



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 18, 2008

Iran's chief nuclear negotiator Saeed Jalili said he hoped for good and constructive talks ahead of a meeting with European Union foreign policy chief Javier Solana and officials from the US, Britain, France, Germany, Russia and China on Saturday. The EU foreign policy chief said he hoped for a constructive response at the meeting but added that he could not guarantee success. A senior Iranian official said the Geneva talks would be pivotal in deciding whether diplomacy could succeed. However when asked whether Iran was ready to freeze any expansion of its nuclear program in return for the UN Security Council

halting further sanctions against the country, he said "not at all." Meanwhile, Iran's Foreign Minister Manouchehr Mottaki raised the prospect of talks on restoring fractured relations between Iran and the US. He also said he saw almost no possibility of Israel or the US attacking his country over its

Market Watch

The Wall Street Journal reported that utilities and industry analysts estimate the cost of heating a home in the US with heating oil could face increases of between 50% and 100% while the cost of heating a home with natural gas could result in bills that are 30 to 50% higher this winter. The National Energy Assistance Directors' Association said that many New England families could run a tab of \$1,600 to \$1,700/month to cover heating oil, electricity and gasoline costs next winter. Governors, state attorneys general and other officials are calling on Congress to increase federal funding of the Low Income Home Energy Assistance Program. The current funding level of \$2.57 billion helps 17% of the country's poor and the average annual grant is \$359.

Goldman Sachs stated that given the current open interest in put options, the next critical values would likely be \$120/barrel, \$110/barrel and \$100/barrel. It said open interest on those strike prices has increased recently along the overall volumes in options. According to NYMEX data, open interest on \$120 put options more than doubled to 36,004 contracts as of July 16 from a month ago. On Thursday, Goldman Sachs stated that it was maintaining its year end target for benchmark crude prices at \$149/barrel.

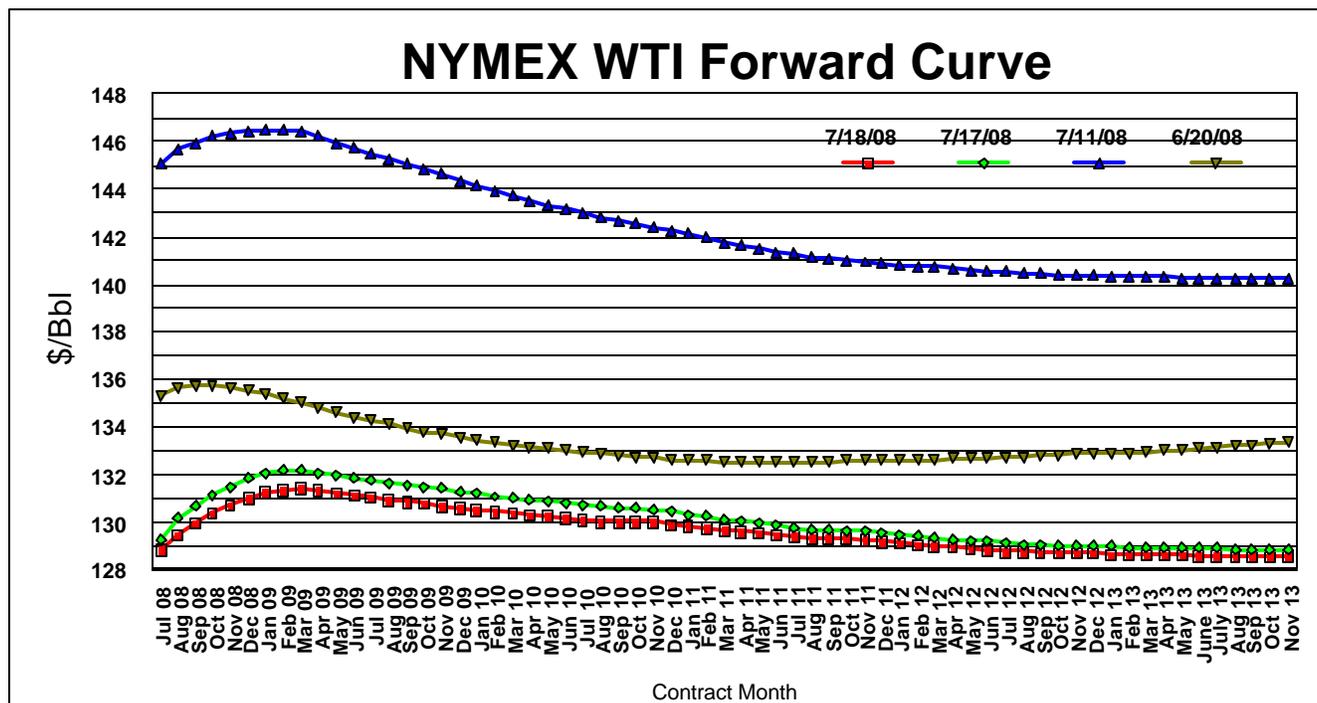
CME Group and NYMEX Holdings Inc announced they have revised the terms of their merger agreement. The revised agreement increases the consideration payable to NYMEX Class A members from \$612,000 to \$750,000 per membership. The NYMEX will maintain a trading floor in the current NYMEX facility until December 31, 2012 or if the occupancy agreement is terminated, a trading floor will be established elsewhere in New York City. Under the agreement, NYMEX will maintain a trading floor in New York City as long as profitability and revenue thresholds are met. Separately, the parties announced that they have entered into an agreement to extend the term for their technology partnership for an additional two years until 2018. Subject to obtaining the necessary approvals, the companies expect to close the merger in the third quarter.

disputed nuclear program. He said the US was neither in a position to attack Iran because it would be financially too costly and raise taxes in the US.

Brazil's Petrobras said its production was not affected by the oil workers' strike. It said its contingency plan was activated and all its units were operating normally. A 48-hour strike by several oil workers unions at the refineries was started Thursday in solidarity with striking offshore workers. The unions said the strike at the refineries would end as scheduled midnight Friday. Workers at Petrobras' offshore platforms also plan to end their five day strike at midnight Friday but warned that they may call new strike over the a contract dispute next month. Brazil's Oil Workers Confederation said its members will evaluate further strike action from August 5, if no progress is made in negotiating the contract dispute.

July Calendar Averages	
CL	138.98
HO	393.36
RB	342.24

The EIA reported that US crude oil imports in May fell by 635,000 bpd or 6.2% on the year to 9.657 million bpd, the lowest level for the month since 2002. Imports were down 264,000 bpd or 2.7% on the month. Canada remained the top supplier with 1.84 million bpd while Saudi Arabia was the second largest crude source for the US, with 1.579 million bpd. Crude oil imports from Mexico fell by 143,000 bpd or 11.4% on the month and was down 345,000 bpd or 23.6% on the year at 1.116 million bpd.



The API said US demand for crude oil and petroleum products in June fell by 1.4% on the year to 20.446 million bpd. Oil demand during the first half of the year fell by 3% or 630,000 bpd to 20.079 million bpd. Gasoline demand in June fell by 307,000 bpd or 3.2% to 9.203 million bpd while gasoline demand during the first half of the year fell by 1.7% on the year. The API reported that distillate demand increased by 3.4% or 139,000 bpd to 4.269 million bpd. It also reported that June crude oil imports averaged 10.069 million bpd, up 0.9% while petroleum product imports fell by 5.3% to 3.33 million bpd. Total imports in June accounted for 65.5% of US oil demand, up from 65.1% a year earlier.

China's National Bureau of Statistics reported that the country's crude oil processing in June increased by 5.2% on the year to 169.56 million tons. China pumped 15.96 million tons of crude last month, up 1.3% on the year. For the January to June period, crude production increased by 1.7% to 94.33 million tons. It reported that China's gasoline production in June increased by 2.8% to 5.184 million tons while its kerosene production fell by 9.1% to 926,000 tons, its diesel production increased by 8.8% to 11.589 million tons and fuel oil production fell by 19.9% to 1.714 million tons.

Traders said about 60,000 tons of gas oil from South Korea/Singapore have been booked for lifting next week bound for Europe, increasing the total shipments to Europe for July loading to 120,000 tons.

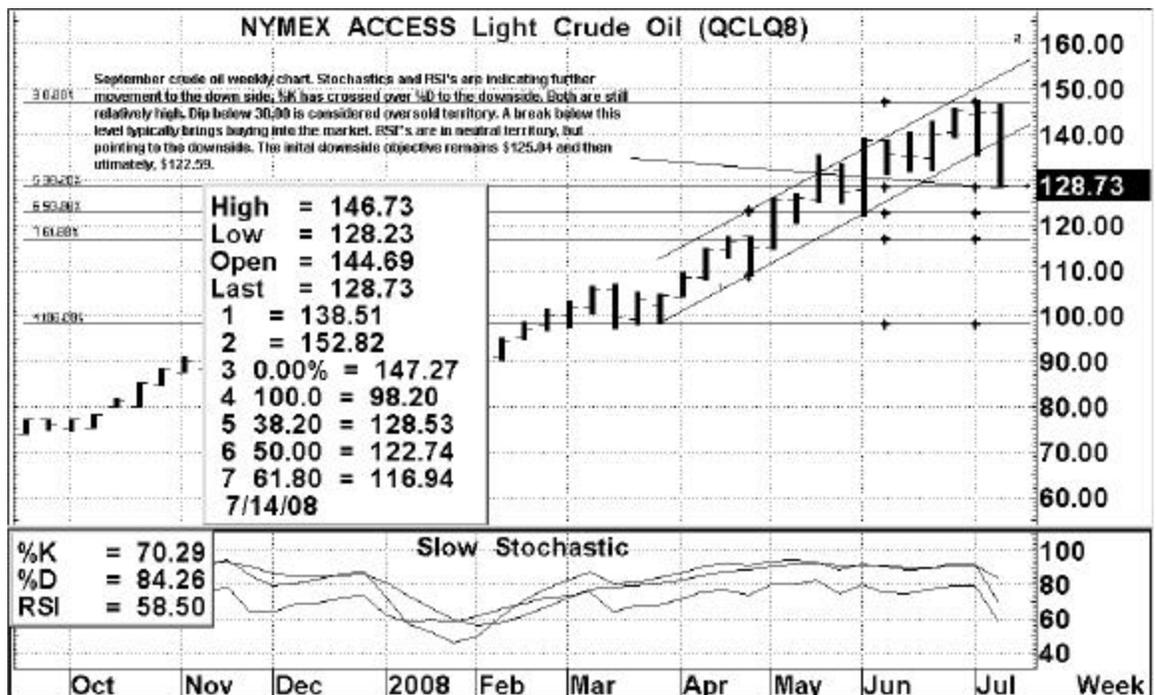
Three cargoes, each of 950,000 barrels, of Nigerian Qua Iboe crude for export in August will now be delayed until September, according to provisional crude oil export programs. ExxonMobil, operator of the 400,000 bpd Qua Iboe fields told traders to expect delays in exports of up to nine days in coming weeks, although it did not give any reason for the disruption.

Production News

Oil companies and trading sources reported that about 509,000 bpd of Nigerian crude is shut in due to militant and sabotage attacks. It is down from an outage of more than 800,000 bpd in early June due to an increase in Escravos production and the restart of Pennington crude production. Also, Royal Dutch Shell has lifted a force majeure on Bonny Light exports.

China's Sinopec Corp produced 2.43% more oil in the first half of the year and refined 6.73% more crude.

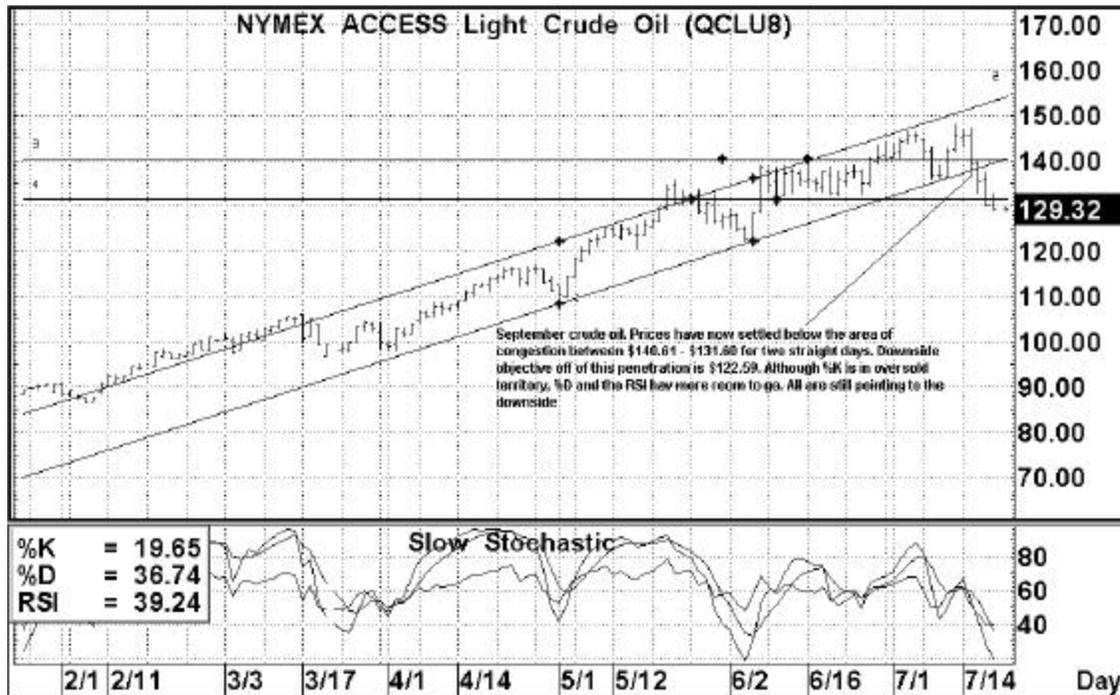
Russia's Energy Minister Sergei Shmatko said Russia's oil production will be at least flat this year despite a fall in the first half of the year but added that it will increase next year. Russia's oil production fell by almost 1% in January-



June for the first time in a decade. Russia produced 9.77 million bpd in June.

Kazakhstan's KazMunaiGas Exploration Production said it produced 238,000 bpd of crude in the first six months of the year, up 19% on the year.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$131.03/barrel on Thursday, down from Wednesday's \$133.09/barrel.

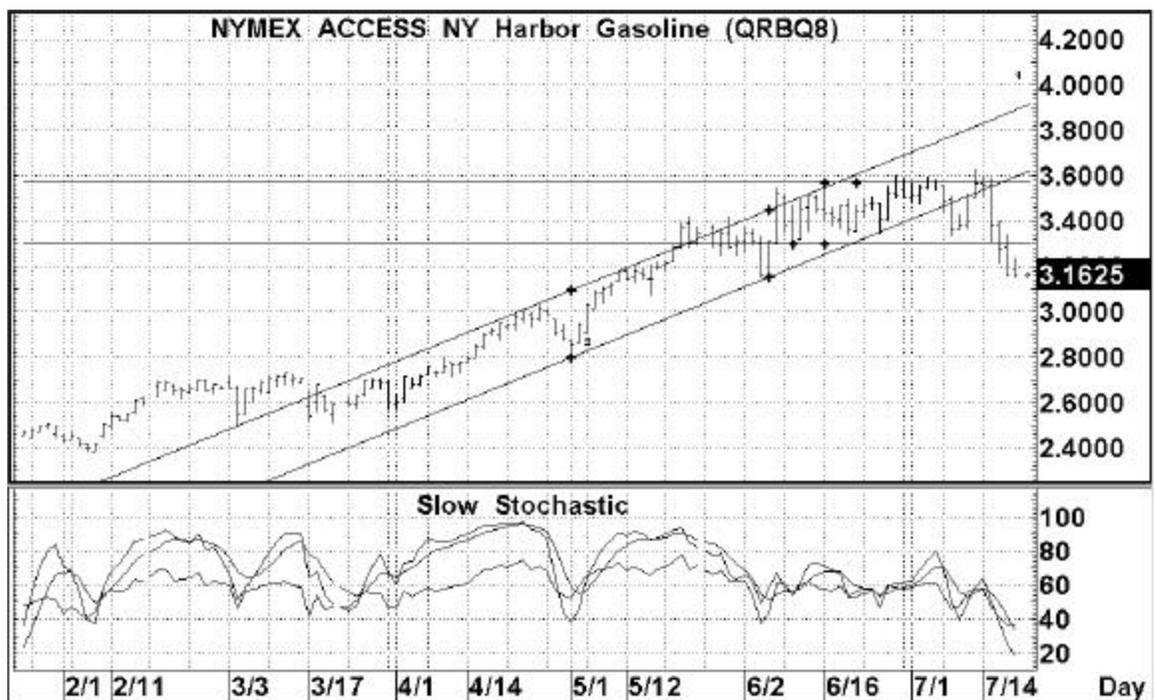


Market Commentary

This is now the fourth straight day that energy prices have declined. Weighing on prices is the impact that high prices are having on global demand. With consumers cutting back and airlines cutting flights, demand is slowing. New

refining capacity by India and China is expected to add 1.3 million barrels per day to global processing. There are signs that the U.S. and Iran may be accomplishing a deal towards an agreement on Iran's uranium enrichment program. All of these factors have aided in the crude oil market falling \$18.84 on the week.

The forward curve for crude oil is at its lowest level in four weeks. The front end, although strengthening today, continues to pull away from the deferred. From February 09 on back the market remains in backwardation.



Gasoline tumbled for the fifth straight day, however it is quite possible for this market to rebound prior to another move lower. There is a bit of divergence between the RSI's and slow stochastics. %K is in oversold

territory, while %D and the RSI are in neutral territory. The RSI has crossed to the upside. Based on this we would look for the August contract to retrace anywhere between \$3.3000 and \$3.3300. As with the gasoline, heating oil has also sold off for the fifth straight day. There is also divergence in the technical indicators. %K is in oversold territory set at 20.09, with %D set at 37.00. The RSI is set at 40.62, crossing above %D to the upside. We would look for heating oil to experience a period of retracement with prices retracing back to the \$3.8600 - \$3.8700 area. Open interest for crude oil is 1,280,655 down 29,1241, August08 80,629 down 29,273, September08 310,669 up 3.302 and December 08 174,171, down 2,085. Total open interest for heating oil is 228,542 up 880, August08, 35,633 down 1,882 and September 08, 57,317 up 2,711. Total open interest for gasoline is, 240,779 down 149, August08 38,056, down 2,277 and September, 71,132 up 1,912.

The CFTC announced that it has rearranged the way it accounts for large traders positions in energy markets in its Commitment of Traders report. It has reclassified certain positions in the energy futures and options markets from the commercial category to the noncommercial category. In light of the change, the Commitment of Traders report showed that non-commercials in the crude market increased their net long position by 15,316 contracts to 22,382 contracts in the week ending July 15. The funds cut their total short position by 15,064 contracts to 187,631 contracts. However had the CFTC not made the change, non-commercials would have been net long 18,552, an increase in their net short position of 11,456 contracts. It also revised the commercial positions down by about 150,000 contracts on the long and short side of the market to 670,135 contracts and 686,747 contracts, respectively. It reported that commercials were net short by 16,612 contracts however if it had not changed its report, commercials would have been net short 12,752 contracts. The combined futures and options report showed that non-commercials cut their net long position by 2,514 contracts to 88,104 contracts on the week. Had the CFTC not made the reclassification, non-commercials would have been net long 92,197 contracts. It also revised down the commercial levels by 326,648 contracts and by 330,741 contracts on the long and short end of the market. Given the market's sharp sell off in the past few trading sessions and the decline in open interest, the non-commercials have likely continued to cut their net long position. The non-commercials in the RBOB and heating oil markets also cut their net long positions, by 3,946 contracts to 45,363 contracts and by 2,443 contracts to 12,968 contracts, respectively. Revisions were also made in the product markets. The total non-commercials position in the RBOB market was increased by 1,559 contracts. The total non-commercial position in the heating oil was increased by 1,592 contracts to 15,247, which would have translated in a net short position of 14,560 contracts.

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