



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JULY 28, 2009

NATURAL GAS MARKET NEWS

Consumer groups such as the American Public Gas Association, testifying at the CFTC's first of three public hearings of setting position limits, said that the commission should set aggregate position limits across all markets, including electronically traded markets and OTC markets, it would prevent traders from moving from one market to another to evade limits. In addition the group said speculative position limits in the front month contract in a given market are a "proven and effective tool" for maintaining order in markets with "constrained deliverable supplies" such as natural gas. The group also noted that swap dealers should characterize each swap transaction by the ultimate ownership of the trade. A position entered into by a swap dealer with a commercial end user should be deemed a bona fide hedging contract, while a transaction with a speculative market user would be considered speculative. The group also suggested the CFTC "should explore whether both the spot-month and the back month speculative position limits should be

Generator Problems

MISO – FirstEnergy's 1231 Mw Perry #1 nuclear unit was back to full power this morning up 8% from yesterday.

PJM – Exelon's 619 Mw Oyster creek nuclear unit was back to full power this morning up 10% from yesterday.

FRCC – FPL's 864 Mw St. Lucie #2 nuclear unit was back on line and at 35% capacity this morning. The unit was restarted late Monday, from a shutdown that began back on July 13th.

WSCC – Southern California Edison's 1172 Mw San Onofre nuclear unit #2 was up 5% to 99% of capacity this morning. The unit had powered down over the weekend to clear seaweed from intake screens.

The NRC reported this morning that 95,454 Mw nuclear generation capacity was on line, up 0.7% from Friday and off 2.2% from the same time a year ago.

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	482,300	\$3.488	\$0.029	\$0.021	\$0.158	(\$0.158)
Chicago City Gate	467,100	\$3.479	\$0.018	\$0.012	\$0.171	(\$0.157)
NGPL- TX/OK	515,400	\$3.355	\$0.022	(\$0.112)	\$0.175	(\$0.276)
SoCal	464,800	\$3.445	(\$0.023)	(\$0.022)	\$0.130	(\$0.146)
PG&E Citygate	742,900	\$3.647	(\$0.096)	\$0.180	\$0.057	\$0.088
Dominion-South	281,500	\$3.786	\$0.081	\$0.319	\$0.234	\$0.103
USTrade Weighted	17,145,000	\$3.478	\$0.005	\$0.011	\$0.16	(\$0.158)

set with reference to reasonable percentage of deliverable natural gas supply."

The CFTC this morning said it would issue a "new and better report" next

month on the role of swap dealer and index investors in markets it oversees. CFTC Commissioner Chilton said today that he believed "...many will have a greater degrees of confidence in it, especially when compared to the report we issued last year." He also noted that the report "...should send an alert to Capitol Hill that we need regulatory reform that provides the agency with oversight into dark, over-the-counter markets." The report issued by the CFTC a year ago had found that there did not

seem there was a correlation between index investors and higher prices. In an interesting comment the commissioner said today the August report "will be better and we will not try to spin it and say speculators had no role, like we did last year." The commissioner was a dissenter last of the report.

But later in the day Commission Chairman Gensler said that reports that the CFTC will blame the price spike last year on speculators are "premature" and "inaccurate" since none of the four commissioners have yet to review the first release of the new report. The Wall Street Journal this morning had reported that the CFTC would issue a report next month that would suggest that wild price swings in oil prices last year were significantly driven by speculators.

Reuters reported today that the NYMEX will impose what it calls "hard expiration

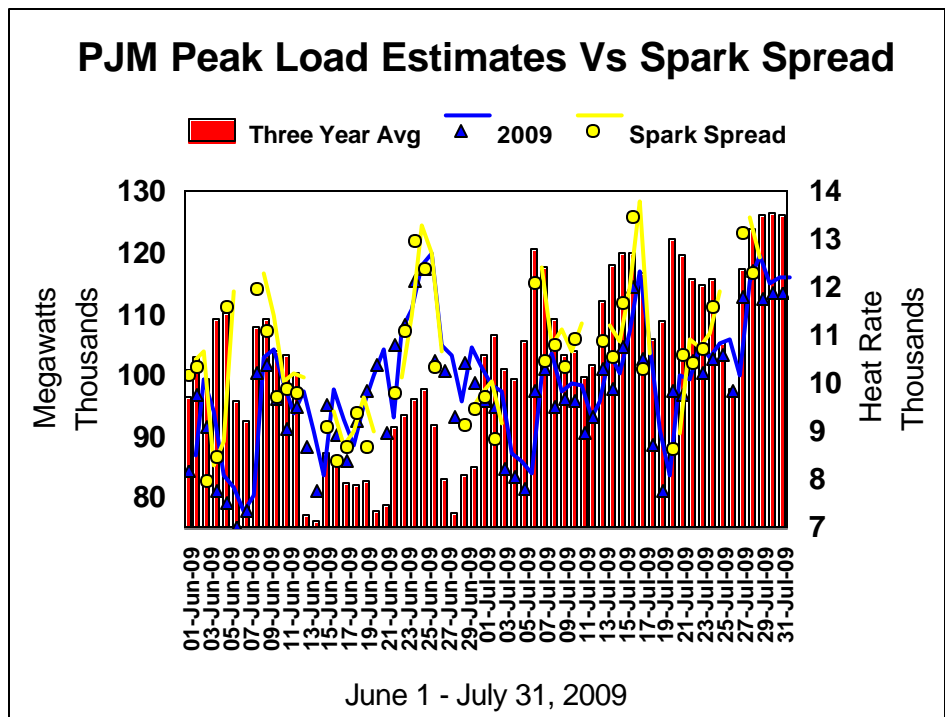
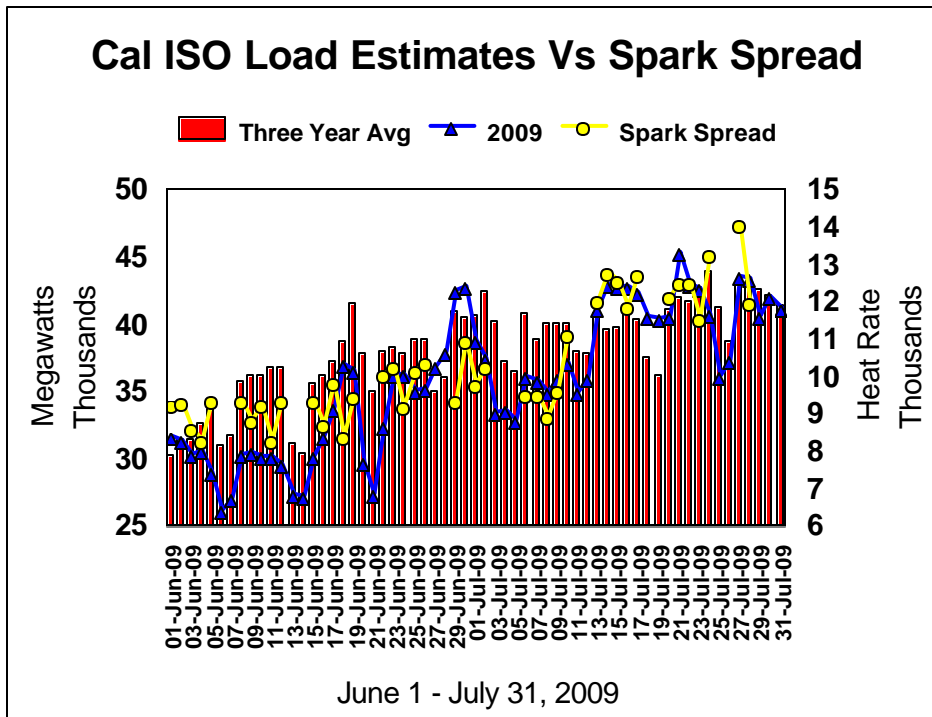
position limits" on seven of its natural gas financially settled contracts effective with the October contract expiration.

CNX Gas Corporation said it has leased nearly 40,000 acres having Marcellus Shale potential. This announcement brings the company's total acreage held to 230,000 acres in the Marcellus region.

Spectra Energy said it is holding a binding open season ending August 21st for proposed service on its Transportation South Zone 4 transmission facilities in southern British Columbia.

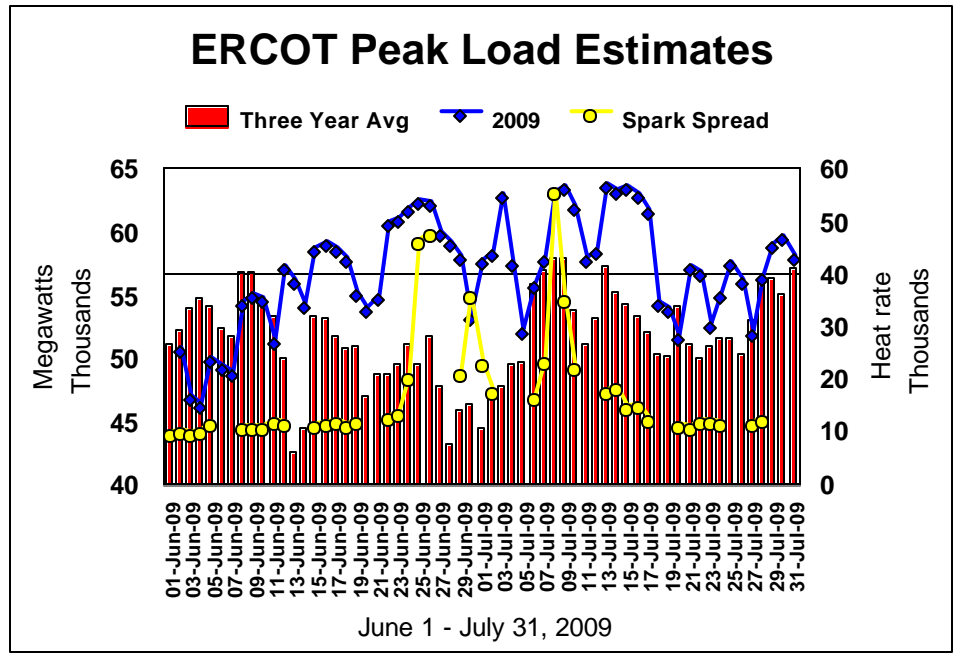
GulfSouth Pipeline completed remediation of anomalies on its East Texas and Southeast Pipeline projects and has received authorization to operate the pipelines at standard pressures.

BP Exploration and Production said today it expects U.S. natural gas prices to remain depressed



in the third quarter basically matching the second quarter values. The company also sees LNG imports keeping a lid on U.S. natural gas prices this year.

Weather forecasters continue to see the Atlantic Basin as remaining quiet for the near term. They note an abnormally dry air mass from Africa extends from 25 degrees north to 10 degrees north. In addition this dry air mass extends all the way into the northern Caribbean helping to suppress any shower or thunderstorm activity.



Samsung said today they expected the results of Shell's tender to build a LNG storage facility with 3.5 million tones per year capacity to be announced in the next few days. The facility is expected to have a price tag of approximately \$5 billion.

Flex LNG said today that it hopes to secure buyers for its new Timor sea project by late 2010 following completion of appraisal well drilling. The company hopes to start producing LNG from the area by

2013, with production of 1.6 million tones per year for 14-15 years forward.

Russian Prime Minister Putin said today that Russia would welcome new investment by GDF Suez in power and gas liquefaction to further build on the partnerships with French companies. This seemed to be another signal that Russia is easing its prior policy of resource nationalism. Resource Minister Trutnev said late last week that Russia could soften legislation on foreign investments to accommodate the new financial realities.

The Conference Board reported this morning that U.S. consumer confidence fell more than expected in July, recording its second consecutive decline as it appeared sentiment remained hampered by a difficult job market. The group said its index stood at 46.6 in July down from 49.3 in June. Market expectations had been for a number around 49.0.

PIPELINE RESTRICTIONS

Panhandle Eastern Pipeline reported that for August 1st through the 31st it will be limiting nominations through the Haven Compressor Station on the 400 Line to 1 Bcf/d to perform required hydrostatic testing and pipe replacement of the 400 line as required by DOT. The company said that this would be considered a force majeure event.

Questar Pipeline said effective for the evening of July 28th it will lift restrictions posted back on June 15th for Questar's Clay Basin. The restrictions had been called due to high inventory. Starting this evening the company will allow nominations for imbalance payback to the pipeline.

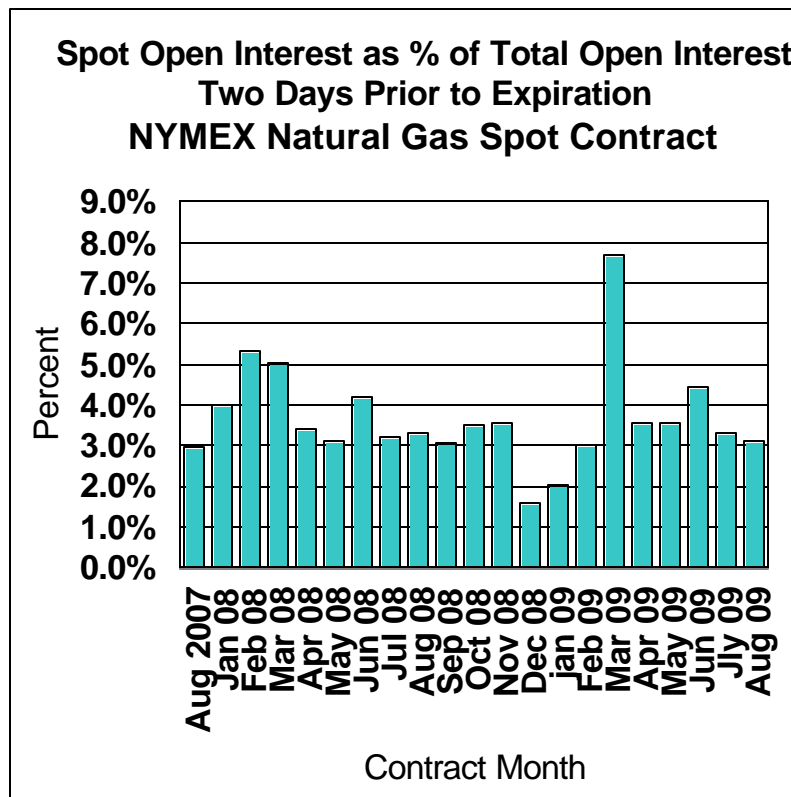
NGPL said capacity is available for gas received in Segment 16 (Arkoma Line) for July 29th and until further notice.

Tennessee Gas Pipeline said for gas day July 28th it has restricted Carthage Line Lateral through approximately 66% of secondary out of path service nominations pathed on the line. The company also restricted through approximately 73% of supply to market secondary out of path nominations pathed for delivery to the Leidy Meters.

ELECTRIC MARKEY NEWS

The FERC last week approved removing a provision that automatically locks some electricity resources out of the real time energy imbalance services market in the Southwest Power Pool if they fail to follow six consecutive dispatch orders. Additionally the FERC accepted SPP’s proposed tariff sheets that would further integrate demand response resources into its real time energy imbalance market, effective April 25, 2009.

The American Wind Association said today that new installments of U.S. wind energy in the second quarter of this year fell by more than half from the first quarter. New installations totaled about 1210 Mw in the second quarter compared to 2790 Mw in the first quarter. The group saw the impact of the recession on the industry. The group noted that wind power supply chain companies have stopped hiring or have furloughed employees due to the slowdown in contracts for turbines. The trade group estimated that the U.S. now has some 29,440 Mw of wind generating capacity.



Coal supplies at U.S. power plants grew 0.5% this week from last week and are 28% greater than the same week a year ago.

MARKET COMMENTARY

The natural gas market today finally broke out of its inside trading pattern of the past two days but despite firmer cash values at most trading points the futures market headed lower helped in part by weakening crude prices and equity values as the consumer confidence index came in lower than expected. The market bottomed out at midday and then began to recover in the afternoon session as the equity market showed some resilience. It also appeared that given the sizable open interest in the \$3.50 put that there may have been some support or defense of

this market from settling below this strike and placing it in the money.

We remain bearish on this market and we do not look for a significant move tomorrow given the relatively modest level of open positions left in tomorrow’s expiring August contract. But we continue to be ready for any quick price spike to be a seller of this market. Basis the September contract we look for resistance at \$3.835-\$3.87 followed by \$3.94, \$4.04 and \$4.261. Support we see at \$3.609, \$3.50, \$3.40-\$3.366. More distant support we see at \$3.25-\$3.227.

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