



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta
& Karen Palladino

(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR MAY 7, 2008

President George W. Bush during a visit to Saudi Arabia next week is expected to ask OPEC to increase its oil production. He is scheduled to visit Saudi Arabia on May 16 during a trip to the Middle East.

The head of Libya's National Oil Corp, Shokri Ghanem said oil prices will likely increase further, due to speculation and geopolitics. He reiterated OPEC's view that there is no need for OPEC to increase its production.

The EIA reported that OPEC members would likely earn over \$1 trillion this year from oil

exports. Net oil export earnings from OPEC are forecast to increase 57% from last year's \$674 billion to \$1.06 trillion this year and then fall to \$990 billion in 2009 after an expected contraction in oil prices.

Market Watch

DEBKAFfile reported that Saudi Arabia's Crown Prince Sultan bin Abdulaziz was dying of cancer in Geneva, Switzerland. It stated that the Crown Prince's brother, Interior Minister Prince Nayef was expecting to succeed him. King Abdullah is praised by Western analysts for the reforms he has introduced however some of the younger princes say he is no longer up to coping with his royal duties.

Democrats in the US Senate unveiled a new energy package that would revoke \$17 billion in tax breaks extended to oil companies like ExxonMobil Corp and impose a 25% windfall profits tax on firms that do not invest in new energy sources. The Consumer-First Energy Act would also stop the Energy Department from filling the SPR until crude oil prices average \$75/barrel. The bill would also mandate higher margin requirements for energy futures trading. However industry experts said the Senate proposal could cause a migration to foreign exchanges.

The NYMEX announced that margins on its crude oil futures contract, financial crude oil contract and crude oil calendar swap contract would increase from \$8,775 contracts to \$9,788 for non-member customers at the close of business Wednesday.

Japan's nuclear power plant usage fell to a five year low in April as an unplanned shutdown at Hokuriku Electric further reduced an already low output level due to the closure of the Tokyo Electric Power Co's Kashiwazaki-Kariwa nuclear power plant. The utilization rate at Japan's 10 nuclear power companies fell to an average of 49.1% in April from 52.9% in March.

DOE Stocks

Crude – up 5.7 million barrels
Distillate – down 100,000 barrels
Gasoline – up 800,000 barrels
Refinery runs – down 0.4%, at 85%

Iraq's Foreign Minister Hoshyar Zebari said a fourth round of talks between the US and Iran over the security situation in Iraq is unlikely to proceed. His comments came two days after Iran's Foreign Ministry said there was no point in holding talks with the US as long as US forces continued attacking Shi'ite militias in Baghdad.

Iran's Fars news agency reported that the country's first nuclear power plant, Bushehr could start operations by September.

May Calendar Averages	
CL	– 118.84
HO	– 328.87
RB	– 302.42

Refinery News

Venezuela's 640,000 bpd Amuay refinery has restarted its delayed coker unit following planned maintenance on the unit.

Ineos Plc's 210,000 bpd Grangemouth refinery is expected to reach full capacity by May 18 after it was shutdown for a two day strike last week. The refinery is currently operating at 30%.

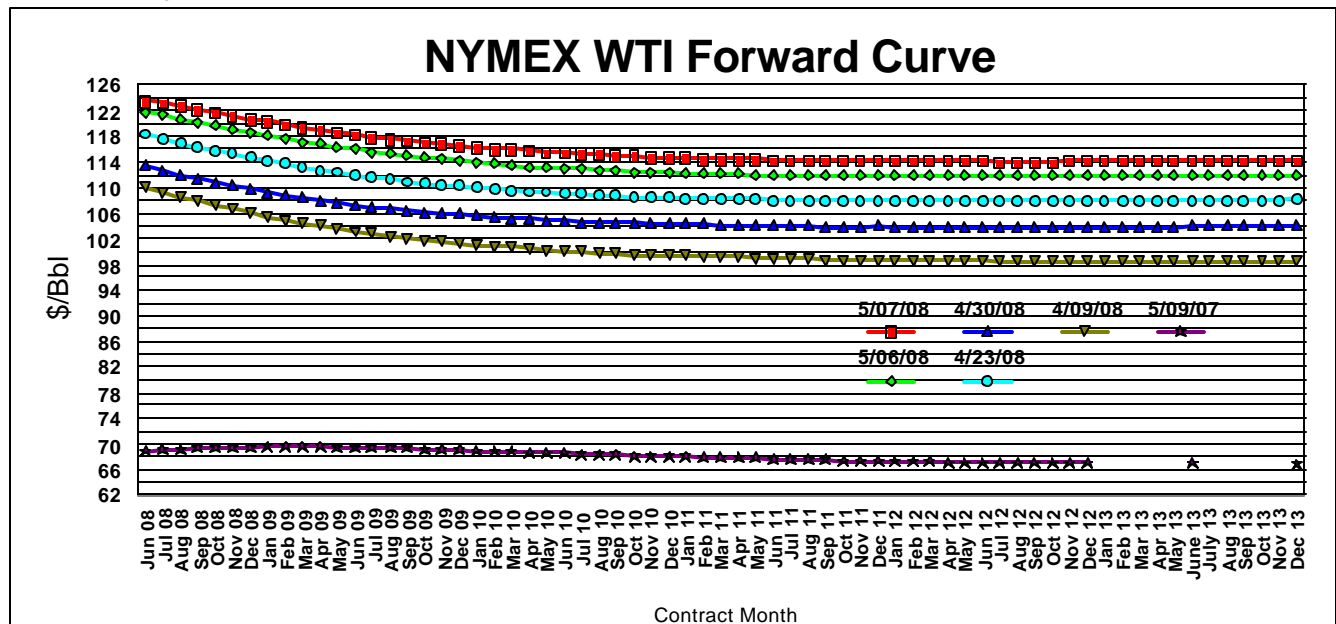
Tesoro Corp said its seven refineries are expected to operate below their capacity with a combined throughput between 615,000 bpd and 635,000 bpd. The refineries have a combined refinery throughput of 660,000 bpd. It said the company remained willing to cut production in the second quarter if refining margins remain low as they were in the first quarter.

France's Port of Marseille said its oil terminals were working but delays caused by recent strike action continued. It said eight crude tankers, five tankers of refined petroleum products and four chemicals vessels were waiting in line.

Japan's Oil Information Center reported that the average retail price of gasoline was 159.2 yen/liter or \$5.70/gallon on Monday compared with the previous record of 155.5 yen reached in mid-December following the reintroduction of a gasoline tax. The price of diesel increased by 2.2 yen/liter from May 1 to 138.9 yen and was up 20.8 yen from April 28 in the wake of the renewal of a diesel tax of 17.1 yen/liter.

Production News

ExxonMobil Corp lifted a force majeure on its Nigerian crude oil exports. The company had declared force majeure on April 28 as a precaution in case it could not meet its contractual obligations following a shut in of 800,000 bpd of production following a strike. ExxonMobil has reissued loading dates for its current month cargoes, which indicated delays of 12-14 days. ExxonMobil said it was working closely with its customers to minimize the impact of a brief supply outage in Nigeria. Nigeria's Special Advisor to the President on petroleum, Emmanuel Egbogah said Nigeria's oil production is expected to reach 2.2 million bpd in the next week or two.



Spot differentials for Angolan crude oil for June fell slightly due to lack of buying interest toward the end of the trading month while ExxonMobil lifted its force majeure on its exports.

Total said it expects production of oil and gas to increase in 2008 even if oil prices remain high.

Industry sources said Iraq is in advanced talks for an oil service contract with a consortium of Vitol, Anadarko and Dome to increase its production by 100,000 bpd at its 50,000 bpd Luhais oilfield. Iraq is aiming to increase its current production of 2.25 million bpd by about 600,000 bpd.

Russia's Tatneft said its crude production increased by 1% on the year to 2.151 million tons or 525,516 bpd in April. In the first four months of 2008, the company produced 8.65 million tons, up 1% on the year.

Libya's al-Jurf offshore oilfield, which has shut in 45,000 bpd of production for two weeks due to well damage, may need another six weeks to resume production.

Ecuador's central bank reported that the country's oil product export revenue in February increased 134% to \$70.18 million from \$29.98 million reported last year. Ecuador exported 977,000 barrels in February, up 18% from 826,000 barrels exported last year.

Indonesia's Vice President Jusuf Kalla said the government would protect the poor from the impact of any fuel price increase aimed at cutting subsidies. Indonesia has stated that it planned to increase fuel prices, a move that could spark anti-government protests ahead of next year's parliamentary and presidential elections.

Russia's Far East Sakhalin-2 crude exports are expected to start in July compared to the usual June startup, as work on the facilities has delayed production. Sakhalin-2 has produced 60,000-70,000 bpd of light sweet Vityaz crude and is expected to gradually increase from this year when year round exports are due to start and reach 150,000 bpd by 2010-2011.

Russia's Energy Ministry reported that Russian oil companies exported 7,752 tons/day of gasoline in the first 29 days of April, down 35.3% from 11,987 tons/day in March. Exports of gas oil fell by 19.3% to 77,686 tons/day while exports of fuel oil fell by 71.2% to 38,493 tons/day. Russia's refined products exports fell following an increase in export duties and maintenance at a number of refineries.

Analysts stated that a Russian government plan to differentiate gasoline excise taxes based on fuel quality would increase the tax burden for the country's oil companies, benefiting only a few firms that own sophisticated refineries. The Finance Ministry's proposal could raise the tax burden for the oil industry next year to \$3.9 billion or \$260 million more than it would otherwise pay. The ministry has proposed reducing the excise tax on high octane gasoline of Euro 4 and 5 standard by 12.6% while increasing the tax by 7.5% on Euro 3 standard gasoline starting in 2010. It also proposed to increase the tax for gasoline with lower octane numbers of 92 and 80 by 7.5% and 46.8% respectively from 2009. The current rates are \$153/ton for high octane gasoline and \$112/ton for low octane gasoline.

OPEC's news agency reported that OPEC's basket of crudes increased sharply again to \$114.75/barrel on Tuesday, up from \$111.60/barrel on Monday.

Market Commentary:

Crude oil prices at \$125.00 per barrel came close to being a reality today as the market ignored a build of 5.6 million barrels in crude oil stocks. Despite a strong dollar, the crude oil market rallied, in contrast

to previous reactions to the dollar. A report released today on U.S. worker productivity indicated that productivity rose 2.2% during the first quarter, sending signs of a recovering economy across the market place. The June contract peaked today at \$123.90, another record high. Going back a year ago the price of the spot month crude oil was \$61.60, with the front month spread trading negative \$1.83. Currently the price of crude oil is \$123.53, with the front month spread trading at .33 cents. This reflects an increase in the flat price of crude oil of 100.54% and an increase of 118% in the front month spread. It most likely was the over abundance of stocks last year that put pressure on the front month spread. The percent change is not that much different between the flat price and the spread, actually, the spread is stronger percentage wise. With each subsequent higher move in the June contract getting narrower in range, one must start to think that a correction is due. The forward curve is starting to show signs of exhaustion, with the front end appearing to dip slightly. Support in the June crude is set initially at \$121.80 and a break below this level can take prices to \$108.50. With a tight squeeze all but over in crude oil, we would look for the market to come off, thereby putting further pressure on the June/July spread, bringing it into negative territory. Gasoline stocks showed a modest increase of 0.8 million barrels putting gasoline stocks in the upper half of the average range. Imports for gasoline stocks averaged 1.5 million barrels per day with demand running 9.3 million barrels per day. The June contract, although reaching a record high, has not broken above the upper trendline of the ascending channel on the spot continuation chart. We could still see further upside movement, but believe it to be limited. Should a test of the \$3.1725 channel top occur without a break out, we would look to sell this market. Surprisingly, the June gasoline crack did not perform as we have been hoping it to, but with our expectations for a correction in the crude oil, this crack spread can still gain strength. Distillate stocks decreased by 100,000 barrels and are currently set in the lower half of the average range. Demand for distillate is set at 4.2 million barrels per day, down 0.5% from the same period last year. Reports of an earthquake off the coast of Japan possibly having an impact on nuclear plants shutting, the possibility of burning fuel as a substitute to generate electricity, increased fears of shortages of diesel fuel. The June contract has reached our objective of \$342.00 but with pre-Olympic demand for diesel in China and demand in India, this market can remain strong, taking a breather in between. We would look for a test of the \$3.1568 support level, sell breaks below that level and buy any bounces. Total open interest for crude oil 1,422,431 up 16,917, June 08 327,550 down 19,531, July 08 195,028 up 24,881 and December 08 210,465 up 705. Total open interest for heating oil 227,262 up 1,560, June 82,440 down 2,023 and July 38,170 up 737. Total open interest for gasoline, 262,307 up 6,078, June 86,929 down 1,523 and July 56,592 up 4,538.

		Explanation	
CL	Resistance	125.25	Basis trendline
	123.53, up \$1.69	123.93	Wednesday's high
	Support	122.85, 121.40, 120.54	Wednesday's low
		119.33, 116.05, 111.78, 110.30, 109.63	Previous lows
HO	Resistance	350.44	Basis trendline
	344.73, up 9.38 cents	346.00	Wednesday's high
	Support	342.90, 339.35, 337.10, 334.60	Wednesday's low
		328.83, 320.25, 313.18	Previous lows, Basis trendline
RB	Resistance	315.36, 317.25	Basis trendline
	311.82, up 1.27 cents	313.23	Wednesday's high
	Support	311.10, 309.35, 307.85, 305.88	Wednesday's low
		304.00, 292.78	Previous lows