



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 23, 2008

The DOE will partially refill the Northeast Home Heating Oil Reserve later this week. Hess Corp is scheduled to deliver 19,250 barrels of heating oil to the reserve, filling about half of the deficit created when the DOE sold 35,000 barrels in June 2007. The heating oil reserve is supposed to hold 2 million barrels, enough to alleviate a shortage for 10 days. The reserve will be about 17,000 barrels short after Hess makes its delivery. The DOE has no plans to fill the remainder of the reserve.

Iran's Oil Minister Gholamhossein Nozari said there was no need for OPEC to increase its production and added that the oil market was in a good condition. The Oil Minister's remarks were echoed by Iran's OPEC

Market Watch

Philadelphia Federal Reserve President Charles Plosser reiterated that the Federal Reserve is approaching a time when it will need to increase interest rates.

Lehman Brothers cut its forecast for 2008 world oil demand growth due to a faster than expected slowdown in energy demand in the US and other OECD countries. It forecast annual oil demand for 2008 at 86.3 million bpd, a growth of 790,000 bpd from 2007. Its growth estimate was revised down from its previous forecast of 1.5 million bpd in December. It said oil prices could fall further as demand falls. It expects Brent crude futures to average \$110/barrel in the fourth quarter and fall further to \$90/barrel by the first quarter of 2009.

Mexico's Pemex said it agreed to a 4.8% salary increase for its unionized workers, avoiding a strike set to start on August 1. The oil workers were calling for an 11% wage increase.

According to US court filings, a unit of BP Plc is the largest unsecured creditor of SemGroup LP with \$159 million in trade debts. Sunoco Inc and Valero Energy Corp are respectively owed \$88.9 million and \$79.3 million. Other creditors include ConocoPhillips, which is owed \$74.2 million, Merrill Lynch & Co, which is owed \$55 million, Chevron Corp, which is owed \$37.3 million and Royal Dutch Shell, which is owed \$17.5 million. Meanwhile, Plains All American expects no material credit exposure in the Semgroup bankruptcy.

Massachusetts Governor Deval Patrick said the state is creating a task force to help residents cope with rising prices of home heating oil and gasoline. The task force will consist of five cabinet secretaries and four lawmakers who will report within 60 days with a plan to help citizens cope with the high cost of energy expected this winter. He said it would cost more than \$3,750 to heat an average Massachusetts home with heating oil next winter, up from \$1,800 two winters ago. Last month, Vermont Gov. Jim Douglas announced plans for a task force to help the state's residents deal with rising fuel costs.

The US Postal Service on Wednesday said it is seeking vehicle technologies that are less dependent on gasoline to replace its 195,000 neighborhood delivery vehicles in light of the high fuel prices. It said a 1 cent increase in the cost of a gallon of fuel adds \$8 million to its annual expenses. Fuel costs are expected to increase by \$600 million this year. It said letter carriers are testing a number of different technologies in 43,000 vehicles, including vehicles that run on ethanol, electricity, natural gas and hydrogen fuel cells.

DOE Stocks

Crude – down 1.6 million barrels

Distillate – up 2.4 million barrels

Gasoline – up 2.9 million barrels

Refinery runs – down 2.4%, at 87.1%

Governor, Mohammad Ali Khatibi, who said OPEC was currently producing 1.5 million bpd more than market demand. Meanwhile an official at the National Iranian Oil Co said Iran's oil production is now running at 4.23 million bpd and would reach 4.29 million bpd by late September.

Iran's President Mahmoud Ahmadinejad praised US participation in last week's talks with Iran on its disputed nuclear program as a positive step. However he said Iran will not "retreat one iota in the face of oppressing powers." He said Iran wanted negotiations but urged major powers to approach his country respectfully and without threats. Separately, the head of the IAEA and the chief of Iran's nuclear program plan to meet on Thursday in Vienna. A source said the meeting was requested by the Iranian nuclear official.

A militant faction in Nigeria's Niger Delta, Okoloma Ikpangi, has threatened to start shutting down its oil and gas production on Bonny Island unless the army pulls out and its demands for development are taken seriously. Meanwhile, the Movement for the Emancipation of the Niger Delta said it would attack major oil pipelines in the next 30 days to prove it had not received payment from the government to end its campaign. The head of the state run oil firm NNPC was quoted as saying the company had paid militant groups \$12 million to protect facilities including the Chanomi creek pipeline, which feeds the Escravos terminal into refineries in Warri and Kaduna. The militant group said money had gone to criminal gangs and that genuine "freedom fighters" could not be bought off.

Mexico's Institutional Revolutionary Party announced it will leave unchanged most of President Felipe Calderon's energy bill, giving the government an advantage in its battle with left wing lawmakers over the future of the industry. It said it supports more autonomy from the state oil company in setting budgets, selling debt and contracting foreign firms for oil projects.

Refinery News

The US Coast Guard said the Houston Pilots Association closed the Houston Ship Channel due to rough weather conditions early Wednesday. It said two ships were waiting to enter the port and six were waiting to depart. Meanwhile, the Matagorda Ship Channel, which serves three refineries at Corpus Christi, Texas was closed on Tuesday night. Separately, three Corpus Christi, Texas refineries with a combined capacity of 784,000 bpd were monitoring Hurricane Dolly on Wednesday morning. Citgo Petroleum Corp and Flint Hills Resources LP reported no operating problems due to the storm. However Valero later reported that it reduced production between 10 and 20% at its 130,000 bpd Houston refinery and its 295,000 bpd Port Arthur, Texas refinery. The Louisiana Offshore Oil Port was unaffected by the storm, which made landfall near South Padre Island.

BP cut rates to a fluid catalytic cracking unit at its Texas City, Texas refinery late Tuesday to bring the system back on line. An electrostatic precipitator stack tripped on Tuesday evening.

Japan's Nippon Oil Corp said its 145,000 bpd Sendai refinery was operating normally after a strong earthquake hit northern Japan.

South Korea's SK Energy plans to keep its crude runs in August steady from July at about 790,000 bpd to 800,000 bpd. It will keep spot jet fuel exports steady at 120,000 tons in August and gas oil exports at 160,000 tons also unchanged on the month.

South Korea's GS Caltex plans to cut its crude runs to 530,000 bpd in August from 650,000 bpd this month due to an upcoming maintenance shutdown of a crude unit. It will reduce its spot jet fuel exports to 30,000

July Calendar Averages

CL – 136.88

HO – 388.21

RB – 336.81

tons in August from 90,000 tons in July but will increase its spot gas oil shipments by 30,000 bpd tons on the month to 210,000 tons next month.

PKN Orlen plans to end the maintenance shutdown of its olefin unit by July 31 and does not expect to conduct any major maintenance work later this year.

The National Iranian Oil Co will shut a 180,000 bpd crude unit at its largest refinery in Abadan around the end of October for routine maintenance. The maintenance at the 450,000 bpd Abadan refinery could last between 30 and 40 days and its part of Iran's effort to expand and upgrade its domestic refineries to 3 million bpd by around 2012 from about 1.6 million bpd.

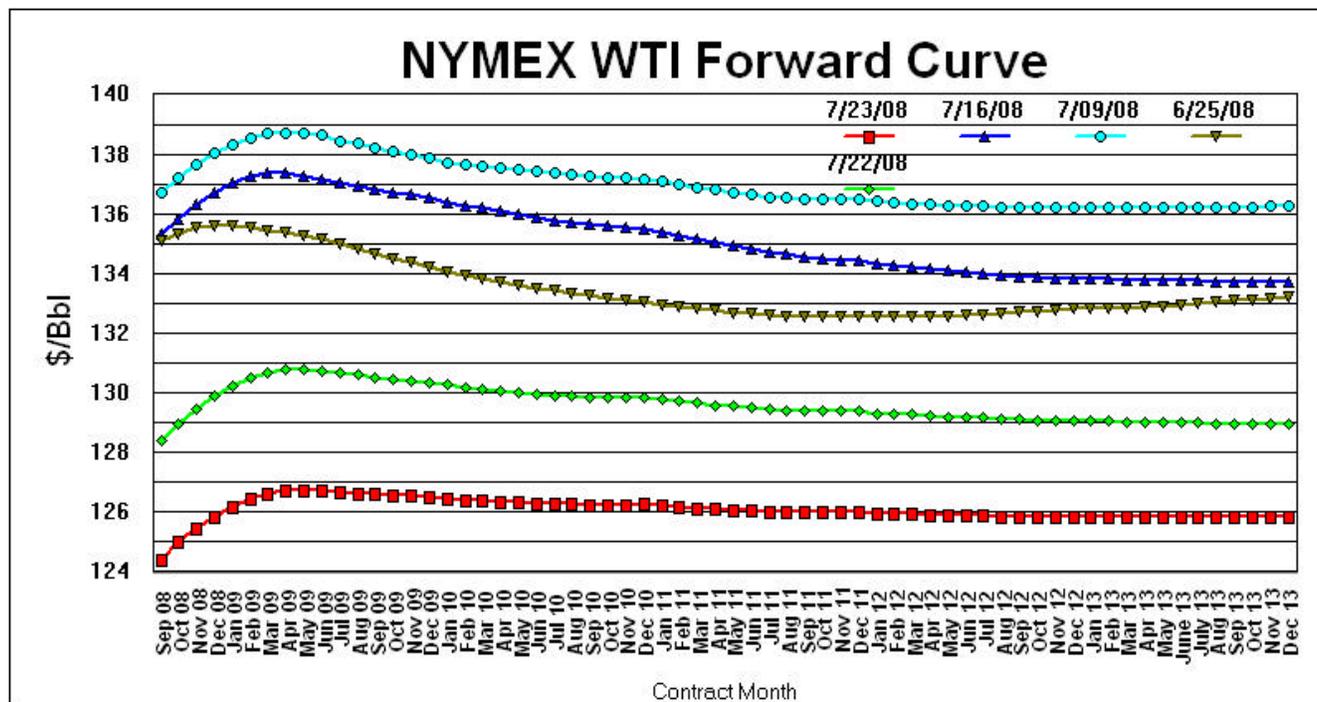
According to official data, India's domestic oil product sales in June increased by 0.4% on the year to 10.5 million tons. Diesel sales increased by 3.3% while petrol sales fell by 6%. India's oil product exports fell by 17.8% to 2.97 million tons while its imports fell by 27.1% on the year and its crude imports increased by 8.4% on the year.

Japan's Idemitsu Kosan Co may begin revising its domestic wholesale oil product prices once a week starting in October to help secure refining margins. The move would be aimed at better reflecting world oil market fluctuations in its gasoline and other product prices.

Production News

According to the Minerals Management Service, the amount of US Gulf of Mexico oil production shut in stood at 4.5% or 55,607 bpd on Wednesday, down from 60,621 bpd on Tuesday as Hurricane Dolly made land fall in Texas.

Anadarko Petroleum Corp restarted production at one of the three platforms in the western Gulf of Mexico that were shut in because of Hurricane Dolly. It later stated that its crews will resume operations at its Nansen and Boomvang spar platforms, which process a combined equivalent of 20,000 bpd. Meanwhile, Royal Dutch Shell said it has shut in production and secured wells it is currently drilling in southern Texas as a precautionary measure ahead of Hurricane Dolly. Valero also reported that Hurricane Dolly delayed ships carrying crude to two of its refineries in Texas, prompting



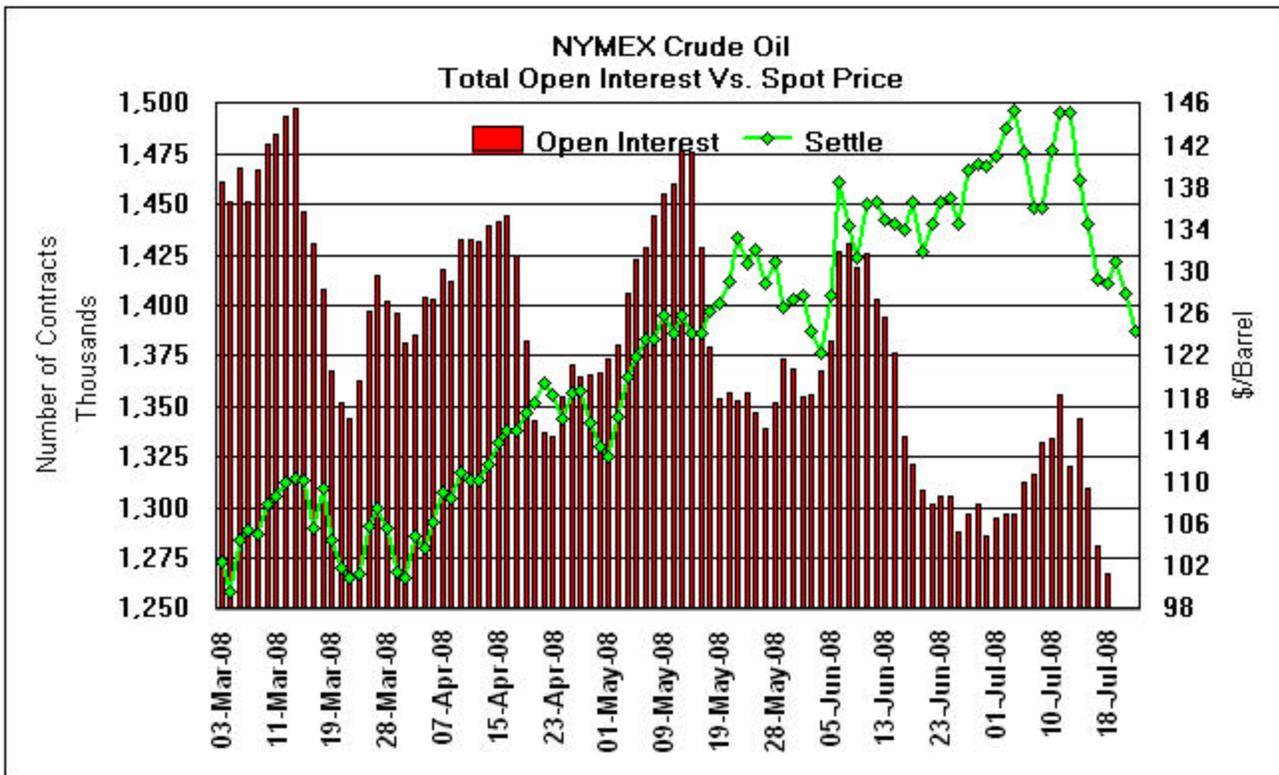
the company to reduce its crude runs by 10 to 20% in Houston and Port Arthur.

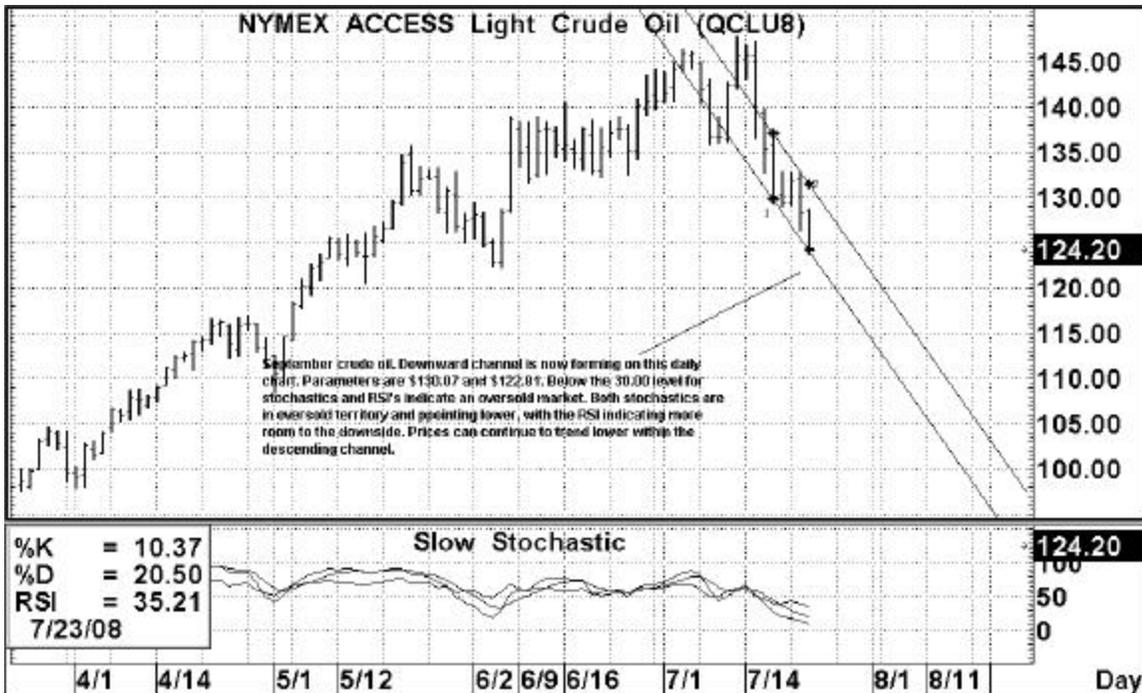
Pemex said it has only been forced to shut in 2,000 bpd of oil production due to Hurricane Dolly. It has not set a timetable for when production will resume. On Tuesday, Pemex evacuated 66 workers from an offshore platform in the northern Gulf of Mexico as a precaution ahead of the arrival of Hurricane Dolly.

The US Geological Survey found that the area north of the Arctic Circle has an estimated 90 billion barrels of oil and 1.670 trillion cubic feet of natural gas. However scientists cautioned that it will take decades to develop the Arctic's hard to get at oil and natural gas. Exploration in the area north of the Arctic Circle has already unearthed more than 400 oil and gas fields. They account for about 40 billion barrels of oil and more than 1.1 trillion cubic feet of gas. However large parts of the Arctic, especially offshore, remain unexplored due to the presence of near permanent sea ice that makes it impossible to acquire seismic data and drill exploratory wells. Oil exploration may also be hampered by rising nationalism as Canada, Russia, the US, Norway and Denmark are scrambling to claim new territory in the central Arctic Ocean.

Shipping sources stated that Iran pumped oil through its northern pipeline at a rate of about 480,000 bpd on Wednesday after Turkey allowed exports to resume on Tuesday. Turkey halted the flow for a day from around midday on Monday to force Iraq to pay an outstanding debt of about \$100 million. Iraq paid half the debt on Tuesday after which Turkish state pipeline operator Botas restarted loadings from the pipeline at the Ceyhan terminal. However an official from Botas said the flow of Iraqi crude through the northern pipeline was halted on Tuesday for 17 hours due to a production problem. An official said the production halt had nothing to do with Iraq's debt to Turkey.

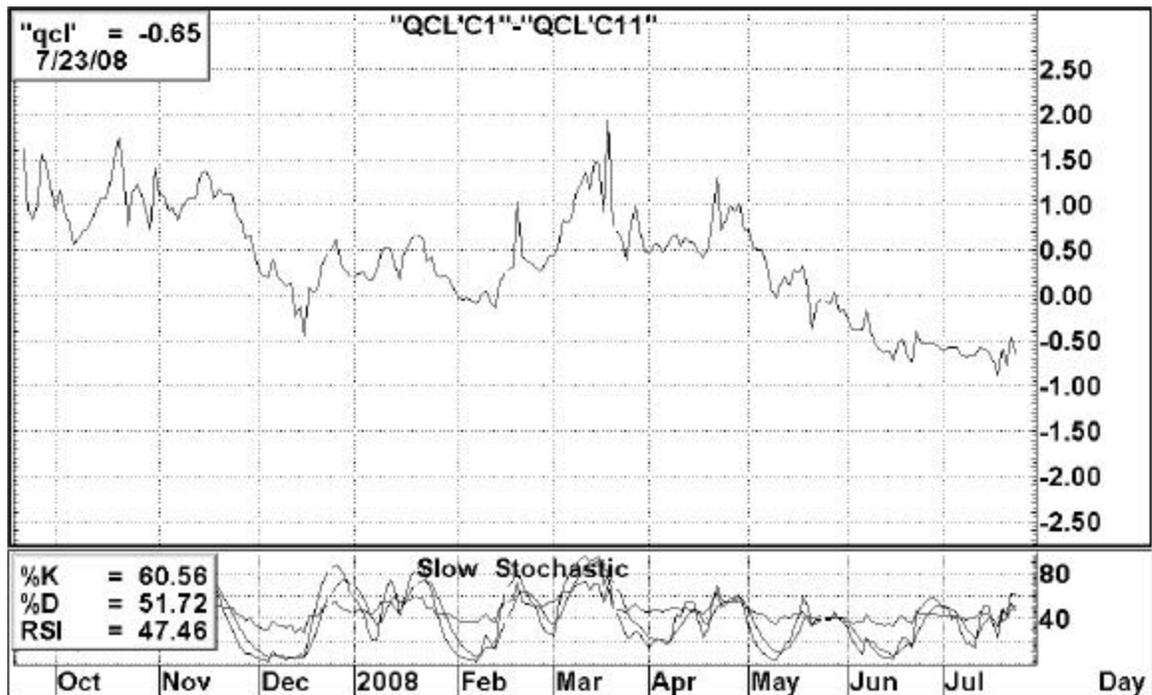
Colombia's crude oil production in June increased to an average of 585,000 bpd from 522,000 bpd last year. Colombia's oil-licensing agency, ANH said the average crude oil production in the first six months of the year was 569,000 bpd.





Kazakhstan will review its deal with Western oil firms developing the Kashagan field to reflect agreements reached last month to end a dispute over the project's future. Kazakh Energy Minister

Sauat Mynbayev said the government would incorporate the changes into the Kashagan Production Sharing Agreement by October 15. In June, Kazakhstan and the group agreed to hold off the start of production until 2013 and in return prevent further cost overruns, pay floating royalties linked to the oil price and have the PSA expire in 2041.



OPEC's news agency reported that OPEC's basket of crude fell to \$127.43/barrel on Tuesday, down from \$127.72/barrel on Monday.

Market Commentary

Despite a 1.52 million draw in crude oil stocks, the price of crude oil dipped below the \$125.00 mark for the first time since June 5th. Stronger than expected builds in gasoline, +2.85 million barrels, and heating oil, +2.42 million barrels, along with weakening demand for both, added to today's price

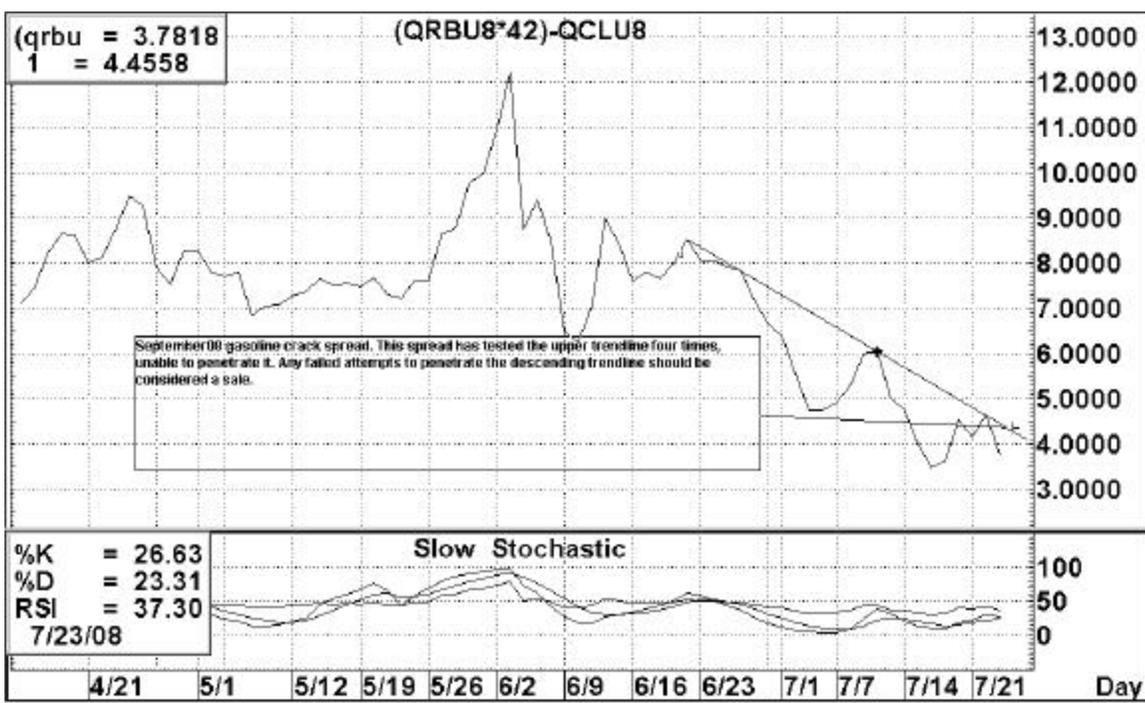
retreat. Industry sources are also noting that the proposal by the U.S. senate to impose trading limits on market speculators, may also have led to the sell-off in prices. The front of the forward curve continues to pull further away from the deferred, with the balance of the curve ever flattening. This is a sign of a weakening market and an indication of further weakness.



a descending channel is forming. The parameters for this channel are \$130.07 and \$122.81. A penetration to the downside of this channel would set prices up for a test of \$115.55 and a breakout to the upside

would set prices up to test the \$137.33. Although the stochastics are in oversold territory, the RSI's are not. Based on this, prices can continue to trend lower within the ascending channel. The

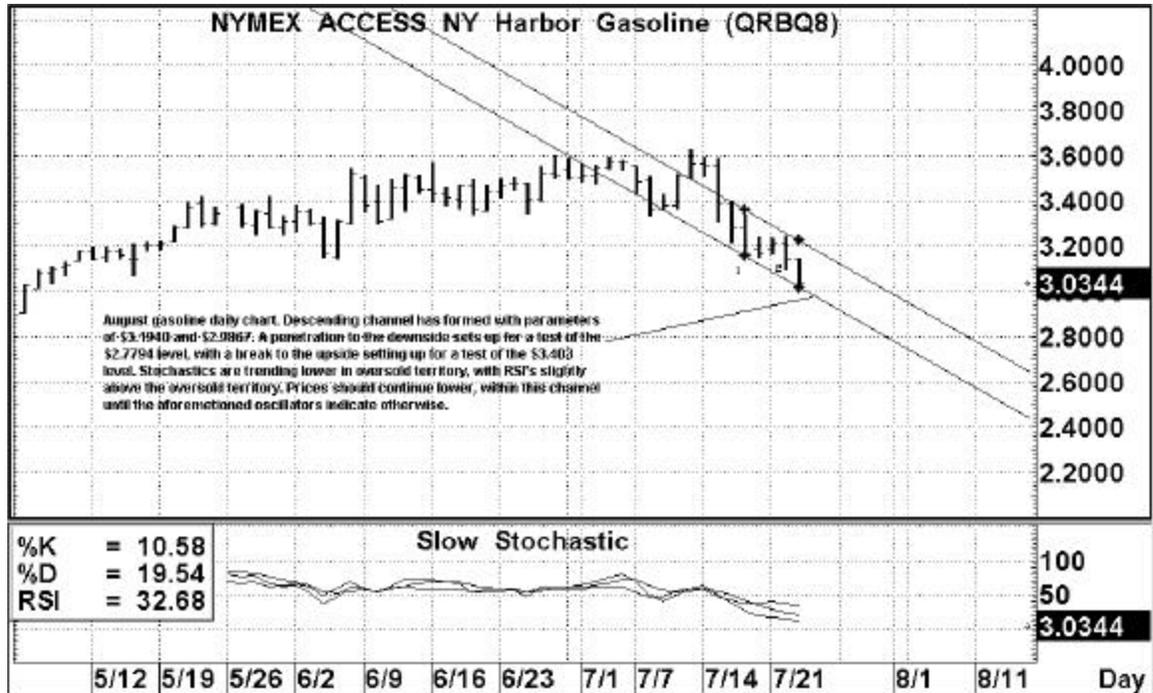
September /October spread weakened slightly today and based on the bearish outlook for this market, further weakness can be expected. With demand for gasoline at its lowest level since



January of 2007, gasoline came off today, surpassing our objective of \$3.0315. Slow stochastics,

although in over sold territory have not yet been followed by RSI's. Based on this, we would look for prices to continue lower within the ascending channel, waiting for the RSI's to trend lower. The September gasoline crack spread continues to trend lower, retreating off of a descending trendline, settling today at \$3.7818. Any failed attempts to penetrate this trendline should be considered a sale. September heating oil is the only contract to break out of the descending channel based on a daily bar chart.

Technical indicators are not yet in oversold territory and are pointing to the downside. The projected downside objective based on this penetration is \$3.3880. Open interest in the crude fell to its lowest level since



January 2, 2007 on long liquidation. Open interest for crude oil is 1,217,375 down 16,326, September08 319,757 up 2,775, October 103,915 up 1,346 and December 08 169,348, down 1,117. Total open interest for heating oil is 226,122 down 2,148, August08, 27,136 down 1,612 and September 08, 61,866 up 1,359. Total open interest for gasoline is, 236,184 down 749, August08 28,252, down 3,842 and September, 77,969 up 3,681.

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| Crude Support | Crude Resistance |
| 122.60, 115.55, 108.40, 85.40 | 125.65, 132.90, 134.85,140.60, 144.00,147.90, |
| Heat support | Heat resistance |
| 3.5400 3.5100 3.3500 3.1680 3.0980 | 3.8215, 4.0210, 4.0765, 4.1200, 4.3614 |
| Gasoline support | Gasoline resistance |
| 3.0250 2.9255 | 3.1760,3.6021, 3.755, 34655 |