



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR MAY 13, 2011

NATURAL GAS MARKET NEWS

North America

Baker Hughes reported this afternoon that the number of natural gas drilling rigs operating in the United States this week fell by 16 rigs to 874 rigs, the lowest level since January 2010. The number of horizontal rigs operating in the United States increased by 3 rigs, setting the fourth consecutive new high.

The National Energy Board said today that it looks for Canadian natural gas exports to the U.S. to drop as a result of declining natural gas production in that country coupled with growing natural gas use by oil sand producers.

Chesapeake Energy Corporation said Friday that it will immediately resume well completion operations in Pennsylvania; some three weeks after voluntarily suspending them after a well blow out.

Penn State's geosciences professor Terry Engelder told attendees at GasMart that companies that are seeking to export domestic shale gas production will face a tough spot market in which to succeed in. He noted that even gas produced in Marcellus has a real cost associated with it, while natural gas production in Middle East comes onto the market as a feedstock at virtually no cost since it is associated with crude oil production in the area. As a result he feels that U.S. will be a supplier at the

Generation Outages

NPCC – Calpine's 212 Mw Unit #2 and unit #3 and the 517 Mw Unit #4 at the Greenfield natural gas fired power plant were shut on Thursday.

SPP – Entergy's 1176 Mw Waterford #3 nuclear unit ramped up to 51% power this morning, up from 19% power on Thursday. The unit had returned to service on May 12th following its maintenance outage.

The NRC reported this morning that some 75,180 Mw of nuclear generation was online, up 0.9% from yesterday and 11.5% below levels recorded a year ago.

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	654,100	\$4.095	(\$0.008)	(\$0.069)	\$0.028	(\$0.013)
Chicago City Gate	797,800	\$4.210	\$0.060	\$0.047	\$0.085	\$0.057
NGPL- TX/OK	769,700	\$3.973	\$0.009	(\$0.190)	\$0.033	(\$0.125)
SoCal	569,500	\$4.079	(\$0.003)	(\$0.085)	\$0.022	(\$0.026)
PG&E Citygate	895,800	\$4.282	\$0.037	\$0.119	\$0.062	\$0.129
Dominion-South	588,800	\$4.196	\$0.000	\$0.033	\$0.025	\$0.114
USTRade Weighted	19,628,000	\$4.088	\$0.003	(\$0.075)	\$0.03	(\$0.013)

margins for the global LNG market.

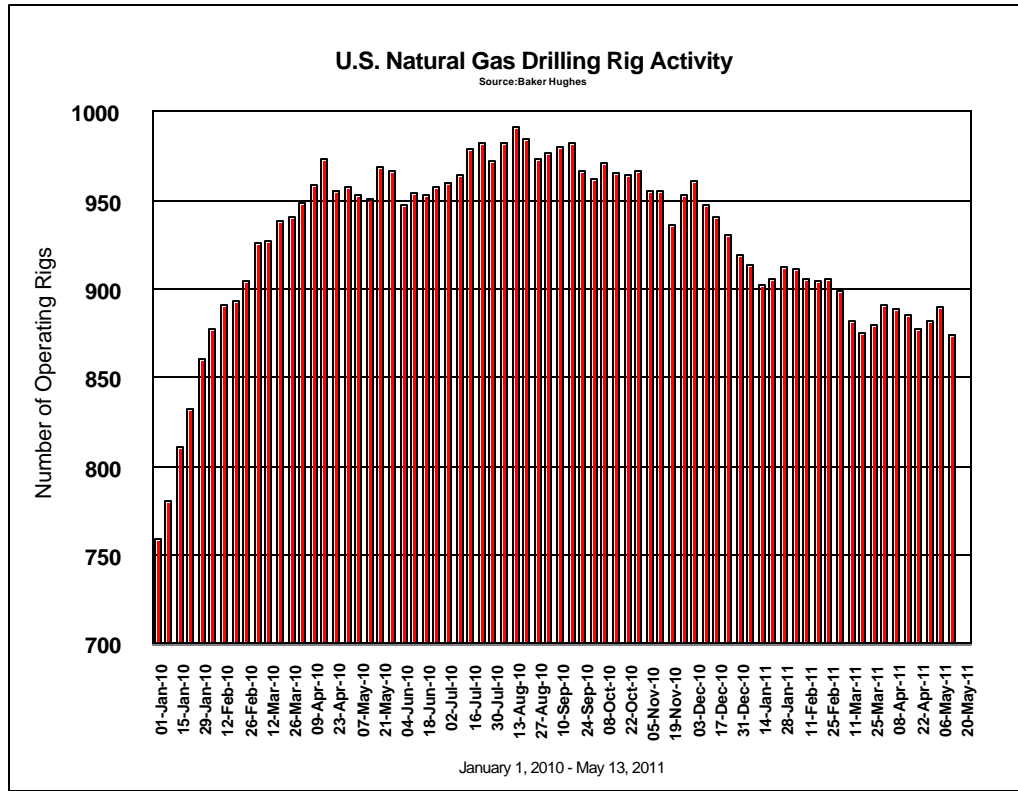
International

Total announced today that it would form a partnership venture with Exxon Mobil to assess the

potential for shale gas production in the Polish Lubin basin, subject to the approval of the Polish authorities. This announcement comes two days after the French lower house of parliament voted to ban hydraulic fracturing in France and thus effectively blocking the company from utilizing its exploration permit for southern France.

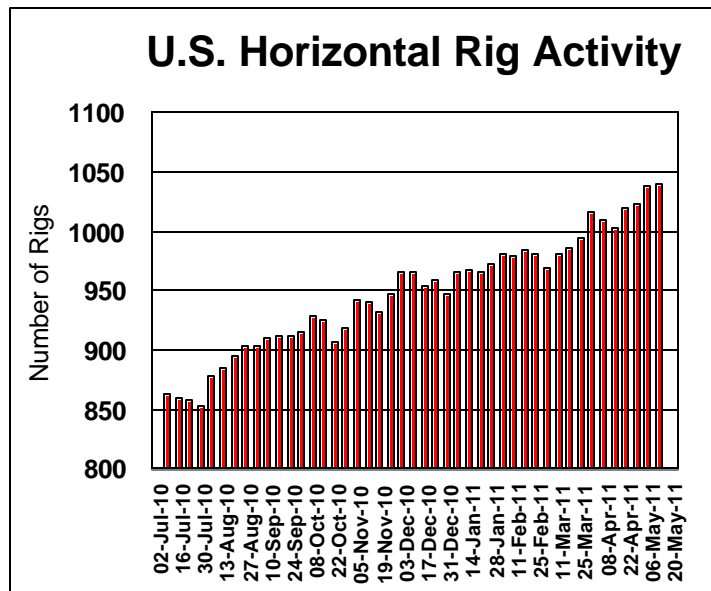
Woodside Petroleum's new CEO said today it would continue to honor its commitments under the Browse and Sunrise LNG projects.

China's natural gas imports in April increased 72.7% from a year earlier to about 2.5 bcm. Of the imports, gas shipped in from central Asia totaled 1.3 bcm while LNG imports totaled 1.2 bcm on the month. Meanwhile the government reported that China's apparent natural gas consumption in April slowed from a month earlier as the heating season in northern China ended, but consumption in some gas fired power plants soared amid electric shortages. Consumption was estimated at 9.67 bcm in April down 11.9% from March, but 13.5% higher than a year ago.



The Al Bahiya LNG tanker is expected to arrive at the South Hook terminal on May 14th. Meanwhile the Qatari LNG tanker, the Al Utouriya is expected to arrive at the Isle of Grain import terminal on May 21st. The ship has a 216,000 cm capacity.

The Ukrainian prime minister said today that the Ukraine has begun formal negotiations with Russia to set a new price formula for imports of Russian gas, replacing the deal agreed to in January 2009. The

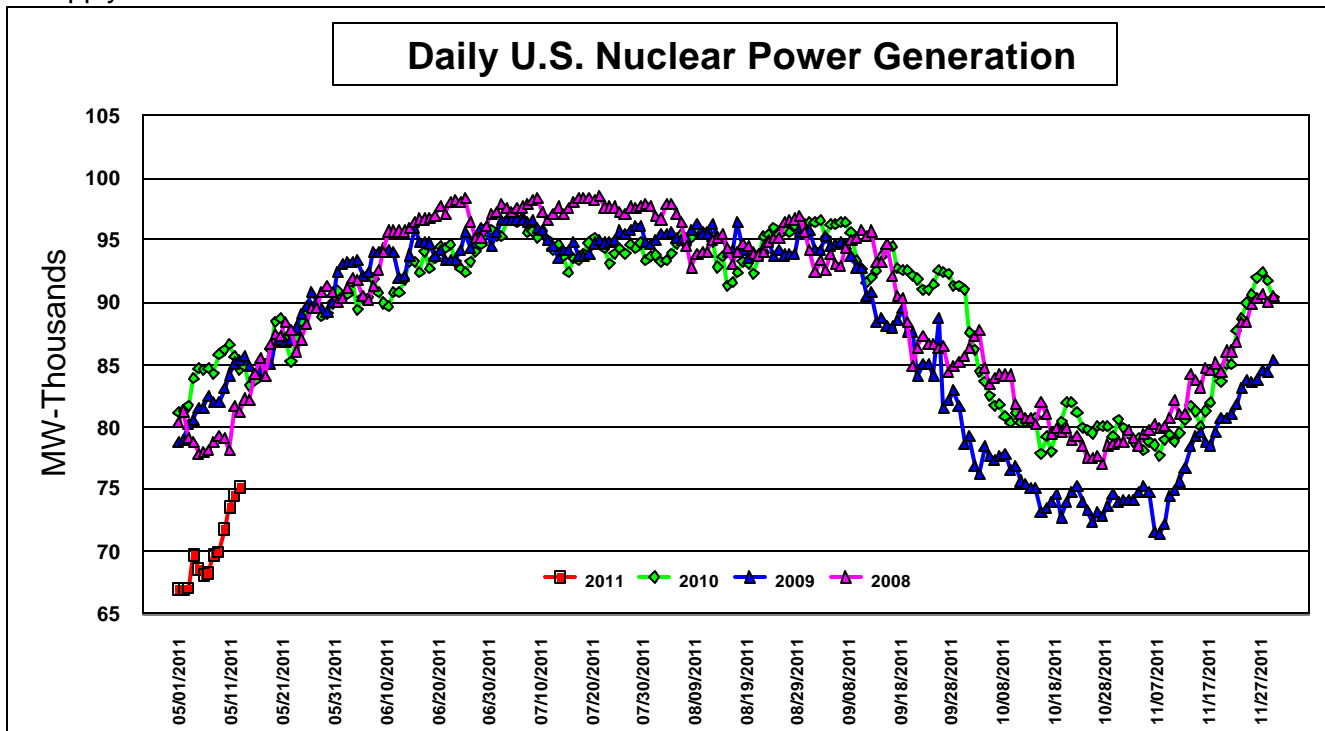


Ukrainian government said again that the price terms set by the prior government set an unfairly high price for Russian gas, which was set on the basis of the prices for oil products. With a base price of \$450 per 1000 cubic meters, the Ukrainian price is the highest in Europe.

Gazprom said it will drill this year the first production well at its massive Sakhalin-3 gas project in the Far East and expects production to be flowing through pipelines next year. The company had originally scheduled to begin production at the field in 2014.

Lithuania's energy minister said today that his country should do all it can to tap its shale

gas resources. He said some estimates place the country's shale gas reserves at a 30-50 year's worth of supply.

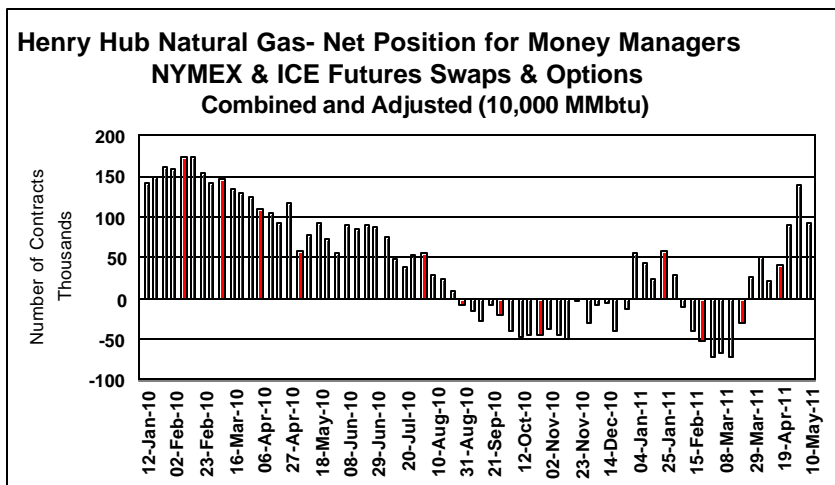


ELECTRIC MARKET NEWS

The EIA reported late yesterday that U.S. coal production for the week ending May 7th reached only 18.968 million short tons, some 5.6% less than the week prior and 7.1% less than the same week a year ago. Year to date coal production is running 0.2% above last year.

ECONOMIC NEWS

The US Labor Department said US consumer prices increased as expected in April on higher food and energy prices. Its Consumer Price Index increased 0.4% after increasing 0.5% in March. It reported that core CPI, excluding food and energy, increased 0.2% after increasing 0.1% in March. Gasoline prices accounted for about 50% of the increase in overall consumer inflation last month, advancing 3.3%.



The US Commerce Department said US factory orders in March increased by 3.4% following a decline of 0.3% in February.

The Thomson Reuters/University of Michigan's survey of consumers showed the preliminary May reading on the overall consumer sentiment index came in at 72.4, its highest since February, up from 69.8 in April. The survey's gauge of consumer expectations increased to 67.4, the highest level in three

months. It was above April's 61.6. Its barometer of current economic conditions fell to 80.2, down from 82.5 in April. The survey's one-year inflation expectation fell to 4.4% from 4.6% in April.

The Federal Reserve Bank of Philadelphia reported that its second quarter Survey of Professional Forecasters saw estimates of gross domestic product gains over the next four years as lower relative to the prior quarter. The forecasters are not expecting the economy to fall back into a recession and expect continued job growth. For the year as a whole, the economists see growth up by a long term trend like 2.7% from 3.2% while they lowered their estimate of 2012 growth slightly to 3% and in 2013 to 2.8%. For the second quarter, GDP is seen up by 3.2% from last quarter's estimate of 3.5% and the third quarter is seen increasing by 3.4% and the fourth quarter by 3.5%. The second quarter unemployment rate is seen at 8.9%, the third quarter at 8.7% and the fourth quarter at 8.5%. For 2011, the jobless rate is seen at 8.7% while in 2012 it is seen at 8.1% and 7.5% in 2013.

MARKET COMMENTARY

The natural gas next day cash market posted only minor gains for the day in one of the lightest trading sessions in weeks. While the natural gas futures market also posted minor gains for the day in light volume most of the day's gains came in the afternoon as traders reacted positively to the Baker Hughes report.

This market could possibly be building another base of support as prices for the most part have been contained within a 15 cent trading range for much of the past week. While nuclear generation levels are quietly creeping back higher, they still remain noticeably below year ago and seasonal levels. As a result we feel that given a supportive drilling rig report, we can not eagerly seek to sell this market until storage levels begin to dramatically erase their deficit to seasonal and year ago levels. We thus would look to remain on the sidelines for the time being.

We see resistance next week at \$4.30 followed by \$4.345, \$4.419 and \$4.492. Additional resistance we see at \$4.555 and \$4.75. Support we see at \$4.15, \$4.109 and \$4.056. More distant support is at \$3.877.

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