



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR AUGUST 3, 2009

NATURAL GAS MARKET NEWS

Prices on the natural gas futures market spiked on the NYMEX's Globex trading platform this morning; at 9:03 EDT prices were at \$3.749 only to see the September futures price spike to \$4.162 in less than two minutes as 6,400 contracts changed hands in an apparent order entry mistake. Within a minute, prices had retraced 30 cents of this price move.

The tropical Atlantic Basin remains very quiet today with the only area of interest being a disturbance that is southwest of the Cape Verde Islands. Since this system currently is moving in a southwest direction it is avoiding interaction with the dry dusty air in the region that would repress development. Currently the GFS, Canadian and UKMET models all forecast that this disturbance should see additional development as it moves towards the northern Leeward Islands by this weekend. Also the long range GFS model is forecasting an increase in tropical activity in mid-August. The model is currently calling for four areas of interest by August 17th.

Anadarko Petroleum, the operator of the Independence Hub natural gas production platform in the Gulf of Mexico, said the platform was operating at near normal production volumes on Monday despite market rumors to the contrary. The company said the platform was producing on average 780 Mmcf/d, just under its 900 Mmcf/d normal output.

Generator Problems

FRCC – FPL's 839 Mw St. Lucie #2 nuclear unit was at full power on Monday, up from 62% power posted on Friday.

ERCOT & SPP – NRG Energy's 864 Mw Limestone #2 coal fired unit was taken out of service on Saturday for repairs to an air preheater. The 836 Mw sister unit was taken offline early Monday to repair a tube leak. The units are expected to be back on line by the end of the week.

NPCC – OPG's 490 Mw Nanticoke #2 coal fired power station returned to service by early Monday. The unit has been shut down on Thursday.

OPG's 535 Mw Lennox oil and gas fired unit #4 returned to service early Monday after a week long outage.

The NRC reported this morning that 95,390 Mw nuclear generation capacity was on line, up 0.5% from Friday and down 2.6% from the same time a year ago.

Natural Gas Cash Market

ICE Next Day Cash Market

Location	Volume	Avg	Change	Basis	Change	Basis 5-Day
	Traded	Price		(As of 12:30 PM)		Moving Avg
Henry Hub	976,100	\$3.431	\$0.090	(\$0.540)	(\$0.210)	(\$0.241)
Chicago City Gate	537,800	\$3.442	\$0.163	(\$0.529)	(\$0.206)	(\$0.226)
NGPL- TX/OK	767,300	\$3.329	\$0.114	(\$0.642)	(\$0.255)	(\$0.326)
SoCal	353,700	\$3.404	\$0.190	(\$0.567)	(\$0.179)	(\$0.273)
PG&E Citygate	509,400	\$3.633	\$0.142	(\$0.338)	(\$0.228)	(\$0.037)
Dominion-South	333,100	\$3.600	\$0.067	(\$0.371)	(\$0.302)	\$0.019
USTRade Weighted	17,412,900	\$3.411	\$0.159	(\$0.560)	(\$0.21)	(\$0.241)

Marathon Oil said today that it has completed drilling all four-development wells on the deepwater Gulf of Mexico Droszky project, but it has suspended onshore spending because of the lower natural gas price.

The FERC Monday upheld a March order rejecting ANR Pipeline's request to recover the cost associated with natural gas lost during Hurricane Ike via its annual fuel tracker mechanism.

The United States Natural Gas Fund LP, the most popular natural gas ETF, said today it is still awaiting approval from the SEC to issue new shares. The fund said it still had not "heard anything yet" from the SEC despite rumors in the market that the fund may have been granted permission to expand the number of shares on offer. The fund filed with the SEC on June 5th for permission to issue up to 1 billion new units, adding to its previously approved 200 million units. The SEC had no comment Monday.

The Natural Gas Supply Association called on the FERC to work with the industry to address areas that need further clarification and to use the new Form 552 to raise awareness about efforts to increase market transparency and integrity. The trade group noted that more than 1000 natural gas market participants filed a Form 552 by July 1st of this year and it was able to quantify the approximate size of the physical gas market. The data shows that both index priced and fixed priced transactions make up the market in varying combinations. The group called on the FERC to create a forum to allow for continued dialogue with the industry to address the areas of concern. The association asked the FERC to consider extending the "safe harbor" policy to protect respondents from inadvertent errors while the commission and industry work on the necessary clarifications.

The Midcontinent Express Pipeline began service August 1st on the final leg of its gas transportation system from Delhi, Louisiana to Transco's Station 85 in Butler, Alabama.

The Institute of Supply Management released their composite manufacturing activity indicator today and it stood at 48.9 an improvement for the seventh consecutive month. But the report still showed a small contraction was still taking place in the American economy although a much smaller one. Economists looked at the report as a sign that the manufacturing index has gotten closer to stabilizing. The group felt that the index by next month could finally cross over the 50 demarcation point. But the chair of the ISM manufacturing business survey noted that the data may appear to be more positive than comments coming from the membership, which noted they are having a "tough time" and "they do not feel like there is a strong rebound coming."

The European Union said today that Europe is less likely to suffer shortages of Russian gas this winter after the Ukraine signed an agreement with the European Bank for Reconstruction and Development, The World Bank, the European Investment Bank and the European Commission. The groups will look to loan the Ukraine as much as \$1.7 billion to support the overhaul of its natural gas industry and increase the security of gas supplies from Russia.

National Grid said it is considering a fourth phase expansion of the of the LNG terminal at the Isle of Grain facility. The third phase expansion of the terminal is scheduled to be completed at the turn of 2010 and 2011, boosting import capacity to about 20% of Britain's total gas demand from 12%.

A cargo of LNG from Algeria is expected to arrive at the Isle of Grain terminal late Monday.

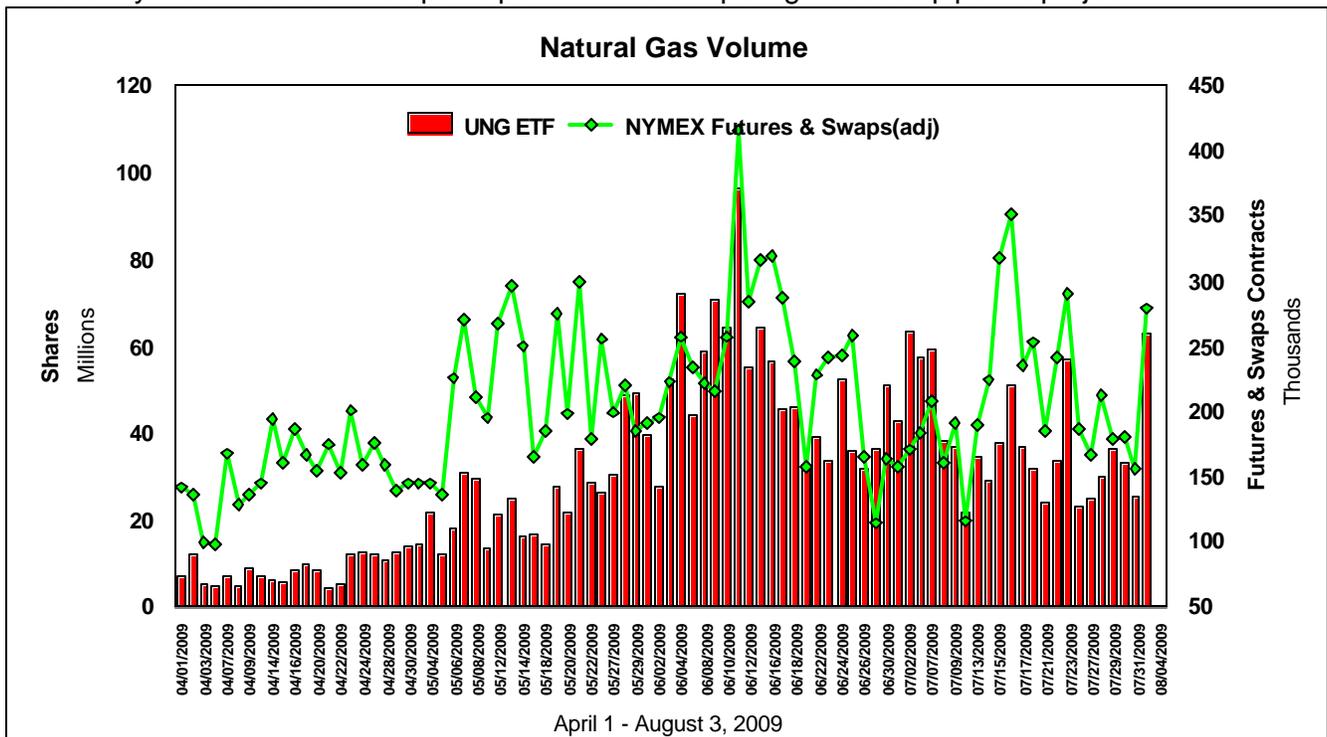
The Italian power company, Edison SpA said it expects its first commissioning cargo for its Adriatic LNG import terminal to arrive this week from Qatar. The company expects the 8 billion cubic meter terminal to start full commercial operations in the fourth quarter of this year. The company had originally planned for a mid-year start up.

BP said it plans to shut down LNG production at its Tangguh plant in Indonesia this month for “a number of weeks” to resolve problems from the initial startup. The plant started up operations on July 6th. Operators still plan to start up the plant’s second train during the third quarter.

Russian natural gas production rose 10.7% in July versus June, with Gazprom’s production up 12.8%.

The UK-Belgium gas Interconnector pipeline switched to UK import mode on Monday. The pipeline has been in primary export mode to Belgium since early March.

Bulgaria said it will push ahead with the South Stream gas pipeline project but has yet to decide whether or not to abandon the Belene nuclear power project. The government said that while it has signed an agreement with Gazprom over the project, disagreements remain over the route and ownership of the proposed pipeline in Bulgarian territory. In addition the Bulgarian energy minister said the country would also continue participation in the competing Nabucco pipeline project.



ELECTRICITY MARKET NEWS

Genscape reported this morning that it estimates U.S. power production last week rose by 3.6% from the week before but was still 3.34% less than the same week a year ago.

MARKET COMMENTARY

The natural gas market spiked higher this morning in an apparent order entry glitch. But while the market initially gave back most of its gains, the market reversed the downward correction and began to grind higher through the morning and early afternoon helped by surging equity markets and keen global buying interest in commodities as the dollar fell to new low for 2009. Volume today was outstanding in both the Henry Hub futures and swaps and the natural gas ETF. The combined and adjusted volume in the NYMEX Henry Hub contracts saw over 279,000 lots traded on the day, the highest volume day since July 23rd, while the UNG natural gas ETF, really saw an explosion in volume of nearly 63 million shares, the biggest one day traded volume since July 2nd. This volume in the ETF is what sparked speculation that the US Natural gas Fund may in fact had received SEC approval finally.

We continue to remain bearish on this market over the intermediate term and view today's price spike as the opportunity to begin being a scale up seller of this market once again above \$4.00. We see initial resistance at today's high of \$4.162 followed by \$4.20, \$4.261 and \$4.402. Support we see at \$3.893, \$3.811 and \$3.728. More distant support we see at \$3.618, \$3.459 and \$3.366. With our exit of the October-January spread late last week we would again look to be a seller of the October 2009 versus the January 2010 contract if the October's discount rebounds back to \$1.60-\$1.55 discount once again.

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