



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 29, 2011

NATURAL GAS MARKET NEWS

North America

The season's first named storm in the Atlantic basin sprang to life overnight as Tropical Storm Arlene. The storm is headed towards the Mexican northeastern Gulf coast, with land fall expected to be made either late Wednesday night or early Thursday morning.

The EIA reported today that gross natural gas production in April of this year rose 1.1% for the lower 48 states from an upwardly revised March output of 69.05 bcf/d. While production from the federal offshore waters in the Gulf of Mexico continues to decline, dropping 1.4% in April from March, production gains from Louisiana and "Other States" which include the Marcellus Shale production areas, increased by 2% and 2.1% respectively. Total U.S. natural gas production is nearly 5 bcf/d more than the same time a year ago.

Generation Outages

NPCC – OPG's 490 Mw Nanticoke #1 coal fired power unit was shut.

PJM – PPL said its Susquehanna #2 nuclear unit returned to service today.

SERC – TVA's 1148 Mw Sequoyah #1 nuclear unit reportedly was back to full power early Wednesday, up from just 15% power on Tuesday.

MRO – Xcel Energy's 572 Mw Monticello nuclear power plant ramped up to 90% power Wednesday morning, up 88% from Tuesday.

The NRC reported this morning that some 92,458 Mw of nuclear generation was online, up 1.2% from yesterday and 3.4% below levels recorded a year ago.

SM Energy, an oil and gas producer, said today that it would sell half of its non-operated acreage at

Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
Location	Traded	Price		(As of 12:30 PM)		Moving Avg
Henry Hub	831,900	\$4.397	\$0.056	\$0.052	\$0.043	\$0.061
Chicago City Gate	622,000	\$4.466	\$0.036	\$0.121	\$0.040	\$0.112
NGPL- TX/OK	1,042,900	\$4.314	\$0.017	(\$0.031)	\$0.021	(\$0.027)
SoCal	552,600	\$4.503	\$0.065	\$0.158	\$0.069	\$0.138
PG&E Citygate	1,112,300	\$4.636	\$0.033	\$0.291	\$0.037	\$0.301
Dominion-South	833,700	\$4.502	\$0.080	\$0.157	\$0.084	\$0.125
USTrade Weighted	20,228,200	\$4.421	\$0.039	\$0.076	\$0.04	\$0.061

the Eagle Ford shale in Texas to a subsidiary of Mitsui for \$680 million in order to help finance drilling at its assets in the region.

International

Chevron said today that it is optimistic about the geological potential of its recently acquired shale acreage in Eastern Europe, but noted that the lack of infrastructure and a poor regulatory environment will slow development of the potential reserves. Chevron has acquired shale acreage in Poland, Bulgaria and Romania.

Japanese LNG imports reached 6,039,145 tonnes in May, up 0.5% from the prior month and some 26% higher than a month a year ago. Malaysia and Australia remained the two largest suppliers of

LNG to Japan on the month with just over 1 million tones each. The average price of LNG purchased in May was \$13.57 per Mmbtu.

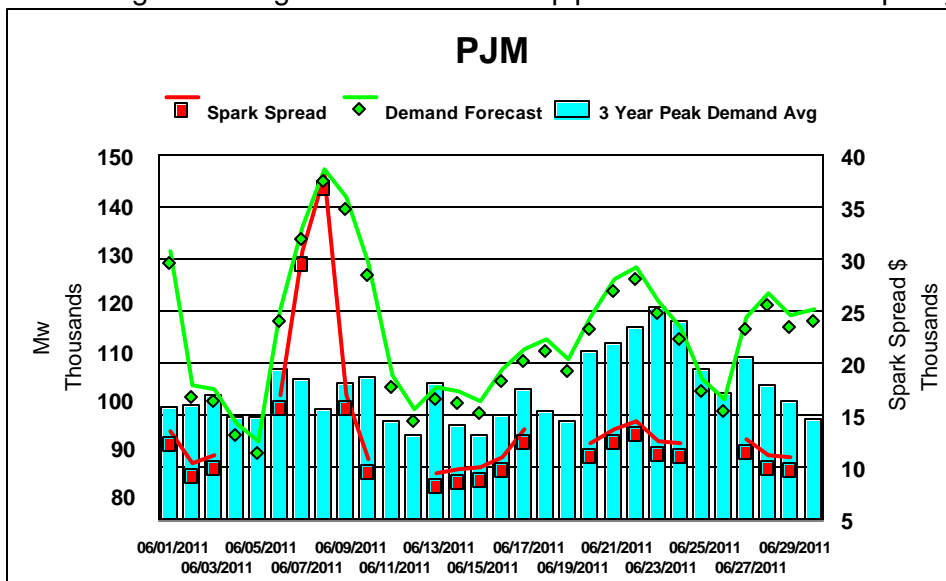
French utility EDF said it would move ahead with a long awaited \$1.42 billion project to build a LNG terminal in northern France. The Dunkirk facility is expected to have construction begin in 2012 and to be operational by 2015. The facility will have a regasification of 13 bcm and will increase France's LNG import capacity by 20%.

The Al Kharaitiyat LNG tanker is slated to arrive at the South Hook terminal on June 29th from Qatar.

Qatargas said Wednesday it has signed an agreement with Energia Argentina Sociedad Anonima for a period of 20 years. The supply will be delivered via the Southern Cone LNG Hub, a floating, storage and regasification facility in Argentina starting in 2014.

China Gas Holdings said today that it expects to sell 5.2 bcm of gas for the year ending March 2012, with 6.2 bcm in sales in 2013. Last year the company sold 4.6 bcm of natural gas.

China National Petroleum said the trunk line of China's second West-East natural gas pipeline will be ready to start operating at the end of this month. With eight sub lines slated to be completed by June 2012, the pipeline will be able to transport 30 bcm of natural gas annually from central Asia and northwest Xinjiang Uygur Automous Region to the Yangtze and Pearl River deltas. The company is still looking at building a third west to east pipeline with a 20 bcm capacity.



Thailand's PTT said on Wednesday all of its six gas separation plants were operating normally despite a loss of supply following the recent leak at an offshore gas pipeline. The leak in the Gulf of Thailand could result in the loss of about 600 MMcf/d, accounting for 14% of the country's total supplies. Some 70% of the country's power is generated from natural gas. The company is still awaiting the arrival of equipment from

Singapore before sending divers to close a valve on the pipe on July 2nd. Only after the leak has been stopped will the company fully investigate the cause of the leak and repair the damage a few weeks afterward.

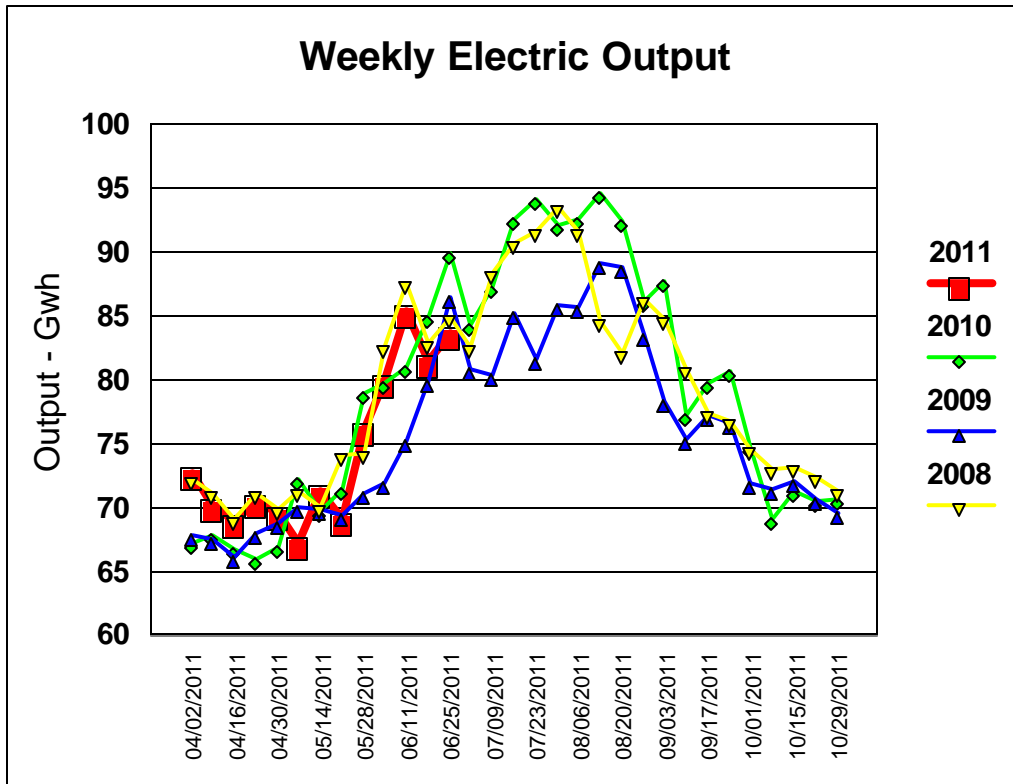
Indonesia officials said it looks speed up the development of a floating LNG project off the Timor Island by two years and hopes to have the project in operation by 2016.

ELECTRIC MARKET NEWS

The U.S. Northwest River Forecast Center said late yesterday that it estimates water flows at the Dalles Dam for the April- September period will be 140% of normal, unchanged for the forecast made a week ago and some 56% higher than the same week a year ago.

The Edison Electric Institute reported that for the week ending June 25th it estimated U.S. electric production to have reached 83,237 Gwh, up 2.66% from the prior week but 7.5% less than the same week a year ago.

Japan's Kansai Electric Power Company said today that it expects to restart the coal fired 900 Mw Unit #1 at its Maizuru power station in early July. The unit has been off line since May 30th.



RWE's business strategy head said today that European power futures prices are too low to justify building the new gas fired power plants that will be needed after Germany's exit from nuclear generation. He noted that one needs 75 to 80 euros or \$106-\$113 a Mwh and given current prices of year ahead delivery is now below 60 euros, it is evident one can not justifying building new plants.

ECONOMIC NEWS

The National Association of

Realtors' seasonally adjusted index for pending sales of existing homes increased by 8.2% on the month to 88.8. It was the strongest monthly gain since last November. April's level was revised up to 82.1. The pending sales index for May was 13.4% above its level last year.

The euro moved higher against the dollar on the expectation that the Greek government would win approval for legislation detailing specific implementation measures for an austerity package. Greek Prime Minister George Papandreou won a parliamentary majority in favor of a five year austerity plan in a vote on Wednesday.

A Commodity Futures Trading Commission case against the US unit of Optiver Holding BV, a Netherlands based hedge fund, has been referred to US Magistrate Judge Theodore Katz for settlement. The hedge fund was charged with using a rapid-fire trading program to manipulate crude, gasoline and heating oil prices on the NYMEX. According to the CFTC, Optiver gained \$1 million in profits in 2007 by accumulating a large position just before the market closes and offsetting those positions at the close itself, manipulating prices through volumes of trades.

Supporters of Venezuela's President Hugo Chavez hailed the release of new footage of the socialist leader as proof he was recovering well from surgery in Cuba despite speculation he may have cancer. Both Venezuela and Cuba released new video and photographs of him walking and chatting with Cuba's Fidel Castro. The new images do not disprove a rumor that he has prostate cancer but they do support the official line that he is recuperating from an operation. The focus is now on whether he will be back in Venezuela to host a regional summit planned for July 5th.

The managing director of S&P warned today that the U.S. would immediately see its top-notch credit rating slashed to "selective default" if it misses a debt payment on August 4th. He said that U.S. Treasury bills maturing on August 4th would be rated 'D' if the government fails to honor them. Meanwhile the IMF said the failure of U.S. lawmakers to agree soon on a deal to raise the government's borrowing limit could deliver a severe shock to a still fragile recovery and global markets.

The European Commission reported today economic sentiment for the Euro Zone for June fell to 105.1 from the 105.5 recorded in May.

EU member governments reportedly have struck a provisional deal today on preventing market abuse in energy trading. The proposed regulation would set up a framework for monitoring wholesale energy markets in order to detect market abuse and manipulation. The deal would require energy traders and other market participants to sign up to national and European registers. The agreement also outlines the levels of fines for non-compliance. The agreement will now have to be approved by the European Parliament, before it can become law.

The president of the Dallas Fed said today that he sees U.S. economy expanding by 4% in the second half of this year

MARKET COMMENTARY

The natural gas market today basically retraced half of its gains from the rally of the last week, as rebounding nuclear generation levels and the EIA's monthly production report weighed on prices. But traders were not holding a strong bias for this market as prices posted an inside trading session as most appeared content to await tomorrow's storage report before committing to this market in either direction.

Market expectations for tomorrow's EIA Storage report appear to be for a build of 65-85 bcf build with most estimates centered around a 80 bcf build. For the same week a year ago stocks increased by an adjusted 63 bcf while the five year seasonal average build is 77 bcf.

We continue to feel that this market will drift higher over the coming days in part driven by a technical rebound and as a result would recommend for bears to await significantly higher levels to sell into this market based on a bearish outlook for continued strong hydro generation levels coupled with high domestic gas production levels will once again weigh on prices. We see resistance tomorrow at \$4.38 followed by \$4.485-\$4.497, \$4.57-\$4.59 and \$4.66-\$4.69. Support we see at \$4.25, \$4.22, \$4.164, \$4.071 and \$3.99

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