



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 28, 2008

Royal Dutch Shell Plc said it was forced to shut in some oil production in Nigeria after the Nembe Creek pipeline it operates was damaged by a militant attack. The Nembe Creek typically operates at 130,000 bpd and feeds the Bonny export terminal. Shell however did not give any details on the volume of shut in production. The Movement for the Emancipation of the Niger Delta claimed it sabotaged the pipeline, in keeping with its pledge to resume pipeline attacks within the next 30 days. The militant group also claimed responsibility for damaging a second pipeline, with a capacity of 100,000 bpd that also feeds the Bonny export

Market Watch

The New York Times reported that while the use of fuel subsidies is helping countries prevent unrest over the high price of fuel, the subsidies are removing much of the incentive to conserve. BP estimates that countries that subsidize their fuel account 96% of the world's increase in demand. These countries are still experiencing sharp increases in demand and threaten to outstrip the growth in global supplies. In countries that do not subsidize their fuel, demand has stagnated or declined. Economists believe that if enough countries pass on the cost of the fuel to consumers, demand growth will decline, bring the oil market into balance and lower oil prices. In China, subsidies are estimated at \$40 billion this year, up from \$22 billion last year, while consumption has also increased. Indonesia also spends \$20 billion in subsidies. Economist estimate that Indonesia's fuel demand would fall by 5% if the government eliminated subsidies. However political pressure and inflation continues to prevent governments from ending subsidies. The executive director of the IEA, Nobuo Tanaka said that subsidies were a big factor contributing to the mismatch in supply and demand.

According to Dresdner Bank AG, Brent crude oil will fall below \$100/barrel this year.

The NYMEX announced that it will launch a futures contract on August 24 for the greenhouse gas market developing in 10 US states. The contracts will represent reductions of the greenhouse gas carbon dioxide in the Regional Greenhouse Gas Initiative. The contract will be available on the CME Globex electronic trading platform.

Russia's Economy Ministry expects the rouble to strengthen this year by 3.7-3.8% in real effective terms and M2 money supply growth to reach 35-36%. It revised down its forecast for Russian oil production in 2008 to 492 million tons from 495-500 million tons predicted earlier.

The Chicago Federal Reserve Bank said its Midwest manufacturing index increased 1.1% to a seasonally adjusted 106 in June from 104.8 in May. Midwest output was down 1.9%, worse than the 0.4% national decline.

The International Monetary Fund said world markets are still under strain from the US housing crisis and added that financial instability almost everywhere is making it tougher to raise interest rates to combat inflation.

Collapsed oil distributor SemGroup LP has given its suppliers more time to sign up for a program that would maintain their ties to the company. SemGroup's Acting chief executive told suppliers that they may be eligible to be paid for past due bills if they continued to do business with the company.

July Calendar Averages

CL – 134.93
HO – 382.97
RB – 331.85

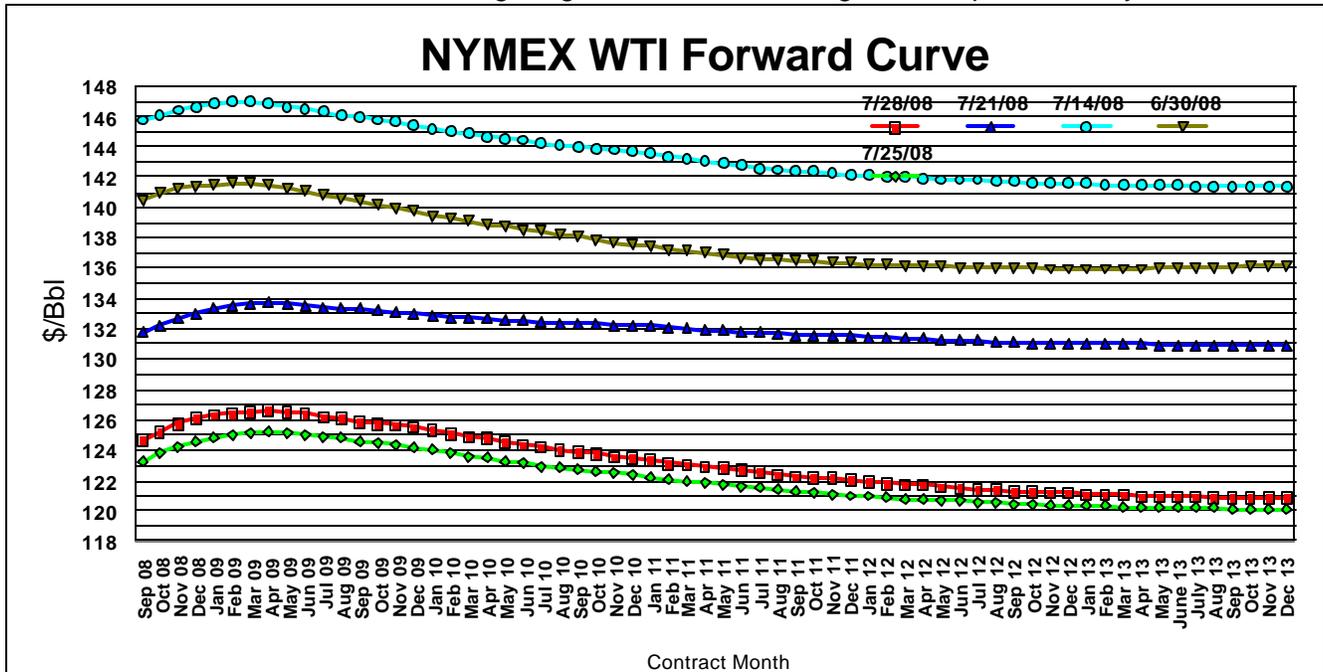
terminal. A Shell spokesman said the company was investigating claims by the Movement for the Emancipation of the Niger Delta that it bombed a second Shell operated pipeline early Monday. Nigeria's Oil Minister Odein Ajumogobia said Shell was still assessing the damage from pipeline attacks by Nigerian militants on Monday and added that any estimates would be speculative.

OPEC's President Chakib Khelil said oil prices are unlikely to fall from current levels within a foreseeable time frame.

In an NBC interview, Iran's President Mahmoud Ahmadinejad said crude oil is overvalued and added that the price in international markets is not realistic and the market is manipulated. In regards to Iran's nuclear program, Iran's President said that if the US adopted a new approach to his country, Iran would respond in a positive way. He said Iran will seek common ground with the US and five other world powers that have proposed incentives. In response, US State Department spokesman Gonzalo Gallegos called Ahmadinejad's comments rhetoric and added that the State Department wanted a definitive response from Iran's top nuclear negotiator, Saeed Jalili to EU foreign policy chief Javier Solana. White House spokeswoman Dana Perino said the US remains skeptical about Iran's willingness to compromise over its nuclear program.

Iran's Oil Minister Gholam Hossein Nozari said Iran is currently exporting 2.5 million bpd of oil. He added that on average, the price of Iran's crude is \$120/barrel. Iran's Oil Minister said the country will soon introduce an energy plan aiming to lower its gasoline imports. He said the Bandar-Abbas refinery's diesel, kiln oil and gasoline production capacity is increasing and work on the Esfahan refinery expansion has also been expedited. Meanwhile, Iran's OPEC governor Mohammad Ali Khatibi said regional insecurity could push crude oil prices to as high as \$500/barrel. He said that if Iran's oil is cut off from foreign markets, the entire region's oil will be unable to reach international markets as well.

Senator Jeff Bingman, Chairman of the Senate Committee on Energy and Natural Resources said the US Senate is unlikely to pass legislation aimed at reining in excessive energy speculation before lawmakers leave for their month long August recess. The legislation sponsored by Democrats to



provide the Commodity Futures Trading Commission with greater oversight of energy futures markets was stalled Friday when it failed a key procedural vote. Republicans blocked the bill because they were not allowed to add an unlimited number of amendments to the bill. Republicans have been pushing to lift bans on drilling offshore and in the Arctic National Wildlife Reserve. However Senator Bingman said he is hopeful the Senate will be able to pass legislation this week extending renewable energy and energy efficiency tax credits. Meanwhile Senate Majority Leader Harry Reid offered Senate Republicans a compromise Monday aimed at ending the partisan standoff over what steps Congress should take to tackle spiraling energy prices. He said he would offer Republicans the right to hold four votes on aspects of the minority's energy plan, saying the Democrats would have the same number of votes.

The EIA reported that the US average retail price of gasoline fell by 10.9 cents to \$3.955/gallon in the week ending July 28. It also reported that the US average retail price of diesel fell by 11.5 cents or 2.4% to \$4.603/gallon on the week.

The EIA reported that US oil demand in May was down 4.4% or 902,000 bpd on the year at 19.729 million bpd. It is down 3.2% or 660,000 bpd from its previous estimate. Demand for the first five months of the year averaged 19.825 million bpd, down 888,600 bpd or 4.3% below a year ago. It reported that demand for gasoline averaged 9.216 million bpd, down 2.3% or 213,000 bpd on the year.

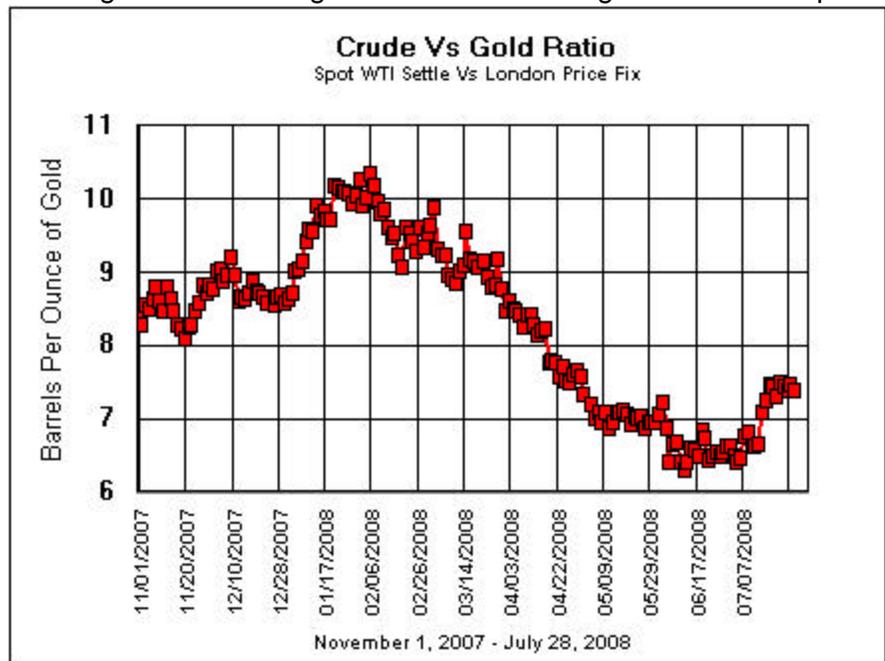
Eight foreign workers seized overnight near a major oil export terminal in southern Nigeria have been released. A Nigerian army spokesman said the eight men were voluntarily released by the kidnappers and no ransom was paid. Six armed member in speedboats had attacked a ship near the export terminal of Bonny Island, firing at two civilians and kidnapping the eight workers. The Movement for the Emancipation of the Niger Delta denied any involvement. The raid came a day after five foreign oil workers were kidnapped during a similar attack in the same area.

The US Transportation Department said the number of miles driven on US highways in May fell 3.7% or by 9.6 billion from last year due to soaring fuel costs. During the first five months of this year, highway travel was down 29.8 billion miles.

Brazil's Petrobras and union representing oil workers agreed to continue negotiations on a profit sharing deal Tuesday. The FUP, the umbrella Brazilian Oil Workers Federation, had given the company until Thursday to make a new profit sharing proposal or face the possibility of a nationwide strike that would start August 5.

Refinery News

Valero Energy Corp's 130,000 bpd Houston refinery is expected to return to planned rates on Monday after Hurricane Dolly caused run cuts last week. The refinery was expected to return to normal over the weekend but restoration of run rates did not start until Monday. Meanwhile,



Valero's 295,000 bpd refinery in Port Arthur, Texas was at planned output on Monday.

Chevron Corp's 242,900 bpd refinery in Richmond, California reported a chemical spill early Monday to state environmental regulators. It said there was no production impact spill.

PDVSA's 640,000 bpd Amuay refinery has restored normal operations at its catalytic cracking unit after damage to a compressor at the unit on Friday led to heavy flaring.

European refining margins remained strong last week due to demand for diesel and jet fuel while US margins weakened as gasoline use continued to fall. A complex refinery in the Rotterdam area saw its margins increase to \$9.74/barrel over the last week, up from \$6.14 over the last year. High profit margins for European gas oil, which includes heating oil, diesel and jet fuel, have helped offset losses on gasoline and fuel oil. In the US, heating oil margins also remain strong although off recent highs. Heating oil margins, boosted by diesel exports to Europe, have counterbalanced a weak gasoline market. Meanwhile Asian refining margins remain weak. A complex refinery in Singapore cracking Dubai crude saw its margins fall to about \$4.07/barrel last week compared with \$7.11/barrel last year.

Russia's Neftekhimservis plans to start the construction of a refinery in the Kemerovo region in August. Its annual refining capacity is estimated at 3 million metric tons.

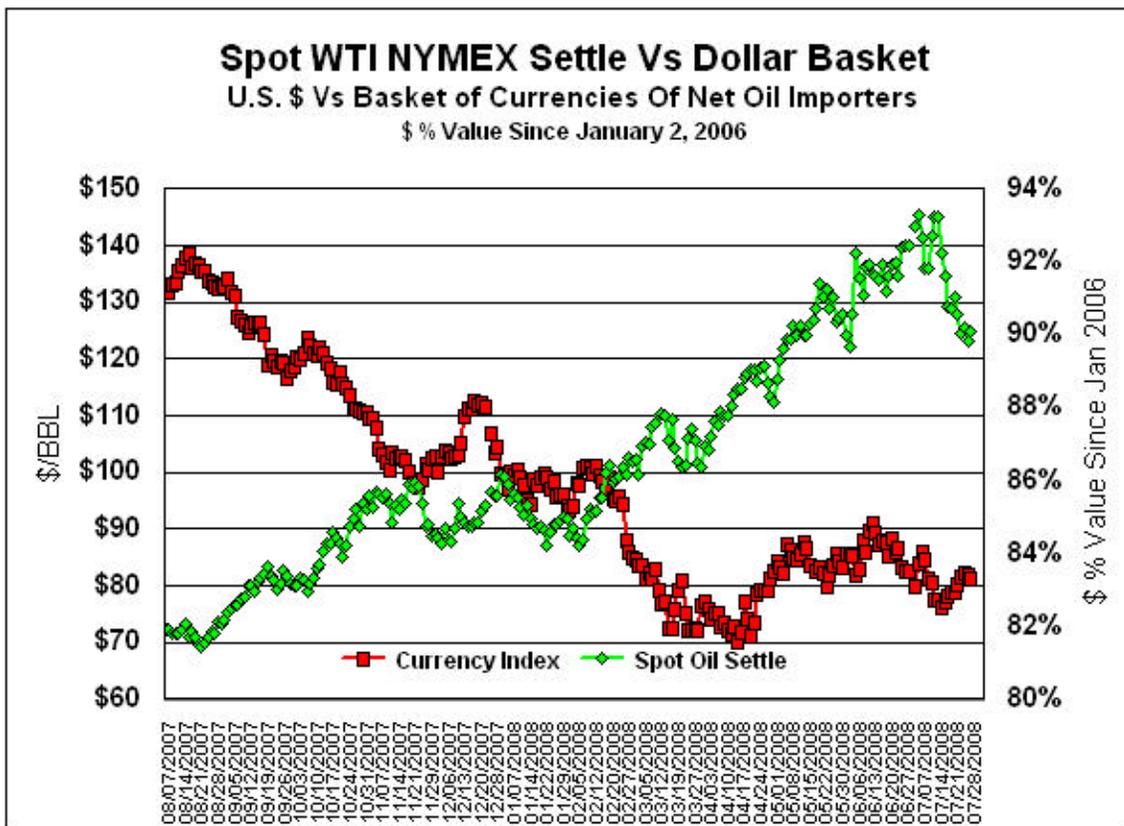
Kuwait National Petroleum Co said a limited fire which broke out early Monday at its Mina Abdullah refinery did not impact its refining operations or exports. The fire started in a compressor that was resuming operations following a maintenance outage.

PetroChina Co's Dalian refinery has started importing high sulfur crude oil. The 401,644 bpd refinery received its first high sulfur cargo last Wednesday from Kuwait. The refinery can process 15.5 million

tons of high sulfur crude each year or 311,274 bpd.

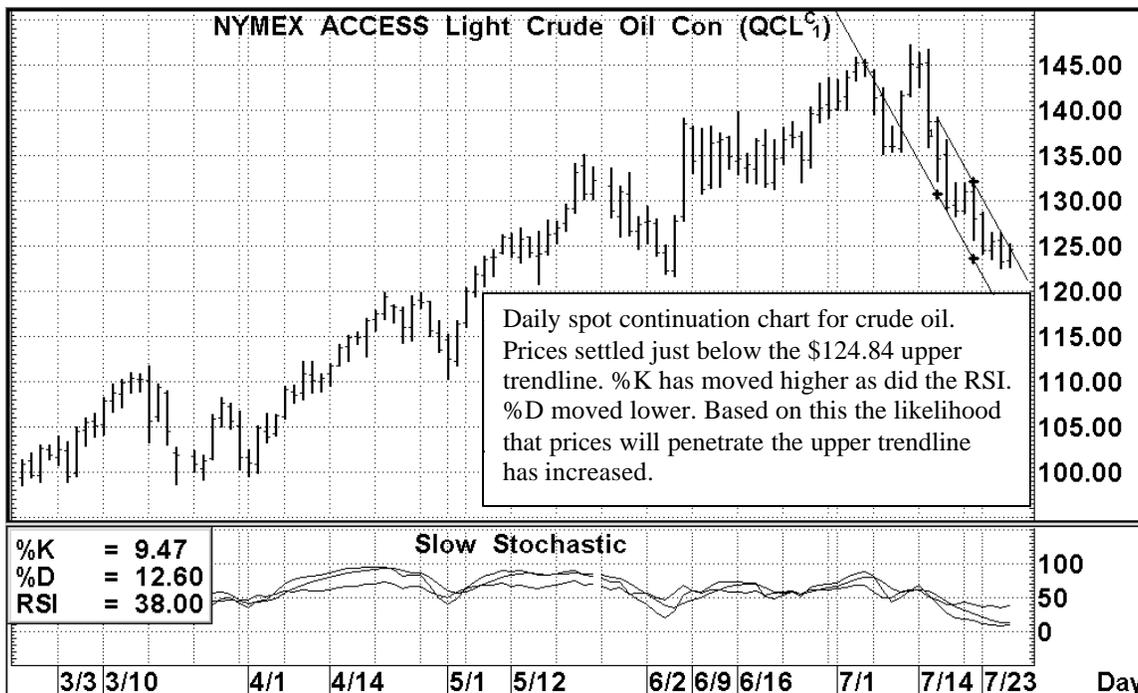
Production News

Nigeria's crude exports are expected to increase to 2.02 million bpd or 60.7 million barrels in September from 1.94 million bpd or 60.2 million barrels in August following pipeline repairs. However traders said



that even though loading schedules showed expected increases, concerns over supply disruptions remained.

The head of the Libyan National Oil Co, Shokri Ghanem said ongoing pipeline maintenance work in



Libya could keep 100,000 bpd of production shut in through August and perhaps longer. He said Libya with between 150,000-200,000 bpd of total production shut in was pumping 1.5 million bpd.

The Abu Dhabi National Oil Co said the UAE plans to reduce its oil production by at least 100,000 bpd for up to 40 days from October 23. It said production from the 280,000 bpd Lower Zakum field will decline by about 100,000 bpd to allow it to be linked to a new gas processing facility. It will partially shut the field at the same time as it performs maintenance at one of the country's three liquefied natural gas production units. The LNG train that will be shut has a capacity of 2 million tons/year and will be shut for up to 40 days for maintenance.

Angola's Sonangol has given its approval for BP and its co-venturers to develop a series of deepwater oil discoveries in the country's offshore Block 31. First oil is expected in 2011 with plateau production estimated at 150,000 bpd by 2012.

Brazil's Petrobras expects to produce 940 million liters/year of biodiesel by 2012. It will inaugurate its first biodiesel plant, with a production capacity of 57 million liters/year, on Tuesday. It is the first of three biodiesel plans Petrobras Biocombustivel plans to open in 2008.

Archer Daniels Midland Co plans to start producing ethanol in Brazil's Goias state. It is expected to announce in August taking stakes in Grupo Cabrera's planned projects in sugar and ethanol mills.

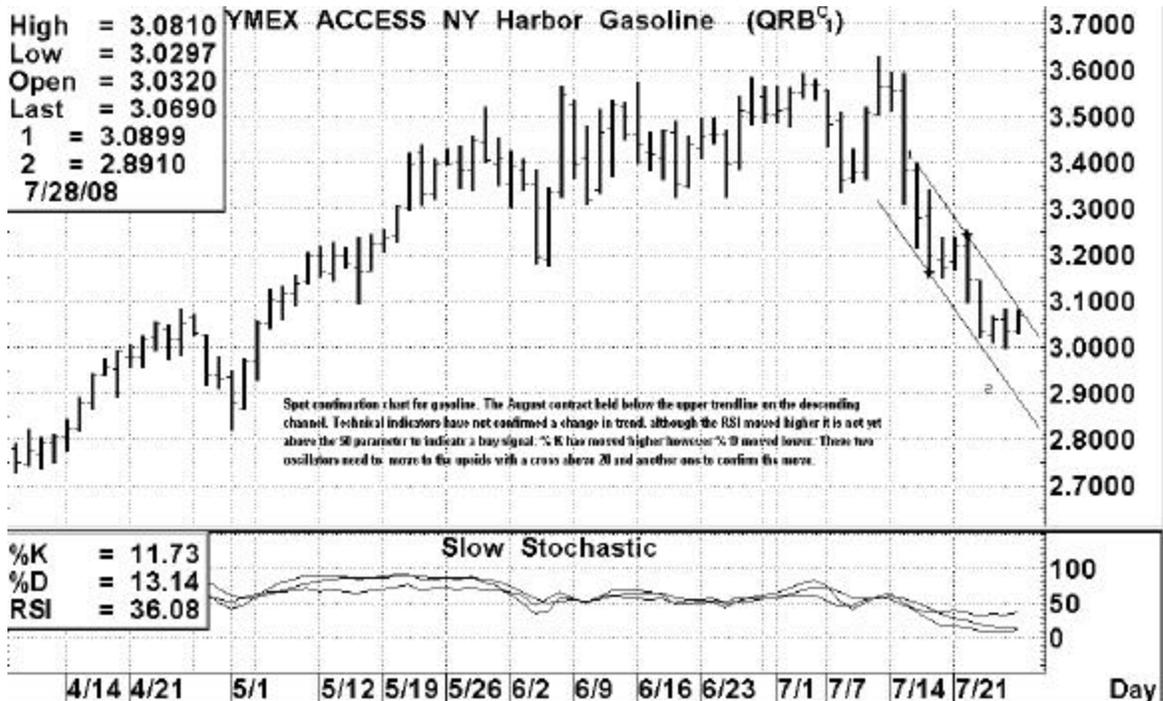
Nigeria has set its August officials selling prices for its Bonny Light and Qua Iboe crude at a premium of \$3.90/barrel over Dated Brent. The price of its Escravos crude was set at a premium of \$3.70/barrel, the price of its Brass River crude was set at a premium of \$3.95/barrel while the price of its Pennington and Forcados crude was set a premium of \$5.20 and \$3.95, respectively.

OPEC's news agency reported that OPEC's basket of crudes increased by 21 cents to \$122.63/barrel on Friday from \$122.42/barrel on Thursday. It also reported that OPEC's basket of crudes fell by \$9.15/barrel to \$124.82/barrel in the week ending July 25.

Market Commentary

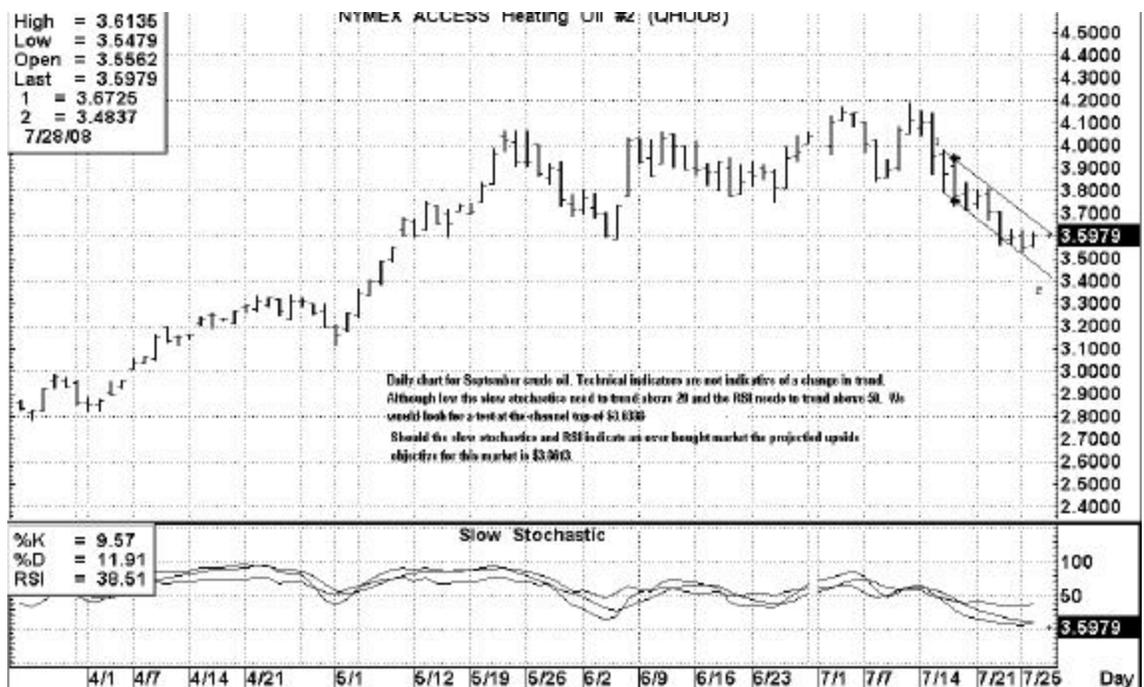
The energy markets were higher today in response to reduced output at Royal Dutch Shell's operations following a pipeline sabotage attack. September crude oil settled just below the upper

trendline of the descending channel on a spot continuation chart. The RSI is supporting another move higher as is %K, which also turned to the upside. %D, however, moved lower. The weekly chart is

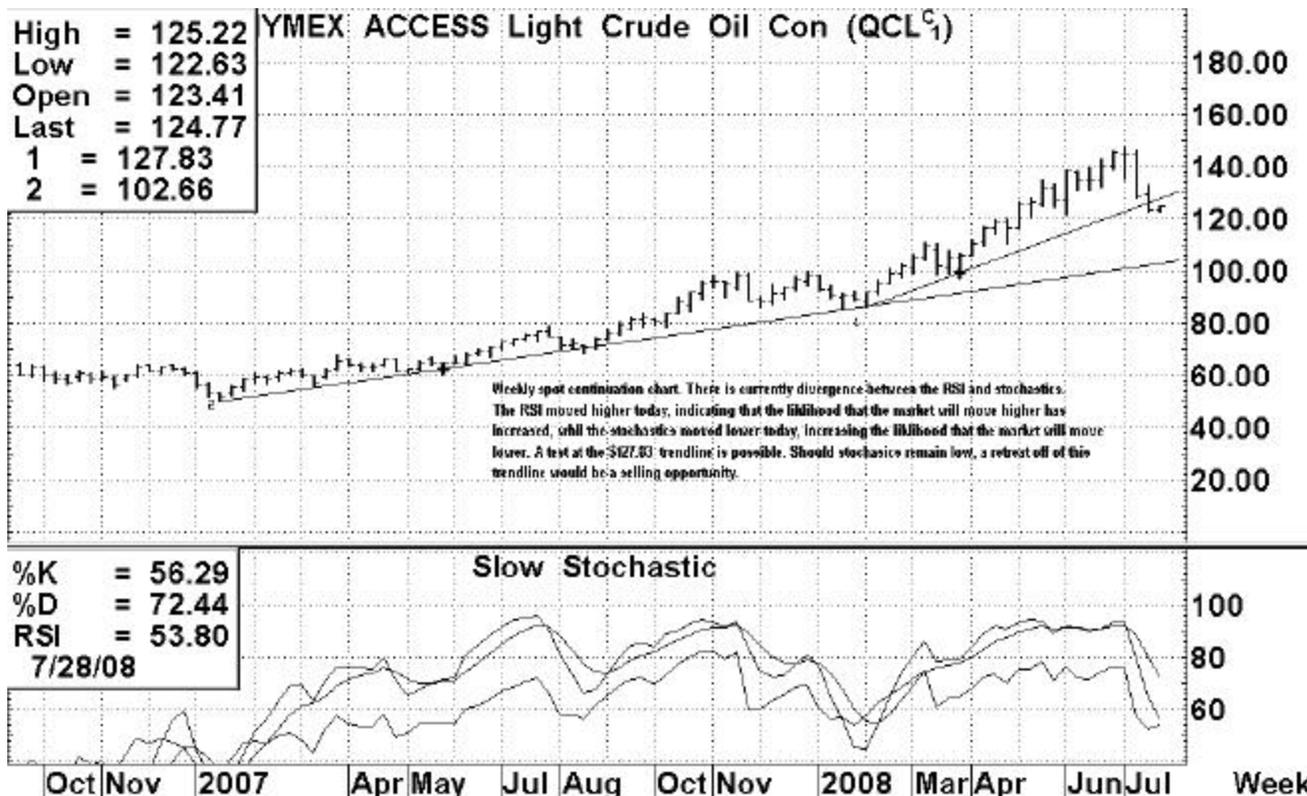


also supporting a further move higher. Based on both of these charts, another slight move higher is likely and September crude should test the \$127.83 weekly channel top. A failure to take out this level should be considered a selling opportunity. Should the stochastics cross above 20 twice, this would signal an over sold market on the daily chart. The current price of crude oil in comparison to the basket of currencies is within the comparable range of \$130.00 and \$120.00. The last time crude oil prices were within this range; the U.S. dollar versus the basket of currencies was running around 84%, a level that it is close to now.

August gasoline held above unchanged today, but was unable to take out the \$3.0899 top of the descending



channel. Although technical indicators are in oversold territory, they have not given an indication that a change in the trend has taken place. The RSI needs to move above the 50 pivotal point and slow stochastics should confirm a trend change with a cross above 20 and a confirmation cross a second



time. Heating oil held its strength once above the unchanged level but remained within the previous day's range. Based on technical indicators we would also look for this market to test the top of the descending channel but would need a confirmation by the indicators that the trend as changed. The descending channel based on a daily chart for September heating oil is set at \$3.6338 - \$3.4450. Product demand continues to suffer the effects of economic woes, which should help to keep a lid of both heating oil and gasoline. Open interest for crude oil is 1,220,067 up 1,452, September08 307,224 down 4,014, October 112,509 up 4,298 and December 08 168,363 up 355. Total open interest for heating oil is 228,976 up 465, August08, 20,964 down 1,666 and September 08, 65,842 up 557. Total open interest for gasoline is, 228,533 down 565, August08 20,963, down 2,471 and September, 78,047 up 779.

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, 3.4655