



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 4, 2008

Saudi Arabia's Prince Sultan said no country alone had the power to determine international prices, regardless of the size of its output capacity. He said supply, demand, inventories, politics and the state of financial markets all contributed to the price of oil. He also said speculators was another factor which required the attention of consumer countries in order to limit price fluctuations.

Separately, Saudi Arabia's Defense

Market Watch

Traders said Europe was importing about 380,000 tons of diesel supplies from the US in June.

Morgan Stanley's co-president Walid Chammah said rising emerging market demand would hold oil prices above \$100/barrel for the foreseeable future. He said Morgan Stanley expected a long term growth cycle based mostly on an increase in demand, not tight supply.

Goldman Sachs' managing director of energy, power and materials, Arjun Murti said the US, Europe and Japan will be forced to consume less oil because supplies were not growing in step with demand while subsidized prices sheltered consumers in China and the Middle East. He said world oil demand is expected to increase by 1 million bpd this year while supply remains flat. He said negative demand growth in the US, Europe and Japan is needed to balance the market. He said demand is not expected to fall in the Middle East or China due to the heavy subsidies and added that for prices to fall, the boom in infrastructure building in the Middle East and China would have to end.

Total SA said the cost of replacing oil reserves has reached \$80/barrel. Total's CEO Christophe de Margerie said the cost is a new technical floor for oil prices. He said oil prices are expected to remain high for a long time. Separately, he stated that Total was assessing its presence in Nigeria because of unrest in the country. However he warned that any pullout would cause a surge in oil prices.

Economist and editor of the Gartman Letter, Dennis Gartman said he was short crude oil against a natural gas position.

Senate Finance Committee chairman Max Baucus said he would seek a vote by the end of June on a bill to extend tax incentives for alternative energy sources and to renew other expiring tax breaks.

Sunoco Logistics Partners LP received approval from the Federal Trade Commission to acquire a refined products pipeline system, six refined products terminal facilities and some other related assets in Texas from ExxonMobil Corp.

May Calendar Averages

CL – 124.79
HO – 363.58
RB – 331.28

Minister Prince Sultan bin Abdul Aziz said Iran has the right to nuclear technology as long as it is used for peaceful purposes.

UK Prime Minister Gordon Brown reiterated his call for lower oil prices. He said he believed there was a need for talks between consumers and producers to lower oil prices. He also called on the European Union to press ahead with the liberalization of gas and electricity markets in the next few months to help tackle rising energy prices.

Fishermen protesting against the increasing price of fuel clashed with police in the European Union district of Brussels on Wednesday. EU leaders are expected to discuss the impact of high oil prices on Europe's fisheries sector at a summit in mid-June. Meanwhile, in France, truckers, taxi drivers and farmers staged go-slows on major highways to pressure the government over fuel costs, emulating a protest on Tuesday which paralyzed traffic around Paris' main business district. The French government is due to hold talks with the various parties on June 10 and ahead of the meeting, ministers have been meeting with agriculture, haulage and fishing representatives individually.

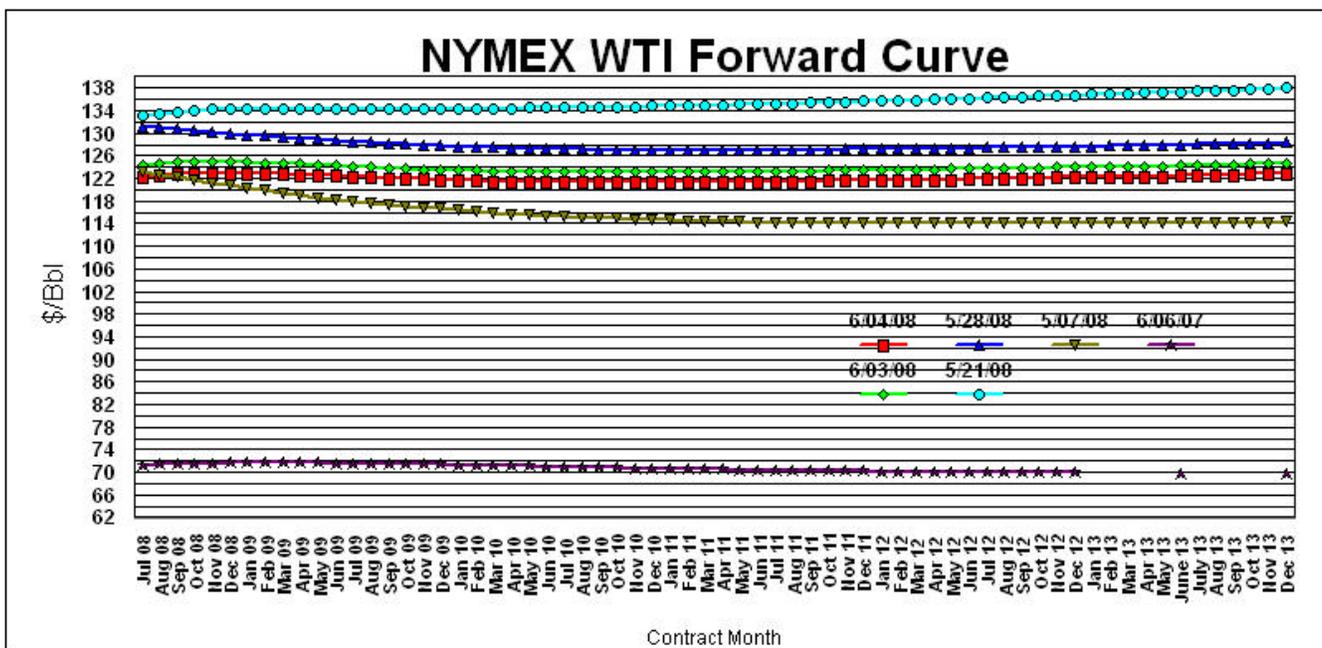
European Union foreign policy chief Javier Solana said he would visit Iran for renewed talks on its nuclear program. However he said he did not expect any miracles. He said he would take the incentive proposal offered by major world powers to Iran. The trip is expected to occur in mid-June.

Refinery News

Magellan Midstream Partners LP shut its main pipeline system in Kansas City after a fire erupted in a gasoline storage tank, with a capacity of 145,000 barrels. The tank was about 20% full. The fire started after a lightning strike on Monday evening. A Magellan official said the entire site was closed until an assessment could be completed. Supplies to customers in Iowa and Nebraska have been cut. Magellan said it was exploring several options available to ship product beyond Kansas City.

According to Iranian state television, an oil pipeline caught fire late Tuesday in Iran's Khuzestan province. The fire was put out early Wednesday. The report did not state whether oil deliveries were affected.

ConocoPhillips shut a fluid catalytic cracking unit at its 247,000 bpd Alliance refinery in Belle Chase,



Louisiana on Monday. The unit was shut for unplanned work.

Neste Oil said it restarted its diesel production line at its Porvoo refinery during the last week of May however a coking problem would require throughput to be temporarily reduced. It said the latest problem to impact its new diesel line would increase running costs during June because a lighter feedstock would be used in one of the reactors while repair work is undertaken.

French port workers are scheduled to hold a 24 hour strike at France's Fos-Lavera oil terminal on Thursday in a series of protests against the privatization of loading activities of state run ports.

Pemex shut a 120,000 bpd vacuum distillation unit at the 270,000 bpd Cadereyta oil refinery on June 1 for 30 days of planned work.

PetroChina's Dalian refinery is expected to increase its crude runs by 20% on the month to 267,700 bpd in June after a one month maintenance turnaround ended last month.

Sinopec's Maoming refinery may restart a small 380,000 ton/year ethylene unit as early as Friday after it was shut due to a nearby fire.

The Gaza Strip's main Nahal Oz fuel terminal was shut on Wednesday after a rocket fired by militants wounded a Palestinian employee. Israel halted all fuel shipments to Gaza, including supplies for the power plant which generates about one-third of Gaza's electricity.

According to the Petroleum Association of Japan, the country's crude oil inventory fell by 6.65 million barrels on the year and increased by 3.98 million barrels on the week to 100.49 million barrels in the week ending May 31. It also reported that gasoline stocks built by 1.73 million barrels on the year but fell by 1.05 million barrels on the week to 14.66 million barrels while kerosene stocks fell by 3.24 million barrels on the year and by 930,000 barrels on the week to 10.53 million barrels. It reported that crude runs fell by 140,000 bpd on the week to 3.38 million bpd. Refinery utilization rates fell by 2.9% on the week to 69.1%.

South Korea's SK Corp is scheduled to resume its gasoline exports, with the sale of a 30,000 ton cargo of low sulfur gasoline for the first half of July. SK is expected to export at least three more July cargoes following the start up of the gasoline and diesel making No. 2 RFCC unit next month. The resumption of SK's gasoline exports could ease the current tight supply in Asia, due to strong demand from China and Indonesia.

A senior energy ministry official said Indonesia's gasoline consumption is likely to increase next year despite an increase in fuel prices last month. Consumption of subsidized gasoline is likely to increase to 20.4 million kiloliters or 128 million barrels in 2009 from an estimated 19.4 million kl this year. Meanwhile subsidized diesel consumption is expected to increase to 12.6 million kl in 2009 from 11.9 million kl in 2008.

BP Plc said it plans to resume pumping oil from its Caspian fields to the Black Sea through a pipeline it closed in 2006. The company is expected to ship 100,000 bpd via the Baku-Supsa pipeline by the beginning of July. BP and its partners have been using another pipeline, the Baku-Tbilisi-Ceyhan pipeline, to send crude produced in the Caspian basin via the Mediterranean Sea. The route to Supsa was closed in October 2006 after a routine check turned up anomalies. The capacity of the BTC pipeline is expected to be expanded by 20% to 1.2 million bpd in the fourth quarter.

Russia's Transneft has built three quarters of its planned 2,700 km pipeline to Asia and is on track to complete the project by the end of 2009. Transneft is expected to launch part of the route in a reverse mode this autumn to allow oil companies to ship their output to the West until the whole line is ready to oil to China.

Production News

The Norwegian Oil Industry Association said an agreement was reached on a wage package with offshore managers and workers, averting a potential strike that threatened to shut in 220,000 bpd of production. The OLF reached an agreement with the Industry Energy, the Federation of Oil Workers' Trade Unions and the Norwegian Organization for Managers and Supervisors. The agreement included a 6.1% wage increase for offshore workers retroactive to April.

The UK North Sea could contain as much as 30 billion barrels of recoverable oil reserves, 5 billion barrels more than the currently accepted estimate.

BP Azerbaijan said new technology would allow the company to extend peak production of 1 million bpd at its Caspian Sea oil fields from 2013 to 2019. Total output at BP's Azeri-Chirag-Guneshli fields may reach 9 billion barrels over their lifespans.

Total SA is close to signing a deal to develop an offshore oil and gas field in Azerbaijan. Azerbaijan's Energy Minister Natik Aliyev said Socar and Total agreed to the main principles of an agreement on the Absheron offshore field.

Nigeria's state oil firm and ExxonMobil started work on Wednesday on plans for a natural gas to liquid petroleum plant. Nigeria's Oil Minister Odein Ajumogobia said the project would convert gas to liquid for petrol and would reduce the country's petrol imports.

India and Malaysia were forced to raise their fuel prices amid the rally in oil prices this year. The price of gasoline in India is expected to increase by 11% to 50.6 rupees or \$1.17/liter while the price of gasoline in Malaysia is expected to increase by 41% to 2.70 ringgit or 83 cents/liter. India's Prime Minister Manmohan Singh and his Malaysian counterpart risk a political backlash due to the increase. India's Oil Minister Murlu Deora said the price of diesel is also expected to increase by 9% while the price of cooking gas is expected to increase by 17%. Meanwhile, India also cut customs duties on gasoline and diesel by two thirds to 2.5% and scrapped the 5% import tax on crude oil.

Brazil's Sugarcane Technology Center reported that the recent oil discoveries off the coast of Brazil by Petrobras is not expected to cut ethanol demand. Sugarcane ethanol is used in about 90% of all of Brazil's new cars.

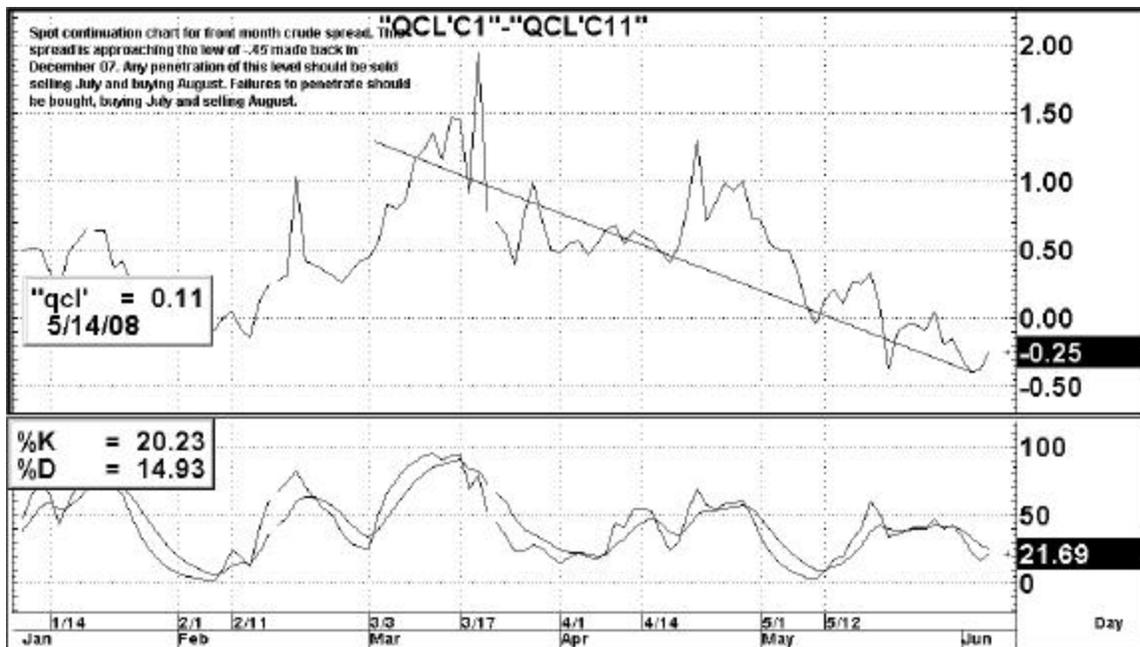
Saudi Aramco increased its official selling prices for crude bound to the US in July. Its Arab Extra Light crude bound for the US was priced at WTI plus \$2.40, up \$3.85, its Arab Light was priced at WTI minus \$2.45, up \$3.20, its Arab Medium was priced at WTI minus \$8.30, up \$2.15 and its Arab Heavy was priced at WTI minus \$13.30, up \$1.60. Meanwhile, its Arab Extra Light bound for Northwest Europe was priced at BWAVE minus 50 cents, down 50 cents, its Arab Light crude was priced at BWAVE minus \$5.75, down 90 cents, its Arab Medium was priced at BWAVE minus \$10, down \$1.50 and its Arab Heavy crude was priced at BWAVE minus \$13.05, down \$1.90. Its Arab Super Light crude bound for Asia was priced at the Oman/Dubai average plus \$7.80, unchanged on the month. Its Arab Extra Light was priced at the Oman/Dubai average plus \$6.10, up 25 cents, its Arab Light crude was priced at the Oman/Dubai average plus \$2.05, up 20 cents, its Arab Medium crude was priced at the Oman/Dubai average minus \$3.70, down 35 cents and its Arab Heavy crude was priced at the Oman/Dubai average minus \$7.95, down 50 cents.

OPEC's news agency reported that OPEC's basket of crudes fell to \$121.69/barrel on Tuesday from \$122.10/barrel on Monday.

Market Commentary:

As the energy complex awaited the release of today's DOE/API numbers, prices rose slightly due to the shutting of Magellan's Kansas City fuel pipeline that experienced a fire in one of its gasoline storage tanks. Upon initial release of the numbers, prices once again rose for crude oil as the DOE reported a 4.8 million barrel draw in stocks. A build in gasoline of 2.94 million barrels and a build of 2.3 million barrels in distillates overshadowed this draw in crude oil stocks however. Demand for gasoline fell by 1.4% from the same period last year, perhaps indicating that high prices for this product are beginning to have an effect on demand. Once again the forward curve came under front-end pressure, indicating sufficient near term supply. The July/August crude oil spread came with in .04 cents of the -0.45 cent key support level. With our expectations for continued weakness, we would look for a test at this level. Any failed attempts to take out this support level should be bought and any penetrations sold, selling the July08 and buy the August08 contracts. The July crude oil held the first of two trendlines on a daily chart, which was set at \$121.86. Coming into tomorrow we would anticipate another test of this trendline, which will start the day at \$122.38, .08 cents above settlement. A break and settlement below this line sets the July crude oil up for a test of the second trendline which is \$113.91. Gasoline was hit hard today, in response to demand for this product which reflected a decrease of 1.4% from the same period last year. Gasoline stocks saw a greater build than the 900,000 expected build, increasing by 2.94 million barrels. As the price of gasoline begins to weigh on everyone's mind, demand starts to wane. The spot contract for gasoline hit its lowest level since 5/15/08 when prices dipped to \$3.0926. Slow stochastics for this contract are drifting lower, but do not appear to be crossing any time soon. We would expect for this contract to test the bottom of the ascending channel on the spot continuation chart, which comes in tomorrow set at \$3.1258. Gasoline crack spreads also came under pressure, with the July gasoline/July crude oil crack spread dropping \$4.61 points. Should gasoline continue to come under pressure, this spread will continue to weaken, trading back into the \$11.30 - \$6.84 period of consolidation it experienced from April to the end of May. With distillate stocks falling by 4.8 million barrels this product also came under pressure, trading down to the 50% retracement from the high of \$4.0153 and the low of \$3.0681. Demand for distillate is still at

unseasonable highs, but with India cutting subsidies, and other developing nations possibly doing the same, demand for diesel should decrease, adding further pressure to this market. The next level to the downside for this product is \$3.4299, with the bottom of the ascending



channel on the spot continuation chart coming into tomorrow's session set at \$3.3734. Total open interest for crude oil is 1,355,667 up 481, July08 325,568 down 9,727, August08 128,076 up 6,612, December 08 195,802 down 875. Total open interest for heating oil is 210,214 down 1,568 July08, 68,810 down 3,551, August08, 25,788 up 756. Total open interest for gasoline, 254,501 down 3,745, July 98,226 down 3,333, August08, 27,909 down 1,029.



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| 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 |
| 3.5425 , 3.5100, 3.3500, 3.1680, 3.0980 | 4.0315,4.0475,4.0640 |
| Gasoline support | Gasoline resistance |
| 3.3075,3.09.20,3.0730, 3.0400, 3.0250, 2.9255 | 3.63.45,3.755,3.4655 |