



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JUNE 17, 2009

NATURAL GAS MARKET NEWS

StatoilHydro said it was pressing ahead with investment in hard to extract U.S. shale gas despite slumping prices, basis their view that demand will rebound as the economy recovers. In particular the company noted that it is ramping up gas drilling in the Marcellus Shale formation where it recently bought a 32.5% stake in Chesapeake Energy acreage last year. The head of the company's international exploration and production said that shale gas's proximity to U.S cities means "the cost of bringing it to highly valuable markets is very limited, and thus can outweigh higher output costs." He noted that the Marcellus shale gas has a considerable price advantage over LNG from Russia or Algeria. He noted that StatoilHydro and Chesapeake have drilled seven wells this year, slightly fewer than expected. Ultimately the company expects to drill 17,000 wells in this region.

Barclays Capital in a research note this week said that the U.S. domestic rig count while being down substantially from year ago levels, higher initial production rates in some of the prolific shale plays suggests rig efficiencies may have lifted output by 10%, which would partially offset expected supply declines.

Repsol YFP said it would officially open its Canaport LNG terminal on Thursday. The project is due to receive what will be the first LNG cargo delivered to Canada.

Generator Problems

NPCC – NYPA's 1056 mw Blenheim-Gilboa pumped storage hydro project has all of its units back online for the summer peak demand season. Operators though plan to start its fourth and final phase of overhaul on the facility starting September 2009, with an overhaul of Unit #4.

OPG's 490 Mw Nanticoke #7 coal fired unit was taken out of service.

FRCC – Progress Energy completed a 105 day outage at its 722 Mw coal fired Crystal River #5 unit earlier this month.

SPP – AEP's 690 Mw Oklaunion coal fired power plant returned to service yesterday following a brief outage

SERC – TVA's 1100 Mw Browns ferry #2 nuclear unit has been shut down once again after it had been restarted and was at 10% power yesterday.

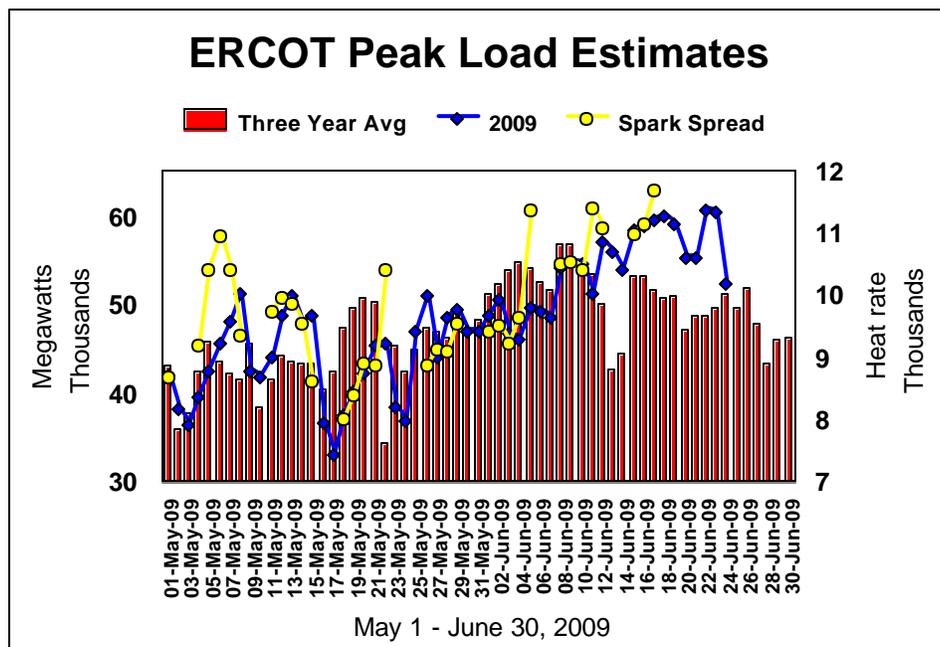
The NRC reported this morning that 94,899 nuclear generation capacity was on line, down 1.1% from yesterday and off 1.9% from the same time a year ago.

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	665,500	\$3.992	(\$0.165)	(\$0.240)	(\$0.187)	(\$0.573)
Chicago City Gate	444,100	\$3.907	(\$0.103)	(\$0.325)	(\$0.198)	(\$0.430)
NGPL- TXOK	593,800	\$3.797	(\$0.102)	(\$0.435)	(\$0.197)	(\$0.512)
SoCal	367,900	\$3.328	(\$0.017)	(\$0.904)	(\$0.112)	(\$1.077)
PG&E Citygate	469,400	\$3.555	\$0.054	(\$0.677)	(\$0.041)	(\$0.913)
Dominion-South	156,600	\$4.210	(\$0.125)	(\$0.022)	(\$0.220)	(\$0.029)
UTrade Weighted	15,667,400	\$3.737	(\$0.092)	(\$0.495)	(\$0.19)	(\$0.573)

Darren Horowitz at Raymond James told Reuters today that "if this storage trend continues, there is going to be a substantial amount of surplus gas that

has to be removed from the system” He estimated that as much as 500 bcf of gas may be needed to be removed this season to get the market back into equilibrium. As that happens, prices could sink to

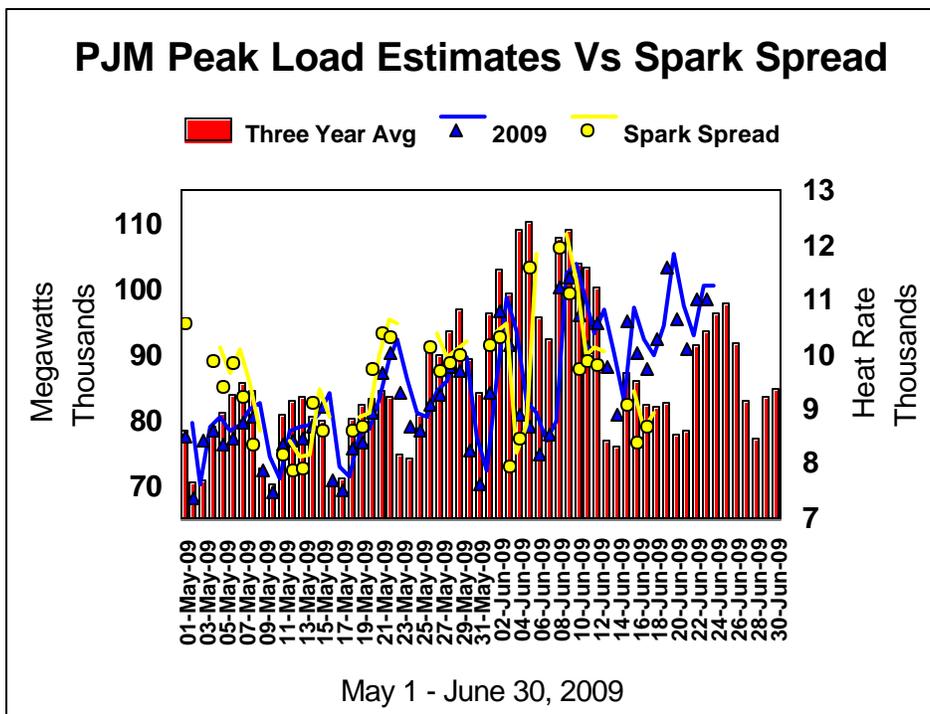
\$2.50 per mmbtu. His firm is looking for a price collapse probably occurring in the third quarter.



A report slated to be released by the non-profit Potential Gas Committee on Thursday concludes that the U.S. has more than 2,000 tcf of gas still in the ground, or nearly a century's worth of production at current rates. The group noted that reserves have increased by 58% in just the past four years. The group estimates that shale gas fields account for roughly a third of U.S. gas reserves.

Billionaire investor T. Boone Pickens said today that he expects crude oil prices to rise to an average \$80-\$85 a barrel in the coming year as inventories decline, while natural gas prices will average about \$7.00 per Mmbtu. He also remarked that plans to bring Alaskan natural gas to the lower 48 states does not make sense, since gas found in shale deposits in Texas are more accessible.

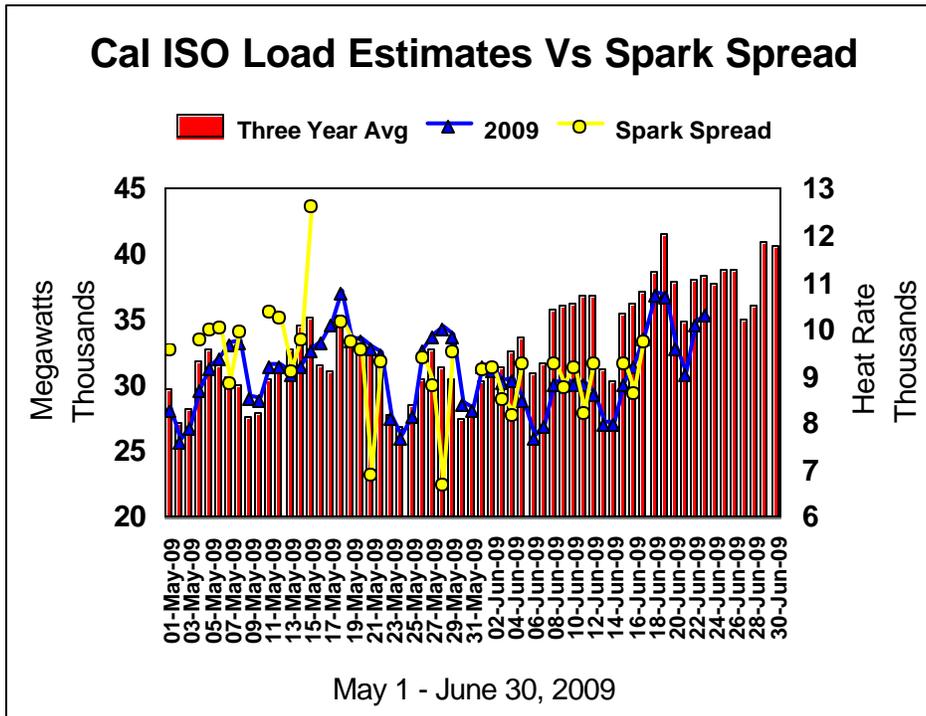
It appears that the Nord Stream natural gas pipeline is facing additional delays after Sweden and Finland both have asked for additional information regarding environmental impact on the Baltic as it requested the information from Gazprom. The pipeline needs permits for construction from Russia, but Denmark, Germany, Sweden and Finland.



Construction on the line has been slated to begin early in 2010.

Gazprom said today that it has delayed plans to build a natural gas pipeline to China due to disagreements over pricing terms. The 6,000-kilometer line was projected to be completed by 2011.

The CEO of Gazprom said today that the Gazprom led consortium operating the Sakhalin-2 project will increase exports of LNG to more than 8 million tons this year from the 3 million tons originally planned. The project shipped its first LNG cargo in February. The project is expected to reach full production by next year of 9.6 million tones.



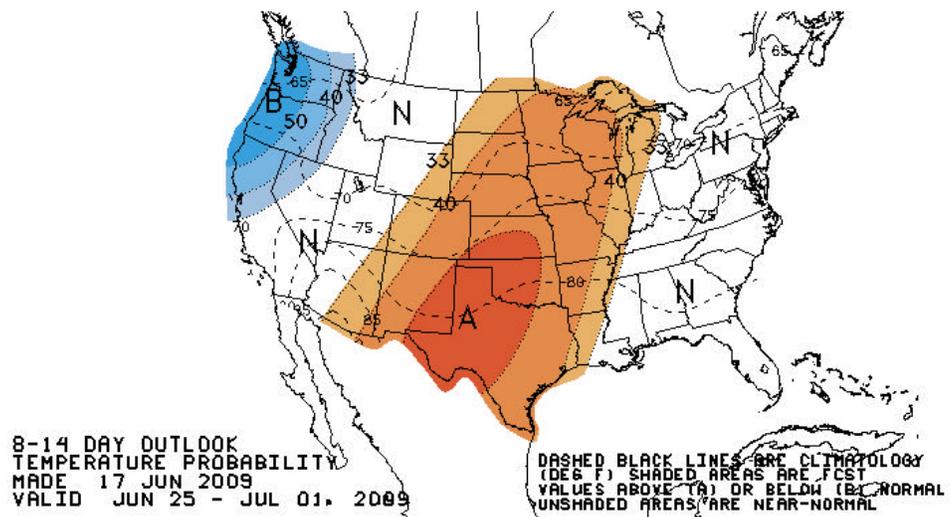
Gazprom reportedly has demanded that Belarus to pay \$230 million in gas payment arrears, as relations between the two countries remained strained, as Russia recently had banned Belarussian milk imports and Belarus retaliated by ordering to impose strict customs controls on main roads to Russia.

Exxon Mobil's CEO said today that the Dutch Slochteren mature natural gas field, the largest on mainland Europe, may be productive for at least 50

more years. Output from the field is slated to decline after 2025. The field, which began, flowing in 1963, yields an average of 40 bcm (1400 bcf) a year. But the company is looking at the potential for enormous untapped reserves that have yet to be tapped in gas shale as well as coal bed methane.

The huge LNG project slated in Sulawesi could be jeopardized basis comments coming from Indonesia's vice president which urged today that the gas for the project be set aside for domestic use rather than being exported. The plant has a proposed price tag currently of \$1.4 billion would have an export capacity of 2 million tones per year.

The U.S. Senate committee today approved a comprehensive energy bill that would require utilities to generate 15% of their power needs from renewable sources, such as from solar and wind power. The legislation though would allow utilities to meet about a quarter of their renewable requirements through energy efficiency gains. It also includes provisions for expanded drilling in the eastern Gulf of Mexico, including the gas rich Destin Dome. The legislation also includes a provision for a new financial institution to be created within the Energy Department to



help fund clean energy projects. The bill also seeks to investigate the role of market manipulation in fuel pricing.

The CEO of the Natural Gas Supply Association told Congress today that proposed legislative changes to the OTC market could hurt the American economy, leading to a loss of financial liquidity and increasing the cost of capital for energy companies and thus a reduction in natural gas supply. The trade group noted that instead of its members using their physical assets to establish credit, natural gas producers would have to redirect capital to meet exchange collateral requirements that could have otherwise been used for exploration and production or technological advances. The group warned that raising capital requirements just to participate in the market will reduce the number of market participants, lowering liquidity and thereby increasing price volatility in the physical market.

PIPELINE RESTRICTIONS

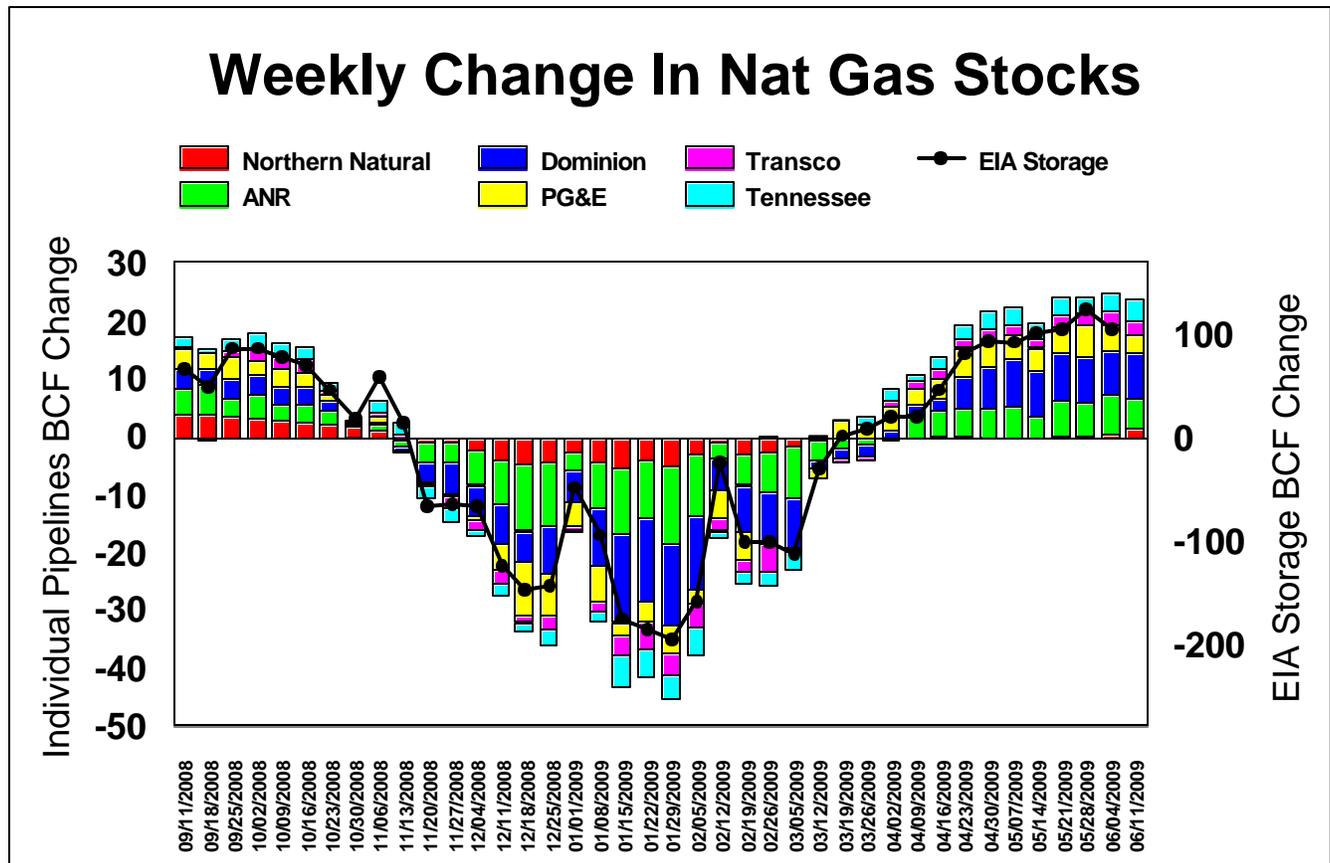
FGT said that due to high temperatures forecasted for its service territory today it was issuing an Overage Alert Day at 25% tolerance for June 17th.

PIPELINE MAINTENANCE

Alliance Pipeline said the ANR/Guardian delivery meter station will be off line for 5 hours on June 17th to perform maintenance checks. System throughput was not expected to be impacted and deliveries should not be impacted. The company also reported that the Nicor metering facility will be offline for 3 hours on June 18th to perform maintenance checks. No impact on operations is expected.

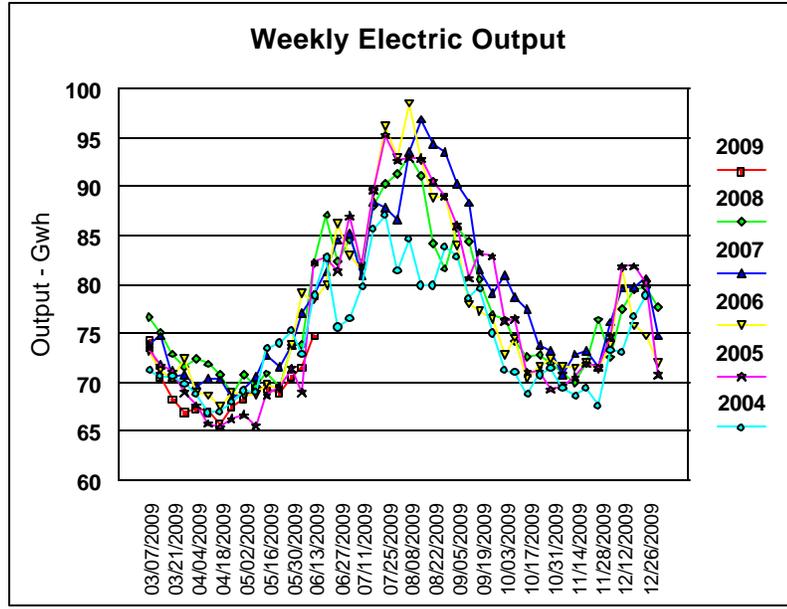
ELECTRIC MARKET NEWS

The Edison Electric Institute reported that for the week ending June 13th, electric production in the United States reached 74,852 Gwh some 1.22% higher than the prior week but still 14.75% less than the same week a year ago.



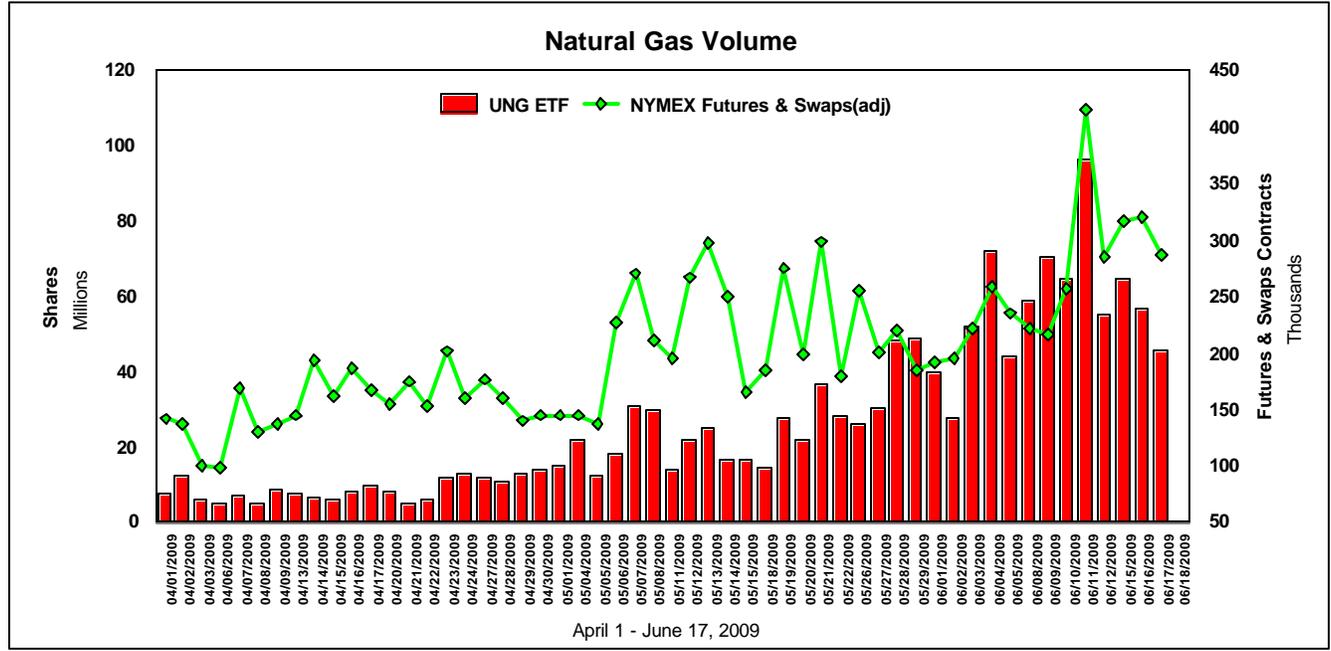
Britain has proposed a levy on electricity to fund up to four carbon capture storage demonstration projects. Government officials hope to have the levy in place by 2011. Government officials estimate that the levy's impact on power prices should be "minimal" possibly a maximum of 2% by 2039.

Duke Energy is expected to announce Thursday plans to build a nuclear reactor that will provide 1650 Mw of power possibly at a former nuclear weapons facility in Piketon.



EIA reported that net generation in the United States dropped by 4.3% from March 2008 to March 2009. This was the eighth consecutive month that net generation was down year on year. Coal fired generation posted the largest absolute fuel specific decline, dropping by 15.3% in March versus the same time a year earlier. Gas-fired generation meanwhile was some 10.4% higher in March versus the same time in 2008. The EIA reported that year to date generation was down 4.6% from 2008 levels. The agency also reported that power plant coal stocks increased between 2008 and March 2009 by 29.6 million tons.

Southern California Edison announced it has signed agreements with wind and solar generators for up to 960 Mw of power supplies. The agreements are subject to approval by the California Public Utilities Commission. The solar deals of 726 Mw are expected to begin in 2013 and 2014, while the wind deals will start beginning in the fourth quarter of 2010.



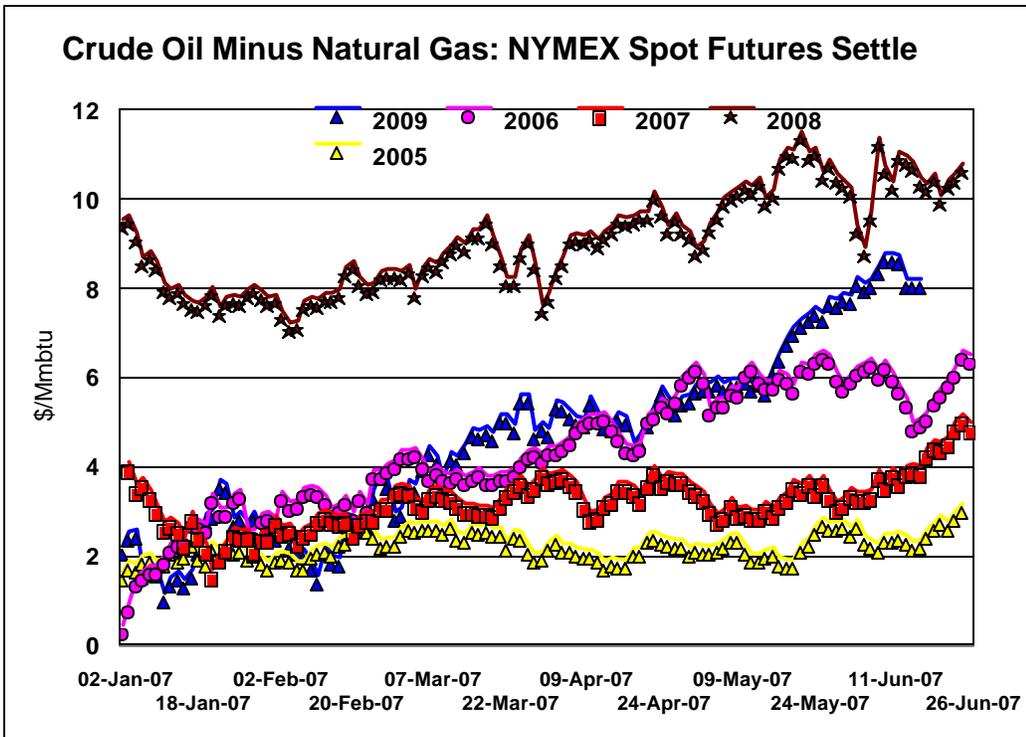
The Wall Street Journal reported that Southern Company, NRG Energy, Unistar Nuclear Energy and Scana Corp will likely share the \$18.5 billion in loan guarantees to be awarded by the U.S. Department of Energy for nuclear reactor development.

Avista said it has reached a deal with all other parties involved in the company's electric and natural gas rate filing, that if approved by the Idaho Public Utilities Commission, would result in a residential rate increase of less than 2% for power customers and no net rate increase for natural gas customers.

ERCOT said it was reviewing whether the current 12.5% minimum reserve margin is adequate for the state.

MARKET COMMENTARY

The natural gas market was relatively quiet today. The cash market saw its lightest trading session on ICE since May 26th, while the natural gas ETF saw its lightest trading session since June 5th. The NYMEX futures and swaps activity saw its lightest trading volume for the week as traders appeared willing to await tomorrow's storage report before making new bets on price direction. Market expectations for tomorrow's EIA Storage Report appear to be running between a 100-115 bcf build with the median expectation looking for a 106 bcf build. Our model is coming in a bit higher looking for a 110-112 bcf build. Stocks a year ago rose an adjusted 60 bcf while the five year seasonal average build is 80 bcf.



Prices today appeared to find support this morning as values approached the 50% retracement of the past week's rally. Then as oil prices bounced back following the release of the oil inventory stats, natural gas values were pulled along, allowing the spot natural gas contract settle the day at its highest level since May 14th.

We continue to feel with the absence of

a strong power generation need coupled with the prospects of another triple figure injection rate in tomorrow's storage report that speculative buying in this market can not be maintained, especially if the equity market tomorrow posts another weak session.

We remain with our short position targeting an exit point at \$3.60. We see support tomorrow at \$4.05, \$4.03-\$4.02 followed by \$3.935, \$3.655-\$3.665. Resistance we see at \$4.362, \$4.387, \$4.408, \$4.575 and \$4.69. We also look to remain a scale up seller of the Oct-Jan spread as well, which today settled at an October discount of \$1.572, the narrowest level since mid-May.

President Barack Obama announced US financial regulatory reform proposals on Wednesday. The proposal creates the Financial Services Oversight Council, which would coordinate activities among regulators, ensure that any financial firm big enough to pose a risk to the financial system would be heavily regulated by the Federal Reserve and give the Federal Reserve oversight over parent

companies and all subsidiaries. It would require hedge funds, private equity funds and venture capital funds to register with the SEC, allowing the agency to connect data from the firms and subjects hedge funds to new requirements in areas such as record keeping, disclosure and reporting. It will bring the markets for over-the-counter derivatives and asset-backed securities into a regulatory framework among all the requirements. It harmonizes the powers and authority of the SEC and CFTC to avoid conflicting rules relating to the same products. The growth of the derivatives markets highlights the need for addressing gaps and inconsistencies in the regulation of these products by the CFTC and SEC. In response, the CFTC said the SEC and CFTC have a good relationship and will be able to work together on enacting new regulations for over-the-counter derivatives and harmonizing regulations between futures and securities.

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