



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 21, 2007

The IEA's deputy director William Ramsay said the threat posed by Hurricane Dean to oil supply was seen as less serious than those of hurricanes Katrina and Rita in 2005. He said the IEA was ready to tap its emergency oil stockpile if needed, although it would look first to the US and to OPEC to meet any supply shortfall.

Qatar's Oil Minister Abdullah al-Attiyah said supply and demand was balanced and added that there was no need for OPEC to change its production level.

Iraq's Oil Minister Hussain al-Shahristani said Iraq was preparing to resume oil exports through Turkey in a few weeks through a new pipeline built in the midst of violence to help handle the flows. He said crews have finished testing a 500,000 bpd pipeline covering a section of the northern export route and a special security force numbering thousands was being deployed to guard the network. The pipeline runs from Kirkuk to the refining center of Baiji. Exports are

Market Watch

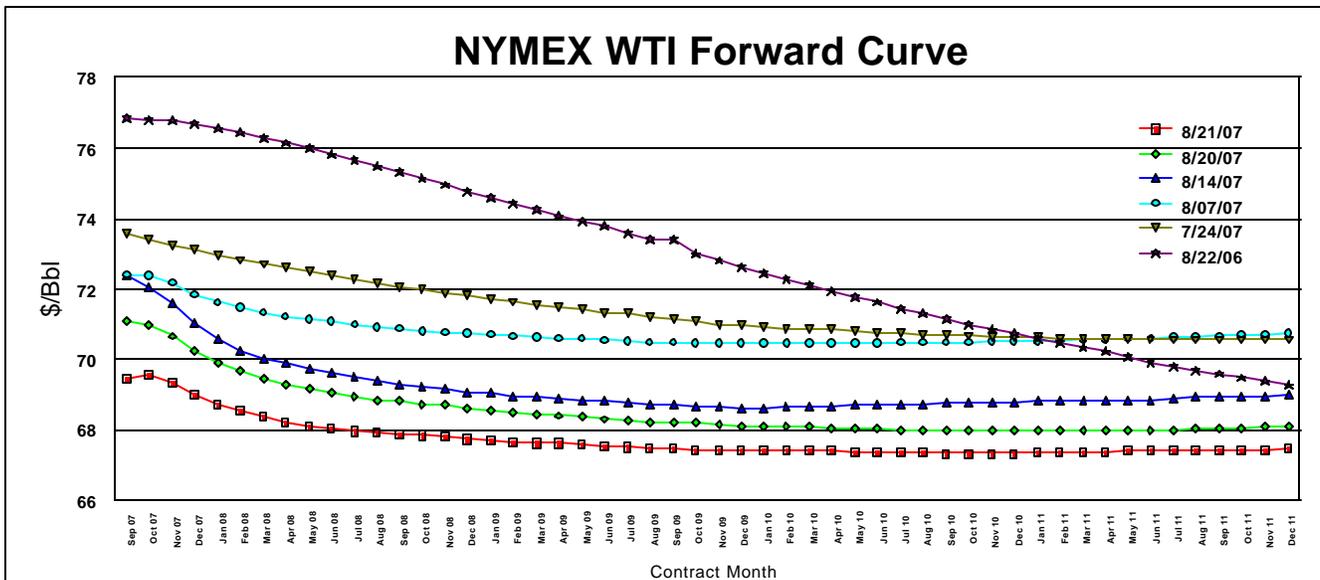
According to MasterCard Advisors' weekly SpendingPulse report, US retail gasoline demand increased by 4.2% on the week to 70.767 million barrels or 10.252 million bpd in the week ending August 17. The level was the highest since the week ending September 2, 2005 when consumption increased to 78.12 million barrels.

Seasonal forecasts from the National Weather Service call for above normal temperatures in the Northeast US from September through December. WSI Corp also expects warmer than normal temperatures in the Northeast in September and November. In October, the Northeast is expected to show cooler than normal temperatures.

Japan and Saudi Arabia have made no progress with a plan to stockpile oil in Japan's islands of Okinawa since Japan proposed it in late April. This would offer Saudi Arabia a chance to cut the cost of storing oil and the delivery time to nearby consumer countries such as South Korea and China while Japan would have the right to buy the stored oil on a priority basis in times of emergency.

Dallas based Maple Energy is expected to plant 20,000 acres of sugar cane in a \$157 million project in northern Peru to produce ethanol for export to the US and Europe. Ethanol production is expected to start in 2008 with a goal of producing 30 million gallons a year. Brazil has been the only country in Latin America to export biofuels to the US made from homegrown crop. Nevertheless, spurred by publicity about ethanol's benefits and the interest of foreign investors, governments and investors throughout Latin America and the Caribbean have been moving ahead with plans to turn sugar cane into ethanol or to blend in gasoline.

The Minerals Management Service said petroleum explorers put in 358 bids for 282 offshore oil and natural gas tracts being offered in this year's sale of federal leases in western Gulf of Mexico.



initially planned at 300,000 bpd and are expected to increase to 500,000 bpd. He also stated that Iraq was interested in reactivating a pipeline linking Kirkuk to a Syrian port only if it could be secured. Iraq's Oil Minister also stated that he expected parliament to pass a law next month to regulate development of Iraq's 112 billion barrels of reserves, despite internal opposition to production sharing agreements favored by international oil companies.

Iran's top nuclear negotiator Ali Larijani warned that any new UN Security Council sanctions on his country would undermine Iran's cooperation with the UN's IAEA and render its talks with the agency fruitless. Iran and the IAEA agreed on a timetable to respond to lingering questions over Iran's nuclear activities. The agreement was announced at the end of two days of talks between Iranian negotiators and senior officials from the UN's IAEA.

The EIA reported that US crude oil imports fell by 3.6% on the month in June to an average of 9.924 million bpd. Crude imports were 7% below a year ago. Canada was the top crude oil supplier to the US for the 17th consecutive month, with 1.851 million bpd. Meanwhile, Saudi Arabia held the No. 2 spot, with 1.501 million bpd while Mexico supplied 1.392 million bpd of oil to the US. Venezuela supplied 1.098 million bpd of oil to the US, up from 1.232 million bpd in May. It reported that crude imports from Libya increased to 144,000 bpd.

Refinery News

Magellan Pipeline said smaller terminals along its Midwest products pipeline could continue to experience gasoline and diesel shortages through early October. The shortages developed when the pipeline sought to keep products flowing to larger terminals as refiners cut supplies to the line due to maintenance and unplanned outages.

Processing units at Sunoco Inc's oil refinery in Philadelphia that were shut last week have restarted and were operating normally. A 130,000 bpd crude unit and a 45,000 bpd fluid catalytic cracking unit were ramped up to normal rates and two reformers, an alkylation unit and a hydrotreater were restarted on August 17 and 18.

Valero said it would not operate one of its two crude units and would run a coker unit at reduced rates at its Port Arthur, Texas refinery for an indefinite period of time while it resolves coke handling problems. Its 105,000 bpd coker unit is expected to operate at 50,000 bpd during the repairs.

A ruptured fuel pipeline at Tesoro Corp's refinery in Hawaii prompted the evacuation of about 150 people from the plant early Monday. Refinery workers were allowed back on site after noon on Monday.

ExxonMobil has delayed work on a 71,600 bpd fluid catalytic cracking unit at its 188,160 bpd refinery in Chalmette, Louisiana. The work, originally scheduled to start on August 20, is scheduled to start in the first week of September.

Pemex's 170,000 bpd Minatitlan refinery was operating normally despite Hurricane Dean.

Abu Dhabi said it planned to shut in about 150,000 bpd of capacity at the UAE's largest refinery for two months of scheduled work in December and January. The maintenance at the 415,000 bpd Ruwais refinery would involve its 120,000 bpd crude distillation unit and its 27,000 bpd hydrocracking unit.

China's Sinopec Group and CNPC have proposed building a major refinery and a petrochemical complex in a new northern Chinese port. Both planned to build separate 200,000 bpd refineries and 1 million ton per year ethylene complexes in Caofeidian. The plans are expected to be submitted to China's economic planning agency for approval soon.

Russian refineries are expected to significantly increase their output of low sulfur diesel as European gas oil specifications tighten. By 2012, Russia could produce about 523,000 bpd of ULSD containing 0.1% sulfur, up from the current 287,000 bpd.

Production News

The US Minerals Management Service said 43,881 bpd of oil production and 140 mmcf/d of natural gas output was shut as of Tuesday in the Gulf of Mexico. The shut oil production equaled 3.4% of a total daily production of 1.3 million barrels while shut in gas production equaled 1.83% of total output of 7.7 bcf/d.

Mexico's Pemex said the country's oil production fell to 3.166 million bpd in July from 3.206 million bpd in June. It said crude oil exports increased to 1.758 million bpd in July, up from 1.737 million bpd in June. Its production is likely to fall in August as the company shut in 2.65 million bpd of crude oil and 2.5634 bcf/d of natural gas on Monday. Pemex said it was too early to make a decision on declaring a force majeure for its oil exports after Hurricane Dean forced it to suspend most of its crude shipments. Meanwhile, Mexico's Ministry of Communications and Transport said the Dos Bocas and Cayo Arcas oil ports were partially closed on Tuesday. Hurricane Dean weakened to a category 2 storm late Tuesday morning as it moved across the Yucatan Peninsula. The National Hurricane Center expects Dean to still be a hurricane when it reaches the Bay of Campeche.

Shell Oil said it was beginning to bring production of oil and gas from its Gulf of Mexico platforms back online after Hurricane Dean was downgraded to a category 2. It said about 30,000 bpd of oil and 70 mmcf/d of natural gas production remained shut in. Meanwhile, ExxonMobil Corp said production shut in the Gulf of Mexico due to the threat of Hurricane Dean had been restored on Tuesday. It said nonessential workers were being returned to offshore platforms on Tuesday. A total of 2,100 bpd of oil production and 21 mmcf/d of natural gas production was shut on Monday. Noble Corp said it began returning workers to rigs in the US Gulf of Mexico on Tuesday after they were evacuated ahead of Hurricane Dean. Transocean was also sending back its 430 offshore employees it evacuated from nine rigs in the Gulf of Mexico.

Norway's Statoil said it received approval from authorities in Alberta for a pilot project by its Canadian oil sands unit. It said the North American Oil Sands Corporation portfolio is expected to yield more than 200,000 bpd at the end of the next decade.

Indian oil workers called off a strike within hours after it started on Tuesday. More than 45,000 workers went on strike early Tuesday demanding more than double their current pay. A senior official at India's Oil Ministry said the government agreed to increase an advance payment allowance to 60,000-120,000 rupees or \$1,460-\$2,930 from 50,000 to 100,000 rupees. India's Hindustan Petroleum Corp's refining operations were hit by the strike.

Nigeria's October crude oil loading program scheduled the loading of 12 cargoes of Qua Iboe crude and 8 cargoes of Bonny Light crude. The plan also included five Erha grade cargoes, four Yoho cargoes and two cargoes of Oso crude.

Kazakhstan's State Statistics Agency reported that the country's crude oil and gas condensate output totaled 39.03 million tons in January-July 2007, up 5.5% on the year. Its oil production in January-July increased by 3.2% on the year to 31.778 million tons while oil production in July fell by 2.1% to 4.659 million tons.

Kazakhstan's Environment Minister Nurlan Iskakov said that Eni SpA led Agip KCO development of the Kashagan oil field may be suspended because of environment violations. The threat came a day after Italy's Eni and the government started negotiations over the future of the project.

South Korea's Korea National Oil Corp reported that the country's oil product demand in July increased by 8% on the year to 61.53 million barrels or 1.98 million bpd. It reported that total oil stocks at the end of the July increased to 81.72 million barrels, 9.2% higher on the year. July crude runs stood at 73.63 million barrels or 2.38 million bpd, down from 74.78 million barrels or 2.4 million bpd.

Brazil's Petrobras is scheduled to start up its P-54 platform, which has a capacity to produce 180,000 bpd. The P-54 platform is expected to go on stream at the Roncador fields in the coming weeks. Separately, a Petrobras official said the company is expected to reach a domestic output of 2 million bpd this year.

Ecuador's Central Bank said the country's average oil production fell by 7% on the year to 505,724 bpd in the first six months of the year. Petroecuador's production averaged 254,475 bpd in the first six months of the year.

OPEC's news agency reported that OPEC's basket of crudes fell to \$67.69/barrel on Monday from \$67.77/barrel on Friday.

Market Commentary

With the downgrading of Hurricane Dean to category 2, crude oil prices broke down and penetrated major support that was set at 70.08, basis October, which is now spot month. With this breakdown in prices, we have now entered an old sideways pattern between 65.10 and 70.08, which dates back to March 23rd. Prices broke out of this pattern on July 2nd prior to peaking out at 78.77. While keeping in the back of our minds that it is still hurricane season, we would cautiously sell this market looking for a test down at the major support level of 65.10. In keeping with this bearish sentiment we would like to sell the nearby and buy the deferred, therefore we like selling Dec07 and buying Dec08, which is currently trading at 1.15. The initial objective is .64 and should this level break a dip back into negative territory is Support comes in at 68.06, 67.20, 66.85, 66.55 and **65.10**. Resistance is set at 70.08, **70.90**, **71.55**, 72.40, 73.01, 74.00. The RBOB market rallied to a high of 193.74 early in the session.

However the market erased its gains and extended its losses to over 9 cents as it posted a low of 184.52. The complex came off as Hurricane Dean weakened to a Category 2 hurricane. The RBOB market was also pressured amid the rumors that a fund got caught long RBOB and short heating oil. The market later bounced off its low and retraced some of its losses and settled in a sideways trading pattern ahead of the close. Traders positioned themselves ahead of Wednesday's release of the DOE report, which is expected to show a slight draw in gasoline stocks. The RBOB market settled down 7.28 cents at 186.37. The heating oil market settled down 2.89 cents at 195.20 after the market sold off to a low of 184.52 by mid-day. Earlier in the session, the heating oil market posted a high of 200.09. The RBOB market will likely retrace some of its sharp losses in light of the expected draw in gasoline stocks. However the market technically is seen continuing to trend lower. It is seen finding resistance at 188.31, 190.00 and 193.74. More distant resistance is seen at 194.31, 196.62, 200.50 and 204.10. Meanwhile support is seen at 184.52, 181.50 and 178.25.

| | | Explanation |
|-----------|----------------------------------------------|----------------------------------------------------------|
| CL | Resistance 69.57, down \$1.39 | 72.40, 73.01, 74.00 70.08, 70.90, 71.55 |
| | Support | 69.50, 68.90 68.06, 67.20, 66.85, 66.55, 65.10 |
| HO | Resistance 195.20, down 2.89 cents | 200.83, 202.37, 204.98 196.50, 200.09 |
| | Support | 193.98 192.90, 192.04, 189.16 |
| RB | Resistance 186.37, down 7.28 cents | 194.31, 196.62, 200.50, 204.10 188.31, 190.00, 193.74 |
| | Support | 184.52 181.50, 178.25 |