



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR MAY 3, 2011

NATURAL GAS MARKET NEWS

North America

The CME reported today that open interest in its natural gas futures contract rose to a record high for the third time this year with 992,434 contracts outstanding, surpassing the previous record of 983,802 set on April 18th.

International

China National Petroleum said today that they plan to build a natural gas storage facility with a capacity of 4.5 bcm in the city of Changji. The project is expected to have a price tag of \$1.7 billion and construction should begin in June of this year and be operational by 2014.

Generation Outages

NPCC – Dominion's 877 Mw Millstone #2 nuclear unit began to exit its recent refueling outage and ramped up to 18% power early Tuesday. The unit had been off line since April 3rd.

Constellation Energy's 621 Mw Nine Mile Point nuclear unit was shut late Monday due to an Automatic Reactor Protection system actuation. The unit had been at 48% power early Monday. The unit had been operating at reduced rates recently as operators were performing equipment repairs on one of the three feedwater pumps.

SERC – The TVA said today that the 3,200 Mw Browns Ferry nuclear station will likely remain off line for another two to three weeks while the TVA repairs its high voltage transmission grid.

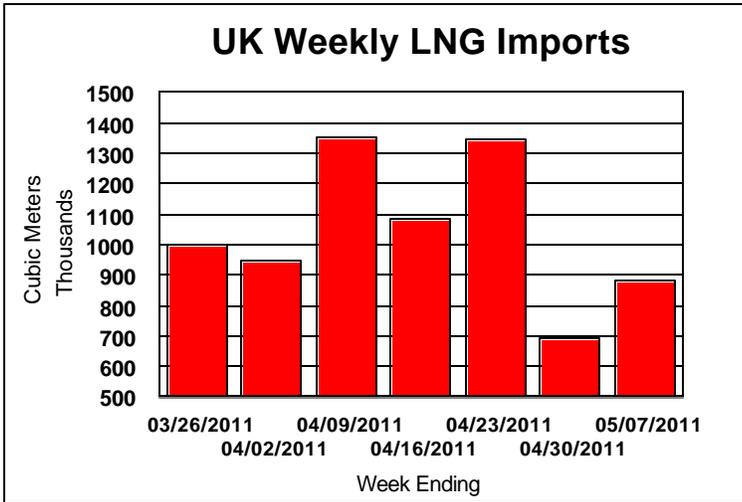
The IEA said today that reduced use of nuclear generation around the world could put upward pressure on natural gas prices, as gas would be the most straightforward alternative as a generating fuel. The IEA warned that some older nuclear power plants in the European Union might be forced to end operation earlier than previously planned following the EU's stress test.

Chevron said today that Angola's LNG project should start operations next year with the first cargo from the facility exported sometime during the first quarter. The \$9 billion project is currently on schedule. The gas feedstock for the project will come from associated gas from current crude oil production. The gas is currently being flared off.

Total SA announced today it would join with Electricite de France in building a LNG terminal in Dunkirk. The facility, which has been plagued by delays, will cost \$2.2 billion and would have a regasification capacity of 10-13 bcm per year. A start up date of 2014 is projected.

Turkish Energy Minister Yildiz said today that Turkey remains hopeful it will be able to obtain a price discount on natural gas purchased this year from Russia. Turkey currently purchases 30 bcm of gas annually from Russia and these purchases account for 64% of its needs. The minister said that there might be a "take or pay" agreement with Russia in order for a deal to be reached.

The Lusail LNG tanker was expected to arrive at the Zeebrugge terminal on May 15th. The vessel was reportedly coming from Qatar. Meanwhile the Al Deebel LNG tanker is slated to arrive at the terminal on May 18th from Qatar as well.



Statoil announced it was suspending production at its Arctic Snoehvit gas field for planned maintenance work. The shut down began on Friday and is expected to last for 40 days. The field typically has a 480 mcm per month production rate.

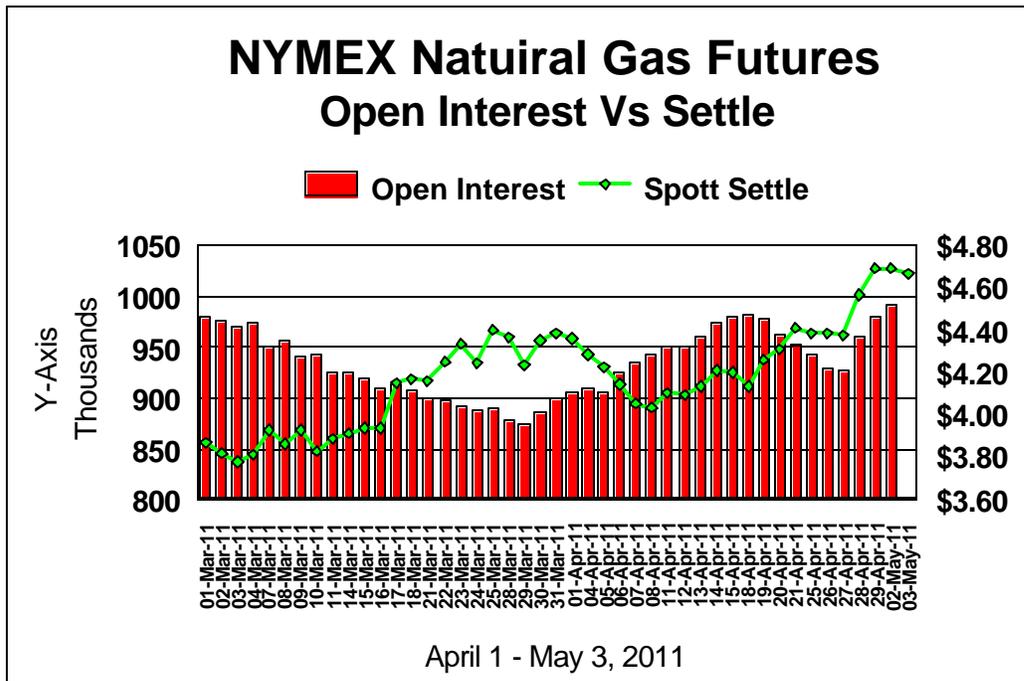
Gas flow through the southern leg of the Swiss-Italian Transgas pipeline resumed Monday after it was stopped for one week to integrate a new bypass. The pipeline had operations disrupted for five months last year due to a rockslide and a temporary part of the pipeline had been pressed into service around Christmas time.

ELECTRIC MARKET NEWS

New York's power grid operator said the shutdown of the 2045 Mw Indian Point nuclear plant over the next few years could hurt the reliability of the state's electric system.

NYISO has estimated this summer's peak demand would be lower than the actual peak of 2010 because temperatures this summer should be more moderate than last summer. This summer the ISO pegged peak demand reaching 32,712 Mw versus an actual peak of 33,452 Mw in 2010 and the all time peak of 33,939 Mw. The ISO said it expects to have about 43,000 Mw of power resources available to meet summer demand. These resources include 37,700 Mw of generation, 2700 power imports and 2400 Mw of power demand response.

TVA said workers were taking precautions to reduce possible flooding at coal-fired power plants in Tennessee and Kentucky. The preparations included sandbagging and inflatable coffer dams for possible use at the 1369 Shawnee Fossil plant west of Paducah, KY and the 750 Mw Allen Fossil plant near Memphis, TN.



TVA reported that some 118,000 customers are still without power in the area served by TVA member utilities.

TVA reported that only 25% of the 337 damaged transmission structures have been repaired. The utility warned that it may take months for the storm damaged grid to be repaired.

The U.S. Northwest River Forecast Center released their latest updated forecast for water flows in the Pacific Northwest. For the April – September period, the Center has kept its outlook for water flows at the Dalles Dam unchanged from its prior forecast at 125% of normal versus a year ago when flows at the dam were just 84% of normal. Water flows at the Grand Coulee dam were estimated at 119% versus a year ago when flows were just 80% of normal.

ECONOMIC NEWS

US Attorney General Eric Holder said a new taskforce focused on fraud in the energy markets would look into whether there was price gouging at the gas pumps or traders were manipulating the markets. The group includes representatives from the Commodity Futures Trading Commission, the Federal Trade Commission, the Federal Reserve Board, Securities and Exchange Commission and the Departments of Agriculture, Energy, Justice and Treasury.

Federal Reserve Bank of Kansas City President Thomas Hoenig called for the central bank to start raising interest rates, citing rising values for assets such as farmland. He said the Federal Reserve's easy money policies risk causing inflation unless the Fed scales them back soon.

The US Commerce Department said US factory sector orders increased for the fifth consecutive months in March. Orders for manufactured goods increased by 3% to \$462.91 billion in March. The gain in factory orders during March followed a 0.7% increase in February. Order for durable goods increased by 2.9% in March.

Britain's manufacturing sector expanded at its slowest pace in seven months in April. The Markit/CIPS manufacturing PMI headline index fell to 54.6 in April, its lowest level since September from a downwardly revised 56.7 in March and well below market expectations of 56.9. The output prices index fell to 64.2 in April from a record 65.2 in March.

India decided to raise interest rates by a larger than expected 50 basis points in an attempt to fight inflation.

Senate Majority Leader Reid said today that the U.S. Senate may vote on legislation this month that would promote clean energy and small nuclear reactors, as well as bring up for a vote legislation that would seek to strip billions of dollars in federal tax breaks from large energy companies.

MARKET COMMENTARY

The natural gas market continued to basically move in a sideways pattern again today as prices posted an inside trading session as values settled modestly lower for the second day in a row. It appears that the recent buying spree in the natural gas market driven by new buyers which came into this market recently paused today take a breather possibly until Thursday's storage report is released. Open interest in the Henry Hub futures contract has gained over 54,000 contracts since the May contract expired back on April 27th.

While technically it appears that this market may be a day or two away from having the daily stochastics finally roll over and point downward, the fundamentals are not pressing for longs to take profits as of yet given the continued high level of nuclear generation off line especially with the TVA's Browns Ferry complex off line for another two to three weeks. It appears that Thursday's storage report will have to bearish in order to unlock any serious selling pressure.

We see resistance at \$4.73 followed by \$4.766, \$4.879 and \$4.993. Support we see at \$4.647, \$4.523 and \$4.472. Additional support we see at \$4.393, \$4.355 and \$4.313.

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