



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 20, 2008

The New York Times reported that a military exercise carried out by Israel seems to have been a rehearsal for a bombing attack on Iran's nuclear facilities and long range conventional missiles. It reported that more than 100 Israeli F-15 fighters took part in the exercise, which was carried out over the eastern Mediterranean and Greece during the first week of the month. It also reported that helicopters and refueling tankers flew more than 900 miles, about the distance that separates Israel and Iran's uranium enrichment plant at Natanz. Israel's Defense Forces said the Israeli Air Force regularly trains for various missions in order to

Market Watch

US House Speaker Nancy Pelosi said the House of Representatives plans to vote on a new energy package as early as next week which includes provisions to curtail energy market speculation and force oil companies to drill on existing leases or pay escalating penalties. The legislation would also likely include a measure to fight price gouging in the petroleum industry, another provision to reduce speculation in the energy markets and combat market manipulation.

The EIA said it is unlikely that it would change its forecast for China's oil demand following the country's decision to increase retail fuel prices.

A researcher at China's National Development and Reform Commission, Chen Dongqi said China's decision to increase retail fuel prices showed China was back on track toward its goal of bringing low domestic prices in line with global markets. He also said inflation could ease to more tolerable levels in the second half of the year, with full year consumer price index growth seen at 7%. He said the government calculated that distortions caused by artificially low energy costs were more damaging than inflationary pressure from the price increases.

The chair of the European Union's finance ministers said the strength of the euro currency has helped reduce the impact on the euro zone economy of record high oil prices.

The IMF said the US economic growth will be flat this year and recover gradually in 2009 to reach 2% as it urged the Federal Reserve to hold interest rates steady. However it cautioned that an economic recovery was threatened by strains on household and bank finances as well as higher energy and food prices.

In a statement prepared by the World Economic Forum, Alcoa Inc, Royal Dutch Shell and 97 other companies urged world leaders to devise a plan to fight global warming by setting greenhouse gas target for all nations and creating an international carbon market. They said a new climate change treaty is needed with incentives to capture and store carbon dioxide and protect forests. World leaders are aiming to reach an accord by the end of 2009 to limit emissions and replace the Kyoto Protocol, which expires in 2012.

June Calendar Averages

CL – 132.41

HO – 380.00

RB - 340.69

confront and meet the challenges posed by threats facing the country. Meanwhile a senior US Defense Department official said one purpose of the exercise was to send a message to the US, Europe and Iran that Israel was ready to use force if diplomatic efforts to halt Iran's uranium enrichment failed. In response, Iran warned Israel of a strong blow if it takes forceful measures against the country following reports of Israel military exercises. Iran's senior cleric Ayatollah Ahmad Khatami stressed the Iranian nation's mentality was to fight foreigners. Meanwhile, Russia's Foreign Minister Sergey Lavrov warned against the use of force saying there was no proof Iran was trying to build nuclear weapons.

The Saudi Press Agency said Saudi Arabia will do all it can to stabilize world oil markets, though geopolitics and speculation as well as fundamentals are behind high prices. It said that a meeting of crude producers and consumers called by Saudi Arabia on June 22 proved its commitment to market stability. Saudi Arabia's Oil Minister Ali al-Naimi confirmed that the country will produce 9.7 million bpd in July. Saudi Arabia reiterated its long stated plans to increase its sustainable oil production capacity to 12.5 million bpd by the end of 2009. The Saudi Press Agency cited Saudi Arabia's Oil Minister Ali al-Naimi as saying that the country plans to spend \$90 billion over the next four years to expand its oil and gas producing capacity. Saudi Arabia expects work to expand the Khurais oil field to be completed by mid-2009.

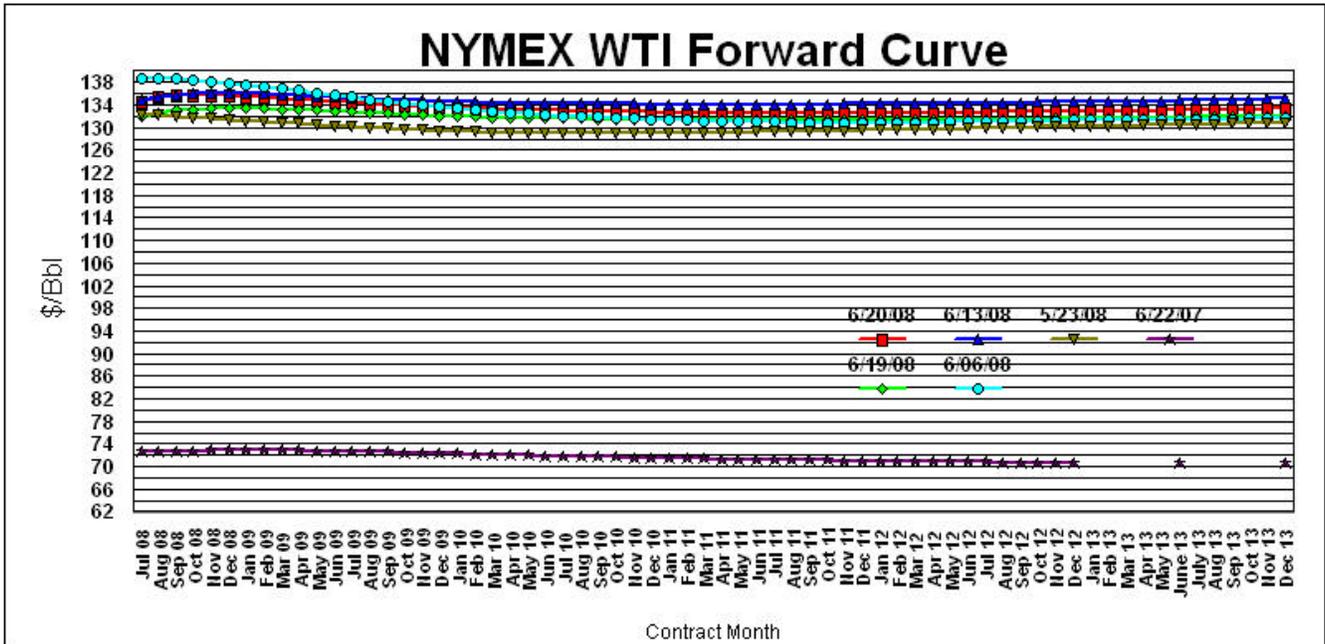
Iran's OPEC Governor Mohammad Ali Khatibi said the oil market is oversupplied and it is unlikely that OPEC members will reach an agreement to change production at an energy meeting in Saudi Arabia on Sunday. He said OPEC was already producing 1.2 million bpd above current demand levels. He added that political issues were causing oil prices to continue increasing and there was nothing that could be done in the short term to lower prices. Separately, he stated that world oil producers and consumers should work on removing sanctions and soothing Middle East security fears to boost investment in new production capacity. Meanwhile, OPEC's President Chakib Khelil said it was illogical and irrational to ask OPEC to increase its production to lower oil prices. In a reversal, Venezuela's Oil Minister Rafael Ramirez said Venezuela will attend the oil summit.

UK Prime Minister Gordon Brown said oil producing countries should invest their profits in renewable energy sources. He said he would the oil producer-consumer meeting to make this point to the head of the oil producing countries. He said the aim is to promote investing to secure a more balanced energy market for the future. Meanwhile Germany's Economics Ministry said it will reiterate its call on Saudi Arabia to increase its production at the oil summit this weekend.

China's fuel prices increase may do little to reserve a trend of rising oil product imports as demand in China is unlikely to be impacted. China's Sinopec and PetroChina purchased at least 200,000 tons of gasoline for July delivery so far from South Korea and Taiwan, steady with levels in June. They are also seeking at least 350,000 tons of diesel for next month.

Royal Dutch Shell Plc said a force majeure it declared on exports from its 225,000 bpd Bonga crude oilfield in Nigeria will remain in place for June and July. Shell said that talks were ongoing with personnel who work at the offshore facility to agree when they will return to work. Earlier, Nigeria's Oil Minister Odein Ajumogobia said he believed the Bonga oilfield would resume operations soon. Nigeria's Finance Minister Remi Babalola said Nigeria's oil production has fallen to 1.8 million bpd following the recent attacks on oil facilities by militants.

Workers at Chevron Corp's Nigerian unit plan to strike on June 23 after talks with management failed to resolve a labor dispute. A Pengassan union official said production is unlikely to be affected on the first day as a skeleton staff remains in place. He however said that production may be impacted on



the second and third day of the strike should the union decide to escalate action. Separately, the Movement for the Emancipation of the Niger Delta said a Chevron oil facility in Nigeria was attacked overnight. However it denied that its militants were involved. Chevron said it had no indication of a rebel attack on its oil infrastructure in Nigeria and oil production there was unaffected.

Nigeria's President Umaru Yar'Adua directed the country's armed forces to increase security at all oil facilities in the Niger Delta following the attack on Bonga crude oilfield. He also directed the Nigerian armed forces and security agencies to apprehend the perpetrators of the attacks.

Venezuela's President Hugo Chavez threatened to stop selling oil to European countries if they apply a new ruling on illegal immigrants. European Union lawmakers ruled on Wednesday that illegal immigrants can be detained for up to 18 months and face a reentry ban of up to five years. He also called on other leaders in the region to take action against the law. In response, EU foreign policy chief Javier Solana said Venezuelan President Hugo Chavez's threat to cut oil export to EU countries is "absolutely disproportionate."

Venezuela's Oil Minister Rafael Ramirez said Venezuela will not increase its domestic gasoline price following China's decision to increase its retail gasoline and diesel prices.

The IEA reiterated that the oil stocks it manages with energy consuming countries will only be tapped to offset an emergency supply disruption, not to push oil prices lower.

Iran's President Mahmoud Ahmadinejad said there was a plot to kill him during a trip to Iraq in March. He inferred that the US and its allies were behind the alleged plot to kidnap and kill him. He said Iran's enemies had their plan foiled by last minute changes that were made to his schedule. Meanwhile, a US spokesman in Iraq said the US was not aware of any threats to the Iranian president's life.

According to a draft summit statement, European Union leaders will ask the European Commission on Friday to study the feasibility of tax measures to cushion the rise in oil prices and report back in October.

Refinery News

Pasadena Refining is restarting several units at its 100,000 bpd refinery in Pasadena, Texas after a brief outage due to loss of steam on Wednesday.

Shell Oil reported a brief compressor snag at a fluid catalytic cracking unit at its Deer Park, Texas refinery.

Motiva plans to shut a crude unit at its 235,000 bpd Convent, Louisiana refinery in mid-July for a three to four week turnaround.

Suncor Energy Inc said it completed an extended maintenance shutdown of a 125,000 bpd upgrader at its Alberta oil sands operations. It however does not expect production to resume until next week.

Marathon Oil Corp started construction of its Detroit refinery upgrade project. The project will increase the refinery's total capacity from 102,000 bpd to 115,000 bpd and add 400,000 gallons/day of transportation fuels. The project will be completed in late 2010.

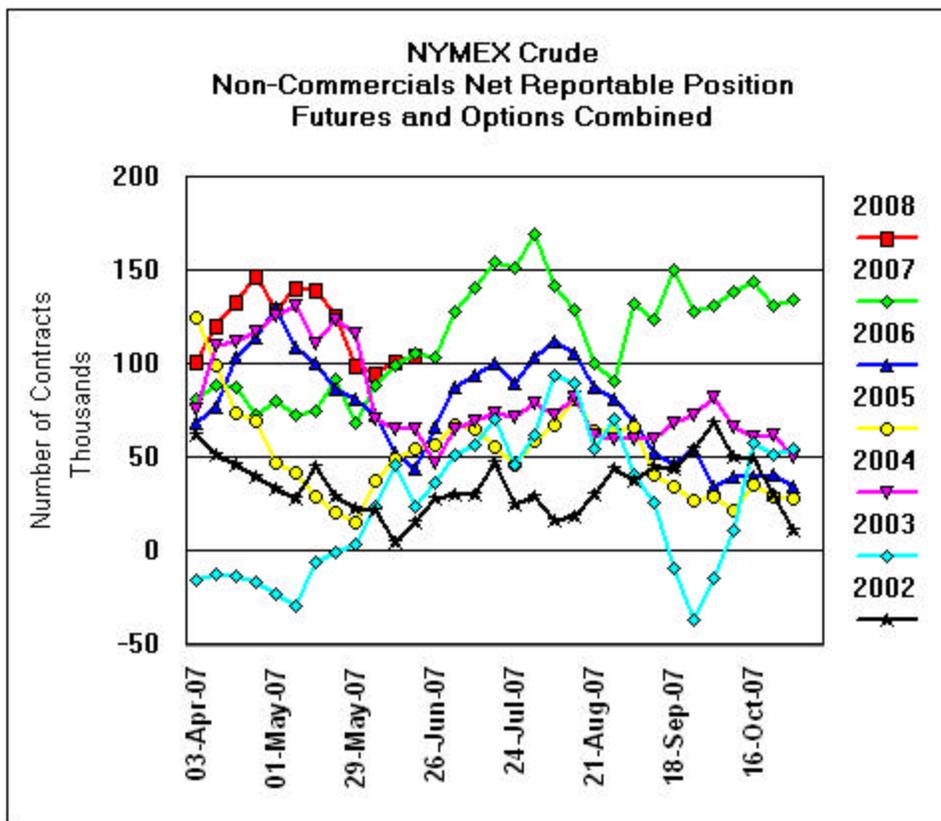
According to Euroilstock, Europe's total oil and oil products production fell by 2.3% on the month and by 0.1% on the year to 12.747 million bpd in May. It reported that gasoline production fell by 2.7% on the month and by 4.5% on the year to 3.15 million bpd while distillate production fell by 2.8% on the month but increased by 2.2% on the year to 6.111 million bpd. It reported that capacity utilization fell to 90.26% in May from 92.39% in April.

Petroecuador's largest refinery was operating at full capacity of 110,000 bpd after maintenance and repair work to one of its two main units.

Total and Saudi Aramco are expected to sign an agreement on Sunday to build a new refinery in Jubail, Saudi Arabia. The construction of the 400,000 bpd refinery is expected to begin towards the end of 2008. Production is seen starting in 2012.

Strikes at France's Fos-Lavera oil terminal has cost refiners 20 million euros or \$31.06 million so far and forced some to operate at lower capacity. The head of the French oil industry association UFIP said a solution is needed to end the strike and warned that there would be serious damage if it were prolonged.

South Korea's Korea National Oil Corp reported that the country's



commercial crude inventory fell by 36.8% by the end of May to 14.51 million barrels compared with 22.95 million barrels last year. Overall private oil stocks by the end of May fell by 8.9% on the year to 70.18 million barrels. The end of May crude inventory level was enough to meet 6.7 days of the country's demand, down from 10.9 days on average in the previous year. South Korea imported 76.11 million barrels of crude in May or 2.46 million bpd, down 2.5% on the year. It reported that South Korea's oil product demand in May fell by 1.4% on the year to 64.02 million barrels.

Production News

Petrologistics said OPEC's oil production is expected to increase by 900,000 bpd on the month to 32.8 million bpd in June due to increased production from Saudi Arabia and Iran. Saudi Arabia is expected to pump 9.45 million bpd in June, up from 9 million bpd in May while Iran is expected to produce 3.98 million bpd in June, up from 3.49 million bpd in May.

The UK North Sea's Bruce oil and gas field will shutdown this weekend for planned maintenance of an unspecified duration. It was not clear if production from nearby fields Keith and Rhum will also be affected by the shutdown.

Pemex reported that Mexico's crude oil production totaled 2.798 million bpd, up 1.12% on the month. It reported that Mexico's crude oil exports in May fell by 4.38% on the month to 1.376 million bpd from 1.439 million bpd in April. Mexico recently cut its average production estimate for 2008 to 2.9 million bpd from 3 million bpd.

PDVSA plans to increase the combined oil production of all joint venture companies to 1 million bpd this year. The plan requires PDVSA to secure 94 oil rigs this year, of which 42 have already been negotiated and contracted.

Royal Dutch Shell said it is in negotiations with the Iraqi Oil Ministry over the supply of technical services and also potentially the development of associated gas from oil output in southern Iraq.

Nigeria increased its official selling price for July Bonny Light crude to dated plus \$4.45/barrel from \$4.00/barrel for June.

OPEC's news agency reported that OPEC's basket of crudes increased to \$129.44/barrel on Thursday from \$128.45/barrel on Wednesday.

Market Commentary

A falling dollar, declarations of force majeure by Royal Dutch Shell and a N.Y. Times report of Israeli bombing drills in the Mideast, sent energy prices on the rise. OPEC is also meeting this weekend and all eyes and ears will be on the outcome of this meeting, whose main focus is the current price of crude oil and how to correct it. Despite slackening demand, this market continues to rebound, experiencing wide trading ranges. August is now the spot month in crude oil now that the July contract has expired. This market has been trading sideways since June 6th, with the exception of making a new contract high on June 16th. Periods of sideways movement in prices are considered to be areas of consolidation, prior to a continuation of the prior move, which in this case would be higher. Slow stochastics and RSI's based on a weekly chart, are calling for lower prices, while those based on a daily chart are indicating otherwise. Due to the tightness in supply and an uncertain dollar, we expect that this market will continue to experience periods of erratic trading. For the near future we would continue to buy and sell against the support and resistance numbers with our bias to the upside. With the August now the spot month contract, we would look for the August08/September 08 spread to gather strength, with support set at -.61 cents and resistance set at -.25. Any breaks below the -.61 cent level should be sold, selling August and buying September and any break above the -.25 level,

we would buy the August and sell the September. Gasoline basis the August contract experienced an inside trading session, opening slightly lower on the day, only to finish with a higher settlement. Although China has raised the price of fuel, demand in China continues to remain strong, as people in this country are continuing to enjoy their recent economic growth. Other economically growing countries are also spending money they never had before, enjoying the rewards of their swelling economies. As with the crude oil, longer-term technicals are calling for a downward move in prices, with near-term technicals indicating higher prices. We would continue to buy the August08 contract as long as it maintains itself above the \$3.3000 support level. Gasoline has been gaining against the heating oil, gaining .2000 cents since the beginning of June. Although it is expected that the U.S. driving season will sustain some blows, it will not come to a halt. We would look for travel to still take place, but perhaps on a more limited basis. Due to this, gasoline may continue to gain against the heating oil and approach the high of .0260, made back into the beginning of February. This spread is currently running -.4030. Like the gasoline, August heating oil experienced an inside trading session, also opening lower, but settling higher on the day. Technicals for this market are not as supportive as they are for the crude oil and the gasoline, and in fact are calling for lower levels. We would look for a test of the \$3.5450 key support area and possibly \$3.4100. Currently, resistance for the August08 contract is set at \$3.9290 and any failed attempt to penetrate this level should be sold. Open interest for crude oil is 1,308,962 down 12,416, July08 21,928 down 34,945, August08 315,706 up 15,357, December 08 183,922 down 3,365. Total open interest for heating oil is 218,476 down 550 July08, 30,775 down 3,120, August08, 46,446 up 1,573. Total open interest for gasoline, 266,372 up 2,517, July 40,718 down 7,512, August08, 65,463 up 5,127.

The Commitment of Traders report showed that non-commercials in the crude market cut their net long position by 12,534 contracts to 12,712 contracts in the week ending June 17th. The funds cut their total long position by 14,678 contracts to 203,806 contracts on the week. The combined futures and options report showed that non-commercials in the crude market increased their net long position slightly by 3,685 contracts to 105,119 contracts on the week. The non-commercials have likely continued to cut their net long position in recent days as seen in the large declines in open interest. Meanwhile the non-commercials in the RBOB market increased their net long position by 764 contracts to 54,388 contracts while non-commercials in the heating oil market cut their net long position by 429 contracts to 14,586 contracts on the week.

August Crude Support	July Crude Resistance
131.30, 127.76, 126.77, 122.05, 120.60, 114.85, 108.95, 98.20, 85.40	137.35, 141.00, 150.00
Heating oil support	Heating oil resistance
3.8000, 3.6800, 3.5450, 3.5100, 3.3500, 3.1680, 3.0980	4.0338, 4.0475, 4.0640, 4.1200
Gasoline support	Gasoline resistance
3.3400, 3.3250, 3.3000, 3.1760, 3.09.20, 3.0730, 3.0400, 3.0250, 2.9255	3.63.45, 3.755, 3.4655