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NATURAL GAS & POWER MARKET REPORT FOR JULY 31, 2009

NATURAL GAS MARKET NEWS

Chevron's exploration chief said today that the company plans to pull down all of its active natural gas rigs operating in the Lower 48 states by the end of the year. The company reported today that its U.S. domestic natural gas production in the second quarter reached just 1.398 bcf/d, down 12.2% from the same time a year ago. It noted that most of this decline was associated with normal field declines, assets sales and the hurricane effects. Sales of natural gas in the United States was 5.721 bcf/d down 25% from the same period a year ago. Meanwhile Chesapeake Energy and Southwestern Energy reported that their natural gas output in the second quarter rose.

Generator Problems

PJM – Constellation Energy has reduced its 835 Mw Calvert Cliffs #2 nuclear unit to 85% of capacity.

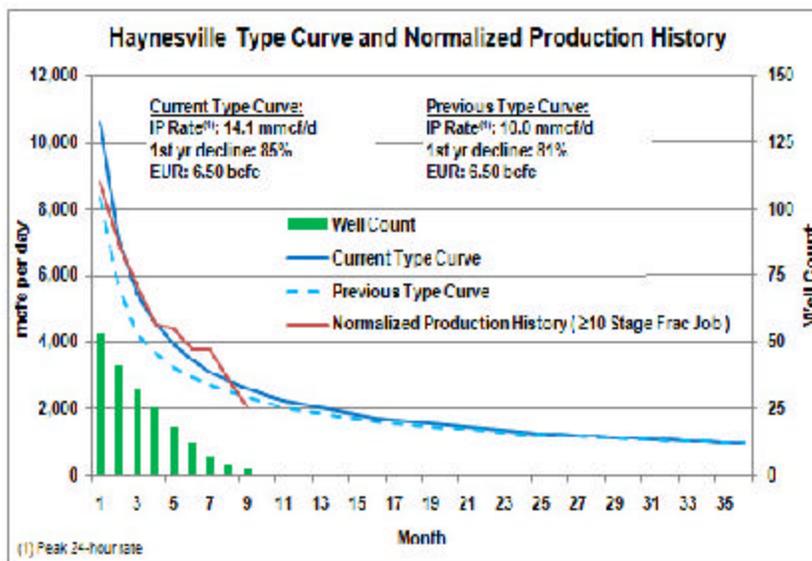
MISO – Exelon's 1152 Mw Braidwood#2 nuclear unit was shut early Friday morning after the unit tripped off line on Thursday evening.

DTE's 1122 Mw Fermi #2 nuclear unit was sat 93% capacity down from full power.

NPPC – OPG's 494 Mw Lambton #1 coal fired unit returned to service this morning following a two day outage.

The NRC reported this morning that 94,882 Mw nuclear generation capacity was on line, down 1.2% from yesterday and down 3% from the same time a year ago.

Chesapeake reported that its 2Q09 production rose 4% from the first quarter and was up 5% from a year earlier. These production increases came despite the company instituting a voluntary production curtailment due to low prices that averaged 74 MMcf/de during the second quarter. The company reported that it is currently not curtailing production, but may do so again later this summer or fall as market conditions dictate. The company also expects that rising pipeline and gathering system pressures during the next few months will likely result in involuntary natural gas production curtailments across the industry. The company's production gains were led by gains in shale plays. In the Barnett Shale where Chesapeake is the second largest producer and the most active driller,



2Q09 production averaged 650 mmcf unchanged from the first quarter but up 40% from a year ago. The company expects production there will reach 750 mmcf by the end of this year. In the Haynesville shale play which produced 135 mmcf up 85% from the first quarter and up 865% from the 2Q08. The company anticipates this region's production reaching by 275 mmcf by year-end. While production from the Marcellus shale play is much more modest averaging 30 mmcf in the 2Q09, this is expected to reach 80 mmcf by year-end and 200 mmcf by the end of 2010.

Southwestern Energy said its second quarter production surged some 65% over the same period in 2008. The company noted that its development of the Fayetteville Shale play was a significant contributor to its gains. Its gross operated production reached 1 bcf/d in July versus 500 MMcf/d a year ago. The company though is looking for production to decline in this region to 650 MMcf/d once the repairs and maintenance to the Fayetteville Lateral which is expected to begin in September and last 1-5 months. The company noted that commodity hedging increased its average gas price by \$2.11 per MCF during the second quarter versus a \$1.83 decrease a year ago.

The Energy Information Administration reported this week that total natural gas production in the United States during May fell 1.1% from the prior month to 57.5 bcf/d, but was still 2.9% higher than the level recorded in May 2008. But the EIA also revised upward its estimated for domestic production for the January-April period as well, On the consumption side the agency estimated daily consumption was at 48.3 bcf/d some 5.1% less than the same month a year ago. While electric power generation demand for natural gas was up nearly 9% from May 2008, the commercial and residential sectors demand for natural gas was off 9.5% and 11.3% respectively from a year ago, while industrial demand was off 14.6%. On the import side, total imports in May reached 7.6 bcf/d down 3.2% from the prior month but 6.3% higher than May 2008. LNG imports in May are estimated at 1.57 bcf/d some 0.3 bcf/d less than April but 57% higher than the same time a year ago.

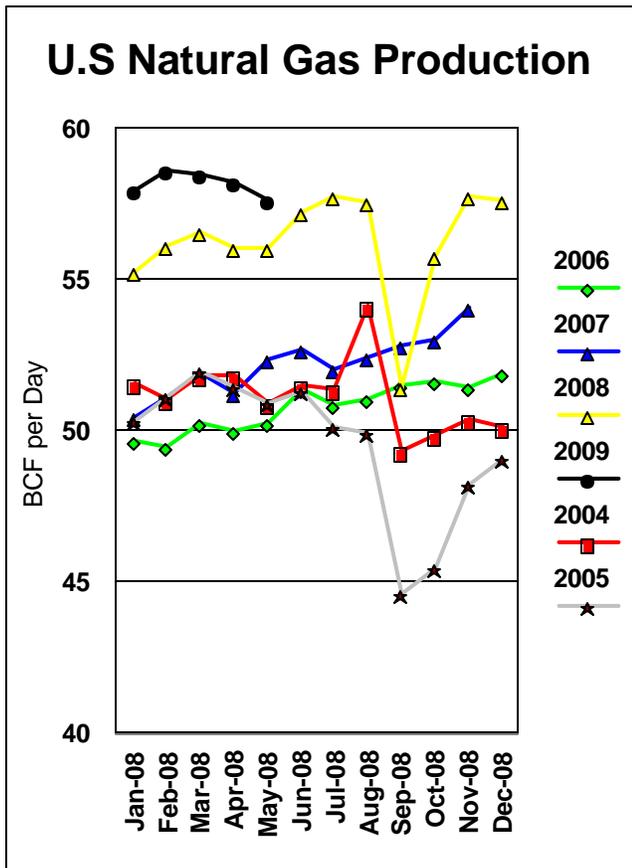
The EIA reported late yesterday that U.S. coal production for the week ending July 25th stood at 21.111 million short tons, up 2.1% from the prior week and 7.7% less than the same week a year ago. Year to date U.S. coal production is off 5.8% from a year ago.

The United States Natural Gas Fund LP said it plans to reduce its gas futures trading positions to comply with new limits placed by ICE on holdings in the Henry Financial LD1 Fixed Price contract traded on ICE after the CFTC determined the contract will be subject to reporting requirements. The ETF manager noted ICE notified it back on July 27th of the upcoming requirement. UNG said it may use alternative investments to meet its investment objective, including total return OTC swaps that are intended to provide the economic equivalent of the return from ownership of the benchmark futures contract. UNG said that if the UNG's general partner determines that the fund cannot meet its investment objective by investing in the available investment alternatives, it may reject requests for the issuance of additional units in the fund until it determines that appropriate investments are available. Earlier this week UNG did reduce its ICE swap position by 26.950 lots and moved the position into a counterparty OTC swap.

Bentek Energy said in a research note that as it had expected, the near completion of the Rockies Express Pipeline has begun displacing southern natural gas production with cheaper sourced natural gas supplies from the Rocky Mountains.

Baker Hughes reported today the number of rigs searching for natural gas in the United States for the week ending July 31st stood at 677 up 2 this week and was the second consecutive weekly gain. While modest, Baker Hughes has not seen the rig count increase for two consecutive weeks since August of last year.

Apache Corporation reported Thursday that its recent natural gas drilling results in British Columbia's Horn River Basin show more promise than initially estimated. The company now projects the potential recovery for individual horizontal wells at an estimated 10 bcf.



The Atlantic Basin remains quiet with little threats from any tropical weather systems possibly all the way through the end of next week. While some tropical disturbances have begun to move off the coast of West Africa, these systems immediately are choked off by the continued existence of dry dusty air in the western African region offshore. AccuWeather long-term forecasts are pointing to the potential for an upswing in tropical activity in the Atlantic basin during the August 10-25, but then could see this activity again dramatically reduced in late August and early September. Eartsat today revised downward its outlook for the number of named storms this hurricane season from 11 storms to now just 8 storms. It sees four hurricanes down 1 from its prior forecast, with just 1 becoming a Category 3 or higher.

EarthSat said today that it expects most of the United States; except for the Southwest through August 9th should see below normal temperatures.

The Midcontinent Express Pipeline has gained approval from the FERC to place in-service the final portion of the pipeline from Delhi to Transco Station 85 for August 1st.

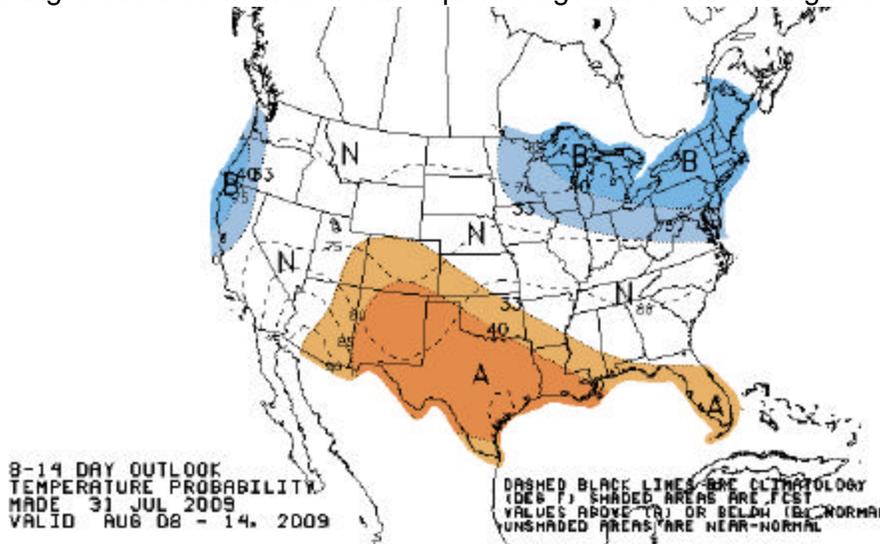
The Commerce Department announced today that it was revising downward its estimate for the contraction of the U.S. economy in the U.S fourth quarter of last year from a 0.8% contraction to now estimated a 1.9% decline. The Commerce Department also reported that the economy contracted 6.4% in the first quarter of this year, a much larger decline than the previously reported 5.5% decline. For the second quarter of this year the government estimated that GDP fell an annual 1% rate.

The Economic Cycle research Institute reported that its measure of future U.S. economic growth climbed higher on the week to 119.6 from 118.3 reported for the prior week. The index's annualized growth rate continued to soar, reaching a five year high of 8.8%. It was the highest yearly growth reading since October 3, 2008.

The IMF said today the sharp contraction in the U.S. economy "seems to be ending" but recovery will be slow with risks still looming for the weak labor and housing markets. It continues to see the U.S. economy declining by 2.6% in 2009 and growing by 1% in 2010.

In order to fill its project of linking offshore gas fields around the Pacific island of Sakhalin with the port of Vladivostock, Gazprom will need to secure gas. Russia has been pushing hard on ExxonMobil Corp in order to secure gas for the new pipeline. It hopes to conclude these talks over gas supplies by the end of the year. This comes after Prime Minister Vladimir Putin called for domestic energy needs to take

priority over exports. The pipeline will initially have capacity for 6 billion cubic meters of gas per year, rising to about 30 bcm after subsequent stages increase its length to 1,800 km.



North West Shelf sold by tender four cargoes of LNG at slightly below \$5.00 per Mmbtu for loading between October and November. South Korea's GS Caltex has bought by tender two cargoes of LNG for December delivery.

Reuters reported that China was expected to take delivery of a cargo of LNG from Russia's Sakhalin terminal over the next several days.

The Australian firm Origin Energy, and its partner ConocoPhillips said they were progressing in gas sales talks for its proposed Australia Pacific LNG project. The project would be supplied by coal seam gas in northeastern state of Queensland.

The Russian oil major TNK-BP Holding said that it plans to produce 12.1 billion cubic meters of natural gas in 2009, up 3.3% from 2008, a year in which its natural gas production grew by 125.6%.

According to Belgium port authorities, Reuters reported that four Qatari LNG tankers are expected to make delivery of LNG into the Zeebrugge terminal over the next two weeks.

PIPELINE MAINTENANCE

NGPL said it has changed the dates for Phase 1 and 2 maintenance projects on Segments 13 and 14.

PIPELINE RESTRICTIONS

SONAT said it expects storage requirements to be within firm injection entitlement for the weekend. The company is not expecting any interruptible storage service injections until further notice.

El Paso Natural gas said the probability of declaring a Strained Operating Condition or Critical Operating Condition has been set to high due to a high line pack condition.

Tennessee Gas Pipeline said it will accept increases for nominations sourced from meters located on the Carthage Line Lateral.

ELECTRICITY MARKET NEWS

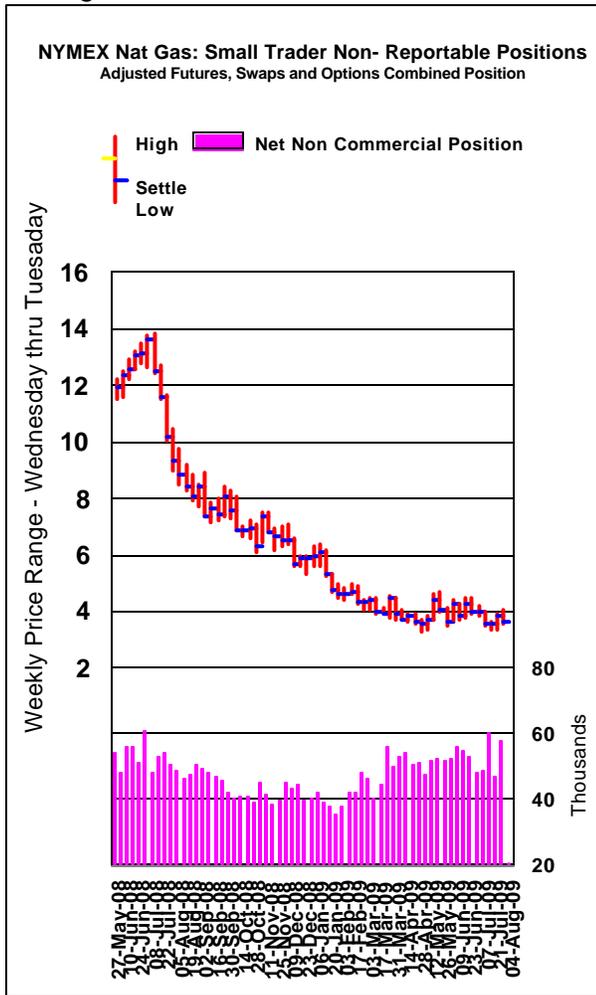
Genscape reported that U.S. coal consumption this week rose 7% from the previous week but was 10% less than the same week a year ago.

The EIA said it expects to release a comprehensive analysis of Waxman-Markey climate bill that was passed by the House of Representatives sometime during the first week of August.

Maryland regulators extended their consideration of the Constellation and EDF nuclear business merger until September 17th.

MARKET COMMENTARY

Despite oil prices trading and settling substantially higher today, the natural gas market languished in negative territory, as several earning reports coupled with no weather threats, and the news that the UNG natural gas ETF was going to be in a possible position to wind down some of its position levels kept the bulls on the sidelines. The market posted its third inside trading session out of the last six trading sessions.



We continue to be bearish on this market for the next couple of months but would not look to be in a rush to sell this market at these levels but rather look for a spike higher towards \$4.00 price level to be a seller once again. In fact we would look to once again take profits on the October-January natural gas spread as it has once again moved back to the \$1.70-\$1.75 October discount that has been our target for the past two moves from \$1.60-\$1.55.

We see support starting next week starting at \$3.568 with more significant support at \$3.483-\$3.46. Additional support we see at \$3.366 and \$3.227. Resistance we see at \$3.769, \$3.821, \$3.87 and \$4.405.

This afternoon's Commitment of Traders Report showed the continued trend of commercials increasing their net short position while non-commercial reportable traders increased their net short position. While both these groups saw their net position grow as a result a reduction in their gross positions, the small spec group though saw its total gross position grow as well as its net long position grow on the week as they added some 10,000 new longs to their position despite the expiration of the options and futures earlier in the week.

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