



## ***ENERGY RISK MANAGEMENT***

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## **ENERGY MARKET REPORT FOR MAY 5, 2008**

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Royal Dutch Shell confirmed it shutdown more of its production in Nigeria's Niger Delta following a new militant attack on a flow station in Bayelsa state. It said a few oil delivery lines were affected. Security sources said three wells were blown up in the attack as well as other equipment. The attack on the Diebu flow station came a day after a Nigerian court ordered the trial of rebel leader Henry Okah to take place behind closed doors. Meanwhile, the Movement for the Emancipation of the Niger Delta said

it was considering a ceasefire appeal by US presidential hopeful Senator Barack Obama. It did not say when or where Senator Barack Obama made the appeal. It said it hoped the government would use any ceasefire to improve conditions for its detained leader, Henry Okah.

### **Market Watch**

Several US Senators have proposed a bill that would threaten a trade dispute with OPEC if the group does not stop its anti-competitive practices and illegal export quotas on oil. The bill would require the US Trade Representative to initiate talks with countries that were members of the World Trade Organization and OPEC. If negotiations failed, the US would request the WTO to convene a dispute settlement panel to judge the case.

Senate Republicans have asked the EPA to consider waiving the country's ethanol production mandate amid rising food prices. Twenty-four Republican senators have sent a letter to the EPA suggesting it waive or restructure, rules that require a fivefold increase in ethanol production over the next 15 years. Congress passed a law last year mandating an increase to 15 billion gallons of corn ethanol by 2015 and 36 billion by 2022. Separately, a US House Energy and Commerce Committee subcommittee is scheduled to hold a hearing Tuesday on laws requiring that renewable fuels be blended into gasoline.

A special adviser to the UN urged the US and the European Union to reconsider a shift to biofuels that has helped increase food prices. He said targets to produce more fuels that release less carbon dioxide do not make sense in a global food scarcity condition.

Former Federal Reserve Board chairman Alan Greenspan said the US is in recession, with a continued stagflation possibly the best scenario achievable for the balance of the year. He said the credit crisis was not over and added that the economy was returning to a more inflation prone period.

### **May Calendar Averages**

**CL** – 116.27

**HO** – 321.43

**RB** – 296.58

US Energy Secretary Samuel Bodman maintained that filling the country's emergency reserves was the right thing to do and added that it was protection for America. Meanwhile, White House spokesman Scott Stanzel said President George W. Bush would make US

concerns about rising oil prices clear when he visits Saudi Arabia next week.

Britain's Prime Minister Gordon Brown called for international pressure on OPEC to lower oil prices.

A senior Iranian oil official said high oil prices may remain till the end of the year and were not the result of a shortage of crude in the market. Separately, international affairs director of the National Iranian Oil Co, Hojjatollah Ghanimifard said he was not aware of any plan by Royal Dutch Shell Plc and Spain's Repsol to withdraw from a \$10 billion natural gas project in Iran. Shell and Repsol had planned to export South Pars gas by ship in liquefied form as part of the Persian LNG project. A Spanish newspaper reported that the two oil majors were negotiating with the Iranian government to pull out of the gas plan due in part to US pressure.

Iran's Supreme Leader Ayatollah Ali Khamenei said Iran would continue with its nuclear program despite Western efforts to pressure Iran with sanctions. Meanwhile, Iran's Foreign Ministry spokesman Mohammad Ali Hosseini said Iran would reject any offer that violates its right to full nuclear fuel cycle. He ruled out accepting intrusive nuclear inspections unless there was an end to double standards on global non-proliferation that it said benefited nuclear arms powers including Israel. He made his comments after the five permanent members of the UN Security Council and Germany agreed on a new proposal of incentives to Iran in a bid to resolve the standoff over its nuclear program.

Iran said it would not hold a new round of talks with the US on security in Iraq until the US forces end their current assault against Shi'ite militias.

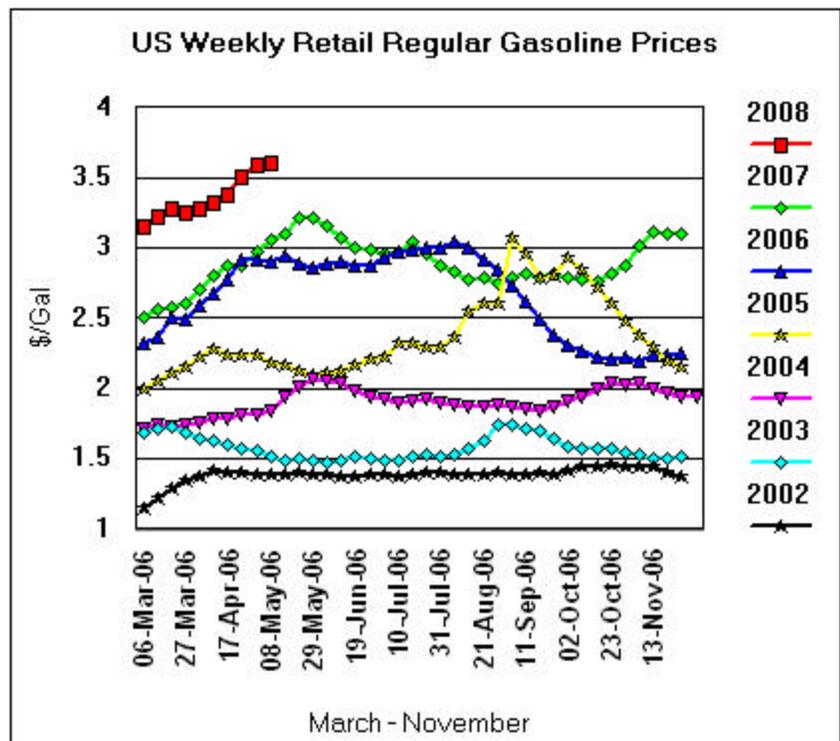
The EIA reported that the US average retail price of gasoline increased by 1 cent to a record high of \$3.613/gallon in the week ending May 5. It also reported that the US average retail price of diesel fell by 2.8 cents to \$4.149/gallon on the week. The price is up \$1.357 on the year.

According to the Lundberg Survey, the average retail price of regular gasoline was \$3.62/gallon in the last two weeks ending May 2, up 15 cents.

### **Refinery News**

Credit Suisse said US refinery margins in most regions fell last week due to lower product prices. Northeast refining margins fell \$1.03/barrel to \$8.80/barrel in the week ending May 2 while margins in the Gulf Coast fell by 44 cents to \$10.97/barrel and margins in the West Coast fell by \$1.25 to \$16.53/barrel. Margins in the Midwest increased by 44 cents to \$10.97/barrel while margins in the Rocky Mountain increased by \$3.45 to \$18.59/barrel.

Flint Hills Resources shut its sulfur recovery unit No. 2 at its 288,000 bpd Corpus Christi, Texas refinery on Saturday for planned



maintenance. The maintenance is planned to continue through May 15.

ConocoPhillips said it was starting maintenance on a pump linked to fluid catalytic cracking unit No. 3 at its Sweeny, Texas refinery on Monday. Its fluid catalytic cracking unit is expected to continue operating.

Shell Oil has completed repairs to a coking unit and sulfur recovery unit at its 332,000 bpd Deer Park, Texas refinery and is expected to resume normal operations by late Monday after rates were cut on April 14.

BP is expected to complete maintenance on a 62,000 bpd fluid catalytic cracking unit at its Texas City, Texas refinery by the end of the week. It shut the unit on April 25. Separately, BP said its Whiting, Indiana refinery received an air permit for its proposed \$3.8 billion expansion and has started preliminary work on the project. The expansion project would enable the 410,000 bpd refinery to process heavy Canadian crude.

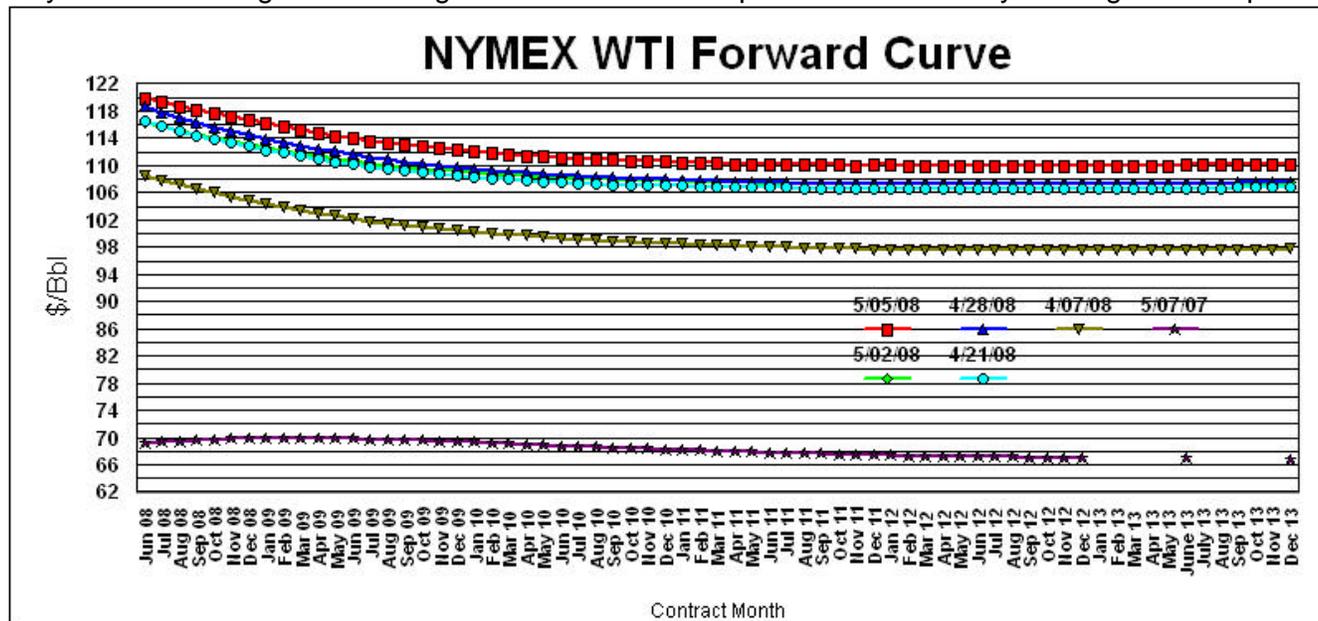
France's port of Marseille said unions called a 24 hour strike for May 9, led by the CGT union. The Fos-Lavera oil terminals were working on Monday however nine crude oil tankers, five refined product tankers and two chemical ships were still waiting.

China's Sinopec said it planned to restart a 20,000 bpd hydrocracker at its 270,000 bpd Maoming refinery in mid-May after it was shut on April 16 due to an explosion. Separately, Sinopec's Zhenhai refinery is expected to increase its crude processing capacity by 15% to 460,000 bpd by September 2009. The expansion would provide feedstocks to the 1 million ton/year ethylene facility now under construction.

China Aviation Oil Corp floated a spot tender seeking three cargoes totaling up to 96,000 metric tons of jet fuel for May delivery. Should the tenders be awarded, CAO's total jet purchases for May would reach 436,000 tons.

### Production News

Italy's Eni and Angola's Sonangol have made an important oil discovery in Angola's deepwater



NYMEX Petroleum Options Most Active Strikes for May 5, 2008									
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV	
LC	10	8	P	113	09/17/2008	6.87	2,000	37.77	
LC	12	8	P	95	11/17/2008	2.74	1,000	37.22	
LC	12	8	P	110	11/17/2008	7.2	1,000	37.23	
LC	7	8	P	105	06/17/2008	1.43	900	41.91	
LC	9	8	C	120	08/15/2008	7.77	900	29.43	
LC	7	8	C	140	06/17/2008	1.1	900	38.49	
LC	8	8	C	135	07/17/2008	2.77	800	35.13	
LC	12	8	C	120	11/17/2008	9.1	500	24.17	
LC	6	8	P	105	05/15/2008	0.1	500	44.00	
LC	7	8	P	110	06/17/2008	2.44	500	40.72	
LC	12	8	P	100	11/17/2008	3.9	500	37.10	
LO	6	8	C	120	05/15/2008	3.07	6,723	39.03	
LO	6	8	C	125	05/15/2008	1.27	6,071	39.25	
LO	8	8	P	90	07/17/2008	0.49	6,031	40.37	
LO	6	8	P	110	05/15/2008	0.38	5,482	41.28	
LO	6	8	C	128	05/15/2008	0.71	4,575	40.00	
LO	6	8	C	126	05/15/2008	1.05	4,476	39.47	
LO	9	8	P	94	08/15/2008	1.3	3,575	38.00	
LO	7	8	C	125	06/17/2008	3.94	3,195	38.05	
LO	7	8	C	160	06/17/2008	0.19	3,035	43.34	
LO	6	8	C	82	05/15/2008	37.97	2,600	104.46	
LO	7	8	C	87	06/17/2008	32.54	2,600	55.29	
LO	9	8	P	95	08/15/2008	1.43	2,550	37.82	
LO	6	8	C	96.5	05/15/2008	23.47	2,520	59.71	
LO	7	8	C	96.5	06/17/2008	23.42	2,520	45.72	
LO	6	8	P	115	05/15/2008	1.19	2,474	39.41	
LO	6	8	P	105	05/15/2008	0.1	2,328	43.42	
LO	6	8	C	135	05/15/2008	0.16	2,180	41.89	
LO	12	8	C	145	11/17/2008	3.39	2,000	34.45	
LO	7	8	P	105	06/17/2008	1.43	1,919	40.12	
LO	8	8	P	95	07/17/2008	0.9	1,911	39.52	
LO	6	8	P	120	05/15/2008	3.1	1,891	39.03	
LO	9	8	P	91	08/15/2008	0.96	1,878	38.48	
LO	12	8	C	120	11/17/2008	9.13	1,848	32.11	
LO	6	8	C	130	05/15/2008	0.47	1,802	40.49	
LO	9	8	P	102.5	08/15/2008	2.76	1,800	36.51	
LO	6	8	P	95	05/15/2008	0.01	1,723	52.33	
LO	6	8	P	100	05/15/2008	0.02	1,587	45.18	
OB	8	8	P	2.8	07/28/2008	0.1047	475	35.97	
OB	7	8	P	2.6	06/25/2008	0.0241	200	36.95	
OB	12	8	P	2.4	11/21/2008	0.0693	175	29.19	
OB	1	9	P	2.37	12/24/2008	0.0603	175	27.07	
OH	7	8	P	2.85	06/25/2008	0.0193	486	32.88	
OH	8	8	P	3.08	07/28/2008	0.0904	400	31.40	
OH	7	8	P	3.2	06/25/2008	0.1066	350	33.01	
OH	8	8	C	3.17	07/28/2008	0.284	260	31.84	
OH	8	8	P	3.12	07/28/2008	0.104	260	31.42	
OH	8	8	C	3.38	07/28/2008	0.178	260	31.86	
OH	8	8	C	3.2	07/28/2008	0.2664	250	31.78	

offshore Block 15/06. Eni said during the production tests, the well produced excellent quality oil in greater quantities than expected.

Angola's Minister of Petroleum, Desiderio Costa said the country's oil production is expected to increase to 2 million bpd next year, up from its current production of 1.9 million bpd. He also stated that the weak dollar was eroding some of the benefits of high oil prices for OPEC.

Russia's Energy Ministry reported that the country's oil production stood at 9.72 million bpd, down from 9.76 million bpd in March and over 2% lower than the post-Soviet high of 9.93 million bpd in October last year. On the export front, supplies via the Transneft pipeline system recovered for the consecutive month to 4.52 million bpd, up from 4.23 million bpd in March and 3.99 million bpd in February.

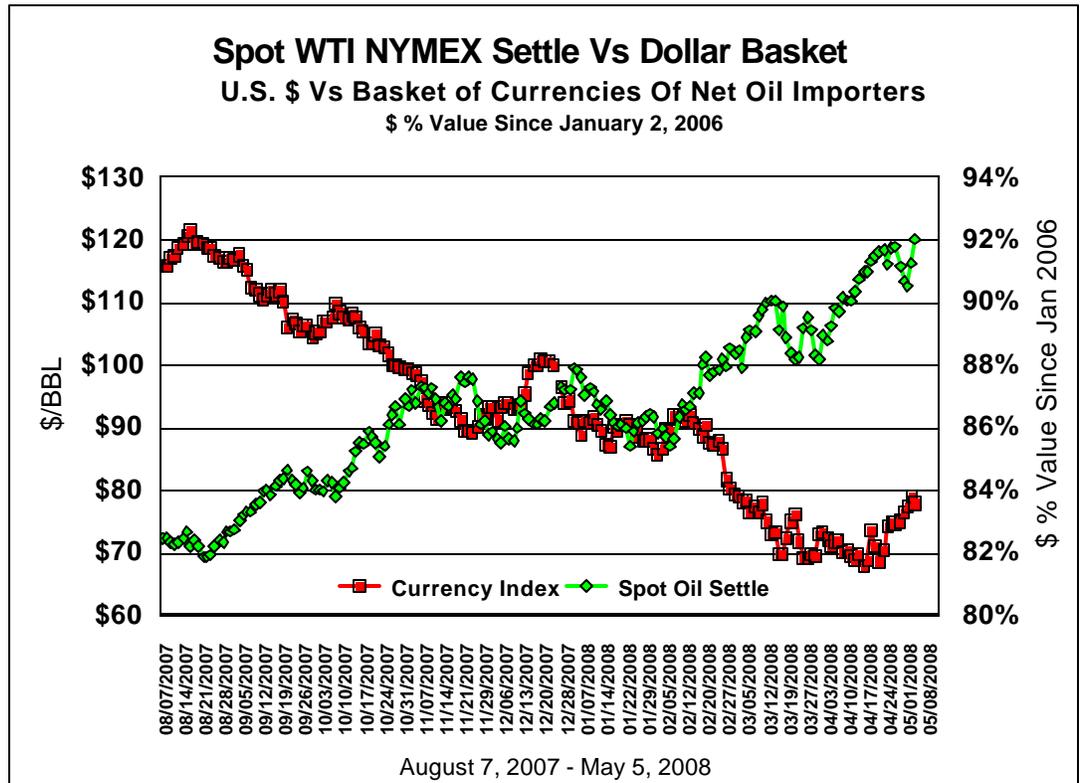
Kazakhstan's Energy and Mineral Resources Minister Sauat Mynbayev said the country's oil and gas condensate production increased to 23.568 million tons in January-April, up 6.3% on the year.

Senior officials said Kazakhstan's government planned to tighten its state control over exports of oil products in an effort to curb inflation. Kazakhstan has been struggling to curb inflation that has accelerated to 19.1% in annualized terms in April from 18.8% last December. Prime

Minister Karim Massimov has ordered the government to draft a package of regulatory measures within a week.

Indonesia's chief economics minister said Indonesia would increase subsidized fuel prices to ease its fuel subsidy bill due to rising world oil prices. However he did not state when the increase would take place.

OPEC's news agency reported that OPEC's basket of crudes increased to \$106.99/barrel on Friday from \$105.99/barrel on Thursday.



Saudi Aramco cut the June official selling price of its crude bound for the US, Europe and the Mediterranean. The official selling price of its Arab Extra Light crude bound for the US was cut by 90 cents to WTI minus \$1.45, its Arab Light crude price was cut by \$1 to WTI minus \$5.65, its Arab Medium crude price was

cut by \$1.20 to WTI minus \$10.45 and its Arab Heavy crude price was cut by \$1.20 to WTI minus \$14.90/barrel. Its Arab Extra Light crude bound for Europe was priced at BWAVE, down 40 cents, its Arab Light was priced at BWAVE minus \$4.85, down 90 cents, its Arab Medium was priced at BWAVE minus \$8.50 and its Arab Heavy was priced at BWAVE minus \$11.15. Its Arab Extra Light bound for the Mediterranean was priced at BWAVE plus 5 cents, down 40 cents, its Arab Light was priced at BWAVE minus \$4.95, down \$1, its Arab Medium was priced at BWAVE minus \$8.05, down \$1.40 its Arab Heavy crude was priced at BWAVE minus \$10.80, down \$1.75. Its Arab Super Light crude bound for Asia was priced at the Oman/Dubai average plus \$7.80, up 75 cents, its Arab Extra Light crude was priced at the Oman/Dubai average plus \$5.85, up 60 cents, its Arab Light crude was priced at the Oman/Dubai crude plus \$1.85, up 40 cents, its Arab Medium was priced at the Oman/Dubai average minus \$3.35, down 20 cents and its Arab Heavy crude was priced at the Oman/Dubai average minus \$7.45, down 45 cents.

**Market Commentary:**

Over the weekend, Nigerian rebels attacked three oil wells and pipelines that feed export terminals, shutting in up to 170,000 barrels per day of Bonnie Light crude oil. Kurdish rebels and Turkish troops continue to have confrontations in Northern Iraq, causing fears of supply disruptions in the Middle East. Iran's supreme leader, Ayatollah Ali Khamenei said on Sunday that Iran would not succumb to international pressure and give up on its nuclear program. A report on the U.S. service industry index

for April was better than expected, breaking a three-month trend of contractions. All these factors combined to give the energy markets a boost, sending crude oil to yet another record high. June crude oil top out today at \$120.36 and settled up \$3.65 on the day. This move higher sent shorts running to cover their positions put on during last week's sell-off. Talk of a test at \$125.00 may very well become a reality as the forward curve is still indicating that bulls are in control. Slow stochastics have once again crossed to the upside, in somewhat neutral territory. With the market once again in uncharted territory, we can only project up side targets. At this point our initial upside target for the June contract would be \$121.82 and above that \$125.60. The June/July crude oil spread did not move in tandem with the outright market and once again settled below the ascending trendline on the continuation chart for this spread. We would continue to look for further pressure and a test of the negative area for this spread. As expected, gasoline rebounded today, and is still trending in the ascending channel on the spot continuation chart. Tomorrow this channel is between \$2.8795 and \$3.1495. We would look for the June contract to continue higher, working towards the top of this channel. The June gasoline crack is stilling trending slightly lower but we continue to remain confident that this spread will gain seasonal strength. Heating oil followed the rest of the complex higher achieving a record high basis the June contract. We would look for heating oil to work higher, along with the rest of the markets but at a slower pace. The June heating oil crack continues to trade with in the descending channel and any failed attempts to take out the \$18.95 resistance level should be sold. Open interest for crude oil is 1,380,151 up 6,413, June08 342,555 down 3,260, July08 158,288 up 4,808, Dec08 206,666 up 1,964. Total open interest for heating oil 221,520 up 3,868, June 84,810 up 713 and July 34,947 up 1,459. Total open interest for gasoline, 254,652 up 671, June 90,864 down 739 and July 50,227 up 1,915.

		<b>Explanation</b>	
<b>CL</b>	<b>Resistance</b>	121.93, 125.60	Basis trendline
		120.36	Monday's high
	<b>Support</b>	119.00, 118.40, 116.95, 116.05	Monday's low
		111.78, 110.30, 109.63	Previous lows
<b>HO</b>	<b>Resistance</b>	348.38	Basis trendline
		333.00	Monday's high
	<b>Support</b>	330.00, 326.50, 320.25	Monday's low
		312.23, 310.70, 306.81	Basis trendline, Previous lows
<b>RB</b>	<b>Resistance</b>	306.46, 307.35, 314.95	Previous highs, Basis trendline
		305.78	Monday's high
	<b>Support</b>	302.70, 300.50, 295.00, 292.78	Monday's low
		286.47, 285.12, 281.95	Previous low, Basis trendline, Previous lows