



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 1, 2007

US Energy Secretary Samuel Bodman said he feared increasing gasoline prices would reach a record high but added that he was confident the market would respond to the high prices with new supply. He said energy companies had every reason to continue operating their refineries, noting the high margins.

Kuwait's Oil Minister Sheik Ali al-Jarrah al-Sabah said there was no need yet for OPEC to consider increasing its output. He said oil prices would fall dramatically if tension eased between Iran and the West over Iran's nuclear ambitions. He however said that OPEC would

Market Watch

The US EPA finalized renewable fuels standard rules, saying in a Federal Register notice that the final rule would go into effect September 1. In another notice, the agency said its new final rule raising the amount of pollution ethanol plants can emit before they are required to install new equipment to control emissions goes into effect July 2. The EPA's regulations for the RFS program, which requires the use of 7.5 million gallons of renewable fuels in the US gasoline supply by 2012, established a compliance and trading program that would allow the covered entities to purchase or sell credits, depending on whether they exceed their annual obligation to use renewable fuels or fall short.

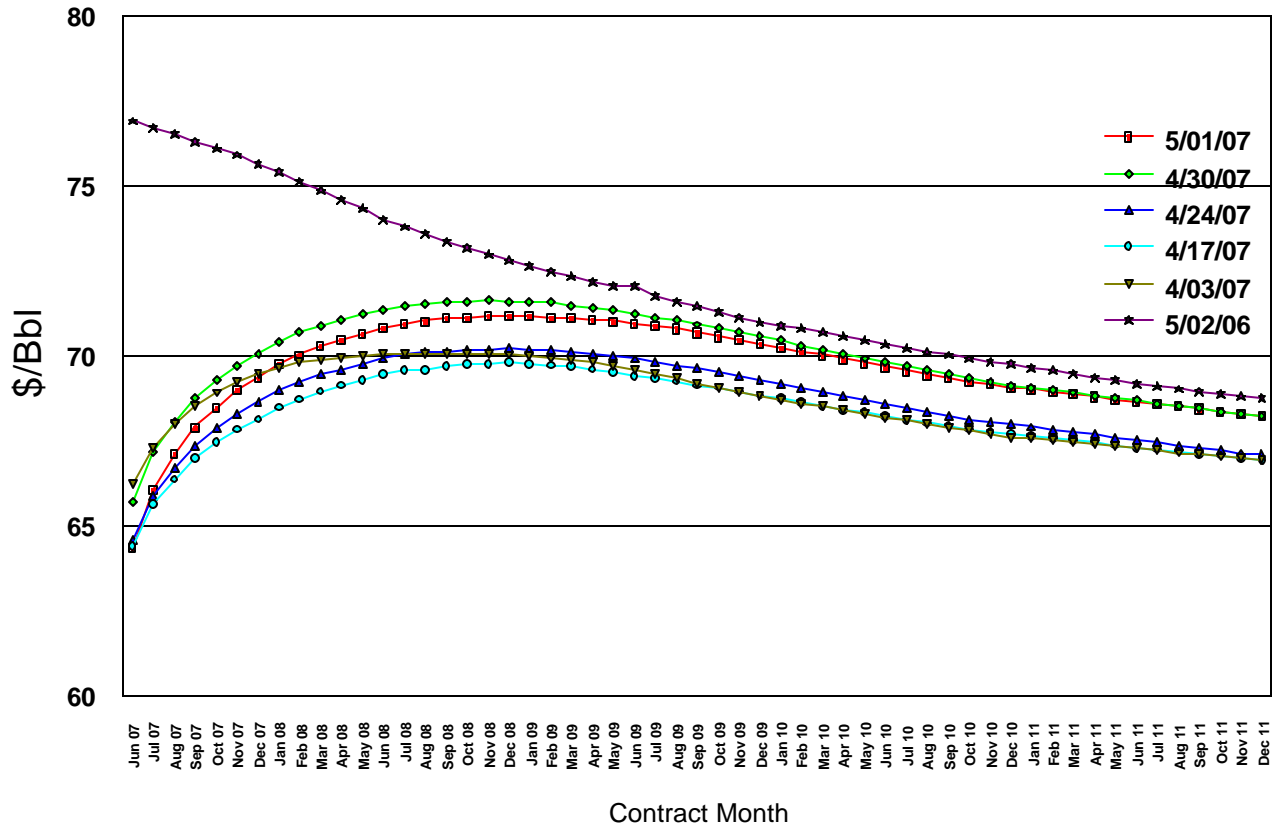
Saudi Arabia's Oil Minister Ali al-Naimi said security of oil supplies would be a core topic at a meeting of Middle East and Asian oil ministers this week. He did not say if the talks would tackle contingency plans in case tensions between Iran and the US over Iran's nuclear program led to a military confrontation in the region.

Venezuela's government took over operations of the Orinoco Belt crude projects on Tuesday, a vital move in President Hugo Chavez's nationalization plan. The four Orinoco projects are valued at more than \$30 billion and can convert about 600,000 bpd of heavy, tar crude into synthetic oil. BP Plc, ConocoPhillips, ExxonMobil, Chevron Corp, Total and Statoil ceded control of the projects. All but ConocoPhillips signed agreements last week agreeing to state control. Meanwhile, President Hugo Chavez said he would pull Venezuela out of the World Bank and the International Monetary Fund in his bid to move the country away from capitalism. Venezuela recently paid off the last portion of debt owed the World Bank using his country's income from oil sales. He has ordered Finance Minister Rodrigo Cabezas to begin formal proceedings to withdraw from the two international bodies.

The NYMEX announced that American style options on RBOB, Heating Oil and Natural Gas would be available for trading on OPEX with clearing through NYMEX Clearport.

The NYMEX also announced that margins on its RBOB futures contract, RBOB financial contract, RBOB calendar swap would increase to \$8,100 from \$7,089 at the close of business on May 2.

NYMEX WTI Forward Curve



not hesitate to increase its output if necessary. Separately, Kuwait's Oil Minister said Kuwait would never disclose the size of its oil reserves for reasons of national security.

The head of OPEC affairs at the Iranian Oil Ministry, Javad Yarjani said world oil prices stood at a proper level and the possibility of an emergency OPEC meeting was low.

Iran remained firm in opposing language in a nuclear conference agenda that reaffirms the need for full compliance with the Nuclear Non-proliferation Treaty. The conference is the first of three to prepare for a full review of the treaty in 2010 and to come up with specific ideas on how to reinforce the pact. Several diplomats expressed surprise at Iran's opposition to the wording, noting it has maintained its nuclear activities are in compliance with the treaty. The treaty calls on countries to pledge not to pursue nuclear weapons, in exchange for a commitment by the US, UK, Russia, France and China to move toward nuclear disarmament.

Thousands of people gathered in heavily guarded squares and stadiums to protest the recent elections. Nigerian police were deployed across the country amid the planned protests over the recent elections. Police chief Sunday Ehindero said unauthorized demonstrations would be forcibly broken up. The opposition and civil society groups have planned to join trade unions in their traditional May Day rallies to condemn the recent elections.

Iraq's deputy prime minister said he was confident a draft oil law would be approved in parliament after officials from the central government and Kurdistan meet to work out their differences. A meeting could take place as early as the weekend.

Refinery News

The US EPA proposed new refinery emission rules that would force companies to install emission-reduction equipment if they build or expand a facility. The standards would reduce emissions of particulate matter, sulfur dioxide, and nitrogen oxide emissions by nearly 56,000 tons per year over five years and yield nearly \$1 billion in benefits. The proposed standards would put emission limits on fluid catalytic cracking units, fluid coking units, delayed coking units, process heaters and other fuel gas combustion devices. The rules would also apply to sulfur recovery plants that are constructed, modified or reconstructed after the date of the EPA's proposal.

WHEB Biofuels said it planned to build a biodiesel refinery at the port of Rotterdam with a capacity of 400,000 tons of vegetable oil per year and is expected to be operational in 2009. Construction is expected to begin later this year, subject to environment permits being granted.

Production News

BP Plc said oil production at the 400,000 bpd Prudhoe Bay field in Alaska has returned to normal after a week of maintenance on a 90,000 bpd gathering center at the field. Gathering Center 2 on the western side of the field was shut April 23 after a power disruption caused by a crane touching a cable.

Chevron Corp said it shutdown 15,000 bpd of production from the Funiwa oilfield in Nigeria after the kidnapping of foreign oil workers by armed militants. Six oil workers were kidnapped and one Nigerian killed by armed militants on an oil storage vessel off the Nigerian coast on Tuesday. Italy's Foreign Ministry said four of the hostages were Italians. There was also an American and Croatian worker taken hostage. The Nigerian militant group, Movement for the Emancipation of the Niger Delta, said it would release the six foreign oil workers on May 30 as long as no rescue effort is undertaken to procure their release. It said it abducted the workers to embarrass outgoing Nigerian President Olusegun Obasanjo and to warn his successor, Alhaji Musa Yar'Adua, about the challenges he faces.

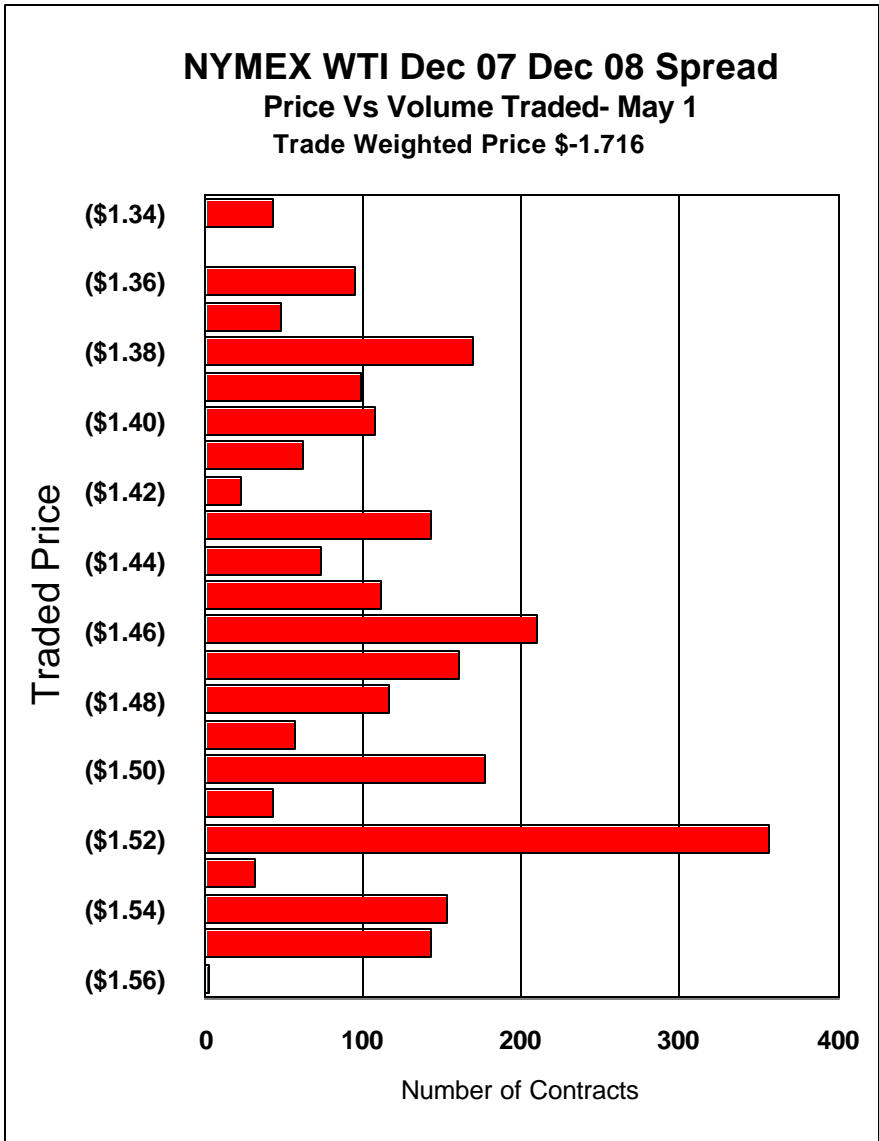
Saudi Arabia's Crown Prince Sultan bin Abdelaziz al-Saud said Saudi Arabia was producing between 8.5 million and 8.6 million bpd of oil. He said about 60% or 4.5 million bpd of oil is shipped to Asia. He said Saudi Arabia's 4.5 million bpd of oil exports to Asia and joint ventures in four Far Eastern countries was a solid base and a marketing campaign was taking place to access new overseas assets. Separately, Saudi Aramco reported that Saudi Arabia's oil production fell by 1.7% in 2006 while the proportion of exports to the Far East and the US increased and gas production increased. It said Saudi Arabia produced 3.252 billion barrels of oil last year and exported 2.54 billion barrels. Average daily production was 8.9 million barrels, down from 9.1 million bpd in 2005. The Far East accounted for 51.6% of crude exports, the US for 19.2% and Europe for 6.6%.

Iran's Oil Ministry said Iran's oil income reached \$54 billion last year. It said Iran's production increased by more than 50,000 bpd during the period of March 21 to April 20. Last month, managing director of the National Iranian Oil Co, Gholamhossein Nozari said oil production was about 4 million bpd and capacity stood at 4.26 million bpd.

The US Minerals Management Service said US oil production in the Gulf of Mexico could reach 2.1 million bpd over the next 10 years from its current level of 1.35-1.4 million bpd.

Russian gas oil exports out of the Black Sea port of Tuapse in May were set at 242,000 tons, down from about 252,000 tons in April.

Indonesia's BPMIGAS said the country's oil production fell by 1.5% on the month to 838,900 bpd in April.



Indonesia's Pertamina and two South Korean firms have signed a preliminary deal to explore oil and gas blocks jointly in Indonesia. South Korea is seeking access to world energy resources while Indonesia needs investment and technology to open up new fields.

Japan and Kuwait agreed on Monday that a stable world oil market was essential for sustainable world economic growth and said they would increase their energy cooperation. Japan said it was willing to enhance technical and other support for the upstream and other oil sectors in Kuwait, but no specific steps or new projects were mentioned. Meanwhile, Qatar pledged on Tuesday to continue supplying Japan with liquefied natural gas and oil at a mutually acceptable price. In meetings with Saudi Arabia's king Abdullah on Saturday, the two agreed to build a broad economic and strategic partnership, discussing energy security and a proposal that would allow Saudi Arabia to use space in a Japanese oil

reserves facility to store its oil.

ESAI's Stockwatch Long-Term Oil Outlook includes an annual average rate of growth for world oil demand of 1.4% over 25 years. The firm said the three most likely developments that could impact demand are an aggressive world CO2 mitigation campaign, a significant oil disruption or world recession. Oil demand growth would be 0.2%-0.3% lower on average than the base case projection in the CO2 mitigation or supply disruption case. In the world recession case, oil demand growth may actually end up 0.1-0.2% higher on average.

Market Commentary

The June crude could not sustain its strength above the long term trend line set at 65.69, peaking out at 66.15. The market appears to have experienced length lightening ahead of the API/DOE numbers due out tomorrow. Crude estimates are calling for a build of 1.5 mln bpd, with gasoline also expecting a light draw of 700,000 bpd. The forward curve chart is indicative of front end selling and middle to back end buying. The Dec07/Dec08 spread traded a range today of -1.55 - -1.86, finishing the NYMEX session trading at -1.82. The weakest this spread has traded is -2.40 back in January of this year. At this point it appears as if this would be the target. June/July based on a weighted average lost .15 cents from yesterday, with today's weighted average set at -1.64. The weakest this spread has traded is -1.78. Barring any significant surprise with tomorrow's release of the supply stats, this market should continue its downward move. The next downside objective is 62.90. With the rolls coming up, the June/July spread should encounter further pressure. Open interest in the crude market built by a total of 12,599 lots, with open interest in the June contract fell by 4,116 lots while open interest in the July contract built by 9,248 lots. Amid the lack of any new refinery glitches, the RBOB market continued to retrace its recent gains. The market rallied to a high of 229.40 early in the session before it

gave up its gains and sold off to a low of 223.50 late in the session. The market settled down 1.47 cents at 224.47. Barring any surprises in the DOE report, the

Technical levels		
	Levels	Explanation
CL 64.40, down \$1.31	Resistance	66.65, 66.75, 67.05, 67.55
		64.55, 65.50, 66.15
	Support	64.21
		64.10, 63.70, 63.35
HO 188.29, down 1.19 cents	Resistance	191.94, 193.38
		188.70, 190.75, 191.67
	Support	187.75
		186.88, 186.29, 184.78, 184.55
RB 224.47, down 1.47 cents	Resistance	229.55
		224.75, 228.00, 229.40
	Support	223.50
		219.05, 217.22, 215.83
		Previous high Tuesday's high Tuesday's low Previous lows Previous high Tuesday's high Tuesday's low Previous low, 38% (177.15 and 191.94), Previous low, 50% Monday's high Tuesday's high Tuesday's low Previous low, 38% retracement(197.26 and 229.55), Previous low

market is seen continuing to retrace its previous gains after it failed to test its previous high of 229.55 during today's session. Also, stochastics are starting to cross back to the downside. The market is seen finding support at 223.50 followed by more distant support at 219.05 and 217.22.