



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta
& Karen Palladino

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

www.e-windham.com

ENERGY MARKET REPORT FOR MAY 29, 2008

The EIA said it accidentally released its weekly petroleum inventory data early on its website due to a system malfunction. It also attempted to reduce the impact to the oil markets of a decline in crude stocks of 8.9 million barrels by blaming the large fall in stocks on a temporary problem of offloading tankers on the Gulf Coast. However market participants and Gulf Coast importers were unaware of what the problem might have been, with speculation ranging from choppy coastal

waters to difficulties in exporting countries. Ship channel dispatchers in Houston and Lake Charles, Louisiana reported no problems last week while the Louisiana Offshore Oil Port said that some crude oil tankers canceled scheduled deliveries last week but added that its operations were normal.

OPEC's head of research Hasan Qabazard said there was no need for OPEC to increase its production this year. He said stocks were building as oil production was outstripping demand by 800,000 bpd to 1 million bpd in the second quarter. Separately, OPEC's Secretary General Abdalla Salem el-Badri said OPEC members were investing \$160 billion to add about 5 million bpd to oil output capacity by 2012. He said OPEC was also investing about \$50 billion to increase refining capacity by an additional 3 million bpd by 2012.

Market Watch

The chief economist at Vanguard Group Inc, Joe Davis said the \$130/barrel price of oil was not justifiable.

The Commerce Department stated that GDP increased at a seasonally adjusted 0.9% annual rate January through March, up from its previous estimate of 0.6%.

The NYMEX said it was increasing margins on its crude oil futures contract, its financial crude contract and crude oil calendar swap contract to \$10,463 from \$9,788 at the close of business Thursday. It also said it was increasing margins for the third through ninth months of its heating oil futures contract, its heating oil financial futures contract and its heating oil calendar swap to \$10,800 from \$10,125 for customers at the close on Friday. Also, margins for the first month of RBOB gasoline, RBOB financial and RBOB calendar swap futures contracts would increase to \$10,463 from \$10,125 for customers at the close on Friday. Margins for the second through fourth months would increase to \$9,788 from \$9,450. It also stated that it would change the intra-commodity spread margins for its Brent crude oil financial, Brent crude last day and Brent(ICE) calendar swap futures contracts effective at the close of business on Friday. Margins for the first month of the Brent crude oil financial and Brent crude oil last day futures contracts would increase to \$608 from \$540 for customers. Margins for the first month of the Brent calendar swap futures contract would also increase to \$608 from \$540.

May Calendar Averages

CL – 125.36

HO – 361.41

RB – 321.46

The UAE's OPEC governor, Ali al-Yabhouni said oil prices were rising too high, too fast despite the market being well supplied. He said the UAE was willing and prepared to increase production if market fundamentals required an increase.

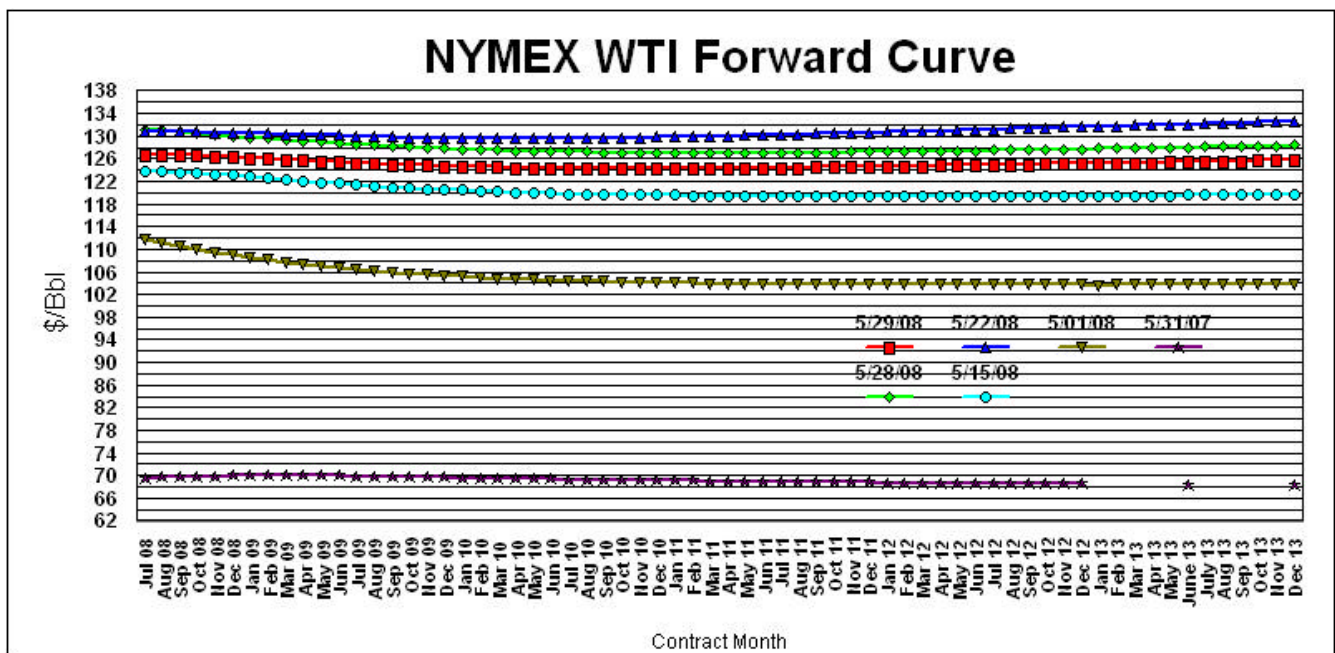
The international affairs director at the National Iranian Oil Co, Hojjatollah Ghanimifard said Iran's oil exports have run about 200,000 bpd slower for two months due to refinery maintenance. However shipments are expected to recover in June when refineries resume full operations.

According to Oil Movements, OPEC's oil shipments are expected to increase by 360,000 bpd in the four weeks ending June 14 to 24.8 million bpd. Three quarters of the increase is expected to be from Middle Eastern OPEC producers, whose shipments are expected to increase by 260,000 bpd to 17.87 million bpd.

The chief economist at the IEA, Fatih Birol said the IEA wants Middle East countries to end energy subsidies including those on gasoline and diesel. He said subsidies in China, India and the Middle East cost over \$50 billion last year. He said there was a disconnection between international oil prices and what people have been paying and added that the elimination of subsidies would encourage a more sensible use of energy. He said raising subsidies would encourage countries to invest further in renewable energy sources and to operate within a more energy effective economy.

Iraq's Deputy Prime Minister Barham Salih said there was renewed will to complete the long awaited oil law. The proposed law would create a framework for investment in the country's oil sector. The draft being negotiated was first approved by the Cabinet in February 2007.

Iran's mission to the UN said the UN's IAEA's report showed its nuclear program was not an issue that the UN Security Council should deal with since all open questions about the program were resolved. Under a work plan, Iran agreed to resolve all outstanding questions about its nuclear activities. Meanwhile, IAEA's Deputy Director General Olli Heinonen said Iran's possession of a drawing showing how to make part of an atomic warhead was alarming and said the onus was on Iran to prove it had not tried to develop nuclear arms. The US said the evidence detailed by the IAEA's Deputy Director increased concerns that Iran had tried to make such weapons.



The CFTC announced today a number of initiatives to increase transparency of the energy futures markets. The agency said it was taking these measures to ensure that the energy markets “function properly and operate free from manipulation and abuse.” First the CFTC announced it had reached an agreement with the Financial Services Authority in the United Kingdom, for expanded information sharing for surveillance of energy futures commodity contracts with U.S. delivery points, including the WTI contract. This agreement includes the immediate implementation of expanded information sharing to provide the CFTC with daily large trader positions in the UK WTI crude oil market. It will also extend trader information sharing to provide crude oil large trader position data for all contract months in the WTI contract, not just the nearby months. The two regulatory agencies agreed to enhance trader information over the near term to permit more detailed identification of market end users. The FSA will also notify the CFTC when traders exceed position accountability levels, as established by U.S. designated contract markets. Since 2006 the FSA has provided the CFTC with weekly trader information and daily information in the final trading week. In regards to the U.S. markets the CFTC said it will improve the transparency of energy markets Index trading activity. The CFTC will use its Special Call authorities to immediately begin to require traders in the energy markets to provide the agency with monthly reports of their index trading to help the CFTC to further identify the amount and impact of this type of trading in the markets. The CFTC said it will also develop a proposal to routinely require more detailed information from index traders and swap dealers in the futures markets. Final proposal calls for the CFTC to review the trading practices for index traders in the futures markets to ensure that this type of trading activity is not adversely impacting the price discovery process and to determine whether different practices should be employed. Finally the CFTC said its Division of Enforcement, which in December 2007 had launched an investigation into practices surrounding the purchase, transportation, and storage and trading of crude oil and related derivative contracts would continue. The agency said it was taking the extraordinary step of disclosing this investigation because of today’s unprecedented market conditions

Refinery News

Valero Energy Corp said a problem with its fluid catalytic cracking unit at its Three Rivers, Texas refinery did not impact production.

Total SA said its hydrocracker at its Vlissingen refinery in the Netherlands is expected to resume operations on Thursday. Total completed a catalyst change on the hydrocracker and is expected to flare gases during the startup. The unit was shut for maintenance on May 11.

Neste Oil said its diesel pipeline at its 196,000 bpd Porvoo refinery should resume operations starting in early June after a fire in early April.

An explosion at Surgutneftegaz’s Kirishi refinery early Thursday killed at least one worker and injured four more. Regional authorities said operations at the refinery resumed following the fire and added that fuel supplies would not be disrupted.

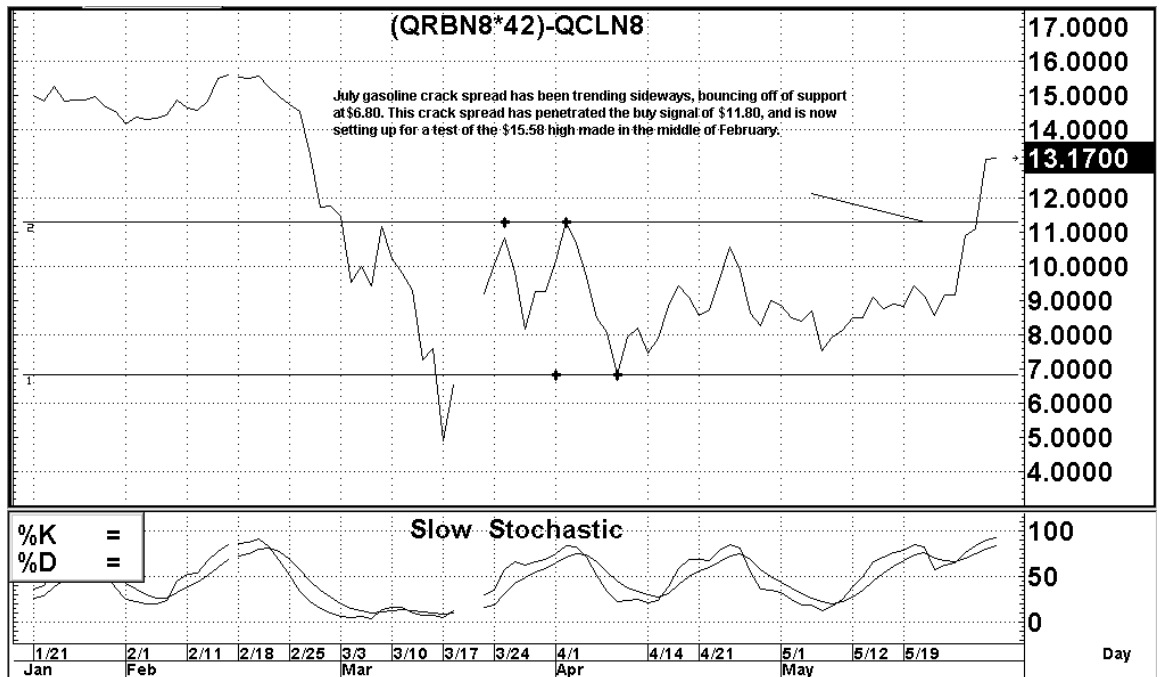
A French union representative said workers at Marseille’s oil terminals would probably continue intermittent strike action to protest against planned privatization of port operations. He said workers may decide to stop working for their whole or half shifts.

Indian refiners processed 3.189 million bpd of crude oil in April, up 4.3% from 3.58 million bpd in the same month a year earlier. Crude oil output in April increased by 0.9% to 688,000 bpd from 682,000 bpd in April last year.

Petrol stations in at least three major Chinese coastal cities were rationing diesel on Thursday. The shortages have worsened since last week, when stations in at least five provinces ran out of inventory. China has been plagued by sporadic shortages and rationing for several years, mainly due to state oil companies holding back supplies to avoid losses by selling gasoline and diesel at artificially low domestic market prices in the face of rising imported crude costs.

Meanwhile, China is expected to cut petrol imports in June to 140,000 tons from 160,000 tons in May

as a new refinery helps meet demand. PetroChina is expected to import 60,000 tons of gasoline in June, unchanged on the month while Sinopec Corp is expected to cut its imports to 80,000 tons.



French farmers blocked three

fuel depots on Thursday in protest over high fuel prices, taking over from fishermen who lifted their blockades at France's 328,000 bpd Gonfreville refinery and at the Port-La-Nouvelle and La Rochelle fuel depots in the south. Total, which draws fuels from about 60 depots, was using other depots to supply fuel to petrol stations.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 2.26 million barrels to 17.261 million barrels in the week ending May 28. Singapore's light distillate stocks built by 616,000 barrels to 9.604 million barrels while its middle distillate stocks built by 1.501 million barrels to 9.713 million barrels on the week.

A feasibility study on a project to expand the throughput capacity of the Caspian Pipeline Consortium pipeline is expected to be completed in June-August 2009. Russia and Kazakhstan have agreed to expand the CPC's capacity to 67 million metric tons/year by 2012 from the current 32 million tons.

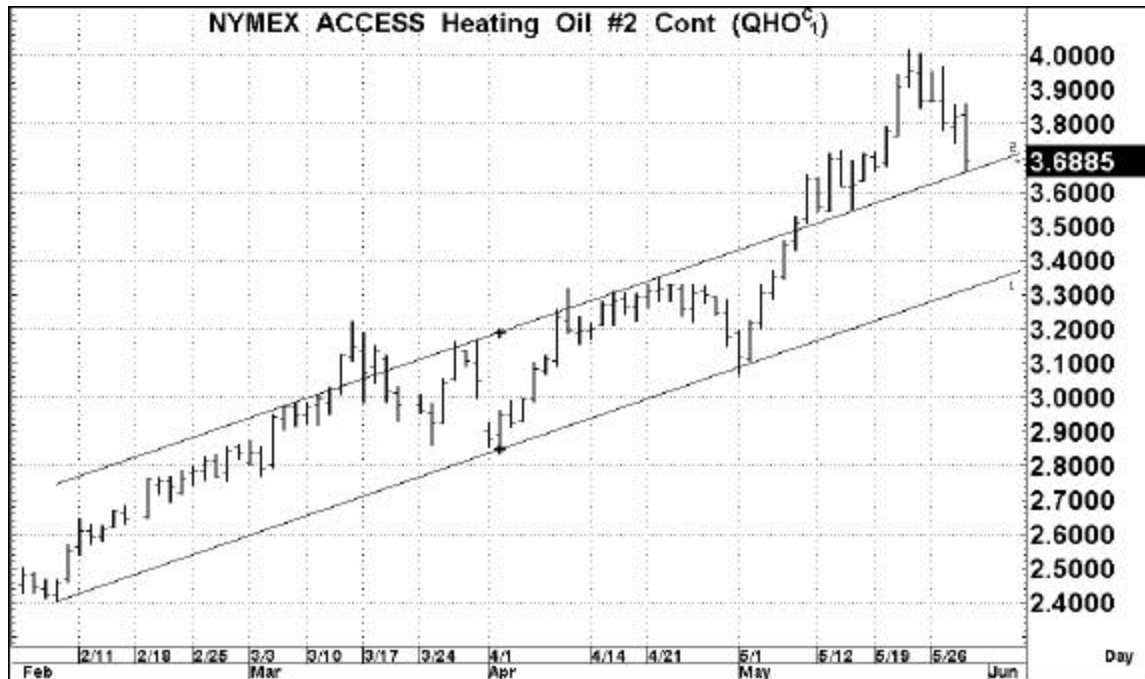
Production News

StatoilHydro has postponed a planned upgrader of its Canadian oil sands venture by two years to 2016, cut to a tight supplier market, cost pressure and new rules in Alberta. The project envisaged a plot project, due to produce about 10,000 bpd of bitumen by 2010 as well as plans for an upgrader to increase capacity to 200,000 bpd by 2020.

Mexico's Energy Minister Georgina Kessel said its oil production would likely be less than 3 million bpd this year after output was below estimates during the first four months of the year. In April, production fell under 2.8 million bpd after an 80,000 bpd offshore pipeline underwent repairs. Meanwhile Pemex's

chief executive Jesus Reyes Heróles said its crude production would remain below target all year after a disappointing first quarter. He said oil production could recover to a yearly average of 2.9 million bpd, up from 2.767 million bpd in April. Separately, Mexico's Energy Minister said its Chicontepec oil basin would increase production to 600,000 bpd by 2020, helping to compensate for declining output at traditional fields.

Petroecuador exported 26.86 million barrels of crude between January and April, up 24% from 21.68 million barrels in the same period of 2007. It reported oil export revenue of \$2.28 billion between



January and April, more than double the \$1.01 billion reported last year.

Indonesia is offering 25 oil and gas blocks for exploration in an effort to increase its declining production. Indonesia has turned into a net importer of

crude oil in recent years after production fell due to its failure to tap new fields fast enough to offset its ageing reservoirs.

OPEC's news agency reported that OPEC's basket of crudes fell to \$123.05/barrel on Wednesday, down from Tuesday's \$125.91/barrel.

Market Commentary:

Today's initial reaction to the release of the DOE/API numbers was perceived to be bullish with the crude oil market running up \$3.40. Upon further examination, it was realized that the 8.8 million draw in crude oil stocks was most likely attributed to temporary delays in unloading tankers in the Gulf of Mexico. Imports were down 278,000 barrels per day on the week and down 579,000 barrels per day from the same four-week average last year. The U.S. dollar gained strength today, making commodities less appealing as a hedge. Stocks were also up for the third straight day in a row. Product demand also came into play as high prices are expected to dampen demand. All of the aforementioned weighed heavily on prices, bringing crude oil to settle down \$ 4.41 on the day. Since the beginning of the year 15 out of the last 21 weeks the market for crude oil has sold off on a Thursday and then rallied the Friday after, settling higher on the day. Given this past price movement, the likelihood that prices will settle higher tomorrow stands is high. The July08/August08 spread came under pressure today, most likely attributed to expectations next week for the unloaded tankers to make it to their destinations. Gasoline stocks decreased last week by 3.2 million barrels, with demand falling 0.4% on the week. Although gasoline came under pressure today, it did not trade below the \$3.3534 support line. Technically, this market still has more room to the downside as indicated by the

lower trending of the slow stochastic s, which are still in over bought territory. If demand continues to decline, pressure on this product should increase, making the likelihood that gasoline



will test the \$3.0920 support level a reality. The July gasoline crack spread broke above the long initiation level of \$11.80. This spread should continue higher, reaching the \$15.58 high from February. A 1.6 million build in distillate stocks forced heating oil prices lower, and to settle down 13.58 cents on the day. With the June contract going off the board tomorrow, we would expect a test at the top of the ascending channel on the spot continuation chart which is set at \$3.6705 tomorrow. The December 08/June09 heating oil spread has broken through the 19.40 trendline. We recommended selling the December 08 and buying the June09 with a penetration of this trendline. The next level of support on this spread is 12.25. Should this level be met and held we would look to take profits. Any penetration through this level, we would look to add to our short positions. Total open interest for crude oil is 1,352,095 up 13,221, July08 361,536 up 1,718, August08 102,964 up 5,928, December 08 206,528 up 76. Total open interest for heating oil 214,531 down 99 June08 16,434 down 4,115 and July 69,879 up 1,832. Total open interest for gasoline, 271,246 up 792, June 08 19,794 down 4,841 and July 102,993 up 3,203.

July Crude Support	July Crude Resistance
120.65,119.36,109.60,98.60, 85.40	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	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