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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR APRIL 28, 2010

The IEA's chief economist, Fatih Birol said current world oil prices around \$85/barrel are hurting lesser developed countries and restricting their growth. He said if oil prices remain at \$80-\$85/barrel for the full year, it will be equal to 4.5% of GDP of these lesser developed countries. He however declined to comment on what he believed was an appropriate global price of oil.

Saudi Arabia's Oil Minister Ali al-Naimi said politically motivated policies to support alternative energy and cut imports in major oil consuming countries like the US could affected needed investment in fossil fuels and

Market Watch

Energy traders and major energy producers filed objections to a proposed plan to limit speculative positions in US oil and gas futures. In letters to the Commodity Futures Trading Commission, Morgan Stanley, Barclays Capital and BlackRock Inc said the proposal to set a limit on the number of contracts any single party can hold would hurt hedgers and lead to a loss of liquidity. Morgan Stanley told the CFTC its position limit plan would have an adverse impact on the ability of energy market participants to manage the complex risks associated with physical assets. It said it should rely on existing reporting requirements and market surveillance structure. It also said it should refrain from taking further action until Congress completes its work on financial reform legislation. Morgan Stanley said the plan may increase systematic risk without preventing excessive speculation. Barclays Capital said CFTC position limit plan would force many large, diverse traders to downsize significantly. It said it would hurt liquidity, corporate risk management strategies and capital investment. It said the CFTC should instead consider enhanced accountability levels that include OTC market positions. BlackRock Inc said the CFTC's plan would hurt liquidity of energy contracts, making them more susceptible to sudden price movements. It said the CFTC should not impose limits on passive commodity index investors. Merrill Lynch said it was concerned that the position limit plan would eliminate independent account controller exemptions. It said the plan may prohibit it from hedging or speculating in certain energy commodities. Cargill said the energy position limit proposal would restrict legitimate hedging and impact speculation needed for liquidity. The API warned that the limits could severely limit hedging activity of energy companies that engage in swap trading. Meanwhile, Royal Dutch Shell said the CFTC's plan could impair the efficient operations of the energy derivatives markets and would impose new costs and risks without providing the benefits intended by the commission. It may create unintended limitations on legitimate activities. Vitol said the position limit plan may drive parties to take physical market risk to avoid regulatory exposure. However, Delta Air Lines said the market needs overall cap on speculative interest, otherwise position limits will not control excessive speculation. It said the CFTC needs to address the issue of passive, long only traders.

Marathon said \$70-\$80/barrel is a reasonable range for crude oil prices. Marathon's CEO Clarence Cazalot said the company was seeing better demand for diesel due to the improving US economy.

Nigeria's Oil Minister Diezani Madueke said a new Nigerian law that gives preference to local service companies also guarantees fair access to foreign oil companies.

DOE Stocks

Crude – up 1.963 million barrels
Distillate – up 2.937 million barrels
Gasoline – down 1.24 million barrels
Refinery runs – up 3.1%, at 89%

put energy security at risk. He also stated that he believed the worst of the world economic crisis is over.

Algeria's Energy and Mines Minister Chakib Khelil said world oil prices will stabilize before the end of the year at just above \$80/barrel. Meanwhile Qatar's Oil Minister Abdullah al-Attiyah said there is no shortage of crude oil in the market and inventories are at their highest in more than 62 days.

Iran has made another counter offer to the stalled UN nuclear fuel proposed. However sources said Iran's conditions will remain unacceptable to the US, Britain, France, China, Russia and Germany. Iran's Foreign Minister Manouchehr Mottaki again proposed an exchange on Iranian soil using a lower amount of low-enriched uranium than in the IAEA offer. He said the amount could be swapped simultaneously for half of the equivalent nuclear fuel, with the rest of the uranium coming later.

Refinery News

Colonial Pipeline allocated Cycle 26 shipments on its main gasoline line north of Collins, Mississippi as demand for shipping space exceeded line capacity.

Valero Energy Corp said its fluid catalytic cracking unit at its 245,000 bpd Texas City, Texas refinery remains down for unplanned work. Separately, Valero Energy Corp is planning its first major turnaround on its 32,000 bpd continuous catalytic reformer at its 195,000 bpd Paulsboro, NJ refinery.

ConocoPhillips reported flaring at its 135,000 bpd Rodeo, California refinery. A report filed with the California Emergency Management Agency stated that the sulfur dioxide release was caused by fuel gas overpressure. Separately, ConocoPhillips said is starting up unit 20 at its 247,000 bpd Sweeny, Texas refinery following the completion of 20 days of scheduled maintenance.

Sunoco Inc was forced to shut its fluid catalytic cracking unit in the Girard Point section of its 335,000 bpd Philadelphia refinery unexpectedly last Tuesday night. The wet gas compressor at the unit was shut for unknown reasons. It is now known how long repairs will take.

Total is restarting its 70,000 bpd fluid catalytic cracking unit and alkylation unit at its 232,000 bpd Port Arthur, Texas refinery. The units were shut for unplanned work last week and were expected to resume operations by Friday.

Hess Corp has started a turnaround at its Port Reading, NJ refinery. The scheduled turnaround started in April and is expected to last about 35 days. Separately, Hess said its joint venture 500,000 bpd Hovensa refinery in St. Croix ran at 75.1% capacity during the first quarter of 2010 due to planned turnaround on its fluid catalytic cracking unit.

Japan's Nippon Oil Corp said it will process 4.81 million kiloliters or 976,000 bpd in May, down 1% on the year.

The Petroleum Association of Japan reported that the country's crude stocks in the week ending April 24th fell by 6.16 million barrels on the week and by 9.76 million barrels on the year to 92.05 million barrels. It also reported that gasoline stocks built by 770,000 barrels on the week but fell by 250,000 barrels on the year to 15.1 million barrels while kerosene stocks fell by 480,000 barrels on the week and by 2.19 million barrels on the year to 8.7 million barrels and naphtha stocks built by 420,000 barrels on the week to 10.58 million barrels. Japan's crude runs fell by 40,000 bpd on the week but increased by 90,000 bpd on the year to 3.63 million bpd,

April Calendar Averages
CL – \$84.46
HO – \$2.2263
RB – \$2.3125

with its refinery utilization rate at 75.8% down 0.9% on the week but up 2.5% on the year. The PAJ reported that Japan's total oil product sales increased by 3.75 on the week and by 1.6% on the year to 2.81 million bpd. It reported that Japan's gasoline sales increased by 7.7% on the week and by 2.2% on the year to 920,000 bpd while its kerosene sales increased by 21.1% on the week and by 104.3% on the year to 400,000 bpd and its gas oil sales fell by 12.7% on the week and by 16% on the year to 470,000 bpd. Japan's naphtha sales fell by 24.3% on the week and by 20.8% on the year to 310,000 bpd while jet fuel sales increased by 3.4% on the week but fell by 12.8% on the year to 82,000 bpd.

The Nigerian National Petroleum Corp said all four of its refineries were operating at over 50% of capacity and added that Nigeria planned to issue a smaller than average gasoline tender for the next quarter. Nigeria's Energy Minister is planning to issue a tender to buy between 20 and 30 cargoes or 600,000 to 900,000 tons of gasoline for the next three months compared with between 30 and 40 normally.

Iran and Venezuela have created a joint venture company to build an oil refinery in Syria.

Production News

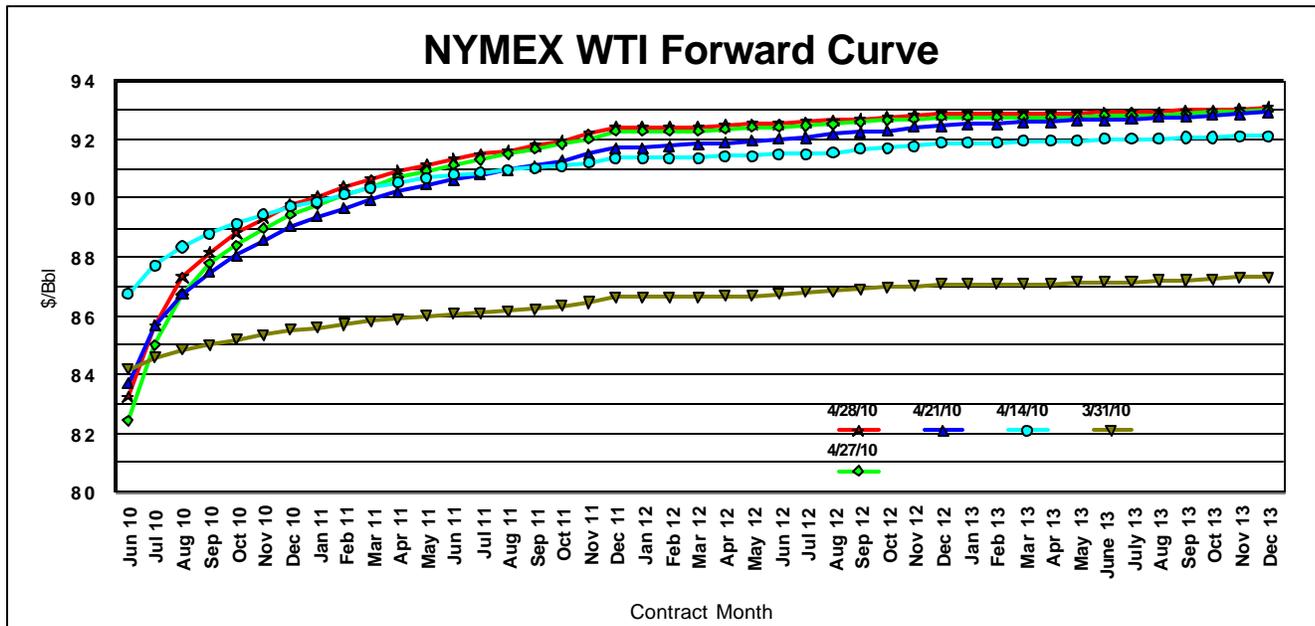
Italy's Eni SpA declared force majeure on some of its Nigerian Brass River crude production following unexpected disruption to flows. Output of Brass River crude has been cut by about 60,000 bpd. The force majeure is impacting its equity production of about 12,000 bpd of oil equivalent. An industry source said the supply disruption at Brass River was due to a major attack on a pipeline causing a serious oil spill.

The US Coast Guard said it will start a controlled burn of an oil spill from last week's explosion of the Deepwater Horizon platform. The move is seen as necessary after an oil spill increasing by 42,000 gallons/day moved within 20 miles of Louisiana's wetlands. Efforts by BP failed on Tuesday to cap two leaks in a riser pipe that had connected the rig to the wellhead.

Oil exports from Iraq's southern Basra terminal were restored on Wednesday to 1.44 million bpd after falling to 960,000 bpd on Tuesday due to low crude storage quantities.

According to Iraq's Ministry of Planning, Iraq aims to increase its oil production to 4.5 million bpd in 2014 and exports to 3.1 million bpd due to the recently signed oilfield development deals.

Royal Dutch Shell Plc added 350 million barrels of oil equivalent to its oil and gas reserves in the Gulf



of Mexico from discoveries made in 2009 and 2010. Shell's total oil and gas production is on track to be almost unchanged in 2010 compared with 2009, despite an increase of 6% on the year in the first quarter. Shell said it was in talks with Essar Oil Ltd over the sale of three of its European refineries.

Mexico's oil production, which has been stable since September, will soon resume its decline due to doubts surrounding two major projects. Pemex has maintained its production at about 2.6 million bpd for six of the last seven months. In recent months, Pemex has slowed the rate of decline at its Cantarell field, largely by increasing its drilling at smaller satellite deposits while increasing production at its Ku Maloob Zaap complex faster than previously planned. However the underlying problems at Cantarell continue and Pemex does not believe it will be able to produce more crude from its Ku Maloob Zaap complex, putting an increasing burden on the Chicontepec project to sustain Mexico's oil production capacity. Mexico's Energy Secretary Georgina Kessel said Mexico's crude oil production has stabilized and will average 2.6 million this year. He said that after a gradual increase by 2024, output will increase to 3.3 million bpd, still below the peak of 3.4 million bpd in 2004.

China's CNOOC Ltd is on track to meet its target of increasing its output by about 25% in 2010. It maintains its target at 275-290 million barrels of oil equivalent.

Russia's Lukoil Holdings started commercial production at the Caspian offshore field Yuriy Korchagin, which could reach annual output of 2.5 million metric tons of oil at peak. It plans to produce 343,000 tons of oil at the field this year. The field holds estimated reserves of 270 million barrels of oil equivalent.

Russia's seaborne crude oil exports in May are expected to increase by 5.1% on the month to 3.13 million bpd. Crude supplies from Russia's Baltic Sea terminal of Primorsk are expected to increase by 5% to 1.51 million bpd while exports via Poland's port of Gdansk are expected to increase by 30.1% on the month to 189,200 bpd. Urals crude supplies from Black Sea ports are expected to increase by 5.4% on the month. Oil exports via the Black Sea port of Novorossiisk are expected to increase by 7.3% on the month to 850,500 bpd.

Belarus is likely to cut its Russian oil purchases this year by about 27% to 15.8 million tons following an increase in export duties by Russia. Under the terms of a new supply agreement signed in January, Russia will supply 6.3 million tons of duty free oil to Belarus in 2010 and charge full duties on the rest. Belarus said it can process no more than 15.8 million tons of oil a year under the new terms without incurring losses.

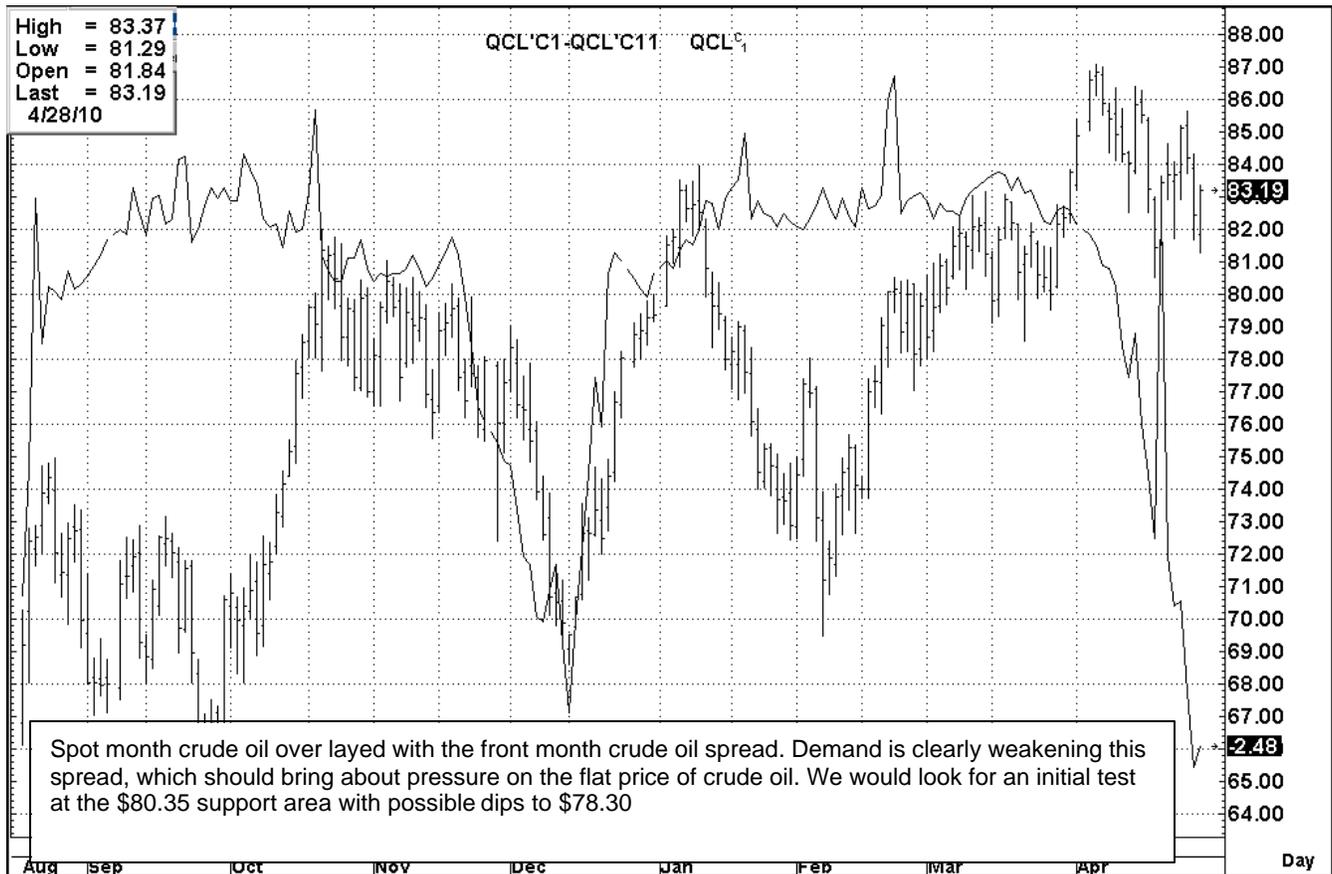
OPEC's news agency reported that OPEC's basket of crudes fell by 88 cents to \$83.03/barrel on Tuesday, down from \$83.91/barrel on Monday.

Market Commentary

Builds in crude oil inventories, in particular those at Cushing, Ok, helped to push the front month crude oil spread to its lowest level since December of 2009. The June/July spread traded as wide as -\$2.60 surpassing the -\$2.35 low made back in December of 2009. This is yet again another sign that this market is still suffering from a lack of demand under oversupplied conditions. Gasoline drew slight support from an unexpected drop in inventories despite refiners ramping up operations. Stock levels for gasoline remain high and are above the upper limit of the average range. European economic woes continue to impact the dollar, lending it strength, which in turn forces the price of crude oil lower. With the European Community's economic situation appearing to spread and worsen, the euro currency has been hit hard, making the dollar more attractive as an investment tool. We would continue to look for this market to come under pressure with initial tests at the \$80.35 support area

Crude oil June 10 365,203 -3,901 July 10 194,221 -319 Aug 10 87,054 +2,998 Totals 1,395,966 +8,504 Heating oil May 17,987 -4,363 June10 99,400 +1,170 July 10 39,100 +332 Totals: 309,226 -163 Gasoline May 10 22,426 -6,967 June 10 105,947 -2,480 July 10 54,176 +558 Totals 309,407 -8,189

Crude Support	Crude Resistance
82.00, 80.35, 79.75-79.51, 78.43, 76.15, 75.37, 72.60, 71.31, 70.42, 69.50, 65.05, 64.70, 63.38, 62.70, 61.61, 60.95	,85.71, 86.65, 87.85, 88.80, 89.10, 89.88, 92.75
Heat Support	Heat resistance
2.1084, 2.0800, 2.0180, 1.9975, 1.9860, 1.8570, 1.8280, 1.7670, 1.7565	2.3000, 2.4200, 2.4940,
Gasoline support	Gasoline resistance
2.1460, 2.1320, 2.0660, 2.0420, 1.9970, 1.9862, 1.8650, 1.8565, 1.7900, 1.7200 1.6600	2.3635, 2.4850, 2.5040, 2.5115



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