



## **ENERGY RISK MANAGEMENT**

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## **ENERGY MARKET REPORT FOR AUGUST 25, 2008**

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The National Hurricane Center upgraded the season's seventh tropical depression into Tropical Storm Gustav within hours of its formation. As of this afternoon's update, Tropical Storm Gustav was 180 miles south-southeast of Haiti with wind speeds of 60 mph. The NHC said strengthening is likely given the apparently favorable conditions. However it noted that there was significant uncertainty over Gustav's position later in the week. Its three day forecast shows the storm crossing over eastern Cuba early Thursday. The storm could either

### Market Watch

Societe Generale cut its 2008 and 2009 crude oil price forecasts. It expects US crude to average \$113.78/barrel in 2008 and \$120.42/barrel in 2009 from its previous forecast of \$124.78/barrel and \$128.75/barrel, respectively.

Alaska's Governor Sarah Palin said the state will suspend gasoline taxes for a year to help consumers weather high gasoline prices. She said she would sign a bill passed by the Alaska state legislature that would lift the state's gasoline tax from September 1 to August 31, 2009. The bill would also provide Alaska's citizens with a one-time payment of \$1,200. In addition to suspending taxes on gasoline, the legislation would lift taxes on marine fuel and aviation fuel for a year, increase state funding for energy-efficiency rebates by \$60 million and add \$50 million to a state fund that finances renewable energy development.

The New York attorney general's office said New York and 11 other states are suing the Environmental Protection Agency over greenhouse gas emissions from oil refineries. The suit charges that the EPA violated the federal Clean Air Act by refusing to issue standards, known as new source performance standards for controlling global warming pollution emissions from oil refineries.

According to the Federal Reserve Bank of Chicago, US economic activity weakened in July. Its National Activity Index was minus 0.67 in July compared with a revised level of minus 0.59 in June. The less volatile three month moving average of economic indicators was higher but remained at recession like levels for an eighth consecutive month. The index's three month moving average increased to minus 0.80 in July compared with June's minus 0.94.

The NYMEX announced that there were 196 delivery intentions posted against the expired August crude contract.

Members of Canada's Conservative government have discussed cutting the diesel fuel tax while the opposition Liberal Party is proposing to increase diesel taxes. The office of Prime Minister Stephen Harper has denied a diesel tax cut was in the works and added that the Finance Department was opposed to the idea.

A Russian Finance Ministry official said Russia will likely cut the oil export duty for October-November from the current level of \$495.90/ton following the recent fall in oil prices to \$483-\$487/ton. The export duties on light refined products would fall to \$338-\$341/ton from \$346.40/ton and to \$182-\$183.50/ton from \$186.60/ton on heavy products.

**August Calendar Averages**

**CL** – 116.76

**HO** – 318.65

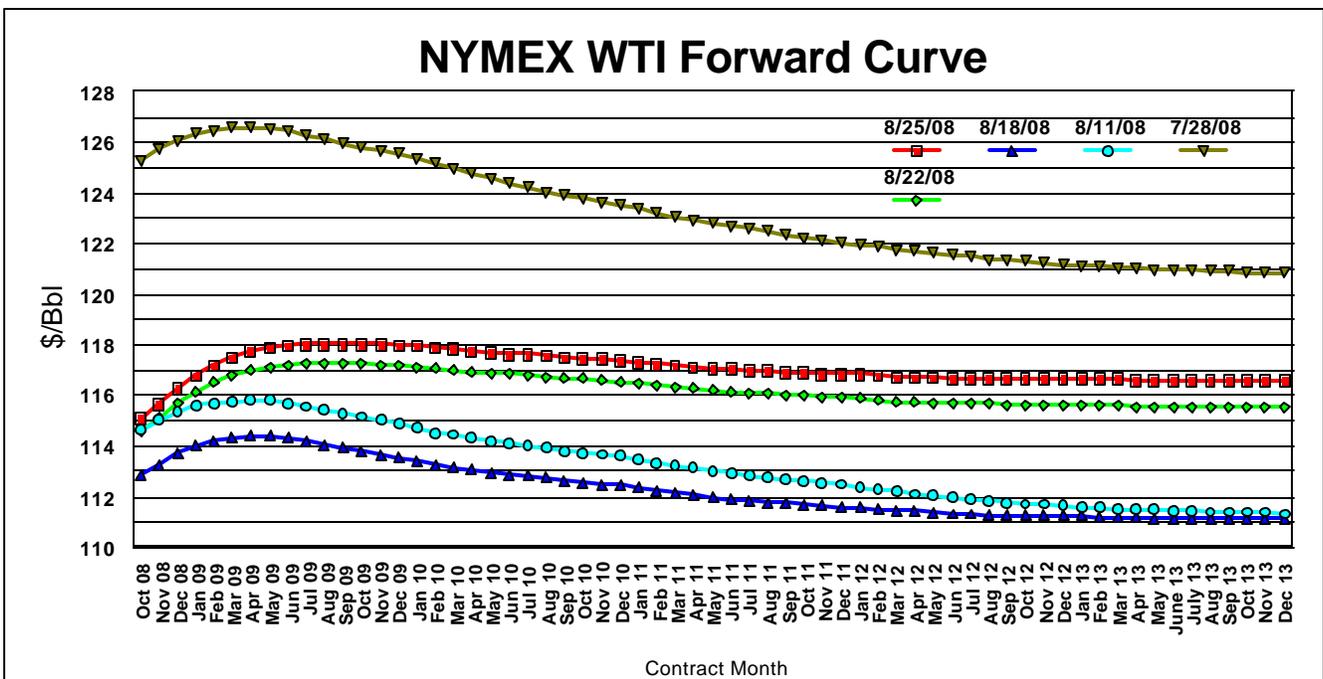
**RB** – 292.24

head to the north and east coast of Florida or it could curb back west and enter the Gulf.

A US Navy warship delivered humanitarian aid on Sunday for victims of Georgia's conflict with Russia while Russia ignored a Western demand to pull its remaining troops from Georgia. Russia said residual troops are peacekeepers needed to avert further bloodshed and to protect Georgia's separatist provinces of South Ossetia and Abkhazia. Russia has deployed its peacekeepers at a series of posts in the Poti area and also in a buffer zone outside South Ossetia and Abkhazia. A senior Georgian minister described Russia's parliament's vote to recognize independence for Georgia's South Ossetia and Abkhazia. On the diplomatic front, France called for a meeting of European Union leaders to discuss the crisis and to review the bloc's relations with Russia on September 1. Meanwhile, Germany's Chancellor Merkel said Russia has not withdrawn its troops in line with a French brokered ceasefire accord and added that ties with Russia could be cut back if it did not comply. Separately, Russia's President Dmitry Medvedev said Russia was prepared to break relations with the North Atlantic Treaty Organization but called on countries of the Western military alliance to avert a worsening in ties. In response, NATO said its ties with Russia would depend on Russia's compliance with a Georgian peace plan.

Loading of oil from the Baku-Tbilisi-Ceyhan pipeline will begin on Tuesday for the first time since it was shut in earlier in August. BP Plc said the first tanker will dock after midnight Monday, revising an earlier statement that tankers were being loaded on Monday. Production from the BP led Azeri-Chirag-Guneshli field in Azerbaijan was returning to normal after the pipeline explosion forced a sharp reduction in output. An official from the BTC consortium said that the storage supplies were being replenished and had reached 2.5 million barrels as of Monday.

Meanwhile, Azerbaijan's SOCAR started exporting Azeri Light crude to Iran to compensate for export constraints imposed by the pipeline blast in Turkey and the conflict between Georgia and Russia. SOCAR will ship oil from the Azeri-Chirag-Guneshli field to the Iranian port of Neka, then Iran will export the equivalent volume out of its Middle East Gulf facilities. It also increased exports of oil products to Iran above current contract levels due to a rail outage in Georgia.



DEBKAFfile reported that a train hit a mine on Sunday on the main track of the railway line linking Eastern and Western Georgia. Responsibility of the sabotage has not been determined. Georgian officials suggested Russian forces which pulled out of the area on Friday left a road mine on the railroad.

An OPEC source said OPEC is likely to keep its oil output policy unchanged at its meeting in September as prices remain high despite the fall from its July peak. The source said world oil production was more than sufficient to meet demand in the short term however demand should increase in the winter.

Iran's Oil Minister Gholamhossein Nozari said OPEC will work to curb the oil price decline and will also study oversupply in the market when it meets in September. He said OPEC is monitoring oil price trends and the issue of excess supply and added that controlling the price will be among the major discussions at the upcoming OPEC meeting. Separately, Iran's Oil Minister said Iran is seeking to strengthen its ties with Russia by improving cooperation with OAO Gazprom.

Venezuela's Oil Minister Rafael Ramirez said OPEC should consider cutting its oil production at its next meeting if members determine that recent price declines constitute a sustained downturn.

Nigeria's military and private security sources said gunmen hijacked an oil supply boat with eight Nigerian crew members on Sunday. No group has yet claimed responsibility for the attack.

The deputy head of Iran's Atomic Energy Organization, Mohammad Saeedi said Iran has chosen the site and started designing a new 360-Mw nuclear power plant. Iran has yet to complete construction of its first nuclear power plant. Iran's first nuclear power plant, with 1,000 Mw capacity, is being built by Russia in the port city of Bushehr.

The EIA reported that the US average retail price of diesel fell by 6.2 cents/gallon to \$4.145/gallon in the week ending August 25. The EIA also reported that the US average retail price of gasoline fell by 5.5 cents to \$3.685/gallon on the week. The price of gasoline has fallen 10.4% or 42.9 cents from the record high of \$4.114/gallon reached on July 7.

According to the Lundberg survey, the US average retail price of gasoline fell to \$3.6967/gallon on August 22, down about 15.05 cents/gallon in the past two weeks.

Mexico's Institutional Revolutionary Party scrapped an internal ban against private investment in the state-run oil business, moving lawmakers closer to approving a government plan to overhaul the energy sector. It voted to drop from party principles the rule prohibiting private investment in Pemex. The PRI's support is important for the ruling conservatives to push an energy reform bill through the divided Congress. Its opposition said the proposal violates a constitutional ban on private companies exploring for and producing oil in Mexico. The left wing coalition FAP unveiled an energy reform bill that would bolster the state industry by lowering taxes on oil, in contrast to President Felipe Calderon's plan to expand private oil investment. The plan calls for a lower royalty on oil production by Pemex and would allow Pemex to retain a greater share of windfall oil revenue.

### **Refinery News**

Credit Suisse said US refining margins fell last week. Margins in the Midwest fell by \$2.50 to \$14.39/barrel in the week ending August 22 while margins in the West Coast fell by \$3.76 to \$13.75/barrel. Margins in the Gulf Coast fell by \$2.19/barrel to \$10.12/barrel while margins in the Northeast fell by 81 cents to \$10.02/barrel. Margins in the Rocky Mountain region fell by \$2.09 to \$29.17/barrel.

Valero Energy Corp said there was no impact to production from two emissions events over the weekend at its 289,000 bpd refinery in Port Arthur, Texas. The first incident on August 23 occurred in the sulfur-recovery unit after a problem with equipment that carries water through the system. The second release happened in the plant's coking unit after a seal broke down.

Citgo Petroleum Corp restarted a fluid catalytic cracking unit at its 156,000 bpd refinery in Corpus Christi, Texas on Friday. The unit was shut when electrical power to the unit's controllers was lost during a storm. Meanwhile, a coking unit at the refinery's West Plant was shut when the mechanical failure of a wet gas compressor overwhelmed the flare gas recovery unit.

ConocoPhillips reported a flaring incident at its 260,000 bpd refinery in Sweeny, Texas.

Flint Hills Resources' 210,000 bpd North Pole, Alaska refinery has slowed due to operational problems. The refinery was still running but was experiencing operational problems that affect gasoline production.

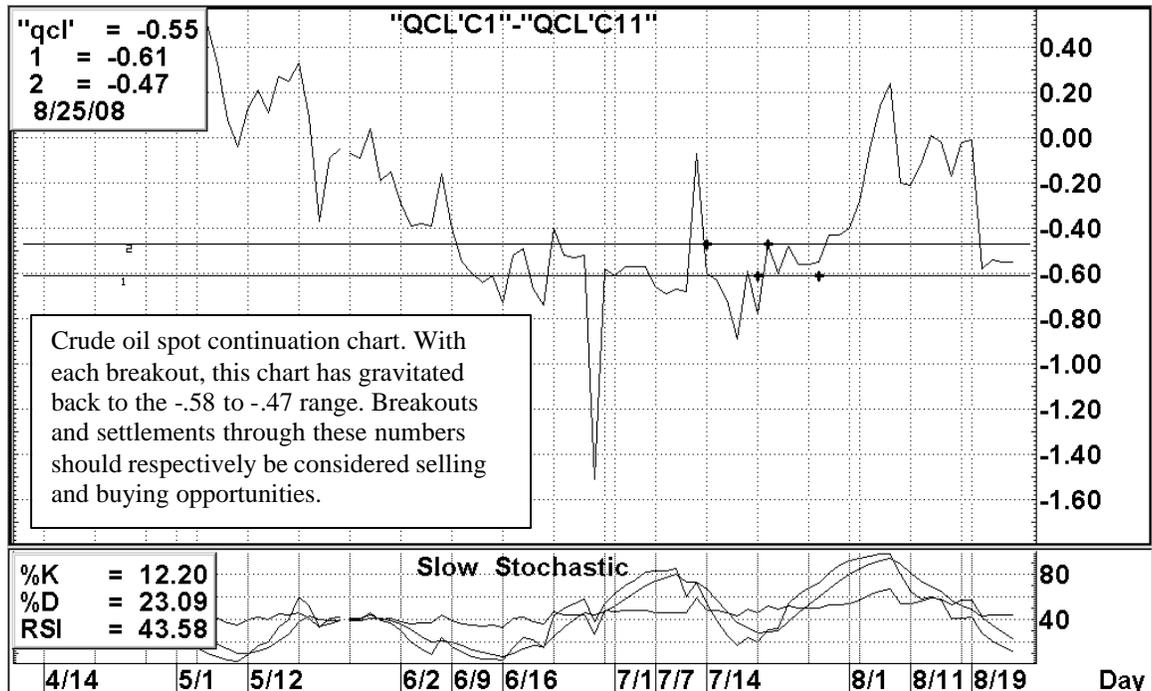
PDVSA is sending about 360,000 bpd of crude to China. Last year, Venezuela's Oil Minister Rafael Ramirez said Venezuela aimed to ship as much as 500,000 bpd of crude to China this year. PDVSA still aims to increase those shipments to 1 million bpd by 2012.

**Production News**

The chief executive of Kuwait Petroleum Corp, Saad al-Shuwaib said Kuwait is producing about 2.5 million bpd of crude oil and aims to increase its capacity to 3 million bpd in the first half of 2009. He also stated that Kuwait is on course to meet its long term capacity target of 4 million bpd in 2020 despite political hurdles, increasing costs for oil projects and a tight market for contractors.

PDVSA plans to set up an additional 88 oil drills in operation this year. A PDVSA official said the company's rig count now stands at 160 oil rigs in operation but noted that this includes almost 50 rigs that serve to clean old wells. OPEC has reported that Venezuela has a total of 84 active oil and natural gas rigs in place in June.

Norway's StatoilHydro affirmed its goal to increase oil and gas production to 2.2 million bpd of oil equivalent in 2012 from an expected 1.9 million bpd of oil equivalent in 2008. It said it would likely repair the

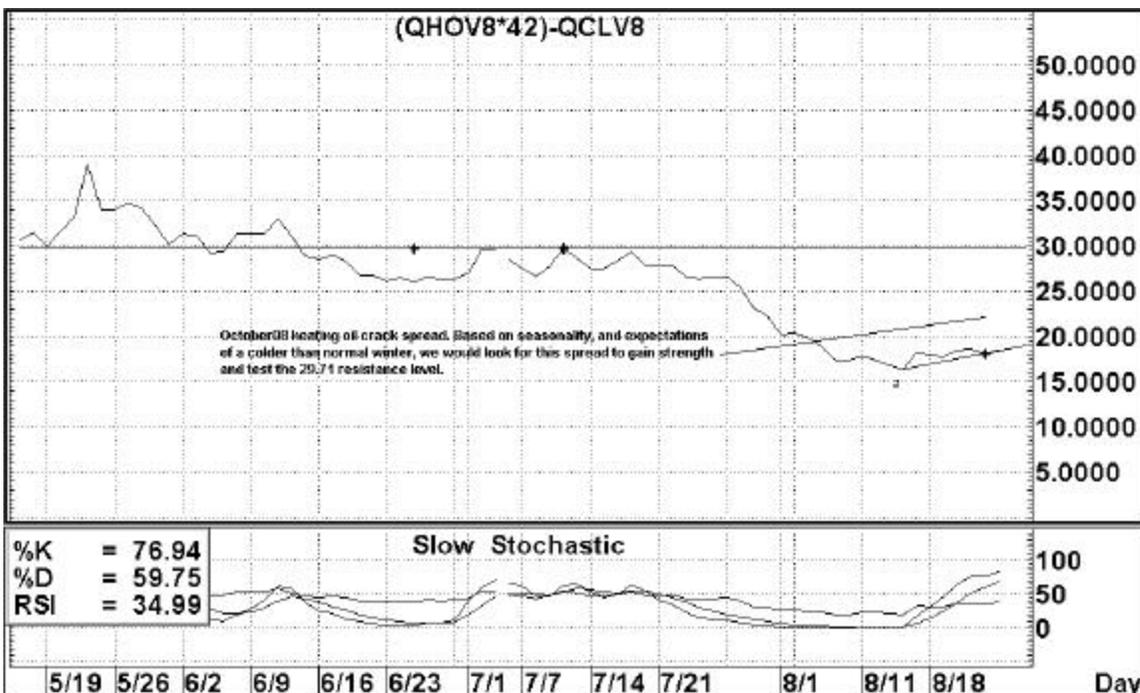


Kvitebjoern gas pipeline in the summer of 2009 and not earlier after a leak this month cut output at two North Sea fields. It added that the Snoehvit liquefied natural gas plant was restarted on Sunday after a brief outage last week. Separately, StatoilHydro has made a gas discovery in the North Sea and has proven additional oil resources at the Dagny prospect in the North Sea.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$114.63/barrel on Friday from a revised \$114.07/barrel on Thursday. OPEC's news agency reported that OPEC's basket of crudes increased by \$1.35/barrel to \$111.08/barrel in the week ending August 22.

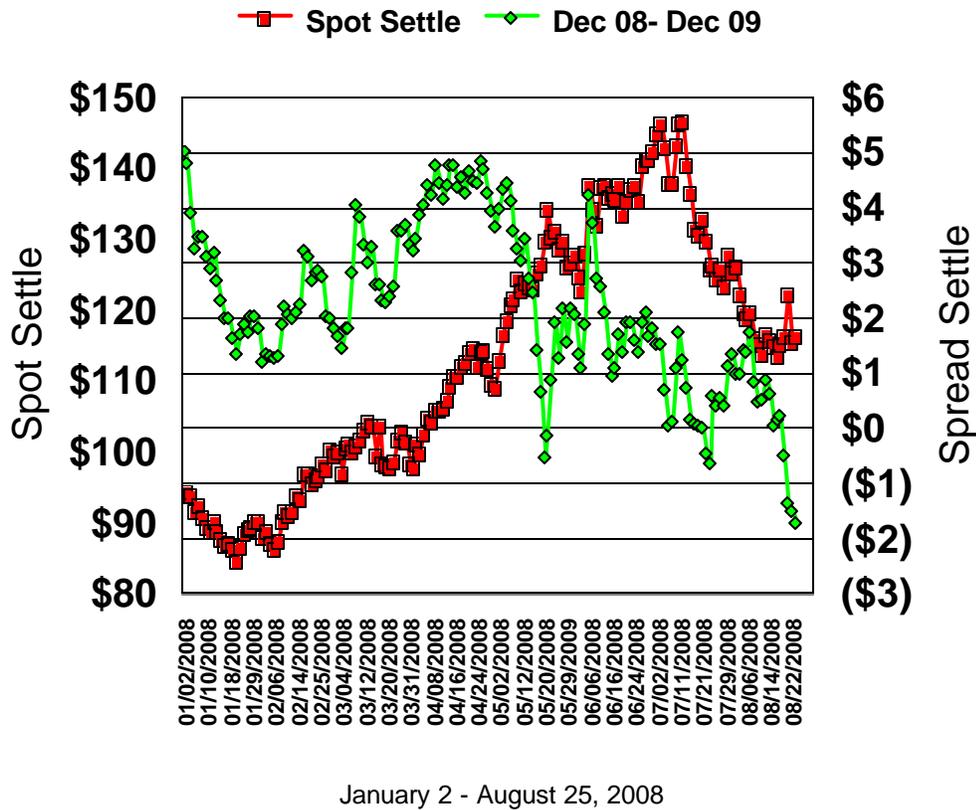
**Market Commentary**

With the movement of crude oil through the Baku-Tbilisi-Ceyhan pipeline continuing through Georgia to Turkey's Mediterranean coast overshadowed by the possibility that Tropical Storm Gustav may become a hurricane, crude oil settled slightly higher. Market activity was choppy under light volume conditions. Crude oil traded above but did not settle through the upper descending trendline set at \$115.34, basis the spot continuation chart. With the upcoming U.S. Labor Day Holiday, seasonal demand may lend support to this market. This factor, coupled with the possibility of hurricane development could push the October 08 crude oil contract up to \$125.07, the 38.2% fibonnacci retracement number derived from the range of \$147.27-\$111.34. Leading technical indicators, such as the slow stochastics and RSI's are trending higher, supporting this possible move higher. The spot month crude spread based on a continuation chart has experienced a range of -\$1.51 to + \$0.24 since the beginning of June. Throughout this period, it has been gravitating towards the -.47 to -.58 range. Should the October/November spread settle below the -.58 range, it would be considered a selling opportunity, selling the October, buying the November. Should this spread gain strength and settle above -.47, a buying opportunity, buying October, selling November, would present itself. Heating oil continues to maintain its strength since breaking out of the descending channel on a spot continuation chart. Upon examination of the slow stochastics, %K moved lower and %D moved higher. The RSI has also moved higher. Based on this scenario, we would look for continued strength in this product, with a test up at the \$3.4580 trendline. The October heating oil crack spread has been bouncing off of an ascending trendline, touching and holding it three times. With the upcoming heating oil season on



its way and expectations for a colder than normal winter, we would look for this spread to gather steam, working towards the 29.71 resistance level. Gasoline is experiencing a late seasonal run-up ahead of the conclusion of the U.S.

### NYMEX Spot WTI VS Dec 08-Dec 09 Settle



driving season. We would look for this product to continue higher with a test of the \$3.2042 projected resistance level, using the range of \$2.9101 - \$2.6160.

Open interest for crude oil is 1,195,164 down 714, October 08 309,181 up 1,870, November 08 108,587, down 664 and December 08 178,423 down 3,138. Total open interest for heating oil is 223,836 up 3,857, September 08, 24,758 down 2,758 and October 08 50,487 up 3,973. Total open interest for gasoline is, 223,426 down 1,404, September 08, 32,365 down 5,773 and October 08 73,816 up 3,323.

<b>Crude Support</b>	<b>Crude Resistance</b>
109.55, 108.00, 105.18, <b>85.40</b>	128.60, 132.05, 139.30, 144.00, 147.90,
<b>Heat support</b>	<b>Heat resistance</b>
3.0540, 3.0229, 294.50	3.4574, 3.798, 3.6135, 3.8215, 4.0210,
<b>Gasoline support</b>	<b>Gasoline resistance</b>
2.7014, 2.6435, 2.5920	3.0300, 3.0732, 3.1050, 3.1460, 3.1970, 3.2620