



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 21, 2008

The talks between Iran and world powers over Iran's nuclear program were inconclusive. Major powers gave Iran two weeks to answer calls to rein in its nuclear program on Saturday or face tougher sanctions after talks ended in stalemate despite unprecedented US participation. EU foreign policy chief Javier Solana said he hoped for a clear answer on the incentive package from Iran in about two weeks. A US State Department spokesman said the

US hoped Iran now understood that it had a choice between cooperation and confrontation, which can lead to further isolation. Separately, US Secretary of State, Condoleezza Rice accused Iran of using stalling tactics and warned Iran it faced more sanctions if it failed to comply with the two week deadline to curb its nuclear program. She said Iran must give a serious answer to the offer of trade and technical incentives. She added that the US would impose more bilateral sanctions on Iran and the Europeans would look at what they could do if Iran failed to meet the world powers' demand. US

July Calendar Averages

CL – 138.41
HO – 392.03
RB – 340.77

Market Watch

Shipbrokers and traders said the National Iranian Tanker Co is seeking a double hulled supertanker to store up to 280,000 tons of oil for delivery between August 2 and August 3. Iran had been storing about 30 million barrels of crude oil on oil tankers anchored just outside Kharg Island due to a heavy European refinery maintenance schedule.

Marc Farber said oil prices may fall to \$100/barrel as demand slows in a world economy at the tail end of its expansion. Accelerating inflation and rising interest rates worldwide are likely to dent the value of commodities including oil.

Lehman Brothers Holdings, Inc said world demand growth for oil will be 47% lower than originally forecast because of declining oil consumption in the US and slowing world economies. It said oil demand may increase by 790,000 bpd this year compared with a previous estimate of 1.5 million bpd. US oil demand may show lower annual growth of 1 million bpd through June. The overall demand for petroleum products in the US fell by 2.2%.

The ERGEG, the group of European energy regulators and CESR, the group of European securities regulators are scheduled to hold talks on a European wide framework to prevent market abuse in energy trading.

Secretary of State also stated that there were no plans to join further nuclear talks unless Iran met conditions to give up their nuclear enrichment work. Britain's Prime Minister Gordon Brown also warned Iran it faced growing isolation if it rejected the offer. He said Britain would continue, with the US and its European partners, "in our determination to prevent an Iranian nuclear weapons program." He said

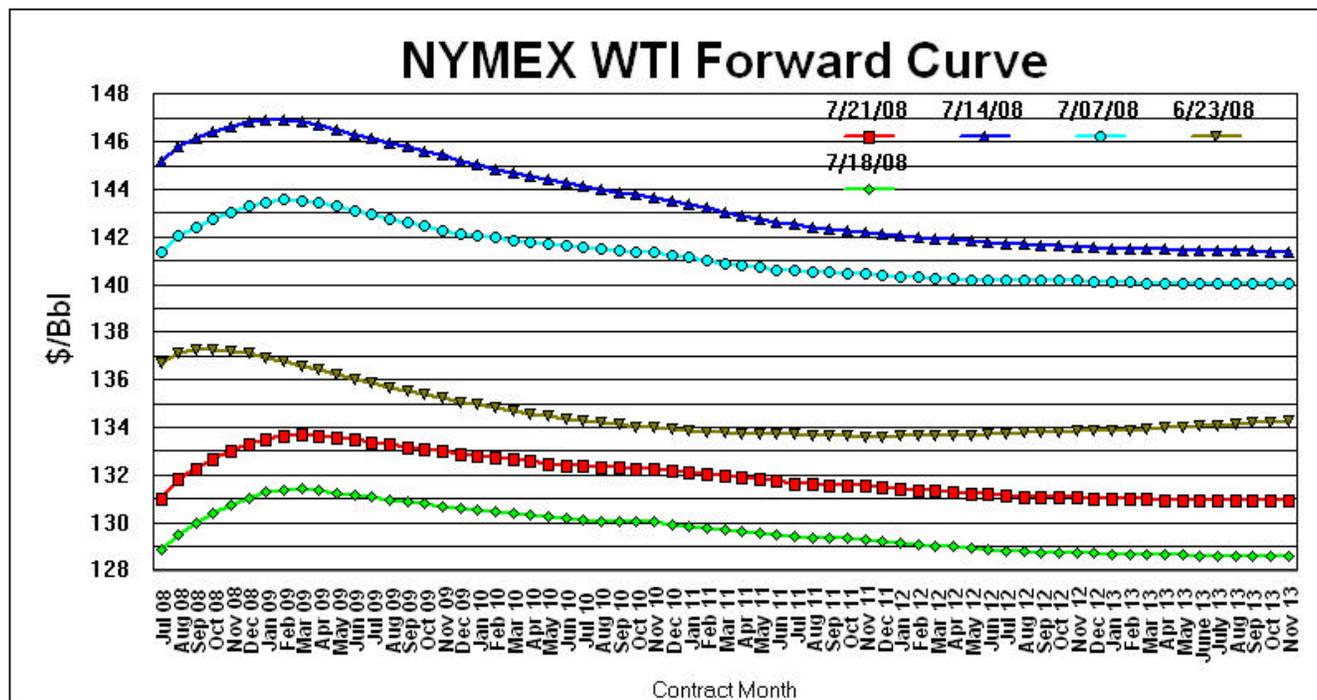
the UK stood ready to lead in taking firmer sanctions and was also set to vow to stand beside Israel in its fight for liberty. Meanwhile, Iran's top nuclear negotiator, Saeed Jalili said at the next meeting Iran would not discuss the demand to freeze its sensitive atomic work. Iran's President Mahmoud Ahmadinejad said any negotiation that takes place is a step forward.

White House military adviser Adm. Mike Mullen said he was concerned that any US or Israeli strike on Iran carried a risk of more turmoil in the Middle East. US officials have played down fears of a military strike against Iran over its nuclear program. However speculation that Israel would bomb Iranian nuclear installations has increased following an Israeli air drill last month.

The US National Hurricane Center said Tropical Storm Dolly was moving over the warm waters of the Gulf of Mexico. It said it could become a hurricane by Tuesday. A hurricane watch was issued for the Texas coast from Brownsville north to Port O'Conner. A gradual drop in forward speed is expected during the next couple of days. If the storm continues on this course, it is expected to reach the coast of western Gulf of Mexico by Wednesday.

The EIA said Tropical Storm Dolly's path misses the Gulf's oil producing area. It said Dolly could cause power outages and flooding at oil refineries near Corpus Christi, Texas.

The US Minerals Management Service said oil and gas production in the Gulf of Mexico has not been affected yet by Tropical Storm Dolly. It said energy companies with facilities in the Gulf of Mexico have evacuated workers from just four production platforms and one drilling rig as a precaution. Separately, Shell began flying workers from platforms in the western Gulf of Mexico on Sunday ahead of Tropical Storm Dolly. It said there was no impact to production in the Gulf from Sunday's evacuations or from plans to pull additional workers from platforms that may be in the path of the storm. Shell said it took 125 people off platforms on Sunday and planned to take another 60 from the Gulf on Monday. Chevron Corp said it was evacuating personnel from US Gulf of Mexico ahead of the arrival of Tropical Storm Dolly. The evacuation has not impacted production and it does not expect that it will. Also, Devon Energy is evacuating non-essential personnel off a rig in the Gulf of Mexico ahead of the arrival of Tropical Storm Dolly. Devon did not state how many people are being pulled off its deep water drilling rig.



Mexico's three Gulf Coast oil ports were all open Monday, as the area has not been affected yet by Tropical Storm Dolly. Meanwhile, Pemex said all its oil operations in the southern Gulf of Mexico were operating normally on Monday as Tropical Storm Dolly passed far north of its platforms and fields.

OPEC President Chakib Khelil said OPEC has sufficient excess capacity to meet any increase in demand. He said members of OPEC have undertaken major investment programs aimed at increasing crude supply. He also stated that OPEC was not responsible for increasing oil prices. He said the reasons included mainly speculation and monetary policies in industrialized countries.

The Center for Global Energy Studies said OPEC needs to increase production to reduce crude prices and help world economic growth. It said not enough crude is being produced to meet world demand and added that this has been the case since the middle of 2006. It said OPEC's prediction that non-OPEC production will increase by 560,000 bpd in 2008 compared with last year is an over-estimation. Non-OPEC production was down about 330,000 bpd in the first half. It also stated that OPEC should sell heavy grades of crude at steeper discounts to benchmark prices to lure refiners

The Movement for the Emancipation of the Niger Delta said it would help secure the release of the two German construction workers kidnapped two weeks ago in southern Rivers state.

Iraq has asked oil majors to shorten their oilfield technical service contracts to 12-18 months from 2 years.

The EIA reported that the US average retail price of gasoline fell by 4.9 cents/gallon to \$4.064/gallon in the week ending July 21. It also reported that the US average retail price of diesel fell by 4.6 cents/gallon to \$4.718/gallon on the week.

Refinery News

Shell Oil Co said the 67,000 bpd fluid catalytic cracking unit at its 332,000 bpd Deer Park, Texas refinery resumed normal operations following an electrical problem on Thursday night.

Valero Energy Corp is running one of two crude units at its 255,000 bpd refinery in Aruba at slightly reduced rates.

Production at LyondellBasell's 270,000 bpd Houston refinery continued as planned rates on Sunday while the investigation into a deadly crane collapse Friday was underway. Lyondell will likely decide in the next few days if it will go forward with the overhaul, which was scheduled based on the availability of the crane. Four workers were killed and seven others injured when a 600 foot crane fell on Friday afternoon.

European refining margins increased over the last week on strong demand for diesel and jet fuel while oil prices fell sharply. A complex refinery in the Rotterdam area cracking Brent crude saw its margins increase to an average \$11.84/barrel over the last week, compared with an average over last year of \$5.97/barrel. Gas oil's premium over Brent was about \$32/barrel over the last week. US refining margins however remain weak due to low gasoline demand. The RBOB crack stood at \$4.60/barrel on Monday compared with at least \$12/barrel last summer. Asian refining margins increased on the week. A Singapore refinery processing Dubai crude saw its margins average \$5.25 over the last week, up a previous level of \$5.13.

Petroplus Holdings AG said it shutdown its 172,000 bpd Coryton refinery as a safety precaution following a power disruption on Friday.

Royal Dutch Shell's crude distillation unit in Singapore that was shutdown in late June for regular maintenance will stay offline for 40 days. The 115,000-130,000 bpd No. 4 CDU at the Bukom Island complex would be down for three weeks.

The start up of CNOOC's first oil refinery, a 240,000 bpd plant in southern China, is expected to be delayed by two months after heavy summer rains slowed construction. The refinery is now likely to be completed in November after an original target of September 30.

Korea National Oil Corp said South Korea plans to increase its crude oil stockpiling to 141 million barrels by 2010, up 27% from the current level.

China's Sinopec completed building a crude oil pipeline to link a new oil terminal in the Bohai Bay with storage tanks. The pipeline has a capacity to transport 20 million metric tons of crude each year or 401,644 bpd. The pipeline and the terminal at the Caofeidian port in Hebei province will allow Sinopec to increase crude imports to its nearby Yanshan and Tianjin refineries and build up commercial reserves in the north.

Ineos Plc plans to commercially produce ethanol from biodegradable landfill waste, organic commercial waste and agricultural residues within a two year period. It said its new technology can convert a metric ton of dry waste into 400 liters or 100 gallons of ethanol.

Production News

Operations at Petrobras returned to normal over the weekend after striking platform workers in the Campos Basin ended their walkout and a 48 hour slowdown organized by the Brazilian Oil Workers Federation ended on Saturday. Union officials said the end to last week's strike could be a precursor to a broader strike that would shutdown Petrobras operations as early as August 5. The FUP said it will meet with Petrobras on Wednesday to discuss the company's profit-sharing proposal to workers.

Pemex reported that its average daily crude oil production in the first six months of the year fell by 9.7% on the year to 2.86 million bpd due to lower output from the Cantarell oilfield. It said output at Cantarell was 1.15 million bpd, down 457,000 bpd on the year. Its crude oil exports in the January-June period averaged 1.45 million bpd, down 15.4% on the year.

Italy's Eni SpA completed repairs to its Tebidaba-Brass River pipeline in Nigeria that was damaged in an attack last week and caused the loss of 47,000 bpd of production. Work started on Monday to restart the flow of oil and production. Residents in Nigeria's Niger Delta blew up the pipeline linking the Tebidaba flowstation and Brass River export terminal on the night of July 16-17.

Eni SpA's pipeline in Nigeria's Bayelsa state, damaged by two explosions last week will be fixed within days. The company suspended exports of 47,000 bpd from the site and Eni's portion of the affected output is 8,000 bpd.

The first shipment of Nigeria's Agbami light, sweet crude is expected in the next two weeks after US oil major Chevron begin production at the offshore oilfield. A shipping agent said the Agbami export terminal should soon begin operations with its first cargo exported by the first week of August.

Gulfsands Petroleum Plc expects to announce the start of oil production from Syria by the end of the week. Gulfsands will initially pump oil at a rate of 10,000 bpd and then increase that total to 40,000 bpd within 18 months.

The Abu Dhabi National Oil Co said the UAE will reduce its oil production by 150,000 to 200,000 bpd for 40 days in October and November for maintenance. The offshore Lower Zakum, which usually pumps 280,000 bpd and the Umm Shaif field, which usually pumps 200,000 bpd will be partially shutdown. Work at a gas facility on Das Island will force the shutdown.

Iran announced the discovery of a new oilfield with in-place reserves of about 525,000 barrels. The discovery was made near the southern port of Assaluyeh in Bushehr province.

Japan Oil, Gas & Metals National Corp is expected to sign a memorandum of understanding this summer with Venezuela's PDVSA to jointly explore oil deposits near the Orinoco River.

Russia's Prime Minister Vladimir Putin asked the government to guarantee uninterrupted oil supplies to the Czech Republic. Oil supplies were cut after the signing of a US-Czech defense deal that Russia views as a threat to its own national security.

Russia's migration service said it would give a visa to TNK-BP chief executive Robert Dudley without a valid contract, a move that may help the Russian co-owners oust the BP backed executive. His contract expired last year but BP says it is still valid under Russia's Labor Code because it has never been officially terminated and therefore rolls over automatically.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$127.93/barrel on Friday, down from Thursday's \$131.03/barrel. It also reported that OPEC's basket of crudes fell by \$2.10/barrel to \$133.97/barrel in the week ending July 18.

Petron Corp and Shell Philippines agreed to a presidential request to reduce diesel prices by Peso 1.50/liter or 12.6 cents/gallon. President Gloria Macapagal-Arroyo had asked the country's largest oil players to implement the price rollback over the weekend, in order to provide relief to consumers hit hard by energy price increases.

Market Commentary

In a fundamentally driven session, energy prices rose today after falling four straight sessions. Concerns over Tropical Storm Dolly disrupting supplies in the Gulf of Mexico and Iran's unwillingness to accept UN aid in exchange for halting its uranium enrichment program were behind today's price recovery. The September 08 crude oil experienced an inside trading range today, settling above the congestion bottom of \$131.60. The prior two inside trading sessions were followed by volatile trading sessions. There appears to be a bit of divergence between the RSI's and stochastics basis a weekly chart. The RSI has crossed %K to the upside in neutral territory. Percent D is in overbought territory, pointing to the downside. This market may have found a near term bottom, and could retrace back up to the \$140.61 congestion top. We would view any move higher at this point to be a temporary one and therefore would look to sell at the listed resistance levels. With the August08 going off the board tomorrow, we would look for the August 08/September 08 spread to weaken further, taking out its previous low of -.95. As mentioned in Friday's, we were looking for retracements in both the gasoline and the heating oil. Both of these markets have begun to retrace, but have not met our expected levels. We look for the August gasoline to retrace to the \$3.3000 - \$3.3300 level and for the August heating oil to retrace to the \$3.8600 - \$3.8700 level. Open interest for crude oil is 1,267,252 down 13,403, August08 63,111 down 17,518, September08 313,377 up 2,708 and December 08 172,328, down 1,843. Total open interest for heating oil is 224,996 down 3,546, August08, 33,060 down 2,573 and September 08, 57,485 up 168. Total open interest for gasoline is, 238,899 down 1,880, August08 35,571, down 2,485 and September, 71,882 up 754.

Crude Support	Crude Resistance
131.60, 128.35 122.60 108.40 85.40	134.85,140.60, 144.00,147.90,
Heat support	Heat resistance
3.6800 3.5450 3.5100 3.3500 3.1680 3.0980	3.8215, 4.0210, 4.0765, 4.1200, 4.3614
Gasoline support	Gasoline resistance
309.20 3.0730 3.0400 3.0250 2.9255	3.1760,3.6021, 3.755, 34655