



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 4, 2008

The US DOE late Wednesday said Marathon Oil Corp has requested oil from the SPR to meet the supply needs of its 192,000 bpd Robinson, Illinois refinery and its 222,000 bpd Catlettsburg, Kentucky refinery. It did not say how much reserve oil Marathon was seeking. Meanwhile, the DOE said Citgo Petroleum Corp has withdrawn its request for 250,000 barrels of oil from the SPR for its Lake Charles, Louisiana refinery. US Energy Secretary Samuel Bodman said he expects more energy companies to request oil from the SPR in the wake of supply disruptions

Market Watch

The Wall Street Journal reported that the US Commodity Futures Trading Commission is investigating whether companies are reporting false oil inventory levels to benefit their trading positions. The commission is concerned that companies may have tried to manipulate short term pricing on oil markets through physical oil sales and purchases. The CFTC probe is part of the larger investigation the commission launched last December into possible manipulation of the market. Among the periods it is examining, is July 2007, when there was a quick shift in the structure of the oil markets. Oil for near term delivery had been selling at a discount to oil to be delivered months and years into the future however oil for immediate delivery became much more expensive when an oversupply of oil at the Cushing, Oklahoma hub was quickly depleted.

While there has been no significant damage caused by Hurricane Gustav, many refineries, pipelines pumping stations and port facilities remain without power. These short term shut ins may lead to higher gasoline and diesel prices in the long term. In the Gulf Coast, gasoline prices for immediate delivery have rallied despite weaker benchmark gasoline futures. If refineries take longer than expected to achieve normal processing rates or if inventories fall to low levels, prices will be supported.

Barclays Capital said oil prices are likely to remain under pressure until OPEC gives a clear signal on its pricing/production policy. It said the market's shift to the downside was partly due to a fall in demand from the US while Saudi Arabia increased its production. It kept its 2008 price forecast for US oil at \$118.50/barrel.

The dollar rallied on Thursday to its highest level against the euro this year after the European Central Bank cut its growth outlook for the euro zone. The ECB forecast growth in the euro zone for 2008 at 1.1% to 1.7% and 0.6% to 1.8% in 2009. This is down from its previous forecast of 1.8% this year and 1.5% in 2009. The euro fell to \$1.4327, the lowest level since December 2007. Meanwhile, on the US economic front, reports showed private sector job contraction of 33,000 last month while the number of people filing for jobless benefits increased by 15,000 in the latest week.

According to a draft law, the government of Kazakhstan has proposed to set mineral extraction tax rates for oil producers at 7-20% of crude's market value from 2011 while higher rates would be applied to larger producers.

Brazil's National Crop Supply Agency reported that the country's ethanol demand is expected to reach 24.8 billion liters by 2011, up 50.5% from last year. Ethanol exports are expected to increase to 6.1 billion liters, up 72.8% on the year. This year, exports are expected to total 4.2 billion liters, compared with 3.5 billion liters last year.

caused by Hurricane Gustav. He said the DOE is still reviewing Marathon's recent request for oil from the SPR. He also stated that it was good news that the US Coast Guard was able to reopen the Calcasieu Channel, allowing Citgo to withdraw its request for SPR oil. Meanwhile, the US Energy Secretary also said he hopes OPEC keeps the market well supplied ahead of their meeting next week.

DOE Stocks

Crude – down 1.9 million barrels
Distillate – down 400,000 barrels
Gasoline – down 1 million barrels
Refinery runs – up 1.4%, at 88.7%

The Minerals Management Service said a total of 1.238 million bpd or 95.2% of oil production in the Gulf of Mexico remained shut in as of Thursday morning. It is down slightly

from 1.246 million bpd reported on Wednesday.

According to an analyst at PFC Energy, consensus is building within OPEC on the need to reduce its oil production to prevent a supply overhang and increase prices. OPEC is pumping more than its official output target, largely due to higher output from Saudi Arabia. It said OPEC may make a combination of unofficial and formal supply cuts in the coming months. It said OPEC could start with an unofficial Saudi cutback of 200,000 bpd-300,000 bpd and a larger, formal cut by OPEC as a whole at its next meeting on December 17.

Nigeria's Oil Minister Odein Ajumogobia said he has an open mind about what OPEC should do at its meeting next week. He said he preferred to be cautious and adopt a wait-and-see attitude.

According to a Bloomberg survey, analysts believe OPEC will reject calls from Venezuela and Iran to cut its supplies at its September 9 meeting.

The IEA's executive director Nobuo Tanaka said OPEC should maintain its output levels and added that the recent price decline reflects the slowdown of the economy.

Oil Movements reported that OPEC's oil exports, excluding Angola and Ecuador, are expected to increase to 110,000 bpd to 25.4 million bpd in the four weeks ending September 20. Shipments from key Middle East OPEC producers are expected to remain unchanged at 17.49 million bpd in the four week period.

Iran's President Mahmoud Ahmadinejad said Iran's enemies are helpless. He said the country's enemies' plans to impede Iran's progress have been foiled.

Vice President Dick Cheney said the US is fully committed to Georgia's eventual membership in NATO. He criticized Russia's illegitimate attempt to change Georgia's border by force. He said Russia's actions in its conflict with Georgia have cast grave doubt over its reliability as an international partner.

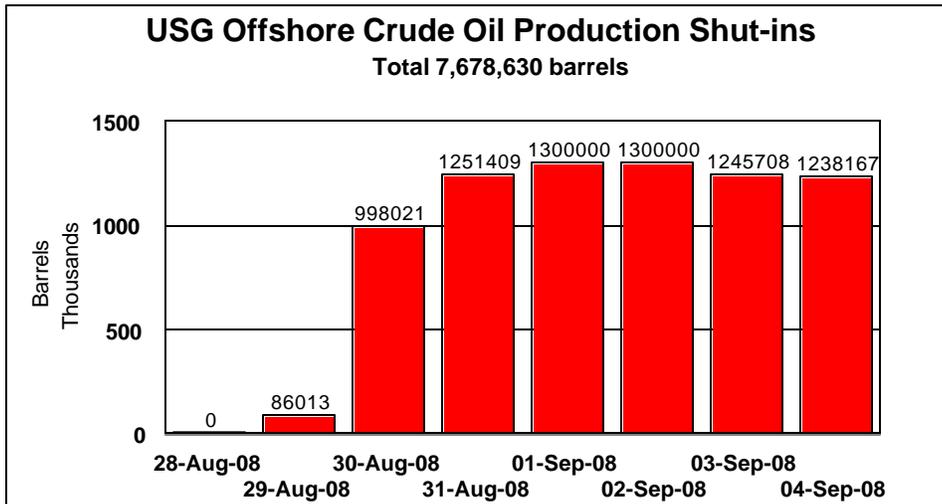
Refinery News

The DOE reported that twelve oil refineries along the US Gulf Coast with a total capacity of 2.428 million bpd remained shut following Hurricane Gustav. It said four refineries with a capacity of 1.198 million bpd that had cut their runs resumed normal operations. Six refineries with a combined capacity of 1.901 million bpd are still operating at reduced rates. The DOE also said it could be weeks before Entergy finishes repairing its Louisiana electric grid, which has been constraining refineries from resuming normal operations. Meanwhile Entergy later stated that all but one refinery in Louisiana will have power by Thursday night. Transmission service should be restored by the end of the day to 11 of 12

September Calendar Averages

CL – 108.98
HO – 305.87
RB – 274.70

affected refineries. It said as refiners restart production over the next few days, enough power will be available to allow full operation. It also said it plans to have power restored to the Port of Baton Rouge by Friday.



Royal Dutch Shell's 332,000 bpd Deer Park, Texas refinery has resumed normal operations following Hurricane Gustav. Royal Dutch Shell also announced that power has been restored to the Motiva refinery in Norco, Louisiana. It expects to begin blending by the weekend in order to produce finished products early next week.

Valero Energy Corp confirmed reports of a fire at its 340,000 bpd Corpus Christi, Texas refinery on Wednesday, stating that it was a brief and small event. There was no information on the impact on production.

Meanwhile, Valero Energy Corp's chief executive, Bill Klesse said he does not expect to begin processing crude at its Norco, Louisiana refinery before Sunday. He said the refinery has not suffered serious damage but has not been able to restart its refinery due to a lack of reliable power, natural gas and nitrogen supplies. He also said some power has been restored at its 250,000 bpd St. Charles, Louisiana, which suffered no significant structural damage from Hurricane Gustav. Separately a Valero spokesman said its refineries in Houston, Port Arthur and Texas City are increasing rates but added that it is still undetermined when rates will return to normal. Valero's chief executive also said that problems getting crude up the Capline Pipeline has forced the company to significantly cut rates at its 195,000 bpd refinery in Memphis, Tennessee.

ExxonMobil Corp's joint venture 193,000 bpd Chalmette refinery in Louisiana suffered no major damage from Hurricane Gustav. However no restart date has been set yet. Meanwhile, Exxon's 503,000 bpd Baton Rouge refinery in Louisiana remains shut in part because the facility does not have full power. The refinery has generators on site but does not have all the power needed because Entergy Corp has not restored electricity to the site.

ConocoPhillips said its 195,000 bpd Alliance refinery in Louisiana was not significantly damaged by Hurricane Gustav but remains shut due to a lack of power. Meanwhile, its 280,000 bpd Lake Charles, Louisiana refinery which was restarting on Wednesday will operate at reduced rates during the restart period, estimated to last between 10-14 days.

Alon USA said its 80,000 bpd Krotz Springs, La refinery is not able to resume operations until its power is restored. There was no estimate on when its power would be restored.

The Louisiana Offshore Oil Port said it found only minimal damage to its offshore facilities and expects to resume offloading tanks over the weekend. It reiterated that it plans to resume deliveries of oil to coastal refineries as soon as Thursday afternoon using onshore storage.

The Port of New Orleans has been reopened, allowing some shipping activity to resume for the first time in four days. However the US Coast Guard said vessels entering or departing the Gulf of Mexico at the Southwest Sea Pass buoy up to mile marker 20 are limited to a draft of 30 feet.

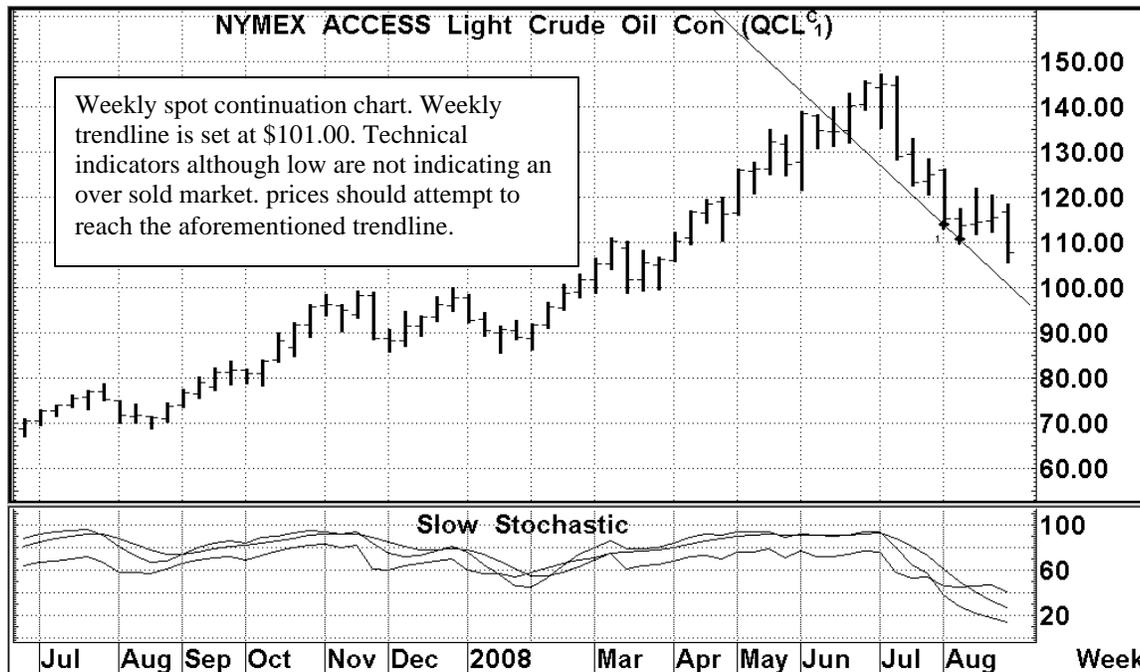
Pemex plans to shut a fluid catalytic cracking unit at its 330,000 bpd Salina Cruz refinery in early October for about a month of planned repair work.

India's Bharat Petroleum Corp will shut some units at its Kochi refinery in southern India for planned maintenance in November, including a 90,000 bpd crude distillation unit which will be closed for about a month. An official said there will be no impact on supplies due to the shutdown.

Royal Dutch Shell has been operating its crude distillation unit in Singapore at reduced rates of 70-80% since its restart in August, partly due to weak margins. Its 115,000-130,000 bpd No. 4 crude distillation unit was operating at about 90,000 bpd compared with the normal 90% rate of about 105,000-110,000 bpd. Its two other crude distillation units are operating at about 90% capacity.

South Korea's S-Oil Corp will shut its 42,000 bpd No. 2 vacuum residual desulfurizer at its Onsan refinery on October 1 for regular maintenance. The maintenance is seen lasting until October 26.

Gas oil stocks in independent storage in the Amsterdam-Rotterdam-Antwerp area increased by 3.66% on the week and by 4.09% on the year to 2.038 million tons in the week ending September 4. Fuel oil stocks increased by 2.59% on the week and by 26.71% on the year to 555,000 tons while gasoline stocks fell by 0.37% on the week but increased by 9.13% on the year to 801,000 tons. Naphtha stocks fell by 10.68% on the week but increased by 50.82% on the year to 92,000 tons while jet fuel stocks fell by 1.38% on the week and by 8.72% on the year to 429,000 tons.



Singapore's International Enterprise reported that the country's residual fuel stocks fell by 2.005 million barrels to 16.397 million barrels in the week ending September 3. It also reported that the country's

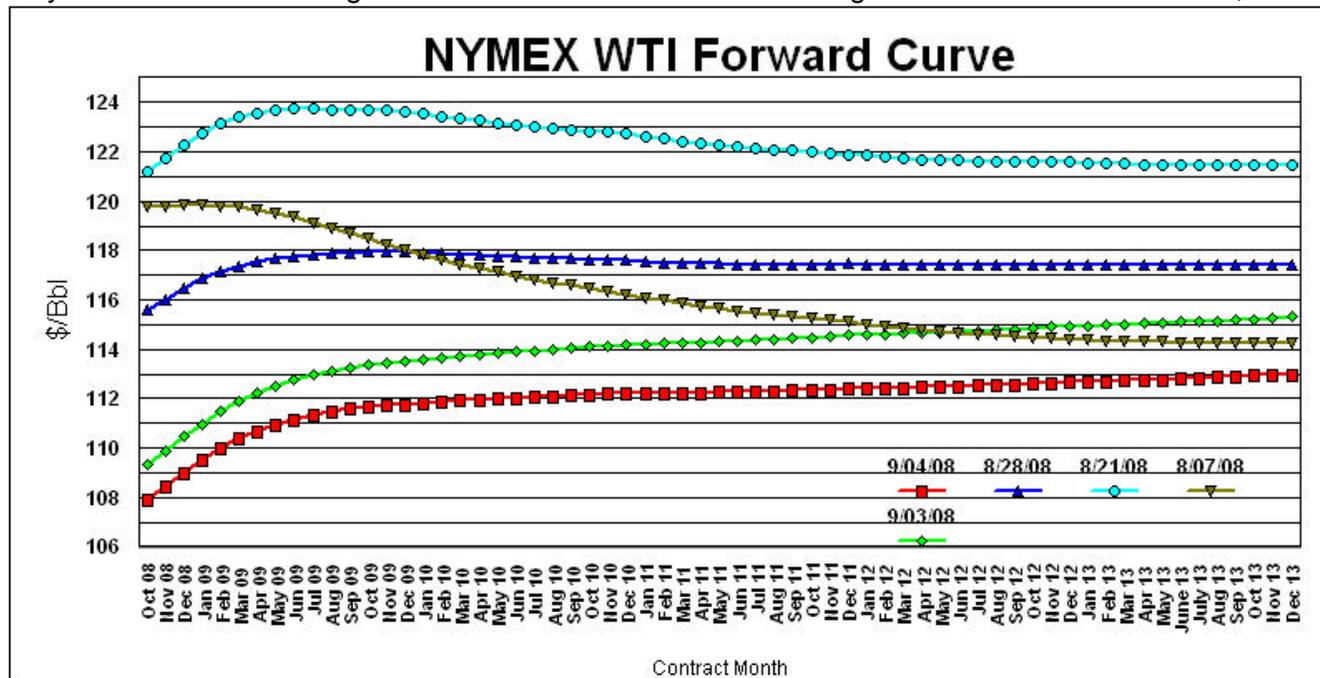
light distillate stocks fell by 468,000 barrels to 10.039 million barrels while middle distillate stocks fell by 126,000 barrels to 11.081 million barrels on the week.

Taiwan's CPC Corp has doubled its purchase of West African crude via its monthly tender for October loading from the previous month. It has purchased 4 million barrels of West African crude.

South Korea's Energy Ministry said it plans to build a \$320 million oil storage facility by 2011 with local and foreign energy firms as part of its move to grow as an oil hub in Northeast Asia. It would be South Korea's first commercial oil storage facility. Korea National Oil Corp and Germany's Oiltanking Group will lead the project to build three ports in Yosu and 57 storage tanks that can hold up to 6 million barrels of crude and oil products.

Production News

Marathon Oil Corp said an inspection of its oil and natural gas platforms in the Gulf of Mexico showed they suffered minor damage due to Hurricane Gustav. Its Ewing Bank Block 873 Platform A, which

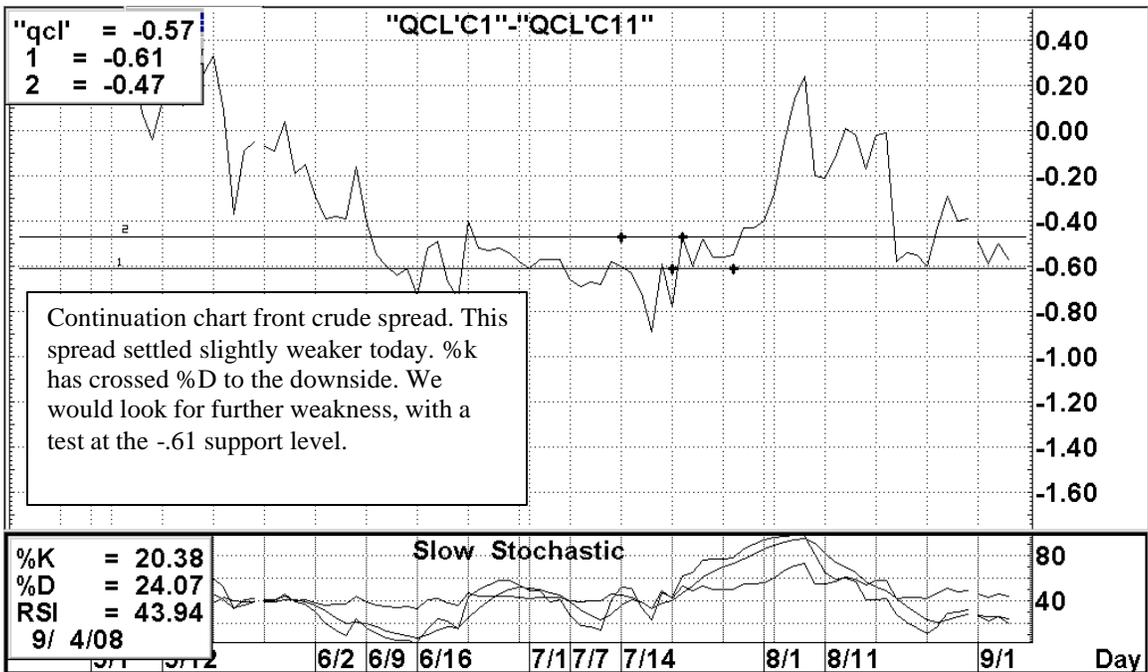


produces 11,500 bpd of oil and about 10.5 mmcf/d of natural gas, remains shut in.

Chevron Corp is resuming operations at some platforms in the Gulf of Mexico that were not impacted by Hurricane Gustav. However the majority of its offshore production remains shut in.

A helicopter crashed into an oilrig off the coast of Dubai on Wednesday killing all seven people on board. It caused the closure of the Rashid oilfield. Petrofac, the operator of Dubai government's offshore oilfields declined to say how much the oilfield produces.

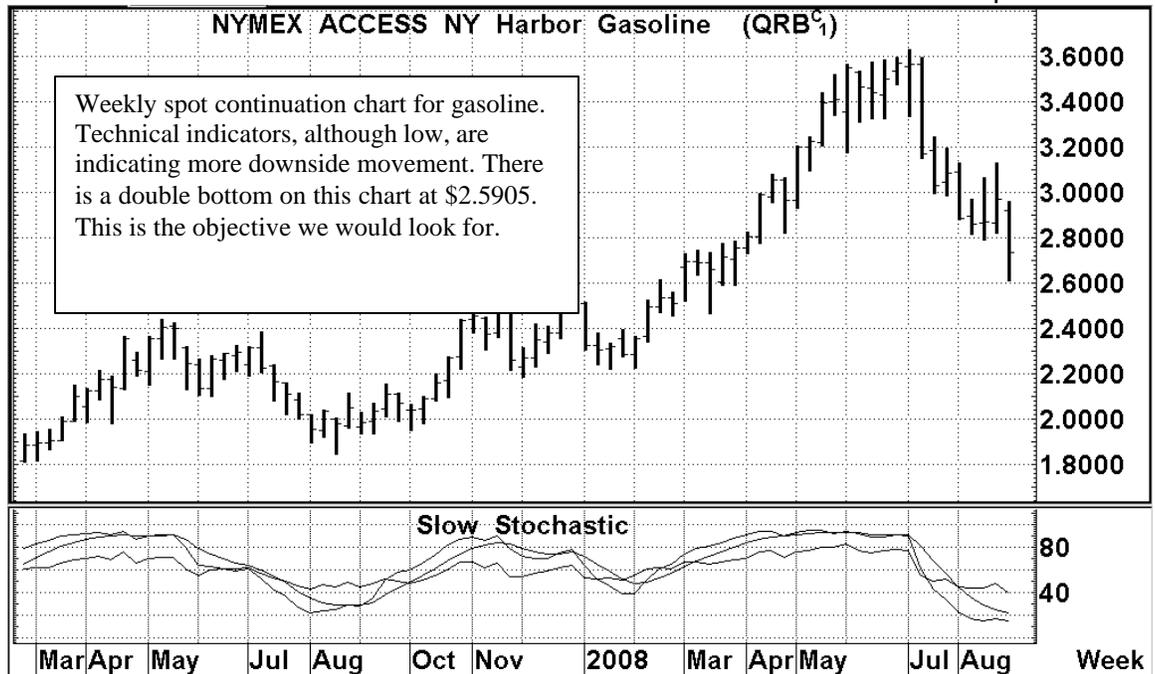
The Iraq government stated that the country expects to produce up to 25,000 bpd of crude from the Al Ahdab oilfield in the fourth year from the start of work. Production would increase to 115,000 bpd at the beginning of the seventh year.



A Kazakh oil industry official said commercial production at Kazakhstan's Kashagan oilfield is expected to start later than the agreed 2013 launch date due to difficult technical conditions for drilling and shipments. The oilfield is expected to

produce 450,000 bpd in 2014.

Kazakhstan's Energy and Mineral Resources Minister Sauat Mynbayev said it has slightly raised its 2008 oil output forecast from its previously announced 67.6 million tons to 70 million tons.



The European Union Energy Commissioner, Andris Piebalgs said the bloc would have to engage politically to speed up the development of the Nabucco gas pipeline to reduce the EU's dependence on Russian supplies.

OPEC's news agency reported that OPEC's basket of crudes increased to \$103.69/barrel on Wednesday from \$103.40/barrel on Tuesday.

**Market
Commentary**

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Overshadowing today's decrease in stock levels for all three markets was a strong dollar. The dollar rose to its highest level in a year against the euro, decreasing the appeal of commodities as an investment



tool. Despite the fact that tankers were delayed and refining activity was impacted by storms in the Gulf, the energy markets could not gain strength. It is expected that OPEC will not trim quotas during its September 9th meeting in Vienna, despite pleas by Venezuela and Iran. OPEC members with quotas produced about 592,000 barrels a day more than their official limit of 29.673 million last month, according to Bloomberg estimates. The forward curve has continued its descent, further confirming a bearish market tone. Based upon a weekly spot continuation chart, prices still have more room to the downside. The trendline based on this chart is set at \$101.00. With industry sources looking for a test of the \$100.00, we would not discount a test of this trendline. The October/November spread weakened slightly today. Slow stochastics have crossed to the downside, indicating further weakness. The next level of support on this spread is -.61. Gasoline continued its seasonal descent and appears poised to test the double bottom set at \$2.5905. Demand is a big factor weighing on this market. With the economic outlook slowing overseas and the U.S. driving season finished, this product should attempt to surpass the \$2.9505 support level. The October gasoline crack spread gained strength today, however technical indicators are in extreme over bought territory. We would wait for a cross to the downside and then would look to sell this spread. Slowing demand for diesel overseas has greatly impacted the price of heating oil in recent weeks, pushing prices to their lowest level since April. For the aforementioned reasons, we would look for the rest of the complex to drag heating oil down further. The October contract settled below a previous period of congestion between \$3.3510 and \$3.0240. Based on this settlement, the downside objective is \$2.6970. Open interest for crude oil is 1,193,495 down 33,381 October 08 281,691 down 22,274, November 08 129,083, down 327 and December 08 181,106 down 6,211. Total open interest for heating oil is 211,772 down 1,196, October 08 54,325 down 2,210 and November 08 29,011, up 1,865. Total open interest for gasoline is, 203,542 down 3,849, October 08 75,332 down 3,784 and November 08 34,937 up 914.

Crude Support	Crude Resistance
105.18, 99.55, 85.40	118.60, 128.60, 132.05, 139.30, 144.00, 147.90,
Heat support	Heat resistance
294.50, 2.8350, 2.8050	3.1050, 3.2650, 3.4574, 3.798, 3.6135, 3.8215
Gasoline support	Gasoline resistance
2.5905, 2.4655, 2.4550, 2.3385	2.8000, 2.9600, 3.1050, 3.1460, 3.1840, 3.2620