



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 MAY 25, 2011

NATURAL GAS MARKET NEWS

North America

PEMEX announced Wednesday that it has made a major natural gas discovery in the deep waters of the Gulf of Mexico near to the Lakach gas field. Initial tests indicate that there is between 400-600 bcf of natural gas in the field.

Exxon Mobil defended hydraulic fracturing at its annual shareholders meeting today. A shareholder proposal requiring greater disclosure by Exxon on the risks and impact of its hydraulic fracturing practices was voted down by nearly 70% of the shareholders.

The Canaport LNG terminal in New Brunswick, Canada reportedly has come back online Wednesday after shutting for maintenance at the beginning of this month. A LNG tanker from Qatar was reportedly on the way to the terminal and was expected to arrive by June 9th.

Cabot Oil & Gas Corporation reported today that due to recent upgrades to a compression station in northeastern Pennsylvania, it has been able to increase its Marcellus Shale production by 35% in a single day. It noted production jumped to 420 MMcf/d from 69 wells, up from 310 MMcf/d from 67 wells. The company though said its production remains restrained due to limits on the Tennessee Gas Pipeline.

While U.S. EPA administrator Lisa Jackson told a Congressional committee yesterday that there is evidence that hydraulic fracturing can affect aquifers and water supplies, she was not aware of any proven case where the fracking process itself has affected water supplies."

International

The Australian Bureau of Meteorology said today that the 2010-2011 La Nina weather event has ended, with climate indicators of the El Nino, the Southern Oscillation, having returned to average levels. The government forecasters look for the Pacific Ocean to continue to warm over the coming months with neutral conditions likely to persist through August.

Japanese government weather forecasters today said that there is slightly less chance of a hot summer than previously expected, possibly reducing demand for air conditioning and thus easing the

Generation Outages

NPCC – Entergy's 1020 Mw Indian Point #2 nuclear unit began to exit its recent outage and was at 1 % this morning.

NextEra's 1295 Mw Seabrook nuclear power plant was at 69% power this morning, up 31% from yesterday.

SERC - TVA's 1123 Mw Watts Bar #1 nuclear unit was at 80% power this morning, up 27% from yesterday.

SPP - The Wolf Creek 1166 Mw nuclear reactor tripped off line on Tuesday while it was in the process of restarting from its recent outage. The unit had been off line since March 19th for refueling.

ERCOT – Luminant's 1158 Mw Comanche Peak #2 nuclear unit was at 97% power this morning, up from 45% power recorded yesterday.

The NRC reported this morning that some 77,320 Mw of nuclear generation was online, up 2% from yesterday and 13.4% below levels recorded a year ago.

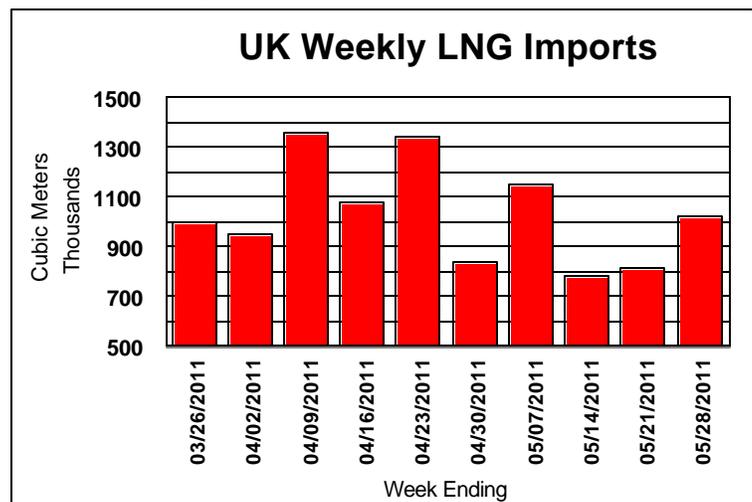
burden on utilities that are short generating capacity this summer. The agency though still is calling for average to a slightly warmer than normal for the June to August period.

Local port officials reported that the Methane Kari Elin is scheduled to arrive at the Dragon LNG terminal on May 27th from Nigeria. Reuters reported today that the Al Khuwair LNG tanker is slated to arrive at the Isle of Grain terminal on June 4th from Qatar. Meanwhile the LNG tanker the Maersk Arwa is expected to arrive at Zeebrugge on May 30th.

PetroChina's first LNG receiving terminal received its first commercial cargo on Tuesday, approximately one month later than originally planned. The company has a 25-year supply agreement with Qatar for the terminal. The terminal has an annual receiving capacity of 3.5 million tones. The government reported that with looming power shortages for this summer, PetroChina, the leading gas supplier in China, has boosted gas supplies to six gas fired power plants in Henan and Jiangsu provinces to 13.8 mcm per day from only 4.5 mcm/d shipped in January via the West to East gas pipeline.

The Japanese government reported that while Japan's crude oil imports in April fell 14% on the year due to lower refiner demand following in the wake of the country's March earthquake, LNG import rose nearly 9% from year earlier levels. LNG imports in April totaled 6.009 million tones.

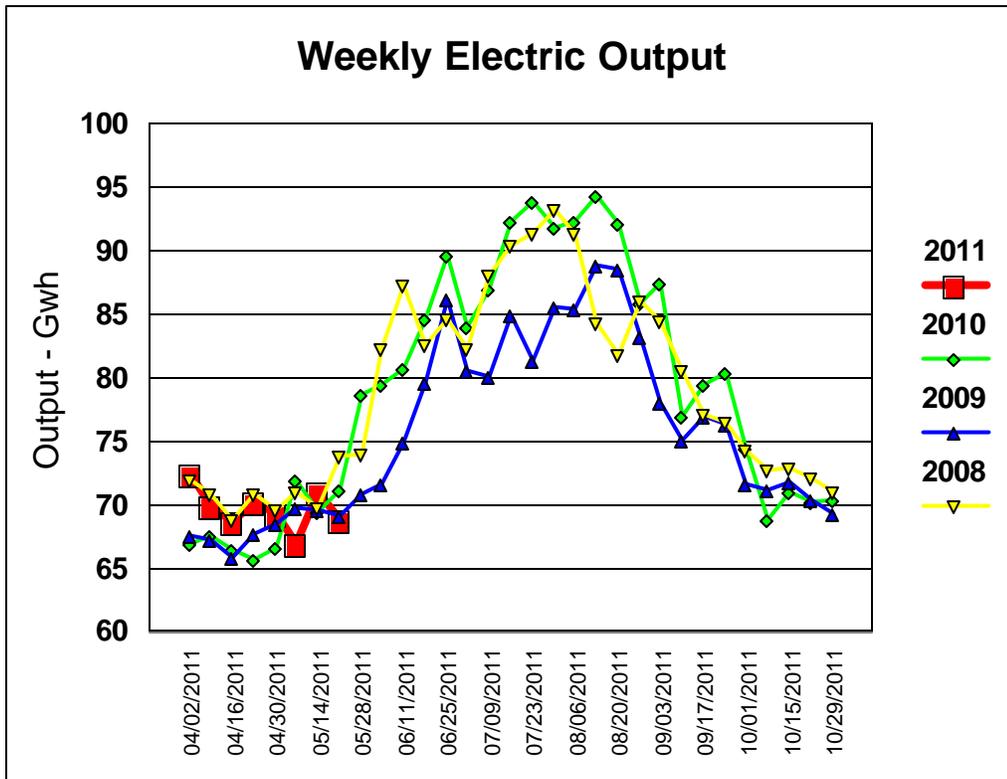
Sedigas, the Spanish gas association said that the predicted upturn in Spain's gas demand has failed to materialize this year, partly due to mild, wet weather. As a result gas imports this year are now expected to be similar to last year's totals or even post a slight decrease. Originally the association had expected a 1.6% growth rate. In addition wind power generation continues to make inroads. Gas generation accounted for only 13.2% of Spain's electric generation in April down from 23% in April 2010. The head of the trade group noted that the new 8 bcm per year Medgaz pipeline from Algeria would not be running at full capacity this year, but could still result in backing out imports of LNG.



The British auditor Gaffney, Cline & Associates said today that they expect Turkmenistan's South Iolotan gas field will be confirmed as the world's second largest natural gas field. Only the Iranian South Pars field is larger. Turkmenistan is seeking to export production from this field to both China and Europe. The government is estimating reserves in the field could easily reach 21 tcm.

ELECTRIC MARKET NEWS

Green Mountain Power has agreed to buy electricity for 23 years from NextEra's Seabrook nuclear power plant. The supply agreement sets a fixed price contract that adjusts with inflation. The energy price for 2012 will be 4.66 cents per kwh. Market observers noted that this agreement is a blow to Entergy's efforts in negotiating an agreement to continue to sell power from its 620 Mw Vermont Yankee power plant to Green Mountain Power and Central Vermont Public Service, the state's two largest utilities. Entergy had been looking to secure long term supply contracts to support their efforts to renew their operating license at the facility for another 40 years, The NextEra deal will supply Green Mountain Power with 20% of its power needs. The agreement though still needs to be approved by Vermont regulators before taking effect.



The Swiss government today decided to phase out nuclear power in that nation by 2034. The move was in reaction to the Japanese nuclear disaster earlier this year. The Swiss government had suspended earlier this year the approvals process for three new nuclear power stations pending a review into safety after the disaster at the Japanese Fukushima plant. The government agreed that no more nuclear reactors would be

built and that existing plants will be closed at the end of their operative life and not replaced. The oldest unit is set to come offline at 2019 and newest plant set to close by 2034.

The German government said it is considering scrapping a disputed nuclear fuel rod tax but a decision has not been made. The tax is scheduled to return some 2.3 billion Euros a year starting in 2011, but the government could look to relieve financial pressure on power firms in return for an earlier exit from nuclear energy.

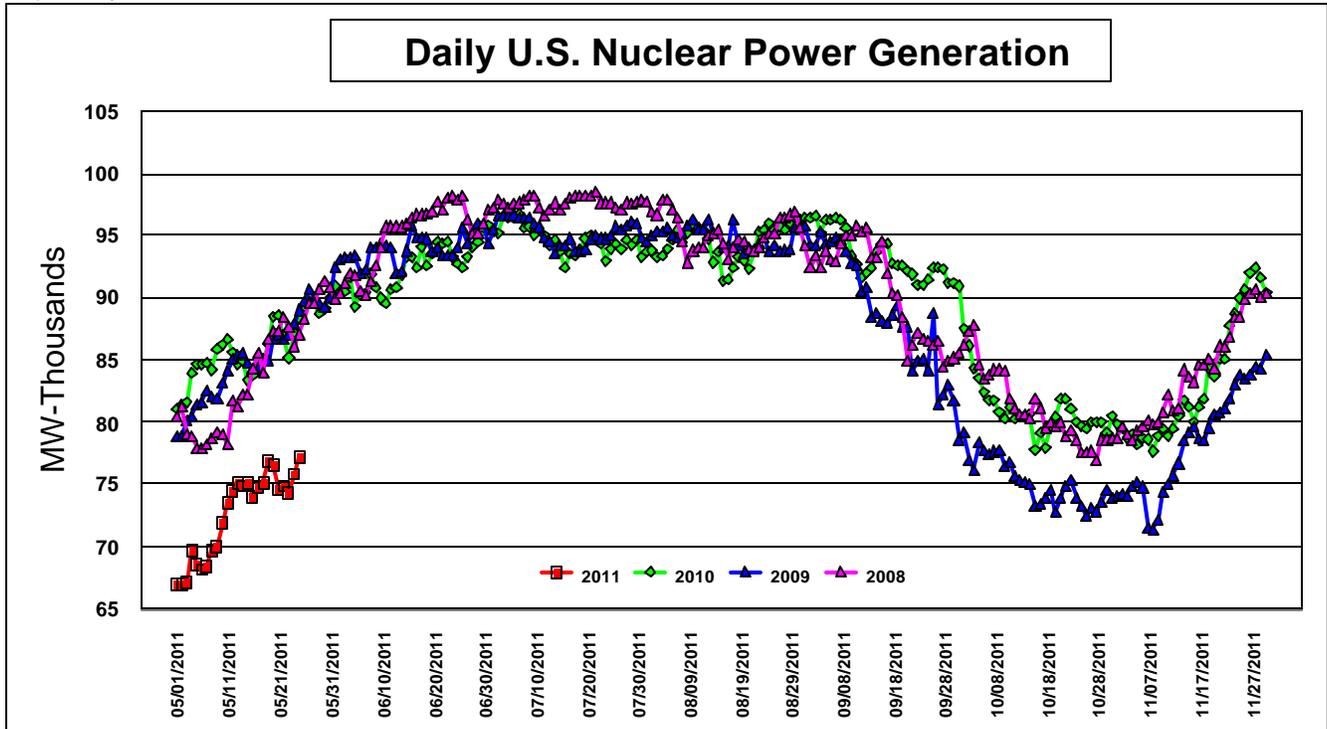
The Edison Electric Institute reported that for the week ending May 21st power production in the United States reached 68,743 Gwh, down 2.9% from the prior week and some 3.3% less than the same week a year ago.

The official Chinese news agency Xinhua said Wednesday that the current drought impacting central China has resulted in the water level at the world's largest hydropower plant, the Three Gorges Dam, has fallen to just 152.7 meters, well below the 156 meter mark required to run its 26 hydro generators effectively. Given projected water flows, water levels are expected to fall to 145 meters by June 10th when planned discharges are scheduled to end. A year ago the period from May through October, over 20% of China's power generation came from hydro.

The California Air Resources Board said this week that it planned to appeal a court ruling from last week that found that it had not adequately considered alternative policies to cap and trade and ordered the ARB to stop its work on the program until "alternative analysis" was complete. The ARB also said it planned to continue to work on all elements of the program as it appeal moves forward. The program was legislated to begin on January 2012.

The French utility EDF said today that it is preparing for a severe drought this summer, which could curb nuclear power generation from mid-July in plants located in the southwest of France.

The NYISO said today that New York State should have enough electricity to meet consumer air conditioning demand this summer, even if extreme weather conditions are experienced. NYISO forecast power usage will reach 32,712 Mw this summer, that is 2% or 740 Mw lower than 2010's summer peak set last July 6th and nearly 4% below the all time peak set in August of 2006. The ISO expects the grid to have 43, 068 Mw of power supplies available this summer, including 38,285 Mw of existing in state generation, 2053 Mw of demand response resources and 2730 Me of import capability.



White House energy adviser Heather Zichal said today that U.S. lawmakers might be able to pass a small energy package this year focused on developing alternative fuels and reducing energy use. Currently Republican Senator Lamar Alexander has sponsored a bill, which will offer \$3 billion over five years to help build infrastructure and promote the use of electric vehicles.

ECONOMIC NEWS

The US Commerce Department said orders for durable goods fell in April due to car production disruptions following the earthquake in Japan and declining demand for airplanes. Manufacturers' orders for durable goods fell 3.6% to a seasonally adjusted \$189.89 billion. It was the largest drop since October 2010. This followed an increase of 4.4% in March.

The Organization for Economic Cooperation and Development said the Federal Reserve should start increasing interest rates in the second half of the year to ensure a smooth transition in the US economy. It said gradually tightening credit soon after the Fed completes its government bond purchases in June would reduce the need for steeper increases in interest rates later. It said increasing the interest rate to 1% in the second half of the year would still leave significant monetary stimulus to help bring down a US employment rate which the OECD sees remaining high. In a report, the OECD predicted the US economy would expand by 2.6% this year. The OECD also said the European Central Bank should pause its monetary tightening cycle. It expects the ECB's interest rates to reach 2.25% by the end of 2012. The OECD cut its forecast for Japan's GDP for a second time this year due to the earthquake in March and called on the Bank of Japan to maintain its ultra-easy policy as deflationary pressure is likely to persist. Japan's economy is expected to contract 0.9% this year.

The American Trucking Associations' advance seasonally adjusted For-Hire Truck Tonnage Index fell by 0.7% in April compared with levels reported in March. It revised the index's increase in March to 1.9% from the 1.7% growth it reported a month ago.

The CFTC is suing two traders of Oklahoma's Parnon Energy and Arcadia Energy, accusing them of oil price manipulation and allegedly making \$50 million by squeezing markets in 2008. It said the two traders amassed large physical positions at Cushing, Oklahoma to create the impression of tight supplies that would increase oil prices. The traders later dumped those barrels back onto the market, causing prices to crash and increasing profits from short positions they had accrued in futures markets. Arcadia, the Swiss commodity-trading firm said the charges are completely without merit and said it retained independent experts to examine its trades.

The Greek government attempted to resolve a standoff with its opposition over austerity on Wednesday, with one official warning the only alternative to more cuts was leaving the euro and bringing back the drachma. The government denied reports it was poised to call a referendum on Prime Minister George Papandreaou's new savings plan, which foresees up to 11.5 billion euros in state asset sales by the end of next year. This underscored increasing political hurdles to an orderly resolution of the debt crisis that has plagued the euro zone for the past 18 months. It has also raised the risks that EU leaders could be forced to explore new, potentially more radical policy options for dealing with Greece's massive debt.

MARKET COMMENTARY

Despite today being expiration day for the June natural gas options, the underlying futures market posted a relatively modest trading range as well as recording an inside trading session, as traders were unwilling to step out before tomorrow's storage report.

Market expectations for tomorrow's storage report appear to be running between a 75-105 bcf build with most estimates centered around a 90-95 bcf build. A year ago stocks rose an adjusted 100 bcf while the five-year seasonal average shows a 95 bcf build.

We would continue to look for the \$4.403 price level as strong resistance point for tomorrow and would look for this to be broken only if storage injections come in below 90 bcf for last week. Additional resistance we see at \$4.48 and \$4.556. Support we see initially at \$4.31-\$4.30 followed by \$4.237 and \$4.199. We feel that if prices break out to the upside tomorrow we would look to come back into the market as a scale up seller. We feel that the steady improvement of nuclear generation levels will continue into next week and begin to weigh on prices over the next week.

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