



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 20, 2008

T. Boone Pickens said that he expected crude oil prices to reach \$150/barrel during 2008. He also stated that his BP Capital hedge fund was long in both crude oil and natural gas. He reiterated his recent assertion that only natural gas is plentiful enough to offset declining supplies of oil. He also stressed that high oil prices are tied to a depletion of supplies around the world and are not being driven by speculators.

The IEA stated that Saudi Arabia's decision to increase its oil production should be followed by other producers. Last week, Saudi Arabia said it would increase its output by 300,000 bpd to 9.45 million bpd in June.

Venezuela's Oil

Market Watch

A total of 12 Norwegian airports have been closed on Tuesday as a ground workers' strike escalated, creating transport problems for the oil industry which relies on airports in western Norway for access to offshore rigs. The workers have been strike since Friday due to a salary dispute. StatoilHydro said the strike so far did not have any impact on production but it had rerouted helicopter traffic serving its North Sea platforms to other airports.

Societe Generale and Credit Suisse raised their oil price forecasts for 2008 and 2009. Societe General increased its forecast for 2008 by \$14/barrel to \$115/barrel and by \$10/barrel to \$110/barrel for 2009. Credit Suisse raised its forecast for US crude in 2008 to \$120/barrel from \$91/barrel and for 2009 to \$110 from \$90/barrel.

The US Labor Department reported that the US producer prices increased by a smaller than expected 0.2% in April after gasoline prices fell. Core producer prices increased by 0.4% while core producer prices over the last 12 months increased by 3%. A separate report from the Chicago Federal Reserve Bank showed economic activity was weaker in April across a range of sectors. The Chicago Fed's National Activity Index fell to -1.17 in April from -0.98 in March. The index's three month moving average fell to -1.24 in April from -1.05 in March.

The nearby ICE gas oil futures moved into contango on Tuesday. Gas oil futures had been in a steep backwardation amid worries about tight global supplies of diesel. Traders said diesel supply in Europe should improve next month with the arrival of cargoes from the US.

The NYMEX announced that it would increase its margins on its heating oil futures, its New York Harbor heating oil calendar swap and heating oil financial futures contracts to \$12,150 from \$11,475 for customers effective at the close of business Wednesday, May 21. The margins for the second month would increase to \$11,475 from \$10,800 for customers while margins for the third through 11th month would increase to \$10,125 from \$9,788.

remains unusually weak due to lower demand in the US as a result of high prices. Meanwhile, US Gulf coast refineries cracking WTI saw their margins increase to \$8.28/barrel in the five days to May 20, up from \$6.92/barrel.

ConocoPhillips' 260,000 bpd Wilhelmshaven refinery in Germany has raised runs after lowering it for the past weeks due to weak simple margins. The refinery has been running at 80% of its capacity compared with 70% last week.

Total SA said its refinery in the Marseille region has maintained operations at a normal level despite strikes and protests over the past few weeks at the port. Total SA said it is affected by the negative localized impact on its deliveries caused by fishermen protesting against high oil prices in France this week. A Total spokesman said four depots were blocked, three of which are used by Total.

A Kuwaiti oil official said a project to upgrade Kuwait's oil export facilities would be completed in March 2009. The completion date is about eight months later than initially planned. The upgrade is part of Kuwait's plan to increase its oil output capacity to 4 million bpd by 2020. Kuwait's export facilities would be able to ship 3.4 million bpd once the project is completed.

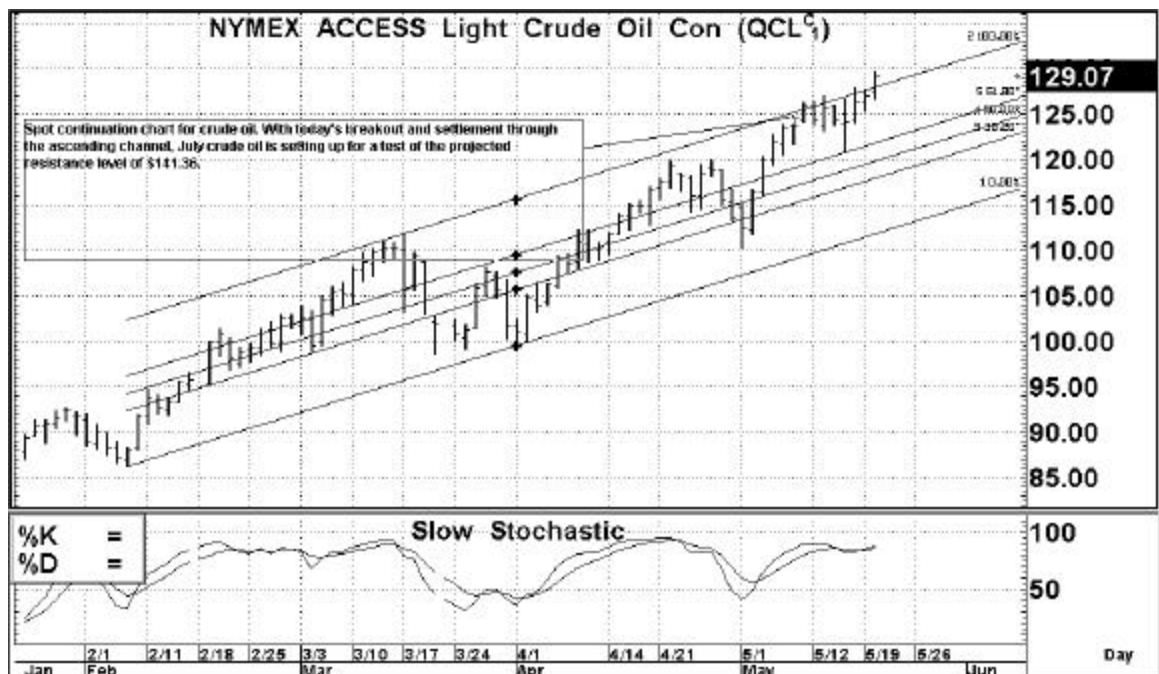
Pemex said it planned to spend 15 days cleaning and replacing parts at a vacuum distillation tower at its 320,000 bpd Tula refinery in June. Separately, Pemex said it was considering new technologies to turn some of its heaviest grades of crude into synthetic oil that could be used to supply the domestic refining network. Adding crude upgraders to its domestic refining network would allow Mexico to process some of its heaviest grades of oil locally, leaving lighter grades of crude for the export market.

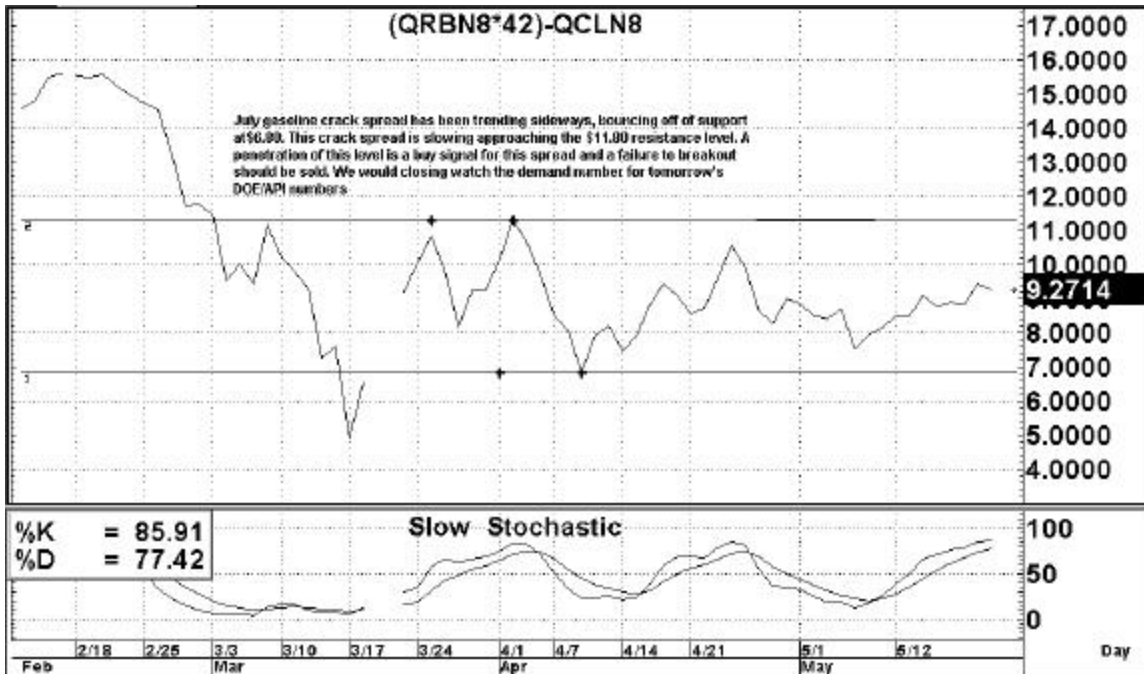
Production News

According to Iraq's Oil Ministry, Iraq may increase its Kirkuk grade crude exports from the Turkish port of Ceyhan by about 125,000 bpd to 600,000 bpd. An official said the ministry could raise exports due to an extra 5 million barrels that are already in storage at Ceyhan. Kirkuk exports have averaged about 475,000 bpd so far this month.

Total SA said it started production at its 50,000 bpd Jura gas and condensate field in the North Sea.

Egypt's Oil Minister Sameh Fahmy said Egypt is expected to increase its oil production to 735,000 bpd within three months. He also said Egypt planned to increase its oil output by 100,000 bpd





to 800,000 bpd in 2008 by developing recent discoveries in the Gulf of Suez and the western desert.

Nigeria's President Umaru Yar'Adua has ordered the Nigerian National Petroleum Corp to take

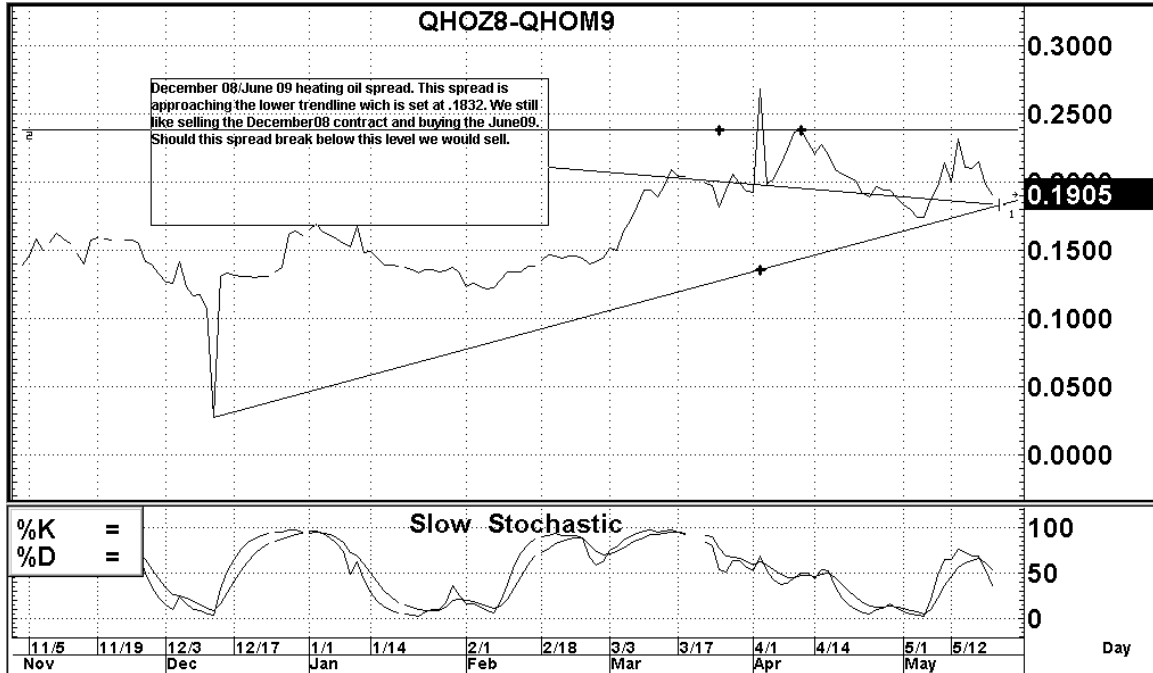
immediate steps to recover over \$1.9 billion from Royal Dutch Shell Plc and ExxonMobil Corp. A Nigerian government spokesman said the money was due to the federal government under the production sharing contracts for the Bonga and Erha offshore oilfields.

Columbia's oil-licensing agency, ANH, said the country's crude oil output in the first four months of the year increased to an average of 561,000 bpd, up from an average 531,000 bpd in the whole of 2007. The country's crude reserves have fallen by 65 million barrels from 1.485 billion barrels at the end of 2007.

Market Commentary:

T. Boone Pickens issued a statement today stating that oil prices will rise to \$150.00 a barrel this year. The dollar was weaker, as the European Central Bank has not yet lowered interest rates. Investors once again turned to commodities as an investment tool. Fears that supply will not be able to keep up with demand in the future also circulated the market place. All of the aforementioned helped push the expiring June crude oil contract to an all time high of \$129.60. The forward curve is indicating back-end strength, as the market slips into contango conditions. Although there are fears of tight supply, the fear is not for the near term, but instead for future tightness. This maybe an explanation why, while the market is making record highs, the front end is losing premium to the deferred. The upcoming Memorial Day holiday is thought to be behind the strength in gasoline, as U.S. drivers are expected to take to the road. With the recent earthquake in China, coal is in short supply, boosting demand even higher for diesel, which in turn draws on distillate supply. Today's breakout and settlement above the ascending channel on the spot continuation chart, now sets up July crude to test the \$141.36 projected resistance level. Gasoline has finally broken out of and settled through the ascending channel on the spot continuation chart, which could lead to a test of the projected \$3.5580 resistance level. With tomorrow's API/DOE numbers due out tomorrow and calling for a slight build of +0.4 in gasoline stocks. We would closely examine the demand numbers for this product, as some industry sources are expecting that demand will dwindle due to the high prices. The July gasoline to July crude oil crack spread has been slowly trending higher and is setting up to the \$11.80 resistance level. Heating oil is approaching its projected level of \$3.8306 and with the overseas demand for diesel being what it is, we would expect to reach this level. The December08/June09 heating oil spread is approaching the

ascending channel that is below the current market. Should this spread trade and settle below .1832, we would sell the December 08 and buy the June09. Total open interest for crude oil is



1,353,871 down 25,923, June08 35,631 down 47,468, July08 368,266 up 10,330, December 08 213,267 up 1,541. Total open interest for heating oil 227,259 down 4,092, June08 45,808 down 3,721 and July 59,743 up 840. Total open interest for gasoline, 272,575 up 2,109, June 54,243 down 1,275 and July 85,145 up 1,351.

July Crude Support	July Crude Resistance
120.65,109.60,98.60, 85.40	130.25, 131.10, 136.80
Heating oil support	Heating oil resistance
3.5425 , 3.5100, 3.3500, 3.1680, 3.1070	3.8535, 3.8760
Gasoline support	Gasoline resistance
309.20,3.0730, 3.0400, 3.0250, 2.9255	3.63.45,3.755,34655