



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 MARCH 15, 2011

NATURAL GAS MARKET NEWS

North American

Tennessee Gas Pipeline declared a force majeure late Monday due to a leak on a section of its natural gas pipeline system near Heidelberg, Mississippi. The leak was on a two inch line that connects to a main line in a rural area of Jasper Country. No impact on gas deliveries though was expected.

Generation Outages

PJM – Constellation Energy’s 862 Mw Calvertt Cliffs #2 nuclear unit has started to exit its recent outage and had ramped up to 10% power this morning.

FRCC – NextEra Energy’s 693 Mw Turkey Point #3 nuclear unit ramped up to 60% power this morning.

The NRC reported this morning that some 83,884 Mw of nuclear generation capacity is online, up 0.7% from yesterday and some 0.6% higher than the same day a year ago.

The CME Group said energy hedge fund Goldfinch Capital Management was fined for violating position limits in US natural gas futures. The hedge fund has been asked to pay the NYMEX a \$50,000 fine plus \$17,287 in profit incurred from holding speculative positions in excess of expiring speculative December 2010 futures contract position limit. The exchange found that the firm sold December 2010 futures contracts and extended its short position to 1,053 contracts, 53 contracts or 5.3% over the expiring speculative spot month position limit before buying the contracts and reducing the position back under the limit.

International

Reuters reported this morning that according to one shipping firm, Japan’s Shinminato was the country’s only LNG terminal not in operations after last week’s earthquake and tsunami.

Natural Gas Cash Market						
ICE Next Day Cash Market						
	Volume	Avg	Change	Basis	Change	Basis 5-Day
Location	Traded	Price		<small>(As of 12:30 PM)</small>		Moving Avg
Henry Hub	486,200	\$3.808	(\$0.090)	(\$0.157)	(\$0.083)	(\$0.082)
Chicago City Gate	813,600	\$3.893	(\$0.151)	(\$0.072)	(\$0.101)	\$0.018
NGPL- TX/OK	839,000	\$3.692	(\$0.131)	(\$0.273)	(\$0.081)	(\$0.189)
SoCal	663,800	\$3.764	(\$0.069)	(\$0.201)	(\$0.019)	(\$0.171)
PG&E Citygate	1,149,700	\$3.997	(\$0.055)	\$0.032	(\$0.005)	\$0.054
Dominion-South	431,500	\$3.930	(\$0.165)	(\$0.035)	(\$0.115)	\$0.057
USTrade Weighted	19,705,000	\$3.802	(\$0.133)	(\$0.163)	(\$0.08)	(\$0.082)

The LNG tanker the LNG Imo is slated to arrive at the Dragon LNG terminal on March 22nd from Nigeria, according to port officials. Meanwhile the tanker the Al

Huwaila LNG tanker is expected to arrive at the Isle of Grain terminal on March 17th. This vessel has a capacity of 216,000 cubic meters.

Morgan Stanley and Spain’s Gas Natural were awarded supply contracts to deliver LNG to Argentina’s new Puerto Escobar plant when it opens in June. Morgan Stanley will supply 70% of the plant’s needs with Gas Natural providing the remainder. The contract runs through December.

The CEO of Shell Oil said today that he hoped its Iraq gas deal would be approved shortly. The deal would be for a \$12 billion joint venture between Shell, South Gas Company and Mitsubishi to capture the huge amount of associated gas expected to come from Iraq's oil output growth over the next decade. Iraq currently flares 700 mmcf/d of gas from its southern oil fields.

An estimated 9700 Mw of Japanese nuclear generation, or 20% of its nuclear capacity and 10,800 of thermal power generation has been lost. Separately some 670 Mw of nuclear power generation was shut at the time of the earthquake for regular inspections and maintenance. In the past, the Japanese have used oil fired generation to make up for generation shortfalls. In 2007 during the 21-month outage at the Kashiwazaki-Kariwa nuclear plant, the Japanese increased burning of fuel oil and crude oil by 250,000 b/d. This time it is believed the nation may increase the use of LNG given the limited availability of low sulfur fuel oil and crude as well as the fact that much of the 10,800 Mw of thermal generation that was lost was oil fired generation. Therefore many analysts continue to estimate that if LNG becomes the preferred generating fuel it would equate to at least 1 bcf/d of additional natural gas demand or the equivalent of about an extra cargo every three days.

The CFO of Shell Oil said today he expected spot LNG prices will likely rise as a result of LNG cargoes being diverted away from Europe to Japan in the coming weeks. Shell's CEO said today that the company is looking to divert as much LNG as it can to Japan to make up for the loss of Japanese nuclear generation over the longer term.

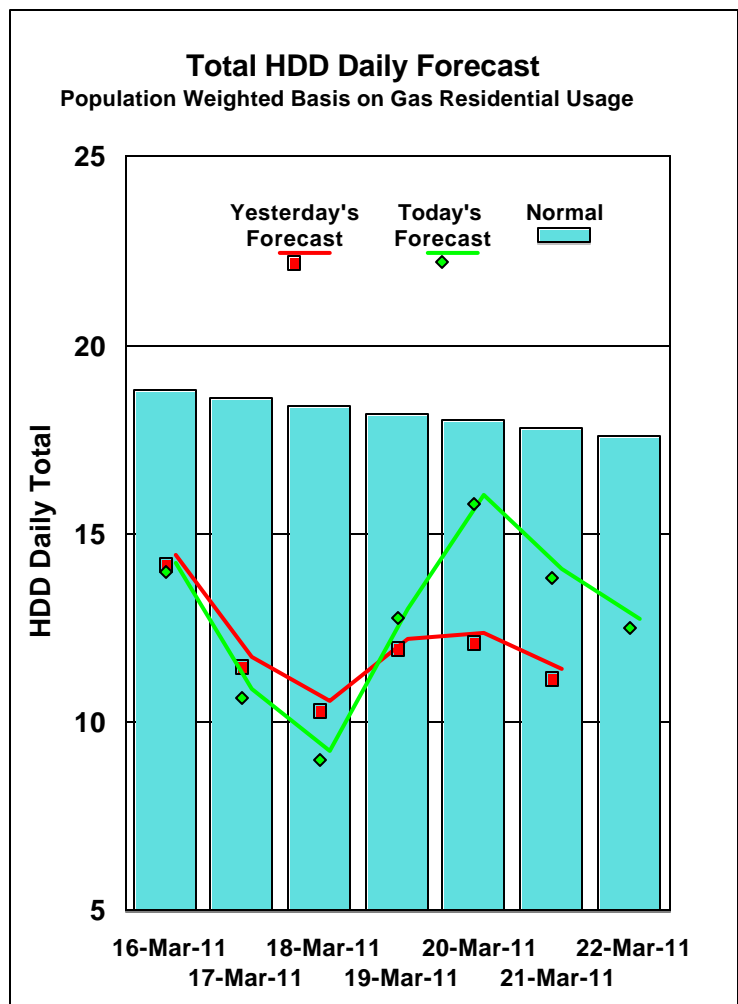
The Russian firm, Sakhalin Energy, which runs the Sakhalin-2 LNG plant said its shipments of LNG to Japan remain unaffected and supplies to Japan may be increased. Some 60% of the company's exports were destined for Japan last year.

ELECTRIC MARKET NEWS

Japan's largest utility, Tokyo Electric Power said today it may impose a rolling blackout in an upcoming three-day weekend and expects power demand to outstrip supplies on Wednesday. It estimates demand today would reach 38 million kilowatts vs. a supply of 33 million.

The IAEA reported this morning that the fire in a spent nuclear fuel rods storage pond at the Fukushima Daiichi nuclear plant, which had caused the release of high doses of radioactivity into the atmosphere earlier, has been put out. Meanwhile France's nuclear watchdog reported this morning that the concrete vessel around the #2 nuclear reactor at the plant is no longer sealed.

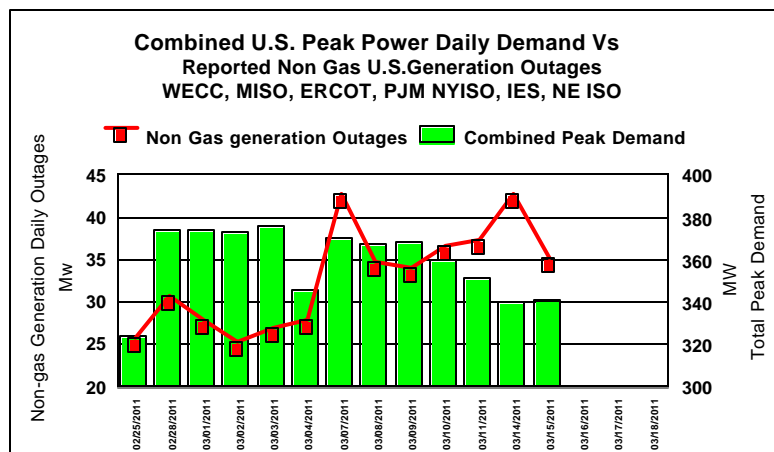
The European Union said it is considering conducting stress tests for its nuclear plants but no final decision has been made.



U.S. Energy Secretary Chu today affirmed the safety of U.S. nuclear facilities. He noted the U.S. is committed to learning from Japan's experience as we work to continue to strengthen America's nuclear industry. He said that the U.S. was sending equipment to Japan to help monitor radiation levels. He also stated that federal regulators should not delay approving construction licenses for planned US nuclear power plants because of Japan's nuclear crisis.

Republicans in the US Congress on Tuesday were expected to attempt halting the EPA from regulating greenhouse gases by attaching the measure to an unrelated bill up for debate in the Senate.

Last week, a US House of Representatives panel approved the legislation. The measure would stop the EPA from regulating carbon dioxide emissions from large factories, oil refineries and electric utilities.



Xcel Energy Inc announced its plan to repower its Black Dog plant. Its coal fired units would be replaced by natural gas fired units. The proposed Black Dog repowering project would replace the remaining 253 megawatts of coal fired generating capacity. The repowering project calls for construction of a

combined cycle facility at the site. A higher capacity natural gas line will also be installed to serve the facility.

The German government announced today that it would shut down all seven of its nuclear power plants that had begun operating before 1980 as part of its moratorium review for the next three months. It is unclear if the plants will be permanently closed or restarted and reconnected to the grid afterwards. The seven aging plants account for about a third of Germany's nuclear capacity, One unit of the seven though has been off line since 2007 due to an accident, while a second has been off line since last month due to maintenance. The nuclear generation accounts for 25% of total electrical generation in the nation.

ECONOMIC NEWS

The New York Federal Reserve's report showed its Empire State general business conditions index increased to 17.5 in March from 15.43 in February. It increased to the highest level since June 2010. The new orders index fell to 5.81 from 11.8 while shipments fell to 1.62 from 11.31. The prices paid index increased to 53.25, the highest level since August 2008, from 45.78. The index for the number of employees increased to 9.09 from 3.61 in February.

MARKET COMMENTARY

The commodity and equity markets started off the day basically in a freefall as traders were concerned that the disasters impacting Japan could severely put the breaks on economic growth not only in Japan but that it would have a spill over effect around the world. The April natural gas futures contract tumbled back and retested the lows from Thursday and Friday. But as the day progressed, buyers saw the potential in demand related buying for LNG coming from Japan and this would help support the natural gas market around the world. Natural gas futures were able to finish the day back in positive territory despite weaker cash market values and a weather forecast that continued to see demand running below normal for the remainder of the week.

But despite the rebound in futures prices today we continue to feel that the lift in prices from the Japanese situation will have a limited spill over to the U.S. market, especially since the U.S. has limited capacity at this time to export LNG and the Japanese situation would at most call for an additional 1 bcf/d of supply from the global market. In addition the lack of weather demand to finish of the winter heating season should limit any significant upward move in price at this time.

We see resistance at \$3.96, \$4.10, \$4.149-\$4.17, \$4.305 and \$4.44. Support we see at \$3.795, \$3.731-\$3.71, \$3.656, \$3.41 and \$3.255.

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