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ENERGY MARKET REPORT FOR JUNE 5, 2008

The US Energy Department said about 2.1 million barrels of crude oil scheduled to be shipped to the SPR this summer have been deferred for delivery between March and May 2009. It stated that about 2.8 million barrels of scheduled deliveries would continue through July, under the royalty in kind program.

The chairman of the US House Energy

Market Watch

According to Barclays Capital, about \$13 billion of new money was invested in commodities in the first quarter, less than some published estimates and slightly more than 10% of that amount has left precious metals markets since. It stated that there were large outflows from metals while inflows increased in agriculture and energy products. A Barclays analyst said about \$1.4 billion exited exchange traded products for precious metals in April as gold prices fell. In a separate report, BarCap said assets under management in commodities increased by \$30 billion to \$225 billion in the first quarter contrary to reports of higher amounts.

The US Senate climate bill was stalled as Majority Leader Harry Reid was unable to reach an agreement late Wednesday on how to proceed with amendments to the bill and filed a motion to cut off debate. A vote on that motion is expected on Friday. The bill mandates coal fired power plants, petroleum refiners and natural gas processors to reduce their carbon emission to 71% below 2005 levels by 2050. The bill would also create a carbon allowance market.

OECD countries said they were concerned by signs of inflation pressures but predicted that commodity prices may not increase further in the near term following a two day ministerial OECD meeting.

Asian governments are falling behind in their battle against record oil prices, risking public protests, higher interest rates and slower growth. Lehman Brothers said India's move to increase its petrol prices would increase the country's inflation to 8.5% while Malaysia's consumer price growth may double to more than 7% this month. The governments are also risking a political backlash after losing ground in elections in the past year. Strikes shutdown transport, businesses and schools in three communist-run Indian states of West Bengal, Tripura and Kerala on Thursday after an increase in fuel prices. They said the government should have done more to insulate consumers from high world oil prices even though it passed on a fraction of the increasing crude costs when it increased heavily subsidized prices of petrol and diesel by about 10%. The government said it had no choice amid the surging price of oil. Another strike has been called for Friday. Separately, Malaysia's opposition vowed on Thursday to stage street protests against fuel price increases. The government on Wednesday said petrol prices would increase 41% to 2.70 ringgit/liter and diesel prices would increase by 63% to 2.58 ringgit starting Thursday as part of a reform package that would save the country \$4.23 billion. Analysts said the price increases would help government finances but could trigger an early exit for Prime Minister Abdullah Ahmad Badawi.

The son of executed activist Ken Saro-Wiwa said the planned removal of Shell from southern Nigeria's Ogoniland would give the impoverished region a chance to develop. Shell was forced to abandon its oil fields in Ogoniland in 1993 due to protests over pollution and a lack of development. President Umaru Yar'Adua on Wednesday announced that the oil fields Shell abandoned would be given to another operator acceptable to Ogoni communities this year.

May Calendar Averages

CL – 125.54

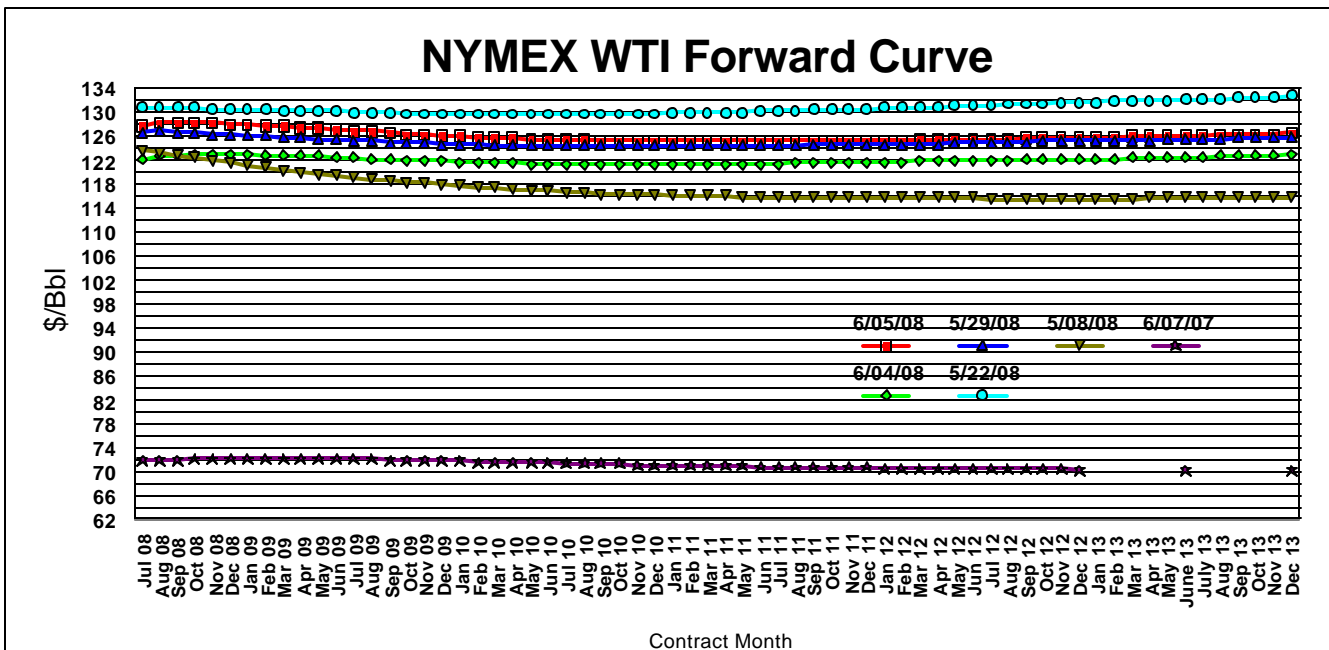
HO – 364.71

RB – 331.82

Oversight Committee, Bart Stupak said that the biggest trading houses in the futures markets were manipulating oil and product markets. He however said that an investigation has not uncovered illegal activity. He named Goldman Sachs and Morgan Stanley as two of the trading houses. He said the committee has not subpoenaed the banks and was basing its findings on data from the Commodity Futures Trading Commission. He said he and other congressmen planned to file legislation next week that would target speculation through swap deals, foreign exchanges like the IntercontinentalExchange and over the counter trades. He said the Prevent Unfair Manipulation of Prices Act of 2007, introduced in the House of Representatives in January 2007, is aimed at reducing excessive speculation in all energy markets by requiring marketers to report all energy trades, including over the counter traded to the CFTC. He said the subcommittee would hold a hearing on June 23 to investigate the CFTC's limited oversight of the OTC markets. The US Commodity Futures Trading Commission and international market regulators are scheduled to meet on June 11-12 in Washington to address concerns about possible manipulation in the energy markets.

OPEC's President Chakib Khelil said crude oil is expected to decline as the dollar strengthens against other currencies, limiting its appeal as an inflation hedge. He said there may be an understanding between the European Central Bank and the US Federal Reserve to support the dollar, which as rebounded 4% since reaching a record low versus the euro on April 22.

According to Oil Movements, OPEC crude oil shipments are forecast to increase to their highest level so far this year by the end of June amid high Asian demand. Shipments from OPEC members are seen totaling 24.97 million bpd in the four weeks ending June 21, up from 24.55 million bpd in the four weeks ending May 24. Shipments from Middle Eastern OPEC producers are estimated to increase 330,000 bpd to 17.71 million bpd.



On Wednesday, President George W. Bush said Iran was a threat to peace and added that the world had to take that threat seriously, ahead of his talks with Israeli Prime Minister Ehud Olmert. Meanwhile, National Security Adviser Stephen Hadley declined to say if Israel's Prime Minister asked President Bush to take military action against Iran before his term ends.

Iran's ambassador Ali Asghar Soltanieh said Iran has given comprehensive responses, information and documents regarding its nuclear program. Iran's nuclear program has dominated the board meeting at the IAEA after the IAEA's chief Mohamed ElBaradei complained in his latest report that the Iran was withholding key information that could shed light on its nuclear research. Iran has claimed that the allegations are baseless and the intelligence used to back up those allegations is forged and fabricated. Iran's ambassador has threatened to sue countries Iran believes has damaged its reputation and pushed to have the UN Security Council involvement in its nuclear program.

A senior military commander said that Turkey and Iran have carried out coordinated strikes against Kurdish rebels in northern Iraq. A senior military commander said the two countries share intelligence and plan to launch more coordinated operations against the rebel group in the future.

Refinery News

Magellan Midstream Partners LP said that its pipeline in Kansas City, Kansas resumed normal operations. The pipeline was shut following a tank fire at the Kansas City oil product terminal late Tuesday.

Motiva Enterprises LLC has restarted its processing units at its 290,000 bpd Port Arthur, Texas refinery after a power outage. Most of the units are expected to return to normal operations by Friday.

Valero Energy Corp said a 155,000 bpd crude oil vacuum distillation unit at its 275,000 bpd Aruba refinery was ramping up production following its restart last week. The unit was damaged during a fire in late January. Separately, Valero said its 23,000 bpd fluid catalytic cracking unit at its 100,000 bpd Three Rivers, Texas refinery was moving towards full rates. It reported an operating snag on May 29.

Sunoco restarted a 137,000 bpd crude distillation unit at its Philadelphia refinery on June 3.

BP Plc's 265,000 bpd refinery in Carson, California warned of planned flaring between June 9 and 13. It was unclear if the flaring was related to maintenance work underway at the refinery. It has been performing planned work on a coking unit and a sulfur unit at the refinery since May 29. Separately, BP said it was restarting an ultracracker at its 460,000 bpd Texas City, Texas refinery on Thursday after it was shut in early May for maintenance work. The restart is expected to end by early next week.

According to California's energy commission, oil refiners in the state increased their crude runs by 2.2% in the week ending May 30 to 1.705 million bpd. Crude runs were however down 6.7% on the year.

Frontier Oil Corp has delayed a coker turnaround and expansion project at its 110,000 bpd El Dorado, Kansas refinery until mid-July. It delayed the turnaround, which is seen completed at the end of July, due to a scheduling problem.

A Kuwaiti oil official said oil exports and operations at Kuwait's 270,000 bpd Mina Abdullah refinery were unaffected by an explosion at a chemical and paint facility on Thursday. The explosion happened at an industrial area in the Mina Abdullah port. Separately, a small fire at Kuwait's 200,000 bpd Shuaiba refinery had no impact on its exports or its operations.

Striking port agents and protesting farmers blocked France's Fos-Lavera oil terminal, near Marseille on Thursday as well as two refineries owned and operated by Total. The strike blocked five oil tankers from entering the port and from being loaded or unloaded. Striking workers have also blocked access

to the 231,000 bpd Donges refinery. In a separate protest over high fuel prices, farmers were blocking access to Total's Gonfreville refinery.

Water levels on the largest quake lake formed by China's earthquake have continued to increase, increasing the possibility that a natural dam made of mud and rock may burst. Fuel supplies in the disaster regions could not be guaranteed and supplies to Sichuan, Chongqing, Yunnan and Guizhou provinces would be halted if the 100,000 bpd Lanzhou-Chengdu-Chongqing pipeline was disrupted by a flood and could not be restored within three days. More than 600 soldiers arrived on Wednesday to ensure the line would be quickly repaired if it was damaged by possible floods from Tangjiashan lake.

South Korean refiners are expected to cut spot fuel oil exports in June as they cut crude refining rates due to planned maintenance. SK Energy, GS Caltex, S-Oil and Hyundai Oilbank are expected to cut spot fuel oil exports to between 280,000 and 310,000 tons, down from 350,000 tons in May. They are expected to process at least 2.235 million bpd of crude in June, down 9% from May.

SK Energy Co is expected to shut its 275,000 bpd Incheon refinery in late June for more than one month of regular maintenance. Its 200,000 bpd No. 2 crude distillation unit is expected to be offline from June 25 to early August while its 75,000 bpd No. 1 crude distillation unit is scheduled to be shut on June 26 for about a month of maintenance. Its secondary units will also be idled during the period.

Russia's Rosneft, which is currently upgrading the Tuapse refinery, said it planned to refine the company's light oil that is currently exported through the Black Sea port of Tuapse. As part of the first stage of the upgrade, Rosneft is expected to increase its annual oil refining to 12 million metric tons by 2010 from the current 5 million tons.

Petrobras President Jose Sergio Gabrielli said the two new refineries planned by the company is estimated to cost \$20 billion. One of the refineries is expected to have the capacity to produce 600,000 bpd of premium oil products such as gasoline and diesel fuel for export. Details of the second refinery were not released.

Singapore's International Enterprise reported that the country's residual fuel stocks built by 3.639 million barrels to 20.9 million barrels in the week ending June 4. It also reported that the country's light distillate stocks built by 288,000 barrels to 9.892 million barrels and middle distillate stocks built by 56,000 barrels to 9.769 million barrels on the week.

Gasoline stocks fell by 35,000 tons on the week but increased by 287,000 tons on the year to 951,000 tons in the week ending June 5. Gas oil stocks built by 109,000 tons on the week but fell by 564,000 tons on the year to 1.29 million tons while fuel oil stocks fell by 21,000 tons on the week but increased by 248,000 tons to 747,000 tons. Naphtha stocks fell by 20,000 tons on the week and increased by 27,000 tons to 128,000 tons while jet fuel stocks increased by 40,000 tons on the week but fell by 152,000 tons to 208,000 tons.

Production News

According to the Canadian Renewable Fuels Association, Canada's total 2008 ethanol production capacity is expected to reach 1 billion liters/year in the next week or two. Based on current conditions, ethanol production capacity is expected to expand to 1.3 billion or 1.4 billion liters/year by 2009. It stated that 489 million liters of the ethanol produced in Canada in 2008 would be wheat based while 496 million liters would be corn based.

Senior staff union Pengassan said it would hold talks with the local unit of Chevron on Tuesday to avert a strike. It issued Chevron a 7 day ultimatum to transfer the expatriate managing director out of

the Nigeria unit or risk a total shutdown. The ultimatum expired on Thursday but the union was yet to begin the threatened lockout. The union said that even though it is scheduled to meet with Chevron, it could still go ahead with the strike if it wished.

Kuwait Oil Co said new gas fields would increase its light crude and condensate production by 50,000 bpd within a few days. It started gas output from new northern gas fields on Wednesday.

India's Oil & Natural Gas Corp said the Panna and Mukta fields off the country's west coast were shut after an explosion on Tuesday. It said there was minor damage in the equipment at Panna that forced it to shut its gas and oil production. It has declared a force majeure after oil production was cut by 40,000 bpd. Gas production has also been cut to 13.6 million cubic meters/day from the daily average of 17.3 million cubic meters. Production from the fields may be restarted on Friday. Meanwhile, Indian Oil Corp said it may increase its crude oil imports from spot markets if supplies from the Panna-Mukta field remain shut beyond 3-4 days.

Alberta's Energy Resources Conservation Board said Alberta's oil sands production increased to an average of 1.32 million bpd last year, up 5% on the year. Its production could reach 3.2 million bpd by 2017. Alberta's conventional oil output fell by 3.5% last year to 524,800 bpd. It also reported that Alberta's combined production of bitumen, conventional oil and natural gas liquids increased by 3% to 1.9 million bpd.

Nexen Inc said it would stop oil production at its North Sea Buzzard field for maintenance lasting a week at the end of this month, cutting supplies of Forties crude. Production is also expected to be halted again in August.

Pemex's CEO Jesus Reyes said the country's average oil exports are expected to remain well below its target all year and below last year's level, due to lower crude production. He said Mexico's oil exports are estimated to average 1.4 million to 1.45 million bpd over 2008, down 15% from its target set in Mexico's 2008 budget of 1.683 million bpd. It is also below its average export level of 1.686 million bpd reported in 2007. Its crude production is expected to average 2.9 million bpd, down from its original target of 3 million bpd.

Total SA has signed a deal to develop the Absheron offshore oil and gas field in Azerbaijan.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$118.56/barrel on Wednesday from Tuesday's \$121.69/barrel.

Market Commentary:

A falling dollar helped crude oil experience its largest gain since March 26, with the July contract rising more than \$6.00 a barrel. The European Central Bank indicated today that it might raise interest rates in order to stave off inflation. This is what pushed the dollar lower. Although the July contract penetrated today's trendline, which was set at \$122.38, the follow through was not as significant as we would have hoped for. Sparked by investors pouring back into the market, July crude oil contract retraced 50% from the high of \$135.09 and today's low of \$121.61. Open interest for crude oil rose 11,556 contracts, which was most likely shorts entering the market. Most of those shorts were forced to cover today, exaggerating today's move higher. Although the market moved higher, the shape of the forward curve has not changed. The July08/August08 spread remained under pressure, even with crude experiencing its largest ever one day gain. The front month spread on the spot continuation chart has been trending lower since the end of April. With demand taking a hit and index rolls set to start tomorrow, we would look for this spread to continue to trend lower, attempting to take out the long standing support level of -.45. Gasoline remains within the ascending channel on the spot continuation

chart and unless demand starts to pick up, we do not see this contract breaking out to the upside. This channel is set between \$3.1373 and \$3.4224. The July gasoline crack gained slightly today only to trade lower at the opening of the access trading session. Slow stochastics for this spread are still pointing lower and are just above the overbought level. We would look for an attempt to test the \$11.30 support level, selling breaks below this number. Heating oil continues to experience unseasonable strength and slow stochastics for this product are in deep oversold territory, appearing to get ready to cross to the upside. This market should be traded cautiously, given the fact that developing countries are starting to hold back on their subsidies. This will greatly impact demand in those countries, which have been experiencing economic booms. Like the gasoline crack spreads, heating oil crack spreads traded higher during the NYMEX floor trading hours, only to sell off in after hours trading. Should demand for diesel die out, heating oil crack spreads will continue to come under pressure. Basis the July contract for this spread, any penetration of the \$25.95 support level should be sold. Total open interest for crude oil is 1,367,223 up 11,556, July08 326,247 up 679, August08 137,653 up 9,577, December 08 193,241 down 2,561. Total open interest for heating oil is 210,733 up 519 July08, 65,694 down 3,116, August08, 27,259 up 1,471. Total open interest for gasoline, 248,027 down 6,474, July 88,359 down 9,867, August08, 29,992 up 2,083.

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
3.3075,309.20,3.0730, 3.0400, 3.0250, 2.9255	3.63.45,3.755,34655