



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 19, 2008

US President George W. Bush said on Saturday he was pleased with the Saudi move to increase its production by 300,000 bpd. However he added that it was inadequate to solve the problem in the US. He said the US' problem would be solved if the US expanded its refining capacity, promoted nuclear energy and continued its strategy for the advancement of alternative energies.

OPEC's President

Chakib Khelil said OPEC's September meeting is unlikely to result in an increase in OPEC's oil production. He said the oil markets are well supplied and high prices are the result of speculation, a weak dollar and geopolitical problems. He also stated that OPEC members were exchanging ideas about the oil market but would not meet before their next scheduled meeting on September 9. Separately, Kuwait's Oil Minister Mohammad al-Olaim said OPEC stood ready to pump more oil to the market as soon as required. However he reiterated that prices were driven by speculation rather than market fundamentals. Qatar's Oil Minister Abdullah al-Attiyah also expressed similar sentiment. He said there was no need to increase production. He said the markets were balanced and there was no

May Calendar Averages

CL – 122.73

HO – 349.74

RB – 312.54

Market Watch

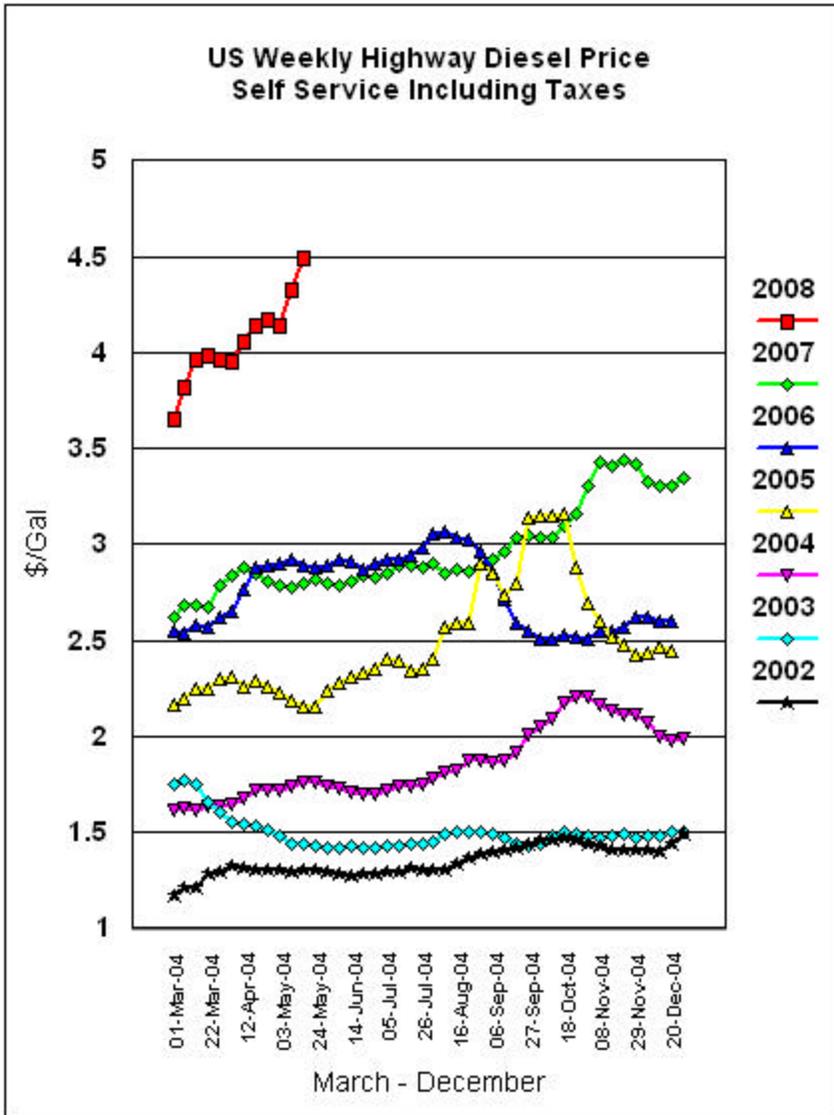
Texas Republican Sen. Kay Bailey Hutchison introduced legislation on Monday to freeze the federal mandate for corn based ethanol at this year's current level of 9 billion gallons.

A member of the US House of Representatives called for lawmakers to pass legislation that could include trade penalties to force OPEC to increase its production. Democrats in Congress last week unveiled legislation that would increase pressure on OPEC and oil companies that include giving the US attorney general power to bring price manipulating charges against OPEC.

Lehman Brothers warned that commodities prices that were drawing in hundreds of billions of dollars in new investments threatened to create an asset bubble. It estimated that total assets under management in commodity indices increased to \$235 billion by mid-April from about \$70 billion at the beginning of 2006. The total amount drawn into commodities may be higher since it does not account for over the counter capital flows, which can be larger than flows on exchanges.

Algeria's Energy and Mines Minister Chakib Khelil said Sonatrach is expected to earn about \$81 billion in 2008 if oil prices remain high, up from \$59 billion in 2007.

need for an emergency OPEC meeting before September. Iran's Oil Minister Gholamhossein Nozari said he did not see the need for an emergency meeting. He also stated that crude prices are expected to increase with any weakening in the US dollar. Meanwhile, Iraq's Oil Minister Hussain al-Shahristani said oil prices would not fall if OPEC



increased its production because world oil supply is already higher than demand. In regards to Iraq's oil exports, he stated that Iraq aimed to increase total oil exports to 2.3 million bpd from 2 million bpd by the end of the year. Exports in the south would increase 200,000-300,000 bpd while exports of Kirkuk oil would increase by 100,000 bpd. Its Kirkuk oil exports are expected to total 18 million barrels or 600,000 bpd in June, up from 13 million barrels or 420,000 bpd in May.

China's National Development and Reform Commission stated that China has released 6,313 tons of strategic reserves of refined oil products to help relief work in Sichuan and Gansu provinces following the earthquake last week. It also stated that it was planning to release more gasoline and diesel from Jiangyou reserve tanks in Sichuan and Guiyang reserve tanks in Guizhuo province. It has also given its approval for 10,000 tons of jet kerosene reserves stored in Guizhuo to be tapped. CNPC is also expected to add 27,000 tons of diesel to Gansu.

According to the Lundberg survey, the average retail price of gasoline in the US increased to a new record high of \$3.7929/gallon in the two weeks ending May 16, up 17 cents.

Leaders of the US House of Representatives, during a visit to Israel, said they did not rule out military action against Iran to stop it from acquiring nuclear bombs. House Speaker Nancy Pelosi said a full array of tactics were on the table. He also listed diplomatic and economic options as important components.

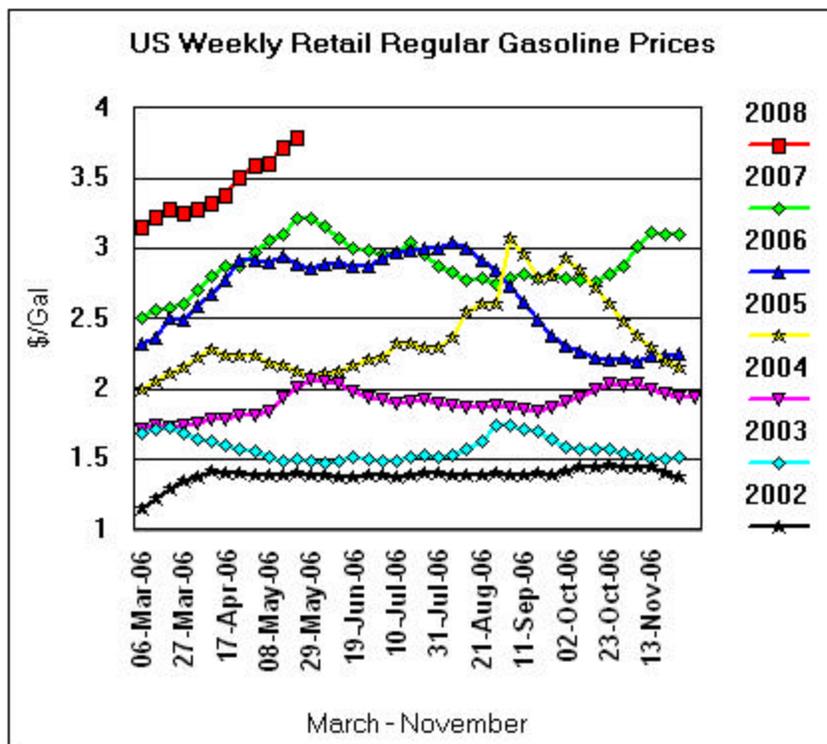
The EIA reported that the US average retail price of diesel increased by 16.6 cents/gallon to \$4.497/gallon in the week ending May 19th. The price is up \$1.694/gallon on the year. The EIA also reported that the US average retail price of gasoline increased 6.9 cents/gallon on the week to \$3.79/gallon.

Venezuela accused the US of violating its airspace around two of its small Caribbean islands. The US Embassy in Caracas said it was looking into the allegations made by President Hugo Chavez's government just two days after it accused troops from Colombia of crossing its border.

Refinery News

Holly Corp said its fluid catalytic cracking unit at the Navajo refinery has been shutdown temporarily for repairs on Friday. It said it expected the repairs to require several more days to complete. The current shutdown followed an initial shutdown of the unit due to an instrument control malfunction on May 7.

ConocoPhillips shut a crude distillation hydrogen desulfurization unit on Saturday at its 247,000 bpd Sweeny, Texas refinery. The unit is expected to have its catalyst changed in a process scheduled to last through May 31. Separately, ConocoPhillips said maintenance work was underway at its 76,000 bpd refinery in Rodeo, California.



Chevron Corp reported an upset at its 260,000 bpd refinery in El Segundo, California on Saturday. An analyzer controller on an unidentified unit at the refinery triggered a release of nitrous oxide in excess of permitted levels.

ExxonMobil is expected to shut a gas oil desulphurization unit at its Port Jerome refinery in northwest France for work ahead of the lower sulfur limits starting next year. European Union states require maximum sulfur content of 10 ppm starting next year.

Valero Energy Corp restarted a 38,000 bpd crude unit at its Corpus Christi, Texas refinery following planned maintenance. Valero stated that a snag delayed the start up of a fluid catalytic cracking unit at the refinery. However it stated that there was no impact to output since the unit was down.

BP Plc restarted a reformer unit at its Cherry Point refinery in Blaine, Washington. The reformer unit was restarted on Friday and is now operating normally. Separately BP was restarting a fluid catalytic cracking unit at its 417,000 bpd Texas City, Texas refinery. The restart of the 62,000 bpd fluid catalytic cracking unit was pending the restart of the 55,000 bpd alkylation unit over the weekend.

Production of refined products was unaffected after a fire broke out at Gazprom Neft's Omsk refinery. Gazprom said the fire did not disrupt production at the plant.

Italy's Eni SpA said it planned to install two crude oil storage tanks at its 100,000 bpd Gela refinery in Sicily to increase security and efficiency. The two storage tanks, one with a capacity of 150,000 cubic meters and the other of 80,000 cubic meters, would also reduce the environmental impact of the plant.

The National Resource Defense Council filed an appeal, contesting a state air permit issued to BP for a major expansion project at its Whiting, Indiana refinery. It said the expansion would result in the

release of a number of pollutants and dangerous emissions. The refinery's expansion is geared at running larger volumes of heavy Canadian crude at the Whiting refinery.

Traders stated that China's demand for West African crude for June fell for the second consecutive month to 570,000 bpd, the lowest level in 10 months. China's May import volume of West African crude is estimated at about 797,000 bpd. Overall Asian demand for West African crude fell to about 887,000 bpd in June, the lowest level since July last year.

French fishermen blocked on Monday France's Fos-Lavera terminal to protest against rising fuel costs, stranding at least two oil tankers.

An official in Indonesia said the country aimed to begin rationing subsidized gasoline in the capital, Jakarta, and surrounding areas in September for motorcycles and public transport. Private cars would also be charged a higher price for fuel, as part of efforts to cut expensive subsidies.

Production News

Iraq's Oil Ministry reported that Iraq's oil production in February and March stood at 2.35 million bpd, with about 1.75 million bpd produced from its southern oilfields and 602,000 bpd from its northern oilfields. Iraq exported an average of 1.93 million bpd in February and 1.91 million bpd in March. In April, Iraq's oil exports fell further to 1.9 million bpd.

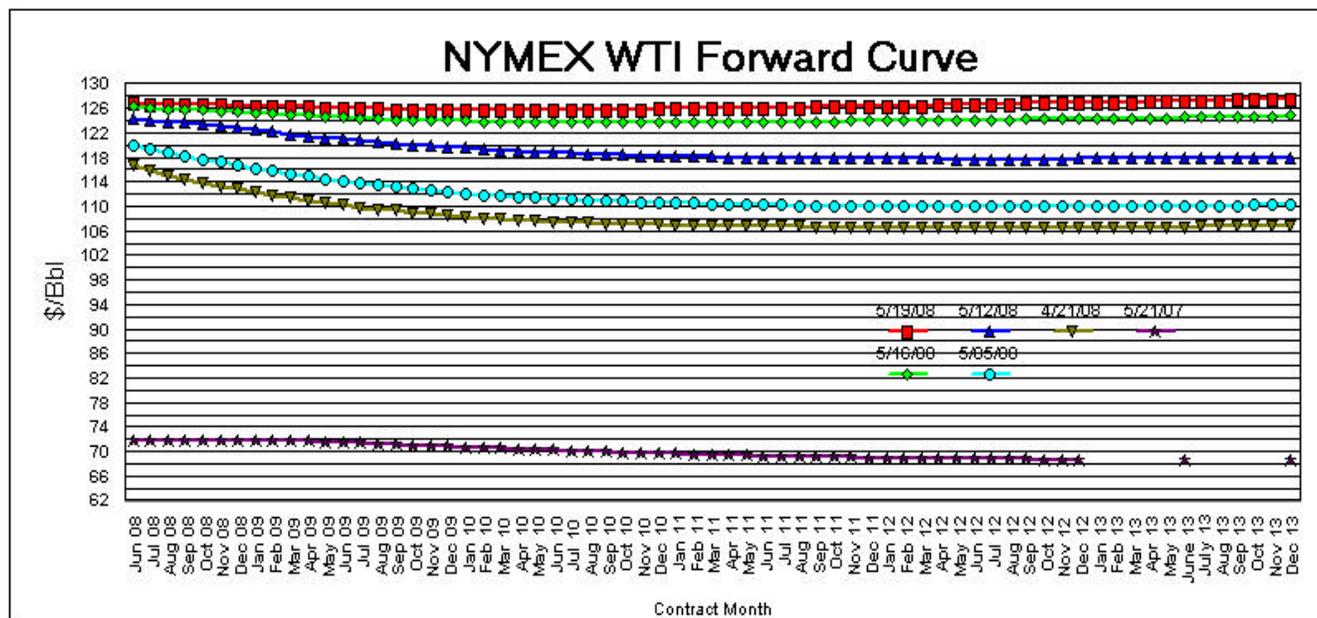
The average daily loading rate of nine of the main North Sea crude streams is expected to average 2.315 million bpd in June, down 97,000 bpd on the month.

Norway's StatoilHydro has drilled two dry appraisal wells at its Tornerose discovery in the Barents Sea. It has previously stated that it would build a second production line at its Snoehvit liquefied natural gas plant if it found more resources at nearby prospects such as Tornerose.

The Dutch NAM oil joint venture, owned by Royal Dutch Shell and ExxonMobil, is considering reopening old oilfields in the Netherlands. A NAM spokesman however did not give details of the fields. NAM has previously stated that it was reopening its 1billion barrel Dutch Schoonebeek field.

Angola is expected to export 1.87 million bpd of crude in July, down from about 1.9 million bpd in June.

Kazakhstan banned the export of all refined oil products amid the increasing fuel costs.

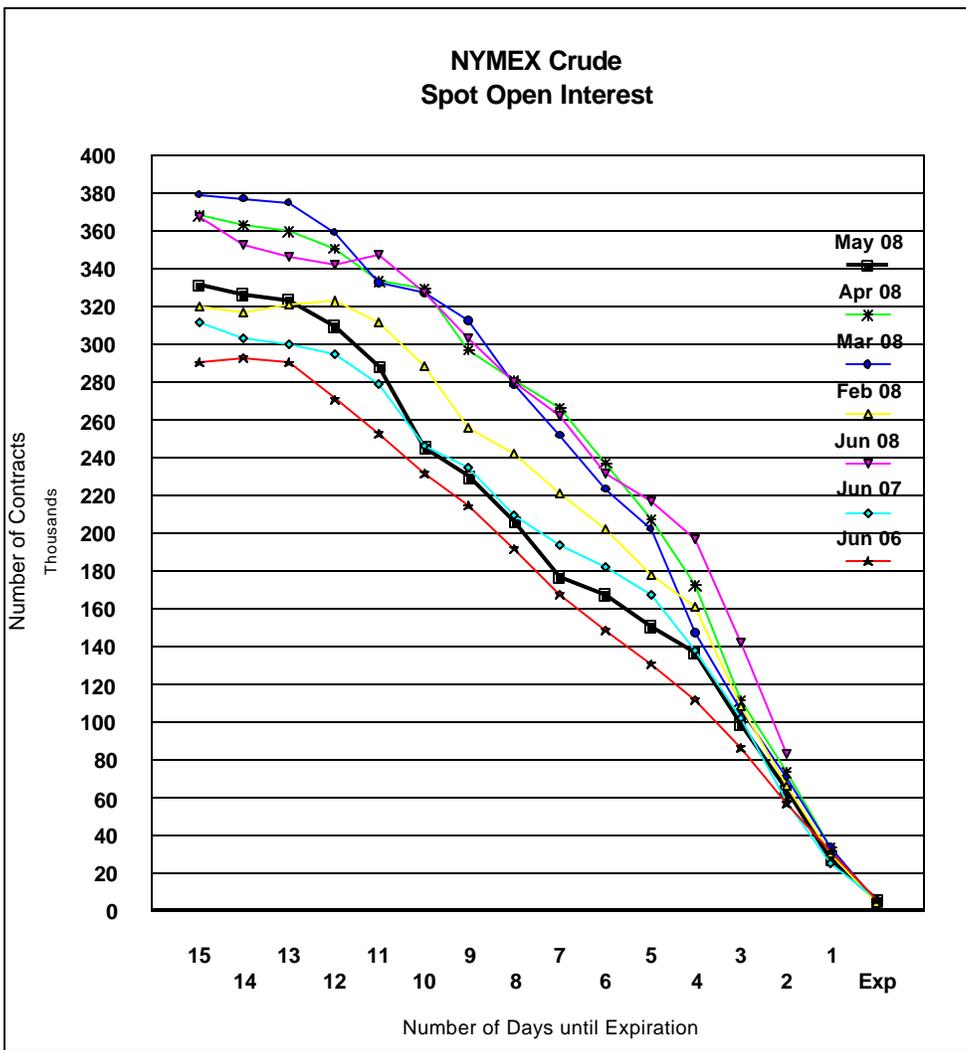


OPEC's news agency reported that OPEC's basket of crudes increased to \$119.27/barrel on Friday, up from \$118.95/barrel on Thursday.

Market Commentary:

Ignoring promises by Saudi Arabia that it would up production, the crude oil market traded higher today, posting its highest settlement to date of \$127.05. The back end of the curve was relatively stronger than the front end, as spreads between front to back came under significant pressure. This may be indicative of true market conditions and how industry sources perceive this market to be. Expectations for the DOE/API stock levels are calling for a modest build in crude oil stocks of 600,000. We would again however, focus our attention on the demand factor for products. In the meantime, supply overseas continues to be tight as Norwegian airport strikes make it difficult to bring workers to platforms in the North Sea. As mentioned on Friday, we would continue to look for this market to trend higher, reaching the Goldman forecast of \$140.00. With June crude oil expiring tomorrow, the July contract will become spot month. For day trading purposes, we would buy and sell July at the listed support and resistance numbers and for longer - term purposes we would sell the prompt and buy the deferred. Heating oil, although trading higher on the day, was unable to achieve a new record high, settling lower on the day. The past two trading sessions have experienced tighter trading ranges. This market could be setting up for a correction to the downside prior to move higher. Given the escalating global demand for diesel,

we would rather wait for an opportunity to buy this market. Basis the July contract, we would look to be buyers of dips down to the support level of 3.5560. Gasoline continues to trade higher, reaching a new record high today of \$3.2540. We would continue to look for this market to trend within its ascending channel, with downside correction in between. A settlement above this channel should take prices to the \$3.6345 initial projected level. Total open interest for crude oil is 1,379,794 down 48,753, June08 83,099 down 59,311, July08 357,936 up 6,802. Total open interest for heating oil 231,351 down 578, June08 49,529 down 2,685 and July 58,903 up 1,449. Total open interest for gasoline, 270,466 up



2,440, June 55,518 down 4,399 and July 83,794 up 4,754.

| | | Explanation | |
|-----------|-------------------------|------------------------|--------------------------------|
| CL | Resistance | 127.82, 130.25 | Previous high, Basis trendline |
| | 127.05, up \$76 cents | 127.77 | Monday's high |
| | Support | 127.00, 126.00, 125.28 | Monday's low |
| | | 124.04, 120.75 | Previous lows |
| HO | Resistance | 372.28 | Previous high |
| | 367.51, down 2.77 cents | 368.95, 371.95 | Monday's high |
| | Support | 365.90 | Monday's low |
| | | 363.41, 355.60, 355.15 | Previous lows |
| RB | Resistance | 328.55, 337.55, 346.55 | Basis trendline |
| | 323.66, up 1.31 cents | 325.40 | Monday's high |
| | Support | 322.00, 320.40 | Monday's low |
| | | 316.58, 309.26, 309.09 | Previous lows |