



ENERGY RISK MANAGEMENT

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NATURAL GAS & POWER MARKET REPORT FOR MAY 31, 2011

NATURAL GAS MARKET NEWS

North America

The EIA today released their latest monthly supply and demand estimates for natural gas in the United States. The agency estimated that natural gas consumption in the month of March reached 71.4 bcf/d some 2.5% above the same month a year ago. While residential demand on the month showed no change from March 2010, electric power generation reflected an increase of 4.2% from a year earlier, while commercial and industrial demand rose by 2.6% and 2.8% respectively. U.S. dry gas production in the month reached a new record of 61.9 bcf/d, an increase of 3.2% from February and some 5.3% higher than the same month a year ago. Louisiana led the year on year increase seeing natural gas production in that state increase by 39%, while natural gas production from federal Gulf of Mexico waters declined 18.7% from a year ago. The overall supply increase from domestic production was moderated in part by a decline in net imports of natural gas into the U.S. which reached only 5.7 bcf/d, down 14% from February and 19.2% from the March 2010. LNG imports though surprisingly averaged 1.24 bcf/d during the month, up 8.8% from February and 3.9% from a year ago.

Generation Outages

NPCC – Bruce Power’s 750 Mw Bruce #3 nuclear unit was shut for an inspection program.

PJM – Exelon’s 1134 Mw Limerick #2 nuclear unit tripped off line due to a problem with the electro hydraulic control system.

SERC - TVA’s 1123 Mw Watts Bar #1 nuclear unit, which tripped off line on Sunday was back to 25% power this morning.

Duke Energy’s 846 Mw Oconee #2 nuclear unit was at 20% power. The unit had been at full power on Sunday morning.

MISO – Operators at Exelon’s 1152 Mw Braidwood #2 nuclear unit said this morning that they had completed the maintenance on the unit which began on Saturday.

Xcel Energy’s 572 Mw Monticello nuclear power station was at 92% power this morning up from just 51% power recorded on Friday.

The NRC reported this morning that some 79,051 Mw of nuclear generation was online, down 2% from Friday and 13.1% below levels recorded a year ago.

Four Republican lawmakers who had been co-sponsors of the Natural Gas Act currently before Congress announced yesterday that they were withdrawing their support. The act which would offer tax credits and other subsidies designed to encourage domestic consumption of natural gas, especially in the transportation sector still has well over 175 co-sponsors. The four legislators were basing their decision on further complications of the tax code and industry specific tax preference that the legislation would result in.

New York State sued the federal government today to demand a ban on gas drilling in the Delaware River Basin until an environmental impact study has been concluded to protect New York City’s water supply. The Delaware River Basin Commission has proposed rules that would allow up to 18,000 gas wells to be drilled within the basin, which includes parts of Delaware, New Jersey, New York and Pennsylvania and includes parts of New York City’s watershed. The proposals would allow fracking. New York called for these regulations not even being considered until the environmental impact of the drilling has been studied.

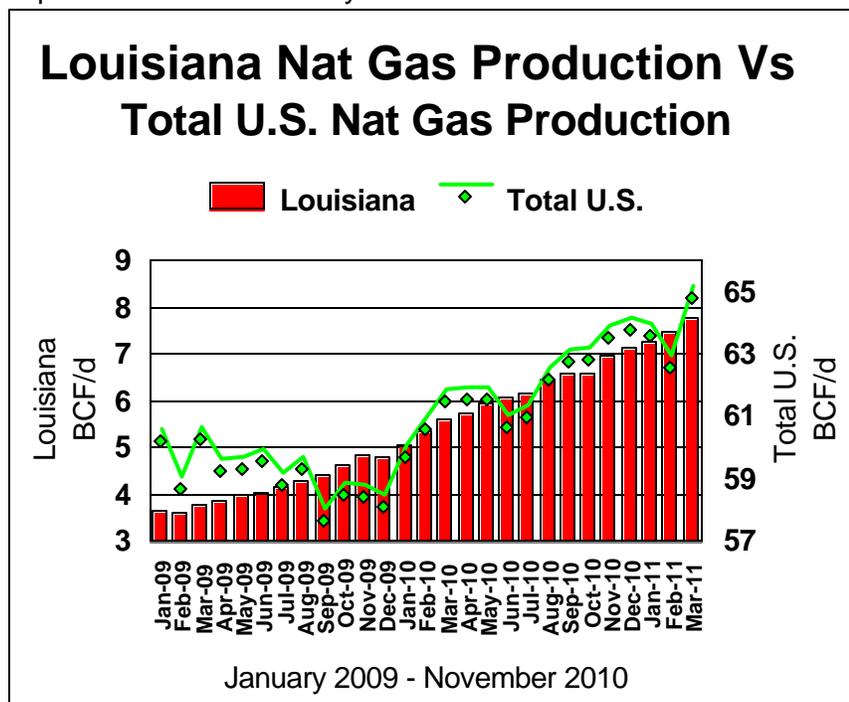
Due to declining usage of its LNG import facility at Cove Point, Dominion on Friday called on the FERC to clarify that under its tariff it has the authority to require shippers to deliver LNG by tanker to its import terminal keep the cryogenic portions of the terminal cooled or face penalties. The terminal was not designed to operate for sustained periods without the arrival of LNG cargoes. The company is looking to declare an OFO and shippers that decline to comply with an OFO would face penalties.

Raymond James in a research note to clients said that with domestic nuclear capacity returning to normal levels by mid summer prices should once again weaken.

Texas House lawmakers on Sunday night passed legislation that would require public disclosure of the chemicals in fluids used for hydraulic fracturing after disparities with legislation passed earlier by the Senate were reached with in conference committee. The bill now moves to the governor for his signature. Texas Governor Rick Parry has not indicated if he will support the legislation. If the bill becomes law, Texas would be the first state to mandate public disclosure through legislation.

International

BP's CATS gas riser platform is slated to be shut down for maintenance on June 14th through the 24th and then again on June 29th through July 5th. Originally the company had scheduled the maintenance work to begin in early June. Meanwhile the maintenance on the Heimdal Riser platform, a transport hub for the Vesterled pipeline was completed yesterday. The large Ormen Lanage gas field was shutting down yesterday to start maintenance work that was expected to last until June 17th. Statoil also reported yesterday that it had shutdown its Oseberg North Sea oil and gas field and it was expected to be restarted by the middle of June.



The Maersk Magellan LNG tanker is expected to arrive at the South Hook LNG terminal from Qatar on June 7th.

The chairman of state run Oil India said today the company is looking to buy a stake in shale gas assets in Argentina.

The first gas has been injected into Britain's new Holford storage site and the project is on schedule to begin commercial operations by the end of 2011. When fully operational the facility will have storage capacity of up to 156 million cm of gas.

Maintenance on BG Group's UK

Armada platform has been delayed until late June. The facility had originally been scheduled to have a 45-day maintenance outage that was to start on May 29th. The delay was implemented to accommodate additional work scope.

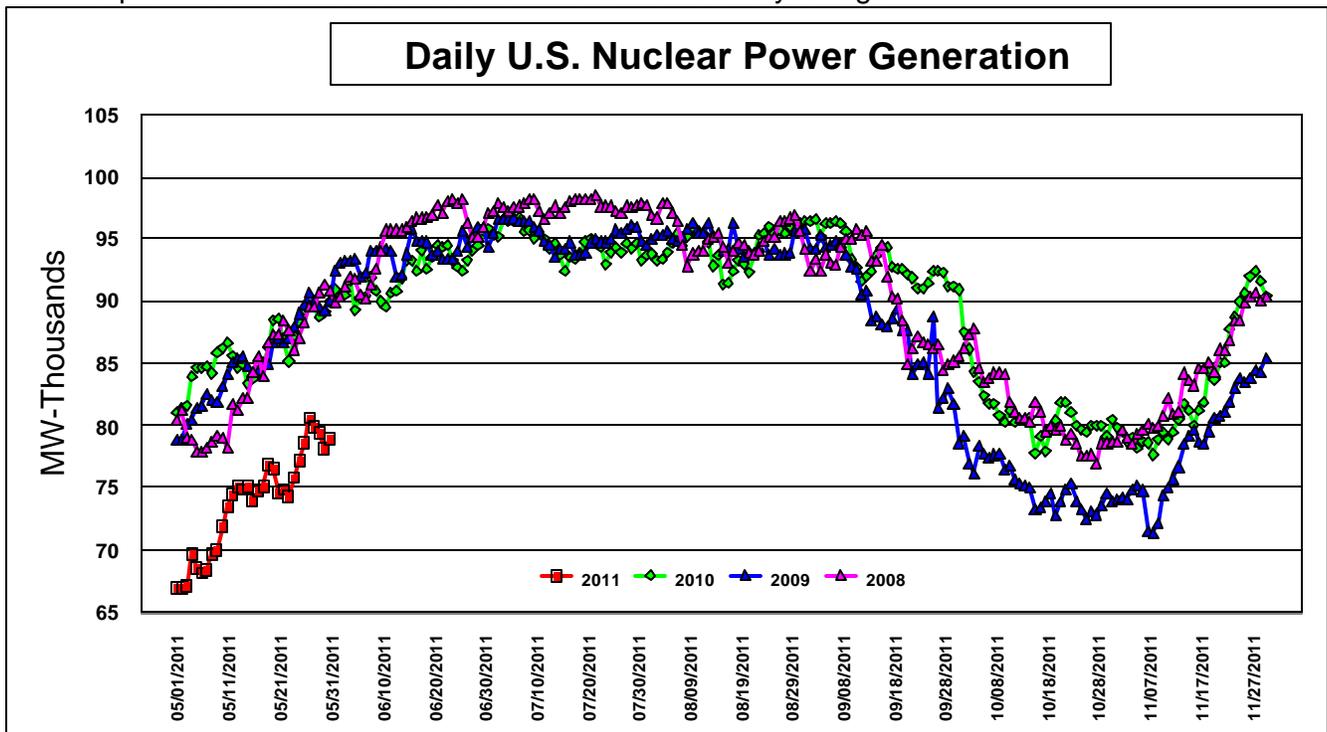
A Turkmen official said today that it sold over 10 bcm of natural gas to Russia in 2010 and can increase these sales levels several times over. Prior to Turkmenistan's exports to China beginning, the nation sold between 40-50 bcm of the nation's 70-75 bcm production to Russia.

Russian Deputy Prime Minister Igor Sechin said on Tuesday that Russia hopes to finalize a gas supply deal with China by June 10th to export 68 bcm per year of gas for a 30 year supply deal. Based on current negotiations, Russia would supply 30 bcm of gas through a western route from Siberia into northwest China and a further 38 bcm down its Pacific coast into the Chinese northeast. Reportedly the expected deal would not include a Chinese loan for the gas export supply deal. Since the dispute between the two nations regarding its oil supply deal has finally been resolved it appears the natural gas supply agreement should finally move forward.

ELECTRIC MARKET NEWS

The German government said Monday that it would close all of its 17 nuclear reactors by 2022. The Germans also announced plans to keep offline the eight nuclear power plants that were taken out of service in the wake of regulatory review following the Japanese nuclear disaster.

Genscape reported that for the week ending May 26th it estimated U.S. electrical output rose by 11.2% from the prior week but was 5% less than the same week a year ago.



The IEA chief economist on Monday said that global emissions of carbon dioxide reached their highest level ever in 2010, with growth driven mainly by booming coal dependent emerging economies. Emissions on the year rose by 5.9%, the highest annual growth rate ever. Meanwhile Thomson Reuters Point Carbon reported that EUA prices hit a two and a half year high in early trading Tuesday morning as the market reacted to the news that Germany will phase out all nuclear power by 2022.

Germany’s largest utility E.ON said it would look to sue the government for billions of euros in damages arising from the government’s formal decision to abandon nuclear power by 2022. The company said that shortening the lifespan of nuclear power plants and charging a tax on nuclear fuel was unlawful in itself and also violated European union law that forbids discrimination against nuclear power.

Japan’s Chugoke Electric Power said today that it would delay the start of commercial operations at its newest nuclear reactor indefinitely from its originally planned March 2012 launch date.

ECONOMIC NEWS

The Conference Board said its index of consumer attitudes fell to 60.8 from a revised 66 in April. April was originally reported as 65.4. The expectations index fell to 75.2 from 83.2, while the present situation index fell to 39.3 from 40.2.

US single family home prices fell in March to below the low reached in April 2009 during the financial crisis. The S&P/Case Shiller composite index of 20 metropolitan areas fell 0.2% in March from February on a seasonally adjusted basis. The 20 city composite index was at 138.16, falling below the 2009 low of 139.26.

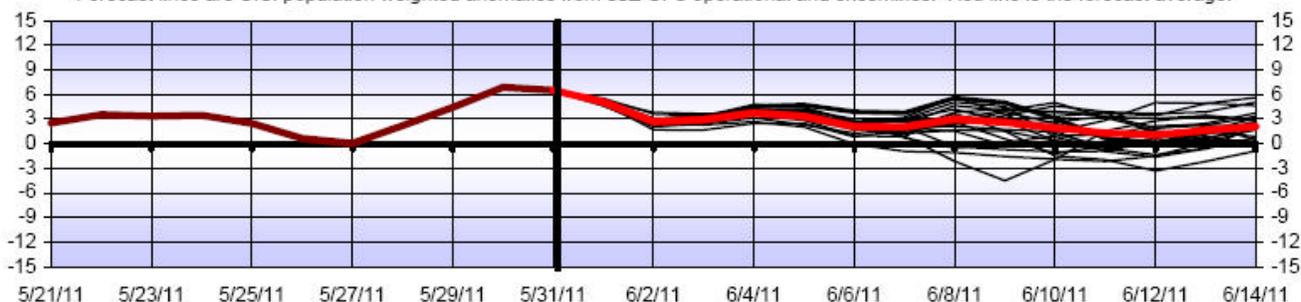
The Institute for Supply Management-Chicago business barometer fell to 56.6 in May, its lowest level since November 2009. The reading was 67.6 in April. The employment component of the index fell to 60.8 from 63.7 in April.

The euro fell against the US dollar after a German Parliament member told business newspaper Handelsblatt that Greece should leave the euro zone.

India's economy grew at its slowest annual pace in five quarters in January to March as increasing interest rates cut consumption and investment. GDP increased 7.8% on the year, lower than 8.3% in the previous quarter.

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.



India's consumer price index increased 9.41% in April from a year earlier. It is up from March's annual increase of 8.82%.

Japan's industrial output increased 1% in April, a sign that companies have made headway in repairing damaged facilities and broken supply chains following the earthquake and tsunami in March.

The API's petroleum stocks report will be delayed by one day until Wednesday at 4:30 pm EDT. The EIA's weekly petroleum report will be delayed by one day until Thursday at 11am EDT, while the natural gas storage report will be released as usual on Thursday at 10:30 am EDT.

The chairman of France's Financial Markets Authority said the G20 will agree on a framework this year to help dampen commodity speculation and price swings by identifying who is behind large positions that influence markets.

MARKET COMMENTARY

The natural gas market moved higher today as traders returned from the three day holiday to find that above normal temperatures are expected to remain in place for the next two weeks while nuclear generation levels which had appeared to staging a long awaited rebound late last week, suffered yet another set back over the weekend, that sees nuclear generation levels once again running over 13% behind last year's levels. In addition natural gas bulls found support in the general re-inflation of oil

prices which saw crude oil prices finish the day up over \$2.00 per barrel with heating oil prices up over 5 cent per gallon today. The bulls seem to have ignored the events from late last week which saw not only a bearish storage report, but a Baker Hughes rig report which showed the number of natural gas drilling rigs operating in the U.S. last week rose by 15 rigs after sliding to a 16 month low the prior week. The bulls also looked past today's EIA Natural Gas Monthly Report which for March showed that domestic natural gas production continued to set another new high. We feel though these factors will once again play a roll in weighing on future prices.

As we discussed last week, the bounce in prices today in our mind has provided an opportunity to be a scale up seller of this market. We would look for resistance tomorrow to be found once again at \$4.707-\$4.729 followed by \$4.74, \$4.815, \$4.874 and \$4.922. We see initial support at \$4.558, \$4.525-\$4.518, \$4.49, \$4.451-\$4.424 and \$4.376-\$4.357. More distant support we see at \$4.324.

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