



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 25, 2008

Iran's envoy to the IAEA, Ali Asghar Soltaniyeh said the country will continue to cooperate with the IAEA. He said the meeting between IAEA's executive director Mohamed ElBaradei and Iran's Atomic Energy Organization, Gholam-Reza Aqazadeh was constructive and useful.

Venezuela President Hugo Chavez reiterated that he would like oil prices to stabilize at about \$100/barrel. He also stated that Venezuela has invited Repsol YPF to play a greater role in the Orinoco basin.

According to Petrologistics, OPEC is expected to increase its production by 200,000 bpd on the month in July while demand is

Market Watch

Lehman Brothers forecast that oil prices has peaked and may fall to \$90/barrel by the end of the first quarter of 2009.

The Reuters/University of Michigan Surveys of Consumers said its final July reading of its index of confidence increased to 61.2 from 56.4 in June. Inflation expectations one year out held steady at 5.1%, while looking further out at a five year horizon inflation expectations fell to 3.2% from 3.4%.

New orders for durable goods increased unexpectedly in June due to a surge in defense orders while a gauge of business investment was also higher than forecast in signs of economic resilience. Durable goods orders were up 0.8% in June following a revised 0.1% gain in May.

Japan's Inpex Holdings is set to pick a final location soon on the onshore site for its Ichthys liquefaction plant in Australia from the proposed Maret Islands or Darwin sites but estimated infrastructure costs remain a decisive tipping factor.

SemGroup, which filed for Chapter 11 bankruptcy protection on July 22, citing a \$3.2 billion loss in the future market, owes \$1.4 billion to the top 30 creditors with as many as 5,000 others also due money, many from physical oil transactions for which SemGroup never paid. SemGroup Energy Partners owns most of the pipelines and terminals that SemGroup LP used to move its oil, including tanks in Cushing, Oklahoma. Under new management, the company has vowed to forge new relationships with producers and refiners. Disruptions in any of its two key SemGroup systems could quickly be felt at Cushing. In June, SemGroup Energy Partners purchased 2 million barrels of recently completed storage capacity at Cushing from SemGroup LP, bringing its capacity at Cushing to 7 million barrels or about 15% of the total. However an analyst stated that SemGroup's collapse is not seen as a disruptive force in the market as the physical market will rearrange itself around other companies' assets.

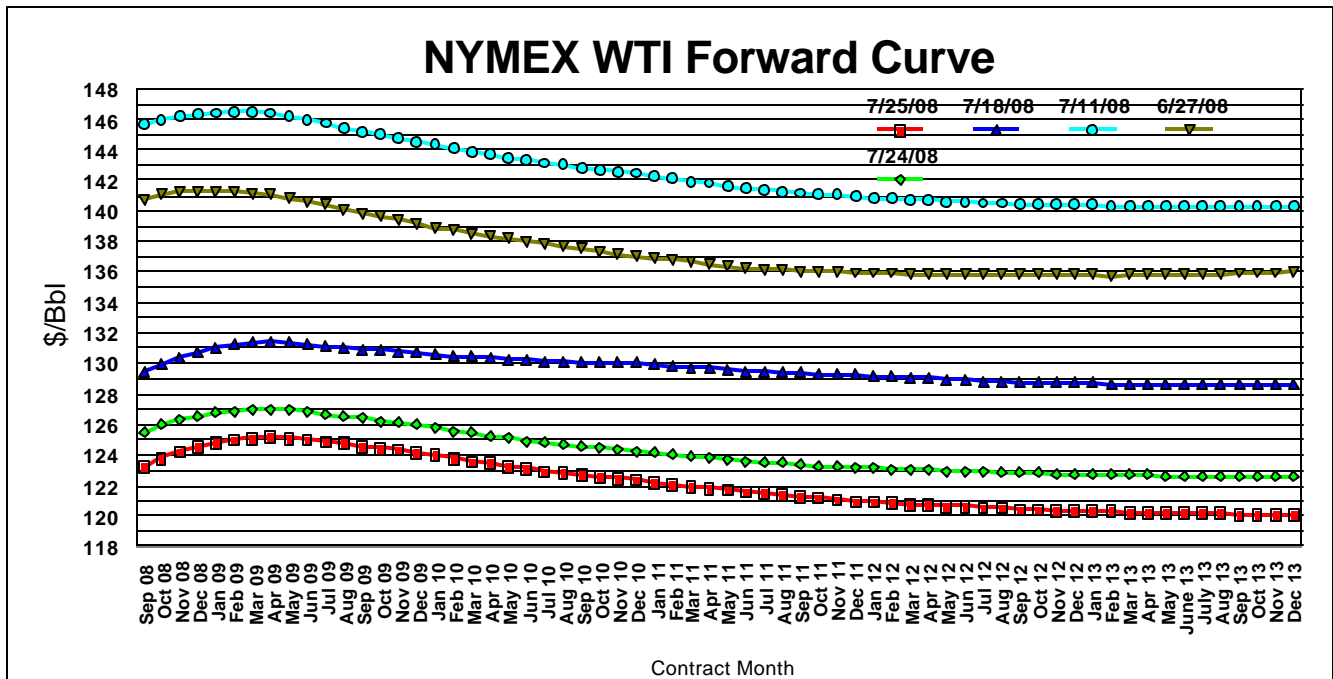
July Calendar Averages

CL – 135.49

HO – 384.46

RB – 333.23

expected to slow. Output from OPEC's 13 members is estimated to average 32.9 million bpd in July, up from 32.7 million bpd in June. It estimated that the 12 OPEC members bound by quotas, except Iraq, are



expected to produce 30.45 million bpd. Saudi Arabia is expected to produce 9.45 million bpd in July, up 130,000 bpd from 9.32 million bpd in June. Iraq is forecast to supply 2.45 million bpd, an increase from 2.33 million bpd in June. Meanwhile, Iran's production is expected to fall by 80,000 bpd to 4.03 million bpd.

US Senate Republicans blocked a vote on legislation to rein in speculation in the energy markets and instead called for a comprehensive energy package that would expand domestic petroleum and nuclear production. Democrats failed to gain enough support to bring the bill forward for consideration in the Senate. The House of Representatives may take up its own anti-speculation bill next week. The legislation would impose position limits to restrict the number of futures contracts that speculators could trade. Similar to the Senate bill, the House bill would not increase speculators' margins. CFTC must publish reports that provide the number of positions and total value of index funds and other passive long-only and short only investors in energy and agriculture markets. Conditions will be set for granting hedge exemptions from position limits, mostly for commercial purposes. Under the bill, 100 new CFTC employees will monitor the markets and the CFTC will report on impact on over-the-counter from positions on exchanges. Also, reporting will be mandatory for over-the-counter trading of look-alike agricultural and energy contracts.

Brazil's Oil Workers Federation, FUP said Petrobras failed to reach a profit sharing agreement with oil workers but added that the company asked the union to continue talks on Friday. The union did not say whether negotiations would continue on Friday during the day, when FUP's governing council was expected to meet and begin organizing plans for a possible nationwide strike. FUP had given Petrobras until Thursday to make a new profit sharing proposal or face the possibility of a nationwide strike that would start August 5. Meanwhile, Petrobras said it is fully prepared to meet production and distribution in the event of an oil workers strike.

Nigeria's main blue-collar oil workers' union, Nupeng, will hold off on resuming a strike over rising fuel costs before planned talks with government officials scheduled for July 29.

Nigerian security and industry sources said unknown gunmen kidnapped five oil workers off Bonny in southern Nigeria. Separately, security sources also stated that more than a dozen gunmen in speedboats kidnapped two oil engineers, one from the Philippines and one Nigerian, in Port Harcourt on Friday. The men were working for Damas Oil and Marine Services.

Refinery News

Colonial announced that it was freezing its distillate line for cycle 43 north of Collins, Mississippi.

Valero Energy Corp said it planned to restore its 295,000 bpd Port Arthur, Texas refinery to planned rates on Friday. It expects to restore crude throughput at its 130,000 bpd Houston refinery over the weekend. Production at the two refineries was cut by 10-20% on Wednesday as Hurricane Dolly caused shipping interruptions.

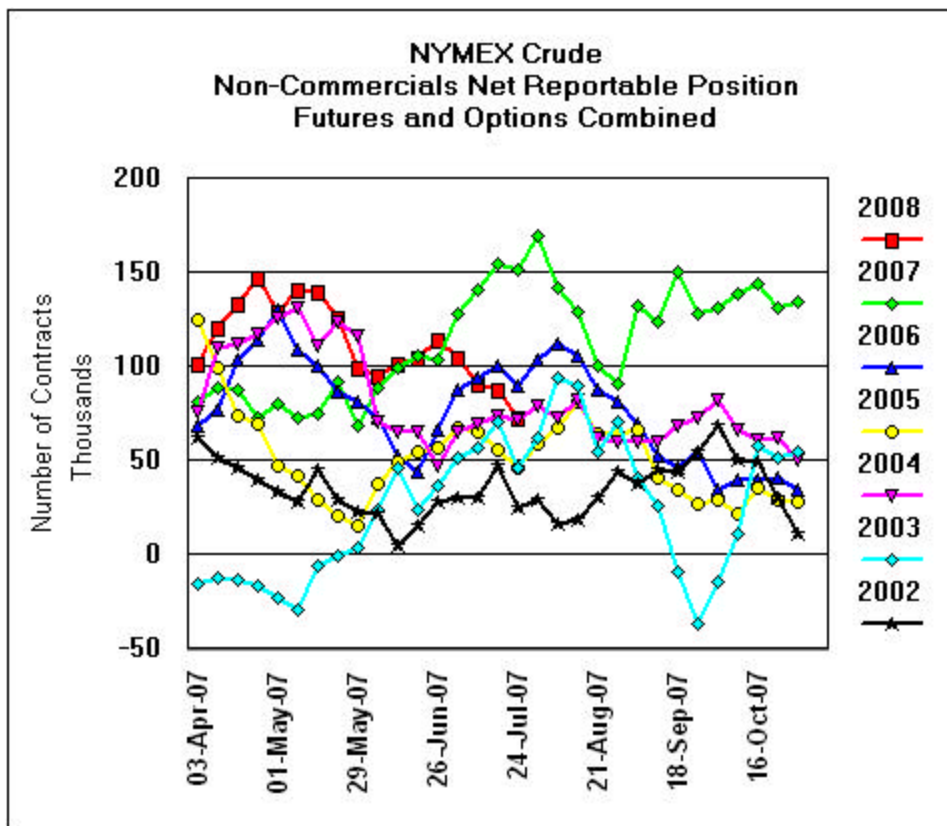
The US Coast Guard said cleanup efforts were underway Friday after a barge collided with a tanker in the Mississippi River, spilling about 419,000 gallons of fuel oil. The river remained closed to river traffic indefinitely.

Irving's oil refinery in St. John, New Brunswick was hit by a power surge on Thursday that briefly knocked a crude unit and fluid catalytic cracking unit and triggered flaring. The units were restarted after the incident, which was related to a lightning storm in the area that affected power transmission.

European distillate prices held steady as bidding by Petroplus continued to support diesel premiums. Petroplus has purchased 60,000-70,000 tons of diesel after it shut the Coryton refinery over the weekend as a safety precaution.

A shipping agency reported that about 60% of the 28 tanker ships hired to ship Brazilian ethanol abroad were bound for the US and Caribbean in June. Brazil exported about 354 million liters of ethanol last month. There were nine ships bound for the US, seven to the Caribbean while the rest of the vessels were bound for Europe, with some cargoes bound for Argentina and Canada.

India's Chennai Petroleum Corp will shut a diesel treatment unit and a 60,000 bpd crude unit at its Chennai refinery in the first week of August for routine maintenance.



South Korea's S-Oil Corp will run 530,000 bpd of crude in August, up from 500,000 bpd in July. In line with the increase, S-Oil will export 180,000 tons of jet fuel next month, up from 120,000 bpd in July. Spot gas oil exports will remain steady from July at 120,000 tons.

South Korea's Hyundai Oilbank will increase its crude runs in August. It said it will export more middle distillates, such as gas oil and jet fuel, but will marginally cut spot fuel oil exports due to less supply availability in the domestic market.

Indonesia's PT Pertamina is gradually increasing its oil product stocks to last 22 days from 19-20 days, ahead of the Muslim Idul Fitri holiday in October. Pertamina usually maintains stocks for 22 days however it reduced its stocks in recent months due to the sharp increase in world oil prices.

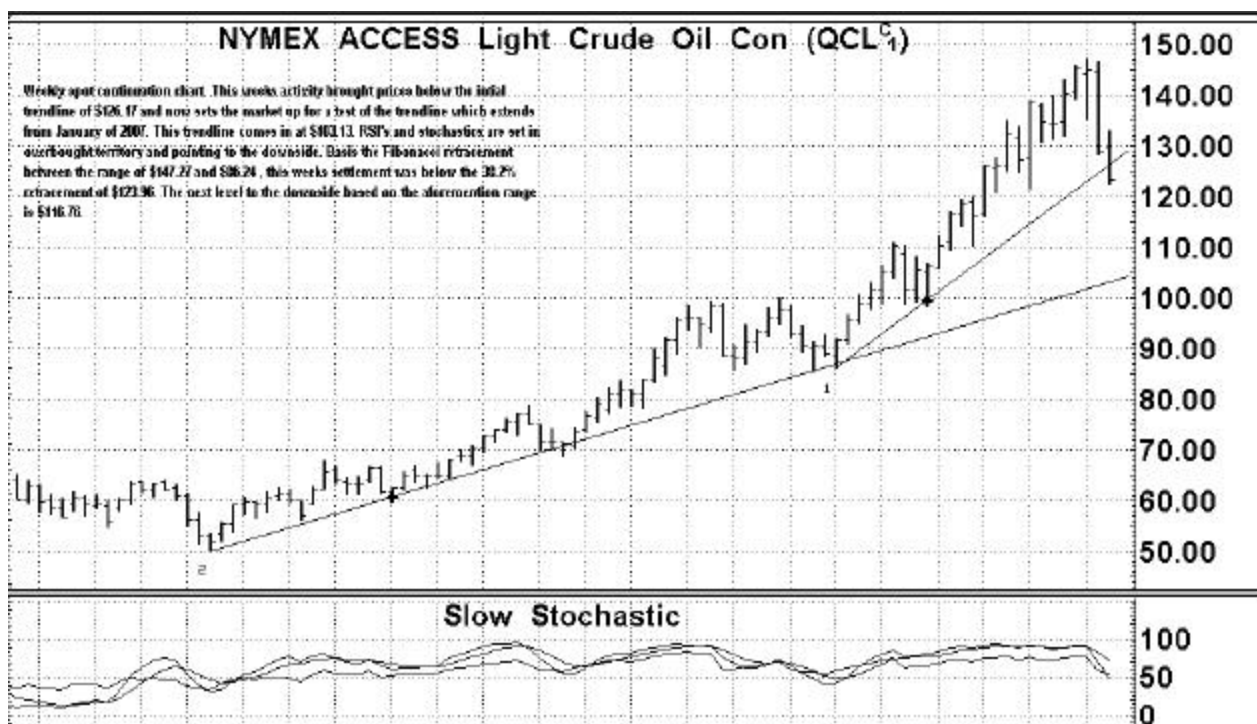
Sinopec Group will expand its crude oil supplies to independent refiners while keeping its own plants running at full capacity in the second half as it aims to meet domestic demand for refined oil products.

Production News

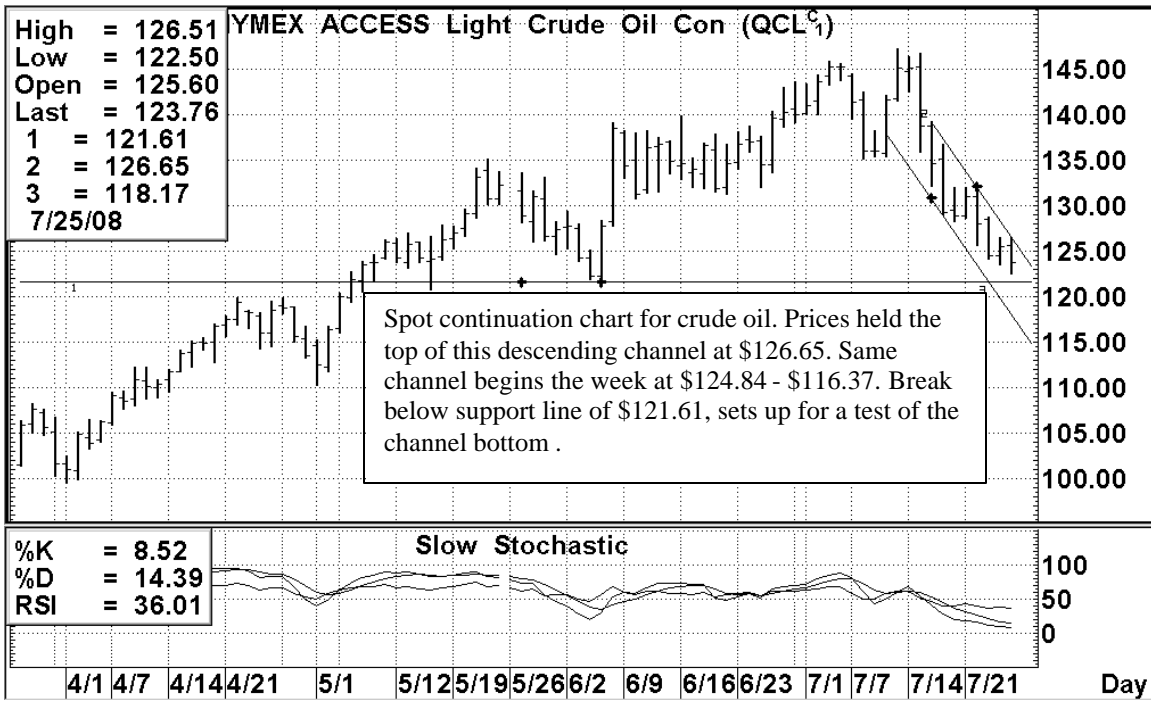
Royal Dutch Shell continued to increase its operations in the Gulf of Mexico and onshore in south Texas after Hurricane Dolly disrupted some production earlier this week. It also said it was sending workers back to its offshore facilities in the Gulf of Mexico. Separately, ExxonMobil Corp and Chevron Corp said they were restoring offshore production that was shut in due to Hurricane Dolly. Exxon's announcement did not state how much of the 12,000 bpd in oil production and 100 million cubic feet/day in natural gas output that was shut in was restarted. Chevron, which had shut in a minimal amount of production, said most of the shut in production was restored on Thursday while the remainder of the shut in production was expected back on Friday.

Total SA said its North Sea Alwyn Area oil and natural gas fields resumed operations following a maintenance outage. The Alwyn area produces about 150,000 barrels of oil equivalent/day.

A preliminary export schedule showed that Russia's seaborne oil exports will fall to 2.66 million bpd, the lowest level this year from 2.9 million bpd in July due to the sharp decline in oil prices.



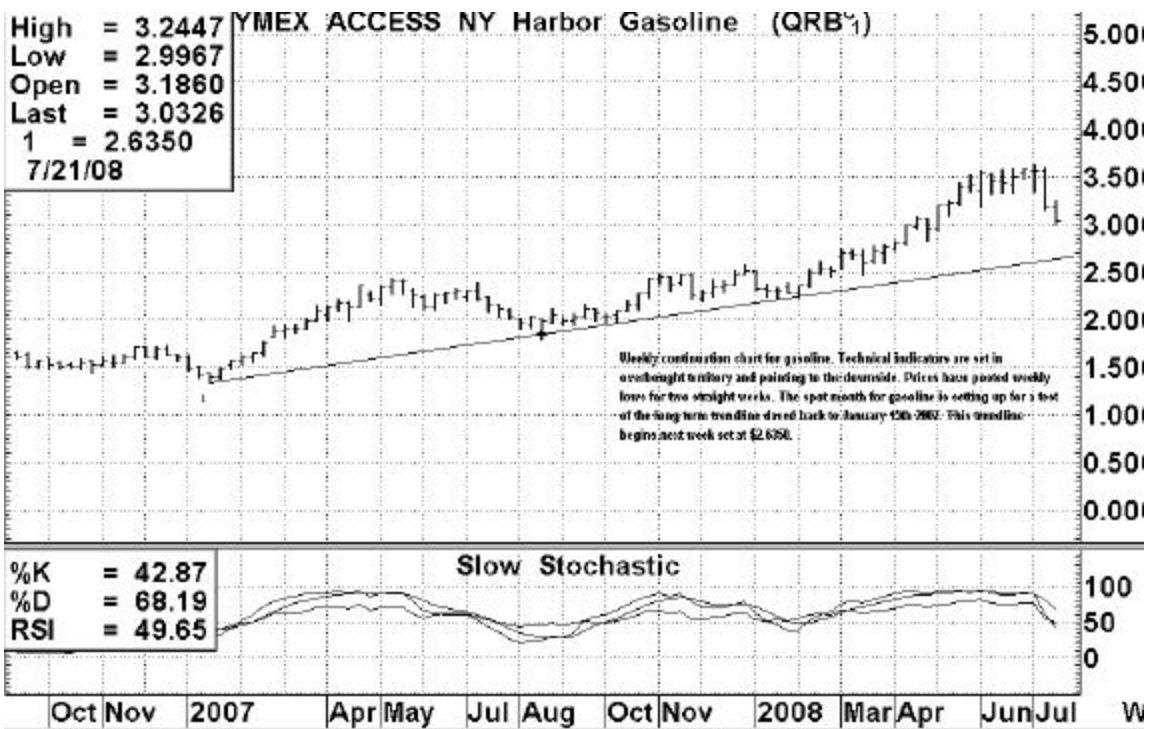
ExxonMobil Corp and BHP Billiton Ltd approved the A\$1.4 billion or \$1.34 billion Turrum oil and gas field off southeast Australia. The Turrum phase 2 project has reserves of about 1 trillion cubic feet of gas and more than 110 million barrels of oil and condensate. Production at Turrum is expected to begin in 2011.



Nigeria has started bilateral talks with the Republic of Benin over increasing crude oil supplies to the country from 15,000 bpd to 50,000 bpd.

OPEC news agency reported that OPEC's basket of crudes fell to \$122.42/barrel on Thursday from Wednesday's \$123.89/barrel.

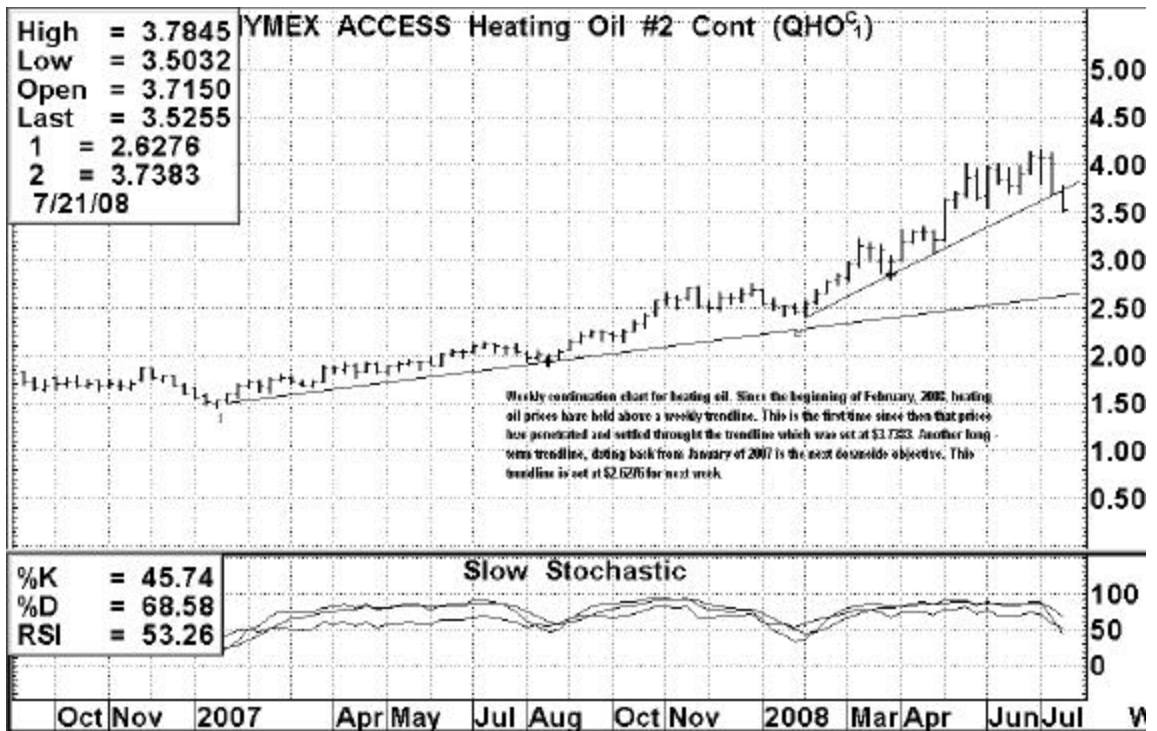
Russia's Gazprom said it reached an agreement with Turkmenistan on key pricing principles for the company's gas imports from Turkmenistan.



Market Commentary

According to a report by PetroLogistics Ltd. oil production by OPEC rose 200,000 barrels per day. This statement coupled with signs of weakening demand sent energy prices sliding to a seven-week low. A vote by Senate Republicans to block action on legislation proposed by Democrats to curtail speculation in the energy markets had little impact on today's market activity. Speculators are being blamed by Democrats for 30% to 50% of the cost of oil. Crude oil prices are now at their lowest level since the first week of June. The forward curve is indicating increased backwardation from January 2009 on back. Technical indicators are calling for further downside potential as indicated on the charts seen in this wire. The September 08 crude oil is set up for a test of the bottom of the descending channel on a daily bar chart, which is set up at \$118.17 and beyond that for a test of the weekly trendline, which is set at \$103.13. Both gasoline and heating oil also came under pressure today, in response to declining demand. U.S. gasoline consumption continues to remain unseasonably low and airlines are feeling the impact of conscientious consumers. Based on a weekly chart for gasoline, we would look for prices to test the weekly trendline, which begins the week set at \$2.6350. Heating oil

has finally broken through the long-term weekly trendline dating back to February 4, 2008. A test of the weekly trendline, which dates back to January of 2007, is next week's objective. This trendline begins the week set at



\$2.6276. Open interest for crude oil is 1,218,615 down 138, September 08 311,238 down 4,793, October 108,211 up 2,338 and December 08 168,008 down 2,042. Total open interest for heating oil is 228,511 up 1,430, August 08, 22,630 down 1,431 and September 08, 65,285 up 738. Total open interest for gasoline is, 229,098 down 5,642, August 08 23,434, down 2,512 and September, 77,268 down 1,581.

The Commitment of Traders report showed that non-commercials in the crude market switched from a net long position of 22,382 contracts to a net short position of 3,640 contracts in the week ending July 22. The funds increased their total short position by 14,028 contracts to 201,659 on the week. It is the first time funds have gone net short since the week ending February 13, 2007 when they were net short 7,213 contracts. The combined futures and options report showed that non-commercials continued to cut their net long position by 14,981 contracts to 73,123 contracts in the latest week. The non-commercials cut their total long position by 22,399 contracts to 216,575 contracts. They have continued to cut their net long position as seen in the declines posted in open interest. Meanwhile, non-commercials in the product markets also continued to cut their net long position. The funds in the

RBOB market cut their net long position by 4,685 contracts to 40,678 contracts while non-commercials in the heating oil market cut their net long position by 2,108 contracts to 10,860 contracts on the week.

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