



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 11, 2008

Georgia's oil port of Supsa is operating only partially and oil tankers are not going into its Batumi port following the fighting between Russia and Georgia. Georgian forces entered South Ossetia on Thursday to try to restore central government control of the region, an operation that prompted a military response from Russia. Georgia has stated that Russian bombers damaged the port of Poti, which shipping agents said was shutdown. BP Plc said Azeri crude was being transferred by pipeline to Supsa and by rail to Batumi. A shipping agent said oil tankers collecting cargoes from the

Georgian port of Batumi moved farther out to sea after town was bombed on Sunday. Tankers moved as much as 15 miles out to sea. Meanwhile, Kazakhstan's Prime Minister Karim Masimov ordered the suspension of oil shipments through Batumi. Russia's Deputy Foreign Minister Grigory Karasin said Russian warships were not planning to block shipments of crude from Georgia's Black Sea port of Poti but added that it reserved the right to search ships coming to and from the port. Russia's Prime Minister Vladimir Putin said the US is trying to disrupt Russian military operations in Georgia by flying transport planes of Georgian troops into the conflict zone. Meanwhile, Georgian forces resumed shelling of residential areas in South Ossetia. This followed reports that Georgian President Mikhail Saakashvili has signed a ceasefire deal put forward by European Union envoys. The Secretary of

August Calendar Averages

CL – 119.13

HO – 325.54

RB – 296.38

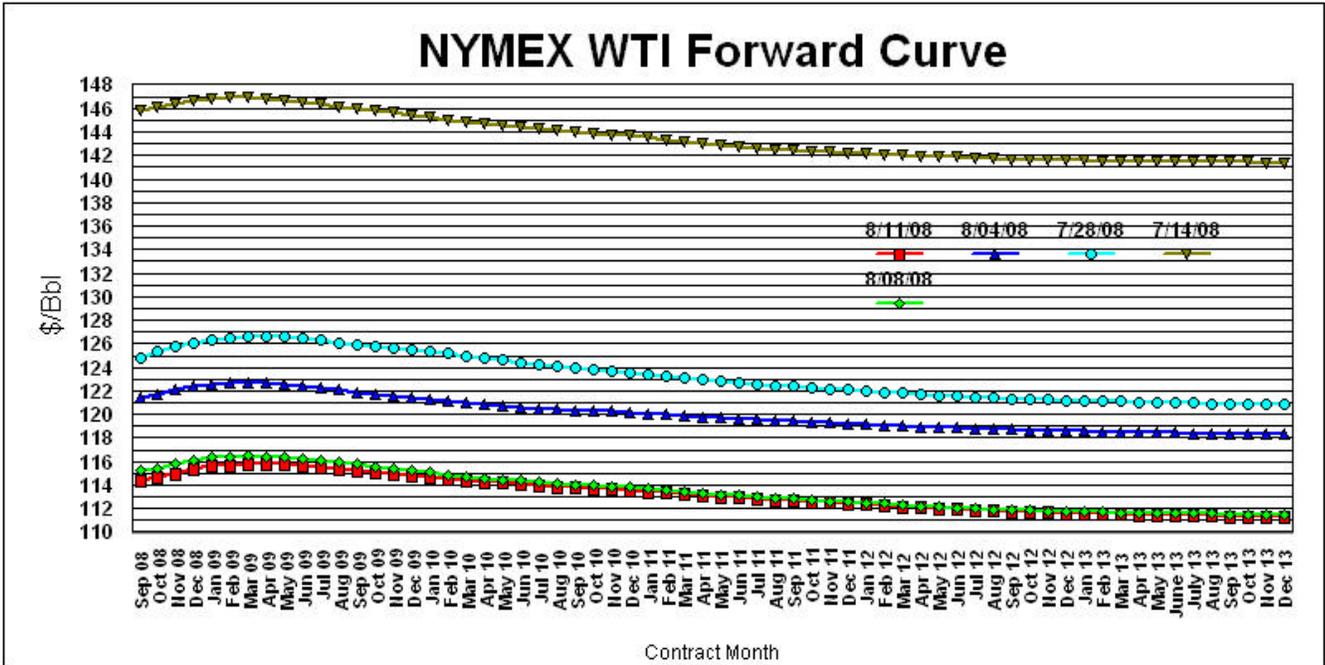
Market Watch

US Secretary of State Condoleeza Rice defended Israel's right to make its own decision about whether it takes military action against Iran. However she emphasized diplomacy.

A Bloomberg News survey showed the US will grow at an average 0.7% annual pace from July through December, half the gain in the first half of the year.

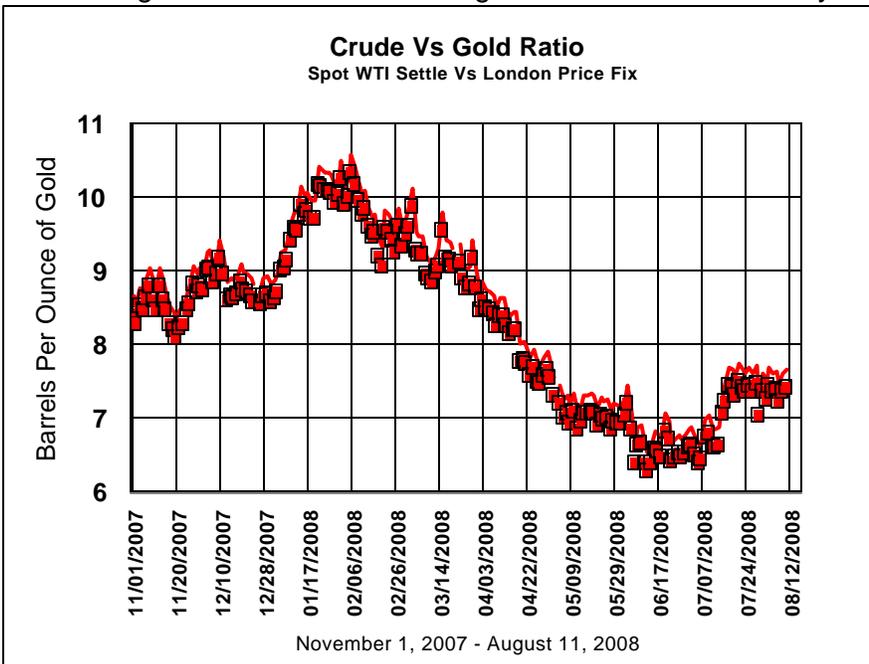
Lehman Brothers reported in its Energy Special Report that it believes oil prices have peaked. Oil prices are down 20% from its recent peak over \$147/barrel. It said barring a physical disruption that may temporarily spike prices, oil prices have likely peaked for the next few years. It also stated that since the start of 2008 to mid-June, inflows have approached \$35.4 billion of which \$10.1 billion is in WTI. It said the correction was overdue and soft prices are expected on the next 12 months.

Georgia's national security council said Russia planned to overthrow Georgia's elected government and occupy the country. He said Russian forces had occupied the city of Gori and Georgian forces were fortifying positions near Tbilisi to defend the capital. Russian jets staged raids and its forces moved deeper into Georgian territory on Monday as Russia's Deputy Prime Minister Sergei Ivanov



dismissed European Union efforts to broker a ceasefire. Russia's Defense Ministry however denied a Georgian claim that Russian forces had occupied the city of Gori. It also said that it had no plans for its forces to advance on Georgia's capital, Tbilisi. Separately, Russia's Foreign Minister Sergei Lavrov told US Secretary of State Condoleezza Rice that the president of Georgia must go.

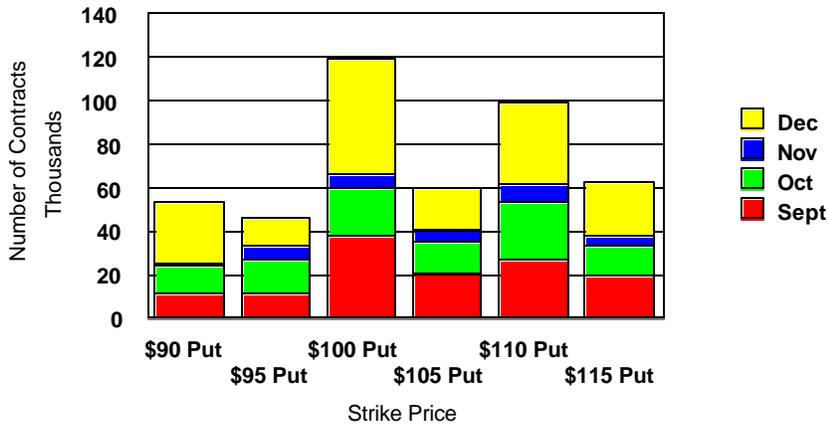
A fire on the Baku-Tbilisi-Ceyhan pipeline in Turkey was extinguished on Monday, enabling officials to assess damage within 12 hours. Turkey's pipeline company, Botas, said repairs may not be completed for one to two weeks or longer. The pipeline carrying Azeri crude, which passes through Georgia, was hit by an explosion on Turkish territory two days before the conflict began over the South Ossetia region. Traders said loadings of Azeri crude from Ceyhan would be delayed by about three weeks.



BP, StatoilHydro ASA and other partners have cut crude production at the Azeri-Chirag-Gunashli and Shah Deniz fields in the Azeri part of the Caspian Sea.

Iran's President Mahmoud Ahmadinejad told visiting Algerian President Abdelaziz Bouteflika that Iran will proceed with its nuclear program, despite the risk of new sanctions. Iran is facing a fourth round of sanctions over its refusal to halt its nuclear program. Meanwhile, Iran's National Security Council said Iran's chief nuclear negotiator Saeed Jalili and European Union

NYMEX WTI PUT OPTIONS OPEN INTEREST
American & European
As of August 8, 2008



foreign policy chief Javier Solana discussed Iran's nuclear program in a telephone conversation on Monday. They agreed to continue their talks.

OPEC's President Chakib Khelil said OPEC members should keep their production level with the group's agreed targets. He said physical crude prices are far lower than their normal values show. Meanwhile, Iran's OPEC Governor Muhammad Ali Khatibi said rising OPEC output has cut the group's spare capacity and left the oil market vulnerable to any surprise

supply disruption. Venezuela's Energy Minister Rafael Ramirez said OPEC should consider an output cut at its upcoming meeting, if it were warranted by market circumstances. He added that Venezuela would support such a cut in production. Separately Persian Gulf officials from OPEC said OPEC is closely monitoring the military crisis between Georgia and Russia in South Ossetia and expects crude oil prices to continue to increase.

The IEA's executive director Nobuo Tanaka said tension on world oil markets will ease over the next couple of years but will likely increase again after that. He said that in order to avoid future crises, producing nations needed to increase capacity considerably.

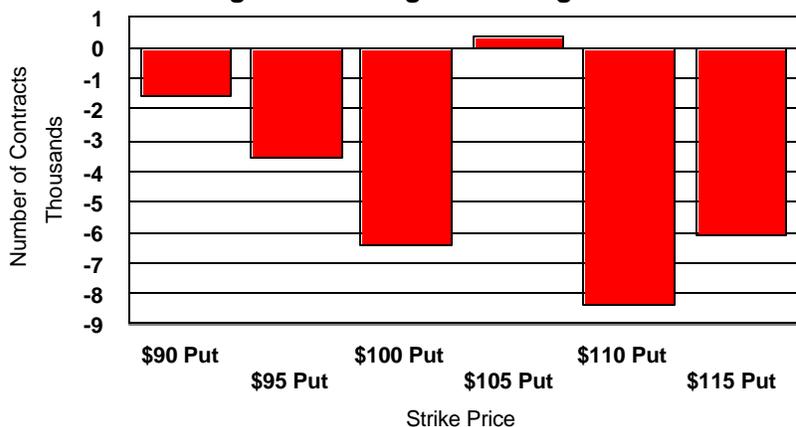
The Movement for the Emancipation of the Niger Delta reiterated its warning on Sunday that it will target foreign workers with the country's largest construction firm, Julius Berger if it did not halt operations in the capital of Abuja in the next 24 hours.

The EIA reported that the US average retail price of gasoline fell by 7.1 cents to \$3.809/gallon in the week ending August 11. It also reported that the US average retail price of diesel fell by 14.9 cents to \$4.353/gallon on the week. It is the lowest level reported since the week ending May 12.

According to the Lundberg Survey, the US average retail price of gasoline fell by 15 cents to \$3.8472/barrel in the two weeks ending August 8.

Euroilstock reported that total European oil stocks increased by 0.3% on the month and the year to 1.120 billion barrels. It

NYMEX WTI PUT OPTIONS OPEN INTEREST
American & European- Sep thru Dec
Aug 8th -- Change from Aug 1st



reported that crude inventories increased by 1.9% on the month and by 0.2% on the year to 483.84 million barrels while gasoline stocks fell by 6.3% on the month but increased by 5.9% on the year to 128.18 million barrels. Middle distillate stocks increased by 0.7% on the month but fell by 4.9% on the year to 358.73 million barrels while fuel oil stocks increased by 0.5% on the month and by 8.3% on the year to 119.8 million barrels. Euroilstock reported that crude intake increased by 0.5% on the month but fell by 1.7% on the year to 11.92 million bpd. Capacity utilization increased to 90.99% in July from 90.56% in June.

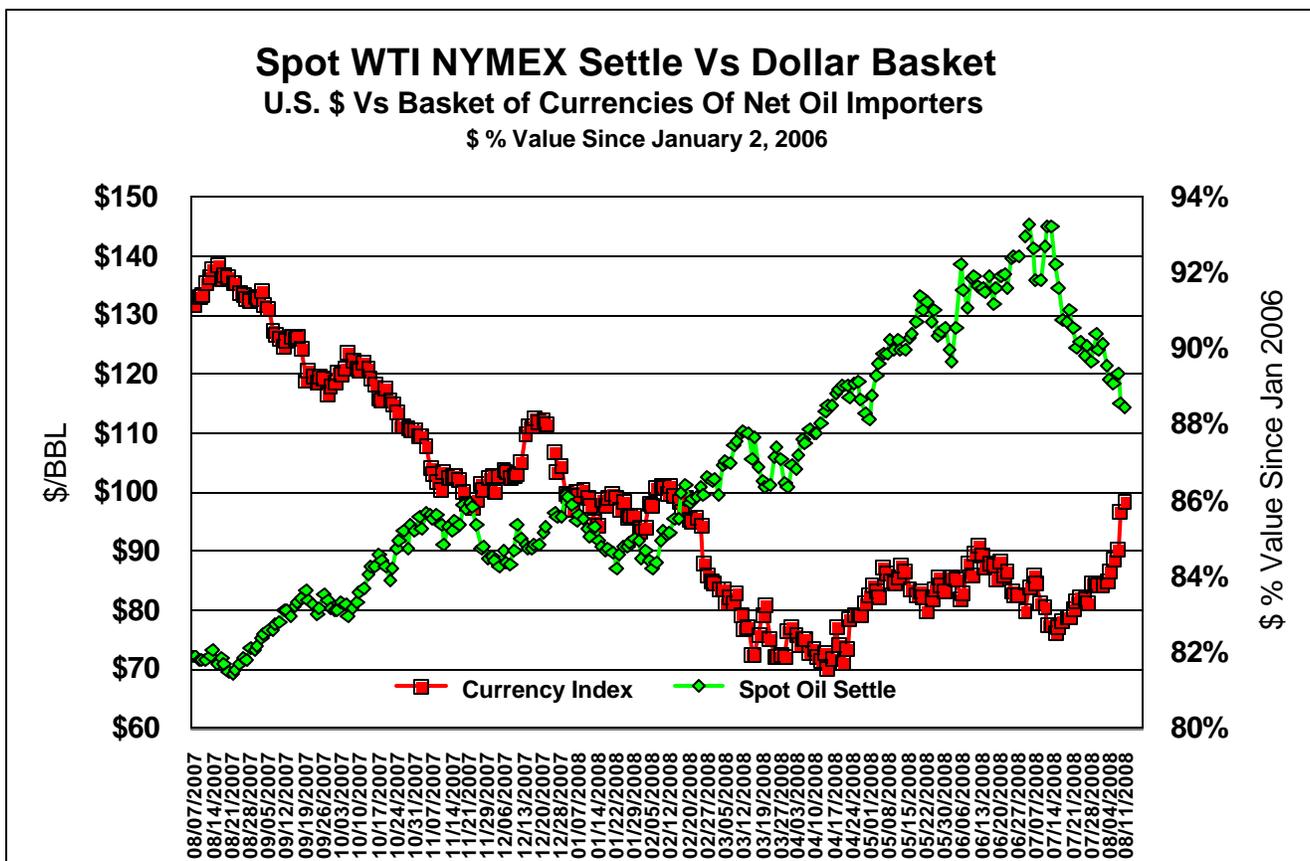
Refinery News

Credit Suisse said US refining margins increased last week as crude prices continued to fall. Margins in the US Midwest increased by \$3.57 to \$15.73/barrel in the week ending August 8 while refiners in the Northeast saw margins increase by \$2.24 to \$10.05/barrel. US Gulf coast margins increased by 58 cents to \$11.26/barrel while West Coast margins increased by \$1.22 to \$15.81/barrel and margins in the Rocky Mountain region increased by \$2.54 to \$29.99/barrel.

Marathon Oil Corp confirmed that its 222,000 bpd Catlettsburg, Kentucky refinery was operating at reduced rates after an oil pipeline supplying the refinery ruptured. A pipeline that runs from an oil hub at Patoka, Illinois to Owensboro, KY was shut due to a leak early Sunday.

Valero Energy Corp said that overhaul work was still ongoing on a 45,000 bpd hydrocracking unit at its 295,000 bpd Port Arthur, Texas refinery.

Parts of a hydrocracking unit at Kuwait National Petroleum Corp's Shuaiba refinery was moderately damaged by a fire that started during maintenance late Sunday. The fire started when the unit was being shutdown for maintenance. An official said the refinery continues to operate at its 200,000 bpd capacity.



Ukraine's Lysychansk refinery will shutdown for a month and a half starting September 15 for renovation.

Ukraine's government is hoping to hold talks this week with Russian shareholders of the country's largest refinery to resolve a dispute which has led to reduced crude supplies from Russia's Tatneft and output. The disagreement involves a court decision that granted Naftogaz an 18% stake in the Kremenchug refinery.

China's crude imports fell by 7% in July to a seven month low of 13.79 million tons or 3.25 million bpd, according to the Customs General Administration of China. Imports could rebound if the fall was due to refiners drawing down crude stocks but some analysts warned it could be an early signal of lower end-user demand that actually caused an unusually large build up in inventories earlier in the year. The fall in July imports also dragged down the growth in the first seven months of the year to 8.3%, with total imports in the period at 104.32 million tons or 3.57 million bpd. China's net imports of refined fuels in July increased by 10% in June to 4.37 million tons while its imports in the first seven months of the year increased by 16.7% to 25.38 million tons. .

Production News

BP Plc said its Bruce oil and natural gas field in the North Sea remains closed after equipment problems in a pipeline transporting gas from the deposit were reported last month.

The loading plans for Brent, Forties, Oseberg and Ekofisk showed a daily loading rate of about 1.43 million bpd in September compared with 1.23 million bpd in August when some maintenance work was carried out. Norway's Oseberg crude system is scheduled to load 7.2 million barrels in September while the September loading program for Ekofisk crude is scheduled to load 11.7 million barrels, down from 12.3 million barrels in August. Meanwhile the North Sea Statfjord crude oil system is set to load about 200,000 bpd in September, down from 221,000 bpd in August.

Saudi Arabia will maintain shipments to Asian customers unchanged in September. Saudi Arabia will also keep its September oil supply to European refiners steady on the month.

Separately, Saudi Aramco said it brought under control a minor fire that erupted at a fuel loading facility in Riyadh on Monday. Fuel supplies to the area have not been affected.

Iraq's Oil Ministry said Iraq's Oil Minister Hussain al-Shahristani will visit China before the end of August to try and finalize a deal to develop the Ahdab oilfield south of Baghdad and build a power station nearby.

More than 4 million barrels of light sweet Algerian Saharan Blend crude has been sold to Asian end users over the past few weeks as the Tapis/Brent spread widened and freight costs fell.

Ecuador's Mining and Oil Ministry reported that the country's average oil production was down 4% at 494,732 bpd in June from 514,797 bpd in June 2007. Petroecuador's oil production averaged 259,431 bpd in June while private companies' oil production averaged 235,301 bpd.

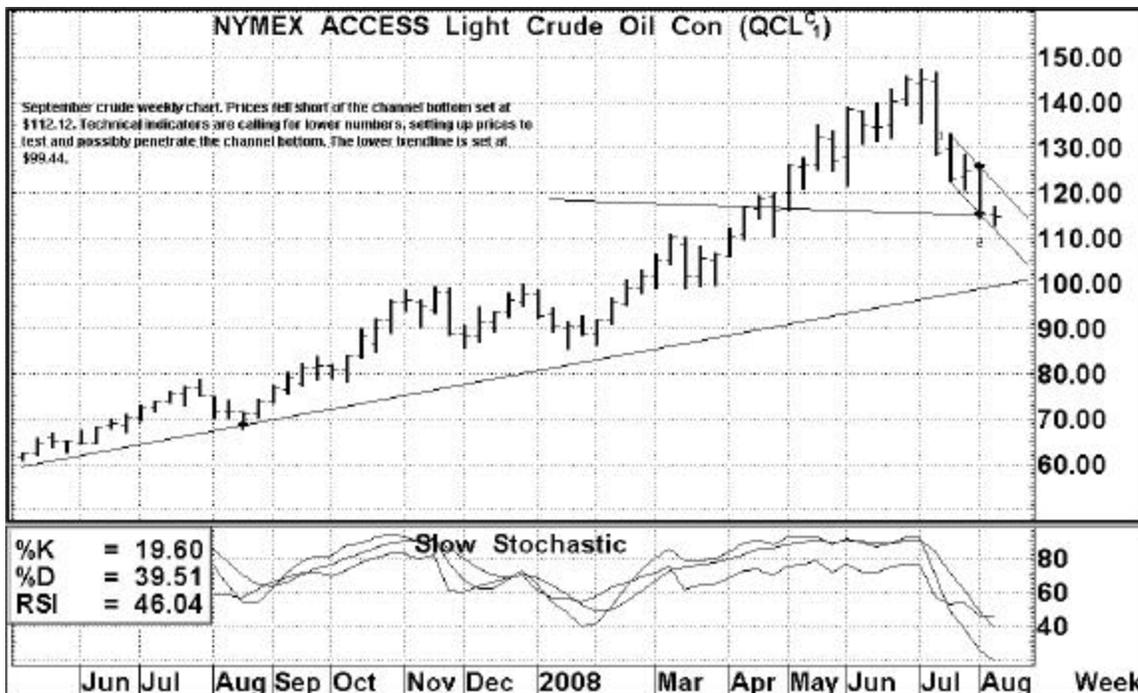
OPEC's news agency reported that OPEC's basket of crudes fell by \$2.35/barrel to \$112.73/barrel on Friday. It also reported that OPEC's basket of crudes fell by \$5.98/barrel to \$115.89/barrel in the week ending August 8.

Iran cut its official selling price for September loading Iran Light crude bound for Asia by 65 cents to the Oman/Dubai average plus \$1/barrel. It however increased the price of its Iran Heavy by 75 cents

to the Oman/Dubai average minus \$3.17 and its Forozan crude by 75 cents to the Oman/Dubai average minus \$3.10/barrel.

Market Commentar

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Energy prices fell today as the outlook for the U.S.



economic slow down will extend into 2009, thereby having an impact on demand. Helping push prices lower, was a strong dollar, which hit its highest level in just over five months. Crude oil hit a 14 – week low, bottoming out at \$112.72, falling short of the \$112.12 bottom of the weekly channel. With options for September expiring on Friday and the \$100.00 puts having an open interest of 37,575, it appears that a penetration of this channel bottom will occur, with prices extending to the \$100.00 mark. Option open interest in puts has fallen, with the \$110 put losing just over 8,000 contracts and the \$100 put losing just over 6,000. It appears that traders are abandoning their positions in both the futures and options as the market sells off. For tomorrow we would look for a test of \$109.55, the 50% retracement between \$147.27 and \$86.24. Heating oil continues to trade at the bottom of the descending channel, but unable to follow through with any penetrations. We would look for a continuation of this pattern, using the channel bottom of \$3.0967 as a pivotal area. The September08 heating oil to gasoline spread has begun to rebound, with heating oil gaining against the gasoline. Technical indicators for this spread are in extreme over sold territory and have crossed to the upside. Due to the seasonality of this spread, typically it rebounds prior to expiration and we would expect for the heating oil to continue to gain strength against the gasoline as we approach expiration for these products. As the U.S. driving season starts to wind down and with the U.S. economy weighing on demand, gasoline should continue its downward spiral. Technical indicators, although in over sold territory, have crossed to the downside, indicating further weakness in this product. Our objective for the September 08 contract is the \$2.6865 to \$2.5405 congestion area that had developed back in March of this year. Open interest for crude oil is 1,252,202 down 2,102, September 08 204,430 down 30,900, October 08 195,184 up 19,401 and December 08 176,418 down 1,466. Total open interest for heating oil is 228,348 up 3,256, September 08, 58,107 down

4,451 and October 08 36,325 up 3,442. Total open interest for gasoline is, 217,100 down 973, September

Crude Support	Crude Resistance
109.55, 108.40, 105.18, 85.40	132.90, 134.85, 140.60, 144.00, 147.90,
Heat support	Heat resistance
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, 34655

08, 64,320 down 6,188 and October 08 44,816 up 1,505.