



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 17, 2008

Bayelsa state Governor Timipre Sylva said Nigerian community members blew up an oil pipeline operated by Italy's Eni in the Niger Delta. It was the second attack in as many days by community members in the delta. The attack shutdown flow of about 20,000 bpd but added that the pipeline could resume operations in the next few days. The attack was sparked by a community dispute with foreign oil companies working in the area. Separately, the Movement for the Emancipation of the Niger Delta said it was not behind an attack on a navy vessel that killed five people on Wednesday. About 30 armed men in speedboats attacked a navy vessel on Wednesday that was guarding oil facilities in southern Rivers state. Britain and Nigeria

Market Watch

The National Oceanic and Atmospheric Administration said La Nina should have a small impact on US temperatures and precipitation in August. It said temperatures in a portion of the Southwest and in the Southeast from eastern Texas across the Carolinas are expected to be above normal in August. Below normal temperatures are seen in the Pacific Northwest from Alaska down through Oregon and for a portion of the Midwest. An equal chance of normal, above or below normal temperatures is seen for the Northeast, most of Texas and California. NOAA forecast above normal temperatures in the Great Lakes region and the Northeast from August through October. Higher than normal temperatures are also seen across most of the southern third of the US.

The Philadelphia Federal Reserve Bank said its business activity index was a minus 16.3 in July compared with minus 17.1 in June. The employment index fell to minus 7.3 from minus 6.9 in June.

The Bank of Canada Governor Mark Carney said movements in commodity prices have largely been the result of underlying supply and demand fundamentals.

BHP Billiton Ltd said rising commodity prices are not in an Asian bubble and China's demand for resources will remain high. It said China is growing at or more than 8% a year and needs a full range of energy and commodities to drive that growth. It said it was spending \$85 billion to expand metal production to meet demand led by China. It wants to merge with Rio Tinto Group to deliver more metals faster to China. However Asian and European steelmakers oppose the deal, saying it would give BHP too much influence over iron-ore prices.

JPMorgan Chase & Co's commodities trading risk fell by 3% in the second quarter from the same quarter last year, implying that the investment bank is being cautious in ramping up its commodities trading business. It said the average daily trading value at risk for commodities stood at \$31 million for the three months ending June 30.

July Calendar Averages

CL – 139.82

HO – 395.38

RB – 344.33

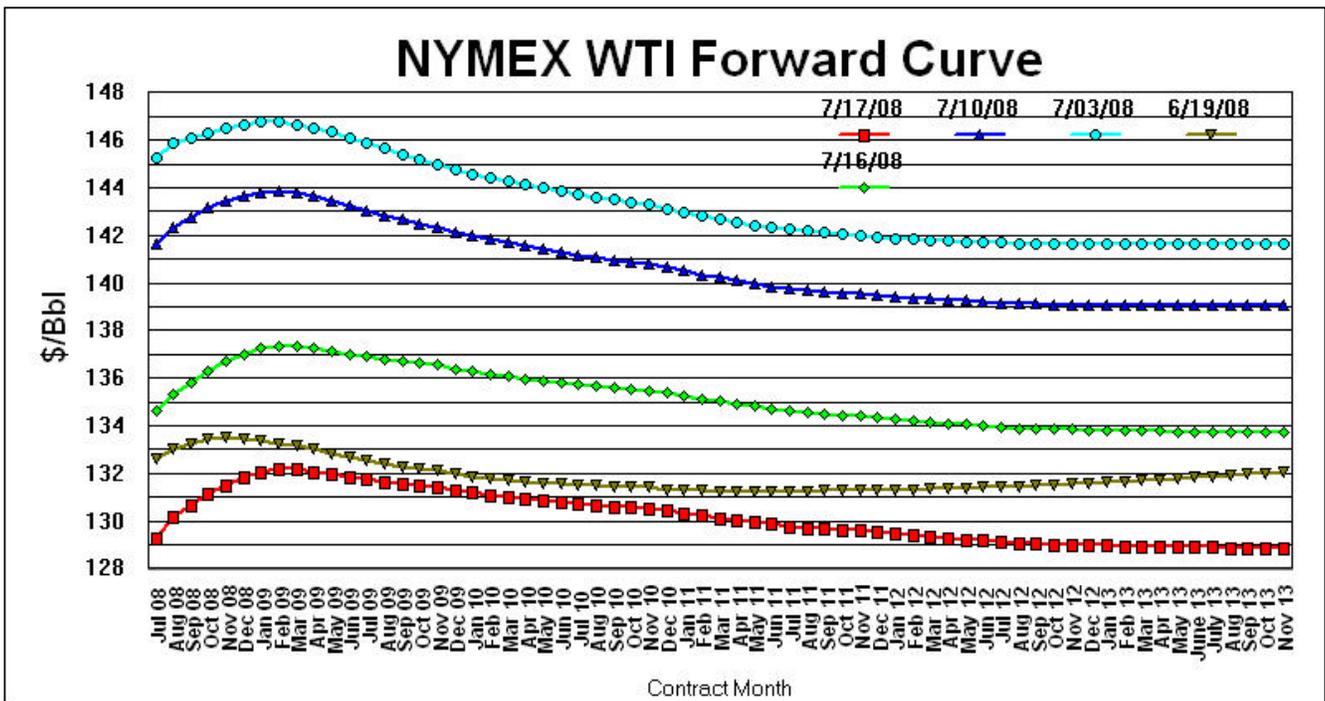
agreed on Wednesday to set up a security training force that will include British military experts in an advisory role.

Nigeria's President Umaru Yar'Adua said the UK's offer to help increase security in the country's unstable oil region is critical to restoring peace and increasing the country's crude production. He said the US would also join the UK in providing training and other support to Nigeria's security services. He said the UK's and the international community's assistance was essential in providing technical and other forms of support to ease the violence against energy infrastructure. However some Nigerian militants said in recent days the UK security assistance could further increase tensions.

On Wednesday, talks between oil workers and Brazil's Petrobras failed to end a five day strike that started midnight Sunday. Brazilian oil workers on Thursday expanded a strike that was limited to platforms in the Campos Basin to all production and refining units of Petrobras. A two day slowdown at Petrobras' refineries, distribution terminals and other facilities appeared to have little impact on Petrobras' operations. However the unions will vote next week on a proposal to stop production in a nationwide strike planned for August 5.

The US House of Representatives failed to approve legislation that would have pushed oil companies to drill on federal leases they already hold. It would have required oil companies to diligently develop their existing federal leases or turn them back to the government before they could obtain new acres. The legislation would have also mandated that the Interior Department conduct yearly leases in the National Petroleum Reserve in Alaska.

The US Senate Banking Committee approved a bill on Thursday that would expand trade and economic sanctions in another attempt to prod Iran to step back from suspected nuclear weapons production and alleged support for terrorist activities. The bill would try to clamp down on countries suspected of helping transport sensitive technologies and goods to Iran in violation of existing US rules. The measure also encourages US pension plan managers and state and local governments to



divest, directly or indirectly from Iran's energy sector. Under the bill, the Bush administration would also be encouraged to designate the central bank of Iran as a supporter of terrorism, triggering sanctions. Senate Banking Committee Chairman Christopher Dodd said the bill could be coupled with other Iran sanctions measures also moving through the Senate.

An Iraqi Oil Ministry official said Iraq was planning to limit no-bid contracts being negotiated with several major oil companies to one year to avoid overlap with longer term deals expected to be signed next June. Iraq is seeking to increase production of each of the major producing fields by 100,000 bpd over a two year period.

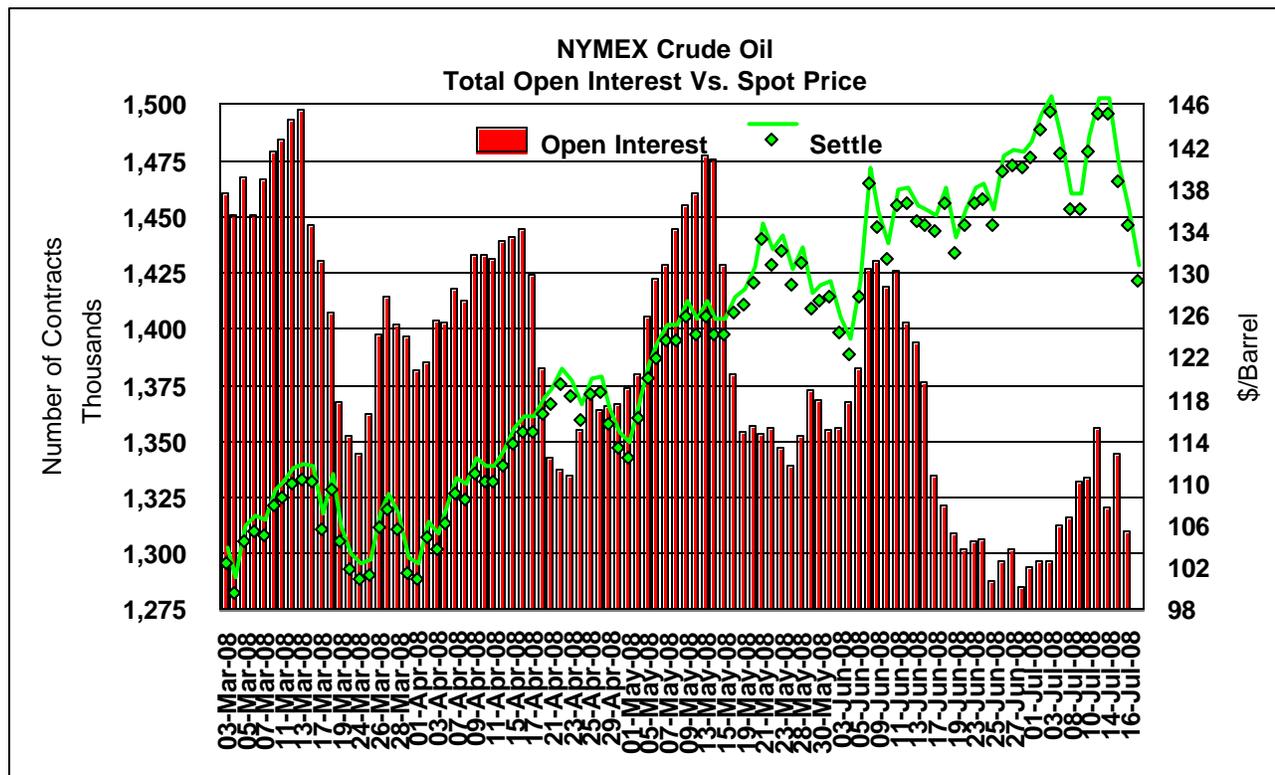
Oil Movements reported that OPEC's oil exports increased by 560,000 bpd to 25.05 million bpd in the four weeks ending August 2.

Goldman Sachs stated that while the recent increase in OECD inventories could lower the risk of a dangerous tightening of near term fundamentals, the potential for upward price volatility in the next few months is still meaningful. It said it still maintains its \$149/barrel year end target and added that while downside price moves in the near term cannot be ruled out, the risk to prices remains skewed to the upside.

Refinery News

Suncor Energy Inc shut a pipeline from its oil sands operations in northern Alberta due to the discovery of a leak on Tuesday. The shutdown of the pipeline carrying synthetic crude and diesel from its oil sands operations near Fort McMurray, Alberta to Edmonton has halted as much as 140,000 bpd of shipments. Production however was not impacted. Suncor said it expects the pipeline to resume operations in a matter of days.

Citgo was restarting a fluid catalytic cracking unit at its 156,000 bpd refinery in Corpus Christi, Texas on Thursday.



BP Plc warned of possible flaring at its 265,000 bpd refinery in Carson, California between Friday, July 18 and July 25.

US ethanol capacity has increased by 46% on the year to more than 9.4 billion gallons/year. Eight new US plants have opened since June even as average distillers were losing money making ethanol after last month's flooding in the US Midwest spiked corn prices. There are 162 distilleries on Thursday with 41 plants under construction and seven undergoing expansion.

Japan Energy Corp shut its 35,500 bpd fluid catalytic cracking unit at its Kashima refinery on July 10 due to a problem with a ventilator. It is currently checking the problem and does not know when the unit will resume operations. However the shutdown has had no impact on the operations of the Kashima refinery's crude distillation unit or secondary units nor has it affected product shipments.

Indonesia's Pertamina is likely to buy 600,000 barrels of crude for September arrival via its regular monthly tender for sweet crude, its lowest purchase in 11 months.

Traders said Asian imports of West African crude for August fell about 10% on the month to 1.04 million bpd. The fall was mainly due to a sharp fall in Indian demand for Nigerian oil. India's purchase of West African crude fell to 337,000 bpd in August, down 20% from 429,000 bpd. However China's purchase of West African crude increased to about 674,000 bpd in August from 613,000 bpd in July.

Gas oil stocks in independent storage in the Amsterdam-Rotterdam-Antwerp terminal increased by 9.26% on the week but fell by 17.1% on the year to 1.629 million tons in the week ending July 17 mainly due to imports from the US. Fuel oil stocks fell by 1.67% on the week but increased by 55.63% on the year to 705,000 tons while gasoline stocks fell by 12.91% on the week but increased by 2.12% on the year to 722,000 tons. Naphtha stocks increased by 34.95% on the week and by 127.87% on the year to 139,000 tons while jet fuel stocks increased by 4.4% on the week to 356,000 tons.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 761,000 barrels to 22.544 million barrels in the week ending July 16. It reported that light distillate stocks built by 987,000 barrels to 9.568 million barrels while middle distillate stocks built by 810,000 barrels to 9.684 million barrels on the week.

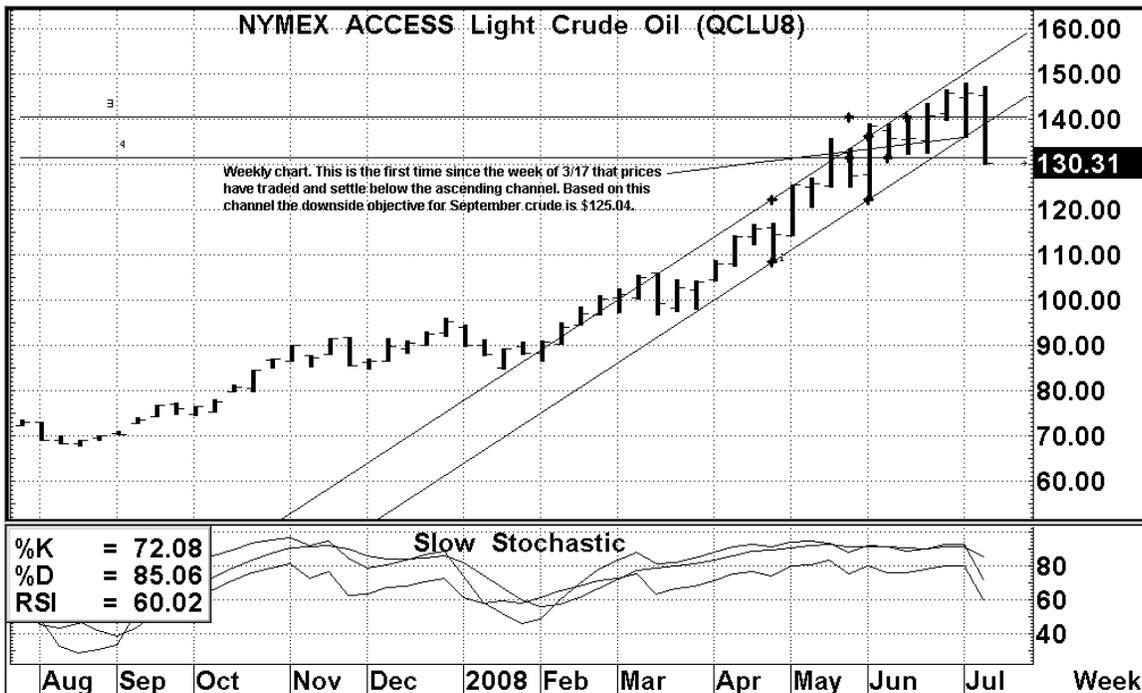
Production News

The US Minerals Management Service said that its next sale of Gulf of Mexico oil and gas leases could yield up to 423 million barrels of oil and 2.64 trillion cubic feet of natural gas production. The sale will be held on August 20.

Norway's Petroleum Directorate said the country's oil production fell to 1.93 million bpd on average in June from 2.18 million bpd in May due to maintenance shutdowns. Production of natural gas liquids and condensate fell to 272,000 bpd in June from 374,000 bpd in May.

Chevron expects to start pumping crude from the 250,000 bpd Agbami oil field soon. The field was previously scheduled to start last month but Chevron announced it postponed the start up to the third quarter. Production is expected to increase to 230,000 bpd quickly and increase to its peak production of 250,000 bpd early next year.

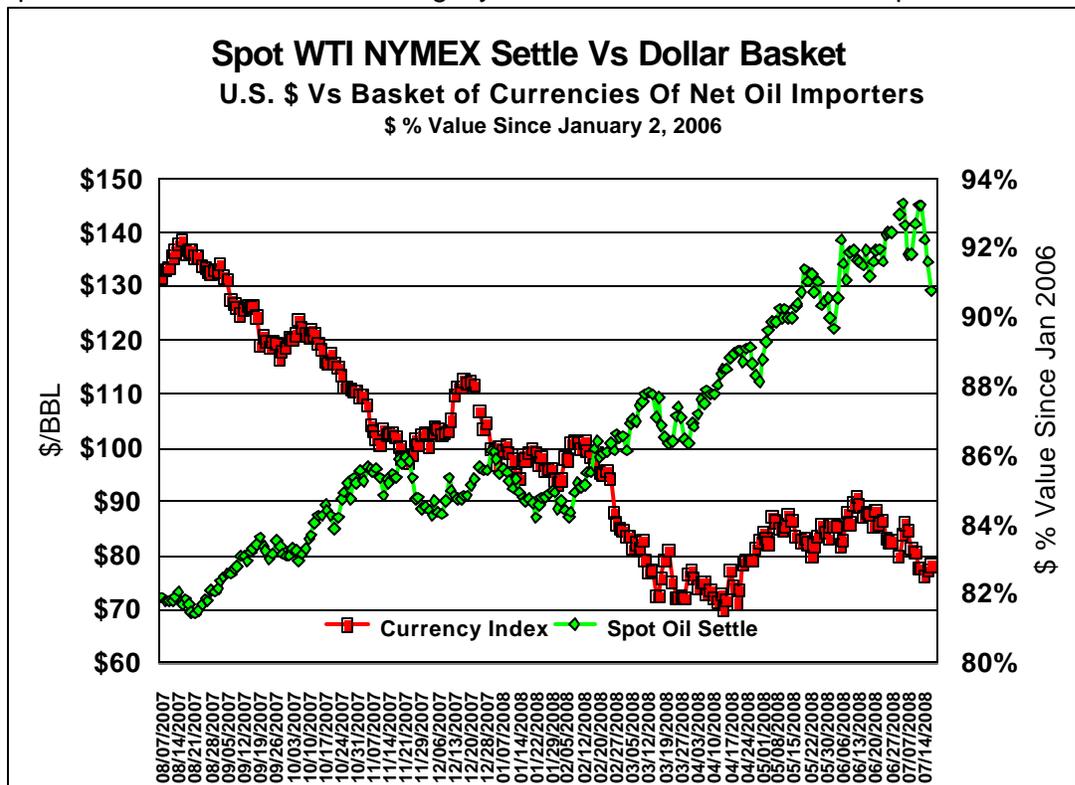
PDVSA drilled three wells in Ecuador's Amazonian region that will net Ecuador an additional 1,529 bpd to its production. Venezuela's President Hugo Chavez promised to join forces with his counterpart, Rafael Correa, to help Ecuador further develop its energy industry. Both companies plan to build a 300,000 bpd refining complex on Ecuador's Pacific Coast.



Separately, Venezuela's information ministry reported that Costa Rica has formally asked to join the PetroCaribe oil sales agreement. PetroCaribe offers member countries the opportunity to finance as much as

60% of their energy bill for as long as 25 years, paying a 1% fixed interest rate. Costa Rica consumes 55,000 bpd of oil and 40% of that comes from Venezuela's oil industry.

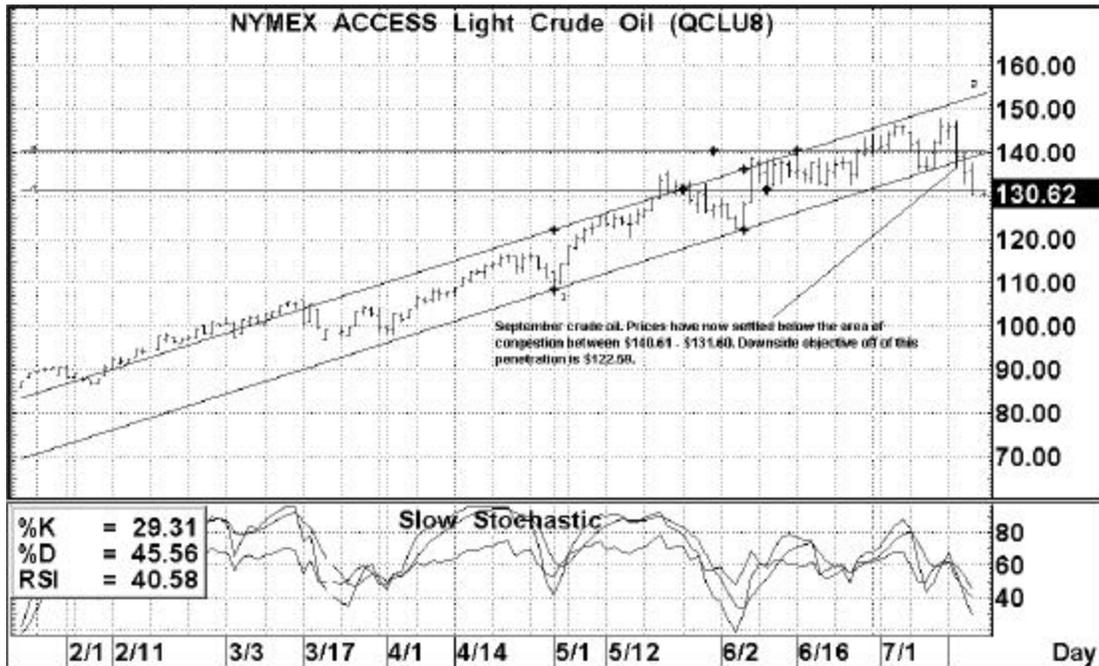
A preliminary export plan showed that Russia will slightly increase its Urals crude oil exports from its main port of Primorsk on the Baltic Sea in August following a fall in shipments in July due to pipeline maintenance. It is set to export 6.3 million tons in August compared with 6.1 million tons in July. Russia's Black Sea port of Novorossisk will export 3.85 million tons, down from 3.959 million tons in July.



Italy's Eni said its Kitan oil field in the Timor Sea

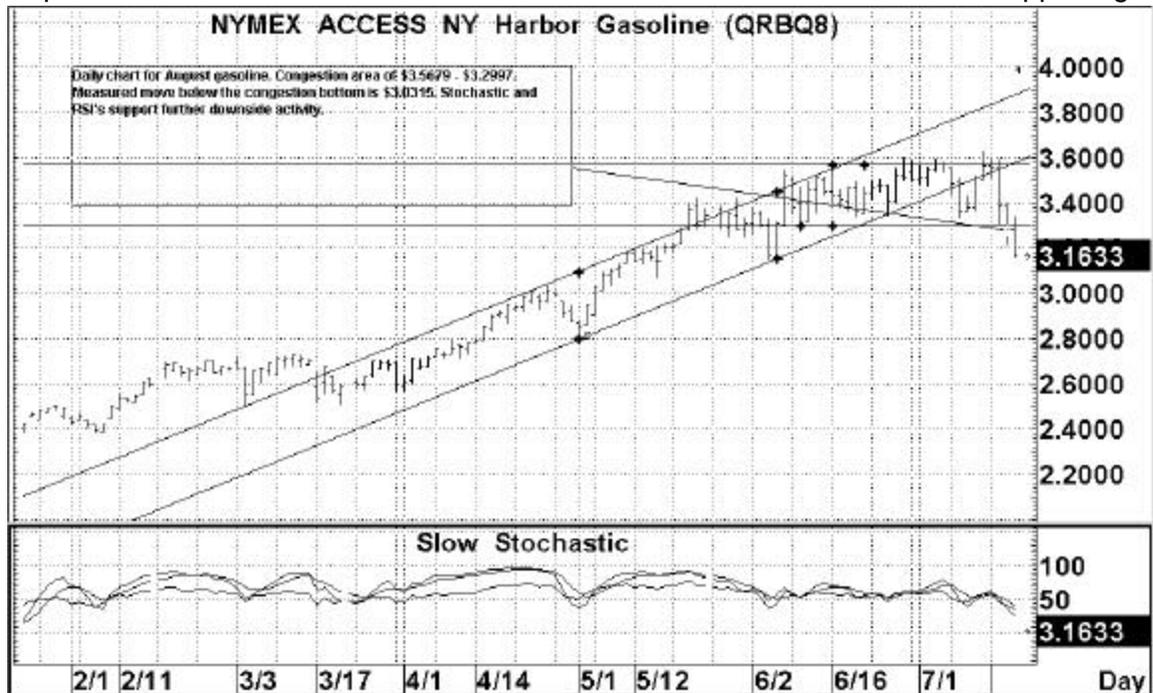
was expected to hold about 30-40 million barrels of oil reserves. It will submit a development plan for the Kitan field by May 2009.

OPEC's news agency reported that OPEC's basket of crudes fell to \$133.09/barrel on Wednesday, down from Tuesday's \$138.00/barrel.



Market Commentary
In response to a greater than expected

growth in natural gas inventories, aided by signs of a slowing global economy, energy prices fell for the third straight day. This is the first week since the week of March 17th that September 08 crude oil traded below and settled outside of the ascending channel basis a weekly chart. It has also broken through the congestion bottom of \$131.60. Based on this, the next initial downside objective for September is \$125.04 and below that \$122.59. Stochastics and RSI's are supporting a further move



lower for both the weekly and daily charts, so for tomorrow we would look for a test at the initial support. The August 08/September 08 crude oil spread has finally made it to our long awaited objective of

-.95 and settled at -.89 on the day. Stochastics and RSI's are trending lower, with %K in oversold territory and both %D and the RSI just above the oversold range of 30.00. We would look for another round of pressure on the front spread, with a possible test of \$1.20. Slackening demand, due to the

economic situation, weighted greatly on the gasoline market today, pushing the August08 contract to a low of \$3.1580. The measured move from the congestion low of \$3.2997 is \$3.0315, which is not out of the realm of possibilities, as stochastics and RSI's support another move lower. Despite another move lower, August08 heating oil remains within the congestion area of \$3.7104 and \$4.0359. Slow stochastics crossed to the downside at the beginning of the week and are currently trending lower in neutral territory. RSI's are also trending lower in neutral territory. Both of these oscillators are pointing lower and still have more room prior to reaching the over sold level. Based on this we would look for a test at the aforementioned congestion level and would re-evaluate the market at this time. Open interest for crude oil is 1,309,779 down 34,6321, August08 109,902 down 36,500, September08 307,367 up 5.359 and December 08 176,256, down 3,573. Total open interest for heating oil is 227,662 down 325, August08, 37,515 down 1,917 and September 08, 54,606 up 666. Total open interest for gasoline is, 240,928 down 3,233, August08 40,081, down 4,081 and September, 69,220 down 53.

Crude oil option expiration today also appeared to be a driving force for the bear move as prices gravitated toward the 20,090 lots of open interest that were in the August \$130 put at the start of the day. This strike saw over 9,000 lots traded and found it self in the money on the close.

Crude Support	Crude Resistance
128.35 122.60 108.40 85.40	131.60, 134.85,140.60, 144.00,147.90,
Heat support	Heat resistance
3.6800 3.5450 3.5100 3.3500 3.1680 3.0980	3.8215, 4.0210, 4.0765, 4.1200, 4.3614
Gasoline support	Gasoline resistance
309.20 3.0730 3.0400 3.0250 2.9255	3.1760,3.6021, 3.755, 34655