



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 15, 2007

According to the EIA, US gasoline prices may decline once more refineries come back online and gasoline imports increase. The US average retail price of gasoline reached a record of \$3.10/gallon in the week ending May 14 due to strong gasoline demand and lower fuel inventories in light of the refinery shutdowns and lower imports. The head of the EIA, Guy Caruso warned however that the gasoline markets are expected to remain fairly tight this summer.

White House spokesman Tony Snow said the Bush administration had no plans to tap the country's SPR to counter rising gasoline prices.

Market Watch

The drive to conserve energy has given OPEC further justification for its cautious approach to increase its supply but at the risk of widening a gap between supply and demand. Saudi Arabia has signaled that it may not have to increase potential output above its targeted 12.5 million bpd if consumers meet their goals of greater energy efficiency and reduced dependence on oil. Consumer countries have called for increased investments but they have simultaneously talked of drastically reducing their oil imports. Consumer countries have called on OPEC to make more oil available and demand for OPEC's oil is expected to increase to 49 million bpd by 2030. Increasing its exports to that level could require investment of up to \$500 billion.

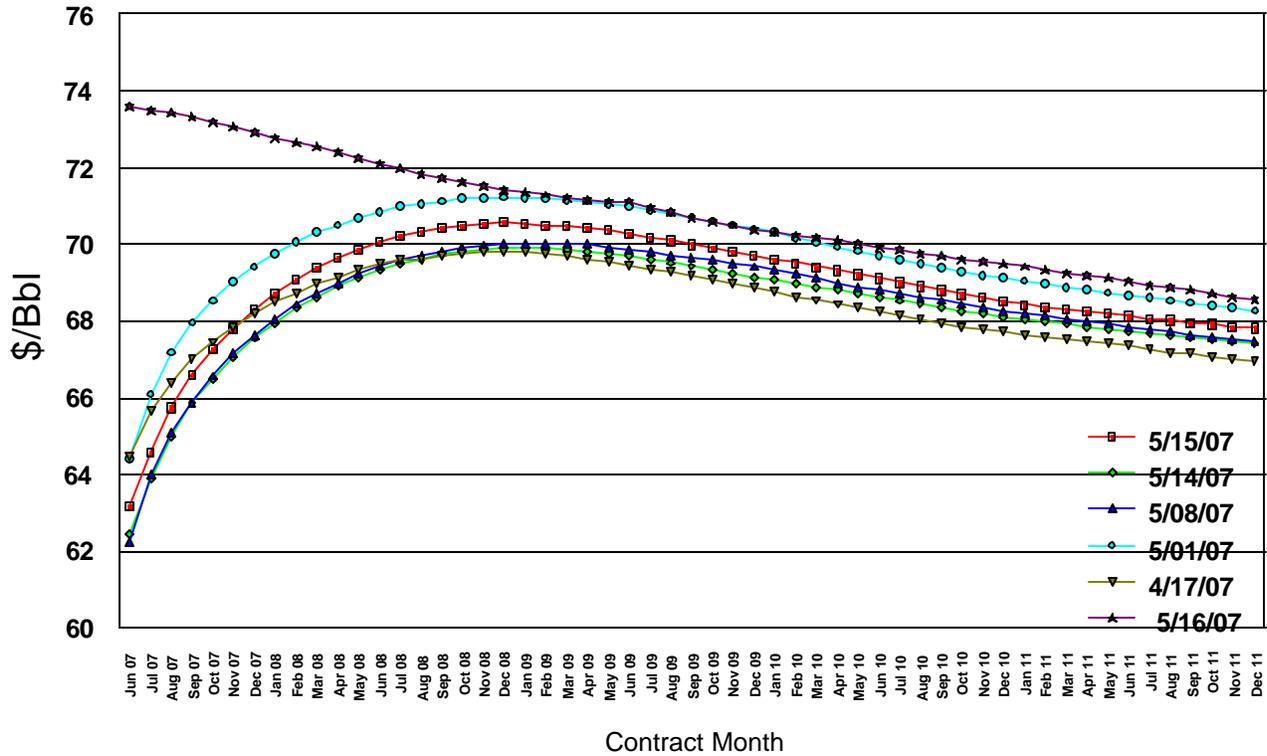
The governing board of the IEA said that energy prices remained high and were a threat to economic growth. It called on the IEA to strengthen and sharpen its emergency response mechanisms for the oil sector and seek to involve non-member countries in its response to significant supply disruptions. It also called on the IEA to advise on emergency response mechanisms and policies for gas markets and their potential international implication. The head of the IEA, Claude Mandil said the IEA would hold bilateral talks with OPEC on Wednesday to discuss the group's oil production.

Sources stated that the NYMEX was considering developing carbon dioxide futures contracts amid concerns about the quality of greenhouse gas offsets being traded in the US.

Iraq's Basra could erupt into a war between rival Shi'ite groups seeking control of its oil wealth as British forces prepare to withdrawal. The power struggle between factions of the Shi'ite majority that has dominated Iraqi politics threatens to affect oil exports. British forces have pulled out of three bases in and around Basra and are expected to leave a fourth base during the summer and move to their main compound at the international airport on the city's outskirts. Some in Basra are concerned that a British withdrawal would encourage groups to use force to control the oil fields.

Germany appears to have failed in its attempt to get Group of Eight finance ministers to press for a voluntary code of conduct for hedge funds when they meet later this week. A senior German finance ministry official said he did not expect the G8 to mention such a code in their final communiqué. Germany has been pushing for increased transparency on the activities of hedge funds.

NYMEX WTI Forward Curve



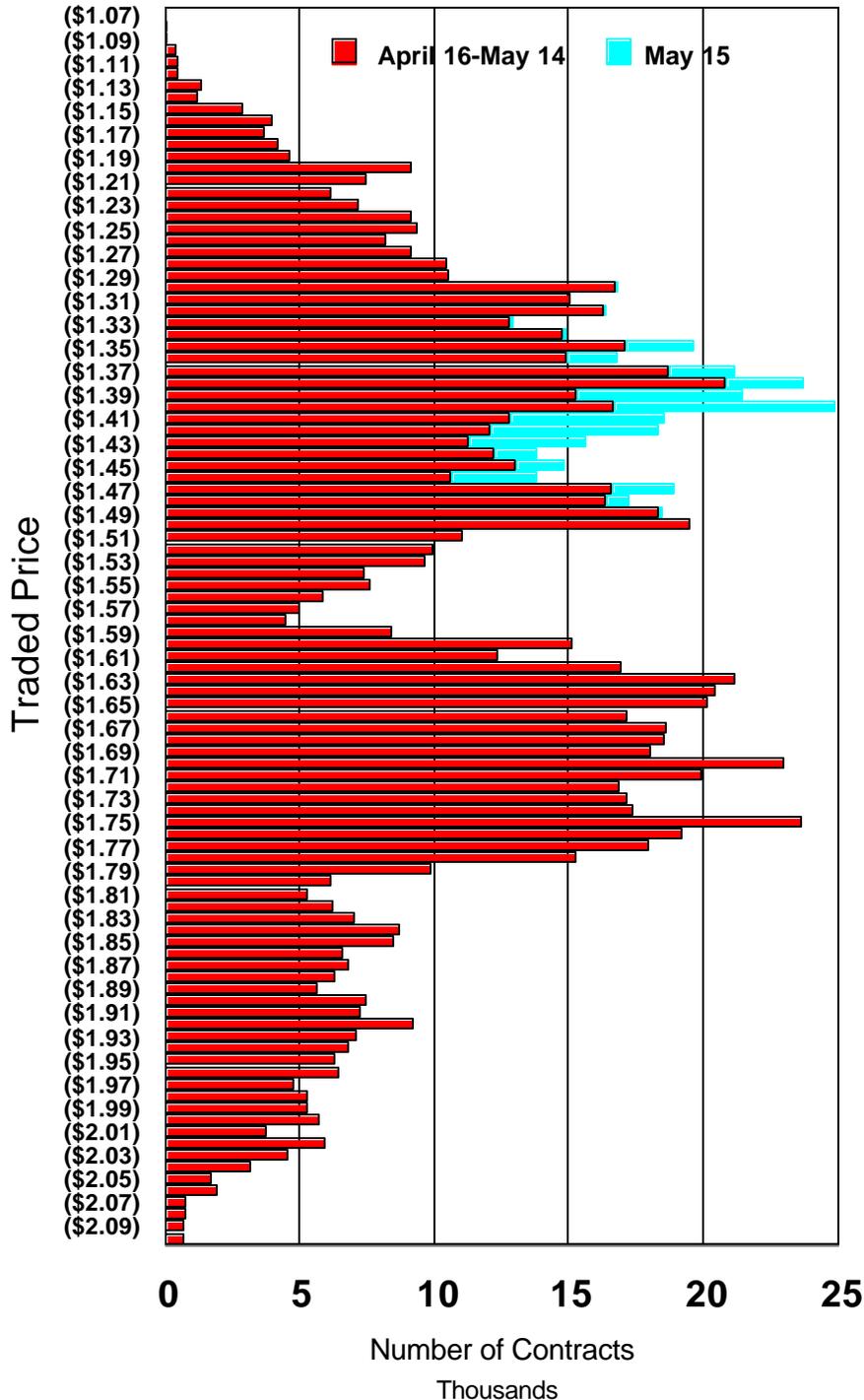
In its latest monthly oil market report, OPEC said that crude inventories were more than enough to cover fuel demand during the peak summer travel season. It estimated demand for its oil at 30.33 million bpd, up from 30.28 million bpd previously estimated. It reported that the ten OPEC members increased their production by 30,000 bpd in April to 26.45 million bpd. OPEC left its forecast for world oil demand relatively unchanged at 85.4 million bpd. Its world demand growth estimate was slightly lower at 1.27 million bpd compared with a previous growth estimate of 1.3 million bpd. In regards to US gasoline stocks, it said gasoline stocks should return to normal levels if imports remain above 1 million bpd in the coming weeks. Separately, OPEC's head of research, Hasan Qabazard said OPEC may not need to change its oil production policy when it holds its next meeting in September despite calls for more supply from consumers. He said the return of oil refineries from maintenance would help increase fuel stocks.

Four suspected al Qaeda members arrested in Saudi Arabia last year said they had planned to attack the country's oil facilities and facilities in Kuwait and the UAE. The four suspects were arrested in April last year in connection with a failed attack two months earlier on Abqaiq, the country's largest oil gathering facility. The al Qaeda leadership in Saudi Arabia told them that the attacks on oil facilities would be equal to the September 11 attacks. The suspects said that the foiled attack was part of a plot to strike oil installations in an attempt to draw US troops into Saudi Arabia so militants could fight them.

The IAEA's director, Mohamed ElBaradei said Iran's progress in enriching uranium has rendered unrealistic world powers' quest to prevent Iran from gaining nuclear expertise. He said it would be more sensible to cap Iranian enrichment short of industrial scale rather than try to freeze it altogether. IAEA inspectors have concluded that Iran appeared to have solved most of its technological problems

NYMEX WTI: June July Spread Price Vs Volume for April 16 - May 15, 2007

Trade Weighted Avg: 5/15 -1.409 5/14 -1.45 5/11 -1.73 5/10 -1.48 5/9 -1.657



and was not starting to enrich uranium on a larger scale than before. In an inspection of Iran's operations, inspectors found that Iranian engineers were already using about 1,300 centrifuges and were producing fuel suitable for nuclear reactors. Until recently, Iran was having difficulty keeping the delicate centrifuges spinning at the speeds necessary to make nuclear fuel and were often running them empty or not at all. It is unclear whether Iran could sustain its recent progress. The material produced so far would have to undergo further enrichment before it could be transformed into bomb grade material. A report to the Security Council next Monday is expected to say that since the Iranians stopped complying in February 2006, the IAEA's understanding of the scope and content of Iran's nuclear activities has deteriorated.

Iran's former president Mohammad Khatami blamed the West for failing to resolve a standoff over Iran's nuclear program and said mounting pressure on Iran would only make matters worse. He said during his time as president, he came close to reaching an agreement with European nations that would have allowed Iran to develop nuclear power for peaceful purposes. However US pressure forced the Europeans to back off.

Refinery News
Delek US Holdings was

investigating a weekend power failure at its 60,000 bpd refinery in Tyler, Texas. It reported operations on Monday.

Chevron Corp's 260,000 bpd refinery in El Segundo, California reported flaring on Monday. Chevron said it exceeded limits on sulfur dioxide pollution due to the flaring.

Italy's ERG said it had no coastal refinery shutdown planned for this year.

South Korea's S-Oil Corp said it planned to skip gasoline exports for June loading due to refinery maintenance. It is scheduled to carry out maintenance at its 65,000 bpd residual fluid catalytic cracker and a crude distillation unit from mid-June to end-July.

China's General Administration of Customs reported that China's crude oil imports increased by 23% on the year in April to 14.8 million tons or 3.6 million bpd. Its net product imports increased 11% on the year and by 55.2% on the month ahead of peak summer demand. The increase in imports lifted year to date imports to 54.46 million tons or 3.3 million bpd, up 10.8%. It reported that from January through March, China pumped about 13.8 million barrels of crude into the country's strategic reserve tanks in Ningbo, which have a capacity of 33 million barrels. The General Administration of Customs said fuel oil imports increased to 2.93 million tons in April compared with 2.17 million tons in March. Meanwhile gasoline imports fell to just 16 tons, down from 23,000 tons in March while diesel imports fell to 30,000 tons from 90,000 tons in March.

Production News

Royal Dutch Shell confirmed production from the 400,000 bpd Bonny Light oil field in Nigeria had been cut by 170,000 bpd. The move followed the occupation of the Bomu Manifold oil facility, a pipeline valve in Ogoniland in southern Nigeria. Shell said the share of lost production run by its joint venture was 137,000 bpd. It said the shut in production was expected to return by the end of the week. Separately, Chevron said youths protesting an oil spill occupied a 6,000 bpd oil facility. The oil installation was already shutdown due to earlier unrest.

Norway's government cut its 2007 oil and gas production forecast by 9.4% to 2.6 million bpd due to project delays. It is down from 2.8 million bpd in 2006 and its previous 2007 estimate of 3 million bpd.

Iraq had pumped another 120,000 barrels of Kirkuk crude through its northern export pipeline to the Turkish terminal of Ceyhan, increasing its inventories to 2.64 million barrels.

Saudi Aramco discovered two new oilfields in Saudi Arabia's Eastern Province. The two wells drilled at the fields tested at flow rates of 5,600 bpd and 5,569 bpd of heavy crude oil respectively.

Kuwait's Oil Minister Sheikh Ali al-Jarrah al-Sabah said Kuwait could increase its oil capacity to 4 million bpd by 2012, eight years earlier than planned. Last month, Kuwait made an oil and gas find in the al-Dhabi region in northern Kuwait.

Latvia's Ventspils Nafta said it increased the volume of shipments in the first four months of the year by 2.3 million tons to 4.4 million tons over the same period of 2006.

Brazil's Petrobras said its oil production from domestic fields fell to 1.779 million bpd in April from 1.811 million bpd in March. Its international oil production increased to 133.4 million bpd in April from 119.3 million bpd in March.

Market Commentary

With the June crude contract expiring on the 22nd of May, we would like to focus our attention on July. Opening unchanged, July made new lows, but was unable to maintain its momentum. Once working their way back over the unchanged number, prices continued higher throughout the session, perhaps in reaction to reports that Chinese imports are up. Expectations for API's are calling for builds across the board, with crude expected to build by 500,000 bpd. Although this market, from a technical standpoint appears to be heading higher, we would like to wait until the release of tomorrow's numbers before acting. We believe that there will be an opportunity to buy the July contract and would look for dips down to the 64.10 area with our initial upside objective being 65.56 in July. A settlement above that number could easily bring prices almost another 400 points higher, with that target being 69.12. Currently support is set at 64.25, 64.10, 63.85, 63.62 and 63.45. One spread that we have been looking at is the Sept07/Dec07. With our opinion that this market will be heading higher, we would like to buy the Sept and sell the Dec, looking for this spread to strengthen basis the September contract. Should this spread break the -160 area we would consider putting on this position, looking for a test of the -1.00 level.

The RBOB market posted a mostly neutral trading session as it settled just 3 points higher at 230.16 as traders positioned themselves ahead of the release of the weekly petroleum stock reports. The DOE report is expected to show builds in gasoline stocks of close to 1 million barrels and a slight increase in refinery runs. The RBOB market bounced off a low of 227.40 and rallied to a high of 233.50 early in the session. However it retraced more than 62% of its earlier move as it traded back

towards the 229.00 level ahead of the close. The RBOB market will continue to retrace its previous gains amid the expectations that the DOE report would show

Technical levels		
	Levels	Explanation
CL 63.17, up 71 points	Resistance 65.40, 65.56, 65.72, 66.38	Previous highs
	Support 64.25, 64.10, 63.85, 63.62	Tuesday's high(July)
	Support 63.45	Tuesday's low(July)
HO 186.68, down 1.55 cents	Resistance 190.02, 191.67, 191.94, 193.38	Previous highs
	Support 189.85	Tuesday's high
	Support 188.00, 186.00 184.33, 181.61, 178.49	Tuesday's low, Previous lows
RB 230.16, up 4 points	Resistance 237.44, 240.07	Previous high, Trendline
	Support 230.50, 233.50	Tuesday's high
	Support 227.40 226.14, 224.45, 223.47	Tuesday's low 50%(214.83 and 237.44),previous low, 62%

builds in stocks. It is seen finding support at 227.40 followed by 226.14, 224.45 and 223.47. Meanwhile resistance is seen at 230.50, 233.50, 237.44 and 240.07. The RBOB crack, which came in slightly to 33.68 and is still seen testing the 30.50 level.