



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta
& Karen Palladino

(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR AUGUST 14, 2008

Turkey's state pipeline company, Botas, said repairs have started on the fire damaged Baku-Tbilisi-Ceyhan pipeline. A senior energy ministry source said an initial assessment indicated the damage to the pipeline was not great and that repairs may take less than an earlier forecast of two weeks. Turkey's Energy Ministry expects the pipeline to reopen in a week. The fire was a result of an explosion in eastern Turkey late on Tuesday last week. Kurdish separatists claimed responsibility for the explosion and said they would carry out more attacks on economic targets inside Turkey. Meanwhile, BP resumed gas exports from Azerbaijan to Turkey via Georgia after halting flows two days ago due to a military conflict between Russia and Georgia. However BP said oil

Market Watch

T. Boone Pickens said crude oil prices may soon fall as low as \$110/barrel amid the falling gasoline demand but added that prices should not fall below \$100 because the US depends heavily on oil imports. He however declined to comment on the performance of his hedge fund, BP Capital, amid reports that it fell 35% in July.

An Iranian oil official said Iran plans to increase shipments to China and India and may reduce the flow to other buyers. State run companies in Asia keen to secure future energy supplies are less susceptible to US pressure to stay out of Iran and are taking a bigger role in its energy sector. The official did not state how much more crude Iran aimed to sell to China and India or which countries might receive less. Iran ships about 450,000 bpd of its 2.5 million bpd crude exports to China and about 380,000 bpd to India.

The Labor Department reported that the number of US workers filing new claims for unemployment benefits fell slightly by 10,000 to 450,000 in the week ending August 9. It reported that the total number of workers drawing unemployment benefits for more than one week increased by 114,000 to 3,417,000, the highest level since November 2003. The Labor Department also reported that US inflation increased to a 17 year high annual rate in July. The Consumer Price Index increased by 0.8% in July while the core index increased by 0.327%.

CME Group Inc is considering postponing the shareholder meeting on its \$8.4 billion deal with NYMEX Holdings. Last month, the CME offered to increase payments to each NYMEX seat holder to \$750,000 from \$612,000 in a bid to placate members threatening to scuttle the deal. Postponing the meeting, which is scheduled for Monday, would give the CME time to rework the tax treatment of the \$750,000 payout. The members have vowed to vote against the deal unless CME reworks it so that the payout can be treated as capital gains instead of ordinary income for tax purposes.

NYMEX Holdings Inc announced that the average daily volume was 1.883 million contracts for July 2008, up 30% from 1.446 million contracts reported last year. Volume on the CME Globex platform averaged 822,710 contracts per day for July 2008, up 29% on the year from 636,774 contracts per day in July 2007. The average daily volume on NYMEX Clearport was 502,748 contracts for July 2008, compared with 365,427 contracts for July 2007.

deliveries via the Baku-Supsa oil pipeline remained suspended. It reiterated that it declared a force majeure on liftings from the Baku-Supsa pipeline on Wednesday following the closure of the pipeline due to security reasons.

August Calendar Averages

CL – 117.80

HO – 320.97

RB – 294.34

Georgia's Interior Ministry stated that Russian troops were destroying the city of Gori and the port in the city of Poti. It said Russian forces have changed their mind about leaving the city of Gori and are not withdrawing. The Russian withdrawal stalled as forces returned to the city of Poti a day after US President George W. Bush ordered a military led humanitarian aid effort. The Interior Ministry later reported that about 130 Russian armored vehicles began to move deeper into Georgian territory. Separately, US Secretary of State Condoleezza Rice arrived in southern France for talks with President Nicolas Sarkozy on the Russia-Georgia conflict. US Secretary of State Condoleezza Rice and French President Nicolas Sarkozy want Russia to sign the ceasefire deal. France also urged the US Security Council to rapidly adopt a draft resolution on the Caucasus conflict incorporating the ceasefire plan agreed by Russia and Georgia. Meanwhile, US Defense Secretary Robert Gates said Russia's military appears to be pulling its forces in Georgia back toward the separatist Georgian regions of Abkhazia and South Ossetia.

Ukraine vowed to make Russia seek official permission for movements of its warships based in the ex-Soviet state despite Russia's objections. Russia's Black Sea Fleet is based on Ukraine's Crimea peninsula under an agreement signed by the two countries. The decree would require the fleet to secure permission for any movements 72 hours in advance. However Russia's Deputy head of Russia's general staff dismissed it as irrelevant.

Israel's Defense Minister Ehud Barak said the US is opposed to any Israeli military strike against Iranian nuclear facilities. Israel's Haaretz newspaper reported that the US recently rejected an Israeli request for military equipment that US officials said indicated Israel was at the advanced stages of preparing an attack. The US urged Israel not to strike Iran's nuclear facilities, warning that it would undermine US interests and demanded to know ahead of time if Israel decided to go ahead regardless.

An Iranian oil official said the price of oil may fall for several more months before resuming an upward trend.

Iranian President Mahmoud Ahmadinejad's visit to Turkey may not yield the expected oil and gas deals following new demands from the Iranian side. Energy agreements are expected to be a key element of the talks between Iran and Turkey during the Iranian President's visit to Turkey. Last July, Turkey and Iran signed a preliminary agreement to export Iranian gas to Europe through Turkey, including a provision for Turkey to produce 20.4 billion cubic meters of natural gas in Iran's South Pars gas field.

An official at the US DOE said the US is seeing progress in talks with China over the country's management of its strategic petroleum stocks. The US and member countries of the IEA want China to join its emergency reserve plan that allows the bloc to respond to supply crises. The official said the US is planning to convene a special workshop on reserves management at the next energy policy meeting in October.

The UAE said it protested to Iran about two facilities on one of three disputed Gulf islands and demanded that they be dismantled.

According to Oil Movements, OPEC's crude oil exports are expected to fall by 420,000 bpd to 24.47 million bpd in the four weeks ending August 30. The fall reflects lower shipments from Saudi Arabia and other Middle East countries and may be a result of weak demand due to high prices and exporters cutting back after a fall in prices.

The EIA reported that OPEC is expected to earn a record \$1.174 trillion from crude sales this year, up 75% on the year due to rising output and higher oil prices. In the first seven months of the year, OPEC members earned \$642 billion from oil exports. It estimated OPEC's production in the first half of the year at 32.2 million bpd, up 5.6% or 1.7 million bpd. In July, OPEC output averaged 32.87 million bpd, up 6.9% or 2.3 million bpd on the year. It reported that Saudi Arabia's production increased to 9.7 million bpd in July.

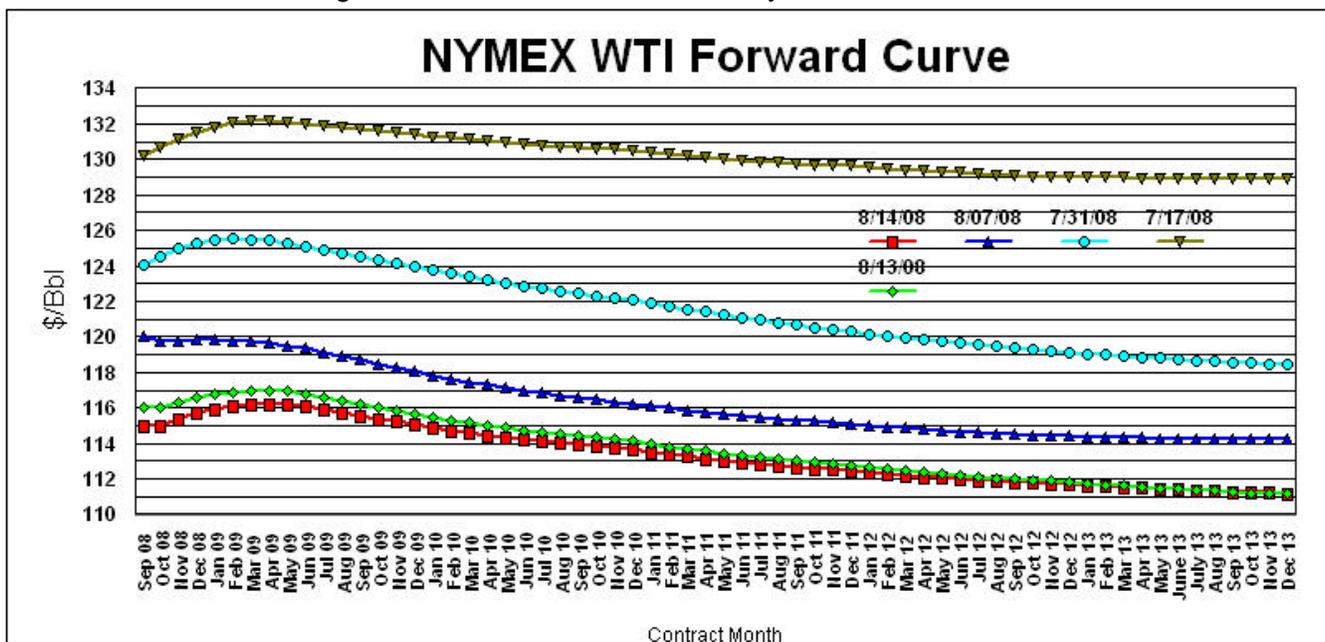
Nigeria's Movement for the Emancipation of the Niger Delta said it rescued two German hostages seized by an unidentified armed group in the Niger Delta.

Refinery News

Valero Energy Corp's 110,000 bpd crude unit at its Corpus Christi, Texas refinery was shut on Wednesday and will not restart for several days. The crude unit at the refinery's east plant experienced a problem with one of its heaters on Wednesday morning. Separately, Valero said an upset on Wednesday with the sour water stripper at the refinery's east plant resulted in flaring. Valero also reported that repairs were continuing on a coker unit wet gas compressor at its 210,000 bpd refinery in Delaware City, Delaware. It also stated that a 45,000 bpd hydrocracker unit was in start up at its Port Arthur, Texas refinery following the completion of an overhaul. It however did not state when the unit would resume full operations.

China's National Bureau of Statistics reported that the country's crude oil processing increased by 8.8% on the year in July to 30.31 million tons. Crude throughput in the first seven months increased by 5.8% on the year to 200.36 million tons or 6.87 million bpd. China pumped 16.17 million tons of crude last month, up 5% from a year earlier. For the January-July period, crude output increased by 2.2% to 110.5 million tons.

Indonesia's Pertamina will buy 2.75 million barrels of crude oil for October arrival via its monthly tender for sweet grades, up from 600,000 barrels purchased for September. It will purchase 600,000 barrels each of Brunei's Seria Light and Bebatik as well as Malaysian Kikeh crude. In addition, it will take



950,000 barrels of Nigerian Qua Iboe, its first purchase of West African crude in seven months. Separately, Pertamina plans to import up to 1.5 million barrels of crude oil a month from October for 20 years to feed refineries in Balikpapan and Cilacap.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 1.309 million barrels to 18.255 million barrels in the week ending August 14. It reported that the country's light distillate stocks fell by 91,000 barrels to 9.948 million barrels while middle distillate stocks increased by 1.422 million barrels to 11.131 million barrels on the week.

Gas oil stocks in independent storage in the Amsterdam-Rotterdam-Antwerp area fell by 1.15% or 21,000 tons on the week and by 8.39% or 165,000 tons on the year to 1.801 million tons in the week ending August 14. Gasoline stocks increased by 8.87% on the week and by 18.98% on the year to 859,000 tons while fuel oil stocks increased by 1.63% on the week and by 63.46% on the year to 747,000 tons. Naphtha stocks increased by 18.81% on the week and by 14.29% on the year to 120,000 tons while jet fuel stocks increased by 5.51% on the week but fell by 11.95% on the year to 383,000 tons.

A trade source stated that German residential heating oil stocks increased to 49% of capacity on August 1, up from 45% in July as consumers refilled their tanks despite high prices. German heating oil tanks were 56% full a year ago.

Germany's MWV said the country's oil product sales in July totaled 6.7 million tons, up 6.9% on the year. It reported that Germany's heating oil sales increased by 46.1% on the year to 1.73 million tons while its diesel sales increased by 0.2% on the year to 2.65 million tons and its fuel oil sales fell by 8.7% on the year to 510,000 tons. It reported that its gasoline sales fell by 3.7% on the year to 1.81 million tons.

Production News

Britain's North Sea Flotta crude oil stream is scheduled to load 87,000 bpd in September, up from about 63,000 bpd in August.

Nexen announced it made a discovery at Blackbird in the UK North Sea. It said the well flowed at an average rate of 3,800 bpd of oil equivalent.

Total resumed production at its North Sea Elgin-Franklin oil and natural gas fields after planned maintenance.

Qatar Petroleum offered to sell 2.4 million barrels of Al-Shaheen crude for loading in October, double the amount it sold in September.

A Russian government official said Russia is ready to increase throughput at the Baku-Novorossiisk pipeline to between 240,000 and 250,000 tons of oil/month or about 60,000 bpd.

OPEC's news agency reported that OPEC's basket of crudes increased to \$109.56/barrel on Wednesday from Tuesday's \$109.08/barrel level.

Russia's anti-monopoly agency is proposing to change legislation on gas exports that would force Gazprom to share export pipelines with independent producers. Under a proposal, Gazprom would retain its export monopoly status but would have to buy gas for exports from independent producers on a pro-rata basis to their production.

Nigeria's government threatened to impose penalties against foreign oil companies that fail to provide a certain amount of natural gas to the domestic market by the end of the year. Nigeria's President Umaru Yar'Adua indicated he will soon declare a power emergency that would oblige international oil companies to share more of their gas. Nigeria warned that it could penalize oil firms via their exports if they do not abide by their domestic requirements.

Market Commentary

A delayed reaction to weakening demand pushed prices lower today. Once the marketplace was able to absorb yesterday's DOE/API data and the possibility that demand may fall globally, bears once again entered the market. Tensions between Russia and Georgia appear to be quiet in that region. Russia denied bombing the Baku-Supsa pipeline and BP said it was unaware of any attack. Two Russian Iskander missiles reportedly hit the Baku-Supsa pipeline southeast of the Georgian capital of Tbilisi yesterday. The September crude oil contract in an early session run-up was unable to take out the highs of yesterday but posted a lower low. Not until prices can break out and settle above the descending channel, would we consider another move to the upside. We would continue to buy and sell against the listed support and resistance numbers. Basis a spot continuation chart, the descending channel for tomorrow is set at \$119.68 and \$108.78. Heating oil experienced an inside trading session today, unable to break out of yesterday's range. The slow stochastics and RSI's are both in over sold territory basis a daily bar chart. Although demand is taking a hit, technicals are indicating perhaps an attempt for the heating oil to break above the upper trendline on the descending channel. Any failed attempt should be considered a selling opportunity. This channel is set at \$3.1507 and \$2.9419 for tomorrow. Gasoline was unable to take out the highs of yesterday but dipped slightly lower today. Moving oscillators appear to be getting ready to move to the upside with the slow stochastics making a second attempt to cross above the 20.00 parameter used to determine a shift in market direction. Should %K remain above 20.00 and %D follow, this will be the second time they have done so, confirming a shift in trend. Due to the fundamentals of this market, we would be cautious about buying this product. Open interest for crude oil is 1,259,747 up 18,332, September 08 139,443 down 22,236, October 08 265,780 up 28,471 and December 08 174,351 up 2,428. Total open interest for heating oil is 221,898 down 1,103, September 08, 40,293 down 7,343 and October 08 42,084 up 3,169. Total open interest for gasoline is, 222,913 up 3,645, September 08, 50,845 down 3,455 and October 08 59,332 up 5,443.

Crude Support	Crude Resistance
109.55,108.78,105.18, 85.40	132.90, 134.85,140.60, 144.00,147.90,
Heat support	Heat resistance
3.0285	3.2315,3.3075,3.3798,3.6135,3.8215, 4.0210,
Gasoline support	Gasoline resistance
2.8190, 2.7285, 2.5920	3.0300, 3.1050,3.1460,3.1970, 3.2620