



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 1, 2008

Saudi Arabia's Oil Minister Ali al-Naimi said Saudi Arabia is not prepared to sell its oil at a discounted rate to clam the market but is willing to provide as much as its customers need. He reiterated that the price of oil did not reflect the fundamentals of supply and demand. Saudi Arabia has promised to increase its production to 9.7 million bpd this month in response to higher demand. Meanwhile, Saudi Arabia's King Abdullah said oil prices would not fall even if production were increased because speculation and taxes were behind

Market Watch

Australia has imported a total of 360,000 tons of diesel to cover gas shortfalls following an explosion at a gas plant off Western Australia on June 3. Apache Corp, which operates the gas plant, said it aimed to return the facility to 60% production in mid-August and full output by December.

A senior Total SA executive denied speculation that the company was reviewing its commitments to Nigerian operations. He said the company intends to maintain its presence in the country for some time.

According to union, port and oil industry officials, the wave of strikes at France's Marseille port may continue for several more months, even though a government overhaul of the country's ports has now passed through parliament. The CGT union is reserving the right to call a fresh wave of strikes, possibly even specifically targeting the oil industry. The head of the French oil industry body, UFIP and the director general of the Marseille port also foresee the possibility of further strikes.

Oil workers at Brazil's Petrobras started a 24 hour warning strike on Tuesday that is not expected to impact production but to make the company discuss safety and profit-sharing with workers. The director of the United Oil Workers' Federation said the unions were hoping to start talks with Petrobras this week. Tuesday's strike is not expected to affect output because skeleton crews will continue to operate.

BP Plc said expatriates at its Russian affiliate may have to leave the country this month as a shareholder dispute threatens to impact the company's oil production. Permits for TNK-BP's chief executive officer, Robert Dudley and other foreign workers expire at the end of July. Factions within the company submitted two applications for work permits to a Moscow city committee and may not be able to reach a compromise by the deadline.

The NYMEX announced that it will increase its initial margin requirements for its Crude oil futures contract, financial crude oil contract and its crude oil calendar swap contract from \$11,813 to \$12,488 for non-member customers at the close of business Wednesday. It also announced that margins for its heating oil contract will increase from \$13,500 to \$13,838 while margins for RBOB will increase from \$11,813 to \$12,150.

June Calendar Averages

CL – 140.97

HO – 394.35

RB – 351.34

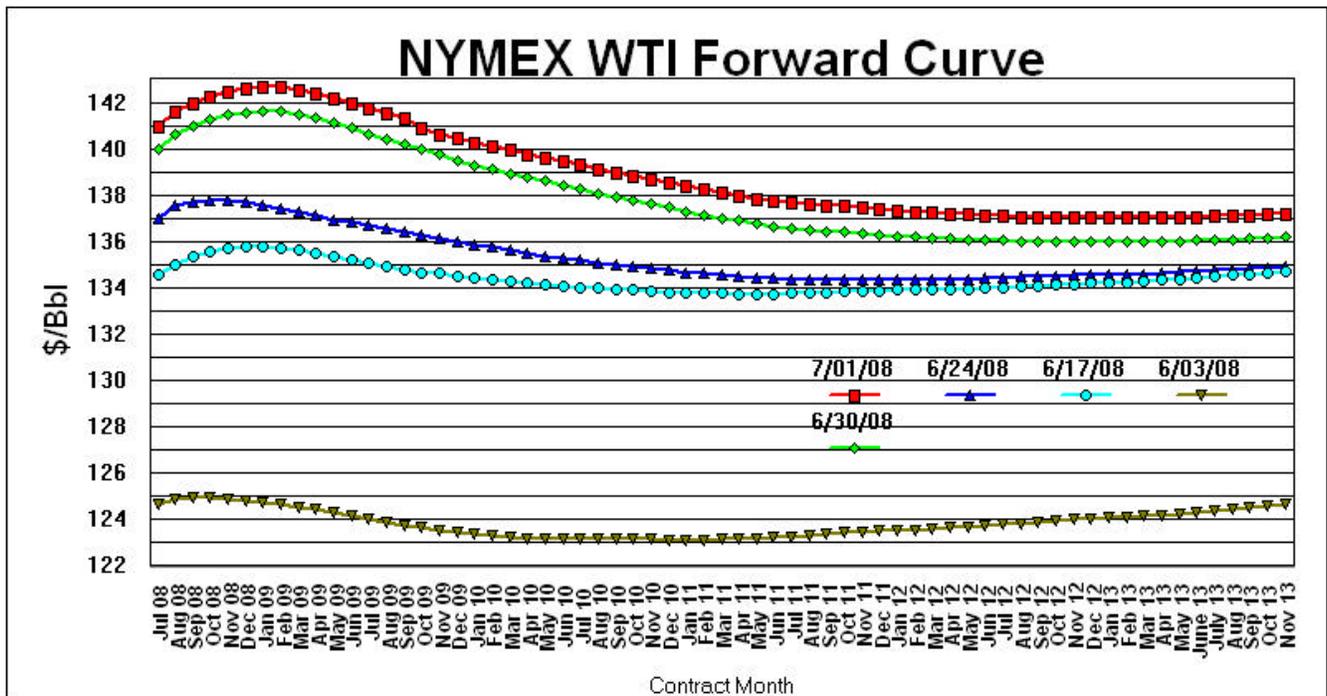
the rising oil prices.

OPEC President Chakib Khelil said he expected continuing oil price volatility and uncertainty. He said he expected OPEC's crude production capacity was likely to increase by 4 million barrels in the next four years

and added that while the world had enough reserves to last for decades, the main concern was in delivering it to the market. He said world oil demand is expected to increase by 1 million bpd a year. He also stated that OPEC will not be able to replace some 4 million bpd in lost Iranian output if Iran carried out its threat to stop oil exports if attacked. OPEC's President also stated that the US should rely on demand control and open more offshore Alaska to oil exploration if it wants to be less dependent on foreign imports. Meanwhile, Iran's Oil Minister Gholamhossein Nozari said the market was oversupplied with crude and OPEC could not do anything to reduce prices.

German Economy Minister Michael Glos said improving energy efficiency and the option of increasing oil production are two ways in which record oil prices could be brought under control.

The IEA said there was no quick fix to record oil prices. It said it believes that current oil prices are probably not a speculative bubble and instead are a reflection of the worrisome outlook because demand growth is outpacing supply growth. It warned that it sees world oil supplies tightening more than it previously expected due to slow growth even though higher oil prices and weaker economic growth are expected to cut demand. It said there was no clear sign of a recovery in crude oil producing capacity over the medium term. It reported that global oil supply capacity is projected to increase to 96.2 million bpd in 2013 from 90.4 million bpd this year. However most of the growth will come early and sharply taper off. It said that between 2011 and 2013, capacity will grow by less than 1 million bpd annually. Non-OPEC supply growth is expected to fall to minimal levels by 2013. OPEC crude supply is expected grow annually by 2.5 million bpd to reach 37.9 million bpd by 2013, down 1 million bpd from last year's forecast. The IEA said OPEC's spare capacity will increase to as high as 4.3 million bpd in 2010 but then fall to 1 million bpd by 2013 from its current capacity of 1.95 million bpd. The IEA revised down its demand projections. Global oil demand is forecast to expand on average 1.5 million bpd or 1.6% to reach 94.1 million bpd by 2013, down from last year's forecast for annual demand growth of 2.2%/year. The IEA also stated that world refinery capacity growth is set to



increase much less than expected in the next five years as rising costs trigger project delays. Its aid 8.8 million bpd of crude distillation capacity would be added between this year and 2013, down 960,000 bpd from last year's estimate. It also reported that world biofuels production in 2008 is seen down slightly at 1.35 million bpd, compared with the May forecast of 1.5 million bpd.

The US State Department on Tuesday criticized reported comments by a senior US defense official who said there was an increasing likelihood Israel would attack Iran over its nuclear program.

A top adviser to Iran's Supreme Leader Ayatollah Ali Khamenei warned against the provocative statements on the nuclear crisis with the West favored by President Mahmoud Ahmadinejad. Meanwhile, Iran's conservative controlled parliament warned Tuesday it would reduce nuclear cooperation if any new sanctions were imposed over the country's nuclear program. Separately, Iran's Foreign Minister Manouchehr Motaki said that an Israeli attack on Iran over its nuclear program is unlikely and backed away from threats that Iran would block oil shipments from the Strait of Hormuz if the country were attacked militarily.

The California State Board of Equalization reported that gasoline consumption in California fell 3.2% on the year in March to 1.31 billion gallons or 31.2 million barrels. It also reported that diesel consumption fell by 12.4% to 241.4 million gallons or 5.75 million barrels. The average gasoline prices increased from \$3.23/gallon to \$3.61/gallon from February to March.

U.S. gasoline demand rose 1% or 98,000 bpd to an average of 9.545 million bpd to its highest level over the past week since December 21, reported MasterCard Advisors LLC. Although demand was down 2.1% during the week ending June 27, it was the smallest since April 25. This was the 10th straight decline. Over the past four weeks, demand has been down 2.9% from the previous year. As for the nationwide average that week, retail prices for regular gasoline dropped .2% or \$.01 to \$4.06/gallon. These prices are 36.2% above the previous year. Prices were highest in the West Coast region at an average of \$4.45 a gallon, which was up 44.5% from the previous year.

Refinery News

Colonial Pipeline said it froze nominations on its Linden, New Jersey distillates delivery line L2 for cycles 34 and 35.

BP warned of planned flaring between July 1 and July 7 at its 265,000 bpd refinery in Carson, California. A report filed with local pollution regulators said the flaring was not related to an equipment breakdown.

ExxonMobil Corp restarted a sulfur recovery unit at its 149,500 bpd Torrance, California refinery on Monday after planned work. The unit was shut for planned work on June 12.

Citgo failed to restart one of the units shut by a power outage last week at its 430,000 bpd refinery in Lake Charles, Louisiana. Citgo attempted to start an alkylation unit, one of its fluid catalytic cracking units and a vacuum unit.

The delayed coker unit at Venezuela's 640,000 bpd Amuay refinery resumed full capacity after cutting runs in June due to an operational problem.

PetroChina plans to increase its crude processing in its Lanzhou refinery in July by 14% from June levels following delayed maintenance. The refinery will end repairs to a 60,000 bpd crude unit soon and will be able to increase runs to 200,200 bpd in July from 175,200 bpd in June.

South Korea's GS Caltex Corp plans to export 210,000 tons of gas oil and jet fuel in July, similar to June levels. It plans to export 120,000 tons of gas oil and 90,000 tons of jet fuel.

India's Oil Ministry said Cuba has invited Indian firms to invest in a planned 150,000 bpd refinery in Cuba. It also sought India's help in upgrading and expanding its existing refineries. The two countries have finalized the India-Cuba Hydrocarbon Agreement for cooperation in the oil and gas sector.

Japan's Ministry of Economy, Trade and Industry reported that Japan's total oil product sales in May increased 0.4% on the year to 16.34 million kl or 3.32 million bpd. It reported that Japan's gasoline sales fell to 4.62 million kl or 940,000 bpd from 1.21 million bpd in April. Japan's crude oil imports increased 16.3% to 20.3 million kl or 4.12 million bpd in May. The METI data showed that oil product exports increased by 24% on the year to 2.89 million kl or 586,000 bpd as refiners continued to take advantage of wide refining margins such as for gas oil.

Production News

Chevron Corp said oil production is set to restart shortly at its Escravos facility in Nigeria. It said pipeline repairs were ongoing and production is expected to restart within a few days.

Iraq's Oil Minister Hussain al-Sharistani said Iraq aims to increase its crude oil production to about 3 million bpd by 2009. He said in 2013, Iraq's oil production could reach 4.5 million bpd with the help of foreign oil companies.

Norway's DNO International said it was not pursuing any of the oil projects offered by Iraq's government. DNO, which is producing oil in Iraq's Kurdish region in the north, was not on a list of pre-qualified bidders for projects in other areas of Iraq.

Russia's Deputy Minister for Energy, Anatoly Yanovsky said Russia's oil production will grow only marginally this year and in the near term. He said Russia's oil production has reached a plateau, which will remain unchanged until new large fields come onstream. Production of oil and gas condensate in Russia fell 0.3% in the first four months of the year compared with the same period last year to 161 million tons or 1.18 billion barrels.

India's Oil Minister Murli Deora said Iran will soon take a decision on approving the development plan for the Farsi block. A service contract was awarded to Indian firms in 2002 but permission to develop the asset is yet to be given.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$136.03/barrel on Monday, up from Friday's \$135.31/barrel level.

Market Commentary

Energy markets rose today amid concerns that an Israeli attack on Iran is eminent. ABC News reported that an unnamed U.S. Defense Department official said that the likelihood of Israel attacking Iran is increasing. The weak dollar was also a contributing factor to today's higher prices. The IEA has also indicated that, although demand may weaken, supply forecasts need to be adjusted as well. Global supply growth is expected to peak at 2.5 million barrels a day by 2010, slowing to less than a million barrels a day for the following three years. Oil projects have also been put on delay, as demand is expected to decline due to high prices. All of the aforementioned paint a supportive outlook for prices. The August crude oil contract once again traded above the congestion top of \$140.42, this time settling through it. This settlement now sets prices up for a test of the \$149.51 projected move, based on the congestion range of \$131.33 and \$140.42. Perhaps putting a lid on prices may be the increase in margins that the exchange will impose tomorrow. Due to the increased cost of holding

positions, hedge funds may liquidate their positions as they have done in the past. With this in mind, we would expect some length lightening to come into play, putting pressure on the outright market and the August 08/September 08 crude oil spread, pushing it towards our target of -.95. Tomorrow's release of the API/DOE figures, are calling for a decrease in crude oil of 100,000 barrels per day. We would once again focus on the demand factor. August08 gasoline made an attempt to break out of the congestion pattern set between \$3.5679 and \$3.2997, however prices failed to do so. For tomorrow we would like to wait and see how the API/DOE numbers indicate how stock levels managed on the week, with expectations calling for a draw of 200,000 barrels per day. Demand will be key in determining the direction of this market. Weekly stochastics and rsi's continue to trend in overbought territory, with %K drifting lower than %D, a bearish signal. We would look to sell any failed attempt to break above the congestion top of \$3.5679. The August 08 heating oil traded within an inside trading range, as direction is still being sought out. So far this contract has not broken out of its congestion channel of \$3.7104 and \$4.0359. Slow stochastics and rsi's based on a daily chart, are in slightly overbought territory, but do not indicate a turn in direction. Weekly stochastics and rsi's, however, are indicating an overbought market with %K set at 85.32, %D at 85.60 and rsi's set at 72.90. At this point in time, these technical indicators are not yet crossing to the downside. With distillate stocks expected to increase by 1.9 million barrels a day, pressure should come into the market, given the fact that diesel demand continues to slump. Open interest for crude oil is 1,258,567 down 16,045, August08 289,851 down 23,239, September08 146,479 up 2,018 and December 08 178,423 down 623. Total open interest for heating oil is 220,218 down 3,752, July08, 1,943 down 4,435, August08, 65,533 down 746. Total open interest for gasoline is, 246,152 down 7,294, August08 75,494, down 2,513, September, 43,429 up 264.

August Crude Support	July Crude Resistance
138.60, 133.70, 131.95, 127.76, 126.77, 122.05, 120.60, 114.85, 108.95, 98.20, 85.40	141.17, 143.45, 146.48, 149.41, 150.00
Heating oil support	Heating oil resistance
3.8215, 3.6800, 3.5450, 3.5100, 3.3500, 3.1680, 3.0980	4.0338, 4.0475, 4.0640, 4.1200
Gasoline support	Gasoline resistance
3.4500, 3.3400, 3.3250, 3.3000, 3.1760, 3.09.20, 3.0730, 3.0400, 3.0250, 2.9255	3.63.45, 3.755, 3.4655