



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 15, 2008

In its Monthly Oil Market Report, OPEC cut its forecast for world oil demand growth in 2008 for a fifth month and said production is more than adequate. It said higher OPEC production, easing political tension and a stronger US dollar indicated a weaker outlook for the oil market. It estimated that oil demand will increase by 1 million bpd this year, 30,000 bpd less than previous forecast. It however left its forecast for world demand growth in 2009 unchanged, estimating an increase of 900,000 bpd. World oil demand will average 86.9 million bpd this year and 87.8 million bpd in 2009. It left its estimate for supply growth from non-member countries steady at 950,000 bpd next year. OPEC

Market Watch

In its latest report, Goldman Sachs said accelerating cost inflation in the oil industry is increasing the cost based floor for crude price which it estimates at \$105/barrel. It said that while economic concerns may squeeze prices for the next few weeks, Goldman Sachs thinks they will increase this fall. It left its \$145.30/barrel forecast for prices three months from now. Goldman Sachs also stated in a report that it believes the dollar has bottomed out. It said the rapid weakening of OECD growth outside the US, a technical break in many dollar crosses and lower oil prices are powerful signs of improving Dollar fundamentals.

US Senators on Thursday requested an inspector general investigation into an interagency report on commodity markets. The senators allege that the Commodity Futures Trading Commission knowingly included seriously flawed data. They also said the task force intentionally released the interim report ahead of a vote on an anti-speculation bill in the Senate. The senators pointed to a special CFTC announcement on July 18 that reclassifying participants in the market revealed speculative investors played a much larger role in oil trading than the CFTC realized. The final task force report is due out in mid-September.

The National Hurricane Center stated a tropical depression strengthened into Tropical Storm Fay as it moved over the Dominican Republic on Friday. It forecast the storm will move over the Dominican Republic and Haiti and on to eastern Cuba Saturday night and Sunday and move in the eastern Gulf of Mexico.

The National Oceanic and Atmospheric Administration said July was the fifth warmest on record. The average July temperature was 0.88 degrees Fahrenheit above the 20th century mean of 60.4 degrees. January-July 2008 was the ninth warmest seven month period.

According to the Reuters/University of Michigan Surveys of Consumers, US consumer confidence improved slightly in early August due to a fall in gasoline prices. It reported that its index of consumer confidence increased to 61.7 in early August from 61.2 in late July.

US industrial production slowed in July, due to a drop in output at utilities amid fairer weather. The Federal Reserve reported that industrial production increased by 0.2%, following a revised 0.4% increase in June. Capacity utilization increased to 79.9% in July, up from 79.8% in June. Over the 12 months ending in July, industrial production was 0.1% lower. Utilities output fell 1.9% in July and the sector's capacity usage was 84.4%, down from 86.2% in June. Manufacturing production increased 0.4% in July after increasing by 0.1% in June.

The European Union statistics office said European gross domestic product fell by 0.2% in the second quarter from the first, when it increased by 0.7%.

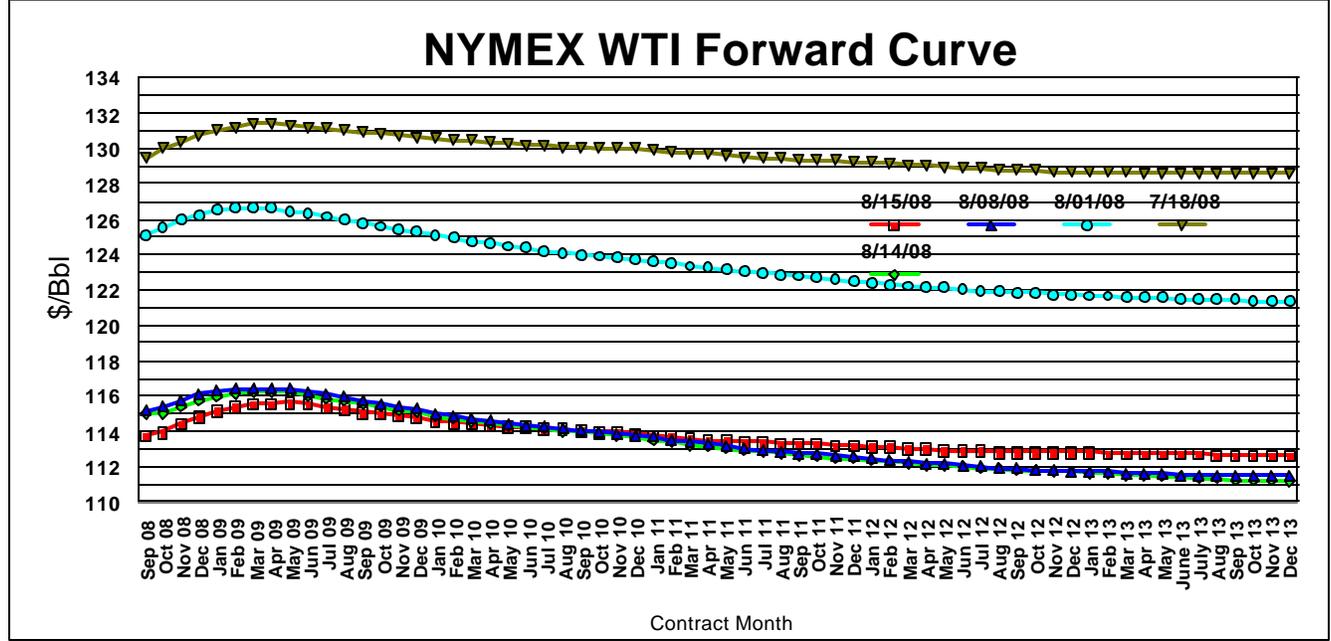
August Calendar Averages
CL – 117.43
HO – 320.14
RB – 293.59

said that demand for its crude is expected to average 32.05 million bpd in 2008 and increase to 31.33 million bpd next year, an increase of 90,000 bpd from its previous estimate. It reported that OPEC's total production averaged 32.643 million bpd in July, up 235,800 bpd from June.

BP, its partners and Botas International Ltd are examining the Baku-Tbilisi-Ceyhan pipeline to establish how long repairs will take. It decline to say when the pipeline will resume pumping. Turkey's Energy Ministry however expects the BTC pipeline to resume operations in a week. A fire erupted on the pipeline on August 5 following a blast in the Erzincan province. The Kurdistan Workers' Party said it bombed the link as part of its campaign for autonomy in southeast Turkey. However Turkey's Energy Ministry said inspection of the fire damage show no sign the fire was caused by a bomb. Its other pipeline from Baku to Supsa remained closed for the fourth consecutive day due to security concerns. Oil is being transported from Azerbaijan through the Baku-Novorossiisk pipeline to Russia's Black Sea coast and in rail cars.

Russia's President Dmitry Medvedev said the missile defense system that the US intends to place in eastern Europe is aimed at Russia. He also said Russia would respond to new attacks on its citizens in the same way as it did last week in Georgia. He added that Russia is the guarantor of security in the Caucasus region and will support the will of the people who live in two Georgian separatist regions. He said Russia does not oppose the presence of international peacekeepers in Georgia but added that separatists were against the idea. Meanwhile, US President George W. Bush renewed his call on Russia to pull its military forces out of Georgia, saying Russia needs to begin repairing its ties with the US and Europe. US Secretary of State Condoleeza Rice said all Russian forces and irregular units with them must withdraw from Georgia immediately. She added that Russia's President has not honored his promise to halt military operations in Georgia. She made her comments during a joint press conference with Georgia's President Mikhail Saakashvili after he signed the ceasefire deal. Georgia's President said Georgia will never accept the occupation of its territory. Separately, German Chancellor Angela Merkel said maintaining the territorial integrity of Georgia must be a basic point in any plan to restore pace in the Caucasus region.

Human Rights Watch said it had evidence that Russian aircraft had dropped cluster bombs on Georgia, including the city of Gori, killing at least 11 civilians. It said its researchers had spoken to



doctors and victims and had examined photographic evidence that led them to conclude cluster bombs had been used in Gori and the nearby town of Ruisi, south of South Ossetia. In response, the deputy head of Russia's General Staff, Anatoly Nogovityn said the report was a "well prepared lie."

Iran's President Mahmoud Ahmadinejad expressed hope that his country and Turkey would soon conclude natural gas and electricity deals. There were expectations that Ahmadinejad's talks with his Turkish counterpart Abdullah Gul would see the two countries sign an agreement for a new pipeline to carry natural gas to European markets. However the agreement failed to materialize due to differences over pricing.

Refinery News

Valero Energy Corp shut a CO boiler at its 210,000 bpd Delaware City, Delaware refinery to fix a broken tube.

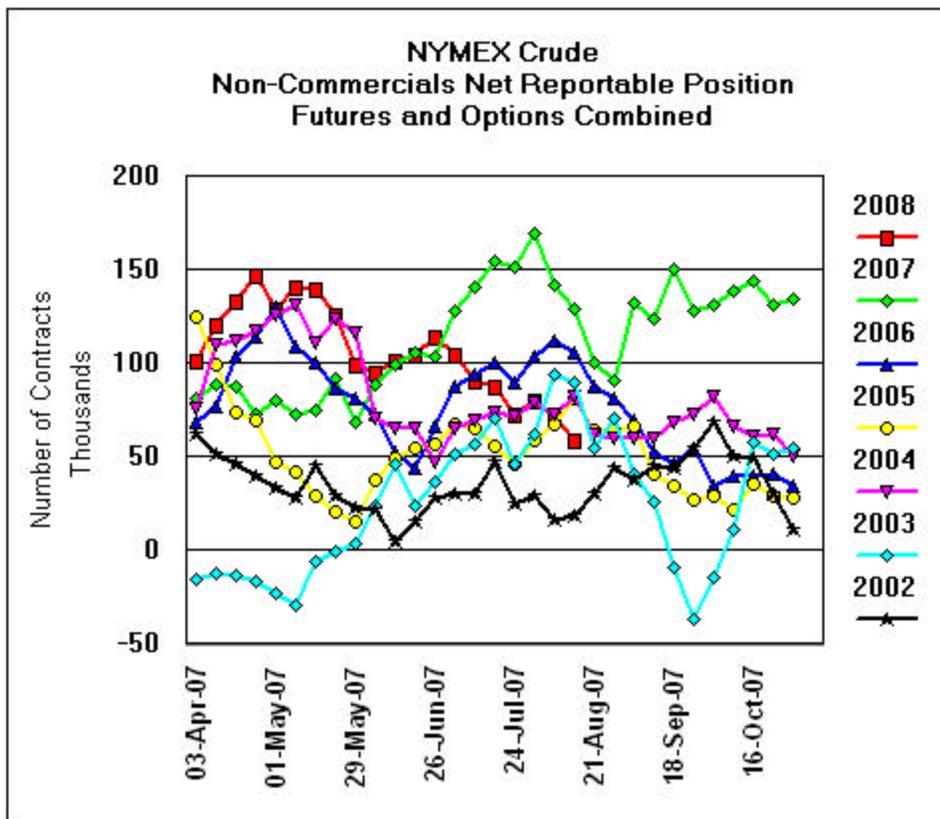
Alon USA Energy Inc shut a sulfur recovery unit and a Scot unit on Thursday due to a problem at its 70,000 bpd Big Spring, Texas refinery.

ExxonMobil Corp said it was restarting a unit at its 150,000 bpd Torrance, California refinery. The unnamed unit was expected to be restarted between August 14 and August 19 after it was shut last week for planned maintenance.

TEPPCO Partners said it was halting liftings of low sulfur diesel from its terminal at Shreveport, Louisiana starting Friday afternoon until August 21 due to a shortage of supply. It added that it had an adequate supply of ultra low sulfur diesel available.

The Trans-Alaska Pipeline, which carries crude from North Slope fields to the Valdez export terminal, will be shut for 36 hours of scheduled maintenance starting on Saturday. Daily crude oil throughput on the TAPS system has averaged 707,259 bpd this year. It was not immediately clear whether the closure would impact tanker loadings at Valdez. California, which is the major delivery point for Alaskan crude, has adequate crude oil stocks on hand. The California Energy Commission reported that in the week ending August 8, crude oil inventories in the state were at a four week high of 15.323 million barrels, up 883,000 barrels on the week.

Royal Dutch Shell will



partially shut its 420,000 bpd Pernis refinery for planned maintenance between September 15 and November 4. The seven week maintenance is expected to impact three refinery units, including a crude distillation unit. The turnaround is expected to cut the refinery's output by 20%.

According to China's General Administration of Customs, China's July gasoline imports increased to a new record of 606,123 tons. Diesel imports also increased further to 970,000 tons, a new high and almost double earlier estimates while fuel oil imports last month fell by 37% on the year to 1.95 million tons. Customs data showed gasoline exports fell by 43% on the year to 190,000 tons last month.

The Colombian Sugar Cane Producers Association reported that Colombian ethanol production from January to April increased by 18% on the year to 98,001 liters. Ethanol production in the month of April also increased by 18% on the year to 22,999 liters.

Production News

Royal Dutch Shell said there was no significant progress in repairing the Nembe Creek trunkline in Nigeria that was sabotaged in late July. Shell declared force majeure on Bonny Light crude exports through to September following the sabotage attack. A Shell spokesman said Bonny Light production has been unchanged at a low level but declined to specify the actual output volume.

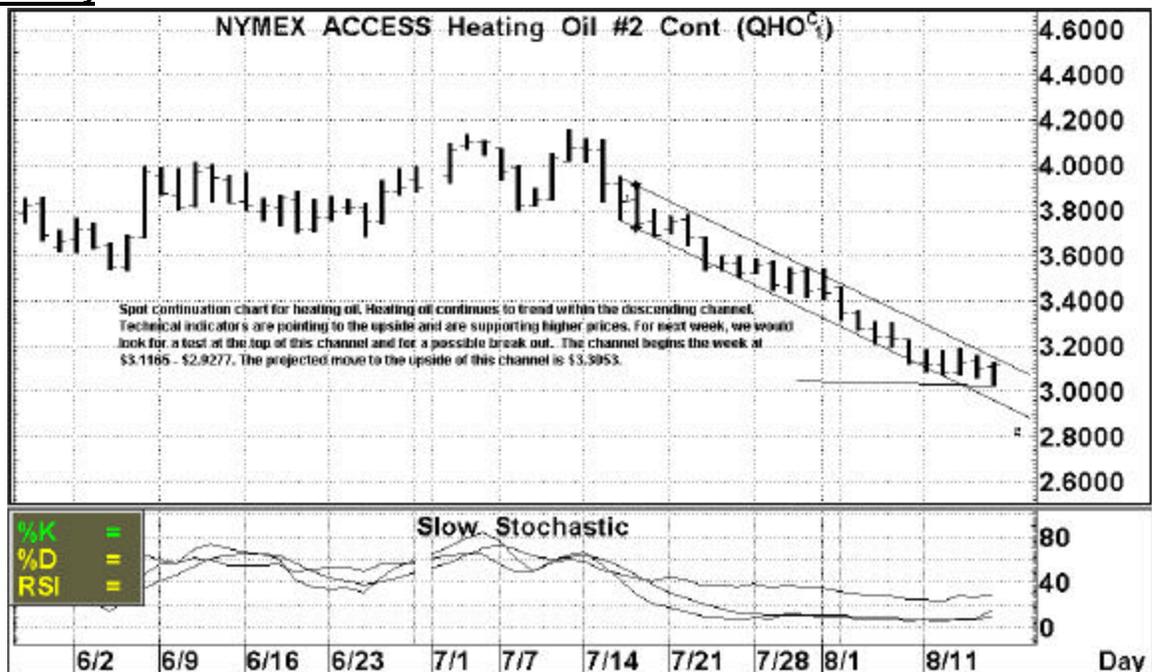
An official at the Nigerian National Petroleum Corp said proven crude oil reserves in Nigeria have increased by 12% over the past year to 33.6 billion barrels. Nigeria is aiming to build proven reserves of 40 billion barrels by 2010.

BP Plc said its Bruce oil and natural gas field in the UK North Sea remains closed following equipment faults in a pipeline last month. BP could not say when the field is likely to resume production.

Ecuador's Central Bank reported that the country's oil export revenue more than doubled to \$6.19 billion in the first half of 2008, up 106% from \$3 billion in the same period last year. Ecuador exported 66.21 million barrels in the first six months of the year, up 10% from the 60.2 million barrels exported last year.

Market Commentary

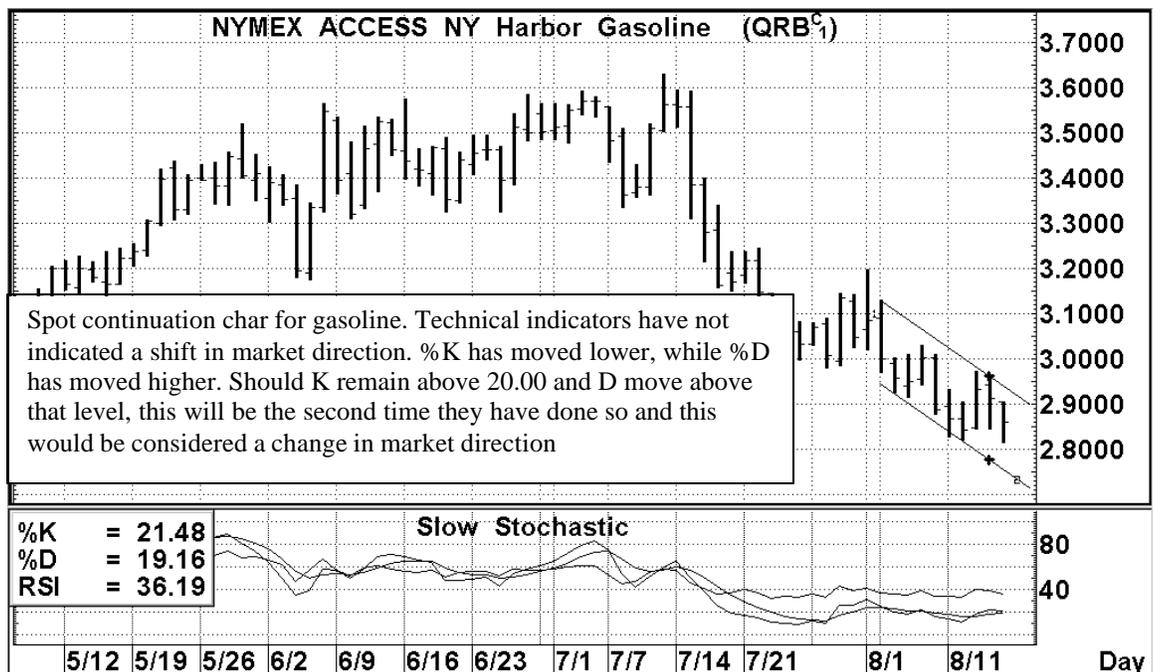
With the expiration of the September crude oil options, the \$110.00 level in futures appeared to be the objective, however efforts to take the market to that level failed. Sellers of



the \$110.00 puts would be obligated to take on a long position in the futures market at \$110.00. To cover this position, they in turn were selling the September futures today. Adding to pressure on prices was a strong dollar, which helped commodities lose their appeal as a hedge against inflation. With hopes for the U.S. economic outlook to improve, prices should continue to come under pressure. The front end of the forward curve pulled away from the deferred, as prices fell to their lowest level since the beginning of May. For next week, we would look for crude oil to continue to move lower, with a possibility to break out of the descending channel on the spot continuation chart. This channel will begin the week set at \$108.44 - \$119.62. With September options off the board, and futures expiring next week, we would look for the front spread to firm up a bit. There is a still tight prompt supply and this should help the September to gain some strength. As expected the heating oil gained strength today, settling up .0200 on the day. Technicals are still supportive for prices, with all three moving oscillators turning to the upside. Although the fundamentals are not currently supportive of a higher move, we would look for a minor retracement, prior to another move lower. Gasoline once again came under pressure as demand and seasonality weighed on the market. Slow stochastics have not yet signaled a change in direction and may yet again begin turning to the downside. Percent K has move lower and is currently set at 21.48, above the 20.00 parameter used to determine market trend. Percent D is below this level, set at 19.16. Until we can get a confirmation that a change in direction is taking place, we would look to buy and sell against the listed support and resistance numbers. The objective remains the channel top, which will begin the week at \$3.1165 - \$2.9277. Open interest for crude oil is 1,259,883 up 136, September 08 123,720 down 15,723, October 08 276,529 up 10,749 and December 08 173,805 down 546. Total open interest for heating oil is 221,025 down 873, September 08, 37,234 down 3,059 and October 08 42,817 up 733. Total open interest for gasoline is, 222,203 down 610, September 08, 49,229 down 1,616 and October 08 60,049 up 717.

The latest Commitment of Traders report showed that non-commercials in the crude market increased their net short position by 4,890 contracts to 5,550 contracts in the week ending August 12. The non-commercials cut their total long positions by 5,251 contracts to 192,081 contracts on the week. The combined futures and options report showed that non-commercials cut their net long position by 8,174 contracts to 72,101 contracts on the week. The funds have likely continued to cut their net long position in the past few trading sessions as the market remained pressured. Meanwhile, non-commercials

in the product markets increased their net long positions. The combined futures and options report showed that the funds in the RBOB market increased their net long position by



2,799 contracts to 46,765 contracts while funds in the heating oil market increased their net long position by 1,576 contracts to 10,756 contracts on the week.

Crude Support	Crude Resistance
109.55,108.78,105.18, 85.40	132.90, 134.85,140.60, 144.00,147.90,
Heat support	Heat resistance
3.0285	3.2315,3.3075,3.3798,3.6135,3.8215, 4.0210,
Gasoline support	Gasoline resistance
2.8190, 2.7285, 2.5920	3.0300, 3.1050,3.1460,3.1970, 3.2620