



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta
& Karen Palladino

(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR AUGUST 12, 2008

BP has shut two of three oil and gas pipelines that run from the Caspian Sea through Georgia as a precaution due to the conflict between Russia and Georgia. A spokeswoman said the 90,000 bpd Western Route Export Pipeline, which runs to the Black Sea port of Supsa, and the South Caucasus gas pipeline were not damaged by recent fighting. It said it was unaware of an alleged Russian bombing of a pipeline in Georgia. The closures leave BP with only Russia's Black Sea port of Novorossiisk and Georgia's Black Sea ports of Batumi and Kuleva as the only available export options. The Baku-Tbilisi-Ceyhan oil pipeline has been shut since early August following an

Market Watch

PressTV, citing naval commander Ali Mohammad Salami, said Iran is set to hold a major naval exercise. Some 83 vessels will take part in the exercises.

An Iranian oil official said Iran has no plans to sell any more of the oil it holds in floating storage off its southern coast. Last week, an official said that less than 6 million barrels was still on the vessels and would be refined in Iran within a month. Also, last week another official said that an increase in storage capacity at Iran's main export terminal on Kharg Island had helped reduce the oil in storage. A new million barrel storage facility at Kharg Island had increased total storage capacity to 19 million barrels.

Traders said up to 90,000 tons of Asian gasoline will be lifted for the US West Coast in August, the first significant flow to the country this year. The Asia-West Coast arbitrage window was opened last week following a larger than expected draw in stocks while the Asian market is facing weak demand.

The IMF said Saudi Arabia's currency peg to the dollar provides macroeconomic stability benefits that currently outweigh its contribution to short term inflationary pressures. The IMF however recommended that Saudi officials consider alternative exchange rate regimes if inflation worsens. It urged Saudi Arabia to monitor inflation developments closely. The IMF said Saudi economic growth is projected to reach 5% in 2008 as oil production increases to 9.2 million bpd and growth in non-oil sectors accelerates.

Oil prices are likely to surpass the \$150/barrel level this year despite the recent fall on the dollar's rise against the euro and concerns that high prices may hurt growth. The director at the Marubeni Research Institute said a slowdown in US, euro zone and Japanese economies may hurt growth in China and other emerging markets but underlying demand for oil from rapidly developing countries remains solid. He said that wild a global economic slowdown may impact China and India, both countries are expected to grow relatively fast and a fall in oil prices would only reinforce their demand.

Japan's Tokyo Electric Power Co plans to restart its Fukushima-2 nuclear power plant as early as this week due to the expected completion of maintenance after the discovery of a problem. An official however declined to say when exactly the No. 3 reactor would be restarted but said the company was proceeding with maintenance with the aim of restarting the unit towards mid-August.

A total of 1,247 lots or 124,700 metric tons of gas oil was physically delivered against the expiry of the August ICE gasoil futures, up from 79,500 tons in July.

explosion on the eastern Turkish section of the pipeline. Meanwhile, Turkish state pipeline company Botas said fighting in Georgia will not stop oil from on the Baku-Tbilisi-Ceyhan pipeline and exports will resume when the pipeline is repaired. Separately, Georgia's National Security Council Secretary Alexander Lomaia said the Kulevi oil terminal near Georgia's Black Sea port of Poti is under threat from Russian attacks. They have demanded terminal staff to evacuate the terminal as Russians prepare to bomb the nearby forest, claiming that Georgian troops are hidden there.

August Calendar Averages

CL – 118.37

HO – 323.33

RB – 294.88

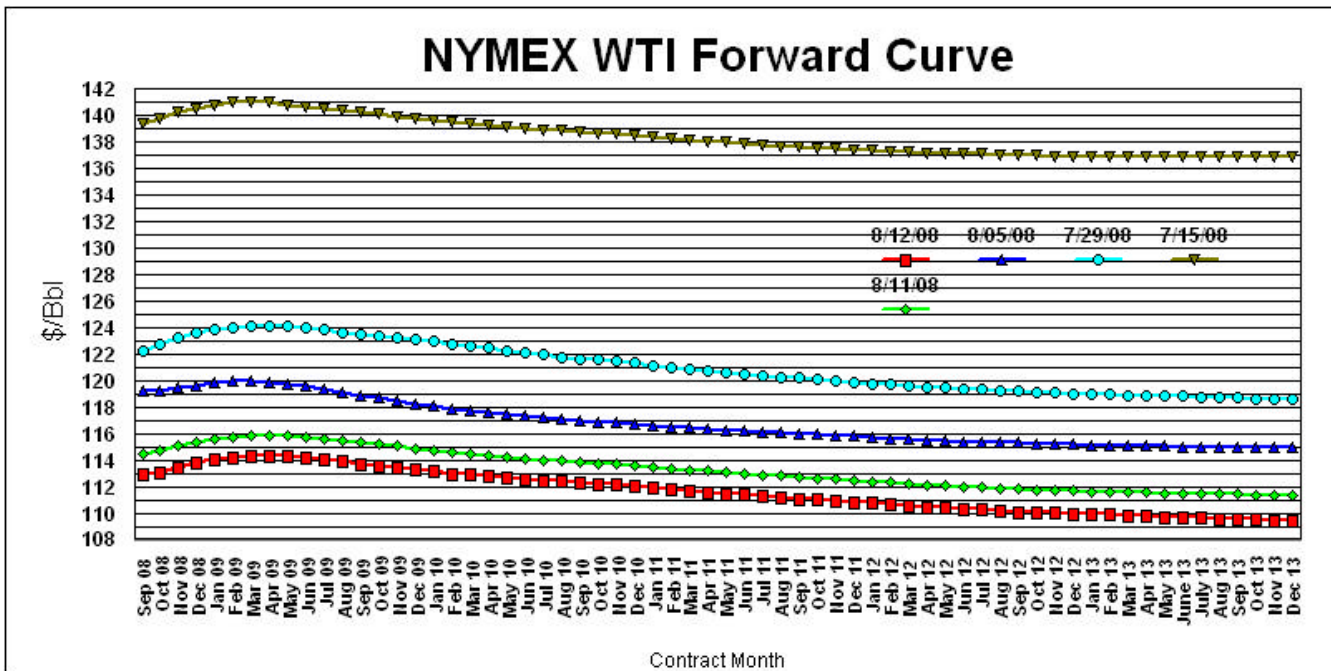
Russia's President Dmitry Medvedev ordered a halt to military operations in Georgia on Tuesday, saying it had achieved its objectives by punishing Tbilisi. He issued instructions to Defense Minister Anatoly Serdyukov to stop the operation to force Georgian authorities to peace. Meanwhile, Georgia's Prime Minister Lado Gurgenedze said he wanted to see more evidence of a Russian ceasefire and would remain prepared for everything until Russia signed a formal peace deal. Russia set two conditions for a full settlement of the conflict which include the return of Georgian troops to their initial positions and be partly demilitarized and a binding agreement on the non-use of force. However Russia's Foreign Minister Sergei Lavrov warned that Russia could take additional measures if Georgian troops refuse to return to their bases under a plan to end fighting in South Ossetia. French President Nicolas Sarkozy welcomed an order to cease hostilities in Georgia. He said it is necessary to implement the ceasefire and added that Russia has no intention of remaining in Georgia. Meanwhile, a meeting between NATO ambassadors and their Russian counterpart to discuss the Georgia-Russia crisis will not take place on Tuesday as Russia requested. Also, NATO's Secretary General Jaap de Hoop Scheffer said Russia's decision to stop its troops advancing in Georgia is not enough. He said a return to the status quo ante, before the conflict began in South Ossetia, was required.

Separately, US officials said upcoming war games between Russia and NATO may be cancelled following the Russian conflict with Georgia.

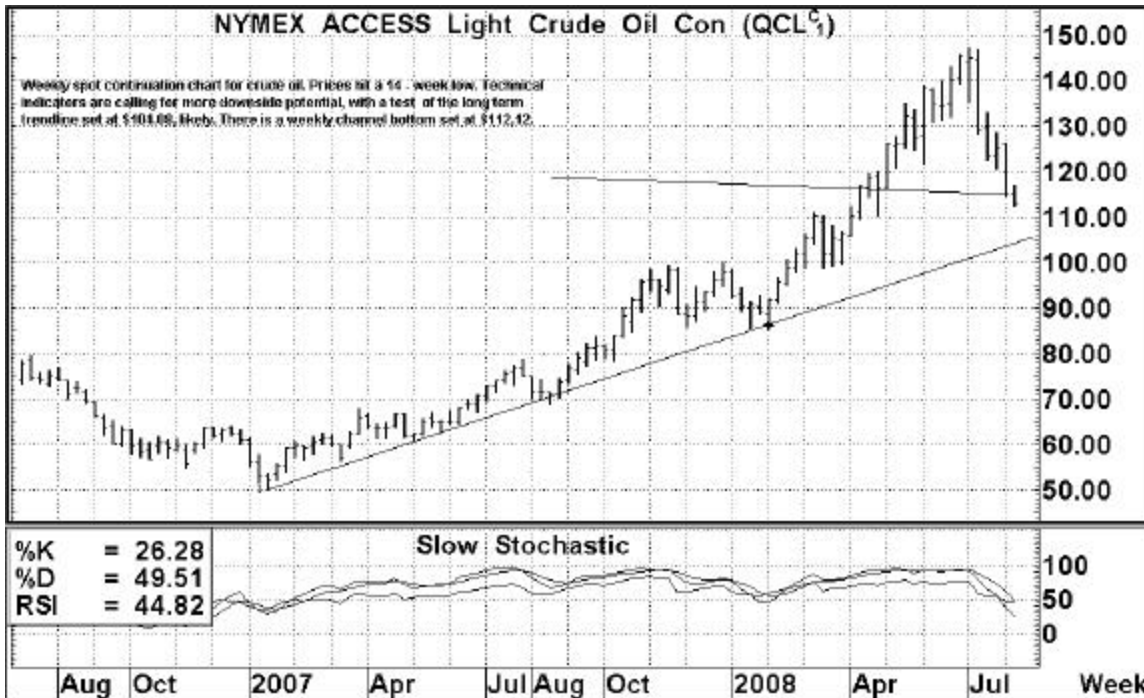
The IEA reported that world oil demand will increase more than previously expected in 2009. World oil demand growth is estimated to increase by 60,000 bpd to 930,000 bpd in 2009. It increased its estimate for world demand in 2009 by 70,000 bpd to 87.8 million bpd and said the outlook for 2008 was relatively unchanged. The IEA said it expects China's oil demand to increase after the Olympic Games. China closed oil refineries and coal-fired power stations and reduced vehicle traffic to improve air quality. Chinese oil demand is expected to increase by 5.7% next year. The IEA said OPEC output increased by 145,000 bpd in July to 32.8 million bpd. Supplies from Norway, Canada, Argentina and Brazil underpinned non-OPEC growth of 520,000 bpd. It lifted forecasts for non-OPEC supply by 100,000 bpd in 2008 and 2009. Overall, the IEA expects non-OPEC supply to reach 50.8 million bpd in 2009, up from 50.1 million bpd in 2008. The IEA said increasing OPEC supply has reduced the amount of effective unused capacity the group holds in reserve to meet increases in demand or supply shortfalls to 1.5 million bpd. However it said spare capacity should increase at the end of this year and into 2009. The IEA forecast third quarter refining activity could come under further pressure from sluggish gasoline margins. It expects world crude throughput to reach 75.3 million bpd in the third quarter, unchanged from its previous forecast.

The EIA said prospects for improved oil market fundamentals over the next 18 months point to an easing in the market balance and price weakness over the near term. It lowered its price forecasts, with WTI prices expected to average \$119/barrel in 2008 and \$124/barrel in 2009, down 6.3% and 6.8% on the year, respectively. Annual average gasoline prices are estimated at \$3.65/gallon and \$3.82/gallon for 2008 and 2009, respectively. It cut its gasoline price forecast for this year's summer driving season by 4% to \$3.82/gallon. Diesel prices are expected to average \$4.18/gallon in 2008 and

\$4.27/gallon in 2009, down 3.9% and 4.7%, respectively from its previous estimates. Residential heating oil prices during the upcoming winter is expected to average \$4.34/gallon compared with



\$3.31/gallon during the last heating season. It stated that downward price pressure will continue if the economic slowdown is deeper or longer than expected and if high prices lead to lower consumption and lower demand for OPEC crude than currently anticipated. The EIA reported that world consumption increased by 500,000 bpd during the first half of 2008 compared with year earlier levels as a 1.3 million bpd increase in demand outside of the OECD was partially countered by an 800,000 bpd drop in US consumption compared with year earlier levels. Total world oil consumption is expected to increase by 780,000 bpd to 86.31 million bpd, down 90,000 bpd from its previous forecast. Demand in 2009 is expected to increase by 990,000 bpd to 87.3 million bpd, down 460,000 bpd from its previous forecast. In regards to supply, it stated that if new projects come online, as expected, total non-OPEC supply is projected to increase by about 510,000 bpd in the second half of 2008 and by 850,000 bpd in 2009. OPEC crude production is expected to increase to 32.9 million bpd during the third quarter of 2008, up from 32.3 million bpd in the second quarter. OPEC production is expected to fall to about 32.4 million bpd in the fourth quarter of 2008 and to fall to 31.6 million bpd in 2009. In regards to US petroleum demand, US oil demand during the first half of the year fell by an average 800,000 bpd on the year, the largest decline since 1982. The EIA said demand is expected to fall by 480,000 bpd in 2008 to 20.2 million bpd, down 90,000 bpd from its previous forecast while demand in 2009 is estimated at 20.08 million bpd, down 250,000 bpd. Gasoline demand is estimated at 9.17 million bpd in 2008, down 30,000 bpd from its previous estimate while demand for 2009 is expected to fall to 9.15 million bpd, down 40,000 bpd from last month's estimate. Distillate demand in 2008 is estimated at 4.14 million bpd, down 10,000 bpd from its previous estimate while demand for 2009 is expected to fall by 200,000 bpd to 4.12 million bpd, down 30,000 bpd from its previous estimate. The EIA also reported that in 2008, total domestic crude production is estimated to average 5.15 million bpd, up from the 2007 average of 5.1 million bpd. Ethanol production is projected to increase from 430,000 bpd in 2007 to 590,000 bpd in 2008 and to 650,000 bpd in 2009.



According to MasterCard Advisors, US gasoline demand averaged 9.462 million bpd in the week ending August 8, down 2% on the week despite a decrease in average retail prices last week of 7 cents to \$3.84/gallon.

n. Gasoline demand is down 3.8% from the same week in 2007. The four week moving average for gasoline demand fell by 3.6% on the year to 9.575 million bpd.

Iran's OPEC governor, Mohammad Ali Khatibi said oil prices are falling because of an oversupply of crude and added that OPEC may consider cutting its production at its September meeting to achieve a supply-demand balance while maintaining sufficient excess capacity. He said OPEC should cut its output if demand continues to fall in slowing industrialized economies. Meanwhile, Qatar's Oil Minister Abdullah bin Hamad al Attiyah said whatever decision OPEC takes on its production policy at its September meeting, it will be based on fundamentals and not on the level at which crude prices are trading.

Ecuador's Oil Minister Galo Chiriboga said OPEC does not need to change output levels, even though oil prices have declined more than \$20/barrel from record highs.

Refinery News

ConocoPhillips reported a brief snag over the weekend with a valve in its fluid catalytic cracking unit at its 247,000 bpd Sweeny, Texas refinery. Separately, ConocoPhillips reported that a fluid catalytic cracking unit at its 146,000 bpd Borger, Texas refinery will undergo maintenance between Tuesday and August 21. It is scheduled to perform maintenance on its electrostatic precipitators on the unit.

Citgo Petroleum Corp is shutting down a crude/vacuum unit at the east plant of its 156,000 bpd refinery in Corpus Christi, Texas on Tuesday. The shutdown will last until August 16.

Chevron Corp shutdown a pre-treatment unit its El Segundo, California refinery for maintenance. It said its 72,500 bpd fluid catalytic cracking unit was not shut. Wholesale gasoline prices in the Los Angeles market increased 5.5 cents/gallon on Tuesday morning on rumors that it had shut the FCC unit.

ExxonMobil is restarting a hydrocracker unit at its 562,000 bpd Baytown, Texas refinery after it suffered a problem on Monday. There was minimal impact on production and all customer needs were met.

Royal Dutch Shell plans to shut three units for about seven weeks at its 412,000 bpd Pernis refinery for maintenance starting in mid-September. The units, including a crude distillation unit, are scheduled to shutdown on September 15 until the week of November 3.

Contracts awarded for the 615,000 bpd Al-Zour refinery may be at risk after a group of Kuwait politicians warned the government not to sign them, saying the tender process had violated the law. Deputies from the Popular Action block said that among other issues, the government should not have awarded US firm and project manager Flour Corp a separate contract for utility and offsite services without a tender.

Production News

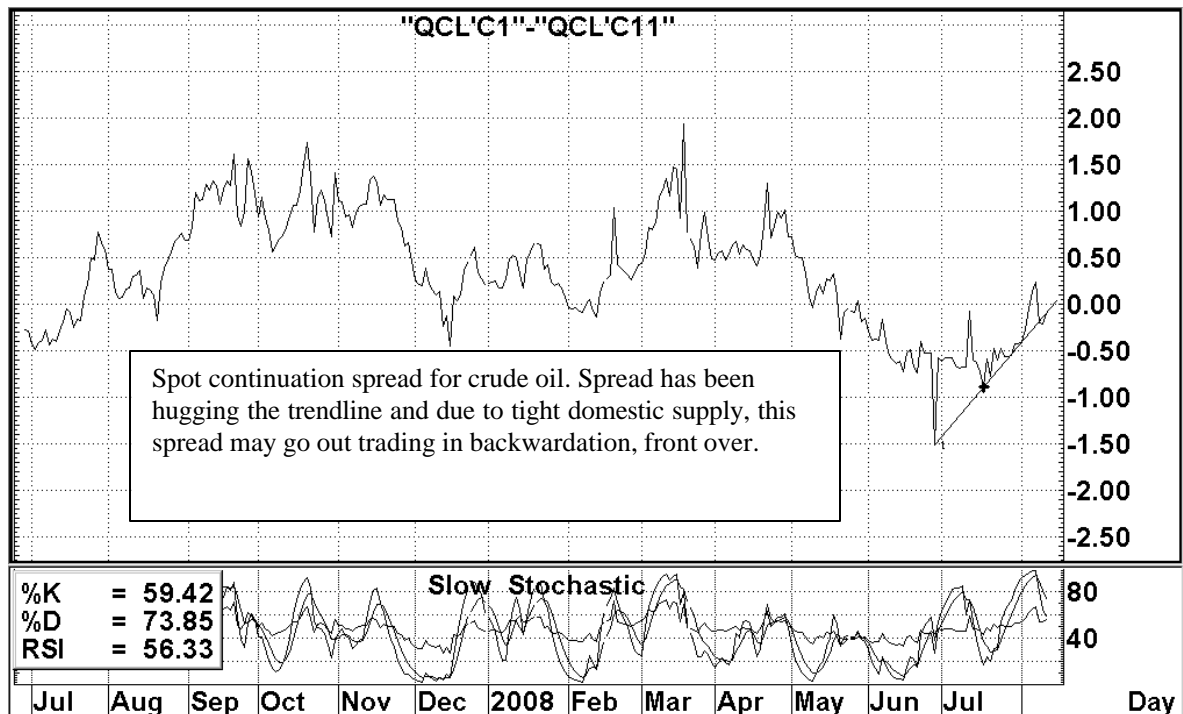
TEPPCO Partners said it was halting liftings of low sulfur diesel from its Shreveport, Louisiana terminal from Tuesday afternoon until August 21.

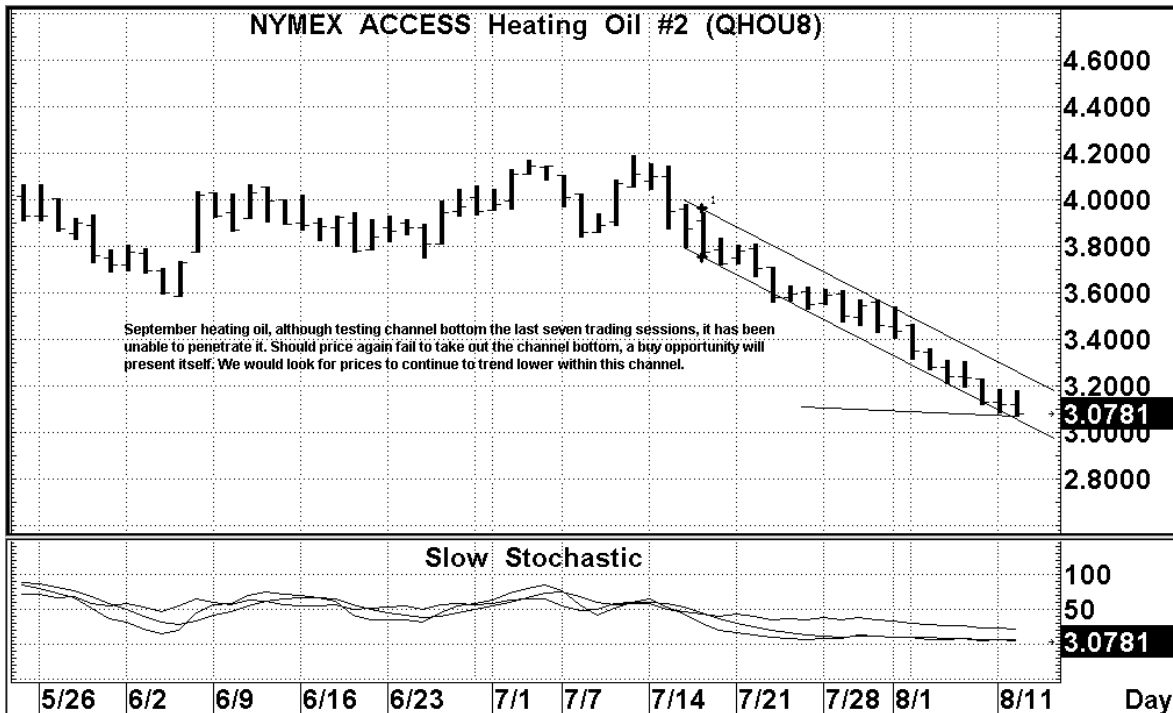
The Aberdeen Petroleum Report stated that UK oil output increased to 1.66 million bpd in May, up 0.6% on the month.

A shipping agent said a power generation problem has cut half of Iraq's oil exports from its main southern Basra terminal since Monday evening. Its Basra exports stood at 770,000 bpd on Tuesday, down from about 1.42 million bpd on Monday. It is unclear when the problem will be resolved.

Ukraine's State Statistics Committee said the country's crude oil production fell by 4.3% on the year to 1.816 million tons in January-July while its gas condensate production increased by 2.2% to 650,000 tons. It

also reported that its gasoline output fell by 23% on the year in January-July 2008 to 1.997 million tons. Refineries reduced their gas oil production by 21.9% to 2.051 million tons so far this year.





OPEC's news agency reported that OPEC's basket of crudes fell further to \$111.27/b arrel on Monday from Friday's \$112.73/b arrel level.

Market Commentary

Energy prices edged lower again today, as traders were confident that the dollar would maintain its strength. Despite the unrest between Russia and Georgia and the proximity to the Baku-Tabilisi-Ceyhan oil pipeline, crude oil prices reached a 14-week low. Although a slight draw in crude oil stocks of 0.3 is expected for the DOE/API numbers tomorrow, we do not see this supportive enough for a run-up in prices. Our focus of attention would be more on the demand for products. September crude oil appears to be setting up for a test of the long-term trendline set at \$104.08 on a spot continuation chart. Both the RSI and the slow stochastics are trending lower and have not breached over sold territory basis this chart. The September/October spread has been trending along an ascending trendline since late June. With domestic crude supplies tight, this spread may very well gain strength. For the third straight trading session, heating oil has posted lower highs and lower lows, typically a bearish signal. It has also bounced off of the channel low the last seven trading sessions. Should prices continue to test, but not penetrate this channel bottom, a buy opportunity may arise. Pressured by slackening demand, gasoline sold off again today. Gasoline stocks are expected to draw by 1.4 million barrels, however, we do not believe this to be significant enough to support prices. With gasoline stocks set in the upper half of the average range and demand waning, we would look for continued sell offs. Open interest for crude oil is 1,240,202 down 2,102, 655 September 08 184,909 down 19,521, October 08 206,390 up 11,206 and December 08 175,206 down 1,212. Total open interest for heating oil is 227,487 down 861, September 08, 53,888 down 4,219 and October 08 37,811 up 1,486. Total open interest for gasoline is, 218,582 up 1,482, September 08, 60,006 down 4,006 and October 08 48,589 up 3,733.

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	2.9277, 3.1760,3.6021, 3.755, 34655