



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR AUGUST 2, 2010

NATURAL GAS MARKET NEWS

The National Hurricane Center at midmorning announced that Invest 91 has become the season's fourth tropical depression in the Atlantic. The system is some 1100 miles west-southwest of the Cape Verde Islands and is moving rather rapidly to the west-northwest at 15 knots. The system is expected to strengthen into a tropical storm possibly by late Monday but is not seen reaching hurricane strength over the next five days as it then turns toward the north and well away from the Atlantic seaboard.

Generator Problems

The NRC reported this morning that some 93,836 Mw of nuclear generation was operating today, up 0.2% from yesterday and off 1.6% from the same day a year ago.

Chesapeake Energy reported today that in the second quarter its daily production averaged 2.497 bcf/d, up 8% from the first quarter and some 11% higher year on year versus 2009. The company is projecting full year production growth of 13% in 2010 and 18% in 2011. The company though noted that in response to the significant and persistent value gap that has developed between natural gas and oil prices it has accelerated its transition to a more liquids rich asset base. Thus it has redirected a significant portion of its drilling and development activities to liquids rich plays. In 2009 natural gas plays accounted for 90% of its drilling and completion expenses. This is expected to fall to 68% this

year and decline to 59% and 35% in 2011 and 2012. Key areas that Chesapeake posted production gains in the second quarter were in Marcellus up 65% from the first quarter, Haynesville and

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	756,000	\$4.943	\$0.132	\$0.177	\$0.210	(\$0.158)
Chicago City Gate	477,400	\$4.882	\$0.109	\$0.116	\$0.197	(\$0.023)
NGPL- TX/OK	1,009,500	\$4.751	\$0.120	(\$0.015)	\$0.208	(\$0.159)
SoCal	477,500	\$4.486	\$0.136	(\$0.280)	\$0.224	(\$0.426)
PG&E Citygate	540,500	\$4.560	\$0.084	(\$0.206)	\$0.172	(\$0.307)
Dominion-South	543,500	\$5.025	\$0.164	\$0.259	\$0.252	\$0.150
USTRade Weighted	21,003,400	\$4.747	\$0.122	(\$0.019)	\$0.21	(\$0.158)

Bossier Shales up 30%; Barnett Shale up 5%; Fayetteville Shale up 5%;and Granite Wash up 5%.

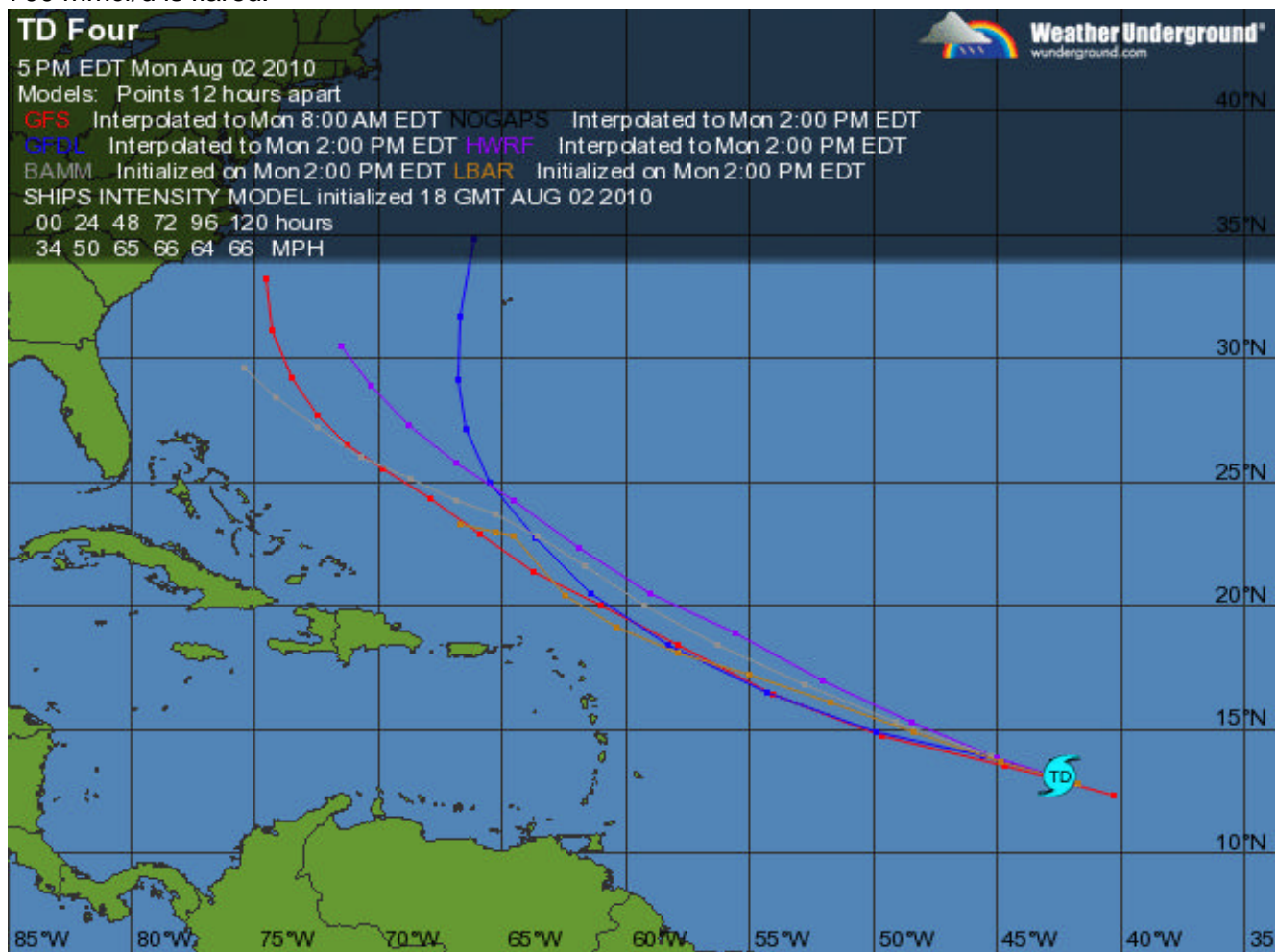
El Paso Corp said it has received FERC approval to begin construction of its proposed Ruby Pipeline, which will transport gas from the Opal, Wyoming supply hub to interconnections near Malin, Oregon. The pipeline would have a capacity of 1.65 bcf/d

Gassco reported today that gas flows through the Vesterled pipeline from Norway to Britain will be down for three weeks due to maintenance work at the St. Fergus terminal which began on Saturday. The line has a normal capacity of 36 million cubic meters of gas per day. During the work though some

minor quantities of gas will still be delivered to the terminal via the alternative route through the Flagg pipeline. In addition flows through the Langed gas pipeline into eastern England rose over the weekend, canceling out the supply drop into St. Fergus.

The Russian Energy Ministry reported today that Russian natural gas production fell in July to 1.42 bcm from 1.49 bcm in June.

The Iraqi Oil Ministry said today that it expects strong demand at an auction for three gas fields it plans to develop. The government is looking for up to half the gas from the fields will be for export and that the companies that win the contracts for development of the fields will also be expected to build the export infrastructure, including pipelines. The government is looking towards gas development as a way also to support the expansion of the electric generation sector. The Iraqi government is looking at the Nabucco pipeline project as a potential avenue to move Iraqi gas to market. Potential bidders though are reluctant to bid on the projects without Iraq investing in natural gas processing and transport infrastructure before awarding the contracts. Iraq currently produces only 1.65 bcf/d of which 700 mmcf/d is flared.



The U.S. Geological Survey said on Monday said the Levant Basin Province off the coast of Lebanon and Israel could hold up to 122 tcf of recoverable gas, making it one of the world's richest natural gas deposits. The agency completed its survey in March and its results showed this area has "great potential" and has already been validated by the discovery of two large offshore fields

PIPELINE MAINTENANCE

NGPL reminded customers that it will perform hydrostatic testing beginning August 5th and continuing through September 10th on the Louisiana Line #1 between Station 302 located in Montgomery County,

Texas and Station 343 in Liberty County, Texas. The work will require a reduction in capacity through Segment 25 impacting NGPL shippers. Interruptible transportation service/authorized overrun and firm secondary out of path transports will not be available.

Gulf South said it will be accepting nominations for capacity through the Airport Compressor Station effective August 2nd. Gulf South though anticipates the unscheduled maintenance to continue for approximately seven days. The company also said it will perform maintenance on Index 202 Markville 6-inch, 4-inch and 3-inch pipeline in Avoyelles Parish, Louisiana beginning August 3rd and last for two days. The company though does not anticipate any impact to shippers.

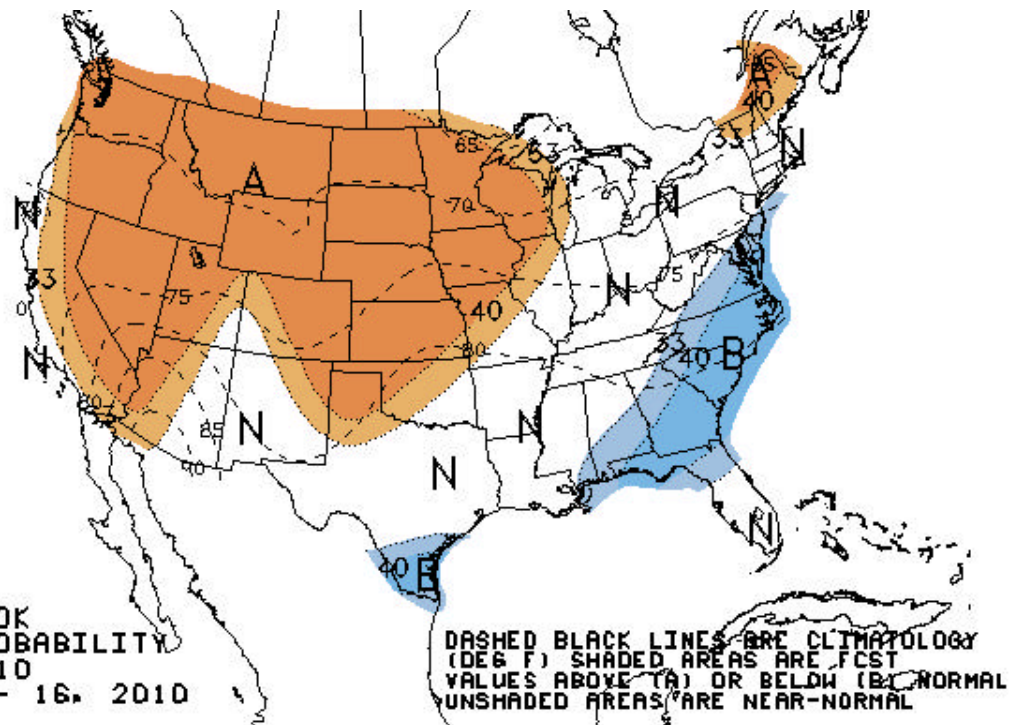
Tennessee Gas Pipeline said it expects to complete repairs of a leak on the 26-inch line of the Bluewater system upstream of Station 523 and return the line to service by the afternoon of August 3rd.

PIPELINE RESTRICTIONS

FGT issued an overage alert day for August 2nd with a 5% tolerance due to high temperatures in its service area.

ELECTRIC MARKET NEWS

NRG Energy said it has reduced its spending to develop two new nuclear unit in Texas while awaiting a federal loan guarantee. The company said the uncertainty over the timing of decisions from the U.S. Energy Department on its nuclear loan guarantee program had forced the company in July to cut spending on the two unit expansion at the South Texas Project by 70% to just \$7.5 million. The company said today that beginning this month its spending on nuclear development will be further cut to \$1.5 million.



ECONOMIC NEWS

Federal Reserve Chairman Bernanke said Monday that while the U.S. economy continues to grow at a moderate pace, significant restraints remain for the recovery. He noted the housing market remained weak as well as the problem of high unemployment and as a result U.S. monetary policy must remain accommodative until the economic recovery is on a sustainable path and job creation picks up. He also noted that fiscal constraints at the state and local level were also hindering the national economic recovery.

U.S. construction spending unexpectedly rose 0.1% for June, due mostly to federally funded infrastructure projects. Market expectations had been for a 0.7% decrease. Private construction spending fell by 0.6% on the month.

The ISM manufacturing purchasing manager's index for July fell to 55.5 but was still slightly better than market expectation of 54.7.

China's purchasing manager's index fell to a 17 month low in July of 51.2 from 52.1 in June. Meanwhile HSBC reported that its Chinese manufacturing index shrank in July for the first time since the global downturn in March 2009 as the Chinese government stepped in to slow bank lending and slow property speculation.

JP Morgan's Global Manufacturing PMI fell in July to 54.3 from 55 in June. This was an eighth month low.

MARKET COMMENTARY

Despite the cash market prices for natural gas strengthening today and the oil and equity markets moving higher, the natural gas futures market once again showed it chooses its own path. While natural gas futures market gapped higher on the opening Sunday night, it appeared the technical failure to breach the highs of \$5.01 in the September contract from June 22nd coupled with a revision in the temperature forecast for the next couple of weeks which shows that most of the nation's major population centers would actually see a break from the recent heat wave and return to more normal temperatures allowed traders to feel comfortable and sell this market. Trader's bearish outlook was further supported by a revised track forecast for Invest 91, which appeared becoming less of a threat to the U.S. mainland. This was further confirmed by updated forecasts through the morning and into the afternoon. By the end of day the market not only had posted an outside trading session, the first since July 15th when the market made a trend reversal, but also retraced nearly 50% of the up move since that date.

We feel that this market without a true tropical threat may continue to test the downside support for the near term. We see support at \$4.663, \$4.649 and \$4.564. Additional support we see at \$4.452 and \$4.29. Resistance we see at \$4.82 followed by \$5.01, \$5.06 and \$5.282. Ultimately though we would not be surprised to see prices to return to a \$4.40-\$4.65 trading range or congestions area until a true tropical threat arises again later this month.

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