



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 6, 2008

The White House said it believed world powers had to take further punitive measures against Iran because it gave no concrete reply to their demand that it freeze its nuclear program. In a letter to European Union foreign policy chief Javier Solana, Iran instead promised a clear response at an unspecified date. The US State Department said major powers agreed to consider a fourth UN Security Council sanctions resolution against Iran due to its refusal to freeze its nuclear program. A State Department spokesman said the US, Britain, France, Russia, China and Germany were discussing next steps in the UN Security Council and beginning to

Market Watch

The US EPA said it will announce on Thursday whether it will put on hold or roll back a congressionally mandated requirement that more ethanol be blended into the fuel supply. Earlier this year, Texas Gov. Rick Perry petitioned the EPA to reduce the requirement by 50% from 9 billion gallons for this year.

Southeast Asian energy ministers are set to adopt an oil stockpile plan when they meet this week. Under the plan, countries of the Association of the South East Asian Nations can study stockpiling on a voluntary basis and the steps they must take. The idea was discussed this week during meetings between ASEAN energy officials and representatives from Japan, South Korea and China, ahead of the ASEAN Ministers on Energy Meeting that start on Thursday.

Traders have started looking to ship Western crudes to Asia as the small differential between Dubai and Brent crude and a drop in freight rates has opened the West-to-East arbitrage window this week.

SemGroup LP won interim court approval to start drawing on a \$250 million Chapter 11 loan. A judge overruled protests from SemGroup's suppliers to the loan, a deal that adds to the bank debt that stands at \$2.5 billion. SemGroup argued that the Chapter 11 loan will benefit producers & banks because it will allow continued operation as SemGroup prepares itself for sale.

Canada has taken a step to promote the use of low speed electric vehicles but it will be up to the provinces to decide whether they will be allowed on public roads. Canada's minister of transport said Ottawa would allow low-speed trucks that operate only on electric power to be sold across Canada. However he stopped short of saying the vehicles are fit for roads and said their use should be limited to areas such as campuses, parks or retirement communities, where speeds are lower than on public roads. However a Canadian maker of zero-emission electric cars, Zenn Motor Co said Ottawa's move was not going far enough. It said the language used by the government was dissuading the 13 provinces and territories from allowing the use of the vehicles to be allowed on roads, despite rising gasoline prices and the vehicles' environmental benefits.

The French government proposed to cap future increases of regulated prices for private consumers to 2% for electricity supplied by EDF and to 5% for gas provided by GDF Suez. The impact of the increases on avg household expenses would be about 5 euros or \$7.75/month.

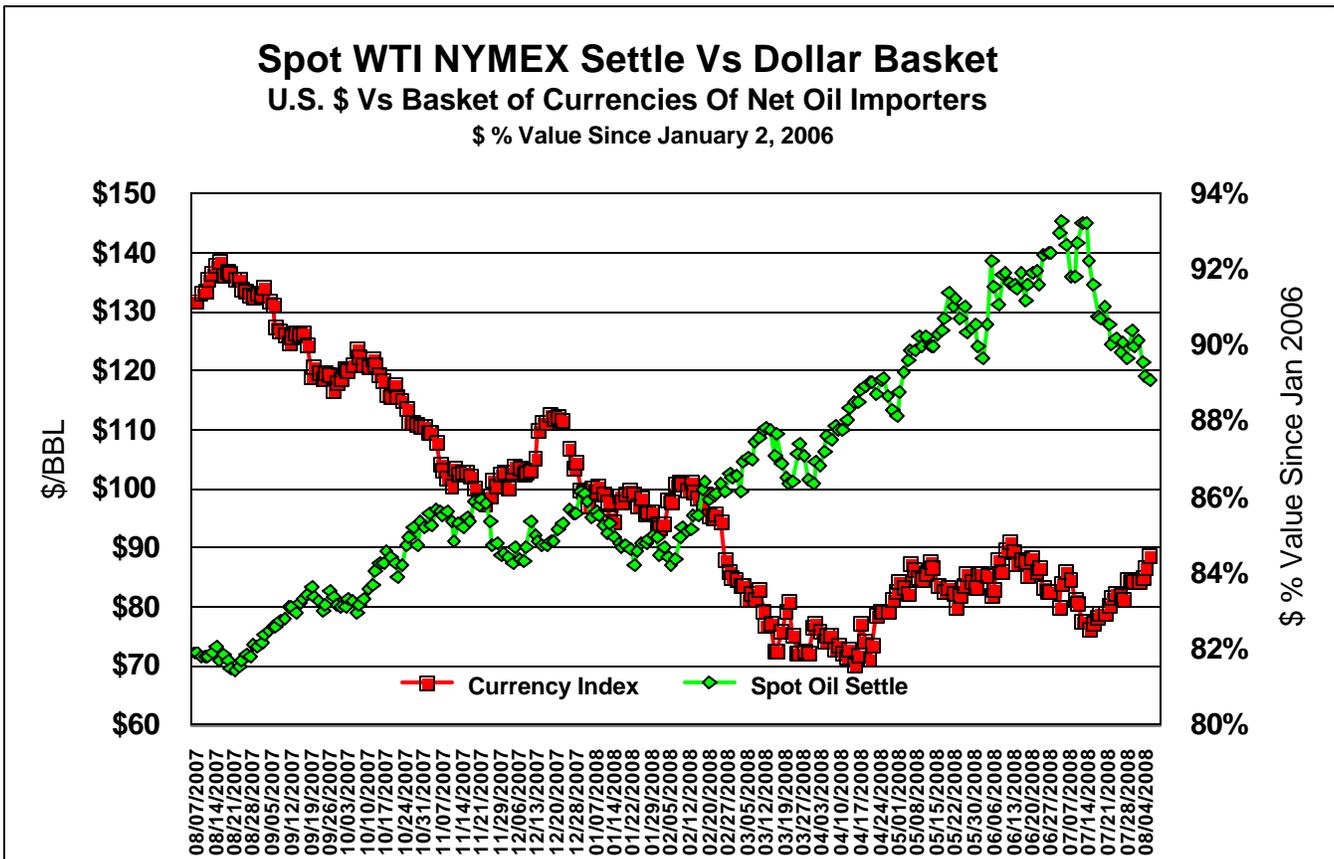
Austria's OMV said it expects oil to be priced at around \$100/barrel in the coming years for its internal planning purposes.

DOE Stocks

Crude – up 1.7 million barrels
Distillate – up 2.8 million barrels
Gasoline – down 4.3 million barrels
Refinery runs – down 0.2%, at 87%

consider possible outlines of another sanctions resolution. Britain's Foreign Office also stated that the major powers have agreed to seek new sanctions against Iran. Germany's Foreign Minister Frank-Walter Steinmeier said Iran's response to an offer of incentives to get Iran to halt its nuclear program is inadequate. Meanwhile, Russia's UN Ambassador Vitaly Churkin said Russia has not set a deadline for Iran to respond to the incentive offer and added that talks were ongoing. He said Russia believed there was still a possibility Iran could come around and accept the offer.

Israeli cabinet minister Shaul Mofaz a frontrunner to succeed Prime Minister Ehud Olmert, denounced Iran on Wednesday as "the root of all evil" and said its nuclear program constituted a threat to world peace. He urged the West to impose stiffer sanctions to pressure Iran to stop its nuclear program.



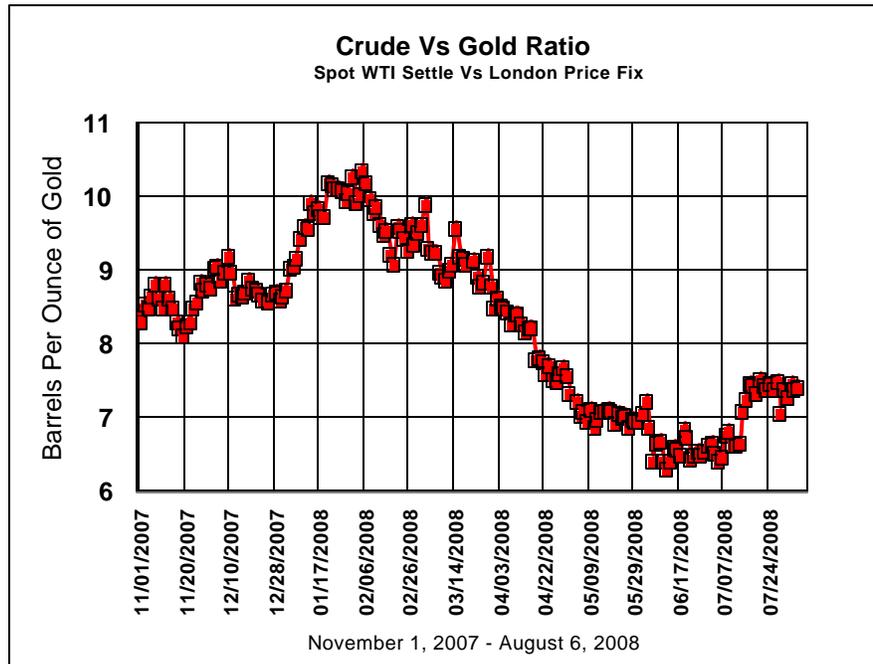
Iran's OPEC Governor, Mohammad Ali Khatami said the world oil market is oversupplied by about 1.3 million bpd but added that stronger winter demand should absorb the extra barrels later in the year. He said the market was responding more to fundamentals after a price slide of about 20% in less than a month drove out some speculators. He declined to say if he thought OPEC should change its output at its next ministerial meeting on September 9.

Venezuela's Oil Minister Rafael Ramirez said Venezuela would vote in favor of a production cut by OPEC to stop prices from falling further. He said Venezuelan officials will also ask their OPEC colleagues to do everything necessary so oil prices remain at levels they consider fair.

Refinery News

The Houston Ship Channel is open to traffic following Tropical Storm Edouard. The channel was reopened late Tuesday night. Meanwhile, the Lake Charles Pilots Association said the Calcasieu Ship Channel in southwestern Louisiana was partially open Wednesday morning. The Sabin-Ness waterway was set to open by noon on Wednesday.

The Louisiana Offshore Oil Port said it was offloading the first tanker in the Gulf of Mexico on Tuesday afternoon, a day after it was shut due to Tropical Storm Edouard. The LOOP continued to supply refiners with oil in storage onshore during the offloading halt.



Marathon Oil Corp said it was restarting its 72,000 bpd Texas City, Texas refinery after it had shut the plant on Monday ahead of Tropical Storm Edouard.

Shell Oil Co said full power was restored and all units were operating at its 285,000 bpd Port Arthur, Texas refinery. Some of the refinery's units were shut due to electrical power interruptions when Tropical Storm Edouard came ashore on Tuesday morning.

Total SA shut two package boilers at its 240,000 bpd Port Arthur, Texas refinery for scheduled maintenance starting Wednesday through August 24.

Tesoro Corp said an alkylation unit at its 100,000 bpd refinery in Los Angeles was shut for unplanned work on Wednesday.

LyondellBasell Industries said its 270,000 bpd Houston refinery continued to operate despite a problem that triggered flaring on Wednesday. A spokesman declined to identify the unit which suffered the malfunction but said the refinery's fluid catalytic cracking unit was not shut.

ConocoPhillips reported a minor problem at a unit at its 44,000 bpd Santa Maria refinery on Wednesday. However production was not affected.

August Calendar Averages

CL – 121.07

HO – 332.67

RB – 299.76

Iraq has restarted the Haditha refinery in Iraq at a processing capacity of 16,000 bpd following a three year closure. An Iraqi Oil Ministry official said the refinery was repaired and recommissioned last month because the security situation in the former Sunni insurgent stronghold of Anbar province has improved. The refinery was shut in 2005 due to technical problems.

According to the Petroleum Association of Japan, the country's crude oil inventory fell by 2.27 million barrels on the week and by 6.14 million barrels on the year to 104.02 million barrels in the week ending August 2. It reported that the country's gasoline stocks fell by 680,000 barrels on the week but

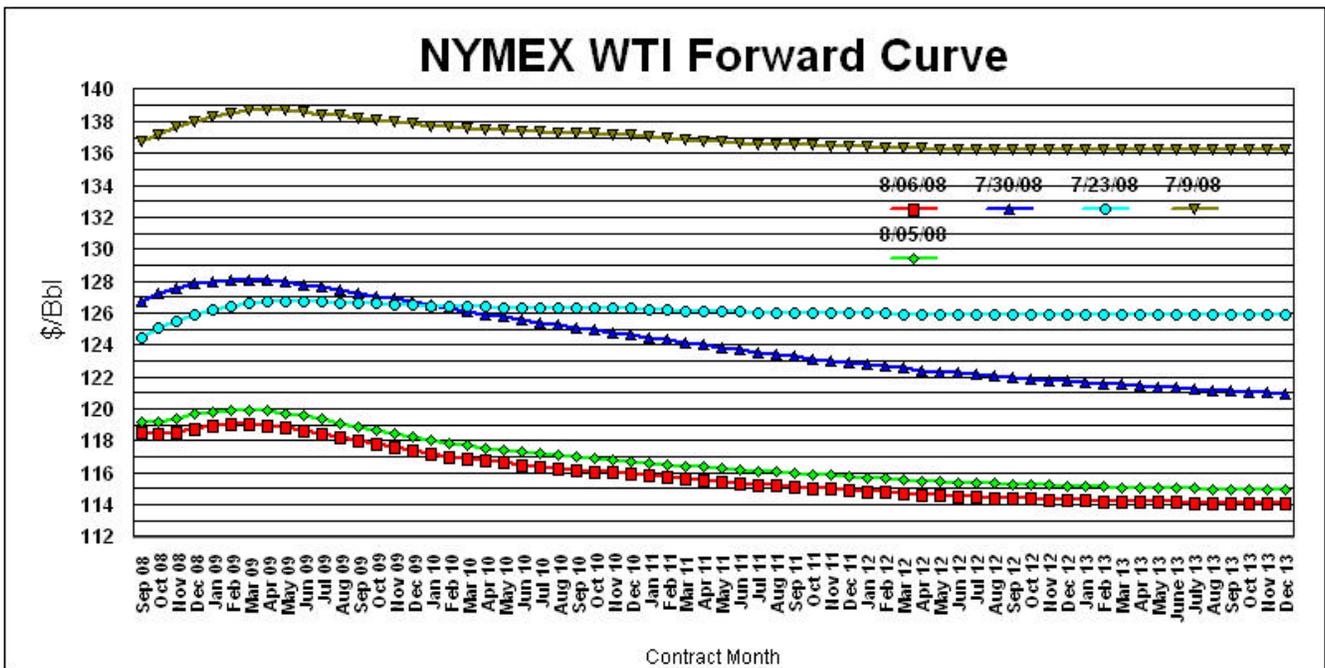
increased by 860,000 barrels to 12.34 million barrels while its kerosene stocks increased by 580,000 barrels on the week and fell by 4.69 million barrels to 15.02 million barrels. It reported that its crude runs increased by 120,000 bpd on the week but fell by 10,000 bpd to 4.24 million bpd.

Japan's Oil Information Center said the country's retail regular gasoline prices reached a record high of 185.1 yen or \$1.71/liter in the week ending August 4, up 4.4 yen on the week.

China's gasoline inventories and diesel inventories have increased by 25% and by 50%, respectively this year as state refiners filled new tanks and stocked up ahead of the Olympics. Sinopec and CNPC increased their gasoline inventories to 20.8 million barrels and their diesel inventories to about 26.7 million barrels by the end of June. The June inventory level is equivalent to about 14 days of gasoline consumption and 9 days of diesel demand.

Production News

The US Minerals Management Service reported that crude oil and natural gas production in the Gulf of Mexico increased in the wake of Tropical Storm Edouard. It said 2.8% of the region's oil production or 6,076 bpd remained shut, down from 6% on Tuesday. Meanwhile, 9.5% of the region's gas production or 734 million cubic feet/day of natural gas remained shut, down from 12.3% on Tuesday.



ExxonMobil said it was restoring its offshore production after inspections of offshore production facilities found no damage caused by Tropical Storm Edouard. It said all its workers have returned to the offshore facilities.

A senior Turkish Energy Ministry official said an explosion on the Baku-Tbilisi-Ceyhan pipeline on Tuesday night has halted the oil flow along the pipeline. The official said repairs and testing will take at least three to four days and transportation of oil through the pipeline may be halted until the middle of next week. A BP spokeswoman said oil flows were halted after a fire damaged a valve on a section in eastern Turkey however exports from the Ceyhan port terminal continued from storage. The spokeswoman said BP and its partners continued to produce crude from their Azeri fields for stockpiling until flows can resume. It was unable to estimate how long the pipeline can remain shut before exports from the Ceyhan terminal are affected. BP said force majeure was declared on Azeri

crude shipments from Ceyhan and may use alternative routes for Azerbaijan supplies after the Baku-Tbilisi-Ceyhan oil pipeline was shutdown. Meanwhile, Azerbaijan's Socar declared force majeure on its exports of Azeri crude from Turkey.

An official reported that Iraq's oil exports were steady in July at 1.85 million bpd.

Nigeria's Oil Minister Odein Ajumogobia said oil companies have repaired two major Nigerian pipelines damaged in militant attacks last week, allowing some production to resume in the Niger Delta. Both pipelines are connected to the Bonny export terminal. The Movement for the Emancipation of the Niger Delta claimed responsibility for the attacks that halted 150,000 bpd of output.

Separately, loadings of Nigeria's Bonny Light crude will be delayed by up to 10-11 days for August and September. The delays came after Royal Dutch Shell declared force majeure on exports of the light, low-sulfur crude.

Chevron Corp has started production at a new offshore oilfield in Nigeria and added that the site is expected to yield 250,000 bpd of oil and gas by next year. It started crude production from the Agbami field on July 29. It said the Agbami field is the largest deepwater discovery in Nigeria with an estimated potential of 900 million barrels. Separately, Chevron Corp and its partners may be forced to delay the start of a \$2.8 billion oil project in Brazil by three months because a platform and rig will be delivered behind schedule. Production at the offshore Frade field in Brazil may begin in March and reach a peak of about 100,000 bpd in two years. The company has postponed eight major developments in the past two years due to equipment failures and escalating costs and may struggle to fulfill its pledge to increase its production by 3% annually through 2010.

Azerbaijan produced an average of 1.039 million bpd of oil in July, up 3.3% on the month. BP Plc said it produced 866,000 bpd in July, up 4.3% on the month while Socar produced 173,000 bpd in July, down 1.2% on the month.

The head of Thailand's PTT said governments should remove fuel subsidies and educate consumers about current high prices as state-run firms cannot cope with high costs and increasing demand. Thailand started phasing out its subsidy of 0.4 baht or 1.2 cents/liter of diesel on Saturday.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$116.22/barrel on Tuesday from \$120.80/barrel on Monday.

		Explanation	
CL	Resistance	121.23, 126.35, 128.60	Previous highs
	118.58, down 59 cents	119.40, 120.49	Wednesday's high
	Support	117.11	Wednesday's low
HO	Resistance	335.97, 346.75	Previous highs
	323.79, down 4.41 cents	326.50, 330.00, 331.19	Wednesday's high
	Support	321.10	Wednesday's low
RB	Resistance	302.33, 305.65, 308.67, 313.00	Previous high
	294.93, down 71 points	296.00, 298.40, 301.00	Wednesday's high
	Support	291.60	Wednesday's low
		290.16, 285.13, 283.29, 277.17	Previous low, 62%(235.74 and 365.03), Previous lows

Market Commentary

The oil market settled in negative territory for the third consecutive session following the release of the weekly petroleum stock reports, which showed a larger than expected build in crude stocks. The market was also pressured amid the strength in the dollar. The crude market quickly posted a high of 120.49 following the earlier release of the API report, which showed a draw of over 2.5 million barrels in crude stocks. However it erased its gains in light of the DOE reporting a larger than expected build in crude stocks of 1.7 million barrels. The market retraced nearly 62% of its move from a low of 97.93 to 147.90 as it posted a low of 117.11, a low not seen since May 5. The market however retraced some of its losses and settled in a sideways trading pattern ahead of the close. It settled down 59 cents at 118.58. The market, which will likely retrace some of its losses early in the session, is seen continuing its downward trend after the market seemed to have shrugged off any supportive news during today's session. The market is seen testing its support at its low of 117.11 followed by 117.02, 114.22, 109.84 and 108.31. Resistance is seen at 119.40, 120.49, 121.23, 126.35 and 128.60. Open interest in the crude market fell by a total of 3,781 to 1,249,302 lots, with open interest in the September contract falling by 4,593 lots to 273,227 lots. Open interest in the October contract built by 6,717 lots to 141,200 while open interest in the November and December contracts fell by 3,056 lots to 76,022 and increased by 5,471 lots to 185,304 lots, respectively. Meanwhile the RBOB market posted an outside trading day after the market rallied to a high of 301.00 in light of the larger than expected draw reported in gasoline stocks of over 4 million barrels. The market however retraced its gains amid the weakness in the crude market and sold off to a low of 291.60. It retraced more than 50% of its earlier move and settled in a sideways trading pattern ahead of the close. It settled down 71 points at 294.93. The RBOB market is seen continuing to trend lower amid the concerns of eroding demand. The market is seen finding support at 291.60, 290.16, 285.13, 283.29 and 277.17. Meanwhile, the heating oil market continued to trend lower and settled in negative territory for the fifth consecutive session in follow through selling seen in the crude market. The market was also pressured amid the build reported in distillate stocks of 2.8 million barrels. The market traded to a low of 321.10 before it retraced some of its losses ahead of the close. It settled down 4.41 cents at 323.79. The heating oil market is seen testing its support at 321.10 followed by 317.60. More distant support is seen at 311.40 and 307.21.