



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JUNE 6, 2011

NATURAL GAS MARKET NEWS

North America

The National Hurricane Center this morning was watching a large but disorganized area of showers and thunderstorms associated with a broad low pressure system in the central and western Caribbean Sea, designated as Invest 94-L. Unlike last week, forecasters are looking for the potential of some tropical development this week, as they raised the probabilities of this system becoming a tropical cyclone to 40% over the next 48 hours. This probability was raised to 50% by midday. But looking forward by the latter part of the week, environmental conditions appear will turn unfavorable for development of this system and it should become highly sheared. The computer models have changed on the track of this system and now look for it to possibly move across western Cuba and towards the Florida peninsula by the weekend. Currently none of the models have this storm reaching winds speeds of more than 45 mph.

The Climate Prediction Center today reported that for the week ending June 5th, the U.S. saw some 59 CDD, some 68% more than normal and 9% hotter than the same week a year ago. For the current week ending June 12th the CPC is forecasting some 65 CDD, which would be 54% hotter than normal and 22% hotter than the same week a year ago

Cheniere Energy's CEO said today that he expects the first train from its Louisiana LNG facility to come online in 2015, with three more trains expected to begin service at eight month intervals once construction gets started. The company, which received its first regulatory approval from the Department of Energy last month to export natural gas to foreign markets, is still awaiting other regulatory approvals before it can begin construction. Cheniere expects total exports could reach 16 million tones per year by 2017.

Generation Outages

NPCC – OPG's 490 Mw Nanticoke #5 and #6 coal fired generating units were back on line after being taken off line for a one day outage.

OPG's 535 Mw Unit #1 at the oil and gas fired Lennox power plant returned to service over the weekend. The unit had been out of service since early March.

NextEra Energy's 1245 Mw Seabrook nuclear power plant dropped to 68% power this morning. The unit had been at full power on Friday.

PJM – Exelon's 1130 Mw Limerick #1 nuclear plant exited its outage and ramped up to 20% power this morning. The reactor tripped off line back on June 3rd.

FirstEnergy's 1245 Mw Perry nuclear unit began to exit its refueling outage and was at 1% power this morning. The unit had been offline since April 18th.

FRCC – NextEra's 839 Mw St. Lucie #2 nuclear unit was shut early Monday. The Unit had been at full power on Friday.

MISO – Exelon's 867 Mw Quad Cities #1 nuclear unit has been restarted and was at 1% power this morning. The unit has been off line since May 9th.

WSCC – PG&E's 1118 Mw Diablo Canyon #2 nuclear unit has exited its recent outage and was at 28% power this morning. The reactor had been shut since may 1st for planned maintenance and refueling.

SERC - Duke Energy's 1129 Mw Catawba #1 nuclear unit was restarted on Sunday and was at 15% power this morning. The unit had been off line since April 25th for planned refueling and maintenance.

The NRC reported this morning that some 82,818 Mw of nuclear generation was online, up 0.5% from yesterday and 8.4% below levels recorded a year ago.

Exco Resources reported that it had an incident at a Louisiana gas treating facility owned by TGGT Holdings and Exco back on May 28th that resulted in a worker death and the interruption in service at the facility. The facility was immediately shutdown. The shutdown has resulted in the loss of about 80-100 mmcf/d of production over the last six days.

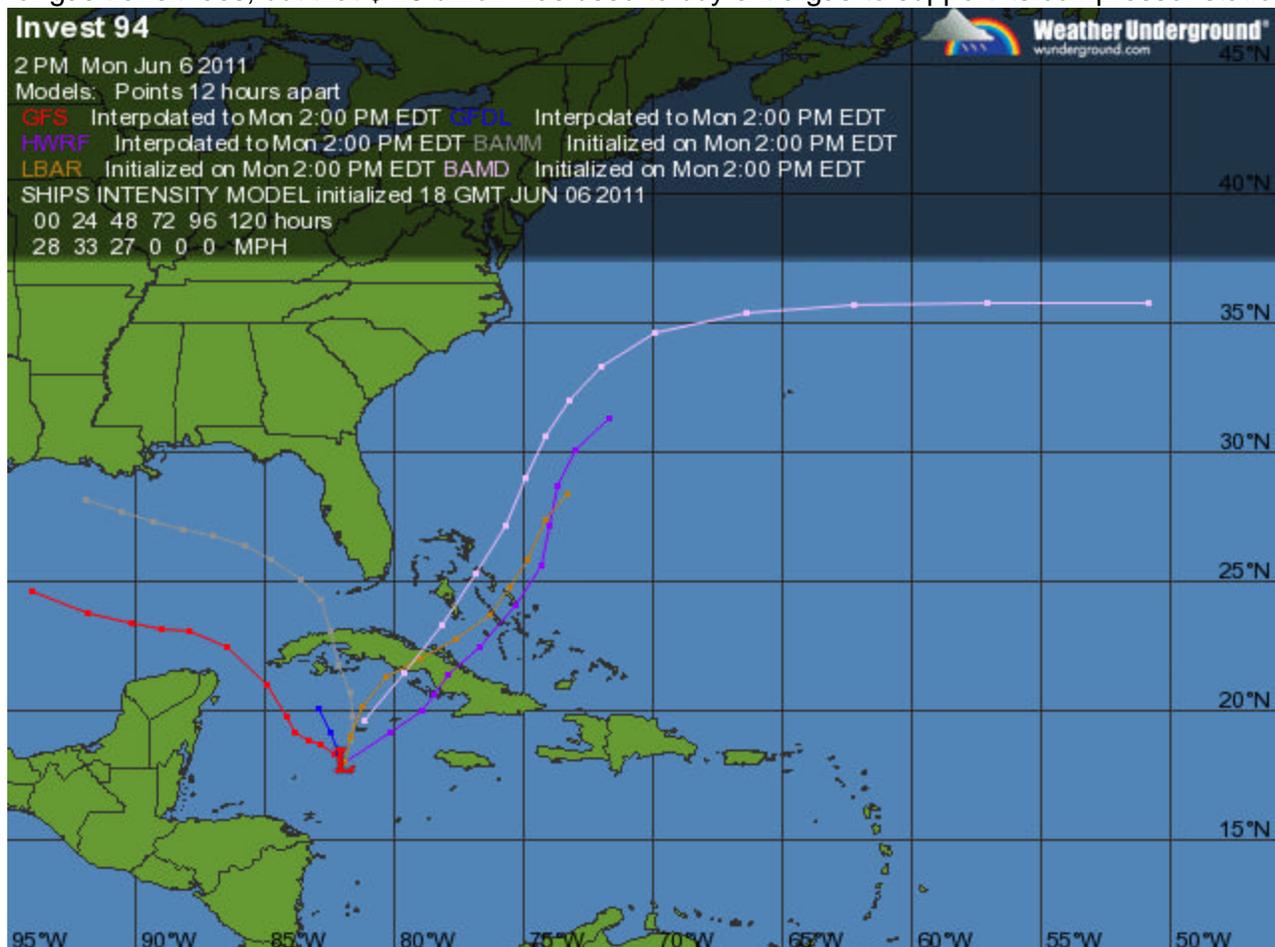
The FERC has approved Tennessee Gas Pipeline's proposed changes to its pooling points to accommodate greater natural gas supplies coming from the Marcellus and Haynesville shale formations and the Rocky Mountain region. The pooling changes will take effect July 1st.

Maryland's Governor O'Malley today signed an executive order requiring the state to undertake a study of natural gas drilling in the Marcellus Shale, with recommendations on a possible state-level severance tax and a report on potential impacts of drilling on groundwater among the items due over the next three years.

International

Gassco reported today that the Norwegian Kollsnes gas processing plant was resuming normal operations Monday after sustaining problems at some of its compressors earlier in the day.

Gazprom said today that it will not consider revising the gas price for the Ukraine this year and as a result the Ukraine will probably be looking at paying close to \$500 per 1000 cubic meters by the end of this year. Meanwhile the Ukraine is looking for higher Russian gas transit fees as a result of the losses it will incur without compensation from gas transit. Reportedly the Ukraine received \$3 billion in 2010 for gas transit fees, but that \$1.6 billion was used to buy extra gas to support its compressor stations.

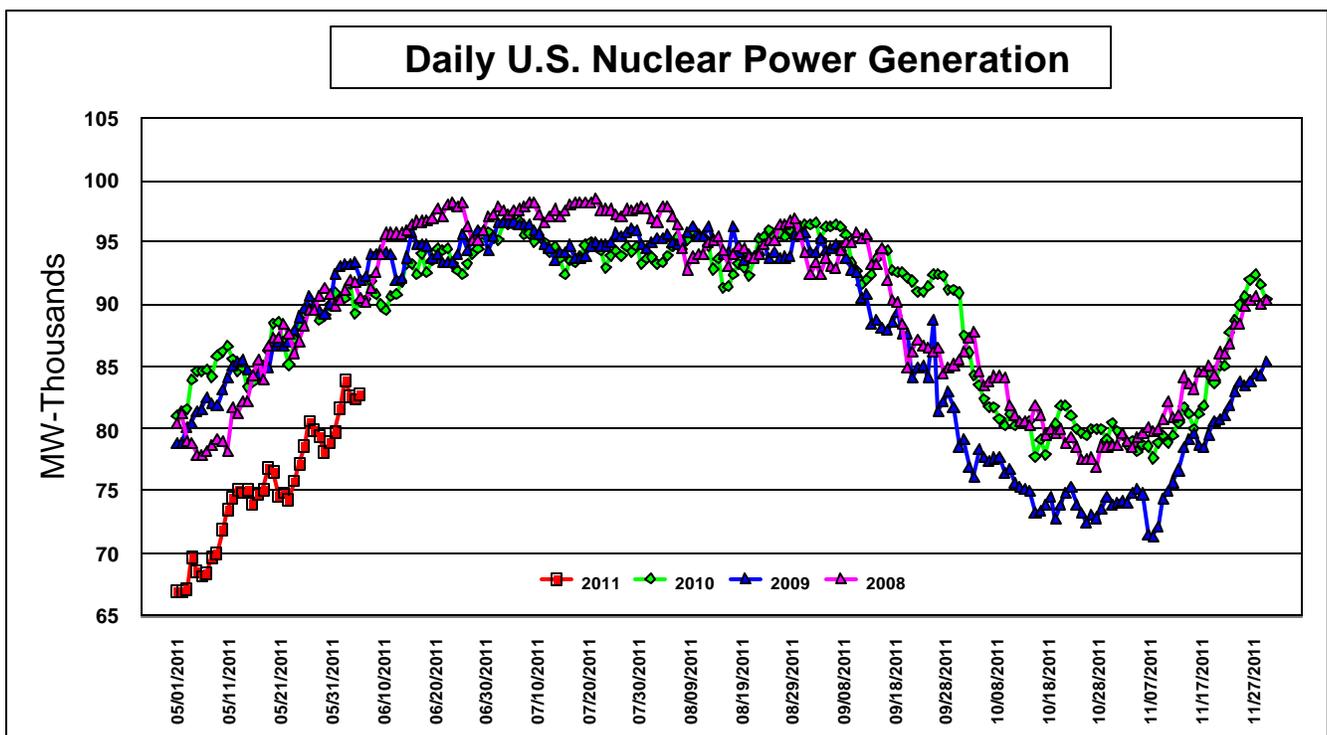


Gazprom said Monday that new pricing of natural gas deliveries to China should be no less than that from European sales. Gazprom said that “we sell gas from the same fields to Europe and the price should be no worse.”

The IEA said today that the natural gas market could be entering a “golden age” as it takes on a much larger portion of the global energy mix, but the fuel is still a fossil fuel and as a result does not represent a panacea for climate change. The agency said natural gas could rise by more than 50% from 2010 levels and account for more than a quarter of global energy demand by 2035. The head of the IEA feared that the increased use of natural gas could muscle out low carbon fuels, such as renewables and nuclear, particularly in the wake of the incident at the Fukushima nuclear power plant. The IEA estimates that gas demand could overtake coal before 2030 and come close to oil by 2035. It sees natural gas demand growing by an average of 2% per year versus energy demand growing by 1.2% annually. As a result the current gas glut should end by 2015.

The head of Qatar’s International Petroleum Marketing Company said Sunday that Qatar will reach full export capacity of 77 million tons per year by the end of 2011 as Train 6 and 7 finish ramping up. He noted that Train 7, which exported its first cargo in February, is almost stabilized and is currently ramping up.

A vice president at Statoil told a conference this week that Statoil has looked at shale gas opportunities in Europe and has not found any worthwhile. The company believes the opportunities in Europe are just not as big as in the United States. He also estimated that the oversupply of gas on the market would be shorter than expected, but declined to specify when that will be.



Malaysia, the world’s second largest exporter of LNG, expects its first LNG imports will begin 2013, as power generation demand rises in tandem with economic growth.

Korea Gas Corp said today that it remains interested in buying more shale gas assets in Canada and the United States. The company expects that it already has secured 20 million tones of natural gas

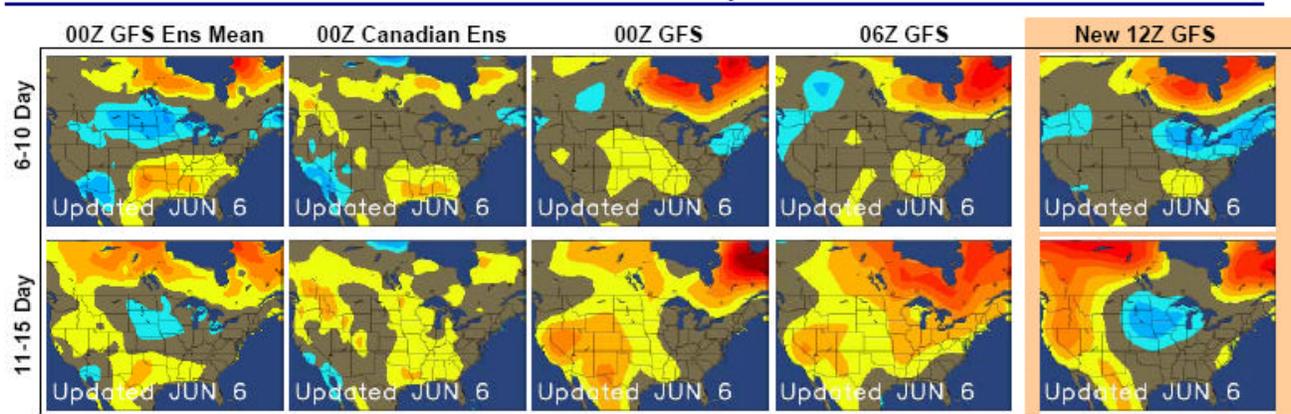
through its Canadian projects which could yield more than 1 million tones of natural gas production per year by 2017.

Hungary’s ruling party has proposed that that country establish a natural gas exchange that could begin trading by January 1, 2013.

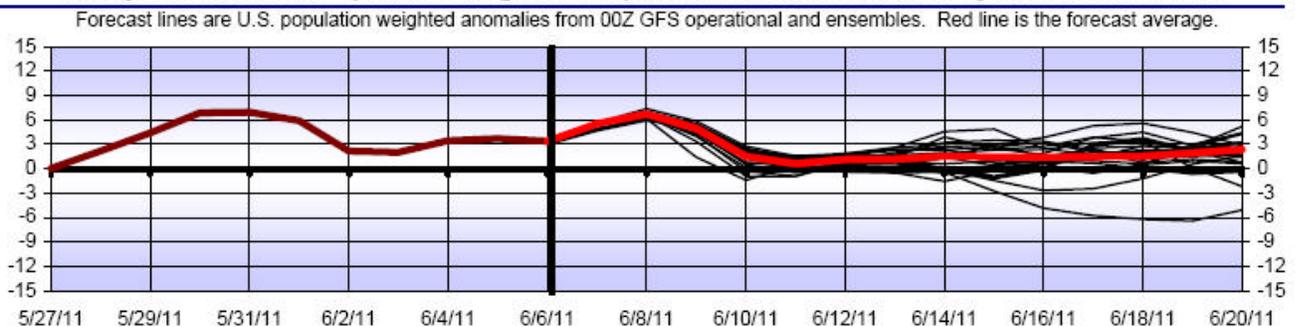
South Hook port officials said today that they expect the LNG tanker, the Aamira will arrive there on June 10th from Qatar.

Saudi Aramco said today that it expects to complete its first offshore non-associated gas field project, the Karan gas field by 2012, some 6-12 months earlier than expected. When fully operational in 2012 the field is expected to produce 1.8 bcf/d. The company also reported that in 2010 it produced 9.4 bcf/d up from 8.6 bcf/d produced in 2009.

Forecast Model Comparison



10 Day Observed U.S. Population Weighted Temperature Anomalies and 15 Day Ensemble Forecast



Reuters reported today that GDF Suez is selling its Italian gas grid to AXA’s private equity arm and the Italian investment fund F2i for \$1.1 billion. GDF Suez is currently the third biggest player in retail gas sales. The company continues to focus on building its power generation assets and reducing its exposure to distribution. The sale is expected to close by the fourth quarter.

ELECTRIC MARKET NEWS

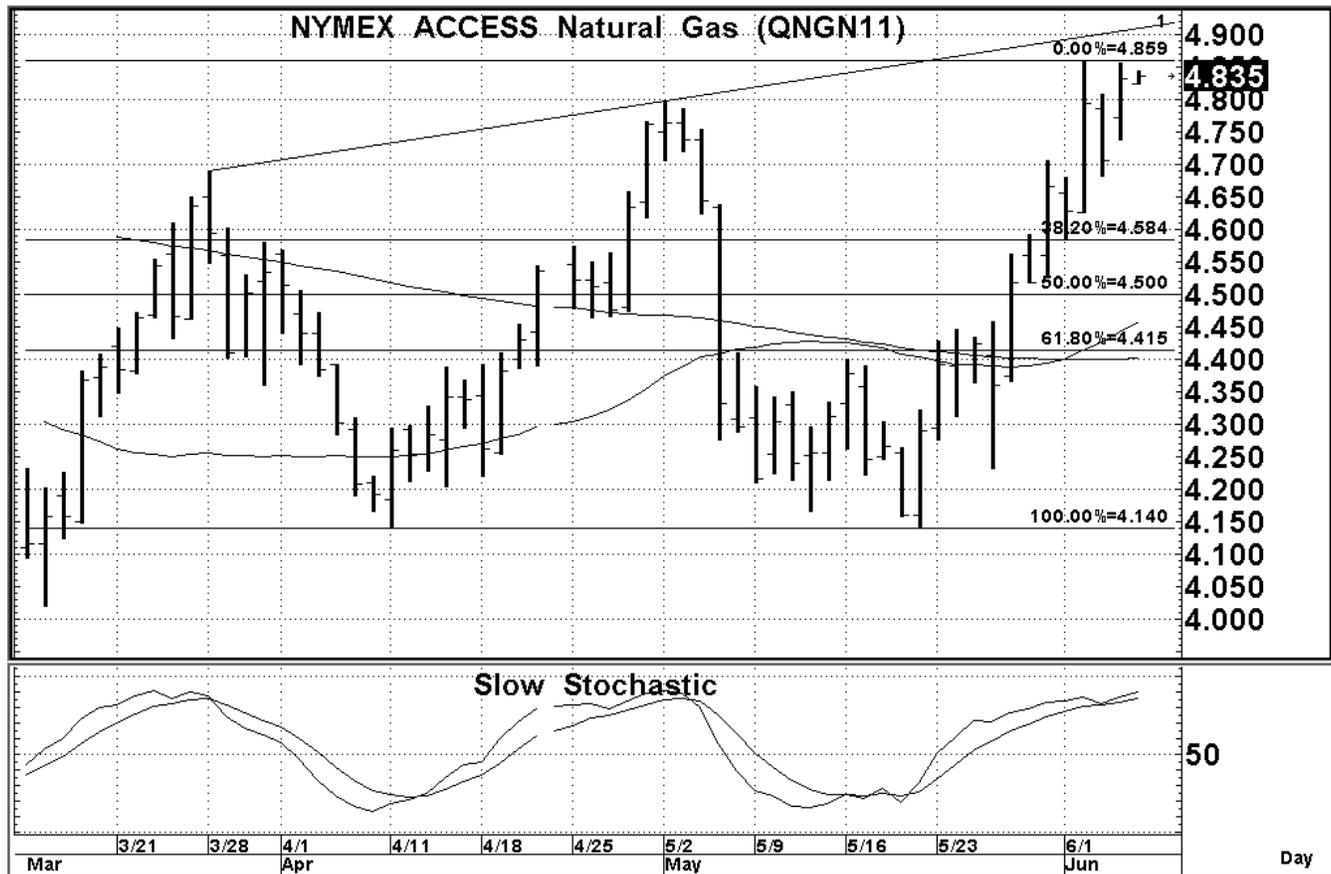
The IEA said today that Germany’s decision to phase out nuclear power will push up the price of electricity and carbon in Europe and could also compromise energy policies in other countries. He noted that while “every country has the right to make its own decisions. we think such a decision of a nuclear exit should be made in a European framework.” Meanwhile Germany’s cabinet ministers today backed the chancellor’s policy to shut all of the nation’s nuclear reactors by 2022.

The U.N. 's top climate official said today that U.N. talks have run out of time to meet a December 2012 deadline to put in place a binding agreement that would follow the Kyoto Protocol on curbing greenhouse gas emissions. To decide on new targets with equal legal force to Kyoto, countries would have to ratify them in national parliaments and three quarters of the signatories of the original agreement would have to approve the measures.

Genscape estimated today that for the week ending June 2nd U.S. power output rose 11.9% from the previous week and was 5.5% greater than the same week a year ago.

ECONOMIC NEWS

According to a survey by the Federal Reserve Bank of Chicago, US economic growth will slow this year as inflation increases, a pattern that will reverse next year. US GDP will grow 2.6% this year, down from 2.8% last year. Survey participants saw unemployment, which averaged 9.6% in the fourth quarter of 2010, falling to 8.5% in the fourth quarter of 2011 and 8.2% in the last quarter of 2012.

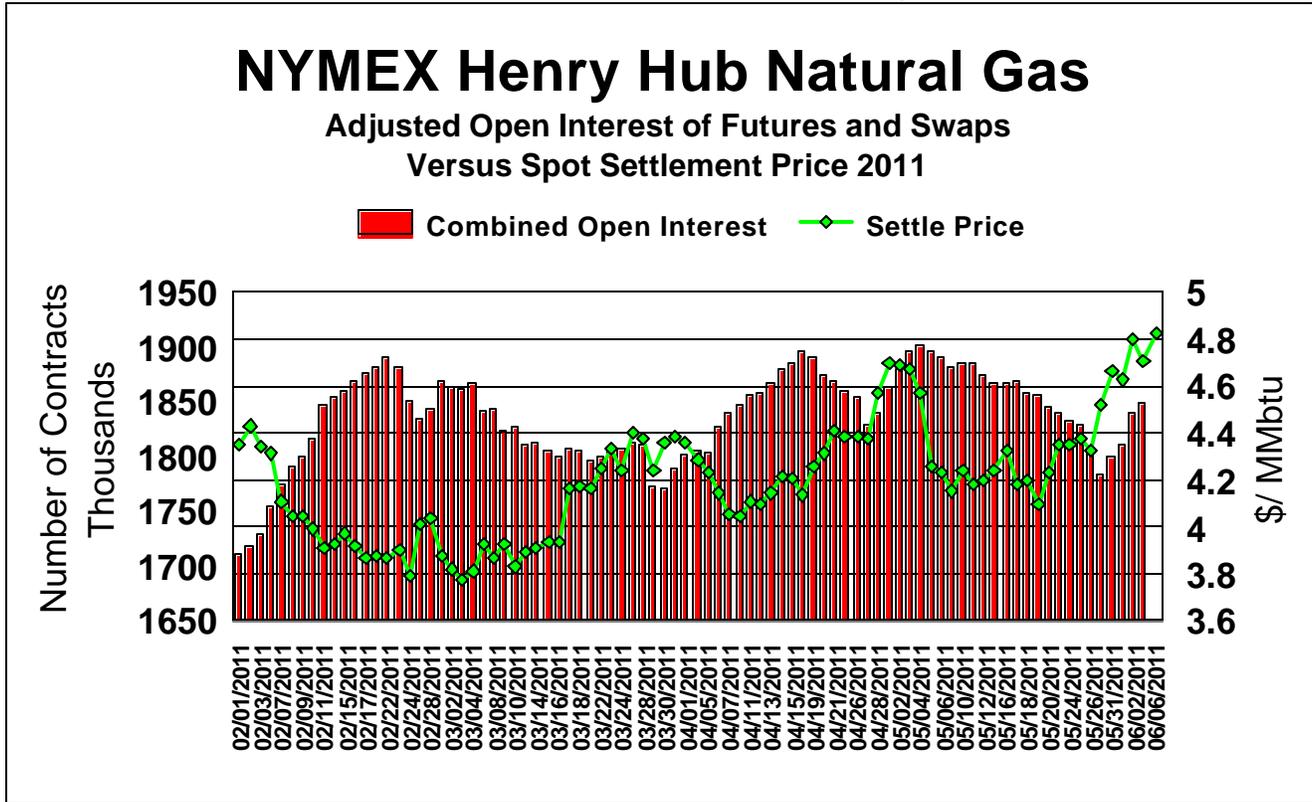


According to the European Union statistics agency Eurostat, the Euro zone Producer Price Index in April increased 0.9% on the month.

MARKET COMMENTARY

The natural gas market started out the day stronger as this morning's weather forecast had near term cooling demand stronger than expected at the end of last week. This coupled with nuclear generation levels not only pausing in their recent recovery, but also sliding back a bit from Friday's higher levels helped to firm prices. While midday models showed a bit cooler outlook for the 6-10 and 11-15 day period and natural gas prices did register a corresponding sell off, it was not long lived and by mid afternoon prices returned to their earlier morning trading range of \$4.80-\$4.85, and finished the day up over 12 cents and posted the highest spot settlement since July 30th of last year.

We continue to look at these current price levels as being rather rich given an up coming summer that will see much stronger hydro generation, along with higher domestic gas production and a sputtering economy. As a result we continue to look for this market to see a sell off in the coming days. We would look for a technical confirmation of this potential sell off once the daily 9-day stochastics cross and point lower. This has been an accurate indicator for major trend changes over the past several months.



We would look for resistance tomorrow at \$4.855-\$4.859 followed by \$4.877, \$4.91, \$4.007 and \$5.197. Support we see at \$4.80 followed by \$4.758, \$4.69 and \$4.641. More significant support we see at \$4.584, \$4.50 and \$4.415.

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