



ENERGY RISK MANAGEMENT

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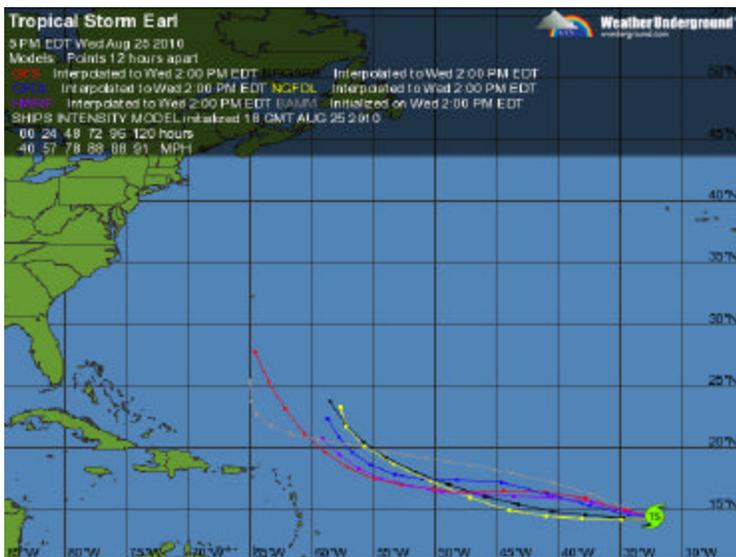
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NATURAL GAS & POWER MARKET REPORT FOR AUGUST 25, 2010

NATURAL GAS MARKET NEWS

The National Hurricane Center noted this morning that Tropical Storm Danielle had been upgrade to a hurricane once again. This storm though is still seen as curving northward in coming days and no real threat to the U.S. Atlantic coast. The NHC also upgraded the tropical system some 200 miles west southwest of the Cape Verde Islands to a Tropical Depression #7 this morning and then by this afternoon it had been upgraded to Tropical Storm Earl. The track guidance for this storm though was greatly changed at midday. Earlier



forecasters had been looking for this system to follow closely the path of Danielle but by midday it appeared the models were taking a bit more west northwestwardly path, but still not appearing to be a threat to the U.S. Gulf Coast. The center also noted it was watching an area of weak low pressure over the western Gulf of Mexico but assigned only a 10% chance of it becoming a tropical cyclone during the next 48 hours as it drifted west southwestward.

Parker Drilling said today that it sees stable demand for oil and gas drilling in the U.S. Gulf. The company sees growing activity in shale plays as having been behind the growing demand for its rental tools segment.

Generator Problems

NPCC- Entergy's 852 Mw FitzPatrick nuclear plant ramped up to 84% power this morning, up 29% from Tuesday.

SERC – SCE&G Wateree 772 Mw coal fired power plant powered down Tuesday and was running at 28% Wednesday morning.

TVA's Browns Ferry #2 nuclear unit ramped up overnight and was at 90% power this morning up 9% from yesterday. Units #1 and #3 were basically unchanged from the prior day.

MISO – Exelon's Braidwood #2 nuclear unit ramped back to full power overnight, up 15% from Tuesday.

Dayton Power's 690 Mw coal fired power plant powered down overnight and was running at 42% of capacity.

ERCOT – Luminant's Oak Grove 1710 Mw coal fired power plant tripped off line Tuesday and was running 68% power this morning.

SPP – Oklahoma Gas & Electric's 1889 Mw coal fired power plant powered down early Wednesday and was running 45% capacity.

WECC – Pinnacle West's Four Corners 2269 Mw coal plant was powered down early Wednesday and was running at just 15% of capacity.

The NRC reported this morning that some 95,962 Mw of nuclear generation was operating today, up 0.5% from yesterday and up 1.8% from the same day a year ago.

The Al Huwaila LNG tanker has been scheduled to arrive at Belgium's Zeebrugge terminal on September 9th. The tanker is scheduled to offload 216,000 cubic meters of LNG from Qatar.

Albania's prime minister said today there appears to be support by neighboring countries to back an extension of the proposed South Stream gas pipeline into Albania terminating at the port town of Vlore. Currently the country lacks a gas supply network.

Statoil said today that it sees demand for natural gas picking up in some of its European markets, such as the UK, Germany and to a lesser extent in France. But the company declined to estimate if this demand increase would be sustainable. Statoil officials noted though that gas demand in southern European markets remained challenging.

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	497,000	\$3.993	(\$0.077)	\$0.111	\$0.098	(\$0.176)
Chicago City Gate	592,000	\$3.921	(\$0.111)	\$0.039	\$0.050	\$0.037
NGPL- TX/OK	648,400	\$3.849	(\$0.097)	(\$0.033)	\$0.064	(\$0.061)
SoCal	494,500	\$3.701	\$0.025	(\$0.181)	\$0.186	(\$0.426)
PG&E Citygate	821,500	\$3.741	(\$0.028)	(\$0.141)	\$0.133	(\$0.333)
Dominion-South	458,700	\$4.026	(\$0.094)	\$0.144	\$0.067	\$0.125
USTrade Weighted	19,612,600	\$3.782	(\$0.063)	(\$0.100)	\$0.10	(\$0.176)

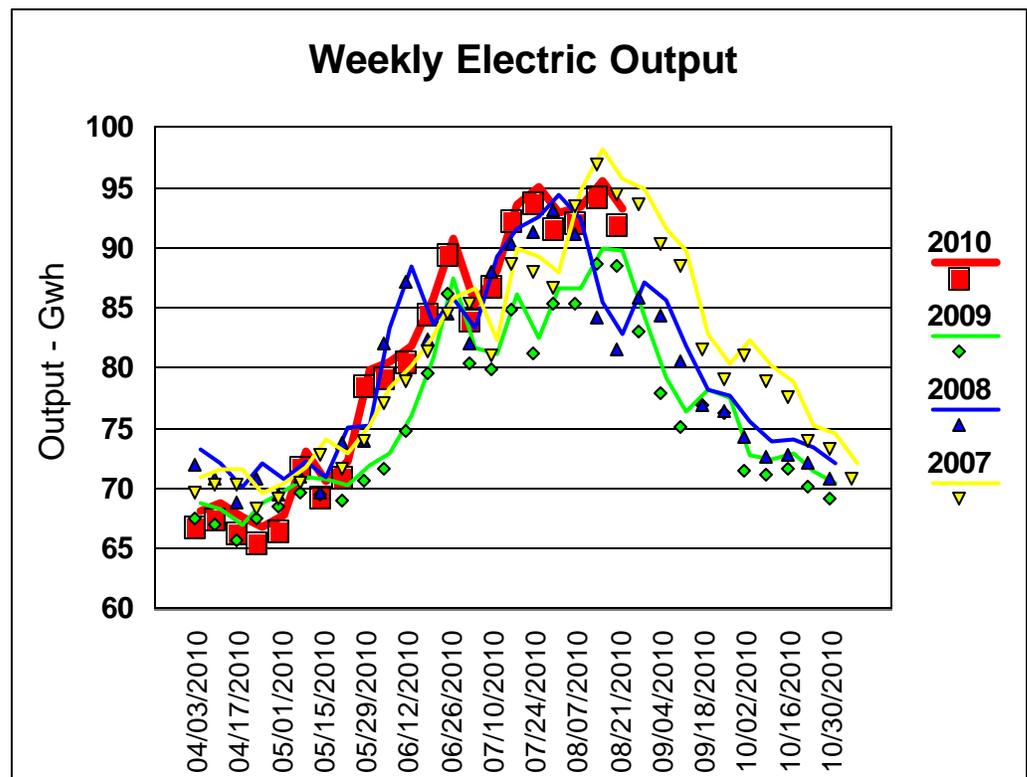
Gazprom reportedly has told Lithuania it will want to hold talks over Lithuania's proposed plans to unbundle its gas sector, separating gas supply and

transport assets in order to increase competition and push prices lower. Gazprom warned that the draft law could have the most negative effect on Gazprom's investments and as a result could force Gazprom to turn to a court of international arbitration to claim compensation for losses.

Statoil's head of global strategy and business development said his company was in advanced stage of negotiations with Chinese companies about the possibility of exploring for shale gas in China. He hoped that a final agreement could be reached by the end of the year.

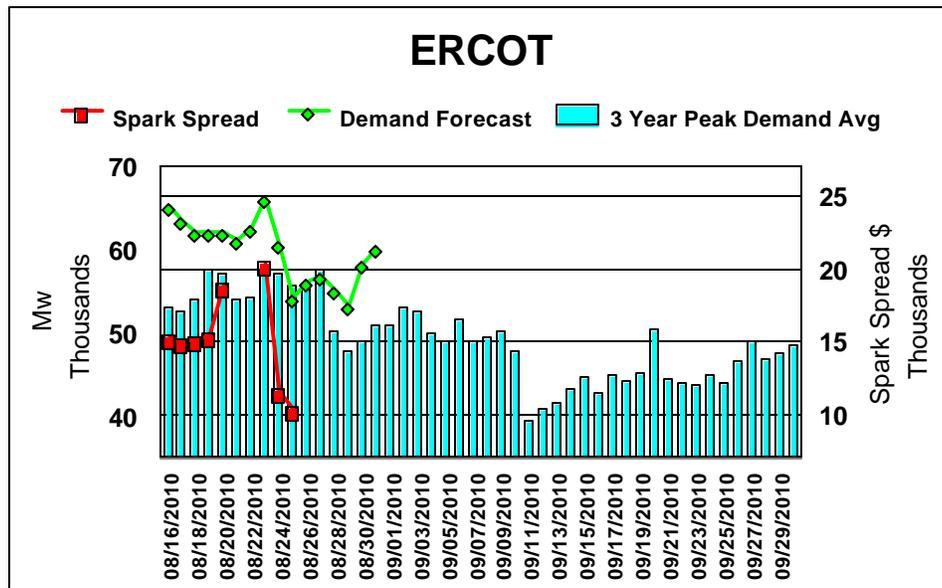
Japan reported that its LNG imports in July reached 5.608 million tones, up 4.2% from a year earlier.

Botas reported that an explosion overnight hit the natural gas pipeline carrying natural gas from Iran to Turkey, forcing the shutdown of the line. The resulting fire was reportedly extinguished and repair work was underway. Kurdish



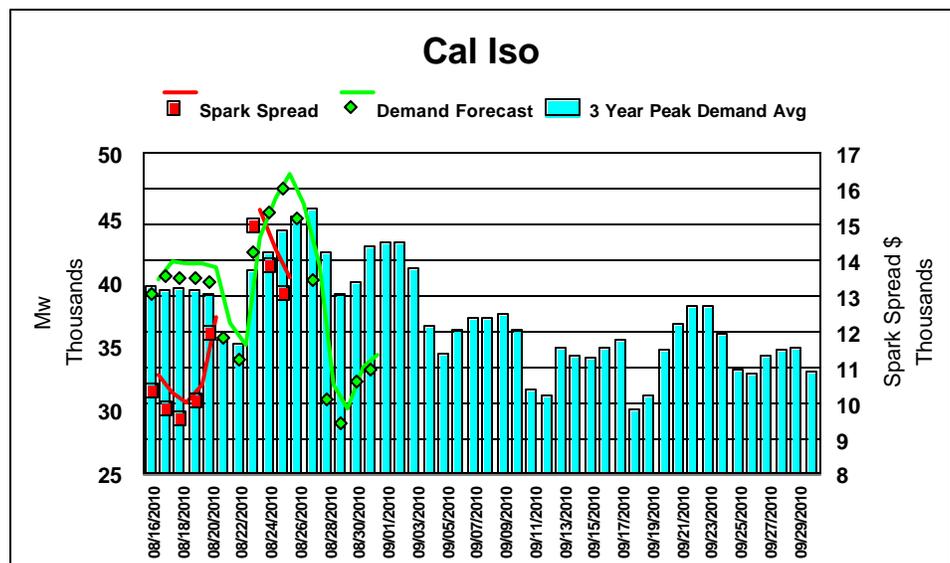
separatists were blamed for attack. This was the second attack in little over a month that has resulted in an explosion that halted gas imports from Iran.

Ukraine's Prime Minister Azarov said today that it would press for a review of the "unfavorable" pricing formula for Russian gas. He noted it was a "necessity" that it be reviewed.



Reuters reported today that a Infinium Capital Management, a large high-frequency trading firm faces possible civil charges by regulators as a result of its computer system malfunctioning in entering trades back in February of this year that reportedly led to a spiking of crude oil prices by \$1 that day and potentially been the catalyst for the abrupt and

largely unexplained \$5 slide amid record volumes the following two days. The CFTC and CME reportedly have been investigating the event. It appears the trading glitch occurred as the firm was trading "lead/lag" strategy between the crude futures and the oil ETF, United States Oil Fund. The glitch that occurred several minutes prior to the close of the futures market generated 2000-3000 orders per second before the system shut itself down a few seconds later. By the time the system had shut down it had sent 4612 "buy limit" orders into the market. The company quickly offset the position with large "block" trades in the next few minutes, leaving it with a \$1.03 million loss. Its burst of late day volume resulted in 4% of the average daily volume in crude oil. Regulators have declined comment on the probe.



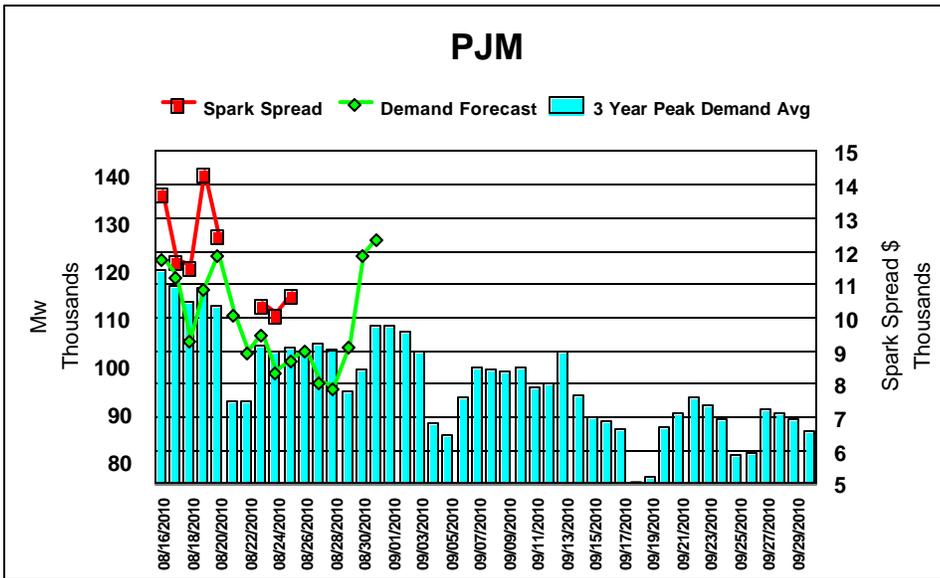
ELECTRIC MARKET NEWS

The Edison Electric Institute reported that for the week ending August 21st power production in the United States reached 92,025 Gwh down 2.4% from the prior week but 3.8% higher than the same week a year ago.

ECONOMIC NEWS

The US Commerce Department reported that demand for US manufactured durable goods increased less than expected in July. It reported that durable goods orders increased by 0.3% to a seasonally

adjusted \$193.02 billion. Meanwhile, the latest Institute for Supply Management's manufacturing index fell to 55.5 in July from 56.2 and 59.7 reported for prior months.



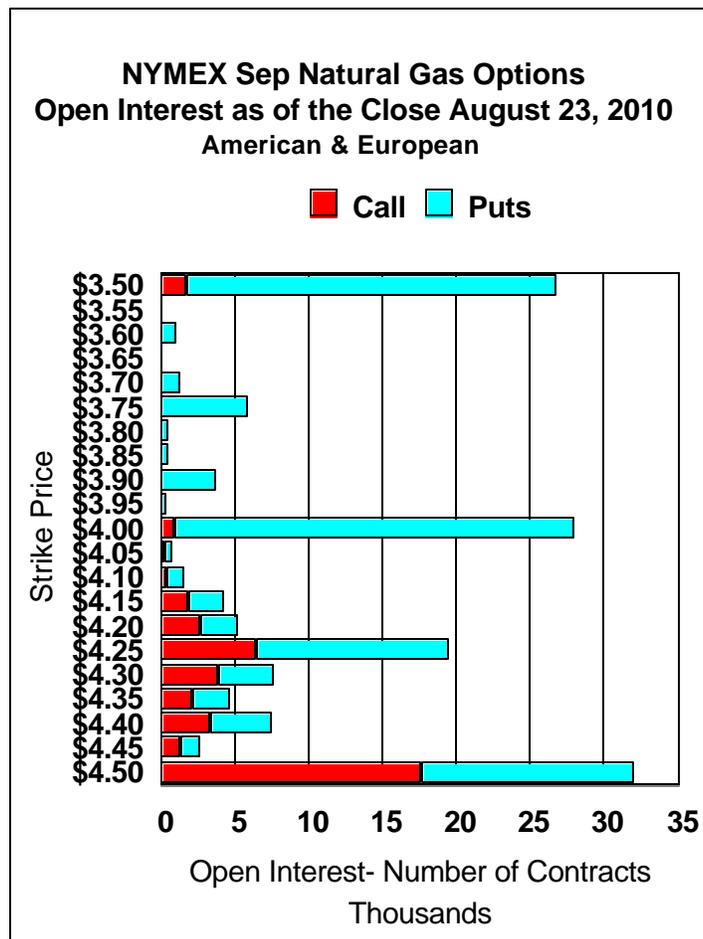
The Commerce Department also reported that new home purchases in July fell to a record low as inventories increased. Sales fell by 12.4% on the month to a seasonally adjusted annual rate of 276,000.

French President Nicolas Sarkozy said France will ask G20 countries to examine ways to cut excessive exchange rate and commodity price volatility and pursue the idea of a financial

transaction tax when it holds the presidency of the G20 in 2011. He said he was not seeking a return to fixed exchange rates.

MARKET COMMENTARY

The natural gas market basically headed in one direction today and that was lower. Just prior to the floor session opening the spot contract breached the \$4.00 barrier and within the first ten minutes of trading the market had moved lower by nearly a dime, basically not even taking a pause at the double bottom support on the weekly spot continuation charts at \$3.986 from back in late May. Prices did stabilize just above the eleven month low of \$3.81 set back on April 1st in the spot contract. While less than stellar economic news acted as a drag on the market, it appeared the burst of selling pressure was more option related as the break below \$4.00 this morning suddenly had put over 27,000 lots of open interest in the soon to expire September \$4.00 puts and the 28,000 lots of October \$4.00 puts into the money. While the 25,072 open contracts in the \$3.50 September puts appear tempting for bears to shoot for tomorrow on option expiration we do not feel they will have the ability to reach this level given the ability of the market to stabilize this afternoon, helped in part to stronger oil prices.



Market expectations for tomorrow's EIA natural gas storage report appear to be running between 35-45 bcf build in working gas inventories with most estimates centered around a 38 bcf build. Stocks rose an adjusted 53 bcf for the same week last year, while the five year seasonal average gain is for 59 bcf.

We feel that this market has begun to discount the potential of a hurricane disruption in the gulf and that we feel could make this market susceptible to a quick price spike if a viable threat to the Gulf of Mexico appears on the horizon. Given that we are just now entering the peak four weeks of the hurricane season we still feel it is a viable trade to purchase out of the money calls in the October contract and be positioned for such a quick price spike. A move in the October contract back to the \$4.30 level, a 38% retracement of the sell off of the past month and a level which we traded around for nearly two weeks does not seem at all out of the realm of possibility. Our next price target of \$4.60 or even higher on storm fears seems justified as well. The \$4.30 calls this evening settled at 10.7 cents.

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