



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR MAY 12, 2011

NATURAL GAS MARKET NEWS

North America

TransCanada Corp reported a release of natural gas due to a failed pressure trip during pigging operations on the ANR gas pipeline. The pipeline transports natural gas from Texas and Oklahoma on its southwest leg and in the Gulf of Mexico and Louisiana on its southeast leg.

The regional office of the EPA directed Chesapeake Energy, Atlas Resources, Talisman Energy, Range Resources, Cabot Gas and Oil and SWEPI to disclose how they dispose of or recycle wastewater in Pennsylvania.

International

Poland's gas monopoly PGNiG is concerned of a potential push towards EU-wide regulations of shale gas extraction after France's decision to halt all such operations. An official said he was concerned such regulations would limit the possibilities of gas production using the controversial technology.

Generation Outages

NPCC – Entergy's 685 Mw Pilgrim nuclear unit began to exit its refueling outage and ramped up to 10% by early Thursday. The unit was shut on April 17th.

MISO – Nebraska Public Power District's 770 Mw Cooper nuclear unit ramped up to 98% of capacity by early Thursday from 68% power on Wednesday.

MAPP – Exelon Corp's 1,152 Mw Braidwood 2 nuclear unit began to exit its refueling outage and ramped up to 13% of capacity by early Thursday. The unit was shut on April 17th for planned refueling and maintenance.

SERC - Entergy Corp's 1,176 Mw Waterford 3 nuclear unit exited a refueling outage and ramped up to 19% of capacity by early Thursday. The unit was shut for refueling on April 6th.

ERCOT – Luminant's 568 Mw Sandow coal fired unit 4 was shut on Thursday to repair a boiler tube leak. The unplanned work on the unit may cause intermittent emissions of opacity during maintenance activity.

The Harrington Station coal fired Unit #3 will undergo some short term maintenance over the next week.

The NRC reported this morning that some 74,527 Mw of nuclear generation was online, up 1.24% from yesterday and 11.93% below levels recorded a year ago.

Centrica announced it had shut down its South Morecambe North Sea gas field on Thursday for planned maintenance. The company had previously warned that the field might not be restarted until UK gas prices are higher in order to make up for higher taxes announced by the government this past March.

EIA Weekly Report

	05/06/2011	04/29/2011	Change	05/06/2010
Producing Region	839	817	22	783
Consuming East	748	707	41	950
Consuming West	240	233	7	342
Total US	1827	1757	70	2076

*storage figures in Bcf

A report by Bernstein Research released today noted that the discovery of shale gas is not expected to bring huge amounts of unconventional gas to European markets this decade. While U.S. shale production has grown to 17-20% of total U.S. supply

the development of shale gas in Europe has been slowed by environmental concerns. The lower house of the French parliament on Wednesday passed legislation, which bans shale gas exploration, and revokes granted drilling permits. Only 16 shale gas wells have been drilled in Europe so far and only four have shown to tap into gas reserves. In the U.S. there is over 40,000 such wells. As a result

the company expects to see the supply-demand balance for gas in Europe tightening faster than market expectations, especially in Britain.

The Al Aamriya LNG tanker is expected to arrive at the UK Isle of Grain terminal on May 12th. The ship is coming from Qatar. Meanwhile port officials in Zeebrugge expect the Seri Balqis LNG tanker to dock there on May 22nd.

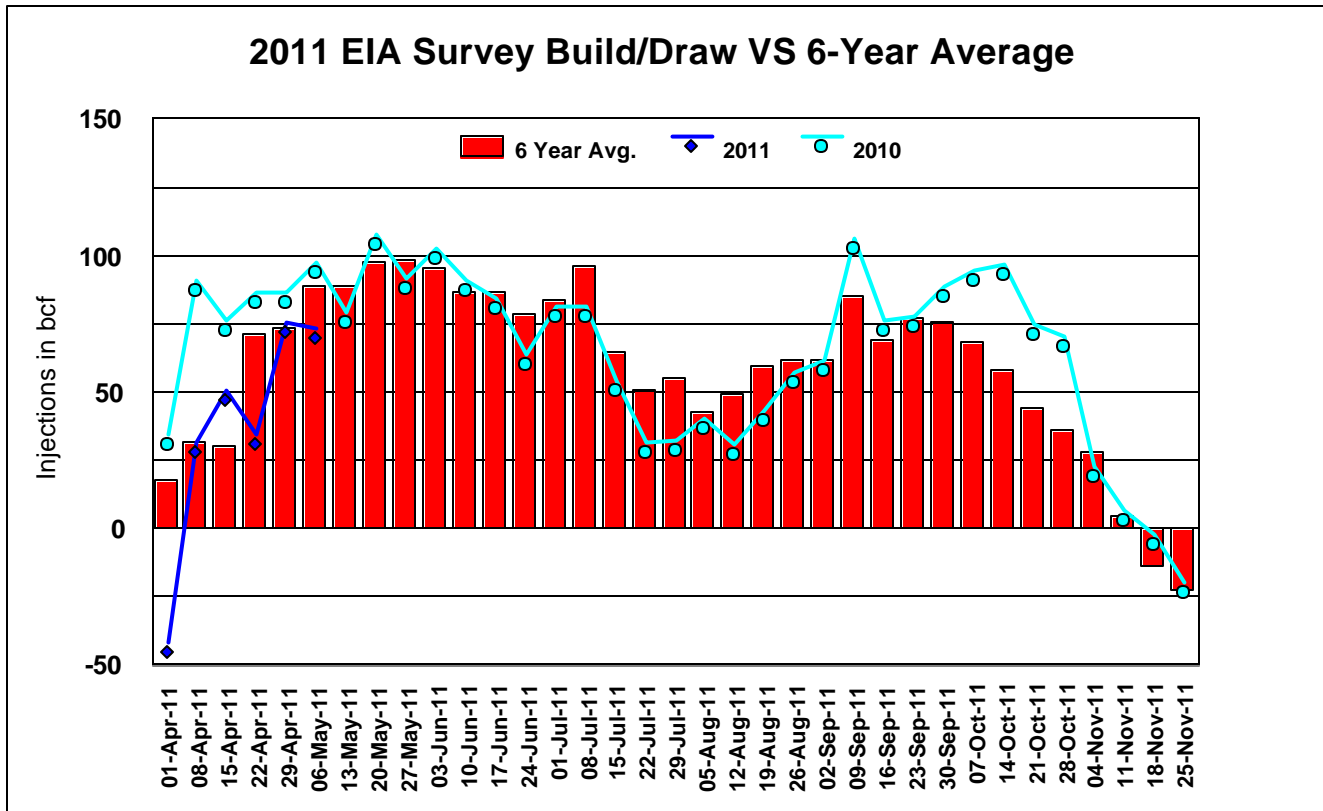
Oil & Natural Gas Corp said its “sound reservoir management practices” have helped it extend the life of its western offshore Bassein field, which has been producing gas for India for more than two decades, for another 20 years. The field contributes to nearly 43% of the company’s gas production and 32% of Indian output. The company reported that the field recently has been producing 29 mcm of gas.

Canadian Gas Association
Weekly Storage Report

	06-May-11	29-Apr-11	07-May-10
East	64.7	59.8	98.7
West	169.8	159.9	237.7
Total	234.5	219.7	336.3

storage figures are in Bcf

A Kremlin official reported that Russia hopes to finally sign a long awaited gas supply deal with China next month when the countries two leaders are scheduled to meet.



The price of Russian gas imported by the Ukraine is likely to rise to around \$350 per 1000 cm in the 3Q2011, up \$87 from the first quarter. Fourth quarter prices could reach \$400 due to rising oil prices

ELECTRIC MARKET NEWS

According to letters issued by the US Energy Department, three of First Solar Inc’s largest solar power plants are moving ahead toward approval of US government loan guarantees. The company’s planned AV Solar Ranch One, Topaz and Desert Sunlight power plants, which have a combined capacity of 1,300 Mw, must be reviewed and receive a conditional commitment for approval by June 16th. First Solar received a conditional commitment for a US loan guarantee of \$967 million for its 290 Mw Agua Calienta plant in January.

A U.S. task force examining the impact of Japan's Fukushima Daiichi disaster expects to find ways to improve safety for the 104 U.S. nuclear power plants and so far has not found any major problems at the plants through its first 30 days of work.

Natural Gas Cash Market						
ICE Next Day Cash Market						
Location	Volume Traded	Avg Price	Change	Basis (As of 12:30 PM)	Change	Basis 5-Day Moving Avg
Henry Hub	755,900	\$4.103	(\$0.130)	(\$0.085)	(\$0.147)	(\$0.006)
Chicago City Gate	840,700	\$4.151	(\$0.122)	(\$0.037)	(\$0.149)	\$0.051
NGPL- TX/OK	860,900	\$3.964	(\$0.119)	(\$0.224)	(\$0.146)	(\$0.114)
SoCal	650,800	\$4.081	(\$0.117)	(\$0.107)	(\$0.144)	(\$0.024)
PG&E Citygate	1,387,900	\$4.245	(\$0.071)	\$0.057	(\$0.098)	\$0.123
Dominion-South	529,000	\$4.196	(\$0.121)	\$0.008	(\$0.148)	\$0.138
USTrade Weighted	20,256,700	\$4.085	(\$0.120)	(\$0.103)	(\$0.15)	(\$0.006)

Tohoku Electric which services the quake ravaged northeastern part of Japan said today it expects to achieve an extra 200 megawatts of power supply

capacity on top of its previously planned 12,100 Mw for the peak summer demand period. The company, which is increasing thermal power operations in order to avoid rolling blackouts this summer, is looking to install several gas turbines and to purchase power from companies with in house generation. This will still fall short of government estimates of a need for 13,000-13,800 Mw for an ordinary summer. Meanwhile Tokyo Electric said today that they plan to raise its power supply capacity to 56.2 million Kw at the end of August, up nearly 6 Mkw from previously planned levels as it looks to restore operations at thermal power plants. The government is looking to ask households and companies to reduce power demand by 15% from year earlier levels.

The chief spokesperson for Arch Coal said today that they expect the United States could once again become one of the top three exporters of coal this year thanks in part to strong Asian fuel demand and domestic regulations that are threatening domestic coal demand. One factor potentially limiting coal exports is limited U.S. rail and port capacity.

ECONOMIC NEWS

The US Labor Department said US producer prices continued to increase in April amid increasing energy costs. The Producer Price Index increased by a seasonally adjusted 0.8% in April. It followed a 0.7% increase in March. The gain in April was driven by a 2.5% increase in energy costs, including a 3.6% increase in gasoline prices. The core PPI increased by 0.3% in April for the second consecutive month.

The US Labor Department said new claims for unemployment benefits fell last week by 44,000 to a seasonally adjusted 434,000 in the week ending May 7th. The prior week's figure was revised to 478,000 from an originally reported 474,000. The four week moving average of new claims increased by 4,500 to 436,750 in the week ending May 7th. The Labor Department said the number of continuing unemployment benefit claims increased by 5,000 to 3,756,000 in the week ending April 30th. The unemployment rate for workers with unemployment insurance was 3% in the week ending April 30th, unchanged on the week.

The US Commerce Department said US businesses stocked up on goods in March as their sales increased. Inventory held by manufacturers, retailers and wholesalers increased by 1% to \$1.477 trillion. Sales by businesses in the US increased by 2.2% in March to \$1.2 trillion, the largest increase since March 2010 when sales increased by 2.4%. The inventory/sales ratio in March fell to 1.23 from 1.24 in February. The Commerce Department also reported that sales of US retailers increased in April less than expected. US retail and food services sales increased by 0.5% on the month to \$389.36 billion. Sales in March were revised up, increasing by 0.9% instead of the previously estimated 0.4%.

The European Union's statistics office Eurostat said Euro zone industrial production fell 0.2% in March against February for a 5.3% year on year increase. It fell due to declining output of capital goods, energy and non-durable consumer goods.

The IMF said euro zone periphery members need reform efforts to prevent the debt crisis from spreading and urged the European Central Bank to hold off from increasing interest rates. It warned the stakes were high in the ongoing euro zone debt crisis and called for aggressive and comprehensive policy action to deal with the problems.

China's central bank said it would increase banks' reserve requirement ratio by 0.50 percentage point, the fifth such increase this year, in a move to address inflation. The increase, which takes effect May 18th, comes after the country's consumer price index increased 5.3% in April, slightly slower than the 5.4% increase in March.

MARKET COMMENTARY

While the natural gas early this morning sold off in sympathy with lower commodity and oil prices, the weakening of the dollar and a relatively neutral inventory report helped this market to recover and actually finish the day in positive territory. While nuclear generation levels are slowly creeping higher once again, the current storage deficit to last year and the five year seasonal average is keeping bears from totally embracing this market and driving values back below the \$4.00 level once again. Current stocks are nearly 250 bcf below a year ago and 37 bcf less than the five-year seasonal average. We feel that it require strong signs that this deficit is being erased before the bears really return to this market in a committed fashion and thus drive the price lower once again.

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