



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 19, 2008

According to a statement posted on Saudi Arabia's London embassy website, Saudi Arabia plans to increase its oil production by 200,000 bpd. On Sunday, UN Secretary General Ban Ki-Moon said Saudi Arabia had told him it would increase its oil output by 200,000 bpd in July. However a Saudi official said the statement posted on the Saudi embassy website is wrong.

China will increase retail gasoline and

Market Watch

Traders said Iran has made little progress to efforts to sell a 245 million barrel stockpile of crude oil stored for over a month in tankers in the Persian Gulf, although there is speculation that the first cargoes have been committed to oil refiners in South Korea and India.

Goldman Sachs increased its 2008 average Brent crude forecast to \$117.40/barrel from its previous estimate of \$108/barrel due to tight supplies. Its estimate for 2009 was increased to \$140/barrel. Prices are expected to peak at \$150/barrel in 2010 and ease to \$140/barrel in 2011 and \$85/barrel in 2012.

The National Oceanic and Atmospheric Administration said in the east, south to Georgia and west into central Ohio, there are equal chances of normal, above or below normal temperatures in July. Temperatures in the Southwest and from Texas east to the Gulf Coast states will likely be above normal in July. Below normal temperatures are expected in parts of the Midwest. The coastal areas from Alaska to Southern California are also likely to see below normal temperatures next month. It said some indicators point to the likelihood of above normal temperatures through the summer in the Northeastern US.

Analysts said European airlines are hedging their fuel needs, however their bets could go wrong if Chinese demand starts to slow following this summer's Olympics. Air France has hedged 75% of its fuel needs for the 2008-2009 period while British Airways has about 70% for March to June 2008 and Lufthansa has locked in 85% of its fuel needs for 2008. Spain's Iberia has hedged 48% of its fuel costs for 2008 while Ryanair has not hedged much of its fuel needs for the current year. Airlines have said rising fuel costs would hit profits this year despite hedges, with some carriers looking to cut capacity and services to stem losses.

The Philadelphia Federal Reserve Bank announced that its business activity index fell to -17.1 in June from -15.6 in May. Its jobs index fell to -6.9 in June from -1 in May and its price paid index increased to 69.3 in June from 53.8 in May. Meanwhile the Conference Board's index of US Leading Economic Indicators increased 0.1% in May.

Britain's Financial Services Authority said it will increase monitoring of commodity markets for potential market abuse due to concerns that some suspicious activity is not being reported.

June Calendar Averages**CL** – 132.26**HO** – 380.21**RB** - 340.45

diesel prices by 1,000 yuan or \$145.50 per ton on Friday to help refiners recoup losses caused by record oil prices and ensure domestic supply. The new average price of retail gasoline is set at 6,980 yuan/ton or \$1,015.59/ton while the diesel price is set at 6,520 yuan or \$948.66/ton. It is the first increase in eight months. China however promised to subsidize groups such as farmers, fishermen and taxi drivers to cope with the retail price increase. Separately, the National Development and Reform Commission said China's announced increase in electricity tariffs would equal an average of 4.7% for industrial and commercial users. Electricity tariffs will go up to 0.025 yuan/kwh.

In response to China's announcement, the IEA said the increase in gasoline and diesel prices would not lower the country's oil demand. It said that the price increase is likely to help ease the shortages and meet fuel demand.

Nigeria's senior oil workers' union Pengassan said it will resume talks with Chevron after the government intervened late on Wednesday to avert an imminent strike. Talks between the union and Chevron's management broke down on Wednesday however Nigeria's Oil Ministry intervened to avoid a strike, saying it had persuaded Chevron to reduce its expatriate workforce in Nigeria. Pengassan has been demanding the removal of the Chevron's expatriate managing director, saying he has too many foreign staff. A union official said three-party talks were rescheduled for early next week from Friday to ensure all parties could be in Abuja for the meeting.

Gunmen in speedboats attacked a key floating production storage and offloading vessel off the coast of Nigeria, which forced Royal Dutch Shell to halt operations at its 220,000 bpd Bonga oilfield. In a separate incident, the gunmen came across a separate oil supply vessel and kidnapped its US captain in an apparent opportunistic attack. The Movement for the Emancipation of the Niger Delta claimed responsibility for the attacks and said it would release the captain soon. It said its main target was Bonga's computerized control room, from where crude exports are coordinated, however it was unable to gain access to the room. Later the Movement for the Emancipation of the Niger Delta warned oil and gas tankers to avoid the Niger Delta or risk being attacked. It said it may conduct further attacks on oil facilities after gunmen caused the shutdown of production at Royal Dutch Shell's Bonga offshore oilfield. Shell said it was too soon to say how long output would be shutdown. The Nigerian Liquefied Natural Gas co said its output was not interrupted by the militant attack. There is a total of 824,000 bpd of shut in Nigerian crude production due to militant attacks and sabotage.

Kuwait's Oil Minister Mohammad al-Olaim said Kuwait will decide later whether to increase its crude oil production following a Saudi increase aimed at easing high fuel prices.

Venezuela's Oil Minister Rafael Ramirez said he would not attend the producer-consumer meeting in Saudi Arabia on June 22 and added there was no need for OPEC to meet before a scheduled September meeting. He also said he saw no need for an increase in oil production. The head of the Libyan National Oil Co, Shokri Ghanem said he does not expect many results from the meeting. He also stated that the expected production increase to be announced by Saudi Arabia was unlikely to have much impact on prices and added that he would argue against an increase in world oil supply at the meeting. Separately, Indonesia's governor for OPEC, Maizar Rachman said Indonesia will likely discuss methods to better stabilize the supply and prices of oil at the energy conference. He said the country's agenda will include discussions on minimizing speculation in the oil markets, structuring the futures trade, stabilizing currencies used to trade oil, increasing investment in oil production and assisting in the mitigation of the effects of high oil prices on developing economies. China said Vice President Xi Jinping would attend the meeting in a bid to look for a solution to the challenges caused by soaring oil prices.

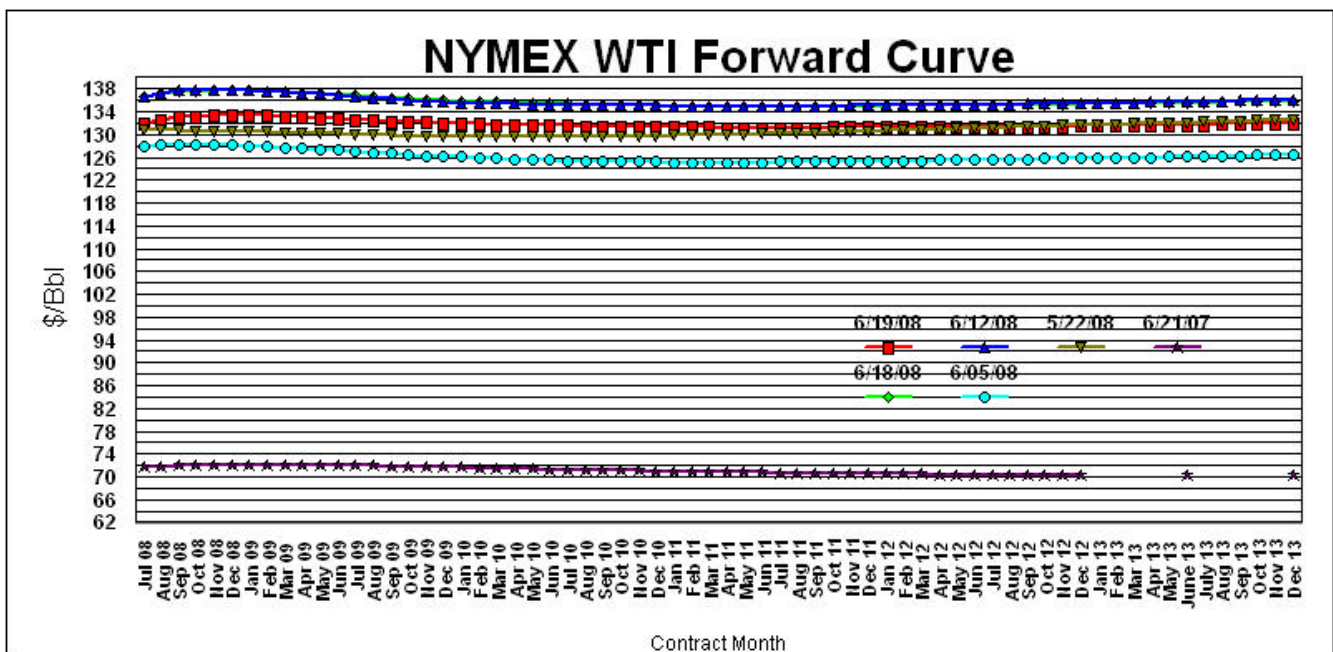
The IMF said a meeting in Saudi Arabia signaled to markets that a serious policy dialogue has started to address high oil prices. He said high oil prices have cut into prospects for global growth and raised inflation risks.

Oil Movements reported that OPEC's crude oil shipments are expected to fall by 230,000 bpd to 24.59 million bpd in the four week period ending July 5. Shipments from Middle East OPEC producers are projected to fall by 350,000 bpd to 17.63 million bpd.

European Union Energy Commissioner Andris Piebalgs said a French proposal to reduce the value added tax on petrol in the European Union is not the best proposal. He said consumption growth would continue despite a reduction in value added tax. Meanwhile, Italy's cabinet approved a proposal by Economy Minister Giulio Tremonti that raises the tax on oil company profits to 33% from 27% in 2009 to tap earnings due to record high petroleum prices.

Iran's Foreign Minister Manouchehr Mottaki said Iran was ready to negotiate over a new package of economic incentives put forward by major powers seeking to persuade Iran to halt its nuclear work. He also said the US, Britain, France, China, Russia and Germany should consider Iran's own proposals. On Saturday, EU policy chief Javier Solana presented Iran with the incentives package and also reaffirmed the permanent member of the UN Security Council and Germany wanted Iran to suspend its uranium enrichment during talks on the offer. He has yet to receive Iran's formal reply. Separately, Iran's Present Mahmoud Ahmadinejad said the West has failed to break Iran's will in the nuclear standoff.

Iraqi security forces launched a crackdown on Shi'ite militias in the southern city of Amara on Thursday.



According to the US Transportation Department, drivers in the US drove 1.4 billion fewer highway miles, down 1.8% on the year and 400 million miles less than in March. The high cost of gasoline has cut highway travel almost 20 billion miles or 2.1% during the first four months of the year. US highway travel fell 30 billion miles between November and April, down 1.7% on the year. Meanwhile, the

Cambridge Energy Research Associates said long term shifts in consumer behavior, such as buying more fuel efficient vehicles, is helping to push gasoline demand lower.

Refinery News

Shell Oil reported a brief compressor problem on a fluid catalytic cracking unit at its Deer Park, Texas refinery. The wet gas compressor at the catcracker tripped on Tuesday evening. The wet gas compressor was restarted as soon as possible.

Several units at Pasadena Refining System's 100,000 bpd refinery in Pasadena, Texas were shutdown due to a loss of steam production on Wednesday morning. A report filed with the Texas Commission on Environmental Quality did not say if production was impacted.

A brief power failure affected process units at the 58,000 bpd Delek Tyler Refinery Wednesday afternoon. Process units and the air assist blowers affected by the power failure were restarted as quickly as possible.

US ethanol capacity has increased 45% since June 2007 to more than 9.2 billion gallons/year as producers expect government mandates and record oil prices to help open new markets for the alternative fuel. While some plants have opened, plans for at least nine plants by VeraSun and Heartland Ethanol LLC have been scrapped over the last week, amid record corn prices and rising construction costs and tight credit markets.

Ethanol industry pundits said if the US decided to reduce or remove a 54 cent/gallon import tariff on Brazilian ethanol, exports to the US could increase by up to 2 billion liters. According to industry consultants at Datagro, Brazil expects to export about 4.8 billion liters of ethanol to world market this year, up from 3.5 billion exports last year.

A weeklong strike at France's Fos-Lavera oil port near Marseille over planned government reforms ended on Thursday. The port authority said work resumed on Thursday morning on all terminals operated by Port of Marseille agents.

A reformer unit at Rosneft's Kuibyshev refinery is set to restart later Thursday after the completion of maintenance. The unit was shut on Monday, when a minor fault was discovered during a routine check.

Russia's Energy Ministry reported that Russian refineries processed 4.4 million bpd of crude in May, relatively unchanged on the month but up 0.4% on the year.

Gasoline stocks in independent storage in the Amsterdam-Rotterdam-Antwerp area fell by 17% or 153,000 tons to 760,000 tons in the week ending June 19. Gasoline stocks are down 22,000 tons on the year. Gas oil stocks fell by 38,000 tons on the week and by 545,000 tons on the year to 1.342 million tons while fuel oil stocks fell by 109,000 tons on the week but increased by 278,000 tons on the year to 640,000 tons. Naphtha stocks fell by 21,000 tons on the week and by 25,000 tons to 99,000 tons while jet fuel stocks built by 39,000 tons on the week but fell by 84,000 tons on the year to 275,000 tons.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 3.611 million barrels to 20.252 million barrels in the week ending June 18. Its light distillate stocks built by 1.083 million barrels to 10.235 million barrels while middle distillate stocks built by 477,000 barrels to 8.618 million barrels.

Sinopec Group has prepared 2.5 million tons of diesel to be sold on the domestic market in June, up 37.5% on the year. Sinopec doubled its June fuel imports, mostly diesel and gasoline, and cut production of ethylene and aromatic hydrocarbons to produce more fuel, aimed at easing shortages across China.

Shipbrokers and traders said another 30,000 tons of gas oil has been booked for Australia from Japan to cover fuel shortfalls after a blast at a gas plant off western Australia disrupted supply. The loading will bring the total shipments to Australia to 210,000 tons.

The Jordan Petroleum Refinery Co has issued a tender seeking to import a total of 270,000 tons of 0.5% gas oil from August to December. The cargoes are scheduled to be delivered in 45,000 ton lots monthly during the period to the southern port of Aqaba.

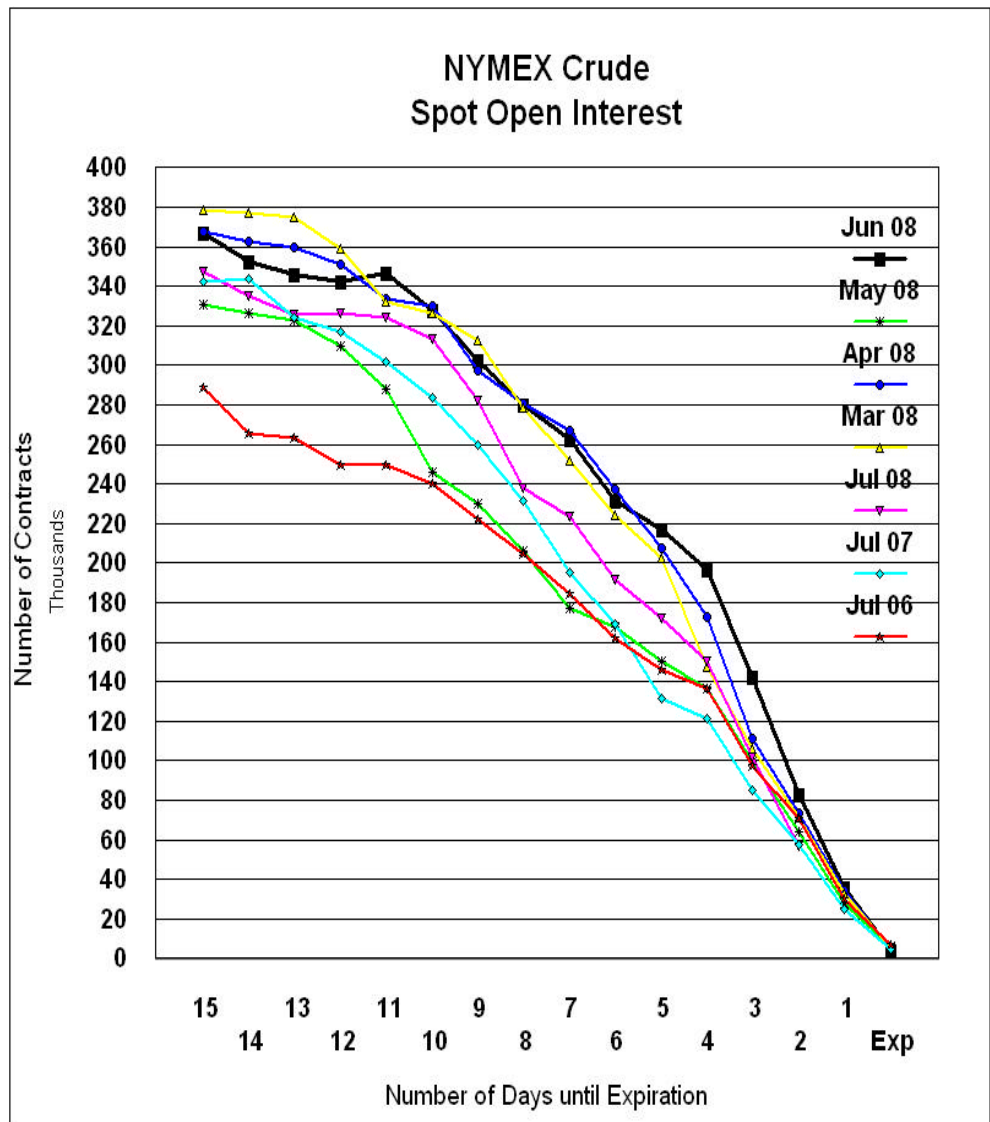
Japan's Idemitsu Kosan Co and Mitsubishi Corp said they plan to produce biofuel from rice straw and weeds as early as 2011. The likely sites for plant include North America, China and Southeast Asia, where large amounts of nonfood vegetation can be secured at a low price. The facility's output capacity is estimated at 200,000-500,000 kiloliters/year. The companies plan to ship the ethanol to surrounding areas to Japan.

Production News

StatoilHydro's ASA's North Sea Oseberg field remained closed after a fire on June 15 halted about 150,000 bpd of oil production. It said it may resume operations at the field later this week.

According to the Aberdeen Petroleum Report, UK oil and liquid production averaged 1.504 million bpd in April, down 3.3% on the month.

The New York Times reported that ExxonMobil, BP Plc, Royal Dutch Shell and Total are close to signing oil contracts with the Iraqi government that will allow them to return to the country. The deals are expected to be announced on June 30 and will be awarded on a no-bid basis. The deals for the four companies will be service contracts, in which they



are paid for their services rather than offered a license for Iraq's oil deposits.

Pemex chief executive Jesus Reyes Heróles said Mexico's proved reserves of crude oil could fall to a little over eight years' worth of production by 2012, down from nine years. He said if the reserves recovery rate remains at 50%, the number of years of production at current output levels will fall.

OPEC's news agency reported that OPEC's basket of crudes fell to \$128/45/barrel on Wednesday, down from Tuesday's \$128.98/barrel.

Market Commentary

The oil complex tumbled following the announcement that China was increasing its retail gasoline and diesel prices by about 18%, raising concerns that China's oil demand will fall. However as China is planning to subsidize many heavy users of fuel, the price increase appears to be aimed at increasing output by domestic refiners in order to alleviate regional fuel shortages rather than cut demand. Despite this, the crude market, which ignored rumors of a possible price increase earlier in the week, sold off sharply. Early in the session, the market posted a high of \$137.59 amid reports

NYMEX Petroleum Options Most Active Strikes for June 19, 2008								
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LC	12	8	P	100	11/17/2008	2.39	2,000	46.29
LC	10	8	P	120	09/17/2008	5.24	1,010	45.96
LC	10	8	C	150	09/17/2008	5.39	1,010	39.47
LC	8	8	P	125	07/17/2008	3.19	1,000	46.13
LC	12	8	P	85	11/17/2008	0.75	750	47.34
LC	12	8	P	80	11/17/2008	0.47	750	47.75
LO	9	8	P	120	08/15/2008	3.87	12,890	45.05
LO	8	8	P	105	07/17/2008	0.32	8,167	50.40
LO	8	8	P	115	07/17/2008	1.13	7,663	47.29
LO	12	8	C	68	11/17/2008	65.5	6,300	80.73
LO	12	8	P	100	11/17/2008	2.4	5,651	43.31
LO	12	8	C	69	11/17/2008	64.5	4,750	78.94
LO	8	8	C	160	07/17/2008	0.66	4,546	47.57
LO	9	8	C	170	08/15/2008	1.23	4,442	47.33
LO	12	9	P	70	11/17/2009	1.55	4,350	39.12
LO	8	8	C	200	07/17/2008	0.07	4,328	61.29
LO	8	8	P	125	07/17/2008	3.19	3,939	44.26
LO	12	8	C	85	11/17/2008	48.93	3,600	57.36
LO	12	9	P	100	11/17/2009	7.23	3,600	37.28
LO	9	8	C	175	08/15/2008	0.93	3,329	47.84
LO	1	9	P	130	12/16/2008	12.63	3,000	40.26
LO	8	8	C	150	07/17/2008	1.58	2,938	46.01
LO	8	8	C	140	07/17/2008	3.61	2,554	44.47
LO	8	8	P	130	07/17/2008	5.15	2,446	44.13
LO	12	8	C	65	11/17/2008	68.5	2,350	86.26
LO	8	8	C	135	07/17/2008	5.35	2,272	44.08
LO	12	8	C	67.5	11/17/2008	66	2,075	81.63
LO	8	8	P	113	07/17/2008	0.89	2,001	47.84
LO	6	9	P	95	05/14/2009	3.97	2,000	39.63
LO	12	8	C	175	11/17/2008	3.58	1,940	43.23
LO	8	8	P	110	07/17/2008	0.62	1,925	48.85
LO	12	8	P	115	11/17/2008	5.78	1,751	41.65
LO	8	8	P	120	07/17/2008	1.94	1,603	45.67
LO	12	8	C	67	11/17/2008	66.5	1,525	82.54
LO	12	9	C	200	11/17/2009	6.03	1,500	37.44
LO	12	8	C	63.5	11/17/2008	70	1,500	89.13
OB	7	8	P	3.37	06/25/2008	0.078	175	40.14
OB	7	8	P	3.35	06/25/2008	0.0672	126	39.99
OH	8	8	P	3.65	07/28/2008	0.153	270	41.05
OH	8	8	P	3.6	07/28/2008	0.1317	200	41.07
OH	9	8	C	3.87	08/26/2008	0.2276	150	41.45

that Shell shut in 220,000 bpd of Nigerian production following a militant attack at Shell's Bonga oilfield. However the market quickly breached the \$134.00 level and continued to trend lower during the remainder of the session. The oil market was further pressured by a Saudi statement posted on its London embassy website, stating that Saudi Arabia will increase its production by 200,000 bpd. The market posted an outside trading session as it sold off to a low of \$131.48. The July crude contract, which expires at the close on Friday, settled down \$4.75 at \$131.93. It was the largest loss seen since mid-March. The August crude contract settled down \$4.57 at \$132.60. The market is seen remaining

pressured ahead of the meeting in Saudi Arabia this weekend. The market is seen finding support at \$130.80 followed by \$127.81. Resistance is seen at \$135.00, \$135.90, \$137.82 and \$139.89. The

product markets also sold off sharply, with the RBOB market settling down 11.41 cents at 335.26 and the heating oil

		Explanation	
CL	Resistance	139.89, 140.42	Previous high
		135.00, 135.90, 138.36	Thursday's high
	Support	132.09	Thursday's low
		131.33, 128.14, 127.81	Previous lows
HO	Resistance	396.91	Previous high
		378.30, 381.00, 388.46	Thursday's high
	Support	370.00	Thursday's low
		368.00, 353.50	Previous lows
RB	Resistance	357.62, 360.50	Previous high, Basis trendline
		338.90, 341.60, 345.00, 349.03	Thursday's high
	Support	333.41, 332.52	Basis trendline, Thursday's low
		331.00, 326.50, 317.60	Previous low, Basis trendline, Previous low

market settling down 14.65 cents at 371.35. The RBOB market rallied to a high of 349.03 early in the session before it retraced more than 62% of its move from a low of 317.60 to a high of 357.62 as it tumbled to a low of 332.52. The market is also seen trending lower after the market settled at its lows. It is also seen following the crude market lower. The market is seen finding support at 333.41, followed by 331.00 and 326.50. Resistance is seen at 338.90, 341.60, 345.00, 349.03 followed by 357.62 and 360.50. Similar to the crude market, the heating oil market also posted an outside trading day, as it posted a high of 388.46 and sold off to a low of 370.00 late in the session. The market, which retraced more than 62% of its move from a low of 353.50 to a high of 401.50, is seen finding support 370.00, 368.00 and 353.50. Resistance is seen at 378.30, 381.00, 388.46 and 396.91. Open interest in the crude market fell by a total of 13,829 lots to 1,321,378 lots, with open interest in the July contract down 44,943 lots ahead of its expiration on Friday. Open interest in the August contract built by 22,672 contracts. Open interest in the RBOB market built by a total of 5,969 lots to 263,855 lots, with a fall of 2,569 lots to 48,230 in the July contract and a build of 3,369 lots to 60,336 lots in the August contract. Open interest in the heating oil market built by a total of 2,934 lots, with open interest in the July and August contracts falling by 1,319 lots to 33,895 lots and increasing by 2,108 lots to 44,873 lots, respectively.