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Windham Group



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,
Zachariah Yurch & Karen Palladino
(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR AUGUST 6, 2007

The official Islamic Republic News Agency reported that a delegation from the UN's IAEA arrived in Tehran on Monday to discuss future inspections of Iran's uranium enrichment facilities. The talks are part of IAEA's efforts to investigate fears that Iran was using its civilian nuclear program as a cover to produce nuclear weapons. The talks, scheduled to last through Thursday, would plan future inspections of Iran's uranium enrichment facilities at Natanz.

Iraq's Kurdish region passed its own oil law on Monday, despite

Market Watch

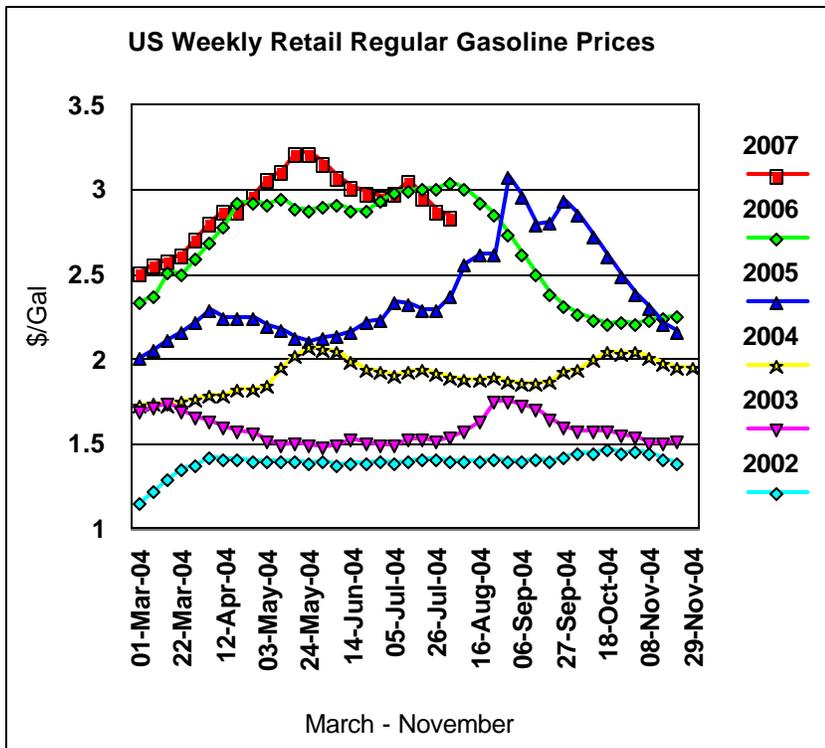
According to DEBKAfile, US forces have started maneuvers on Monday off of Guam, which include the simultaneous deployment of the USS Stennis, USS Nimitz and USS Kitty Hawk, altogether 30 warships, 280 warplanes and 22,000 soldiers and sailors. It is the US' last major combined sea and air war game before the Bush presidency ends and the last opportunity to conduct drills with large scale combined units should the president decide on a military operation against Iran. The Valiant Shield exercises were being held in conditions resembling as closely as possible those in Iran.

Meteorologix said energy demand for cooling is likely to increase in northwest Europe while temperatures increase as the week progresses. It also reported that above average temperatures are expected in the northeast US all week, which could lead to increased demand for power for cooling.

Texas A&M researchers said the sorghum plants could be an alternative to corn in making ethanol. The plants are more than twice the height of regular sorghum and yield double the crop per acre. They survive on little water and can be grown on marginal farmlands from Minnesota to Texas. The sorghum giants may help open the door for what have been called second generation biofuels made from nonfood crops and agricultural waste. Sorghum grain is used to make small quantities of ethanol. However Texas A&M researchers have spent four years tinkering with the plant's genetic code to produce sorghum plants that have no value as food but are exclusively grown as energy crops.

Tokyo Electric Power Co said it planned to restart a 144,000 kilowatt gas turbine unit at its thermal power plant in Yokosuka, eastern Japan from the first half of September to help stabilize power supplies. The Yokosuka unit is expected to run on both kerosene and liquefied natural gas mixed with some propane.

Russia's Lukoil denied charges of price fixing on the US oil products markets in partnership with two other non-US majors. US based Green Oil filed a suit on June 27 at an Illinois court against Lukoil, Saudi Aramco and PDVSA. According to Russia's business daily Kommersant, Green Oil is trying to force all three defendants to sell their US subsidiaries. It is also seeking punitive damages.



Iraq's parliament having failed to pass a national law. Kurdish officials stressed that it had been drawn up in line with the national constitution and did not contradict the federal law. The Kurdish law provides for the establishment of the Kurdistan National Oil Co and states that the regional government would share revenue derived from petroleum with all the people of Iraq.

The EIA reported that the US average retail price of gasoline fell by 3.8 cents/gallon to \$2.838/gallon in the week ending August 6. It also reported that the US average retail price of diesel increased by 1.2 cents/gallon to \$2.898/gallon on the week.

Refinery News

Valero Energy Corp's Port Arthur, Texas refinery was operating at normal rates on Monday following a fire Sunday evening. It shut its naphtha pretreating unit, where the fire broke out. A Valero spokesman said the unit's shutdown did not affect overall throughput at the refinery.

ConocoPhillips said a problem at its 146,000 bpd Borger, Texas refinery over the weekend had no impact on fuel production. It reported an equipment malfunction late Sunday that triggered flaring.

Chevron Corp shutdown two sulfur recovery units and a hydrotreater at its 325,000 bpd refinery in Pascagoula, Mississippi, late last week for unplanned work. The units are expected to be down for 7-10 days.

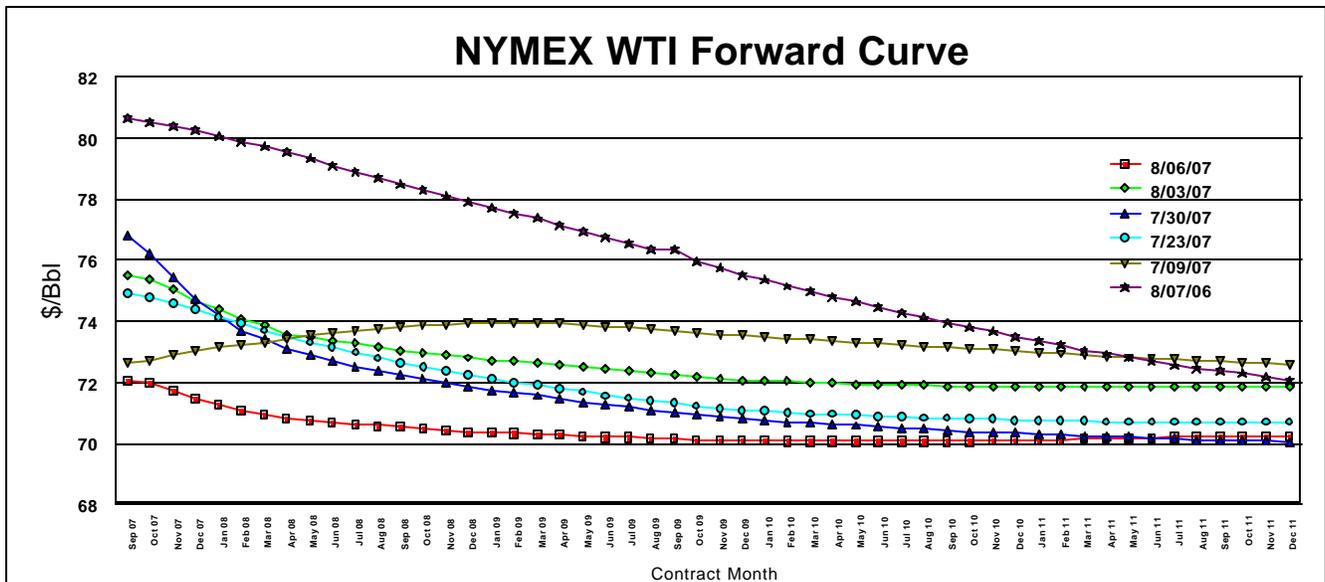
ExxonMobil has scheduled work on a 71,600 bpd fluid catalytic cracking unit at its 190,000 bpd refinery in Chalmette, Louisiana starting around August 20. The unit is expected to be down for 10 days.

Separately, ExxonMobil completed the restart of operations at its 300,000 bpd Fawley refinery in the UK following a fire at the plant on July 25. It said an investigation into the cause of the fire was still being carried out in full cooperation with the relevant authorities.

BP is expected to shut its Nerefco refinery in Rotterdam for major turnaround in October. The 400,000 bpd refinery is expected to undergo maintenance for about five weeks starting October 10 and would take down at least 380,000 bpd of the plant's total capacity.

Lithuania's Mazeikiu Nafta refinery is expected to shutdown for full turnaround in the autumn. The maintenance is expected to last between four and six weeks.

India's Hindustan Petroleum Corp Ltd has delayed the shutdown of its Mumbai refinery to integrate new clean fuels units because the equipment has not been delivered. It was scheduled to shut the



110,000 bpd refinery for 35 days in October-November 2007. It is now expected to start work in January.

Ecuador's Mining and Oil Minister Galo Chiriboga said Venezuela's President Hugo Chavez is scheduled to travel to Ecuador on Thursday to sign an agreement that would allow PDVSA to team up with Petroecuador to build a refinery. The new refinery would have the capacity to process 300,000 bpd of heavy crude.

Production News

Iraq's Oil Minister Hussein al-Shahristani said the country's oil exports in July increased by 13% on the month to 1.7 million bpd. It was up 200,000 bpd on the month. He said Iraq's oil exports for the first six months of 2007 stood at 1.5 million bpd. He said oil production from southern oil fields in July increased to more than 2 million bpd from less than 1.9 million bpd in the first six months of the year.

Oman's Ministry of National Economy said crude oil production in the first five months fell by 5.3% on the year to 713,000 bpd. Production was the lowest in May at 708,300 bpd.

Port sources stated that China's crude oil imports in July into its Ningbo port increased by 7% from last month to 1 million bpd, although it did not pump any of the oil into its strategic reserve. Total imports into Ningbo increased to 4.18 million tons or 30.5 million barrels last month.

Saudi Aramco cut its official selling prices for its crude bound for the US in September by \$2/barrel to \$3.90/barrel. The prices for its Arab Extra Light crude grade was cut by \$3.90 to WTI minus \$2.65, its Arab Light was cut by \$2.90 to WTI minus \$5.05, its Arab Medium was cut by \$2.50 to WTI minus \$7.25 and its Arab Heavy was cut by \$2 to WTI minus \$9.10. The price for its Arab Extra Light bound for Europe was increased by 25 cents to BWAVE plus 90 cents, its Arab Light was increased by 60 cents to BWAVE minus \$2.60, its Arab Medium was increased by 90 cents to BWAVE minus \$4.00 and its Arab Heavy crude was increased by \$1.35 to BWAVE minus \$5.25. Meanwhile, the price for its Arab Super Light was cut by \$1 to the Oman/Dubai average plus \$5.95, its Arab Extra Light was unchanged at the Oman/Dubai average plus \$3.50, its Arab Light was increased by 20 cents to the Oman/Dubai average plus 75 cents, its Arab Medium was increased by 50 cents to the Oman/Dubai average minus \$1.35 and its Arab Heavy was increased by 70 cents to the Oman/Dubai average minus \$3.60.

Mexico's Energy Ministry stated that Mexico and Brazil signed a bilateral agreement to broaden cooperation in energy, including developing technology for oil and gas exploration and exploitation. The agreement also includes cooperation between Mexico's Pemex and Brazil's Petrobras.

OPEC's news agency reported that OPEC's basket of crudes fell by 16 cents/barrel to \$72.01/barrel on Friday. It also reported that the OPEC basket price increased by 5 cents/barrel to \$72.37/barrel in the week ending August 3.

Market Commentary

Crude oil traded lower today in response to concerns of a slowing U.S. economy, which is expected to lead to a reduction in demand. This news coupled with OPEC production, which is up the most since September of 2004, sparked what appeared to be length lightening by funds. Prices today took out gains made over the past 4 weeks, trading at a low of 71.64. Surprisingly though, the Sept/Oct spread held its strength until the very end. Once the September contract broke through 72.25, the spread gave up its strength, trading into 7 cents. We would look for continued weakness in the Sept/Oct, with the initial objective of -.9 and then -.50. As for the outright market, we would look for continued downside movement, with a retracement back to 69.96, the level this market broke out from. Support comes in at 71.10, **69.96**, 69.25, 68.64, and **67.70**. Resistance is set at 72.25, 72.70, 73.05, 73.65 and 74.05. Similarly the RBOB market tumbled during today's session as funds liquidated some of their net long positions. The market posted a high of 201.83 at the opening of the open outcry session and quickly sold off. It traded to just below the 196.00, where it held some support. However the market breached that level and extended its losses to 10.5 cents as it sold off to a low of 192.40 ahead of the close. It settled down 10.31 cents at 192.59, the lowest settlement since March 16. The Sep RBOB crack spread fell further to \$8.83 from Friday's settlement at \$9.745. It is seen finding support at \$6.833. The heating oil market also sold off sharply as it settled down 9.47 cents at 193.93. It posted a high of 203.48 early in the session and continued to trend lower. The market was holding some support at 197.00. However it breached that level and tumbled to a low of 193.50 ahead of the close. The product markets will likely continue to trade lower as funds continue to liquidate their net long positions. The RBOB market is seen finding support at its low of 192.40, 192.31, 190.30 and 186.99, basis its

its
trendline.
Meanwhile
resistance is
seen at
194.10,
198.05,
200.35,
201.83,
204.50 and
206.08.

| | | Levels | Explanation |
|----|------------|-----------------------------------|--------------------------------|
| CL | Resistance | 75.06 | Monday's high |
| | Support | 72.25, 72.70, 73.05, 73.65, 74.05 | |
| HO | Resistance | 71.60 | Monday's low |
| | Support | 71.10, 69.96, 69.25, 68.64, 67.70 | Previous lows |
| RB | Resistance | 203.48, 207.98 | Monday's high, Previous high |
| | Support | 196.00, 198.50, 199.75 | |
| RB | Resistance | 193.50 | Monday's low |
| | Support | 193.05, 192.04, 189.16 | Previous lows |
| RB | Resistance | 201.83, 204.50, 206.08 | Monday's high, Previous high |
| | Support | 194.10, 198.05, 200.35 | |
| RB | Resistance | 192.40 | Monday's low |
| | Support | 192.31, 190.30, 186.99 | Previous lows, Basis trendline |