



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 24, 2008

The US CFTC disclosed its first case in a probe into crude oil market manipulation, charging Optiver Holding BV, two of its units and three employees with manipulating the price of crude, gasoline and heating oil futures. The complaint charges the defendants with 19 separate instances of attempted manipulation on 11 days in March 2007. It claims that in at least five of those attempts, the fund successfully caused artificial prices. The CFTC offered no further details on the findings of its broader investigation, other than to say dozens of investigations were currently underway.

The head of Iran's Atomic Energy Organization and Iran's Vice President

Market Watch

The House of Representatives blocked a bill to release 70 million barrels of crude from the SPR. Earlier the White House said efforts to release crude from the SPR amount to politically motivated band-aids that would harm US national security and would fail to stop long term increases in gasoline prices. White House spokesman said releasing oil from the SPR would cut the number of days of protection the US would have if supply were severely disrupted. Congress is in a deadlock with 8 days remaining before it adjourns for an August recess. Last week, Republicans blocked a House bill to speed up drilling in the National Petroleum Reserve in Alaska. In the Senate, talks collapsed over a bill to cut oil market speculation as Republicans protest that they have been blocked from voting on increasing offshore drilling.

In a letter to Texas Senator John Cornyn, Valero Energy Corp's chief executive Bill Klesse said high oil prices are hurting its bottom line and added that it could be alleviated by increased domestic oil production. He said Valero has done a great deal to expand domestic fuel production capacity, while Congress has done little to increase the availability of oil. He argues that the volume of oil and gas available in areas where drilling is currently prohibited would have a real market impact upon gasoline pump prices.

China's Foreign Ministry said China and Russia will launch high level talks aimed at encouraging energy cooperation between the two countries. Russia's Deputy Prime Minister Igor Sechin is scheduled to visit China on July 26-27 for talks with China's Vice Premier Wang Qishan. However talks between Russia and China have so far yielded limited progress, largely because the two countries disagree on pricing.

The IEA's executive director, Nobuo Tanaka said China must invest in mines and transport infrastructure to end coal shortages that have impacted its power industry. He also warned that China needs to find a way to trap emissions from its generators or efforts to cut global warming will be in jeopardy. He also stated that economic problems in the US, where demand through mid-July fell 3.3% from the previous year's level, may help curb Chinese oil consumption.

A unit of General Electric Corp has sued SemGroup LP in connection with SemGroup's alleged diversion of \$54 million in pipeline construction funds to other corporate purposes.

July Calendar Averages

CL – 136.21
HO – 386.35
RB – 334.99

Gholamreza Aghazadeh said he was hopeful negotiations could start based on proposals made by Iran and the six powers, the US, Britain, France, Russia, China and Germany, at recent talks in Geneva. He said talks would also help resolve a range of issues from the Middle East tensions to rising oil prices.

According to DEBKAfile, Israel's Prime Minister Ehud Olmert told visiting US Senator Barack Obama that Iran would be able to assemble all the components for a nuclear bomb by late 2009 or early 2010. It also reported that senior Israeli defense sources reported that Iran is set to receive Russian anti-air missiles to fight off strikes against its nuclear facilities by early September.

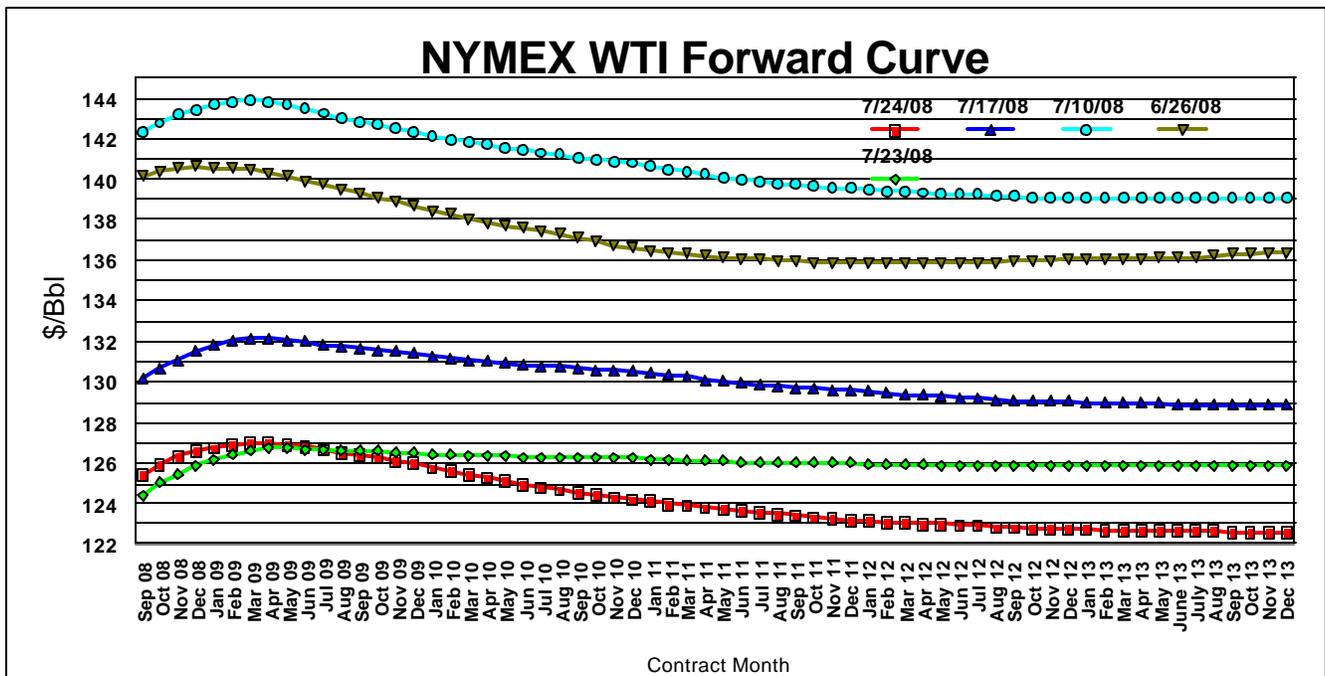
Separately, Israel's Lieutenant-General Gabi Ashkenazi said he told Pentagon officials that force may be needed to stop Iran's nuclear research. However he said diplomacy must be given priority.

The UN's IAEA's executive director, Mohamed ElBaradei said the world needs a new world organization to ensure that its approaching energy crisis does not turn into catastrophe.

Venezuela's President Hugo Chavez said he saw \$100/barrel as a fair price for oil and added that Venezuela did not want a higher price than that. He also stated that a collapse of a speculative bubble could send prices as low as \$70/barrel.

A member of Kuwait's Supreme Petroleum Council said the fall in oil prices due to easing international tensions is temporary as demand is expected to rise and remain strong for the next five years.

South Korea's Vice Finance Minister Kim Dong-soo said it is premature to say the recent steep decline in international oil prices means oil prices have peaked.



Nigeria's oil workers' union Nupeng threatened to resume a suspended strike by tanker drivers and possibly widen the strike to the rest of the industry over the high cost of diesel and kerosene. Two weeks ago, petrol tanker drivers ended their three day strike after the government promised to bring

down the price of diesel that has more than doubled in the past weeks. The union is scheduled to meet with government officials against next week on Tuesday. Nupeng President Peter Akpatason said next week's meeting will also determine if other workers in the oil sector will join the strike.

According to the Brazilian Oil Workers Federation, Petrobras will resume talks on a profit sharing deal later on Thursday. Talks ended late Wednesday without a new proposal from Petrobras. The union gave Petrobras a Thursday deadline to improve its profit sharing offer or face the possibility of a nationwide strike on August 5. According to FUP, the nationwide strike would shutdown Petrobras' production and refinery operations as well as other units. FUP's governing council will meet Friday to discuss the possibility of the nationwide strike should negotiations not advance further.

Oil Movements reported that OPEC's crude oil shipments are expected to increase by 560,000 bpd to 24.87 million bpd in the four weeks ending August 9. Shipments from Middle Eastern OPEC producers are estimated to increase by 450,000 bpd to 17.92 million bpd in the four week period.

Italy's Prime Minister Silvio Berlusconi said that Italy wanted to import more oil from Iraq.

Refinery News

The Houston Pilots Association reported that the Houston Ship Channel was reopened on Thursday after it was closed on Wednesday due to rough conditions in the wake of Hurricane Dolly. The Galveston Ship Channel was set to open soon.

Valero Energy Corp said it expects to restore full production by the end of the week at its Houston and Port Arthur, Texas refineries, which saw cuts due to a lack of crude coming through the Houston Ship Channel. Its crude runs are down 10-20%. Separately, Valero Energy Corp is planning a turnaround on a heavy oil cracking unit at its 142,000 bpd refinery in Corpus Christi, Texas in January.

ExxonMobil Corp said flaring on Tuesday at its 150,000 bpd refinery in Torrance, California was due to planned work on a unit that continued to operate. The work was having a minor impact on production.

Sunoco Inc is restarting a crude unit at its 145,000 bpd Eagle Point refinery after losing power on Wednesday.

LyondellBasell's 270,200 bpd Houston refinery reported a flare at a fluid catalytic cracking unit on Wednesday.

According to a refinery statement, there was a brief fire at the 320,000 bpd Curacao-based Isla refinery at a distillates unit that produces lubricants.

Suncor Energy Inc said it has no plans for refinery conversion projects that would allow its facilities to handle heavy crude oils. Suncor's president and chief executive, Rick George, said the company would be more interested in increasing its diesel output at its refineries in Commerce City, Colorado and Sarnia, Ontario but added that options are limited.

EnCana Corp said it expects expansion plans for the Wood River, Illinois refinery, co-owned with ConocoPhillips, to be delayed from four to nine months after it failed to win air permits last month. The two companies plan to increase capacity to handle an additional 130,000 bpd of Canadian crude.

Trade sources stated that Iran was purchasing more fuel on international markets to compensate for lost output during a heavy work schedule at oil refineries in the fourth quarter. Oil traders said Iran will need to increase gasoline imports by about 60,000 bpd or about 50% during the work to compensate.

Iran's gasoline imports could increase to as high as 170,000 bpd, up from a monthly average of 95,000-115,000 bpd. Iran is scheduled to shut a 180,000 bpd crude unit at its 450,000 bpd refinery in Abadan for 30-40 days of maintenance starting at the end of October. It also plans to shut a 120,000 bpd vacuum distillation unit at its 270,000 bpd Isfahan refinery for about three weeks of work starting in early October. It is also scheduled to shut several secondary units at Iran's refineries for maintenance.

Indian refiners processed 3.336 million barrels of crude in June, up 5.6% on the year. Annual crude oil output was down 4.6% on the year in June at 646,300 bpd.

The Petroleum Association of Japan reported that the country's crude oil stocks fell by 2.3 million barrels on the week and by 6.74 million barrels on the year to 107.87 million barrels in the week ending July 19. It reported that Japan's gasoline stocks fell by 300,000 barrels on the week but increased by 1.37 million barrels on the year to 13.28 million barrels while kerosene stocks increased by 1.04 million barrels on the week but fell by 5.23 million barrels on the year to 13.38 million barrels. It reported that refinery runs increased by 7.9% on the week and by 3.6% on the year to 83.8%. Crude runs increased by 390,000 bpd on the week and by 220,000 bpd on the year to 4.1 million bpd.

Meanwhile, Japan's Ministry of Finance reported that Japan's customs-cleared crude oil imports fell by 0.7% on the year in June to 18.482 million kiloliters or 3.87 million bpd. For the January-June period, Japan's crude imports increased by 5.7% on the year to 122.859 million kl or 4.25 million bpd.

Japan's Oil Information Center stated that Japan's retail gasoline price in Japan was 180.9 yen or \$1.68/liter or \$6.36/gallon on Tuesday, down 0.4 yen on the week.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 1.176 million barrels to 21.368 million barrels in the week ending July 24. It reported that Singapore's light distillate stocks increased by 1.005 million barrels to 10.573 million barrels while its middle distillate stocks increased by 1.47 million barrels to 11.154 million barrels on the week.

Maritime Transport National Corporation said Libya is halting oil shipments to Switzerland in protest over the arrest of a son of Libyan leader Muammar Gaddafi. The ban on oil shipments includes both crude oil and refined petroleum products. All ships carrying Swiss-made goods are barred from unloading their cargoes at Libyan ports.

Production News

According to the Minerals Management Service, the amount of oil shut-in in the Gulf of Mexico fell on Thursday, with operators reporting that about 1.4% of production has been shut-in, down from 4.5% on Wednesday. On Thursday, 18,047 bpd of oil were shut in compared with about 58,122 bpd on Wednesday.

Anadarko Petroleum Corp said it restarted all of the oil production that had been shut by Hurricane Dolly. It had reported a peak shutdown of 30,000 bpd of oil equivalent.

Greenpeace Canada said environmental protesters blocked a pipe to a waste water pond at Syncrude Canada Ltd's oil sands development in northern Alberta as it continues to demand a halt to oil sands production. Syncrude's largest shareholder and operator, Canadian Oil Sands Trust said the protest will not affect its operations.

EnCana Corp reported that at Forest Creek, first production from its newest expansion phase, which will add 30,000 bpd of gross production capacity, is expected to start increasing in the fourth quarter of 2008. The next 30,000 bpd phase is expected to be completed in the first quarter of 2009, increasing

its capacity to 120,000 bpd. At Christina Lake, it is expected to increase its production capacity to 18,000 bpd by the end of the year, with production ramping up through 2009. It stated that its oil production at Foster Creek and Christina Lake was down 12% at about 24,700 bpd due to an extended turnaround in the second quarter at Foster Creek.

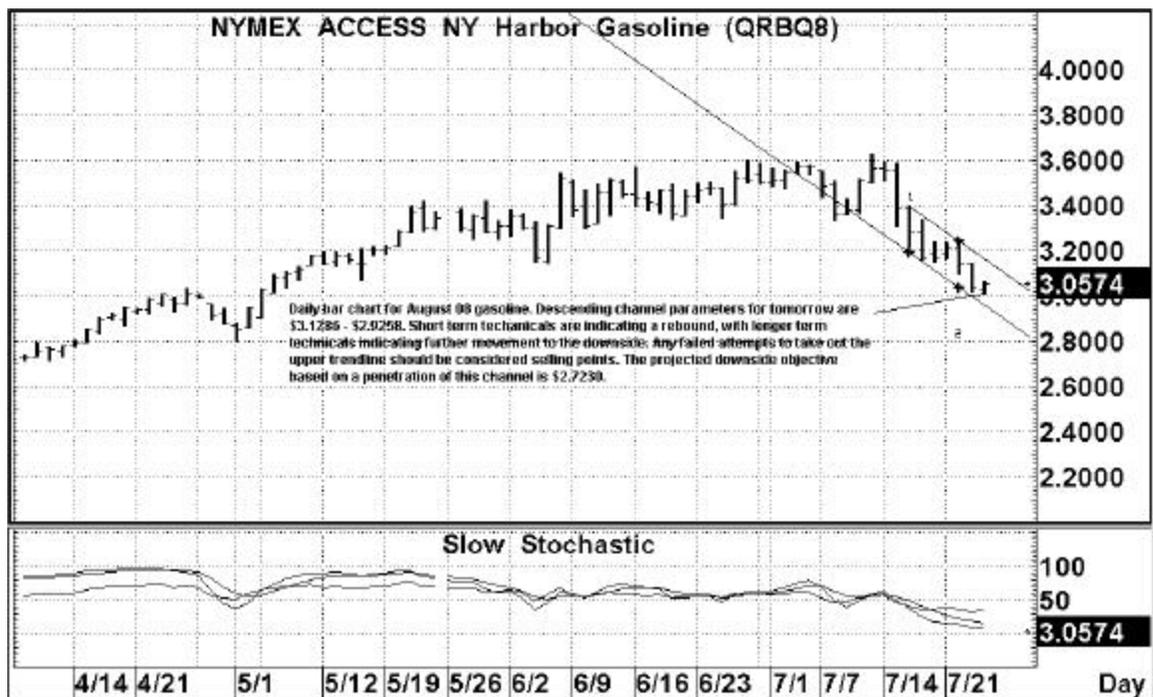
Ecuador's central bank reported that the country's oil export revenue totaled \$4.97 billion between January and May, up 114% from the \$2.32 billion in the same period of 2007. Ecuador exported 55.83 million barrels in the first five months of the year, up 15% on the year.

OPEC's news agency reported that OPEC's basket of crudes fell to \$123.89/barrel on Wednesday, down from Tuesday's \$127.43/barrel level.

Market Commentary

Thoughts of a market overdone to the downside, sparked off what appears to be a short covering rally. The forward curve for crude oil is reflecting front-end strength with the backwardation in the market accelerating from the third quarter of 2009 on back. This is in strong contrast to yesterday, when the curve starting from the second quarter of 2009 on back was for the most part, flat. We believe this to be indicative of short covering in the market rather than a reflection of supply and demand. The September crude oil remains within the downward channel on the daily bar chart. While the stochastics are in extreme oversold territory, the RSI's are not. Based on this we would look for continued downside movement within the descending channel for which the parameters for tomorrow are set at \$128.65 and \$121.40. Gasoline also continues to trend within the descending channel on a daily bar chart, rebounding to settle up \$.0275 on the day. Shorter-term technicals are indicating an oversold market, with longer -term technicals calling for more room to the downside.

Based on this, we would look to sell any rallies in this market that fail to take out the top of the descending channel depicted on the daily bar chart. After penetrating



and settling below the descending channel on a daily bar chart, heating oil experienced an inside trading day and settled back within this descending channel. As with the gasoline, we would not be surprised to see a test up at the top of this descending channel, which tomorrow comes in set at \$3.7319 and \$3.5431. Based on the stochastics, %K has now crossed below %D, with both trending lower. RSI's for this chart are still in neutral territory, trending just above the 30.00-oversold level. With demand from China expected to taper off closer to the Olympics and prices having an impact on

consumer spending, both products should continue to sustain weakness. Open interest for crude oil is 1,218,753 up 1,378, September08 316,031 down 3,726, October 105,873 up 1,958 and December 08 170,050, up 702. Total open interest for heating oil is 227,081 up 959, August08, 24,091 down 3,045 and September 08, 64,547 up 2,681. Total open interest for gasoline is, 234,740 down 1,444, August08 25,946, down 2,306 and September, 78,849 up 880.

On the option front, the December \$80 puts remained the most actively traded strike today as over 19,000 lots changed hands between 70 and 80 cents. The next two most active strikes were the January and December \$100 puts trading 14,000 and 16,381 lots respectively.

Crude Support	Crude Resistance
122.60, 115.55, 108.40, 85.40	125.65, 132.90, 134.85,140.60, 144.00,147.90,
Heat support	Heat resistance
+3.5100 3.3500 3.1680 3.0980	3.8215, 4.0210, 4.0765, 4.1200, 4.3614
Gasoline support	Gasoline resistance
3.0250 2.9255	3.1760,3.6021, 3.755, 34655