



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 14, 2008

The Sunday Times reported that US President George W. Bush told Israel he may consider approving a military strike on Iranian nuclear facilities if negotiations with Iran break down. A Pentagon official said President Bush has given an amber light to an Israeli plan for long-range bombing flights against Iran's main nuclear sites. However the report said it was not certain whether President Bush would fully

approve any such action without clear evidence of danger from Iran. The report said there is resistance among US military leaders.

Separately, Iran's top nuclear negotiator Saeed Jalili and European Union foreign policy chief Javier Solana this week will discuss a timetable for future negotiations to break the deadlock over Iran's nuclear program. Meanwhile, Iran's President Mahmoud Ahmadinejad said that even before its enemies "get their hands on the trigger" the country's military would cut them off. He also stated that crude oil prices will increase for various reasons, including threats to attack his country to curb its nuclear program.

July Calendar Averages

CL – 141.69

HO – 399.35

RB – 349.91

Market Watch

The National Iranian Oil Co and Russia's Gazprom signed a memorandum of understanding to collaborate on the development of Iran's oil and natural gas fields. The development of South Pars phases, construction of a refinery in the north of the country and the transfer of oil from the Caspian Sea to the Sea of Oman, establishment of the Neka-Jask pipeline and development of Iran's North Azadegan oilfield, were among the terms of the agreement. Under the memorandum of understanding, the two sides will also establish a joint Russian-Iranian company to collaborate in oil and gas developments in a third country.

Jet fuel prices are likely to fall in the next six months as airlines ground their fleets. The Air Transport Association said the US airline industry plans to ground 413 aircraft, eliminating 8.8% of seating capacity as increasing fuel costs cause losses of about \$13 billion. The US DOE has stated that fuel demand is expected to fall 7.5% this year or 95,000 bpd and 104,000 bpd in 2009. Merrill Lynch said demand for oil will be less than half of initial forecasts, increasing by 616,000 bpd due to a slide in transportation use. However it said that while US airlines cut back, some carriers overseas are expanding, offsetting the demand reductions achieved in the US. US jet fuel demand in the four weeks ending July 4 was 2.2% lower than a year earlier.

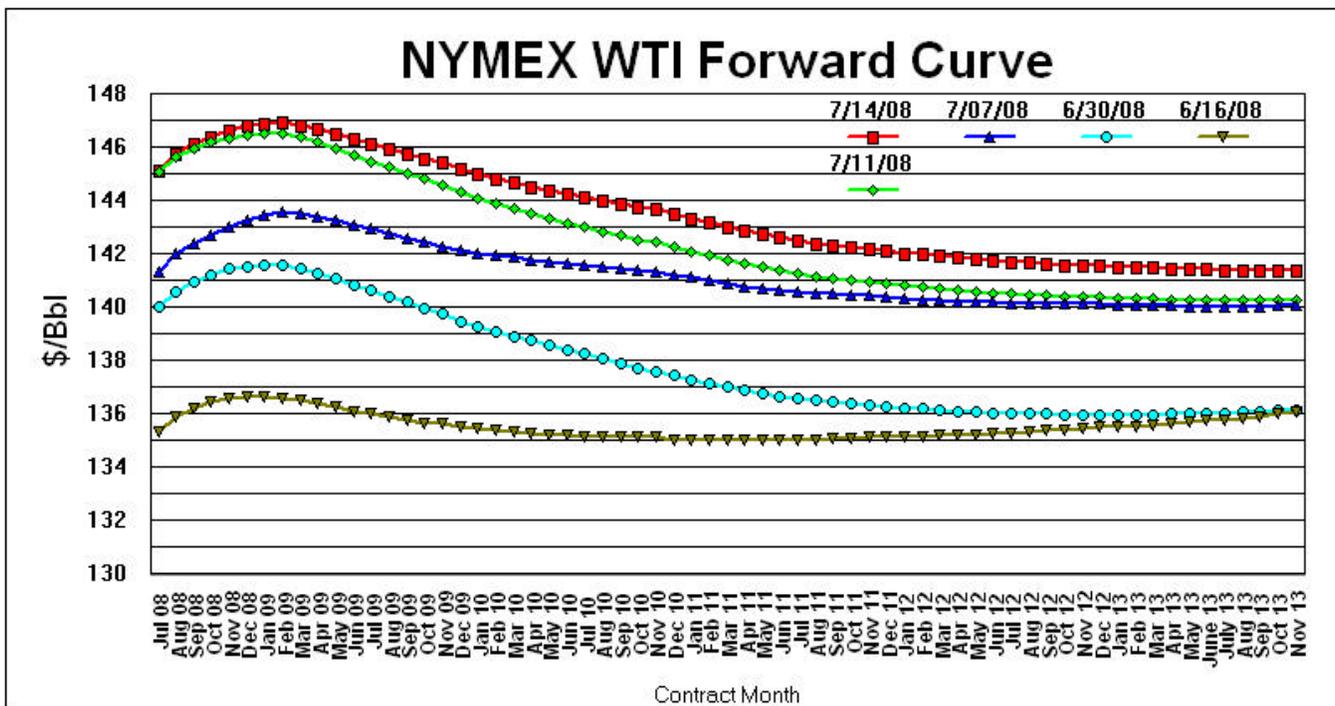
The union representing oil workers at Brazil's Petrobras, United Oil Workers' Federation, said that production at 13 platforms had been halted as part of a five day strike. Platforms in the Campos Basin are responsible for more than 80% of Brazil's domestic oil production. Petrobras said it was producing oil from all but two of the 38 offshore

production platforms affected by the strike. The strike has cut output in the basin by about 136,000 bpd contrary to statements made by the union that production was cut by as much as 400,000 bpd. The oil workers have been seeking a larger share of the company's profit-sharing plan as well as for a change that would count the day workers leave the platform for the shore as a working day. The union is scheduled to hold a meeting on Tuesday to discuss the possibility of a nationwide strike at all Petrobras facilities including refineries and terminals. The union, however, needs to give the company a 48 hour notice that it plans to strike. The notice could come as soon as late Tuesday, with the strike legally able to start on Friday. Brazil's Petrobras played down the potential impact of the dispute, saying there is a contingency plan to maintain output.

President George W. Bush lifted an executive ban on oil exploration in the Outer Continental Shelf, a move the White House hopes will pressure lawmakers to remove their own ban on offshore drilling. The moratorium on offshore drilling will not be fully reversed until Congress also removes its own ban. President Bush also renewed his call for increased development of oil shale in the western US and drilling in Northern Alaska. However, Senate Democratic Leader Harry Reid rejected the call to lift a moratorium on offshore oil drilling. He said oil companies should focus on drilling on much of the 68 million acres that they have leased but not used for oil exploration. Meanwhile, US House Speaker Nancy Pelosi is planning to hold a vote on Thursday to speed up the pace of oil drilling in parts of Alaska. Separately, Rep. Edward Markey, the chair of a special energy panel said he would introduce legislation that would mandate the withdrawal of 500,000 bpd from the SPR over six months to help lower gasoline prices if President George W. Bush continues to oppose any withdrawal. He said the bill would call for replenishing the SPR through government purchases of heavy crude oil over five years.

Iran's Oil Minister Gholamhossein Nozari said there was no shortage of crude in the market. Iran's OPEC Governor, Mohammad Ali Khatibi said oil exports from the whole Gulf region would be at risk if Iran's exports were hindered by any threat.

The head of Libya's National Oil Corp, Shokri Ghanem said oil prices are likely to continue rising



mainly due to uncertainty stemming from tension in the Middle East and the weak dollar. He cited political circumstances in the Middle East and what he called Israeli threats to use force as among the factors pushing oil prices higher.

Venezuela's President Hugo Chavez said oil prices could reach \$300/barrel if ExxonMobil again freezes Venezuelan assets in a dispute over a nationalized oil project. He said if the company seeks further action against Venezuela, there will be no more oil for the US and the price of oil will reach \$300/barrel. He also said the price of oil was being influenced by a speculative bubble, the collapse of which could send prices as low as \$70/barrel. On Saturday, he said the threat of an invasion against Iran could push oil prices to \$200/barrel. Meanwhile, Venezuela's Oil Minister Rafael Ramirez said a US attack on Iran would push the oil market out of control and added that the country's hands are tied at a time of record high oil prices.

Nigeria's gasoline tanker drivers suspended a nationwide strike that had sparked panic fuel buying after the government pleaded to lower the cost of diesel. The union said it would give the government two weeks to come up with a plan to lower diesel prices, which have risen 110% in the past few months to around 170 naira or \$1.44/liter. It said if no action is taken, thousands of its drivers would resume the strike. Nigeria's Oil Minister Odein Ajumogobia and Finance Minister Shamsuddeen Usman are expected to meet this week to find ways to increase fuel prices subsidies and stave off another strike.

A Nigerian newspaper reported that the Nigerian Joint Military Task Force has tightened security around offshore oil facilities. It follows the seizure of a vessel that was laden with 150,000 metric tons of suspected stolen oil. Separately, Britain's Prime Minister Gordon Brown said the UK was offering to help Nigeria crack down on violence in the Niger Delta.

According to the Lundberg survey, the US average price for gasoline was \$4.1124/gallon on July 11, up about 1.52 cents/gallon from three weeks ago.

The DOE reported that the US average retail price of gasoline fell by 0.1 cents/gallon to \$4.113/gallon in the week ending July 14. It also reported that the US average retail price of diesel increased by 3.7 cents/gallon to \$4.764/gallon on the week.

Refinery News

Colonial Pipeline will auction surplus 88-grade heating oil on Tuesday from its tank farm in Greensboro, North Carolina. There are three lots of 50,000 barrels each to be auctioned to the highest bidder on July 15.

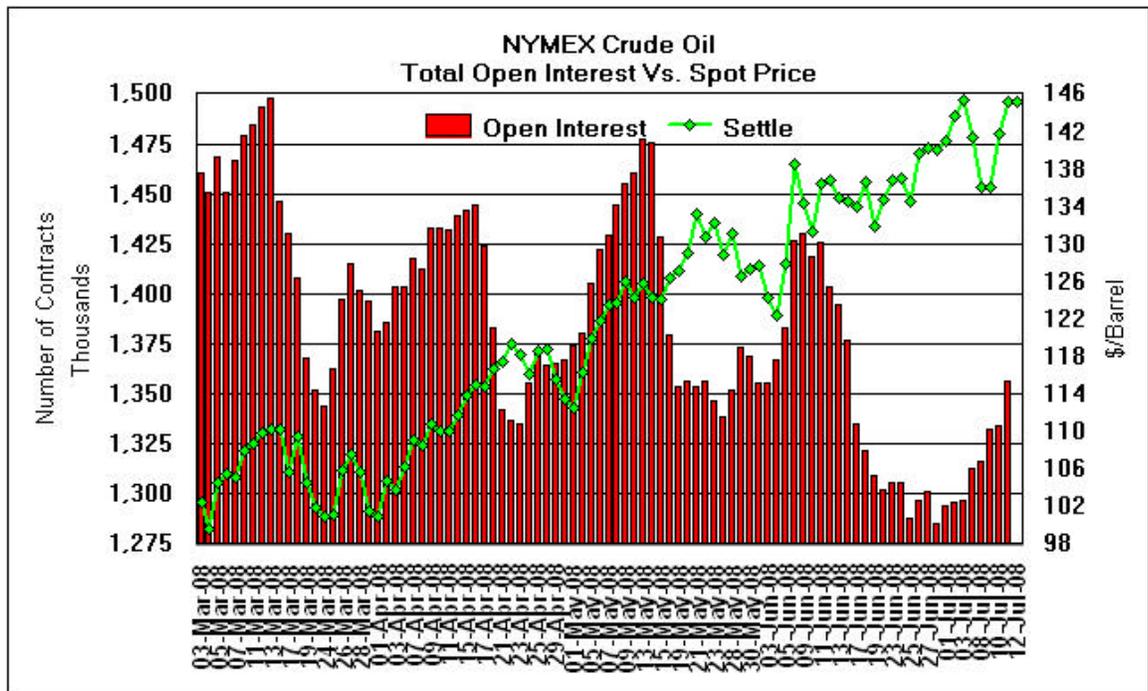
ConocoPhillips reported a process upset in one of the units at the Carson, California plant at its 139,000 bpd Los Angeles refining complex.

Delek US Holdings reported that an operational change on the saturated gas unit at its 58,000 bpd refinery in Tyler, Texas caused flaring on Saturday.

Moscow Refinery shut its fluid catalytic cracking unit on Sunday when a major power line to the plant failed. The refinery said it was the third time in a week it lost power on the 220 kilovolt cable from a substation.

Venezuela aims to build a new refinery in Cuba to process 150,000 bpd with the technology necessary to handle heavy crudes. The plant would be operational in 2015. The refining initiative is part of Venezuela's PetroCaribe program, a plan that includes energy infrastructure investments in Central

America and the Caribbean. PetroCaribe also offers member countries financing terms for their oil purchases. Venezuela will allow buyers who are members of the PetroCaribe accord to finance up to 60% of their



energy bill while oil prices remain above \$100/barrel and up to 70% if and when prices exceed \$150/barrel.

Pemex said it needs to improve operations at its domestic refining network where unplanned outages occur about 4.2 times more than the industry standard. It also said its refineries also consume more energy and produce less high value fuel products than refineries elsewhere in the world. To reverse substandard operational results, Pemex is implementing a series of refinery upgrades, training programs and other measures to improve efficiency.

Germany's MWV said the country's oil product sales in June totaled 5.87 million tons, down 2.4% on the year. Its gasoline sales fell by 6.6% on the year to 1.71 million tons while its diesel fuel sales fell by 0.6% to 2.49 million tons. Its heating oil sales increased by 5.6% to 1.23 million tons while its fuel oil sales fell by 13.9% to 440,000 tons.

Production News

According to BusinessWeek, Saudi Arabia's Aramco's long term sustainable oil output level will be 10.4 million bpd after 2010, far below its maximum capacity of 12 million bpd. Saudi Arabia has stated that it is ready to take total capacity to 15 million bpd in coming years in a bid to lower oil prices. However BusinessWeek said it would be unable to pump at 12 million bpd for long. It reported that the world's largest oilfield in Ghawar, which is expected to produce about 5.4 million bpd next year, would see its production fall to about 4.475 million bpd in 2013.

Denmark's DUC crude oil stream is scheduled to load about 174,000 bpd in August, up from 155,000 bpd in July.

The nine main North Sea crude streams are scheduled to load an average of 2.118 million bpd in August, down 11% from 2.369 million bpd in July. The North Sea Brent crude system is scheduled to load 156,000 bpd, down 19,000 bpd on the month, the Forties crude system is scheduled to load 465,000 bpd, down 116,000 bpd, the Oseberg system is scheduled to load 213,000 bpd, up 19,000 bpd on the month, the Ekofisk crude system is scheduled to load 397,000 bpd, down 11,000 bpd and the Flotta crude system is scheduled to load 63,000 bpd, unchanged on the month. The North Sea

Gulfaks system is scheduled to load 248,000 bpd, down 28,000 bpd while the Staffjord crude system is scheduled to load 221,000 bpd, down 55,000 bpd on the month and the Troll oil stream is set to load about 181,000 bpd in August, down from about 241,000 bpd in July.

The loading rate at Iraq's oil export terminal at Basra fell to 1.1 million bpd on Monday from about 1.7 million bpd on Sunday. A shipping source said the reason for the drop and when the loading rate may return to the average of 1.5 million bpd was not clear.

BP Plc sanctioned its Alaska Liberty oil project in Alaska, which will produce 40,000 bpd. It is scheduled to start production in 2011.

Ukraine's State Statistics Committee stated that Ukraine cut its crude oil production by 4.2% to 1.558 million tons or 31,000 bpd in January-June 2008 compared with the same period in 2007. Ukraine's gasoline output fell by 22.1% in January-June 2008 to 1.717 million tons compared with the same period a year earlier. Its gas oil production fell by 23.8% to 1.696 million tons.

OPEC's news agency reported that OPEC's basket of crudes increased by \$6.17/barrel to \$139.85/barrel on Friday from \$133.68/barrel reported on Thursday.

Market Commentary

Crude oil was little changed today after reaching a record high on Friday. A strong dollar and statements by Brazilian oil company, Petrobras, that 36 of its 38 platforms were unaffected by the oil workers strike, put early pressure on crude oil. Looming in the background are the tensions between Iran and Israel, which will act as a supportive factor for this market. August crude oil experienced an inside trading session, settling slightly higher on the day. As long as the aforementioned geo – political tensions exist, we do not see the upward trend turning. We would look for buying opportunities and would remain comfortably long as long as the August contract can maintain strength above \$140.42. The August/September spread continues trade within the range of -.40 and -.66. With the August contract going off the board next week, we would focus our attention on the September08/October 08 spread. With the height of the hurricane season is just around the corner, the September contract should begin to gather strength against the October contract. Based on our belief, we would look to buy the September contract and sell the October contract, looking for this spread to work back into positive territory. Gasoline continues to struggle above the \$3.6021 congestion top and has been unable to maintain strength above it. The August08 contract, like the crude oil, experienced an inside trading session and continues to trade in a sideways pattern. Expectations for gasoline stocks for the week ending July 11th, are calling for a slight draw of 300,00 barrels. We would not be alarmed by this figure in light of the 4th of July holiday. Demand during this period may have been up slightly, but overall is low for this time of year. Any failed attempts to trade above \$3.6021 should be viewed as selling opportunities. Based on our belief that the September 08 crude oil should gain strength and that gasoline demand should continue to remain seasonably weak, we would look to sell the September gasoline crack spread, selling the gasoline and buying the crude oil. This spread is currently trading \$4.7564 and should continue lower. Heating oil, although unseasonably strong, may begin to see signs of pressure, as airlines trim back due the curtailment of flights. Heating oil is used as a source for jet fuel, which will be impacted by the airline cuts. Support basis the August contract is set at \$4.0286. We would look for at least a test of this level and would buy or sell bounces off of or penetrations through that number. Open interest for crude oil is 1,356,029 up 22,092, August08 203,878 down 4,480, September08 261,947 up 18,644 and December 08 180,375 up 1,521. Total open interest for heating oil is 224,247 up 4,411, August08, 42,699 down 954 and September 08, 47,794 up 3,605. Total open interest for gasoline is, 248,005 up 2,192, August08 52,511, down 2,073 and September, 64,308 up 5,108.

August Crude Support	July Crude Resistance
140.42, 138.60, 133.70, 131.95, 85.40	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	4.2529, 4.3614
Gasoline support	Gasoline resistance
3.4500, 3.3400, 3.3250, 3.3000, 3.1760, 309.20, 3.0730, 3.0400, 3.0250, 2.9255	3.63.45, 3.755, 34655