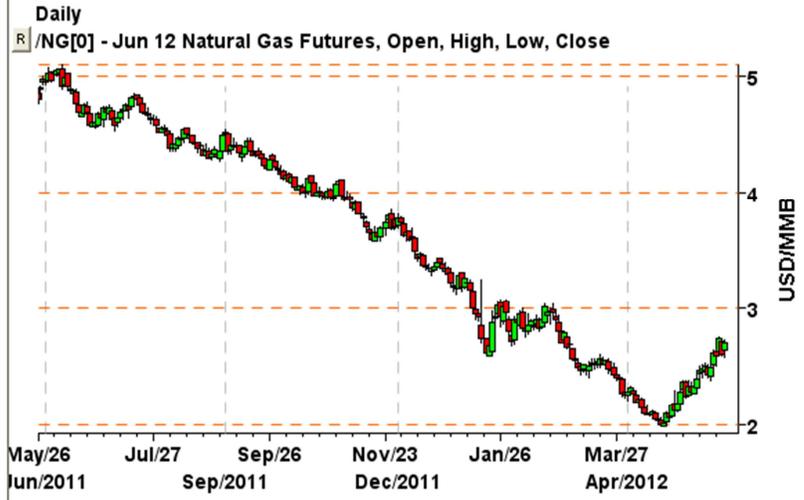


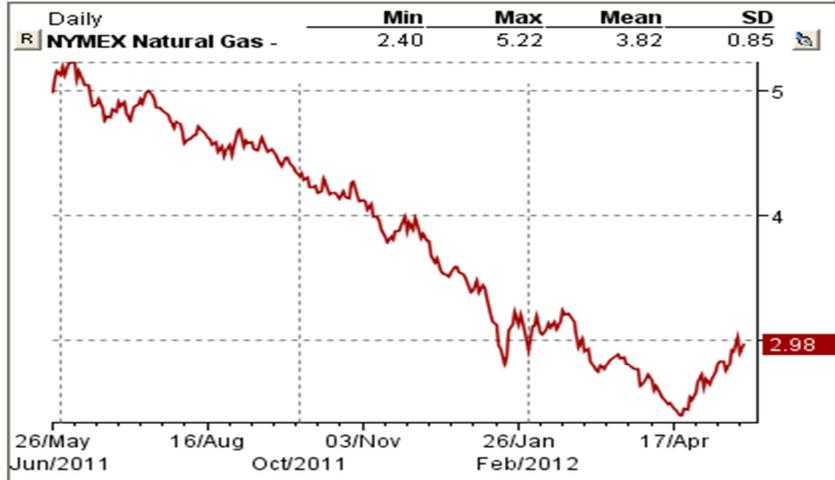


Overview

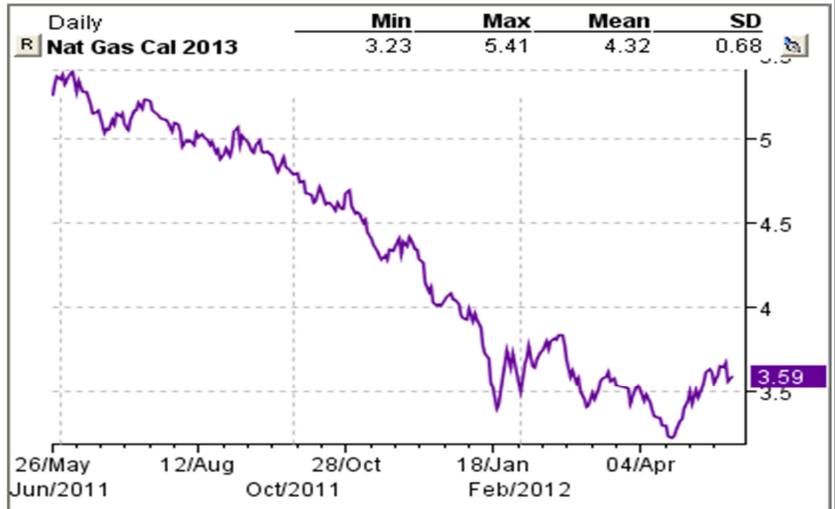
- On Tuesday 5/22/2012, the June 2012 NYMEX natural gas price settled at \$2.707/MMBtu, \$.198MMBtu higher than on 5/11/2012.



- 2nd half (July - December) CAL 2012 closed \$0.14/MMBtu higher.



- CAL 2013 closed \$0.03/MMBtu lower.





Closing Thoughts

NATURAL GAS – The jury is still out on whether this rally will continue or not. Momentum subsided after the June-2012 contract hit \$2.75/MMBtu; however, recent price action has been mostly driven by weather.

During the past six weeks the supply-demand balance has tightened due to the following factors:

Supply:

- Injections continue to underperform. Tomorrow, 5/24/2012, EIA is expected to report a build of 78Bcf into storage which is below last year's 101-Bcf addition to storage for the same week and under the 97-Bcf five-year average injection.
- Baker Hughes data on Friday 5/18/2012 showed the gas-directed rig count was hovering just above 10-year lows at 600. The count is down 36% since peaking at 936 in October 2011, indicating that producers are finally getting serious about curtailing output.

Demand:

- Above normal temperatures during the past weeks and forecasts calling for warm temperatures in major consuming regions have sparked gains on cash market prices and futures since the market expects and increase in cooling demand.
- Coal-to-gas switching has been strong during the past weeks. This shift has increased natural gas consumption by as much as 7 Bcf/d. Most of the coal-to-gas switching has taken place in the Southeast due to the high concentration of combined cycled power plants.

In short, prices will have support at current levels if demand keeps trimming the excess surplus. We expect to see high volatility due to uncertainty around weather driven demand. During the last 4 trading sessions we have seen lower highs and higher lows, which show a sign of consolidation ahead of Thursday's storage data release from the Energy Information Administration. The table below shows today's, 5/23/2012, close of business NYMEX NG prints as a reference.

NYMEX NATURAL GAS

PROMPT MONTH

| Strip | Last Price | Prev. Day Change | Prev. Day % Ch. | Prev. Week | Prev. Week % Ch. | Prev. Year | Prev. Year % |
|--------|------------|------------------|-----------------|------------|------------------|------------|--------------|
| Jun-12 | \$2.729 | (\$0.008) | (0.3%) | \$2.618 | 4.2% | \$4.804 | (43.2%) |

AVERAGE 1,2,3,4, AND 5 YEAR STRIPS

| Strip | Last Price | Prev. Day Change | Prev. Day % Ch. | Prev. Week | Prev. Week % Ch. | Prev. Year | Prev. Year % |
|----------------|------------|------------------|-----------------|------------|------------------|------------|--------------|
| 12 Month Strip | \$3.188 | (\$0.011) | (0.3%) | \$3.167 | 0.7% | \$4.646 | (31.4%) |
| 24 Month Strip | \$3.483 | (\$0.008) | (0.2%) | \$3.508 | (0.7%) | \$4.866 | (28.4%) |
| 36 Month Strip | \$3.670 | (\$0.005) | (0.1%) | \$3.708 | (1.0%) | \$5.041 | (27.2%) |
| 48 Month Strip | \$3.812 | (\$0.004) | (0.1%) | \$3.855 | (1.1%) | \$5.211 | (26.8%) |
| 60 Month Strip | \$3.936 | (\$0.003) | (0.1%) | \$3.978 | (1.1%) | \$5.388 | (26.9%) |

CALENDAR YEAR STRIPS

| Strip | Last Price | Prev. Day Change | Prev. Day % Ch. | Prev. Week | Prev. Week % Ch. | Prev. Year | Prev. Year % |
|----------|------------|------------------|-----------------|------------|------------------|------------|--------------|
| Cal 2013 | \$3.600 | (\$0.010) | (0.3%) | \$3.660 | (1.6%) | \$5.270 | (31.7%) |
| Cal 2014 | \$3.950 | | N/A | \$4.010 | (1.5%) | \$5.570 | (29.1%) |
| Cal 2015 | \$4.157 | \$0.001 | 0.0% | \$4.220 | (1.5%) | \$5.940 | (30.0%) |
| Cal 2016 | \$4.351 | | N/A | \$4.399 | (1.1%) | \$6.290 | (30.8%) |



ERCOT Heat Rates- Summer forward heat rates (July & August) have been very volatile, especially in 2012; however we have noticed some weakness. Therefore we recommend evaluating pricing for the next couple of years if you have open exposures during this time horizon.

Due to declining reserve margins in ERCOT, it is likely that forward heat rates will firm up as regulators take action to mitigate capacity shortages.

On 5/22/2012, ERCOT released a new long-term study which confirmed that the Electric Reliability Council of Texas (ERCOT), grid operator for most of Texas, foresees potential electricity shortages within the coming decade as electric use in Texas continues to hit new records.

The newly revised Capacity, Demand and Reserves (CDR) report shows a reserve margin of 9.8 percent as soon as 2014. That is well below ERCOT's 13.75 percent target for electric generation capacity that exceeds the forecast peak demand on the grid. The 2014 outlook includes slightly more than 75,000 megawatts (MW) of power to serve anticipated peak demand of 68,403 MW. A megawatt is enough power to serve about 200 Texas homes during the highest-use period, which typically occurs between 3 p.m. and 7 p.m. during the hottest days of summer.

<http://www.ercot.com/content/news/presentations/2012/CapacityDemandandReserveReport-2012.pdf>

Contact your Acclaim representative to discuss if you need to take any action to manage your current exposures to the market.

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