



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 28, 2008

The National Hurricane Center said Tropical Storm Gustav moves near the eastern tip of Jamaica on Thursday. The storm, which was just shy of hurricane strength, is expected to continue west over Jamaica Thursday night and Friday and over the Cayman Islands Friday night. The NHC's five day cone of possible landfalls shows the storm heading from the middle of the Texas coast as far east as Tallahassee, Florida. A

Market Watch

The NYMEX announced that it will increase margin requirements for its RBOB Gasoline contract, its RBOB financial contract and its RBOB calendar swap at the close of business Thursday, August 28th to \$13,500 from \$10,450 for the spot contract. The margin requirement for the second and third contract will increase to \$12,150 from \$9,900.

According to the Wall Street Journal, the inspector general for the US CFTC has officially started an investigation into the inter-agency report on commodity markets that stated supply and demand factors were responsible for the rally in fuel prices. The interim report said the high oil prices were the result of supply and demand fundamentals and not speculation. US Senators allege that the CFTC knowingly included seriously flawed data and the timing of the report's release was suspicious.

The US economy was stronger in the second quarter than previously thought. The Commerce Department said GDP grew at a seasonally adjusted 3.3% annual rate in the second quarter, up from its previous estimate of 1.9%.

Petrobras' President Jose Sergio Gabrielli said he is certain oil exists at the bottom of all nine exploration wells the company has drilled in the pre-salt area. Development of the pre-salt layer however is expected to demand heavy investment in addition to what Petrobras already has planned. Petrobras is expected to invest \$112 billion through 2012 to increase its oil and oil product output.

Venezuela's Congress approved a law that would force intermediaries such as Chevron Corp's Texaco and BP Plc to cease purchasing gasoline and diesel fuel for resale to service stations around the country. PDVSA is expected to deal directly with all 1,854 gasoline stations in Venezuela as soon as the law gains final approval.

August Calendar Averages

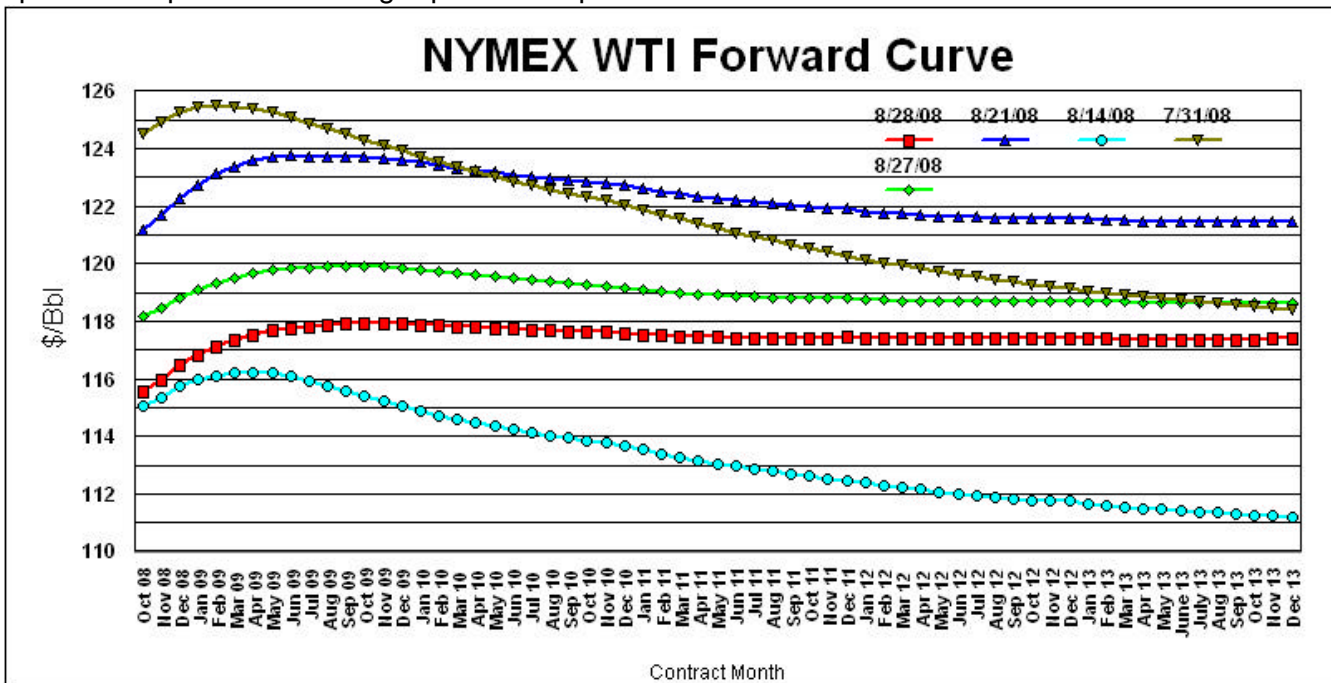
CL – 116.75
HO – 319.13
RB – 293.69

narrower projected path shows the storm reaching Morgan City, Louisiana southwest of New Orleans Tuesday morning. Meanwhile, private weather forecaster Planalytics said the storm is expected to strengthen into a Category 3 or 4 hurricane in the Gulf of Mexico.

However a Planalytics analyst said damage to offshore oil rigs and platforms in the Gulf of Mexico is not expected to be long lasting. Accuweather has also stated that the storm is expected to strengthen into a category 3 hurricane as it enters the Gulf of Mexico.

The IEA said it is ready to coordinate the release of oil stocks from member states if supplies are sharply disrupted in the US Gulf of Mexico due to Tropical Storm Gustav. The last time IEA members released oil stocks was in September 2005 when Hurricane Katrina hit the Gulf region and New Orleans. The IEA and its members released the equivalent of 60 million barrels of oil due to the damage to oil infrastructure caused by Katrina. The trigger for releasing oil stocks is usually in the event of an oil supply disruption of at least 7% to the IEA or individual countries. Separately, the DOE said the US government is prepared to release crude oil from the SPR if Tropical Storm Gustav disrupts supplies. It said it is closely monitoring the situation and stands ready to use every available tool to ensure continuous and reliable supplies of energy in the event of a disruption. Meanwhile, the US EPA said it is ready to relax gasoline standards in the event that Tropical Storm Gustav causes fuel shortages. It said should states request a waiver, the EPA is prepared to respond quickly to ensure response and recovery efforts are successful.

The US Minerals Management Service reported that as of Thursday morning, energy companies did not shut any production from offshore platforms in the Gulf of Mexico. However it stated that two production platforms and one rig has been evacuated. The evacuated platforms are located off the coast of New Orleans and Lafayette, Louisiana. The rig is located off the coast of Lake Charles, Louisiana. Separately, BP Plc has finished evacuating non-essential personnel from its offshore operations in the Gulf of Mexico ahead of Tropical Storm Gustav. It said production has not been affected. Royal Dutch Shell Plc started shutting in sub-sea wells and other Gulf of Mexico assets Thursday in preparation for Tropical Storm Gustav. Shell evacuated about 400 workers on Wednesday and expects to remove 270 additional workers on Thursday while its remaining 600 employees will leave Friday and Saturday. Meanwhile, Conoco started evacuating its workers on Thursday from the Magnolia platform, which was shut on Monday for a non-weather related turnaround. The field has a capacity of 50,000 bpd of oil. Anadarko Petroleum Corp also plans to evacuate and shut in all of its Gulf of Mexico facilities and drilling rigs. It plans to evacuate all non-essential personnel by Saturday and to complete a total evacuation by Sunday. It produces 150,000 bpd of oil equivalent from eight production platforms in the Gulf. Hess said it will shut in its Gulf of



Mexico production on Sunday unless Tropical Storm Gustav changes course. Chevron Corp also announced that it started evacuating non-essential personnel in the area. Devon Energy Corp is beginning evacuations of its non-essential workers from two deep water drilling rigs off the coast of Louisiana. Apache Corp said it has started to evacuate non-essential workers from its Gulf of Mexico operations. It will continue its evacuations on Friday. ExxonMobil Corp has not yet evacuated personnel from its operations in the Gulf of Mexico but said it has started preliminary safety procedures at its Gulf Coast refineries. The Louisiana Offshore Oil Port said it is operating normally despite the threat of Tropical Storm Gustav. However it said it is planning to start evacuating personnel on Saturday. It expects to stop offloading tankers by the weekend.

The AAA said gasoline prices in Louisiana are holding steady despite the preparations ahead of the approaching Tropical Storm Gustav. However it said sharp increases could be seen if portions of the state are placed under a mandatory evacuation. The current average price of gasoline in Louisiana is \$3.57/gallon.

Russia's ambassador to the European Union, Vladimir Chizhov urged the block Thursday to refrain from imposing sanctions on Russia. He warned that such a move would hurt the EU. Earlier, French Foreign Minister Bernard Kouchner said some EU states would consider imposing sanctions when they hold an emergency summit on Monday. Meanwhile the European Commission said the next round of European Union-Russia negotiations on a new strategic partnership pact are still due to take place on September 15-16 despite continuing tensions. Separately, NATO denied Russian accusations that it was building up forces in the Black Sea, saying that five of its warships were there for routine and previously planned exercises.

OPEC sources said oil demand and supply data being reviewed by OPEC's Economic Commission Board during a meeting on Thursday and Friday, ahead of the group's September 9 meeting, indicates no need for OPEC to change its output policy.

Nigeria's Oil Minister Odein Ajumogobia said he believes OPEC will likely roll over its production target when the group meets on September 9. He however stated that any big change in the market would probably cause the group to cut its production.

The UAE's Central Bank Governor Sultan Nasser al-Suweidi said that oil prices could fall to a range of \$60-\$80/barrel. He however did not offer a time frame for the possible price fall.

Japan's Ministry of Economy, Trade and Industry said oil producers should not cut their production. He said despite the oil market's steep pullback from its peak, it is causing serious damage to Japan's economy.

According to Oil Movements, OPEC's oil exports are expected to fall by 340,000 bpd to 24.24 million bpd in the four weeks ending September 13. It said the fall in shipments is most likely a result of weakening demand in the east rather than cutbacks by exporters. Eastbound sailings have dropped by about 600,000 bpd from their peak at the end of June. Shipments from Middle Eastern producers, mainly from Saudi Arabia, are expected to fall by 430,000 bpd to 17.29 million bpd in the four week period.

The California State Board of Equalization said the state's gasoline consumption fell by 4.8% on the year in May.

The EIA reported that the US crude oil imports increased by 3.5% or 337,000 bpd on the month in June to 9.994 million bpd. Imports were down 21,000 bpd from last year's level. Canada held its

ranking as the top supplier of crude to the US. Canada crude supply to the US increased by 43,000 bpd on the month to 2.319 million bpd. Saudi Arabia's crude supplies to the US fell by 100,000 bpd on the month to 1.479 million bpd while Mexico's supplies increased by 8,000 bpd to 1.124 million bpd. Imports from Venezuela increased by 55,000 bpd to 1.085 million bpd. Meanwhile imports from Iraq increased by 110,000 bpd to 693,000 bpd.

Refinery News

Valero Energy Corp said it has no plans yet to shut or evacuate any of its oil refineries along the Gulf Coast due to the threat of Tropical Storm Gustav. It said its Gulf Coast refineries from Houston to St. Charles, Louisiana are on alert and added that Valero is securing emergency equipment and supplies for its Gulf Coast refineries. Valero said it is coordinating efforts with local government officials and if a mandatory evacuation is declared, it will conduct an orderly shutdown of any affected refinery and evacuate its personnel.

Separately, Valero Energy Corp's 275,000 bpd refinery in Aruba is running at slightly lower rates.

ExxonMobil Corp and Royal Dutch Shell said they are taking initial steps to prepare their refineries for the storm. ExxonMobil said its coastal refineries have initiated preliminary safety procedures but continue to operate normally.

ConocoPhillips said work on a fluid catalytic cracking unit at its 247,000 bpd Alliance refinery in Belle Chase, Louisiana was continuing. The unit was shut for unplanned work on July 28.

India's domestic oil product sales in July increased by 7.8% on the year to 10.7 million tons, with domestic diesel sales increasing by 10.3% on the year to 4.08 million tons. Diesel demand increased as it was used as a substitute for more costly fuel oil. Meanwhile, India's petrol sales increased by 6.3% on the year to 913,100 tons while naphtha sales increased by 20.8% on the year. India's crude oil imports increased 8.7% on the year to 11.85 million tons. Oil product imports however fell by 21.6% on the year to 1.52 million tons.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 792,000 barrels to 18.402 million barrels in the week ending August 27. Singapore's light distillate stocks built by 431,000 barrels to 10.507 million barrels while its middle distillate stocks fell by 373,000 barrels to 11.207 million barrels on the week.

China Aviation Oil Corp Ltd has purchased 328,000 tons of jet fuel for October via a tender.

South Korea's S-Oil Corp will keep its spot exports of gas oil and jet fuel steady at 300,000 tons next month as it plans to maintain its crude runs at the same levels.

Production News

Iraq's crude oil exports to Turkey flowed at a rate of 480,000 bpd on Thursday after exports were restarted on Wednesday. A vessel was due to complete loading 1 million barrels of oil at Ceyhan for Italy's Eni on Thursday while another ship was waiting to load 600,000 barrels for Italy's IPLM. Total Iraqi crude in storage stood at about 200,000 barrels on Thursday.

An Iraqi Oil Ministry spokesman said Iraq's Al Ahdan oil field, which was awarded to China National Petroleum Corp, is expected to start first crude oil production in 2009. It is expected to produce up to 25,000 bpd once the first stage has been completed after a year and increase to 125,000 bpd in later stages.

Mexico's Pemex said the country's oil production was below its target for the second consecutive month due to operational snags. It however hopes to increase its production above the 2.8 million bpd in September unless storms cause temporary outages. Pemex is closely monitoring Tropical Storm Gustav. It said it still estimates its average 2008 production at 2.8 million bpd.

Russia's OAO Lukoil said it has started the first production line at its Yuzhno Khylochuy field located in the north of the Timan Pechora oil and gas province. It expects production from the field to reach more than 150,000 bpd in 2009. Meanwhile, Lukoil's President Vagit Alekperov said that recently passed tax incentives for the oil industry were insufficient and called on the government to adopt further tax cuts to stimulate investment in the country's oil industry. The new measures, which will come into effect next year, increase the tax free threshold for mineral extraction from \$9/barrel to \$15/barrel and introduce royalty tax holidays for newly developed offshore oil fields.

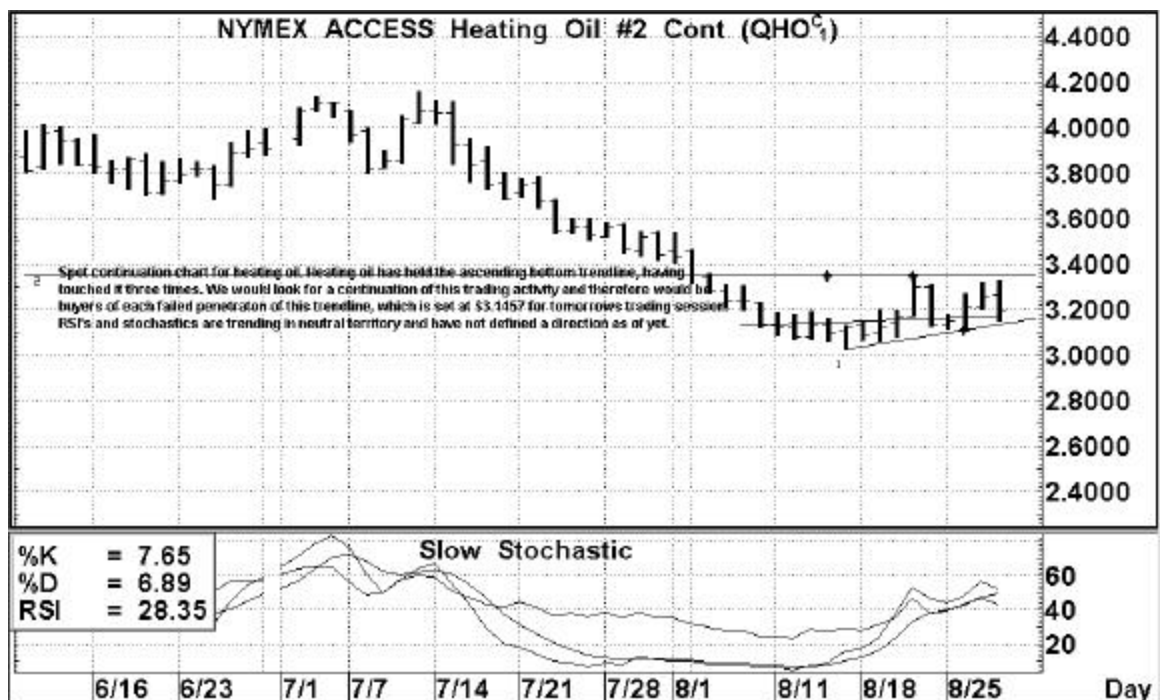
China's Ningxia Development and Reform Commission said the country has ordered the suspension of all but two coal-to-oil projects in the country.

OPEC's news agency reported that OPEC's basket of crudes increased to \$111.79/barrel on Wednesday from \$110.51/barrel on Tuesday.

Market Commentary

Energy prices bounced up and down today, reacting to fears of damage that could be done by Tropical Storm Gustav should it reach the Gulf of Mexico and then the quelling of these fears as the IEA said it would be willing to release storage, should need be. Crude oil traded just over \$2.00 higher in early trading, only to trade \$4.00 lower on the day. The shape of the forward curve has taken on a bearish appearance, as the front end pulled further away from the deferred. Today's range for October08 crude oil overshadowed that of yesterday, settling lower on the day. This type of trading session typically brings with it a lower trading market the next session. Slow stochastics appear to be setting up to cross to the downside, with %K moving lower and %D moving higher. RSI's have also moved lower today. Based on the weekly spot continuation chart, crude oil is experiencing an inside trading session, with

technical indicators pointing to the downside. There is a trendline on this chart set at \$116.52. Last week the October crude oil penetrated this trendline, however it failed to settle above it. So far this week, prices have also



penetrated this trendline, but settled below it today. From a technical standpoint, Friday's settlement will help determine the direction for the market beginning next week. All of this may mean nothing at all, should Tropical Storm Gustav reach hurricane status and reek havoc in the Gulf region. Despite the fact that the IEA has said that it would release crude from storage, products should come up short for a period of time. We would look for cracks to widen due to the shutting in of refining capacity. Basis the spot continuation chart for gasoline, there is support set up at \$2.9645. Any failed attempt to penetrate this level would present a buying opportunity and any penetration a selling opportunity. Heating oil is developing a sideways trading formation and bouncing off of an ascending trendline. Technical indicators are trending in neutral territory and are not indicative of a direction either way. We would look for this market to continue to bounce off of this trendline, which is set tomorrow at \$3.1457. Open interest for crude oil is 1,189,878 up 2,255, October 08 302,647 up 6,106, November 08 104,925, down 5,341 and December 08 181,473 up 2,106. Total open interest for heating oil is 216,676 down 4,325, September 08, 9,060 down 2,280 and October 08 56,155 up 1,553. Total open interest for gasoline is, 215,607 down 4,437, September 08, 14,505 down 4,828 and October 08 80,305 down 378.

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
3.0540, 3.0229, 294.50	3.4574.3798,3.6135,3.8215, 4.0210,
Gasoline support	Gasoline resistance
2.7014,2.6435, 2.5920	3.1050, 3.1460, 3.1840, 3.2620