



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JUNE 11, 2010

NATURAL GAS MARKET NEWS

Baker Hughes reported this afternoon that the number of rigs drilling for natural gas in the United States this week rose by seven rigs to 954. The gas drilling rig count, which had slipped five times in the last eight weeks, is just 19 rigs shy of the 14 month high of 973 set on April 16th.

Barclays Capital in a research note released this week said it has revised upward its price projection for 2010 to a \$4.51 Mmbtu average, as a result of prices finding some strength in the warmer than normal temperatures in the U.S. and the decline in LNG imports as maintenance and stronger European and Asian demand for LNG has reduced U.S imports of the fuel after starting on a record pace earlier this year. The bank has slightly lowered its end of season storage projection by 100 bcf and now sees 4.0 tcf in U.S. storage to start the winter heating season.

The Department of Energy reported today that as a result of efforts in the Gulf to contain the oil spill, four offshore Gulf gas platforms have been shut in resulting in a production loss of 1.2 million cf/d, down from earlier levels that had been as high as 6.2 million cf/d.

The Al Hamla LNG tanker, which holds 216,000 cubic meters, is slated to arrive at the South Hook LNG terminal on June 18th. Meanwhile the Duhail LNG tanker is expected to arrive at Milford Haven according to port officials on June 20th. Both cargoes were coming from Qatar.

The Tangguh LNG project in Papua reportedly is ready to supply 500,000 to 700,000 tonnes of LNG annually to a receiving terminal near Jakarta, according to BPMIGAS, an Indonesian energy watchdog group. The receiving terminal is expected to start operations by the end of 2011. The terminal will be a floating LNG terminal with an estimated annual capacity of 3 million tones. The LNG supplied will be part of diversion volume for Semptra and it will not affect exports. Semptra Energy has a 20-year contract to lift 3.6 million tones per year of LNG or slightly less than 50% of the plant's total capacity.

The UAE said today that its Shah gas project remains on schedule even as it looks to find another partner to replace Conoco Phillips.

Generator Problems

NPCC – OPG's 881 Mw Darlington #3 nuclear power plant was shut late Thursday.

PJM – Dominion's 925 Mw North Anna #2 nuclear unit was at 98% power this morning, up 20% from Thursday.

SERC – Duke Power's 1100 Mw McGuire #1 nuclear unit saw production cut to 44% capacity this morning, down 54% from Thursday.

Southern's Hatch #1 nuclear unit was at 90% power this morning up 18% from yesterday.

ERCOT – The coal fired Harrington Unit 1 was being shut down today for short-term maintenance work. The unit is expected back at full power by early next week.

AEP's 528 Mw Welsh #2 coal fired power plant was expected to be restarted over the weekend, after completion of minor repairs today.

MISO – NPPD's 800 Mw Cooper nuclear unit returned to full power this morning, up 6% from yesterday.

The NRC reported this morning that some 89,644 Mw of nuclear power was generated today, down 0.4% from yesterday and 5.75% below the same day a year ago.

South Korea's Korea Gas Corp said today that it sold 1.9 million tones of LNG in May up 52.7% from a year earlier. Some 52% of the volume was used for household and business consumption while the remainder went to power generation.

The volume of Russian gas transited through the Ukraine to Europe rose 42.7% year on year to 42.2 billion cubic meters in January-May period.

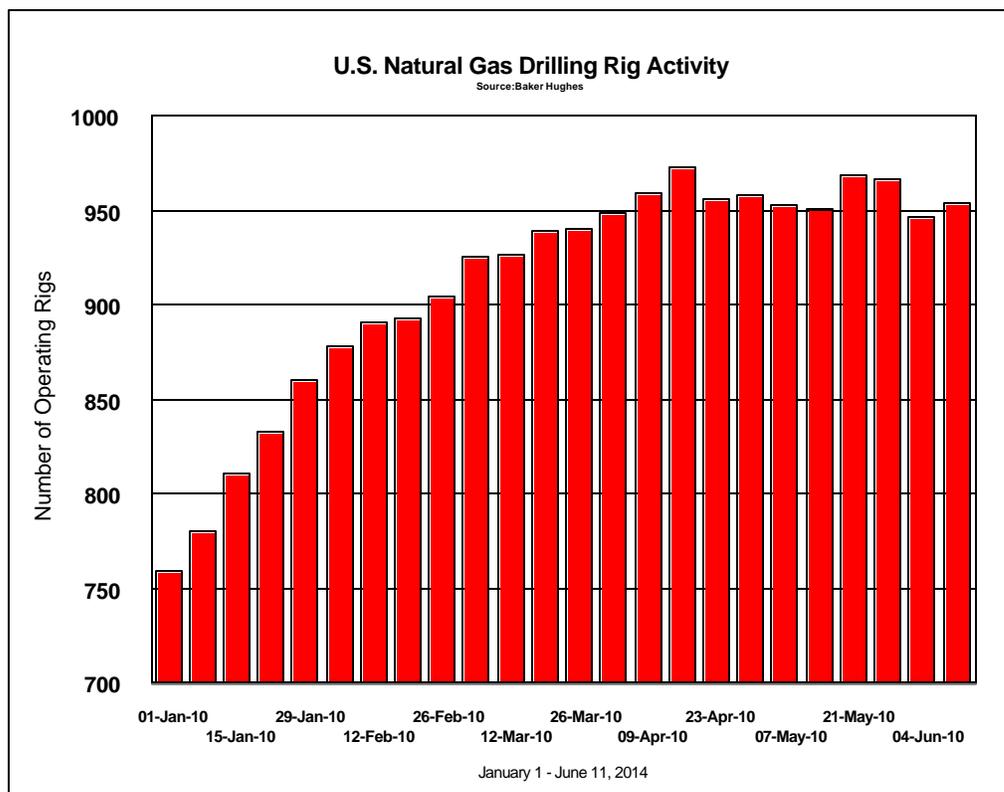
ECONOMIC NEWS

The US Commerce Department said retail sales unexpectedly fell in May as consumers cut their spending. Retail sales fell 1.2% compared with an expectation of 0.2% increase. The decline was the highest and first since September 2009, when sales fell 2.2%. Retail sales in April increased 0.6%, up from its previously estimated 0.4% gain. Separately, the Commerce Department reported that US business inventories continued to rise in April in a sign that sales are strong enough for companies to restock their shelves in order to meet demand. Inventories increased 0.4% on the month to a seasonally adjusted \$1.354 trillion. Sales increased in April by 0.6% to \$1.101 trillion. March inventories increased more than previously reported. It was revised upward to 0.7% from 0.4%. March sales were also revised up from 2.3% to 2.5%.

According to Thomson Reuters/University of Michigan's Survey of Consumers, the overall index of consumer sentiment increased to 75.5 from 73.6 at the end of May. US consumer sentiment improved in early June to its strongest level in 2-1/2 years. The surveys' barometer of current economic conditions was 82.9 in early June, the highest since March 2008. The barometer of consumer expectations also increased to 70.7 from 68.8 in late May.

PIPELINE MAINTENANCE

Gulf South said it would perform terminal meter facility maintenance at the Petro-United Sunshine terminal on June 14th.



PIPELINE RESTRICTIONS

Panhandle Pipeline reported that due to system operations nominations at several locations would be limited to primary firm capacity beginning June 12th and until further notice. The locations were Union Ojibway-Wayne County, Michigan Consolidated Gas – Detroit and Southern Station Flat Rock Interconnect.

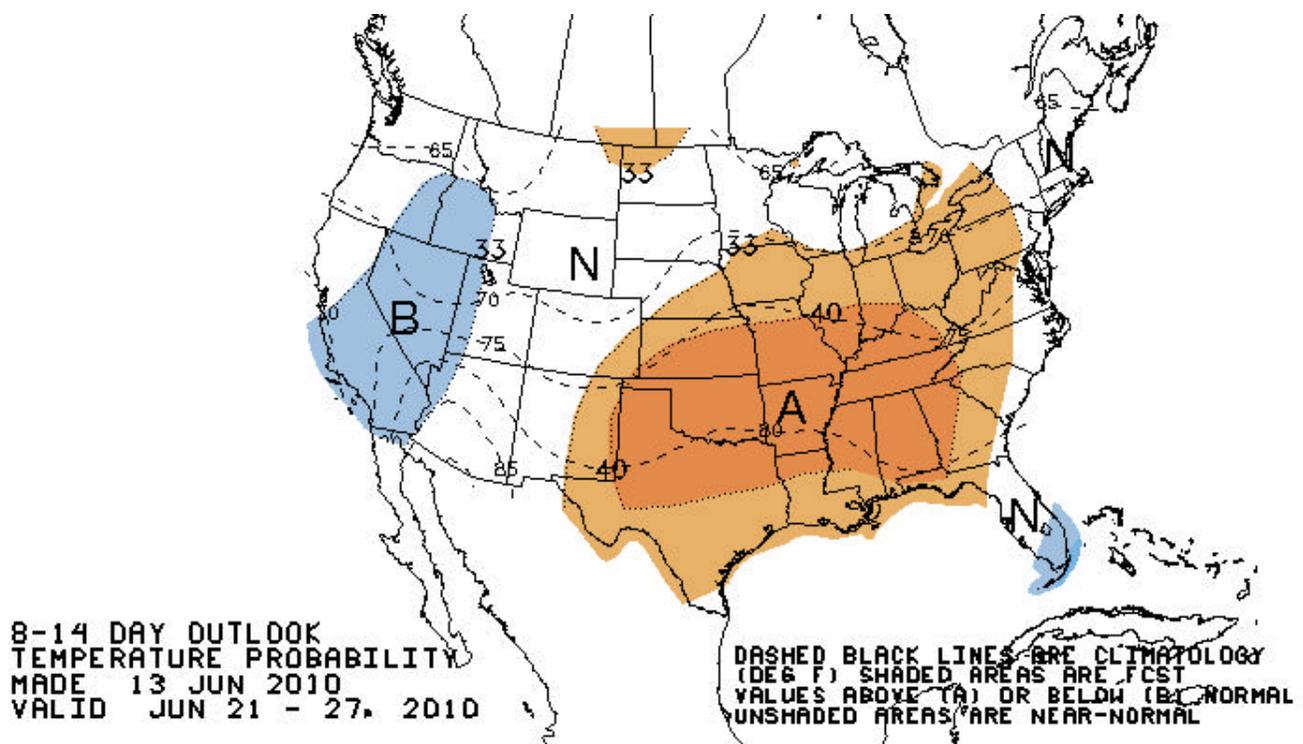
SONAT announced it was restricting interruptible storage transactions on its system to preserve firm storage obligations and interruptible storage quantities that have already been accepted. Effective

immediately and until further notice, storage transfers from Tennessee Gas Pipeline to SONAT will not be accepted if the transfer is to a shipper's interruptible storage account on Southern.

Tennessee Gas Pipeline said that for June 11th it had restricted through approximately 72% of market to supply secondary out of the path nominations pathed through the Niagara Spur Backhaul Point.

ELECTRIC MARKET NEWS

The Bonneville Power Administration said it has curtailed nuclear and wind generation in the Pacific Northwest so that it could increase hydropower output as a way to protect migrating salmon and other fish. Energy Northwest reduced its 1131 Mw Columbia nuclear plant to 40% capacity this morning. Curtailments are expected to last until early next week when river conditions are expected to return to normal levels. On Wednesday, dissolved gas levels at the Bonneville Dam reached levels that triggered federal action under federal rules. As a result BPA is now running as much water through its hydro turbines as possible to minimize the amount of water spilled to alleviate the danger of gas bubble disease for endangered fish.



The Regional Greenhouse Gas Initiative reported that the clearing price for carbon dioxide emission allowances fell to a record low on the June 9th auction held by RGGI. The recent auction was the eighth since the auctions started in September 2008 and the sixth since compliance obligations under RGGI's first three-year control period began on January 1, 2009. The allowance sold at \$1.88 per allowance versus a prior sale of \$2.14 per allowance.

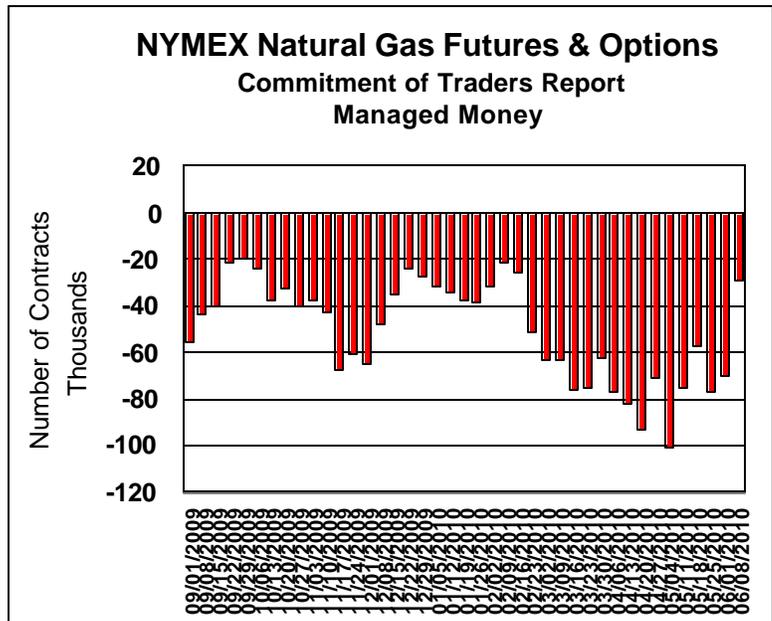
The EIA reported late Thursday that U.S. production of coal for the week ending June 5th reached 20.6 million short tons, 3% higher than the previous week and basically unchanged from the same week a year ago.

MARKET COMMENTARY

The market in a typical summer Friday fashion recorded possibly its lightest traded volume in three weeks as it proceeded to stay within the trading ranges of the prior two trading days. While the market received a late afternoon bearish report of a rebounding number in the natural gas rig count, the outlook for warmer than normal temperatures especially of large sections of the country east of the Rockies seemed to help prices from melting away late in the day.

We continue to look for this market to have a hard time breaching the resistance at \$5.014 and \$5.26 given the exiting storage situation and the apparent firm production levels. Near term cooling demand though should help prices from breaching support at \$4.60 to start the week. We see additional support at \$4.515, \$4.458 and \$4.402.

This afternoon's COT report showed a dramatic decline in the net short position by commodity funds in the combined and adjusted futures and options position. The net short position as of this past Tuesday was the smallest since late December. This appears to what helped fuel the natural gas rally especially in the later part of last week.



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