



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR FEBRUARY 12, 2008

A senior Venezuelan oil official said the country wants to avoid cutting off its oil exports to the US because it would hurt Venezuela's economy. He said halting supplies was feasible but would hurt the two countries' economies.

Venezuela's President Hugo Chavez threatened to stop exporting oil to the US in response to an ExxonMobil legal offensive that won international court orders freezing \$12 billion in its assets. Venezuela's Energy Minister Rafael Ramirez said Venezuela was ready to cut off oil supplies to the US. Meanwhile, ExxonMobil said it was interested in starting discussions with the Venezuelan government over the value of the extra heavy oil project taken over last year as part of Venezuela's nationalization drive.

Saudi Arabia's Minister of State Abdullah Alireza said the country's currency and oil price would remain tied to the US dollar despite its current weak valuation. He also stated that Saudi Arabia would continue to hold oil production at current levels despite the high prices. He said the global problem was not crude oil supply but the lack of refining capacity.

Saudi Arabia is expected to supply full contracted volumes of crude to its customers in Asia in March. Saudi Arabia has notified its customers in Europe that it would keep its crude supplies steady in March.

Feb Calendar Averages

CL – 89.71
HO – 248.78
RB – 230.30

Market Watch

The US Minerals Management Service said it sold 4.2 million barrels of royalty-in-kind oil for three months with delivery starting April 1. Units of Chevron Corp, ConocoPhillips, ExxonMobil, Sempra Energy, Royal Dutch Shell and Plains All American Pipeline won bids to receive a total average of 29,050 bpd over the three month contracts.

The International Transport Workers' Federation has urged shipping firms to grant crews emergency rights such as war risk bonuses for operating in Nigerian waters. The increasing concerns among crews manning supply ships and oil tankers to Nigeria could push up shipping costs and cause further problems for the oil and gas sector that is already faced with violence and civil unrest. The ITF on Friday called for Nigerian waters to be declared a war zone. Two weeks ago, the ship officers' union Nautilus, representing 25,000 British and Dutch officers, also called for Nigerian waters to be classed as a war zone.

Iraq's foreign minister Hoshiyar Zebari said Iranian and US officials are scheduled to meet within days in Iraq for a new round of talks as part of efforts to build on recent progress in stemming sectarian violence. The US

wants Shi'ite Iran to use its influence with Shi'ite Iraqi militias to stem attacks on US forces and Sunni groups.

An adviser to the Kuwait government and Gulf Cooperation Council said gulf states believe Israel would destroy Iran's nuclear program rather than allow it to acquire an atomic bomb. He said if Iran did build a nuclear bomb, Israel may be one of the countries that would ask to provide a nuclear umbrella to guarantee their security.

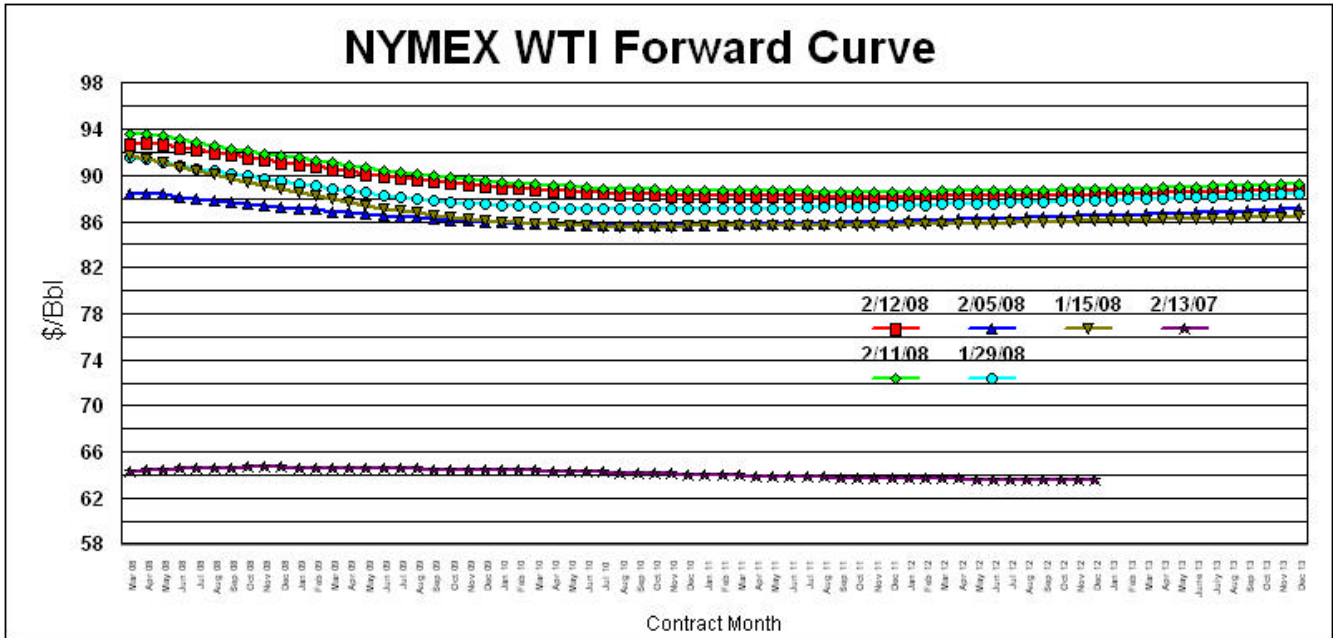
According to MasterCard Advisors LLC, US gasoline demand for the week ending February 8 fell by 3.5% on the week to 8.863 million bpd, the lowest level since the week ending March 23, 2007.

The EIA, in its Short Term Energy Outlook, said world oil consumption is expected to grow by 1.35 million bpd in 2008, about 260,000 bpd lower than last month's estimate due to increased risks of a global economic slowdown in 2008. World oil consumption was estimated at 87.07 million bpd for 2008 and 88.48 million bpd for 2009. Non-OECD countries are expected to account for 1 million bpd of world consumption growth in 2008, with gains concentrated in China, India, other Asian countries and the Middle East. OECD countries are expected to register a 300,000 bpd gain in consumption in 2008. It estimated non-OPEC production would increase by 930,000 bpd in 2008 to 50.18 million bpd, up from a previous estimate of an increase of 860,000 bpd. The EIA projected that OPEC production would average about 32.2 million bpd during the first quarter, about 600,000 bpd above fourth quarter 2007 levels. It expects tight oil market balance to ease in 2008, amid higher non-OPEC production and planned additions to OPEC production capacity. Surplus world oil output capacity is expected to more than double to above 4 million bpd by the end of 2009, from less than 2 million bpd currently. In regards to the US oil market, it stated that total petroleum consumption averaged 20.7 million bpd in 2007, up 0.2% on the year. Projected consumption growth in 2008 was cut from about 230,000 bpd in last month's report to 140,000 bpd. Total US oil consumption is estimated at 20.86 million bpd in 2008 while consumption in 2009 is estimated at 21.08 million bpd. Gasoline demand in 2008 is expected to increase by 60,000 bpd to 9.36 million bpd, down from its previous estimate of 9.37 million bpd while gasoline demand in 2009 is estimated at 9.44 million bpd, down from 9.47 million bpd. It reported that distillate demand would increase by 30,000 bpd to 4.26 million bpd in 2008 and by 70,000 bpd to 4.33 million bpd in 2009. Its estimates are down 40,000 bpd from its previous report. The EIA also estimated total end of January gasoline inventories at 227 million barrels, 9.1 million barrels above the 5 year average. At the onset of the peak driving season, total gasoline stocks are projected to total 218 million barrels, up 16.3 million barrels on the year and 12.5 million barrels above the 5 year average. In regards to prices, WTI crude is estimated to average \$86.46 and \$81.67/barrel in 2008 and 2009, respectively. Gasoline prices are expected to average \$3.07 and \$2.97/gallon in 2008 and 2009 respectively.

Refinery News

Citigroup said low oil product inventories and refinery shutdowns in Europe were increasing refinery runs in the region. It said margins strengthened to \$5/barrel in Northwest Europe and \$7.75/barrel in the Mediterranean on Monday. The bank said European gasoline inventories stood 7% lower than a year ago. It said any increase in European inventories was likely to be hampered, as about 400,000 bpd of crude oil distillation capacity would be shut in February.

The Cambridge Energy Research Associates stated that global refiners would have to invest significantly in coming years to reconfigure their operations and meet growing supplies of feedstocks other than conventional crude oil. It said not doing so would contribute to shortfalls of diesel, heating oil and other fuel sources. It estimated that overall supply capacity would be more than enough to meet the increase in demand, but the proportion of hydrocarbons would change significantly, with



lighter stocks such as natural gas liquids and biofuels accounting for 32% of the total supply in 2020, up from 19% last year.

Hess Corp chief executive John Hess said oil producers were not investing enough to ensure sufficient capacity. He said an oil crisis was coming in the next 10 years.

Total said its Port Arthur refinery has launched a project to build a 50,000 bpd coker, a desulfurization unit, a vacuum distillation unit and other related units. The new units would increase the facility's deep conversion capacity and expand its ability to process heavy and sour crude oil.

ConocoPhillips' 275,000 bpd Wilhelmshaven refinery in Germany is still operating at reduced rates due to poor margins. The refinery cut its operations by about 10%.

Pemex's 330,000 bpd Salina Cruz refinery went into preventive shutdown early Tuesday due to an earthquake in southern Mexico. A Pemex employee said the refinery should resume operations in 24 hours.

PDVSA is scheduled to halt operations at its Petrocedeno heavy crude upgrader for seven weeks of maintenance and repairs starting February 25.

PDVSA has agreed to sell its BORCO crude oil and refined products terminal in the Bahamas to private equity firm First Reserve for \$900 million.

The BP led Baku-Ceyhan pipeline is expected to pump 768,000 bpd of Azeri crude in March, slightly less than in February. March shipments are expected to total about 23.8 million barrels.

Indonesia's Pertamina is expected to import 11.68 million barrels of oil products in March, up 6.4% on the month. It expected to import 6 million barrels of gas oil, up more than 30% on the month while gasoline imports are expected to fall 6.2% to 3.96 million barrels and fuel oil imports are expected to fall by 14.1% to 1.1 million barrels.

According to Lehman Brothers, China's 2008 oil demand is expected to expand by 4.5% or 340,000 bpd. It is down from a previous forecast of 5.3% or 400,000 bpd. It cut its first quarter forecast for gasoline and diesel demand by 275,000 bpd, as rail transport fell by up to 10% so far this year and road transport were seen down by as much as 20% in the first two months.

Traders said Asian demand for West African crude increased slightly by 20,000 bpd in March after India and South Korea increased their purchases, offsetting a small decline in Chinese purchases. Asian refiners bought 1.26 million bpd of mainly Nigerian and Angolan crude, up from 1.24 million bpd in February.

Production News

Saudi Aramco chief executive Abdallah Jumah said Saudi Arabia planned to expand its oil production capacity to 12 million bpd by the end of 2009. He said Saudi Arabia planned to spend \$90 billion over the next five years in upstream and downstream projects globally. He said rising costs were not hindering oil expansion projects of Saudi Arabia. He said Saudi Arabia's plans to expand oil and refining capacity were on track.

Brazil's Petrobras inaugurated its first platform able to produce extra heavy oil from offshore fields. The FPSO Cidade de Rio das Ostras will produce 15,000 barrels of extra heavy oil from the Badejo shallow water field off the coast of Rio de Janeiro. Petrobras did not state when the new platform would start full production.

Ukraine's State Statistics Committee reported that the country's crude oil production fell by about 6% on the year to 268,000 tons in January.

OPEC's news agency reported that OPEC's basket of crudes increased to \$89.18/barrel on Monday, up from Friday's \$86.24/barrel.

Iraq has cut the official selling prices of its Basra Light and Kirkuk crudes for March loading by \$1/barrel to customers in the US. The March Basra Light crude price was set at the second month of WTI minus \$7.65, down from minus \$6.65 in February while the March Kirkuk crude price was set at spot WTI minus \$4.60, down from minus \$3.60. Meanwhile the Basra Light crude price for customers in Europe was increased by \$1.05 to BFOE minus \$4.05 and the March Kirkuk price was increased by 75 cents to BFOE minus \$3.25. The March Basra Light crude price for Asian buyers was unchanged at a discount of \$1.50 to the Oman/Dubai average.

Ukrainian President Viktor Yushchenko met Russian leader Vladimir Putin for last minute talks on Tuesday, hours before a Russian imposed deadline on Kiev to pay its gas debts or face supply cuts. Russia's gas export monopoly Gazprom said it would cut 25% of its supplies to Ukraine if there was no deal on the debt.

Market Commentary

In times of geopolitical uneasiness, amid potential disruptions in supplies, coupled with possible waning demand due to recession fears, it is difficult to pick a definitive direction in this market. However, when one examines the aforementioned details, one thing is for certain, an economic slow down will most likely have the greatest impact on prices. Although consumption in the US has showed signs of slowing, demand in China and India continues to hold steady. Energy prices could very well remain firm for the first quarter of 2008, but perhaps at a slower pace than the previous year. At this point we would look for a test in crude oil back to the \$85.37 support level and would re-evaluate the direction of the market at that point. The March/April spread contracted once again today and minus .45 cents is still our objective. Open interest in crude oil is 1,376,282 down 9,418, March08

224,02173
 8, down
 27,717
 and
 April08
 229,131
 up 22,426.
 Similar to
 the crude
 market,
 the
 product
 markets
 posted

| | | Explanation |
|-----------------------------------|--|--|
| CL 92.78, down 81 cents | Resistance 94.72, 95.75, 97.53, 98.22, 99.77, 100.15 | Previous highs |
| | Support 94.15 | Tuesday's high |
| HO 259.11, down 1.33 cents | Resistance 90.92, 88.00, 86.55, 86.24, 85.90, 85.42, 82.60 | Tuesday's low |
| | Support 264.62, 266.02, 267.11, 268.20, 271.40, 273.31 | Previous lows |
| HO 259.11, down 1.33 cents | Resistance 260.50, 262.98 | Previous highs, basis trendline, Previous highs |
| | Support 258.00, 257.19, 256.98 | Tuesday's high |
| RB 236.80, down 2.82 cents | Resistance 254.08, 246.14, 240.42, 239.75 | Tuesday's low |
| | Support 243.46, 246.37, 247.50, 252.05, 253.28, 255.14 | Previous lows |
| RB 236.80, down 2.82 cents | Resistance 238.31, 239.50, 240.78 | Previous high, 62% (261.10&222.55), Previous highs |
| | Support 235.61 | Tuesday's high |
| | Support 233.87, 226.45, 222.55, 217.33 | Tuesday's low |
| | | Previous lows |

inside trading days as the markets retraced some of Monday's sharp gains. The heating oil market gave up some of its previous gains and sold off to a low of 256.98 early in the morning. The market later bounced off the low and rallied back into positive territory as it traded to a high of 262.98. The heating oil market however once again erased its gains after it failed to test its previous high and found some support at the 258.00 level as it settled in a two cent trading range ahead of the close. It settled down 1.33 cents at 259.11. The RBOB market also settled down 2.82 cents at 236.80. The market, which posted a low of 235.88 in overnight trading, traded to a high of 240.78 only to retrace all of its earlier gains ahead of the close. The market later continued to find some selling pressure, which pushed the market to a low of 235.61. The RBOB market retraced its earlier gains amid the expectations that the weekly petroleum stock reports would show builds in gasoline stocks. The markets are seen remaining pressured early Wednesday amid the expectations that crude stocks and gasoline stocks built by 2 million barrels and 1.5 million barrels, respectively. In the heating oil, support is seen at 258.00, 257.19, 256.98 and 254.08. Resistance is seen at 260.50, 262.98, 264.62 followed by 266.02, 267.11, 268.20, 271.40 and 273.31. In the RBOB market, support is seen at 235.61, 233.87, 226.45, 222.55 and 217.33. Resistance is seen at 238.31, 239.50, 240.78 followed by 243.46, 246.37, 247.50, 252.05, 253.28 and 255.14.