



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JUNE 3, 2009

NATURAL GAS MARKET NEWS

The tropical Atlantic basin remains quiet with no areas of concern for forecasters. Shear values across much of the region are unfavorable for any type of tropical development for at least the next week. While the GFS and European forecasting models continue to point to the potential for a low pressure system could form in the western Caribbean late next week, the strength of this system now appears will be much weaker than what was being discussed earlier this week.

Norway's Kollsnes gas processing plant is due to restart after repairs are completed by Saturday, in line with earlier estimates. The plant was shut on May 25th for planned maintenance.

Woodside Petroleum said today that construction of the giant Pluto LNG project will be 85-90% completed by the end of this year.

StatoilHydro said it plans to shut the Snoehvit natural gas LNG complex for about 80 days starting in mid-August, as operators continue to struggle with resolving start-up problems with the facility.

Generator Problems

NPCC – OPG's 490 Mw Nanticoke #4 coal fired unit returned to service by early Wednesday. The unit has been off line since June 1st.

SERC – TVA's 1150 Mw Sequoyah #2 nuclear unit was back to full power this morning, up 19% from yesterday.

ERCOT – Luminant reportedly is planning to shut its 565 Mw Monticello coal fired Unit #1 to fix a boiler tube leak.

MISO – Exelon's 912 Mw Quad Cities #1 nuclear unit was at 98% power this morning, up 12% from yesterday.

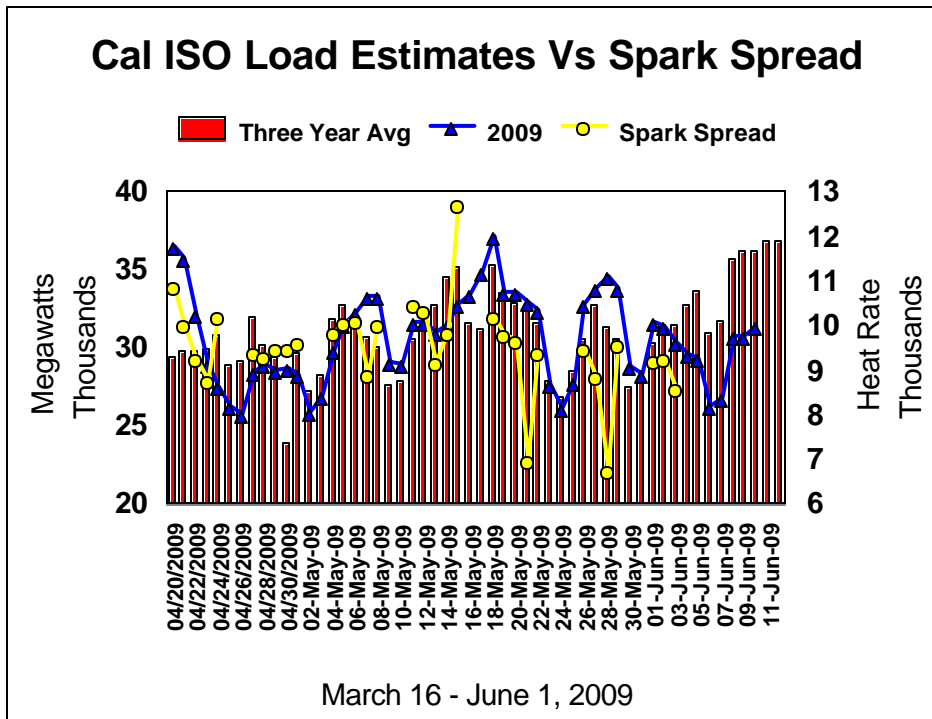
The NRC reported this morning that 93,246 nuclear generation capacity was on line, up 0.1% from yesterday and up 2.2% from the same time a year ago.

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	680,000	\$3.814	(\$0.238)	\$0.033	\$0.155	(\$0.403)
Chicago City Gate	624,900	\$3.732	(\$0.193)	(\$0.049)	\$0.188	(\$0.293)
NGPL- TX/OK	467,600	\$3.597	(\$0.236)	(\$0.184)	\$0.145	(\$0.384)
SoCal	366,000	\$2.987	(\$0.214)	(\$0.794)	\$0.167	(\$0.803)
PG&E Citygate	736,100	\$3.222	(\$0.319)	(\$0.559)	\$0.062	(\$0.496)
Dominion-South	408,800	\$3.999	(\$0.200)	\$0.218	\$0.181	\$0.059
USTRade Weighted	16,719,500	\$3.492	(\$0.226)	(\$0.289)	\$0.16	(\$0.403)

Turkish officials said today that they have not backed down from their demand that it have access to 15% of the planned Nabucco natural gas pipeline's throughput.

Iran announced today that Iran will sign a contract with China National Petroleum Corporation for the development of Phase 11 of the giant South Pars gas field. This would mark the replacement of Total

in the project. Total had a memorandum of understanding with Iran to develop Phase 11 of South Pars but haggling over contract terms has overshadowed the project.



The EC Director for Energy and Transport said today that LNG should be made available to all European Union member states and as a result in order for future projects to qualify for EC co-financing and other instruments, such as those managed by the European Investment Bank, the projects will have to prove that they are suitably connected to the internal market and can be of use to all member states. Some in the industry question that such a rule will provide sufficient financing in practice.

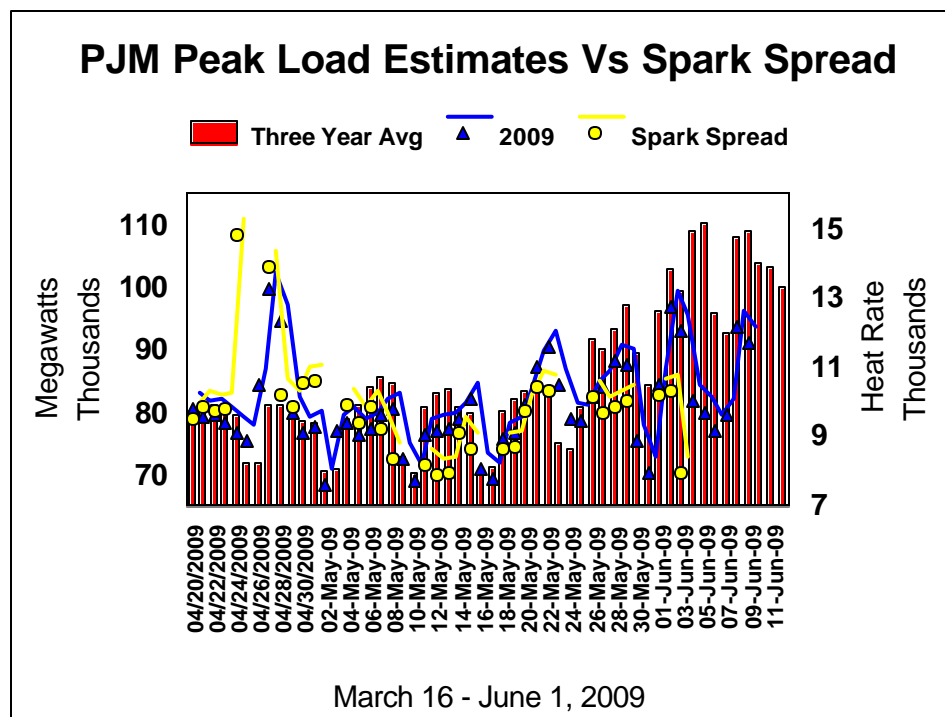
Chevron has signed a mid-term LNG supply agreement with Qatar's RasGas for delivery to its Sabine Pass regasification terminal starting in July. The company gave no details on the volumes or prices involved, but said it was for multiple cargoes under flexible terms.

BP's LNG tanker, the British Innovator is due to arrive in the UK or Belgium around June 20th from Egypt.

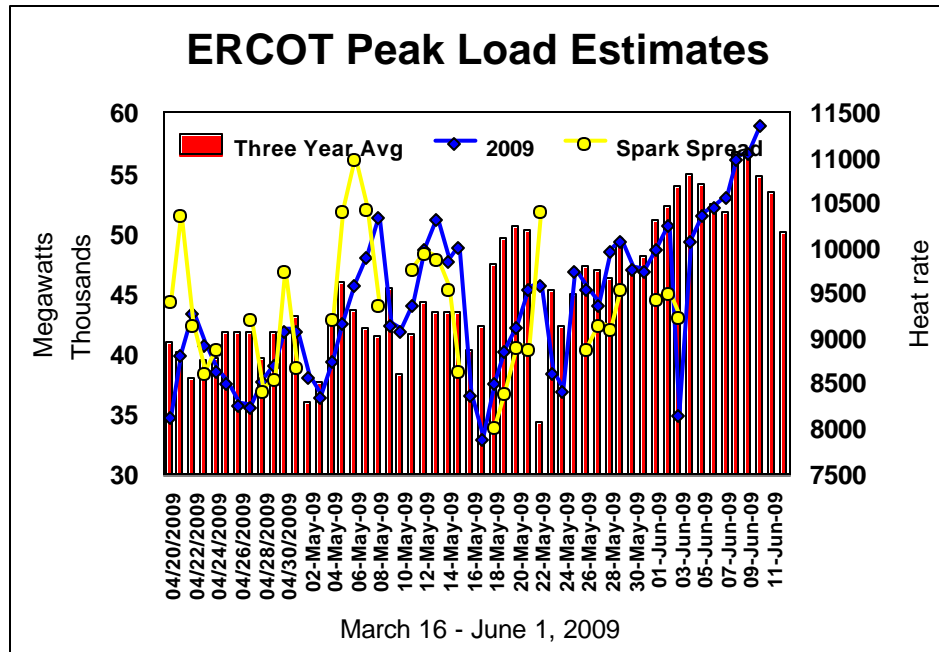
BG Group LNG tanker Seri Anggun, from Trinidad is expected to arrive at Elba Island LNG terminal on June 10th.

The CEO of Devon Energy said today that his company was cutting back on its natural gas drilling activities until natural gas prices begin to rebound.

The Rockies Express Pipeline is about two thirds finished and the REX-East portion that runs to Lebanon, Ohio is expected to be in service by the end of the month the company reports.



NGI reported today that Mercuria Energy Group, which claims to be one of the world's five largest independent energy traders, will open an office in Houston this autumn. The office is slated to trade natural gas, power and petroleum products.



PEMEX reported that natural gas production from the Burgos basin in northeastern Mexico reached a record 1.532 bcf/d in late May. While Mexican crude oil production continues to decline, natural gas production in recent months has continued to grow.

The API as expected came out in support of state regulation of hydraulic fracturing on the eve of the House Natural Resources Committee hearing on the

issue. The trade group said the process is already widely used, particularly for shale wells and that 60% to 80% of natural gas wells drilled in the next decade will need to use this process. The House is looking at the issue since the Safe Drinking Water Act, enacted in 1974, governs what chemicals can be injected underground during drilling. It limits what levels of pollution are allowed, but it permits states to create more detailed regulations. As the law stands, however the EPA can not set conditions for hydraulic fracturing or even require states to have regulations of their own.

This morning's EIA oil inventory report showed that propane stocks in the United States grew again by nearly 2 million barrels on the week and now stands at their highest level for this time of year since 1982.

The Ukraine said today that it will pay Gazprom for May gas deliveries before its June 7th deadline. Meanwhile Russia's Prime Minister Putin warned that gas supplies to Europe through the Ukraine could come to a "full stop" in late June or July due to Kiev's payment problems.

ADP reported today that U.S. private employers shed 532,000 jobs in May, less than the 545,000 jobs lost in April. But ADP did revise the April number higher by 54,000. The Department of Labor will release its May employment report on Friday at 8:30 AM.

The U.S. Commerce Department reported that U.S. factory order in April rose 0.7% over March levels. But the Commerce Department has revised the March number from a 0.9% contraction to a 1.9% decline. The market consensus had been for a 0.9% improvement.

PIPELINE MAINTENANCE

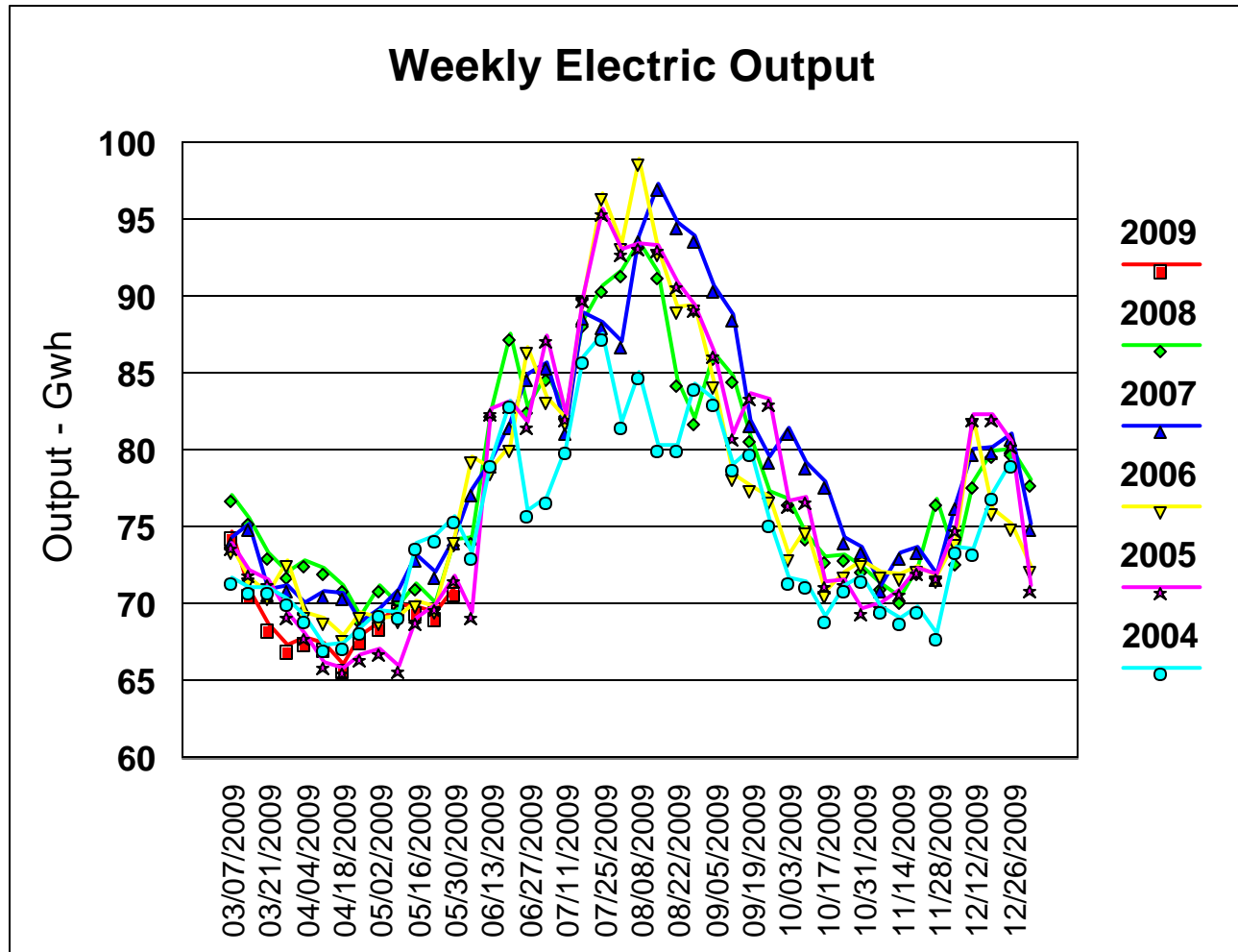
Alliance Pipeline said a routine inspection will require the Gold Creek compressor station to be offline for six hours on June 4th. Station capacity will be lowered to 900 e3m3 for the day. The company also said inspection will require AB 21 Teepee Creek Lateral Meter/Compressor Station would be unavailable for eight hours today. Station capacity will be reduced to 984 e3/m3.

Hess's Sea Robin Gas Plant has notified the Sea Robin Pipeline that the plant's dehydration unit has become operational and that there are no further issues on this repair. Gas flow on the Sea Robin has resumed with the return of the dehydration service. The company does not expect processing operations to resume though until June 9th.

PIPELINE RESTRICTIONS

TransColorado Gas Transmission said it was at capacity for delivered quantities through Segment 220. AOR/IT 7 Secondary out-of-path quantities are at risk of not being scheduled.

FGT said that due to warm weather in its service territory there is the potential it could issue an Overage Alert Day over the next several days.



ELECTRIC MARKET NEWS

The NRC has renewed the operating licenses for the Vogtle nuclear units for another 20 years.

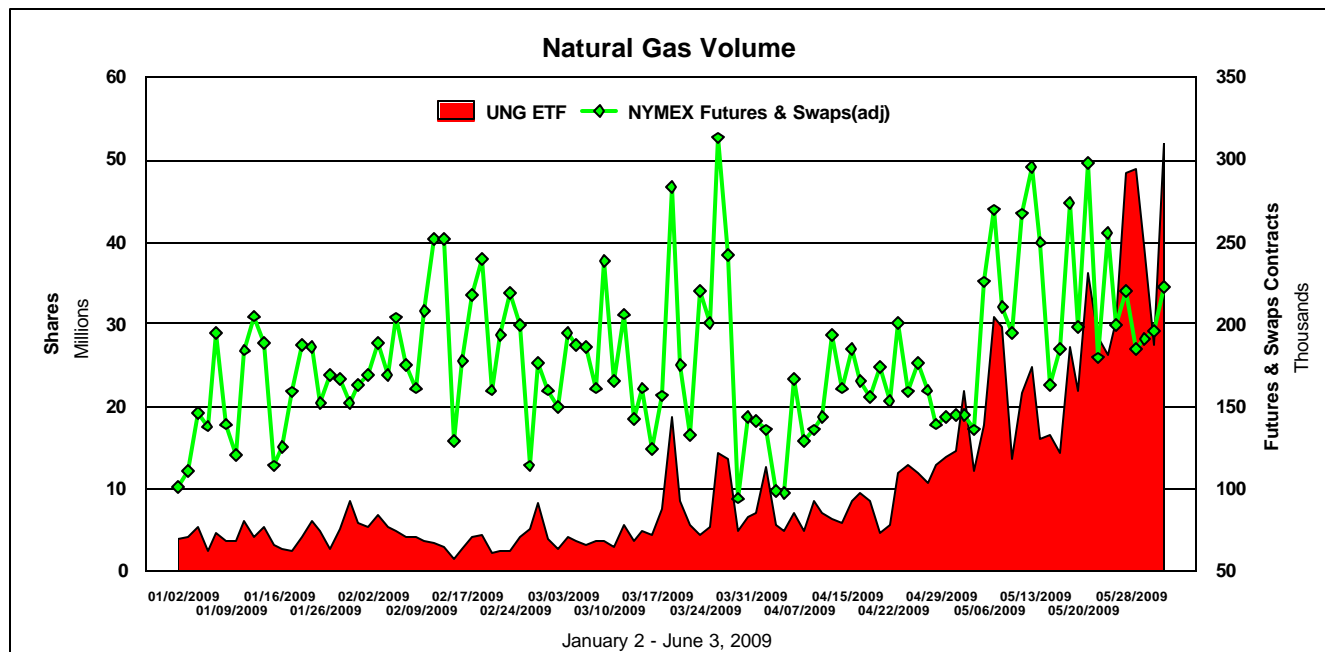
ERCOT reported that interest by generators in developing new power plants in Texas has fallen, based on outstanding requests from developers to connect to the state's electric grid. ERCOT said it is currently handling 243 interconnection studies for generation projects totaling 96,800 Mw, down from more than 260 requests made a month earlier. About half of the requests deal with wind generation projects, with three quarters of these projects looking to be based in ERCOT's west zone. Nearly one quarter of the requests are based on natural gas generation, 13% related to new nuclear projects and less than 8% tied to new coal fired projects.

Edison Electric Institute reported that U.S. power production for the week ending May 30th slid 4.4% from the same week a year ago to 70,724 Gwh. This generation level though was some 2.4% higher than the prior week.

MARKET COMMENTARY

The natural gas market today posted its biggest down day in nearly two weeks as prices blew past the \$4.00 price level and plunged back down to the \$3.70 level, basically erasing the whole rally of the last week and apparently returning to the trading range \$3.80-\$3.50 of the May 22-May 27th period. It appears that recent buyers became nervous today basis the poor oil inventory numbers coupled with less than bullish economic reports, such as ADP's job report and the Commerce Department's report on factory orders, as well as some strength returning to the U.S. dollar. Volume in the natural gas ETF set another record today as over 51 million shares changed hands, while volume in the futures and options was also strong with over 221,000 lots booked on a combined and adjusted basis.

Given that yesterday's sell off appears to have resulted in the open interest in the NYMEX Henry Hub futures and swaps contracts contracting by nearly 6,000 lots on the day, in apparent long liquidation, we would expect today's trading activity has resulted in an even greater contraction in long positions.



Market expectations for tomorrow's EIA natural gas storage report appear to be running between 100-125 bcf build, with consensus centering on a 115-bcf build. For the same week a year ago stocks grew by 102 bcf while the five-year seasonal average is for a 94 bcf build.

We feel that with the high probability that tomorrow's storage report will once again be in triple digits we feel the selling pressure on this market will remain and that prices will move back into the \$3.50-\$3.80 trading range and stay there. We see initial support at \$3.743 followed by \$3.603, \$3.50, \$3.44 and \$3.25. Resistance we see at \$3.928 and \$4.00 followed by \$4.224, \$4.30 and \$4.46.

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