

ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR FEBRUARY 25, 2009

Venezuela's Finance Minister Ali Rodriguez, said Venezuela will propose a new OPEC output cut at its meeting on March 15th, if necessary, in an effort to support oil prices. He noted that Venezuela has several billion US dollars in different funds, including \$30 billion in international reserves to spare it any undue hardship from the current global financial crisis.

Iran said it carried out successful tests at its Bushehr nuclear power plant in a step towards its launch. Iranian officials said they conducted tests to inject fuel into rods, using lead instead of enriched uranium over the past 10

Market Watch

FCStone Group Inc said in a conference call that it expects the majority of its energy trading account to be liquidated by the end of fiscal year 2009. It has liquidated 50% of the energy trading account. It will review all levels of management responsibilities and make changes as required.

The US Interior Department canceled a previously announced research and development oil shale lease sale in Western states but added that it will offer a new round in the near future. It said it was withdrawing the previous administration's solicitation because it included several flaws, including locking in low royalty rates that would shortchange taxpayers.

Royal Dutch Shell said reducing taxes on Canadian oil shale operations could stimulate growth in the industry. Several oil firms have delayed their Canadian oil sand expansion plans in light of lower oil prices, higher operational costs and increased taxes on production.

The US CFTC has contacted US Oil Fund LP and two futures exchanges about their positions in crude. The contact was made in line with CFTC procedures for monitoring large positions. As of Tuesday, US Oil Fund had 60,778 contracts for light, sweet crude on the NYMEX; 4,000 lots in NYMEX's penultimate contract and 30,583 lots on ICE. The contracts account for 5.15% in open interest on NYMEX and 6.35% on ICE.

China's National Development and Reform Commission said the country's oil demand is expected to grow slowly in 2009 as the world crisis weighs on domestic economic growth. China's oil demand has been declining since November as annual economic growth slowed sharply to 6.8% in the fourth quarter from 13% for the whole of 2007. China's apparent demand fell for the second month in December by 5.5% on the year. It reported that China's commercial oil product stocks fell by about 20% in January to about 10 million tons as refiners cut operations to deplete record high stocks.

Iraq's Prime Minister Nuri al-Maliki called on the country to cut its dependence on oil production and warned that it would remain susceptible to global economic crises if it did not. He said Iraq needs to invest more to revive its agricultural and industrial sectors.

days.

The US Navy has no information that Iran has started construction of planned new naval bases on the eastern approach to the Gulf. An Iranian navy commander in October said that Iran started building a series of bases along its southern coast on the Sea of Oman and up to the Strait of Hormuz to improve its defensive capabilities. A build-up of naval power could make it easier for Iran to close the Strait of Hormuz.

Israeli Defense Minister Ehud Barak called for tougher sanctions against Iran after the country announced the completion of its first nuclear power plant.

Nigeria's military said a gunman shot at a helicopter traveling to an oil facility operated by Italy's Agip in the Niger Delta on Wednesday. The helicopter, which landed safely, was traveling to the Tebidaba oil flow station operated by Agip when it was hit.

Refinery News

Colonial Pipeline said it froze nominations as of Wednesday on the 10th cycle of this year for its multi-product delivery line to the Atlanta, Georgia region. It said it froze nominations on the 8th cycle of 2009 for its Linden, NJ product delivery line L2.

Valero Energy Corp shut a coking unit at its 182,000 bpd Delaware City, Delaware refinery for repairs that could last up to 45 days. It was unsuccessful in its attempt to restart the refinery this past week. The remainder of the refinery will continue to operate at reduced rates in the near term to process existing feedstock inventory.

ConocoPhillips plans to perform maintenance on a fluid catalytic cracking unit rotameter at its 124,000 bpd Borger, Texas refinery starting Wednesday.

Tesoro Corp said a 35,000 bpd hydrocracker unit at its 166,000 bpd refinery in Martinez, California is resuming operations on Wednesday after a valve was repaired. It should be operating by the end of the week.

A fluid catalytic cracking unit at Royal Dutch Shell's 420,000 bpd Pernis refinery resumed operations late last week after a pipeline fire forced it to shutdown on December 4.

Saudi Aramco has sent its first cargo of crude to an upgraded refinery in China's province of Fujian. A 900,000 barrel cargo of Arab Extra Light crude arrived at the Dalian terminal on February 16 from Ras Tanura.

PetroChina won approval to build a refinery with annual crude processing capacity of 20 million tons or 401,600 bpd in Guangdong's Jieyang city. The refinery will have a big impact on fuel supply but whether it will contribute to an oversupply of oil products in the south depends on market conditions in four to five years' time, when the refinery is expected to start operations.

DOE Stocks

Crude – up 700,000 barrels
Distillate – up 800,000 barrels
Gasoline – down 3.4 million barrels
Refinery runs – down 0.9%, at 81.4%

February Calendar Averages

CL – \$38.58

Japan's Nippon Oil Corp said it expects to refine 3.99 million kiloliters or 810,000 bpd in March, down 22% on the year as domestic demand declines. Nippon Oil's February crude refining volume likely totaled 4.05 million kl, down 16% on the year.

According to the Petroleum Association of Japan, the country's crude oil inventories in the week ending February 21st increased by 6.84 million barrels on the week and by 16.24 million barrels on the year to 108.3 million barrels. The refinery utilization rate fell by 1% on the week and 3.3% on the year to 84.1%. Japan's crude runs fell by 50,000 bpd on the week and by 160,000 bpd on the year to 4.12 million bpd. The PAJ also reported that Japan's gasoline stocks built by 210,000 barrels on the week but fell by 270,000 barrels to 13.47 million barrels while kerosene stocks fell by 340,000 barrels on the week and by 180,000 barrels to 14.46 million barrels. Separately, Japan's Ministry of Finance stated that the country's customs-cleared crude oil imports fell by 8% on the year in January to 18.694 million kiloliters or 3.79 million bpd. Japan's imports of liquefied natural gas totaled 5.896 million tons in January, down 0.8% on the year while coal imports fell by 8.7% to 16.13 million tons.

Meanwhile, Japan's Oil Information Center reported that the country's retail gasoline prices increased by 0.2 yen on the week to 109.6 yen/liter or \$4.28/gallon in the week ending February 23rd.

South Korea's Korea National Oil Corp reported that the country's crude oil imports in January increased by 13.5% on the year to 93.626 million barrels.

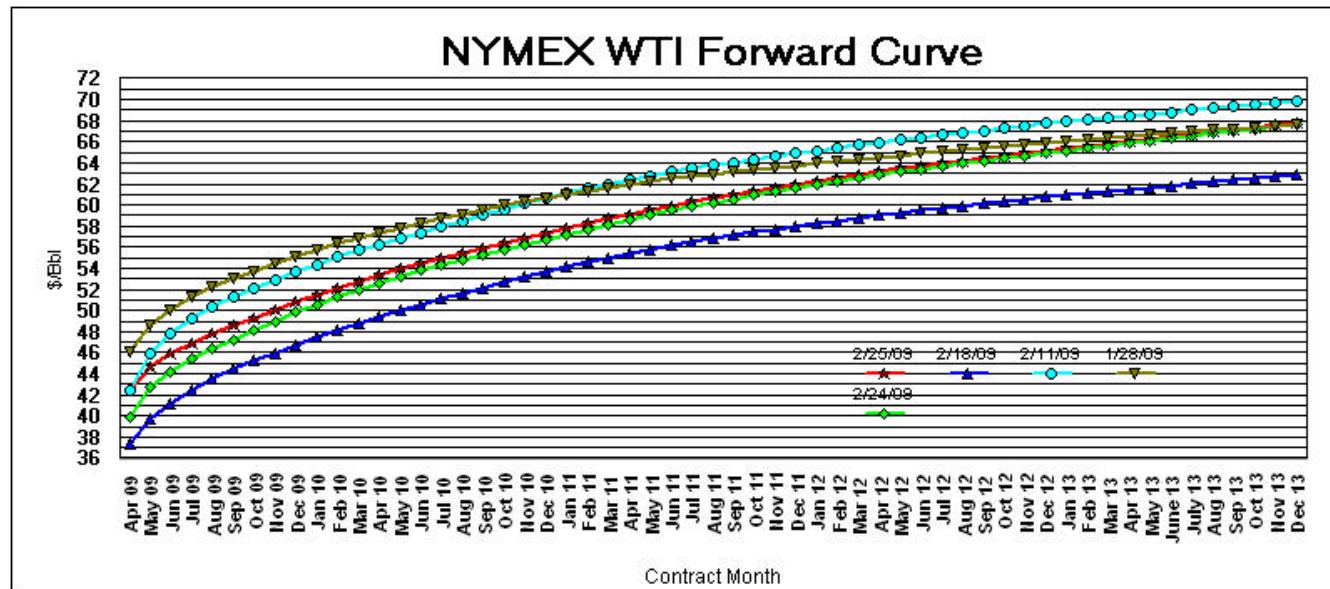
China is forecast to export 130,000 tons of diesel in March, steady from February volumes, as demand remains stagnant.

China Aviation Oil Corp bought 120,000-130,000 tons of jet fuel for end-March to April supplies. It is down from its previous tender purchase of 245,000 tons for end-February to March.

EOP Biodiesel AG said its German and Austrian plants are achieving high output levels, despite parliamentary delays in approving new German biodiesel blending rules. It said about 80% of its output from its 132,500 ton annual capacity biodiesel plant in Falkenhagen, Germany has been sold and is currently working at about 80% of capacity. Its 49,000 ton plant at Hohenau in Austria is working at 80-85% of capacity and is also fulfilling long term contracts. Germany's government announced that fossil fuels must contain 5.25% biofuels in 2009 and that maximum permitted biodiesel blend level in fossil fuels will increase to 7% from 5% in 2008.

Production News

Ecuador's OCP pipeline suspended operations early Wednesday due to a detected drop of pressure. An OCP spokesman said the company has enough crude oil in stocks to cover February's exports commitments. While the pipeline has a capacity to transport 45,000 bpd, it currently transports 130,000 bpd. The company said it is investigating the problem and will resume operations as soon as possible.



The Iraqi government said it is willing to increase its crude supplies to Asia, including South Korea. Iraq's Deputy minister for refining and gas processing, Ahmed Al-Shamma did not mention by how much the country was willing to increase its supplies, saying it depended on Iraq's crude production. Separately, South Korea's presidential office and the Energy Ministry said South Korea will provide Iraq with \$3.55 billion in infrastructure in return for oil field stakes. However he said the deal does not automatically allow South Korean firms to secure stakes in Iraq's southern Basra region.

Angola's Sonangol said the country will produce 1.656 million bpd in 2009, down from 2 million bpd last year. It said Angola's 2008 revenues increased 53% on the year to \$26.6 billion.

According to a preliminary export schedule by Transneft, Russia's oil exports from the Black Sea port of Novorossiisk in March will fall by 97,000 bpd on the month to 757,000 bpd. Exports from Russia's Baltic Sea port of Primorsk will remain relatively unchanged at 1.47 million bpd compared with 1.44 million bpd in February.

Loadings of Nigeria's Qua Iboe crude in April are expected to fall due to oilfield maintenance. Eight cargoes or 253,000 bpd of Qua Iboe are scheduled to load in April, down from 10 cargoes or 306,000 bpd in March.

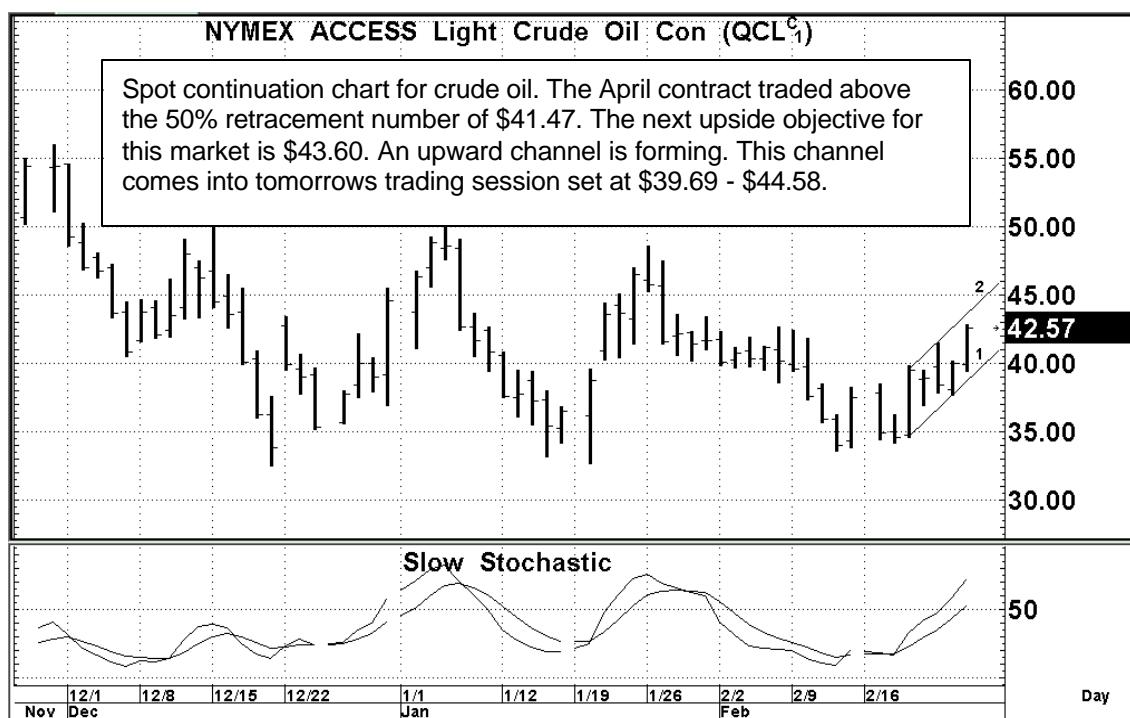
Russia's Gazprom hopes to conclude a \$2.5 billion oil and gas exploration deal with Nigeria by the end of March establishing a joint venture with NNPC.

India's Oil Minister Murli Deora ruled out any immediate plans to cut diesel prices, amid speculation that the government may do so ahead of elections. However he did not rule out a price review at a later date. Separately, India's Oil Secretary R.S. Pandey said India is likely to launch the next round of auctioning of oil and gas blocks by mid-April.

OPEC's news agency reported that OPEC's basket of crudes fell to \$38.95/barrel on Tuesday from \$39.53/barrel on Monday.

Market Commentary

A greater than expected drop in gasoline inventories coupled with a spike in demand, helped propel this market higher today. Gasoline stock levels for the week of 2/20/09 decreased by 3.4 million barrels, with demand for gasoline based on a four-week



average rising 1.7% from the same period last year. A less than expected build in crude oil inventories strengthened the front month contract, which has been trading at a deep discount to the deferred. Crude oil stock levels, expected to increase by 1 million barrels, increased by 700,000 barrels. Stock levels at Cushing, OK, the NYMEX delivery point, decreased by 400,000. This is after achieving record highs on February 6th. Distillate stocks experienced their first increase in five weeks, falling by 800,000 barrels. Greatly impacting the price of heating oil is slackening demand for diesel and jet fuel. Based on a four-week average, demand for jet fuel has decreased 15.4% from the same period last year. Refiners typically go through turnaround this time of year as they change from heating oil to gasoline. The April crude oil contract traded above our target of \$41.47, settling at \$42.50. With OPEC expected to meet on March 15th, we would continue to look for prices to hold, working a little higher. The next upside objective for the April crude oil contract is \$43.60. An ascending channel is forming on the spot continuation for crude oil. A breakout of this channel, which is set at \$39.69 - \$44.58 for tomorrow, sets prices up for a test at \$50.47.

Crude Oil (CL) MAR.09 0 -2 APR.09 292,343 -1,675 MAY.09 149,268 +6,193 Totals: 1,179,171
+8,794 Heating Oil MAR.09 16,581 -4,782 APR.09 58,760 +2,800 MAY.09 36,578 +1,112 Totals:
259,123 +1,274 NEW YORK HARBOR RBOB GASOLINE MAR.09 14,475 -6,307 APR.09 61,950 -464
MAY.09 30,928 +616 Totals: 188,086 -5,206

Crude Support	Crude Resistance
41.47, 32.25, 29.66, 28.63, 26.65, 25.50	43.60, 44.58, 46.65, 48.77, 50.07, 54.75, 55.98, 57.20
Heat Support	Heat resistance
1.10951.0520	1.3315, 1.4813, 167.15, 171.85, 176.70, 1.8500
Gasoline support	Gasoline resistance
1.0128,9590, .8978, .8755, 7850	136.14, 1.3775, 1.4100,1.4400