



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JUNE 1, 2009

NATURAL GAS MARKET NEWS

Today marked the first official day of the Atlantic hurricane season. Activity in the region though was very quiet with all the computer models forecasting things should remain quiet throughout the week. Next week the GFS and European models are forecasting that convection in the western Caribbean could begin to increase, in response to the MJO wet pulse pushing eastward, so conditions there may become favorable for development at some point. Accuweather this morning reconfirmed its outlook for this season seeing a reduced overall number of storms, but continued to beat the warning drum of warnings of a storm finally striking the U.S. east coast. Accuweather forecasters based their forecast on a reverse of a weak El Nino, higher air pressure in much of the subtropical Atlantic, which should increase dust and dry air moving into the area, as well as increased wind shear conditions along with cooler water temperatures in the deep tropical Atlantic.

The EIA reported that U.S. gross natural gas production in March fell slightly from February levels but remained more than 2% above year ago levels. The agency in its Monthly Natural Gas Production Report showed that "wet" gas output in the lower 48 states fell to 63.28 bcf/d in March, down 0.3 bcf/d or 0.5% from February, but still 1.4 bcf/d higher than the same month a year ago. Oklahoma and Wyoming saw production declines of 4% and 1% respectively, while production in Texas was unchanged at 22 bcf/d. Federal offshore Gulf of Mexico output rose 0.8% from the previous month's output of 6.58 bcf/d

Generator Problems

NPCC - OPG's 535 Mw Lennox oil and natural gas fired Units #3 and Unit #4 were shut early Monday for maintenance. The company also reported that two 490 Mw Nanticoke coal fired power units #3 and #5 returned to service while Unit #4 was shut for maintenance.

Constellation Energy's 610 Mw Ginna nuclear unit was at full power this morning, up 42% from Friday.

Entergy shut the Indian Point #3 nuclear reactor back down on Sunday to work on the control rod system. The unit had been restarted on Saturday and was back to 55% power on Sunday before being shut down,

PJM - PPL's 1150 Mw Susquehanna #2 nuclear unit was at 91% capacity, up 3% from Friday.

FRCC - FPL said its 693 Mw Turkey Point #4 nuclear unit was at full power this morning, up 57% from Friday.

SERC - Operators at TVA's 1118 Mw Browns Ferry #2 nuclear unit discovered a small valve leak that will delay the unit's return from its refueling outage that began in late April.

Progress Energy's 937 Mw Brunswick #2 nuclear unit was at 67% capacity this morning, up just 1% from Friday.

TVA's 1150 mw Sequoyah #2 nuclear unit was ramping back up following its May 27th reactor trip and was at 81% power this morning.

MISO - Exelon's 912 Mw Quad Cities Unit #1 was operating at 28% power this morning following completion of its two-month maintenance outage.

WSCC - APS said its 1270 Mw Palo Verde #3 nuclear unit was at full power this morning up from 21% power recorded last Friday'

The NRC reported this morning that 92,421 nuclear generation capacity was on line, up 2.6% from yesterday and up 2.3% from the same time a year ago.

The National Weather Service over the weekend released an updated temperature outlook for June, and now calls for below normal temperatures over the northern third of the country, with the Gulf Coast now warmer than normal.

The Canadian government reported today the Canadian economy shrank in the first quarter at the fastest pace since 1991, as it contracted 5.4%, but still not as bad as the 6.4% contraction some analysts had feared.

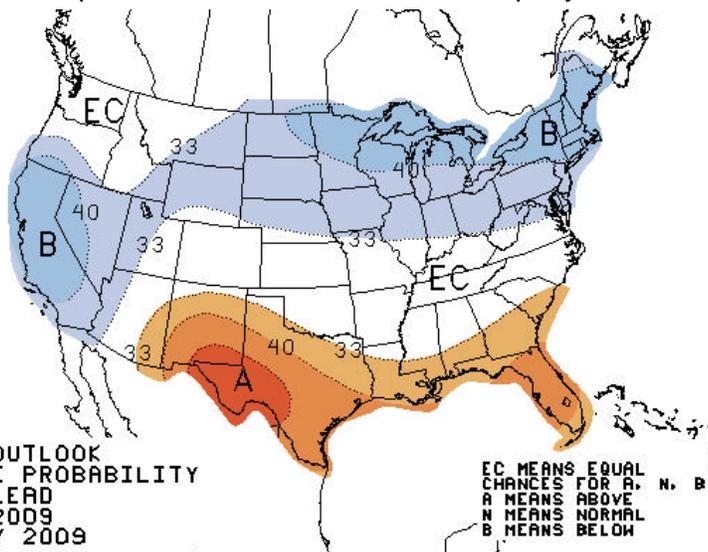
Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	595,600	\$3.863	(\$0.061)	(\$0.189)	(\$0.199)	(\$0.362)
Chicago City Gate	678,600	\$3.671	(\$0.005)	(\$0.381)	(\$0.155)	(\$0.319)
NGPL- TX/OK	673,400	\$3.628	\$0.034	(\$0.425)	(\$0.116)	(\$0.422)
SoCal	337,800	\$3.191	(\$0.111)	(\$0.861)	(\$0.261)	(\$0.672)
PG&E Citygate	862,300	\$3.583	(\$0.058)	(\$0.469)	(\$0.208)	(\$0.348)
Dominion-South	325,400	\$4.081	(\$0.002)	\$0.029	(\$0.152)	\$0.072
USTrade Weighted	17,056,100	\$3.606	(\$0.049)	(\$0.446)	(\$0.20)	(\$0.362)

The US Commerce Department said US income levels increased in April, supported by the economic stimulus package. Personal income increased at a seasonally adjusted rate of 0.5% on the month after falling by a revised 0.2% in March. Personal consumption in April fell by 0.1% on the month following a revised 0.3% decline in March. Personal saving as a percentage of disposable personal income was 5.7% in April, up from 4.5% in March and 4.1% in February.

The US manufacturing sector contracted in May but at a slower rate. The Institute for Supply Management said its index of national factory activity increased to 42.8 from 40.1 in April. The index has been below the 50 level for 16 consecutive months.

Reuters reported that according to ship tracking data services, BP has sent two cargoes of LNG from Trinidad to the Cove Point LNG terminal that should arrive on June 6th and June 9th. Repsol is also reportedly set to deliver a cargo there on June 3rd.

Repsol YFP said today that they are confident of attracting natural gas buyers to its nearly complete Canaport LNG terminal in Canada, despite the current economic climate. The facility is expected to begin commercial operation this July and that gas supply agreements will then be signed with potential buyers. Company officials that despite the recent increase in domestic gas production in the United States and the current poor economic condition, the company feels that its intended markets in eastern



ONE-MONTH OUTLOOK
TEMPERATURE PROBABILITY
0.0 MONTH LEAD
VALID JUN 2009
MADE 31 MAY 2009

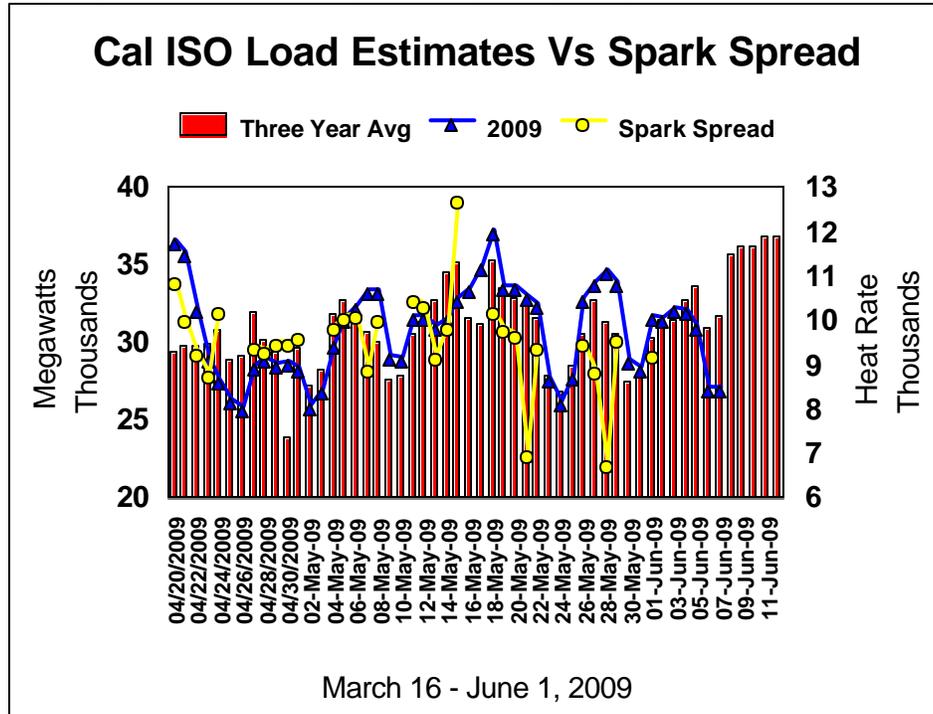
Canada and the northeast United States are largely insulated from these bearish events. Deliveries are expected to ramp up at the terminal with the approach of winter, when the terminal is expected to import 700 MMcf/d. The facility has a design capacity of 1 bcf/d.

New Jersey Natural Gas reported today that it has submitted its annual Basic Gas Supply Service and Conservation Incentive Program with state

regulators and it seeks to decrease residential customers rates by 17.6% effective October 1, 2009.

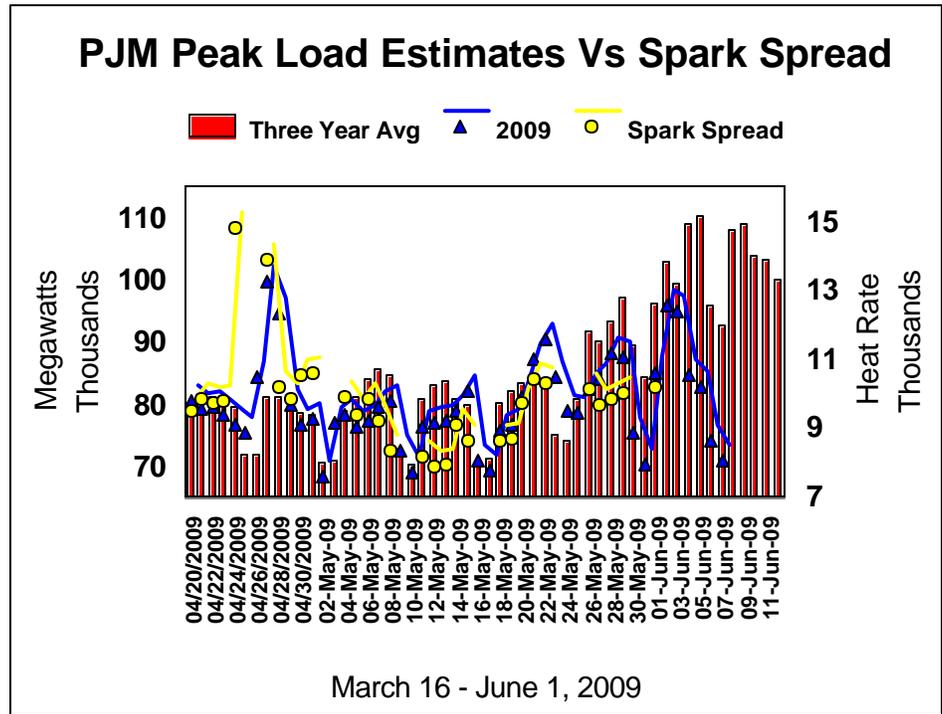
The company noted that as a result of lower gas prices it was able to pass along savings to its customers.

NGS Energy announced it would hold a binding open season for natural gas storage services to be provided by Leaf River Energy Center at a new salt cavern facility located in Smith County, Mississippi. The open season runs from June 1st – June 16th. The storage facility will provide up to 32 bcf of capacity and would offer injection capability of up to 1 bcf/d and a withdrawal capacity of 2.5 bcf/d.



ConocoPhillips said today that global LNG demand will prove strong enough to support the development of the proposed LNG projects in Australia's Queensland state. Conoco's venture with Origin Energy is the biggest of four of the most advanced projects looking to take coal seam gas and process it into LNG. The company hopes to start exports from the \$24.5 billion plant by 2014. Development of the project though still hinges on a final investment decision not due until sometime 2010.

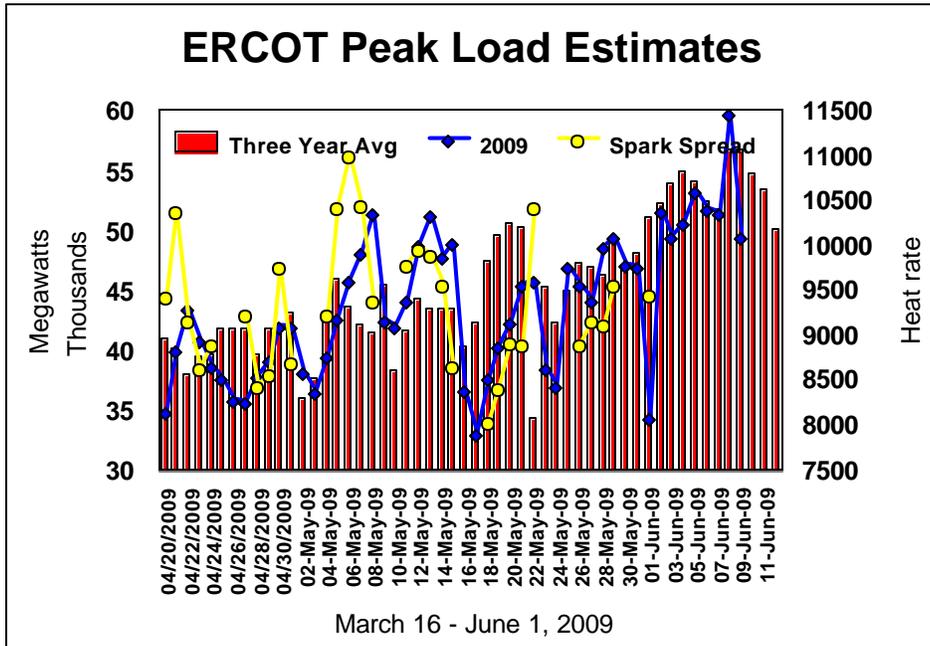
this month a contract to develop Phase 19 of its giant South Pars gas field. Phase 19 would pump around 1.5 bcf/d from a part of the field that is near the border with Qatar. Iran yesterday said it planned to issue \$12.3 billion of foreign currency and rial-dominated bonds over the next three years to help finance the development of South Pars. Total investment for remaining projects at the fields would be around \$50 billion.



Iran expects to announce

The Nigerian National Petroleum Corporation said it is considering expanding its Bonny LNG plant with an addition of a seventh and possibly an eighth train, each with a capacity of 8.5 million mt/year.

The Ukrainian state energy firm Naftogaz said today that it would make payment in full and on time for May's imports of Russian gas. Under the terms of its existing contract, the Ukraine must make its payment by seventh day of the following month.



Abu Dhabi said its sovereign wealth fund is in talks with Gazprom on helping it finance acquisitions by the company of "distressed" assets in the oil and gas sector in Russia and elsewhere in the world.

PIPELINE MAINTENANCE
 Cheyenne Plains Gas Pipeline said capacity will be reduced by 18 MMcf/d from May 30th until July 30th at the Keyes compressor station, as a result of the company taking the #5 engine out of service.

SONAT reported that as of late May 31st its Elba Island expansion work has been completed and Elba has resumed normal operations.

CGT said this morning while there is no OFO in effect for today, a system wide OFO was in effect for June 2nd, with a 5% tolerance.

PIPELINE RESTRICTIONS

Tennessee Gas Pipeline said that effective for today, due to increased nominations in excess of capacity, the company placed a restriction on the Leidy Meters. The company restricted through approximately 97% of Supply to market Evening Cycle nomination increases pathed for delivery at the Leidy Meters.

El Paso Natural Gas said it was declaring a Strained Operating Condition for Pack condition specific to DAPS PHX, IODESAEC and IMSQUITE with imbalance tolerance set initially at 10%. The milder weather in the Arizona area has resulted in high line pack conditions which currently are at 7900 MMcf/d. The company issued the SOC warning on May 31st. The Washington Ranch facility is on maximum injection

ELECTRIC MARKET NEWS

Genscape reported that U.S. power output in the week ended May 28th rose 1.58% from the week before but was 4.09% below the same week of 2008.

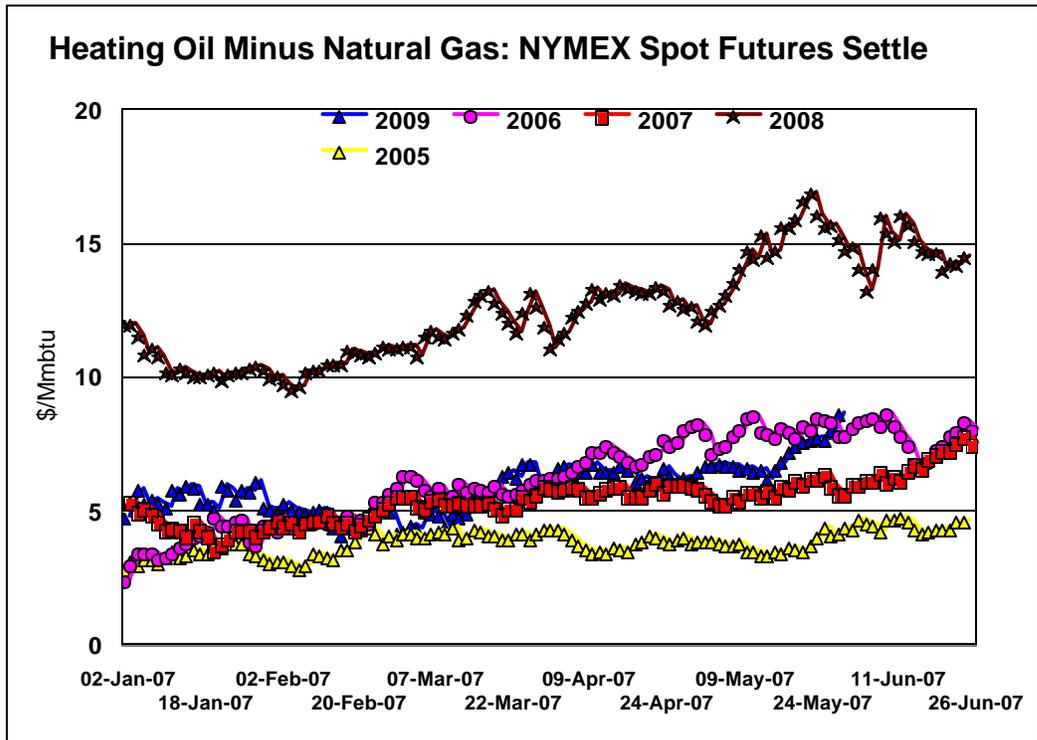
A federal court on Friday ordered Duke Energy to shut down three units at the company's West Terre Haute Wabash River Station no later than September 30th, some two years earlier than scheduled. This would impact 265 mw of coal generating capacity. The court also ruled though that the company will not have to install additional emissions reduction equipment on Units #4 and #6 and Duke Energy will have to surrender sulfur dioxide allowances for the period of May 22, 2008 and September 20,

2009. This amount is significantly less than the government was seeking. The court also reduced the government's proposed fine on the Beckjord Station from \$1.32 million to \$687,500.

AEP issued an RFP for 1100 Mw of renewable energy in PJM and SPP

MARKET COMMENTARY

The natural gas market continued its rally today as it appeared more speculative money flowed into the commodity markets as the dollar fell and manufacturing in China and potentially the U.S. appeared to be showing signs of life. While the natural gas market did break above



Friday's high for a short period of time early this morning it failed to gain any traction and follow through buying until this afternoon, when heating oil blew out. As natural gas followed the oil markets higher it did not pause until it achieved a 62% retracement of the May sell off. The rush to commodities we feel is evident in the natural gas ETF which saw outstanding volume again with approximately 40 million shares traded on the day, more than 3 times its three month moving average of traded volume.

But despite the ability of this market to move 70 cents in three short trading sessions, we cannot believe in it and rather continue to look at the weather forecasts coupled with storage overhang, as a warning for lower prices will eventually to return. We see resistance tomorrow at \$4.26 followed by \$4.39 and \$4.532 with major resistance at \$4.577 and \$4.657. Support we see at \$3.97 followed by \$3.926, \$3.824-\$3.79 and \$3.68. Major support we see at \$3.44.

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