



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 29, 2008

OPEC is widely expected to resist calls to increase its production when it meets on Friday. There is a common view that there is enough oil in the markets.

Saudi Arabia has stated that OPEC would increase its production when the market justifies it but has avoided making comments on what OPEC will decide on February 1. Iran's Oil Minister Gholamhossein Nozari said the market was sufficiently supplied with crude and added that he saw no need for OPEC to increase its production. Nigeria's Deputy Petroleum Minister

Odein Ajumogobia said there was no reason for now to push for any intervention by OPEC in the oil supply. Indonesia has raised the possibility of OPEC increasing its production while most have urged caution.

Market Watch

The International Monetary Fund cut its forecast for world growth this year and warned that economic activity could slow even further. The IMF lowered its global 2008 growth estimate to 4.1% from 4.4%, reflecting a slowdown from the 4.9% growth achieved last year. It cut its US growth forecast for the year by 0.4% to 1.5% and lowered the euro zone projection by 0.5% to 1.6%. The IMF said no country is exempt from a global slowdown. Estimating the extent of the fallout would depend on a judgment of the strength of their ties to the US economy and whether policy makers in other countries are able to take action to mute the impact.

The Conference Board reported that US consumer confidence fell in January to 87.9 from an upwardly revised level of 90.6 in December.

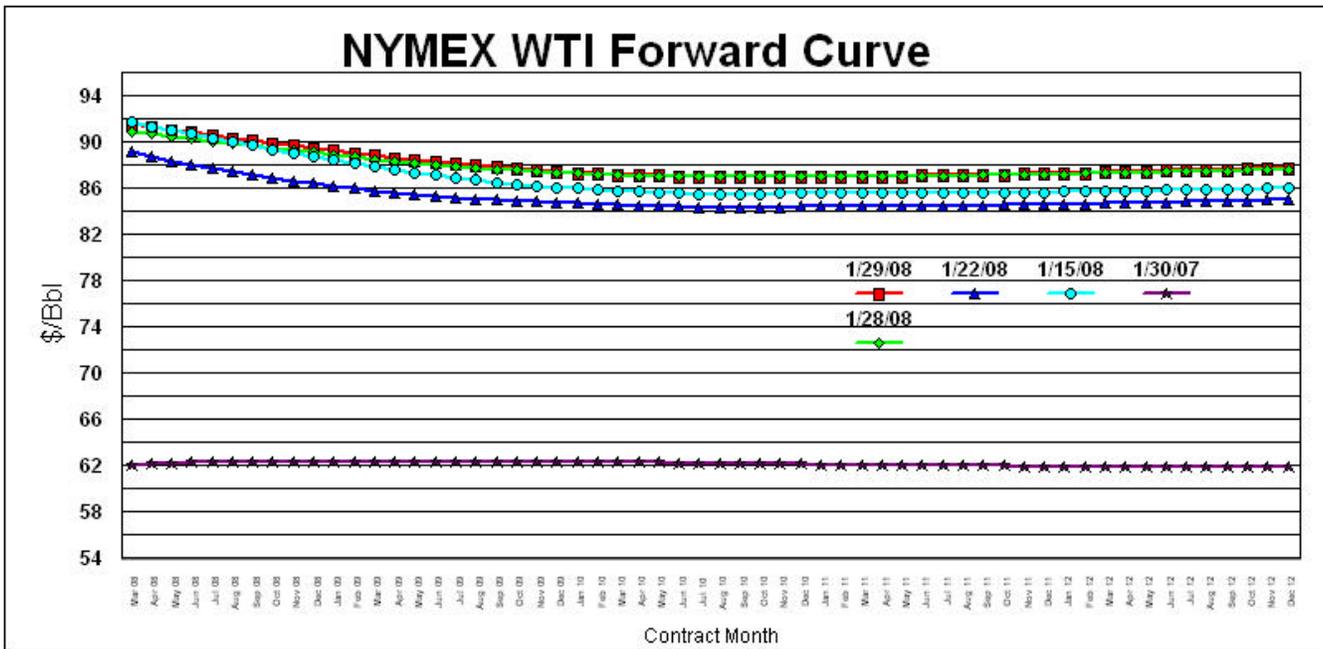
The Institute for Supply Management revised the figure for its manufacturing index for December up to 48.4 from the previous 47.7 level. Its service sector index was revised up to 54.4 in December from the previous 53.9 reading.

Moody's Investors Service stated that Gulf Arab government risk becoming more dependent on high oil prices as they spend more on subsidies and wages in a bid to offset increasing inflation. Saudi Arabia and most of its neighbors have resorted to subsidies and price controls. It said that the danger is that the governments would find themselves dependent on higher oil prices to balance their budgets. Saudi Arabia on Monday announced it would raise wages, welfare payments and subsidies to counter rising disaffection over inflation, which increased to a high of 6.5% in December.

Jan Calendar Averages

CL – 93.02
HO – 256.34
RB – 236.62

Ecuador's Mining and Oil Minister Galo Chiriboga said the country planned to seek an increase in its oil production quota from OPEC by the middle of this year to meet government forecasts. It would ask OPEC to increase its production quota to at least 530,000 bpd from the current



520,000 bpd. According to the latest preliminary data, Ecuador's average oil production fell by 4.6% last year to 511,425 bpd from 536,033 bpd in 2006. Ecuador's Oil Minister also stated that oil supplies to world markets were adequate and added that there was no need for OPEC to increase its production at its meeting on Friday.

US Energy Secretary Samuel Bodman said that high energy prices and their effect on the US economy were real and significant. He also stated that the effect of high prices on smaller developing countries could be indeed very severe. He however stated that the US would be able to make do if OPEC does not increase its production.

According to the EIA, US oil demand in November increased by 0.2% or 39,000 bpd on the year to 20.708 million bpd. The figure was down 0.9% from an earlier estimate. Demand for gasoline averaged 9.249 million bpd in November, up 5,000 bpd on the year but down 0.2% from a previous estimate. Demand for distillate averaged 4.2 million bpd, up 0.5% or 20,000 bpd on the year.

According to MasterCard Advisors LLC, US gasoline demand for the week ending January 25 fell by 1.7% on the week to 9.114 million bpd. It fell to the lowest level since April 20, 2007. In the latest four weeks, demand was up 3.3% on the year. The US average price of regular gasoline fell by 5 cents/gallon to \$2.99/gallon.

The World Energy Council said that high oil prices have prompted countries to use energy more efficiently. A study showed that countries using less energy to generate each dollar of GDP had accelerated in the period 2000 to 2006. Over the period of 1990 to 2006, energy productivity increased at an average rate of 1.3% while productivity from 2000 to 2006 increased by 1.5% per year. China was the principal exception, with its improvement in energy productivity falling to 1% per annum in 2000-2006 from 7.5% per annum in 1990-2000.

Refinery News

Colonial Pipeline Co. announced another restriction on distillate products flow between Collins, Mississippi and Greensboro, North Carolina due to over nominations. It said cycle 8 on Line 2 would be allocated.

According to Reuters, refiners have reduced crude processing rates by about 400,000 bpd to limit losses amid the weak or negative profit margins.

Valero Energy Corp said it cut refinery runs at its Benicia, California refinery during the first quarter of 2008 due to low margins in the US West Coast. Valero said crude throughput at the 147,000 bpd refinery would remain reduced while the company awaits a typical seasonal demand increase. Refinery runs have been cut by between 10,000 and 20,000 bpd. It also reported that it would cut throughput at its 295,000 bpd Port Arthur, Texas refinery by 100,000 bpd for a coker unit overhaul. The work to replace coker drums is scheduled to start in February and last for three months. Separately, Valero said its fourth quarter earnings fell on lower profits from gasoline production. It said its net income in the quarter fell to \$567 million from \$1.11 billion year earlier. Valero also stated that it was continuing to review strategic options for its Aruba refinery, which could include a sale.

Kuwait Petroleum's refinery in Rotterdam is scheduled to undergo planned maintenance in February. The maintenance is scheduled to start February 17 and last about 25 days, taking down at least 45,000 bpd of the refinery's total capacity of 80,000 bpd.

The Turkish coast guard said Turkey has closed the Bosphorus Strait to transit traffic of tankers longer than 200 meters due to strong currents and stormy conditions. An official said the restriction on large tankers would be lifted when weather conditions improve.

Hellenic Petroleum said its Thessaloniki refinery in Greece was shut for planned maintenance in March. The 67,000 bpd refinery is expected to be closed for two weeks.

Nippon Oil Corp is expected to refine 4.16 million kiloliters or 902,000 bpd of oil in February due to lower kerosene demand. It is down from 4.7 million kl in January.

South Korea's GS Caltex is scheduled to shutdown its 130,000 bpd No. 2 crude distillation unit for one month in August.

South Korea's 275,000 bpd SK Incheon refinery is scheduled to shut its 200,000 bpd No. 2 crude distillation unit from late September to early November for regular maintenance.

Production News

Canadian Oil Sands Trust said production from its 350,000 bpd Syncrude oil sands project in Alberta was suspended due to several instrument freeze ups as a result of extremely cold weather conditions. The operation of several units has been disrupted. Syncrude expects that it would take several days to fully restore operations. The oil sands region has been hit by a cold snap with a low temperature on Tuesday of -38 degrees Fahrenheit. Little relief is expected for the next four days, with lows through Saturday ranging from -31F to -38F.

The US Energy Department said oil and natural gas production at Alaska's North Slope has been declining since 1988 but stated that region could yield up to 36 billion barrels of oil and 137 trillion cubic feet of natural gas through 2050. Projections assume that a North Slope pipeline is operational by 2016, the opening of parts of the Arctic National Wildlife Refuge and National Petroleum Reserve to oil drilling and drilling access to the Beaufort and Chukchi seas. If those assumptions are met, production from the North Slope could extend well beyond 2050 and require a refurbishment of the Trans Alaska Pipeline System and building of a pipeline to bring natural gas from the North Slope to Lower 48 states. Through 2015, exploration efforts could add about 2.9 billion barrels of oil and 12 trillion cubic feet of natural gas to recoverable ANS supplies.

BP Plc said it started reducing personnel levels at its Norwegian Valhall installation in the North Sea ahead of forecast storms. However it stated that production was not affected.

Abu Dhabi National Oil Co has notified at least four Asian lifters that it would supply crude at full contracted volumes for March, unchanged on the month. It said it would supply limited extra volumes in addition to fully contracted volumes.

Occidental Petroleum Corp said it expected its first quarter oil and gas production to be between 600,000 and 615,000 bpd of oil equivalent. Full year production is expected to increase to 620,000-630,000 bpd of oil equivalent from 570,000 bpd of oil equivalent in 2007.

Production at Mexico's Cantarell oil field is expected to fall by 200,000 bpd in 2008. Crude oil production at the field totaled 1.26 million bpd in December, its lowest monthly production in 2007.

Russia's oil and gas condensate production increased by 2.1% on the year to 491 million metric tons in 2007. Primary oil processing increased by 3.8% on the year to 229 million tons in 2007. Russia's gasoline production increased by 2.1% on the year to 35.1 million tons, diesel fuel production increased by 3.4% on the year to 66.4 million tons and oil fuel production increased by 5.2% to 62.4 million tons in 2007.

Russia's Transneft reported that the country's exports would fall to 10.595 million tons or 2.68 million bpd from 12.367 million tons or 2.92 million bpd in January. Russia's port of Novorossiisk is expected to load 3.222 million tons. The port of Primorsk is expected to load 5.42 million tons while Yuzhny is expected to load 640,000 tons. The port of Tuapse is expected to load 360,000 tons while Gdansk is expected to load 270,000 tons and Odessa is expected to load 683,000 tons.

Chevron Corp said its affiliate Tengizchevroil LLP has started the first phase of expansion at the Tengiz oilfield in Kazakhstan with the startup of a sour gas injection unit. The initial expansion of 90,000 bpd would increase its capacity to a total of about 400,000 bpd. Its capacity is expected to reach 540,000 bpd in the second half of the year when more facilities are added.

Egypt's production of oil, condensates and biogas increased by 3.95% year on year in December to 2.867 million tons.

Kazakhstan's Energy Minister Sauat Mynbayev said the country may impose duty on exports of crude and oil products from 2009. It said the duty would not necessarily apply to all producers but it may hinder its bid to join the World Trade Organization. He said the duty may become necessary as Kazakhstan seeks to stabilize oil supplies on the domestic market but added that it would affect only those producers whose agreements stipulate flexible oil tax schemes.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$87.18/barrel on Monday from Friday's \$87.05/barrel.

The 130,000 cubic Bachir Chihani liquefied natural gas tanker arrived at the UK's Isle of Grain on Tuesday.

Market Commentary

Crude oil held its strength today, in anticipation of tomorrow's release of an expected rate cut by the Federal Reserve. Due out tomorrow too, are the stock level reports by the Department of Energy and the American Petroleum Institute. Builds are expected in both the crude oil and gasoline, with draws expected in the heating oil. This market continues to be news sensitive, and will react accordingly

tomorrow. Technically speaking, this market should continue higher with our next upside objective being \$92.60. This level represents a 50% retracement of the recent low of \$85.42 and the contract high of \$99.77. The March/April crude oil spread, in after hours trading, has retraced back to the 0.30 cents pivot level mentioned in previous wires and should be watched closely as to whether or not it is a buy or a sale. We liked selling this spread below 0.30, (selling the March/buying the April) and buying it above that level. An examination of the open interest indicates that length is being put on in this market along with expectations of another rate cut. Open interest in crude oil is 1,357,260 up 7,857, March08 377,709, up 1,495 and April08 104,314 up 5,783. The product markets continued to trend higher as they continued to hold their support above their downward trending support line. The heating oil market posted a low of 251.36 early in the session and retraced more than 38% of its move from a high of 274.75 and a low of 240.75 as it rallied to 254.56 ahead of the close. It settled up 1.53 cents at 254.18. The RBOB market also posted a low of 230.76 early in the session before it continued to retrace its previous losses. The market, which failed to test its support level later in the day, bounced back into positive territory and rallied back over 233.20 ahead of the close. It settled up 42 points at 232.95. The energy complex, which continued rally to new intraday highs in after hours trading, will remain supported on Wednesday amid the reports of the suspension of production at the 350,000 bpd Syncrude Canada oil sands project. The markets will also remain supported ahead of the Federal Reserve interest rate decision, shrugging off any possible large builds in crude and gasoline stocks. In the heating oil, support is seen at 254.00, 251.95 and 251.36 followed by 246.80, 243.60, 243.25, 242.00, 241.87 and 240.75. Resistance is seen at 255.70, 255.78, 257.75, 260.50 and 261.76. In the RBOB, support is seen at 232.00, 230.76, 227.99, 222.70, 221.83, 221.45 and 221.24 while resistance is seen at 234.50, 235.59, 237.79, 239.84, 244.09 and 244.40.

		Explanation
CL	Resistance	92.57, 94.05, 94.30, 95.75, 99.77, 100.15
	Support	91.66, 92.42
	91.64, up 65 cents	50% (99.77 & 85.37), Previous high, 62%, Previous highs Tuesday's high
	Support	91.50, 90.65, 90.33
		Tuesday's low
		88.78, 87.42, 87.01, 86.55, 85.90, 85.37, 85.25
		Previous low, Basis trendline, Previous lows
HO	Resistance	255.78, 257.75, 260.50, 261.76
	Support	255.70
	254.18, up 1.53 cents	Previous high, 50% (274.75 & 240.75), high, 62% Tuesday's high
	Support	254.00, 251.95, 251.36
		Tuesday's low
		246.80, 243.60, 243.25, 242.00, 241.87, 240.75
		Previous lows, Basis trendline, Previous low
RB	Resistance	235.59, 237.79, 239.84, 244.09, 244.40
	Support	234.50
	232.95, up 42 points	38% (257.85 & 221.83), Previous high, 50%, 62%, high Tuesday's high
	Support	232.00, 230.76
		Tuesday's low
		227.99, 222.70, 221.83, 221.45, 221.24
		Previous lows, Basis trendline