ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta &
Zachariah Yurch
(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR MAY 8, 2006

US National Security Adviser Stephen Hadley said the White House is unaware of any letter from Iran's President Mahmoud Ahmadinejad. An Iranian official said Iran's President has written to President George W. Bush, proposing new ways to resolve the current situation. Iran's top nuclear negotiator, Ali Larijani however warned that the letter did not reflect a softening in Iran's position. Foreign Ministry spokesman Hamid Reza Asefi said the letter had been delivered to the Swiss Embassy in Tehran. This came after Iran's Parliament threatened to pull

Market Watch

The Movement for the Emancipation of the Niger Delta rejected the possibility of a ceasefire anytime soon and promised to launch more attacks against oil facilities and individuals. The group rejected media reports stating that it had announced a three month ceasefire with the government.

The EPA formally repealed the reformulated gasoline's oxygenate requirement. The EPA said Maryland, Pennsylvania, Virginia, Texas, Wisconsin and Nebraska have formally requested waivers from clean fuel rules. President George W. Bush ordered the EPA two weeks ago to give states regulatory relief, if needed, from pollution requirements for motor fuel if supply problems occur as refiners switch to ethanol. EPA administrator Stephen Johnson said the EPA would not issue waivers just to keep prices lower.

Arab Petroleum Investments Corp said energy investments in the Middle East and North Africa are expected to total $220 billion in the next five years. Arab states are forecast to spend $80 billion between 2006 and 2010 on the oil sector, of which $36 billion will be allocated for upstream exploration and development of new capacity as well as sustaining current output through enhanced oil recovery programs.

According to a Reuters survey, analysts forecast the average price of crude in 2006 at $64.04/barrel and $58.11/barrel in 2007.

First Fuels Bank said it is the only retailer in the country where customers can purchase gasoline for the future and hedge against rising prices. Both people and companies buy gasoline from the company and tap their reserves whenever prices rise above the price they purchased their supply. If the retail price falls below their purchase price, they would buy elsewhere. The company hedges its obligations by buying gasoline contracts on the NYMEX for customers holding their reserves for a year or longer.

Venezuela's President Hugo Chavez said a new 33.3% tax on extraction would be applied to all oil operations in the country. Venezuela's Oil Minister Rafael Ramirez said companies would be allowed to deduct what they pay in royalties from that new tax. The measure would affect those companies upgrading heavy crude in the Orinoco tar belt, which include BP Plc, Exxon Mobil, Chevron Corp, ConocoPhillips, Total SA and Statoil ASA. Companies operating elsewhere in the country in joint ventures with PDVSA, already pay a 33.3% royalty, eliminating the need to pay the new tax.

ConocoPhillips CEO James Mulva said that high oil prices are to blame for high gasoline prices, not companies' greed. He said the only way to get gasoline prices below $3/gallon was to reduce the cost of oil.

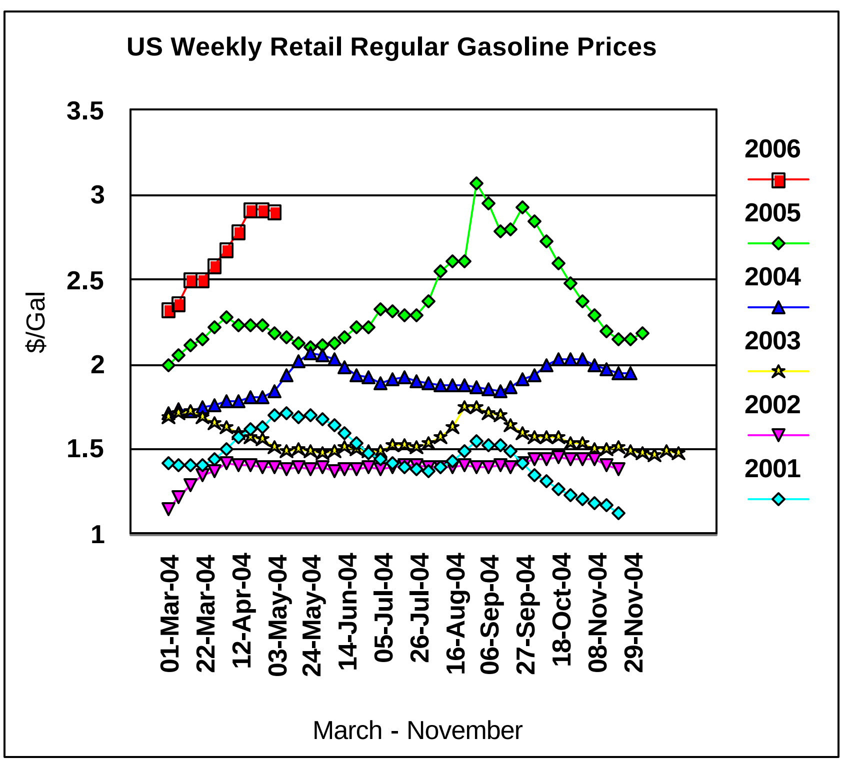
out of the nuclear non-Proliferation Treaty if western pressure over its nuclear program increased. Members of the UN Security Council plus Germany are due to meet in New York on Monday night to discuss how to proceed with Iran. Meanwhile, British Prime Minister Tony Blair ruled out an invasion of Iran and said any suggestion of a nuclear strike against the country was absurd. China expressed concern that a proposed UN resolution could lead to a new war and called on the UK and France to eliminate any reference to possible future sanctions or military action against Iran. China's UN ambassador, Wang Guangya, remained adamant in his opposition to placing the resolution under Chapter 7 of the UN Charter. US Ambassador John Bolton said the US was not prepared to extend negotiations endlessly and was seeking a vote this week with or without Chinese or Russian support. US Intelligence chief, Negroponte said the Iranian letter may be a bid to sway the Security Council talks.

Separately, Iran's President Mahmoud Ahmadinejad is scheduled to arrive in Indonesia for a six day visit, where he is expected to seek support for Iran's nuclear program and energy deals with Indonesia.

Israel's Vice Premier Shimon Peres was quoted as saying that "the president of Iran should remember that Iran can also be wiped off the map." He said Iran presents a danger to the entire world, not just to Israel.

Venezuela's Energy Minister Rafael Ramirez said OPEC could do little at the moment to lower world prices as the market is supported by scarce refining capacity and concerns over the dispute over Iran's nuclear program.

The executive director of the IEA, Claude Mandil, said crude oil prices are likely to remain high for the next four to five years because of OPEC's lack of spare capacity and a shortage of refineries. OPEC's spare capacity has fallen to less than 2 million bpd compared with as much as 4 million barrels in 2002. He said additions to oil refining capacity would be less than the gain in demand through 2009 until an increase set for 2010. He said about 66 refinery projects are scheduled to start in 2010. He said companies were still not investing enough in exploration to grow or even maintain present production levels to keep pace with demand. The head of the IEA also stated that high oil prices are unsustainable in the long term.

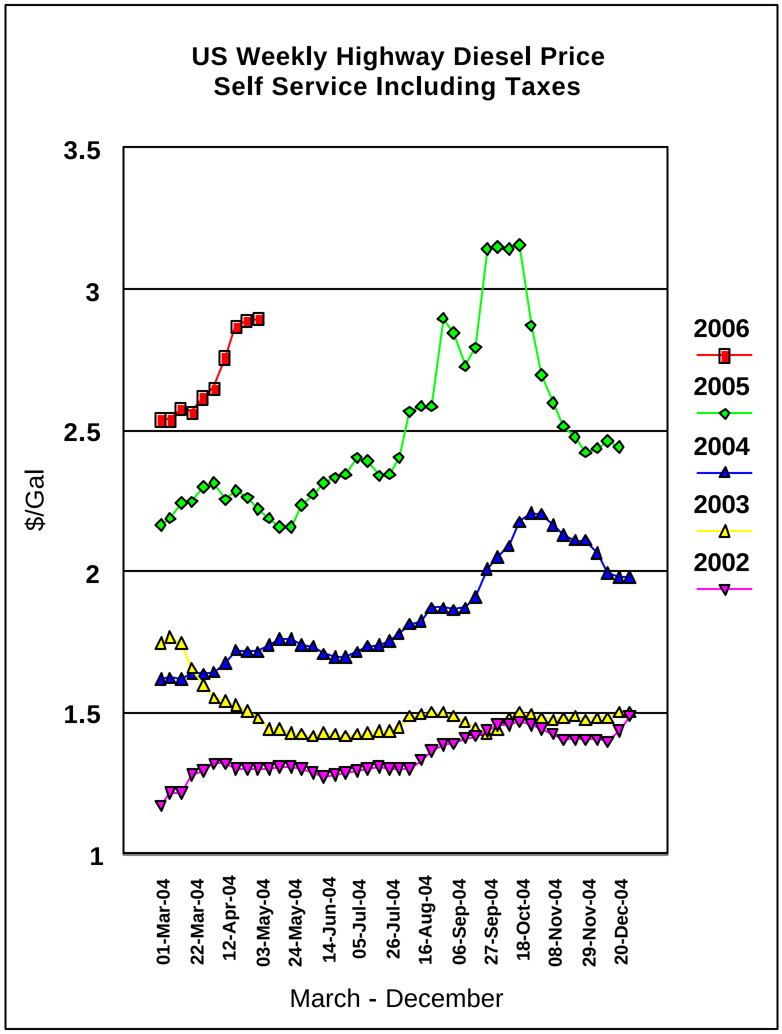


According to the Lundberg Survey, the average retail price of gasoline increased nearly 4 cents to $2.94/gallon in the two weeks ending May 5.

The EIA reported that the average retail price of gasoline fell by 1 cent to $2.909/gallon in the week ending May 8th. It also reported that the average retail price of diesel increased by 0.1 cent/gallon to $2.897/gallon on the week.

Refinery News

Flint Hills Resources began planned maintenance at the West Plant at its Corpus Christi, Texas refinery which may necessitate the shutdown of the sulfur recovery unit No. 2.



Delek's 55,000 bpd refinery in Tyler, Texas was hit by lightening on Saturday which caused a brief outage. Its sat gas unit, naphtha hydrotreater and platformer unit were shut due to the storm. A company spokesman said there was no impact on production.

Holly Corp said its 75,000 bpd Navajo refinery in Artesia, New Mexico is scheduled to shutdown for two weeks in May for expansion work that would increase its capacity by 7,000 bpd to 82,000 bpd. It is expected to lose about 700,000 barrels of production during the expansion work.

Shell has postponed the completion of a turnaround maintenance program at its 412,000 bpd Pernis refinery to early June from mid-May to repair damage caused by a utility failure. A source said the damage caused by a utility failure in January was more than previously thought and Shell needs more time for repairs. A Shell spokesman also confirmed that the refinery suffered a second utility failure on May 2 but declined to state which units were affected.

Indonesia's Pertamina shutdown a 10,000 bpd refinery in Papua province after a fire started in its crude distillation unit. The cause of the fire was not known.

Cosmo Oil Co said its 130,000 bpd crude distillation unit in eastern Japan remained shut on Monday following a fire in mid-April. It was not known whether the unit would restart ahead of its maintenance later this week. Meanwhile, ExxonMobil shut a 156,000 bpd crude distillation unit at the Sakai refinery following a fire in early April.

China's Guangzhou refinery started a new crude unit last week. However its crude throughput is likely to remain flat for some months due to lagging secondary refining capacities. The refinery started a 160,000 bpd crude unit at the end of April and simultaneously shut a 104,000 bpd crude refining facility.

Production News

Saudi Aramco produced 3.3 billion barrels of crude oil last year and exported 2.62 million barrels. Its average production stood at 9.1 million bpd in 2005, up from 8.6 million bpd the previous year. Refined products production in 2005 increased to 591.94 million barrels last year from 569.29 million barrels. It exported 201.58 million barrels of refined products in 2005 and 289.48 million barrels of natural gas liquids.

The Syncrude Canada Ltd oilsands venture has started production at its expanded facilities. The expansion of the northern Alberta facility is expected to increase Syncrude's output by 124,000 bpd of synthetic crude to 350,000 barrels.

Traders stated that fuel oil exports from the former Soviet Union via Baltic and Black Sea ports increased by 14% on the month in April to 4.91 million tons on reduced domestic demand and fewer weather related port disruptions. Gas oil exports were relatively unchanged at 3.06 million tons compared with 3.07 million tons in March.

Kuwait Petroleum Corp set its May official selling price for liquefied petroleum gas products, with propane and butane set at $470/metric tons.

Officials in India stated the country's domestic sales of oil products fell by 2.5% in March, reversing a 3% increase in the previous month as dealers cut inventories and agricultural demand weakened. Domestic sales totaled 9.91 million tons in March and 111.92 million tons in the fiscal year ending March. Crude oil imports, which account for about 70% of domestic consumption, increased 7% in March while exports of refined products increased 35%.

Technical Analysis

		Levels	Explanation
		70.55, 71.82 to 72.20	Previous high, Remaining gap (May 4th)
	Resistance	69.90	Monday's high
CL	69.77, down 42 cents		
	Support	69.00, 68.50, 68.25	Monday's low
		68.18, 67.05, 66.48	50% retracement(61.00 and 75.35), Previous low, 62% retracement
		199.25 to 200.00	Remaining gap (May 4th)
	Resistance	195.75, 196.00	Monday's high, Friday's high
HO	195.45, down 16 points		
	Support	193.00, 191.50	Monday's low
		190.80, 188.50, 187.30	Previous low, 50% retracement(166.50 and 210.50), Previous low
		204.50, 207.50	Previous highs
	Resistance	201.20	Monday's high
HU	200.36, down 3.70 cents		
	Support	197.30, 196.50	Monday's low
		193.30, 190.00, 189.50	Previous lows, 50% retracement(156.00 and 223.00)

OPEC's news agency reported that OPEC's basket of crudes fell by $1.35/barrel to $65.06/barrel on Friday. It also reported that its basket of crudes increased by $0.44/barrel to $66.78/barrel in the week ending May 5.

<u>Market Commentary</u>

The oil market gapped sharply lower from 69.70 to 68.91 amid the possibility that tension between Iran and the West may ease after Iran said it would send a letter to US President George W. Bush proposing new ways to resolve the situation. The market partially backfilled its gap as it traded to 69.05 before it continued to sell off to a low of 68.25 amid the news. The crude market bounced off its low and traded back towards the 69.00 level amid the news that the White House said it was unaware of any Iranian letter. It traded mostly sideways before some late buying pushed the market to a high of 69.90. The market recovered from its sharp losses and settled down 42 cents at 69.77. Volume in the crude market was good with over 253,000 lots booked on the day. Open interest in the crude market continued to fall, by a total of 9,259 contracts as of Friday. Open interest is likely to have continued to fall on Monday in light of the sharp sell off. The gasoline market settled down 3.7 cents at 200.36 after it continued to sell off. Th e market opened down more than 3.5 cents at 200.50 and quickly traded to a high of 201.20. However the market quickly sold off to a low of 196.50. The gasoline market later bounced off its low and retraced its earlier losses ahead of the close. Similar to the crude market, the heating oil market gapped lower from 193.50 to 193.00, which it quickly backfilled. The market however sold off to a low of 191.50 amid the losses in the rest of the complex. The market later traded mostly sideways before it breached its earlier high and rallied to a high of 195.75 ahead of the close. It settled down just 16 points at 195.45. Volumes in the product markets were good with 39,000 lots booked in the gasoline market and 47,000 lots booked in the heating oil market.

The oil market on Tuesday will remain headline driven. The June crude contract, which traded to its high on the close, may retrace some of its gains on Tuesday as it technically still has further room to the downside. However its losses will be limited as the market remains concerned over the situation with Iran. Also, Nigeria's militants have once again warned of further attacks on oil installations and individuals. The market is seen finding support at 69.00, 68.50 and its low of 68.25. More distant support is seen at 68.18, 67.05 and 66.48. Meanwhile resistance is seen at 69.90, 70.55 and a gap from 71.82 to 72.20.