



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta
& Karen Palladino

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

www.e-windham.com

ENERGY MARKET REPORT FOR AUGUST 18, 2008

Iran's OPEC governor, Mohammad Ali Khatibi said oil prices fell due to an oversupply of oil. He said the market is oversupplied by about 1 million bpd. He said OPEC members should discuss the observance of targets at its next meeting on September 9.

The Georgian Interior Ministry accused Russian forces of blowing up stores of Georgian ammunition and weaponry at a base near the western town of Senaki ahead of a planned withdrawal from Georgia. Meanwhile, the deputy head of Russia's general staff, said the withdrawal of Russian forces from Georgia under a peace agreement began on Monday. However the Secretary of Georgia's National

Market Watch

According to the Center for Global Energy Studies, OPEC will probably reduce its oil production in the first quarter of next year to prevent crude prices from falling below \$100/barrel. OPEC will likely cut its production by 300,000 bpd and implement a further 500,000 bpd reduction in the second quarter. OPEC is however unlikely to announce the cut at its September 9 meeting.

Iran's Oil Ministry said Iran will conduct a feasibility study into building underground storage tanks for its crude oil reserves. The first phase of the storage tank project is set to be launched next month. The project aims to increase Iran's strategic reserves capacity and improve the country's strategic and competitive position as an oil exporter in the region and worldwide. Separately, Iran's Oil Ministry said the National Iranian Oil Refining and Distribution Co will increase its oil products storage capacity in several stages to 15 billion liters by March 2012. Storage tank capacity for oil products will initially be increased by 1.4 billion liters to a total of 11 billion liters next year.

The head of China's National Energy Administration said Chinese domestic fuel prices will move in line with international markets but stopped short of commenting on China's next oil price decision. He said China is in a transition from a state-controlled pricing mechanism towards market pricing. Even after the June 19 price increase, refined fuel prices are still lagging behind world markets.

A senior US diplomat in Baghdad said the Iraqi government is likely to abandon plans to sign short term contracts with foreign oil companies.

Iraq's Finance Minister Bayan Jabor said Iraq needs about \$400 billion over the next few years to rebuild its infrastructure.

Turkey's Energy Minister Hilmi Guler said Turkey will hold major talks with Iran on energy sector cooperation in the next month. Turkey and Iran failed to conclude expected energy accords during Iranian President Mahmoud Ahmadinejad's trip to Turkey last week.

The NYMEX declared a temporary halt to the sale of seats as the energy and metals trading exchange awaits voting results on its pending merger with CME Group Inc. The sale of seats will be suspended between 3pm EDT Monday and 9 am EDT Wednesday. The CME Group Inc later announced that members of the NYMEX voted in favor of the proposed deal. The deal is expected to be completed on August 22.

August Calendar Averages

CL – 117.05
HO – 319.17
RB – 292.58

Security Council said there was no sign of the start of a promised Russian withdrawal from Georgian territory. Georgia's Foreign Ministry accused Russia of violating a ceasefire agreement by continuing military operations and failing to withdraw troops. The White House repeated its call for Russia to pull its forces out of Georgia without delay. Separately, German Foreign Minister Frank-Walter Steinmeier said Russia has crossed the line in Georgia but stressed that diplomacy was the only way to resolve the conflict with Russia. NATO's Secretary General Jaap de Hoop Scheffer spoke with several Alliance foreign ministers, seeking a consensus on the Georgia-Russia conflict ahead of a meeting in Brussels on Tuesday.

BP Plc said that about 50,000-70,000 bpd of Azeri crude exports by rail to Georgia were halted after the line was damaged in Georgia. The stoppage further limits BP's options in taking oil from the Caspian Sea after a fire damaged its Baku-Tbilisi-Ceyhan pipeline to Turkey and a pipeline to Supsa in Georgia was shut due to security concerns. Over the weekend Georgia accused Russian troops of blowing up a railway bridge west of Tbilisi, saying its main east-west train link had been severed. Russia strongly denied any involvement. The railway line can carry between 50,000 bpd and 70,000 bpd of Azeri oil to Batumi. A shipping agent said oil tanker shipments from Batumi were unlikely to be delayed as supplies should resume along the railway line through Georgia before oil held in storage is depleted. Azerbaijan's railroad agency said the country hopes to re-establish rail transport through Georgia by Monday night. Georgian officials on Sunday said they expect to reopen the bridge within 10 days. Meanwhile, Turkey's Energy Minister, Hilmi Guler said oil flows through the Baku-Tbilisi-Ceyhan pipeline should resume within a few days, earlier than previously expected.

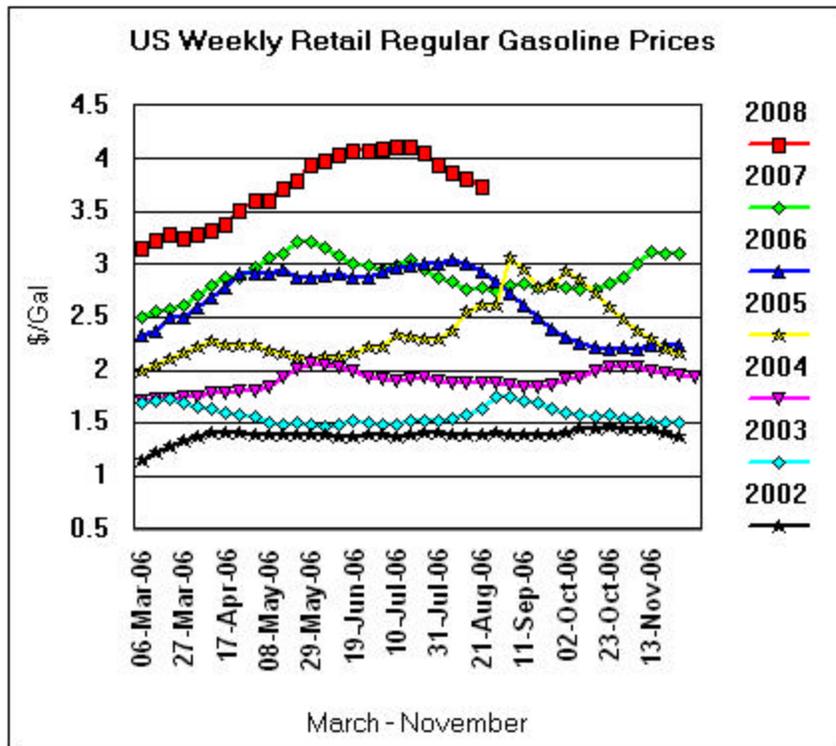
Iran's Defense Minister Mostafa Mohammad Najjar said a rocket launched on Sunday can carry a satellite into low orbit around the earth. He said Iran will soon put its own satellite into orbit after a dummy was sent into space during Sunday's rocket launch.

The Nigerian navy has killed at least 12 armed men in fighting near a natural gas plant in the Niger Delta. The armed men ambushed two navy gunboats while on patrol on Friday. There was no immediate claim of responsibility from the Movement for the Emancipation of the Niger Delta. Meanwhile, the Niger Delta Vigilante, another armed group with links to MEND, threatened more violence in the region.

The EIA reported that the US average retail price of gasoline fell by 6.9 cents to \$3.74/gallon in the week ending August 18. It is the lowest level reported since the week ending May 12. It also reported that the US average retail price of diesel fell by 14.6 cents to \$4.207/gallon on the week.

Refinery News

Colonial Pipeline said it would eliminate the 56th cycle on the main distillate line in order to bring the



restarted following a maintenance shutdown during the same period.

South Korea's SK Energy has cut crude runs below 750,000 bpd from 780,000 bpd–790,000 bpd earlier in the month due to weak margins.

Japan's Idemitsu Kosan Co will conduct maintenance work on a 120,000 bpd crude distillation unit at its Tokuyama refinery from October 2 to November 23. The refiner will also shut the 623,000 ton per year naphtha cracker at the same facility from September 25 to November 26 for scheduled maintenance.

Production News

Tropical Storm Fay is unlikely to disrupt oil and natural gas production in the Gulf of Mexico. The storm is forecast to enter the far southeastern Gulf of Mexico before striking Florida as a hurricane on Tuesday. On Sunday, Marathon Oil Corp pulled some nonessential workers from the central Gulf of Mexico due to Tropical Storm Fay. Its offshore production was unaffected by the evacuations. Shell Oil Co also evacuated an additional 200 workers for a total of 425 from the eastern Gulf of Mexico on Sunday. Its production was not impacted. The Louisiana Offshore Oil Port LLC, Anadarko, BP Plc, ExxonMobil Corp and ConocoPhillips said their operations were unaffected by Fay.

The average loading rate of nine of the main North Sea crude streams will average 2.415 million bpd in September, up by about 10% from 2.118 million bpd in August. The Brent crude system is expected load 161,000 bpd, while the Forties and Oseberg systems are expected to load 640,000 bpd and 240,000 bpd, respectively. The Ekofisk, DUC and Flotta crude systems are expected to load 390,000 bpd, 180,000 bpd and 87,000 bpd, respectively. The Gullfaks, Statfjord and Troll crude systems are expected to load 256,500 bpd, 200,000 bpd and 260,000 bpd, respectively.

Norway's DNO said it would not produce oil from its Tawke field in northern Iraq as the Kurdistan regional authorities have put production on hold during a review of licensing and other procedures. DNO's production from the Tawke field was 11,191 bpd in July.

Norway's StatoilHydro drilled a dry exploration well near the Huldra field in the North Sea.

Kazakhstan's State Statistics Agency said the country's crude oil and gas condensate production increased by 5.9% to 41.2 million tons in January-July. Its crude oil production increased by 6.4% on the year to 33.781 million tons in January-July, while production in July alone fell by 1.3% on the year to 4.59 million tons. It reported that crude oil exports fell by 2.4% on the year to 30.7 million tons in the first half of 2008.

Angola is set to export about 1.98 million bpd of crude oil in October, up from 1.96 million bpd in September.

Japan's Cosmo Oil Co said its first exploration project in Australia aimed to start producing oil from 2012.

PetroKazakhstan, majority owned by China's CNPC, struck oil and gas in two exploration blocks in Kazakhstan.

Ecuador's Mining and Oil Ministry reported that the country's average oil production fell by 2% to 498,315 bpd in July from 509,749 bpd in July 2007. Oil production in July was up 1% from 494,732 bpd produced in June. Petroecuador's oil output averaged 267,158 bpd in July while private companies' oil production averaged 231,157 bpd.

OPEC's news agency reported that OPEC's basket of crudes fell to \$107.88/barrel on Friday from Thursday's \$110.88/barrel level. OPEC's news agency reported that OPEC's basket of crudes fell by \$6.16 to \$109.73/barrel in the week ending August 15.

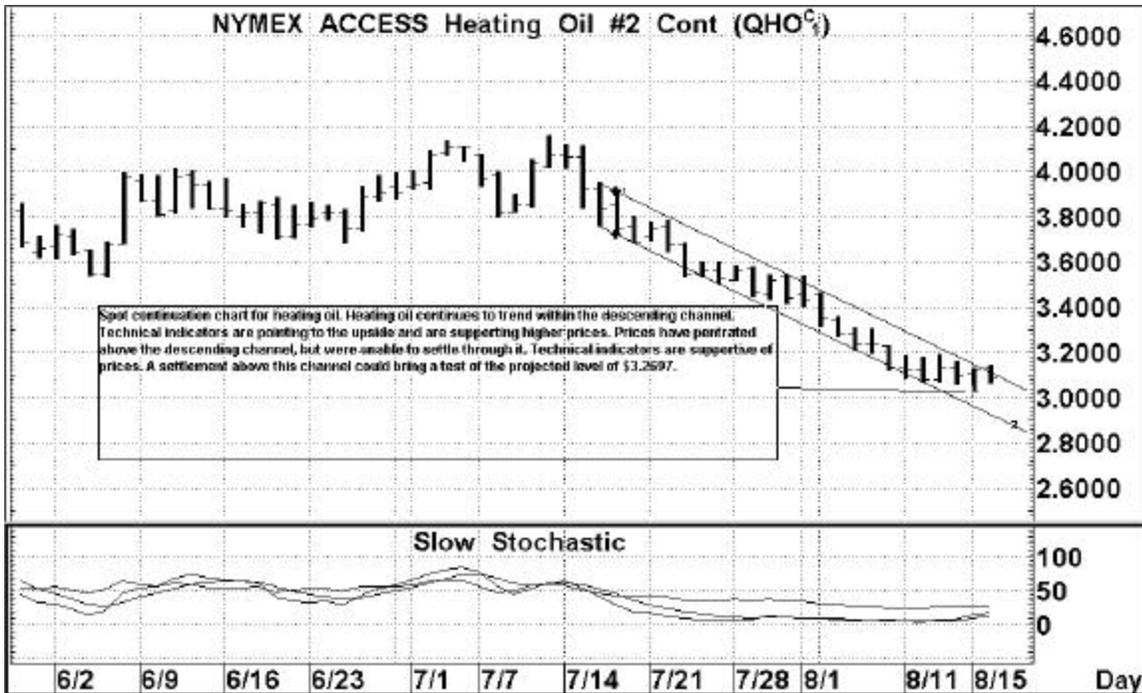
Market Commentary

With the latest weather reports indicating that Tropical Storm Fay would steer clear of the Gulf of Mexico and miss rigs and platforms, the energy markets sold off. Turkey expects the Baku-Tbilisi-Ceyhan oil pipeline to open in "a few days" after repairs on the fire-damaged route are completed, Energy Minister Hilmi Guler said today. The BTC pipeline has a capacity of about 1 million barrels a day. Hedge funds along with other large speculative traders increased their net short positions by 4,890, according to the latest Commitment of Traders report. All of the aforementioned coupled with weak demand left crude oil unable to sustain early gains. Prices continue to trend lower within the descending channel. At this point in time we would still look for lower prices and for the spot month crude oil to test the 61.8% retracement number of \$109.55, which is derived from the range of \$147.27 and \$86.24. The front end of the forward curve is indicating prompt month strength, with a flattening of the first two months. The September contract expires on Wednesday, making October the spot month contract and the October/November spread the front spread. Past history of this spread, indicates a weakening of the October contract as turnarounds begin, then prior to expiration and turnarounds near completion, this spread tend to gain strength. We would look for this pattern to continue. Gasoline continues to experience lower highs and lower lows and has done so for the last five weeks in a row. Demand continues to weigh on this product and with the U.S. summer driving season coming to a close, pressure on prices should continue. Although slow stochastics are low, they have once again crossed to the downside, with the RSI turning lower again. Prices should continue lower, testing the downward trendline on a spot continuation chart. This trendline comes in tomorrow set at \$2.7384. Failure to penetrate this trendline would present a buying opportunity. Heating oil penetrated the top of the downward channel on a spot continuation chart but was unable to sustain its strength above it. Percent K continues to pull away from percent D, edging towards the trend parameter of 20.00. Should

prices settle above this channel the projected upside objective would be \$3.2697.

Open interest for crude oil is 1,226,732 down 33,151, September 08 85,190 down 38,530, October 08 277,114 up 585,





November 08 97,743, up 2,819 and December 08 175,802 up 1,997. Total open interest for heating oil is 221,254 up 229, September 08, 36,575 down 659 and October 08 43,330 up 513. Total open interest for

gasoline is, 221,566 down 737, September 08, 45,761 down 3,468 and October 08 61,186 up 1,137.

Crude Support	Crude Resistance
109.55,108.00,105.18, 85.40	117.40, 128.60,132.05, 139.30, 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