



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JULY 7, 2009

NATURAL GAS MARKET NEWS

CFTC Chairman Gary Gensler said in a letter to lawmakers said the CFTC will hold hearings to explore the need for government imposed restrictions on speculative trading in oil, natural gas and other energy markets. The agency will first focus on whether federal speculative limits should be set by the CFTC to all commodities of finite supply, such as energy. "This will include a careful review of the appropriateness of exemptions for these limits for various type of market participants" The CFTC also said the agency was going to improve its weekly Commitment of Traders report. He said the positions of noncommercial and commercial traders in COT reports will be broken down to categorize swap dealers, or individuals who act as counterparties in a swap agreement. In the non-commercial sector there will be a new category for professionally managed market participants, such as hedge funds. The CFTC will be implementing the new version of the COT report in the "near term".

The EIA released their latest Short Term Energy Outlook this morning. The agency revised upward its estimates for U.S. domestic production

Generator Problems

NPCC – OPG's 535 Mw Lennox oil and gas fired Unit #3 was shut early Tuesday for repair work.

PJM – The 1120 Mw Hope Creek nuclear unit was at 85% capacity down 15% from yesterday.

MISO – Exelon's 1128 Mw Byron #1 nuclear unit was at 95% capacity off 5% from yesterday.

SPP & ERCOT – AEP's 675 Mw Pirkey coal fired power station was shut early Tuesday for maintenance that was expected to last for seven days.

Luminant's 575 Mw Big Brown #1 coal fired power plant was expected to return to service today.

SERC – TVA's 1100 Mw Browns ferry #2 nuclear unit has ramped production to full power this morning, up 5% from yesterday.

Cal ISO – The region saw some 6,063 Mw of generation capacity off line today, of which 47.6% was non-gas based generation. This was the largest amount on non-gas generation capacity off line since July 1st.

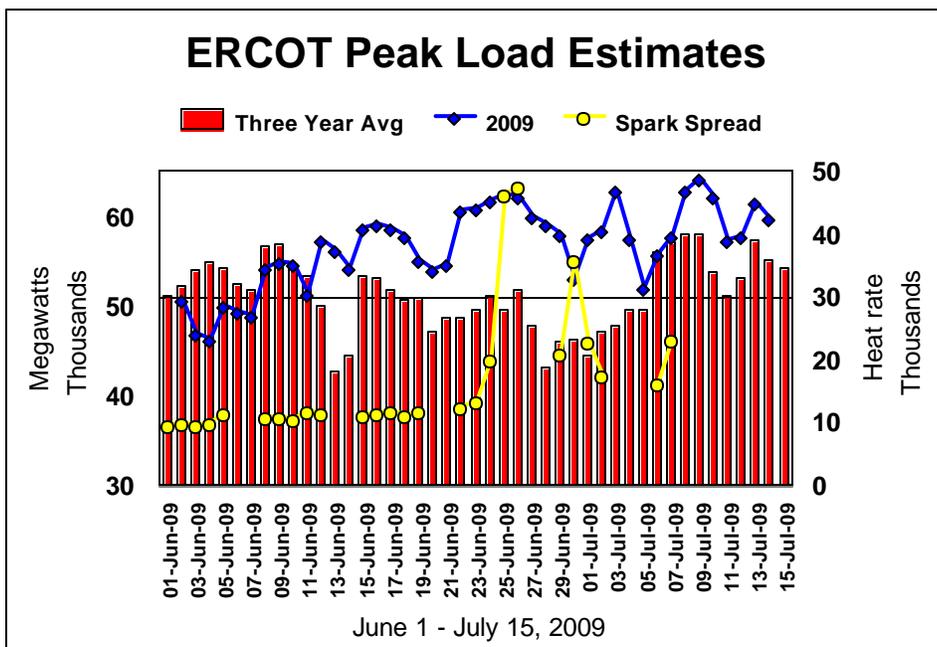
The NRC reported this morning that 96,488 Mw nuclear generation capacity was on line, down 0.2% from yesterday and off 1.4% from the same time a year ago.

for 2009 and 2010 by 0.5% and 0.2% respectively from last month's estimates, while cutting its projected outlook for demand of natural gas in the U.S. by 0.1% in 2009 and 0.4% in

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	622,300	\$3.304	\$0.061	(\$0.173)	\$0.145	(\$0.376)
Chicago City Gate	711,100	\$3.282	\$0.206	(\$0.195)	\$0.224	(\$0.439)
NGPL- TXOK	935,100	\$3.132	\$0.197	(\$0.345)	\$0.215	(\$0.572)
SoCal	424,800	\$3.118	\$0.099	(\$0.359)	\$0.117	(\$0.497)
PG&E Citygate	752,500	\$3.272	\$0.122	(\$0.205)	\$0.140	(\$0.348)
Dominion-South	240,500	\$3.482	\$0.084	\$0.005	\$0.102	(\$0.050)
UTrade Weighted	18,832,900	\$3.229	\$0.127	(\$0.248)	\$0.14	(\$0.376)

2010. Much of the demand revision downward came from the industrial and power generating sectors. The EIA expects that working stocks of natural gas will end the injection season at 3.67 tcf, some 105

bcf above the previous record of 3.565 set in October 2007 and 11 bcf more than estimated in last month's outlook. The EIA left unchanged its estimate for LNG imports this year which will average 1.36 bcf/d, up nearly 42% from last year, but it significantly raised its 2010 import estimate to 2.01 bcf/d, up nearly 13% from last month's estimate. The agency though has raised its price outlook for the fourth quarter of this year at Henry Hub, looking for prices to average \$4.47 per mcf some 20 cents better than last month's forecast.

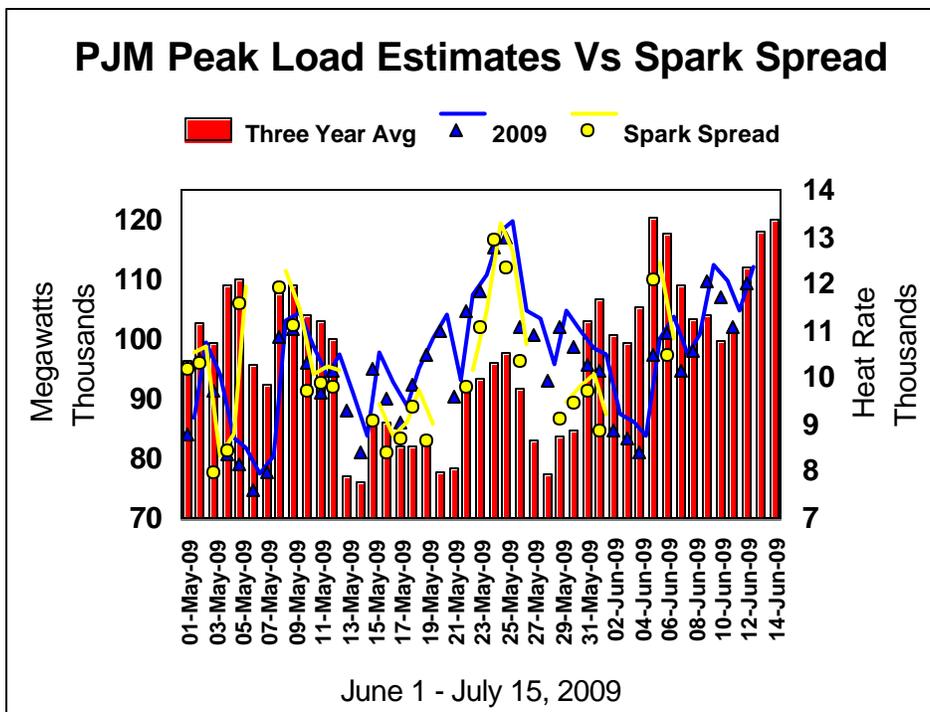


In 2010 the EIA sees Henry Hub prices strengthening to \$5.93 some 44 cents better than last month's estimate.

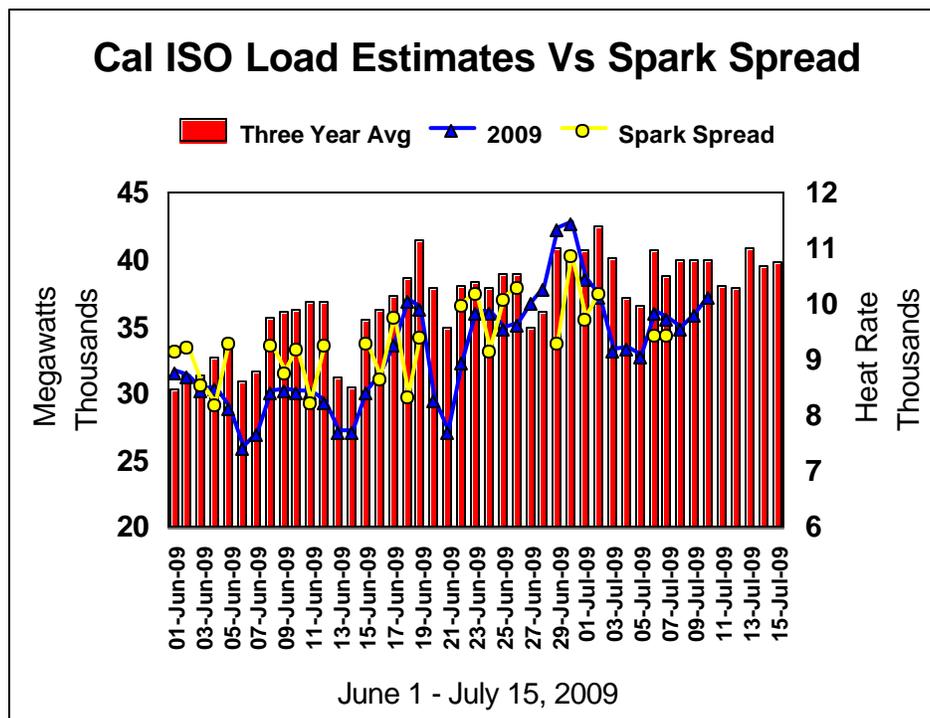
The United States Natural Gas Fund, the largest ETF for natural gas, said today that it has run out of new shares and will suspend issuance of creation basket of new units until it gets permission from the SEC, the CFTC, the Financial Industry Regulatory Authority and the NFA. The fund has applied to register 1 billion new shares on June 5th and has been awaiting approval since then. Trading of the units was suspended pending the company's filing today with the SEC. Trading resumed after 2:20 pm and by 3:06 it was off 2.9% to \$12.20.

T. Boone Pickens told Bloomberg News today that he expects to see crude oil prices reaching \$75.00 per barrel by the end of the year with natural gas prices next year reaching \$7.00 per Mmbtu.

Petronet's LNG import and regasification terminal on the west coast of India reportedly was back to operating at its recently increased capacity of up to 11.5 million mt/year after a problem at some pumps attached to new storage tanks were repaired. The company which began



commissioning its new maximum capacity of 11.5 million mt/year in March, encountered problems by April and was forced to declare force majeure in April when five pumps attached to the two new storage tanks began tripping beyond a send out rate of 32-33 million cubic meters per day.



The operator of the BBL natural gas pipeline running between the Netherlands and Britain plans to do maintenance work to replace a part in all three of its compressors after one of them was damaged in February. The work will be done this month and all three should be available for transport again in August.

PIPELINE MAINTENANCE

SONAT said its West Delta 152 will need to be shut in for up to six days as it

works to abandon its 16 inch Mississippi Canyon 268 line. The shut in date originally set for July 8th has been pushed back to July 19th or 20th. The company also announced today it would be conducting maintenance at the Mississippi Canyon 194 platform. During this work Mississippi Canyon 194 and Mississippi Canyon 109 will need to be shut in starting July 17th for three weeks.

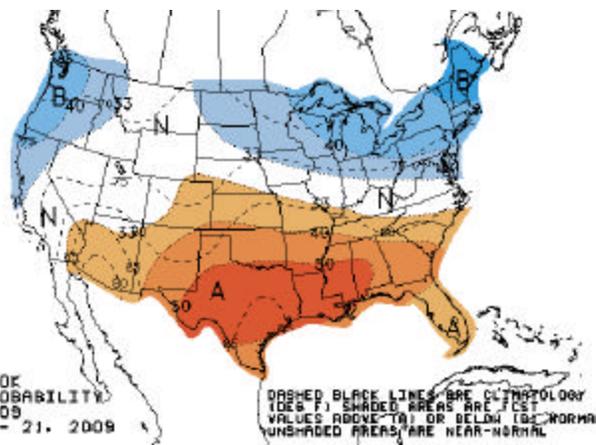
Kern River Gas Transmission said the repair of the damaged Goodsprings compressor bundle has been completed and is currently en route from the factory to the station. The company expects that the unit will be returned to service during the latter part of this week.

PIPELINE RESTRICTIONS

Due to reduced nominations, Tennessee Gas Pipeline said effective for today it will accept increases for nominations pathed for delivery to the Leidy Delivery meters.

ELECTRIC MARKET NEWS

The Dallas Morning News reported that T. Boone Pickens is scaling back his plans for the world's largest wind farm of a generating capacity of some 4,000 Mw, to now looking to build 5-6 smaller wind farms. The facilities would be built in the Midwest and/or possibly Texas. The project was originally slated to be built in northern Texas. But the project was then delayed when energy prices tumbled and credit markets tightened. Pickens also noted that work on the project has been delayed due to the lack of an adequate transmission line to move the power to population centers.



MDU Resources Group the largest company in the Dakotas, said today it would join with ITC Holdings in developing the Green Power Express, a transmission project that will link wind farms in the U.S. Plains to cities. The transmission lines will run about 3000 miles through North and South Dakota, Iowa, Wisconsin, Minnesota, Illinois and Indiana and the line could carry as much as 12,000 Mw. The price tag for the project is placed at \$10-\$12 billion.

The EIA in its Short Term Energy Outlook said it looks for overall consumption of electricity in the U.S. this year to contract by 2% but then rise by 0.8% in 2010. Both of these projections were revisions from last month's estimate, which had looked for power usage to decline by 1.8% in 2009 and a more robust rebound in 2010 by 1.2%. The industrial sector remained the primary reason for the nation's decline in electricity usage, estimated at falling by 7.9% in its power needs this year and declining again in 2010 but at a slower annual rate of just 0.8%. Despite the projected decline in power demand coupled with lower spot coal prices and other fossil fuels, coal under contract for delivery to the power generation sector is still seen increasing by 3.4% this year over last and thus will help to contribute to residential power prices increasing this year by 4.7% and 3.3% in 2010.

The Louisiana Public Service Commission has asked the FERC to find Entergy Arkansas violated the system agreement among the Entergy operating companies by selling low cost power to non-affiliates without first offering that power to its affiliate operating companies. The PSC found that "these sales to unaffiliated third parties have caused the System to generate power to meet its needs from resources that are more expensive than the resources sold off-system, damaging the System's ratepayers who incurred the higher replacement costs for energy." For more than 50 years Entergy has worked under an agreement that governs how system costs are allocated among Entergy operating companies and provides for the joint planning, construction and operation of affiliated companies facilities. The system agreement requires generating costs be roughly equalized among the various operating companies and the FERC requires that no single Entergy operating company's costs can exceed the system average by plus or minus 11%. But Louisiana state regulators note that Entergy Arkansas has some of the system's lowest cost generation while Entergy's generation resources in Louisiana are some the company's highest generating costs. Thus if Entergy Arkansas sells its excess power to third parties, then Entergy ratepayers in Louisiana are being hurt.

Genscape reported that coal supplies at U.S. power plants fell 0.2% this week from last week but are 22.3% greater than the same week a year ago.

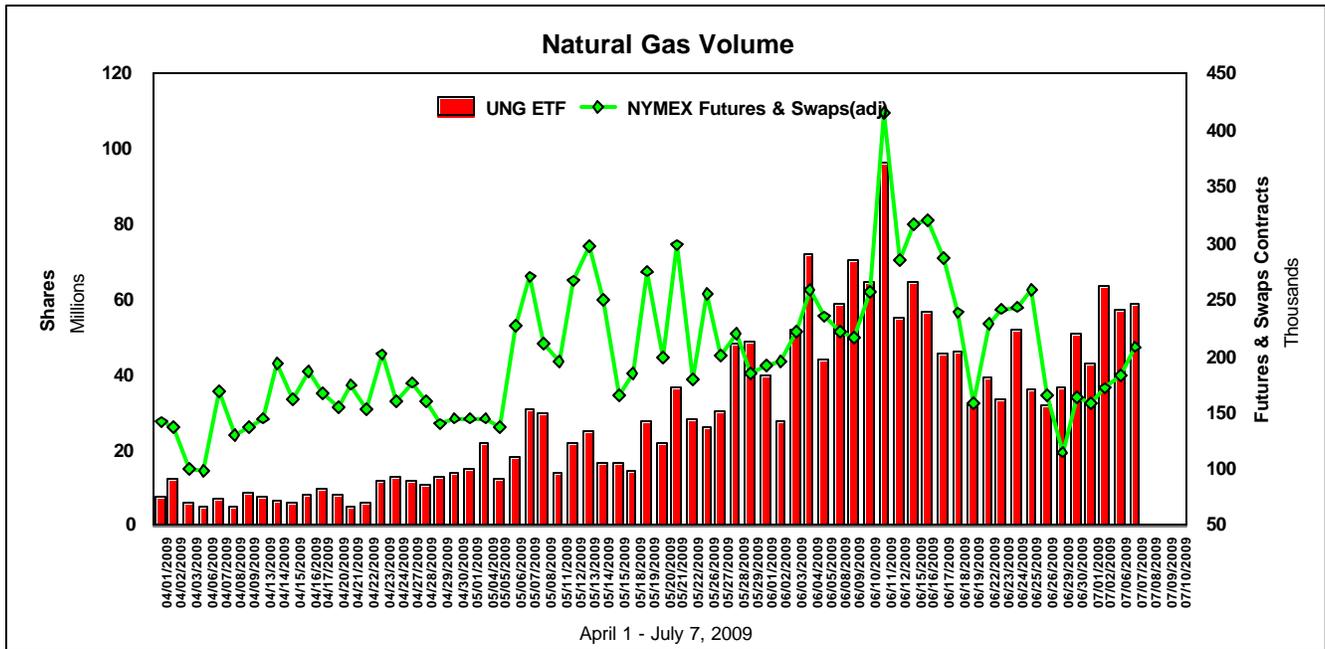
Richard Sandor, the founder and chairman of the Chicago Climate Exchange, said today that he expects the U.S. Congress to pass a comprehensive climate change bill by April 2010.

ERCOT said today that demand in its territory the rest of the week could match or exceed the July 2006 monthly record of 60661 Mw.

MARKET COMMENTARY

While the natural gas futures market settled lower for the sixth straight trading session, the cash markets were a bit firmer today helped in part by upwardly revised load forecasts in various parts of the nation. As a result while the oil futures moved below yesterday's lows the natural gas market held yesterday's low and in fact posted an inside trading session. Volume today was surprisingly good given an inside trading session with the Henry Hub futures and swaps trading 207,971 lots on a combined and adjusted basis. The natural gas ETF, UNG despite seeing trading suspended for a time today, still posted outstanding trading activity on the day with over 59 million shares changing hands. This ETF which yesterday saw open interest in the ICE and NYMEX contracts increased by an equivalent 2870 full size contracts was at its second highest ever open interest level which appears today was even higher when trading was suspended.

Without the ability to issue new shares in the UNG ETF, the fund may begin trading like a closed end fund, which could result in significant premiums or discounts from the underlying assets, and thus can



make its impact on the underlying futures and swaps even cloudier.

While this market continues to have a bearish supply/demand balance in our mind, we feel that this market may be attempting to find support here short term, helped in part by short term power generation needs. Thus we would wait for a bounce before looking to establish any new shorts. We see support at \$3.36 followed by \$3.294, \$3.213 and \$3.155. Minor resistance we see at \$3.51, \$3.592 and \$3.66. More significant resistance we see at \$3.83, \$3.97 and \$4.12.

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