



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 22, 2008

The DOE said it would halt deliveries of crude oil to the SPR at the end of May. It said the June deliveries of about 4.2 million barrels would be deferred until at least next year. The DOE said that about 760,000 barrels of oil in transit and set to arrive by tanker or pipeline to the SPR would continue. This comes after US President George W. Bush signed a bill to halt deliveries of about 76,000 bpd of crude between August and December. Separately, US Energy Secretary Sam Bodman said that Saudi Arabia's extra 300,000 bpd of oil production was helpful but still inadequate to ease rising oil prices.

OPEC's Secretary General Abdullah al-Badri said he was

Market Watch

Analysts stated that rising concerns about an energy supply crunch in coming years was helping accelerate the rally in long term crude prices compared with the rally in short term prices, a trend that could prompt oil companies to start increasing stocks. Goldman Sachs said long term world supply growth has slowed to about 1% while GDP growth has accelerated to 3.8%, leading to a medium term supply crunch.

Prudential Investment Advisers LLC said oil prices would remain near or exceed current record levels through September as production trails demand. Prudential's chief strategist said oil would likely remain in the \$120 to \$130 or \$140 range. He said prices at those levels would have negative implications for growth because it impacts consumer spending. Meanwhile consumers in India and China are shielded from the impact of high prices by government subsidies.

Lehman Brothers has stated that commodity index funds have exploded from \$70 billion to \$235 billion since early 2006, including \$90 billion of new money, with energy taking the lion's share.

The European Union Commission said higher than forecast oil prices could reduce euro zone economic growth below the expected 1.7%. The European Union based its growth forecasts on April 28 on an average price of \$101.20/barrel, however the price of oil has since risen.

Total SA's CEO Christophe de Margerie said oil was a relatively inexpensive energy source, with a barrel of crude less expensive today than in 1974 in terms of purchasing power. He however said that given production constraints, oil was unlikely to fall very much below \$80/barrel. Separately, Royal Dutch Shell's chief executive Jeroen van der Veer said oil prices were rising due to market sentiment rather than a shortage of supply.

Investor George Soros, speaking at the London School of Economics, said oil price rises would hasten the recession.

The IMF said higher prices for oil and food could dampen global economic growth. However it said it was not changing its forecast for the world economy.

Management Information Services' senior energy advisor, Robert Hirsch warned that gasoline prices could rise to \$12/gallon, citing analyst Charles T. Maxwell. The analyst said he expected an oil induced financial crisis to start between 2010 and 2015. He expects the financial crisis to last 10 or 12 years.

May Calendar Averages

CL – 124.29
HO – 356.90
RB – 316.63

puzzled by what was causing the rapid increase in oil prices. He said supply and demand fundamentals were not driving prices. OPEC's Secretary General said the spike in oil prices was likely due to the depreciation of the US dollar and market speculators. He also stated that OPEC had no target for world oil prices but added that he was not in favor of very high oil prices. Meanwhile OPEC's President Chakib Khelil said falling production in non-OPEC countries such as Russia and the continued devaluation of the dollar have contributed to the rise in world oil prices.

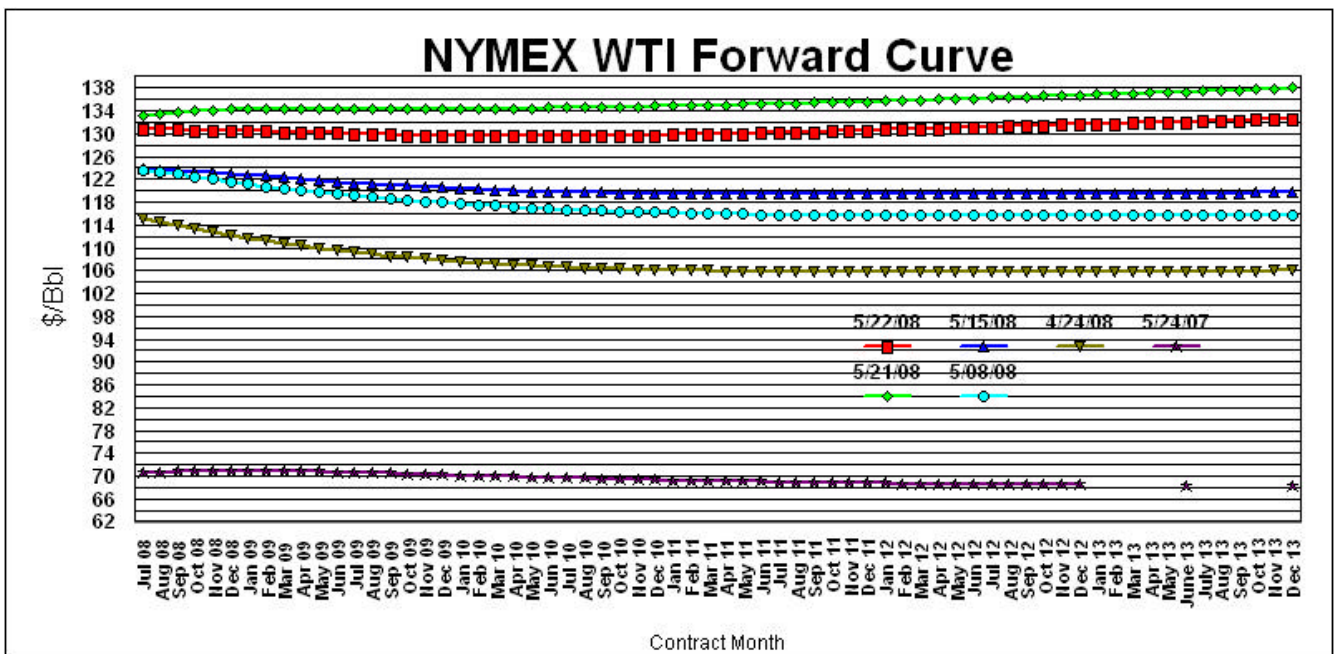
Iran's new OPEC governor, Mohammad Ali Khatibi said there is no need for OPEC to increase its oil production. He blamed oil's rise on investment funds moving to oil from other markets and the weakness of the dollar. He also said there was no reason for OPEC to meet before its next scheduled meeting in September. Iran's OPEC governor also stated that the country had yet to conclude a review of its oil production. He declined to say if the review would lead to any change in Iran's output.

The IEA's chief Nobuo Tanaka said the IEA believed there was enough crude to last until 2030 but questioned whether the financial resources needed to bring them to market would be brought to bear.

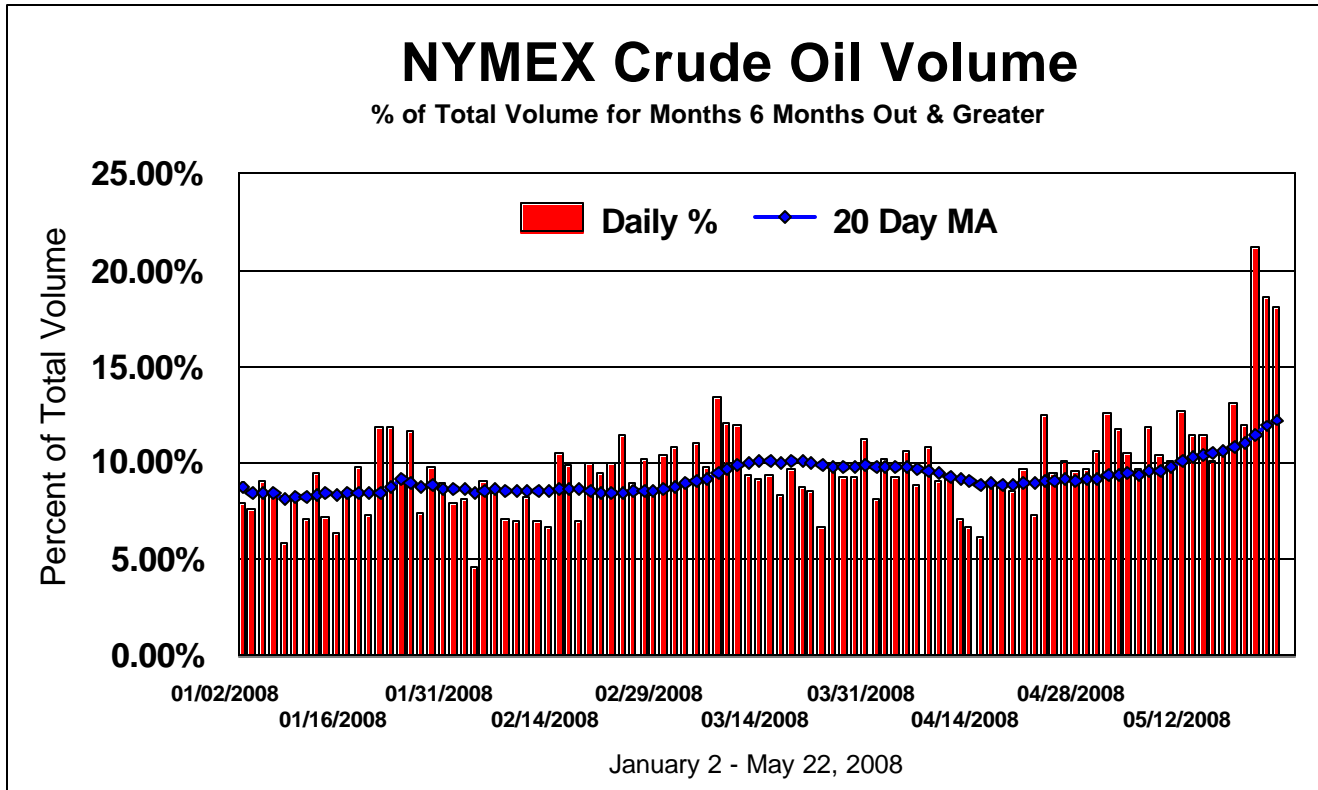
Separately, the IEA's chief economist, Fatih Birol said the IEA was reviewing its long term outlook for oil supply in its World Energy Outlook, which is scheduled to be published in November. Its review comes in the wake of increasing skepticism in the oil industry about mainstream supply forecasts for the long term. It has previously estimated that world oil production would increase to 116 million bpd by 2030 from about 86 million bpd. In its Medium Term Oil Market Report, due out in July, is expected to note tight supply in the next few years. It is expected to state that a shortage of engineers and rising prices for rigs has also hampered production growth.

US Secretary of State Condoleeza Rice warned Iran that if it did not make the right choice and abandon sensitive nuclear work it faced more punitive action from the international community. She said Iran would face more isolation if it did not give up the uranium enrichment the West suspects is aimed at building a nuclear weapon.

According to Oil Movements, OPEC's crude oil shipments are expected to increase by 360,000 bpd to 24.87 million bpd in the four week period ending June 7. It said the majority of the additional oil is



expected to come from Middle Eastern OPEC producers, which are expected to increase their shipments by 340,000 bpd to 18.02 million bpd.



The National Oceanic and Atmospheric Administration predicted that the 2008 Atlantic hurricane season would be active with 12 to 16 named storms, six to nine of which are expected to become hurricanes. It stated that out of the six to nine hurricanes, two to five would be major ones of Category 3 or higher with winds above 110 miles/hour. Colorado State University has predicted 15 tropical storms, 8 of which would be hurricanes and 4 are expected to become major hurricanes.

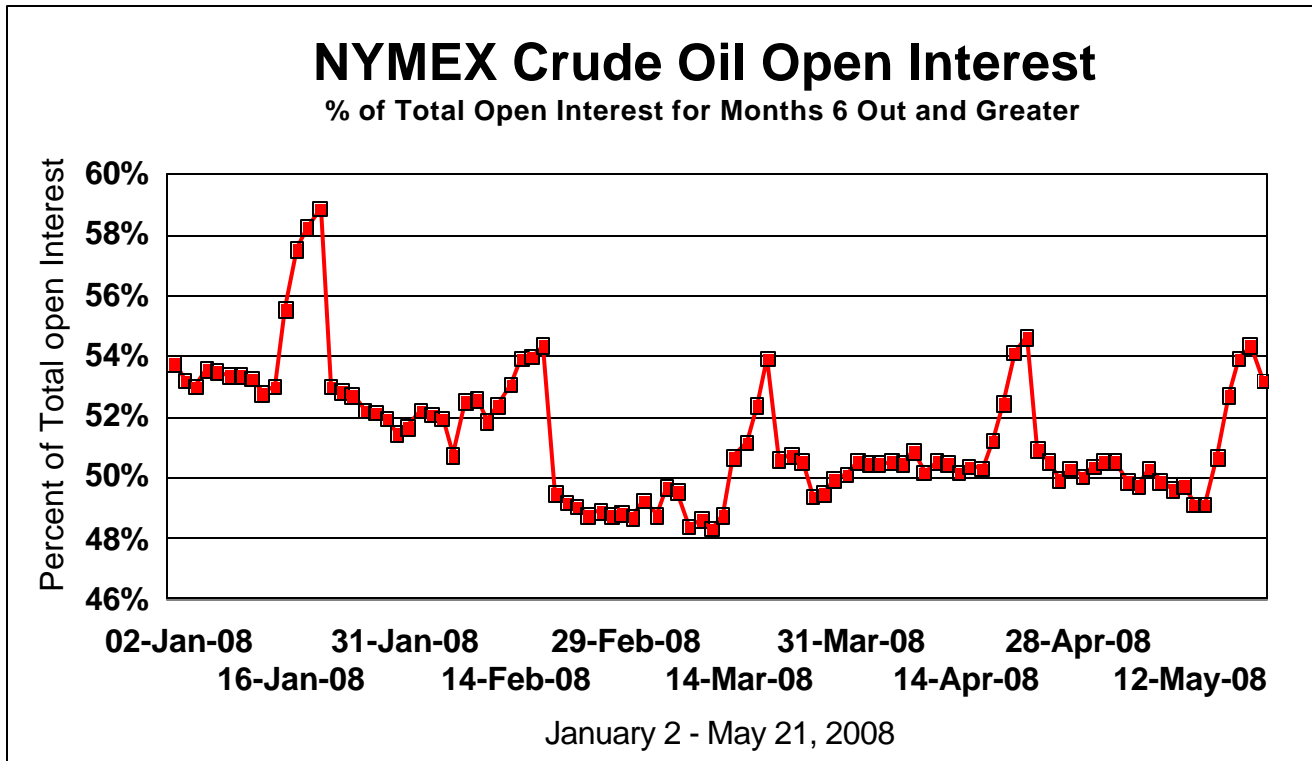
Refinery News

Alon USA Energy Inc's diesel hydrotreater unit outage at its 70,000 bpd Big Spring, Texas refinery had no impact on production.

French protests impacted the energy sector on Thursday, blocking access at oil refineries and cutting the capacity for power output and regasification of liquefied natural gas. A 24 hour strike at France's Fos-Lavera oil port blocked a total of 25 oil tankers from entering the port or stranded at the terminal. Fishermen prolonged their protest over high fuel prices and blocked truck exits of two refineries near Marseille and fuel depots in western and southern France. They blocked Total's 155,000 bpd La Mede refinery and ExxonMobil's 115,000 bpd Fos-sur-Mer refinery. Meanwhile gas and power workers went on strike as part of a day of action against government plans to make people work 41 years before being able to draw a full pension compared with 40 years and to fight the rising cost of living.

China's apparent oil demand increased by 3.7% in April to 7.2 million bpd as refiners cutback on domestic output due to low margins. It was down from an 8% increase in March. In the year through April, implied demand increased by 5.6% to 7.22 million bpd. China's General Administration of Customs said China's crude imports fell by 4% to 3.47 million bpd following a 24.8% increase to 4.07 million bpd in March. It was the first decline in imports seen in 18 months.

The lasting impact on oil demand in China is likely to be tied to the region's dams following the 7.9 magnitude earthquake. Currently, the impact is seen minimal with electricity generation in the region that contributes one-eighth of China's hydropower output quickly recovered to 80% of pre-quake status, easing immediate supply concerns. However the condition of Sichuan's rivers and dams



remain uncertain following the May 12 earthquake, as power demand peaks during the summer season. Sichuan has seen a small increase in demand linked to rescue and relief efforts. Industry officials have stated that they see little danger of a direct impact on oil demand from a largely undeveloped region.

Sinopec and PetroChina Co said they were tightening diesel supply to southern China in a bid to curb the black market. Sinopec said it was limiting supply to customers who were not its contract clients to prevent speculators from buying large volumes of fuel and reselling them in the black market.

Japan's Ministry of Finance said the country's customs cleared crude oil imports increased by 10% on the year in April to 21.276 million kiloliters or 4.46 million bpd.

Japan's Teiseki Topping Plant Co Ltd started scheduled maintenance on its 4,724 bpd crude distillation unit on Thursday. The CDU is scheduled restart on June 9. The unit is then expected to shutdown for a week in mid-November for further maintenance.

Japan's Nansei Sekiyu KK has delayed the start of scheduled maintenance on a 100,000 bpd crude distillation unit at its plant in Okinawa by a month to the second half of June.

South Korea's Hyundai Oilbank is expected to increase its crude runs to about 295,000 bpd in June

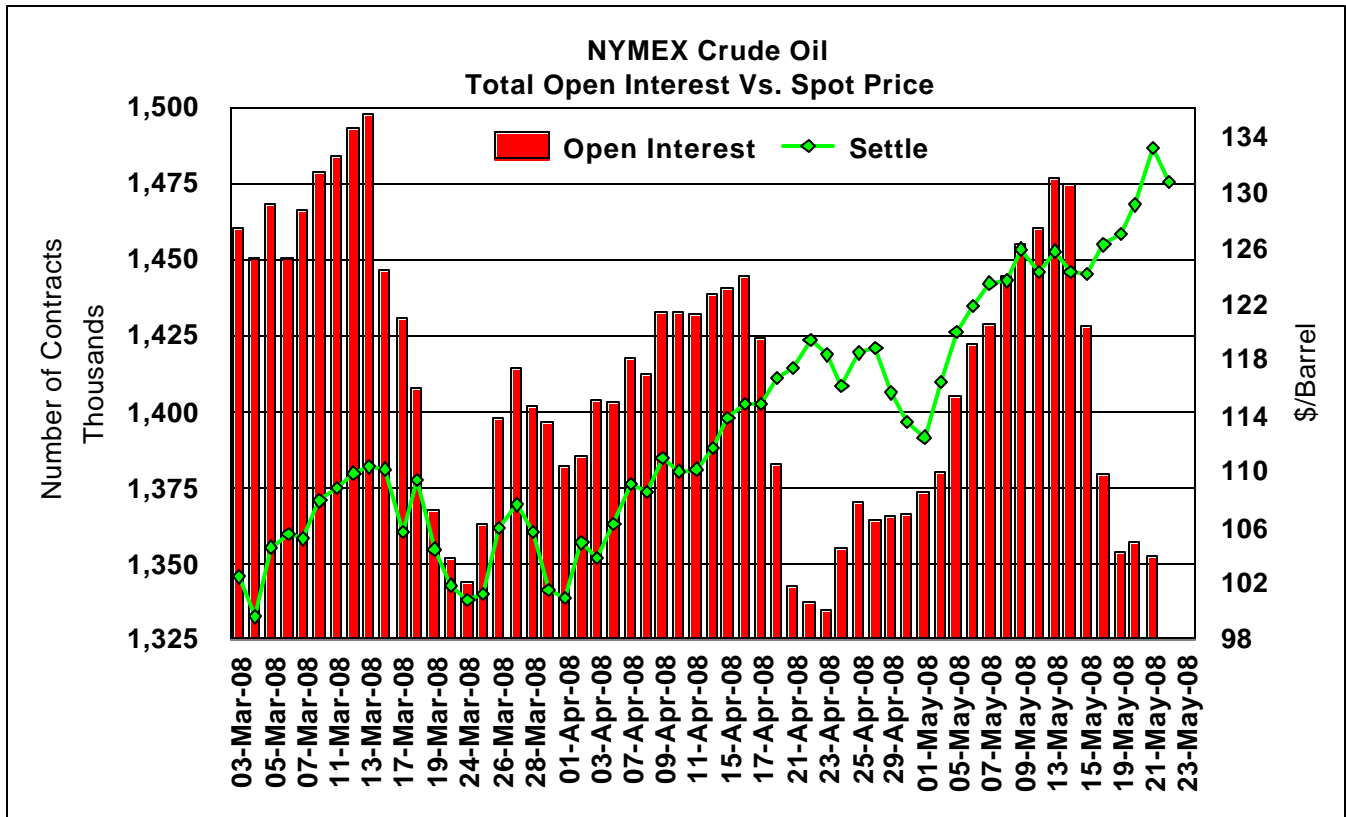
NYMEX Petroleum Options Most Active Strikes for May 22,2008								
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LC	12	8	P	110	11/17/2008	4.6	1,100	41.28
LC	12	8	P	118	11/17/2008	7.08	500	41.26
LC	12	8	C	135	11/17/2008	10.95	400	29.14
LC	12	8	P	125	11/17/2008	9.97	300	41.75
LC	12	10	P	70	11/16/2010	2.37	300	39.75
LC	10	8	P	95	09/17/2008	0.85	300	41.77
LO	7	8	P	105	06/17/2008	0.2	5,688	45.63
LO	12	8	P	110	11/17/2008	4.61	5,097	37.29
LO	8	8	P	120	07/17/2008	3.28	3,369	38.59
LO	7	8	C	140	06/17/2008	2.14	3,077	38.77
LO	7	8	C	135	06/17/2008	3.54	2,936	38.17
LO	10	8	P	101	09/17/2008	1.49	2,910	38.93
LO	9	8	P	100	08/15/2008	0.9	2,878	41.11
LO	7	8	C	150	06/17/2008	0.7	2,759	39.97
LO	12	8	C	49.5	11/17/2008	81.04	2,600	113.31
LO	7	8	P	130	06/17/2008	4.85	2,266	37.99
LO	12	8	C	140	11/17/2008	9.27	2,263	36.79
LO	7	8	C	165	06/17/2008	0.11	2,136	41.75
LO	12	8	P	85	11/17/2008	0.73	2,095	39.56
LO	10	8	P	102	09/17/2008	1.62	1,980	38.80
LO	7	8	C	145	06/17/2008	1.24	1,904	39.33
LO	12	8	C	42	11/17/2008	88.54	1,850	133.83
LO	12	8	C	37.5	11/17/2008	93.04	1,850	148.38
LO	7	8	C	155	06/17/2008	0.38	1,834	40.47
LO	9	8	P	110	08/15/2008	2.24	1,806	39.69
LO	12	9	C	200	11/17/2009	5.51	1,700	36.51
LO	12	9	P	90	11/17/2009	4.49	1,700	35.26
LO	7	8	P	124	06/17/2008	2.51	1,696	38.66
LO	8	8	P	115	07/17/2008	2.09	1,619	39.37
LO	12	8	C	48.5	11/17/2008	82.04	1,600	115.83
LO	7	8	P	100	06/17/2008	0.09	1,597	47.62
LO	7	8	C	131	06/17/2008	5.17	1,526	38.00
LO	7	8	P	80	06/17/2008	0.01	1,520	63.98
LO	12	8	C	180	11/17/2008	2.48	1,502	39.60
LO	12	8	C	52	11/17/2008	78.54	1,500	107.27
OB	10	8	C	3.44	09/25/2008	0.1871	799	40.47
OB	10	8	C	3.5	09/25/2008	0.1733	727	41.05
OB	10	8	C	3.47	09/25/2008	0.18	668	40.76
OB	10	8	C	3.41	09/25/2008	0.1946	668	40.20
OB	10	8	C	3.46	09/25/2008	0.1823	510	40.66
OB	6	8	C	3	05/27/2008	0.3298	501	38.14
OH	8	8	P	3.08	07/28/2008	0.0078	780	34.30
OH	1	9	C	4.5	12/24/2008	0.3	550	37.81
OH	2	9	C	4.5	01/27/2009	0.2414	525	30.82
OH	2	9	C	4.4	01/27/2009	0.2726	525	30.90
OH	1	9	C	4.1	12/24/2008	0.369	518	31.61
OH	1	9	C	4	12/24/2008	0.415	510	31.75

from May's 285,00 bpd as a crude unit undergoing maintenance resumes operations. The crude unit is expected to restart the unit by June 12. Due to the turnaround, Hyundai may skip exports of gasoil in June compared with 30,000 tons exported last month while jet fuel exports next month remain at May levels of 60,000 tons.

Ukraine's Ukrtransnafta said it was ready to carry out an experimental shipment of 44,000 tons of light crude through the Odessa-Brody pipeline to the Czech Republic. It could be the first step in turning the pipeline into a regular transit route pumping Caspian oil to European refineries instead of its initial use to send Russian oil to Black Sea ports near Odessa. Ukraine's President Viktor Yushchenko issued a decree to work out measures to redirect the pipeline to supply Europe from 2008.

Singapore's residual fuel stocks fell by 163,000 barrels to 19.521 million barrels in the week ending May 21. Its light distillate stocks built by 266,000 barrels to 8.988 million barrels while its middle distillate stocks fell by 108,000 barrels to 8.212 million barrels on the week.

Gas oil stocks fell by 10,000 tons on the week and by 632,000 tons on the year to



1.154 million tons in the week ending May 22. Gasoline stocks increased by 11,000 tons on the week and by 263,000 tons on the year to 1.026 million tons while fuel oil stocks increased by 69,000 tons on the week and by 282,000 tons on the year to 772,000 tons. Naphtha stocks increased by 2,000 tons on the week and by 88,000 tons on the year to 163,000 tons while jet fuel stocks fell by 6,000 tons on the week and by 127,000 tons on the year to 229,000 tons.

Production News

Nigeria increased its official selling prices for all its crude oil grades for June. It increased the price of its Bonny Light and Qua Iboe crude grades by 50 cents to dated plus \$4.00/barrel. The price of its Escravos crude was increased by 60 cents to dated plus \$3.50/barrel while the price of its Forcados crude was increased by 50 cents to dated plus \$4.05/barrel.

Kazakhstan announced plans on Thursday to enforce an oil export duty for all producers in the country starting next year. Kazakh officials have so far assured Western companies their operations would not be liable as their production contracts cannot be changed. The duty of \$109.91/ton has been imposed mainly on domestic producers. Kazakhstan's Finance Minister Bolat Zhamishev said he supported moves to impose the duties on all producers in the country to increase budget revenues and stabilize domestic supplies.

The Russian government's inner cabinet of key ministers is expected to review whether to cut taxes in the oil sector on Monday. Russia's former President and current Prime Minister Vladimir Putin pledged this month to reduce taxes within the oil sector to revive production growth.

Indonesia's Energy Minister Purnomo Yusgiantoro said Indonesia plans to increase the price of subsidized gasoline by 33% and diesel oil by 27.9%, as part of government moves to cut oil subsidies. The subsidized gasoline price would increase to 6,000 rupiah/liter or 64 cents/liter from 4,500

rupiah/liter while the subsidized diesel oil price would increase to 5,500 rupiah from 4,300 rupiah/liter. The subsidized price of kerosene would increase to 2,500 rupiah/liter from 2,000 rupiah.

India's cabinet may meet on Friday to consider raising retail fuel prices in the wake of surging crude prices.

Petrobras has struck oil in the BM-S-8 block off the coast of Sao Paulo state. However it has not released any information about the size of the oil discovery.

Market Commentary:

Energy prices initially moved higher today in reaction to statements by the IEA that it would reduce its long term projection for world oil output, although no numbers were suggested. News that prices do not reflect supply and demand, sent prices falling over \$2.00 a barrel. Consumption averaged 20.3 million barrels per day over the last four weeks, down 1.3% on the year, another indication that prices aren't reflective of supply and demand. Then why the recent surge in prices, you may ask. As depicted on the chart included in our wire, open interest going into expiration tends to fall off, as does the front month contract. This expiration however, that was not the case. It appears that this time around, the market is experiencing short covering, and not new length being put on in the front part of the curve. We would like to see how open interest comes in for today's activity. We would expect to see another decline in open interest, due to short covering, which was indicated in the front to back end spreads and how they strengthened today. Eight out of the last ten weeks, the crude oil market traded lower on a Thursday and then back up again on Friday. With tomorrow being Friday and in front of a long weekend, we would look to see more short covering in the front end of the curve, which in turn should strengthen front to back spreads. Overall we believe that this market can retrace back to the \$120.65 level and still remain bullish. Heating oil remained strong again today, unable to take out the unchanged level to the downside. RSI's and slow stochastics are still in overbought territory with the stochastics crossing to the downside. Our opinion of this market also remains bullish, but we would not discount a period of consolidation prior to a move higher. Basis the June contract, a retracement back to the \$3.6245 level is possible. Gasoline fell just shy of testing the \$3.2959 trendline on the downside today and we would look for another test of that trendline tomorrow, which comes in at \$3.3074. Total open interest for crude oil is 1,353,287 down 3,370, July08 376,547 down 12,710, August08 90,630 up 2,573, December 08 216,305 up 711. Total open interest for heating oil 223,764 down 2,237, June08 36,774 down 4,333 and July 65,515 up 2,328. Total open interest for gasoline, 275,629 up 257, June 08 44,741 down 5,758 and July 90,887 up 1,848.

July Crude Support	July Crude Resistance
128.96,122.80,120.90,109.60,98.60, 85.40	136.80
Heating oil support	Heating oil resistance
3.6245, 3.5425 , 3.5100, 3.3500, 3.1680, 3.0980	4.0315,4.0475,4.0640
Gasoline support	Gasoline resistance
3.3075,309.20,3.0730, 3.0400, 3.0250, 2.9255	3.63.45,3.755,34655