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ENERGY MARKET REPORT FOR MAY 17, 2010

Qatar's Energy Minister Abdullah al-Attiyah said an oil price below \$70/barrel is too low to encourage companies to invest in expensive projects to expand capacity. He said deepwater drilling and other high-cost operations would be unprofitable at less than \$70/barrel. He also said no discussions have taken place among OPEC members to address falling oil prices.

Iraq's Oil Minister Hussain al-Shahristani said supply and demand in oil markets are balanced so there is no need for OPEC to

call a meeting to discuss output levels. He said oil price volatility was due to the Greek debt crisis and the state of the global economy.

Iran signed a nuclear fuel swap deal on Monday which commits it to ship 1,200 kilograms of low-enriched uranium to Turkey. The agreement, under which Iran will in return receive nuclear fuel for a Tehran reactor, was signed between the foreign ministers of Iran, Turkey and Brazil. The signing of the agreement followed three way talks by Iranian President Mahmoud Ahmadinejad, Brazil's President Luiz Inacio Lula da Silva and Turkey's Prime Minister Recep Tayyip Erdogan. However

Market Watch

The New York Federal Reserve said its gauge of manufacturing in New York state showed growth advanced at a slower pace in May. Its Empire State general business conditions index fell to 19.11 in May from 31.86 in April. The index has shown growth for 10 consecutive months. The NY Federal Reserve also stated that employment grew for a fifth consecutive month, reaching its highest level since 2004. The number of employees increased to 22.37 from 20.25 in April. The new orders index fell to 14.3 from 29.49 in April.

A JPMorgan analyst said US crude oil futures are likely to remain at discounts to Gulf Coast and Brent grades for an extended period, as Canadian oil supplies increase with limited ways to divert stocks out of storage tanks in Cushing, Oklahoma. The market is likely to balance itself through refined product prices. It said refiners in Padd II will maximize their throughput on favorable margins and export oil products. JPMorgan increased its 2010 forecast price of Brent to \$88.60/barrel from \$84.00/barrel and for WTI to \$88/barrel from \$84.00/barrel.

According to a Dow Jones Newswire survey, the price of WTI is expected to average \$80.50/barrel in 2010, down from a previous estimate of \$82/barrel while the price of WTI is expected to average \$87/barrel in 2011, unchanged from a previous estimate. The price of Brent crude in 2010 is expected to average \$80/barrel while the price in 2011 is expected to average \$85/barrel, unchanged on the month.

Venezuela's Oil Ministry has three offers from private interests for help developing an oil block in the eastern Orinoco region and may choose one of them by the end of the year. The Carabobo 2 block has a potential to produce between 400,000 bpd and 480,000 bpd of crude and would require investments of about \$15 billion.

May
Calendar Averages
CL – \$76.91
HO – \$2.1436
RB – \$2.2006

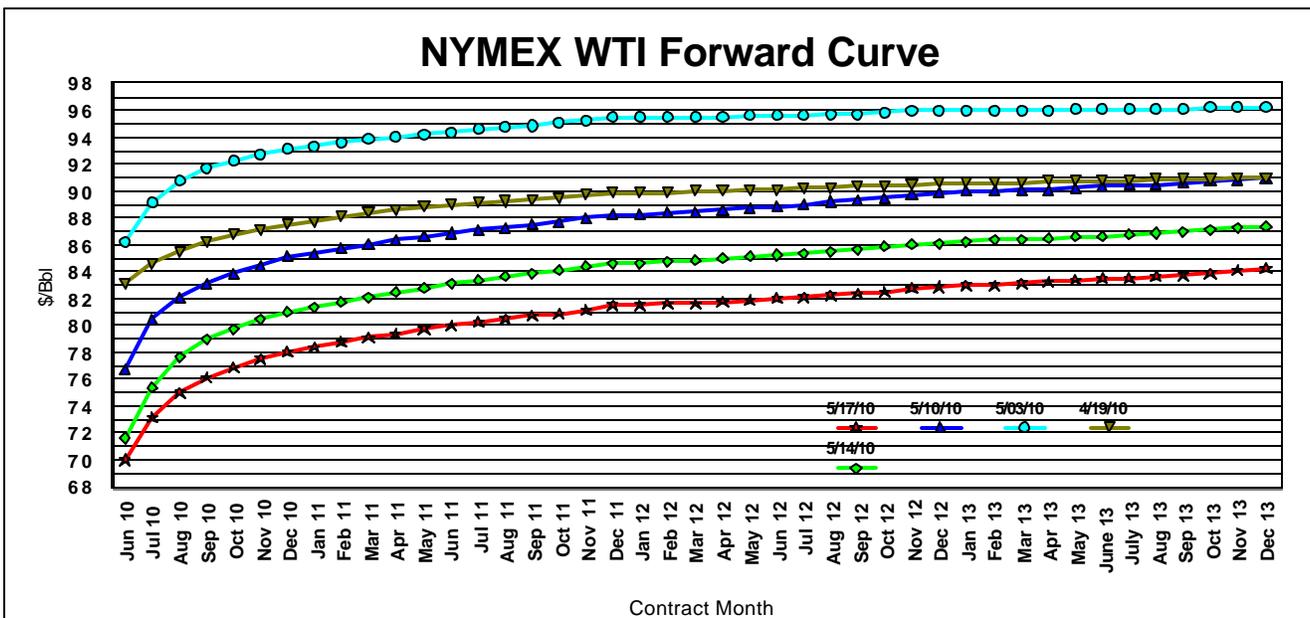
Iran's Foreign Ministry spokesman said Iran will continue enriching uranium to 20%. Turkey's Foreign Minister Ahmed Davutoglu said Turkey sees no need for further UN Security Council sanctions against Iran in light of the agreement. Meanwhile, a UN spokesman said that an agreement with Iran to swap its low enriched uranium for nuclear fuel in Turkey is encouraging but that Iran must still comply with Security Council resolutions. Western diplomats close to the UN's IAEA said Iran has not removed the case for further UN nuclear sanctions by agreeing to ship some uranium to Turkey. In response, the White House said it will not halt its efforts to impose further sanctions on Iran, despite the new nuclear swap deal. White House spokesman, Robert Gibbs said the US still has concerns about the overall thrust of the nuclear program and the fact that Iran said it would continue enriching uranium to 20%. The French Ministry said the deal to may increase international trust in Iran but it will not do anything to resolve problems over Iran's nuclear program. The office of EU foreign affairs chief Baroness Ashton said a nuclear fuel swap deal signed by Iran does not answer all of the concerns raised by Iran's nuclear program. Separately, a senior EU diplomat said the deal cannot be considered a breakthrough unless it is fundamentally based on a fuel swap proposal made by the IAEA last year. NATO's supreme commander said Iran's agreement to swap enriched uranium for nuclear fuel in Turkey was a potentially good development. A senior Israeli official accused Iran of manipulating Turkey and Brazil over a deal to swap part of its low-enriched uranium in Turkey.

BP Plc said it deployed methods to contain an oil spill in the Gulf of Mexico and added that it will try to fully stop the flow later this week. It said a tube inserted into the ruptured oil pipeline is siphoning about one-fifth or about 1,000 bpd of the oil that is leaking into the Gulf of Mexico. A BP official said that most of the oil continues to spill into the open Gulf waters but said he hoped to be able over time to increase the ratio of captured oil.

The EIA reported that the US average retail price of diesel fell by 3.3 cents to \$3.094/gallon in the week ending May 17th. The drop follows six weeks of gains which pushed diesel prices up by 6.4% or 18.8 cents/gallon.

Refinery News

Credit Suisse reported that US refinery margins increased last week with the Gulf Coast and Midwest leading the gains in percentage terms. Margins in the Gulf Coast increased to \$13.99/barrel, up \$2.16 or 18.3% while margins in the Midwest increased to \$15.52/barrel, up \$2.70/barrel or 21%. Margins in



the West Coast increased by \$2.01 to \$18.88/barrel while margins in the Northeast increased by 77 cents to \$7.28/barrel. In the Rockies region, margins increased by \$3.14/barrel or 13.4% at \$26.64barrel.

Valero Energy Corp said a coker unit at its 315,000 bpd Corpus Christi, Texas refinery, which was restarted over the weekend, was nearing planned rates. The unit underwent repairs after it was shut due to a small flange fire last Monday.

Royal Dutch Shell declared the all clear following a small flash fire in a unit at its joint venture 329,800 bpd Deer Park, Texas refinery. Separately, Royal Dutch Shell Plc expects to shut the major units at its 130,000 bpd Montreal East refinery by September as it proceeds with plans to convert the facility into a distribution terminal. It will shut the refinery's main processing units, the alkylation unit and catalytic cracking unit, in September. The refinery is expected to stop taking crude deliveries prior to the shutdown of the units, likely by the end of August. Shell does not expect the shutdown to affect its customers.

ExxonMobil Corp said there was a minimal production impact from a weekend problem at a gas plant at its 348,500 bpd Beaumont, Texas refinery caused by bad weather conditions.

BP Plc reported a malfunctioning relief valve at a coker unit drum at its 455,800 bpd Texas City, Texas refinery last week. Separately, BP said its 386,000 bpd Rotterdam refinery has been shut due to a power outage early Monday. It said the refinery could take a couple of days before it is fully operational.

Suncor Energy Inc is restarting processing units at its 135,000 bpd Edmonton refinery.

Combined stocks of gasoline, diesel and kerosene held by China's PetroChina and Sinopec in April fell by 8.3% on the month. Gasoline stocks fell by 1.2% to 4.9 million tons while diesel stocks fell by 12.4% to 7.3 million tons. Gasoline sales fell by 3.8% to 5.8 million tons in April while diesel sales remained at 13.4 million tons.

Germany's industry group AGEB said the country's energy use increased by 1.7% on the year to 130.9 million tons of coal equivalent in the first quarter due to the severe winter and a slightly improved economic environment. Germany's oil sales fell by 10.7% on the year to 42.1 million tons of coal equivalent.

Production News

BP Plc's Thunder Horse oil platform in the Gulf of Mexico has failed to meet output expectations. Production reached a peak of 172,000 bpd in January 2009 but by December production fell to 61,000 bpd.

Britain's Buzzard oilfield has resumed output at reduced rates while work continues.

The head of Iraq's State Oil Marketing Organization, Falah Alamri said the Iraq's Oil Ministry expects average oil exports in May to exceed 1.9 million bpd. Iraq's oil exports are expected to reach an average of 2 million bpd during the fourth quarter.

Kurdish Natural Resources Minister Ashti Hawrawi said oil exports from Iraq's semi autonomous northern Kurdish region will start only after the formation of a new Iraqi government. Parliamentary elections were held of March 7 but produced no outright winner. A vote recount in Baghdad and coalition building talks have prolonged the formation of a new government.

Angola intends to ship five cargoes each of Girassol and Kissanje crude in July. It is also expected to ship eight Nemba crude cargoes. Provisional loading schedules show the country is expected to export 55 cargoes or 52.78 million barrels in June.

Brazil's Petrobras notified the country's ANP oil regulator late Friday that a well in the Campos Basin tested positive for oil. The discovery was made at a well in the Campos Basin's Albacora Leste field. The Albacora Leste is estimated to hold reserves of 565 million barrels of heavy oil.

According to Russia's Finance Ministry, Russia is likely to increase its oil export duty in June to \$292/ton from \$284/ton to reflect a rise in oil prices. The export duties on light refined products, such as gasoline and gas oil, are expected to total \$209.10/ton, up from a current level of \$203.70/ton. The export duties on heavy refined products, such as fuel oil, are expected to total \$112.70/ton, up from a current level of \$109.70/ton.

OPEC's news agency reported that the OPEC basket of crudes fell by \$2.48/barrel to \$75.95/barrel on Friday from \$78.43/barrel on Thursday. It also reported that the OPEC basket of crudes fell by \$3.25/barrel to \$77.66/barrel in the week ending May 14th.

Market Commentary

Crude oil hit a new yearly low as it reacted to concerns regarding European sovereign debt and its impact on a global economic recovery. The June crude oil contract penetrated support at \$69.50 but experienced a lack of follow-through, bottoming out at \$69.27. It appears that bulls have left the camp, giving bears full reign of this market. As worries mount about the economic outlook going forward, we saw the middle to back end of the curve giving up more premium to the front end as stockpilers become less enthused about holding onto inventory to sell at a later date. We would look for a bit of a technical correction possibly up to \$72.25, where we would look to reevaluate this market. Gasoline has lost its seasonal flare, settling .0877 lower on the day, as it appears that demand growth is not surfacing. The current supply/demand scenario still indicates lower prices.

Crude oil June 10 158,173 -27,445 July 10 379,884 +5,219 Aug 10 110,029 +6,786 Totals 1,470,927 -11,176 Heating oil June10 56,273 -6,242 July 10 62,549 +1,162 Aug 10 33,431 +736 Totals 318,340 -2,416. Gasoline June10 57,368 -2,932 July 10 77,156 +2,722 Aug 10 36,654 -92 Totals 277,435 -1,258

Crude Support	Crude Resistance
69.27, 65.05, 64.70, 63.38, 62.70, 61.61, 60.95	72.25, 76.71, 78.81, 79.15, 79.75, 80.38, 81.65, 82.80,87.85, 88.80, 89.10
Heat Support	Heat resistance
1.9810, 1.9860, 1.8570, 1.8280, 1.7670, 1.7565	2.1760, 2.1920, 2.3575, 2.4200, 2.4940
Gasoline support	Gasoline resistance
2.0420, 1.9970, 1.9862, 1.8650, 1.6010	2.2345, 2.3240, 2.4270, 2.4850, 2.5040, 2.5115, 2.7080

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