



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 22, 2007

According to Petrologistics, OPEC is set to increase its oil production in May amid increases from Saudi Arabia, Iran, Algeria and UAE. The ten OPEC members are expected to produce 26.9 million bpd in May, up from 26.8 million bpd in April. Saudi Arabia is set to increase its supply to 8.7 million bpd, up 100,000 bpd from April. Iran is set to increase its production to 3.98 million bpd from about 3.9 million bpd last month while Algeria and the UAE are also expected to increase their production by 50,000 bpd each. The increases would offset a fall

Market Watch

The Bush administration on Tuesday said it would likely veto a Democratic sponsored bill in the US Congress that would allow the government to sue OPEC for price manipulation. Committees in both the Senate and the House have approved versions of the No Oil Producing and Exporting Cartels Act of 2007. The bill would revoke OPEC's sovereign immunity. The Bush administration said the bill had the potential to lead to oil supply disruptions and an escalation in the price of gasoline, natural gas heating oil and other sources of energy.

The National Oceanic and Atmospheric Administration said there was a 75% chance that the 2007 hurricane season would be above normal with 13 to 17 named storms, seven to 10 of which are expected to become hurricanes. It stated that out of the 7-10 hurricanes, three to five would be major hurricanes of Category 3 or higher.

The Government Accountability Office said the increase in gasoline prices this year had so far drained consumers of an extra \$20 billion or about \$146 for each passenger car in the country. The GAO found that the current high prices of gasoline was the result of a large amount of oil refining capacity being offline, strong gasoline demand and lower fuel inventories. Meanwhile, the Federal Trade Commission said it was closely monitoring the US gasoline market for any unusual moves in prices.

A sharp drop in hydrous ethanol prices in recent weeks was starting to make exports viable. Brokers said current prices should serve as a floor for the well supplied domestic market this year. Mills were out of the export market between December and April due to relatively firm prices in Brazil. Also a strengthening of the real against the dollar also curbed shipments. Various hydrous ethanol sales have been made for \$380-\$390/cubic meter for shipment from June onward. Most of the shipments would be bound for the Caribbean for reprocessing into anhydrous ethanol and then on to the US.

The US DOE's National Energy Technology Laboratory said a coal to liquids plant producing more than 50,000 bpd could realize a 20% return on investment if oil prices exceed \$60/barrel. The report provided a conceptual design study of a plant that on a daily basis would use 24,500 tons of high sulfur bituminous coal to produce 27,800 barrels of diesel fuel and 22,200 barrels of liquid naphtha products. The latter would be shipped to a refinery for a further upgrade to commercial products or to be sold as chemical feedstock.

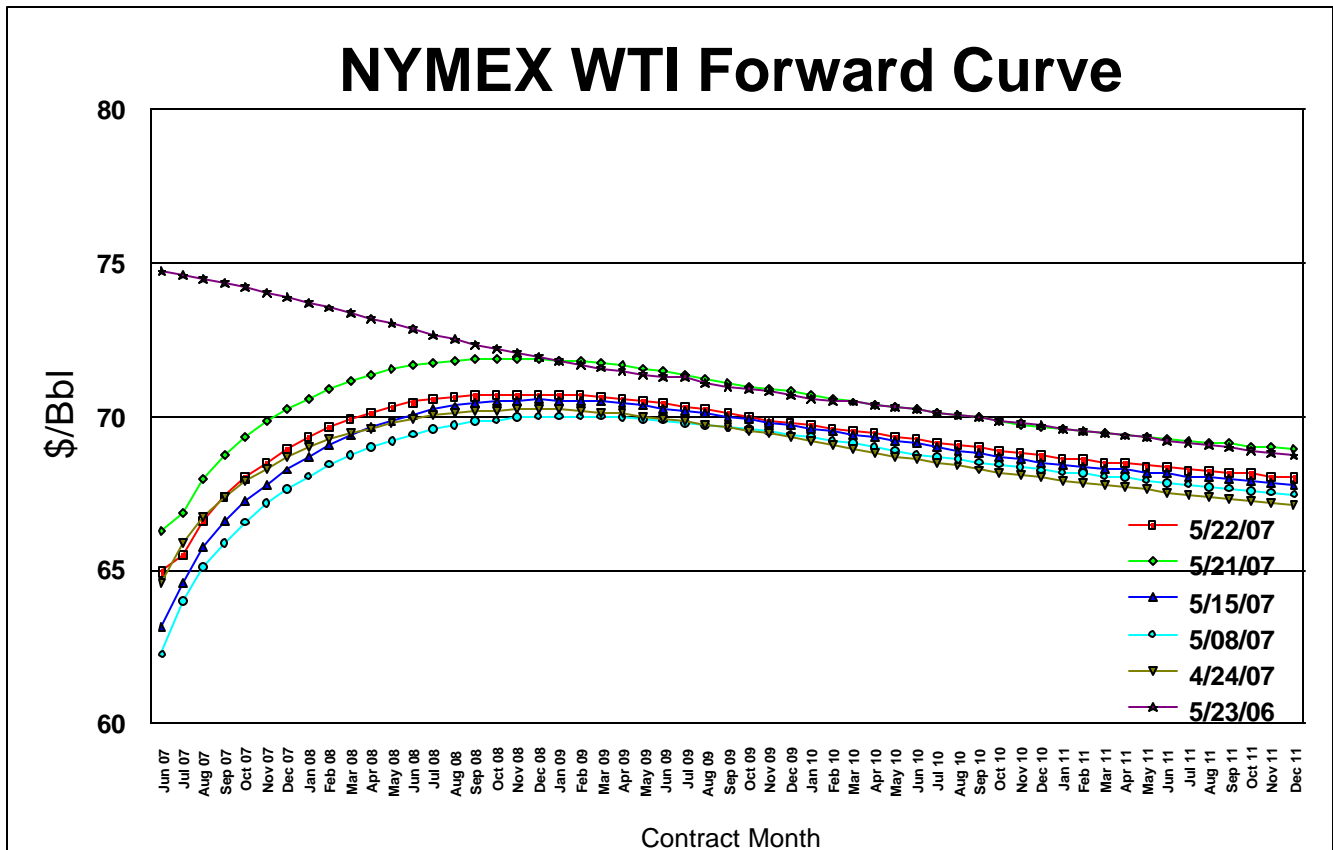
in supply from Nigeria of 200,000 bpd in May.

OPEC President Mohammed al-Hamli said there was no problem with crude oil supply and added that current high oil prices were due to refinery problems and tight gasoline supply in the US. He also stated that the problems in Nigeria were putting upward pressure on oil prices. He said supply on the OPEC side was quite adequate.

A US official said the US and ambassadors from France, Germany and Britain are expected to visit the director of the IAEA, Mohammed El Baradei to complain about his proposal allowing Iran to retain some nuclear enrichment activities. They are expected to tell him that his comments were not unhelpful as major powers seek to persuade Iran to end uranium enrichment.

The European Strategic Intelligence and Security Center stated that Iran was attempting to draw up plans to strike targets in Europe and had conducted reconnaissance of European nuclear power stations. It also stated that it had evidence Iran had increased the number of intelligence agents across Europe. It said preparations to target Europe's nuclear energy plants could be tied to the diplomatic standoff over Iran's nuclear program. Opposition Conservative party leader David Cameron urged the UK and the US in an earlier speech to strengthen measures against Iran and called on Washington to speed up plans for talks with Iranian officials.

Nigerian opposition filed a suit seeking a court annulment of Nigeria's presidential elections. The Presidential inauguration is scheduled for May 29, making a final ruling unlikely before President Olusegun Obasanjo leaves office.



Four gunmen seized a Lebanese worker in Nigeria's western city of Warri on Tuesday. The man was a financial controller at oil service company, Nigercat. The latest abduction increased the number of foreign workers being held by different militant groups to 15.

NYMEX Petroelum Options Most Active Strikes for May 22, 2007								
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	8	7	P	60	07/17/2007	0.63	6,640	28.09
LO	7	7	C	70	06/15/2007	0.48	5,870	28.33
LO	8	7	P	57	07/17/2007	0.3	4,950	29.78
LO	7	7	C	73	06/15/2007	0.24	4,753	31.78
LO	9	7	P	56	08/16/2007	0.44	4,750	30.38
LO	12	7	P	62	11/13/2007	2.19	4,500	27.72
LO	7	7	P	60	06/15/2007	0.28	4,273	29.31
LO	7	7	P	65	06/15/2007	1.53	3,866	26.69
LO	12	7	P	55	11/13/2007	0.78	3,300	29.08
LO	12	7	P	69	11/13/2007	4.92	2,550	26.74
LO	6	8	C	85	05/15/2008	2.18	1,750	24.44
LO	7	7	P	63.5	06/15/2007	0.96	1,721	27.19
LO	12	7	C	70	11/13/2007	4.43	1,675	26.67
LO	7	7	C	68	06/15/2007	0.83	1,600	26.57
LO	8	7	P	65	07/17/2007	2.02	1,392	26.97
LO	7	7	P	58	06/15/2007	0.12	1,380	30.32
LO	7	7	P	53	06/15/2007	0.01	1,350	33.09
LO	12	7	C	69.5	11/13/2007	4.65	1,300	26.72
LO	12	7	P	69.5	11/13/2007	5.19	1,300	26.78
LO	7	7	P	63	06/15/2007	0.82	1,253	27.53
LO	7	7	C	67	06/15/2007	1.15	1,204	26.62
LO	7	7	P	64	06/15/2007	1.13	1,094	27.04
LO	7	7	P	66	06/15/2007	2.03	1,053	26.54
LO	9	7	P	61	08/16/2007	1.16	1,050	28.16
LO	12	7	C	90	11/13/2007	0.6	1,000	28.38
OB	7	7	C	2.28	06/26/2007	0.0867	541	38.84
OB	6	7	P	2.25	05/25/2007	0.0181	528	48.76
OB	9	7	C	2.29	08/28/2007	0.0788	520	31.95
OB	9	7	C	2.35	08/28/2007	0.0647	520	32.53
OB	7	7	P	2.1	06/26/2007	0.0507	478	39.34
OB	9	7	C	2.36	08/28/2007	0.0626	293	32.63
OB	9	7	C	2.3	08/28/2007	0.0763	293	32.07
OB	7	7	P	2	06/26/2007	0.0258	260	39.76
OB	6	7	P	2.33	05/25/2007	0.0531	248	47.91
OB	6	7	C	1.85	05/25/2007	0.4563	221	93.52
OB	7	7	C	1.9	06/26/2007	0.3456	221	41.53
OB	9	7	C	2.34	08/28/2007	0.0669	220	32.45
OB	6	7	C	2.3	05/25/2007	0.0432	219	47.99
OB	10	7	C	2.18	09/25/2007	0.0732	210	32.47
OB	10	7	C	2.12	09/25/2007	0.0878	208	31.90
OH	12	7	P	1.9	11/27/2007	0.1065	200	30.18
OH	6	7	P	1.9	05/25/2007	0.0189	125	32.45

Refinery News

Colonial Pipeline allocated cycle 31 on the main gasoline pipeline north of Collins, Mississippi as demand exceeds pipeline space. Shippers have until Wednesday to renominate no less than 80% of their initial shipping volumes.

Traders and terminal operators said tankers delivering gasoline to the US Gulf Coast were facing increased delays to discharge due to an influx of cargoes ahead of the summer driving season. Gasoline tankers are expected to wait for two to three days to discharge their cargoes at Magellan and Kinder Morgan terminals in Texas. The backlog was attributed to gasoline stockbuilding ahead of the driving season and more than 16 tankers diverted to the US Gulf Coast from the New York Harbor in the past few weeks. As a result, cash differentials have fallen significantly over the past two days.

Valero Energy Corp reported flaring on Monday at a fluid catalytic cracking unit at its 260,000 bpd Port Arthur, Texas refinery. A Valero spokesman said there was no material impact to fuel supplies from the event. The flaring occurred at the absorber gas system. Meanwhile, Valero

reported that it would reduce operations at its fluid catalytic cracking unit at its Corpus Christi, Texas refinery on Tuesday for repairs on its soot blowers.

The Texas Natural Resource Conservation Commission reported that Citgo would startup its East Plant sulfur recovery unit at its Corpus Christi, Texas refinery.

Delek Tyler cut operations at its fluid catalytic cracking unit to repair a boiler. The company said the No. 9 boiler to the FCC unit would be shutdown for necessary repairs to the blower.

Shell Oil Co said it would decide this year whether to proceed with an expansion of its joint venture refinery in Port Arthur, Texas. The expansion project would make the Motiva refinery the largest in the US at 600,000 bpd. The expansion would be completed in 2010.

Saudi Arabia has short listed eight firms to construct a new refinery in Jizan, a remote Red Sea city in Saudi Arabia's southwest. It would be the country's first private sector project. The new refinery, with a capacity of 250,000-400,000 bpd, is expected to cost \$12 billion-\$15 billion.

Iranians started paying 25% more for their gasoline on Tuesday with some criticizing the government's move to raise the price. The Iranian government announced late on Monday the price of heavily subsidized fuel would increase on Tuesday to 1,000 rials or about 11 cents/liter from 800 rials but that planned rationing would be delayed. Gasoline rationing is expected to start on June 5.

Production News

BP Plc shut down its 100,000 bpd Gathering Center 2 at its Prudhoe Bay field in Alaska on Monday due to a leaking water line. BP said it expected to complete repairs within a few days.

Italy's Eni SpA is expected to increase its oil production from its Brass River export terminal. The source said the company had not stopped producing from the facility after the kidnapping of some of its workers by militants earlier this month.

Total said it would resume production from its Republic of Congo Nkossa terminal at 20,000 bpd in July. It was forced to shut in production after a fire broke out at the 60,000 bpd offshore oilfield on May 10.

China's Qinzhou port would sharply expand the capacity of its oil and coal terminals in coming years. Construction of two oil terminals, which can berth tankers with capacity of 100,000 tons would be completed in the first half of next year. The two oil terminals would be close to the planned Qinzhou refinery, the first phase of which would be completed by the end of 2008.

The UAE's Oil Minister Mohammed al-Hamli said the UAE was discussing storing crude oil in South Korea.

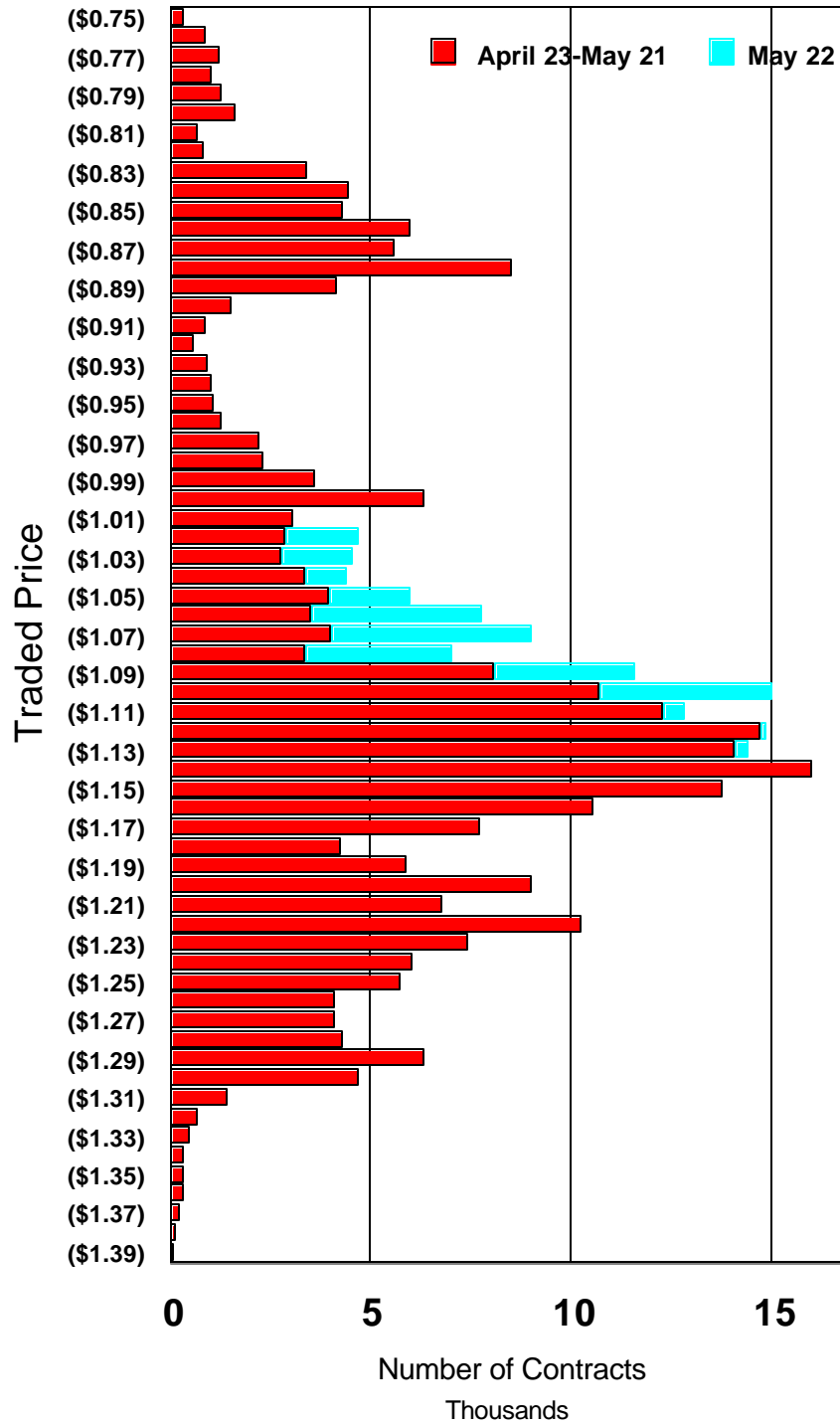
Technical Levels		
	Levels	Explanation
CL	Resistance 65.51, down \$1.36	67.00, 67.10, 67.78, 68.09, 68.58 Tuesday's high, Previous highs
	Support	65.70, 66.25, 66.60, 66.85 65.40, 65.28 Tuesday's low, Monday's low
HO	Resistance 190.72, down 4.37	196.00, 196.80, 201.50 Previous highs Tuesday's high
	Support	193.00, 194.75, 195.10 190.60, 190.35 Tuesday's low, Monday's low 189.31, 187.25, 187.08, 185.18 38% retracement (178.49 and 196.00), 50%, Previous low, 62%
RB	Resistance 230.63, down 9.5 cents	240.25, 242.62, 244.22 Tuesday's high, Previous highs
	Support	232.00, 235.20, 238.50 230.22 Tuesday's low 229.53, 226.52, 226.06 50% (214.83 and 244.22), Previous low, 62%

OPEC's news agency reported that OPEC's basket of crudes increased by 22 cents/barrel to \$66.10/barrel on Monday from \$65.88/barrel on Friday.

NYMEX WTI: July August Spread

Price Vs Volume for April 23 - May 22, 2007

Trade Weighted Avg: 5/22 -1.07 5/21 -1.11 5/18 -1.023 5/17 -1.202 5/16 -1.23



Market Commentary

Gasoline took a beating today, that sent crude oil running for cover. With news that space was being allocated on the Colonial Pipeline for the next cycle, the energy complex came under pressure. On top of this already bearish news, builds are expected across the board on tomorrow's release of the API numbers. These builds are as follows: CL +1.2; RBOB +1.4; DIST +1.2 and RUNS +0.02%. Although the market was weaker today the front spreads remained strong in comparison to the middle to back end of the curve. This move to the downside could prove to be temporary and we appear to be in a period of consolidation. We would look for a test of the 64.25 price level and remain confident that this market will work higher as long as prices can remain above 62.35. The Sept07/Dec07 spread is still at comfortable levels to be long, and as long as it can hold its strength above the -1.60 number we would hold on to our length. Support for the July contract is set at 65.25; 64.70; 64.39 and 64.00 with resistance set at 65.70; 66.23; 66.60; 66.85; 67.15; 67.45; 67.78 and 68.09. The RBOB market tumbled in light of the Colonial Pipeline news and reports that tankers delivering gasoline to the US Gulf Coast were facing increased delays to discharge due to an influx of cargoes, which has caused cash differentials to fall significantly over the past two days. The

market traded to a high of 240.25 early in the morning on Globex and continued to sell off as the open outcry session opened. The market extended its losses to over 9.9 cents as it sold off to a low of 230.22 late in the session. It settled down 9.5 cents at 230.63. The July RBOB crack spread continued to narrow as it settled at 28.35 following the sharp sell off in the market. The heating oil market also remained pressured as it settled down 4.37 at 190.72. The RBOB market will likely continue to test its support levels in light of the expected gasoline stock builds in the DOE report. However the market's losses will be limited. The market is seen finding support at 230.22 followed by 229.53, 226.52 and 226.06. Meanwhile resistance is seen at 232.00, 235.20 and 238.50 followed by 240.25, 242.62 and 244.22.

The crude oil option market today saw puts as the focus for traders today accounting for 63% of the days volume. This was the most active day for puts since April 26th. But in the gasoline options market calls continue to be the focus for traders accounting for nearly 75% of the day's trading.