



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JULY 2, 2009

NATURAL GAS MARKET NEWS

Barclays Capital in a research note to clients late Wednesday said the “race to the bottom “ in natural gas prices is almost complete and the industry is now waiting for signs that the cutback in drilling rigs or lower imports of LNG will have a meaningful impact on the supply and demand balance. The company noted though that neither monthly production data nor weekly storage numbers are showing tightening balances so far, but expects it eventually will. The firm noted that operators this year shut in rigs primarily in marginal plays and migrated instead to lower cost, high-return projects such as the Haynesville Shale play. Barclays said it believes the rig count is at a turning point, noting that it could fall by another 150 rigs by the end of the year or could rebound given the improving capital markets and more favorable gas prices. The company said it expects the economically driven downturn in industrial demand to hit bottom this year and looks for industrial demand to turn higher beginning this summer. Still the company noted the strengthening of the forward curve has occurred sooner than anticipated and this is enabling producers to begin hedging more substantially. They noted that should calendar 2010 prices keep rising it would allow more sizeable hedge programs to be put in place, prompting producers to launch more ambitious drilling programs next year or even late this year and thus limit the price recovery in 2010.

Generator Problems

NPCC – Entergy’s 620 Mw Vermont Yankee nuclear unit was at 86% power this morning, up 2% from Wednesday.

OPG’s 881 Mw Darlington #4 nuclear unit was shut late Thursday morning.

PJM – Exelon’s 1140 Mw Peach Bottom #3 nuclear unit was at full power, up 35% from Wednesday.

The 1120 Mw Hope nuclear unit was at full power today, up from 85% reported yesterday.

WSCC – PG&E’s 404 Mw Helms #3 hydro power station returned to service yesterday. The unit had been shut since September 28th for maintenance.

The 1150 Mw Columbia Generating Station nuclear plant has reconnected to the grid and was at 24% capacity.

SERC – TVA’s 1100 Mw Browns ferry #2 nuclear unit was back at full power today, up 35% from yesterday’s level.

The NRC reported this morning that 95,532 Mw nuclear generation capacity was on line, up 1.1% from yesterday and off 2.4% from the same time a year ago.

The Royal Canadian Mounted Police Thursday were investigating another possible attack on an EnCana natural gas pipeline in northern British Columbia.

EIA Weekly Report

	06/26/2009	06/19/2009	Change	06/26/2008
Producing Region	1001	997	4	700
Consuming East	1289	1234	55	1108
Consuming West	431	420	11	298
Total US	2721	2651	70	2103

Baker Hughes reported today that for the week ending July 2nd the number of drilling rigs search for natural gas in the United States was 688, up on the week.

*storage figures in Bcf

Sempra Energy said it expects to import LNG from Indonesia's Tangguh LNG project into its Costa Azul import terminal in Baja California in northern Mexico by the end of September. The terminal has a 1 bcf/d capacity and supplies gas into the southwestern U.S.

Enterprise Partners reported that initial natural gas is now flowing into its new Central treating Facility in Rio Blanco County, Colorado. The facility has a capacity of 200 MMcf/d and is dedicated to ExxonMobil's nearby properties in the Piceance Basin, which are currently producing approximately 100 MMcf/d of gas.

Canadian Gas Association

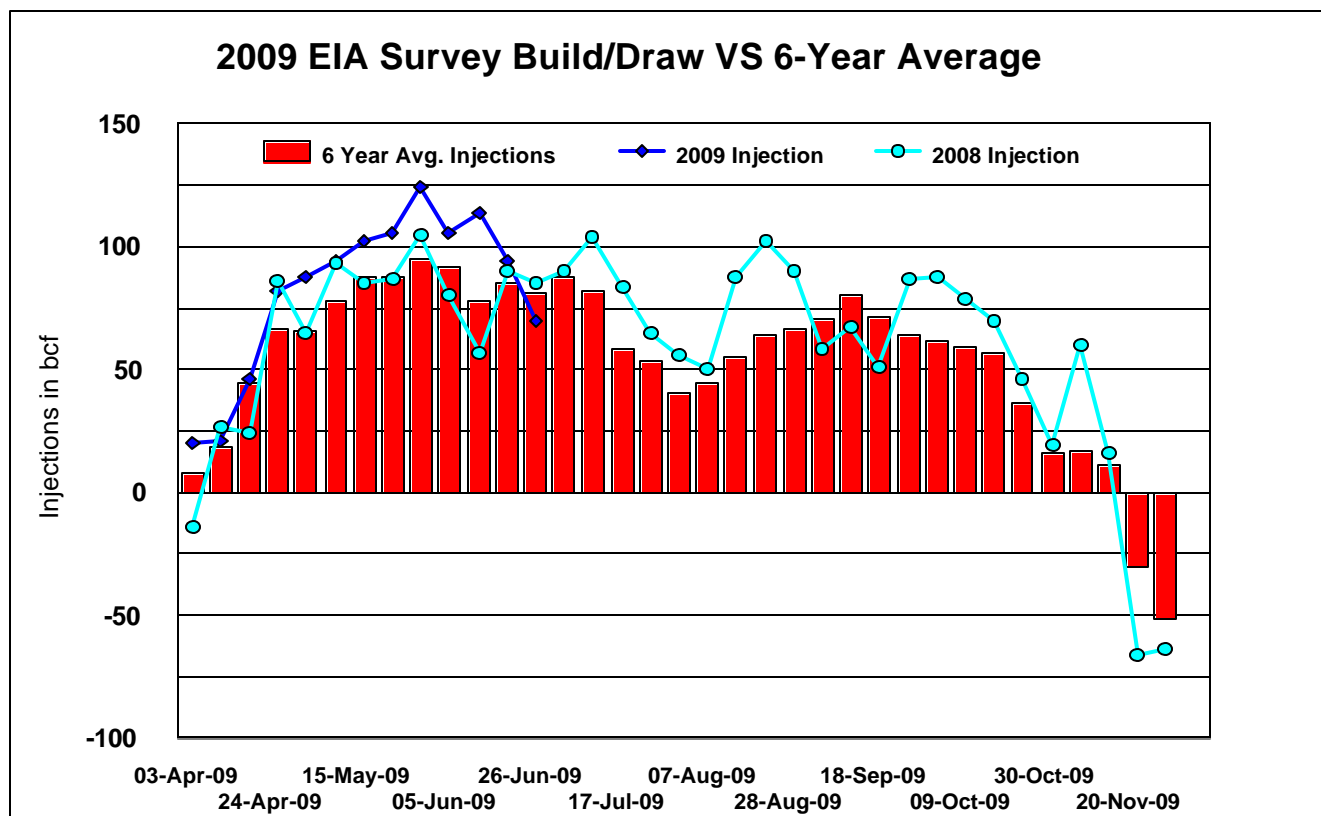
Weekly Storage Report

	26-Jun-09	19-Jun-09	20-Jun-08
East	173.6	164	112.5
West	276.6	267.8	213.8
Total	450.2	431.8	326.4

storage figures are in Bcf

Analysts at Sanford C. Bernstein said that the U.S. natural gas market will "tighten considerably toward the end of the year" as demand from industrial users and increased power generation will help to tighten the natural gas supply/demand balance. In addition the delays in starting LNG projects will also help bolster prices. The group does not see significant new supplies of LNG finding their way into the market late 2009 and into 2010.

Gas production from Royal Dutch Shell's Ormen Lange gas field off of Norway was still being affected by maintenance work. The company declined to detail how long the work would last though. National Grid confirmed that gas flows to England through the Langeled pipeline were low, but also gas flows were halted completely through Shell's Bacton terminal as a result of planned maintenance.



The Russian energy ministry reported that Russian natural gas production declined 20% in the first half of the year as the global economic downturn hit consumption. Gas production at Gazprom fell to 216.4 bcm, or 1.2 bcm per day versus 1.6 bcm per day in 2008. In June alone Gazprom's natural gas production was off 36% from year ago levels.

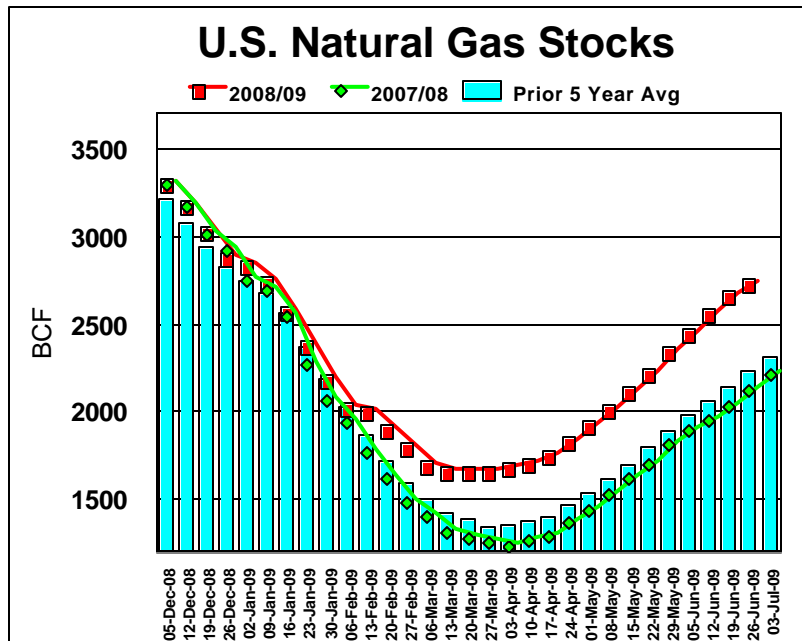
The Commerce Department reported this morning that new orders for U.S. manufactured goods jumped 1.2% in May, the largest increase in nearly a year. Market expectations had only been for a 0.8% gain. April's gain though was revised lower by 0.2% to a 0.5% gain. Nondefense capital goods orders excluding aircraft considered a measure of manufacturing activity were up 4.7% in May after falling by 3.5% in April.

The Economic Cycle Research Institute said its weekly Leading Index was unchanged from its prior reading of 117.6 for the week ending June 26th. But the index's annualized growth rate, which finally entered positive territory last week, spiked to just under a two year high.

PIPELINE RESTRICTIONS

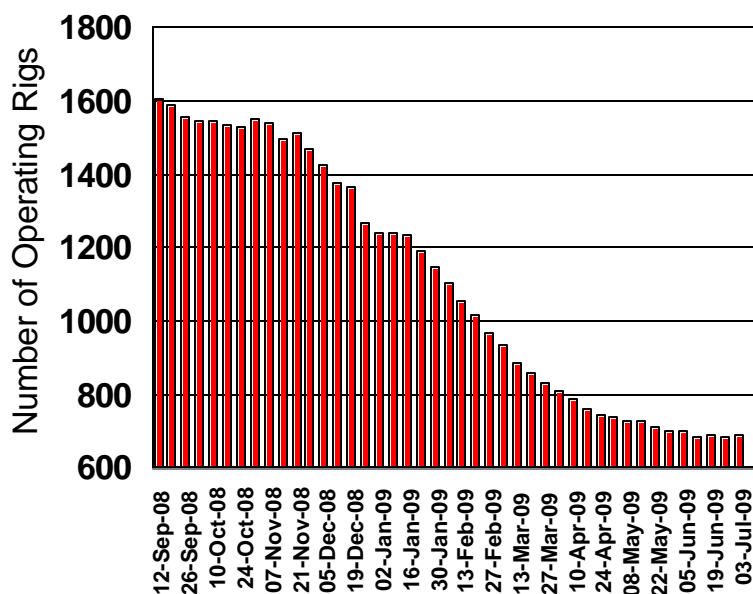
Tennessee Gas Pipeline said that effective for today it has restricted Interruptible Storage Injections at Bear Creek and Northern Storage.

SONAT said that based on weather forecast temperatures for the next five days and anticipated demand, it expects storage requirements to be close to max injection capability for the period. As a result it was posting a Type 6 OFO this afternoon for the period. The company also noted that due to unscheduled outage at the Toca processing plant, delivery point operators along SONAT's southern system could experience a gas stream with higher BTU than normal and heavier hydrocarbon content.



U.S. Natural Gas Drilling Rig Activity

Source: Baker Hughes



September 12, 2008 - July 2, 2009

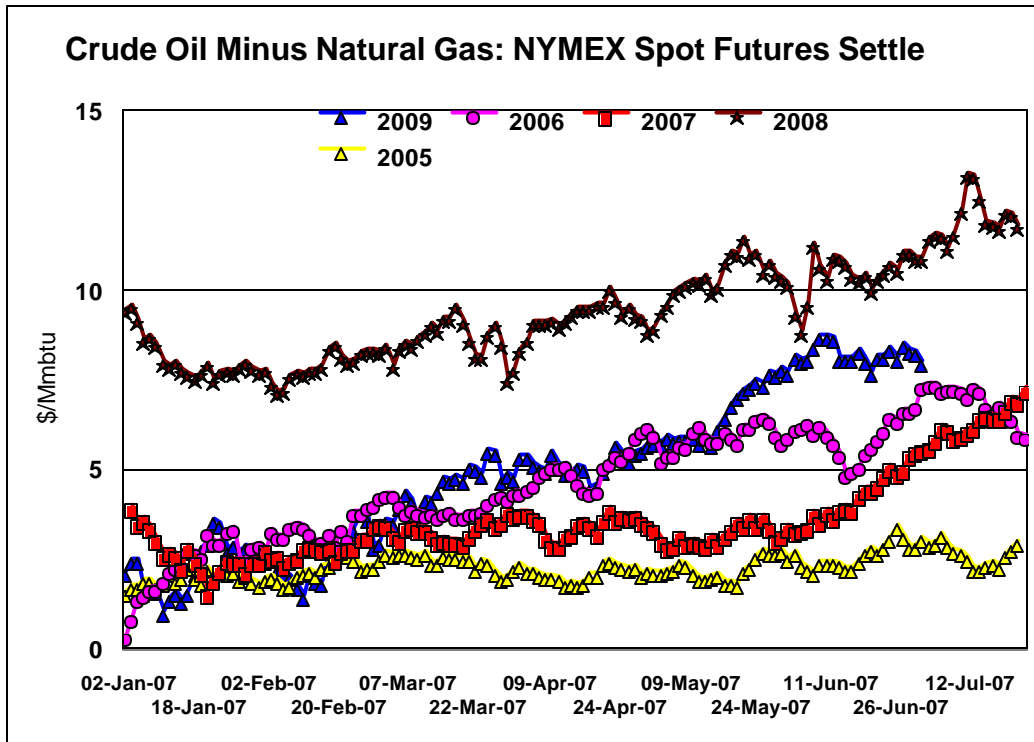
Kern River Transmission said that due to a mechanical issue on one of the three units at the Goodsprings compressor station, the operational capacity at the station will be set at 1,467,000 Dth/d. Primary firm transportation scheduled in the Timely cycle should not be impacted if nominated quantities are similar to those on June 30th.

PIPELINE MAINTENANCE

NGPL said Phase 1 of the integrity testing on Segment 14 on its Amarillo#4 Line in Illinois will take place on July 16th and last through August 11th. This work will take out of service a section of pipeline on Segment 14 between Muscatine Country, Iowa and Rock Island, Illinois.

ELECTRIC MARKET NEWS

Exelon on Thursday raised its offer to buy NRG Energy to \$7.45 billion and said later in the day if it was successful in its takeover it would look to sell 2410 Mw of generating capacity that NRG owns in Louisiana along with the company's foreign merchant generating assets. Exelon said it would also look to sell three power plants in Texas, Mountain Creek, Handley and LaPorte, which has a combined generation of 2400 Mw and to transfer to a third party Exelon's power purchase agreements in Texas totaling about 1200 Mw of capacity. The company also said a combination would also result in a divestiture of 1000 mw in PJM East market.



The U.S. Northwest River Forecast Center today released their latest water runoff forecast. It now sees water flows at the Dalles Dam in the April-September period running at 83% of normal down 5% from its forecast two weeks ago. It also lowered its water flow forecast for Grand Coulee Dam by 5% to 80% of normal.

The mayor of Los Angeles said today that his city will eliminate the use of

electricity made from coal by 2020, replacing it with power from cleaner renewable energy sources. Los Angeles Department of Water and Power gets 40% of its electricity from coal-fired power plants that are located outside the state of California. The city owned utility looks to cut its carbon emissions by up to 60% from 1990 levels by 2020.

MARKET COMMENTARY

The NYMEX natural gas market finished the first week of the third quarter sharply lower. Despite a relatively supportive EIA natural gas storage report released this morning, which initially had helped gas prices climb 10 cents after the report was released, a stronger dollar coupled with weak industrial and power generation demand helped to erase the mid morning gains and push values down to their lowest level in the August contract since the end of April, and in the spot contract since June 4th. The Oct-Jan spread also finished the week down at -\$1.711 off over 10 cents on the week and entering our exit targets of -\$1.70-\$1.75.

The exchange reported at midday that open interest over the prior two trading sessions has seen the Henry Hub futures and swap contracts grow by over 19,000 lots on a combined and adjusted basis. While this has to be seen as new shorts coming to the market, it appears to be the commercial sector found some willing buyers in speculators still as the natural gas ETF has seen its open interest grow by just over 3,000 lots in new longs during the period, reaching its highest level since mid June.

We feel that with poor near term demand and basically zero threats from the tropics; traders were not inclined to hold long positions over the long holiday weekend. But we would look for some buyers to

return at the start of next week and help to initially hold prices above critical support of \$3.62-\$3.52. But if oil prices tumble significantly lower next week then we would look for natural gas to challenge its next major support levels at \$3.388 and \$3.155. We would look for initial resistance at \$3.70 and \$3.80, with more significant resistance at \$3.976, \$4.09 and \$4.204.

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