



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 16, 2007

OPEC Secretary General Abdullah al-Badri said he did not believe current oil prices were high. He said a price between \$62 and \$65/barrel was acceptable to OPEC. He said there was no shortage of crude, noting that the gasoline supply concerns in the US were related to planned and unplanned refinery outages.

He has previously stated that he saw no need for OPEC to increase its production this year despite repeated calls from consumer nations for an increase in oil production.

The US' former ambassador to the UN, John Bolton said the EU had to get more serious about Iran and recognize its diplomatic attempts to halt Iran's enrichment program have failed. He suggested there was a need to increase the pressure on Iran. He said if the US could not get enough other countries to pressure Iran, then a regime change would be the answer. He said if all else failed, the US would need to look at the use of force.

Refinery News

Processing units at Valero Energy Corp's 130,000 bpd Houston, Texas refinery were shut due to boiler and steam problems. Repairs were underway and production is expected to return to normal by early next week. Valero said the lost production would total 64,000 bpd of gasoline and 44,000 bpd of distillate. The company said it did not expect the outage to have any kind of region specific impact.

DOE Stocks

Crude – up 1 million barrels
Distillate – up 1 million barrels
Gasoline –up 1.7 million barrels
Refinery runs – up 0.5%, at 89.5%

Market Watch

The US Senate Energy and Natural Resources Committee warned that the US was likely to face several more years of high gasoline prices as refining capacity is expected to remain tight in the years ahead. The lack of investment in infrastructure has been a primary factor in increasing prices. The committee did not find evidence of price gouging.

China is scheduled to make its first crude fill into its second strategic oil storage facility at Aoshan by the end of May. The delivery of about 2 million barrels of Middle East crude into Aoshan comes after it finished filling its 33 million barrel facility, part of its target of a 100 million barrel reserve by the end of 2008. Ten new tanks totaling 7.6 million barrels at Aoshan would be completed and ready for operations in about a week following final tests.

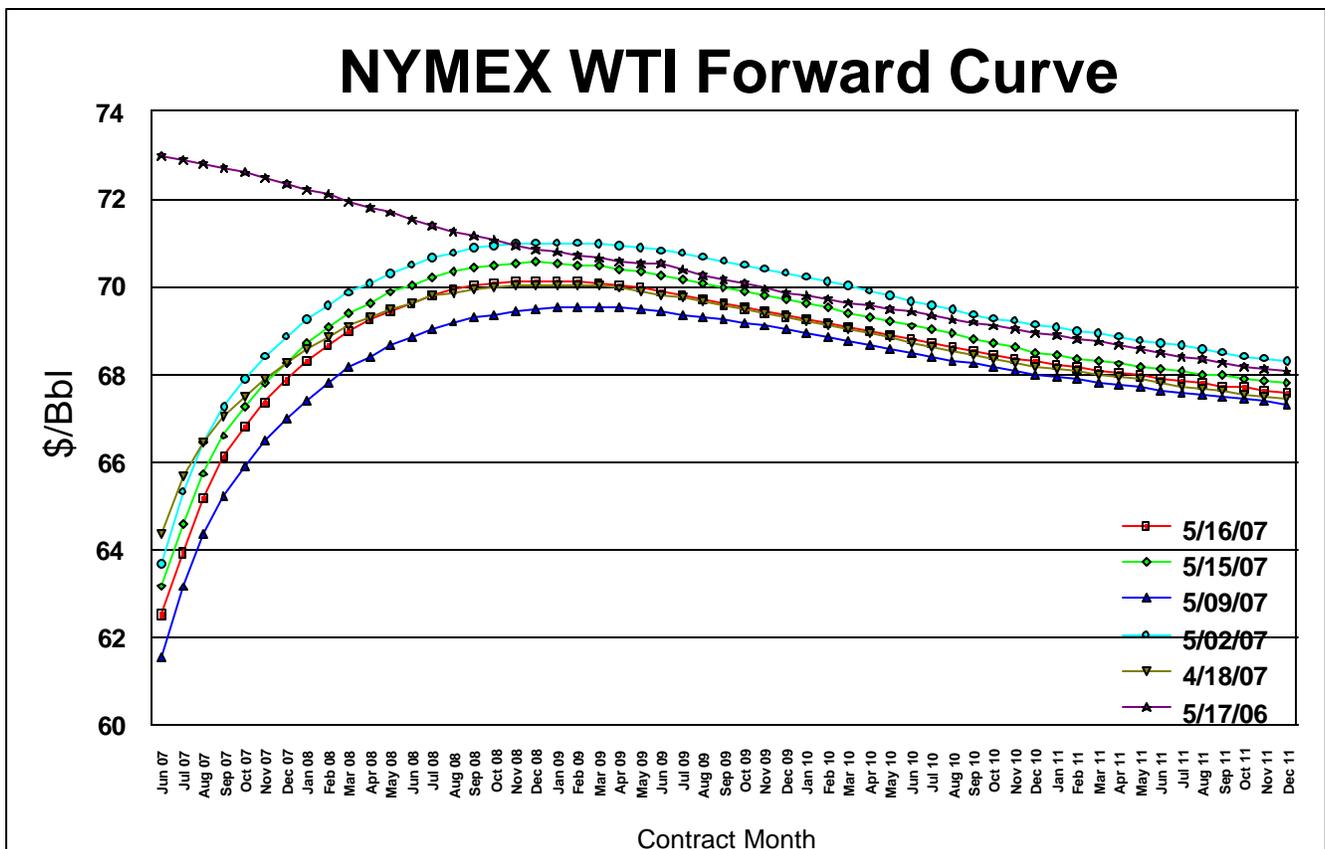
ConocoPhillips reduced its crude oil throughput Tuesday at its 229,000 bpd Sweeny, Texas refinery to facilitate scheduled maintenance at a claus unit. The maintenance is seen concluding by June 15. Separately, ConocoPhillips said it was planning to perform comprehensive maintenance on its 146,000 bpd refinery in Borger, Texas beginning at the end of the week. The refinery is expected to remain shut until the end of June. Maintenance was planned on three crude distillation units, a reformer and a fluid catalytic cracking unit. ConocoPhillips also reported that it shut one of three crude units at its 194,000 bpd refinery in Ponca City, Oklahoma on Wednesday ahead of a scheduled turnaround for late May.

Contrary to earlier reports, the restart of BP's 52,000 bpd fluid catalytic cracking unit at its 155,000 bpd Toledo, Ohio refinery is likely to be delayed for another week. It was reported earlier that the catcracker and other units were in restart and were seen returning by Friday. Meanwhile, repairs at BP's 410,000 bpd refinery in Whiting, Indiana were still continuing through May with partial restarts expected in June.

Alon USA Energy said that repairs on a sulfur recovery unit at its 67,000 bpd Big Spring, Texas refinery would not impact its production of gasoline or diesel. It is scheduled to cut feed to its fluid catalytic cracking unit and its distillate hydrotreater on Wednesday while repairs are made to the sulfur recovery unit.

A gasoline spill occurred at Murphy Oil's 125,000 bpd Meraux, Louisiana refinery after a tanker overflowed. It was unclear how much gasoline was spilled.

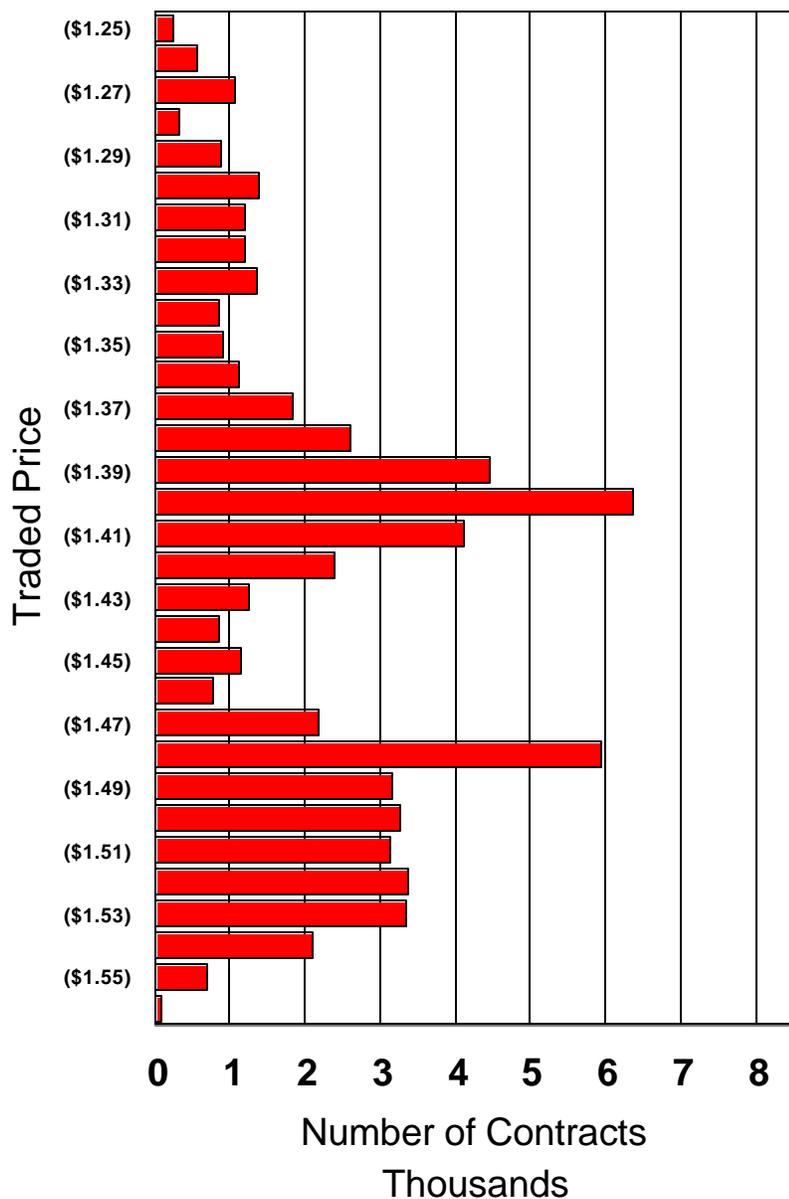
Preem said it was delaying the start up of its 113,000 bpd Gothenburg refinery for about a week following a fire on Sunday. The refinery was scheduled to resume normal operations on May 25



NYMEX WTI June July Spread

Price Vs Volume traded- May 16, 2007

Trade Weighted Price: \$-1.43



following the completion of scheduled maintenance that started in mid-April.

Iraq has invited Iranian firms to submit offers to take part in building at least four oil refineries across the country. Iraq's Oil Ministry said it was seeking to build a refinery in Nahrain with a capacity of 140,000 bpd, a second refinery at Kuya with a capacity of 70,000 bpd. It said it was also planning to build a refinery in Nassiriya with a capacity of 300,000 bpd and another in Amara. Meanwhile, Iran's ambassador to Iraq has asked Iraq's Oil Minister Hussein al-Shahristani to revive a plan to build a pipeline that would carry oil from Iraq's southern oilfields to a refinery in Iran. An initial agreement to construct a route from Iraq to Iran's Abadan refinery was signed in 2005 but not action was taken.

China's National Bureau of Statistics said the country's refineries increased their crude runs by 5.6% on the year in April to 26.66 million tons or 6.49 million bpd. In the year to date, refinery throughput increased by 5.6% to 104.84 million tons or 6.38 million bpd. China's crude oil production in April increased by 2% on the year to 15.41 million tons or 3.75 million bpd. Its crude output in the year to date was up 1.6% on the year at 61.45 million tons or 3.74 million bpd.

Production News

Protesters whose occupation of the Bomu Manifold, an oil pipeline hub, cut Nigeria's production by a further 170,000 bpd left the facility on Wednesday morning and said they would allow Royal Dutch Shell reopen the facility. The six day occupation of the pipeline complex raised the amount of total oil production shut in to almost 900,000 bpd. The protesters invaded the complex on May 10 to demand a stake in the oil flowing through Ogoni. Royal Dutch Shell called a force majeure on oil exports from the Bonny Light field late Tuesday, which would affect May and June loadings. Earlier, unidentified gunmen blew up the country home of vice president elect Goodluck Jonathan in Bayelsa state and sacked a police station, killing

two officers. It was unclear whether the arson attack was related to a call by a militant group for a month of attacks to press their demands for more autonomy.

Chevron's suspension of non-essential Nigerian offshore operations is expected to last about 30 days due to security concerns. Last Friday, Chevron announced that it would evacuate hundreds of offshore workers but production would not be further affected.

Traders of West African crude expect Nigeria's monthly crude oil exports to hold steady even though close to 1 million bpd has been shut in after a wave of militant attacks and protests from local communities.

The Financial Times reported DNO would become the first foreign firm in more than three decades to start pumping crude oil from Iraq into the world market next month. The company was due to announce that it would start producing a small amount of oil from Kurdistan.

Russia is scheduled to cut its crude oil loadings from its Black Sea port of Novorossiisk to 3.4 million tons in June from 3.826 million tons in May due to maintenance. Exports from Russia's Baltic Sea port of Primorsk are expected to remain at 6.5 million tons. The preliminary plans also showed Ukraine's port of Yuzhny loading 800,000 tons, unchanged on the month.

Kazakhstan's Tengizchevroil said oil output at its Tengiz oilfield is expected to increase to 14.3 million tons in 2007 from 13.3 million tons in 2006. It produced 3.55 million tons or 314,412 bpd in the first three months of the year.

Iraq has cut the official selling price of its Basra Light crude loading in June for the US and Europe to second month WTI minus \$4.85, down from minus \$3.30 in May and to dated BFO minus \$5.20, down from minus \$4.85 in May, respectively.

Iraq's Oil Ministry rejected a news report published by the New York Times that Iraq was losing up to \$15 million a day on oil smuggling and theft. The New York Times quoted a draft report issued by the US Government Accountability Office said that between 100,000 and 300,000 bpd of Iraq's declared oil production over the past four years was unaccounted for and could have been siphoned off. The draft report also covered alternative explanations for the billions of dollars worth of discrepancies, including the possibility that Iraq has been consistently overstating its production.

The Petroleum Association of Japan reported that the country's crude oil inventories fell by 4.35 million barrels to 102.14 million barrels in the week ending May 12. It reported that Japan's gasoline inventories increased by 390,000 barrels to 13.71 million barrels while kerosene stocks also built by 880,000 barrels to 13.63 million barrels on the week. It reported that naphtha stocks fell by 100,000 barrels to 12.23 million barrels. It reported that crude runs fell by 100,000 bpd to 3.63 million bpd while refinery utilization fell by 2.1% to 75.1%.

According to Japan's Federation of Electric Power Companies, crude oil, fuel oil and gas demand by Japanese power companies increased in April amid strong industrial demand. Consumption of crude and fuel oil by Japan's 10 power companies increased by 85% and 23.3%, respectively to 827,684 kiloliters or 5.21 million barrels and 676,111 kl in April. Consumption of liquefied natural gas increased by 16.5% on the year to 3.02 million metric tons.

OPEC's news agency reported that OPEC's basket of crudes fell by 5 cents/barrel to \$63.63/barrel on Tuesday.

Market Commentary

Reacting bearishly to the release of the API and DOE numbers, crude oil prices fell to a low of 63.21, bases the July contract, far below our expectations. However, with refinery problems continuing to plaque the crude oil market, prices worked their way back up. Valero stated that some processing units at its Houston, TX refinery were shutdown due to boiler and steam problems and would most likely be back on line next week. Our overall opinion is for prices to work higher, working back towards the upside

objective of 65.56. Initial resistance is set at 64.25, 64.76, 65.56 and 66.00. Support is set at 63.25, 62.65, 62.10,

| Technical levels | | | |
|------------------|--|--|--|
| | Levels | Explanation | |
| CL | Resistance 63.17, up 71 points | 65.40, 65.56, 65.72, 66.00, 66.38 64.25, 64.76 | Previous highs Wednesday's high(July) |
| | Support | 63.50, 63.21 62.91, 62.65, 62.36, 62.10 | Wednesday's low(July) Previous lows |
| HO | Resistance 186.68, down 1.55 cents | 187.85, 190.02, 191.67, 191.94 189.50 | Previous highs Wednesday's high |
| | Support | 186.25, 185.00, 183.50 181.61, 178.49 | Wednesday's low Previous lows |
| RB | Resistance 230.16, up 4 points | 237.44, 240.94 235.47 | Previous high, Trendline Wednesday's high |
| | Support | 234.00, 233.00, 230.00 226.52, 226.14, 224.45, 223.47 | Wednesday's low, 50%(214.83 and 237.44), previous low, 62% |

61.75 and 60.50. We would still like to buy the Sept/Dec spread, buying Sept and selling Dec. We would like to buy this spread with a break of the -160 level, looking for it to test -1.00.

The product markets ended mixed with the heating oil market settling down 2.32 cents at 186.70 while the RBOB market settled up 3.54 cents at 233.70. The RBOB market traded off its low of 226.52 and traded above the 230.00 following the release of the DOE which showed a slightly lower than expected

increase in refinery runs. The market retraced its gains only to bounce off its low once again amid the continuing reports of refinery problems. The market extended its gains and traded above the 234.00 level ahead of the close. It later traded over 5.3 cents on the day as it continued to rally following the close of the open outcry session on further refinery reports. The RBOB crack, which we had expected to come in further, widened out to 36.145 amid the rally in the RBOB market. It is seen finding support at 34.65. The market is seen remaining headline driven. Resistance is seen at 235.47 followed by 237.44. More distant resistance is seen at 240.94. Support is seen at 234.00, 233.00, 230.00 followed by its low of 226.52. More distant support is seen at 226.14 and 224.45.

