



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 5, 2008

The US State Department said senior officials from major powers will hold a conference call on Wednesday to discuss Iran's response to an offer to halt its nuclear work in exchange for incentives. A State Department official said if it does not receive a clear message from Iran, there will be no choice but to pursue additional measures. Meanwhile, a Pentagon official said any attempt by Iran to close the Strait of Hormuz would not be in Iran's interest and prove self-defeating to the country's oil dependent economy. The head of Iran's

Market Watch

Crude oil, corn and platinum led commodities lower on signs world economic growth and demand from industry for raw materials are weakening. The CRB Index had its largest decline since March 19 on Monday as it fell 3.4%. According to UBS AG, investors in commodity tracking indexes have withdrawn \$680 million from agricultural futures last week, a record sixth consecutive week of outflows.

According to forecasters at Colorado State University, the Atlantic hurricane season may be busier than previously expected. The forecasters are calling for 17 named storms, nine hurricanes and five intense hurricanes with sustained winds of 111 mph or greater in the season. The National Oceanic and Atmospheric Administration has projected 12 to 16 named storms, including six to nine hurricanes, including two to five major hurricanes.

A data revision that has increased the number of oil futures contracts US regulators believe are held by speculators by 25% means speculators controlled 48% of the open interest in NYMEX crude oil futures and options as of July 15, compared with over 38% under the previous classification. The CFTC's data revision converted about 327,000 long and 330,000 short NYMEX crude oil futures and options positions into mostly spreading positions held by speculators. The CFTC reclassified only one oil trader. An analyst stated that there may have been multiple positions which were reclassified but they all appear to have been held by just one trader, with a concentration of positions in crude oil amounting to about 460 million barrels. This comes amid the collapse of SemGroup LP.

Industry sources said Morgan Stanley has put its Asian fuel oil trading business on hold just a year after entering the market. It has relinquished its lease on a floating storage facility and the leader of the fuel oil trading desk in on extended leave. Activity for its fuel oil business in Europe and the US will not be affected.

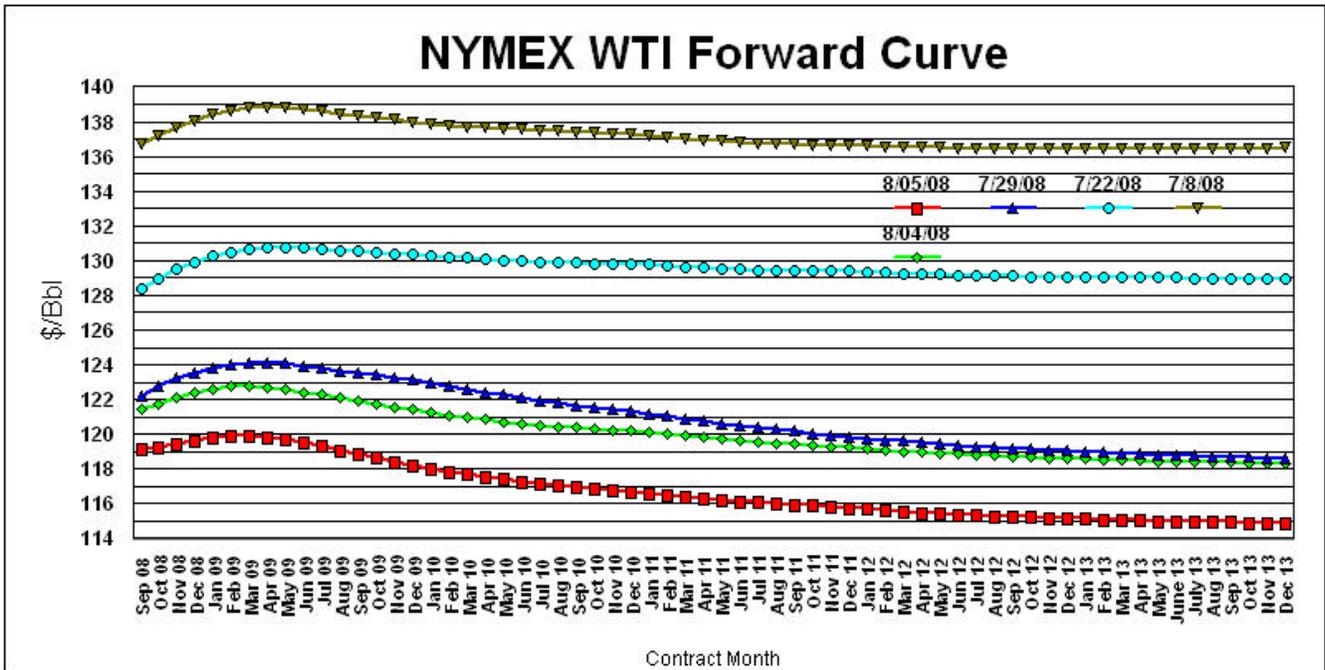
August Calendar Averages

CL – 121.89

HO – 335.63

RB – 301.36

Revolutionary Guards on Monday said Iran could easily close the shipping route if it were attacked over its nuclear program. Separately, the IAEA's deputy director overseeing inspections and long running UN inquiries into Iran's nuclear program, Olli Heinonen is scheduled to visit Iran on Thursday. The Iranian news agency ISNA said he would be in



Iran for three days and that his trip was part of the UN watchdog's monitoring program. EU foreign policy chief Javier Solana received a letter from Iran on Tuesday and will discuss its contents Wednesday with the six world powers involved in talks on Iran's nuclear program. According to letter extracts obtained by Reuters, Iran gave no concrete answer to the incentive offer.

An OPEC source said OPEC is unlikely to change its oil production policy in September to reverse the recent price decline unless prices fall below \$80/barrel. Kuwait's Oil Minister Mohammed al-Olaim also said OPEC is unlikely to cut production quotas at its next meeting. OPEC ministers are due to meet on September 9 to review output policy.

Venezuela's President Hugo Chavez welcomed lower oil prices, saying \$150/barrel would be irrational. He has stated several times that \$100/barrel is a fair price for oil. Separately, he dismissed US presidential candidate Barack Obama's energy plan intended to reduce dependence on foreign oil. Barack Obama on Monday unveiled an energy initiative that included tapping the country's SPR and investing in new types of energy technology as well as fuel efficient cars.

The IEA's executive director Nobuo Tanaka said oil consumption in the US and OECD nations are weakening but China and India have yet to show signs of demand destruction. He said it was unclear if the fall in price to below \$120/barrel was a turning point. He said the IEA was satisfied with OPEC's delivery on its commitment to increase supplies and was not asking for more but wants current production levels to be maintained.

According to MasterCard Advisors, gasoline demand increased by 0.3% on the week to 9.651 million bpd in the week ending August 1. It is down 3.4% on the year. The four week moving average for gasoline fell by 4% on the year to 9.567 million bpd. It reported that the average US retail gasoline prices fell by 2.7% last week to \$3.91/gallon.

Refinery News

The Louisiana Offshore Oil Port will resume off-loading oil tankers on Tuesday afternoon following Tropical Storm Edouard. However the LOOP is still able to make deliveries because the facility has storage onshore.

Colonial Pipeline's products pipeline system is operating normally as Tropical Storm Edouard makes its way inland after striking the Texas coast.

Valero Energy Corp said its refineries in Houston, Texas City and Port Arthur, Texas were operating at slightly reduced rates due to Tropical Storm Edouard but were returning to planned rates. Feedstock supply at the 245,000 bpd Texas City refinery was tight due to port closures. The port of Houston was shut on Monday night due to rough seas and the Sabine Pass Ship Channel supplying Beaumont and Port Arthur was also closed. Separately, Valero Energy Corp said there was no impact to production from a valve leak near the fluid catalytic cracking unit at its 210,000 bpd Delaware City, Delaware refinery.

Some units at Shell Oil Co's joint venture 285,000 bpd refinery in Port Arthur, Texas are resuming full operations following a power interruption on Monday due to Tropical Storm Edouard. The power outage occurred when the tropical storm came ashore near Port Arthur on Tuesday morning. Meanwhile its 334,000 bpd Deer Park, Texas refinery reported a temporary snag with one of the process units. A gasket failure at a chemical unit did not impact the refinery. Separately, Shell Oil Co said Tropical Storm Edouard did not affect offshore operations and the limited number of workers who had been evacuated from production platforms would be returned as weather allows.

Citgo Petroleum Corp said none of its Gulf Coast refineries were affected by the tropical storm.

BP's 410,000 bpd Whiting, Indiana refinery was operating normally after a storm hit the area on Monday night.

Petro-Canada said it has started the process of shutting down its 125,000 bpd refinery in Edmonton, Alberta ahead of a planned 60 day maintenance shutdown to tie in new equipment.

Kuwait's 200,000 bpd Shuaiba refinery resumed operations after a power outage on Tuesday. An official however said it will need at least 48 hours to return to full capacity.

Indian Oil Corp will shut a 76,000 bpd crude unit and some secondary units at its 274,000 bpd Koyali refinery from the last week of August for up to 25 days of routine maintenance.

Royal Dutch Shell restarted its 125,000 bpd Port Dickson refinery in Malaysia on July 27 after a 40 day regular maintenance outage.

Indonesia's Pertamina plans to shut its Balongan refinery with a capacity of 125,000 bpd in mid-October for 57 days of maintenance.

Traders said about 200,000 tons of Asian gas oil was booked for Northwest Europe for loading in the second half of August, p from 120,000 tons lifted in July.

Production News

The US Minerals Management Service reported that more than 12% or 946 cubic feet/day of natural gas production and 6% or 77,819 bpd of oil production in the US Gulf of Mexico was shut in on Tuesday due to Tropical Storm Edouard. The storm led to the evacuation of 154 platforms and 9 rigs.

Nexen Inc expects to resume production at its Scott and Telford oil and gas platform in the North Sea by the end of this week following about two weeks of scheduled maintenance. The platform was producing about 14,000 bpd of oil equivalent before the shutdown.

Iraq resumed shipping through its northern pipeline to Turkey on Tuesday morning at a rate of 400,000 bpd. The flow through the pipeline to Turkey stopped on Monday for an unknown reason. A shipping agent said about 750,000 bpd of Iraqi oil was in storage at Ceyhan on Tuesday.

Azerbaijan's Socar said its oil production fell by 1.3% on the year to 5.136 million tons in January-July. Its onshore and offshore oil production fell by 1% on the year to 4.344 million tons in January-July.

Ecuador's Central Bank reported that the country's oil product export revenues from January through May increased by 89% to \$471.16 million from \$249.26 million reported last year. Ecuador exported 6.2 million barrels in the first five months of 2008, up 10% from the 5.63 million barrels during the same period last year.

Saudi Aramco cut the price of its Arab Extra Light crude bound for the US by \$1.45 to WTI minus \$1.35. It also cut the price of its Arab Medium crude by 65 cents to WTI minus \$3.65 while the price of its Arab Medium crude was increased by 70 cents to WTI minus \$6.70 and the price of its Arab Heavy crude was increased by \$1.65 to WTI minus \$9.45. Meanwhile, the price of its Arab Extra Light crude bound for Northwest Europe was cut by 20 cents to BWAVE minus \$1.45, its Arab Light crude price was increased by 60 cents to BWAVE minus \$4.65, its Arab Medium was increased by \$1.40 to BWAVE minus \$7.60 and its Arab Heavy price was increased by \$1.80 to BWAVE minus \$9.75. The price of its Arab Super Light crude bound for Asia was cut by \$1.75 to the Oman/Dubai average plus \$4.25, the price of its Arab Extra Light was cut by \$1.35 to the Oman/Dubai average plus \$3.80 and the price of its Arab Light crude was cut by 65 cents to the Oman/Dubai average plus 70 cents. The price of its Arab Medium crude was increased by 75 cents to the Oman/Dubai average minus \$2.95 and the price of its Arab Heavy crude was increased by \$1.50 to the Oman/Dubai average minus \$6.10.

OPEC's news agency reported that OPEC's basket of crudes fell to \$120.80/barrel on Monday from \$121.08/barrel on Friday.

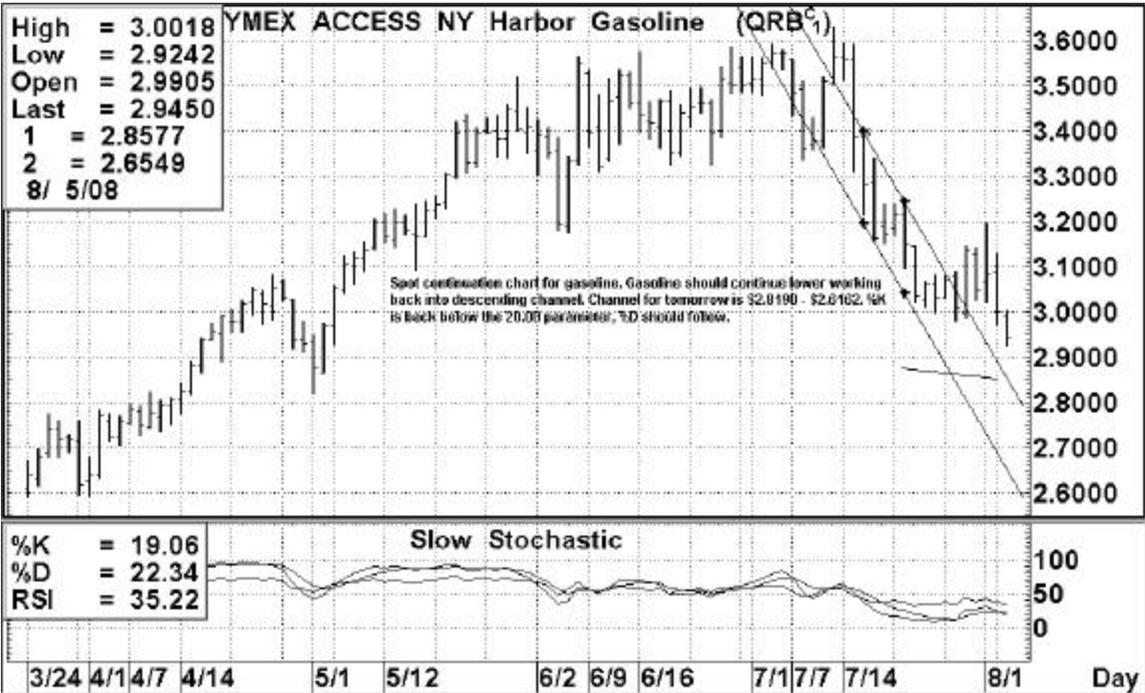
Market Commentary

Dominating market talk today was the September 08/October08 crude oil spread. Possible explanation for strength in the front spread is the CFTC reclassified commercial traders to noncommercial speculative traders. This gave speculators 48% control of the market, as opposed to 38%, prior to the reclassification. The speculative position could be net short the September. This spread experienced a 56 point swing today trading between the range of -.31 and + .25. Tying in with this maybe delays in Suncor Energy Inc's newly expanded oil sands operation, which is not expected to reach full capacity until the last half of next year. Suncor recently shut down part of its oil sands operation in Alberta to tie in new equipment. This may have been timed around maintenance of U.S. refineries. This is the widest the front to nearby spread has traded since May 19th. If this is just a one - time deal due to the reclassification, then this spread should come back in, which it did to prior to the close of the market. Index rolls should begin and this should make for an interesting roll



period. For the outright market, the downward spiral in prices should continue, with prices working towards the \$109.55

62.8% retracement between the range of \$14.727 and \$86.24. Technical indicators support this move. With product demand falling for the 15th straight week according to a MasterCard survey, gasoline moved lower, working back towards the descending channel top set at \$2.81.90. Slow stochastics have once again crossed to the downside with %D set at 20.46 and %K set at 22.81. The RSI has also moved lower. Both of these are indications for another move lower. Heating oil followed suit, working towards the channel low of \$3.2535. With tomorrow's DOE/API numbers calling for a build of 1.8, we should see lower prices once again. A penetration of the channel bottom at \$3.2173, sets prices up to test support at \$3.0285. 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 down 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
3.1680 3.0980, 3.0285	3.6135, 3.8215, 4.0210, 4.0765, 4.1200, 4.3614
Gasoline support	Gasoline resistance
2.8190, 2.7285, 2.5920	3.1680, 3.1760, 3.6021, 3.755, 3.4655