



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 1, 2007

US Secretary of State Condoleezza Rice said Iran has not provided any evidence to suggest it is willing to halt its nuclear work. The

Market Watch

An official at the National Iranian Oil Co said the price of crude is expected to increase by 5% during the summer gasoline demand season and by another 5% during the winter.

The EU-Iran talks produced no breakthrough on Iran's refusal to suspend its uranium enrichment program. However the EU's foreign policy chief Javier Solana said Iran indicated more willingness to cooperate with the UN's IAEA. Iran pledged to provide answers on past suspicious activities to the UN's IAEA. The offer however falls short of the concession sought by the international community. Meanwhile, the director of the UN's IAEA, Mohamed ElBaradei warned against "new crazies" advocating military action to halt Iran's nuclear program and said he did not want to see another war like that in Iraq. He has previously suggested Western powers to consider allowing Iran limited enrichment.

The Movement for the Emancipation of the Niger Delta said on Friday it was waiting to see how new President Umaru Yar'Adua progresses with talks aimed at developing and calming the region before ending its attacks. The group has been holding six foreign workers hostage since May 1. But by Saturday the group had released the six hostages and announced that it would halt all attacks on oil facilities for one month in order to pave the way for dialogue with the new government. Meanwhile, gunmen attacked a residential compound on Friday and kidnapped three Asian workers. Also the Nigerian Labor Congress has asked the new president to reverse the 15% price hike on fuel as well as the sale of two oil refineries by former President Olusegun Obasanjo. The union though did not issue any strike threat.

Separately, community elders expelled protestors occupying a major oil export pipeline in Nigeria on Friday and reopened valves to allow crude to flow. Royal Dutch Shell had been forced to cut its production by 150,000 bpd due to the protest at the Bomu pipeline hub.

Refinery News

BP announced at midday that it had told Canadian heavy crude oil suppliers it was declaring force majeure on its crude oil purchases for its Whiting, Indiana refinery, due to the delays in completing maintenance work following a fire last April. The company expects one of two crude units shut by the fire to restart now in late June, with the second restarting much later in the summer, possibly as late as September. The company originally had expected the second unit to be up and running by the end of

July. The refinery has the capacity of 420,000 b/d but currently has been running at 200,000 b/d since the fire.

Colonial Pipeline Co has delayed the restart of its main gasoline line between Atlanta, Georgia and Greensboro, North Carolina due to the slow pace of repairs. Colonial stated on Thursday that the pipeline would resume operations sometime on Friday. Operators now expected to restart the main gasoline line from Atlanta to Greensboro, NC by 8 PM EDT on Saturday. The line has been down since Tuesday.

Motiva Enterprises LLC started work on an air pollution equipment associated with a fluid catalytic cracking unit at its Port Arthur, Texas refinery on Friday that could result in emissions over the next two weeks. The operating status of the fluid catalytic cracker was not clear from a report filed with the Texas Commission on Environmental Quality but repairs of this kind can entail processing rate reductions to lower air emissions.

Lyondell Chemical Co was investigating emissions from a fluid catalytic cracking unit at its Houston refinery that forced a cutback in processing rates on Monday.

Chevron Corp said it shut a 200,000 bpd crude distillation unit at its El Segundo refinery in California for planned work, which is expected to take a few weeks.

Western Refining Inc completed its \$1.13 billion purchase of Giant Industries Inc on Thursday after a federal appeals court denied an effort by the Federal Trade Commission to block the deal.

PDVSA's 320,000 bpd La Isla refinery is planning a six-month maintenance program on its crude distillation unit#2 starting in July.

Flint Hills Resources shut a cumene unit at its 288,000 b/d refinery in Corpus Christi, Texas on Friday. The unit, which produces a component for high-octane fuels, was shut to repair a leak in 3-inch pipeline.

State regulators reported that Valero's 214,000 b/d Texas City refinery set off its safety flare for some fifteen minutes on Friday due to a malfunction in the plant's Complex 2.

Production News

According to a Reuters survey, the ten OPEC members produced 26.76 million bpd in May, up 110,000 bpd on the month. OPEC's production stood at about 52% of the total production cut pledged. Reuters reported that Saudi Arabia lifted its supply by 30,000 bpd to 8.63 million bpd while Iran increased its production by 10,000 bpd. Meanwhile, Algeria and the UAE increased its output by 30,000 bpd and 50,000 bpd, respectively while Nigeria cut its production by 50,000 bpd to 2.15 million bpd. Total OPEC production increased by 120,000 bpd to 30.37 million bpd in May. Iraq's production was unchanged at 2 million bpd while Angola's production increased by 10,000 bpd to 1.61 million bpd.

Russia's Industry and Energy Minister Viktor Khristenko said Russia would not resume oil exports to Lithuania via the Druzhba pipeline. It stopped oil deliveries via a portion of the pipeline after an accident on the Russian part of the pipeline last July which caused a spillage of oil. Separately, he stated that exports of Russian crude via the new Atasu-Alashankou oil pipeline linking central Kazakhstan with northwestern China may start this year. The Russian Energy Ministry reported that Russian oil production and exports dropped in May from April levels despite market expectations that companies would rush to export volumes ahead of the introduction of higher export duties starting

June 1st. The ministry estimated that oil exports via Transneft pipeline fell to 4.57 million b/d down 2.6% from April levels.

NYMEX Petroleum Options Most Active Strikes for June 1, 2007								
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	8	7	P	55	07/17/2007	0.12	6,062	30.60
LO	8	7	C	78	07/17/2007	0.2	4,060	30.10
LO	8	7	C	85	07/17/2007	0.06	3,050	33.92
LO	7	7	P	55	06/15/2007	0.01	2,525	35.26
LO	6	8	C	80	05/15/2008	3.16	2,350	24.83
LO	8	7	C	75	07/17/2007	0.34	2,001	28.06
LO	8	7	C	70	07/17/2007	1.04	1,783	26.28
LO	9	7	C	70	08/16/2007	1.96	1,451	26.33
LO	7	7	P	65	06/15/2007	1.27	1,334	25.85
LO	8	7	C	72.5	07/17/2007	0.57	1,300	26.69
LO	8	7	C	68	07/17/2007	1.66	1,157	26.39
LO	6	8	P	60	05/15/2008	2.85	1,100	27.94
LO	8	7	C	80	07/17/2007	0.14	1,098	31.26
LO	7	7	C	65	06/15/2007	1.35	1,091	25.85
LO	9	7	C	80	08/16/2007	0.36	1,082	28.30
LO	6	8	C	70	05/15/2008	6.75	1,050	26.15
LO	8	7	C	65	07/17/2007	3.04	1,050	26.62
LO	7	7	P	63	06/15/2007	0.53	1,044	26.36
LO	7	7	P	66.5	06/15/2007	2.15	1,000	25.83
LO	8	7	P	64	07/17/2007	1.52	954	26.61
LO	7	7	P	62	06/15/2007	0.34	940	27.43
LO	7	7	P	64	06/15/2007	0.84	807	26.03
LO	7	7	C	90	06/15/2007	0.01	800	61.52
LO	12	7	C	41	11/13/2007	27.65	800	60.18
LO	7	7	C	70	06/15/2007	0.18	777	28.99
OB	7	7	C	2.6	06/26/2007	0.0097	501	40.61
OB	9	7	P	2	08/28/2007	0.0694	330	31.53
OB	7	7	C	2.25	06/26/2007	0.088	218	38.88
OB	9	7	C	2.25	08/28/2007	0.0862	205	31.97
OB	7	7	P	2.25	06/26/2007	0.0934	161	38.88
OB	7	7	C	2.05	06/26/2007	0.2169	143	39.68
OB	7	7	P	2.26	06/26/2007	0.0989	130	38.95
OB	8	7	P	1.9	07/26/2007	0.0227	127	36.45
OB	7	7	C	2.3	06/26/2007	0.0673	125	39.11
OB	7	7	C	2.4	06/26/2007	0.0374	105	39.61
OB	8	7	P	2.1	07/26/2007	0.0752	101	35.45
OB	7	7	C	1.9	06/26/2007	0.3487	100	41.37
OH	7	7	P	1.8	06/26/2007	0.0132	60	27.69
OH	7	7	C	1.95	06/26/2007	0.0424	20	27.30
OH	7	7	C	1.9	06/26/2007	0.0661	15	27.22
OH	1	8	P	1.95	12/26/2007	0.1192	10	29.11
OH	8	7	P	1.8	07/26/2007	0.0311	10	28.22
OH	12	7	C	2.45	11/27/2007	0.0532	10	31.20

Iran has extended by one month a June deadline for receiving offers on an international oil exploration tender of 17 onshore and offshore blocks due to high demand.

OPEC's news agency reported that OPEC's basket of crudes increased to \$64.34/barrel on Thursday, up from Wednesday's \$64.21/barrel.

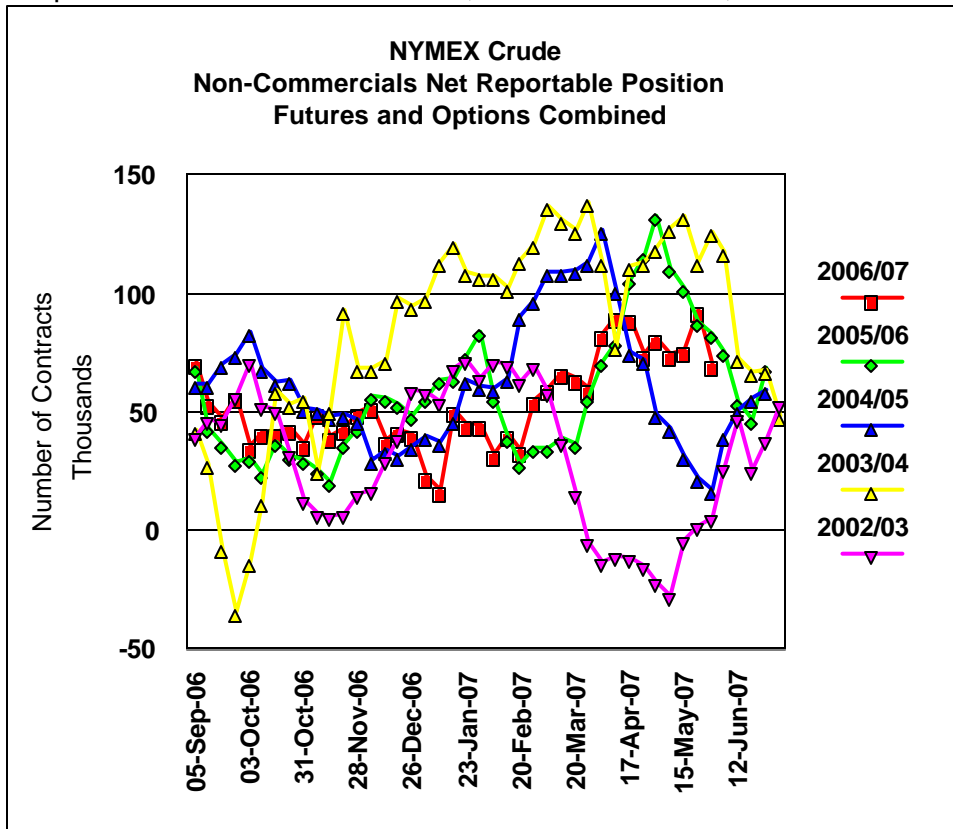
ConocoPhillips plans to expand production of heavy oil from the north Slope of Alaska and to test new production technologies on large, untapped deposits of even heavier crude. The company said if approvals are received, it could involve two new drill sites and approximately 53 wells. At peak production the project is expected to add 20,000 b/d.

The Louisiana Offshore Oil Port is expected to secure air permits for new onshore, above ground crude storage tanks at Clovelly, Louisiana by mid-June. The LOOP is looking to build eight 600,000 barrel tanks for storing foreign crudes. To date the LOOP has received commitments from customers for 4 tanks. Two of the tanks are expected to become operational by the end of 2008 and the other two by

early 2009.

Market Commentary

The oil markets opened lower this morning, but by mid day were led higher on the news of continuing refinery woes at BP's Whiting refinery. As a result WTI was able to finish the day up \$1.07 back over \$65.08 again, with Brent up \$1.03 at \$69.07. In the products the heat was up 3.97 at \$1.9228 and gasoline up 4.14 at \$2.2446. Despite these late gains though the market finished the week down from the prior week RBOB off 6.59 cents, heat off 1.93 cents, Brent off 1.38 and WTI off only 12 cents.



But while the refinery news may help to support product crack spreads next week, the crude oil values though could continue erode next week, especially given the news of tensions in Nigeria seeming to be dialed back at least for the next 30 days. As a result we would look for the July WTI contract to resume its overall trend lower for the near term looking to retest the \$63.80 level followed by \$62.40-\$64.35, \$61.23 and \$60.53. More distant support we see at \$60.53 and \$58.50.

The latest Commitment of Traders Report showed that large non-commericals

had significantly decreased their net long position in futures and options in the WTI market for the week ending May 29th, by 22,857 lots and falling to the smallest net long position since the last week of March. Their position in heating oil also saw a decline of 4569 contracts, while their gasoline position remained basically unchanged.