



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 8, 2008

US Energy Secretary Sam Bodman said the Energy Department would not delay its plan to accept bids next week from oil companies to supply millions of barrels of additional crude to the US SPR. Companies are scheduled to submit bids on May 13 to deliver oil to the SPR in exchange for getting up to 13 million barrels of royalty-in-kind crude drilled from federal leases in the Gulf of Mexico. The Bush administration is seeking to fill the SPR to its 727 million barrel capacity. The oil would be delivered to the SPR at a rate of 76,000 bpd

beginning in August ending in December. During May, about 123,000 bpd of oil is scheduled to be shipped to the reserve under prior delivery contracts. Separately, US Senate majority leader Harry Reid is expected to bring to the floor next week legislation that could force the Bush Administration to stop filling the SPR.

OPEC's Secretary General Abdalla Salem El-Badri said OPEC had no intention of increasing its oil production to ease record oil prices despite calls from consuming nations for more oil ahead of the summer. He said there is no shortage in the market. However he added that OPEC was willing to pump more if needed to keep pace with demand. He said oil stocks in consuming countries, such as the US, remain in a five year average range and

May Calendar Averages

CL – 119.65

HO – 332.56

RB – 304.32

Market Watch

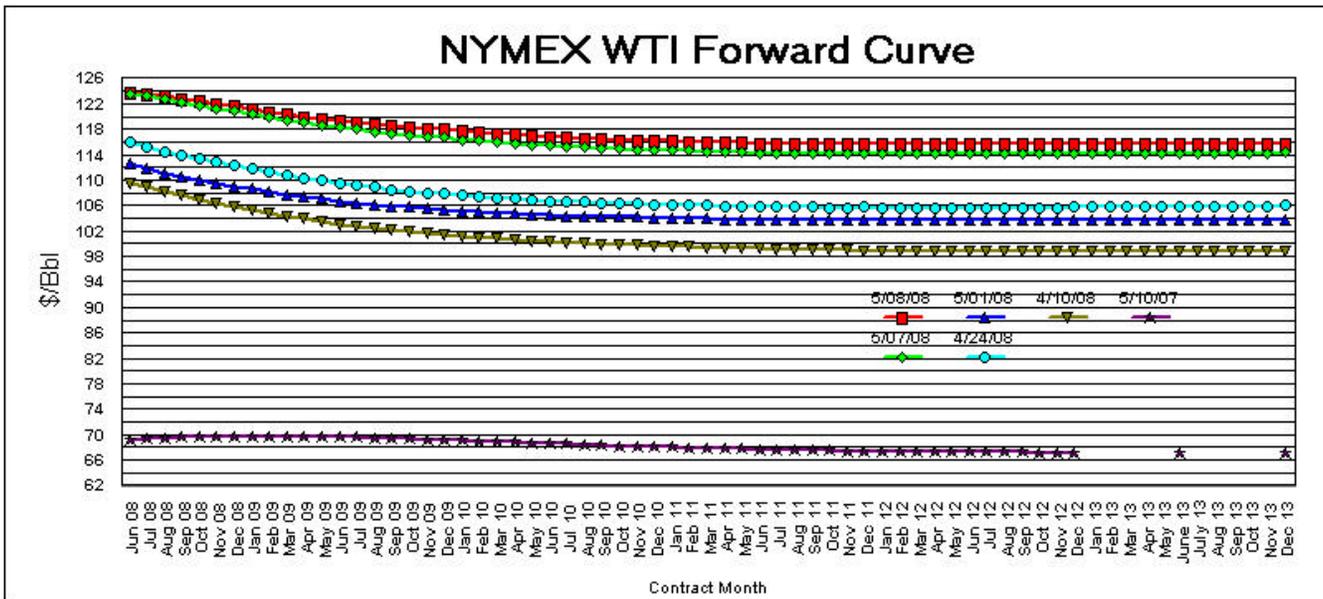
Barclays Capital increased its forecast for US crude oil prices by 16% to \$116.90/barrel from its previous forecast of \$100.80/barrel due to stronger demand from China and the Middle East and a fall in production at non-OPEC countries.

The International Monetary Fund said that recent price increases in energy and commodities were likely to prove durable because the factors driving them appeared to be fundamental. The first deputy managing director of the IMF, John Lipsky said emerging and developing economies had accounted for about 95% of oil demand growth since 2003 and the prospect of continued strong growth in the economies suggests that demand growth for energy and commodities would remain solid even as global growth is slowing.

KBC Market Services stated that high oil prices were expected to have little impact on demand in the near term, with increasing demand on crude from oil producing countries as well as China and India. It reported that China's oil demand growth in March stood at 8% while India's demand stood at 6%. Oil demand growth in oil producing countries in the Middle East, Latin America, Africa and FSU stood at 700,000 bpd.

ECB President Jean-Claude Trichet said inflation would remain high for some time, signaling that the bank is in no rush to lower interest rates as economic growth slows.

some OPEC countries are unable to find additional buyers for extra crude. Meanwhile OPEC President Chakib Khelil said any decision by Saudi Arabia to increase its crude production may give the rallying market a psychological pause but would not cause prices to fall. He also stated that \$200/barrel oil was possible if the devaluation of the dollar continued.



Iran's Oil Minister Gholamhossein Nozari said it would be possible to see a price of \$200/barrel for crude if the existing conditions in the market continued.

Saudi Arabia has booked eight supertankers to carry 16 million barrels of crude oil to the US through May and early June. It was the highest number of spot cargoes this year.

According to Oil Movements, OPEC's crude oil shipments are expected to increase to 220,000 bpd to 24.57 million bpd in the four weeks ending May 24. It said the majority of the increase was due to a recovery in Nigerian oil exports. It also stated that it expected shipments to increase as US and Asian refineries increase their operations ahead of the summer driving season. Sailings from OPEC's main Gulf producers are forecast to increase by 60,000 bpd to 17.7 million bpd in the four week period.

Refinery News

ExxonMobil Corp completed its planned partial maintenance at its 188,000 bpd Rotterdam refinery late last week. The partial maintenance included the powerforming unit, which increases octane levels for light products.

ConocoPhillips said it would perform preventative maintenance work on a transformer unit at its 247,000 bpd Sweeny, Texas refinery.

Chevron Corp's 260,000 bpd refinery in El Segundo, California reported a problem with a compressor. Flaring was reported after a compressor tripped offline.

Alon USA Energy Inc announced the acquisition of Valero Energy Corp's 85,000 bpd refinery in Krotz Spring, Louisiana for \$433 million. The refinery has a crude storage capacity of 665,000 bpd. Alon also stated that a turnaround was planned at its newly acquired refinery. However it did not provide any details on the timing of the turnaround or the units that would be involved.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 681,000 barrels to 17.593 million barrels in the week ending May 7. It reported that the country's light distillate stocks fell by 314,000 barrels to 9.22 million barrels while middle distillate stocks fell by 1.307 million barrels to 6.84 million barrels on the week.



Production News

Royal Dutch Shell said part of its oil production in Nigeria remained shut following sabotage attacks to its oil facilities in April and added that it still did not know when it could

restore the lost production. About 164,000 bpd of Bonny Light crude production was still shut in and a force majeure remained in place. On Wednesday, ExxonMobil lifted a force majeure on its Nigerian oil exports as its production recovered after an eight-day strike shut all of its output, which averaged 800,000 bpd.

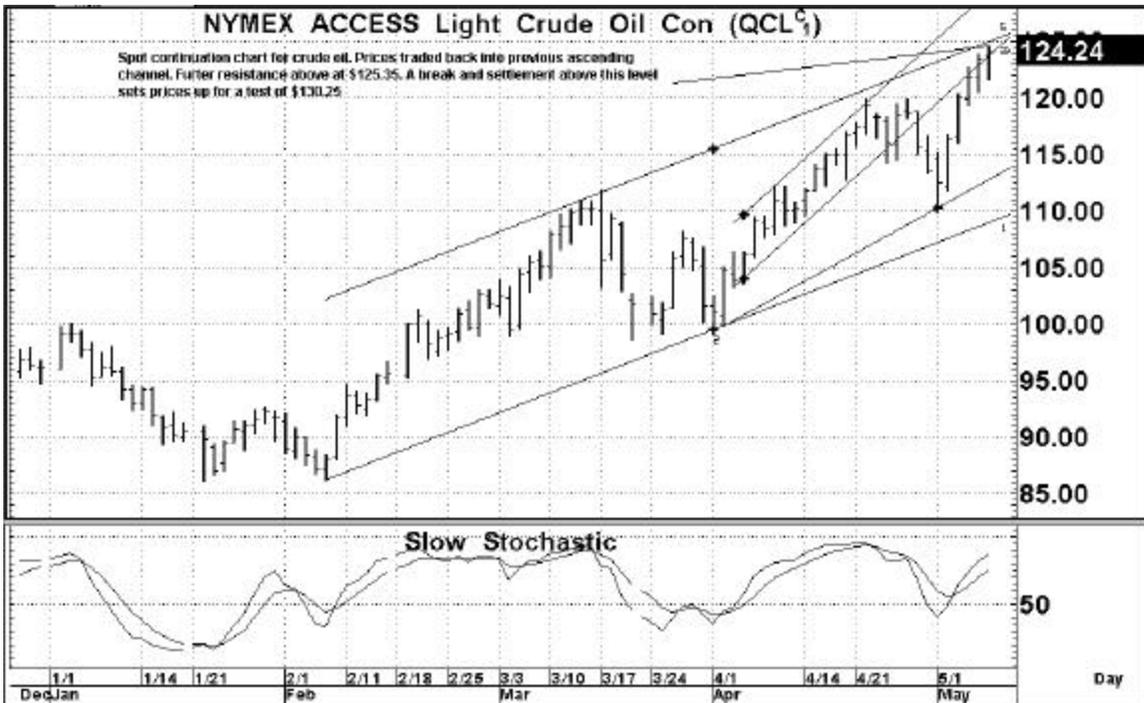
Separately, Royal Dutch Shell Plc next year is expected to start producing from heavy oil fields in the BC-10 block in Brazil's Campos Basin. It said it would install its Espirito Santo platform that is scheduled to pump from the Ostra, Abalone and Argonauta fields in the block and had an output capacity of 100,000 bpd. Shell has previously stated that it estimates potential oil reserves in the BC-10 block of 400 million barrels. It currently produces little more than 30,000 bpd from the Bijupira and Salema oilfields in the Campos Basin.

Nigeria's Qua Iboe crude oil loadings are expected to be delayed in June by about 13-15 days after ExxonMobil shut in its production due to the strike.

Nigeria's crude oil exports are expected to total 1.74 million bpd in June, excluding Bonny Light. The preliminary June programs show some loading delays from May due to the rebel attacks on oil facilities and the strike that shut down ExxonMobil's production. May loading programs show oil exports from Nigeria would average 1.82 million bpd, down from an original program of 1.98 million bpd.

Suncor Energy Inc said production at its oil sands facility during April averaged about 223,000 bpd while its year to date oil production at the end of April averaged 241,000 bpd. Suncor said it was targeting average oil sands production of 275,000 bpd to 285,000 bpd in 2008.

Venezuela's Oil Minister Rafael Ramirez said Venezuela has increased its proven oil reserves to 130 billion barrels, up 30 billion barrels from late last year.



According to an official from the National Iranian Oil Co, Iran is expected to increase its oil production to 5.4 million bpd by 2014.

Market Commentary:

After spending most of the trading session lower on the day, crude oil posted new highs after the NYMEX floor-trading session closed. Although no new immediate news was released, the dollar did trade lower and tensions in Lebanon are heating up between Hezbollah and the Lebanese government. June crude oil has now traded back into the ascending channel on the spot continuation chart. This sets up for a test of \$125.35 and beyond that \$130.25. As expected, the June/July crude oil spread came under additional pressure today. As the index funds continue to roll their positions ahead



of June approaching expiration, we could see minus .45 on this spread. The forward curve for crude oil is indicating slight front-end weakness, with the tip of the curve dipping for two days in a row. This can be considered a bearish signal for prices. Gasoline marked another

record high today basis the June contract. Prices continue to trend within the ascending channel on the spot continuation chart whose breakout point is \$3.1840 coming into tomorrow's session. Caution should be taken due to the previous two false breakouts. We would like to see a settlement above channel with a follow up move in prices, for fear of getting caught long. Heating oil continues to forge ahead, getting its strength from global demand for diesel fuel. The June contract has traded and settled above the ascending channel on the spot continuation chart and with global demand still running strong, this product can mover higher yet. Off of the recent breakout of this channel the projected move for heating oil is \$3.8420. This level may seem a bit aggressive, but then again so did \$3.5000. Total open interest for crude oil 1,429,063 June08 302,673 down 24,877, July08 212,361 up 17,333 and December 08 215,212 up 4,747. Total open interest for heating oil 228,894 up 1,632, June 77,396 down 5,044 and July 40,455 up 2,285. Total open interest for gasoline, 261,453 down 854, June 82,472 down 4,457 and July 58,620 up 2,028.

