



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta
& Karen Palladino

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

www.e-windham.com

ENERGY MARKET REPORT FOR JUNE 2, 2008

OPEC's President Chakib Khelil said world oil demand would fall this year due to a recession and the growth of alternative energy. He maintained that oil prices were high because of geopolitics, speculation and the dollar's fall. He also reiterated that OPEC would not make a decision on output policy before its next scheduled meeting in September. Meanwhile, Iran's OPEC governor, Mohammad Ali

Market Watch

The EIA announced that it would release its weekly oil inventory report at 10:35 am on Wednesdays until further notice after it prematurely released the data on its website last week. It said it would be changing its release procedures over the next several weeks.

Iran increased the number of tankers in the Persian Gulf to at least 14, indicating it may be storing more crude. In April, there were 10 tankers, holding at least 20 million barrels of oil. The 14 very large crude carriers are capable of storing as much as 28 million barrels of oil or about 12 days of Iran's total production. Meanwhile, Energy Intelligence reported that Iran is expected to start cutting the amount of oil in storage in June.

France has urged the European Union to study how Value Added Tax on oil products could be adapted to rising prices to preserve citizen's purchasing power. France's Economy Minister Christine Lagarde said the European stocks of crude oil and oil products should be published weekly to improve the market's transparency.

US Treasury Secretary Henry Paulson said there was no quick fix to high oil prices. He also the weak dollar was not the only reason for high inflation in Gulf countries and added that the dollar peg for currencies in the Middle East had served those countries well. He said any changes to the peg would be a sovereign matter.

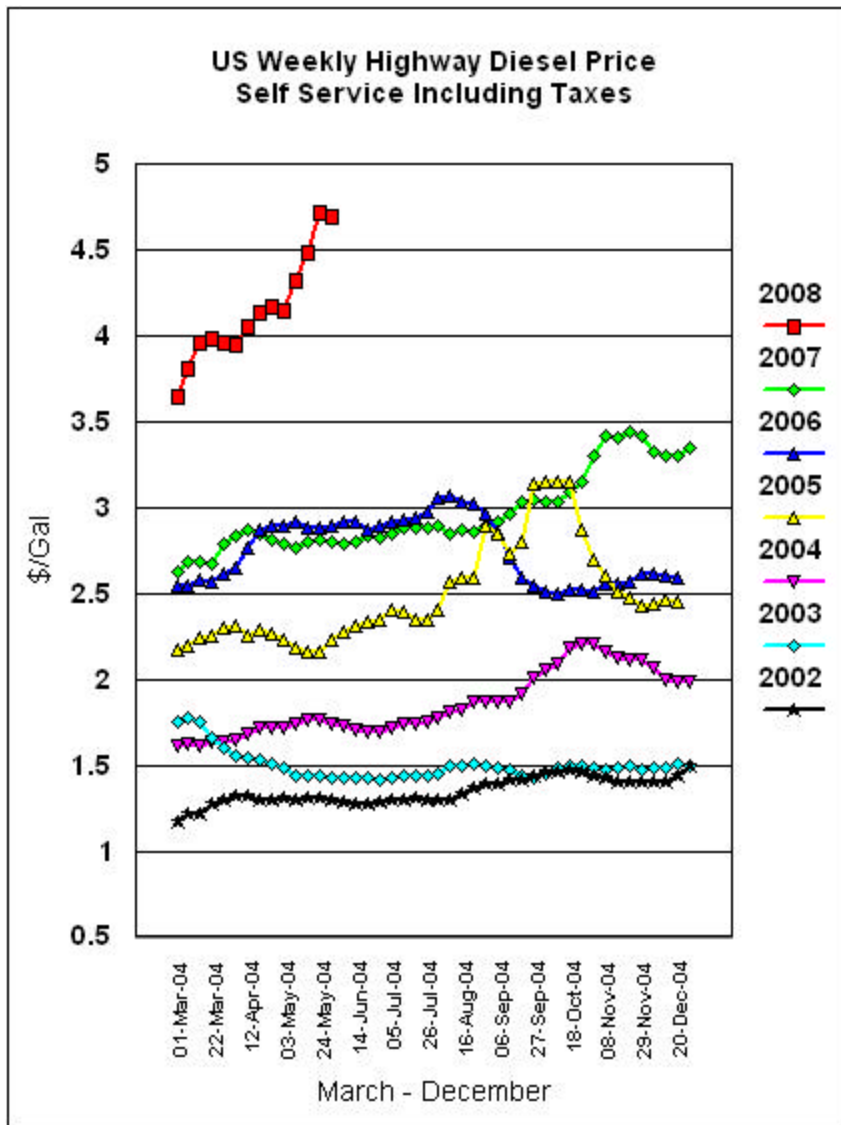
A senior ConocoPhillips official said he did not know if the company was a target of the Commodity Futures Trading Commission's investigation into the manipulation of the oil market. He said it would be difficult to manipulate petroleum prices or supplies through shipping and transportation. Separately, he said gasoline supplies are not expected to be tighter this autumn.

The Institute for Supply Management said its index of national factory activity increased in May to 49.6 from April's 48.6.

May Calendar Averages

CL – 127.76
HO – 372.20
RB – 339.07

Khatibi said he expected the oil price to reach a new record high due to increased transportation during the summer. He also said psychological factors were behind the high oil price. Separately, Saudi Arabia's Finance Minister Ibrahim al-Assaf said Saudi Arabia wanted stable oil markets that would be free of the recent price fluctuations.



Royal Dutch Shell CEO Jeroen van der Veer said he did not see any shortage of physical oil supplies, echoing the view of many OPEC ministers.

The head of the EIA, Guy Caruso said oil prices should remain above \$100/barrel through 2009 and potentially longer. He also stated that non-OPEC oil supply growth in 2008 would be disappointing after an unexpected fall in Russian oil production and a steeper fall in Mexico's production.

The EIA reported that the US average retail price of diesel fell by 1.6 cents to \$4.707/gallon in the week ending June 2. It also reported that the US average price of gasoline increased by 3.9 cents to \$3.976/gallon on the week.

The IEA's executive director Nobuo Tanaka said an energy revolution was necessary to cut demand. He said the current oil price shock was unique because demand remained high despite prices rallying to \$135/barrel. He said there should be a change in the demand side. The IEA said world oil demand this year is expected to increase as

consumption in emerging economies outweigh a slowdown in the US and Europe.

Japan's Trade Minister Akira Amari said major world oil producers should take responsibility for the abnormally high oil prices. He also stated that consuming countries should aggressively promote energy conservation while oil producers should work harder to show that they have the resources to meet long term demand. He also stated that increased pressure on speculators may restrain some inflows but added that it would be difficult to enforce investment restrictions to lower prices.

Fuel shortages were reported in Beijing as energy majors cut output to limit losses from low state-set prices, despite government calls to keep the country well supplied. The government has urged its loss making refiners to start new plants as soon as possible, saying their duty was to keep the markets well supplied.

Iran's President Mahmoud Ahmadinejad said there was no need to review cooperation with the UN's IAEA now. He made his comments after Iran's Foreign Ministry said it may have to limit its cooperation with the UN's IAEA. It said Iran believed the IAEA could have submitted a better report had it not been for the continuing pressure of one or two known countries. The UN's IAEA said Iran's

alleged research into nuclear warheads was a matter of serious concern. In the report, the IAEA also said Iran should provide more information on its missile related work.

Republican White House candidate John McCain called for new sanctions against Iran if it failed to halt its nuclear program. He said severe international restrictions on Iran's capacity to import refined gasoline, stringent financial sanctions on the Bank of Iran and worldwide visa bans and asset freezes would help change the minds of Iranian supreme leader Ali Khamenei and President Mahmoud Ahmadinejad.

DEBKAFfile reported that President George W. Bush was closer than

ever before to ordering a limited missile air bombardment of the IRGC-AI Qods Brigade's installations in Iran. It is expected to target training camps and the munitions factories providing fighters, missiles and roadside bombs to the Iraqi insurgency, Lebanese Hezbollah and Palestinian terrorists. US intelligence estimate that Iran's counteraction would likely be on a limited scale and therefore any US-Iranian military encounter would not be allowed to become a major confrontation.

Refinery News

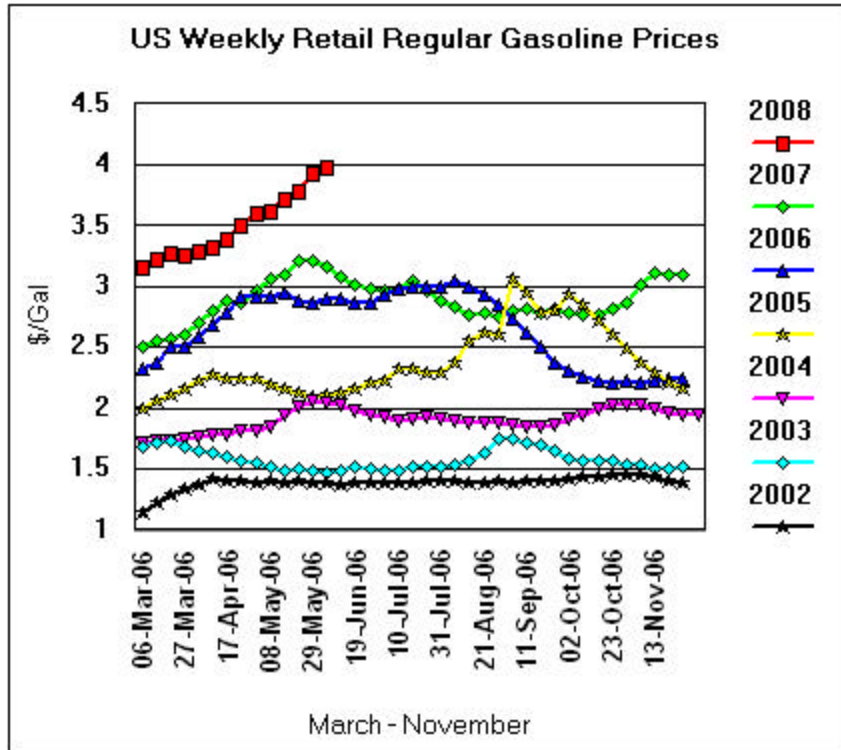
Motiva Enterprises LLC shut its 285,000 bpd Port Arthur, Texas refinery due to a power failure on Monday morning. No timeline for the refinery's restart was announced as of 2 pm. Three contract workers were hospitalized as a precaution after experiencing breathing problems. Meanwhile Valero's refinery in Port Arthur was unaffected by the power failures.

Flint Hills also reported a power failure at its Port Arthur, Texas refinery on Monday due to a steam outage from a third party supplier. It is expected to last until June 4.

Valero Energy Corp restarted its 55,000 bpd fluid catalytic cracking unit at its 160,000 bpd refinery in Paulsboro, NJ on Sunday and was moving towards full rates. The unit was shut for unplanned maintenance on May 27 after the discovery of a leak in an expansion joint.

Two of Mexico's three main oil ports were closed to shipping on Sunday and remained closed due to rough seas caused by the proximity of tropical depression Arthur. The ports of Dos Bocas and Cayo Arcas were shut while its Pajaritos terminal remained open. Meanwhile its Pacific Coast port of Salina Cruz also remained opened.

Credit Suisse stated that US refinery margins in most regions increased last week. Margins in the Rocky Mountains increased by \$5.08/barrel to \$23.86/barrel in the week ending May 30 while margins in the West Coast increased by \$3.57 to \$30.69/barrel. Gulf coast margins increased by \$1.08 to



\$17.13/barrel while margins in the Northeast increased by 34 cents to \$12.14/barrel and margins in the Midwest fell by 31 cents to \$17.64/barrel.

Wholesale gasoline prices increased 17 cents on Monday morning in the Los Angeles wholesale refined products market due to tight supply. Gasoline in the LA market sold as high as 47 cents over NYMEX July RBOB.

Tesoro Corp warned of possible flaring at its 100,000 bpd Los Angeles refinery starting on Sunday. The flaring is expected to last through Tuesday.

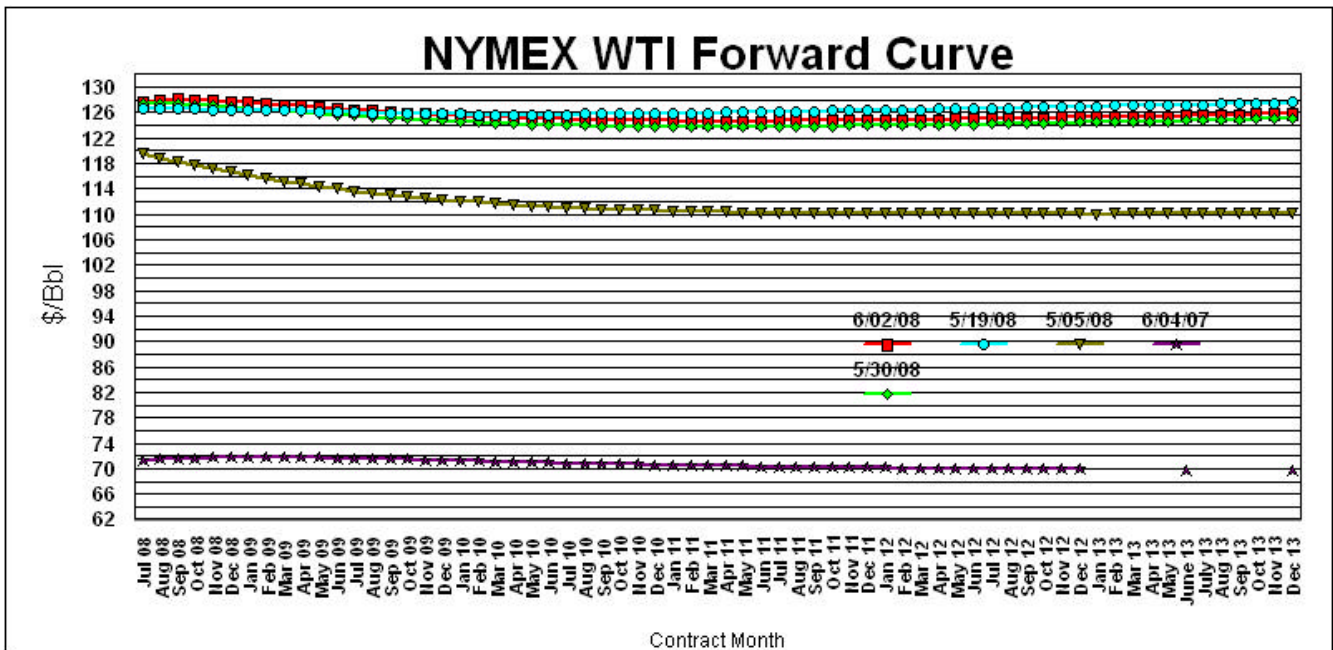
Big West reported a sulfur plant shutdown at its 66,000 bpd Bakersfield, California refinery on Friday. Chevron Corp was restarting a crude unit at its 260,000 bpd refinery in El Segundo, California.

Taxi drivers joined truckers in blocking Total SA's refinery outside Marseille as protests against high fuel prices in France entered the fourth week. Total said about 12 taxis and 20 trucks were blocking access to the refinery in La Mede. Pipeline and train deliveries from the refinery were unaffected by the protests.

StatoilHydro said part of its refinery in Kalundborg, Denmark remained shut after a May 30 fire. The refinery's visbreaker unit, where the fire started, was shutdown.

ConocoPhillips' 260,000 bpd Wilhelmshaven refinery was running near capacity after production was cut earlier this year due to poor refining margins.

PetroChina's Lanzhou refinery is expected to cut its crude runs by 20% on the month in June to 172,800 bpd due to the start of delayed maintenance of a crude unit on June 10. Separately, PetroChina is expected to import more than 2.4 million tons of diesel this year and continue to halt exports to increase supply to local markets. It halted its diesel exports since September.



China Aviation Oil Corp Ltd said it was seeking an extra 100,000 tons of jet fuel for the second half of June, in addition to the earlier purchase of 459,000 tons.

Saudi Arabia has for the third time delayed a tender for bids for a 200,000 bpd oil refinery in the southern province of Jizan.

Production News

Norwegian oil rig managers threatened to strike on North Sea platforms owned by StatoilHydro ASA and Royal Dutch Shell Plc this week if talks fail to resolve a dispute over wages and benefits. The Norwegian Organization of Managers and Executives will pull workers from Statoil's Snorre A platform and Shell's Draugen A rig on June 7 if a government mediator fails to resolve the dispute by midnight June 6.

ConocoPhillips started its 16 hour shutdown of oil and gas production from its North Sea Ekofisk fields due to planned maintenance. Production is expected to remain lower than normal until June 12 while further repair work is carried out. Daily shipments of Ekofisk crude is expected to fall 9.4% in June. The tankers are set to load 359,667 bpd in June, down from 396,774 bpd in May.

Iraq's Oil Minister Hussein al-Shahristani said Iran has increased its oil exports to over 2 million bpd and is expected to increase its exports to 2.2 million bpd in June. He said Iraq's oilfields were pumping more than 2.5 million bpd. Iraq's oil revenues are expected to reach \$70 billion this year if crude oil prices remain high and output flows remain stable. Iraq's Oil Minister said he was optimistic Iraqi forces would keep security tight at oil facilities and increase the confidence of foreign investors discouraged by sectarian violence.

Russia's Energy Ministry reported that the country's oil production increased to 9.74 million bpd in May, up from 9.72 million bpd in April. It reported that exports to central Europe and major ports via the Transneft pipeline system fell to 4.46 million bpd from 4.52 million bpd. Russia's seaborne exports fell to 2.91 million bpd in May from 2.93 million bpd in April.

Russia's Prime Minister Vladimir Putin said he was confident that oil production in Russia would increase in the next several years due to recent decisions by the government to reduce the tax burden on the sector.

Kazakhstan's Energy Minister Sauat Mynbayev said the country was in talks with a group of Western oil majors over the cost structure of the Kashagan oilfield and hoped to sign an agreement by the end of the month. He also said discussions also involved the timeframe for the start of commercial production scheduled for 2011. Under a tentative agreement signed in January, costs were fixed at \$136 billion, up from the previous \$57 billion estimate.

Total SA estimated that world oil production would stabilize at 95-100 million bpd before 2020. It said an increase in Middle East production would compensate for the decline in production from mature areas.

Malaysia's government is expected to increase the price for petrol and diesel in August. However a government minister said subsidies would remain in place.

Saudi Aramco raised the price of cargoes loading in June to a record after world oil benchmarks continued to rally. The price of propane cargoes were increased by \$50 or 6% on the month to \$895/ton while the price of butane was increased by \$60 or 7% to \$920/ton in June.

An Oil Ministry official in India said the country's political leaders are divided over the extent to which fuel prices should be raised. The Oil Ministry had proposed a 15-22% increase however analysts said

the government may scale that down to 5-10% after the Congress Party lost a state election amid widespread discontent over rising prices.

OPEC's news agency reported that OPEC's basket of crudes fell to \$121.68/barrel on Friday from \$124.27/barrel on Thursday.

Market Commentary:

The oil market pared some of its earlier gains ahead of the close but still settled in positive territory for the second trading session after it followed the natural gas market higher. While the oil market seemed to have shrugged off the start of the Atlantic hurricane season on Sunday and the closure of two oil ports in Mexico due to the proximity of the Tropical Storm Arthur, the natural gas market rallied higher and thus dragged the rest of the energy complex higher. The crude market bounced off a low of 125.22 early in the session and rallied to a high of 129.35. The oil complex was further supported by news of refinery shutdowns in Port Arthur, Texas due to power failures. The crude market however retraced

more than 50% of its earlier move and settled up 41 cents at 127.76. The crude market is seen giving up some of its sharp

		Explanation	
CL	Resistance	131.94, 133.12, 133.65	Basis trendline, Previous highs
	127.76, up 41 cents	129.35	Monday's high
	Support	127.00, 125.22	Monday's low
HO	Resistance	124.67, 123.88, 122.34, 119.33	Previous low, Basis trendline, 50% (109.59 and 135.09), 62%
	372.20, up 5.53 cents	376.40	38% (361.57 and 403.38), 50%, 62%, Previous high
	Support	370.98, 365.00, 361.57	Monday's low
RB	Resistance	367.03, 355.80, 353.07, 344.57	38% (308.22 and 403.38), 50%, Basis trendline, 62%
	339.07, up 4.25 cents	342.40	Previous high
	Support	337.35, 338.80, 330.30	Monday's low
		328.80, 328.00, 321.99, 321.33	Previous lows, 38% (281.67 and 345.85)

gains on Tuesday, finding support at 124.47, 123.88 followed by 122.34 and 119.33. The July/August spread, which settled at -.27, is still seen trading back to its previous low of -.45. The heating oil market reasserted its dominance over the rest of the oil complex amid the strength in the natural gas market. The market, which posted a low of 361.57 early in the session, bounced off that level and retraced nearly 38% of the market's move from a high of 403.38 to its low as it rallied to a high of 376.40 in afternoon trading. While the market retraced some of its previous losses, the market will likely erase today's gains after much of these gains were driven by the strength in the natural gas market. The market also continues to trade within its downward trending channel, with support seen at 375.08. Meanwhile, the RBOB market also bounced off a low of 330.30 and rallied to a high of 342.40 in afternoon trading and settled up 4.25 cents at 339.07. The market on Tuesday will likely retrace some of today's sharp gains. It is seen finding support at its lows of 328.80 and 328.00. Open interest in the crude market fell by a total of 4,657 lots to 1,368,551 lots, with a large decline in April of 23,490 contracts to 347,393 contracts. Open interest in the August and September contracts increased by 6,657 contracts to 113,566 contracts and by 7,284 contracts to 112,240 contracts, respectively. Open interest in the heating oil fell by a total of 5,724 lots to 203,507 lots, with declines in June and July contracts of 4,598 to 1,515 and 3,102 to 69,708, respectively. Total open interest in the RBOB market fell by 3,605 contracts to 257,929 contracts, with a falls of 5,628 to 2,097 and 250 to 102,547 lots in the June and July contracts respectively while the August contract saw an increase of 1,030 lots to 28,663.