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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 8, 2010

The National Hurricane Center said Tropical Storm Igor formed in the far eastern Atlantic Ocean. Igor is moving due west at 8 mph and has sustained winds of 40 mph, with gradual strengthening expected over the next 48 hours. The storm is expected to pass south of the Cape Verde Island by Thursday.

The chairman of Libya's National Oil Corp, Shokri Ghanem said OPEC needs a higher oil price of \$100/barrel because the rising costs of imports such as food have eroded OPEC members' income. He did not specify how and when OPEC should seek a price of \$100/barrel.

Market Watch

T. Boone Pickens said the price of oil is expected to increase to \$85/barrel by the end of the year.

The Federal Reserve said in its Beige Book that there were widespread signs that economic growth had eased in the six weeks through the end of August. It suggested that the recovery was faltering along the East Coast and the Midwest. It said modest growth continued in five western districts, St. Louis, Minneapolis, Kansas City, Dallas and San Francisco. Growth however was mixed or had slowed in five other areas including, New York, Philadelphia, Richmond, Atlanta and Chicago. The remaining two districts, Boston and Cleveland reported positive developments and improvements in business activity.

Regulators investigating the stock market flash crash last May still have not uncovered a cause. However stub quotes and other previously identified issues exacerbated the market's sharp fall. On May 6th, the Dow Jones industrial average fell about 700 points before sharply recovering, all in about 20 minutes.

According to a report by the Interior Department's Outer Continental Shelf Safety Oversight Board, the Bureau of Ocean Energy Management, Regulation and Enforcement, formerly the Minerals Management Service, rarely conducts surprise inspections, routinely fails to follow up on noncompliance violations and has not adequately trained its work force. It said the regulators are often overworked and undertrained and yet charged with approving drilling projects and enforcing safety and environmental rules.

In its latest Short Term Energy Outlook, the EIA projected world oil consumption growth of 1.62 million bpd in 2010, up from its previous estimate of 1.57 million bpd. World oil demand in 2010 is estimated to total 85.95 million bpd and increase by 1.41 million bpd to 87.36 million bpd in 2011. China's oil demand this year is expected to grow by 650,000 bpd to 8.97 million bpd. It lowered its estimate for China oil demand growth during 2011 by 30,000 bpd to 530,000 bpd, with demand estimated at 9.5 million bpd. The

API Stocks

Crude – down 7.308 million barrels

Distillate – up 1.288 million barrels

Gasoline – up 654,000 barrels

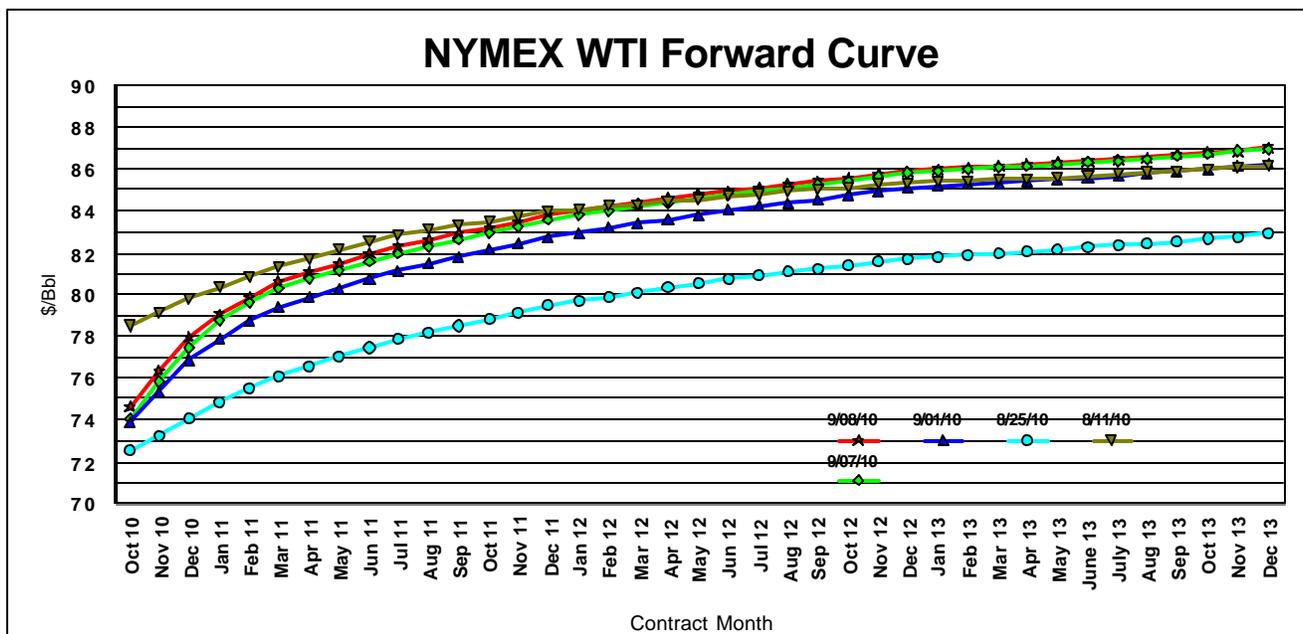
Refinery runs – up 1.4% at 86.2%

EIA reported that non-OPEC oil supply will increase by 700,000 bpd in 2010 to 51.17 million bpd while non-OPEC production is expected to fall to 51.01 million bpd in 2011. OPEC production in 2010 is expected to increase by 930,000 bpd to 34.8 million bpd while production in 2011 is expected to increase by 1.2 million bpd to 36 million bpd. Commercial inventories held by OECD countries stood at an estimated 2.75 billion barrels at the end of the second quarter of 2010 or 61 days of forward supply and about 95 million barrels over the 5 year average for the corresponding time of year. The EIA also reported that total US oil demand in 2010 is expected to increase by 160,000 bpd to 18.93 million bpd, up 0.11% from its previous estimate. Demand in 2011 is expected to increase by 130,000 bpd to 19.06 million bpd, down 0.05% from its previous estimate. Gasoline demand in 2010 is estimated to increase by 30,000 bpd to 9.03 million bpd, up 0.11% from its previous estimate while gasoline demand in 2011 is estimated to increase by 70,000 bpd to 9.1 million bpd, up 0.11% from its previous estimate. Distillate demand in 2010 is expected to increase by 70,000 bpd to 3.7 million bpd, up 0.54% from its previous estimate while demand in 2011 is expected to increase by 30,000 bpd to 3.73 million bpd, up 0.11% from its previous estimate. US oil production in 2010 is expected to increase by 70,000 bpd to 5.43 million bpd, unchanged from its previous estimate while production in 2011 is estimated to increase by 10,000 bpd to 5.44 million bpd, down 0.37% from its previous estimate. In regards to prices, the EIA estimated that the price of WTI would average \$77/barrel in the fourth quarter, down from a previous estimate of \$81/barrel. The price of WTI crude is expected to increase to \$84/barrel by the end of next year. The price of gasoline is expected to average \$2.72/gallon in 2010 and \$2.90/gallon in 2011. It is estimated to average \$2.76/gallon this summer. The price of diesel fuel is expected to average \$2.93/gallon in 2010 and increase to \$3.10/gallon in 2011.

**September
Calendar Averages**
CL – \$74.46
HO – \$2.0633
RB – \$1.9205

BP Plc said that decisions made by multiple companies and work teams contributed to the Gulf oil spill. It also said that it was unlikely that problems with the design of the well contributed to the April 20th drilling rig explosion. BP said that the blowout preventer should have activated automatically but did not. It said that was probably because critical components were not working. BP said it developed a set of recommendations to help prevent future rig explosions and oil spills. Many of the 25 recommendations outlined by BP are technical in nature and involve practices for well control, pressure testing and rig safety.

The head of the federal response effort, retired US Coast Guard Admiral Thad Allen said the final



operation to plug the Deepwater Horizon well will be delayed to the second half of September as responders prepare to inject cement.

According to a SpendingPulse report by MasterCard Advisors LLC, US gasoline demand fell to its lowest level since February 12th in the latest week. Gasoline demand fell by 0.5% or 43,000 bpd to 9.126 million bpd in the week ending September 3rd. Demand was up 1.7% or 152,000 bpd on the year. Demand in the latest four weeks averaged 9.332 million bpd, up 1.1% on the year. It also reported the US average retail price of gasoline fell by 1 cent to \$2.67/gallon, the lowest price since July 9th.

Refinery News

TransCanada Corp restarted its 435,000 bpd Keystone oil pipeline on Wednesday following a week of unscheduled maintenance. It resumed shipping Canadian crude to refineries in southern Illinois.

Citgo Corp was forced to shut down both flare gas recovery compressor units in the East Plant section of its Corpus Christi, Texas refinery over the past few days due to mechanical problems.

Mexico's Pemex shut its 40,000 bpd gas oil hydrotreater and its 54,000 coker unit at the 275,000 bpd Cadereyta refinery following an explosion at the refinery on Tuesday. It said its crude runs at the refinery fell to 200,000 bpd from 215,000 bpd in the wake of the accident. Repairs to its damaged hydrotreater should be completed within 14 days. The explosion was caused by a leak in a compressor in the hydrogen recirculation segment of the coker gas oil hydrotreater.

France's CGT union said Total's Grandpuits refinery is operating at a minimum level because of an ongoing strike. Total workers at Grandpuits and Donges refineries are continuing to block fuel supplies. The workers are protesting management's reaction to Tuesday's strike over pension reforms.

An alkylation unit at Venezuela's 187,000 bpd Puerto La Cruz refinery that was shutdown three weeks ago due to an explosion is likely to remain down until the middle of October for scheduled maintenance.

PetroChina Co's 200,821 bpd Qinzhou refinery started operations on Wednesday. The refinery will be able to supply 8.3 million metric tons of oil products a year to southwestern China.

The Petroleum Association of Japan reported that the country's crude oil stocks in the week ending September 4th fell by 1.57 million barrels on the week but increased by 2.01 million barrels on the year to 95.77 million barrels. It also reported that Japan's gasoline stocks fell by 720,000 barrels on the week and by 200,000 barrels on the year to 12.14 million barrels while its kerosene stocks built by 740,000 barrels on the week but fell by 4.32 million barrels on the year to 14.45 million barrels and naphtha stocks fell by 90,000 barrels on the week to 12.12 million barrels. The PAJ reported that crude runs fell by 160,000 bpd on the week and by 110,000 bpd on the year to 3.63 million bpd. Refinery utilization fell by 3.5% on the week but increased by 1.4% on the year to 78.2%. In regards to product sales, the PAJ reported that Japan's total oil product sales increased by 9% on the week and by 8.5% on the year to 2.89 million bpd. Gasoline sales increased by 15% on the week and by 16.6% on the year to 1.2 million bpd while gas oil sales fell by 3.3% on the week and by 3.7% on the year to 560,000 bpd and kerosene sales increased by 9.6% on the week but fell by 33.8% on the year to 140,000 bpd. Japan's naphtha sales increased by 72.5% on the week and by 24.8% on the year to 400,000 bpd while its jet fuel sales increased by 71.2% on the week and by 19.6% on the year to 120,000 bpd.

China's diesel exports are expected to fall in August to between 450,000 and 480,000 tons and rebound in September to 500,000-520,000 tons in line with higher crude runs as plants resumed operations following repairs and maintenance. China's gasoline exports for August and September are expected to remain at between 300,000 and 320,000 tons per month as strong domestic demand caps external sales.

China has granted environmental clearance and approved a technical review of a refinery and petrochemical joint venture between Sinopec and Kuwait, paving the way for final state approval. The venture includes a 300,000 bpd refinery and a 1 million ton/year ethylene complex in the southern coastal city of Zhanjiang.

China's National Development and Reform Commission approved China National Petroleum Corp's plan to build a crude oil pipeline linking the northwestern city of Lanzhou with Chengdu city in the southwest. The pipeline will have a capacity of 10 million metric tons/year or 200,800 bpd. CNPC is planning to build a refinery in Chengdu city to alleviate fuel supply tightness in southwestern China.

Oil product exports from Russia's port of St. Petersburg are expected to fall to 1.73 million tons in September from 1.93 million tons in August. The Petersburg Oil Terminal plans to decrease its shipments to 1 million tons from 1.2 million tons in August.

The BP-led Baku-Tbilisi-Ceyhan pipeline will pump about 26.6 million barrels or 858,000 bpd of oil in October, up from 24.5 million barrels or 817,000 bpd in September.

Tokyo Electric Power Co in August burned the highest amount of liquefied natural gas since August 2007. It consumed 1.95 million tons of LNG in August, up 18.8% on the year. It also consumed 2.393 million kl of crude in August, up 208.4% on the year and 487,000 kl of fuel oil, up 85.9% on the year.

Production News

Maintenance at a berth handling Very Large Crude Carriers at the Hound Point terminal in Scotland will be extended by another two weeks to October 19th. Hound Point is the loading terminal for North Sea Forties crude.

The UK North Sea Forties crude oil stream is scheduled to load about 17.4 million barrels or 561,000 bpd in October, up from 16.2 million barrels or 540,000 bpd in September.

Norway's North Sea Statfjord crude oil stream is scheduled to load about 4.275 million barrels or 137,903 bpd in October, down from 5.13 million barrels or 171,000 bpd in September.

Oil production in China was largely unaffected after a China Petroleum & Chemical Corp offshore oil maintenance platform listed 45 degrees during a typhoon and a PetroChina refinery aromatics unit was shut by a fire this week. China's Ministry of Transport said oil valves on the No. 3 platform had been shut and the platform remained stable.

Chevron Corp announced it has been granted approval by the Liberian government to acquire a 70% interest and operatorship in three deepwater concessions in Liberia. Under the agreement, Chevron's Liberian subsidiary will conduct a three year exploratory program that is expected to begin in the fourth quarter of 2010.

The West Qurna Phase 2 oil field in southern Iraq will reach peak production of 92 million metric tons/year in 2017.

Iraq's State Oil Marketing Organization increased the official selling price of its Basra Light crude bound for the US by 15 cents to \$1.15 below the Argus benchmark while the price of its Kirkuk crude was increased by 10 cents to a premium of 35 cents to the Argus benchmark. The price of its Basra Light crude bound for Europe was increased by \$1.50 to the North Sea BFOE minus \$1.45 while the price of its Kirkuk crude was increased by 35 cents to BFOE plus 15 cents. The price of its Basra Light crude bound for Asia was increased by 20 cents to the Oman/Dubai average minus \$1.35.

OPEC's news agency reported that OPEC's basket of crudes fell to \$73.02/barrel on Tuesday from \$73.46/barrel on Monday.

Market Commentary

A mid-day rally in equities propped up energy prices, taking crude oil above \$75.00. This rise above \$75.00 a barrel comes despite expectations that U.S. crude oil stockpiles increased by 1 million barrels last week. Prices are once again defying the true underlying fundamentals and instead are reacting to the global economic situation. Overall, recent economic news has not been overwhelmingly positive and has been mixed at best. We have had a lackluster hurricane season thus far, which has had little impact on refiner's ability to operate. Inventory levels remain robust, while demand continues to struggle. This does not paint a bullish picture for this market and as a result we think that any signs of strength will be short-lived. Going forward it appears that the current contango market condition will continue to widen, making the attraction for storing crude oil to sell at a later date more attractive. Flat price should remain range bound between \$65.00 and \$80.00, with most of the activity occurring below \$75.00.

Crude oil: Oct 10 282,708 –18,510 Nov 10 202,084 +7,498 Dec 10 213,106 –6,593 Totals 1,347,231 –6,498 Heating oil: Oct 10 78,036 –2,329 Nov 10 48,729 +957 Dec 10 59,898 Totals 316,852 -594 Rbob: Oct 10 85,736 –3,876 Nov 10 55,382 +1,877 Dec 10 32,098 -9 Totals 239,551 –1,262.

The API report showed an unexpected draw in crude stocks of over 7 million barrels, with draws of 4.326 million barrels and 3.01 million barrels in Padds 2 and 3, respectively. It reported the large draw in stocks as crude imports fell by 346,000 bpd to 8.863 million bpd and crude runs increased by 121,000 bpd to 14.638 million bpd on the week. The API reported a large build in distillate stocks of 1.288 million barrels as apparent demand fell by 7.6% on the week to 4.338 million bpd. It also reported that distillate production increased by 18,000 bpd or 0.4% on the week to 4.271 million bpd while imports also increased by 77,000 bpd or 44.3% on the week to 251,000 bpd. Meanwhile the API also reported that gasoline stocks unexpectedly built by 654,000 barrels. It reported the build in stocks as apparent demand fell by 4.2% on the week to 9.093 million bpd and apparent demand basis its three week moving average fell by 0.3% to 9.375 million bpd. It however reported that gasoline production fell by 242,000 bpd or 2.6% to 9.139 million bpd.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7320	7559	18965	22530	18240	
7260	7634	19236	22700	16010	22345
7190	7781	18920	22945		24880
7109	7831		23775		27085
7000					

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