



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JUNE 2, 2011

NATURAL GAS MARKET NEWS

North America

The National Weather Service this evening was watching two tropical systems. The first is an area of broad low pressure over the west-central and southwestern Caribbean Sea that is producing a large but disorganized area of showers and thunderstorms. Forecasters are looking for upper levels winds to become a bit more conducive for development and thus there is a 20% chance that this system could become a tropical cyclone in the next 48 hours as the system is expected to remain relatively stationary. The other area forecasters are watching is an area of low pressure some 200-250 miles north-northwest of the Yucatan peninsula. Environmental conditions are not particularly favorable for significant development

Generation Outages

SPP – The Wolf Creek 1166 Mw nuclear unit remained in hot shut down as operators noted it continued to have issues with both trains of Component Cooling Water were inoperable due to indications of voiding. The unit has been off line since March 19th for planned refueling.

SERC - Southern's 883 Mw Hatch #2 nuclear unit ramped up to 82% power this morning.

TVA's 1123 Mw Watts Bar #1 nuclear unit was at 99% power this morning, up from Wednesday's operating level of 45% power.

SCANA Corp's 966 Mw Summer nuclear unit ramped up to 80% power this morning from yesterday's morning operating level of just 48% power.

The NRC reported this morning that some 81,795 Mw of nuclear generation was online, up 2.4% from yesterday and 9.7% below levels recorded a ye ar ago.

and thus forecasters are assigning it only a 10% chance it could become a tropical depression within the next 48 hours as it moves west-southwest.

EIA Weekly Report

	05/27/2011	05/20/2011	Change	05/27/2010
Producing Region	920	902	18	865
Consuming East	911	860	51	1088
Consuming West	276	262	14	392
Total US	2107	2024	83	2344

*storage figures in Bcf

through 2012 as gas prices spur coal to gas fuel switching by power generators.

Gastar Exploration said it is ramping up its Marcellus Shale operations in West Virginia and Pennsylvania. The company is looking to take part in 21 wells in the shale play this year, including 14 as the operator. Gastar produced 700,000 Mcfe/d in the first quarter from Marcellus, up from 400,000 Mcfe/d during the first quarter of last year

Canadian Gas Association

Weekly Storage Report

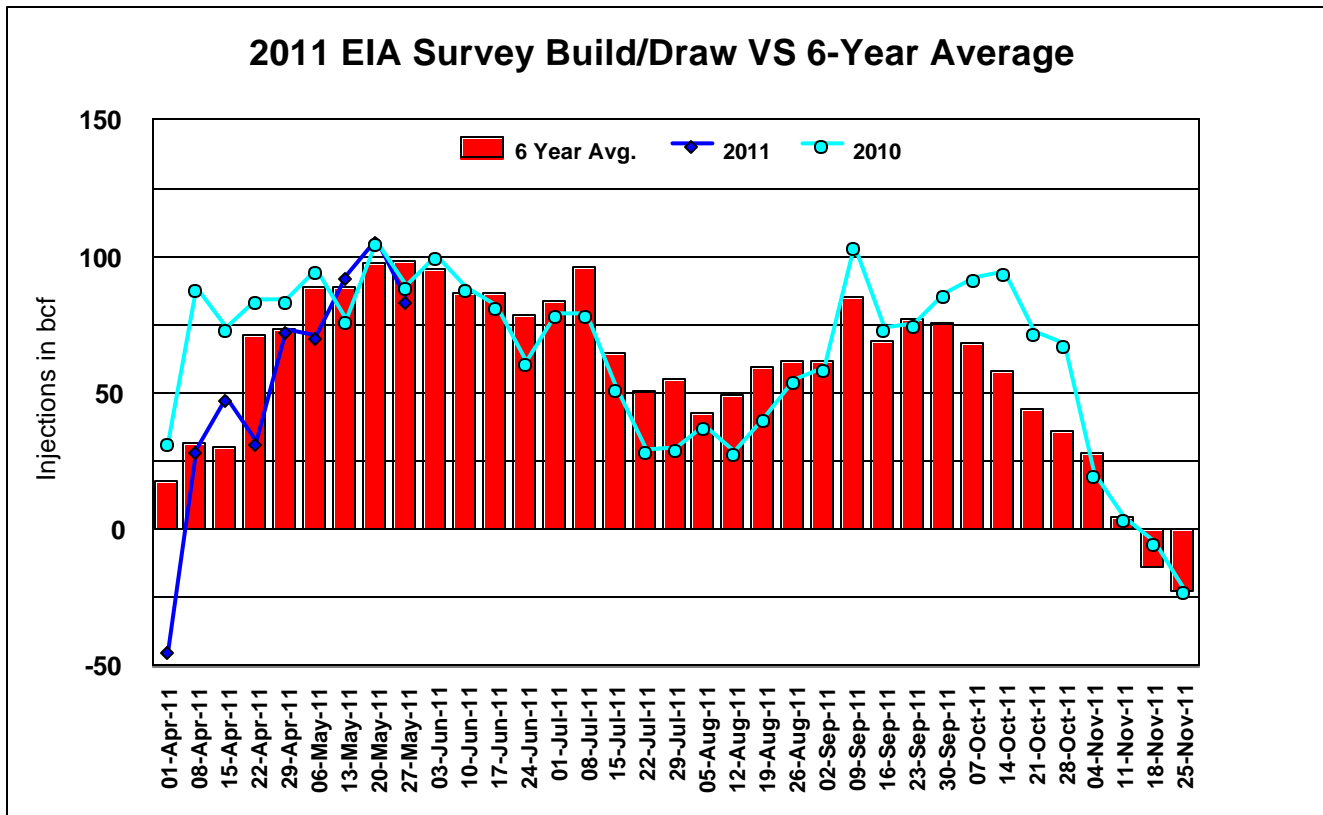
	27-May-11	20-May-11	28-May-10
East	91.6	80.7	112.7
West	202.2	190.3	262.2
Total	293.8	271	375

storage figures are in Bcf

International

Gazprom said prices for its long term natural gas contracts will be at least \$100 per 1000 cubic meters higher this year on average than in 2010. The company's CEO also noted that demand for LNG has picked up in Asia since the March disaster in Japan. The company also reported today that it has signed initial supply pacts with three Indian companies to supply up to 7.5 million tones of LNG per year. The three Indian companies are state run GAIL, Gujarat State Petroleum and Petronet LNG with

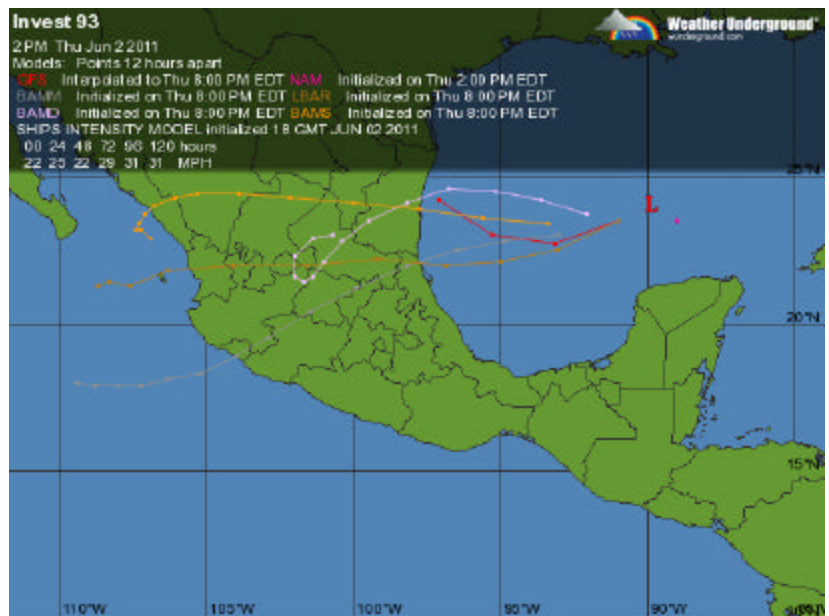
each receiving 2.5 million tones of LNG per year. Gazprom said it would supply each of its Indian partners from its current and projected production, such as Sakhalin and will be supplemented by its wider Russian and international supply portfolio. The company said it continues to look for long term LNG deals with customers in Europe and North America.



Centrica reported that gas production at its North Morecambe gas field resumed on Thursday, following completion on Wednesday of a month long maintenance outage.

Port officials at South Hook said today that they are looking for Al Mayeda LNG tanker should berth there on June 5th from Qatar. They also reported that the Aamira LNG tanker is slated to berth there on June 9th also coming from Qatar. Reuters reported that the LNG tanker, the Lusail is expected to arrive at the Belgium's Zeebrugge terminal on June 17th. The vessel is coming from Qatar.

The secretary general of the Gas Exporting Countries Forum said on Thursday that natural gas producers must boost capacity to meet the ever increasing demand for natural gas in the world but they need reliable long term contracts in rode to boost this



capacity. He noted that exporters can not be expected to spend billions of dollars in expensive new infrastructure without some commitment from consumers.

Ukraine's Ukrtransgas transport monopoly reported today that the volume of Russian gas transported through the Ukraine to Europe rose 15.8% year on year for the January-May period to 48.9 bcm.

Gazprom's CEO said today that it has received no offers to buy a stake in Germany's E.ON or Ruhrgas.

Central Japan utility Chubu Electric Power said today that it needs for extra LNG for the current financial year ending next March 31st are likely to be met. The company estimates it will need an extra 3.2 million tones of LNG this year to make up for the loss of nuclear generation. The company noted that it received assurances from its main supplier Qatargas that these needs would be met.

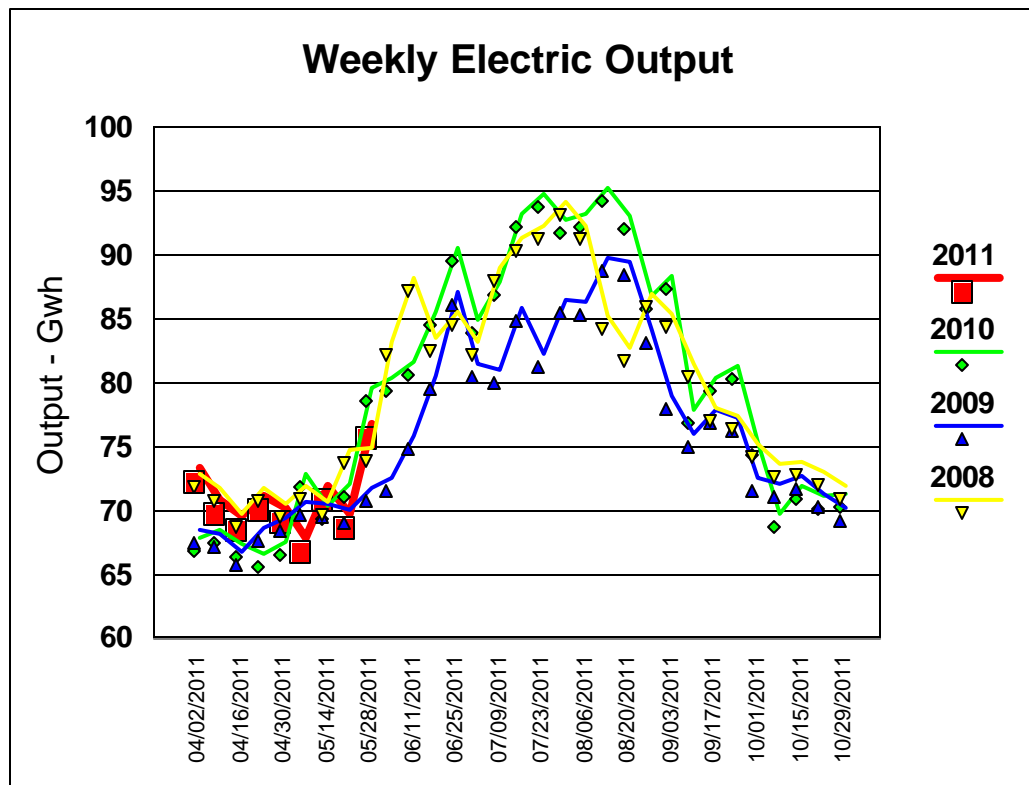
Polish gas monopoly PGNiG said today that it expects to increase its natural gas sales by 4 bcm by 2016-17. Some two thirds of the nation's natural gas is imported from Russia. Meanwhile the Polish energy market regulator said today that Poland might begin to free wholesale gas prices from price controls starting next year.

Gazprom's CEO Alexi Miller said today that he did not expect to see natural gas prices decoupling from oil prices over the next five years. He also noted that Gazprom is looking at providing direct gas supplies to gas fired power plants in Europe, especially Germany, and it would focus on this sector in the coming years.

ELECTRIC MARKET NEWS

The Edison Electric Institute reported that it estimates power production in the United States for the week ending May 28th reached 75,714 Gwh, up 10.1% from the prior week but 3.7% less than the same week a year ago.

Due to a California judge's ruling last month that put a hold on the start-up the California carbon market, many market participants believe the kick off of the market will be delayed by 2-12 months.



In a rather bizarre twist of fate the U.S. FERC, the agency that oversees the nation's power grid remained closed again today due to an electrical outage in downtown Washington.

Japanese power demand fell by 4.5% in May from a year earlier, according to statistics from the Electric Power System Council of Japan. This follows an 8.1% year on year decline in April.

AEP and Duke Energy said they would develop a new transmission project with TVA in Indiana and Kentucky that should cost an estimated \$275 million. The project will be for a 55-mile 765 kv transmission line that will connect AEP's Rockport station with TVA's Paradise Station. The parties are working with PJM and MISO to move the project through their respective approval processes.

ECONOMIC NEWS

The US Commerce Department said orders for manufactured goods in April fell by 1.2% on the month to \$440.37 billion. This followed a revised 3.8% increase in March, up from a previous estimate of a 3% increase. It reported that orders for durable goods fell by 3.6% in April compared with an increase of 4.6% in March.

The US Labor Department said nonfarm business productivity increased at a 1.8% annual rate in January through March after increasing by 2.9% in the fourth quarter of 2010. The report showed that unit labor costs increased at a 0.7% annual rate in the first quarter following a downwardly revised 2.8% decline at the end of 2010.

The Labor Department also reported that initial unemployment claims fell by 6,000 to a seasonally adjusted 422,000 in the week ending May 28th. The prior week's figure was revised to 428,000 from an originally reported 424,000. The four week moving average of new claims fell by 14,000 to 425,500 in the week ending May 21st. The report showed that the number of continuing unemployment benefit claims fell by 1,000 to 3,711,000 in the week ending May 21st. The unemployment rate for workers with unemployment insurance was 3% in the week ending May 21st, unchanged from a week earlier.

The Fed said in its 2010 annual report that its policy makers would eventually need to act to keep inflation in check but plan to continue easy money policies for an extended period. The report stressed that the Fed has the tools it needs to tighten interest rates at the appropriate time.

The Royal Bank of Canada said its consumer outlook index increased to 46.7 in June from 42.9 in May. It said the improvement is likely a response to the sharp decline in gasoline prices over the last few weeks. The RBC current conditions index advanced to 36.8 in June from 32.9 in May. The expectations index increased to 56.6 from 53.2.

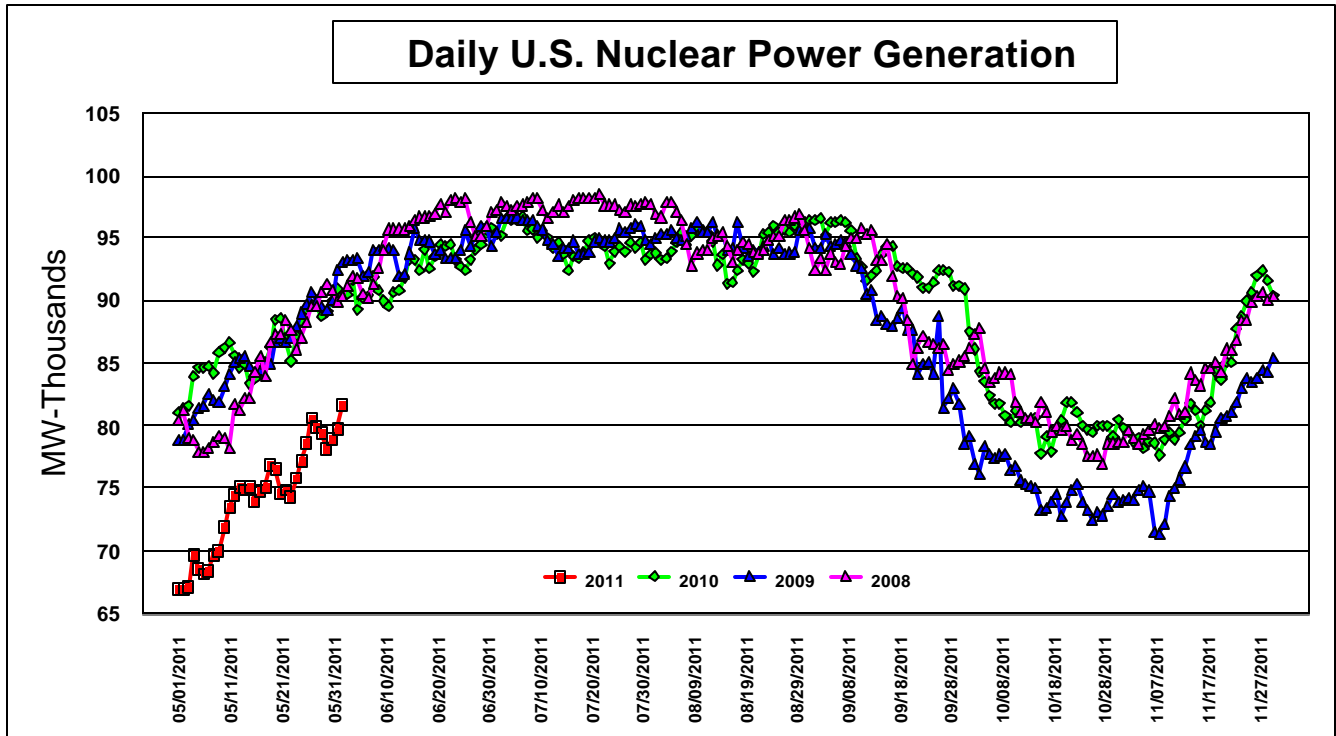
Sales at stores open at least a year increased 4.9% in May at retailers tracked by Thomson Reuters, below the 5.4% market expectation. High prices for food and gasoline cut into sales at big US retailers in May.

MARKET COMMENTARY

As expected the natural gas market following the day after an inside trading session coupled with a bullish storage number yielded an extended trading range for the day. Prices spiked higher following the release of the EIA storage report, which came in some 10 bcf less than the market expectations for the build. As a result prices jumped nearly 5% on the day and reached levels not seen since January in both the July contract and in the spot continuation chart. Prices though by late morning had given back some 10 cents of the earlier morning's gains and settled into a relatively sideways trading pattern for much of the day trading between \$4.75-\$4.80. Prices though still finished the day strong, settling up 16.5 cents and posting its highest settlement since January 21st.

We remain comfortable in holding our short positions though. We feel today's surprise bullish storage number is an unofficial revision for last week's storage number which had come in so much higher than most market watchers had been expecting. In addition we never feel comfortable with inventory numbers that are collected over a holiday weekend, given the higher probability that not all

respondents have reported in a timely fashion. Also given that today was a storage report day, traders attention was squarely on the storage report and not particularly focused elsewhere, namely nuclear generation levels. The NRC reported this morning that U.S. nuclear output continued to rebound strongly, growing by over 2.4% since yesterday and seeing total output at a level not seen since late March. As a result we feel that by early next week we could see even further production gains and this could significantly put the breaks on today's rally.



We would look for resistance to be found again at the \$4.859-\$4.879 level followed by \$4.903 and \$5.007. Support we see at \$4.75 followed by \$4.66, \$4.584, \$4.525- \$4.50 and \$4.415.

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