



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,
& Karen Palladino
(212) 624-1132 (888) 885-6100

www.e-windham.com

NATURAL GAS & POWER MARKET REPORT FOR JULY 6, 2009

NATURAL GAS MARKET NEWS

The tropical Atlantic basin started the new week relatively quiet with no areas of concern. Forecasters only concern might be the development of a low pressure system off the southeast U.S. coast this week but this is not expected to develop any tropical characteristics and is seen moving out to sea anyway. Very long range forecasting models point to the possibility of a very strong tropical wave emerging off the coast of Africa this coming weekend. The GFS model and to a lesser extent the Canadian forecasting models have this system possibly developing into a tropical storm by the middle of next week. But given the very dry air in the eastern Atlantic right now many of the other models do not see this weather disturbance as a potential threat.

On the economic front, the Conference Board said today that its Employment Trends Index slipped to 88.4 from a downwardly revised 89.1 in May, some 0.8 less than previously reported. In May the index had strengthened after falling for 21 straight months. Meanwhile the ISM reported that the U.S. service sector contracted in June but at a slower pace than in May. The service sector accounts for 80% of U.S. economic activity.

Generator Problems

NPCC – Enenergy's 620 Mw Vermont Yankee has returned to full power, up 14% from Thursday's operating levels.

OPG's 490 Mw Nanticoke #7 coal fired unit returned to service Monday morning.

OPG/TransCanada's 550 Mw Portlands natural gas fired power plant returned to service early Monday. The unit had been shut back on July 1st.

Dominion Resources 882 Mw Millstone #2 nuclear unit was offline this morning after experiencing a turbine trip on July 3rd.

OPG's 494 Mw coal fired Unit #4 at the Lambton power station went off line for maintenance on Saturday,

WSCC – PG&E has restarted its 1118 Mw Diablo Canyon nuclear unit #2 and it was back to full power this morning. The unit was off line last week.

Operators at Energy Northwest's 1150 Mw Columbia Generating Station were ramping the unit back up and it was at full power this morning, up from 24% power on Thursday.

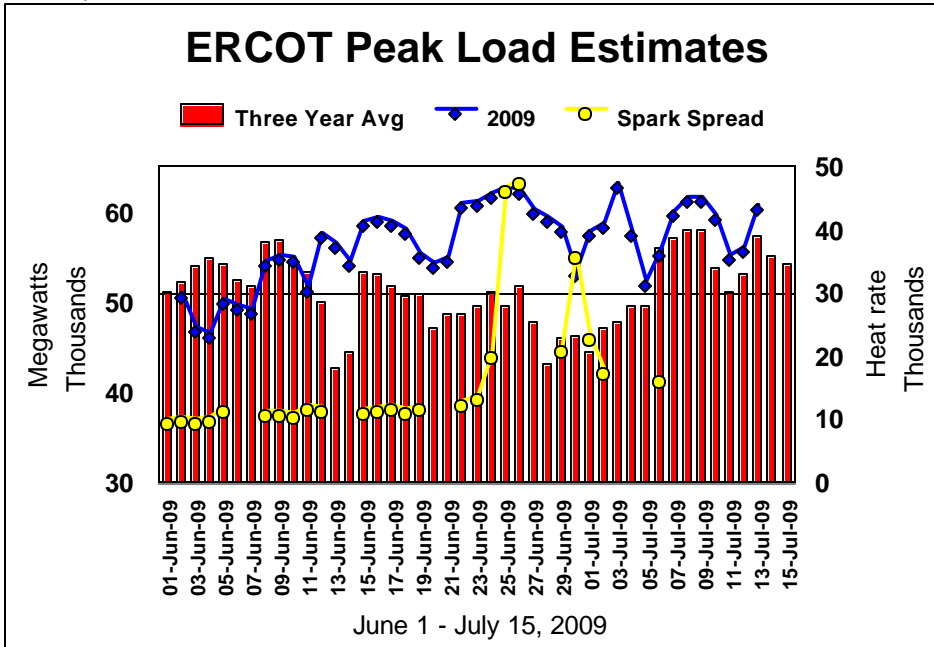
The NRC reported this morning that 96,671 Mw nuclear generation capacity was on line, up 1.2% from Thursday and off 1% from the same time a year ago.

The FERC Monday approved a second extension of a temporary waiver of the agency's capacity-release rules so

		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	585,000	\$3.243	(\$0.249)	(\$0.252)	\$0.059	(\$0.391)	
Chicago City Gate	510,400	\$3.077	(\$0.075)	(\$0.419)	\$0.143	(\$0.477)	
NGPL- TXOK	561,400	\$2.935	(\$0.156)	(\$0.560)	\$0.062	(\$0.591)	
SoCal	493,600	\$3.018	(\$0.075)	(\$0.477)	\$0.143	(\$0.512)	
PG&E Citygate	493,000	\$3.150	(\$0.101)	(\$0.345)	\$0.117	(\$0.365)	
Dominion-South	268,800	\$3.398	(\$0.208)	(\$0.097)	\$0.010	(\$0.044)	
USTRade Weighted	16,852,200	\$3.103	(\$0.159)	(\$0.392)	\$0.06	(\$0.391)	

remaining issues related to Barclays bank acquisition of UBS natural gas trading portfolio can be addressed.

Declining flows of natural gas through the Norwegian Langede natural gas pipeline today had traders speculating that Ormen Lange may again be experiencing problems. Shell said it had restarted normal operations at Ormen Lange on Monday after a weeklong maintenance outage. Flows early Monday had reached 35 million cubic meters per day but had dropped to only 15 cubic meters per day by midday.



Centrica Storage said that only one of its two compression units will be running at its U.K.'s Rough Storage facility for July 7th. The company said it was scaling back operations to one compressor due to a backlog at the facility. The facility was reported to be 88% full.

The Ukrainian gas company, Naftogaz said Monday that it had paid in full for June imports of natural gas from Russia

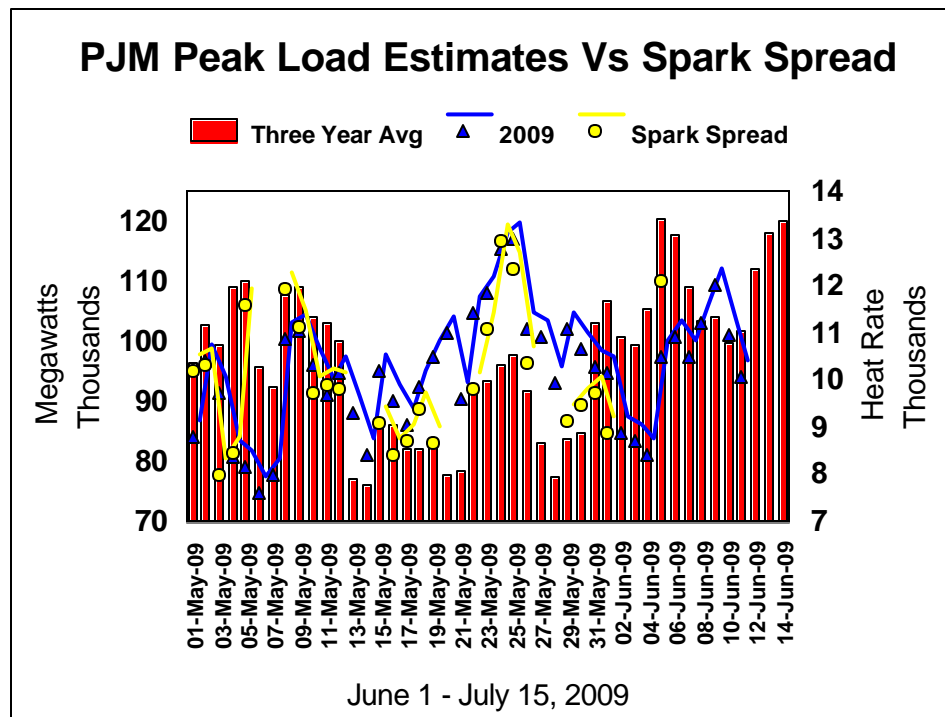
Spanish natural gas distributor Gas Natural agreed on Monday to take 30% off the output from a planned LNG facility on Canada's west coast and may buy a stake in the operation as well. Kitimat LNG announced that Gas Natural would take up to 1.6 million tones of LNG a year from the Kitimat facility for 20 years. The proposed plant will have a capacity to export 3.5-5.0 million tones of LNG per year starting in 2013.

Spanish natural gas

The head of the National Iranian Oil Company said that the door remained open to Total SA to participate in Iran's South Pars gas field project, but the company would need to receive the consent by China National Petroleum Corporation.

PIPELINE RESTRICTIONS

TransCanada reported on July 5th, a leak on the NPS 6 Contracosta Lake Lateral on July 4th forced the Contracosta and Contracosta East meter stations to be nilled.



Typical flow from these stations is 270 e3m3/d. The line has been isolated as investigations are ongoing.

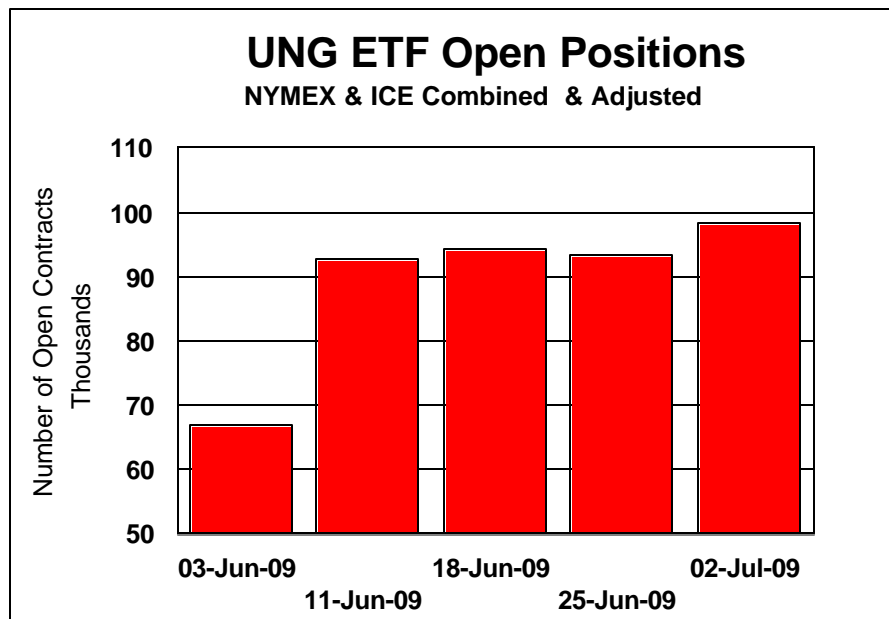
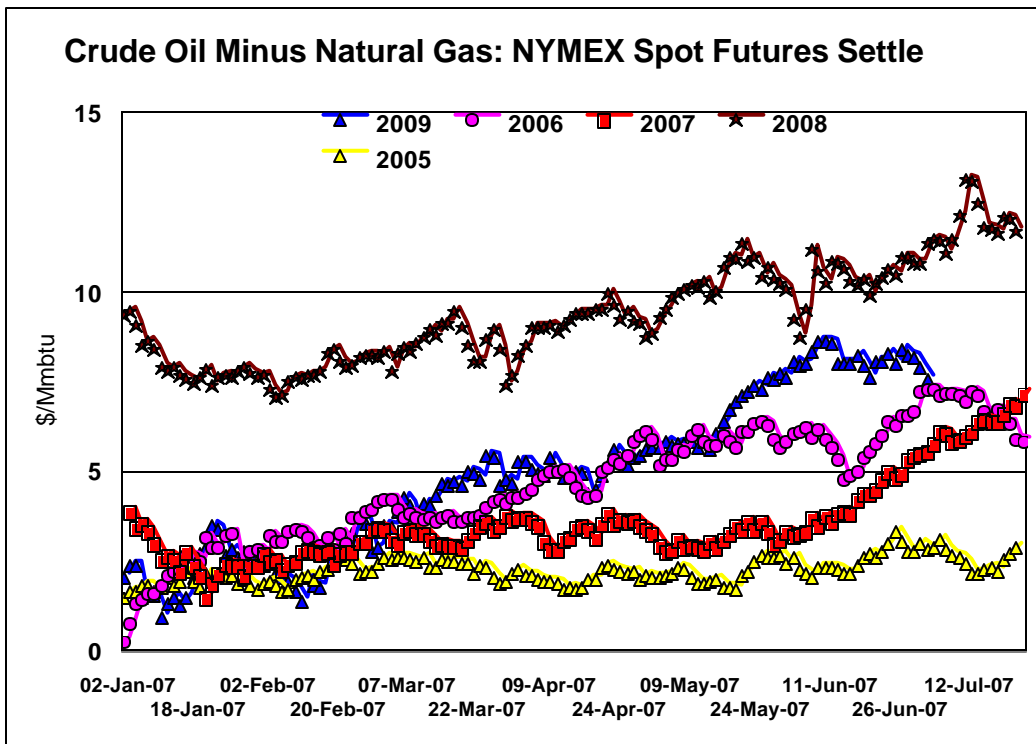
Tennessee Gas Pipeline said that it has restricted its Carthage Line Lateral and Interruptible Storage Injections. The company has restricted through approximately 74% of Supply to Market Secondary Out of Path nominations pathed from meters located on the Carthage Line Lateral. The company has restricted 100% of IS-PA storage injections at bear Creek Storage and IS-MA storage injections at Northern Storage.

ELECTRIC MARKET NEWS

Genscape reported that U.S. power output in the week ending July 2nd rose 3.39% from the prior week, but was still off 3.86% from the same week a year ago.

Genscape reported that U.S. power plant emissions of sulfur dioxide dropped sharply in the first half of the year as the power industry appeared to be preparing for tighter regulation.

The survey estimated that SO2 emissions were down 24% compared to the first half of 2008, much more than would be expected due to the recession and lower power demand. They also estimated nitrogen oxide emissions fell 5% in May and 11% in June, while second quarter CO2 emissions were down 10% in the RGGI service area.



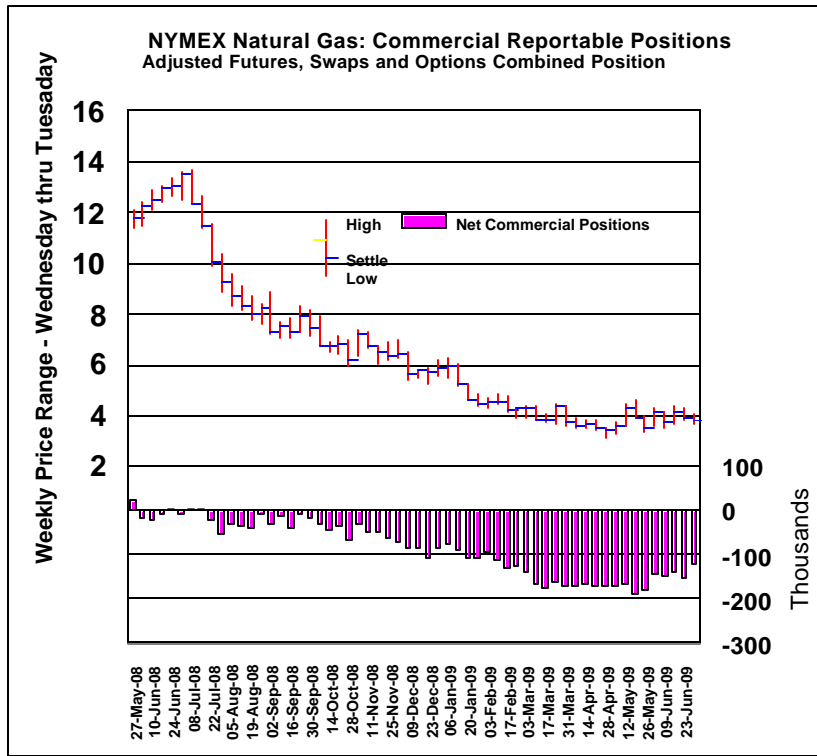
Genscape reported that U.S. consumption of coal last week fell 2% from the previous week and was 10% less than the same week a year ago.

MARKET COMMENTARY

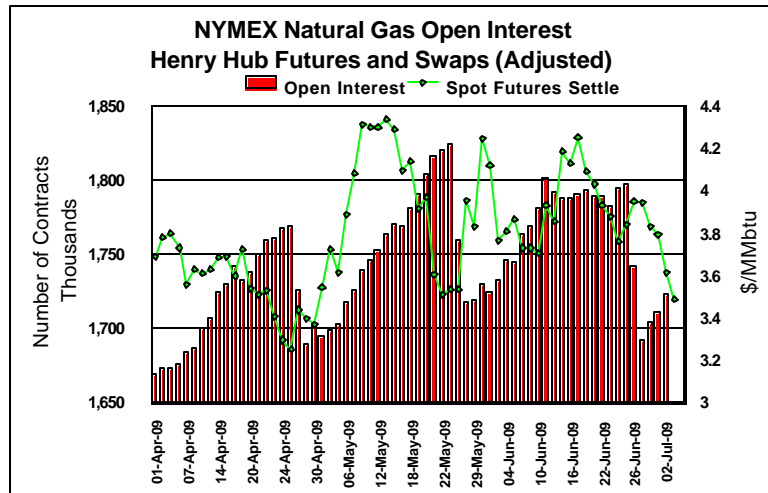
The energy markets all moved lower today as the world's financial markets all seemed to have moved into a defensive mode as many traders question the ability of the various global economies to rebound strongly this year. Oil prices in particular moved lower as last week's

failed attempt to set a new high had bulls running for the exits as a potential double top appeared to trigger their desire to take profits and in the interim helped to drag natural gas values down to levels not seen in the spot contract since May 1st.

Trying to understand the structure of positions in the natural gas market has our head spinning. The natural gas ETF, UNG today reported its open position in the NYMEX and ICE Henry Hub futures and swaps contracts through Friday reached its highest level since mid June's all time high, thus appearing to point to speculative buyers continued to buy into this market. But the Commitment of Traders Report released today for the period ending June 30th, showed that non-commercial reportable net long positions in NYMEX natural gas



contracts, options and swaps, fell by nearly 27,000 lots reaching its lowest level since mid February. This contraction was the result of gross long positions being reduced by 8,250 lots while gross short positions by this group grew by 18,547 lots on the week. This leads us to believe that while the smaller specs that have gravitated towards the ETF market, are no match for hedge funds that have begun to swarm into the short side on natural gas once prices moved below \$4.00. Given that the commercials



appear to have reduced their overall exposure in this market, makes us believe that this market may be entering into a more volatile trading period as speculative trading because a greater share of the market and technical trading will be even a greater impact on the market.

With daily stochastics approaching single digits we would look for this market seeking at least a short-term bounce. We would look for initial support to be found tomorrow at \$3.369-\$3.358. But if this support level were breached then we would look for the next downside target to

be \$3.155. Resistance on the upside we would look for \$3.711, \$3.758 and \$3.829. Additional resistance we see at \$3.878-\$3.886 followed by \$3.97-\$4.00, \$4.144 and \$4.284.

The Oct-Jan spread has settled at an October discount of \$1.761 and we would recommend exiting any remaining positions and taking profits. We would look for a bounce in this spread before looking to initiate any new positions.

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