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ENERGY MARKET REPORT FOR MAY 19, 2010

Algeria's energy minister said today that falling crude oil prices are linked to uncertainty about the world economy and not oil supply. Thus he saw no role for OPEC to play at this stage and did not see an OPEC meeting until its regularly scheduled meeting for October. He looked for oil prices to rebound once global markets begin to feel the effect of the 750 billion euro rescue package. Meanwhile the head of the Libyan oil company today said the recent fall in oil prices was "alarming" and that OPEC is becoming concerned about price movements in the international oil markets. He noted that while no emergency meeting is being planned this could change if prices continue to erode.

The head of Total's exploration and production division said today that global oil supply should increase by just 1% annually through 2020.

Japan's gasoline stocks rose by 114,943 kiloliters from a week earlier to 2.55 million kl as of May 15th. Crude stocks held by Japanese refiners decreased on the week by 207,803 kl to 15.16 million kl or 95.33 million barrels.

Refinery News

BP said on Wednesday it was bringing units at its Rotterdam refinery back on stream slowly. The company had shut production at the refinery due to a power outage on Monday morning. Power was restored on Tuesday. The company late on Wednesday said production had been fully restored

Market Watch

An advisor to Iranian President Ahmadinejad today denounced as illegitimate the draft U.N. resolution which would expand sanctions against Iran because of its refusal to halt uranium enrichment.

Japan's Ministry of Economy, Trade and Industry reported that Japanese industrial production in March stood 94.8 a 1.2% change on the month, a 0.8% upward revision from earlier estimates.

BP reported today that it is now collecting 3,000 b/d of oil from its leaking Horizon oil well in the Gulf of Mexico.

Occidental Petroleum said today that it expects its production to grow by 6%-9% per year through 2014 as it focuses its activities in California and Iraq.

The CEO of Southwest Airlines said today the outlook for his company are much brighter in 2010 than it was a year ago, but volatile fuel costs are still a big risk for the industry.

The U.S. Interior Department on Wednesday said the Minerals Management Service would be broken up into three separate divisions, as part of its efforts to restructure the way the department handles off shore energy production. The three new agencies will separately oversee energy leasing, revenue collection and safety enforcement.

Colonial Pipeline said late Tuesday that it will stop transporting low sulfur on road diesel to comply with the government mandate for lower sulfur content in the fuel for on-road use. Government diesel regulations will require all highway diesel production to meet ultra-low sulfur specifications of less than 15 ppm of sulfur by June 1st. Low sulfur diesel can have up to 500 ppm of sulfur. The pipeline will accept only ultra low sulfur on road diesel starting June 1st for cycle 31 out of Houston and deliver the product through cycle 33 in New York. The pipeline said this timetable should provide adequate time to exhaust inventories and transition tanks prior to the regulatory deadlines.

DOE Stats

Crude Stocks up 200,000 barrels
Distillate Stocks down 1 million barrels
Gasoline Stocks down 300,000
Cushing Stocks up 900,000 barrels

Colonial Pipeline said it is allocating nominations for gasoline shipments for Cycle 30 on its main line north of Collins, Mississippi as demand for space exceeds pipeline capacity. This is the 10th consecutive cycle in which high demand for space has restricted shipping volumes.

Tesoro's 58,000 b/d refinery in Mandan, ND said that the planned work was due to be concluded this week. The refinery was shut down in mid April for planned maintenance.

A group of lawmakers reportedly plan to recommend to the U.S. Minerals Management Service that the BP operated Atlantis oil and gas platform in the U.S. Gulf of Mexico be shutdown until federal regulators can prove the region's second biggest rig is operating safely. The rig produces 200,000 b/d of crude oil and 180 million cf/d of natural gas. The group of lawmakers was pointing to the expert engineer who reviewed the Atlantis situation recently and called for an immediate shut down until it can be shown that this platform is operating safely.

Valero Energy said today that it was due to start planned repair work on a gasoline desulfurization unit at the west plant of its 315,000 b/d Corpus Christi refinery. The outage is expected to be brief and the company did not expect that there should be "no material impact to production."

Lyondell said today that it has begun restarting the crude distillation unit at its 270,600 b/d Houston refinery on Wednesday, that was not impacted by the fire on Monday. Operators hoped the unit would be operational by the end of the week.

KLM was reportedly back in the jet fuel market for the first time in about a month as a seller and sold over 8,000 tonnes of jet fuel this week. The airline reportedly has sold 4 barges of jet fuel at a price range of \$48-\$49 a tonne premium to the ICE gasoil futures contract. It was believed that the selling was prompted by the temporary closure of airports across Europe after volcanic ash from Iceland again disrupted travel.

Production News

India's Reliance Industries has stopped crude oil production from its D-6 block, off the country's east coast as a result of the approach of cyclone Laila. Company officials noted that if it appears that the forecasted track of the storm would be directly at its facilities, then their FPSO (Floating Production Storage and Offloading Facility) may have to be taken to a safer location.

Reliance Industries reported that its daily crude oil purchases in April rose by 42% from March. The company reported that it imported 1.42 mbd in April, versus just 945,100 bpd a year ago.

OPEC's reference crude oil basket price fell to \$72.77 a barrel on Tuesday down from \$73.25 at the start of the week.

Enbridge, the largest operator of storage tanks in Cushing, said essentially it using all of its available capacity to store crude oil in Cushing. The company has 14.8 million barrels of Cushing capacity and it is largely leased out on long-term basis.

Market Commentary

Crude oil continued its decline early in the session only to gain strength as the euro gained against the dollar on speculation that the European Central Bank will announce additional steps to stop the debt crisis that has been plaguing Europe. Crude oil remains economically sensitive as it becomes more and more uncertain that a recovery is indeed underway. Crude oil stocks increased again, with stock levels at Cushing, Ok, the NYMEX delivery point, increasing to another record high. With the June contract going off the board tomorrow, we would look for August to sustain additional weakness as longs liquidate out of the front end of the curve. As the July contract takes center stage, we would look for it to test the \$69.50 support level. Gasoline inventories fell less than expected, however, demand declined at a time when one would think that demand would increase with the approaching U.S. summer driving season. This pushed the June contract to its lowest settlement since February 15th. Gasoline may experience a sentimental rebound just ahead of the U.S. Memorial Day Holiday, which kicks off the summer season. Coming into tomorrow's session, we would look for gasoline to rebound with an initial test up at the \$2.0975 trend line. Should prices trade and settle above this level the next upside objective is \$2.1700.

Crude oil July 10 392,612 -1,580 Aug 10 106,000 -6,619 Sept 10 92,897 +1,204 Totals 1,387,907
 Heating oil June10 50, 223 -3,188 July 10 66,110 +2,327 Aug 10 34,290 176 Totals 318,322 -1,273
 Gasoline June10 47,669 -5,057 July 10 79,194 +5,217 Aug 10 38,464 +1,109 Totals 269,582 +2,113.

Crude Support	Crude Resistance
69.50, 65.55, 64.20, 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
1.9480, 1.8570, 1.8280, 1.7670, 1.7565	2.1760, 2.1920, 2.3575, 2.4200, 2.4940,
Gasoline support	Gasoline resistance
2.0190 1.9970, 1.9862, 1.8650, 1.6010	2.0975, 2.1700, 2.2345, 2.3240, 2.4270, 2.4850, 2.5040, 2.5115, 270.80

