



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR AUGUST 2, 2011

NATURAL GAS MARKET NEWS

North America

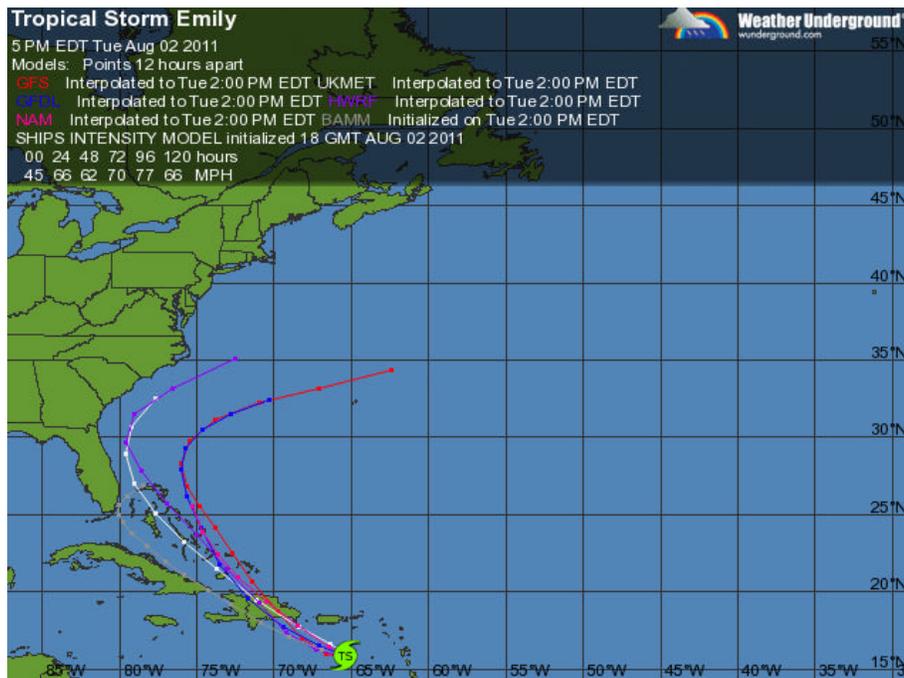
The National Hurricane Center overnight upgraded Invest 91-L to Tropical Storm Emily. But the storm showed little signs of intensification since yesterday. Current computer models have the storm crossing over Hispaniola and tracking along the east coast of Florida by early next week and as a result a diminished threat to the Gulf of Mexico.

Generation Outages

SERC – Operators at TVA’s 1065 Mw Browns Ferry #1 nuclear plant decided to keep the unit running at a reduced rate of 50% due to water temperatures at the adjacent river nearing 90 degrees. Operations are expected to remain restricted until water temperatures begin to cool.

Southern’s 876 Mw Hatch #1 nuclear unit was operating at reduced levels of 46% in order to perform maintenance on the instrumentation which controls the amount of water to feed water heaters. The plant will return to full power after completing repairs. The unit has been running at reduced levels since Sunday.

The NRC reported this morning that some 94,835 Mw of nuclear generation was online, down 0.2% from yesterday but up 1.7% from a year ago.



The EIA finally released their Natural Gas Monthly Report for May, after delaying its release for the past week. The agency reported that domestic natural gas production in May averaged at 65.8 bcf/d down 0.2% from the prior month. This was the first month on month decrease in production since June 2010. While Louisiana, Texas and New Mexico saw production gains on the month of 1.1%, 0.9% and 0.6% respectively; Wyoming and the federal waters of the Gulf of Mexico saw declines from April of 2.6% and 3%. LNG imports on the month posted a surprising

6.3% increase over April levels but were still lagging year ago levels with May imports of LNG being some 4.3% less than year ago levels and year to date have been running some 15% less than the first five months of 2010. Overall net imports of natural gas into the United States in May stood at just 4.7 bcf/d the lowest level since November 2010 and 31.5% less than the same time a year ago. Demand for natural gas was estimated at 53.5 bcf/d up 2.7% from May 2010. The biggest demand came in the power sector, which saw an estimated gain of 4.6% from a year ago, with industrial and residential usage up 1.3% and 1% respectively. Commercial demand for natural gas though in May was off 0.6% from a year ago.

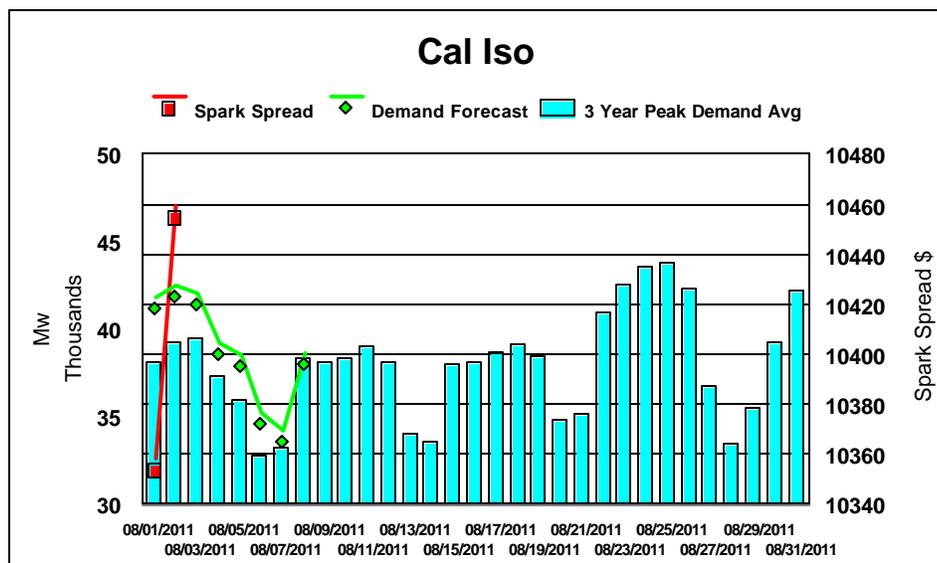
Natural Gas Cash Market

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	578700	4.2979	0.01250	0.1629	0.045	0.1474026
Chicago City Gate	745200	4.393	0.02100	0.258	0.063	0.18832
NGPL- TX/OK	818400	4.2406	0.00620	0.1056	0.0482	0.06132
SoCal	771100	4.373	0.00940	0.238	0.0514	0.1778
PG&E Citygate	908800	4.4368	0.00050	0.3018	0.0425	0.2637
Dominion-South	978600	4.433	0.01870	0.298	0.0607	0.26472
US Trade Weighted	21772100	4.3229	0.00300	0.1879	0.045	0.1474026

International

ConocoPhillips is facing near-term cost pressures from a strong Australian dollar as it looks to double its Australian workforce as it works on its Australia Pacific LNG export project. Conoco and Orifin Energy approved the \$14 billion first phase of the project last week and Conoco is also starting another project with Karoon in the Browse Basin to drill five wells for \$400 to \$500 million.



Poland has decided to liberalize its natural gas regulations in a step to open state-controlled gas monopoly PGNiG. The plan offers companies an opportunity to keep obligatory reserves anywhere in the European Union. PGNiG controls 1.8 bcm of gas storage in Poland and plans to expand capacity to over 3 bcm by 2015.

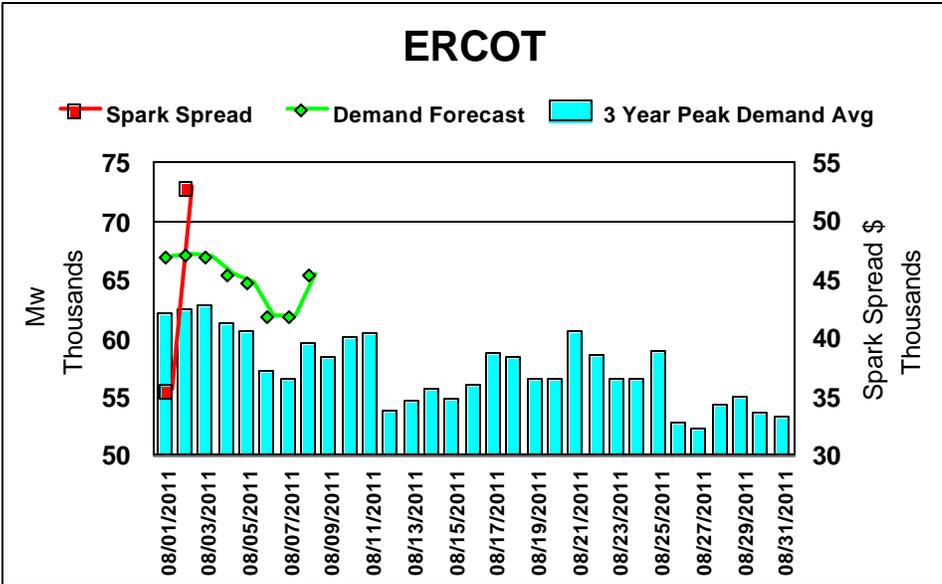
Turkey and Azerbaijan expect to sign a transit deal

for gas from the Shah Deniz II field by September. The proposal calls for Turkey to purchase 6 bcm per year. The EU is also competing to get gas from Shah Deniz II field to supply gas to the Nabucco pipeline project, which is planned to carry natural gas from the Middle East and Caspian through Turkey to central Europe.

Tokyo Gas Co. said on Tuesday that it will sell 300,000 to 400,000 tones of LNG to Hokkaido Gas Co. from its contracts in Russia and Australia for 11 years starting in 2012. Although the deal starts in 2012 delivery of the LNG must wait until January 2013 when Hokkaido's Ishikari LNG terminal is ready for commercial operations.

Russian natural gas production fell to 1.561 bcm per day in July from 1.689 bcm per day in June. Gazprom, Russia's gas export monopoly also saw export numbers fall from 1.29 bcm per day in June to 1.15 bcm per day in July but saw an increase in exports from July 2010 levels.

British gas prices fell sharply on Tuesday due to the market being over supplied by 3 million cubic meters/day. The increases in supplies were intended to offset the loss in supply caused by the maintenance of Total's Elgin platform in the North Sea.

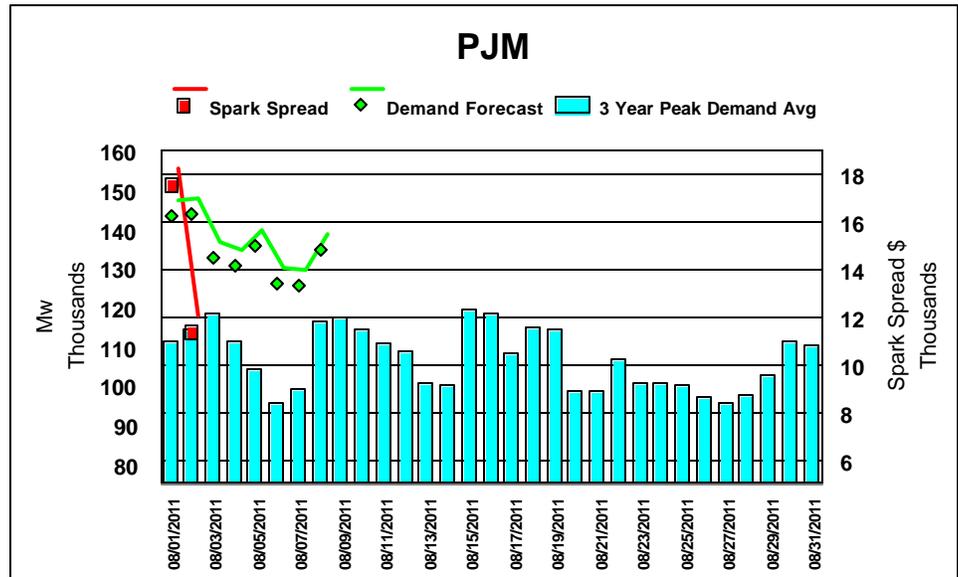


UK's Isle of Grain import terminal is expecting a LNG shipment from Qatar's 217,000 cubic meter capacity tanker, Al Thumana, on August 3rd.

ELECTRIC MARKET NEWS

Central Vermont Public Service signed a new power supply contract with two undisclosed companies to fill the void in power demand left by Vermont Yankee when their contract runs out at the end of this year. Vermont Yankee could be in shut in March 2012 if it is unable to convince state politicians to allow the plant to continue operations or if it loses a court case against the state in September.

Southwest Power Pool said power usage reached record levels on Monday in the Great Plains and Southwest US. The Ercot power grid in Texas also reported record usage on Monday. The heat wave is expected to last all week with temperatures north of 100 degrees in several cities.



ECONOMIC NEWS

The US Commerce Department said spending declined by 0.2% in June after rising an upwardly revised 0.1% in May. The drop was the biggest since September 2009. It reported that incomes increased by 0.1% after increasing 0.2% in May. As income outpaced spending, consumers saved more. The saving rate increased to 5.4%, the largest amount in nearly a year. The saving rate in May was 5%. The price index for personal consumption expenditures,

excluding food and energy costs increased 1.3% on the year in June. The overall PCE price index increased 2.6% on the year in June.

The International Council of Shopping Centers and Goldman Sachs reported that US chain store sales fell 0.3% in the week ending July 30th to 535.4.

The Thomson Reuters/PayNet Small Business Lending Index, which measures the overall volume of financing to US small businesses, increased by 25% on the year in June after increasing a revised 28% in May.

Fitch Ratings said the agreement to increase the borrowing capacity of the US means the risk of a sovereign default is extremely low. It said the AAA status remains strong. It expects to conclude its scheduled review of the US sovereign rating by the end of August.

Barclays became the latest investment bank to fall short in commodities trading after Goldman Sachs and Morgan Stanley reported significantly lower earnings for the asset class in the second quarter. Its income from its currency, fixed income and commodities division fell 20% on the year to 3.92 billion pounds in the first half. It said it had lower contributions from commodities. Barclays' daily average VaR in commodities fell to 14 million pounds in the first half of the year compared with 16 million a year ago while the overall VaR fell to 48 million from 57 million. Meanwhile BNP Paribas became the latest European bank to report strong earnings in commodities trading. BNP's second quarter investment banking revenues increased by 5.7% on the year to 2.88 billion euros.

Dow Jones-UBS Commodities Index tracked an estimated \$80.2 billion at the end of the second quarter compared with \$59.2 billion a year ago.

MARKET COMMENTARY

The natural gas market today worked lower as a result of moderating temperature forecasts and diminishing risk to the Gulf of Mexico from Tropical Storm Emily. Prices moved back towards the lows of the prior two sessions before stabilizing this afternoon. It appeared that traders took little comfort from the news from the EIA that it estimates that May saw domestic natural gas production finally post its first monthly decline since June 2010. Volume though was relatively light today, making us believe that this market is being impacted by the summer vacation period. We feel that this market is searching for its bottom and we continue to look towards the daily stochastics as a potential signal that one may be found shortly. Tonight the 9-day stochastics finished at 12.36 and 22.23 while still trending lower, approaching support.

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