



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JULY 26, 2011

NATURAL GAS MARKET NEWS

North America

The National Hurricane Center after dropping its designation of Invest 90-L last night, reactivated its designation overnight as convection in the system increased and expanded and its forward speed as expected, slowed. As a result the NHC this morning was looking for this system to have a 20% chance of developing into a tropical cyclone during the next 48 hours as it moves to the west-northwest and is expected to make landfall along the southeastern coast of Texas or northeastern Mexico. Some private forecasters are looking for the system to make landfall with winds between 45-60 mph by Friday night.

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 back at full power Tuesday after dropping to 50% power on Monday morning.

The NRC reported this morning that some 96,167 Mw of nuclear generation was online, up 0.5% from yesterday and up 2.4% from recorded a year ago.

Bentek reported today that its survey of natural gas rigs exclusively searching for natural gas has again begun to rebound. After declining for the first four months of the year, gas directed rigs are back to 679, as high as it was in November 2010, but still below the peak in October 2010.

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	675,900	\$4.426	(\$0.023)	\$0.066	(\$0.024)	\$0.218
Chicago City Gate	493,300	\$4.497	(\$0.021)	\$0.137	(\$0.018)	\$0.201
NGPL- TX/OK	770,600	\$4.366	\$0.001	\$0.005	\$0.004	\$0.026
SoCal	710,900	\$4.443	(\$0.002)	\$0.083	\$0.001	\$0.083
PG&E Citygate	723,400	\$4.585	(\$0.001)	\$0.225	\$0.002	\$0.245
Dominion-South	861,000	\$4.560	(\$0.028)	\$0.199	(\$0.025)	\$0.287
USTRade Weighted	19,889,800	\$4.431	(\$0.027)	\$0.071	(\$0.02)	\$0.218

The Millennium Pipeline is seeking approval from the FERC to expand its system by building a compressor station capable of increasing capacity by 150

MMcf/d into New York. The proposed cost for the project, the Minisink Compressor Project, is estimated at \$43.6 million and is anticipated to be in service by November 1, 2012 if the pipeline receives approval from the FERC by February 1st.

Sonat issued a notice yesterday that during further investigation at its Hall Gate compressor station, significant damage has been identified at the unit. The company does not anticipate any impact to firm shippers at this time, but interruptible service may be impacted up to 50 MMcf/d. No price impact is expected from the outage.

Private weather forecaster WSI Corp said this week that it expects the warmer than normal temperatures to continue across much of the eastern U.S. into October, but cooling degree day totals on a population weighted basis should be slightly lower than a year ago.

Shell has offered to deliver LNG to maintain cryogenic status at Cove Point, but is awaiting FERC approval of an interim partial settlement to allow for LNG shipment in mid-August.



International

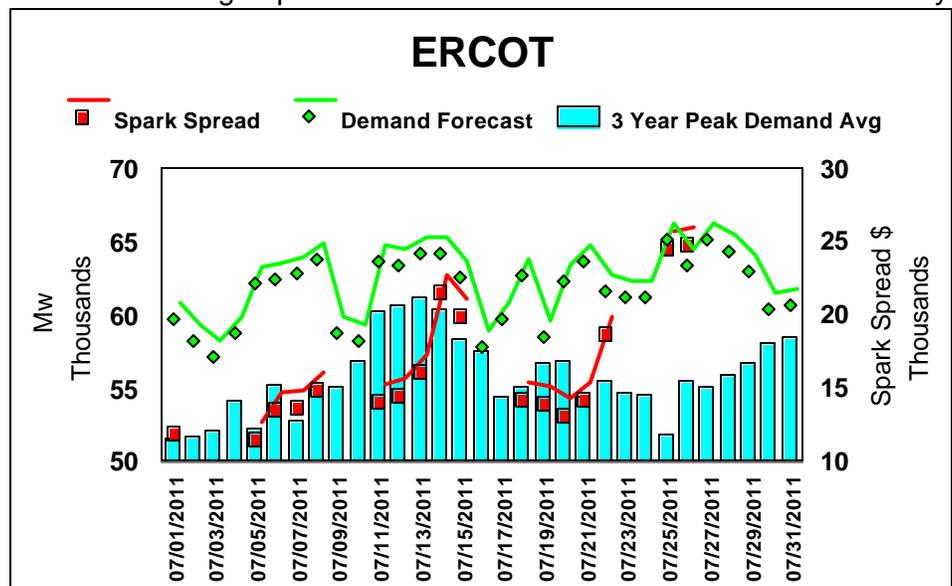
Barclays Capital said in a research note to clients today that the global natural gas over supply has ended as a result of rising demand for LNG from Asia, as well as the shut down of the German nuclear industry and the disruption of Libyan gas supplies to Europe. The higher demand for LNG has absorbed the new supplies out of the Middle East that had been pressuring prices earlier in the year. As a result spot gas prices have moved towards oil-indexed levels across Asia and Europe. While long-term contracts will mean that LNG will continue to flow to Europe, the bank expects that from 2012

intakes will decline as suppliers favor higher paying market alternatives such as Asia. The investment bank raised its UK gas price forecast to average 52 pence per therm for the third quarter of this year up 4% from its prior forecast. Looking forward into the winter the bank expects gas to trade at roughly parity to oil index levels.

Saudi Aramco announced it has started producing gas from its Karan field, the first non-associated gas field, earlier this month. Production so far has been running up to 120 Mmcf/d and is expected to peak this summer at 400 mmcf/d. By 2013 the field capacity is expected to reach 1.8 bcf/d. The Saudis are looking to expand their unprocessed natural gas production from 10.2 bcf/d in 2010 to 15.5 bcf/d by 2015.

The Al Sadd LNG tanker is expected to arrive at the South Hook LNG terminal on August 2nd coming from Qatar. Meanwhile Reuters reported that the Tembek LNG tanker was expected to arrive at the Isle of Grain terminal on August 12th.

Malaysia's state oil firm Petronas said today that it has signed two separate agreements to distribute natural gas extracted from the Keabangan cluster located in the state of Sabah in East Malaysia. The agreements covered the supply of up to 750 million cf/d.



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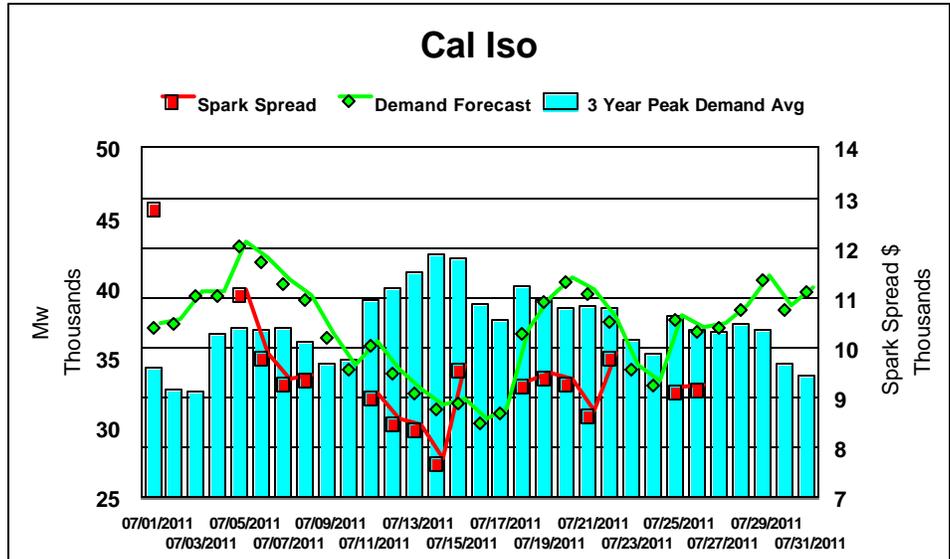
Sinopec reported that it has drilled its first horizontal well in the shale gas region of China's Hubei province.

ELECTRIC MARKET NEWS

The U.S. Northwest River Forecast Center reported today that for the week ending July 25th it estimated water flows at the Dalles Dam in Oregon would be 141% of normal for the April – September period. This is a 1% increase from last week's forecast and way above the 84% of normal recorded last year. The Center also increased its forecasted water flows at the Grand Coulee Dam by 1% to 131% of normal, which is exceeding year ago levels of just 80% of normal.

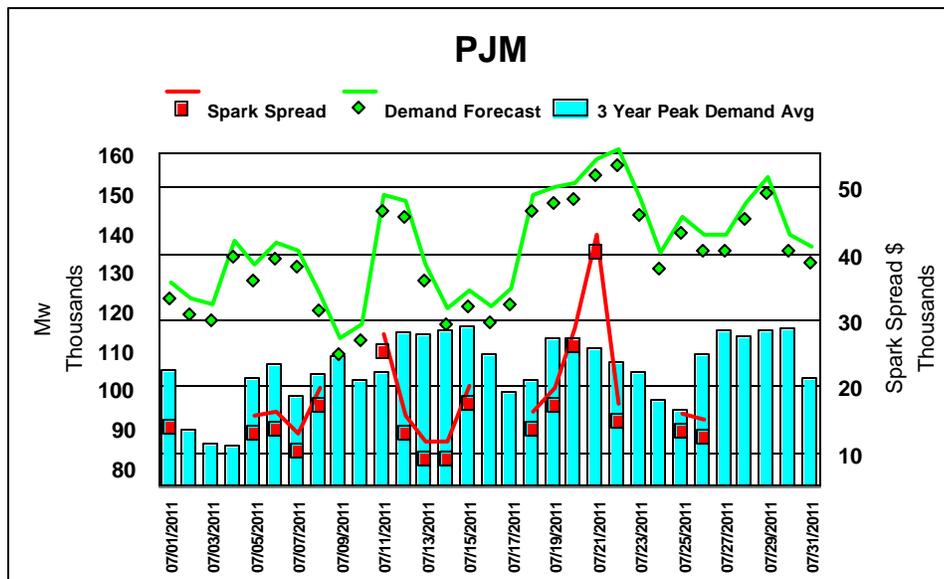
ERCOT said today that usage hit a new power use record for July this past Monday as peak demand on Monday reached to 65,195 Mw, above the most recent 64,226 Mw July peak set back on July 14th. This was the fourth

new electric consumption record for July set this month alone. July is the third straight month for record power use in Texas. The grid operator warned power producers that supplies would be tight this week as nearly continuous 100 degree temperatures were expected across the state. Dallas was expected to register its 24th consecutive day of over 100-degree heat.



AEP said yesterday that it has reached a settlement with some parties near the John W. Turk Jr coal plant in Arkansas that had been seeking to stop construction of the \$1.7 billion, 600 Mw coal fired power plant.

The company reported that the settlement has resolved all challenges to the plant and its air permit. The Turk plant is about 70% complete and is expected to begin service in the fall of 2012. Under the settlement the company agreed not to build any other generating units at the Turk or any new coal fired units within 30 miles of the Turk site. The company also agreed to fund efforts by the Hempstead County



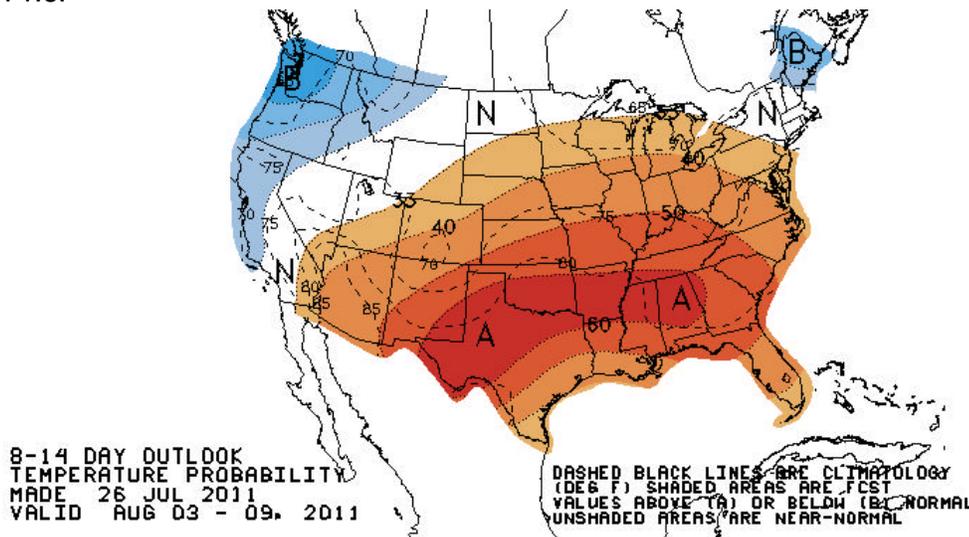
Hunting Club to conserve and enhance areas near the plant, complete a mercury study near the plant and to install carbon capture and storage technology at the Turk plant if the technology becomes feasible and its costs can be recovered through electric rates. The facility will use an ultra-supercritical

design that uses high temperatures and pressure to burn coal while producing fewer emissions than traditional coal fired power plants.

The U.S. EPA said today that it would again delay issuing a final limit on smog pollution, as the rule is currently under interagency review at the White House Office of Management and Budget. This will be the fourth time the EPA has delayed releasing its final rules. The agency back in December had said it would issue the rule by the end of July. The agency did not give a time for the eventual release of the rule but said only “ we look forward to finalizing this standard shortly.”

ECONOMIC NEWS

US consumer confidence increased in June as concerns over the outlook eased. The Conference Board said its index of consumer attitudes increased to 59.5 in July from a downwardly revised 57.6 in June. June's level was originally reported at 58.5. The expectations index increased to 75.4 from 71.6.



The US Commerce Department said new US single family home sales unexpectedly fell in June. It said sales fell 1% to a seasonally adjusted 312,000 unit annual rate as sales in the Northeast fell to a record low. May's sales pace was revised down to 315,000 units from a previously reported 319,000 units. It reported that the median

sales price for a new home increased 5.8% in June to \$235,200.

The S&P/Case Shiller composite index of home prices in 20 metropolitan areas held steady on a seasonally adjusted basis. The index was revised to show a gain of 0.4% in April, which was originally reported as a decrease of 0.1%. On a non-seasonally adjusted basis, the index increased 1%, the second month of gains in a row.

IMF chief Christine Lagarde urged the US to quickly resolve a political stalemate over raising the debt ceiling and warned that failure to do so would have serious consequences for the world economy. He called on the US to develop a credible fiscal adjustment plan but cautioned against being too hasty.

MARKET COMMENTARY

The natural gas market finished lower for the second consecutive session and lower for the fifth time out of the last sixth sessions. Despite today being the expiration for the August options, the market could not find any momentum toward either the \$4.25 or the \$4.50 strikes where the major open interest was positioned. Instead the market settled basically in between these strikes, as the market recorded its smallest trading range since July 19th. While power demand in the South Central U.S. remains on a near record pace the continued strong level of domestic production of natural gas appears to be keeping the market relatively well supplied and balanced once nuclear generation levels returned to their seasonal levels by the middle of this month. We would look for the August contract to expire tomorrow more with a whimper than a bang. In looking forward into the September contract we feel the lack of any tropical threat will keep any major new buying on the sidelines until there is a viable tropical threat to the Gulf of Mexico. With the daily stochastics still pointing lower we feel the short-term

trend remains firmly to the downside. We see support in the September contract at tomorrow at \$4.30 followed by \$4.273-\$4.265, \$4.218 and \$4.064. Resistance we see at \$4.395, \$4.432 and \$4.468. Additional resistance we see at \$4.542, \$4.586 and \$4.612.

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