



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR AUGUST 11, 2009

NATURAL GAS MARKET NEWS

The National Hurricane Center this morning announced the season's second tropical depression has formed over the far eastern Atlantic Ocean some 280 miles west of the Cape Verde Islands. Forecasters were expecting the system to further strengthen and become a tropical depression in 1-

Generator Problems

NPCC – Entergy's 1025 Mw Indian Point #3 nuclear unit tripped off line on Monday evening after a thunderstorm caused a generator trip.

WSCC – PG&E's 1122 Mw Diablo Canyon #1 was at 97% capacity up 12% from yesterday.

The NRC reported this morning that 95,418 Mw nuclear generation capacity was on line, down 0.9% from yesterday and up 1.4% from the same time a year ago.

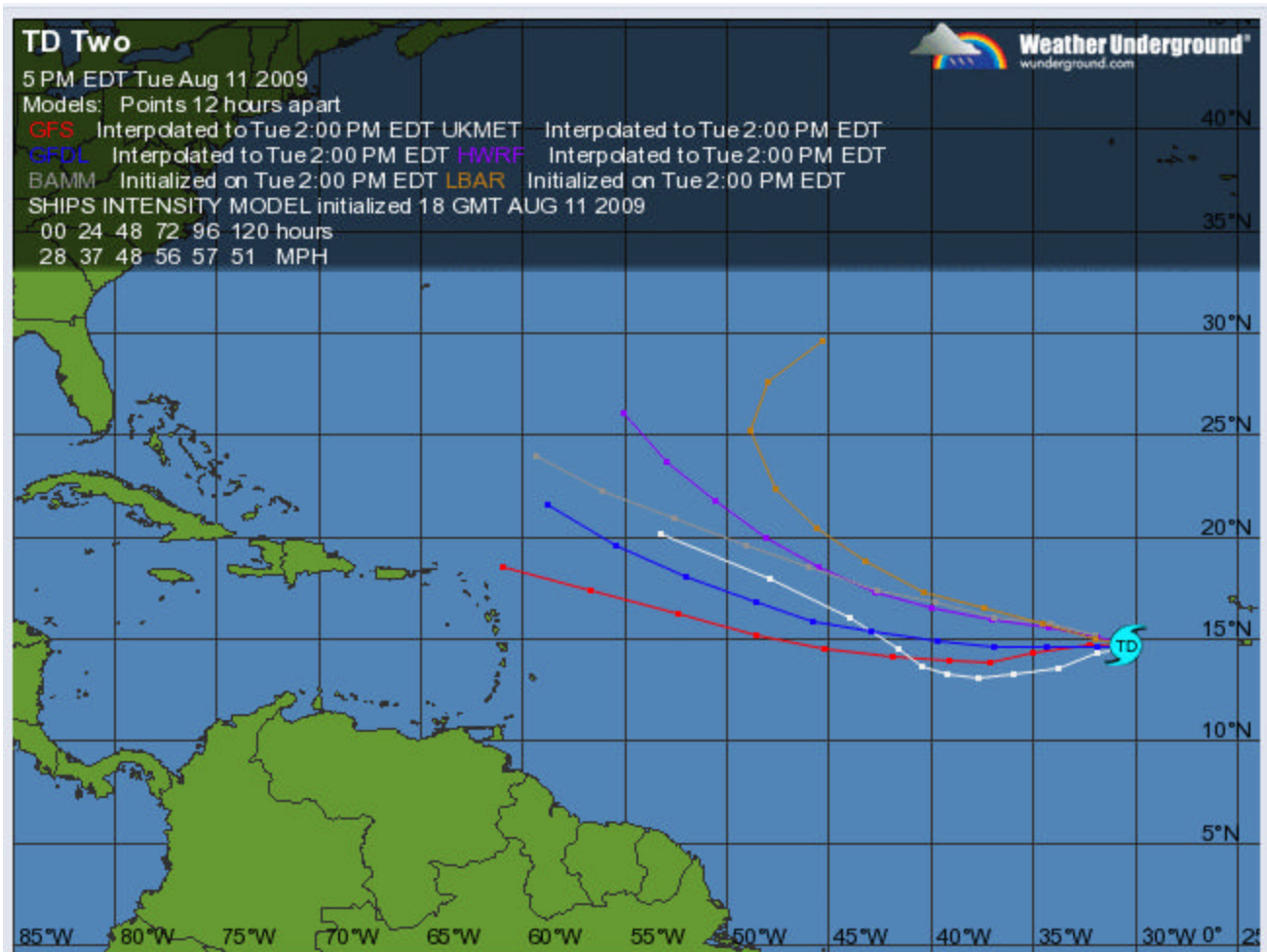
2 days. But the proximity of dry air from the Saharan Air Layer to the system's northwest and the expectation of wind shear conditions in the next several days as the storm moved westward should keep the system from developing significantly. Early this morning the models had this storm moving out to sea once it reached the Leeward Islands. But by midmorning the track guidance had been revised and now forecasters were looking for the storm moving more in a northwesterly track possibly towards the Bahamas and the U.S. East Coast. Forecasters though continue to watch a tropical disturbance now emerging into the far eastern Atlantic off the coast of Africa. All the computer forecast guidance has been very consistent in developing this system into a formidable storm by next week. Both the GFS and the European models are forecasting this disturbance to be a formidable hurricane with a possible threat to the Leeward and Windward Islands by the middle of next week. Meanwhile AccuWeather forecast Joe Bastardi noted this morning that while there may be two to three named

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	854,700	\$3.540	(\$0.012)	(\$0.037)	\$0.050	(\$0.156)
Chicago City Gate	484,300	\$3.530	(\$0.035)	(\$0.047)	\$0.096	(\$0.111)
NGPL- TX/OK	580,200	\$3.426	(\$0.014)	(\$0.151)	\$0.117	(\$0.224)
SoCal	342,600	\$3.429	(\$0.112)	(\$0.148)	\$0.019	(\$0.169)
PG&E Citygate	643,000	\$3.654	(\$0.156)	\$0.077	(\$0.025)	\$0.069
Dominion-South	239,100	\$3.700	(\$0.090)	\$0.123	\$0.041	\$0.026
USTRade Weighted	16,450,200	\$3.477	(\$0.081)	(\$0.100)	\$0.05	(\$0.156)

storms in the Atlantic basin by August 25th, there may be only another two or three named storms recorded in September in this area as a result of seeing changes in the Southern

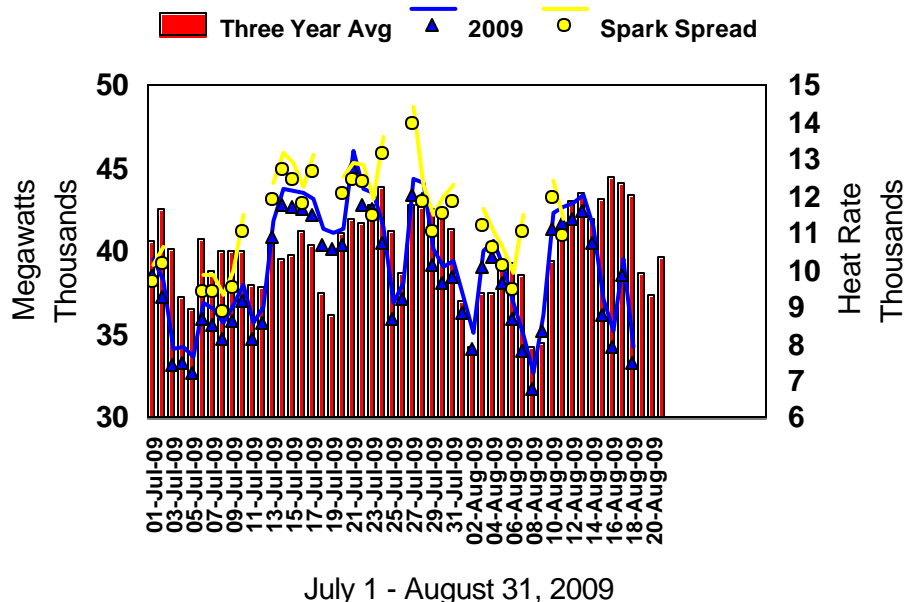
Oscillation Index (SOI). But while most forecasters are looking past the two tropical disturbances currently near the Windward Islands and 600 miles east of the Lesser Antilles, he does see that these could pose a slight risk to the Gulf of Mexico if any development begins to be shown.

The Energy Information Agency released their latest Short Term Energy Outlook today. The agency sees domestic natural gas consumption in 2009 contracting 2.6% from 2008, primarily due to a sharp



drop in industrial consumption. This was a reduction of 0.5% from last month's estimate. Consumption in 2010 was pegged at 62.09 bcf/d a 0.03% increase over last month's estimate. Meanwhile the EIA

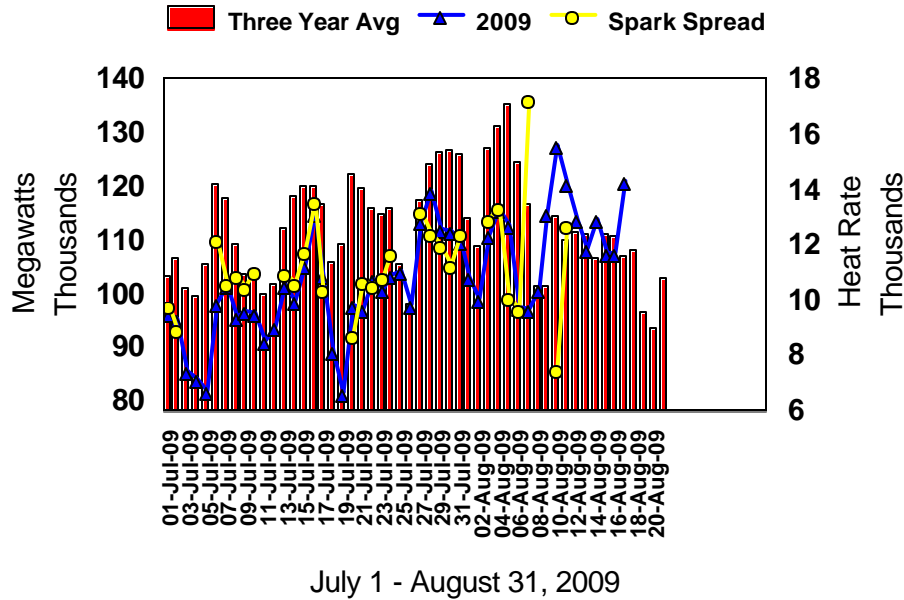
Cal ISO Load Estimates Vs Spark Spread



estimates that domestic production of natural gas this year should average 58.65 bcf/d up from 0.1% from last year and some 0.7% better than last month's estimate. The agency now looks for U.S. domestic production to fall by 2.8% next year. Imports this year are expected to average 10.46 bcf/d down 3.9% from last year and will rebound next year to 10.98 bcf/d. LNG is seen as the main driver for the increase in imports. LNG imports this year are expected to reach 1.38 bcf/d up nearly 44% from last year and are expected to grow again next year reaching 2.03

bcf/d. The EIA has also lowered their price estimates for natural gas. It now sees the 2009 average gas price at Henry Hub reaching \$3.92 per MCF down 30 cents from last month's estimate and 2010 prices to average \$5.48 per Mcf, down 45 cents from last month's projection.

PJM Peak Load Estimates Vs Spark Spread



Cheniere Energy's Sabine Pass LNG terminal is expected to receive a LNG cargo on August 17th from Trinidad.

Russian President Medvedev accused the Ukraine on Tuesday of seeking to disrupt economic ties with Russia and placing at risk the safety of gas supplies to Europe. As a result Russia is postponing sending its new ambassador to Kiev and that Moscow hoped a new Ukrainian leader due to be elected in January could help improve bilateral ties between the two nations.

Milford Haven port officials said today that two LNG tankers have been rescheduled to arrive at the Dragon LNG and South Hook terminals on August 17th.

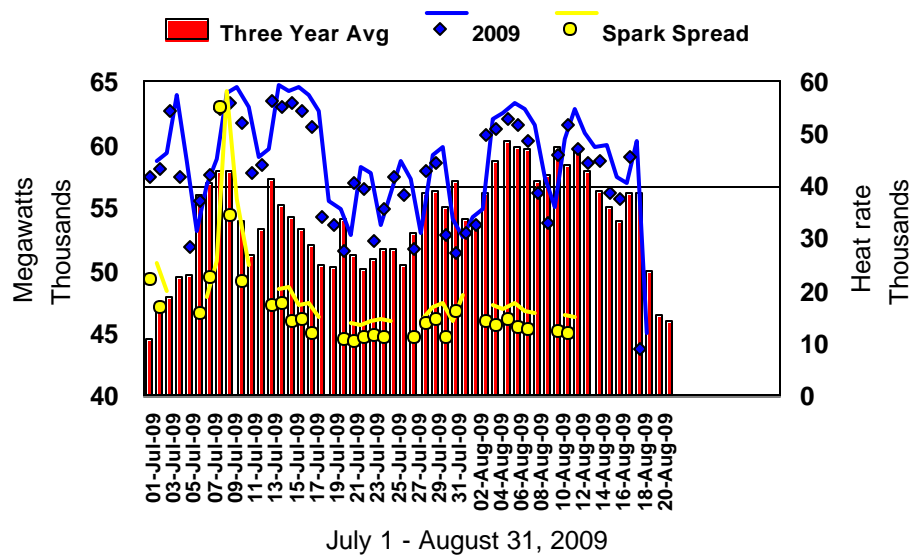
The Interconnector gas pipeline between Britain and Belgium is scheduled to start switching back to UK export mode at 1700 GMT Tuesday August 11th. The line had switched to UK import mode earlier in the day.

The Obama administration reportedly plans to crack down on the OTC derivatives market by requiring financial regulators to supervise the dealers of the bilateral contracts. Banking regulators would oversee derivatives dealers that are banks while securities and futures regulators would supervise other dealers.

PIPELINE RESTRICTIONS

Due to a high line pack condition, El Paso Natural Gas said the probability of declaring a strained operating condition or critical operating condition remains high.

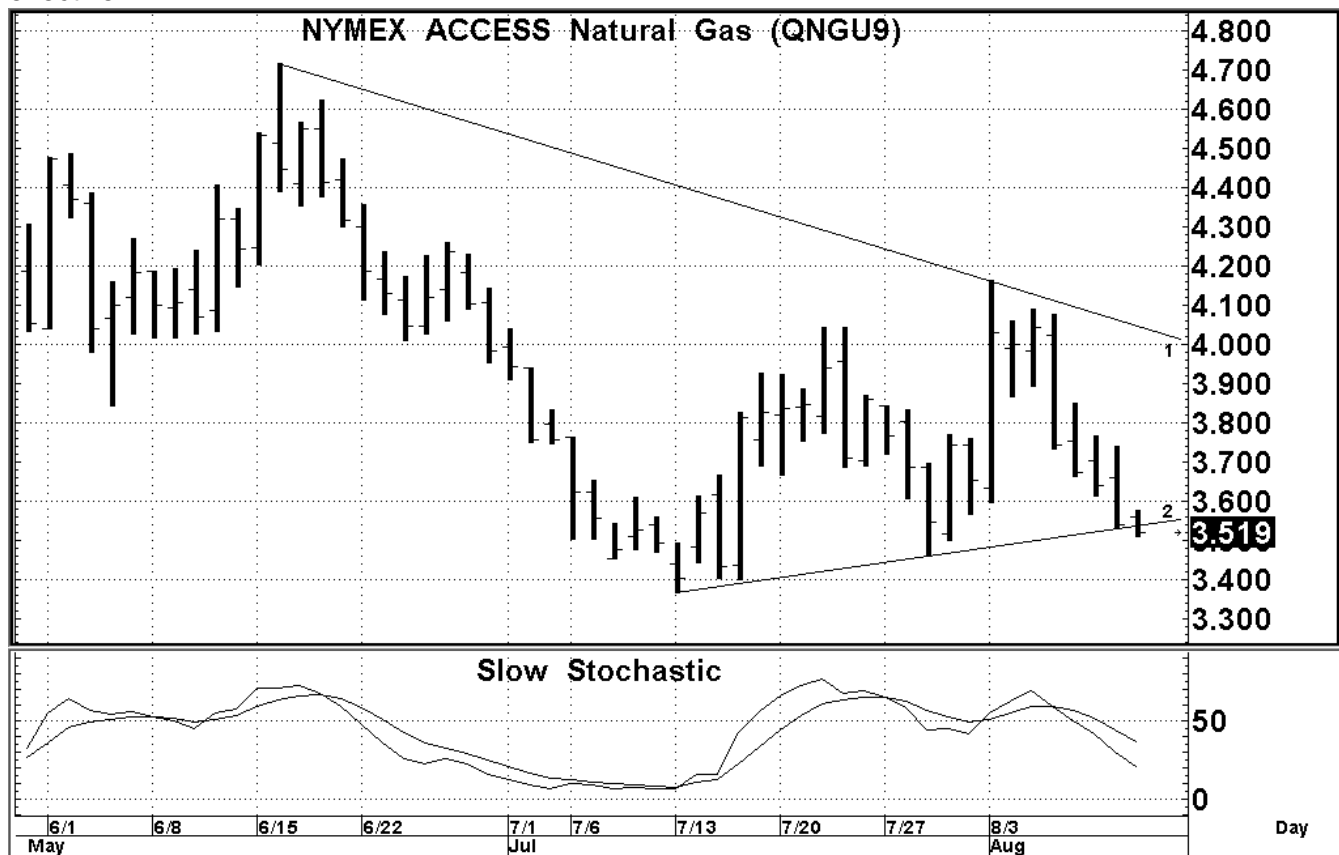
ERCOT Peak Load Estimates



Rockies Express Pipeline said that effective today and until further notice it is at capacity for quantities delivered to PEPL Putnam. Based on the current level of nominations, interruptible storage/authorized overrun and secondary quantities are at risk of not being scheduled.

Tennessee Gas Pipeline said that for August 11th it was not required to restrict any pipeline points or locations.

SONAT said that due to high demand and a decrease in market area supply, it has capacity allocation will be implemented for the following groups: 10, Savannah Line; 164, Albany to Douglas; 165, Tallahassee Line; 166, Albany to Pavo Group; 167, Pavo to Occidental Tap; 168, Occidental to Florida Power; 169, Jacksonville Line and 170, Cypress Line. A capacity allocation will be implemented effective.



ELECTRICITY MARKET NEWS

Genscape reported that U.S. coal supplies at power plants grew 0.07% this week versus last week's levels and were 29.2% greater than the same week of 2008. Generators were estimated to hold 177 million tons of coal or 67 days of forward supply.

The EIA estimates that carbon dioxide emissions from fossil fuels, which fell by 3.2% in 2008, are projected to decline by 5% this year. Lower CO2 emissions from coal account for more than half of the decline.

The EIA's Short Term Energy Outlook calls for total sales of retail electricity to decline by 2.7% in the United States in 2009, with sales to the industrial sector off by 10%. Total power demand is expected to rebound in 2010 by 0.8%. The EIA sees projected electric power sector consumption of coal at 975 million short tons in 2009, marking the first time since 2002 that annual consumption falls below the billion short ton level. U.S. coal production is expected to fall by nearly 8% this year in response to

lower domestic coal demand, fewer exports and higher coal inventories. Production is expected to remain depressed next year, falling by 0.4%.

MARKET COMMENTARY

Despite the formation of the second tropical depression of this year in the Atlantic basin the natural gas market moved lower for the four consecutive sessions. Despite a forecast revision at midday that appeared to be supportive to the bulls the natural gas market remained under pressure, as the weight of lower values in the oil market and equity markets kept the bears in control of this market. Prices though did find support just above the month old trend line today at \$3.529.

It appears that if the crude oil market and the equity market do in fact remain in a short term bearish trend then the natural gas market has no other path than to continue to work lower. But we remain unwilling to jump aboard this train as we enter the heart of the hurricane season. The only avenue we feel is prudent to hold short positions at this time of year is via a put position and would look to establish that on a weather related price spike. We see support tomorrow at \$3.537 followed by \$3.459,\$3.36 and \$3.25

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