



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR JUNE 17, 2011

NATURAL GAS MARKET NEWS

North America

The tropical Atlantic remains relatively calm with no tropical development expected over the next several days. Forecasters though are watching a tropical wave that should approach the eastern Caribbean by early next week that could see some potential for development as well as robust tropical wave currently emerging off the coast of Africa.

Generation Outages

ERCOT – AEP's 528 Mw coal fired Welsh #3 coal fired power plant was shut on Friday.

SERC – Dominion's 799 Mw Surry #2 nuclear unit ramped up to 30% power this morning. The unit began to exit its refueling outage yesterday. The plant went down on April 17th.

The NRC reported this morning that some 90,300 Mw of nuclear generation was online, up 0.7% from yesterday but 4% below levels recorded a year ago.

Baker Hughes reported today that the number of drilling rigs search for natural gas in the United States dropped by 9 rigs to 870, for the second straight weekly decline. Horizontal rigs, the type used most often to extract gas from shale areas, also declined on the week by 4 coming off last week's record high of 1065 rigs.

The Pennsylvania Department of Environmental Protection said Friday that it was investigating the source of methane found recently in some wells and a nearby stream in Lycoming County.

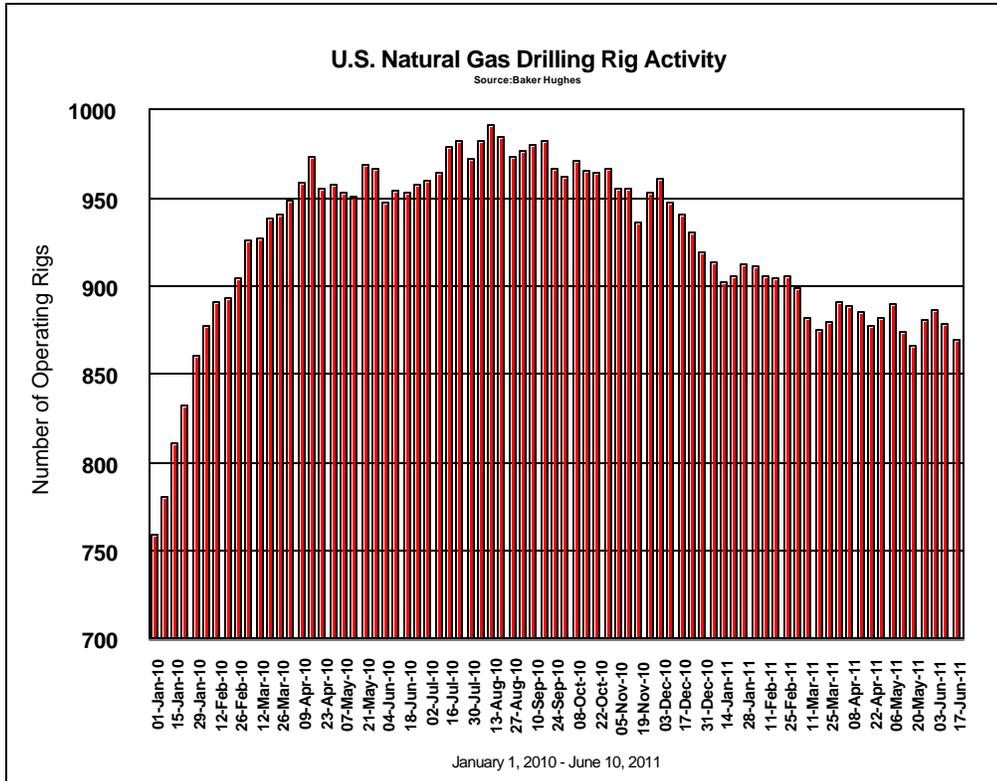
International

Russia and China are very close to reaching a long-term gas supply deal, Alexander Medvedev, a senior executive of Russian state-owned gas firm Gazprom said Friday.

Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
<u>Location</u>	<u>Traded</u>	<u>Price</u>		(As of 12:30 PM)		<u>Moving Avg</u>
Henry Hub	605,600	\$4.386	(\$0.156)	\$0.029	(\$0.089)	\$0.045
Chicago City Gate	687,000	\$4.469	(\$0.190)	\$0.111	(\$0.125)	\$0.111
NGPL- TX/OK	776,100	\$4.329	(\$0.137)	(\$0.029)	(\$0.072)	(\$0.046)
SoCal	692,000	\$4.419	(\$0.223)	\$0.062	(\$0.158)	\$0.083
PG&E Citygate	902,800	\$4.684	(\$0.152)	\$0.327	(\$0.087)	\$0.306
Dominion-South	884,700	\$4.443	(\$0.162)	\$0.086	(\$0.097)	\$0.106
USTrade Weighted	18,470,900	\$4.413	(\$0.154)	\$0.056	(\$0.09)	\$0.045

Britain's Centrica received its first Qatari LNG cargo on Friday, four months after it signed a 2 billion pound delivery deal with LNG producer Qatargas. The 266,000 cubic-meter Mozah tanker, one of the world's largest brought the first of 7.2 million tons of super-cooled natural gas agreed to under the three-year deal. Britain expanded its LNG import capacity last year to diversify sources and grow less dependent on North Sea supply.

Gazprom is close to a deal to buy Belarus' gas pipeline network, but negotiations may get "bogged down" if it gets conditionally tied to gas supply, Chief Executive Alexei Miller said. Russia and ex-Soviet neighbor Belarus, which transports one-fifth of Russia's gas to Europe, have a five-year gas contract that expires at the end of 2011 and are seeking an agreement for one that begins in 2012. Last June, a dispute over gas pricing and transit tariffs set off a four-day standoff between the countries which resulted in Russia cutting gas supplies to Belarus and a brief decline in deliveries to EU members Poland and Lithuania.



Gazprom said on Friday it was ready to let third parties use Nord Stream pipeline if a gas trading hub is set up in St. Petersburg, Russian agencies quoted the Miller as saying. The agencies also quoted Miller as telling reporters at the St. Petersburg Economic Forum that Gazprom saw the price for its European customers at \$500 per 1,000 cubic meters in the first quarter of 2012.

Australian energy firm Woodside Petroleum delayed the planned

start-up of its flagship Pluto LNG project by another six months, reported an almost \$1 billion cost blowout and trimmed its overall production guidance for the year. The first LNG shipments from Pluto are now scheduled for March 2012, a year behind the original target, and costs are seen rising by \$15.7 billion US as a design fault and weather-related issues delayed the project, Woodside said on Friday.

The civil war in Libya will reduce the European Union's gas overhang by 4.8 percent to 15.2 billion cubic meters in 2011, Deutsche Bank said on Friday. The revised figure, down from an initial deferred-gas overhang expectation of 20 bcm, is a result of the prolonged Libyan conflict, which is forcing Italy to resort to Russian gas supplies to make up for the cut in supply from North Africa. Deutsche Bank said the revision was necessary because the Libyan conflict was taking longer than initially expected, and because gas flows from the Netherlands and Norway into continental Europe had dropped. Deutsche Bank has also observed lower import rates of gas from the Netherlands and Norway over the observed period of February 22-June 15, 2011. The 2011 flows have been lower by 1.7 bcm compared with 2010 which would total a 5.5 bcm on an annualized basis. Although Deutsche Bank expects the Dutch and Norwegian flows to normalize from 2012 onwards, it has also modeled a more extreme sensitivity case, should these flows not resume.

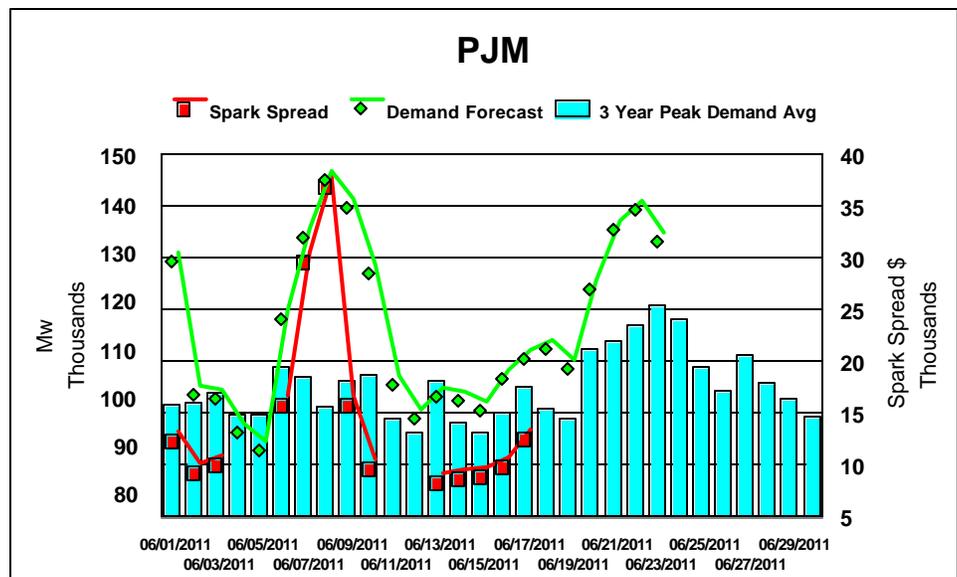
ELECTRIC MARKET NEWS

US nuclear refueling outages should be much lower than normal this autumn following record-breaking outages during the spring maintenance data, according to Reuters data. About 14,800 megawatts of nuclear power capacity will be out of service in mid-October compared with about 18,500 MW out last

year and a five-year average (2006-2010) of 21,300 MW. Autumn outages peaked near 27,200 MW in 2009 and bottomed at about 12,300 MW in 2004. Reuters expects 24 units to shut for refueling this autumn, which is slight increase from last autumn where 22 reactors shut for an average of 42 days. Over the past five years, about 27 units have shut in the autumn for an average of 43 days. During the spring of 2011, nuclear outages recorded record levels with 43 units shut for refuel which helped prop up natural gas prices at a time of typically weak weather-related demand. Nuclear reactors operate around-the-clock as baseload facilities, providing some of the lowest cost power. Gas-fired units typically cover reductions in nuclear generation in many parts of the country. Spring nuclear outages peaked at about 32,800 MW in early May, the highest level seen in at least a decade.

Tennessee Valley Authority signed a letter of intent to build up to six Babcock & Wilcox's small modular mPower reactors at TVA's proposed Clinch River nuclear power plant in Roane, Country Tennessee by 2020. In a release Thursday, B&W said TVA planned to submit a construction permit application with the US Nuclear Regulatory Commission in 2012 and Generation mPower planned to submit a design certification application to the NRC in 2013. Generation mPower, which is a majority owned subsidiary of B&W, was formed by affiliates of US engineering and construction firms B&W and Bechtel Power to design, license and build small modular reactors based on B&W's mPower technology.

US coal consumption fell 3 percent in the past week, Genscape said on Friday, as cooler weather and nuclear plant restarts cut demand for coal-fired power. Use of coal for the week ended Thursday fell 9 percent from the same week in 2010, the power industry data monitor said. In the populous East, including the coal-dependent Midwest and Southeast, coal use dropped 3 percent from the previous week and was 8 percent lower than the same week last year. In the less populous West, which was cooler and has fewer coal-fired power plants, coal use was up 1 percent week-to-week from the year-earlier level. In the East, weather was hot early in the week but cool later in the week, WSI Corp weather service said.



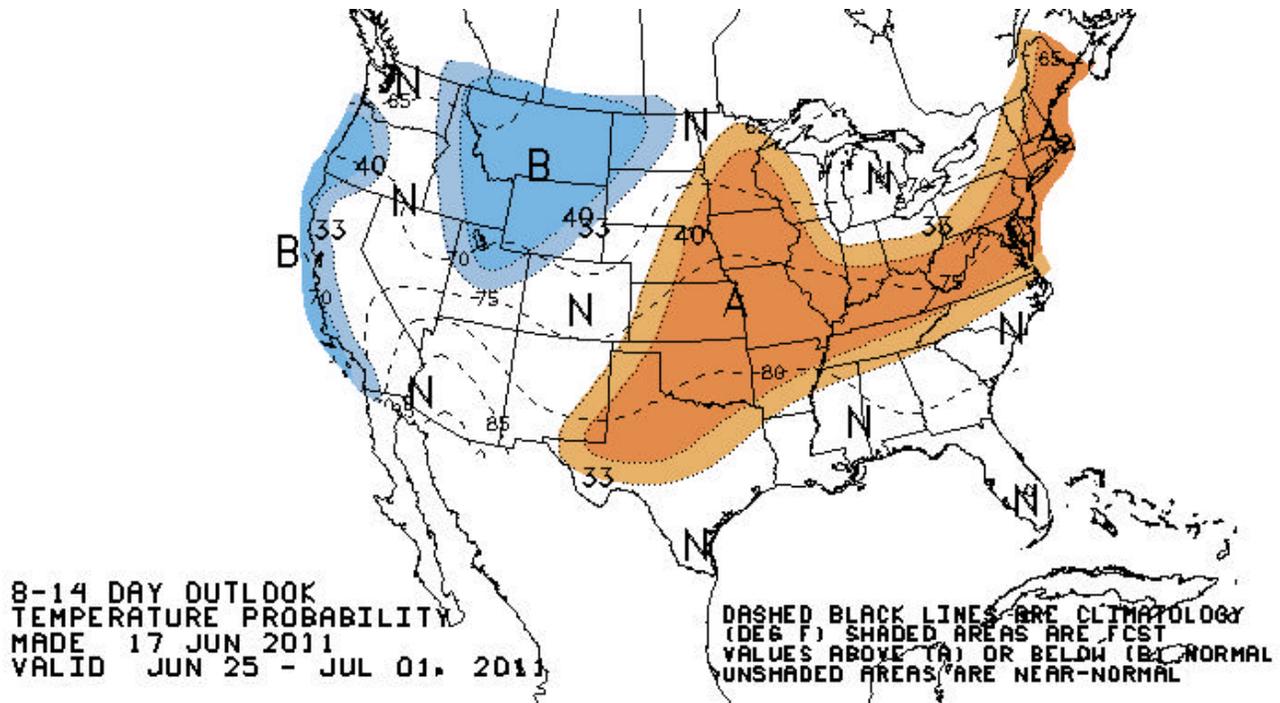
Japan's Kansai Electric Power Co said on Friday it was not thinking of using gas turbines in the summer even though four nuclear reactors under maintenance remain shut. Osaka-based Kansai, Japan's second-ranked power company, also said that five fossil-fuel units that have been under long-term suspension would not be ready to resume operations by the peak summer session.

ECONOMIC NEWS

The IMF cut its forecast for US economic growth on Friday and warned the US and European countries that they are playing with fire unless they take immediate steps to reduce their budget deficits. The IMF said larger threats to growth had emerged since its previous report in April, citing the euro zone debt crisis and signs of overheating in emerging market economics. It forecast that US GDP would grow 2.5% this year and 2.7% in 2012 compared with its previous estimate of 2.8% and 2.9% growth, respectively. The IMF said it was slightly more optimistic about the euro area's growth prospects this year but a lack of political leadership in dealing with that crisis and the budget

showdown in the US could create major financial volatility in coming months. It raised its growth view for the euro area in 2011 to 2% from 1.6%. For 2012, the IMF saw growth at 1.78%.

The Thomson Reuters/University of Michigan Surveys of Consumers' preliminary June consumer sentiment fell to 71.8 from 74.3 in the final May reading. Economists expected a preliminary June sentiment reading of 74.



High frequency trading could double from about 15% in two to three years, leaving commodity exchanges and regulators struggling to keep up. The ICE's CEO said exchanges were working on ways to target unintended price spikes, without losing the benefits and volumes high frequency trading firms bring. All signs point to continued growth of HFT in commodities. It is partly in response to increased competition and narrowing profit margins in the US equities, where high frequency trade is estimated to have declined from a year ago, along with lower volumes and volatility. CME Group Inc said automated trading, including both HFT and slower computer generated trades, accounted for almost a third of energy futures volumes in the fourth quarter of 2010.

According to BlackRock and ETF Securities, investors pulled over \$2.6 billion from commodity exchange traded products in May, largely due to a selloff in precious metals and a weaker economic outlook. The outflow was the year's largest, surpassing January's figure of just over \$2 billion. Investors pulled \$229 million from energy product EFTs.

MARKET COMMENTARY

The natural gas market today posted its fifth consecutive down day as slowly rebounding nuclear generation levels and modest cooling demand kept most bullish traders either on the sidelines or on the defensive. The market at mid-morning received a technical shove lower as the 200 day moving average in the July contract was breached which appeared to trigger some fresh selling to move into the market and push prices lower into the early afternoon before prices finally stabilized around the \$4.31-\$4.35 level.

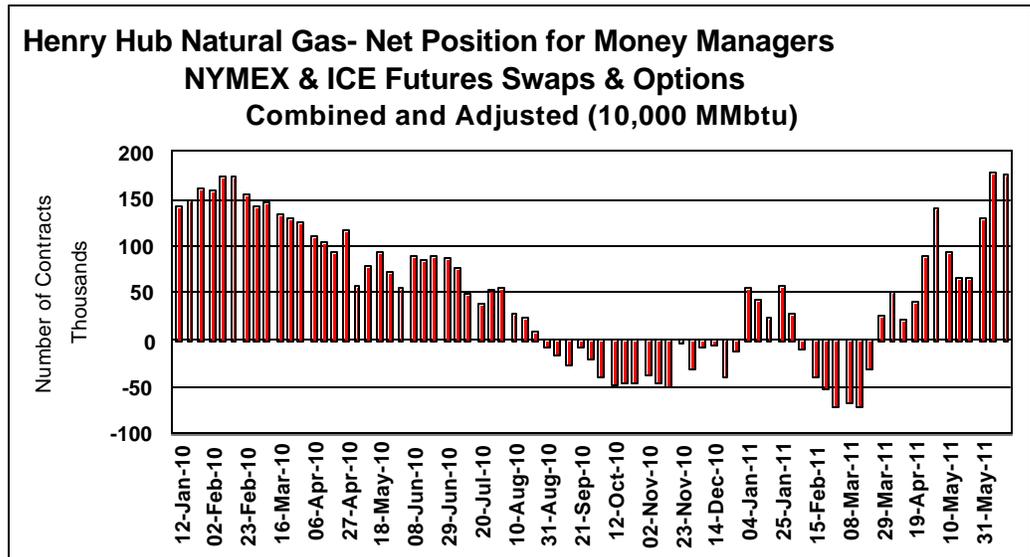
This afternoon's Commitment of Traders Report today showed that the commodity funds posted one of their smallest weekly changes in the last month, decreasing their net long positions by just 3,700

contracts and as a result kept a sizeable net long position in the NYMEX and ICE natural gas markets. Since the Tuesday cut off for the reporting period, we have seen the combined futures and adjusted futures and swaps positions in the Henry Hub contracts decline by over 10,000 lots, which possibly could be some commodity funds exiting long positions just as they are apparently in other dollar denominated contracts, such as oil and corn.

With the prospects of some sustained higher cooling demand returning in the 11-15 day forecast this market may begin to find some support next week. We also see the old congestion area of \$4.15-

\$4.40 as a high probability that prices could end up entering into and remaining for an extended period of time. As a result we would look to significantly lighten our short position in this market and possibly look for opportunities to sell strangles in the natural gas next week on any upswing in volatility. As a point of reference the August \$5.00 call and \$4.00

Put strangle tonight settled at 8.3 cents.



We see support Monday at \$4.317 followed by \$4.227 and \$4.209. Additional support we see at \$4.14, \$4.077 and \$3.99. Resistance we see at \$4.40, \$4.44, \$4.571, \$4.65 and \$4.729. More distant resistance we see at \$4.811 and \$4.983.

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