



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta
& Karen Palladino

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

www.e-windham.com

ENERGY MARKET REPORT FOR AUGUST 27, 2008

The National Oceanic and Atmospheric Administration said Tropical Storm Gustav, weakened from hurricane strength after striking Haiti on Tuesday, is on track to hit the US Gulf Coast as a Category 4 hurricane next week. The tropical storm is forecast to regain hurricane strength Thursday as it passes between Jamaica and the southeastern coast of Cuba. The National Hurricane Center later stated that there was an equal chance that Gustav will be a category 1, 2 or 3 hurricane. It said it Gustav was on a path to hit near the Louisiana,

Mississippi border on Monday morning. Other computer models see the storm striking land near refining centers along the upper Texas coast or in Louisiana. Meanwhile, private forecaster Planalytics said Tropical Storm Gustav will restrengthen into a major hurricane and could force shut about 85% of

Market Watch

The Asian Development Bank said world energy demand will increase by 1.6% a year through 2030, mainly due to consumption growth in emerging economies including China. China's energy imports will increase to 70% of its needs in 2030 from 34% in 2005.

The US dollar fell from its six month highs against the euro on Wednesday as comments by a European Central Bank executive board member rekindled speculation on an interest rate increase in the euro zone to quell persistent inflation pressure. The dollar also fell as investors remained concerned problems in the US financial system.

The Commerce Department said orders for durable good increased by 1.3% last month to a seasonally adjusted \$219.26 billion. Orders in June were revised higher, also rising 1.3%, up from its previous estimate of 0.8%.

Japan's Ministry of Economy, Trade and Industry is seeking to sign a memorandum of understanding with the US CFTC as early as September to promote information sharing and prevent price manipulation and other unfair trading practices in the commodities futures market.

Brazil's President Luiz Inacio Lula da Silva said he was urging the country to become an exporter of high value premium oil products rather than crude oil to maximize the country's pre-salt oil reserves. In July, he set up a government panel to study how to exploit the pre-salt find.

The official China Securities Journal reported that China will strengthen enforcement of its price cap on thermal coal to curb prices of the fuel. It gave no details on what measures would be adopted. Although a power crunch has eased since the government raised power tariffs and as the summer draws to an end, worries are now mounting over supplies to meet heating demand in the winter.

DOE Stocks

Crude – down 100,000 barrels

Distillate – unchanged

Gasoline – down 1.2 million barrels

Refinery runs – up 1.6%, at 87.3%

US oil and natural gas production platforms in the Gulf of Mexico in the coming days. Accuweather said the storm could strengthen into a Category 5 hurricane as it moves into the Gulf.

Several oil companies have started evacuating staff from offshore oil and gas platforms as Tropical Storm Gustav moves towards the Gulf. Shell Oil Co said it was evacuating about 300 nonessential workers from the Gulf of Mexico on Wednesday due to the threat from Tropical Storm Gustav. It said its offshore production was not impacted by the evacuations. BP Plc said it was evacuating non-essential workers from its platforms in the Gulf of Mexico and added that its production was not impacted by the evacuation. Italy's Eni SpA also started evacuating non-essential personnel from the Gulf of Mexico ahead of Tropical Storm Gustav. Transocean Inc said it was evacuating 30 non-essential workers from the Gulf of Mexico. It has 11 drilling rigs with a staff of 1,6000 workers in the Gulf. A Transocean spokesman said he expects more evacuations. Petrobras said it will start evacuating non-essential workers from its operations in the Gulf of Mexico on Thursday. It said its production would not be affected due to the evacuation plans. ExxonMobil said it was closely monitoring Tropical Storm Gustav as it continued on a track that could bring it into the Gulf by the weekend. It has not evacuated any staff from offshore platforms yet and production remained unaffected. Chevron Corp also said it was still monitoring Tropical Storm Gustav.

The executive director of the IEA, Nobou Tanaka said the world's spare oil capacity will tighten in 2013 due to an expected growth in demand after expanding towards 2010. He said with spare capacity falling again, oil prices could then increase on potential supply disruptions caused by factors ranging from hurricanes to geopolitical tensions.

A senior Iranian oil official said there was enough crude in the market and there was no need for OPEC to increase its output. He said prices were unlikely to fall much further than they already have.

Venezuela's President Hugo Chavez said oil prices are fair at current levels, slightly above \$100/barrel.

A spokesman for Russia's Prime Minister Vladimir Putin said Russia sees no threat of a new Cold War as a result of the conflict between Russia and Georgia. The deputy head of Russia's general staff said Russia's navy was monitoring NATO ships in the Black Sea and warned that a further build up could be in violation of a pre-World War II agreement. NATO previously stated that it started routine exercises in the Black Sea involving US, German, Spanish and Polish vessels which had been planned before the Georgia conflict started. The exercises are expected to end on September 10. US the separately has sent the US navy destroyer USS McFaul and another ship to Georgia to deliver humanitarian aid, a move that has been criticized by Russia.

Meanwhile, NATO nations reaffirmed their condemnation of Russia's decision to recognize the rebel South Ossetia and Abkhazia regions of Georgia and jointly called on Russia to reverse its decision. NATO said the decision violated past UN Security Council resolutions on Georgia's territorial integrity. Separately, Georgia's Foreign Minister Eka Tkeshelashvili said Georgia has downgraded diplomatic relations with Russia and is pulling all but two diplomats from its embassy in Moscow. The chairman of Georgia's parliament called for the US and Europe to impose a penalty on Russia for its decision to recognize the two rebel regions.

Nigeria's Oil Minister Odein Ajumogobia said a Nigerian peace summit meant to end the violence in the Niger Delta was cancelled.

August Calendar Averages

CL – 116.81

HO – 319.17

RB – 293.25

However he said the government remained committed to continuing talks. Plans for the summit between the government and militants fell into disarray after a key mediator organizing the talks resigned in July. The meeting was scheduled to have taken place last week.

Refinery News

ConocoPhillips reported a process upset at its 153,000 bpd Borger, Texas refinery late Tuesday. It did not specify which units were affected or if there was any impact on production.

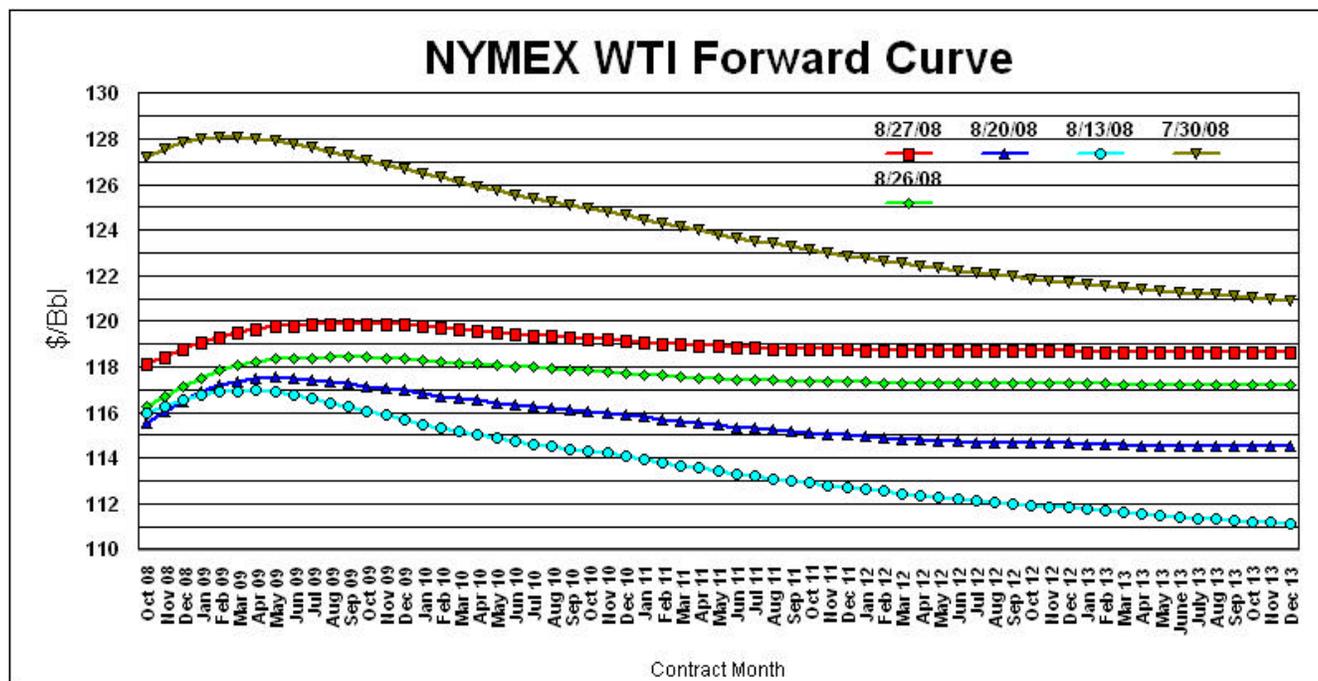
PetroCanada restarted a fluid catalytic cracking unit at its 135,000 bpd Edmonton, Alberta refinery from an unplanned outage that started on August 3. It said it will keep its alternative gasoline supply arrangements in place to help relieve shortages.

Royal Dutch Shell Plc reported a boiler fault at its 416,000 bpd Pernis refinery. It said repairs were expected to be completed by Wednesday afternoon.

Japan Energy Corp said it shut its 210,000 bpd crude distillation unit at its Kashima Oil Co on Tuesday for an unplanned inspection. It is scheduled to restart on Saturday or Sunday.

Nippon Oil Corp plans to process 3.46 million kiloliters or 725,000 bpd of crude in September, down 3% on the year. Its August crude refining volumes for domestic demand was estimated at 4.01 million kl or 814,000 bpd, down 3% on the year and down from its original plan to refine 4.03 million kl or 818,000 bpd in the month as high prices impacted demand.

According to the Petroleum Association of Japan, the country's gas oil inventories increased by 8.7% to 2.48 million kiloliters or 15.6 million barrels in the week ending August 23. It is the highest level since PAJ started releasing data in 2003. Japan's crude stocks built by 230,000 barrels on the week but fell by 6.73 million barrels to 97.4 million barrels while its gasoline stocks built by 50,000 barrels on the week and by 800,000 barrels on the year to 12.66 million barrels. Its kerosene stocks built by 1.75 million barrels on the week but fell by 3.14 million barrels on the year to 20.53 million barrels while naphtha stocks fell by 360,000 barrels on the week to 10 million barrels. It reported that crude runs fell by 140,000 bpd on the week or by 170,000 bpd on the year to 4.1 million bpd.



Indian refiners processed 3.383 million bpd in July, up 11.8% on the year following an increase in output at a privately run refinery. Output at Essar Oil's Vadinar refinery more than doubled in July to 268,600 bpd. Crude processing at Reliance Industries' Jamnagar refinery was marginally down in July at 768,230 bpd from a year earlier and nearly 2% short of its target.

PetroChina Co posted a 35% decline in its profits during the first half of the year. Its net income fell to 53.6 billion yuan or \$7.8 billion, mainly due to the government fuel price caps that undermined gains from a 46% increase in oil prices. PetroChina's second quarter profit also fell by 38% to 24.7 billion yuan despite the decision by China's government to increase gasoline and diesel prices by at least 17% in June. PetroChina said it will expedite overseas oil and gas projects to meet the country's rising energy demand.

Indonesia's Pertamina scrapped a tender to buy 200,000 barrels of diesel for September due to high domestic stocks. Pertamina's total gas oil purchases via tender stood at 400,000 barrels for September delivery, down two-thirds from tender imports for August.

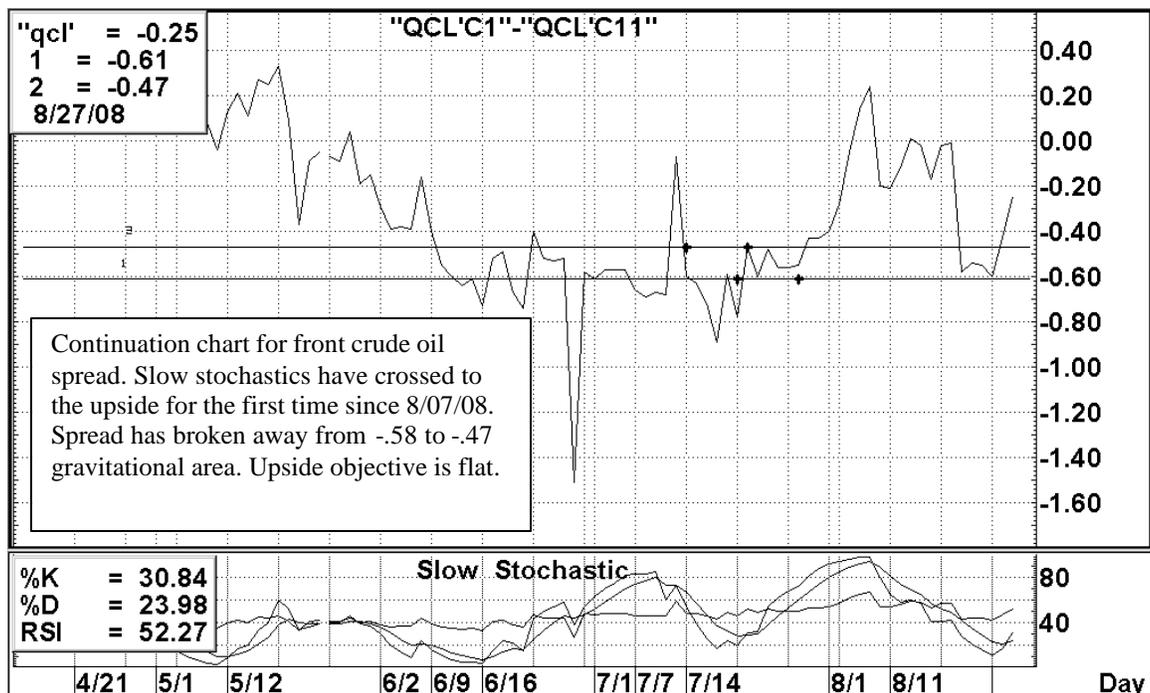
Production News

Iraq restarted its crude exports through its northern pipeline to Turkey's export terminals of Ceyhan following a one-day halt. The flow was restarted on Wednesday morning at a rate of 20,000 barrels/hour. Iraqi oil in storage at Ceyhan stood at about 400,000 barrels on Wednesday. Separately, Iraq's Oil Minister Hussein al-Shahristani said Iraq and China are expected to conclude talks in China to revive a deal signed under Saddam Hussein's regime to develop the Al Ahdab oilfield, which could pump as much as 100,000 bpd.

Total SA said production from its Elgin-Franklin North Sea oil and gas fields was reduced at the request of Forties pipeline operator BP Plc. A reduction in its oil supply to the pipeline would force Total to cut its gas production.

StatoilHydro said new field projects and actions to increase oil and gas production are expected to add 600,000 bpd to its production from the Norwegian continental shelf by 2015.

Ecuador's Petroecuador, Venezuela's PDVSA and Chile's Enap plan to establish a joint venture to explore oil in the Ayacucho 1 oilfield in Venezuela's Orinoco Belt. They are expected to sign preliminary



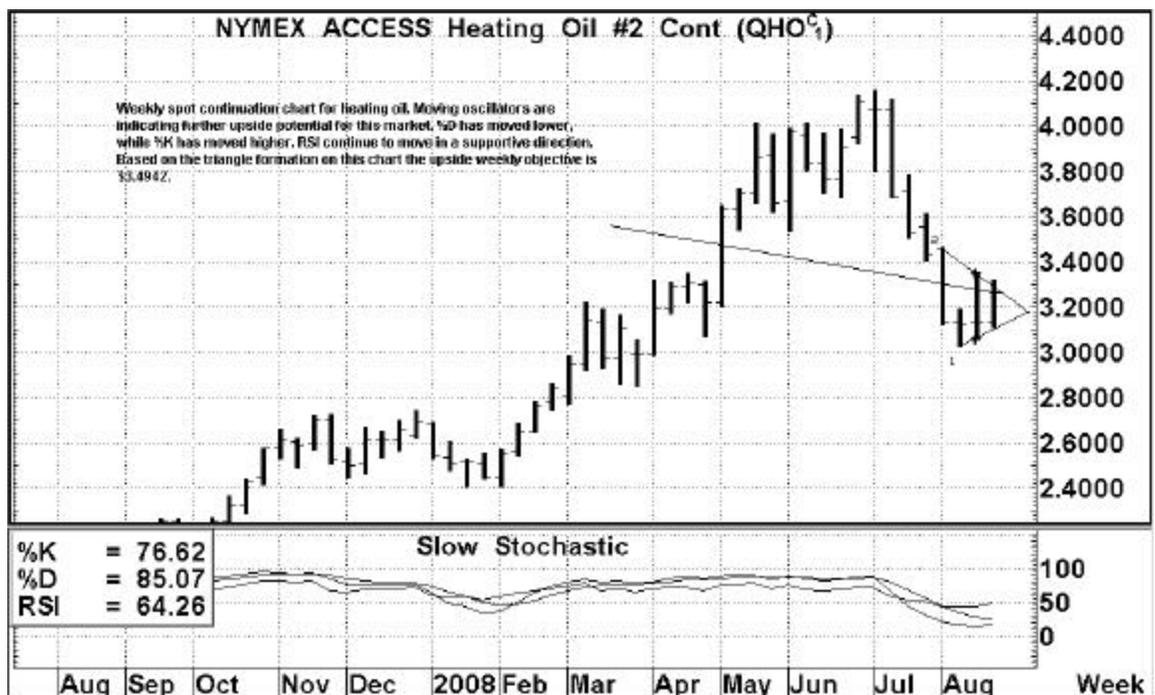
agreements on Friday.

OPEC's news agency reported that OPEC's basket of crudes fell slightly to \$110.51/barrel on Tuesday from \$110.61/barrel on Monday.

Market Commentary

Today's release of the DOE/API numbers were insignificant as they were overshadowed by the prospect of Tropical Storm Gustav turning into a possible category 3 or 4 hurricane. According to the DOE numbers, crude oil stocks, which were expected to increase by 1.6 million barrels, decreased by 100,000 barrels on the week. Gasoline stocks decreased by 1.2 million barrels and distillate stocks were unchanged on the week. Demand for gasoline was set at 9.4 million barrels based on a four-week average, down 1.6% from the same period last year. Distillate demand remains high for this time of year, set at 4.2 million barrels per day, up 2.2% based on a four-week average. The October/November crude oil spread broke away from the gravitational area we previously spoke about, -.47 to -.58, and now appears ready to test the most recent high of flat. Slow stochastics for this spread have crossed to the upside, with percent K crossing over % D and the RSI turning higher. This is the first time since August 7th that the stochastics have indicated a possible strengthening of the front month spread. The objective for this spread is now the flat level. The October crude oil contract should continue to gain strength, as all eyes are on the development of Tropical Storm Gustav. The initial upside objective is the \$121.20 level and beyond that \$129.31, the 50% retracement of the \$147.27 and \$111.34 range. Heating oil moved higher today, unable to penetrate support set at \$3.1998. With refiners in turnaround and ramping up for the upcoming heating oil season, this product should continue to gain strength. The near term upside objective is \$3.4574, the 38.2% retracement of the range of \$30240 and \$41586. Based on a triangle formation on a weekly spot continuation chart, this market could reach \$3.4942 by week's end. After experiencing a five - week decline in stock levels, gasoline edged higher closing up .0975 on the day. Technical indicators have crossed to the upside on the 22nd of August and have continued to move higher, surpassing its initial upside objective of \$3.08.67. As with the rest of the complex, we would look for gasoline to continue higher, until Tropical Storm

Gustav chooses its course. Based on a weekly spot continuation chart the next upside objective for gasoline is \$3.2542. Slow stochastics appear to be getting ready to cross to the upside, as %D has moved higher and



%K lower, with the RSI turning higher. Open interest for crude oil is 1,187,623 down 8,290, October 08 296,541 down 5,856, November 08 110,266,down 1,697 and December 08 179,367 down 1,365. Total open interest for heating oil is 221,001 down 4,278, September 08, 15,340 down 7,087 and October 08 54,602 up 2,488. Total open interest for gasoline is, 220,044 down 2,286, September 08, 19,333 down 10,201 and October 08 80,683 up 5,426.

Crude Support	Crude Resistance
109.55,108.00,105.18, 85.40	128.60,132.05, 139.30, 144.00,147.90,
Heat support	Heat resistance
3.0540, 3.0229, 294.50	3.4574,3798,3.6135,3.8215, 4.0210,
Gasoline support	Gasoline resistance
2.7014,2.6435, 2.5920	3.1050, 3.1460, 3.1840, 3.2620