



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 4, 2008

Tropical Storm Edouard continued to drift westward in the Gulf of Mexico today. The storm had forced the suspension of crude offloading at the LOOP as well as the closures of the Lake Charles and Houston Ship Channels. While the storm earlier in the morning showed some disorganization, forecasters were still saying there was just a 20% chance the storm could reach hurricane strength by the time it made landfall some where near Galveston Island on Tuesday afternoon. Late in the day the National Hurricane Center was reporting that the wind field of the storm was expanding and that tropical force winds were now recorded

Market Watch

Japan's new energy minister Nikai said Monday that crude oil prices were at "abnormal" high levels. He noted that the high prices and volatility had even hurt oil producers in the Middle East. He also noted that Japan would welcome the increase in investment by sovereign wealth funds into Japan. This comes a day after a report that the Kuwaiti Investment Authority was looking to triple its investment in Japan to \$48 billion.

China reportedly is facing its worst summer power crisis since a 40 GW shortfall was recorded in the summer of 2004, which caused widespread brownouts and blackouts, reduced metals production and triggered a one off surge in oil demand. Coal shortages at generating plants, low levels at hydropower dams, hot weather and costly fuel imports are all contributing to the problem. The power grid operator in Shandong province, a major industrial base in eastern China said that its power shortage at one point in the last week reached 10.22 GW or 27.6% of its maximum demand, as many generators in the province had been idled since early July due to coal shortages, poor coal quality, transportation limits, generator malfunctions and maintenance activities. There has been reports of some industrial firms in some regions being required to stop power use for as much as four days a week.

The U.S. Commerce Department reported this morning that new orders at U.S. factories increased by a greater than expected 1.7% in June. Meanwhile the government reported that U.S. consumer prices jumped by 4.1% in June on a year on year basis, the sharpest rate in more than 27 years. The Government also reported that consumer spending after adjusting for inflation fell in June.

Nigeria's president said Monday that he will seek cabinet approval next week for draft legislation that would restructure the state oil and gas sector and break up the Nigerian National Petroleum Corporation. The government is seeking to answer criticism from unions and opposition parties over NNPC for its lack of transparency in the management of fuel imports and crude oil exports. NNPC controls 60% of the country's oil production.

Presidential Democratic candidate Obama today proposed releasing 70 million barrels of light crude oil from the nation's SPR and to be replaced at a later time with heavier grade crude oil. He also called for a \$7,000 tax credit to help consumers to buy fuel efficient cars, set a goal of requiring 10% of U.S. energy supplies to be renewable sources by 2012 and called for the ending of the need for oil from the Middle East & Venezuela within 10 years.

The Reuters /Jefferies CRB Index posted its largest one day drop since March, as the index fell 3% as oil and commodities tumbled lower today. The Index was off 10% in July.

in three of the four quadrants, but the overall system's maximum winds had not changed much from this morning. There remained a divergence between computer model forecasts for the maximum strength that this storm will reach before making landfall now seen between Galveston and Port Arthur. Most oil and gas companies operating offshore platforms reported no impact to their operations. But at midday the U.S. Minerals Management Service did report that a total of 23 platforms and 6 drilling rigs had been evacuated due to the storm. This has resulted in 11,539 b/d of crude production and 555 million cf/d of natural gas production lost.

Iran and the representative of six world powers talked by telephone on Monday to follow up on their discussions concerning Iran's nuclear program. Western officials had set an informal deadline of last Saturday for Tehran to respond to an offer by the western powers to freeze its enrichment work. The Iranian representative reportedly said that Iran would not stop nuclear work but would deliver a formal written reply to the EU representative on Tuesday. The EU representative said the call with his Iranian counterpart was "not conclusive", and did not rule out new contacts in the coming days. The United States had said over the weekend when Iran had missed Saturday's deadline that the U.N. Security Council had no choice but to expand sanction on Iran. Meanwhile Iran's Revolutionary Guard chief said Iran had the ability to close the Strait of Hormuz if attacked. Iran reported that they had tested a new naval weapon today that reportedly has the ability to destroy any vessel in a range of 190 miles.

August Calendar Averages

CL – 123.26

HO – 339.35

RB – 304.23

Refinery News

Valero Energy reported that a valve leak near the FCC unit at its 210,000 b/d Delaware City refinery occurred on Saturday.

Valero said its 130,000 b/d refinery in Houston was operating at reduced production levels following a Monday morning explosion in a sulfur-loading tank. The company also noted that operations at its 218,000 b/d Texas City refinery were reduced due to the closure of the Houston Ship Channel related to the approach of the storm.

ConocoPhillips reported that an aeration compressor was briefly shut on Saturday at its 247,000 b/d Sweeny oil refinery in Texas. On a separate issue the company reported that its FCC unit had a minor problem for an hour on Saturday as well.

Marathon Oil reported this afternoon that it was shutting down its 72,000 b/d refinery in Texas City ahead of Tropical Storm Eduard.

Indonesia's state oil company, Pertamina, said it will shut its 118,000 b/d crude distillation unit at the Cilacap refinery on Tuesday for 21 days of maintenance.

Indian Oil reported that it plans to shut half of its 240,000 b/d Panipat refinery for three weeks of maintenance beginning September 18th.

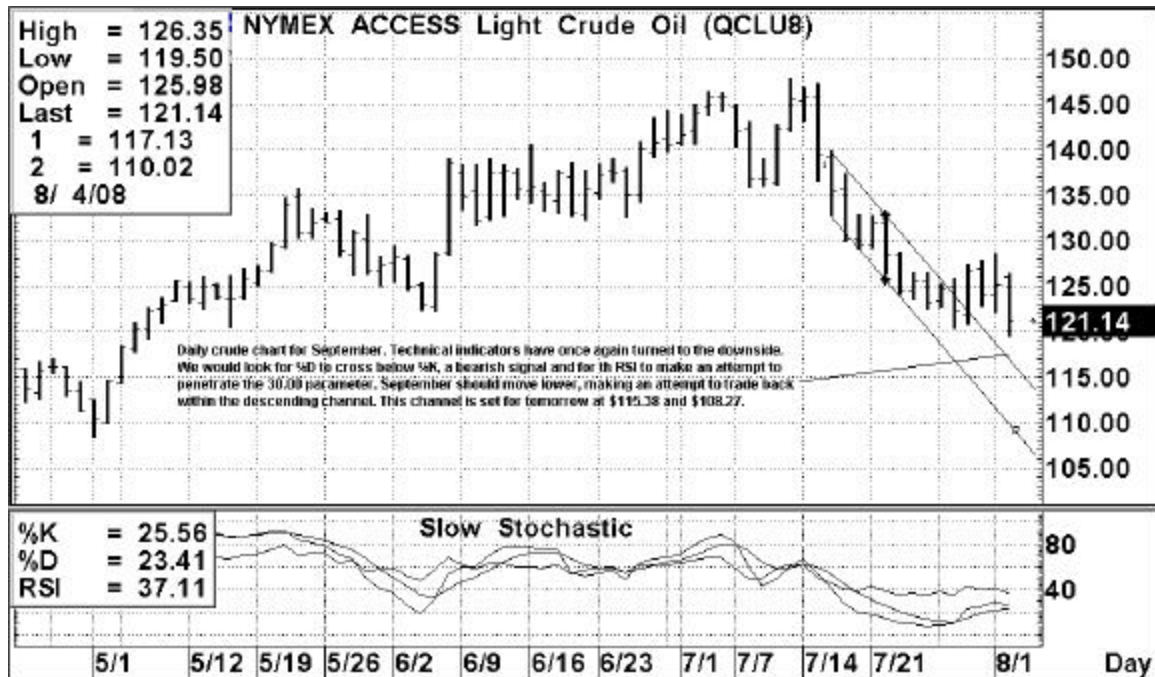
Reuters reported that according to industry sources, China was expected to reduce imports this month as Chinese refiners were slated to run at near record levels and demand especially around Beijing was expected to be reduced both for vehicles and industry as China attempts clean the air in front of the Olympic games. Diesel imports were seen at 530,000 tonnes down off 38% from July while gasoline imports are expected to be off 30% from July. Meanwhile Sinopec reported today that it would keep exports of gasoline unchanged from July at 30,000 tonnes.

Credit Suisse reported today that they estimated U.S. refinery margins east of the Rockies rose while western refinery margins saw profits decline. The bank estimated that Midwest margins jumped \$4.06 to \$12.15 per barrel in the week ending August 1st while Northeast margins rose by 80 cents and Gulf Coast margins jumped by 93 cents per barrel. Rocky Mountain region saw margins decline by \$1.66 while the West Coast saw margins slip by 13 cents to \$14.59 per barrel.

Production News

Iraq reportedly halted its Kirkuk oil exports through the Turkish pipeline on Monday. The pipeline through Turkey had been pumping around 300,000 b/d before the stoppage. Flow through the line was briefly

stopped on Friday as well. Iraq reported that their overall crude oil exports in July slipped by 2.16% or 40,000 b/d to 1.89 million b/d from June. The decline was due to reduced exports through Turkey as a result power cuts and shortages of crude production.



Leaders of the Brazilian offshore workers recommended to its membership to call off a planned five day strike that was due to begin on Tuesday after accepting a proposal from Petrobras, in which the company would accept the union’s request that a “disembark day” or the day workers disembark from the platforms should not be counted as a vacation day.

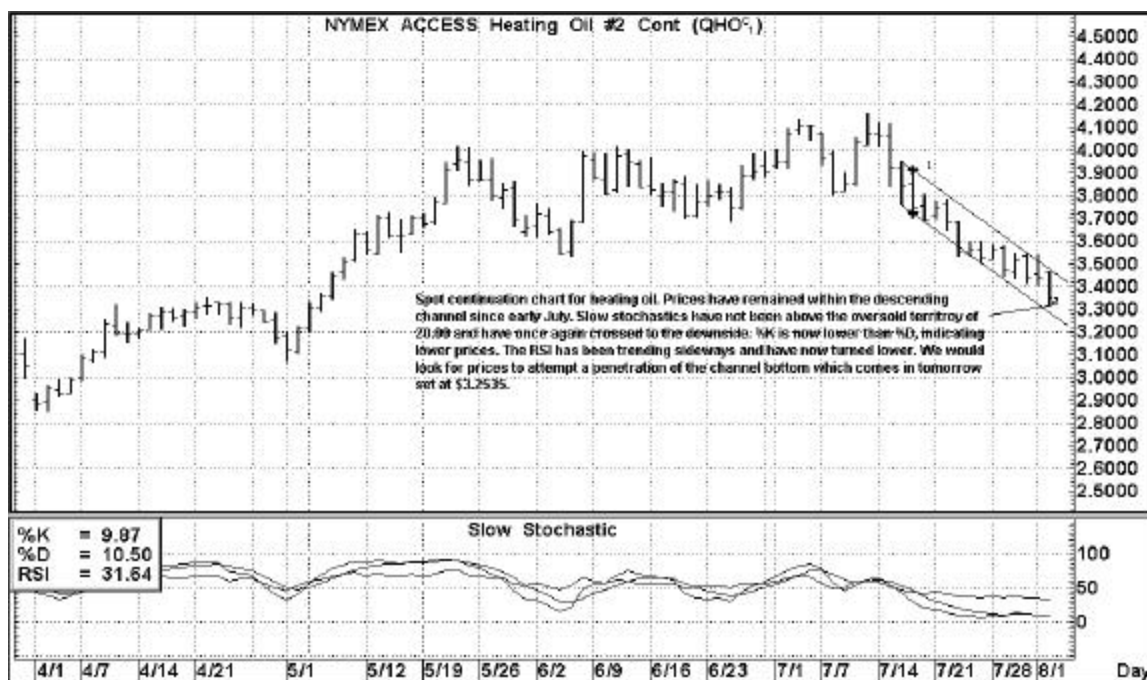
Nigerian officials reported today that Nigeria is losing some 650,000 b/d of crude exports due to militant attacks and security concerns in the Niger delta.

Estonia main oil loading port, Tallinn, reported its oil exports in July were pegged at 1.52 million tones, down 19.3% from the same month a year ago and up 12.7% from June 2008 levels. Year to date exports were some 29.9% less than at the same point a year ago. Typically 25% of Russia’s fuel oil exports move through Estonia.

OPEC’s reference crude oil price basket fell to \$121.08 per barrel on Friday, down \$1.40 from the prior day.

Iran said today that it was preparing more than 15 major oil and gas projects involving a “new method” to attract local and foreign investment. It was not clear if the “new method” meant a revision of Iran’s “buy-back” terms for oil and gas deals, which have been unpopular with foreign investors in the past.

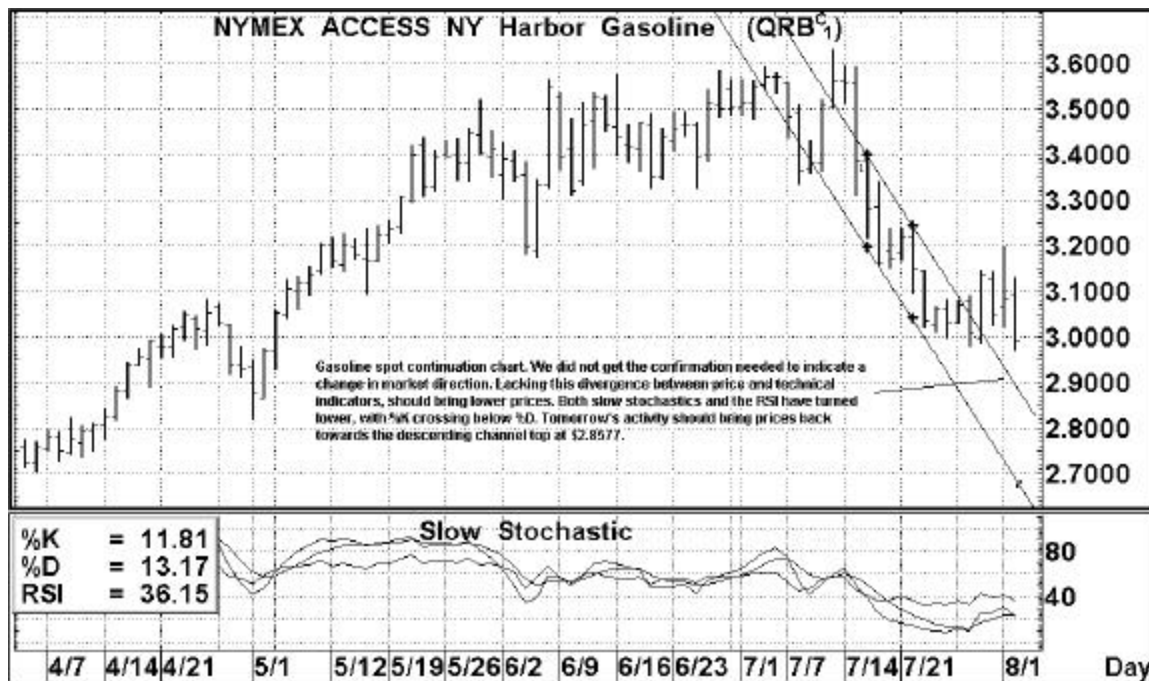
A Reuters survey reported on Monday showed that OPEC production in July was seen at 32.58 million barrels up 250,000 b/d from June estimates, led almost entirely by Saudi Arabia.



Russian oil output reached 9.78 million b/d in July, up by 0.1% versus June but was still down year on year

Market Commentary

At the center of today's market sell-off, was the reality that demand is being greatly impacted by the surge in prices and increase in OPEC output for the third straight month. Weekend statements by the head of the Iranian Islamic Revolutionary Guards Corps, Brigadier General Ali Ja'fari, announcing that weapons testing would take place today could not even hold up prices. He also reiterated a



warning that Iran could respond to any attack by closing the Strait of Hormuz, through which a quarter of the world's oil is exported. Aiding lower prices were statements by U.S. presidential candidate, Barack Obama, stating that he “would be willing to consider drawing from the SPR, in order to make the U.S. more energy independent. Crude oil price fell to their lowest level for the first time since May 6th, falling below \$120.00 a barrel. Technically, this market has not yet confirmed a turn in trend to the upside, but appears to have experienced some light profit taking. Upon examination of the open interest for crude oil, open interest on Friday decreased by 13,444 contracts; with the September contract falling 24,729. Market oscillators are indicating another move to the downside, with both the stochastics and RSI turning lower. For tomorrow we would look for prices to test the top of the descending channel top. The products also came under pressure, succumbing to the lack of demand. Although API/DOE expectations are calling for gasoline stocks to decline by 1.3 million barrels, this draw down should not have a positive impact on prices. Technical indicators are also calling for further downside movement and for prices to work back into the descending channel, which is set tomorrow at \$2.8577 and \$2.6549. Heating oil continues to trend within the descending channel, posting new lows five sessions in a row. Slow stochastics support a lower move, with %K crossing %D to the downside. The RSI is still above the 30.00 parameter, but appears to be getting ready to cross to the downside. Open interest for crude oil is 1,253,756 down 13,444, September08 286,007 down 24,729, October 135,524 up 8,202 and December 08 180,332 up 1,435. Total open interest for heating oil is 221,288 up 277, August08, 921 down 239 and September 08, 70,242 own 393. Total open interest for gasoline is, 218,165 up 892, August08 1,551, down 197 and September, 79,356 down 837.

Crude Support	Crude Resistance
115.55, 108.40, 85.40	132.90, 134.85, 140.60, 144.00, 147.90,
Heat support	Heat resistance
3.3500 3.1680 3.0980	3.6135, 3.8215, 4.0210, 4.0765, 4.1200, 4.3614
Gasoline support	Gasoline resistance
2.9255	3.1680, 3.1760, 3.6021, 3.755, 3.4655