very tough" to pass any climate change



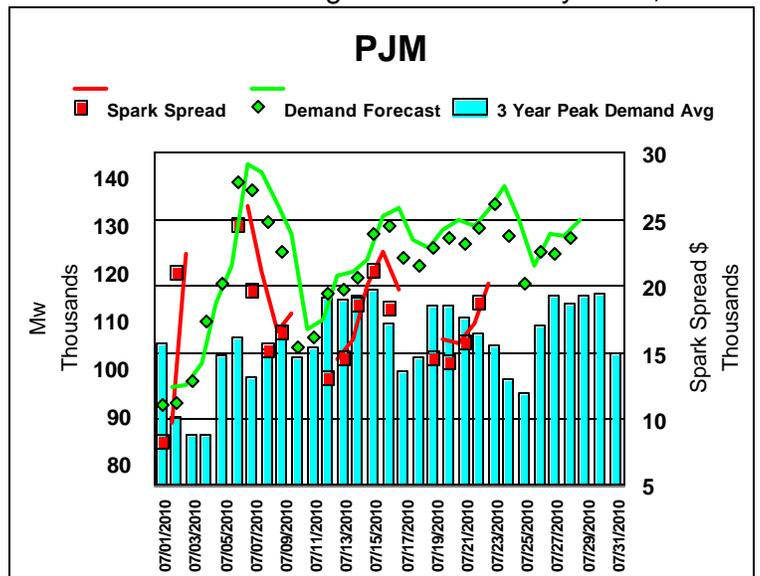
legislation this year.

ECONOMIC NEWS

The US Labor Department reported that the number of US workers filing initial claims of unemployment increased by 37,000 to 464,000 in the week ending July 17th. Economists had expected claims to increase by 21,000. The previous week's level of claims was revised slightly downward from 429,000 to 427,000. The four week moving average increased by 1,250 to 456,000 in the week ending July 17th. The number of applicants filing for federal extended unemployment benefits fell by 404,049 between June 26th and July 3rd. It reported that the number of continuing claims fell by 223,000 to

4,487,000 from the preceding week's revised level of 4,710,000. The unemployment rate for workers with unemployment insurance for the week ending July 10th was 3.5%, down 0.2% from the prior week's unrevised rate of 3.7%.

Federal Reserve Chairman Ben Bernanke reiterated that the current policy of ultra-low interest rates remain appropriate despite a worsening economic outlook. He said the Federal Reserve continues to plan for an eventual return to more normal rates. However he added that the central bank is prepared to take further policy actions as needed if the recovery falters.



The Euro zone's private sector surged in July. European purchasing managers' indexes showed private sector business activity grew in July, indicating third quarter euro zone growth of about 0.6-0.7%. Market's Eurozone Flash Services PMI increased to 56 in July from 55.5 in June, outpacing expectations of 55. The euro zone's manufacturing sector, which drove a large part of the economy's return to growth in the third quarter of last year also accelerated. While the euro zone economy has emerged from its worst post-war recession it grew only 0.2% between January and March following a 0.1% expansion in the final three months of 2009. It is expected to have grown 0.6% in the second quarter. However growth is seen slowing to 0.3% later in the year.

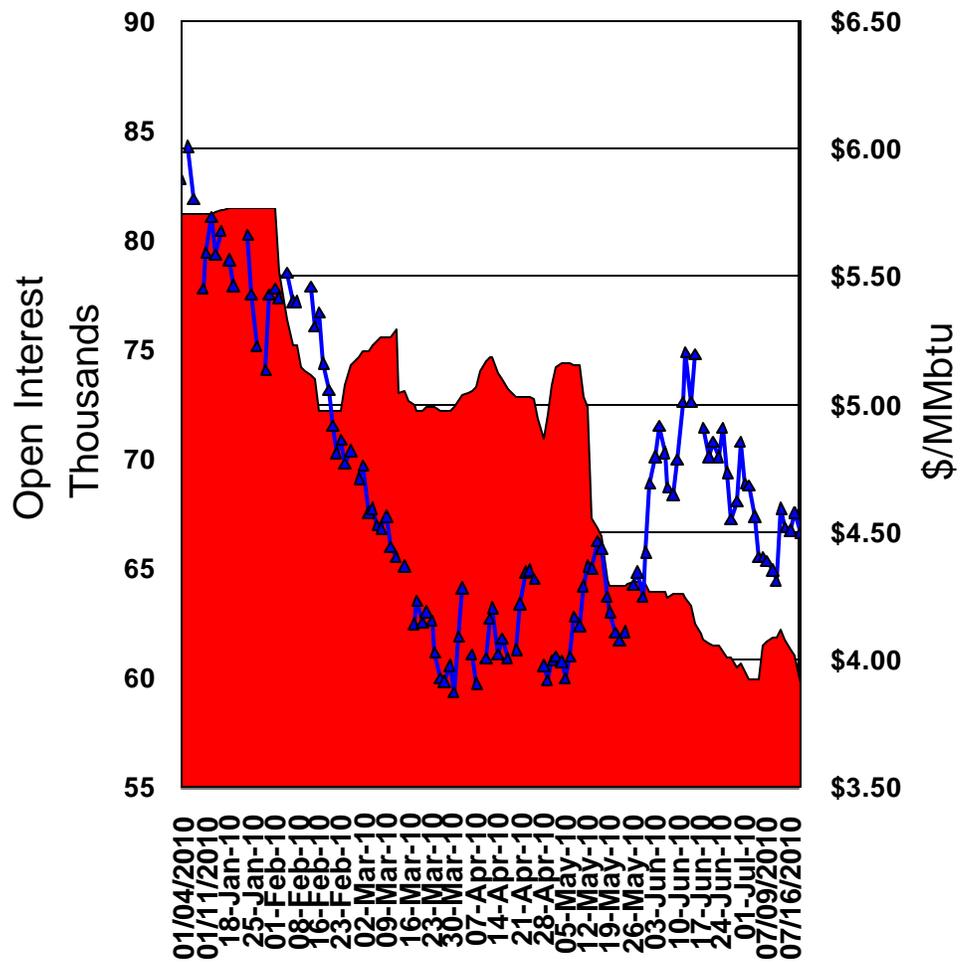
MARKET COMMENTARY

The natural gas market received a significant boost higher this morning on news that Invest 97-L had in fact quickly strengthened this morning and had become the third tropical depression of the young Atlantic hurricane season. While forecast models do see this storm heading straight through the oil and gas offshore production areas this weekend, there appears to be a very low likelihood that the system will strengthen beyond a tropical storm.

The EIA storage report was basically a non-event, given the reported build was basically dead on versus market expectations. But longer term the report does provide a thread of support given the fact that current storage levels are now 52 bcf behind year ago levels.

UNG ETF Open Interest Vs NYMEX Settlement

■ Open Interest in Futures & Swaps ▲ Nymex Settlement



We believe with natural gas prices breaking out of its month long downward channel today and the risk of a tropical storm or hurricane wondering through the heart of oil and gas production areas in the Gulf of Mexico this weekend, should keep bears in this market on the sidelines. But we feel without a major hurricane hitting production areas this weekend, this market will come back under pressure to start

next week, especially since speculative interest in this market appears relatively dormant as reflected in the continued erosion in positions held by the natural gas ETF, UNG. This ETF's holdings on the CME and ICE natural gas contracts has fallen back to near term lows. As a result while prices may rally again tomorrow we would look to use the move as a selling opportunity, looking to buy out of the money puts in the August and September contracts such as the \$4.50 puts.

We see resistance tomorrow in the August contract at \$4.72 followed by \$4.768, \$4.882 and \$4.934. Support we see at \$4.554, followed by \$4.504 and \$4.453. More distant support we see at \$4.228, \$4.131, \$4.108 and \$4.07.

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