



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JULY 13, 2009

NATURAL GAS MARKET NEWS

The Tropical Atlantic basin remains relatively quiet. While there are two areas of disturbed weather in the far eastern Atlantic and only the GFS model holds out any hope that one of these will try to develop into a tropical system by mid week as it moves just north of the Leeward Islands. While wind shear levels and water temperatures in the area do support development, it appears that none of the other forecasting models show any development given the fact that this area has a large dome of dry dusty air that should prevent development.

Wood Mackenzie analysts warned that a rebound in U.S. natural gas prices and drilling activity may be three or four years away.

The API reported today that for the second quarter in a row, drilling activity in the U.S. exploration and production industry fell to levels not seen since 2003-2004. While natural gas continues to be the primary target for domestic drilling, with an estimated 4225 wells completed in the second quarter of 2009, this is still some 43% less than the second quarter of last year. This marked the most severe quarterly decline this decade.

Generator Problems

NPCC – OPG's 550 Mw Portlands natural gas fired power plant was shut early Monday.

Bruce Power's 822 Mw #5 nuclear unit returned to service Monday. The unit had been off line since July 11th.

Entergy's 685 Mw Pilgrim nuclear unit was reduced to half power as operators planned a thermal backwash of the main condenser. Operators hope to have the facility back to full power in the next day or two.

PJM – Exelon's 619 Mw Oyster Creek nuclear unit, which was at 84% power on Friday, was off line this morning. The unit was taken off line on Sunday due to the loss of offsite power.

The Calvert Cliffs #1 nuclear unit was back to full power this morning. The unit had dropped to 94% on Friday.

SERC – Southern's 883 Mw Hatch #2 nuclear unit was at 75% power this morning down from full power levels the unit had been operating at the end of last week. Operators had found a small leak in the condenser system.

FRCC – FPL's 864 Mw St. Lucie #2 nuclear unit was off line this morning. The unit had been at full power on Friday.

WSCC – PG&E's 404 Mw Helms #2 hydro power station returned to service on Friday afternoon. The unit had been off line for planned maintenance since July 6th.

TransAlta's 406 Mw coal fired Unit #4 at the Sundance power plant returned to service this morning. The unit had been off line since July 10th.

Capital Power's 450 Mw Unit #3 at the Genesee coal fired power plant returned to service July 12th. The unit had been off line for 3 days.

Cal ISO reported this afternoon that it had some 4791 Mw of generating capacity off line, of which 48% was non-gas generating assets.

The NRC reported this morning that 94,491 Mw nuclear generation capacity was on line, down 1.6% from Friday and off 3.2% from the same time a year ago.

The Rockies Express Pipeline East segment running from Audrain County, Missouri to the Lebanon Hub in Warren County, Ohio began operation on June 29th, with a capacity of up to 1.6 bcf/d. As a result the spread between Dominion Transmission and Columbia Gas Transmission storage markets, which used to average between 10-15 cents has dropped to running at near even money.

Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
Location	Traded	Price		(As of 12:30 PM)		Moving Avg
Henry Hub	731,800	\$3.174	(\$0.064)	(\$0.093)	\$0.133	(\$0.220)
Chicago City Gate	599,700	\$3.094	\$0.017	(\$0.173)	\$0.121	(\$0.196)
NGPL- TX/OK	588,400	\$2.966	(\$0.015)	(\$0.301)	\$0.089	(\$0.327)
SoCal	563,800	\$3.138	\$0.205	(\$0.129)	\$0.309	(\$0.292)
PG&E Citygate	543,700	\$3.257	\$0.188	(\$0.010)	\$0.292	(\$0.178)
Dominion-South	163,900	\$3.360	(\$0.013)	\$0.093	\$0.091	\$0.054
USTRade Weighted	16,967,300	\$3.101	\$0.029	(\$0.166)	\$0.13	(\$0.220)

Kitimat LNG said Monday the EOG Resources Canada may supply part of the natural gas for what would be North America's second LNG export terminal. The two

companies signed a memorandum of understanding under which they will negotiate exactly how much natural gas EOG would supply to the proposed facility. The facility is slated to have a need for 700,000 Mcf/d of feedstock.

Fifteen trade groups, including the National Gas Supply Association and the National Association of Manufactures voiced their concerns in letters to the CFTC regarding the Obama administration proposals to overhaul financial derivatives. These groups were concerned that new regulations on the OTC market could result in higher energy costs as the costs for hedging their risks would rise and that these costs would have to be passed onto to consumers. The groups felt that there could be better ways to increase market transparency than requiring OTC products to go through clearing houses or move to exchanges.

Qatar and Exxon Mobil expect to begin production of LNG at RasGas Train 6 within the next few weeks. This train has a capacity of 7.8 million tones per year. The company said it is still on target to startup Train 7 at the end of 2009.

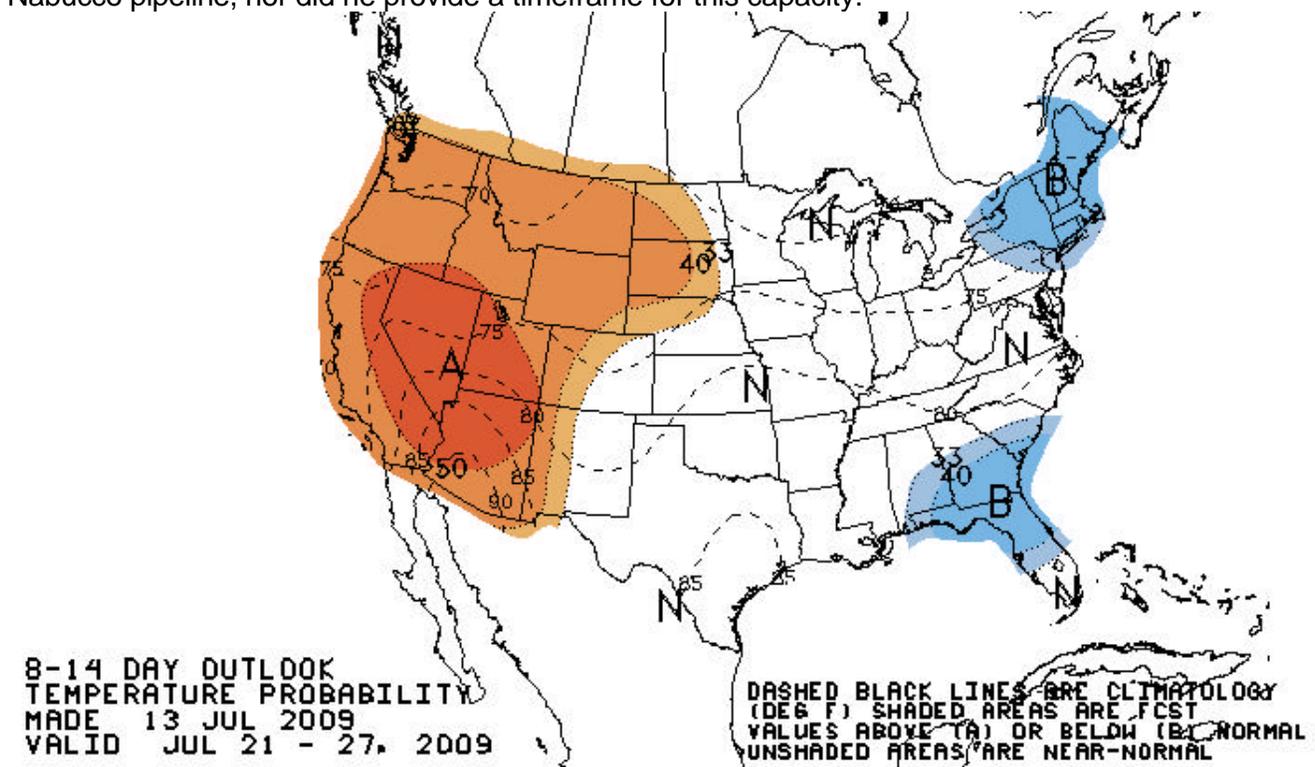
Pakistan said it wants to buy up to 1-2 million tones of LNG per year from Qatar starting within six months.

Reuters reported that China National Offshore Oil Corporation imported three spot LNG cargoes of LNG in June. Two cargoes came from Australia and one from Oman. It appeared the spot cargoes were going to meet summer power generation demands. China's power demand in June was up 3.6% from a year earlier, the first increase in a non-holiday month since October. It appears that China will buy four spot cargoes in July.

National Grid reported that a LNG tanker docked at the Isle of Grain terminal on Saturday. Meanwhile port authorities at Milford Haven said they expected a LNG tanker to arrive at the South Hook terminal in the coming week. The Dragon LNG terminal is also scheduled to receive its first commissioning LNG cargo on Tuesday from Trinidad.

EU governments and Turkey on Monday signed a transit agreement for the Nabucco gas pipeline. Other transit countries, Bulgaria, Hungary and Austria also signed the agreement. The pipeline aims to supply Europe with gas from the Caspian and the Middle East. The pipeline would have a capacity of 31 bcm/year and be operational by 2014, but no firm supply deals have been concluded yet. The EU noted that it has received 16 non-binding bids from companies to buy up capacity on the line. The open season bidding process is expected to finish in early 2010.

Iraq's prime minister said today Iraq could export up to 15 billion cubic meters of Iraqi gas to Europe via Turkey. It was unclear though if he was firmly committed to supply Europe this gas through the Nabucco pipeline, nor did he provide a timeframe for this capacity.



PIPELINE RESTRICTIONS

California Gas Transmission issued a system wide OFO for Monday due to low inventory. Customer supplies are required to be within a 5% tolerance.

ELECTRIC MARKET NEWS

Genscape reported that U.S. power output for the week ending July 9th fell 5.17% from the prior week and was some 9.4% less than the same week a year ago.

ERCOT reported that it set a second all time electric use record on Monday as the heat wave there resulted in electric demand reaching 63454 Mw, surpassing last week's record of 62786 Mw.

MARKET COMMENTARY

Despite the continued heat wave in Texas and Oklahoma, the absence of true summer demand in many other places, principally the East Coast and Midwest, coupled with poor industrial demand and the lack of early season tropical threats to production, spot Henry Hub prices at one point today fell to their lowest level since September 2002. The NYMEX futures market finished basically off a dime today but after the close the market seemed to bounce off its lows supported by a strong finish in the equity markets as well a technical bounce as some shorts seemed to be quick to take profits at the first sign of any support given the extreme oversold nature of this market, as demonstrated by the 9 day stochastics which at the end of the day stood at the %K at 6.48 and %D at 7.84.

We continue to be bearish on this market but unwilling to sell it at these levels. We see support tomorrow at today's low of \$3.227 followed by the spot continuation low at \$3.155 from April 27th. Resistance we see at \$3.324 followed by \$3.386 and \$3.434. More significant resistance we see at \$3.60 followed by \$3.742, \$3.901 and \$4.06.

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