



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR MAY 10, 2011

NATURAL GAS MARKET NEWS

North America

The EIA, in its latest Short Term Energy Outlook, lowered its estimate for domestic natural gas production in 2011. Total output this year is estimated to increase 2.3% from 2010 levels. Marketed natural gas production is expected to increase by 1.4 billion cubic feet/day in 2011 to 63.23 bcf/d, down from its previous estimate of 63.32 bcf/d. The EIA estimates natural gas production in 2012 would increase by 0.9% to 63.82 bcf/d, down from its previous estimate of 63.83 bcf/d. The EIA lowered its forecast for US natural gas demand this year, expecting demand to average 66.48 bcf/d, up 0.5% from 2010 levels. It is down from its previous estimate of 66.75 bcf/d. In 2012, the EIA expects demand to increase 0.8% to 66.98 bcf/d, down from a previous estimate of 67.22 bcf/d. Total natural gas inventories in 2011 is expected to increase by 2,290 bcf to a record high of above 3,860 bcf, surpassing the previous record of 3,840 bcf set last winter. The EIA also reported that US imports of liquefied natural gas in 2011 are expected to fall to their lowest level in nine years as high domestic supply and increasing demand in Japan limit imports. Imports are expected to fall by 21% on the year to 900 million cubic feet/day. It had previously reported that imports would fall 11% to 1.05 bcf/d.

Generation Outages

MISO – NPPD's 770 Mw Cooper nuclear unit ramped up to 47% power by early Tuesday from 17% on Monday. The unit, which was shut on March 13th for a refueling outage, began exiting the outage on May 9th.

The NRC reported this morning that some 71,869 Mw of nuclear generation was online, up 2.57% from yesterday and 17.08% below levels recorded a year ago.

Natural Gas Cash Market

ICE Next Day Cash Market

Location	Volume Traded	Avg Price	Change	Basis		Basis 5-Day Moving Avg
				(As of 12:30 PM)	Change	
Henry Hub	751,600	\$4.190	(\$0.087)	\$0.003	(\$0.100)	\$0.039
Chicago City Gate	722,300	\$4.227	(\$0.085)	\$0.040	(\$0.082)	\$0.112
NGPL- TX/OK	794,800	\$4.075	(\$0.091)	(\$0.112)	(\$0.088)	(\$0.075)
SoCal	556,000	\$4.128	(\$0.144)	(\$0.059)	(\$0.141)	\$0.027
PG&E Citygate	1,326,300	\$4.307	(\$0.077)	\$0.120	(\$0.074)	\$0.158
Dominion-South	638,900	\$4.305	(\$0.141)	\$0.118	(\$0.138)	\$0.225
USTrade Weighted	21,372,700	\$4.171	(\$0.103)	(\$0.016)	(\$0.10)	\$0.039

BG Group said it had no current plans to export LNG from the US, despite its application to export liquefied natural gas from Lake Charles, Louisiana.

A study released yesterday by the Proceedings of the National Academy of Sciences noted that scientists from Duke University collected 68 drinking water samples which showed potentially harmful levels of methane in drinking water near drilling sites in Pennsylvania and New York associated with the process of hydraulic fracturing. Methane was detected in 51 of 60 drinking water wells across the region, regardless of gas industry operations, but concentrations were much higher closer to natural gas wells. Levels were 17 times higher on average in shallow wells from active drilling areas than in wells from non-active areas. However Duke researchers found that there was no evidence that fracking fluids contaminated the water wells.

International

Gassco stated that the Kollsnes gas processing plant in Norway would remain shut for three more days in May due to planned maintenance at offshore oil and gas platforms. The plant, which has a capacity of 143 million cubic meters/day of gas, is scheduled to remain shut until May 15th. The plant, which was shut on May 2^d, processes gas from the Troll gas field as well as the Kvitebjørn and Visund fields.

Russia's Energy Ministry reported that the country's natural gas production fell to 1.91 billion cubic meters/day in April from 1.99 bcm/d in March. Gas production by Gazprom fell to 1.47 bcm/d in April from 1.54 bcm/d in March.

Russia's OAO Gazprom exported 21% more gas to Europe in April compared with the same month last year. It gas exports during the first ten days of May were up 28% on the year. It also stated that Russian gas demand increased 11% so far in May compared to a year earlier.

Ukraine's Ukrtransgas said the volume of Russian gas transported through Ukraine to Europe in January-April 2011 increased by 12.5% on the year to 38.9 billion cubic meters from 34.6 bcm last year.

According to Enagas, Spain's imports of liquefied natural gas fell in April when the Medgaz gas pipeline from Algeria started operations. It said LNG imports in April fell by 9% on the year. It said overall demand for gas in Spain fell by 13.9% on the year in April. The Medgaz pipeline transported 2,468 gigawatt-hours or 0.23 billion cubic meters of gas in its first full month of service.

A senior Iranian energy official said Iran would soon sign a contract with Syria and Iraq to export its natural gas to the Mediterranean region. The head of the National Iranian Gas Co said a trilateral agreement on the transit of gas has been reached. He said they plan to transit gas from the South Pars field through Iraq, Syria and then Lebanon to the Mediterranean area and Europe. He added that up to \$6 billion was needed to build a pipeline that would have the capacity to transfer 110 million cubic meters/day of gas.

ELECTRIC MARKET NEWS

The Short Term Energy Outlook showed that the EIA cut its electricity consumption estimate for 2011 by 0.19% to 10.65 billion kwh/d from its previous estimate while its 2012 estimate was also cut by 0.09% to 10.9 billion kwh/d. Total electricity generation in 2011 is estimated to fall to 11.26 billion kwh/d on the year, which is down 0.09% from its previous estimate while production in 2012 is expected to increase to 11.54 billion kwh/d, down 0.09% from its previous estimate.

The research group Cambridge Econometrics warned today that the UK will fail to meet its legally binding interim emission targets because of policies for non-ETS sectors are not stringent enough. The report noted that the UK is set to miss narrowly its domestic emissions target for 2008-2012 and 2013-2017 periods by a narrow margin and will veer even further from its domestic goals over 2018-2022.

The head of the US NRC is scheduled to tour the Indian Point nuclear power plant with local politicians on Tuesday. A spokesman for the NRC said one of the topics NRC chairman Gregory Jaczko may discuss during meetings with politicians is the ongoing seismic study of the 2,045 Mw plant following the Fukushima nuclear crisis in Japan. The NRC is conducting several studies to make sure all US nuclear plants are operating safely following the Fukushima accident.

Separately, the US NRC said the failure of a key valve in the reactor cooling system at the Tennessee Valley Authority's Browns Ferry nuclear plant in Alabama was of high safety significance and would

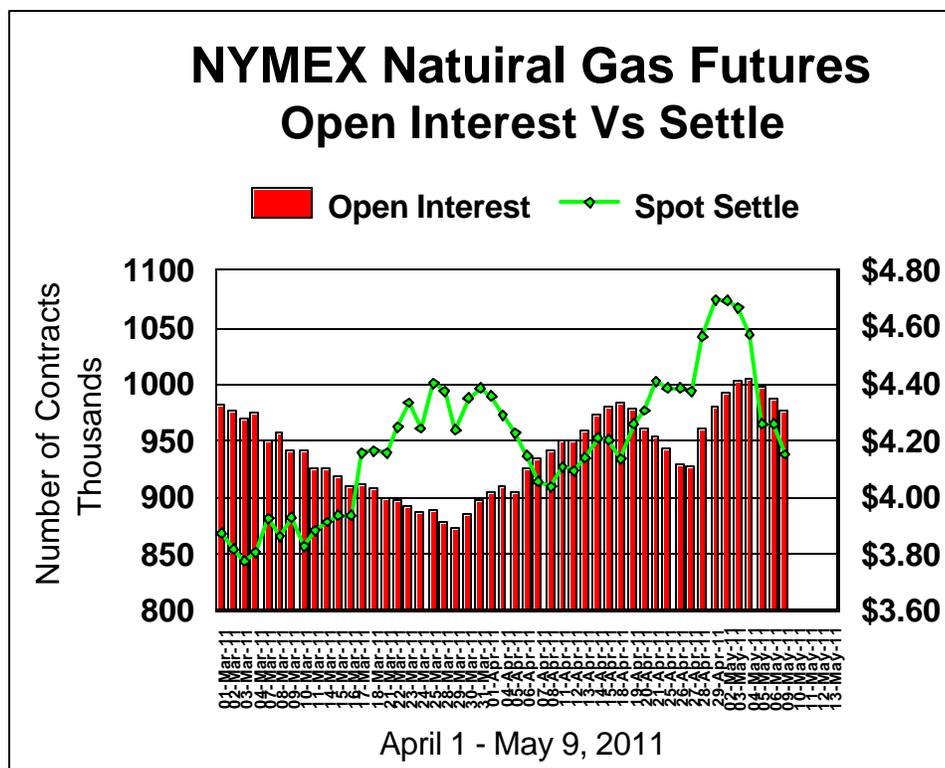
result in increased NRC inspection and oversight. This follows a decision in April 2010 to increase inspections at Browns Ferry due to failure to protect equipment in the event of a fire or accident.

The Institute of Nuclear Power Operations said some US nuclear plants are not in full compliance with rules set up after the September 11, 2001 attacks on the US to respond to explosions and fires. It said plants with more than one reactor, need to improve their ability to respond to the emergencies affecting all the units. Its review also found plants could improve staff training and improve coordination for first responders and vendors.

The nuclear power plant utilization rate at Japan's 10 nuclear power companies in March fell to its lowest level since November 2008 after the earthquake shut several plants. The average nuclear plant run rate for March fell to 58.3% from 70.8% in February. It was also down from last year's 66%.

Japan's Prime Minister Naoto Kan said renewable energy would be one of the key elements of the country's energy policy as the country reviews its long term energy policy and the role of nuclear power following the earthquake and tsunami that triggered a nuclear crisis. He however stated that the country would still rely on nuclear power for much of its electricity needs.

The U.S. Northwest River Forecast Center said today it looks for projected water run off at the Dalles Dam for the April – September period should be 123% of normal, unchanged from its prior forecast a week ago but still better than the 84% of normal recorded last year.



ECONOMIC NEWS

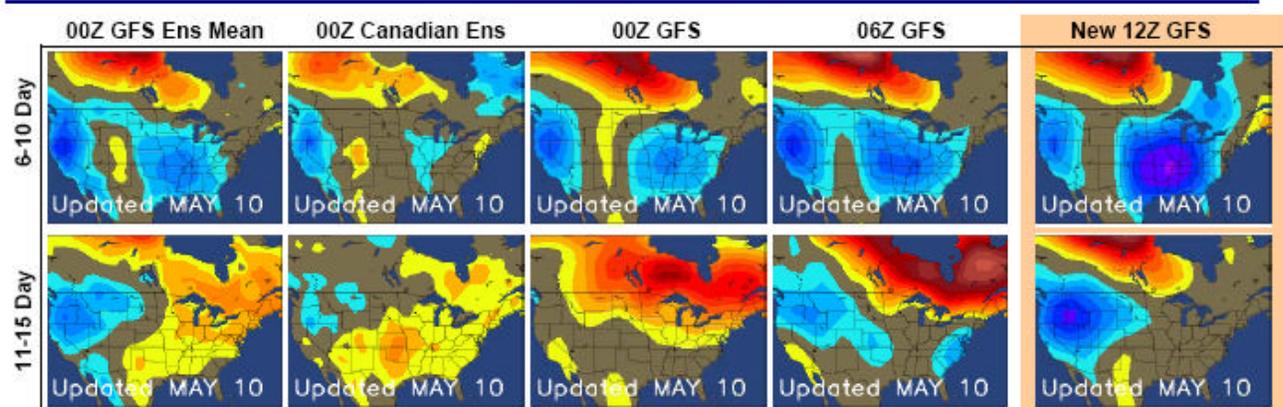
The US Labor Department reported that US import prices continued to increase in April, pushed higher by energy costs. The price of goods imported to the US increased by a higher than expected 2.2% in April from the month before. This followed a 2.6% increase in March. Import prices increased 11.1% compared to April 2010, the largest annual gain in a year. Import fuel prices increased by a monthly 6.7%. Petroleum import prices in April increased 7.2% on the month.

The US Commerce Department said inventories of US wholesalers increased by 1.1% to a seasonally adjusted \$442.92 billion in March. It reported that sales by wholesalers in March increased 2.9% to \$392.01 billion. The inventory to sales ratio fell in March to 1.13 from 1.15 in February.

Small business owner pessimism worsened in April for the second consecutive month. The National Federation of Independent Business' small business optimism index fell by 0.7 point to 91.2 in April following a 2.6 point decline to 91.9 in March. The subindex of expected business conditions in the next six months fell 3% to -8% and the expected higher real sales index fell 1 point to 5%.

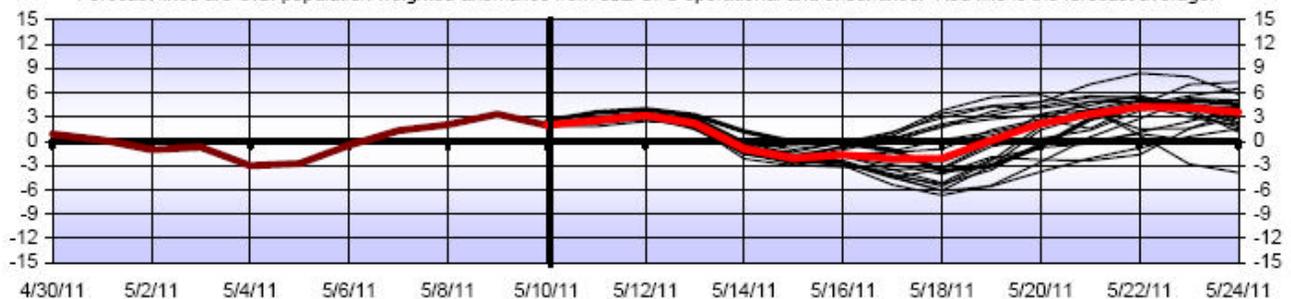
Richmond Fed Bank President Jeffrey Lacker said the Federal Reserve may need to increase interest rates later this year if a firming economic recovery increases inflation expectations. He said he was

Forecast Model Comparison



10 Day Observed U.S. Population Weighted Temperature Anomalies and 15 Day Ensemble Forecast

Forecast lines are U.S. population weighted anomalies from 00Z GFS operational and ensembles. Red line is the forecast average.



encouraged by the latest data showing a renewed willingness by US employers to hire new workers.

MARKET COMMENTARY

The natural gas market today posted its first up day out of the last seven trading sessions, as prices settled up 8-9 cents this afternoon, helped in part by general bullish commodity markets. Despite the higher settlement, the market still posted an inside trading session which could be a potential warning flag for a volatile trading session tomorrow. Open interest reported at midday showed that natural gas open contracts had contracted on Monday for the third consecutive trading session, dropping by 9,409 lots.

While it is possible that this market could breakout tomorrow of its inside trading pattern it would not surprise us to see this market though remain mired in a sideways trading pattern as traders remain on the sidelines until after Thursday's storage report. This evening's weather forecasts offers nothing to be to excited about as temperatures appear will run on either side of normal for the next two weeks and with no significant outbreak of prolonged heat especially across the south. We would look for resistance tomorrow at \$4.28-\$4.297, with additional resistance at \$4.371, \$4.439 and \$4.507. We would not look to be a seller of this market unless prices reached above \$4.45 once again, and then only a light scale up seller not becoming very aggressive unless prices entered into the area of \$4.55-\$4.75. Support we see at \$4.158-\$4.149, followed by \$4.128 and \$4.056

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