



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JULY 25, 2011

NATURAL GAS MARKET NEWS

North America

The National Hurricane Center this afternoon noted that the tropical wave, formally designated Invest 90-L, was south of eastern and central Cuba was producing some disorganized showers and a few thunderstorms as it was moving westward. While the shower activity did increase as the day went on today, atmospheric conditions are not expected to be conducive for significant development and as a result the NHC was assigning a 0% probability that this could develop into a tropical cyclone in the next 48 hours. But once this tropical wave reaches the northwestern Caribbean and/or the southern Gulf of Mexico where upper level conditions are more favorable and the pace of the system moving westward is expected to slow down at mid week some development is possible. While some computer forecasting models, such as the popular GFS and European models are not expecting this system to develop, the NAM model is looking for the system to start organizing on Tuesday and could possibly become a tropical depression or storm late Wednesday or Thursday. The NOGAPS model is looking for some weak development on Friday before it comes ashore on the central or southern Texas coast on Friday into Saturday. Forecasters are also watching a tropical wave in the central tropical Atlantic that could begin to show some development after it passes by some dry air that is currently inhibiting development.

Generation Outages

SERC - TVA's 1148 Mw Sequoyah #1 nuclear unit was back at full power on Sunday. The unit had been at just 12% power on Friday.

Progress Energy's 710 Mw Robinson #2 nuclear unit was at 50% power on Monday morning. The unit had been at full power last week.

The NRC reported this morning that some 95,721 Mw of nuclear generation was online, up 1.3% from yesterday and up 1.4% from recorded a year ago.

El Paso Corp on Monday requested approval by the FERC to begin service on its 680 mile, 42 inch Ruby natural gas pipeline. The company has requested a July 27th in service date. The pipeline will move gas from the Opal hub in Wyoming to Malin, Oregon, with an initial capacity of 1.5 bcf/d.

Natural Gas Cash Market

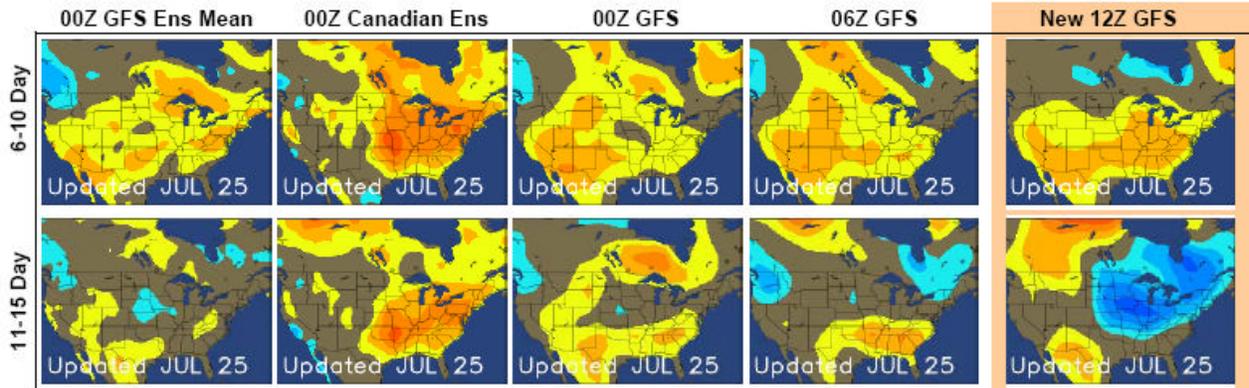
ICE Next Day Cash Market

Location	Volume	Avg	Change	Basis	Change	Basis 5-Day
	Traded	Price		(As of 12:30 PM)		Moving Avg
Henry Hub	708,100	\$4.449	(\$0.012)	\$0.086	(\$0.017)	\$0.236
Chicago City Gate	599,100	\$4.518	(\$0.034)	\$0.154	\$0.014	\$0.211
NGPL- TX/OK	828,000	\$4.364	(\$0.037)	\$0.001	\$0.011	\$0.024
SoCal	630,900	\$4.445	\$0.020	\$0.082	\$0.068	\$0.065
PG&E Citygate	611,200	\$4.586	(\$0.058)	\$0.223	(\$0.010)	\$0.237
Dominion-South	979,300	\$4.588	(\$0.019)	\$0.225	\$0.029	\$0.305
USTrade Weighted	21,012,500	\$4.458	(\$0.065)	\$0.095	(\$0.02)	\$0.236

The U.S. Climate Prediction Center reported this morning that for the week ending July 23rd it estimated the U.S. saw some 107 cooling degree days on a population

weighted basis. This was 29% more than the prior week and was 42.7% hotter than normal. For the current week the CPC is estimating some 100 CDD, which would still be some 33% warmer than normal.

Forecast Model Comparison

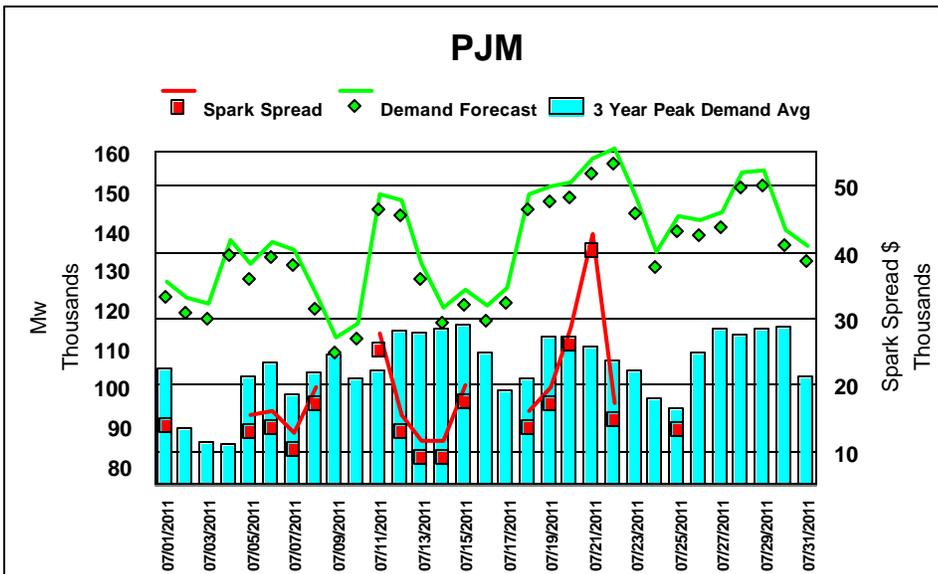


10 Day Observed U.S. Population Weighted Temperature Anomalies and 15 Day Ensemble Forecast



International

Qatargas has agreed to a twenty-year deal starting in 2013 with Malaysian LNG producer Petronas. Qatargas will export 1.5 million tones of LNG a year. The deal shows the decline in Malaysia's LNG production from 2009 when they were the world's second largest exporter behind Qatar.



Iran, Iraq, and Syria signed a trilateral agreement to build a \$10 billion natural gas pipeline that would export gas from Iran's South Pars field through Iraq, Syria, and Lebanon en-route to Europe. In addition of exporting gas to Europe Syria plans to buy 20-25 million cubic meters of gas on a daily basis.

In reaction to Japan's Fukushima disaster Germany decided to immediately close 40% of its nuclear capacity and phase out atomic energy entirely by 2022. In order to meet energy needs Germany is likely to become the Netherlands first LNG terminal's biggest customer. The opening of the terminal in two to three years will also help Germany decrease its' dependency on Russian gas.

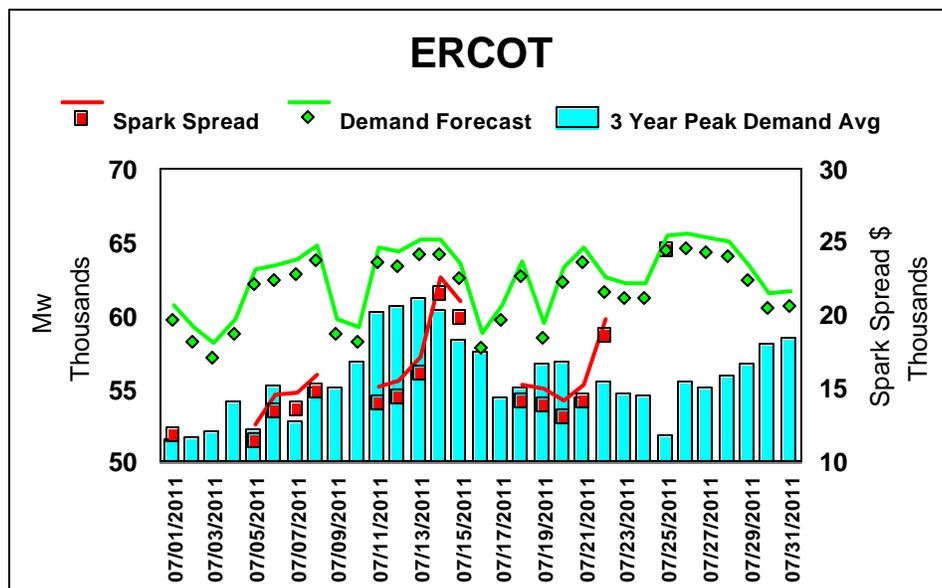
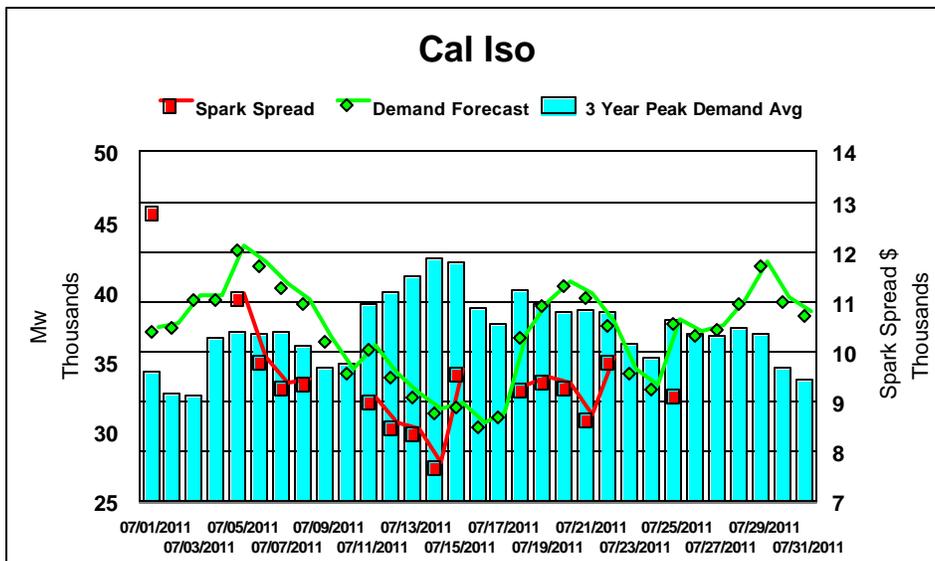
Belgium's Zeebrugge LNG terminal is expecting a shipment from the Al Jassasiya LNG tanker to arrive on August 9th.

ELECTRIC MARKET NEWS

Power usage in the US rose 1.9% for the week ending on July 21st from the previous week but was 1.2% less than the same week last year.

Meteorologists are calling for Japan to see average to hotter weather from August to October, increasing concerns that a heat wave will lead to an increase in power usage leading to blackouts with many of the countries nuclear reactors off line.

Entergy Corp. will refuel and attempt to keep the Vermont Yankee nuclear power plant running for another twenty years until 2032 when its operating license expires despite Vermont's Governor, Peter Shumlin's desire to close the plant. The two sides will meet in federal district court in mid-September to argue for the fate of the Yankee nuclear power plant. Vermont is the only state that has a say on whether a nuclear power plant can continue operating in its borders.



ECONOMIC NEWS

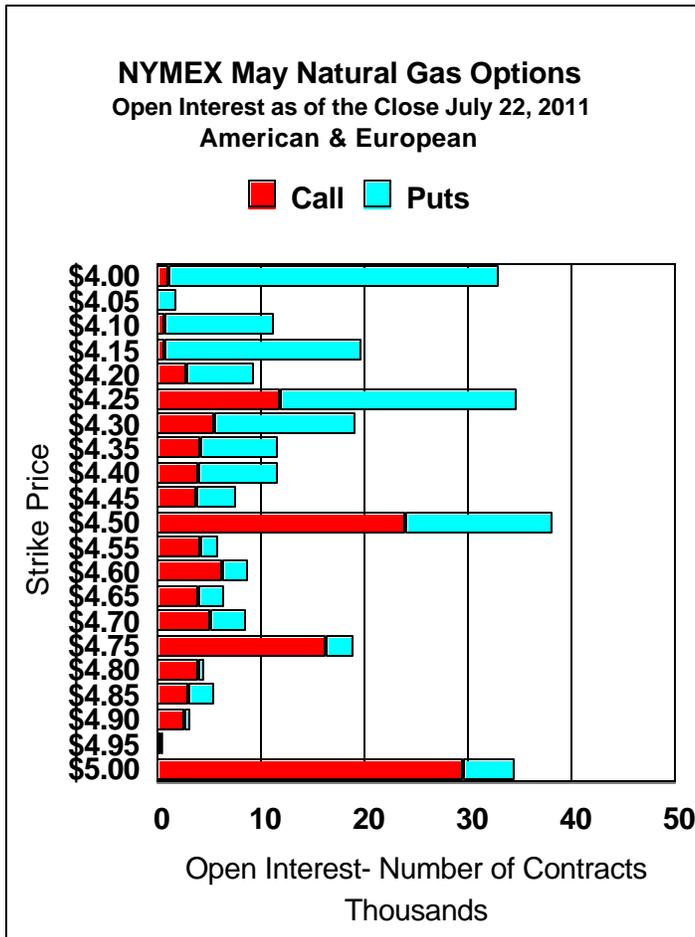
The Federal Reserve Bank of Chicago's national activity index in June stood at -0.46 following a reading of -0.55 in May.

MARKET COMMENTARY

The natural gas market saw traders start out this morning with a bearish outlook prompting prices to quickly sell off this morning by some eight cents in light volume before buyers were willing to enter the market and support values prompting prices to rally

back nearly a dime before the market settled down and traded in a relatively sideways trading pattern. But by late morning as the midday weather models were released that showed the 6-10 and 11-15 day temperature outlooks being a bit more moderate than earlier forecasts, prices sold off and remained in negative territory for most of the remainder of the day.

With the natural gas options set to expire tomorrow it appears that this market could be tugged in two directions toward either the \$4.25 or \$4.50 strikes where the greatest open interest is currently being reported. Given the relative large price move today on a minor adjustment in the weather forecast makes us believe that the \$4.25 strike could be the strike that provides the greatest gravitational attraction for most traders.



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