



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 3, 2008

The MMS reported that a total of 1.246 million bpd of crude oil production remained shut in as of Wednesday morning. It said about 95.8% of the oil production in the Gulf has been shut in.

The EIA said the 13 refineries shutdown by Hurricane Gustav represent 1 million bpd in lost gasoline production and 700,000 bpd in lost distillate production. The closed refineries have a combined total oil refining capacity of 2.484 million bpd. It said another ten refineries with a combined capacity of 3.099 million bpd are still operating at

Market Watch

The closure of Ospraie Management LLC's flagship hedge fund is likely to be the first of several such failures, amid a fall in commodities and a rally in financial stocks. Further problems could emerge if the current setback turns into a longer downturn in commodities. Ospraie said its fund fell 38.1% from the start of the year to August 21. It said it would take up to three years to return the most illiquid 20% of its assets to investors. According to sources, Ospraie took short positions on commodities futures and long positions on resource equities. Its holdings in natural gas related companies made up almost a fifth of its investments at the end of June. Its troubles started when the gap between the equities and futures positions started to narrow. Usually equities and their underlying commodities take some months to come broadly in line however commodity prices moved right after energy, agriculture and metals stocks fell.

SemGroup LP owes Forties more than \$300 million, mostly in the form of interest rate and commodity swaps. On a net basis, Forties said it is owed over \$224 million under an interest rate swap and a commodity swap transactions. It is also owed about \$80 million under SemGroup's working capital and revolving credit facilities.

API's President Red Caveney said the US Congress is unlikely to pass energy legislation this year to bring down high oil prices. With the Senate and House of Representatives set to return on Monday from a five week break, lawmakers are expected to resume where they left off.

The head of commodities research for Credit Suisse, Tobias Merath said the sharp decline in oil prices is likely to end soon as OPEC is seen cutting production once prices fall below \$100/barrel. Production curbs should keep prices between \$100 and \$110 for the rest of the year. He said weaker demand from the US and OECD countries in recent months has offset higher demand from emerging markets, keeping overall consumption flat.

BNP Paribas has cut its 2008 price forecast by \$10.80 to \$113.10/barrel for WTI. It also cut its forecast for Brent crude by \$10.20 to \$112.20/barrel for 2008.

Platts is conducting a review of one of its North Sea pricing mechanisms in response to the sharp sell off in crude oil in recent weeks.

CME Group announced that August 2008 volume averaged 11 million contracts/day. Total monthly volume totaled 231 million contracts, 80% of which was traded electronically. Total NYMEX volume averaged 1.7 million contracts for August, up 20% on the year.

China Ferroalloys Industry Association said China may increase retail electricity prices by 4.5% or 0.025 yuan/kilowatt-hour to help narrow losses at power producers and ease a nationwide shortage. Higher tariffs would help electricity generators cope with high coal costs, encouraging them to increase their output.

September Calendar Averages

CL – 109.53
HO – 307.62
RB – 275.03

reduced rates. The EIA stated that temporary, local problems with petroleum product supplies and potential higher retail fuel prices are possible as Gulf Coast refineries and pipelines begin to restart. However it said as long as companies report no long term damage, crude oil prices are not likely to spike significantly higher.

Meanwhile, the US DOE said it would grant Citgo Petroleum Corp's request for 250,000 barrels of crude oil from the SPR in the aftermath of Hurricane Gustav. Citgo is the only company so far to request oil from the SPR for its refinery in Lake Charles, Louisiana. The refinery's crude supply was disrupted when the Calacasiu Ship Channel was closed. The DOE has not received any further requests from refiners. The DOE's Big Hill, Texas site with a storage capacity of 170 million barrels and a drawdown capacity of 1.1 million bpd, its West Hackberry, Louisiana site with 227 million barrels of storage capacity and 1.3 million bpd of drawdown capacity and its Bayou Choctaw site with a capacity of 76 million barrels and a drawdown capacity of 515,000 bpd were fully restaffed on Wednesday. It said its Bayou Choctaw, Louisiana site was shut due to a lack of power. However it said it had emergency generators.

Baker Hughes Inc Chief Executive Chad Deaton said he was concerned about the impact Hurricane Gustav would have on third quarter results of the oilfield-services provider. He said damage to oil refineries caused by Hurricane Gustav could be as bad as Hurricane Katrina in 2005. Baker Hughes evacuated 43 facilities along the Gulf Coast ahead of Gustav and has only been able to return to about 20 facilities.

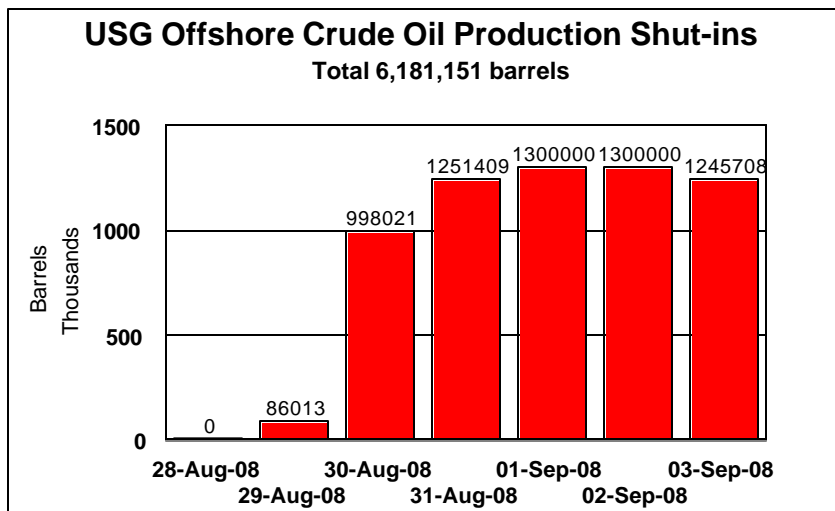
Ecuador's Oil Minister Galo Chiriboga said the country will propose OPEC keep current output levels unchanged at OPEC's next meeting on September 9. He said current world oil prices around \$100-\$110/barrel are reasonable. He later stated that Venezuela will propose that OPEC cut world oil production.

Brazil's Oil Minister Edison Lobao said the country's new position as an oil power is internationally recognized and has been invited to join Iran in OPEC. He said Iran invited the country to join OPEC last month.

According to MasterCard Advisors, US gasoline demand during the summer driving season was 3.9% below the same period last year due to higher prices. US gasoline demand in the week ending August 29 averaged 9.579 million bpd, down 1.6% on the year. The four week moving average for gasoline demand was 4.1% below the same period last year. The average gasoline price stood at \$3.66/gallon, up 33% on the year.

NATO insisted that there was no naval buildup by the military alliance in the Black Sea, saying four warships were part of long-planned exercises. The naval exercises are expected to end by mid-September. Russia's Prime Minister Vladimir Putin warned that Russia would react to a buildup of NATO naval forces.

Georgia's parliament voted to lift a state of war imposed last month



during its conflict with Russia. Moscow withdrew the majority of its forces from Georgia under the ceasefire agreement, however thousands of Russian troops remain deployed on its territory. Meanwhile Russia's President Dmitry Medvedev is expected to seek support for Russia's intervention in Georgia when leaders of seven former Soviet states, including Armenia, Belarus, Kyrgyzstan, Kazakhstan, Tajikistan and Uzbekistan meet on Friday.

Refinery News

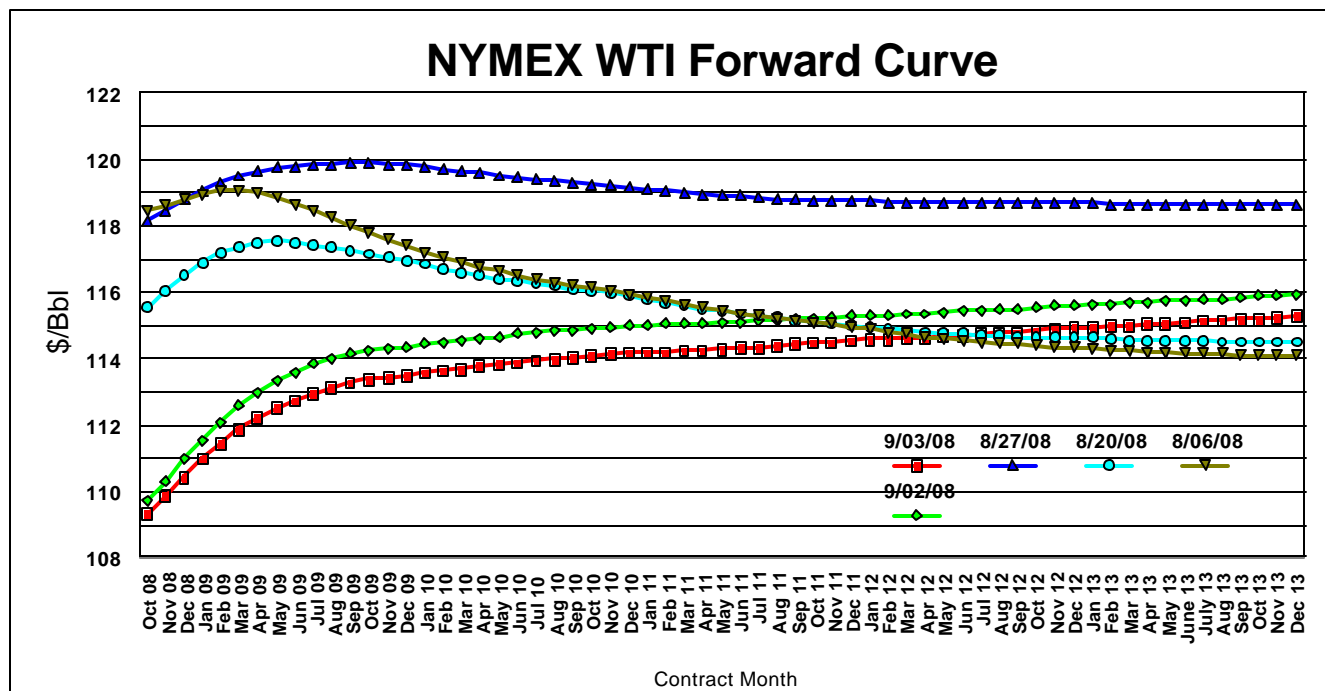
The President of the API, Red Cavaney said the restart of oil refineries shut due to Hurricane Gustav will take a couple of days as companies wait for utilities to provide electricity and for the return of workers.

Entergy Corp said that five out of twelve refineries in Louisiana had no electricity due to extensive damage to its high voltage grid due to Hurricane Gustav. It said it was able to restore two large transmission lines on Tuesday evening, allowing it to reconnect New Orleans to the statewide power grid. One of the refineries impacted is Murphy Oil Corp's refinery in Meraux, Louisiana, which is undamaged but still remained shut due to a lack of reliable power. The return of the refineries will be constrained by the lack of power.

Shell said it found no damage to major units at its 235,000 bpd joint venture Motiva refinery in Convent, Louisiana. However it said its restart is dependent on the restoration of reliable power supplies. It added that it could begin restarting some units at its 220,000 bpd refinery in Norco, Louisiana in the next couple of days.

Valero Energy Corp said it is still working on a restart plan for its 250,000 bpd St. Charles, Louisiana refinery after it was shut ahead of Hurricane Gustav. It said it suffered no significant structural damage. Meanwhile its 130,000 bpd Houston, 245,000 bpd Texas City and 295,000 bpd Port Arthur, Texas refineries in Texas are still operating at reduced rates in the wake of Gustav. Separately, Valero Energy Corp's 54,000 bpd fluid catalytic cracking unit at its Wilmington, California refinery was shut due to a snag on Tuesday. Repairs are underway but there is no estimate as to when the unit may resume operations.

ExxonMobil's 562,500 bpd Baytown and 348,500 bpd Beaumont, Texas refineries resumed normal



operations after rates were cut due to Hurricane Gustav. ExxonMobil also said it is still assessing damage at its 192,760 bpd Chalmette refinery and its 503,000 bpd Baton Rouge, Louisiana refinery and added that it has no restart estimate yet.

Chevron Corp's 330,000 bpd Pascagoula, Mississippi refinery is still operating at reduced rates. It also said that flyovers suggest no significant damage at its Empire and Fourchon, Louisiana junctions for offshore pipelines.

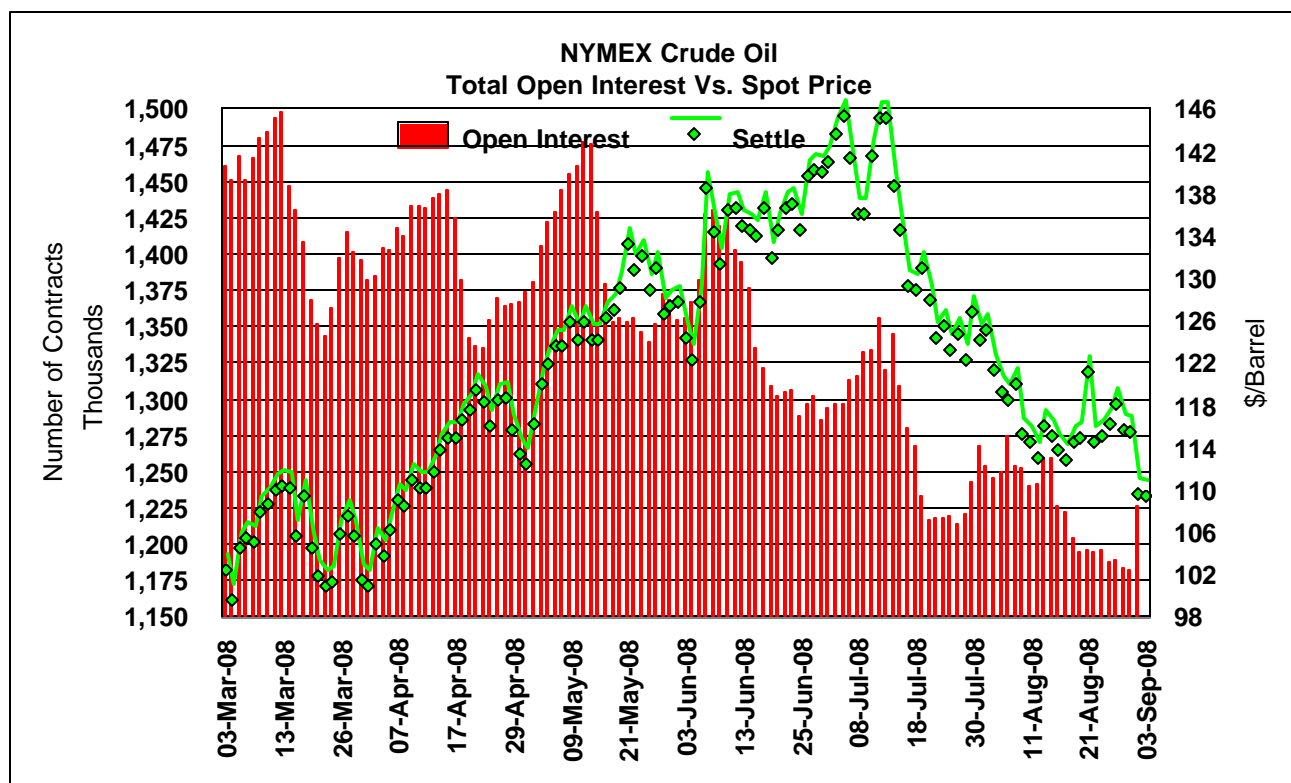
Operations at ConocoPhillips' 306,000 bpd Wood River, Illinois refinery are returning to normal following a brief power outage earlier Wednesday. It said the power outage did not affect all units at the refinery. Separately, it said it was restarting its 280,000 bpd Lake Charles, Louisiana refinery, a process that could take 10-14 days. It also said its 195,000 bpd Alliance refinery in Belle Chase, Louisiana remained shut and without power.

Colonial Pipeline restarted its distillate pipeline from Texas to North Carolina following a brief shutdown on Tuesday. However both its main distillate and gasoline lines remain at reduced rates due to hurricane related refinery outages along the Gulf Coast. It said it will be able to return to normal rates after reliable power is restored and shut refineries resume operations.

The Louisiana Offshore Oil Port expects to restart its operations in the next couple of days after completing its inspections. It was shutdown on August 31 ahead of Hurricane Gustav.

The Lake Charles Pilots Association said at least one oil tanker has passed through the Calcasieu Channel that serves the Lake Charles, Louisiana refineries. The channel is open to inland traffic and vessels with up to 33 foot drafts. Oil tankers with deeper drafts cannot transit the waterway.

The Alabama State Port Authority said Port of Mobil facilities in Alabama did not sustain any damage due to Hurricane Gustav. The port is open to shallow draft vessels of 15 feet or less and should open allow 35 foot draft vessels and 45 foot draft vessels soon. Meanwhile, the US Coast Guard on



Tuesday opened the Gulf Intracoastal Waterway. The Coast Guard said the port of Gulfport and Pascagoula, Mississippi remain closed to all traffic.

A fire that started on Wednesday at Kuwait's 460,000 bpd Mina al-Ahmadi refinery has been brought under control and has not affected operations. Kuwait National Petroleum Co said the refinery is fully operational and there is no impact on exports or output. Pipelines close to the oil storage tanks near where the fire started has sustained limited damage. The fire started on a crane performing maintenance at the refinery.

South Korea's SK Energy will keep crude runs at an average of 750,000 bpd for the rest of the year despite weakening margins.

China's top refineries are expected to cut September crude throughput after record fuel imports ahead of the Olympics increased domestic inventories to unusually high levels. Diesel inventories held by PetroChina and Sinopec in late July were nearly double levels a year earlier and gasoline stocks were also up over 40% from a year earlier. They are expected to halt diesel imports this month. China's twelve major refineries will process 2.41 million bpd of crude in September, down from 2.49 million bpd in August.

China is scheduled to import 502,500 tons of fuel oil so far in September, compared with 934,241 tons shipped in August.

China National Petroleum Corp said PetroChina will need to import more Venezuelan crude to feed its upgraded Liaoyang refinery in northern China. The 180,740 bpd refinery has finished upgrading a vacuum distillation unit that will be able to process 70,290 bpd of Venezuelan high sulfur crude.

The Petroleum Association of Japan reported that the country's gas oil inventories fell by 6.5% in the week ending August 30 from a 12 year high the previous week as exports nearly doubled. Inventories of gas oil fell to 2.32 million kiloliters or 14.6 million barrels from 2.48 million kl or 15.6 million barrels the previous week. It also reported that crude stocks built by 750,000 barrels on the week but fell by 9.35 million barrels on the year to 98.15 million barrels while gasoline stocks built by 1.11 million barrels on the week and by 1.73 million barrels on the year to 13.77 million barrels. It also reported that crude runs fell by 200,000 bpd on the week and by 210,000 bpd on the year to 3.89 million bpd.

Japan's Oil Information Center stated that the country's average retail price of gasoline fell below 180 yen/liter for the first time since June. The average price of regular gasoline in Japan was 176.2 yen/liter or \$6.13/gallon on Monday, down 5.5 yen from the previous week.

Morgan Stanley has booked 65,000 tons of jet fuel from India to Europe for lifting this month.

Production News

BP found no visual evidence of damage to its offshore oil and gas platforms in the Gulf of Mexico after overflights of the operations. It plans to send crews to the platforms on Wednesday to conduct detailed inspections. It said it will begin the process of restarting production after assessing the platforms.

Shell Oil said it would complete its initial visual assessment of its offshore pipeline system by Wednesday as it gauges possible damage from Hurricane Gustav. It said it may reach full oil output this weekend at the earliest. It said its onshore pipeline system appear to have sustained little or no damage and the company was moving to restart its operations as quickly as possible.

ExxonMobil said it was flying workers back to its offshore oil platforms in the Gulf of Mexico after they were evacuated and shut ahead of Hurricane Gustav. It said that about 37,000 bpd of its liquids production and 600 mmcf/d of its natural gas production remained shut in.

Anadarko Petroleum Corp said it restarted production from its Nansen and Boomvang platforms in the Gulf of Mexico and expects to restart other facilities that were not impacted by Hurricane Gustav. It said production remained shut at its Constitution, Independence Hub, Marco Polo and Neptune facilities pending further inspections.

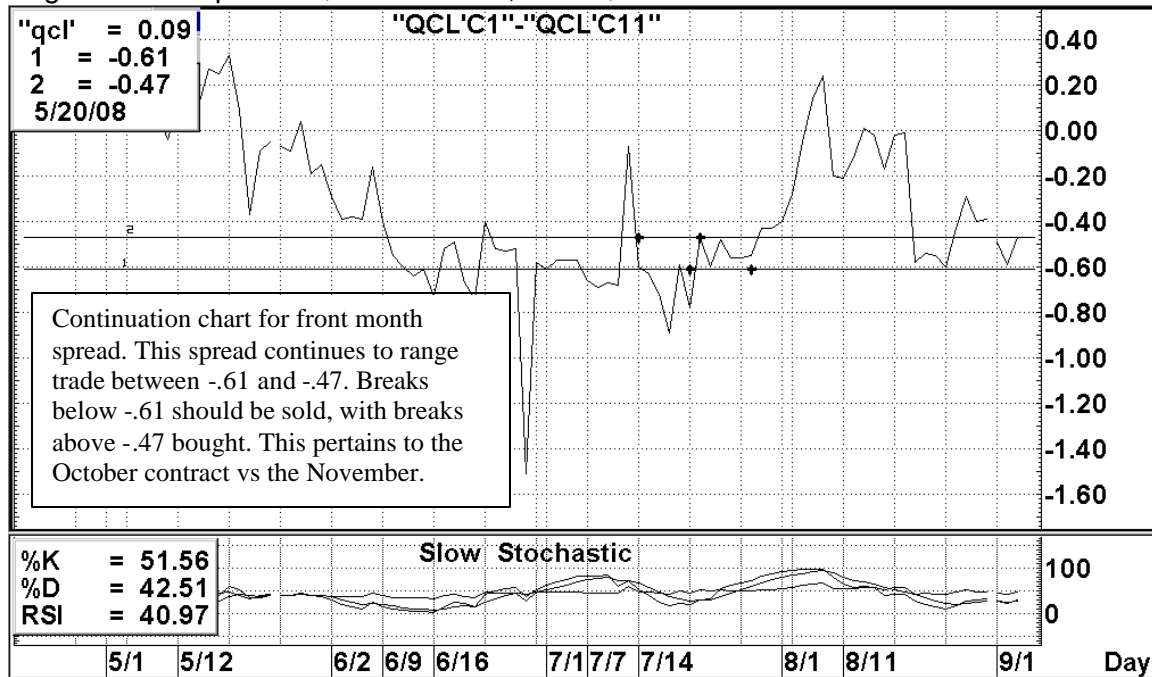
The UK's North Sea Judy oil and gas platform resumed normal operations on Tuesday night following a brief shutdown.

The UAE's offshore oil production has recovered after a power outage shut in about 600,000 bpd of its total 2.6 million bpd capacity for two days.

Saudi Arabia has started pumping oil from the 500,000 bpd Khursaniyah oilfield.

Saudi Arabia has cut the price of its Arab Extra Light crude grade bound for Asia by \$1.50 to the Oman/Dubai average plus \$2.30 while its Arab Light crude price was cut by 70 cents to the Oman/Dubai average. It however increased the price of its heavy crude grades bound for Asia in light of stronger fuel oil prices. Its Arab Medium grade was increased by 70 cents to the Oman/Dubai average minus \$2.25 and its Arab Heavy grade was increased by \$1.50 to the Oman/Dubai average minus \$4.60. Saudi Aramco also cut the price of its crude grades bound for the US. Its Arab Extra Light crude price was cut by \$1.75 to WTI minus \$3.10, its Arab Light crude was cut by \$1.40 to WTI minus \$5.05, its Arab Medium price was cut by \$1.20 to WTI minus \$7.90 while its Arab Heavy price was cut by 70 cents to WTI minus \$10.15. Meanwhile its Arab Super Light crude price was cut by \$0.30 to BWAVE minus \$1.75, while its Arab Light crude price was increased by 10 cents to BWAVE minus \$4.55, its Arab Medium crude price was increased by 40 cents to BWAVE minus \$7.20 and its Arab Heavy crude price was increased by 75 cents to BWAVE minus \$9.

Abu Dhabi National oil Co has cut the August retroactive selling price of its Murban crude. It set the August Murban price at \$117.50/barrel, down \$19.85 on the month.



ExxonMobil said oil production at its Sakhalin-1 project will decline less than expected this year and will continue falling in 2009. Exxon raised its Sakhalin-1 output

forecast to 9.2 million tons in 2008 or 184,251 bpd from the previously planned 7.9-8.2 million tons.

Iraq's Oil Minister Hussein al-Shahristani said Iraq is expected to earn about \$63 billion from a contract it signed with China's CNPC to develop the Al Ahdab oil field. The Iraqi cabinet on Tuesday approved the oil service contract with CNPC.

Spain's Repsol and Australia's Woodside Petroleum have signed deals to drill exploratory offshore wells off Liberia.

India's liquefied petroleum gas imports are expected to increase by 30% next year, much less than expected. LPG sales in India are expected to grow by more than 8% to around 13 million tons next year. Reliance is expected to supply 2.75 million tons of LPG next year, much higher than its earlier offer of 820,000 tons, reducing the country's imports to about 3.7 million tons compared with earlier estimates of 5 million tons.

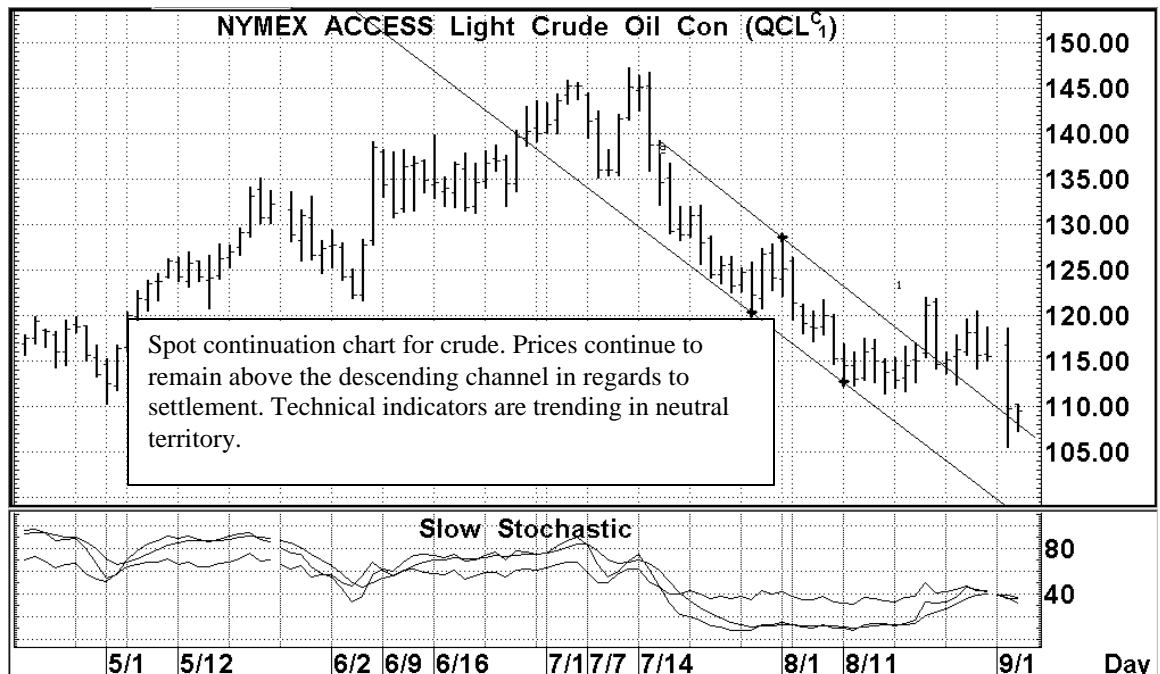
Croatia's Deputy Prime Minister Damir Polancec said the country is likely to confirm a location for liquefied natural gas terminal this month and start the project by the end of the year. The LNG project is aimed at lowering its dependency on Russian supplies. The terminal is expected to have an initial capacity of about 10 billion cubic meters of gas per year which may increase to 15 bcm.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$103.40/barrel on Tuesday, down from Monday's revised level of \$110.02/barrel.

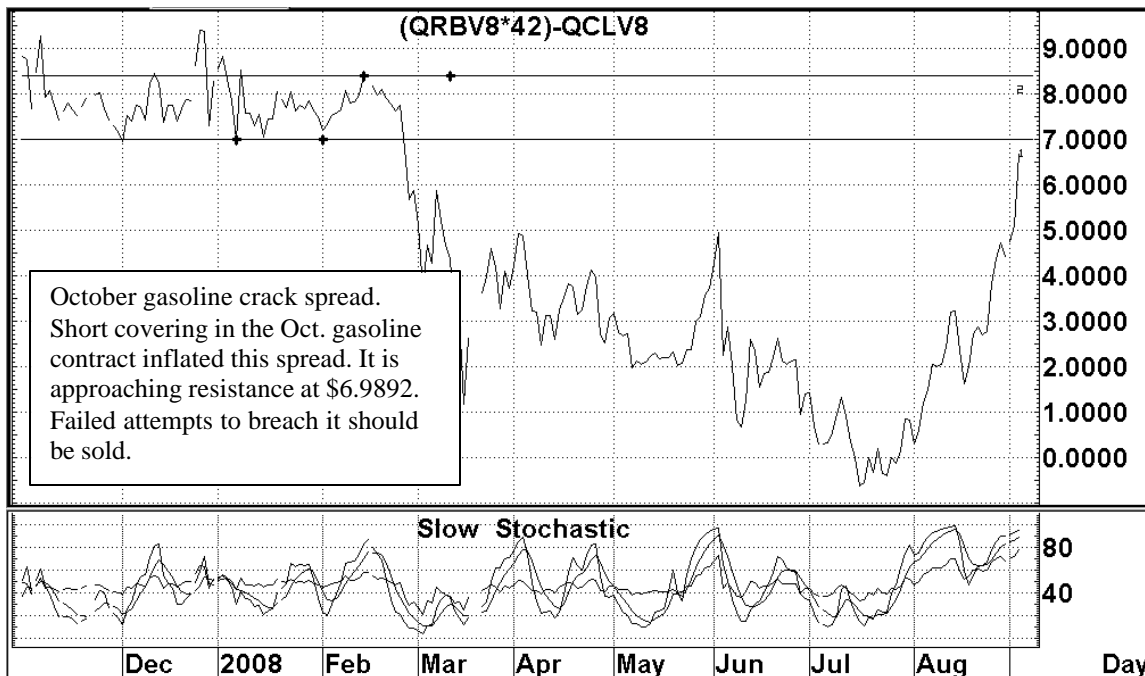
Market Commentary

With the damage from Hurricane Gustav being minimal and demand for crude oil slowing, crude oil prices fell for the second straight day. Although damage may be minimal, power is not yet up and running to all facilities. Production facilities in the Gulf will remain shut until there has been a full inspection of rigs and refineries to determine the level of damage, according to a report by the U.S. Department of Interior's Mineral Management Service agency. Citgo Petroleum Corp, a Venezuelan controlled company, is the only company so far to borrow from the Strategic Petroleum Reserves,

borrowing 250,000 barrels of crude oil. The October 08 crude oil contract has once again failed to settle within the descending channel on a spot continuation chart. Slow stochastics and RSI's are trending



in neutral territory. With tomorrow's release of the DOE/API numbers, this market should be able to pick a direction. The October/November spread continues to hold the -.61 to -.47 range. Once again we would look



to sell breaks below -.61, selling the October, buying the November and we would look to buy breaks above -.47, buying the October and selling the November. It appears that the marketplace is comfortable with the \$100.00 mark, as 12,000 \$100.00 calls traded hands yesterday. Gasoline appears to have resumed its downward movement, with the October contract unable to take out resistance set above at \$2.7760. With the U.S. summer driving season technically over, demand for this product should continue to fall. We would look for lower numbers and therefore would sell any failed attempts at resistance numbers. The October gasoline crack appears to be headed for resistance as it approaches the \$6.9462 to \$8.4112 previous congestion area. Pulling this crack spread higher was buying in the October/November spread, as shorts scrambled to cover their October positions. Technical indicators for this crack spread are in over bought territory. With the shorts in October winding up their positions, we would look for this spread to come off, therefore we would like to sell the October gasoline and buy the October crude against it. Heating oil settled slightly higher on the day, in a lightly traded session. This market has previously enjoyed unseasonable strength and although its time has come, we would look for heating oil to come under pressure due to slackening demand for diesel. Technical indicators although on the low side are trending in neutral territory. Prior to making a decision in regards to this market's direction, we would look to buy and sell at the listed support and resistance numbers.

Open interest for crude oil is 1,226,876 up 43,959 October 08 303,965 up 18,414, November 08 129,410, up 14,877 and December 08 187,317 up 5,001. Total open interest for heating oil is 212,968 up 2,251, October 08 56,535 down 301 and November 08 27,146, up 1,480. Total open interest for gasoline is, 207,391 up 2,756, October 08 79,116 up 1,412 and November 08 34,023 up 728.

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, 2.8350, 2.8050	3.1050, 3.2650, 3.4574. 3798, 3.6135, 3.8215
Gasoline support	Gasoline resistance
2.5920, 2.4655, 2.4550, 2.3385	2.8000, 2.9600, 3.1050, 3.1460, 3.1840, 3.2620