



## ***ENERGY RISK MANAGEMENT***

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## **ENERGY MARKET REPORT FOR AUGUST 13, 2008**

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BP PLC said that force majeure has been declared on liftings from the Baku-Supsa oil pipeline following its shutdown on Tuesday. BP closed the 150,000 bpd route to Supsa on Georgia's Black Sea coast from Baku, Azerbaijan due to the conflict between Georgia and Russia. BP Plc and Botas International Ltd started damage assessment at the Baku-Tbilisi-Ceyhan pipeline in eastern Turkey following a fire. BP said the assessment will take about a week. BP, StatoilHydro and their partners had to cut production at the Shah Deniz gas and Azeri-Chirag-Gunashli oilfield

because of the disruption. It has shut about 100,000 bpd of oil equivalent. Azerbaijan International Operating Co announced force majeure on cargo loadings at the port of Supsa in Georgia until further notice. BP's pipeline from Baku in Azerbaijan to Supsa in Georgia remained closed on Wednesday as the company awaited word from Georgian authorities that it was safe to reopen. Last week force majeure was also declared on shipping oil through the BTC. Meanwhile Georgia's Black Sea ports resumed normal operations following the ceasefire while the port of Poti has also resumed

### Market Watch

The commodity half of T. Boone Pickens' BP Capital hedge fund lost 35% of its value in July. The New York Post reported that the fund is believed to be down about 10% for the year.

The Financial Times reported that former Amaranth Advisors trader Brian Hunter has helped lead the fund he now advises to a 230% year to date return. It reported that the year to date performance of the Peak Ridge Capital Commodities Volatility fund makes it one of the most outstanding hedge fund performance of the year so far. The fund returned 24% in July as commodity prices fell 10% on the month.

Iran's Oil Ministry reported that Iran will start construction of four 1 million barrel storage tanks on Kharg Island next month. Construction of the tanks will enable the country to increase its storage capacity by 50%. Iran's storage volume is less than 10 million tons stored in five tankers. Separately, the National Iranian Oil Co said Iran sold all the crude it held in floating storage tanks.

The US Federal Trade Commission has proposed a rule on oil market manipulation. The proposed rule, which would cover both spot and futures markets is designed to increase oversight of the crude, natural gas, gasoline and other product markets as directed by the US Congress late last year. The proposed rule focuses on fraudulent or deceptive conduct that threatens the integrity of wholesale petroleum markets. If the agency enacts the rule as it is currently written, it could subject violators with penalties of up to \$1 million per violation per day.

### DOE Stocks

**Crude** – down 400,000 barrels

**Distillate** – down 1.7 million barrels

**Gasoline** – down 6.4 million barrels

**Refinery runs** – down 1.1%, at 85.9%

operations.

**August Calendar Averages**

**CL** – 118.10

**HO** – 322.20

**RB** – 294.69

Georgian President Mikheil Saakashvili accused Russian forces of violating a ceasefire with troop movements around the country. He said US President George W. Bush's pledge to send aid to Georgia means that the US military will take control of the country's ports and airports in order to conduct humanitarian and other missions. Meanwhile, Russia's military said its forces were in the Georgian city of Gori removing military vehicles and munitions from Georgian army facilities. Russian troops will pull out of Gori on Thursday. It said some Georgian forces have left the conflict zone around South Ossetia but there has so far been no active withdrawal. Russia's Foreign Minister Sergei Lavrov said the US must choose between supporting the Georgian leadership or maintaining a partnership with Russia on international issues. Separately US President George W. Bush called on Russia to pull its military out of Georgia, saying he is concerned by reports that Russia is not living up to a provisional ceasefire and warning that Russia's relations with the US and Europe are at risk. To step up pressure on Russia, Secretary of State Condoleezza Rice is traveling to France to meet with French President Nicolas Sarkozy and then to Tbilisi to meet with Georgia's President.

European Union foreign ministers called on Georgia and Russia to observe an effective ceasefire in a joint statement issued at the end of a crisis meeting in Brussels. They expressed broad support for sending EU peacekeepers to supervise a ceasefire between Russia and Georgia in the breakaway Georgian region of South Ossetia. An official said details about sending peacekeepers would be discussed at a meeting of EU foreign ministers in September.

The US has requested a meeting of NATO foreign ministers over the situation in Georgia, which could possibly take place early next week. A NATO spokeswoman said Russia will not take part in the meeting.

The API reported that US demand for crude oil and petroleum products in July fell by 2.6% or 542,000 bpd on the year to 20.205 million bpd. For the first seven months of the year, demand was down 3.6% or 743,000 bpd to 19.969 million bpd. Gasoline demand in July fell by 4.2% or 410,000 bpd to 9.23 million bpd while demand in the January-July period fell by 2.1% to 9.1 million bpd. The API reported that distillate demand increased by 3.5% or 140,000 bpd to 4.166 million bpd. Combined refinery production of gasoline, distillate, residual and jet fuel reached a record of 16 million bpd. July's crude oil and petroleum product imports averaged 13.531 million bpd, down 1.6%.

The US Transportation Department said US motorists drove 12.2 billion miles less in June from a year ago as high gasoline prices cut the number of highway miles traveled during the month by 4.7%. Since last November, motorists have driven 53.2 billion fewer miles than they did over the same period a year earlier.

**Refinery News**

Marathon Oil Corp said its crude oil pipeline from Patoka, Illinois to Owensboro, Kentucky was in full operation on Tuesday night and its Catlettsburg refinery was transitioning back to full rates.

ConocoPhillips is planning maintenance on a hydrodesulfurization unit at its 153,000 bpd Borger, Texas refinery from Wednesday through August 24. Separately, ConocoPhillips reported unplanned flaring Tuesday at its Wilmington, California refinery.

Japan's Seibu Oil Co Ltd will shut its 120,000 bpd crude distillation unit at its Yamaguchi plant from September 1 to October 5 for planned maintenance. The restart is scheduled for October 6.

Singapore Refining Co has cut its crude processing rates at its 285,000 bpd facility by up to 7% amid falling margins.

Thailand's PTT Aromatics and Refining PCL confirmed it was considering cutting its crude production of 145,000 bpd by 5% due to falling margins.

South Korea's Hyundai Oilbank will cut its crude refining rates to 300,000-310,000 bpd due to weak margins after it increased runs to 340,000 bpd earlier this month.

South Korea's SK Energy will import at least 40,000 tons of fuel oil in September.

Taiwan's Formosa Petrochemical Corp said the refinery will cut its operating rates to 70% from the current 93% due to maintenance in September.

India's Oil Minister Murli Deora said the country's diesel demand is growing at an unexpectedly high rate of 23-24%, causing shortages in some regions. He said India has no plans to cut fuel prices despite the fall in world crude prices as government set prices were still much lower than the market.

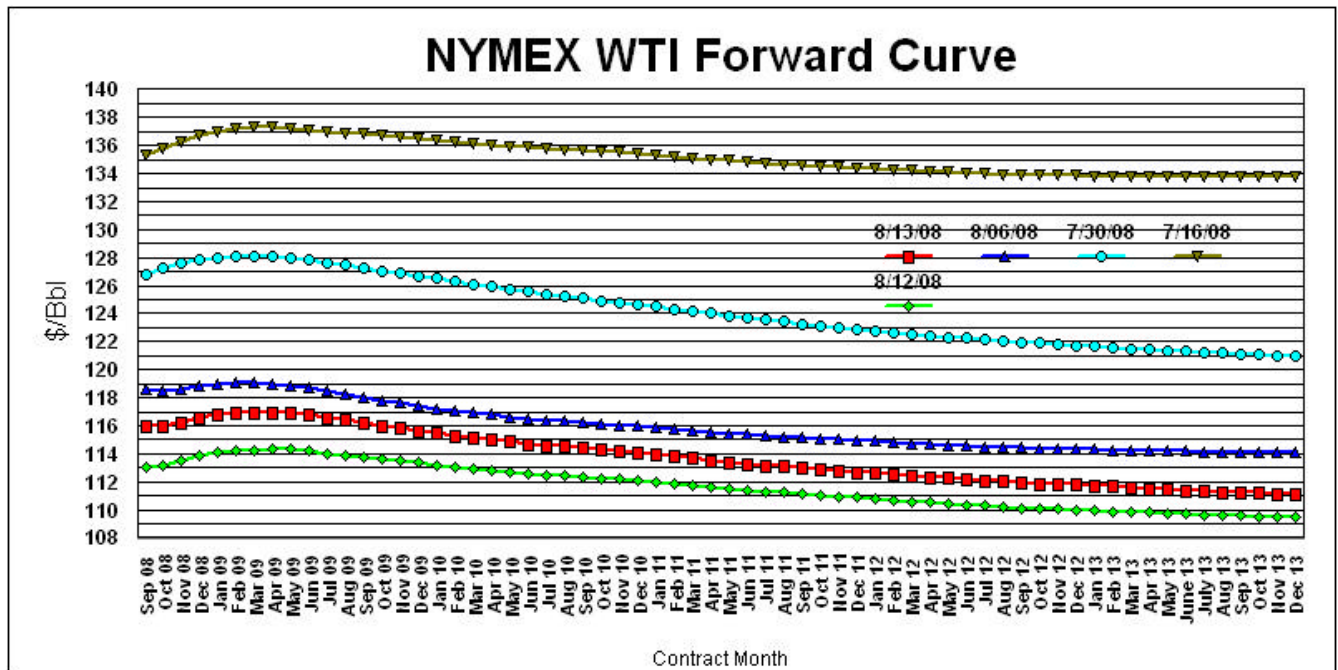
**Production News**

Norway's North Sea Gullfaks crude oil system is scheduled to load about 256,500 bpd in September, up from 248,000 bpd in August.

Norway's Oseberg crude oil system is scheduled to load 7.35 million barrels, up from 6.6 million barrels in August.

Denmark's DUC crude oil system is scheduled to load about 180,000 bpd in September, up from 174,000 bpd in August.

StatoilHydro said oil production has started at the Saxi and Batuque fields off Angola. The fields are part of the Kizomba C development in Angola's Block 15. Total combined output from the three Kizomba C fields will reach 200,000 bpd later this year. It is expected to produce a total of 600 million barrels of oil over the life of the three fields.



Nexen Inc said its North Sea Scott field resumed production after scheduled maintenance earlier this month. The field produced an average of 21,599 bpd of oil and 16 mmcf/d of natural gas in the 12 months through April.

Oman's economy ministry statistics showed that the country's oil production increased by 4.7% on the year in the first six months to 743,000 bpd. China and Japan were the top importers of Omani crude followed by South Korea and Thailand.

India's Reliance Industries aims to pump oil from its east coast block starting in September and gas starting in October, slightly later than expected.

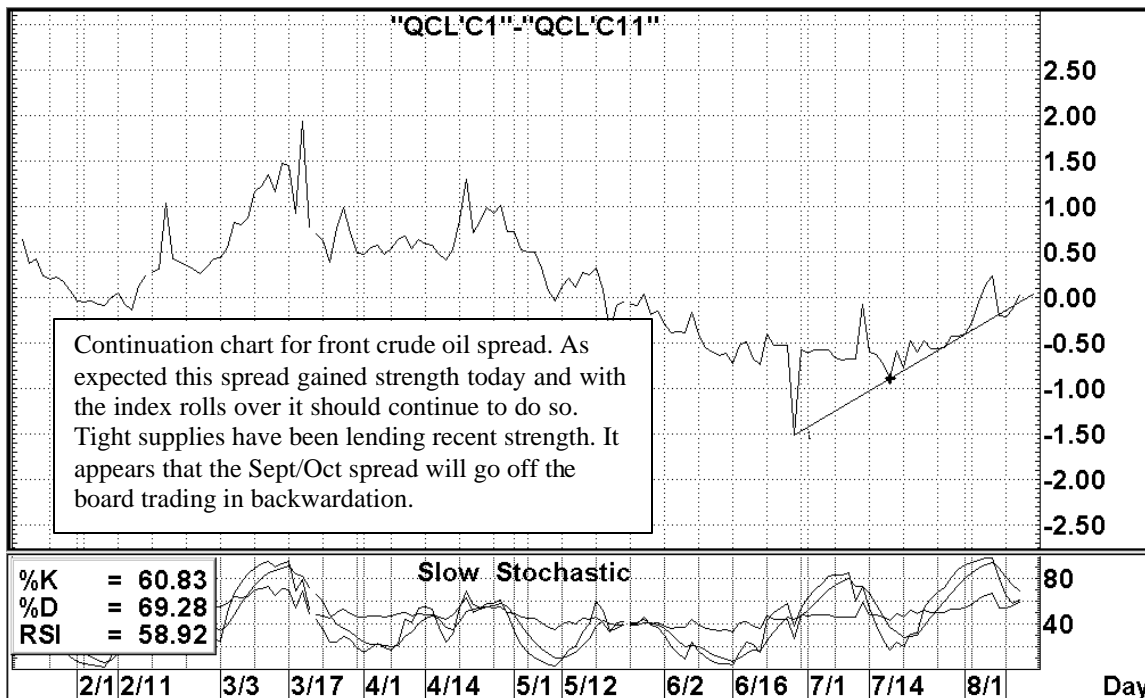
Iraq has raised the September official selling price for its Basra Light and Kirkuk crude. The price of Basra Light crude bound for the US was set a discount of \$5.90/barrel to the second month WTI compared with a discount of \$6.50 in August. The price of Kirkuk crude bound for the US was set at a discount of \$3.40 to first month WTI, up \$1.05. The price of Basra Light crude bound for Europe was increased by \$1.55 to a discount of \$6.50 to BFOE while the price of Kirkuk crude was increased by \$1.70 to a discount of \$4.30 to BFOE. Meanwhile, the price of Basra Light bound for Asia was increased by 45 cents to a discount of \$2.30 to the Oman/Dubai average.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$109.08/barrel on Tuesday from Monday's \$111.27/barrel level.

**Market Commentary**

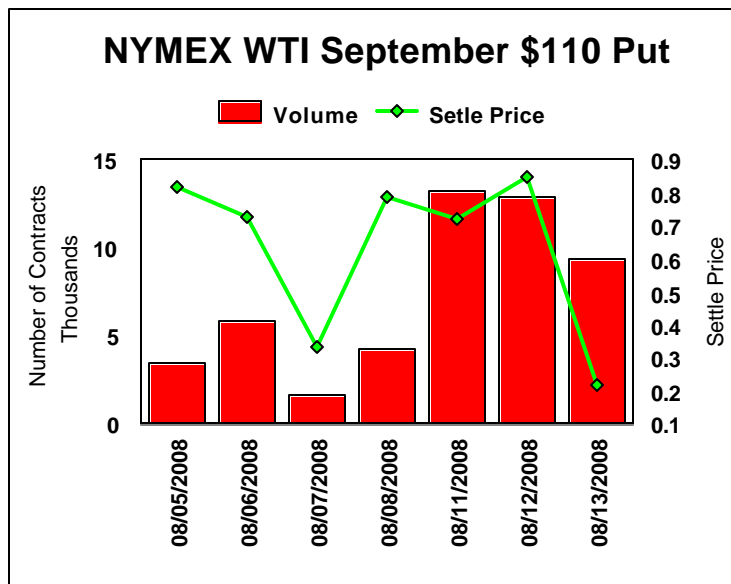
Today's market sell off was product driven in reaction to today's release of the DOE/API numbers. Gasoline stocks, which were expected to draw 1.4 million barrels, were down 6.4 million barrels, according to the DOE release. Heating oil stocks fell 1.7 million barrels as opposed to expectations of a 1.4 million build. Key to these numbers is imports for products, which fell 17%. One must remember, that the Loop was closed for a while last week due to hurricane Edouard. Next week's number should show an improvement in imports as the loop reopened to tanker traffic. Demand for gasoline was down 1.4%, with demand for heating oil up 4.3% from the same period last year. Jet fuel demand, however,

was down 8.5%, as airlines cut flights. With this in mind, we would look for the energy markets to continue to decline. The September/October crude oil spread gained strength today, aided by the reaction to



the DOE/API report. Tightness in supplies should continue to lend strength thereby pulling this spread higher. Although the crude oil moved higher today and moving oscillators have turned to the upside, we do not see this market moving out of the descending channel and would view any move higher as a minor correction. Tomorrows channel based on a daily bar chart for September crude oil is set at \$120.12 - \$109.11. As with the crude oil, we look for the products to continue to drift lower with in there respective descending channels, buying and selling at the listed support and resistance numbers. Open interest for crude oil is 1,241,415 up 760, September 08 161,679 down 23,230, October 08 237,309 up 30,919 and December 08 171,923 down 3,283. Total open interest for heating oil is 223,001 down 4,486, September 08, 47,636 down 6,252 and October 08 38,915 up 1,104. Total open interest for gasoline is, 219,268 up 686, September 08, 54,300 down 6,014 and October 08 53,889 up 5,300.

<b>Crude Support</b>	<b>Crude Resistance</b>
109.55,108.40,105.18, <b>85.40</b>	132.90, 134.85,140.60, 144.00,147.90,
<b>Heat support</b>	<b>Heat resistance</b>
3.0285	3.2315,3.3075,3.3798,3.6135,3.8215, 4.0210,
<b>Gasoline support</b>	<b>Gasoline resistance</b>
2.8190, 2.7285, 2.5920	3.0300, 3.1050,3.1460,3.1970, 3.2620



In the options market the September \$110 puts continued to attract significant attention this week. Yesterday saw over 12,000 lots traded in the strike and today saw over 9,300 lots booked on the day. Given the open interest report released this afternoon, it appeared that yesterday's price action was shorts running to cover these positions, as open interest in the option strike declined by 4,356 lots.