



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JULY 28, 2010

NATURAL GAS MARKET NEWS

Following a June 20 maintenance closure, Rasgas, an LNG producer for Qatar, has announced that all seven of its LNG production units are back on line. This follows an announcement on Monday by Qatargas that its five trains were up and running after train five underwent maintenance. With both of these locations down, the global LNG market was faced with a key balancing issue at a time when supply was ample and demand was weak. Now that both locations are up and running, the increase in supply is expected to have a bearish influence on prices.

According to India's Oil Secretary, S. Sundareshan, India's Reliance Industries will be able to ramp up natural gas output from its Krishna-Godavari deep-sea fields to a peak capacity of 80 million metric standard cubic meters a day. Capacity is currently running at 55-60 mmscmd.

In conjunction with Japan, Russia is planning to construct an export terminal near the Russian city of Vladivostok to ship either LNG or compressed natural gas. Japan has been trying to become less dependent on Indonesian imports. Indonesia is currently Japan's largest supplier of LNG imports. Russia is building a 1300-kilometer pipeline from Sakhalin to Vladivostock. A completion date is planned for the end of 2011.

According to the European Union Energy Commissioner, Gunther Oettenger, the most reliable means of transporting Russian gas to Europe is still through Ukraine. Oettenger referred to this route as the most direct and most technically reliable means of transportation of gas from Russia to Europe. Ukraine transmits 80% of Russian gas to Europe.

PIPELINE MAINTENANCE

Gulf South plans to perform pipeline maintenance on Index 387 Hattiesburg 8-inch pipeline in Simpson and Covington Counties in Miss., beginning at 7:00 am CT August 10 and continuing for two days.

PIPELINE RESTRICTIONS

For gas day July 29, PG&E has issued a system wide operational flow order due to high inventory. A requirement of within 6% tolerance of daily usage was put in place in order to avoid noncompliance penalties. The Stage 2 noncompliance charge is \$1.00/Dth.

Generator Problems

PJM – Constellation Energy's Calvert Cliff #2 nuclear unit ramped up to full power on Wednesday from 87% on Tuesday.

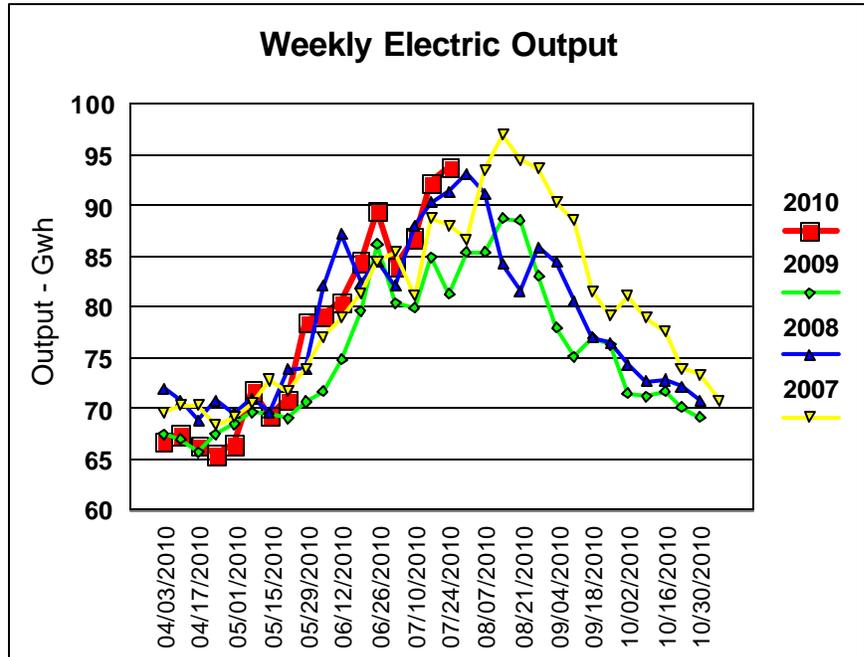
SERC – TVA's 1,150 Mw Brown Ferry nuclear units#1 ramped up to 97% of capacity on Wednesday from 50%. Also, the Brown Ferry nuclear unit #3 nuclear unit ramped up to 81% of capacity from 50%.

The Hatch #2 nuclear unit returned to full power on Wednesday, up 2% from the prior three days.

The NRC reported this morning that some 94,591 Mw of nuclear generation was operating today, up 0.68% from yesterday and off 1.66% from the same day a year ago.

Florida Gas Transmission has issued an overage alert day for July 28. The overage is at 15% tolerance for its market area. FGT said it would not interrupt previously scheduled market area interruptible transportation service-1 service below the elapsed prorated scheduled quantity.

Mid-continent Express Pipeline Co. has announced that effective gas day July 28 and continuing until further notice, Columbia Gulf Perryville has capacity available for deliveries. Reportedly, there is available capacity for gas going eastbound into Segment 200. Interruptible transportation service/authorized overrun and secondary firm transports are available.



NGPL has announced that it has available capacity for gas to be received in Segment 16 for gas day July 29 and until further notice, making interruptible transportation services/authorized overrun service and secondary out-of-path firm transports available.

Tennessee Gas Pipeline Co has lifted the restrictions for July 28 and will be accepting nomination increases of 17,000 Dth at Carthage Line Lateral, 30,000 Dth at Sta 321 and 18,000 Dth at Rivervale Delivery Meter. Previously restricted nominations must be retriggered for any subsequent intraday cycle once a restriction has been lifted in order for increased volumes to be scheduled.

ELECTRIC MARKET NEWS

According to the Edison Electric Institute, electricity production in the US in the week ending July 24th increased by 15.4% on the year to 93,819 Gwh. The increase was the sixth largest on record and was the highest in about three years, since late August 2007 when weekly output totaled 94,500 Gwh.

ECONOMIC NEWS

The US Commerce Department said demand for US manufactured durable goods fell in June for the second consecutive month. Durable goods orders fell by 1% to a seasonally adjusted \$190.5 billion. The market was expecting a 1.1% gain.

MARKET COMMENTARY

Prices settled higher for the fourth time in the past five trading sessions on what appeared to be short covering ahead of the August expiration. Cash prices were firmer due to mid-week hotter than normal weather. Cash prices have been enjoying firmness, supported by an extremely hot July. Expectations for light inventory builds also made shorts antsy ahead of tomorrow's report. The September contract traded above our initial resistance level of \$4.699 and stretched beyond the Fibonacci 50% retracement number of \$4.786. Today's break above the \$4.740 upper trendline on the ascending channel, sets the September contract up for at test at the \$4.970 area. Despite these supportive technicals, we would think it difficult for this market to hold onto any strength for a long period of time given the current supply scenario. We would be cautious buyers with tight stops.

Estimates for this week's natural gas storage report from the U.S. Energy Information Administration are targeting an injection level of 32-Bcf. This is in comparison to the five-year average of a build of 50 Bcf and the year-ago injection of 70 Bcf. In recent weeks, hot weather has played a key role in the reduction of storage injections.

We see resistance in the September contract at \$4.74 followed by \$4.786, \$4.903 and \$4.961. More distant resistance we see at \$5.093, \$5.20 and \$5.282. Support we see at \$4.575, \$4.511, \$4.452. More significant support is at \$4.29, \$4.14 and \$3.986.