



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 16, 2008

US President George W. Bush said he hoped that after talks with Saudi King Abdullah, OPEC would authorize an increase in oil production to ease the upward pressure on prices. However OPEC gave a guarded response on Wednesday to calls from US President George W. Bush for more oil, saying supply was enough for now and OPEC

would increase its output if needed. OPEC Secretary General Abdullah al-Badri reiterated that OPEC stood ready to increase its oil production if justified by fundamentals. However he said he did not consider world oil inventories to be low. Meanwhile, Iran's Oil Minister Gholamhossein Nozari said there is enough oil in the market and saw no need to increase production. Qatar's Oil Minister Abdullah al-Attiyah said OPEC does not need to increase its oil output at its meeting February. The head of Libya's National Oil Co, Shokri Ghanem said he did not believe OPEC should increase its crude supply when it meets in two weeks. Separately, OPEC's President Chakib Khelil said a decision to increase OPEC's oil production would not necessarily tame the oil market because prices were being determined by factors other than supply and demand. He also said oil prices were likely to range between \$80 and \$90/barrel in the first quarter but are hard to forecast for the remainder of 2008 due to the possible impact of the subprime crisis.

Market Watch

Marathon Oil Corp said it was very concerned about the impact of a potential US recession on consumer demand for refined oil products. A Marathon official said it was concerned that demand could pull back and continue to challenge refining margins.

BP said world oil production may peak in the coming years, due to a decline in demand for petroleum not a lack of supply. A BP economist said environmental regulations could cause energy consumers to move away from petroleum.

China's Ministry of Commerce stated that the country's apparent demand for refined oil products was likely to increase by 5% in 2008 to 187 million tons. The latest figures show total apparent oil demand increased by just 3% in the first 11 months of 2007 even as the economy continued to grow, with consumption stifled in part by autumn fuel shortages that lingered through the end of the year.

DOE Stocks

Crude – up 4.3 million barrels
Distillate – up 1.1 million barrels
Gasoline – up 2.2 million barrels
Refinery runs – down 4.2%, at 87.1%

Iran's OPEC Governor Hossein Kazempour Ardebili said he did not expect a big decline in oil prices because OPEC states and other producers had less spare capacity and speculation was also keeping prices high. He said an easing of tensions over Iran's nuclear dispute with the West would ease upward pressure on prices.

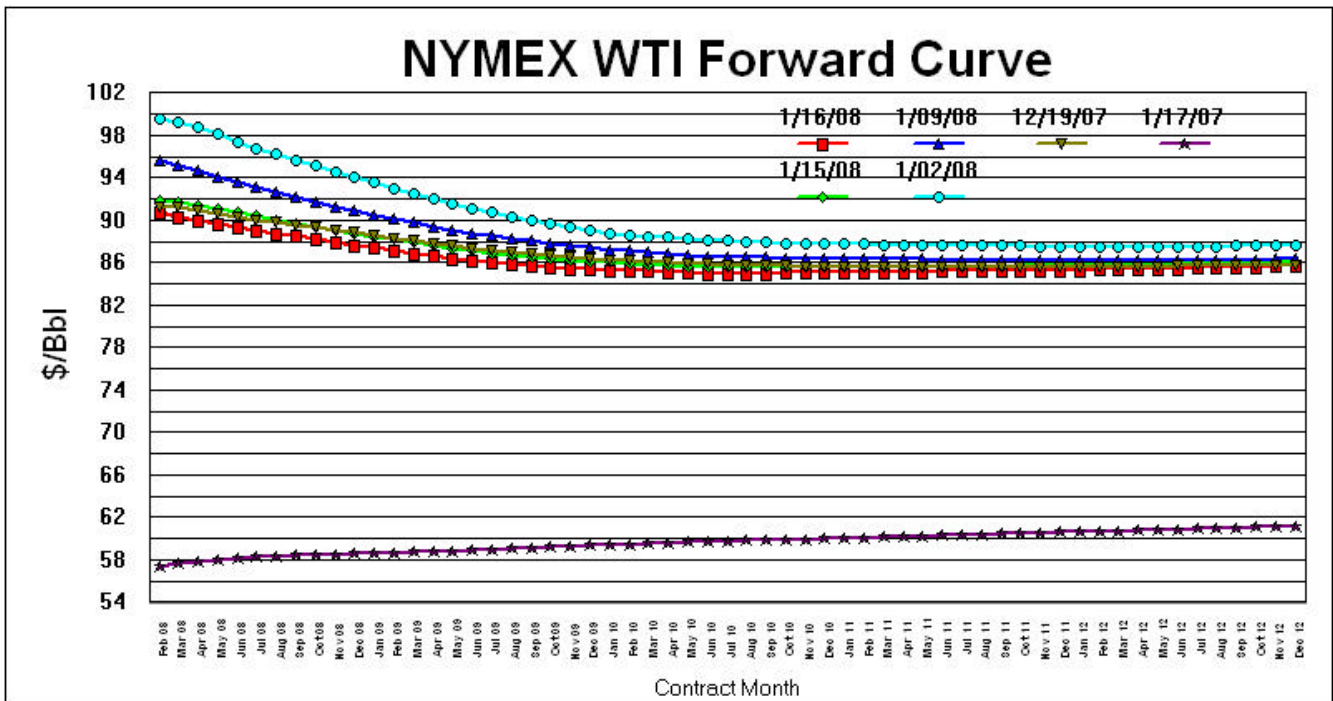
Venezuela's President Hugo Chavez warned that the world's largest oil consumers faced shrinking supplies and that Venezuela hoped to work with Brazil and Mexico to increase the region's reserves. He said the developed world needed to find ways to rein in its consumption of nonrenewable fuels.

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|------------------------------|----------|
| Jan Calendar Averages | |
| CL | - 95.19 |
| HO | - 261.22 |
| RB | - 241.83 |

Oil shipments from Iraq's Kirkuk oilfields into the Turkish Mediterranean port of Ceyhan have not yet resumed. Total inventories of Kirkuk crude available at Ceyhan stand at about 1.5 million barrels, from 3 million barrels on Friday.

The IEA said world oil demand growth this year would be lower than previously expected and could fall further if an economic slowdown in the US accelerates. The IEA cut its world oil demand growth forecast to 1.98 million bpd, down 130,000 bpd from its forecast last month. It said total oil stocks in OECD countries fell further below the five year average, a sign of a tightening market. Stocks fell by 38.1 million barrels in November last year, extending the move below the five year average and equaling 51 days of forward supply. The IEA forecast world refining output would continue to increase throughout January before facing a seasonal decline later in the first quarter. It said global refinery runs would reach 75.2 million bpd in January, down from 74.9 million bpd in December. The IEA also stated that mild January weather and high prices have cut demand for heating fuel more than expected in Europe this winter. It said it may have to revise its forecasts for European demand. It estimated overall OECD Europe oil product demand at 15.4 million bpd in 2007, down 1.8% on the year and 15.6 million bpd in 2008. In regards to China, the IEA said China was likely to continue importing large volumes of diesel in 2008 due to domestic supply shortage. The IEA also warned of renewed political insurgence in Nigeria. It said it was cautious about the timing of restart of the Warri and Kaduna refinery. It also stated that Nigeria's pledge to increase its output by 1 million bpd may be aimed at getting a larger production quota from OPEC rather than an accurate reflection of the country's capacity.

The head of the US missile defense program, Lt. Gen. Henry Obering said Iran has increased its efforts to develop long range missiles, demonstrating the need for a proposed missile defense system



in Europe. He said Iran was the third most active country in flight testing missiles last year behind Russia and China.

Separately in an interviewed aired on Fox, US President George W. Bush said he continued to believe Iran wants to use a civilian nuclear power program as a cover to gain the know how to build a nuclear weapon.

According to a Government Accountability Office audit report, the economic impact of US sanctions against Iran over its nuclear program is unclear. The GAO urged President George W. Bush's national security council to conduct a baseline assessment of sanctions against Iran and to report those results to the US Congress. It said without an overall assessment, the administration would continue to lack important information for developing effective strategies to influence Iran's behavior. The report also stated that since 2003, Iran's government has signed contracts worth about \$20 billion with foreign firms to develop its energy resources, adding that it was unclear if all the deals would be fulfilled.

The National Oceanic and Atmospheric Administration said warmer than normal temperatures in the eastern US cut US energy demand by about 1.9% compared with normal temperatures in December. It estimated that warm temperatures in 2007 reduced national residential energy consumption by about 2.5% below average levels.

Refinery News

Valero Energy Corp restarted a crude unit that was shut at its 255,000 bpd Aruba refinery last week. No other major units have been restarted yet after the refinery was shutdown due to a power outage.

ExxonMobil Corp said its 190,000 bpd Chalmette, Louisiana refinery would operate at reduced rates until late February due to work on a fluid catalytic cracking unit. Maintenance work on the catcracker and other units started on January 4.

Maintenance is underway at a 130,000 bpd crude unit at Marathon's 245,000 bpd refinery in Garyville, Louisiana. The maintenance, which started in January, is seen lasting until mid-February.

Traders remained uncertain about the impact the partial shutdown of PDVSA's Amuay refinery would have on a recent jet fuel sales tender. PDVSA issued a tender invitation to sell four 240,000 barrel cargoes of jet fuel. The tender said the cargoes would load between January 16 and 28 but did not say what Venezuelan refinery would be the source of the product. Although PDVSA guaranteed that shipments of national and international clients would not be disrupted during the repair process at Amuay, there was concern over the possibility that the company could delay or cancel the jet cargoes.

Iraq's 200,000 bpd Baiji oil refinery, shut down on Wednesday by a power outage, is expected to take at least two days to resume operations. Meanwhile Iraq's Shuaiba refinery in Basra also remained shut following a fire on Tuesday that Oil Minister Hussain al-Shahristani said was caused by a US or British military helicopter. US and British military spokesmen denied any of their aircraft were involved. The fire has completely halted the refinery's fuel production and LPG units.

Nippon Oil Corp is expected to refine 4% more crude in February than a year earlier. Nippon Oil last year estimated its crude refining volume at 4.4 million kiloliters or 988,000 bpd.

Japan's oil refiners plan to shut in fewer refineries for maintenance this upcoming spring. They are expected to shut 19% less capacity during the peak spring maintenance season, reducing the need for gasoline imports from Singapore and South Korea. They are expected to shut 10 crude distillation units or 21.5% of capacity, in the second half of May and first half of June, down from 26% last year.

Japanese refiners are scheduled to shut a total of 1.05 million bpd of crude distillation capacity. The Oil Information Center reported that retail gasoline prices fell for a third week to 154.3 yen/liter or \$5.42/gallon on January 7 from a record 155.5 yen on December 10.

The Shetland Islands Council reported that Brent crude oil liftings from Sullom Voe in the week ending January 8 increased to 331,204 tons from 160,257 tons in the previous week.

Asian demand for West African crude in February increased by 110,000 bpd as Chinese refiners increased their buying to near record levels. Asian refiners bought 1.24 million bpd of mainly Nigerian and Angolan crude, up from 1.13 million bpd in January. China's demand increased to 917,000 bpd from 797,000 bpd in December but was down 2,000 bpd from 919,000 bpd last year.

Tokyo Electric Power Co said it continued to buy more crude oil and fuel oil in December than a year earlier due to the indefinite shutdown of its largest nuclear power plant and the onset of winter. It said it more than doubled its buying of crude oil and tripled its purchases of fuel oil in December. It bought 307,000 kiloliters or 1.9 million barrels of crude in December, up from 141,000 kl in December 2006. Its crude oil consumption increased to 418,000 kl from 187,000 kl in December 2006. Its fuel oil purchases totaled 777,000 kl or 4.9 million barrels in December, up from 237,000 kl in December 2006. Its fuel oil consumption in December increased to 753,000 kl from 233,000 kl a year earlier.

According to provisional loading program, Angola is expected to export 1.84 million bpd of crude in March, in line with monthly exports over the last three months.

Production News

India's Oil Minister Murli Deora said he hoped that a decision on whether to increase its retail prices of fuels would be taken at a meeting of ministers on Thursday. India has been debating for weeks ways to ease losses at state run retailers, which sell fuels at cheap rates and have been impacted by the surge in world crude prices.

Ecuador's Central Bank reported that the country's oil product export revenues from January through November increased by 34% to \$756.82 million from \$564.17 million reported in 2006. Ecuador exported 13.94 million barrels in the first 11 months of 2007, up 11% on the year.

OPEC's news agency reported that OPEC's basket of crudes fell to \$88.49/barrel on Tuesday, down from Monday's \$88.62/barrel level.

Bulgaria's Energy and Economy Minister Peter Dimitrov said Bulgaria may delay signing an agreement to operate a planned natural gas pipeline from Russia via the Black Sea to European Union nations because the link's ownership is disputed. The South Stream pipeline would start in Russia and split in Bulgaria into a northern route, going to Austria via Romania and Hungary and a southern route, crossing the Balkan Peninsula to Italy.

Market Commentary

As expected, there were builds across the board in the DOE/API numbers today. Crude oil stocks, which built by 4.3 million barrels, are currently set at 287.1 million barrels and are in the lower half of the average range. Inputs ran 15 million barrels per day, down 760,000 barrels per day on the week. Crude oil imports were up at 10.4 million barrels per day, which is higher than the four-week average of 10 million barrels per day. Gasoline stocks built 2.2 million barrels, putting stock levels in the upper limit of the average range, with imports averaging 938,000 barrel per day. Demand based on a four-week average was 9.3 million barrels per day or 1.2% above the same period last year. Total distillate stocks rose by 1.1 million barrels and are in the lower half of the average range for this time of year.

Demand for distillate ran 4.4 million barrels per day or 2.1% higher compared to that of a year ago. Bears took to the stage again today, settling crude oil down \$1.06 on the New York Mercantile trading floor. Basis the March contract, a downward channel is forming, with the low of the day stopping at the \$88.93 channel bottom. We would look for prices to continue to trade in this fashion, looking for a penetration to the downside of this channel. Tomorrow's bottom comes in at \$88.15, with the top set at \$92.02. Our overall downside objective still remains \$85.37, where we would then reevaluate the market. Open interest in crude oil is 1,458,072 down 1,245, Feb.08 161,539, down 16,330 and March 365,246, up 13,089. Similarly, the product markets continued to sell off following the release of the bearish inventory reports. The heating oil market traded off an overnight high of 254.90 and sold off to a low of 247.60 in light of the reports showing builds across the board. The market however bounced off its low and retraced most of its losses ahead of the close. It settled down 2.88 cents at 251.84. The heating oil crack spread, which settled at 15.08 on Tuesday, came off and settled at 14.93 following the losses seen in the market. The RBOB market also settled down 3.09 cents at 227.83 after it retraced its earlier losses. The market extended its losses to 6.68 cents early in the session as it sold off to a low of 224.24 on the inventory builds. While the markets may trade higher on supportive weather reports, the markets' gains are seen limited. They are still trending lower in their downward channels. In the heating oil, support is seen at 249.45, 247.60, 247.55, 246.27, 244.05 and 243.16 while resistance is seen at 252.70, 254.90, 256.94, 260.50, 262.45 followed by 266.87, 269.08 and 272.70. In the RBOB, support is seen at 227.50, 225.00, 224.24, 221.45 and 221.25 while resistance is seen at 228.50, 230.60 followed by 234.47, 237.79 and 244.40. More distant resistance is seen at 248.50, 249.55 and 251.57.

| | | | Explanation |
|-----------|-------------------|--|---------------------------------|
| CL | Resistance | 92.57, 94.05, 94.30, 95.75, 99.77 | Triple top, Previous highs |
| | Support | 89.25, 88.94 | Wednesday's high |
| HO | Resistance | 256.94, 260.50, 262.45, 266.87, 269.08, 272.70 | Basis trendline, Previous highs |
| | Support | 249.45, 247.60 | Wednesday's high |
| RB | Resistance | 234.47, 237.79, 244.40, 248.50, 249.55, 251.57 | Basis trendline, Previous highs |
| | Support | 227.50, 225.00, 224.24 | Wednesday's high |
| | | 221.45, 221.26 | Wednesday's low |
| | | | Previous low, Basis trendline |