



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,
& Karen Palladino
(212) 624-1132 (888) 885-6100

www.e-windham.com

NATURAL GAS & POWER MARKET REPORT FOR JUNE 8, 2009

NATURAL GAS MARKET NEWS

Satellite imagery this morning showed a rapid flare up of thunderstorm activity in the southwest Caribbean just off the coast of Nicaragua. But it appears forecasters are expecting a less than 30% chance that this system could develop into a tropical system given the upper level winds and wind shear in the region that should prohibit any significant development. But forecasters will continue to watch this area of weather which is expected to drift slowly northward and by the end of the week be in the vicinity of Jamaica, Cuba and the Cayman Islands where development may be more conducive.

Cheniere Energy confirmed it has received formal government approval to re-export foreign sourced LNG from its Sabine Pass terminal. The company declined to say when the modification work would be completed for the re-export to occur but the work was expected to take only a day or two.

UBS cut its forecast for UK natural gas prices for the third quarter by 14% to 29.3 pence or approximately \$4.64 per Mmbtu. The bank also reduced its forecast for 2010 by 16% to 41 pence. The bank lowered its price forecast due to the economic downturn and the growing excess supply of LNG. In addition the bank saw Russian supplies of natural gas to Europe should also increase. According to Gazprom forecasts, its production of natural gas could be 40% higher than the first half of the year, which has been off by more than 20%. UBS also reduced its price outlook for 2009 Henry Hub prices by 18% to \$4.69 per Mmbtu.

Long time bull, Raymond James analyst Marshall Adkins today noted that since U.S. natural gas production is not falling as fast as they had predicted, it is quickly erasing in their minds the probability of a price rebound in 2010. They noted that even if new production declines only 50% or 5 bcf/d year on year the natural gas market is still at risk of being oversupplied next year. While he did not change his price forecast for 2010 to average \$6 per Mcf, he noted that the probability of a

Generator Problems

NPCC – Entergy's 1025 Mw Indian Point #3 nuclear unit was at 56% power this morning, up from 25% capacity recorded on Friday, as operators slowly ramp the unit back up from a repair of the control oil system in late May.

OPG's 535 Mw Lennox oil and gas fired unit #4 returned to service Monday after being off line for a week of repairs.

Bruce Power reportedly took its 822 Mw Bruce 5 nuclear unit offline Saturday at the request of the grid operator, due to a surplus of base load power.

MISO – Exelon's 1164 Mw Byron #1 nuclear unit was back to full power early Monday, up 10% from Friday.

SERC – Progress Energy's 937 Mw Brunswick #2 nuclear unit was at full power this morning up 34% from Friday.

SPP – AEP's 675 Mw Pirkey coal fired power plant was expected to be restarted following its outage since May 25th for repairs.

ERCOT – Luminant's 750 Mw Monticello #3 coal fired power plant was expected to be taken out of service for 12 hours today to repair a tube leak. But according to a report to regulators, operators were planning to keep the unit up and running while repairs were made.

The NRC reported this morning that 94,114 nuclear generation capacity was on line, up 0.7% from Friday and up 1.6% from the same time a year ago.

significant price rally next year is rapidly diminishing. He noted that at the heart of the supply conundrum is that even as producers shut down less efficient conventional wells, they are still bringing new gas to market from horizontal shale wells, wells that produce up to five times more gas.

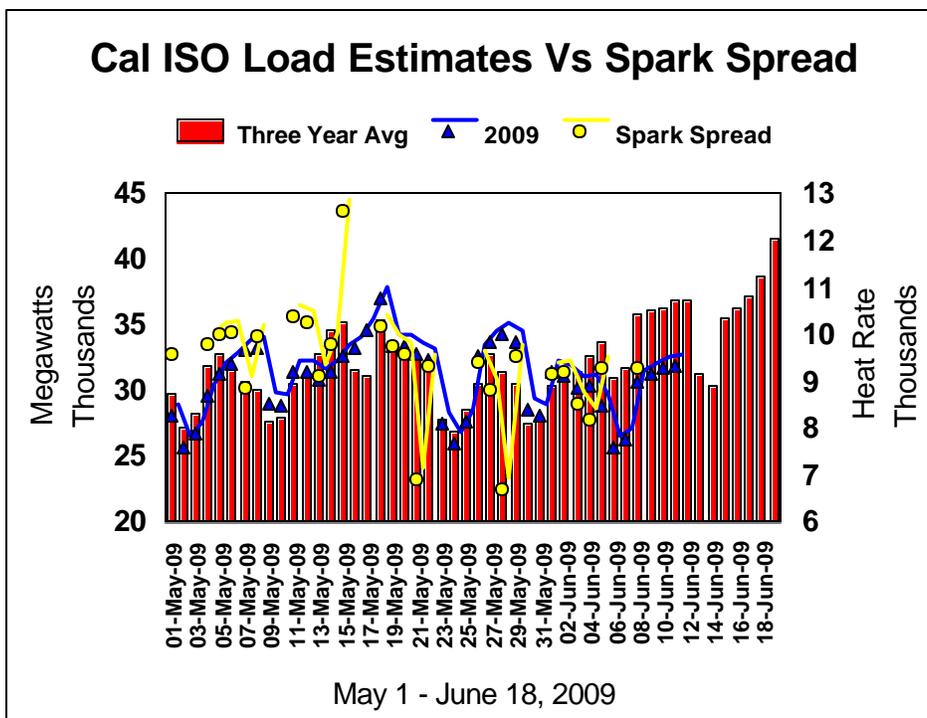
Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	765,500	\$3.527	\$0.015	(\$0.182)	\$0.146	(\$0.486)
Chicago City Gate	737,600	\$3.220	(\$0.031)	(\$0.488)	\$0.201	(\$0.356)
NGPL- TX/OK	717,600	\$3.200	\$0.017	(\$0.508)	\$0.249	(\$0.434)
SoCal	514,400	\$2.586	(\$0.160)	(\$1.122)	\$0.072	(\$0.977)
PG&E Citygate	557,500	\$2.670	(\$0.163)	(\$1.038)	\$0.069	(\$0.797)
Dominion-South	349,000	\$3.766	\$0.023	\$0.058	\$0.255	\$0.037
USTrade Weighted	17,320,800	\$3.137	(\$0.086)	(\$0.571)	\$0.15	(\$0.486)

Sempra Energy announced it has signed an agreement with RasGas to import LNG from Qatar to its new U.S. Gulf Coast Cameron terminal starting August 1st of this

year and running through December 31, 2010. The flexible agreement calls for the purchase of 50 cargoes with each cargo containing up to 4.8 bcf of natural gas. The terminal is expected to go into commercial operations in July.

Reuters reported that according to ship data the Cameron LNG terminal in Louisiana is expected to receive a LNG cargo on June 11th from Trinidad. The company did confirm this cargo would arrive shortly as well as a second test cargo that would arrive later this month.

It appears that the two ranking members of the Senate Energy and Natural Resource Committee have agreed to a compromise measure that would raise the 2004-loan guarantee program for building the Alaskan natural gas pipeline project to \$30 billion from \$18 billion. The senators noted this measure hopefully will speed up efforts to build a gas line and offset the financial challenges caused by lower natural gas prices and tighter financial

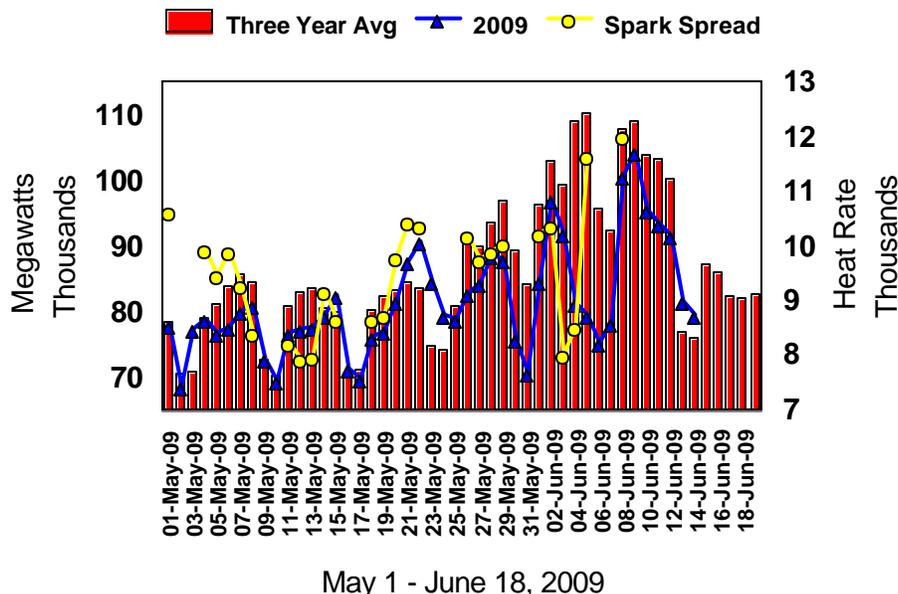


markets. Reportedly either pipeline project, the TransCanada project or the one proposed by BP and ConocoPhillips would be eligible for the Senate measure. The legislation would also clarify that the federal government will step in and repay loans for up to 80% of the cost of the total project if the pipeline's owners default on the financing. It appears the measure if approved tentatively by the committee as early as Tuesday, will be folded into a larger energy legislation.

The Chinese imports of fuel oil in May are estimated to have reached only 1.844 million tones, down 26% from April, due in part it seems to a switch to LNG especially by power plants and industrial users.

StatoilHydro announced it had resumed production at its Troll, Kvitebjørn and Visund fields. The maintenance shutdown on the fields had begun back on May 25th. The three fields export their gas to the Kollsnes processing plant, which was also closed on May 25th for maintenance. The plant resumed operation on June 6th and is now working at full capacity.

PJM Peak Load Estimates Vs Spark Spread



The head of Petronas said today that improving economic conditions have seen some of the LNG contracts which had earlier been deferred are being turned back into orders.

Malaysia's Petronas, which is a stakeholder in the Iranian South Pars natural gas field, confirmed that China National Petroleum Corporation is going to take over Total SA's stake in the project and will become the operator for South Pars 11.

Algeria said it will boost gas exports by 30 billion cubic meters/year within the next five years to 85 bcm/year when the Galsi and Medgaz pipelines to Spain and Italy become operational.

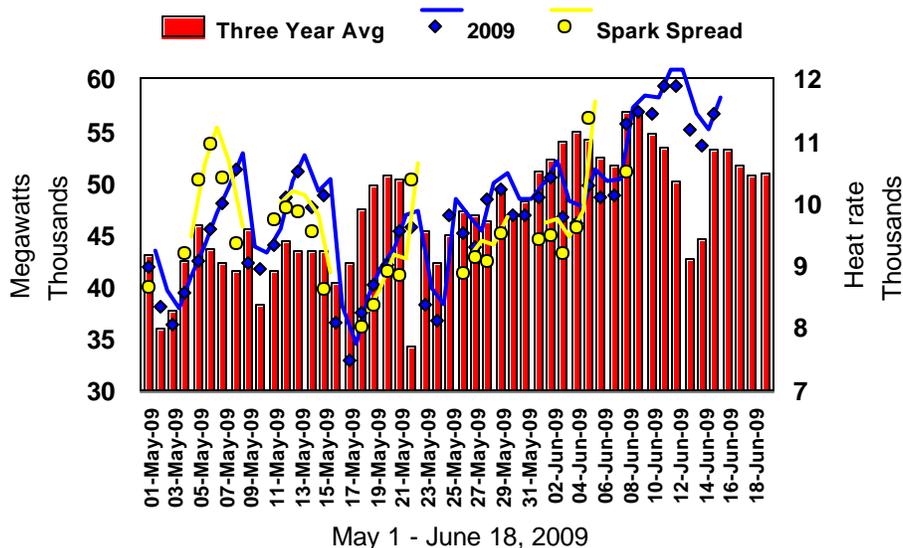
The Chicago Federal Reserve Bank said according to its survey of manufacturing, banking, consulting and service firms, it found the market looks for the U.S. economy to post solid growth in 2010, with the GDP growing by 3.2% after a decline of 1.8% this year. Employment though will be slow to recover with unemployment dropping only 0.4% to 9.5% after peaking this year at 9.9%.

PIPELINE RESTRICTIONS

Tennessee Gas Pipeline said for June 8th it has restricted its Carthage Line Lateral. It has restricted through approximately 50% of Supply to market Secondary Out of Path nominations. Tennessee also has restricted 100% of IS-MA storage injections at Northern Storage.

PIPELINE MAINTENANCE

ERCOT Peak Load Estimates

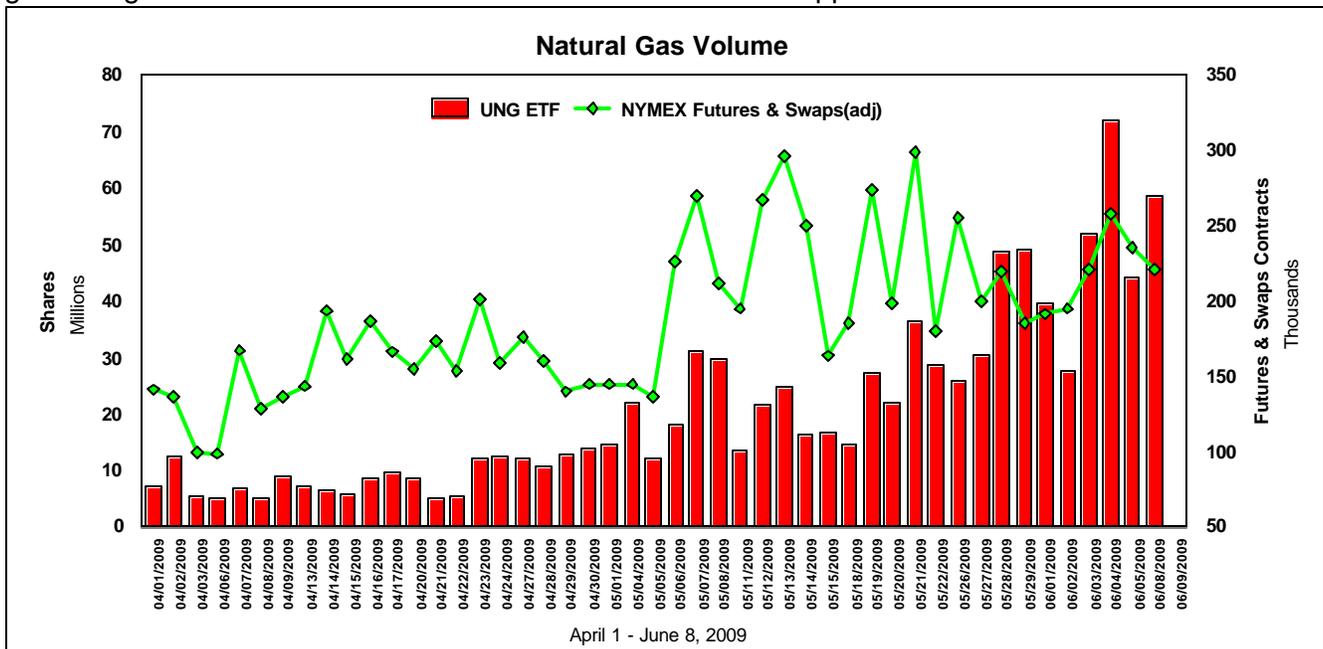


Gulf South Pipeline said it would conduct pigging operations at Index 430 (Longview-Waskom) on June 9th.

ELECTRIC MARKET NEWS

U.S. power output for the week ending June 4th rose by 1.74% from the week earlier but was 9.22% below the same week a year ago.

The TVA Board of Directors late last week approved construction of an 880 Mw gas fired in northeast Tennessee for an estimated cost of \$820 million. The board also deferred two planned construction upgrades at the Gleason and Caledonia combustion turbine facilities in order to upgrade gas-generating facilities in West Tennessee and Northeast Mississippi.



The U.S. Northwest River Forecast Center on Friday predicted that water run off at the Dalles Dam on the Columbia River would be 88% of normal for the April-September period. That is a 1% improvement from its May 29th forecast. But water flows expected at the grand Coulee Dame though were reduced by 1% to 87% of normal.

Duke Energy said Monday that had reached a settlement with the Indiana Office of Utility Consumer Counselor and other consumer groups that would if approved by state regulators, allow it to spend \$445 million in investments over 5-6 years to upgrade its transmission system with smart-grid technology. The settlement would push out rate increases for several years but ultimately have rates some 5.5% higher by 2015. Duke supplies some 7300 Mw of power to about 775,000 customers in Indiana.

MARKET COMMENTARY

The natural gas futures market worked lower today, as moderate temperatures appeared to keep cooling demand limited for the most of the country outside of Texas. But it appears speculators continued to flock to this market as commodity analysts continued to talk of the undervalued nature of natural gas relative to crude oil. This was evident in the natural gas ETF this morning seeing a surge in volume that correlated to the rally in the futures market. In fact while the futures and swaps markets saw strong volume today the natural gas ETF finished the day with over 50 million shares traded posting the second largest volume day ever.

We continue to feel that the fundamentals do not warrant natural gas prices over \$4.00 at this time. We would continue to look for this market to remain overall on the defensive and would only look to take profits on shorts until prices move below 3.56. We see support initially tomorrow at \$3.679 followed by \$3.558-\$3.55, \$3.50 and \$3.395. Resistance we see at \$3.88, \$3.99, \$4.139 and \$4.284.

The natural gas March-April \$1.00 CSO call saw an uptick in activity today as paper buying in this strike accounted for 750 lots of activity.

The EIA's Short Term Energy Outlook is slated to be released June 9th at 12:00 PM EDT.

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