



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 21, 2008

Iraq's Oil
Minister al-
Hussain al-
Shahristani said
oil supplies may
slightly exceed
current world
demand. He
however did not
say whether or
not the supply
situation meant
OPEC needed
to cut output at
its September
meeting, saying
OPEC would
have to first
review its
market data.
He also stated
that he
expected Iraq's
OPEC target to
reach 4.5 million
bpd within five
years and 6
million bpd
within 10 years.

Turkey's Energy
Ministry stated
that the Baku-
Tbilisi-Ceyhan
pipeline will be
fully operational

Market Watch

The Washington Post reported that while Vitol has been classified as a commercial trader, the CFTC recently discovered that the company was more of a speculator or non-commercial trader during an examination of its books. The CFTC also discovered that Vitol held 11% of all the oil contracts on the NYMEX. CFTC data shows that crude oil speculators account for 81% of all contracts traded on the NYMEX. The biggest players on the commodity exchanges often operate as swap dealers who primarily invest on behalf of hedge funds, wealthy individuals and pension funds. Using swap dealers as middlemen, investment funds have poured into the commodity markets, increasing their holdings to \$260 billion this year from \$13 billion in 2003. CFTC data shows that at the end of July, just four swap dealers held one third of all NYMEX oil contracts that bet prices would increase. The Wall Street Journal On Wednesday said the CFTC had reclassified Vitol Group as a non-commercial trader. However a Vitol official said the company was not contacted by the CFTC or by NYMEX with regard to its trading status and remains classified as a commercial trader.

SemGroup LP has turned down most of the oil producers who applied for its \$250 million supplier protection program, a program that many small companies hoped would shield them from large losses in SemGroup's bankruptcy case. A SemGroup spokesman said the company has not abandoned its supplier protection program but decided not to extend it to suppliers of crude.

The National Oceanic and Atmospheric Administration said temperatures in New England will be warmer than normal in September through November. Its temperature outlook for September-November 2008 calls for above normal temperatures across a broad section of the US, from the southwest desert and central southern states into the northeast.

According to the Farmers' Almanac, at least two thirds of the country can expect colder than normal temperatures, with only the Far West and Southeast in line for near normal temperatures this winter. It predicts above normal snowfall for the Great Lakes and Midwest, especially during January and February and above normal precipitation for the Southwest in December and for the Southeast in January and February. The Northeast and Mid-Atlantic regions can expect an unusually wet or snowy February. The almanac's winter forecast is contrary to that of the National Weather Service, which is calling for warmer than normal temperatures for much of the country.

August Calendar Averages

CL – 117.02

HO – 319.26

RB – 292.86

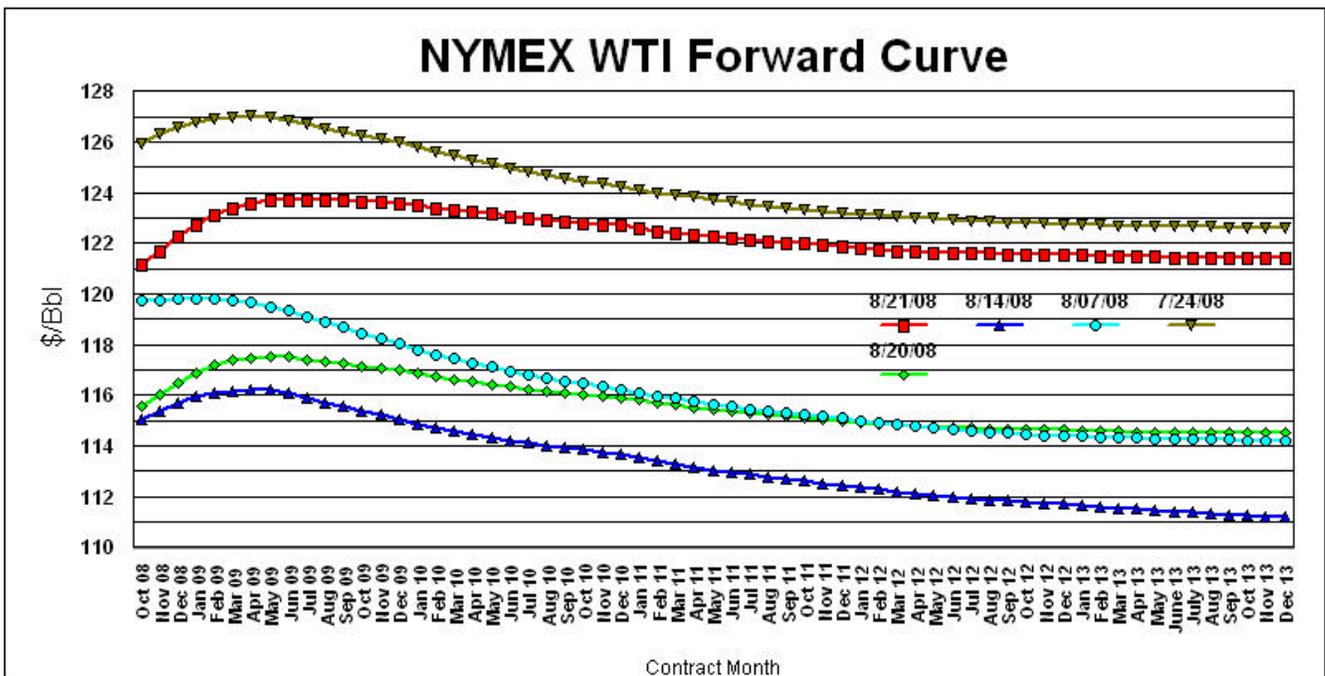
within a few days. BP Plc and partners have started testing the pipeline and will store the oil ahead of the first loadings. The first cargo of Azeri crude will be loaded at the Baku-Tbilisi-Ceyhan pipeline on August 25-26 following the restart of the pipeline. Production is increasing at Azeri oilfields in the Caspian Sea, which feed the pipeline that was closed after an explosion on August 5. Azeri Light crude oil loadings at Ceyhan are scheduled to average 867,000 bpd between August 25 and September 14. The program lists a total of 18.2 million barrels loading during the period. While the Baku-Ceyhan link is in the process of reopening, two other routes for the export of Azeri oil through Georgia remain shut due to the conflict between Russia and Georgia. The Baku-Supsa pipeline remains shut on security concerns while railway transportation to Georgia's Black Sea ports has also been suspended.

Russia informed the North Atlantic Treaty Organization that it is halting military cooperation between Russia and NATO countries until further instruction. NATO Secretary General has stated that NATO-Russia council meetings would be placed on hold until Russia adheres to the terms an agreed ceasefire deal with Georgia requiring both sides to move troops back to their positions before Georgia launched an offensive on the region of South Ossetia. Meanwhile, the Pentagon said it has seen minimal movements of Russian forces from Georgia but no significant withdrawal.

Nigeria's President Umaru Yar'Adua has dismissed the country's chief of the defense staff and the head of the army and navy. No reason has yet been given for the surprise dismissals. The dismissed military chiefs were seen as being loyalists of former President Olusegun Obasanjo.

Oil Movements reported that OPEC crude oil shipments are expected to increase by 200,000 bpd in the four weeks ending September 6 to 24.82 million bpd. The majority of the shipments are bound for the US and to Europe. Shipments from key Middle Eastern OPEC producers are projected to increase by 190,000 bpd to 17.9 million bpd in the four weeks ending September 6.

The National Hurricane Center said Tropical Storm Fay, which has caused extensive flooding on the east coast of Florida and continued to drop heavy rains is expected to move inland within 12 hours and weaken from a tropical storm to a tropical depression as it moves west across northern Florida. It



should be a tropical storm when it reaches the Florida Gulf Coast on Friday. Most of the weather models forecast Fay would remain near the Gulf Coast in Florida, Alabama, Mississippi and Louisiana over the next five days. The NHC also reported that there is a low pressure system off the Windward

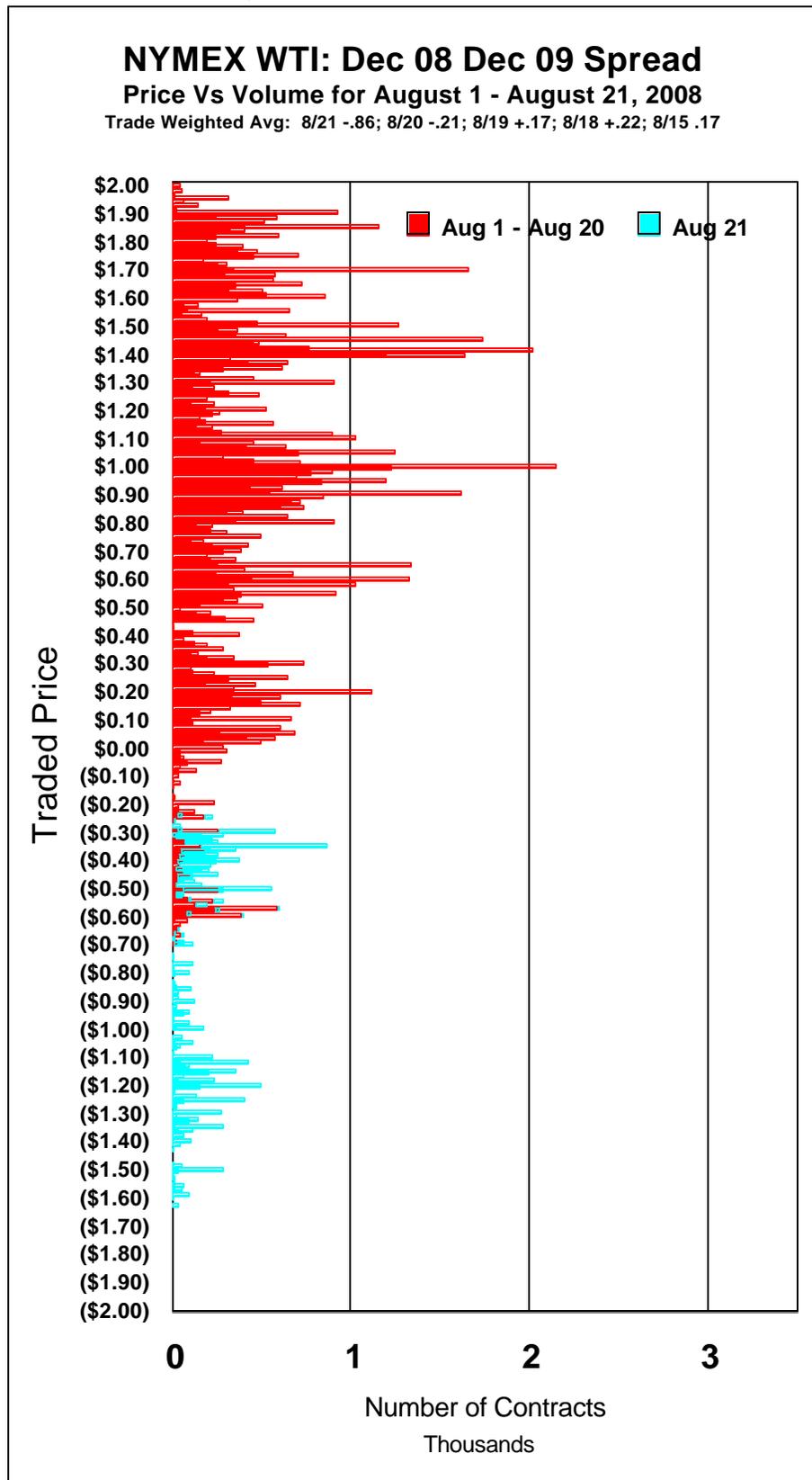
Islands. It said it remained disorganized and had less than a 20% chance of developing into to a tropical depression over the next 48 hours.

Refinery News

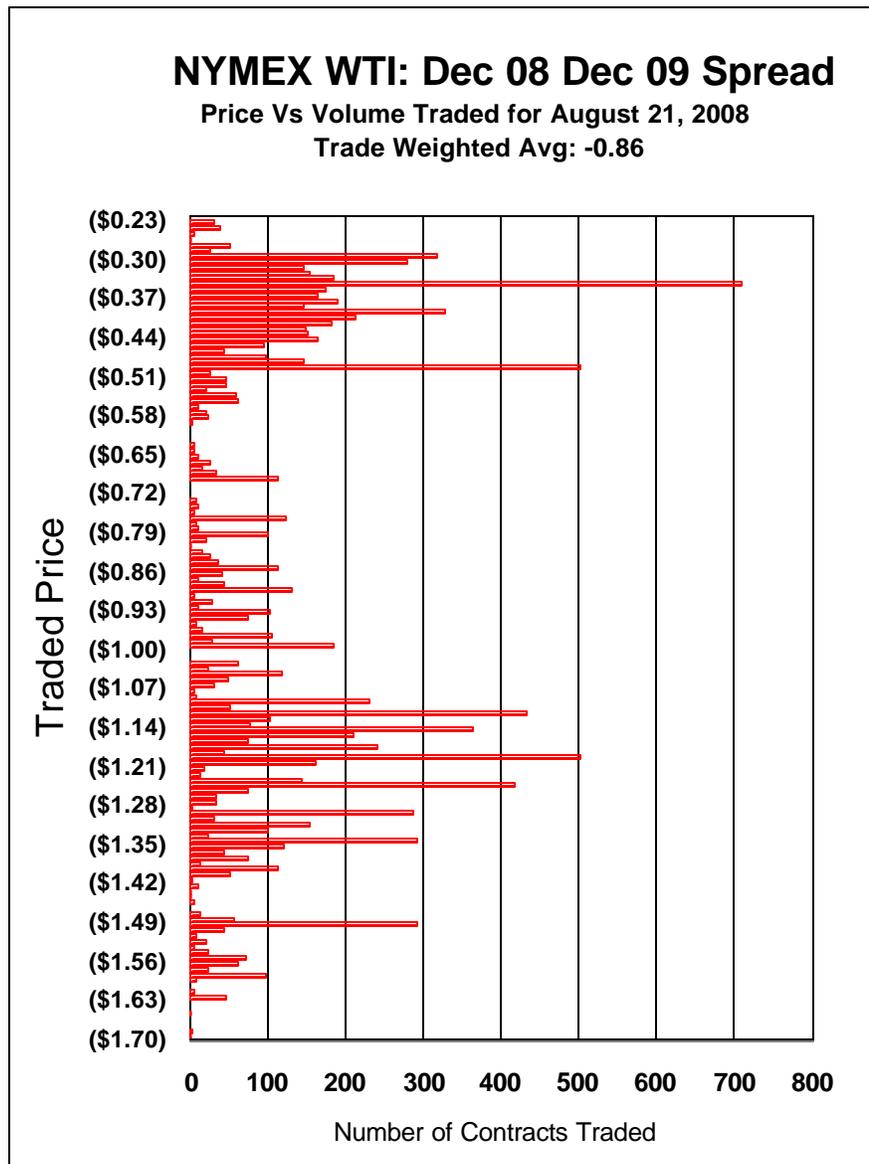
According to Euroilstock, European refined oil production fell in July as refiners sacrificed gasoline production while maintaining distillate production at lower refinery utilization rates. It reported that total production fell by 0.7% on the month and by 2.9% on the year to 12.836 million bpd. Gasoline production fell by 2% on the month and by 9.1% on the year to 3.164 million bpd while middle distillate production increased by 0.8% on the month but fell by 0.3% on the year to 6.302 million bpd. The refinery utilization rate in July increased by 90.87% in July from 90.56% in June but fell from 92.5% last year.

Valero Energy Corp's crude unit at its Corpus Christi, Texas refinery has restarted after a week long shutdown. The unit has not yet returned to its full capacity of 110,000 bpd. It is expected to take about two days to resume its full operations.

Flint Hills Resources is currently running its 210,000 bpd North Pole, Alaska refinery at reduced rates due to operational problems that affect gasoline production.



ExxonMobil said there is no impact to its production from minor, scheduled work on a crude unit at its 365,000 bpd Beaumont, Texas refinery.



Chevron Corp repaired a unit at its 215,000 bpd Pembroke oil refinery in Wales following a leak two days ago. The leak in an alkylation unit was discovered on Tuesday morning. Separately Chevron Corp plans to build a base oil facility in order to manufacture motor oils, lubricants and other commercial products at its Pascagoula, Mississippi refinery. The facility would produce about 25,000 bpd of base oil.

StatoilHydro ASA will shut its 200,000 bpd Mongstad refinery on September 2 for two months of planned maintenance. The facility is expected to return to normal production in November.

Pemex plans to shut a fluid catalytic cracking unit at its 210,000 bpd Cadereyta refinery in early October for 63 days of planned maintenance work.

Kuwait's refinery upgrade project could cost as much as \$22 billion, up \$7 billion from initial estimates. Kuwait National Petroleum Co is awaiting

approval from the Supreme Petroleum Council and Kuwait Petroleum Corp to launch a tender to upgrade its Mina Abdullah and Mina al-Ahmadi refineries. The refinery upgrade is part of Kuwait's plans to raise its refining capacity to 1.415 million bpd from 930,000 bpd. It plans to increase the capacity of the two refineries to 800,000 bpd from 600,000 bpd by adding more units to Mina Abdullah.

China's Sinopec may double the capacity of a joint venture refinery with ExxonMobil Corp and Saudi Aramco between 2010 and 2015. The 241,000 bpd refinery in Fujian will be expanded to 482,000 bpd if Sinopec obtains government approval.

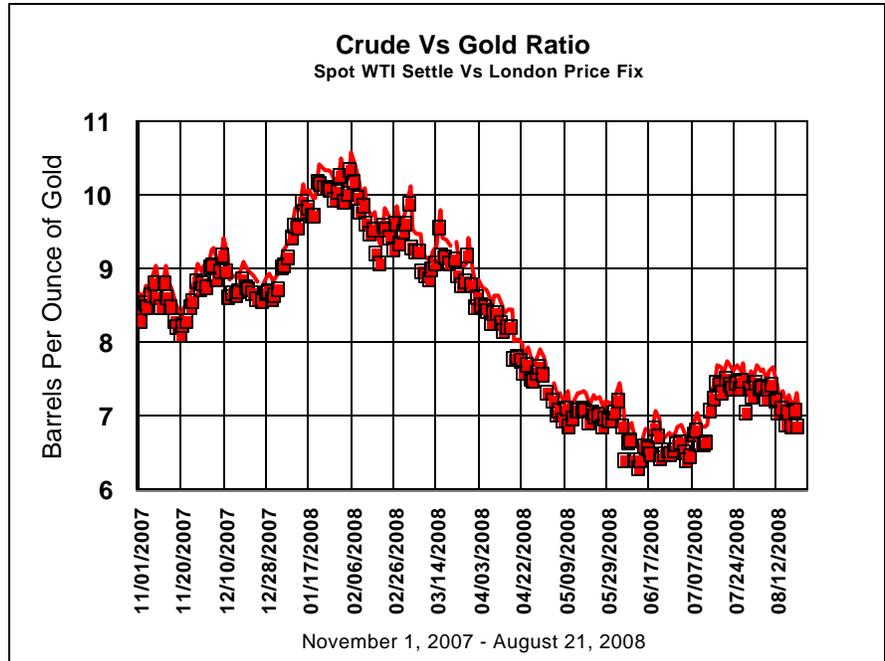
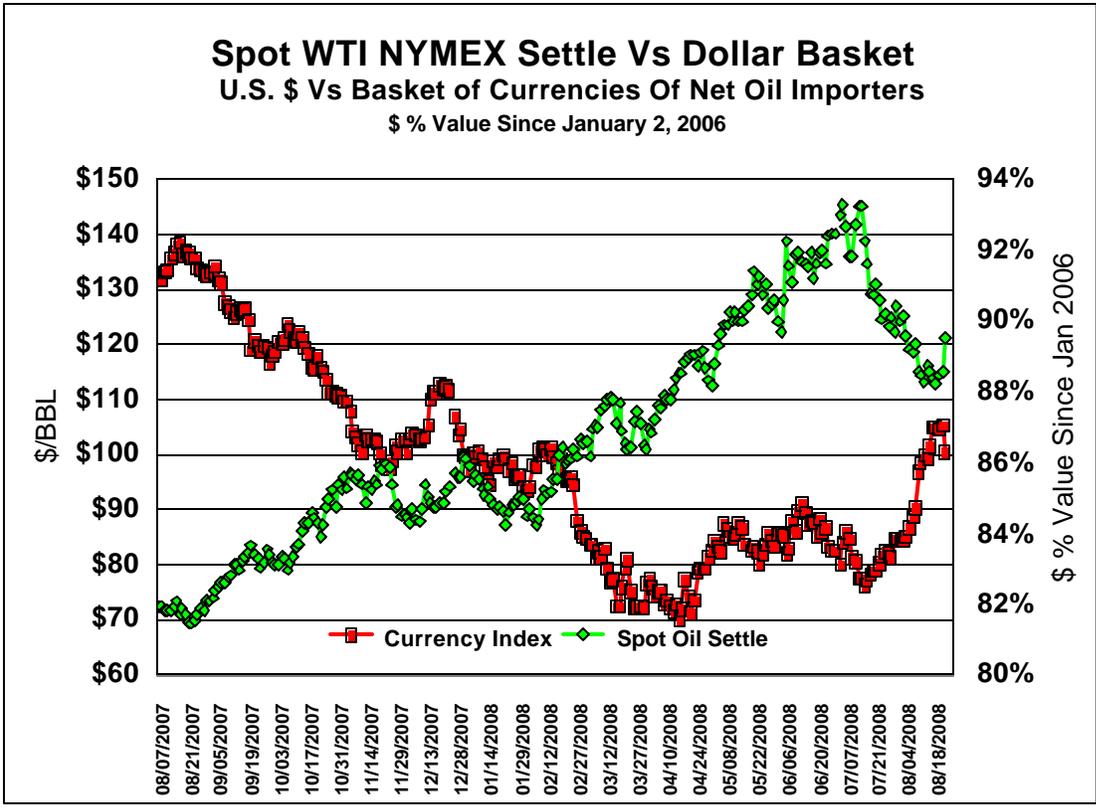
Sinopec Group hopes to double the capacity of its Fujian refinery to 480,000 bpd between 2010 and 2015. The refinery is undergoing an expansion that will increase its capacity from 80,000 bpd to 240,000 bpd by late this year.

South Korea's YNCC has shut its No. 2 naphtha cracker, with a capacity of 550,000 tons/year, due to a compressor problem.

Japan's Ministry of Finance reported that the country's customs cleared crude oil imports increased by 2.8% on the year in July to 20.285 million kiloliters or 4.12 million bpd.

Singapore's International Enterprise reported that the country's residual fuel stocks increased by 939,000 barrels to 19.194 million barrels in the week ending August 20. It also reported that the country's light distillate stocks increased by 128,000 barrels to 10.076 million barrels while its middle distillate stocks increased by 449,000 barrels to 11.58 million barrels.

Indonesia's Pertamina is set to buy 600,000 barrels of Malaysian Labuan crude from Malaysia's Petronas via a second monthly tender for October.



Gas oil stocks in independent storage in the Amsterdam-Rotterdam-Antwerp area increased by 8.27% on the week and by 5.69% on the year to 1.95 million tons in the week ending August 21. Companies have been building inventories as a result the ICE gas oil market moving into contango. Gas oil was imported into the ARA hub from the US. Fuel oil inventories fell by 5.35% on the week but increased by 18.03% on the year to 707,000 tons while gasoline stocks fell by 0.23% on the week and

increased by 24.02% on the year to 857,000 tons. Naphtha stocks fell by 21.67% on the week and by 18.97% on the year to 94,000 tons while jet fuel stocks increased by 2.61% on the week but fell by 2.24% on the year to 393,000 tons.

Production News

BP Plc resumed natural gas and oil production at its Bruce fields in the UK North Sea following a two month closure. The Bruce and Rhum fields have been closed for maintenance since June 21.

Libyan leader Muammar Gaddafi's son, Saif al Islam said the country's crude oil production increased to about 2 million bpd from 1.3 million bpd in 2003 as result of its improved ties with Europe and the US.

Russia's government said the country's oil output growth is unlikely to exceed 2.2% next year and will slow to under 1% by 2011. It said oil production could reach 492 million tons or 9.85 million bpd, almost flat from 491.5 million tons or 9.87 million bpd in 2007. Under the Economy Ministry's optimistic scenario, oil production is expected to increase to 503 million tons in 2009 however growth would then slow to just 0.8% year on year in 2011, reaching 518 million tons.

Pemex reported that Mexico's average oil production in the first seven months of the year fell by 10% to 2.85 million bpd. Its oil production in July averaged 2.782 million bpd, down 57,000 bpd on the month. It said crude exports fell by 16.3% during the seven month period, while exports in July fell to 1.377 million bpd, from 1.415 million bpd in June.

The Colombian Sugar Cane Producers Association or Asocana said the country's ethanol production in June increased by 6.5% on the year to 24.75 million liters. Total Colombian ethanol production from the beginning of the year through June increased by 13% to 146.2 million liters.

Ecuador's Central Bank reported that the country's oil export revenues totaled \$1.22 billion in June, up 81% on the year. In terms of volume, Ecuador exported 10.38 million barrels in June, down 12% on the year.

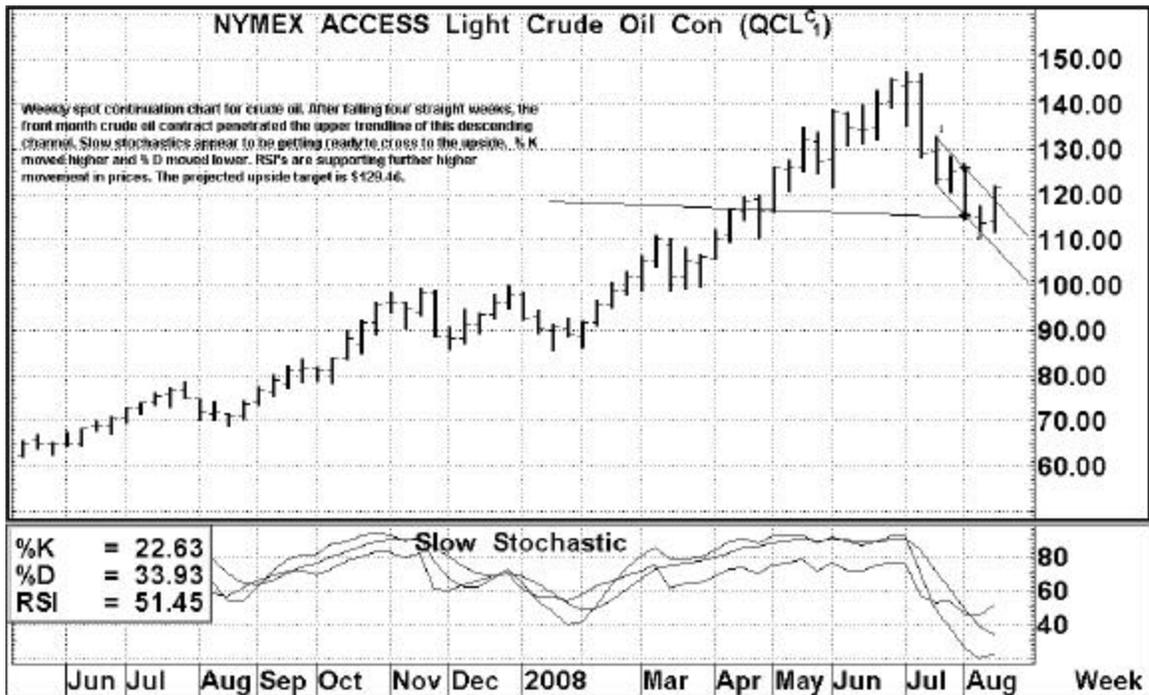
Nigeria has lowered its official selling prices for September Bonny Light and Qua Iboe crude by \$1.55 to dated Brent plus \$2.35. It cut its official selling price for Escravos crude loading in September by \$2.05 to dated Brent plus \$1.65 while its Brass Blend crude price was cut by \$1.50 to dated Brent plus \$2.45. It also cut its official selling price for Pennington crude by \$1.40 to dated Brent plus \$3.80 while its Forcados crude price was cut by \$1.65 to dated Brent plus \$2.30.

OPEC's news agency reported that OPEC's basket of crudes rebound to \$109.77/barrel on Wednesday from Tuesday's \$108.26/barrel.

Market Commentary

Several key factors led to a rise in crude oil for the third straight day. A weak dollar and Russia's defiance to calls by U.S. President George W. Bush and other Western leaders for an immediate withdrawal from Georgia since a cease-fire agreement last week ended five days of fighting are among these factors. Russian Foreign Ministry referred to the U.S.- Poland missile shield agreement, as being "anti-Russian." At a time when tensions between Russia and the U.S are supposed to be lessening, it appears that they are not. Eyes are also on Tropical Storm Fay as it circles back over Florida, raising concerns that it may wind up heading towards the Gulf of Mexico. The forward curve has risen to its highest level since August 1st, with the front part of the curve out to the first quarter of 2009, losing value to the deferred. Active today was the December 08/December 09 crude oil spread, which at the time of this writing traded over 12,500 contracts on Globex, the most active day since August 8th. This

spread appears to be attracting attention as it did last year around the same time. The difference this year, is that the nearby December contract is losing value to the deferred. Since the eighth of August, this spread has tested a downward trendline three times, unable to penetrate it. Once breaking through the bottom of a congestion area at \$.39, this spread has continued to weaken. It appears



that speculators are bearish on this spread, as the -\$3.00 put CSO traded nearly 1000 times today, helping to drive the spread lower in the futures as these options were laid off. This particular CSO is a bet on the buyer's side that this spread will continue to weaken and surpass the -\$3.00 mark. Coming into today's activity, there was no open interest for this particular CSO. It will be interesting to see how this play pans out. For the first time in five weeks, the spot month crude oil traded above the upper trendline on the spot continuation chart. The projected upside objective with this penetration is \$129.46. Based on the slow stochastics for this chart, %K has moved higher, while %D has moved lower. It appears that a cross of these two moving oscillators is approaching, which will indicate a shift in market direction. Heating oil surpassed the projected upside objective of \$3.2691, topping the day at \$3.3510. Perhaps aiding this move higher was a report by the Farmer's Almanac, predicting below normal temperatures for 2/3's of the country, with only the Far West and Southeast in line for near-normal readings. The Farmer's Almanac claims an 80-85 percent accuracy rate. The almanac's winter forecast is at odds with that of the National Weather Service, whose trends-based outlook calls for warmer than normal temperatures over much of the country, including Alaska. For tomorrow we would look to see a continuation of this move higher, with prices stretching towards the \$3.4574 38.2% retracement number using the \$3.0240 - \$4.1586 range. Slow stochastics basis the weekly spot continuation chart appears to be getting ready to cross to the upside, as %K has moved higher and %D has moved lower. RSI's have turned to the upside. Gasoline has continued its move higher after holding above the trendline set at \$2.8964. Both slow stochastics have remained above the oversold parameter of 20.00 and are pointing to the upside. This may be a last seasonal move just prior to the U.S. summer driving season coming to a close. The rest of the complex should lend strength to the product, however we would look for it to lag behind the heating oil and crude oil. The project move for gasoline based on a spot continuation chart is \$3.0732.

Open interest for crude oil is 1,194,566 down 9,192, October 08 310,285 up 3,275, November 08 107,324, up 4,924 and December 08 179,870 up 3,351. Total open interest for heating oil is 220,025

down 1, September 08, 29,570 down 1,600 and October 08 45,859 up 2,455. Total open interest for gasoline is, 226,61 up 269, September 08, 41,506 down 2,751 and October 08 68,957 up 2,833.

Crude Support	Crude Resistance
109.55,108.00,105.18, 85.40	128.60,132.05, 139.30, 144.00,147.90,
Heat support	Heat resistance
3.0285	3.4574,3.798,3.6135,3.8215, 4.0210,
Gasoline support	Gasoline resistance
2.8190, 2.7285, 2.5920	3.0300,3.0732, 3.1050,3.1460,3.1970, 3.2620