



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 29, 2007

Nigeria's new President Umaru Yar'Adua said he would urgently address the violence in the Niger Delta. He said he would use every resource available to address the crisis. About 23 foreign workers are being held hostage by various militant groups. Separately, on Monday, Nigerian unions suspended a strike that had threatened to halt oil shipments.

The EIA reported that the US average retail price of gasoline fell by 0.9

cents/gallon to \$3.209/gallon in the week ending May 28. It also reported that the US average retail price of diesel increased by 1.4 cents/gallon to \$2.817/gallon on the week.

Market Watch

Iran's decision to increase its gasoline prices has shown the vulnerability of the country's economy. Analysts warn of the backlash that other countries have faced when dealing with the same need to increase long subsidized staple prices. However they doubt that the 25% price increase imposed last week on Iran's gasoline would do much to solve the country's underlying economic problems. High oil prices over the past few years have helped the economy grow more than 4% annually and left Iran awash in oil revenue, masking the economy's underlying weakness. The country lacks investment it needs to reverse its falling oil production because billions of dollars are spent instead on subsidies for fuel, food, paper, fertilizer, pharmaceuticals and other products. Officials and analysts said the US has been pressuring European banks and energy firms to avoid doing business with Iran. The US pressure may be having a strong impact, with one back withdrawing finance for a major gas deal and oil majors rethinking investment.

The Dubai Mercantile Exchange is scheduled to launch its Oman crude oil futures contract on June 1. It is also scheduled to launch its WTI-Oman financial spread contract and its Brent-Oman financial spread contract. The DME would start trading its physically traded Oman crude contract with the August 2007 contract. The contract would trade from 6pm until 5:15 pm via the DME Direct trading platform Sunday through Friday. Initial margin for the Oman contract has been set at \$4,658 while margins for its WTI-Oman and its Brent-Oman contract have been set at \$2,093 and \$1.958.

Refinery News

Valero Energy Corp's 181,500 bpd Delaware City, Delaware refinery was restarting a fluid catalytic cracking unit following the completion of repairs. A carbon monoxide boiler associated with the FCC was shut on May 9 following a tube rupture, which forced it to reduce feed to the catcracker unit. Also, Valero Energy Corp said it planned to restart a fluid catalytic cracking unit at its 170,000 bpd McKee refinery in Sunray, Texas at noon on Tuesday. The restart is expected to last through June 1. The unit was shut on Thursday to fix catalyst circulation problems. Valero said it planned to increase the

refinery's crude throughput to 150,000 bpd by the end of June but is not seen returning to 170,000 bpd before the end of the year. Crude intake at the refinery has been running at 50% or 85,000 bpd since April 13.

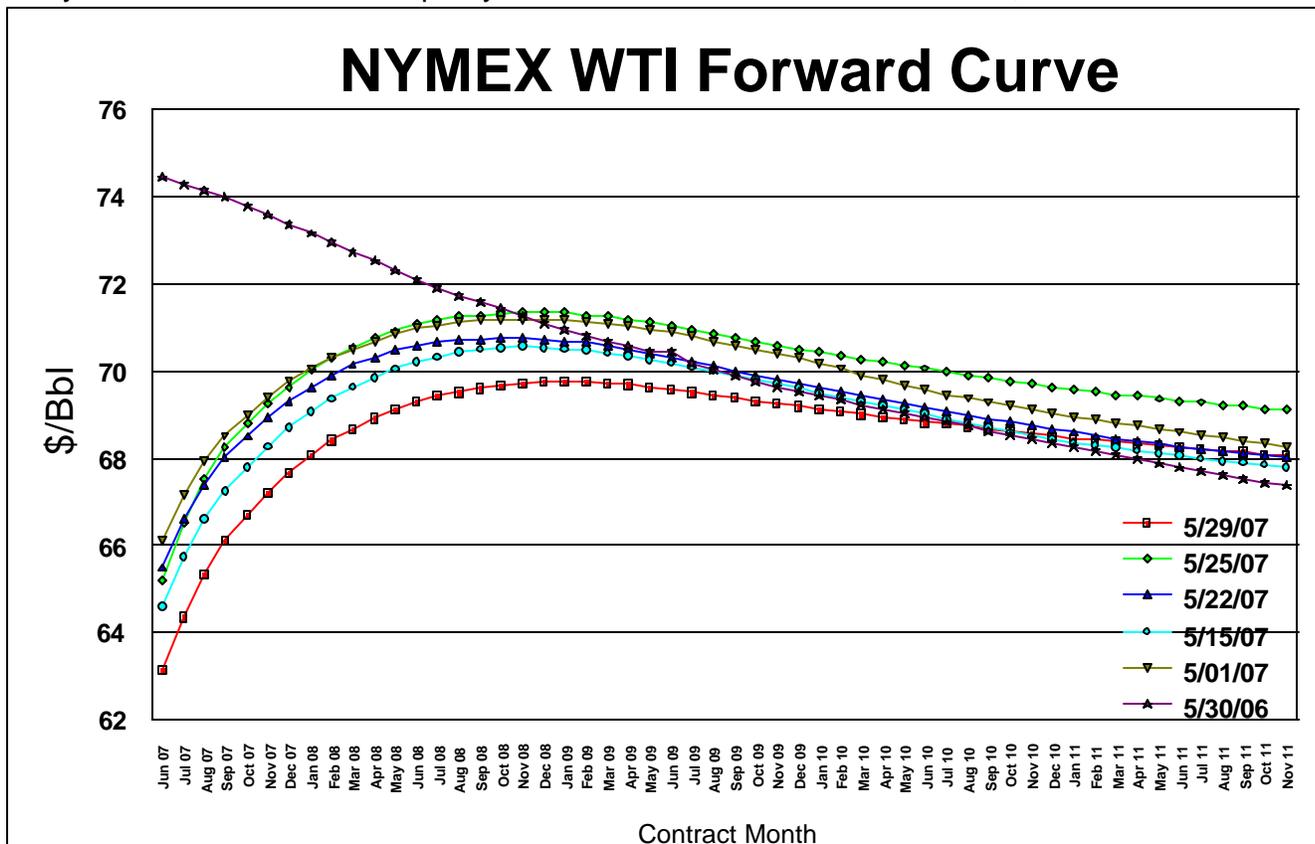
ConocoPhillips said a 24,000 bpd fluid catalytic cracking unit at its Ponca City, Oklahoma refinery would resume operations soon after an unplanned maintenance outage of about 11 days. Meanwhile, maintenance on a crude distillation unit continued. ConocoPhillips also stated that its 247,000 bpd Alliance refinery in Belle Chase, Louisiana resumed normal operations after units were shutdown last week due to a power failure.

BP has delayed the restart of its 52,000 bpd fluid catalytic cracking unit at its Toledo, Ohio refinery for about a week due to a problem with a catalyst. The unit was shut following a power outage on April 20. Its restart attempt failed. Meanwhile, BP also stated that a 115,000 bpd fluid catalytic cracking at its Texas City, Texas refinery is expected to restart at the end of May. The unit was shut on May 17 for a planned 11 days turnaround. Repairs at BP's 410,000 bpd Whiting, Indiana refinery continued with restarts expected in June and early July.

ConocoPhillips said it was completing the restart of its fluid catalytic cracking unit at its Westlake refinery in western Louisiana. A heavy thunderstorm caused the shutdown of the fluid catalytic unit on May 23.

Alon USA Energy said a light diesel hydrotreater at its 67,000 bpd Big Spring, Texas refinery was operating after it was shut for about three hours on Sunday. It said the shutdown had no impact on production.

Neste Oil has further delayed the start up of a new diesel producing unit at its 196,000 bpd Porvoo refinery. Neste Oil declined to specify a new start date for the new diesel line, which was scheduled



to come online earlier this month.

Nippon Oil Co said it planned to refine 3.8 million kiloliters of crude in June, down 5% on the year due to slow domestic demand and refinery outages.

Indian refiners processed 12.53 million tons or 3.06 million bpd of crude in April, up 15.1% on the year. Its crude oil output in April increased by 1.4% to 2.79 million tons or 681,700 bpd. India's refinery utilization rate in April stood at 102.3% of capacity, down from 104.2% last year.

A top official in China said current high oil prices would not impact China's plans to fill its strategic reserves. He said China's strategic reserves were mostly filled with domestic supplies and overseas crude made up a small part of the equation. This is contrary to evidence from shipping sources that say most strategic reserve fills came from imported crude.

Production News

According to Bloomberg, oil trapped in limestone in Colorado and Utah is enough shale oil to rival OPEC and supply the US for a century. US oil shale deposits likely hold 1.5 trillion barrels of oil. ExxonMobil Corp, Chevron Corp and Royal Dutch Shell have been spending \$100 million a year testing new methods to separate the oil from the stone for as little as \$30/barrel. An increasing number of industry executives and analysts said new technology and persistently high prices make the idea feasible. The last effort to exploit the Colorado and Utah shale fields failed in the 1980s after prices fell 72%. Industry sources stated that oil companies may begin pumping commercial quantities of oil from Colorado shale within a decade.

Norway's Norsk Hydro said that talks with Iran on developing the Azar oilfield in the Anaran block were continuing and the parties aimed to complete them by the end of June after missing an April target. National Iranian Oil Co has estimated that the field could produce up to 55,000 bpd.

Norway's Statoil said it made a promising oil discovery in the North Sea's Ermintrude prospect. Reserves are estimated at 50 million barrels.

The North Sea Sullom Voe terminal resumed loading operations after strong winds subsided. The resumption followed what was at least the 22nd disruption this year.

OPEC's news agency reported that OPEC's basket of crudes fell to \$66.00/barrel on Monday, down from Friday's \$66.50/barrel. It also reported that OPEC's basket of crudes increased by \$1.85/barrel to \$66.40/barrel in the week ending May 25.

According to sugar consultancy JOB Economia, Brazil's 2007-08 cane crop is set to reach a record 480 million metric tons of cane, up 12.4% on the year. Brazil's total ethanol output is seen at a record 20.5 billion liters, up 14.9% from the 2006-07 season. It estimated ethanol exports of 4.4 billion liters, up 14.3% on the year.

Ecuador's Central Bank reported that the country's oil product export revenue increased by 1% on the year in the first quarter to \$102.80 million. Ecuador exported 2.91 million barrels in January-March period, up 24% on the year.

Market Commentary

With anticipation of another build in gasoline stocks and Nigerian oil workers ending their strike, crude oil fell as much as \$2.66 during today's session. Prices did not break out of the congestion pattern, and will not do so until July can settle below 62.35. One might think that builds in gasoline stocks should

continue to put pressure on the energy complex, but bear in mind that we are just at the beginning of the U.S. summer driving season and this should put a draw on crude stocks. Based on this thought, we would still like to take advantage of trading the levels within this congestion pattern of 62.35 and 69.03. Support in July is set at 62.35, 61.75, 61.55, 61.23 and 60.40. Resistance is set at 63.35, 63.83, 64.00, 64.34 and 64.78. The July/Aug spread traded in a detached fashion from the rest of the market, with the July gaining strength against August. This could, in part, be due to liquidation of gasoline crack length and length in the July/August spread. We would look for this spread to continue to gain strength with an initial test of the -.95 level and even possibly the -.50 area. Meanwhile, the RBOB market traded to a high of 242.25 early in the session amid reports that BP was delaying the restart of a fluid catalytic cracking unit at its Toledo, Ohio refinery. The market however erased its gains and sold off sharply amid expectations that the weekly petroleum stock reports would show builds in gasoline stocks on Thursday. Also some refineries were reporting that their units would resume operations following their recent shutdowns. It extended its losses to over 11.3 cents as it posted a low of 229.00. The market later bounced off its low and settled in a sideways trading pattern during the remainder of the session. It settled down 10.58 cents at 229.79. The RBOB crack spread came in to 29.35 amid the sell off and is seen finding support at 27.75 followed by 26.25. The heating oil market settled down 7.01 cents at 186.90 after it sold off to a low of 185.99 late in the session. The product markets are likely to continue trading lower ahead of Thursday's release of the weekly petroleum stock reports following today's sharp losses. The gasoline market is seen finding support at 229.00 followed by 226.30, 226.06 and 224.45. Resistance is seen at 233.43, 236.27, 240.00, 242.25 and 242.62.

Technical levels		
	Levels	Explanation
CL 63.15, down \$2.05	Resistance 63.35, 63.83, 64.00, 64.34, 64.78	Double top
	Support 62.35, 61.75, 61.55, 61.23, 60.40	Tuesday's low
HO 186.90, down 7.01 cents	Resistance 189.20, 190.50, 192.00	Tuesday's high, Previous high
	Support 185.18, 183.50, 181.61	Tuesday's low 62% retracement (178.49 and 196.00), Previous lows
RB 229.79, down 10.58 cents	Resistance 233.43, 236.27, 240.00	Tuesday's high, Previous high
	Support 226.30, 226.06, 224.45	Tuesday's low Previous low, 62% retracement (214.83 and 244.22), Previous low