



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MAY 31, 2007

Indonesia's Oil Minister Purnomo Yusgiantoro said there was no need for OPEC to increase its production to lower oil prices. He said the price situation was due to a geopolitical fear premium.

The DOE said repayments of emergency loans made to six refineries following Hurricane Katrina in September 2005 were now completed. The DOE said it received a shipment of 63,000 barrels of crude into the SPR. Separately, the US Interior Department stated that it awarded five companies six month contracts to transport 9.2 million barrels of royalty in kind crude to resume filling the SPR starting July 1. The five contracts awarded to units of Chevron Corp,

Market Watch

Colorado State University hurricane forecast was unchanged from the April projection for 17 named storms forming between June 1 and November 30. Of those, nine are expected to strengthen into hurricanes of which five would be intense, with sustained winds above 111 miles per hour.

US President George W. Bush called on major developed and developing countries to commit to a long term global goal to reduce greenhouse gases and mid term national greenhouse gas targets. The President's proposal, which would involve, China, India, Brazil and about 12 other nations, would succeed the Kyoto Protocol. The protocol expires with the end of its compliance period in 2012. Separately, the White House rejected a European push for a proposal aimed at addressing global climate change through Kyoto-style caps on carbon emissions.

According to the Commerce Department, the US economy grew at a pace of 0.6% in the first three months of 2007, its lowest rate in four years. A significant factor for the weak showing was the downturn in the housing market, which posted a 15.4% decline in new home building during the quarter. However consumer spending remained resilient, growing by 4.4%.

Supporters of Venezuela's President Hugo Chavez have clashed with students and riot police during the three days of protests over the removal of an opposition TV station from the air. Venezuela's President accused RCTV of inciting a coup attempt against him in 2002, a charge the station has denied. He has warned of a crackdown on another opposition aligned television channel, Globovision. Since Sunday, more than 180 people, mostly university students and minors, have been detained and at least 30 have been charged with violent acts.

The Dubai Mercantile Exchange is scheduled to start trading its Oman crude oil futures contract on Friday, June 1. The exchange would provide futures contracts based on high sulfur crude to Asian buyers. IntercontinentalExchange started trading a cash settled Middle East sour contract in London on May 21.

DOE Stocks

Crude – down 2 million barrels
Distillate – up 100,000 barrels
Gasoline –up 1.3 million barrels
Refinery runs – unchanged, at 91.1%

ExxonMobil, Royal Dutch Shell, Sempra Energy and Plains Marketing would provide for the transport of a total of 51,600 bpd.

The Movement for the Emancipation of the Niger Delta said it would stop its violent campaign only if the new government freed its jailed kinsmen. The militant group

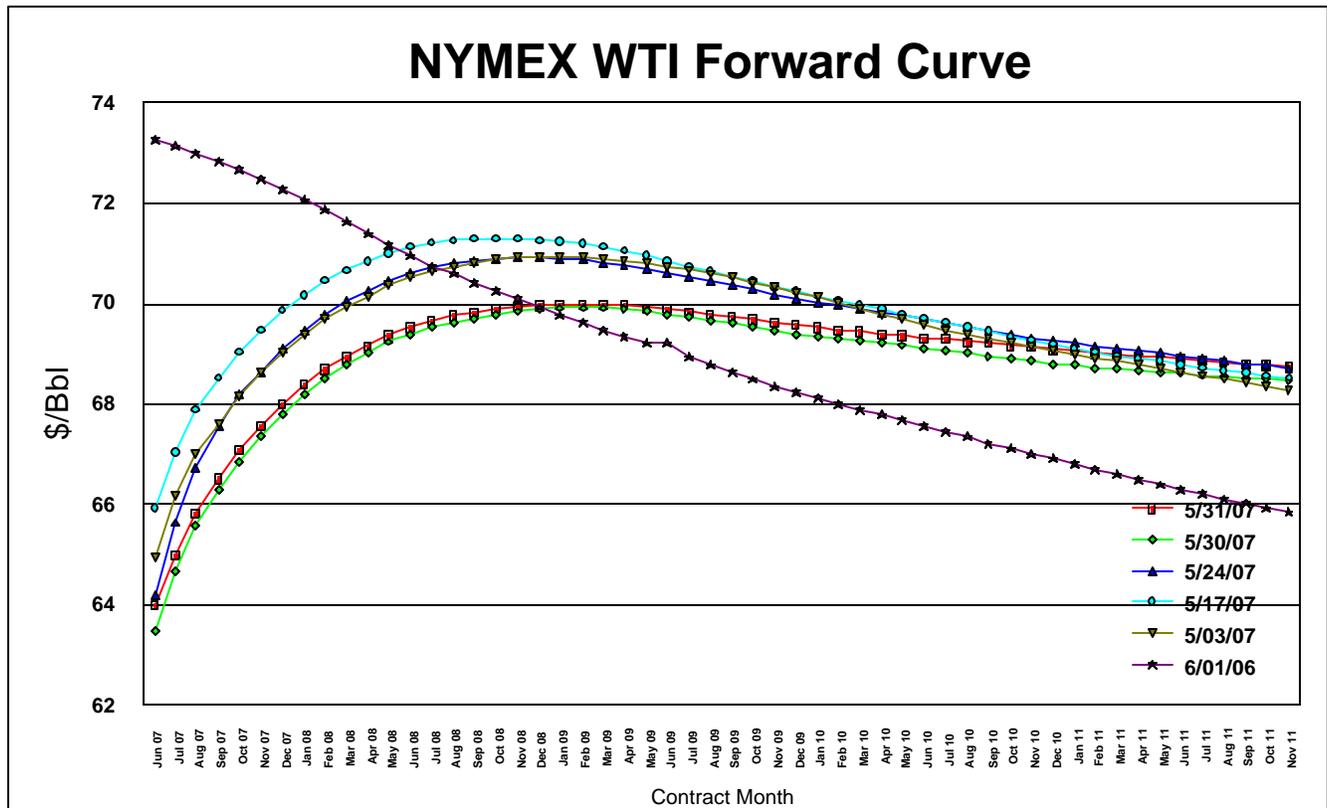
said President Umaru Yar’Adua had to show genuine willingness for talks. Nigeria’s newly sworn in President said the crisis in the Niger Delta would be his priority and has called for a ceasefire. Meanwhile, the militant group who had promised to release six foreign workers on May 30 have yet to do so and have not given any explanation for the delay.

US Secretary of State Condoleeza Rice urged Iran to heed the UN Security Council and freeze its uranium enrichment, saying the US was ready for wide ranging talks if it complied. Meanwhile, Iran’s nuclear negotiator Ali Larijani and the EU’s Foreign policy chief Javier Solana ended their talks on Thursday with little indication that they were closer to resolving the deadlock over Iran’s refusal to suspend uranium enrichment. They agreed to meet again in two weeks. They said the main focus of their talks were outstanding issues with the IAEA.

According to Oil Movements, OPEC’s oil exports are expected to increase by 150,000 bpd to 24.24 million bpd in the four weeks ending June 16 on firm Asian oil demand. It said OPEC has cut its production by 800,000 bpd out of its 1.7 million bpd pledged output cut.

Refinery News

Colonial Pipeline Co resumed its gasoline mainline operations at a reduced rate between Houston, Texas and Atlanta, Georgia on Wednesday afternoon after it shifted its gasoline shipments to its distillate mainline. Operations were expected to reach full rates sometime late Friday. It said it was in



the process of replacing a section of the pipeline. The entire Line 1 span was shut early Tuesday due to a report of a gasoline odor at an unspecified location along the pipeline's route.

Flint Hills Resources began restarting a Udex unit at its 288,000 bpd Corpus Christi, Texas refinery on Thursday after it was shut on May 11 for overhaul. The restart of the unit could last through June 6.

Valero Energy Corp said it hoped to expand its 210,000 bpd refinery in Delaware City, Delaware by 20,000 bpd to meet increasing regional fuel demand. The proposal would include the expansion of a crude distillation unit and a coker unit at the refinery.

A fuel gas compressor in a hydrogen purification unit at ConocoPhillips' 247,000 bpd Sweeny, Texas refinery tripped offline on Thursday morning.

The US Federal Trade Commission filed late Wednesday an appeal for an emergency injunction to halt the merger between Western Refining and Giant Industries. It asked for a decision by Thursday afternoon, which is when a temporary restraining order blocking the closure of the merger is lifted.

Pacific Texas Pipeline Co has secured about 90% of the financing needed for its \$840 million pipeline project in the US Southwest. Pacific Texas is one of the four companies planning to build fuel pipelines in the Southwest. Construction for the pipelines that connect New Mexico and Texas to southern Nevada and Arizona was expected to begin early next year. It said it was on schedule for the project to be completed by the first part of 2009. The Pacific Texas products pipeline and the Havasu products pipeline would account for 220,000 bpd of refined products.

Enbridge Inc filed an application with the National Energy Board for the construction and operation of the Canadian segment of the Alberta Clipper project. The project would provide greater access for Western Canadian crude to Midwest markets. Alberta Clipper is expected to be in service by mid-2010, subject to approvals. It would have an initial capacity of 450,000 bpd and allow for future expansions to 800,000 bpd.

Neste Oil stated that its new major diesel production line would improve the company's overall refining margin in the third quarter. The new line has a capacity of about 1 million tons of diesel annually.

Production News

A protest by villagers at an export pipeline complex in Nigeria entered its third day on Thursday. Protestors occupied the pipeline hub at Bomu, which feeds the Bonny shipping terminal, on Tuesday and forced Shell to shut 150,000 bpd of production. Shell confirmed on Thursday that production was still down by 150,000 bpd despite reports stating it was restoring production on Wednesday. The protestors said they would not leave until Shell gave them contracts to supply the company with goods and services. Separately, Shell said a leak on the Nembe pipeline forced it to shut another 77,000 bpd of production. Shell said the pipeline leak occurred on May 25 and added that it was trying to gain access to the site to begin repairs.

Traders stated that Nigeria would import 32 gasoline cargoes under a delayed third quarter buy tender that would instead run from August to October in the wake of severe congestion and cargo discharge delays at Lagos port. The tender amounted to 960,000 tons.

A senior BP Plc official said that the Baku-Tbilisi-Ceyhan oil pipeline could see its capacity increase by almost two-thirds from its current limits to 1.6 million bpd within four years.

Gasoline inventories in the independent Amsterdam-Rotterdam-Antwerp storage fell by 86,000 tons to 677,000 tons in the week ending May 31. It reported that gas oil stocks fell by 10,000 tons to 1.776 million tons while fuel oil stocks fell by 23,000 tons to 467,000 tons on the week. It also reported that naphtha stocks increased by 9,000 tons to 84,000 tons while jet fuel stocks increased by 32,000 tons to 388,000 tons on the week.

Japan's Ministry of Economy, Trade and Industry reported that the country's oil product sales in April fell by 5.9% on the year to 17.65 million kiloliters or 3.7 million bpd. Japan's gasoline sales fell by 1.2% to 1.03 million bpd. Refinery operation rates fell, averaging 80.8% in April, from 85.2% last year and 87% in March. Total product exports from Japan in April increased by 5.4% on the year, led by a 17.7% increase in jet fuel to 153,000 bpd. Oil product imports in April fell 29.3% on the year to 447,566 bpd.

Total said it was considering ways to increase production at its 240,000 bpd Dalia oilfield offshore Angola by 10%. Production reached the planned plateau rate of 240,000 bpd in April.

Russia's Energy Minister Victor Khristenko said Russia was in talks to build a gas pipeline to China which should be partially completed in the next five to six years. He said Russia was interested in investing further in China's energy sector.

Russian presidential aide Igor Shuvalov said Russia did not plan to increase mineral extraction tax on gas in the near future. The ministry had proposed an increase in the rate currently \$5.68 per 1,000 cubic meters of gas in order to return some of Gazprom's windfall revenues from lucrative export markets to the central government.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$64.21/barrel on Wednesday from \$65.37/barrel on Tuesday.

Brazil's Agriculture Minister Reinhold Stephanes said he would request that the blend of ethanol in national gasoline be increased to 25% from its present 23%. The ministry's request is expected to be sent to a ministerial committee for review and approval.

Market Commentary

The July crude oil contract experienced its highest volume at three different price levels today, first on the run-up after the release of the DOE and API numbers, then again when prices traded over 64.00 up to 64.06 and finally between 62.72 and 63.00. It was most certainly a roller coaster ride, which provided opportunities to day trade within the support and resistance number. There wasn't any news released that caused the run up at the tail end of the day, but with the tomorrow being Friday, we would look for further upside movement. We would like to see a settlement over 63.85 tomorrow, which would give us an objective of 66.29 next

Technical levels			
		Levels	Explanation
CL	Resistance	64.27, 64.45, 65.25, 66.15, 67.10	Previous highs
	64.01, up 52 cents	64.27	Thursday's high
HO	Support	64.00, 63.65, 63.15, 62.72	Thursday's low, Previous low
	188.31, up 93 points	62.43, 62.35	Thursday's low, Previous low
RB	Resistance	189.16, 190.50, 191.84, 194.21	38% retracement(196.00 and 185.31), 50%, 62%, Previous high
	220.32, up 42 points	188.79	Thursday's high
RB	Support	188.05, 186.00, 185.20	Thursday's low, Previous lows
	220.32, up 42 points	184.82, 184.21, 182.73	Thursday's low, Previous lows
RB	Resistance	223.55, 226.06, 226.99, 229.55, 231.90	50% retracement (234.19 and 212.91), Previous high
	220.32, up 42 points	221.25	Thursday's high
RB	Support	219.50, 217.00, 214.75, 214.00	Thursday's low, Previous lows
	220.32, up 42 points	212.91, 212.40, 211.75	Thursday's low, Previous lows

week. Support is set at 64.00, 63.65, 63.15, 62.72 and 62.35. Resistance come in at 64.45, 65.25, 65.60, 66.15 and 67.10. The product markets also saw volatile trading ahead of the June contracts' expiration at the close, with the June RBOB contract settling down 2.13 cents at 225.12 and the June heating oil contract settling up 72 points at 188.27. The July RBOB contract traded to a high of 220.50 following the release of the weekly inventory reports before it erased its gains and sold off sharply to a low of 212.91. However the market bounced off its low and rallied to a high of 221.25 late in the session amid the strength in the crude market and the liquidation of the June positions. It settled up 42 points at 220.32. Meanwhile the July heating oil contract also bounced off a low of 184.82 and rallied to a high of 188.79. Following today's sharp rally in the complex, the markets are seen continuing to retrace their recent losses ahead of the weekend. The RBOB market is seen finding support at 219.50, 217.00, 214.75, 214.00 and its low of 212.91. Meanwhile resistance is seen at 221.25 followed by 223.55, 226.06, 226.99, 229.55 and 231.90.