



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta
& Karen Palladino

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

www.e-windham.com

ENERGY MARKET REPORT FOR JULY 9, 2008

The US said Iran should immediately halt the development of ballistic missiles and stop conducting tests. White House spokesman Gordon Johndroe said Iran should refrain from further missile tests if they seek to gain the trust of the world. This came after Iran test fired nine long-range and medium-range missiles, including the Shahab-3 missile it previously said could reach Israel and the US bases in the region. The White House said Iran's development of ballistic missiles was in violation of UN Security Council resolutions but that the US was committed to pursuing a diplomatic solution to Iran's nuclear ambitions.

US Defense Secretary Robert Gates said the US is no closer to confrontation with Iran after Tehran test fired missiles. A Revolutionary Guards air force commander said the aim of the war games was to show Iran was ready to defend the integrity of the country.

Market Watch

The Commodity Futures Trading Commission, which is investigating possible manipulation of the oil market said its enforcement director, Gregory Mocek, was leaving. Stephen Obie, the current regional administrator for the CFTC's regional office in New York City, was named Mocek's replacement. The CFTC is scheduled to submit a report to Congress by September 15 on the role speculators have played in the energy futures markets.

US House and Senate leaders are making a new push to enact laws limiting speculation in the energy markets. House Speaker Nancy Pelosi wants to bring a bill to the floor this month, prompting the committee chairman who has jurisdiction over the issue to begin three days of hearings in spite of his skepticism that speculators are to blame.

Lehman Brothers traded an oil contract during the Platts price setting period on Wednesday. However a source added that a temporary review of Lehman Brothers had not been lifted. Platts had put Lehman Brothers under a temporary review, barring the investment bank from participating in the daily price setting process and restricting its ability to influence prices. It was not clear whether Platts would include Wednesday's deal in its end of day price setting assessment.

Britain's Prime Minister Gordon Brown said that the country was ready to help Nigeria deal with the violence that has impacted its oil production from its southern Niger Delta region. He said he would meet with Nigeria's President Umaru Yar'Adua in London next week.

Russia has limited the sale to foreigners of shares in strategic and raw materials companies. Under the new rules, published on Wednesday and entering into effect in 10 days, companies engaged in geological exploration are subject to a cap and will be allowed to sell only 5% of their shares abroad. The ruling would encourage Russian companies to raise capital domestically.

US Under Secretary of State for political affairs William Burns said Iran has made only modest progress in its nuclear program due to UN sanctions. He said Iran has not yet perfected enrichment of uranium and as a direct result of UN sanctions, Iran's ability to procure technology or items of significance to its missile programs is being impaired. He added that the Bush administration has not exhausted the use of diplomacy to convince Iran to give up its nuclear program. However he warned that if Iran continued to refuse to give up its uranium enrichment program, there would be consequences.

July Calendar Averages

CL – 140.55

HO – 396.04

RB – 347.67

Meanwhile, the G8 expressed serious concern over Iran's failure to comply with UN Security Council resolutions.

DOE Stocks

Crude – down 5.9 million barrels

Distillate – up 1.8 million barrels

Gasoline – up 900,000 barrels

Refinery runs – unchanged, at 89.2%

Separately, the deputy head of Iran's Atomic Energy Organization Mohammad Saeedi said Iran expects talks on its disputed nuclear program to begin within days. Western diplomats said world powers have only offered full negotiations if Iran suspends its uranium enrichment, a demand Iran's President Mahmoud Ahmadinejad has since called "illegitimate."

demand Iran's President Mahmoud Ahmadinejad has since called "illegitimate."

The White House on Tuesday rejected a call from House Speaker Nancy Pelosi to release oil supplies from the US SPR to help lower oil prices. In her letter to President George W. Bush she did not specify how much oil should be released or whether there should be a large release of oil or if a steady volume of oil should be taken out of the reserve over several weeks or months. The White House rejected the proposal, saying the reserve is intended to provide the US with oil during a severe oil supply disruption.

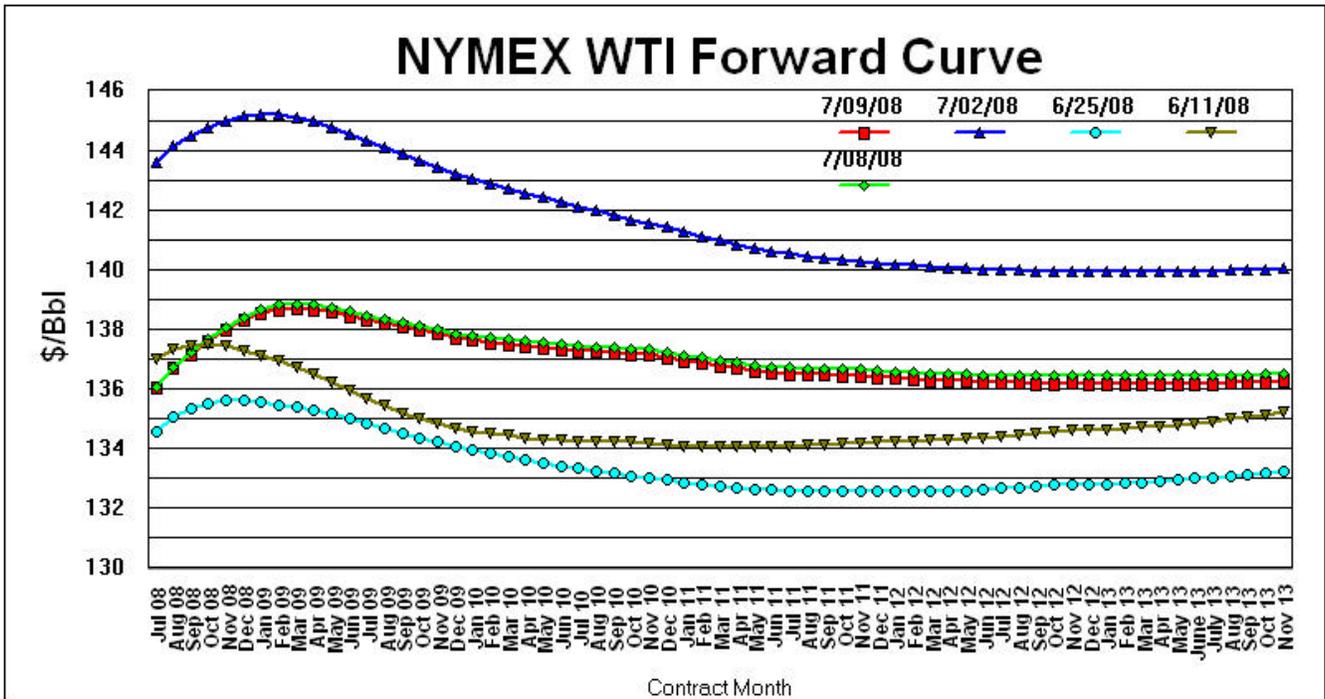
Kuwait's Oil Minister, Mohammad al-Olaim said Kuwait and OPEC are aiming to ensure stable oil markets. He added that high prices have been driven by speculation and refinery shortages not fundamentals.

Iran's OPEC governor, Mohammad Ali Khatibi said the oil market was saturated and blamed policies of the Group of Eight for the rally in oil prices. He said OPEC supplies about 1.5 million bpd more than the market needs. He said G8 countries were pursuing contradictory policies such as supporting sanctions on Iran which analysts say has deterred foreign investment in its oil industry while urging oil producers to increase their production.

Japan's Prime Minister Yasuo Fukuda said leaders of the Group of Eight nations agreed on the need to address global inflation, particularly elevated oil and food prices. He said both demand and supply situations needed to improve to ease high oil prices. He said Japan will host an energy forum to focus on energy efficiency and new technologies this fall.

The IEA's executive director, Nobuo Tanaka welcomed calls by Group of Eight nations for improved energy efficiency and development of technologies to reduce carbon emissions. The IEA said oil prices are too high and threaten the world economy.

According to Euroilstock, total oil and product stocks fell by 0.8% or 8.58 million barrel on the month but increased by 0.1% or 1.51 million barrels on the year to 1.123 billion barrels in June. It reported that crude stocks fell by 2.5% or 12.19 million barrels on the month and by 1.6% or 7.72 million barrels on the year to 475.45 million barrels while gasoline stocks increased by 3.3% or 4.42 million barrels on the month and by 13.1% or 15.95 million barrels on the year to 137.45 million barrels. It reported that distillate stocks continued to fall by 0.3% or 1.05 million barrels on the month and by 5.6% or 21.22



million barrels on the year to 359.63 million barrels while fuel oil stocks fell by 200,000 barrels on the month but increased by 10.63 million barrels on the year to 121.16 million barrels. It reported that capacity utilization increased to 91.09% in June from 90.26% in May.

The National Oceanic and Atmospheric Administration said the average US temperature in June was 70.4 degrees Fahrenheit, 1.1 degree above the 20th century average. It said the warm temperatures pushed up temperature-related residential energy demand by 7.5% above average for June.

Refinery News

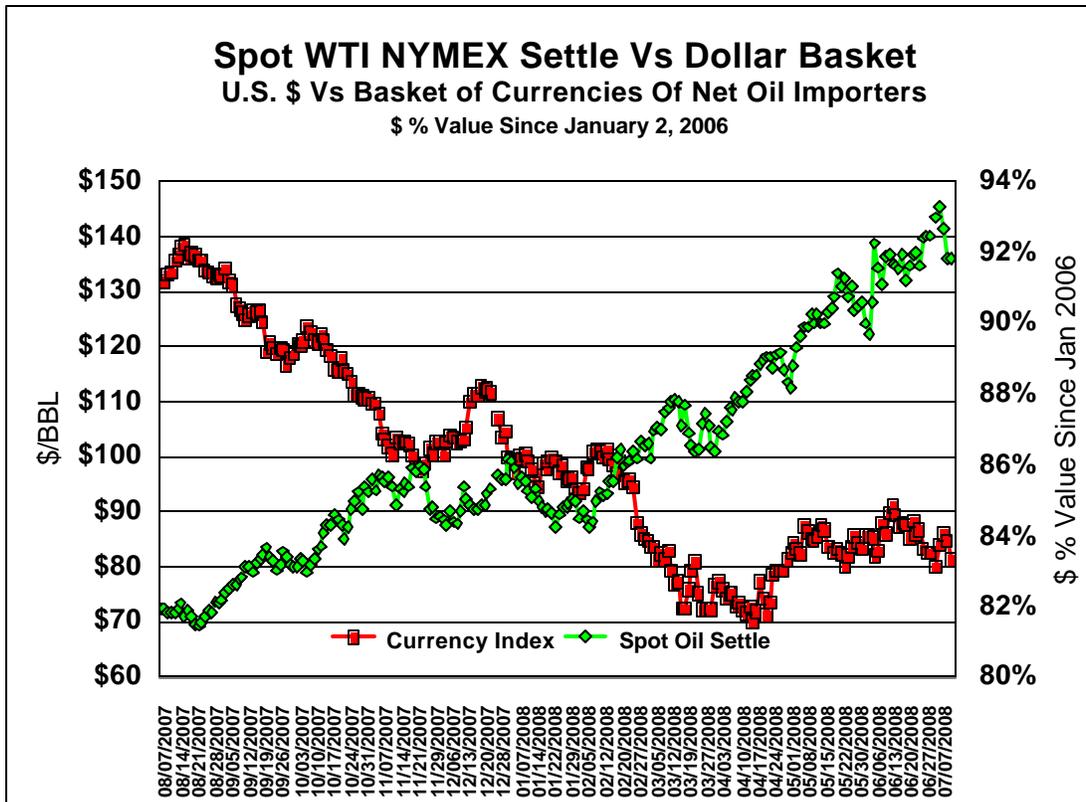
Tesoro Corp said it was restarting a gasoil hydrotreater that was shut at its 166,000 bpd Golden Eagle refinery in Martinez, California for repairs of a valve. The unit is expected to resume full operation quickly.

ConocoPhillips reported unplanned flaring on Tuesday night at the Carson, California plant at its 139,000 bpd refining complex. A notice filed with the California Office of Emergency Services did not identify which unit or units at the refinery were involved in the incident. However it stated that it did not impact its production.

TransCanada Corp expects the next phase of its Keystone oil pipeline running to refineries in Port Arthur and Houston, Texas from Hardisty, Alberta will cost C\$7 billion or \$6.9 billion. The expansion would increase its capacity by 700,000 bpd. It is in addition to TransCanada's C\$5.2 billion Keystone project, which will transport 590,000 bpd to southern Illinois and Cushing, Oklahoma from Alberta starting late next year. The target in-service date for the next phase is late 2011.

The Alyeska Pipeline Service Co said throughput along the Trans-Alaska Pipeline System fell to an average of 667,950 bpd in June from a year to date average of 717,042 bpd due to a scheduled maintenance shutdown. A scheduled pipeline shutdown on June 28-29 resulted in 547,706 barrels deferred. A similar shutdown is scheduled for August 16 and 17.

Nippon Oil Corp expects to restart a 9,3000 bpd alkylation unit at its 250,000 bpd Mizushima refinery soon. The unit was shut since Monday morning after finding that sulfuric acid was leaking from the piping.



Kuwait is proceeding with plans to build the al-Zour oil refinery despite an investigation by deputies into some contracts for the project. Kuwait National Petroleum Co in June awarded deals worth \$8.4 billion to four South Korean and one Japanese company. A parliamentary committee has started an investigation into whether some firms

made lower bids than those who were offered the contracts to build the 615,000 bpd refinery. Kuwait plans to increase its refining capacity to 1.415 million bpd from about 930,000 bpd with the new plant. The refinery is expected to start operations in 2012.

Total said a proposed refinery in India will have a capacity of 14 million tons/year or 280,000 bpd.

China's crude oil imports in June increased by 3.2% on the year, down from a 25% increase in May. Its imports fell by 7% on the month to 14.57 million tons or 3.545 million bpd. For the first half of 2008, China's crude imports totaled 90.53 million tons, up 11% on the year.

China's fuel oil imports for June fell about 20% on the month to 1.76 million tons as rising prices kept utility demand lower. About 450,000 tons of fuel oil was shipped into southern China, down 45% on the month. Imports of fuel oil for July are expected to fall below 1.5 million tons, should crude prices remain buoyant.

According to the Petroleum Association of Japan, the country's crude oil stocks increased by 2.69 million barrels on the week but fell by 8.87 million barrels on the year to 101.45 million barrels in the week ending July 5. It reported that Japan's gasoline stocks fell by 240,000 barrels on the week but increased by 1.97 million barrels on the year to 2.19 million barrels while kerosene stocks built by 500,000 barrels on the week but fell by 5.35 million barrels to 1.8 million barrels. Gas oil stocks increased by 5.6% to 11.3 million barrels. Refinery utilization increased to 76.5% of total capacity of 4.9 million bpd from 74.3% the prior week.

Japan's Oil Information Center reported that the country's retail regular gasoline prices increased to 181.5 yen or \$1.69/liter or \$6.40/gallon on Monday, up from 172 yen the prior week.

Tokyo Electric Power Co said its fuel oil consumption increased to 499,000 kiloliters in June from 392,000 kl last year while its crude oil consumption increased to 220,000 kl from 128,000 kl last year. Its coal consumption also increased to 239,000 kl from 95,000 kl last year while its LNG consumption fell to 1.453 million kl from 1.567 million kl in June of last year.

Traders and shipping sources stated that about 160,000 tons of jet fuel have been booked for Northwest Europe for the second half of July in Singapore.

Production News

Royal Dutch Shell lifted a force majeure on oil exports from its Bonga offshore field in Nigeria on Wednesday. Shell had declared force majeure on Bonga shipments for June and July on June 20 after the 220,000 bpd oil field was attacked. A Shell spokesman said a force majeure on Bonny Light was still in place.

Nigeria's crude oil exports are expected to increase to 1.94 million bpd in August, up 280,000 bpd on the month.

Libya's top official Shokri Ghanem said the country's oil production will fall by about 100,000 bpd starting in the next few days due to maintenance on a pipeline.

Norway's North Sea Gullfaks crude oil stream is scheduled to load about 248,000 bpd in August, down from 276,000 bpd in July. Norway's North Sea Statfjord crude oil system is set to load about 221,000 bpd in August, down from 276,000 bpd in July.

StatoilHydro said that a planned repair stoppage at its Kviteboern gas and condensate field in August will take about two weeks instead of earlier plans for an eight week stoppage.

The BP-led Baku-Ceyhan crude oil pipeline will pump about 908,000 bpd in August, up from about 774,000 bpd in July.

Iran's Oil Ministry said the country will drill about 160 wells by next March.

The National Iranian Oil Co raised the official selling price of its Iran Light crude bound for NW Europe by 65 cents to BWAVE minus \$6.25, while the price of its Iran Heavy was increased by \$1.15 to BWAVE minus \$9.35 and the price of its Forozan crude was increased by \$1 to BWAVE minus \$9.40. The price of its Iran Light bound for Sidi Kerir was increased by 85 cents to BWAVE minus \$6.95 while the price of its Iran Heavy was cut by 35 cents to BWAVE minus \$9.75 and the price of its Forozan crude was cut by 50 cents to BWAVE minus \$9.80. Meanwhile, the price of its Iran Light crude bound for Asia was cut by 70 cents to the Oman/Dubai average plus \$1.65. The price of its Iran Heavy and Forozan crude bound for Asia were unchanged at the Oman/Dubai average minus \$3.92 and at the Oman/Dubai average minus \$3.85.

Market Commentary

The crude market retraced some of its recent losses in overnight trading and traded more than \$2 higher on news that Iran test fired some long- and medium-range missiles as well as the anticipated decline in oil stocks. The market rallied to a high of 138.28 in early morning trading, ahead of the release of the weekly petroleum stock reports. The oil market gave up some of its gains and tested the \$138.00 level upon the release of the mostly supportive DOE report, which showed a larger than expected draw in crude stocks of 5.9 million barrels on the week. The market however failed to breach that level and sold off to a low of 135.34. It posted an inside trading day as its losses were limited amid the concerns over Iran and the larger than expected draw in crude stocks. The market settled up just 1 cent at \$136.05, breaking its two day losing streak. While the market may erase today's small gains and break its double bottom, the market's losses are seen limited as the market is seen remaining above the \$130 level. It is still seen finding support at its lows of 135.34, 135.14 followed by 133.95 and 131.14. Open interest in the crude market continued to build by 3,348 lots to 1,316,278 lots. Open interest in the August contract fell by 39,398 lots to 246,200 as traders rolled some of their positions to the back months with open interest in the September and October contracts increasing by 37,225 lots

to 201,455 and by 5,504 lots to 91,055, respectively. The product markets also settled in positive territory after posting inside trading days,

		Explanation	
CL	Resistance	142.44, 144.53, 145.85	Previous highs
	Support	137.65, 138.28	Wednesday's high
HO	Resistance	135.34	Wednesday's low
	Support	135.14, 133.95, 131.14	Previous low, 50%, 62% retracement(122.05 and 145.85)
RB	Resistance	399.90, 407.65, 411.00, 413.50	Previous highs
	Support	388.75, 390.20	Wednesday's high
HO	Resistance	382.05	Wednesday's low
	Support	379.82, 378.27, 376.31, 371.04, 356.49	Previous low, 62%(356.49 and 413.50), Previous lows
RB	Resistance	351.00, 355.75, 357.96, 359.27, 360.21	Previous highs
	Support	341.35, 343.05	Wednesday's high
HO	Resistance	335.77	Wednesday's low
	Support	333.50, 332.12, 329.97, 314.75	Previous low, 62%(314.75 and 360.21), Previous lows

with the RBOB market settling up 1.77 cents at 338.08 and the heating oil market settling up 3.14 cents at 385.16. The RBOB market also retraced its previous losses early in the session in follow through strength seen in the oil market. It however retraced some of its overnight gains and sold off to a low of 335.77 following the release of the DOE report which showed a slightly larger than expected in gasoline stocks of 900,000 barrels as demand fell on the week. The market however failed to test its previous low and retraced its losses in afternoon trading. Similarly, the heating oil market also retraced its previous losses and rallied to a high of 390.20 in overnight trading. However the market sold off to a low of 382.05 in light of the distillate stocks build reported by the DOE. While the DOE reported a build in distillate stocks, the Euroilstock data showed that distillate stocks continued to decline in Europe, which the market seemed to have shrugged off. The heating oil market is seen finding support at 335.77 followed by 333.50, 332.12, 329.97 and 314.75.

