



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta
& Karen Palladino

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

www.e-windham.com

ENERGY MARKET REPORT FOR MAY 28, 2008

A senior Gulf OPEC source said Saudi Arabia has increased its oil production to meet world demand and may further increase its production later if needed. The source said OPEC's 13 members, especially core Gulf producers, were taking their output cues from world oil demand rather than sticking to production targets. Saudi Arabia's Oil Minister Ali al-Naimi said earlier this month output would increase by 300,000 bpd and reach 9.45 million bpd in June. The source said Saudi Arabia was pumping 9.1 million bpd in May. Separately, a Kuwaiti Oil Ministry official said OPEC stood ready to supply any additional crude to the market if needed.

Iran's Oil Minister

Gholamhossein Nozari said the oil market was well supplied and other reasons including the US'

Market Watch

Rebels from Nigeria's Niger Delta said they planned to carry out a series of attacks and car bombings on Thursday to commemorate President Umaru Yar'Adua's first year in office. The Movement for the Emancipation of the Niger Delta said the forewarning was to ensure that civilians avoid being around oil pipelines and installations or close to military check points and vehicles to minimize civilian loss of life.

The chairman of the Senate Committee on Energy and Natural Resources, Senator Jeff Bingaman, urged the US Commodity Futures Trading Commission to investigate further into the role of speculators in the energy markets. He said the CFTC has discounted the role of speculators in pushing energy prices higher and added that the commission's position that speculators provide liquidity is based on incomplete data as an increasing amount of trade takes place on foreign boards of trade and in over the counter markets. He is concerned that the CFTC classifies swap dealers, including large investment banks, as commercial market players and not as non-commercials. He noted that energy traders were not subject to the same transparency requirements as in agricultural markets.

Venezuela's Oil Ministry published the final formula for the newly approved windfall oil tax. The new levy would activate when the price of Brent crude trades above \$70/barrel. When Brent exceeds the average price threshold for one month, Venezuela would take 50% of the difference between this average and the final sale price of every barrel.

Morgan Stanley estimated that Brent crude prices could reach \$150/barrel due to supply limits. It stated that while there was no proven shortage of crude or product, spot outages and tight markets have created fears of one. It also stated that the world economy is expected to see slow growth, not a recession. It estimated that the surge in oil prices would increase already elevated global inflation to 5 to 5-1/2% in the US and 3-1/2% in Europe this summer while double digit inflation is likely in several emerging economies.

May Calendar Averages

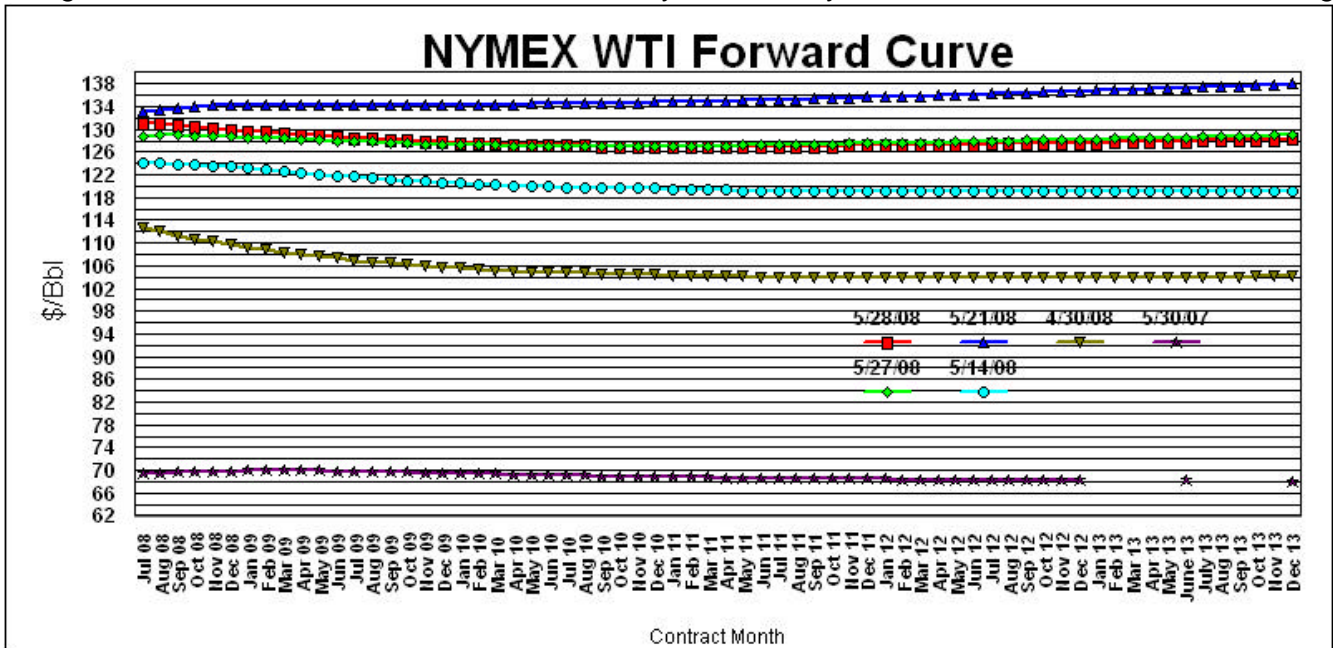
CL – 125.30
HO – 361.02
RB – 320.46

economic problems were behind rising crude prices. Meanwhile, Iran's new OPEC chief, Mohammad Ali Khatibi said that demand for heavy crude oil that was more expensive for refiners to process was increasing. He said Iran hired tankers to store heavy crude due to a shortage of onshore tank capacity and not because of an oversupply in the market for heavy crude. He said the Soroush and Nowruz Persian Gulf oil fields were fully committed and storage of about 25 million barrels of heavy oil in tankers in the Gulf is due to operational matters.

Indonesia's Energy Minister Purnomo Yusgiantoro said Indonesia will quit OPEC soon because as a net oil importer it was not content with high world oil prices. He said the country would join OPEC again if it became a net oil exporter again in the future. Indonesia has seen its influence within the group wane as its production declines. On Saturday, Indonesia's government was forced to make an unpopular fuel price increase as it struggled to bear the cost of importing gasoline and diesel at record high prices and selling it at subsidized prices. Indonesia's oil production is estimated to average 927,000 bpd this year, down from 950,000 bpd last year and short of its consumption of 1.2-1.3 million bpd. Meanwhile, a senior Kuwaiti official said Indonesia's withdrawal from would barely affect the group.

Britain's Prime Minister Gordon Brown warned that the world was facing an oil shock. He said he understood the impact of high oil prices on families across the country following a protest by British truck drivers but added that only an international strategy would work in lowering oil prices. He promised to put global action on oil price rises at the top of the agenda at the Group of Eight summit in Japan in July and to propose more international work on a better dialogue on supply possibilities and trends in demand. Prime Minister Gordon Brown and Chancellor of the Exchequer Alistair Darling also urged UK oil industry executives to increase production. Separately, the Britain's Department of Business, Enterprise and Regulatory Reform said it would exempt about 30 existing North Sea oil and gas fields from some taxes in an attempt to encourage their development and increase production. The change could potentially add 200,000 bpd of new production.

European Economic and Monetary Affairs Commissioner Joaquin Almunia said European Union finance ministers would stick to their previous agreement not to cut taxes on fuel as a way to respond to high inflation. French President Nicolas Sarkozy on Tuesday said the EU should consider freezing



sales tax on fuel if the oil price continued to increase.

South Korea's Prime Minister Han Seung-soo ordered government ministries to draw up measures to ease the burden of high energy costs on transportation companies and low income earners. The government decided to issue energy vouchers to low income earners and transportation firms and extending deadlines for existing energy subsidies.

The IEA's deputy chief William Ramsay said the oil markets were stressed by a lack of supply that is expected to continue for the foreseeable future. He said there was not enough spare capacity throughout the system. He also stated that the world was benefiting from biofuels and there should not be an assumption that everything about biofuels was negative. He said biofuels helped to meet fuel demand.

Iran's new parliament speaker, former nuclear negotiator, Ali Larijani warned that Iran could set limits on future cooperation with the UN's IAEA. He said parts of the IAEA's latest report on Iran's nuclear program was deceitful and ambiguous. He accused the IAEA of secretly sharing information about the Iranian nuclear file with Iran's critics in the UN Security Council.

According to the EIA, US oil demand fell by 4.3% or 900,000 bpd in the first quarter to 19.878 million bpd. In March, oil demand fell by 3.9% or 797,000 bpd on the year to 19.732 million bpd, the lowest level since May 2003. It was down 620,000 bpd from its previous estimate. The EIA also stated that US crude oil imports fell 7% or 730,000 bpd to 9.618 million bpd in March. Canada remained the top supplier for the 25th consecutive month, with 1.795 million bpd, down 20% on the month. Saudi Arabia was the second largest crude supplier, with 1.535 million bpd, down 4.9% on the month and 26.2% on the year. Crude oil imports from Mexico were little changed at 1.232 million bpd. Imports from Nigeria increased by 17.5% on the month to 1.154 million bpd while imports from Venezuela fell 9.2% on the month to 858,000 bpd. Imports from Iraq fell by 0.9% on the month to 773,000 bpd.

MasterCard Advisors LLC reported that US gasoline demand increased by 2.7% on the week but fell by 5.5% on the year to 9.385 million bpd in the week ending May 23. In the last four weeks, demand was down 6.3% on the year. It was the fifteenth consecutive week that the four week moving average fell. Meanwhile, retail gasoline prices increased by 2.1% or 8 cents/gallon to \$3.84/gallon on the week. The price is 19.6% above year ago levels.

Refinery News

Valero Energy Corp said that a fire damaged 155,000 bpd crude distillation unit at its Aruba refinery was in restart mode. The unit was damaged in a fire in late January. It also stated that a 50,000 bpd coker unit at its Delaware City, Delaware refining complex has been restarted and is seen reaching planned rates within days. Valero also stated that repairs to a 55,000 bpd fluid catalytic cracking unit at its 160,000 bpd Paulsboro, NJ refinery was not seen taking too long following the recent discovery of a leak. Valero later stated that its 24,000 bpd fluid catalytic cracking unit at its 100,000 bpd refinery in Three Rivers, Texas was ramping up to planned production levels. The unit was restarted on Tuesday after 11 days of work.

Valero Energy Corp said it was expanding its St. Charles refinery in Norco, Louisiana and its Port Arthur, Texas refinery to process larger volumes of heavy crude by 2012, in anticipation of large volumes of Canadian crude coming to the US Gulf Coast.

According to a notice filed with the Texas Commission on Environmental Quality, several units were shut after steam production was lost in the West Plant of the Flint Hills Resources' 288,000 bpd

Corpus Christi, Texas refinery on Tuesday morning. The refinery's fluid catalytic cracking unit, the sulfur recovery unit and cogeneration unit at the West Plant were impacted.

Motiva Enterprises LLC shut a hydrocracker unit at its 242,200 bpd Norco, Louisiana refinery on Sunday for 44 days of turnaround.

BP Plc's 265,000 bpd refinery in Carson, California warned of planned flaring between Wednesday and June 16. It however did not give a reason for the flaring.

Petroplus' 172,000 bpd UK Coryton refinery was restarting on Wednesday after it was shut on Tuesday due to a power failure.

Nippon Oil Corp said it planned to refine 2.99 million kiloliters in June, down 17% on the year due to heavier monthly maintenance and near record high gasoline inventories in Japan. It is down 620,000 kl on the year. Its May crude refining volume for domestic demand was estimated at 3.7 million kl, up 1% on the year.

China National Development and Reform Commission said it was unwise to import more oil as international prices continue to rally. Crude oil imports fell for the first time in 18 months in April as high prices discouraged refiners from buying oil to turn into fuels for sale at below cost. It said China would need to make coordinated arrangements to ensure energy supplies as demand peaks in the summer and during the Summer Olympics in August.

China's Sinopec said it would keep all the diesel and gasoline it refines to ensure adequate supplies. It said it had to increase production, halt exports and make structural changes to ensure that China did not run short of oil. Separately, Sinopec's new 200,000 bpd Qingdao refinery is expected to operate at 60% of capacity in the third quarter following its start up this month. A Sinopec source said the refinery, which processes mostly Saudi crude, was aiming for a higher operation ratio in the final quarter of the year.

The Petroleum Association of Japan reported that the country's crude oil inventories fell by 9.9 million barrels on the year and by 250,000 barrels on the week to 96.97 million barrels in the week ending May 24. It reported that gasoline stocks built by 2.2 million barrels on the year but fell by 130,000 barrels to 15.73 million barrels while kerosene stocks fell by 2.92 million barrels on the year but increased by 20,000 barrels to 11.54 million barrels. The PAJ reported that Japan's refinery utilization rate fell to 72% of total capacity of 4.9 million bpd in the week ending May 24, down 5.3% on the week. It also reported that weekly gas oil production increased by 25.9% to 6.2 million barrels.

Japan's Oil Information Center showed that the country's retail regular gasoline prices increased to a record high of 160.3 yen or \$1.54/liter or \$5.83/gallon in the week ending May 26. It was up 0.2 yen on the week.

South Korea's S-Oil Corp has raised its crude refining rates to about 560,000 bpd and would run at that level in June. It was running at 520,000 bpd at the end of April. It is expected to export 100,000-120,000 tons of jet fuel, 90,000 tons of diesel and 100,000 tons of fuel oil in June.

Indian Oil Corp said it would only be able to afford to buy crude at the current prices until the end of September. Oil companies have been losing millions of dollars each day, as they must sell their fuel at discounted rates set by the government.

Production News

Royal Dutch Shell said it contained an oil spill following a pipeline attack in Nigeria earlier this week but added that it could still not meet all its supply obligations for Bonny Light crude. Rebels in the southern region blew up Shell's oil pipeline on Monday, forcing the firm to cut production.

Nigeria's crude oil exports are expected to fall to about 1.75 million bpd in July, down 80,000 bpd on the month.

StatoilHydro said that the Statfjord A platform resumed operations on Wednesday after it was shutdown due to an oil leak on May 24.

Norway's Deputy Oil Minister Liv Monica Stubholt said the country would seek to increase its annual exports of natural gas by 50% to compensate for declining oil production. Norway, which has been exporting 85 billion cubic meters/year, is looking at a range of between 120 and 130 bcm annually in the years to come. Norway's government has previously stated that it would produce 2.4 million bpd of oil, natural gas liquids and condensate, down from an October estimate of 2.5 million bpd.

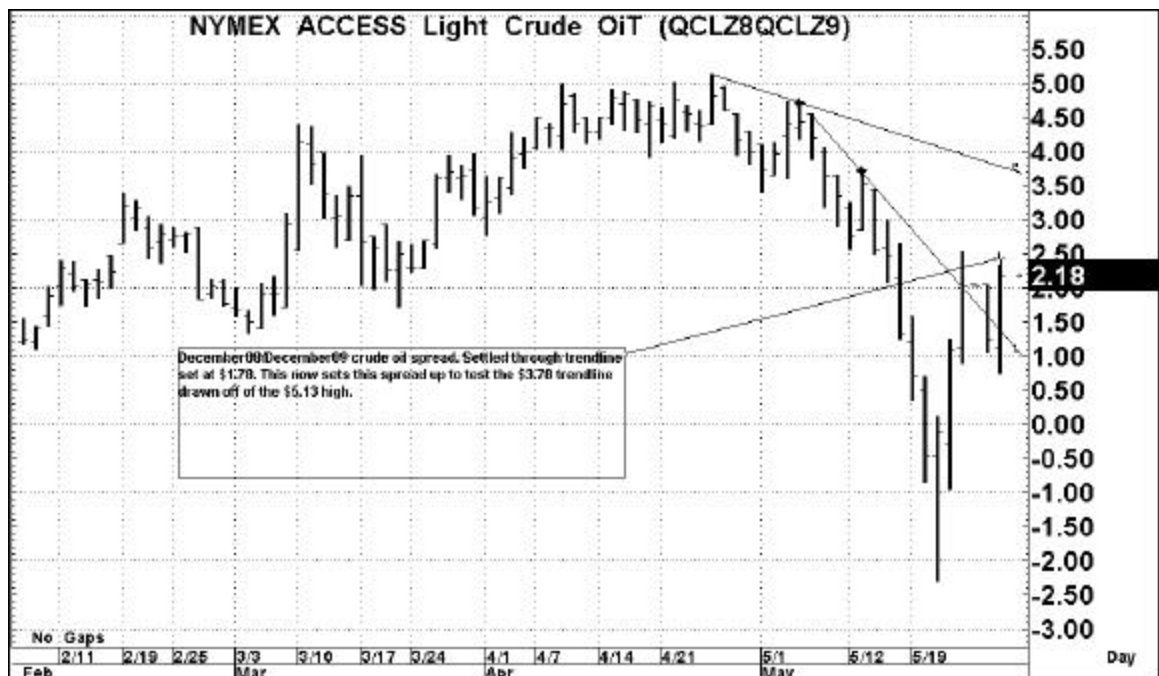
Indonesia's BPMIGAS said the country's oil production is likely to increase slightly in May to 861,000 bpd from 859,000 bpd in April due to the development of new wells.

Kuwait's Gulf Petroleum Exploration International, the upstream unit of Gulf Energy Co, is expected to complete its first deals by July. It is expected to invest as much as \$360 million in upstream opportunities over the next three years. The company's focus was on winning exploration contracts and buying into producing fields in the Middle East, North Africa, the Indian subcontinent and Iran.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$125.91/barrel on Tuesday from \$126.57/barrel on Monday.

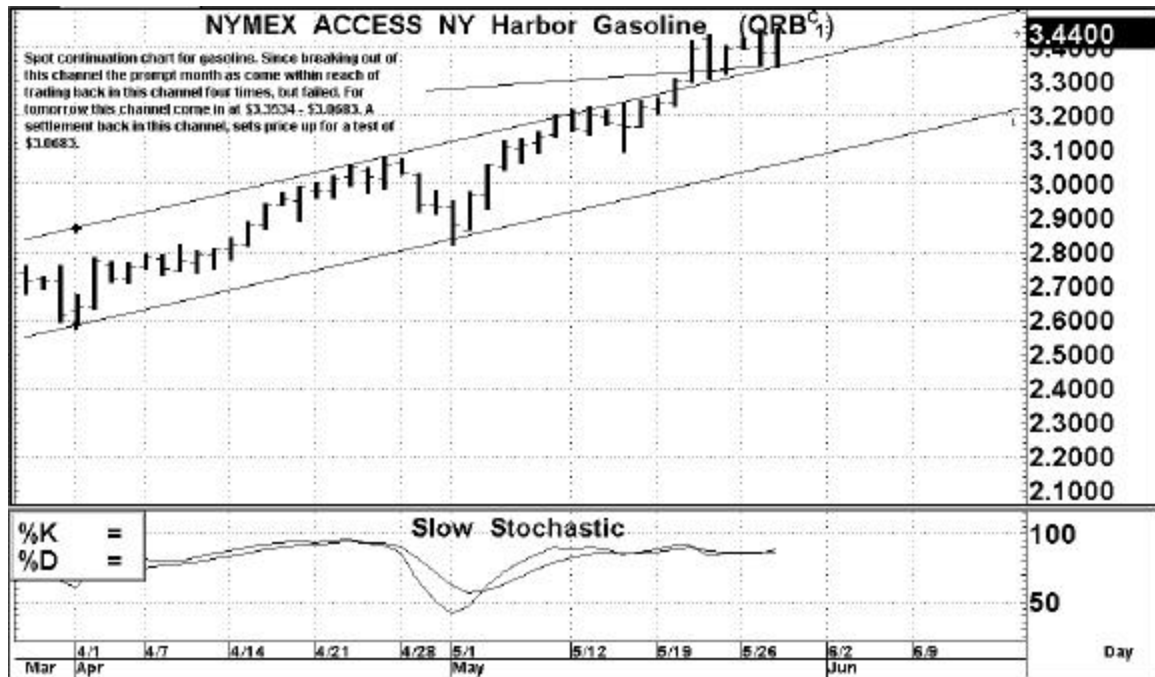
Market Commentary:

Initially trading \$2.89 lower on the day, crude oil rebounded to trade above \$131.00. Threats to disrupt production by the rebel group MEND in Nigeria, helped propel prices higher. The July contract experienced a lower low today, however was unable to attain a higher high. Slow stochastics and RSI's are trending in slightly overbought territory. We would look for more sideways activity for this market prior to any significant move either way. Our bias would be more towards the downside, looking for weak longs to exit the



market. The \$120.65 still remains our downside objective. The December08/December09 spread reacted as we had expected and is now poised to test the \$3.78 trendline. Today's activity for this spread,

higher highs and lower lows with a higher settlement is a technical indication that this spread will widen further. Five out of the last six trading sessions, the spot month gasoline



has bounced off of the upper trendline on the ascending channel. Slow stochastics are trending in overbought territory, with %K crossing over %D. This is a bullish indication, giving the fact that %K is higher than %D. We remain with our stance of buying any bounces off of this channel and selling any settlements within it. For tomorrow's API/DOE numbers we would pay close attention to the demand factor. Heating oil may be showing signs of slowing down as it lagged behind crude oil and gasoline today. Technically speaking we would look for more downside potential with a test at the \$3.6591 support area. Total open interest for crude oil is 1,338,874 down 8,125, July08 359,818 down 3,375, August08 97,036 up 3,168, December 08 206,452 down 5,498. Total open interest for heating oil 214,630 down 5,444 June08 20,549 down 9,729 and July 68,047 down 3,048. Total open interest for gasoline, 270,454 down 8,387, June 08 24,635 down 12,516 and July 99,790 up 1,263.

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| July Crude Support | July Crude Resistance |
| 125.96, 125.35, 122.34, 120.65, 119.36, 109.60 | 131.58, 133.65-133.71, 135.10, 136.80, 141.00, 147.54 |
| Heating oil support | Heating oil resistance |
| 3.6245, 3.5425 , 3.5100, 3.3500, 3.1680, 3.0980 | 385.50, 396.75, 4.0315, 4.0475, 4.0640 |
| Gasoline support | Gasoline resistance |
| 334.00, 3.3075, 309.20, 3.0730, 3.0400, 3.0250, 2.9255 | 345.80, 3.63.45, 3.755, 34655 |