



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JUNE 15, 2011

NATURAL GAS MARKET NEWS

North America

New York Mercantile Exchange natural gas futures open interest climbed to an all-time high on Tuesday for the third straight day, according to final data posted on the CME Group Inc website early Wednesday. Natural gas futures open interest, or the number of shorts outstanding, rose 4,660 lots to 1,013,660 eclipsing the previous high of 1,009,000 set on June 13, 2011. Futures open interest has gained sharply over the last three weeks, rising more than 100,000 lots. The front-month contract July contract is still up nearly 6 percent during that period but open interest gains in the previous two sessions came as the market slid 3.7 percent, its biggest two-day price drop in more than five weeks.

Ernst & Young released their latest annual report on U.S. natural gas and oil reserves. The report found that at the end of 2010 U.S. reserves posted their strongest growth in five years, driven higher by discoveries at shale basins,

International

Germany's gas import bill totaled 10 billion euros in January through April, a 33.3 percent increase over a year earlier according to official data released on Wednesday. Economic and foreign trade statistics office BAFA reported the amount of gas imported rose by 4.1 percent in the four months from the year-earlier levels to 1,412,987 terajoules. The average price in Jan/April was 6,818.42 euros per TJ, which was up 28.1 percent from a year earlier. The average April 2011 price was 7,028.46 euros, 30.7 percent higher than the level in April 2010 and equivalent to 2.53 cents per kilowatt hour.

Natural Gas Cash Market

ICE Next Day Cash Market

Location	Volume Traded	Avg Price	Change	Basis	Change	Basis 5-Day Moving Avg
				(As of 12:30 PM)		
Henry Hub	822,100	\$4.525	(\$0.062)	(\$0.041)	(\$0.007)	\$0.046
Chicago City Gate	705,400	\$4.596	(\$0.036)	\$0.030	(\$0.012)	\$0.116
NGPL- TX/OK	821,800	\$4.437	(\$0.039)	(\$0.129)	(\$0.015)	(\$0.045)
SoCal	599,200	\$4.567	(\$0.028)	\$0.001	(\$0.004)	\$0.036
PG&E Citygate	1,034,800	\$4.789	(\$0.029)	\$0.223	(\$0.005)	\$0.268
Dominion-South	944,900	\$4.555	(\$0.080)	(\$0.011)	(\$0.056)	\$0.156
USTrade Weighted	20,166,600	\$4.528	(\$0.031)	(\$0.038)	(\$0.01)	\$0.046

China is seeking to pay no more than \$250 for deliveries of Russian gas, sources at Gazprom said on Wednesday, while the Russian gas export monopoly is still

targeting a price in line with Europe's. The sources signaled the two sides are still far apart on price after five years of talks on Russian gas deliveries to China. Russia's government had hoped for a price deal in time for Chinese President Hu Jintao's visit to Russia this week.

The Bulgarian government granted a five-year permit to US energy firm Chevron on Wednesday to carry out shale gas exploration work at a potentially huge field in northeastern Bulgaria. Last month, the Balkan country said Chevron had won a tender for the work at the 4,400 square-kilometer Novi Pazar field over Canada's BNK Petroleum. Economy and Energy Ministry Traicho Traikov told reporters that Chevron will prepare a five-year working program worth 50 million euros. The company will pay 30 million euros to the state of the art exploring for shale gas in a field for which initial estimates, based on similar rock formations, showed potential reserves of between 300 billion and 1 trillion cubic meters of shale gas. Traikov has said shale gas and hydraulic fracturing have the potential to reduce harmful emissions, boost energy security and cut Bulgaria's almost full reliance on imported gas from Russia. But the drilling for the unconventional gas has raised concerns throughout Europe that fracking, a process that involved injecting water, sand and chemicals to extract trapped gas, can contaminate water and harm the environment.

Talks between Poland's energy regulator URE and gas monopoly PGNiG on gas tariffs continued a day before a cut-off date that would allow it to raise prices on July 1, a URE spokeswoman said. PGNiG had originally proposed a price increase starting as early as the beginning of May, but the process got prolonged so much that the regulator has to make a decision tomorrow in order for prices to be changed in July. The state-controlled PGNiG, which imports from Russia two thirds of the 14 billion cubic meters of natural gas that Poland uses, pays market prices for imports, but has to sell its products at prices set by the regulator.

Centrica's UK Rough storage site, Britain's largest gas storage facility, will undergo maintenance on Thursday and Friday which will restrict storage injections, the operator said on Wednesday. Maintenance will cut injection capacity to 18 percent on Thursday and completely stop injections on Friday.

Power consumption at the plant processing gas from Ormen Lange field will be restored from Thursday at 0600 GMT, Shell told the Nordic power bourse on Wednesday, suggesting maintenance at the site may end quicker than expected. The plant has been undergoing maintenance since May 30 and was expected to resume operations on June 17.

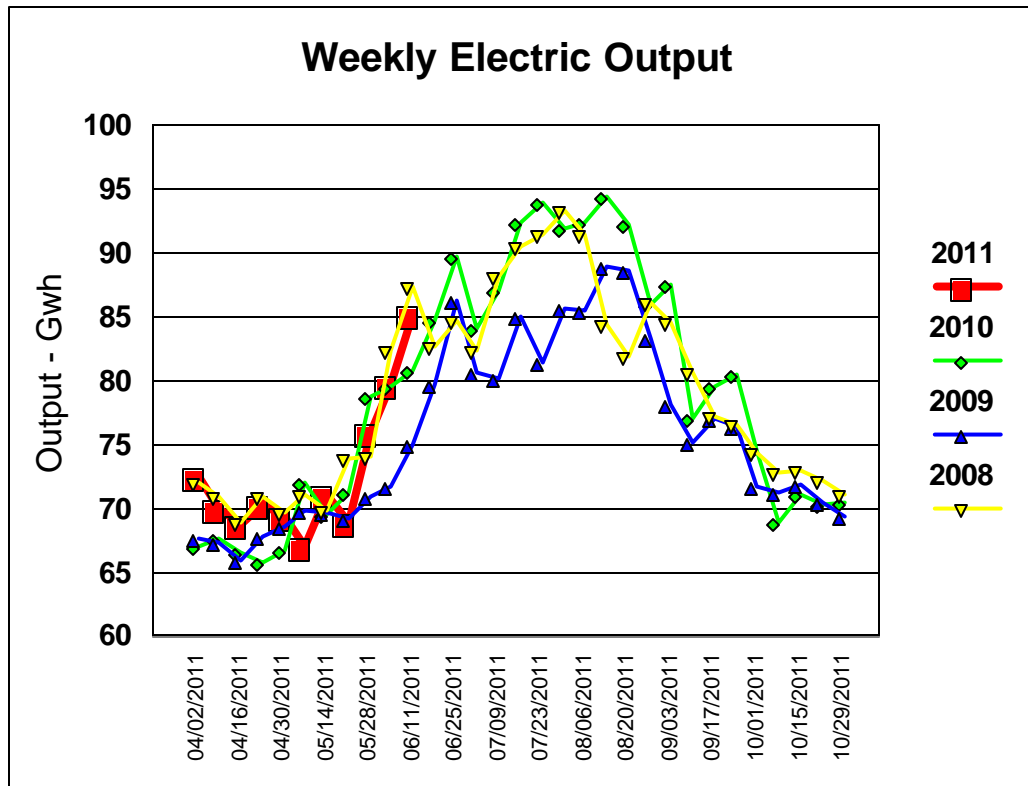
South Korea's LNG and coal imports posted double-digit growth in May from year-ago levels as the economic recovery in the world's second-largest LNG buyer boosted consumption. The world's fifth-largest crude oil importer has, like other countries, been grappling to contain inflation partly due to crude price rallies, and has seen a rise in demand for alternatives like coal and LNG for power generation. A need to replenish LNG stocks after assisting quake-stricken Japan with supplies also contributed to higher imports. LNG imports by South Korea jumped 22 percent to 2.39 million tons in May from a year earlier, according to Korea Customs Service data.

Production at the Snoehvit gas field in Norway's Arctic has resumed after a maintenance stop and is expected to reach full capacity in a few days, a senior Statoil executive said on Wednesday. Gas from Snoehvit is exported from Norway via LNG ships. The field has been down since April 29.

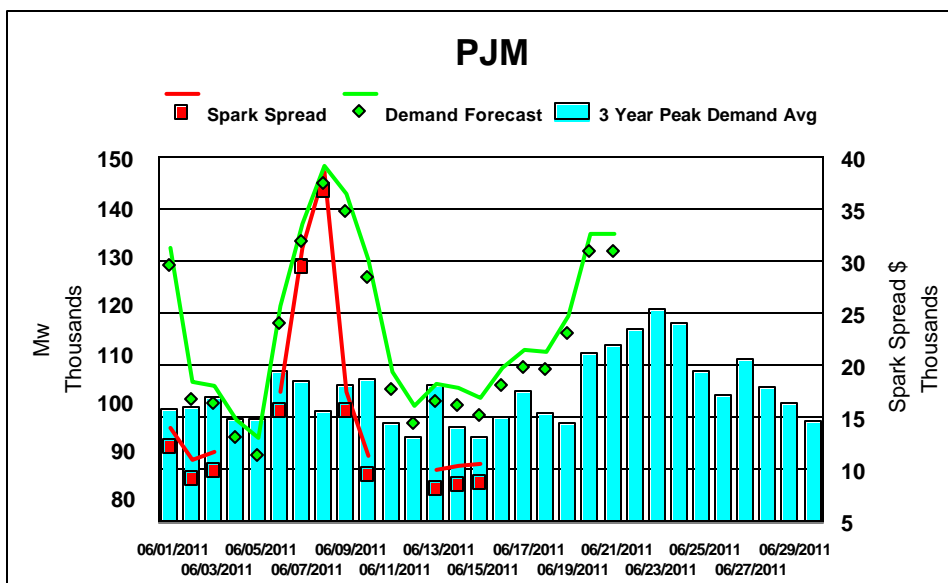
The Simaisma LNG tanker, which has a 145,000 cubic meter capacity, is expected to arrive at Belgium's Zeebrugge terminal from Qatar on June 29, according Reuters.

Mitsubishi Heavy Industries signed a six-year deal with Royal Dutch Shell to become the oil major's preferred supplier of LNG compressors, the core component in LNG production, the Nikkei business daily said. Shell ranks as one of the biggest producers of LNG, with plants in Australia, Malaysia and elsewhere. The supply agreement with Mitsubishi Heavy, which starts in fiscal 2011, is expected to cover Shell's new projects including those in Australia and on Sakhalin island in Russia's Far East, the paper said.

Europe's gas market is oversupplied with pipeline projects and the Nabucco project is one of the most likely ones to be scrapped as the market adjusts to demand and supply needs, Societe Generale said on Wednesday. The multi-billion, European Union-backed Nabucco project intends to cut the continent's reliance on Russian gas supplies by delivering up to 31 billion cubic meters annually from the Caspian region to an Austrian club. "There are too many gas pipeline projects in Europe, and for us Nabucco is one of the least likely and one of the most difficult ones to implement," Emmanuel Fages, head of power, gas, carbon and coal research at Societe



Generale said at the Reuters Energy and Climate Summit in London. Nabucco has yet to find suppliers or see a final investment decision by its main supporters such as German utility RWE and Austrian oil and gas company OMV. Its backers also said in May it would overshoot its target 7.9 billion-Euro construction cost. Fages did, however, say investment in gas-fuelled power was attractive, "the fundamentals are right. Gas is one of the energies that will drive consumption of the future, especially after what happened at Fukushima".



Italy is set to depend even more on gas imports after its citizens this week overwhelmingly rejected a restart of nuclear power regeneration. Italy, already heavily dependent on imports for its energy needs, uses gas to generate more than half its electricity. In 2010, it imported around 75 billion cubic meters. The center-right coalition government had proposed to reintroduce nuclear power and make it 25 percent of Italy's energy mix,

alongside 25 percent from renewables, with a view to improving security of supply.

ELECTRIC MARKET NEWS

Conditions at Japan's Fukushima Daiichi nuclear plant continue to improve, but full stability is still several months away, says Bill Borchardt, head of operations for the US Nuclear Regulatory Commission on Wednesday.

The Edison Electric Institute reported that for the week ending June 11th, it estimates U.S. power output reached 85,013 Gwh, up 6.9% from the prior week and some 5.2% better than the same week a year ago.

ECONOMIC NEWS

The US Labor Department reported that core inflation in May posted its largest gain in nearly three years. The overall Consumer Price Index increased a seasonally adjusted 0.2% in May following a 0.4% increase in April. The core CPI, excluding energy and food, increased by a monthly 0.3% in May following a 0.2% increase in April. The Labor Department reported that on an annual basis, consumer prices increased by 3.6%.

A Federal Reserve report said US industrial production grew in May but the increase was small as automobile manufacturing fell again because of supply problems left by the earthquake in Japan. Overall industrial production increased by 0.1%. Industries used 76.7% of their capacity, the same rate as in April.

The New York Federal Reserve Bank's Empire State index, a measure of factory activity in New York State, fell for the first time since November. The New York Fed's Empire State general business conditions index fell to minus 7.79 from positive 11.88 the month before. New orders index fell to minus 3.61 from 17.19 while shipments fell to minus 8.02 from 25.75.

The European Union's statistics office, Eurostat said industrial production in the Euro zone increased 0.2% month on month for a 5.2% year on year gain. The increase in output appeared to be mainly due to an increase in the output of durable consumer goods, up 1.3% in April against March and the output of capital goods was 0.5% higher.

Economist Robert Shiller said there was a substantial probability the US could fall into a recession again. He said weak global data were warning signs.

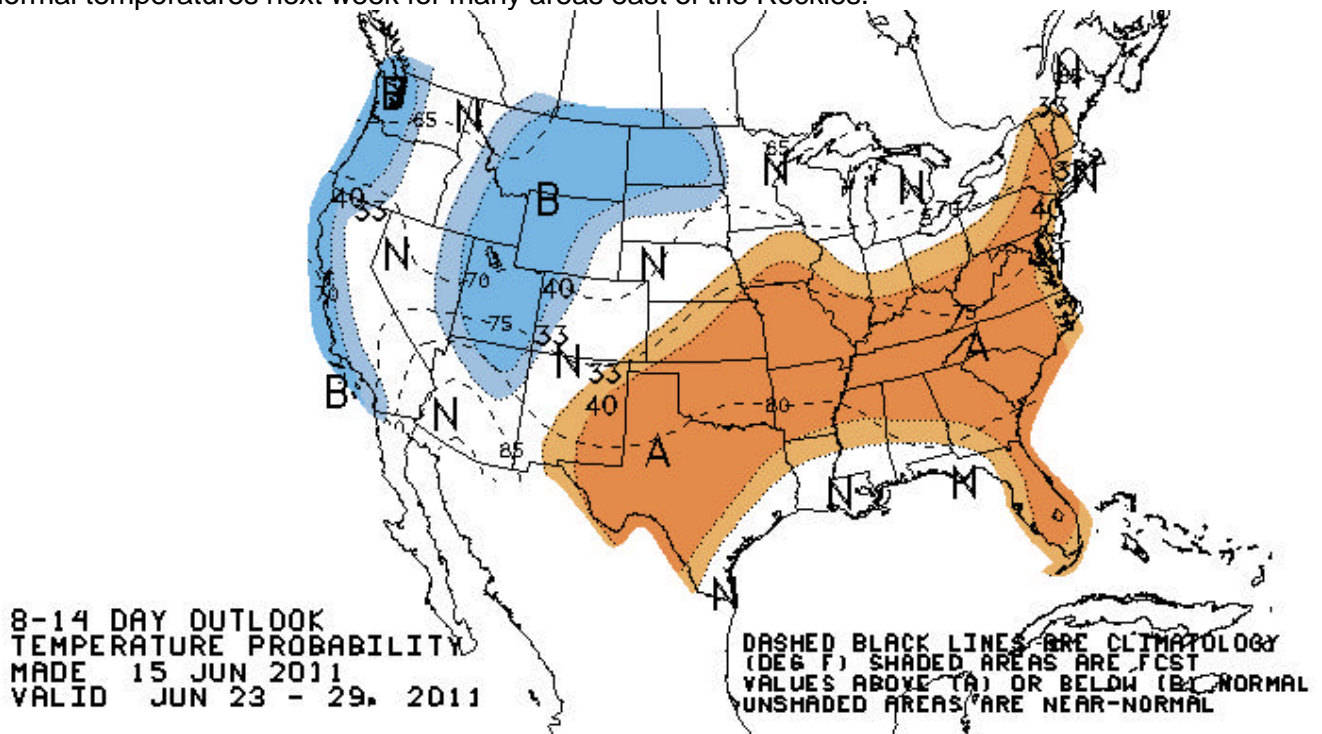
Equities, the oil market and the euro fell sharply on Wednesday as turmoil in Greece and indecision among Europe's leaders about helping the country added to fears the euro zone member is moving closer to defaulting. Investors were concerned after euro zone finance ministers failed to agree on how to involve private investors in a second financial rescue for Greece. Senior EU officials said a deal was now unlikely to be reached at a meeting next week and was likely to be delayed until mid-July.

The head of the Commodity Futures Trading Commission Gary Gensler said his agency would not be able to effectively enforce derivatives markets without funding as the House of Representatives is scheduled to continue debating a bill that includes the agency's budget for next year. House Republicans have proposed a budget of \$172 million for the CFTC in the 12 month period beginning October 1st, less than the \$308 million sought by President Barack Obama. The head of the CFTC said it would not introduce its position limits plan anytime soon as the futures regulator hears renewed calls from lawmakers urging it to act over high energy prices.

MARKET COMMENTARY

Despite the collapse in oil and other dollar denominated commodity contracts, natural gas futures prices basically treaded water today finishing on either side of unchanged, as it appeared traders were

willing to await for tomorrow's storage report. New selling appear unwilling to come back into the market with nuclear generation levels stalled at current levels and the prospects for a return to above normal temperatures next week for many areas east of the Rockies.



Market expectations for tomorrow's storage report appear to be running between 65-75 bcf build with most estimates centered around a 68-70 bcf build. For the same week a year ago stocks rose an adjusted 89 bcf while the five year seasonal build is 87 bcf.

We would look for this week's number to possibly be a bit lower given the strong cooling demand and the poor nuclear generation levels last week. If in fact that comes to pass we would look for a price bounce as an opportunity for new shorts to establish positions. We see resistance starting at \$4.605 followed by \$4.698, \$4.752 and \$4.807. More distant resistance we see at \$4.983. Support we see at \$4.522- \$4.505, \$4.462, \$4.357 and \$4.209. We are still targeting prices to eventually return at least into the congestion area of \$4.20-\$4.35 to get short positions.

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