



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR AUGUST 1, 2011

NATURAL GAS MARKET NEWS

North America

The National Hurricane Center this morning noted that Invest 91-L, a vigorous tropical wave, located some 250 miles east of Martinique moving west-northwest had a 90% chance it would become a tropical depression or storm either later today or early tomorrow. While this storm could become a hurricane by the end of the week it appears that it is headed toward either the east coast of Florida or eventually turn out to sea and presently does not appear will be a threat to the Gulf of Mexico. But by this afternoon there were a couple of forecasting models that left open the possibility that this storm could reach the Gulf of Mexico.

Generation Outages

NPCC – OPG’s 881 Mw Darlington #3 nuclear unit returned to service on Saturday. The unit was taken off line on July 28th

PJM – Exelon’s 619 Mw Oyster Creek nuclear power plant was at 93% capacity early Monday, up from 64% power on Friday. The company had reported a loss of power to the reactor’s dilution plant on Friday.

SERC – Progress Energy’s 938 Mw Brunswick #1 nuclear power plant dropped to 62% power this morning after being at full power on Friday.

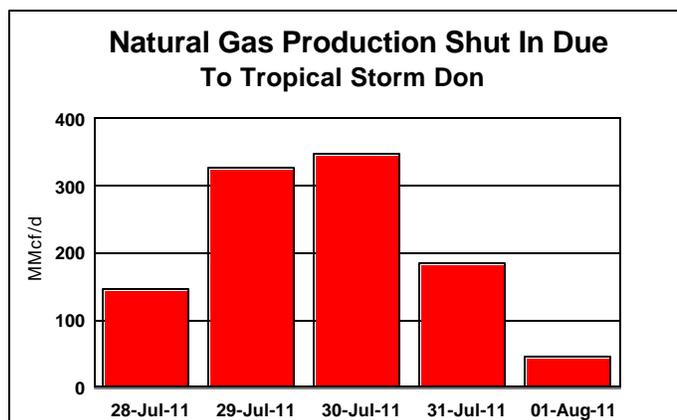
Southern’s 876 Mw Hatch nuclear plant dropped to 50% power early Monday from full power early Friday. The reactor’s technical support center was out of service on Saturday due to unsatisfactory performance, but returned to service on Sunday.

ERCOT – NRG Energy said it plans to restart its 831 Mw Limestone #1 coal fired unit early Monday. The unit had been shut on July 28th to repair a boiler and condenser tube leak.

AEP said yesterday that it was restarting this week its 675 Mw Pirkey coal fired power plant after completion of a boiler tube leak.

The NRC reported this morning that some 95,041 Mw of nuclear generation was online, basically unchanged from yesterday but up 1.3% from recorded a year ago.

Offshore oil and gas production that been shut in as a precaution to the movement of Tropical Storm Don last week continued to ramp back up Monday. Shell reported that it had restarted its platform on Sunday and were continuing to ramp back up Monday. Apache said it had re-staffed operations and restarted output with no storm damage noted at any platforms. Chevron and Anadarko also reported that they had restarted operations while Exxon Mobil had yet to confirm it has restarted operations. As of midday the U.S. Bureau of Ocean Energy management said in its final storm update that just 46



MMcf/d of offshore production remained shut in. Some 31,964 b/d of crude production remained shut in as well. It appears the storm shut in a combined total of 530,375 barrels of crude oil and some 1056.5 MMcf of natural gas production was lost.

The U.S. Climate Prediction Center this morning said it is looking for 100 cooling degree days for the current week some 3% higher than a week ago and 37% higher than normal.

EarthSat Weather said today that the intense heat wave that has dominated much of the United States over the last several weeks resulted in July

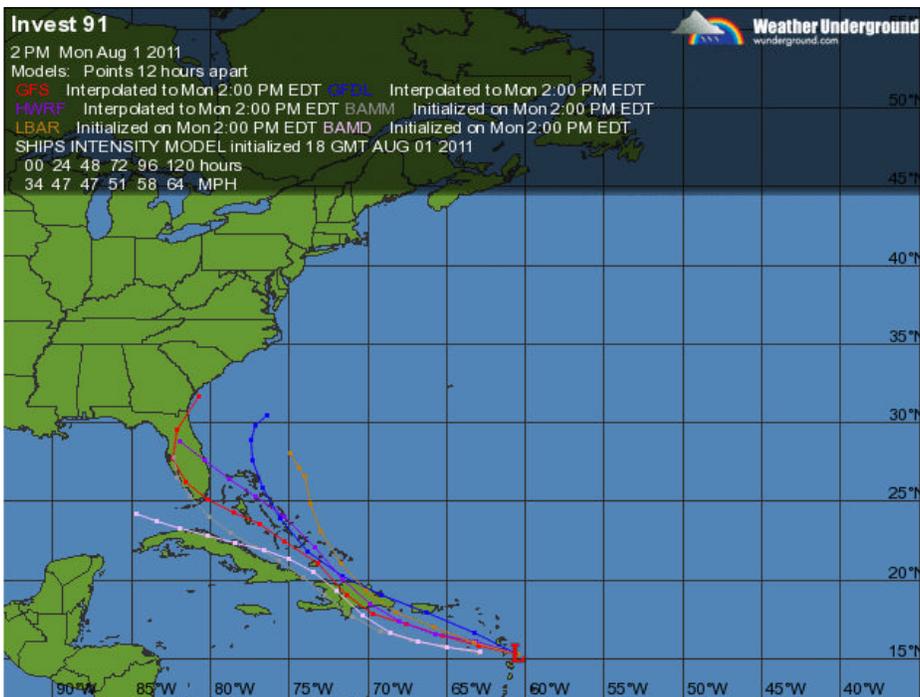
posting the highest cooling degree-day totals for the month since records began back in 1950. EarthSat estimated a monthly total of 412.5 CDD on a population weighted basis, easily beating the previous July record of 386 set back in 2006. The 30-year July average is only 327.7 CDD, The private weather forecasting group looks for the heat to continue in the U.S. but not as being as extreme. The first half of August could be in the top five warmest recorded and this would result in this summer (June through August) coming in at pretty close to last summer's record.

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	533,200	\$4.285	\$0.022	\$0.108	\$0.024	\$0.124
Chicago City Gate	828,500	\$4.372	\$0.060	\$0.195	\$0.048	\$0.164
NGPL- TX/OK	840,600	\$4.234	\$0.039	\$0.057	\$0.027	\$0.041
SoCal	755,500	\$4.364	\$0.034	\$0.187	\$0.022	\$0.147
PG&E Citygate	922,800	\$4.436	\$0.016	\$0.259	\$0.004	\$0.248
Dominion-South	1,022,800	\$4.414	\$0.021	\$0.237	\$0.009	\$0.245
USTRade Weighted	21,641,800	\$4.320	\$0.036	\$0.143	\$0.02	\$0.124

International

Total's Elgin platform in the North Sea was closed on Sunday for regular summer

maintenance. It is unclear when the platform, which pumps 15.5 million cubic meters of gas and 104,000 barrels of condensate per day, will reopen.



PTT PCL has fixed a pipeline leak ahead of schedule and will resume gas delivery from the Gulf of Thailand early in August.

The Lijmiliya LNG tanker is expected to arrive from Qatar at UK's South Hook LNG terminal on August 7th.

ELECTRIC MARKET NEWS

Due to hot weather in the US last week power output rose 4.5% for the week that ended on July 28th from the previous week and 7.4% from the same week last year.

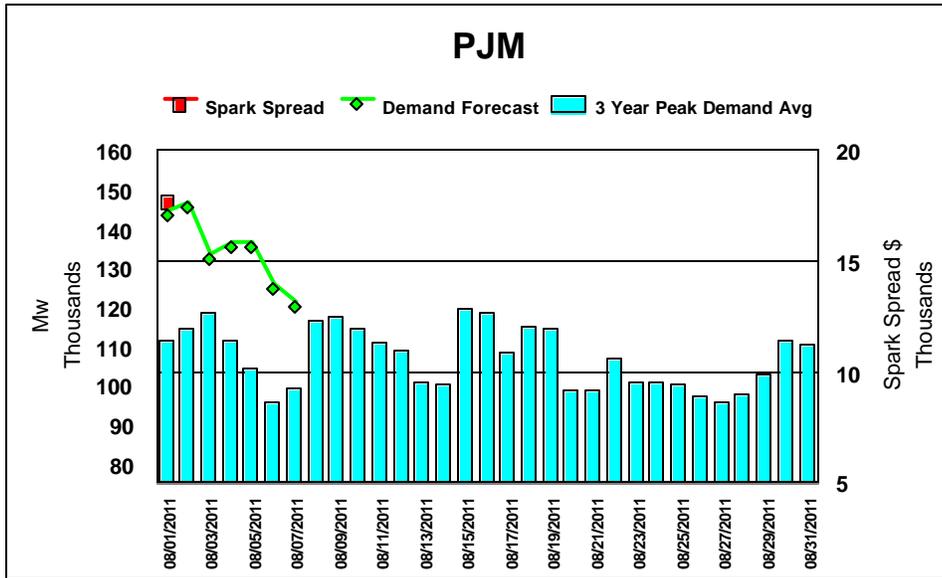
Japan's total nuclear power plant utilization rate fell to 33.9% in July down from 70% over the same period last year. Japanese utilities have been hesitant to turn on nuclear reactors since an earthquake hit Japan earlier this year.

ERCOT warned that peak power demand this week in its service area could exceed 65,000 Mw for Monday through Thursday, challenging the existing peak power demand record of 65,776 Mw. It appeared that on Monday afternoon this new demand record would indeed be broken as ERCOT projected a peak demand level of 66,374 Mw and was requesting consumers to reduce electric use through 7 p.m. CDT.

ECONOMIC NEWS

The US Commerce Department said spending on construction projects in the US increased modestly in June. Construction spending in June increased by 0.2% to a seasonally adjusted annual rate of \$772.32 billion following a 0.3% increase during May. It however reported that spending on US residential projects fell by 0.3% in June to \$243.93 billion compared to the prior month.

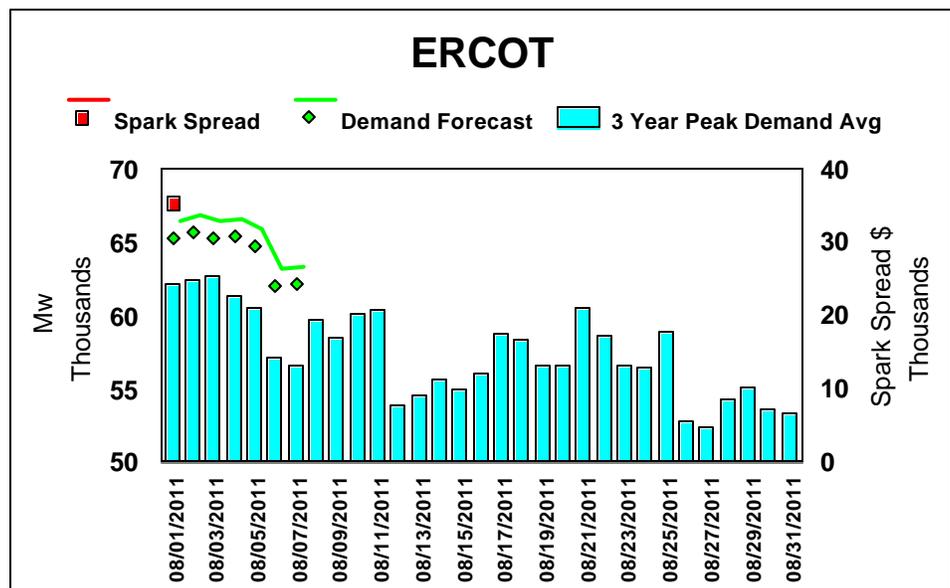
JP Morgan reported that its Global Manufacturing Purchasing Managers' Index fell to 50.6 in July from 52.3 in June. It expanded at its weakest pace since July 2009 as factories reported lower orders for the first time in more than two years.



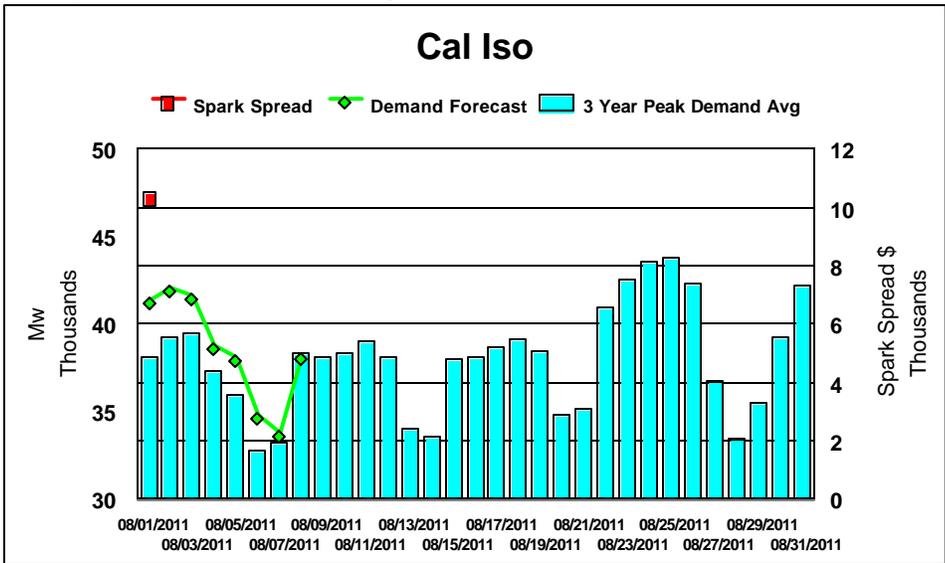
The pace of growth in the US manufacturing sector slowed more than expected in July. The Institute for Supply Management said its index of national factory activity fell to 50.9 from 55.3 in June. Its index of new orders fell to 49.2 from 51.6 while its index of prices paid fell to 59 from 68 and the employment index fell to 53.5 from 59.9.

The Euro zone manufacturing sector was relatively stagnant in July as factory output in the region grew at its weakest pace since the region emerged from recession. Manufacturers in the euro zone's Franco-German core expanded at a slower pace in July. The Markit Eurozone Manufacturing Purchasing Managers Index fell to 50.4 in July from 52 in June. The survey's factory output index fell to 50.2 in July from 52.5 in June. Euro zone inflation fell unexpectedly in July to 2.5% from 2.7%. British manufacturing activity contracted in July for the first time in 2 years. The Markit/CIPS manufacturing PMI headline activity index fell to 49.1 in July.

China's factories saw their weakest activity in 28 months in July. China's official purchasing managers' index fell to 50.7 in July from June's 50.9. The official PMI showed new orders increased to 51.1 from June's 50.8. In contrast, new export orders fell to 50.4 from 50.5 in June. Meanwhile, HSBC's China PMI fell to 49.3 in July from June's 51.6. New orders for the HSBC PMI grew at their slowest pace since July 2010, with the sub-index standing at 50.2 and new export orders fell for the second consecutive month.



India's factory growth fell for the third consecutive month in July as interest rate increases and declining global demand weighed on new orders and output growth. The HSBC Markit Business Activity Index fell to a 20 month low of 53.6 in July from 55.3 in June. Its new orders index fell to 54.5 in July from a previous reading of 60.1.



China's Water Resources Ministry reported that water inventories in China's major reservoirs at the beginning of August fell by 24.2% on the year but increased 4.3% on the month to 68.756 million cubic meters. The sharp year on year decline was partly inflated by a high base a year earlier when water stocks in these reservoirs increased due to torrential rain across the country.

MARKET COMMENTARY

The natural gas market today in the face of declining oil prices posted a higher settlement for the first time out of the last four trading sessions helped in part by stronger next day cash prices and strong air conditioning demand as record heat continues in the ERCOT area. The market started out Sunday night by testing Friday's lows but lacking any further follow through selling this market began to slowly rebound picking up steam especially this morning as it appeared some short covering was underway. While prices sold off at mid morning like oil futures, following the release of the ISM Factory Activity Report for July, much of these losses were recovered by the end of the day, as midday temperature forecasts remained supportive for the next two weeks.

While this market appears to remain in its overall downward trending channel we would watch closely the 9 day stochastics which over the next couple of days could signal that this trend is coming to an end and possibly could provide a signal to buy some calls to hold for the next 6-7 seven weeks through the heart of the hurricane season. We see support at \$4.14-\$4.129, followed by \$4.085-\$4.064 and \$3.99. Resistance we see at \$4.205 followed by \$4.304, \$4.358, \$4.411 and \$4.49.

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