



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 21, 2008

US Energy Secretary Sam Bodman said that record oil prices reflected tight supplies and strong global oil demand. He also stated that speculators were not at fault for pushing up petroleum costs. Separately, according to a study released by the Bureau of Land Management, the US should remove barriers to some 19

billion barrels that remain untapped on public lands to provide some relief from high oil prices. US public lands are estimated to contain a total of 31 billion barrels of oil and 231 trillion cubic feet of natural gas. Most of the oil is located in the western US and Alaska's National Wildlife Refuge, which the Bush Administration has sought to exploit as a way to reduce dependence on foreign oil.

OPEC's Secretary General, Abdullah Salem El-Badri said the oil markets were well supplied and that crude inventories remain high during a meeting with Venezuela's President Hugo Chavez. However he stated that OPEC was ready to act to stabilize the market if and when necessary. He said oil prices could continue rising if non-market factors continue to support the market, however he added that OPEC would only act when market fundamentals showed a need to do so. Meanwhile, Venezuela

agreed to create a joint commission with official from OPEC to study the discrepancy between Venezuela's oil production figures and the data OPEC uses to measure output. Venezuela claims to produce about 3.3 million bpd however secondary sources put Venezuela's production closer to 2.35 million bpd. Venezuela also stated that its reserves increased by 29.9 billion barrels to 130 billion

Market Watch

The Federal Reserve appeared to shut the door to the possibility of further interest rate cuts, saying that the last rate cut was a close call and that many officials think future reductions are unlikely even if the economy contracts. The FOMC, by an 8-2 vote, lowered the target fed funds rate by 0.25% to 2%.

Democrats in the US Senate attempted to link record gasoline prices to ties between President George W. Bush and five energy companies that profited \$36 billion in the first quarter of 2008. Executives from ExxonMobil Corp, Chevron Corp and three other energy companies were called to testify before Congress to explain their record profits as gasoline prices reached new highs.

Oil executives stated that record oil prices should entice more newcomers to Britain's North Sea oil province but uncertainties over who pays for decommissioning of mature offshore oil installations was putting off new entrants. They said high operating costs and the uncertainties over decommissioning liabilities have hampered new investment.

DOE Stocks

Crude – down 5.4 million barrels

Distillate – up 700,000 barrels

Gasoline – down 800,000 barrels

Refinery runs – up 1.3%, at 87.9%

barrels. Venezuela's President Hugo Chavez suggested the creation of an OPEC bank. He said the financial institution could hold part of the foreign exchange reserves owned by OPEC member countries.

May Calendar Averages
CL – 123.85
HO – 354.33
RB – 315.54

Qatar's Oil Minister Abdullah al-Attiyah said that a new record oil price of \$130/barrel was not caused by a shortage of supply and there was no need for OPEC to take any action.

According to Petrologistics, OPEC's production in May is expected to increase by 700,000 bpd to 32.4 million bpd, up from a revised 31.7 million bpd in April. The increase is mainly due to high output from Nigeria and Saudi Arabia. The Petrologistics estimate suggested that the 12 OPEC members bound by quotas produced 29.83 million bpd. It reported that Nigeria's oil production is expected to increase by 200,000 bpd to 2.05 million bpd while Saudi Arabia is expected to produce 9.3 million bpd in May, up 200,000 bpd from April's level. Petrologistics reported that Iraq's production is expected to total 2.57 million bpd, up 280,000 bpd on the month.

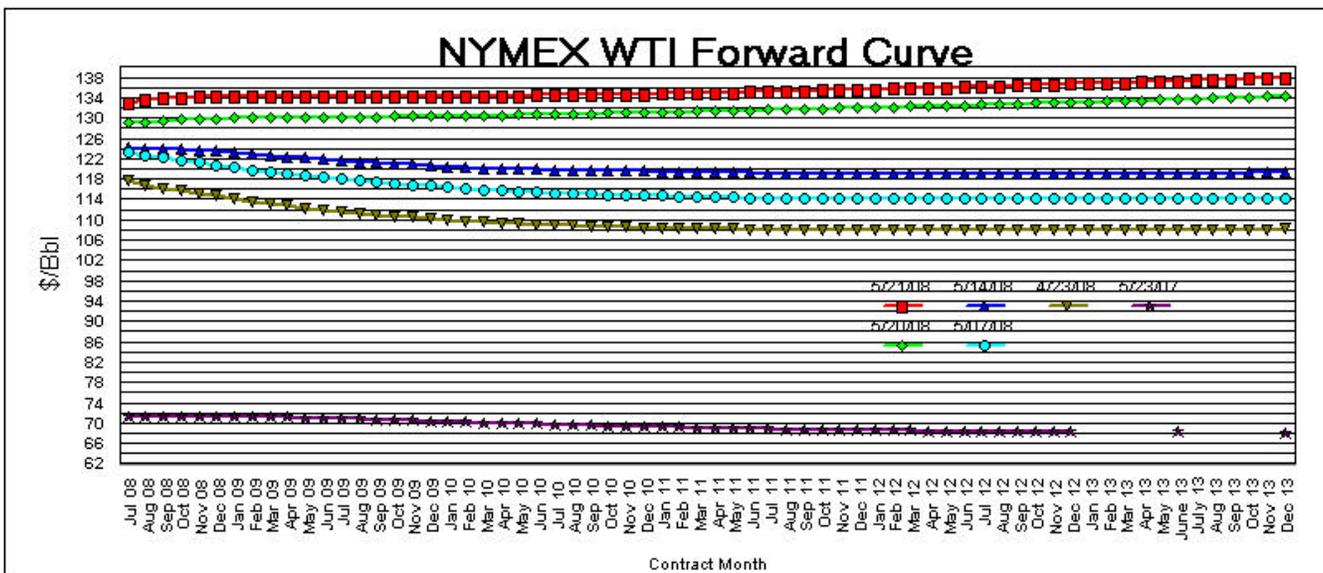
President George W. Bush has vetoed the US farm bill, saying it failed to reform subsidies. The administration said the bill included unnecessary subsidies for farmers at a time when agriculture income was rising and commodity prices were at record highs. In order to carry out an override, each chamber would have to call a new vote and pass the bill by a two-thirds majority.

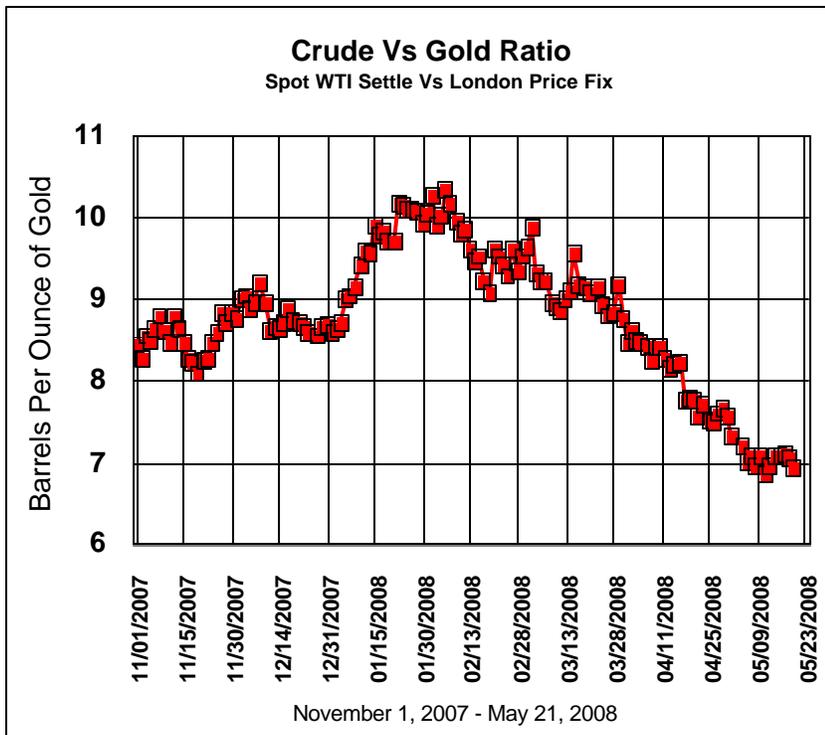
Iran's Foreign Minister Manoucher Mottaki said it has agreed in principle to a visit by European Union foreign policy chief Javier Solana to deliver an offer from the permanent members of the UN Security and Germany in a bid to persuade Iran to halt its nuclear program.

Israeli Prime Minister Ehud Olmert proposed in talks with a congressional leader that a naval blockade be imposed on Iran in attempt to curb its nuclear program. His suggestions included a naval blockade of Iran using US warships to limit the movement of Iranian merchant vessels. He also said that international restrictions should be placed on Iranian aircraft, business executives and senior officials. Pentagon spokesman Geoff Morrell however said he was unaware of any blockade plans but said the US intended to step up pressure on Iran.

Refinery News

Indonesia's Pertamina restarted its 83,000 bpd residual fluid catalytic cracking unit at its 125,000 bpd





Balongan refinery on Wednesday following an outage. The shutdown forced Pertamina to import extra gasoline and diesel for May delivery. Last week Pertamina said it was seeking to buy an additional 1 million barrels of gasoline and 400,000 barrels of diesel for May delivery. It has so far bought about 4.5 million barrels of gasoline for May delivery.

Petrol stations in at least five Chinese provinces have limited sales of diesel as oil companies divert supply from the price capped retail sector to avoid losses amid high oil prices. Little rationing has been reported for gasoline, which has sufficient supplies due to increased imports in the past few months.

French port workers are scheduled to hold a 24 hour strike at state-run ports on Thursday, extending a series of protests against the privatization of loading activities. Operations at the Fos-Lavera oil terminal have been disrupted by a rolling strike since mid-April. The Fos-Lavera oil terminal estimated that it has lost 11,000 tons of oil traffic since the strikes started.

Separately, French fishermen blocked the truck exit of Total's 155,000 bpd La Mede refinery near Marseille and the loading of trucks at ExxonMobil's 115,000 bpd Fos-sur-Mer refinery. The fishermen continued to block fuel depots and ports on Wednesday in protest to rising fuel costs.

Japan's Idemitsu Kosan Co sold 30,000 tons of heavy grade fuel oil for loading in early June. This compounded pressure on the market in Asia, which is already awash with supply due to weak Chinese demand.

Pakistan tendered to buy 500,000 tons of low sulfur fuel oil for June to September, up two thirds from its previous purchase to cover domestic power shortages.

The Petroleum Association of Japan reported that the crude stocks built by 940,000 barrels to 97.23 million barrels in the week ending May 17. It reported that gasoline stocks fell by 70,000 barrels to 15.86 million barrels while kerosene stocks built by 310,000 barrels to 11.52 million barrels and naphtha stocks fell by 810,000 barrels to 9.68 million barrels on the week. PAJ also reported that crude runs fell by 210,000 bpd to 3.78 million bpd as refinery utilization fell by 4.3% to 77.3%.

Government officials in Indonesia said the country was considering bringing in a mandatory policy for the use of palm-based biodiesel in the domestic market this year. Indonesia has been pushing for the use of biofuels to cut the use of costly petroleum products and ensure the fledging biodiesel industry survives. Indonesia's combined capacity for biofuel using palm oil as a feedstock is estimated at 1.7 million tons/year. Indonesia exported an estimated 300,000 tons in 2007.

South Korea's Korea National Oil Corp said the country's crude imports in April were steady on the year at 67.6 million barrels. South Korea's oil product demand in April fell by 8.1% on the year to 60.3 million barrels.

Production News

Royal Dutch Shell said it has been restoring some of its shut in production in Nigeria however a force majeure remains in place for Bonny Light crude exports. It has continued to repair damaged parts of Bonny Light crude facilities in the Niger Delta region following rebel attacks in April. Shell however declined to state how much output has been restored.

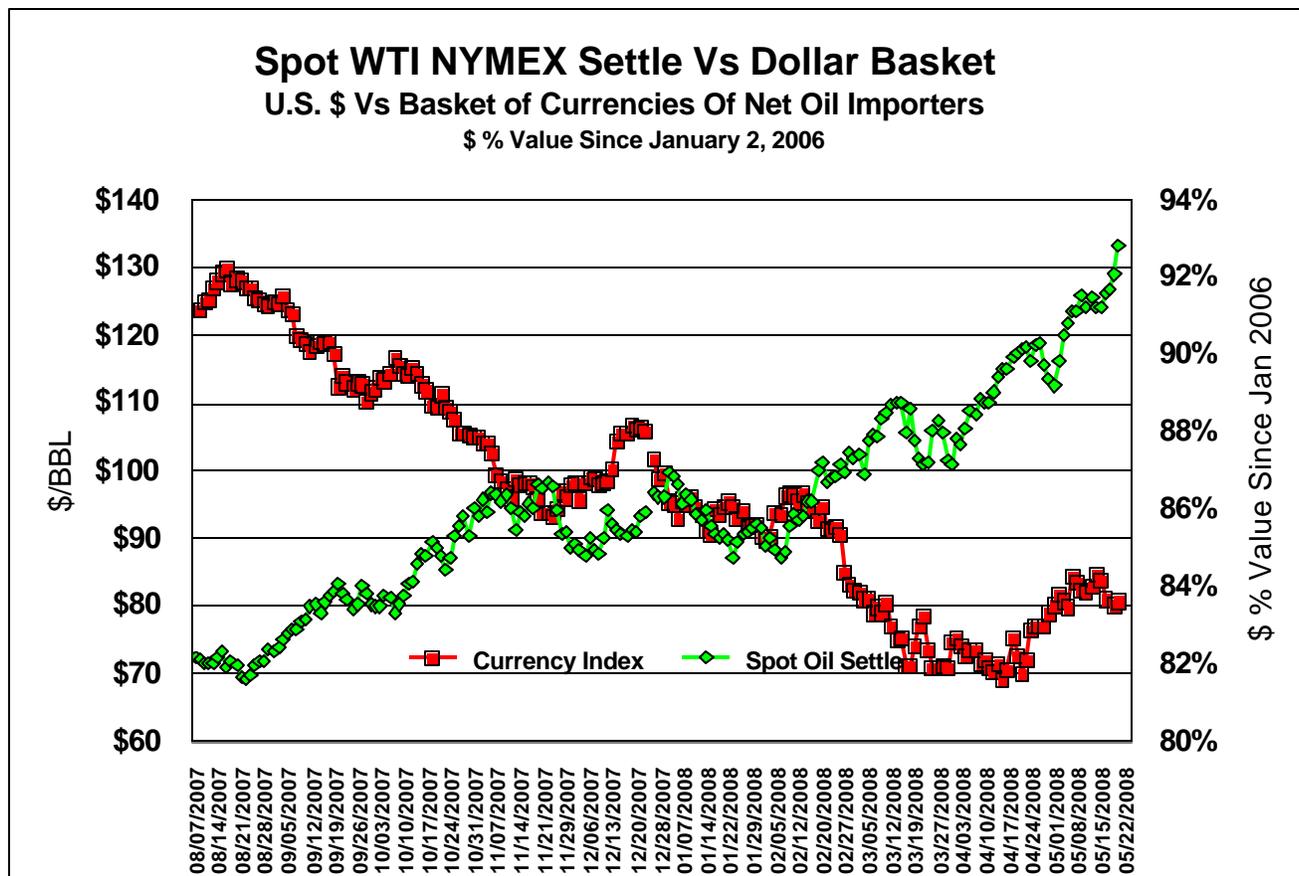
Traders said some of Nigeria's Qua Iboe crude oil loadings were expected to be delayed from June to July due to the production halt at ExxonMobil's oilfields in April. They said about 321,000 barrels of Qua Iboe would be exported everyday for July, including the delayed cargoes.

Italy's Eni SpA said it made a new discovery in the UK's central North Sea and is assessing the results with its partners, which include BP Plc.

Kazakhstan cut its 2008 oil production forecast to 67.6 million tons or 1.35 million bpd from its previous estimate of 70 million tons due to maintenance work at some fields and transport bottlenecks.

Russia's oil companies have pledged to cut exports of refined products or build stocks during refinery repairs if there is a risk of a domestic market shortage.

Ecuador's central bank said Ecuador's oil export revenue totaled \$785.67 million in March, up 58% from \$498.45 million reported last year. Ecuador exported 8.93 million barrels in the third month of



2008, down 13% on the year.

OPEC's news agency reported that OPEC's basket of crudes increased to \$121.02/barrel on Tuesday from \$119.24/barrel on Monday.

Market Commentary:

Energy prices soared today, making record highs across the board. Crude oil stocks declined 5.32 million barrels on the week, gasoline stocks decreased by 800,000 and distillate stocks improved by 700,000 barrels. Crude oil imports were down 7% on the week and based on a four-week average are running 10 million barrels per day or down 238,000 based on the same four-week average last year. Crude oil continues to be overvalued basis gold and currencies. Based upon the past three weeks, currencies have been trending at the same level, while crude oil was valued at \$110.00. The forward curve has once again gained in the backend, as perceived future tightness put early pressure on the front to back month spreads. Slow stochastics are still trending in overbought territory, with % K trending over % D, and still pointing higher. We would continue to look for further strength in this market, with intermittent corrections to the downside. Basis the July contract we would see this market correct itself down to the \$125.95 support area and then continue to work higher. Gasoline held above the top of the ascending channel, coming within a penny of touching it. As prices work higher, demand should taper off as drivers hold on to their purse strings. Like the crude oil, we would look for this market to work higher, however at a slower pace than the crude oil and the heating oil. Slow stochastics for gasoline are also in overbought territory, with % K trending higher than % D, indicating further upside potential. As long as the prompt month can maintain itself above the upward channel on the spot continuation chart we would continue to buy dips. Should prices settle back in the channel, this market could move back down to the \$3.0980 support level. The July gasoline crack traded slightly higher on the day as the gasoline was outpaced by the crude oil. We would still focus on the \$11.80 level, using it as an entry point to buy a break and settlement above this number, and sell any failure to surpass it. Heating oil once again led the marketplace, based on shortness off supply and persistent demand for diesel. This is the tenth day in a row that the spot month in heating oil has traded above the ascending channel on the spot continuation chart, touching and holding it three out of these ten days. Not until we see signs of demand slowing, would we look for the spot month in heating oil to trade back inside this channel. Heating oil crack spreads continue to gain unseasonable strength, pausing momentarily, prior to moving higher. The December 08 heating oil crack spread is way overvalued for this time of year, double of what the December 07 crack was during the same period last year. This untimely strength is due in part to the weakness of the December 08 crude oil and the demand for distillate in developing countries. This crack spread may face a sharp sell-off later in the year, should the demand for heating oil surface early due to expectations of saving money by loading up on inventory now. Total open interest for crude oil is 1,356,657 up 2,786, July08 389,257 up 20,991, August08 88,057 up 4,295, December 08 215,594 up 2,327. Total open interest for heating oil 226,001 down 1,258, June08 41,107 down 4,701 and July 63,187 up 3,444. Total open interest for gasoline, 275,372 up 2,797, June 50,499 down 3,744 and July 89,039 up 3,894.

July Crude Support	July Crude Resistance
132.50,128.60,125.95,122.45,120.55,109.60,98.60, 85.40	130.25, 131.10, 136.80
Heating oil support	Heating oil resistance
3.5425 , 3.5100, 3.3500, 3.1680, 3.0980	3.9445,3.9730,
Gasoline support	Gasoline resistance
309.20,3.0730, 3.0400, 3.0250, 2.9255	3.63.45,3.755,34655