



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 2, 2008

The Minerals Management Service reported that virtually all of the crude and natural gas production in the US Gulf of Mexico was shut in for a second consecutive day following the passage of Hurricane Gustav. A total of 1.3 million bpd of

crude production has been shut in. It also reported that 95.4% or 7.062 bcf/d of natural gas production has been shut in. The MMS reported that personnel have been evacuated from 626 production platforms or about 87.3% of the 717 manned platforms in the Gulf.

US President George W. Bush said although the assessment of damage from Hurricane Gustav on the country's energy infrastructure in the Gulf of Mexico is ongoing, there are encouraging signs. He said Gustav's track through the Gulf of Mexico does not appear to have caused extensive damage like Hurricane Katrina.

The US DOE said Citgo has requested a loan of 250,000 bpd of crude from the US SPR for its Lake Charles, Louisiana refinery in the wake of Hurricane Gustav. The request followed the closure of the Calcasieu Ship Channel which services the Lake Charles area. The ship channel was reopened on Tuesday but was restricted to ships with a draft of 16 feet or less. On Monday, Louisiana's Governor Bobby Jindal said ExxonMobil Corp would ask the DOE on Tuesday for oil from SPR while Shell Oil was expected to make a similar request. However Shell said it was reviewing its need for crude oil and has not made a request for crude from the SPR.

September Calendar Averages

CL – 109.71
HO – 307.36
RB – 273.37

The IEA said it is unlikely that there will be a need to lead any coordinated effort among its members to release oil inventories to make up any supply shortfall caused by Hurricane Gustav.

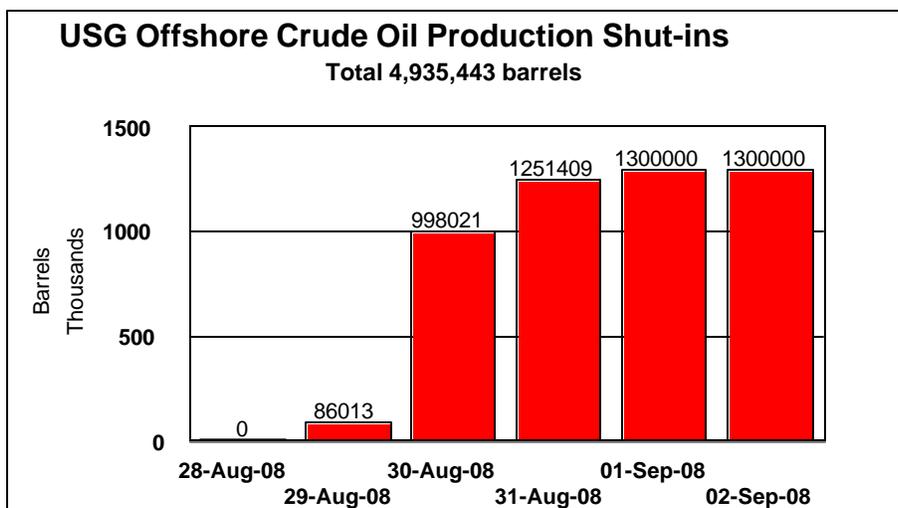
Market Watch

The US EPA said it would waive certain quality standards for gasoline in Texas to ensure adequate supply in the wake of Hurricane Gustav. The move came after the EPA granted a similar waiver to Louisiana last week. It issued a waiver for RFG and RVP requirements that will remain in effect through September 10.

Energy investor T. Boone Pickens said he does not expect oil prices to fall below \$100/barrel. He also said he expects OPEC will cut production at its next meeting on September 9.

Colorado State University forecast four hurricanes in September, with two becoming major storms.

US Coast Guard overflights in the Gulf of Mexico following Hurricane Gustav found no significant damage to platforms, rigs and no oil spills. A US emergency official however said it may take two weeks for Gulf rigs to reach full output. The API also stated that sensors on offshore oil rigs and platforms indicate that there is no major hurricane damage to the infrastructure.



The EIA reported that the US average retail price of diesel fell by 2.4 cents/gallon to \$4.121/gallon in the week ending September 1. The EIA also reported that the US average retail price of gasoline fell 0.5 cents to \$3.68/gallon on the week.

Iran's Oil Minister Gholamhossein Nozari said OPEC must discuss the oversupply of crude in the market during its meeting on September 9. He said OPEC may need to cut oil production by as much as 1.5 million bpd or nearly 5% to balance the world oil market by early next year. He said OPEC should consider a two step plan to cut supplies at its meeting. He said OPEC members producing above their quota will be asked to cut excess output, which would bring output down about 500,000-700,000 bpd. The second step would be for a formal output cut, possibly at OPEC's meeting in December.

An OPEC source said oil producers should cooperate in the face of a slowdown in the world economy to avoid any repeat of a crash in crude prices at the end of 1998. The senior OPEC source warned of a possible worsening of the current world economic slump and said studies showed that demand for crude oil could fall significantly in 2009.

Russia's Prime Minister Vladimir Putin said Russia will react to a build up of North American Treaty Organization naval forces in the Black Sea. Separately, the White House said the US has not made a decision yet on imposing sanctions against Russia.

The Russian company building Iran's first nuclear power plant, Bushehr, has renewed a commitment to complete the project.

Refinery News

The US DOE said thirteen oil refineries along the US Gulf Coast with a combined refining capacity of 2.484 million bpd of oil were shut due to Hurricane Gustav, down from the peak 2.716 million bpd in oil refining capacity that was offline. Another 10 refineries with a combined capacity of 3.099 million bpd are operating at reduced rates.

Entergy Corp said five of 12 refineries in Louisiana are without power. It said four refineries continue to receive power from the electric grid and operate while three refineries have power but remain shut for other reasons. It declined to name which refineries are without power.

ExxonMobil Corp said it is still evaluating all options to ensure the restart of potentially impacted Gulf Coast refineries, which includes buying crude from the US SPR. It said it still has not restarted its 503,000 bpd Baton Rouge, Louisiana refinery which was shut on Monday due to Hurricane Gustav. It added that no time has been set for its restart. ExxonMobil also did not give a restart estimate for its 190,000 bpd Chalmette refinery.

Total SA said its 232,000 bpd refinery in Port Arthur, Texas has resumed normal operations. The refinery had reduced its production after authorities ordered evacuations due to the threat of Hurricane Gustav.

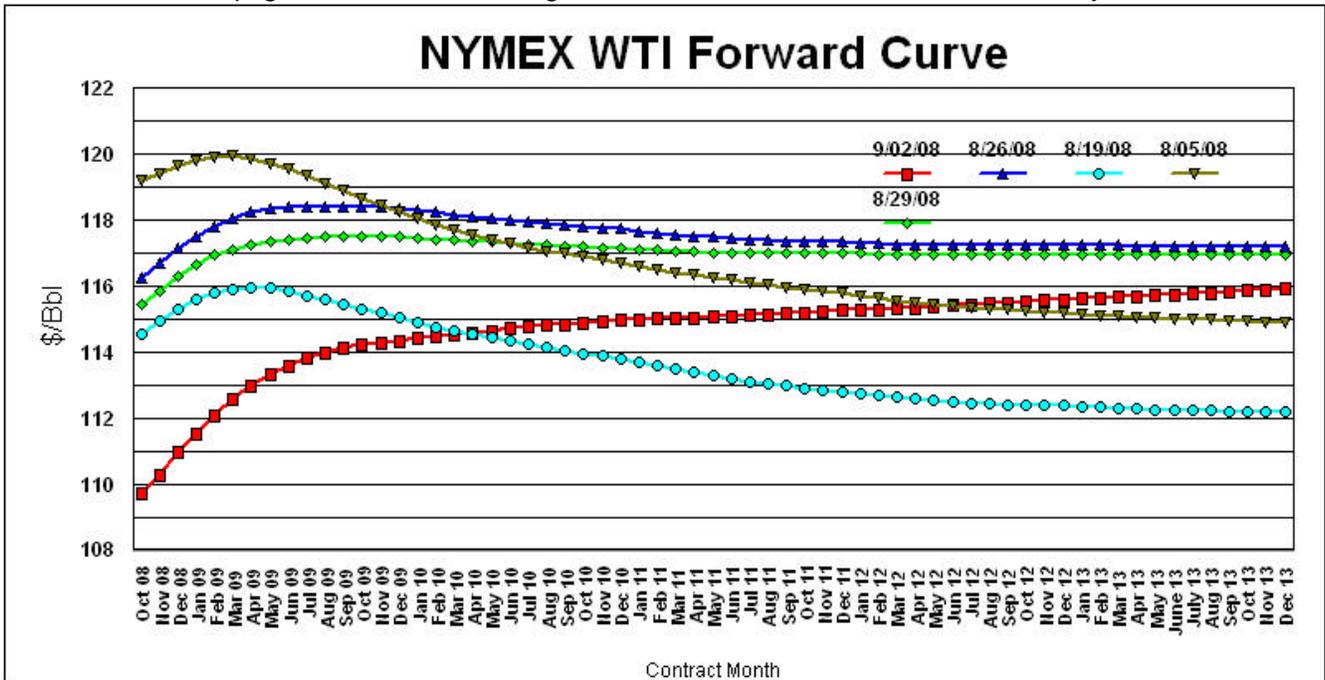
Marathon Corp said there have been no major reports of damage to its 245,000 bpd Garyville, Louisiana refinery. It said there was no timetable set for the refinery's restart but added that its personnel would begin returning on Tuesday.

Chevron Corp's 330,000 bpd Pascagoula, Mississippi refinery continued to operate at reduced rates due to the closure of the Houston Ship Channel. It is expected to resume normal operations after the channel reopens.

ConocoPhillips said there is no apparent damage to its 280,000 bpd Lake Charles, Louisiana refinery. It said all its refining, exploration and production activities in Louisiana and offshore remain shut. It also said its 247,000 bpd Alliance refinery sustained minor damage and will perform a complete assessment of the refinery later on Tuesday.

Valero Energy Corp said an initial check of its 250,000 bpd St. Charles, Louisiana refinery showed no significant structural damage from Hurricane Gustav. The refinery has electrical power but the state of the surrounding power grid was uncertain. There is no timetable for the refinery's restart. Its 295,000 bpd Port Arthur, Texas refinery, its 245,000 bpd Texas City, Texas refinery and 130,000 bpd Houston refinery remain at reduced rates.

Meanwhile, Motiva Enterprises LLC closed a 236,000 bpd refinery in St. Charles Parish and its 235,000 bpd Convent refinery. Royal Dutch Shell said there was no major damage to Motiva's refineries. Backup generators were being delivered to the Motiva Convent refinery. It said it could



begin restarting some processing units at its 220,000 bpd refinery in Norco, Louisiana in the next couple of days and hopes to increase rates at its 290,000 bpd refinery in Port Arthur, Texas refinery. Royal Dutch Shell said an inspection of its terminal in Convent, Louisiana indicated that some minor damage had been incurred. The terminal is expected to reopen as soon as possible. Separately, Shell also reported that its Capline crude oil pipeline system and its Houma-to-Houston crude oil pipeline system remained shut in due to Hurricane Gustav.

Murphy Oil Corp's 120,000 bpd Meraux refinery and Alon USA Energy's 80,000 bpd refinery in Krotz Springs, Louisiana was also shut due to Hurricane Gustav. Murphy Oil said a crew is inspecting its Meraux refinery but has so far not received any reports of major damage following Hurricane Gustav. It has no estimate for the refinery's restart yet.

The Houston Ship Channel has reopened and is accepting deliveries on Tuesday. The US Coast Guard said the channel had 48 ships waiting to unload after it was closed on Sunday night in preparation for Hurricane Gustav. Meanwhile, the Sabine Ship Channel has reopened with restrictions on vessels with a draft of 36 feet or more. Separately, the US Coast Guard said the Pascagoula Port remains closed following its closure due to Hurricane Gustav.

A US Coast Guard flight found not visible damage at the Louisiana Offshore Oil Port in the wake of Hurricane Gustav. LOOP officials said they are optimistic that the LOOP can resume operations fairly quickly.

Colonial Pipeline said it cut shipments due to several refinery shutdowns along the Gulf Coast amid Hurricane Gustav.

Centennial Pipeline, which carries more than 200,000 bpd of refined fuels from Texas to Illinois was shut for scheduled work. Marathon Petroleum Corp said the pipeline was not shut due to Hurricane Gustav.

Credit Suisse reported that US refining margins increased despite stronger crude prices last week. Gulf Coast margins increased by 43% or \$4.35/barrel to \$14.47 while margins on the West Coast increased by \$3.99 or 29% to \$17.74/barrel. Margins in the Northeast increased by \$2.28/barrel or 22.7% to \$12.30/barrel while margins in the Midwest increased by \$1.39/barrel or 9.7% to \$15.78/barrel. However margins in the Rockies region fell by \$1.39 or 4.7% to \$27.81/barrel.

Norway's StatoilHydro started a two month planned maintenance shutdown of its Mongstad refinery and oil terminal on Tuesday. The shutdown is scheduled to last 16 days.

China National Petroleum Corp and Sinopec held 33.8 million barrels of diesel stocks at the end of July, up from 18.6 million barrels reported last year. At the end of June, diesel stocks were 26.3 million barrels. Meanwhile gasoline stocks in late July were up 41% on the year at 24.3 million barrels.

Production News

ConocoPhillips said its offshore Magnolia platform sustained only minor damage. However it does not have an estimate for its restart.

Transocean said it had no reports of damage to or movement by three moored semi submersible drilling rigs in the Gulf of Mexico.

A flyover of Noble Corp's oil and gas drilling rigs in the Gulf of Mexico showed no apparent damage from Hurricane Gustav. A submersible rig drifted away from its original position during the storm however its rig fleet was otherwise undamaged.

Apache Corp said all of its Louisiana onshore production is shut in and only a few platforms in the Gulf of Mexico are producing minimal volumes of oil and gas.

There were no immediate reports of problems at Venezuela's oil facilities due to a blackout that cut electricity in sections of the country, including the oil producing province of Zulia on Monday.

According to Dow Jones, OPEC's oil production in August fell by 56,000 bpd on the month to 32.57 million bpd. Output by the 12 members bound by production quotas increased by 94,000 bpd or 0.31% to 30.27 million bpd. Saudi Arabia cut its output by 50,000 bpd to 9.55 million bpd in August. Meanwhile Iraq cut its production by 150,000 bpd to 2.3 million bpd in August.

Nigeria's crude oil exports are expected to total 2 million bpd in October, slightly lower than the 2.01 million bpd scheduled for September.

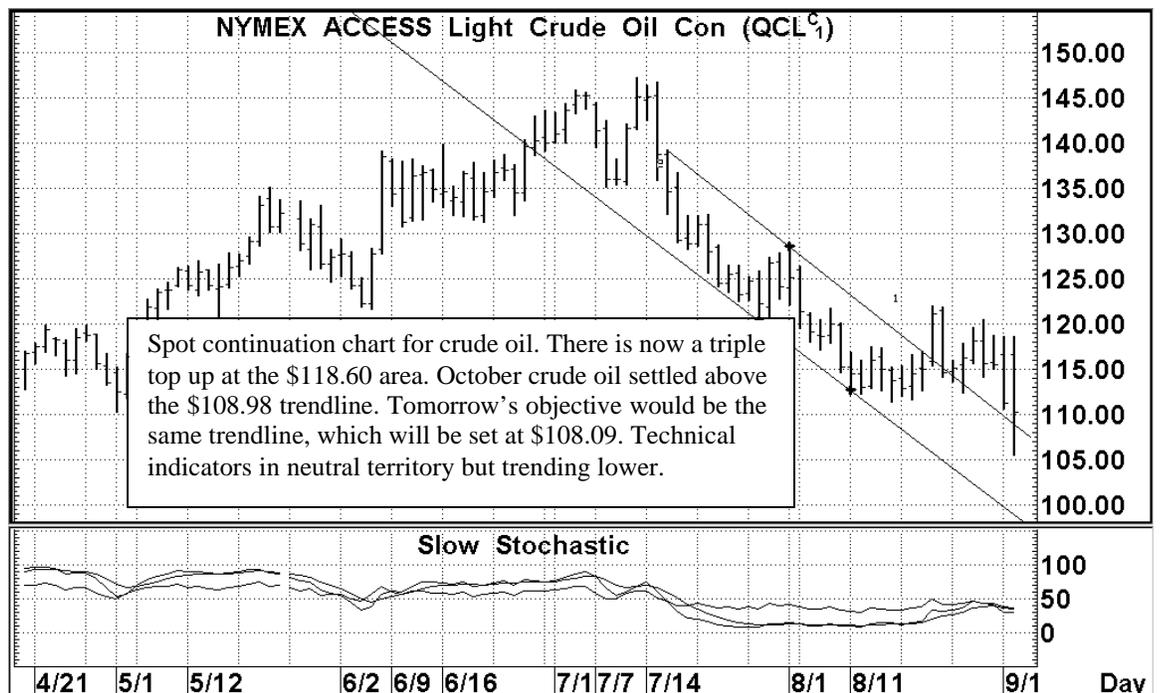
Russia's Ministry of Industry and Energy reported that the country produced an average of 9.82 million bpd of crude oil and condensate in August, up 0.4% on the month and down 0.9% on the year. Russia's crude oil exports fell to 3.96 million bpd from 4.2 million bpd in July.

Suncor Energy Inc said it expects a processing unit at one of its oil sands upgrading plants to be offline for up to 90 days. It said the shutdown of a hydrogen plant, which is connected to Upgrader 2, will cut volumes of light, low-sulfur crude. Suncor said its outlook for annual average production of 240,000-250,000 bpd is not currently expected to change.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$110.32/barrel on Monday, down from Friday's \$111.23/barrel.

**Market
Commentary**

A domino effect trickled through the commodities markets, beginning with the crude oil market. With the impact of Hurricane Gustav being minimal to oil structures in the Gulf of Mexico, crude oil tumbled \$10.00 on the day, reaching a five month



low. So far, only Citgo has requested the release crude oil from the Strategic Petroleum Reserve. A statement on the IEA's website stated that the agency stood ready to release oil from emergency stocks to compensate for any "significant" supply disruption caused by the hurricane. Helping to put pressure on prices was a strong dollar, which helped to abate economic concerns. The shape of the forward curve has taken on a bearish appearance, with the front end of the curve pulling further away from the deferred. Although the October crude oil traded below the upper trendline of the descending channel on a spot continuation chart, it did not settle below it. This may be attributed to short covering into the close of the floor-traded session. We would look for further down side movement and for prices to settle within the \$108.09 - \$98.18 descending channel. Once again the front month crude oil spread has traded back within the gravitational range of -\$.61 and - \$.47. We would look to buy and sell this spread between this range, buying the October, selling the November on failed attempts to weaken below -.61 and selling the October, buying the November on failed attempts to strengthen above the -.41 level. Both gasoline and heating oil followed crude oil lower today. The EPA granted a waiver today to the state of Texas in regards to the Clean Air Act. The waiver permitted the sale of conventional gasoline in some areas of the state. This was done in order to allow greater flexibility in fuel distribution and support adequate supply. There is now a double top in gasoline at \$2.9600. Slow stochastics are indicating further downside movement in prices and based on this we would look for a test of the channel bottom, which comes in tomorrow set at \$2.7760 and \$2.5903. Heating oil prices are now at their lowest level since April of this year. Technical indicators are still in neutral territory but are trending lower. Although we would look for heating oil to follow the rest of the complex lower, we would do so at a slower pace. The objective right now is the \$2.8545 low of April. Open interest for crude oil is 1,182,917 down 969, October 08 285,551 down 3,661, November 08 114,533, up 4,227 and December 08 182,316 down 2,168. Total open interest for heating oil is 210,717 down 4,305, October 08 56,841 down 633 and November 08 25,666, up 161. Total open interest for gasoline is, 204,635 down 3,813, October 08 77,704 down 346 and November 08 33,295 up 1,547.

Crude Support	Crude Resistance
105.18, 99.55, 85.40	118.60, 128.60, 132.05, 139.30, 144.00, 147.90,
Heat support	Heat resistance
294.50	3.4574,3798,3.6135,3.8215, 4.0210,
Gasoline support	Gasoline resistance
2.5920, 2.4655, 2.4550, 2.3385	2.9600, 3.1050, 3.1460, 3.1840, 3.2620