



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 8, 2008

An OPEC delegate said OPEC is unlikely to change its oil output policy at its meeting on February 1 if prices remain close to their current level. OPEC blamed the rise to \$100 on speculation and international political tension, rather than supply and demand fundamentals.

Militant and security sources said armed groups in Nigeria's oil producing south were building up weapons and supplies for a major attack on an oil facility. The planned rebel offensive against Nigeria's oil industry comes after the collapse of a government peace initiative and in response to increased military raids on militant hideouts in the region. A former leader of ethnic rights group ijaw Youth Council said there could a massive attack on an oil installation in Rivers State.

Iran on Tuesday rejected US charges that its naval forces threatened to blow up US ships in the Strait of Hormuz. Iranian officials said the encounter was a routine question of identity that ended with nothing special to report. The US rejected Iran's assertion that the naval standoff between US and Iranian navies was routine and warned they should not do it again. US President George W. Bush said Iran committed a provocative act in the Strait of Hormuz. US Secretary of State Condoleezza Rice also described the incident as provocative and dangerous. Top US Navy commander in the Mideast, US Vice Adm. Kevin Cosgriff said the US military had video and audio recordings of Iranian speed boats that threatened to blow up a three ship US convoy in the Gulf and plans to release them.

Jan Calendar Averages

CL – 97.63
HO – 267.46
RB – 250.50

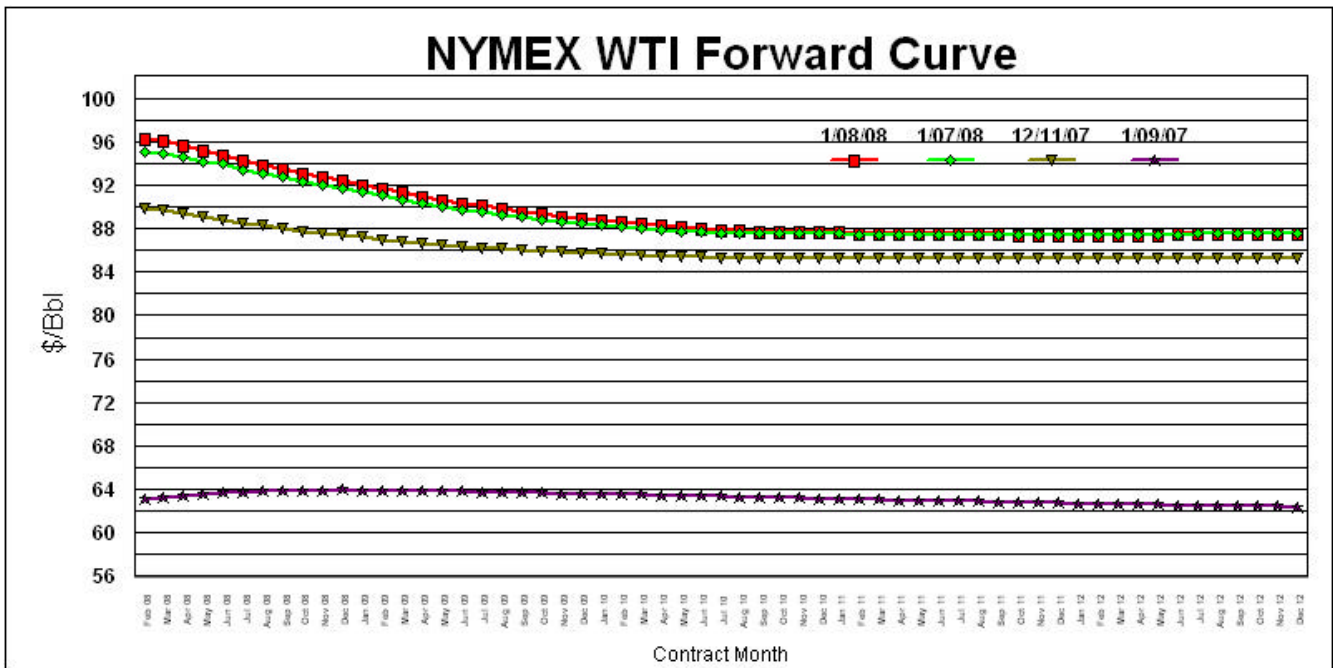
Market Watch

Royal Dutch Shell Plc's chief executive Jeroen van der Veer said a recent peak at \$100/barrel was largely driven by an irrational fear of capacity shortage, not real evidence of lack of supply.

India's Reliance Industries Ltd said it would seek a role in developing oil assets in Iraq despite signing contracts with its autonomous Kurdish region. Reliance is expected to register with Iraqi authorities so it can compete for tenders.

Iran's Vice Minister of Oil Ministry in charge of natural gas Riza Kesaizade said it would restart natural gas flow to Turkey on Monday. The Turkish Energy Ministry said that Iran halted the natural gas flow to Turkey for technical reasons. Iran stopped exporting gas to Turkey after Turkmenistan cut gas flow to Iran by December 29 and the country faced the coldest winter in last 50 years.

The EIA reported in its Short Term Energy Outlook that the world oil markets are likely to remain tight through 2008 then ease moderately in 2009. It projects that world oil demand would continue to grow faster than oil supply outside OPEC in 2008, leaving OPEC and inventories to



offset the upward pressure on prices. Surplus production capacity could grow from its current level of under 2 million bpd to over 4 million bpd by the end of 2009. OPEC production in the first quarter is expected to average 23.37 million bpd, up 2.1% from 31.69 million barrels in the fourth quarter of 2007. OPEC production is expected to increase to 32.6 million bpd for all of 2008 and average 31.8 million bpd in 2009. It reported that world oil consumption is expected to increase by 1.61 million bpd in 2008 to 87.47 million bpd and by 1.55 million bpd to 89.02 million bpd in 2009. Its estimates are up 1.69 million bpd for 2008 and 1.86 million bpd for 2009 from last months report. The EIA also reported that total demand averaged 20.73 million bpd in 2007, up 40,000 bpd from its previous estimate. Demand is expected to increase to 20.96 million bpd in 2008, up 200,000 bpd from its previous estimate. Gasoline demand averaged 9.3 million bpd in 2007 and is expected to increase to 9.37 million bpd in 2008 and to 9.47 million bpd in 2009. Its estimates for 2008 and 2009 are up 60,000 bpd and 70,000 bpd on the month, respectively. Distillate demand averaged 4.25 million bpd in 2007, up 80,000 bpd from its previous estimate. Distillate demand in 2008 and 2009 are estimated at 4.3 million bpd and 4.37 million bpd, respectively. In regards to inventories, as of December 31, total gasoline stocks stood at 208.2 million barrels, down 3.6 million barrels from the end of 2006 and 2.6 million barrels below the 5 year average. Gasoline stocks entering April are estimated to be 208.6 million barrels, 7.4 million barrels above last year and 4 million barrels above the five year average. Distillate stocks were estimated at 127.4 million barrels, down 16.2 million barrels from the previous year and 7.9 million barrels below the previous 5 year average. At the end of the heating season, distillate stocks are projected to be 104.1 million barrels, 15.6 million barrels below last March and 5.6 million barrels below the previous 5 year average. The EIA also reported that the 2008 renewable fuels mandate is expected to be exceeded, with domestic ethanol production increasing from a projected total of 6.5 billion gallons in 2007 to about 8.5 billion gallons in 2008. Ethanol imports and biodiesel should add about 500 million and 1.2 billion gallons, respectively to the 2008 renewable fuel volumes. In regards to prices, WTI averaged \$72.30/barrel in 2007. WTI prices are expected to average \$87 and \$82/barrel in 2008 and 2009, respectively. Gasoline prices, which averaged \$2.81/gallon in 2007, are expected to average \$3.14/gallon in 2008 and \$3.03/gallon in 2009. The EIA said US gasoline prices are expected to peak at \$3.50/gallon this spring. Heating oil prices are expected to average \$3.19/gallon in 2008 and \$3.01/gallon in 2009.

According to MasterCard Advisors LLC, US gasoline demand fell by 2.1% on the week to 9.299 million bpd in the week ending January 4. Demand in the latest four weeks averaged 1% above a year ago. It reported that the US average retail price of gasoline increased by 8 cents/gallon to \$3.06/gallon.

Refinery News

Ship traffic was halted due to dense fog along the Houston Ship Channel on Tuesday afternoon. The number of waiting ships was not expected to be many more than a normal day as a cold front is expected to bring clear weather by Tuesday evening.

Valero Energy Corp's 135,000 bpd refinery in Wilmington, California was finishing the restart of a 54,000 bpd fluid catalytic cracking unit. The restart began over the weekend and could finish as late as Tuesday. The unit had been shut for a two month overhaul that started in early November.

Separately, the restart of Valero's Port Arthur, Texas Shell Claus Off-Gas Treating unit, or SCOT unit, will result in emissions for about three days.

ExxonMobil restarted a hydrocracker unit at its 60,000 bpd refinery in Billings, Montana following a fire in the unit in mid-October. The company added that the refinery was ramping up its operations.

Iraq's Oil Ministry said that a fire at Iraq's Baiji refinery did not affect its production. Deputy Oil Minister Ahmed al-Shamaa said the Baiji refinery was producing fuel and oil derivatives with a capacity of more than 200,000 bpd after Monday's fire. Separately, an Iraqi oil official said Iraq's crude oil exports fell by 8.2% or 144,000 bpd to 1.818 million bpd on the month in December due to the holidays. Iraq exported 186,000 bpd from its northern fields in December, down from November's level of 496,666 bpd.

Pemex said it planned to shut reformer unit No. 2 at the 330,000 bpd Salina Cruz refinery in February for 18 days of planned maintenance.

Crude oil processing capacity at Sinopec's Jiujiang refinery is expected to increase by 30% to 6.5 million tons a year or 130,000 bpd. The expansion is part of Sinopec's plan to increase its refining capacity along the Yangtze River after completing a 400,000 bpd crude oil pipeline in the region. Separately, Sinopec's Yanshan refinery is expected to process more than 13.5 million tons of crude in 2008 or 270,000 bpd, up 40% on the year.

India's Oil Secretary M.S. Srinivasan said that a marginal increase in retail prices of petrol and diesel was likely before the end of January. Oil Minister Murli Deora said that a ministerial panel on fuel pricing would meet on January 17 to discuss a response to record oil prices.

China's National Development and Reform Commission said it would carry out nationwide checks on prices for liquefied petroleum gas to prevent excessive increases at a time of rising world energy costs and high domestic inflation. It called on PetroChina and Sinopec to ensure the market was well supplied and prices were stable.

Production News

According to Dow Jones, OPEC produced 32.23 million bpd of crude in December, up 1.05% or 334,000 barrels on the month. Production by the ten members increased by 1.79% or 485,000 bpd to 27.56 million bpd. Dow Jones reported that Saudi Arabia maintained its production at 9.05 million bpd while Angola and Nigeria increased their output by 50,000 bpd and 30,000 bpd, respectively. It also reported that Iraq's oil production fell by 200,000 bpd to 2.3 million bpd.

OPEC's news agency reported that OPEC's basket of crudes fell to \$92.01/barrel on Monday from \$93.66/barrel on Thursday.

Market Commentary

Giving way to the bulls, the bears stepped aside once again, allowing prices to work higher just ahead of the tomorrow's API/DOE release. Trading within yesterday's range, the February crude oil contract once again held the upward trend line which dates back to the beginning of December and will open tomorrow's session set at \$95.36. Although our bias is to the downside, we would like to wait until the numbers come out tomorrow prior to taking a position. Slight draws of -300,000 - 700,000 barrels are expected for crude oil with builds of 300,000 – 600,000 barrels in distillate stocks and builds of 1.6 million barrels are expected in gasoline. The main focus would have to be the demand numbers due to the recent focus on the economy. We will remain with our bearish sentiment and look for a test back to \$85.50. Total open interest in crude oil is 1,405,234 down 13,210, Feb.08 287,848, down 24,496, March 223,323, up 6,553. The product markets also posted inside trading days as the markets retraced Monday's sharp losses. The heating oil market bounced off a low of 259.61 in overnight trading and gradually retraced its previous losses. The market extended its gains to over 7 cents as it posted a high of 266.46 in afternoon trading. The market later erased some of its gains ahead of the close and settled up 4.28 cents at 263.63. The market gave up some of its gains amid the expectations of the builds in distillate stocks. The RBOB market opened at a low of 243.44 and never looked back as it retraced its previous losses. The market rallied to a high of 249.55 in afternoon trading. The market failed to test its previous high ahead of Wednesday's release of the weekly petroleum stock reports. The market settled up 4.41 cents at 247.39. The markets will be driven by inventory reports on Wednesday and will likely retrace today's gains amid the expected builds in product stocks. In the heating oil, support is seen at 262.90, 261.80, 259.61 followed by 257.41, 256.20, 255.74. Resistance is seen at 266.46, 269.08, 272.70 and 274.75. In the RBOB, support is seen at 246.40, 245.00, 243.44, 241.55, 241.50, 239.64, 238.50, 236.15 and 235.35. Resistance is seen at 249.55, 251.57, 254.41 and 257.85.

		Explanation	
CL	Resistance	98.40, 99.41, 100.09, 100.15	Previous highs
	96.33, up \$1.24	96.90, 97.54	Tuesday's high
	Support	95.36, 95.26	Basis trendline, Tuesday's low
		94.48, 93.34, 92.85, 91.14, 86.63, 85.55, 83.00	Previous lows, 50%(85.60 and 100.09), 62%, Previous lows
HO	Resistance	269.08, 272.70, 274.75	Previous highs
	263.63, up 4.28 cents	266.46	Tuesday's high
	Support	262.90, 261.80, 259.61	Tuesday's low
		257.41, 256.20, 255.74, 253.77, 253.21, 250.15	Previous lows, 62%(244.05 and 274.65), Previous lows
RB	Resistance	251.57, 254.41, 257.85	Previous highs
	247.39, up 4.41 cents	249.55	Tuesday's high
	Support	246.40, 245.00, 243.44	Tuesday's low
		241.55, 241.50, 239.64, 238.50, 236.15, 235.35	Previous lows, 50%(221.45 and 257.84), Previous lows, 62%