



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 16, 2008

Goldman Sachs sharply raised its forecast for oil prices in the second half of the year due to tight supply. It forecast that US crude oil prices would average \$141/barrel in the second half of 2008, up from a previous forecast of \$107/barrel.

Goldman Sachs stated that despite the advent of alternative fuels, such as biofuels, oil supply growth has slowed to 1% from about 1.8% in 2005 and is less than its forecast for 2008 world GDP growth of 3.8%. Goldman Sachs also stated that record high oil prices are expected to increase Nigeria's export revenue for 2008 by \$32 billion to \$90 billion from \$58 billion

Market Watch

Energy Security Analysis reported that Atlantic Basin diesel is expected to continue an unseasonal trend of trading at a premium to gasoline going into the summer driving season on tight distillate supply. Distillate supply-demand deficits in Europe and South America are supporting high diesel and heating oil spreads throughout the Atlantic Basin.

NYMEX Holdings, Inc announced that the average daily volume was 1.712 million contracts for April 2008, up 22% from 1.398 million contracts/day in April 2007. Volume on the CME Globex electronic trading platform averaged 772,567 contracts/day for April 2008, up 30% on the year. NYMEX floor traded energy futures and options volume averaged 222,466 contracts/day for April 2008. The average daily volume on Clearport was 428,625 contracts compared with 318,917 contracts in April 2007.

The National Oceanic and Atmospheric Administration said temperatures in the continental US in April were coolest in 11 years while global temperatures were the 13th warmest on record for the month. The average April temperature, 51 degrees Fahrenheit, was one degree below the 20th century mean and was the 29th coolest or 86th warmest.

The US Minerals Management Service said the US Gulf oil and gas industry was much better prepared for the 2008 hurricane season than it was three years ago. It said new engineering standards, based on a new estimate of worst possible storm conditions, are being applied to platforms, especially those in the Central Gulf and deeper waters. Other measures already have been taken and continue to be implemented to strengthen offshore oil infrastructure, including stronger mooring of floating structures and better tie down of equipment on platform decks to withstand hurricane winds. Plans are also in place to shift flows of oil and gas in the event of damage to undersea pipelines.

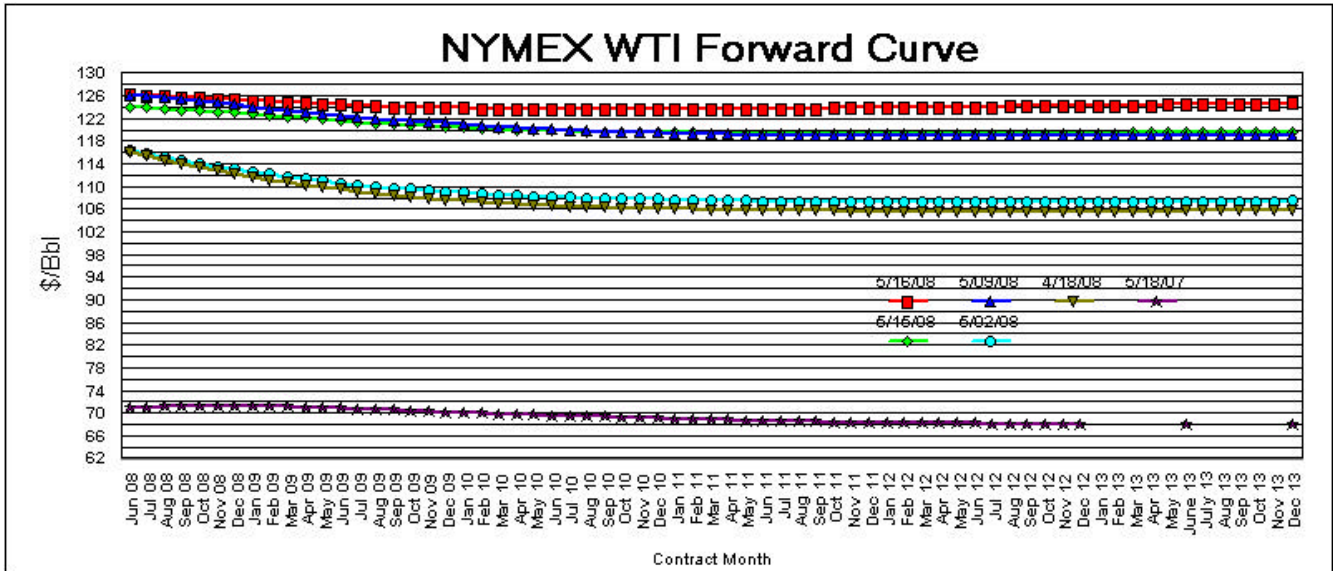
in 2006. It said based on its forecast benchmark WTI would approach \$150/barrel by the end of 2008, exports are expected to increase assuming oil production can be maintained at 2 million bpd.

May Calendar Averages

CL – 122.37

HO – 348.26

RB – 311.62



The US DOE said it would defer about 7.9 million barrels of oil already scheduled to be delivered to the SPR during May, June and July if legislation passed by Congress this week to halt such shipments becomes law. It also said it would not seek to buy \$584 million worth of oil this year for the stockpile, if the legislation becomes law. It also said it would sign new contracts to deliver up to 13 million barrels of oil to the SPR from August through December 2008.

US President George W. Bush arrived in Saudi Arabia on Friday to renew his appeal to have OPEC increase its production. However the White House said Saudi Arabia's leaders made it clear that they saw no reason to increase production until customers demand it. Saudi Arabia's Oil Minister Ali Naimi said world oil supply was balanced with demand and market fundamentals were sound. He said Saudi Arabia increased its oil production by 300,000 bpd to 9.45 million bpd on May 10 in response to requests from its customers. Separately, the US and Saudi Arabia have agreed to cooperate in safeguarding Saudi Arabia's energy resources by protecting its infrastructure, enhancing Saudi border security and meeting Saudi Arabia's increasing energy needs in an environmentally responsible manner. The US and Saudi Arabia are expected to sign a memorandum of understanding in the area of peaceful civil nuclear energy cooperation. The announcement came after President George W. Bush ended a trip to Israel where he vowed to oppose Iran's nuclear ambitions.

Venezuela's President Hugo Chavez said the world oil market was well supplied despite record oil prices. He also stated that Venezuela was respecting its OPEC output quota.

The Minerals Management Service reported that the US government sold 16.1 million barrels of oil produced in federal land to four energy companies for delivery over six months starting July 1. The four companies, Chevron Products Co, ExxonMobil Oil Corp, Sempra Energy Trading and Shell Trading, paid \$1.9 billion for the oil.

Western diplomats signaled an Iranian overture to defuse a standoff over its uranium enrichment program would not be addressed unless Iran suspended its nuclear activity first. Meanwhile, a British diplomat said EU foreign policy chief Javier Solana was waiting for an invitation to visit Iran with diplomats from Britain, France, China, Russia and Germany to present their incentives packet to Foreign Minister Manouchehr Mottaki.

According to the AAA, the weak economy and record high gasoline prices is expected to cut the number of Americans traveling during the Memorial Day holiday by 0.9% on the year. This is

compared with a 1.7% increase in the number of travelers moving 50 miles or more from home. AAA estimated 37.87 million Americans would travel 50 miles or more from home, down 360,000 from a year ago. The AAA estimated that the US average retail price of regular gasoline averaged a record \$3.787/gallon, up 67.3 cents on the year.

Nigerian security sources stated that gunmen who hijacked a Chevron supply ship in Nigeria have reduced their ransom demand to 5 million naira or \$42,423 from 30 million naira.

Refinery News

Nigerian firefighters continued to battle to put out a fire from a burst oil pipeline for the second day in Lagos after a large explosion killed 100 people.

BP's Texas City, Texas refinery's alkylation unit No. 3 was in restart mode on Friday. The restart of the alkylation unit, shut since early April, would be followed by the restart of its 62,000 bpd fluid catalytic cracking unit No. 1 early next week. Meanwhile its residual hydrotreating unit continued to undergo maintenance.

Sunoco Inc shut down a crude unit at the Girard Point section of its 335,000 bpd Philadelphia refinery due to a problem.

Hovensa LLC has restarted a crude distillation unit at its 500,000 St. Croix refinery after completing unplanned maintenance.

Total SA has shut the hydrocracker unit at its 153,000 bpd Vlissingen refinery in the Netherlands for planned maintenance. Total said it would continue to deliver products to its customers during the hydrocracker shutdown.

Separately, Total SA said the 400,000 bpd refinery it plans to build jointly with Saudi Aramco at Jubail would cost in excess of \$10 billion to build, compared with an original target of \$6 billion estimated in 2006. The companies announced a final agreement to build the unit on Wednesday. They said the refinery would be completed by the end of 2012.

Curacao's 320,000 bpd La Isla refinery is expected to restart its catalytic cracking unit as early as next Wednesday. Meanwhile, a refinery official said the refinery would carry out four weeks of maintenance on its heavy crude distillation unit in September and would also conduct a four week maintenance shutdown on its vacuum distillation unit in September.

The US Department of Energy, Japan's Trade Ministry, ExxonMobil Corp and Nippon Oil Corp agreed to foster increasing gasoline exports from Japan to the US. Japanese exports of distillate to the US have been steadily increasing while exports of gasoline are relatively uncommon. Japan's falling oil demand has left it with spare refining capacity and Japanese refiners are seeking to increase its domestic gasoline exports to compensate for steadily decreasing domestic consumption due to a peaking population and the increased use of fuel-efficient vehicles.

Dealers booked 135,000 tons of clean diesel from Singapore and Japan bound for Europe for lifting between the end of May and early June as refinery outages squeezed supplies in Northwest Europe.

PetroChina has restarted that Nanchong refinery in the quake hit Sichuan province, after it was shutdown for about 50 hours. PetroChina restored refined fuel stocks in Sichuan to more than 200,000 tons, enough to last 12-15 days after the Lanzhou-Chengdu-Chongqing pipeline resumed full operations. The pipeline was pumping at a rate of 15,000 tons/day.

China's Sinopec Corp is expected to import less diesel in June due to the start up of a new refinery. It is expected to import 250,000 tons in June, down from 300,000 tons for May.

China's oil demand in April is estimated to have grown at a rate of 3-5%, based on preliminary data, not 5-7% as initially estimated. Year to date petroleum demand through April is estimated to have grown at a rate of 6.8%.

Indonesia's Pertamina said the country's stocks of petroleum products are sufficient to cover 17 days of consumption, which is still safe to meet the country's energy demand.

Petrobras said it was in talks with its partners in a 100,000 bpd Pasadena, Texas refinery, Astra Holding USA, to increase production or its ownership stake in the refinery, but has yet to make any decisions. Separately, a planned 500,000 bpd refinery to be built by Petrobras is expected to cost between \$8 billion and \$10 billion. Petrobras has not made a final decision to build the refinery yet but is currently conducting economic viability studies for the project.

Production News

According to Baker Hughes, the number of drilling rigs in the US increased by 26 in the week ending May 16th to 1,994. It reported the rigs searching for oil increased by 20 to 381.

Total SA said it would start production at its Jura gas and condensate field in the North Sea shortly.

Iraq is expected to increase its exports from its northern Kirkuk oilfields in June to a total of 18 million barrels compared with 13 million barrels this month.

Ecuador's average oil output increased 3% to 515,560 bpd in the first three months of the year from 501,967 bpd in the same period last year. Petroecuador's average oil production stood at 265,802 bpd in the first quarter, while production from private companies stood at 249,758 bpd.

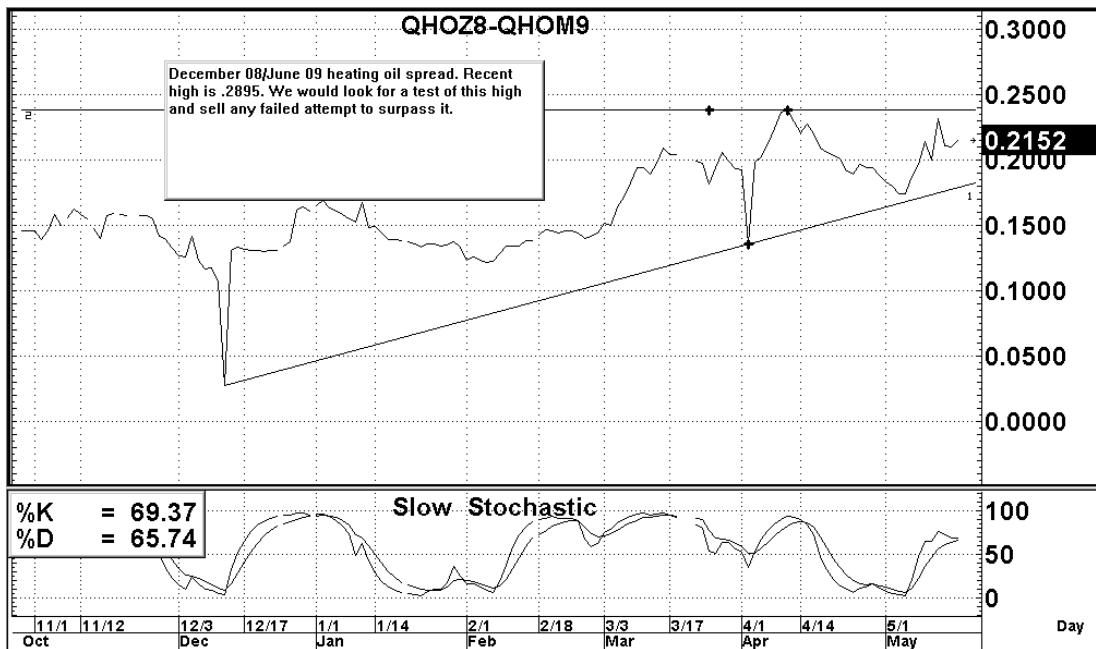
Kazakhstan's government unveiled a preliminary list of companies subject to a new oil export duty, which as expected did not include any Western majors. Kazakhstan is expected to introduce the duty, set at \$109.91/ton on May 18.

OPEC's news agency reported that OPEC's basket of crudes increased to \$118.95/barrel on Thursday, up from Wednesday's \$118.78/barrel.

Market Commentary:

With Goldman Sachs boosting their forecast for the second half of 2008 to \$141.00 a barrel from \$107.00 a barrel, crude oil traded up to a record high of \$127.82. This move higher was brought to a halt by statements from the Saudi oil minister that Saudi Arabia would raise its output in June by 300,000 barrels per day and by statements from the U.S. Energy Department that the U.S. will suspend deliveries to the SPR that were scheduled from July to December. Crude oil put into the SPR account for one tenth of one percent of the total oil market. Adding one more cause for the roller coaster ride was the weakening of the dollar, which brought prices back up towards the \$127.00 range. It appears that yesterday's sell off was driven by longs liquidating their positions, as total open interest for crude oil fell 46,855 with the June contract reflecting a decrease of 54,671. This is the first time that crude oil has settled above \$126.00. This emotionally charged market should continue to trade in a sensitive manner, reacting strongly to the fundamentals. Coming into next week, it appears that crude oil will continue to trend higher looking to test the Goldman forecast of \$140.00. The forward curve is indicating that the back end of the curve has once again gained against the front end, with the middle

of the curve bowing slightly. Demand for diesel continues to run high giving heating oil its unseasonable strength over gasoline and crude oil. After breaking above the ascending channel on the spot continuation chart, this market has not traded back into the channel, and continues to bounce off of the



channel support. We have included a chart of the December08/June09 heating oil spread that we have previously spoken about. This spread has turned upward and is approaching the .2385 resistance level where we would like to be sellers of any failed attempts to take out this level. Gasoline traded higher today along with the rest of the complex but remains within the ascending channel. It appears that the bulls are not yet ready to give up on the market, as open interest for gasoline increased yesterday by 2,399 contracts, with July increasing by 3,587. Although we cannot get overly excited about this market due to slackening demand, we would have to trade it quite cautiously. We would rather be sellers than buyers and therefore would do so with tight protective stops. Total open interest for crude oil 1,428,547 down 46,855, June08 142,410 down 54,671, July08 351,134 up 2,448 and December 08 212,775 up 2,781. Total open interest for heating oil 231,929 up 1,127, June08 52,214 down 2,519 and July 57,454 up 2,019. Total open interest for gasoline, 268,026 up 2,399, June 59,917 down 3,556 and July 79,040 up 3,587.

The Commitment of Traders report showed that non-commercials in the crude market continued to increase their net long position by 8,549 contracts to 71,767 contracts in the week ending May 13th. However the combined futures and options report showed that non-commercials in the crude cut their net long positions by 1,229 contracts to 139,477 contracts on the week. Given the large decline in open interest as of Thursday, non-commercials have likely liquidated some of their net long position. The non-commercials in the product markets increased their net long positions, with funds in the heating oil market increasing their net long position by 1,445 contracts to 19,589 contracts while funds in the RBOB market increased their net long position by 7,278 contracts to 67,285 contracts on the week.

June Crude Support	June Crude Resistance
120.36, 116.05, 110.30, 85.40	130.25
Heating oil support	Heating oil resistance
3.5425 , 3.5100, 3.3500, 3.1680, 3.1070	37400, 3.8535, 3.8760
Gasoline support	Gasoline resistance
3.0730, 3.0400, 3.0250, 2.9255	3.2600, 3.2855, 3.3755, 34655