



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 18, 2007

A senior Iranian official said oil prices would rise further because the market was concerned about constrained gasoline supplies for the US market ahead of peak summer demand.

According to Bernstein Research, tightness in the US gasoline market would likely ease in midsummer. Its analysis suggested that a midsummer inventory build would reduce the US Gulf Coast crack spread nearly 50% to about

\$14/barrel before declining further as demand falls in the shoulder season. Gasoline production is likely to be down 200,000 bpd until at least mid-June due to unexpected outages. It noted that the recent improvement in the arbitrage should allow imports to remain high over the coming weeks after poor arbitrage economics caused European refiners to divert much of their production to Asia.

OPEC's Secretary General Abdullah al-Badri said efforts to curb oil demand was adding to uncertainty over the investment needed to meet demand. He said that even over the near term, there was a considerable range of uncertainty about the required investment needed to meet expected demand. He added that the increasing number of policy initiatives discriminating against oil had only added to this uncertainty.

Refinery News

Market Watch

The head of the IEA, Claude Mandil said the next round of annual energy discussions between OPEC and the IEA would likely be held in May 2008. Separately, he stated that China needed to regularly publish data on its strategic petroleum reserves to help reduce volatility in the market.

Meanwhile China has been showing increasing interest in developing its domestic reserves of heavy grade crude oil amid the higher world oil prices. Even though China has substantial heavy oil reserves, their development has been hindered by high extraction and processing costs and a lack of technical skills. China has an overall crude production target of 200 million tons or 4.02 million bpd by 2015. While its 2006 production of 184 million tons was not far short of its target, bridging the gap would not be easy without pushing ahead rapidly on heavy oil development.

Iraq's representative to the UN said the Iraqi parliament could pass an oil revenue sharing law in the coming weeks. The law would give the oil revenue to the central government, which would distribute the money to provinces based on population. The law would distribute wealth in the divided country and would lay the legal framework for foreign investment in the country's oil industry.

A crude distillation unit at Murphy Oil's 120,000 bpd Meraux, Louisiana refinery continued to restart following a shutdown Thursday for minor repairs that was expected to take one day. A Murphy Oil official declined to estimate when the unit would be back to normal operations.

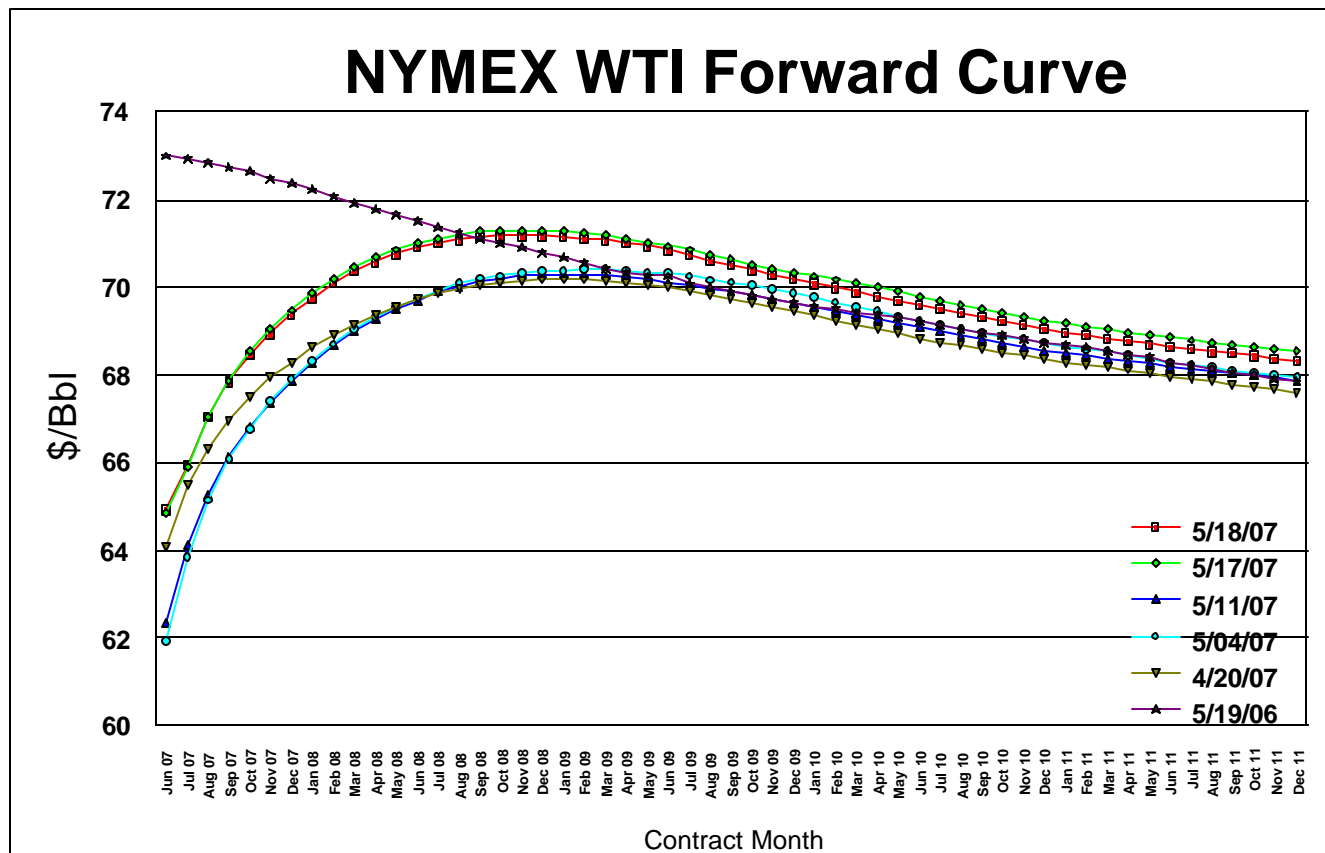
ExxonMobil Corp said its 150,000 bpd refinery in Torrance, California was operating normally, contrary to earlier reports stating that the refinery was struggling to maintain production amid several mechanical problems. Its 100,000 bpd fluid catalytic cracking unit was said to be having problems with its main air blower, leaks developed in an alkylation unit and problems arose on part of the sulfur recovery system.

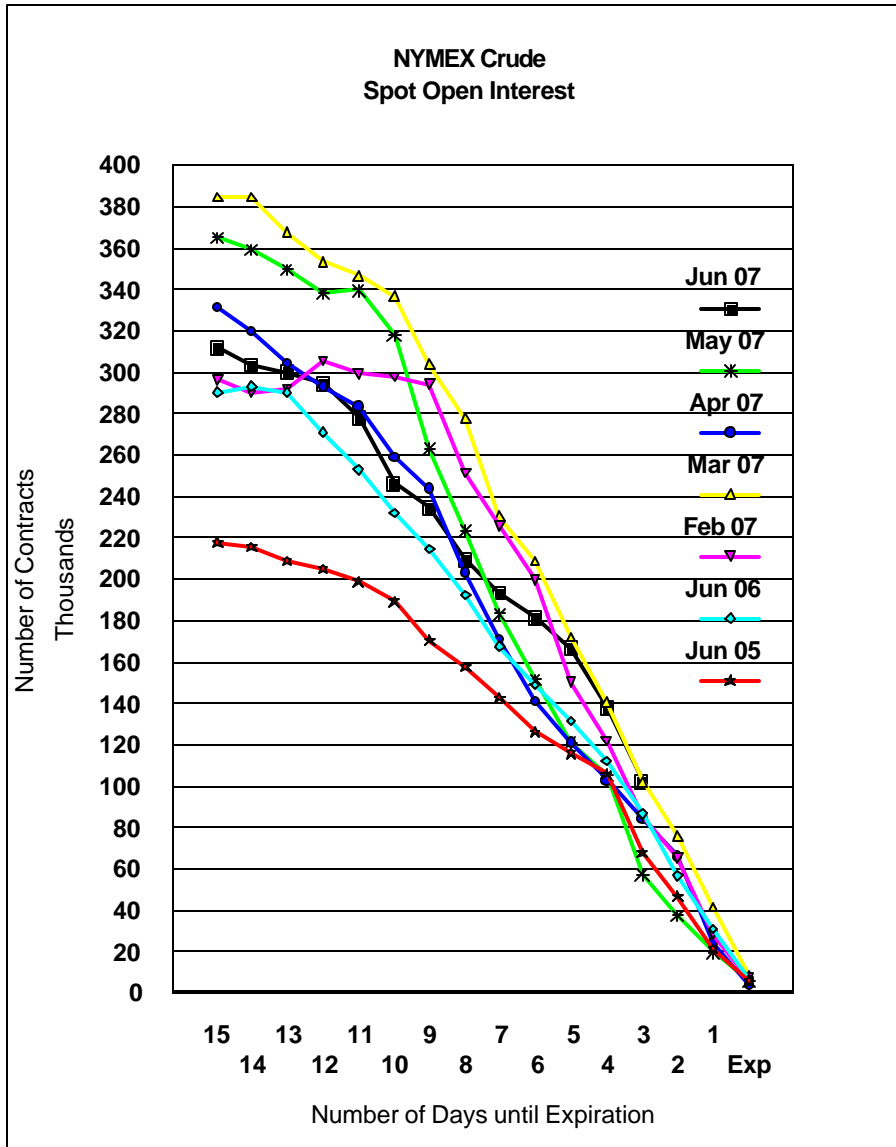
ConocoPhillips shut a fluid catalytic cracking unit at its 194,000 bpd refinery in Ponca City, Oklahoma late Thursday due to an operational problem. It was unclear how long the downtime would last. Separately a crude distillation unit was shut for planned maintenance and was seen restarting early in the fourth quarter. The unit has been down for several weeks.

A crude processing unit at CHS' Montana refinery remained shut following a power failure, a day later than expected. A company spokeswoman said the refinery was close to restarting the crude unit. Once restarted, it is expected to operate the unit at slightly reduced rates before resuming full production by the end of next week.

Valero Energy Corp was still operating its fluid catalytic cracking unit at its Delaware City, Delaware refinery at reduced rates of 55,000 bpd. The 82,000 bpd unit was originally expected to resume full operations by May 17.

Separately, Valero said a vapor release in Complex 7 of the East Plant at its 340,000 bpd refinery Corpus Christi, Texas had no material impact on production.





Russia's Energy Ministry reported that the country's refining runs fell in April by 2% on the month to 4.39 million bpd. Its refinery runs were down 0.9% on the year.

Traders said Russia was expected to halt a pipeline shipping diesel to world markets via the Latvian Baltic Sea port of Ventspils for repairs within the next few days. However it was unclear how long the halt would last. The pipeline pumps about 10 million tons of diesel from refineries in central Russia to Ventspils for export to markets. A source said the repairs were linked to a recent leak on the territory of Belarus, which shut the pipeline for one day in early May.

Azerbaijan's Socar signed a long term crude supply deal with Romania's Rompetrol and was considering buying a stake in one of its refineries. A source said oil supplies would start in June and Socar would deliver 1 million barrels of Azeri Light crude a month earlier

from Black Sea ports or Turkish Mediterranean port of Ceyhan to Romania's Constanta port. The source also stated that Socar would sign a similar long term deal with a major Indian oil company on direct crude oil sales to one of the company's refineries before the end of May.

Japan's Idemitsu Kosan Co said it was preparing for a partial restart of a fire hit reduced crude desulphurization unit at its Aichi refinery. A 60,000 bpd unit was shut last Friday following the fire. Idemitsu said the unit could start production as early as next week.

China's Yanchang Petroleum Group processed 9.2 % more crude in the January-April period than a year ago. It refined 3.31 million tons of crude or about 201,000 bpd in the first four months.

Production News

Royal Dutch Shell has resumed pumping crude through the Bomu pipeline hub in the Niger Delta that

NYMEX Petroleum Options Most Active Strikes for May 18, 2007								
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	8	7	P	54.5	07/17/2007	0.14	7,000	30.90
LO	7	7	P	57	06/15/2007	0.07	6,167	30.40
LO	7	7	C	66	06/15/2007	1.75	5,339	25.20
LO	7	7	P	66	06/15/2007	1.77	4,110	25.20
LO	7	7	P	60	06/15/2007	0.23	3,148	28.13
LO	8	7	P	55	07/17/2007	0.16	3,018	30.59
LO	7	7	P	59	06/15/2007	0.16	3,002	29.03
LO	12	7	C	85	11/13/2007	1.03	2,600	27.35
LO	7	7	P	65	06/15/2007	1.31	1,986	25.31
LO	7	7	C	70	06/15/2007	0.53	1,916	26.33
LO	9	7	C	80	08/16/2007	0.55	1,650	27.86
LO	7	7	P	62	06/15/2007	0.49	1,576	26.96
LO	8	7	P	60	07/17/2007	0.62	1,310	28.54
LO	6	8	C	71	05/15/2008	6.64	1,300	25.74
LO	6	8	P	71	05/15/2008	6.72	1,300	25.76
LO	9	7	P	63.5	08/16/2007	1.7	1,300	27.14
LO	12	10	P	68.5	11/16/2010	8.56	1,300	22.79
LO	12	10	C	68.5	11/16/2010	9.08	1,300	23.02
LO	8	7	P	64	07/17/2007	1.51	1,202	26.83
LO	9	7	P	68	08/16/2007	3.51	1,200	26.38
LO	9	7	P	67	08/16/2007	3.01	1,200	26.38
LO	9	7	P	58	08/16/2007	0.63	1,076	29.50
LO	8	7	C	72	07/17/2007	1.05	1,053	26.15
LO	8	7	P	65	07/17/2007	1.85	1,051	26.48
LO	8	7	P	62	07/17/2007	0.98	1,047	27.60
LO	12	7	C	41	11/13/2007	28.39	1,000	60.51
LO	7	7	P	63	06/15/2007	0.69	999	26.32
LO	10	7	P	63	09/17/2007	1.86	950	27.11
LO	10	7	C	77	09/17/2007	1.33	950	26.33
LO	12	7	C	100	11/13/2007	0.28	932	30.20
LO	9	7	C	73	08/16/2007	1.58	918	26.23
LO	9	7	P	63	08/16/2007	1.57	902	27.40
LO	9	7	P	65	08/16/2007	2.18	900	26.66
LO	9	7	P	64	08/16/2007	1.84	900	26.89
LO	7	7	P	64	06/15/2007	0.96	868	25.78
LO	8	7	C	75	07/17/2007	0.6	837	27.31
LO	8	7	P	65.5	07/17/2007	2.05	800	26.42
OB	7	7	P	2.2	06/26/2007	0.0728	597	42.26
OB	7	7	C	2.35	06/26/2007	0.1053	558	42.12
OB	7	7	P	2.3	06/26/2007	0.1158	500	41.76
OB	7	7	P	2.15	06/26/2007	0.056	500	42.49
OB	8	7	P	2.2	07/26/2007	0.1149	500	37.36
OB	8	7	P	2	07/26/2007	0.0477	500	38.72
OB	7	7	C	2.42	06/26/2007	0.0808	475	42.84
OH	6	7	C	1.84	05/25/2007	0.0823	200	35.99
OH	7	7	P	1.73	06/26/2007	0.0134	150	31.22
OH	7	7	C	2.08	06/26/2007	0.024	130	31.38
OH	7	7	C	2.01	06/26/2007	0.0403	130	30.88

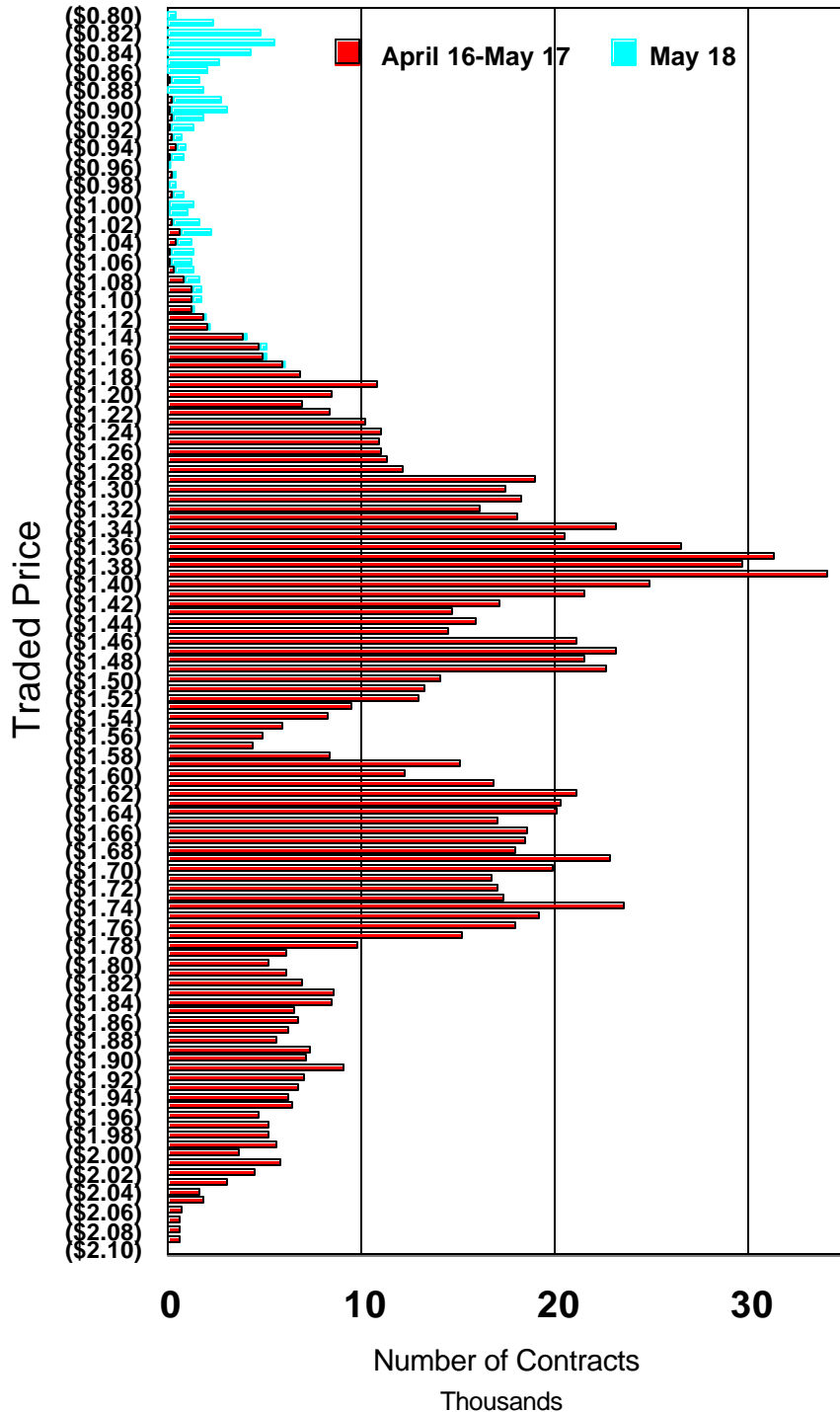
was taken over by protestors for six days. The protest had forced Shell to shutdown 170,000 bpd of crude production. Shell regained access to the pipeline hub on Thursday when protestors vacated the site. Meanwhile production has resumed from Nigeria's Bonny Light field but it was not yet known if oil flow returned to normal levels. The force majeure on its oil exports remained in place despite the resumption of production.

According to a provisional loading program, Angola is expected to export 1.69 million bpd of crude in July, up from 1.55 million bpd in June. Total exports would be about 52.25 million barrels for the July program. Separately, the governor to Angola's delegation to OPEC, Felix Ferreira said the country did not expect to be subject to OPEC's production limits at least through next year. He added that Angola planned to increase its output to 2 million bpd by 2008 from 1.5 million-1.6 million bpd currently. Meanwhile, OPEC's Secretary General Abdullah al-Badri said OPEC was aiming to include an Angolan crude grade in its reference basket price before the end of the year. He said he would visit Angola in August this year to talk about production, output quotas and the

NYMEX WTI: June July Spread

Price Vs Volume for April 16 - May 18, 2007

Trade Weighted Avg: 5/18 -.907 5/17 -1.26 5/16 -1.43 5/15 -1.409 5/14 -1.45



country's relationship with OPEC.

Mexico said it hoped to increase its oil production at the under-developed Chicontepec area over the next decade to help offset declining output at its Cantarell field. Mexico's oil production peaked at 3.4 million bpd in 2004 and has steadily declined since then. Pemex said it hoped to eventually pump more than 1 million bpd at the basin. Output would come online faster at Ku-Maloob Zaap, where production is expected to reach 800,000 bpd by the end of 2009, up from nearly 500,000 bpd in March.

Oil product stocks in independent Amsterdam-Rotterdam-Antwerp storage were lower this week with gasoline showing a draw of 67,000 tons to 645,000 tons in the week ending May 18th. Gasoline exports bookings to the US have fallen by about 25% this month compared with April as several cargoes head for alternative destinations like West Africa and the Gulf. Gas oil inventories in the ARA storage area fell by 56,000 tons to 1.871 million tons on the week. Fuel oil stocks also fell by 120,000 tons to 405,000 tons while naphtha stocks fell by 42,000 tons to 40,000 tons and jet fuel stocks remained unchanged at 363,000 tons.

China's National Bureau of Statistics reported that

China's crude oil production increased by 2% on the year in April to 15.4 million tons or 3.76 million

bpd. China's refinery runs increased by 5.6% on the year in April to 26.66 million tons with diesel production increasing 4.3% to 10.1 million tons and gasoline production increasing 6.4% to 4.87 million tons.

Nippon Oil Corp said it and Mitsubishi Corp bought a total 23.2% stake in the K2 oilfield in the Gulf of Mexico from Anadarko Petroleum Corp for \$1.2 billion.

OPEC's news agency reported that OPEC's basket of crudes increased by \$65.14/barrel on Thursday from Wednesday's \$64.42/barrel.

Market Commentary

Prices continued higher today, reaching our objectives of 65.56 and 66.36 basis the July contract. We think that the sell-off came from profit taking ahead of the weekend. With the summer driving season coming fast upon us, we would still look for further gains in the market. Prices should experience another round of sell-offs first, giving us another opportunity to buy. We would wait for prices to retreat to the 64.68 area, where we would look to be buyers. Our upside initial objective is 66.76 and behind that 67.25. Support on the downside is set at 65.56, 64.68, 64.23, 63.93 and 63.21. The Sept07/Dec07 spread has come our way, trading a range of -1.93 to -1.47 on Globex. Our recommendation for this spread is to be a buyer, buying Sept/ selling Dec, with a break below -1.60 with an objective of -1.00. Open interest in the crude market fell by a total of 10,716 contracts, with open interest in the June contract falling by 36,116 contracts as traders continue to liquidate their positions ahead of the June contract's expiration on Tuesday, May 22. Meanwhile, the product markets settled in negative territory on profit taking following Thursday's sharp gains. The RBOB market erased some of Thursday's gains early in the session and traded towards the 240.00 level. However the market bounced of its lows and posted a high of 244.22 amid the continuing refinery problems. The market later retraced its gains and traded to a low of 239.95 amid some profit taking ahead of the weekend. The market's losses will remain limited as long as refineries continue to report glitches. The market will likely see today's retracement as a buying opportunity. The market is seen finding support at its low of 239.95 followed by 237.46, 235.37, 235.12 and 233.28. Resistance is seen at 244.22, 245.04 and 245.79.

The latest Commitment of Traders report showed that non-commercials in the crude market cut their net long positions by 11,426 contracts to

Technical levels		
	Levels	Explanation
CL	Resistance	66.76, 67.25, 67.78
	64.94, up 8 cents	66.44
	Support	65.59
HO	Resistance	64.68, 64.23, 63.93, 63.21
	191.52, down 2.15 cents	194.30, 196.80
	Support	193.45, 193.98
RB	Resistance	191.15
	240.77, down 2.89 cents	189.98, 188.74, 187.50, 187.08
	Support	245.04, 245.79
		244.22
		239.95
		237.46, 235.37, 235.12, 233.28

44,572 contracts in the week ending May 15. It was the second consecutive week that speculators cut their net long position. The fall in their net long position came as the non-commercials increased their total short position by 15,202 contracts on the week. The combined futures and options report showed an increase in their net long position of 1,719 contracts to 74,527 contracts. Meanwhile, non-commercials in the heating oil market increased their net long positions by 6,162 contracts to 10,235

contracts while non-commercials in the RBOB market increased their net long position by 1,861 contracts to 29,589 contracts.