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ENERGY MARKET REPORT FOR MAY 23, 2008

US Energy Secretary Sam Bodman said raising margin requirements at the NYMEX would not curb speculative trading and cause prices to fall.

Diplomats said Iran was continuing to stonewall the UN's IAEA's investigations into allegations that it has carried out studies to design a nuclear weapon.

Iran has insisted that a series of recent visits by the IAEA inspectors to discuss the issue had gone well. However a western diplomat said Iran had moved little beyond asserting that the allegations were baseless and that the intelligence used to support them was not true. The IAEA's latest report is set to be circulated to the board early next week so that it can be discussed at a full board meeting at the beginning of June. The report is expected to confirm again that Iran has ignored UN Security Council demands to halt uranium enrichment, despite three rounds of sanctions. Separately, a diplomat said the European Union was preparing sanctions against Iran's Bank Melli. However he said it wanted to see how Iran responded to a new offer of political and economic incentives by major powers on its nuclear program before acting. The 27 nation bloc was making legal and technical preparations for an asset and funds freeze on the bank.

A senior official at the IEA said better data on oil supply and demand could help to prevent any speculative overshoot. In particular, there is lack of data from China, the world's second largest consumer after the US.

Nigerian police and security sources said two foreigners working for Nigeria's Lonestar were kidnapped in the Niger Delta in southern Nigeria on Friday.

Market Watch

US heating oil prices are expected to maintain a premium to gasoline through the summer for the first time on record on fears over tight global distillates supplies and weaker gasoline demand. The tight power supply in parts of Asia, Middle East and Latin America has increased the world demand for distillate fuels for use in generators that has pressured inventories in the US and Europe. Meanwhile, the high price of gasoline and weakening economy has cut into gasoline demand growth. Analysts believe that any easing of world demand for distillates late in the summer would be followed by stockpiling for the next Northern Hemisphere winter.

European clearinghouse LCH.Clearnet said it would raise initial margins for Brent crude, WTI crude and Gasoil futures contracts on the IntercontinentalExchange. The initial margin for traders holding an outright position would increase to \$10,000 on Brent crude, and to \$11,000 on WTI from \$7,500 for both contracts. Gasoil margins would increase to \$8,000 from \$7,000. The changes would take effect at the close of business Tuesday.

May Calendar Averages

CL – 124.29
HO – 356.90
RB – 316.63

Refinery News

Euroilstock reported that European refinery production increased in April following the completion of spring maintenance work. Middle distillate production increased by 5.1% on the month and by 5.1% on the year to 6.2 million bpd while gasoline production increased by 5.1% on the month and increased by 1% on the year.

ConocoPhillips said its 139,000 bpd refining complex in Los Angeles was restarting units following a 7 week overhaul. The units were expected to be in operation within days.

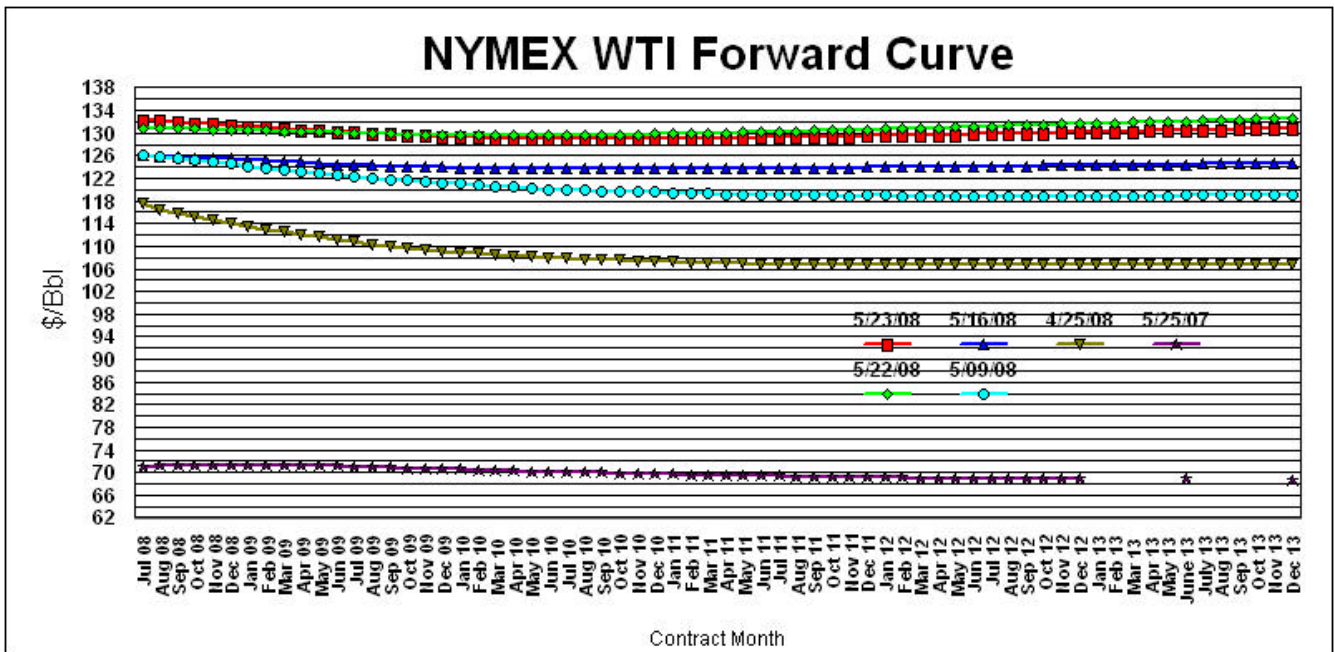
ExxonMobil Corp said it had an unplanned compressor shutdown at its 150,000 bpd refinery in Torrance, California on Thursday. However it added that the problem would have a minimal impact on production.

French fishermen battling for cheaper fuel ignored calls by the government to lift their blockades of ports on Friday and found new ways to disrupt traffic on land and at sea. They have been blocking ports and fuel depots for more than a week and their protest has gradually escalated despite a government promise to provide 110 million euros or \$173 million in aid this year. Meanwhile, Total reported sporadic supply problems in some filling stations in the south of the country, where two fuel depots have been under siege for days. Total said the fishermen have blocked deliveries at two of its refinery, its Dunkirk and Gonfreville refineries.

Japan's Nippon Oil Corp is scheduled to begin maintenance on its 70,000 bpd No. 2 crude distillation unit at the Negishi refinery starting Saturday. Maintenance on the crude distillation unit is scheduled to last 34 days to June 27.

South Korea's SK Energy increased its crude refining rates to 980,000 bpd from 870,000 bpd earlier in the month. However it is expected to cut runs to below 750,000 bpd in June due to maintenance at four of its crude units. SK Energy is expected to export about 80,000 tons of gas oil and 40,000 tons of jet fuel in June, compared with 140,000 tons of gas oil and 120,000 tons of jet in May.

China's General Administration of Customs reported that China imported 541,340 tons of jet kerosene



in April, up 45% on the year. Imports in the first four months of the year increased to 1.99 million tons, up 18% on the year. It also reported that China exported 404,504 tons of jet kerosene in April, up 14% on the year while exports in the first four months of the year increased by 27% on year to 1.66 million tons.

Production News

Mexico’s Pemex said its crude oil production and exports fell in the first four months of the 2008. It produced an average of 2.875 million bpd this year through April, down 9% on the year. Mexico’s crude exports fell 13% on the year during the first four months of the year. Pemex said oil export revenue increased 52% to \$15.404 billion. Mexico’s oil production in April fell by 2.8% on the month to 2.767 million bpd, below its 3 million bpd target. Its exports in April stood at 1.439 million bpd, down from 1.628 million bpd in March.

Total SA said it hoped to become the biggest group in Angola in two to three years with production of 700,000 bpd, up from its current level of 290,000 barrels.

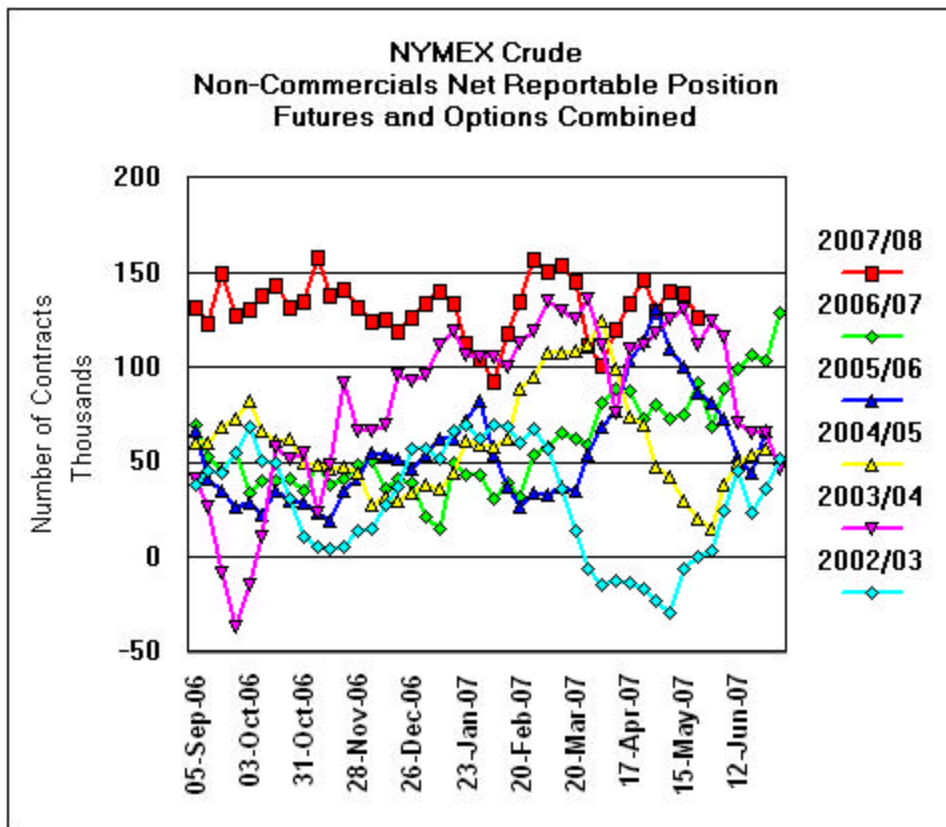
A preliminary schedule showed that Russia’s crude oil exports from sea ports are expected to fall by 20,000 bpd on the month to 2.93 million bpd in June.

Indonesia awarded exploration rights for five oil and gas blocks to several companies on Friday, including Italy’s Eni, Malaysia’s Petronas and China’s CNOOC.

Indonesia’s Vice President Jusuf Kalla said the government could not guarantee that there would be no further fuel prices hikes after a current plan to increase subsidized fuel prices by an average of about 30%. A senior central banker said the plan could push Indonesia’s inflation rate above 12% this year and interest rates would have to increase to tackle it.

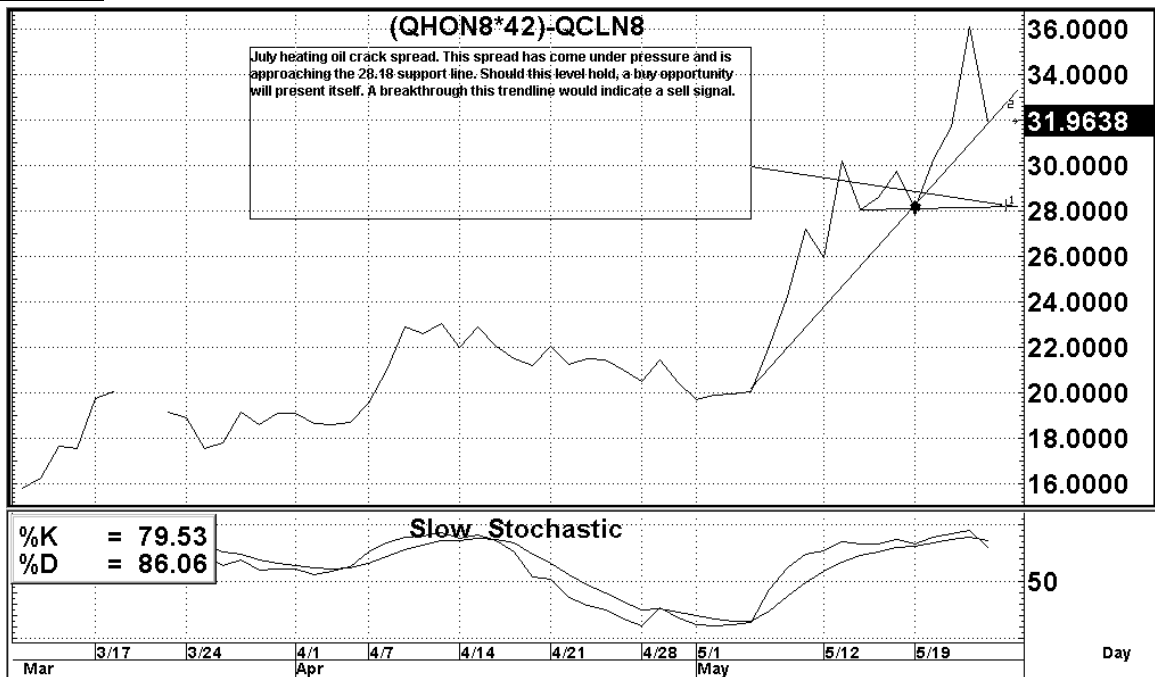
India’s Petroleum Secretary M.S. Srinivasan said India is set to raise petrol and diesel prices to keep pace with crude oil’s rally. He also stated that the Oil Ministry was also seeking tax changes to help Indian Oil Corp, Hindustan Petroleum Corp and Bharat Petroleum Corp, which are forced to sell fuel below cost. The government is however worried that the higher prices would stoke inflation.

OPEC’s news agency reported that OPEC’s basket of crudes increased to \$127.59/barrel on Thursday from \$124.45/barrel on Wednesday.



Market Commentary:

Ahead of the U.S. Memorial Day weekend, gasoline and crude oil strengthened today, while heating oil sold off. Front to back end crude oil spreads firmed up as expected, with the December 08/December



r 09 spread trading out to as wide as \$2.53. The forward curve has changed slightly in appearance with the middle of the curve bowing slightly and the back end now under the front end. With exchange margins running high, weak shorts have been forced out of the market and fund traders have been forced to liquidate due to the high cost of holding on to positions. Fundamentally, this market is still considered to be in a bullish trend but should experience some periods of lower prices prior to moving higher. Slow stochastics are indicating a correction with % K trending lower than %D. RSI's are still in over bought territory and as of the close of today have turned back upward. Today's activity for crude oil makes this nine out of the last ten weeks that prices traded lower on a Thursday only to firm up on the following Friday. Coming into next week, we would expect prices to remain strong, working towards the Goldman projected price of \$141.00. As more and more shorts exit the market, the front to back end spreads should continue to firm up. Heating oil came under long overdue pressure and was the only market to settle lower on the day. Demand for diesel is still running high, with heating oil being an alternative, this product will continue to experience unseasonable strength. Heating oil crack spreads came under pressure today as crude oil outpaced heating oil. The July heating oil crack has come under pressure and is setting up to test the \$28.00 support level. A bounce off of this level would provide a buying opportunity and a penetration would provide a selling opportunity. Although under pressure today, gasoline has managed to trade above the ascending channel since breaking above it earlier in the week. As long as the spot month in gasoline can remain above this channel, we would continue to look for a test of the projected upside level of \$3.5810. Total open interest for crude oil is 1,356,309 up 3,022, July08 378,974 up 2,427, August08 91,509 up 879, December 08 210,475 down 5,830. Total open interest for heating oil 221,933 down 1,831, June08 32,627 down 4,147 and July 65,406 down 109. Total open interest for gasoline, 274,702 down 927, June 08 41,797 down 2,944 and July 92,973 up 2,086.

The Commitment of Traders report showed that non-commercials in the crude market cut their net long position by 21,537 contracts to 50,230 contracts in the week ending May 20th. It showed that non-commercials cut their total long position by 19,830 contracts to 243,548 contracts on the week. The combined futures and options report showed that non-commercials in the crude market cut their net

long position by 12,963 contracts to 126,514 contracts. Meanwhile non-commercials in the heating oil market cut their net long position by 593 contracts to 18,996 contracts while non-commercials in the RBOB market increased by 2,635 contracts to 69,920 contracts on the week.

July Crude Support	July Crude Resistance
129.30,121.25,119.36,109.60,98.60, 85.40	136.80,141.00,147.54
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