



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta  
& Karen Palladino

**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

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### **ENERGY MARKET REPORT FOR MAY 27, 2008**

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Rebels from Nigeria's southern Niger Delta blew up a Royal Dutch Shell oil pipeline on Monday, forcing the firm to cut production. The attack was carried out while Shell was trying to repair damage caused by a series of similar attacks last month. Shell said some oil had spilled from its Nembe Creek trunk line, after the attack. Nigeria's Oil Minister Odein Ajungobia said he expected 175,000 bpd of oil production lost as a result of militant attacks to be restored in the coming weeks but added that 470,000 bpd remained offline due to security problems. Separately, he stated

#### **Market Watch**

Weather forecasters are monitoring conditions in the topics that could lead to low pressure development even though the official start of the Atlantic hurricane season is nearly a week away. AccuWeather said areas of particular interest are the western Caribbean and the region near the Yucatan Peninsula of Mexico. It said a tropical depression or storm could form later this week. A combination of a wave and low pressure system could form the first tropical activity of the season. It could drift into the southern or central Gulf of Mexico by early to middle of next week. Meanwhile, Weather Underground said its models have been predicting the development of a low pressure system near or over Central America by Friday.

The Conference Board said US consumer confidence fell to 57.2 from 62.3 in April, amid rising gasoline prices and falling home prices. Meanwhile inflation expectations increased to a high of 7.7%, well above April's 6.8%.

The Dubai Gold and Commodities Exchange's new crude futures contract saw moderate trade on its debut on Tuesday. The August light sweet crude contract traded 2,622 lots and settled at \$128.94/barrel, down \$3.36 from the opening. Some traders said the volume on the Dubai WTI contract was more than expected but it would be weeks before the success of the contract could be measured.

Iran Mercantile Exchange said it planned to start trading futures contracts in several commodities in July. It started trading spot contracts in petrochemical products, which require immediate payment and delivery, on February 17 and is expected to expand into futures trading. It is expected to start with petrochemical products, aluminum, gold or copper. Oil futures trading is not expected to start before two years. The exchange would limit its commodity trading to the Iranian domestic market and transactions would be made in the local currency, the rial.

#### **May Calendar Averages**

**CL** – 124.98

**HO** – 359.83

**RB** – 319.11

that world oil prices were being driven to record highs by fears of a future supply shortfall but added that there was currently not such shortage in the market.

OPEC's President Chakib Khelil reiterated that OPEC would not meet to discuss the oil market until its next scheduled meeting in September.

The chief economist at the IEA, Fatih Birol said it would be optimistic to assume oil prices would fall much in the next few years. However he said it would be too optimistic to expect prices to fall substantially to prices seen in the past.

Germany's Foreign Minister Frank-Walter Steinmeier said the UN's IAEA's report on Iran showed the international community has to push for a more rapid response from Iran over its nuclear program. The IAEA said Iran's alleged research into nuclear warheads remained a matter of serious concern and Iran should provide more information on its missile related activities. It said Iran was holding back information on high explosives testing relating to its nuclear program. It said Iran continued to defy UN demands. Meanwhile, a senior Iranian official said Monday's IAEA report showed that Iran's nuclear program was peaceful.

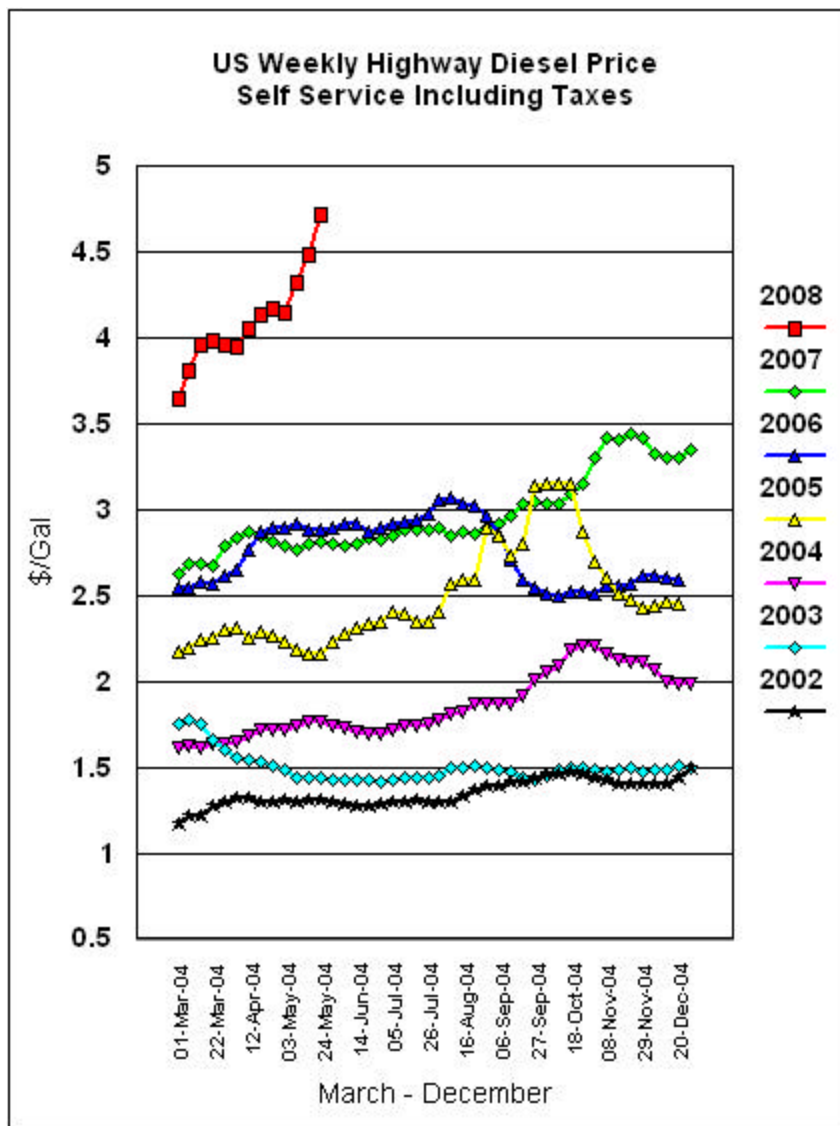
The EIA reported that the US average retail price of diesel increased 5% or 22.6 cents/gallon to a record of \$4.723/gallon in the week ending May 26. The EIA also reported that the US average retail price of gasoline increased by 14.6 cents/gallon to \$3.937/gallon on the week. It was up 72.8 cents/gallon on the year.

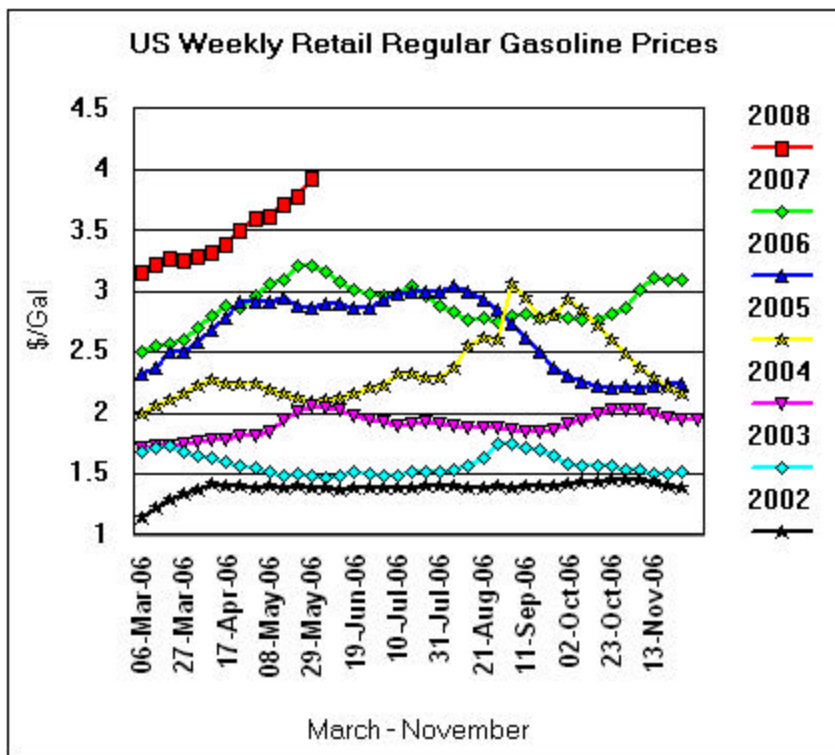
The AAA Daily Fuel Gauge Report said the average US price of diesel on Tuesday was \$4.768/gallon, up from \$4.765/gallon on Memorial Day. It is up 63.3% on the year.

French President Nicolas Sarkozy said the European Union should consider suspending some of the value added tax on oil products if prices continue to increase. Leaders in France, Spain and the UK and other European countries have been facing protests and threats of blockades from fishermen, farmers, truckers and taxi drivers demanding action to lower record fuel costs. Meanwhile truckers in Britain converged in London in a protest over rallying fuel prices. They are seeking special government subsidies. Diesel fuel is now about 130 pence or \$2.57/liter in Britain, more than double the price in the US where the average diesel price was \$4.49/gallon.

**Refinery News**

ExxonMobil Corp's 563,000 bpd Baytown, Texas refinery was back to normal operation following an upset in hydrocracking unit No. 1. The hydrocracker problem had no impact





on operations at the refinery.

Valero Energy Corp said the restart of a crude oil vacuum distillation unit at its Aruba refinery and a coker unit at its Delaware City complex has been delayed but the units are expected to resume soon. The units were previously expected to resume operations in mid-May. Meanwhile, Valero Energy Corp shut the 55,000 bpd fluid catalytic cracking unit at its 160,000 bpd refinery in Paulsboro, New Jersey after discovering a leak in an expansion joint.

Ineos' 200,000 bpd Grangemouth refinery is expected to restart its hydrocracker unit by the end of May following the completion of repair work. The unit was shut on May 10 after a small fire.

French port workers were holding a 24 hour partial strike at France's Fos-Lavera port on Tuesday in protest against the privatization of the loading activities of state run ports. The port could not give details on the number of ships blocked from entering the port or from loading. Meanwhile French fishermen blocked for the fifth day the fuel depot of Total's 328,000 bpd Gonfreville refinery but lifted their blockade at the southern fuel depot of Port-La-Nouvelle.

Bulgaria's 140,000 bpd Neftochim refinery's crude distillation units were not affected by a power outage on Tuesday. Due to the lack of steam supply after the outage, the installations producing petrochemicals and polymers were shutdown. Production is expected to resume later on Tuesday or early Wednesday. The cause of the incident was being investigated.

BP Plc announced that it would back a project by NIC Holding Group to reverse and reactivate an oil pipeline in Panama. Under the agreement NIC is expected to reverse the pipeline by 2010, allowing crude from the Atlantic to be pumped to the Pacific side of Panama. The reversal could cut 30 days off the time it takes to transport crude from West Africa to a refinery on the US West Coast. BP said its BP Products North America unit is expected to ship crude to its West Coast refineries through the Trans-Panama Pipeline as a result of an agreement with Petroterminal de Panama SA. It said it would acquire 5 million barrels of storage and commit to pipeline shipments of 65,000 bpd under the terms of the agreement.

Petrolifera said diesel demand in Italy is expected to increase by about 50% in 2010 from 2000, while petrol consumption is seen falling about 37% over the same period. Diesel demand is expected to reach 32 billion cubic meters in 2010. Meanwhile its petrol demand is expected to fall to 14.4 bcm in 2010.

German heating oil stocks stood at 45% of capacity on May 1, down from 53% last year and down from 46% in April.

China's Sinopec Corp received 7.1 billion yuan or \$1.02 billion in government subsidy in April to offset its processing losses. China has offered tax incentives over the past two years to help stem widening refining losses as crude surged to peaks above \$135/barrel.

Indonesia's Balongan refinery is operating at full capacity after it shutdown its 83,000 bpd residual fluid catalytic cracking unit in early May. The shutdown had forced the refinery to import extra gasoline and diesel for May delivery. Pertamina is expected to import 5.6% less oil products in June than in May. It is expected to import 12.01 million barrels of oil products, with gasoline imports at 4.42 million barrels, fuel oil imports at 1.11 million barrels, diesel imports at 6.2 million barrels and jet fuel imports at 280,000 barrels. Meanwhile, Indonesia's Pertamina is set to export 1.6 million barrels of low-sulphur waxy residues for June, down 16% on the month. Pertamina shipped 1.9 million barrels of LSWR this month and its June 2007 LSWR exports were much higher at 2.48 million barrels.

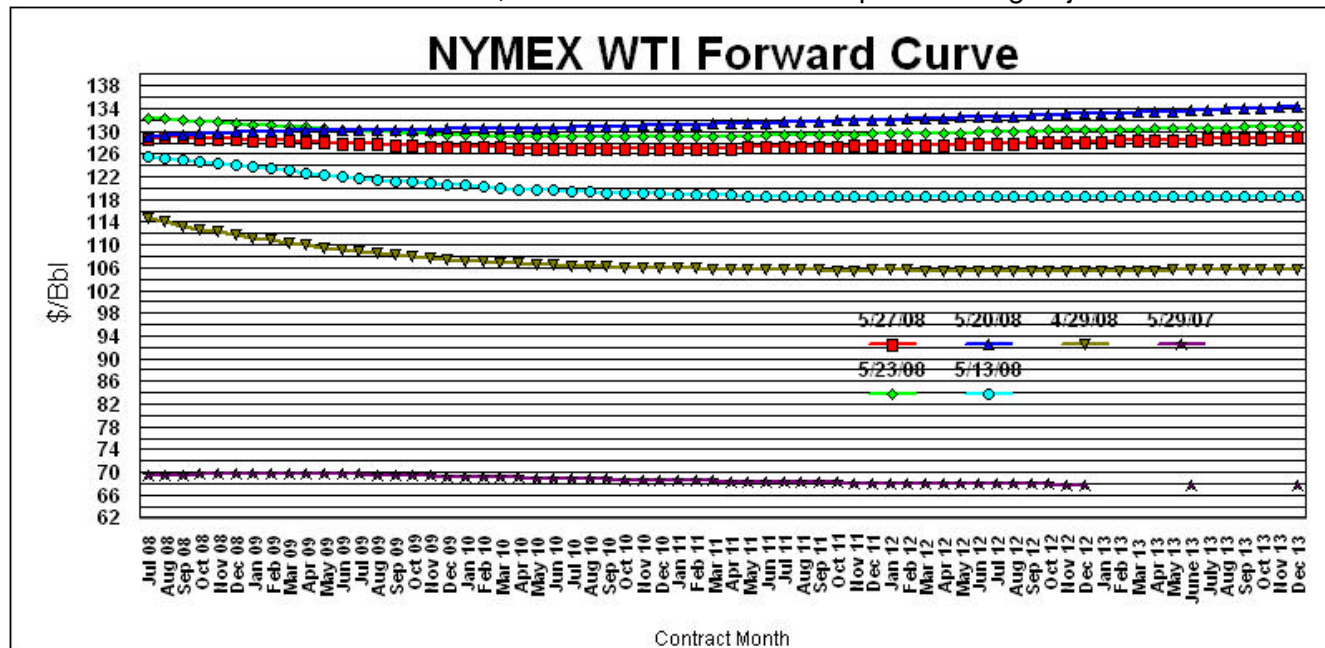
Nigeria has issued a tender to import gasoline and dual purpose kerosene for delivery for the July-September period. In the last tender, Nigeria bought 33 cargoes of gasoline, each carrying 30,000 tons of the fuel and 10 of dual-purpose kerosene for delivery from March to April.

China Aviation Oil Corp floated its monthly buy tender seeking up to 484,000 tons of jet fuel for July delivery.

**Production News**

Saudi Aramco's oil production for 2007 fell by an average 400,000 bpd on the year to 8.5 million bpd or 3.11 billion barrels. Aramco's total crude oil exports reached about 2.41 billion barrels in 2007, down 5.1% from 2.54 billion barrels in 2006. The Far East accounted for 52.1% of crude oil exports in 2007, the US for 20.5% and Europe for 5.1%. Refined products output in 2007 fell to 571.06 million barrels from 595.66 million barrels. It exported 136.01 million barrels of refined products in 2007, down from 183.96 million barrels in 2006.

The International affairs director of the National Iranian Oil Co, Hojjatollah Ghanimifard said Iran's oil exports fell by about 200,000 bpd between April 20 and May 20 due to reduced demand from refiners in maintenance. Earlier in the month, he stated that Iran's oil exports averaged just over 2.45 million

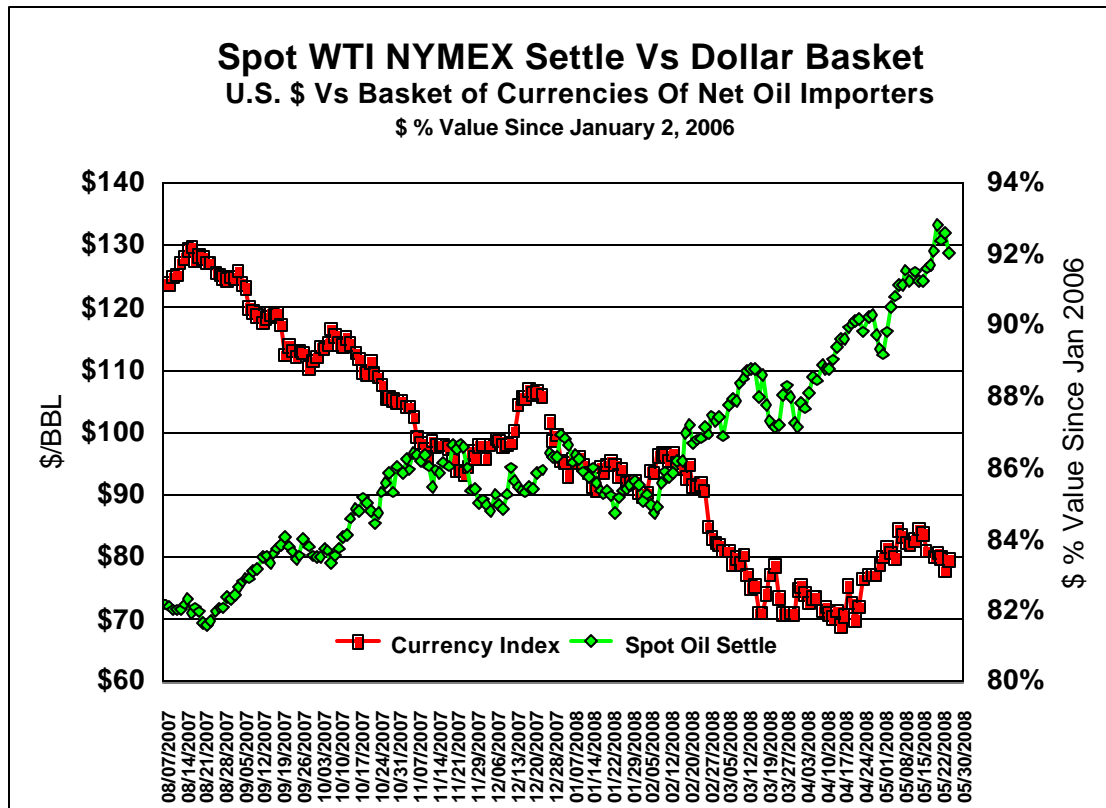




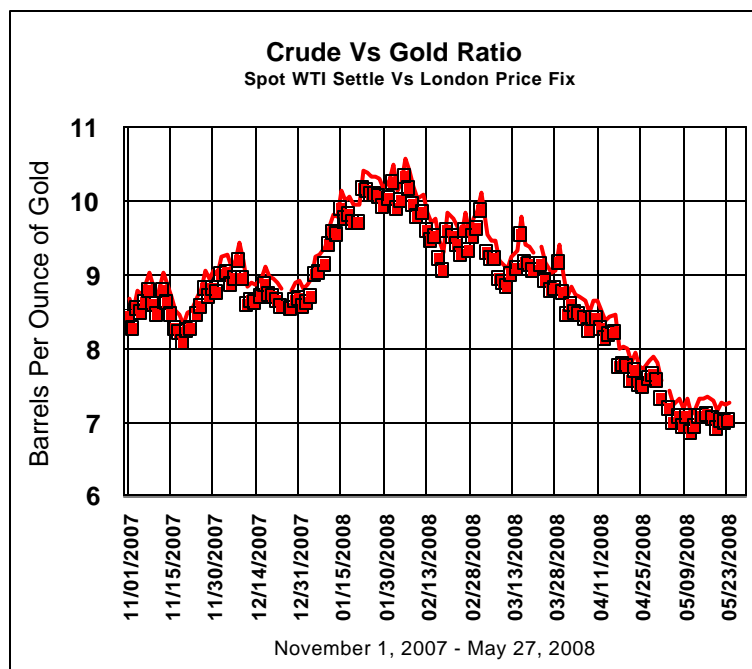
bpd during the first quarter.

Crude production from Mexico's Cantarell field continued to fall in April to 1.074 million bpd from 1.113 million bpd in March and down 33% on the year.

Mexico's Finance Minister Agustin Carstens said that Pemex is expected to increase its oil production by 150,000 bpd by the end of the year from 2.767 million bpd in April.



Norway's StatoilHydro restarted production at its Vigdis and Snorre A oilfields, which were shut by an oil leak at the nearby 19,000 bpd Statfjord A field on Saturday.

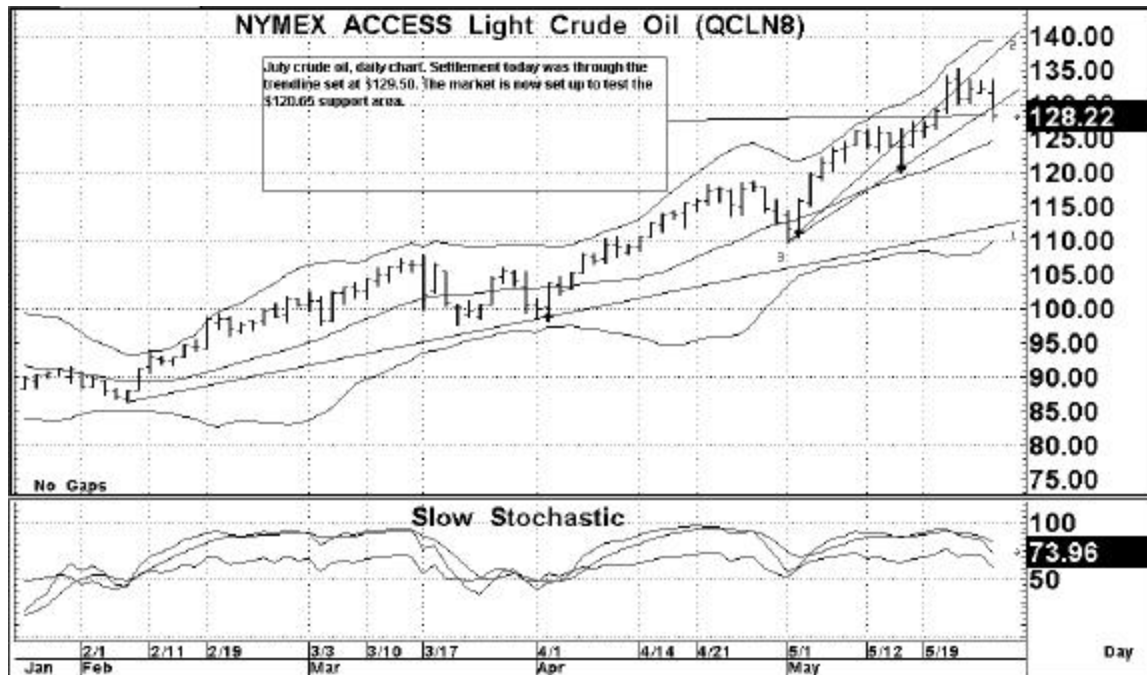


Russia's oil production may increase to 12 million bpd after Prime Minister Vladimir Putin's government eases taxes. He urged a tax cut plan to stimulate oil production that may be sent to lawmakers this week. Russia's oil production fell to 9.72 million bpd in April, its lowest level in 18 months.

Brazil's Petrobras confirmed late Monday an oil and gas find in the Gulf of Mexico. The stones-3 exploration well confirmed the presence of oil and natural gas in the WR 508 block, about 200 miles off the coast of Louisiana.

A European Parliament committee said OAO Gazprom's planned underwater pipeline between Russia and Germany posed a serious environmental threat. The European Union assembly's petitions

committee said the Nord Stream natural gas venture under the Baltic Sea put marine life, tourism and coastal economies at risk and urged consideration of other routes.

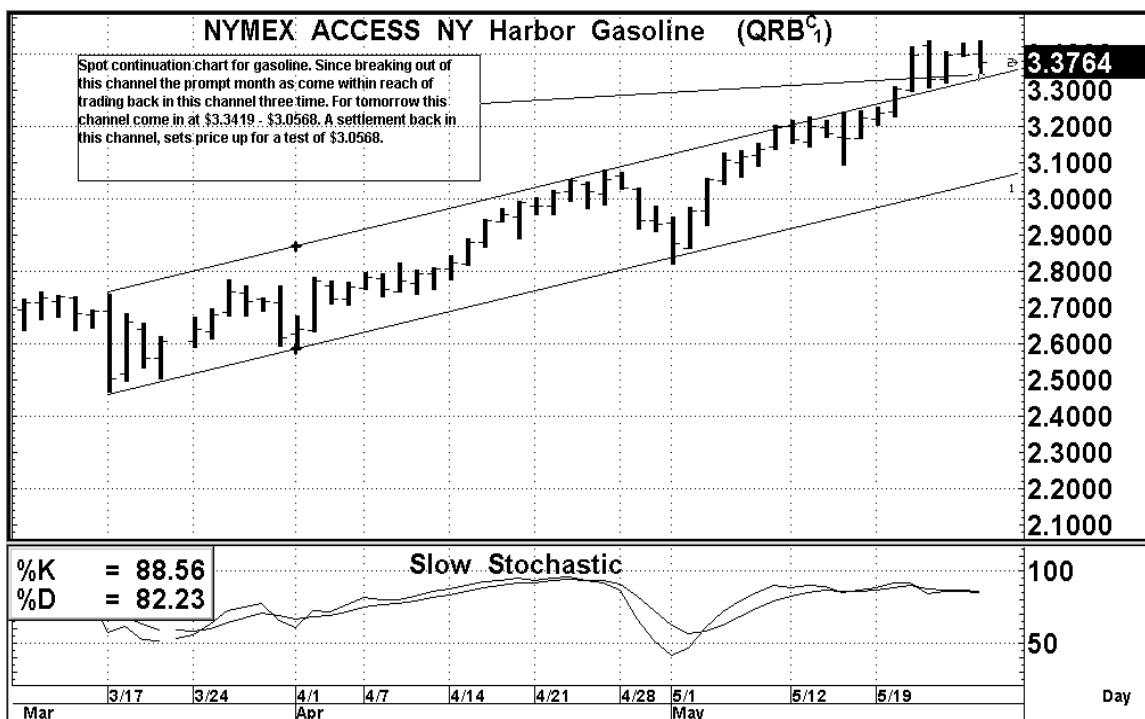


National Iranian Gas Co said Iran stopped all gas exports to Turkey following a pipeline explosion. The cause of the explosion was not immediately known.

Libya lowered the official selling

prices for exports of seven out of 11 crude grades loading in June. The official selling price for Es Sider crude was cut by 20 cents to Dated Brent minus 75 cents; the price for Sharara crude was cut by 15 cents to Dated Brent plus \$2.80; the official selling price of Amna crude was cut by 10 cents to Dated Brent minus \$1; the price of Abu Attifel was cut by 10 cents to Dated Brent plus 90 cents and the price of its Mellitah crude was cut by 20 cents to Dated Brent plus \$1.80. The official selling price of its Bouri crude was cut by 15 cents to Urals Med minus \$2.60 and the price of its Al-Jurf crude was cut by 10 cents to Urals Med minus 60 cents.

OPEC's news agency reported that OPEC's basket of crudes fell to \$126.37/b arrel on Friday, down from Thursday's \$127.59/b arrel level.



**Market Commentary:**

The demand factor is beginning to outweigh supply shortages, forcing a sell off in the energy markets. The dollar also strengthened today, adding to the pressure on prices. The forward curve has changed slightly in appearance, indicating weakness in the last quarter of 2008 through the third quarter of 2010. This can be an indication that the run-up in prices on Friday was due in part to short covering in the front part of the curve. We would look for more of this to continue and for the front to gain against the back. After experiencing a sharp sell-off, the December 08/December 09 crude oil spread has rebounded and slow stochastics for this spread are indicating further strengthening. We would look for continued backwardation of this spread with, a test up to the \$2.55 area, where this spread sold off sharply. With a settlement in the July crude oil contract through a trendline (\$129.50) that extends from the beginning of May, we would look for further downside movement in prices. This sets up for a test of the \$120.65 support level. Since trading above the ascending channel on the spot continuation chart, gasoline has dipped lower, testing the top of this channel and bouncing off of it. Today's activity was the same. We would look for continued tests of this channel top, selling any settlements back in the channel and buying bounces off of it. Heating oil traded in an outside range today, achieving a higher high and lower low than Friday, settling down 6.64 on the day. Like the gasoline, this product has traded above the ascending channel on the spot continuation chart, touching the top and bouncing off several times. Heating oil should follow the rest of the complex lower, testing this channel top once again. Tomorrow's top comes in at \$3.6476, any settlement through this support level should be sold and any rebound bought. The December 08/June09 heating oil spread has settled below the support line drawn off of the lows from December 2007. As mentioned previously, we would like to sell the December 08 and buy the June 09 contract, looking for a test of the .1220 support area. Total open interest for crude oil is 1,346,99 down 9,310, July08 363,193 down 15,781, August08 93,868 up 2,359, December 08 211,950 up 1,475. Total open interest for heating oil 220,074 down 1,859, June08 30,278 down 2,349 and July 64,99 down 407. Total open interest for gasoline, 278,841 up 4,139, June 08 37,151 down 4,646 and July 98,527 up 5,554.

<b>July Crude Support</b>	<b>July Crude Resistance</b>
120.65,119.36,109.60,98.60, <b>85.40</b>	135.10,136.80,141.00,147.54
<b>Heating oil support</b>	<b>Heating oil resistance</b>
3.6245, <b>3.5425</b> , 3.5100, 3.3500, 3.1680, 3.0980	4.0315,4.0475,4.0640
<b>Gasoline support</b>	<b>Gasoline resistance</b>
3.3075,309.20,3.0730, 3.0400, 3.0250, 2.9255	3.63.45,3.755,34655