



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 30, 2008

US President George W. Bush vowed that the House's rejection of financial bailout legislation would not end the administration's drive for a rescue plan, saying a bill is urgently needed to avoid dire consequences for the US economy. He said his administration will continue working with members of both parties, including talks Tuesday on how to advance legislation when lawmakers return Wednesday.

The US Minerals Management Service reported that the amount of oil production still shut in increased by 118,477 bpd to 742,266 bpd on Tuesday. The shut in figure increased from Monday's level due to operators' errors in reporting for September 29th. Meanwhile a total of 125 mmcf/d of natural gas production returned to service, leaving 3.384 bcf/d still shut in.

The head of Libya's National Oil Co, Shokri Ghanem said OPEC may hold an early meeting if oil prices suffer a

Market Watch

Investor T. Boone Pickens said that the price of crude is unlikely to fall much below \$100/barrel because OPEC will support prices. He added that he was not surprised by Monday's decline after the US House of Representatives rejected a rescue plan for the financial sector. He blamed the rejection on a lack of leadership but believes a new vote will take place on Thursday and succeed.

A bill intended to prevent excessive speculation in oil and other futures trading will be difficult to pass during this year's session. Two congressional staffers said the issue would be revived when a new Congress meets next year. The White House has threatened to veto the bill if it is passed this year. Representatives passed the bill on September 18. The bill requires the Commodity Futures Trading Commission to set position limits on major energy and agricultural futures contracts and to monitor look alike contracts traded over the counter.

According to CitiGroup, investments betting that commodity futures prices will move higher have declined over the past two months due to the global credit crisis. The amount of long only money has fallen by as much as \$50 billion, with the sharpest declines in agricultural futures and oil markets. Since July, the net long position has collapsed from \$58 billion to \$8 billion. It estimated that total position on commodities indexes fell to around \$100 billion. Meanwhile UBS said over the past quarter, index investors have sold \$9.1 billion worth of agricultural index positions, reversing the inflows of 2007 and 2008.

The European Union statistics office said inflation in the euro zone fell to 3.6% year on year in September as expected. The rise in consumer prices fell from August's 3.8% annual growth and a peak of 4% in July.

Iran's government plans to ask parliament for an extra \$7 billion budget to cover the increasing price of fuel imports. Iran's Oil Minister Gholamhossein Nozari said the sum was needed to import gasoline during the Iranian year that ends on March 20. In February, the parliament authorized the Oil Ministry to import gasoline and gas oil for the equivalent of \$3.2 billion in the fiscal year that started on March 21, 2008.

More low water cargo surcharges have been imposed for cargo shipping on the Rhine River in central and south Germany following another fall in water levels. Water levels near Koblenz have fallen below the minimum that vessels need to sail fully loaded and surcharges are being imposed. On Monday, surcharges were introduced further north for shipping passing Cologne.

September Calendar Averages

CL – \$103.76

HO –\$2.9318

RB – \$2.6406

sustained fall but added that this option will only be assessed when the final outcome of a US financial bailout becomes clear. OPEC is scheduled to meet on December 17.

Venezuela's President Hugo Chavez called for oil producing countries to create an oil bank and warned oil prices could fall further. He however gave no details of how this bank would work but insisted that it was necessary. He also stated that oil prices could stabilize between \$80 and \$95/barrel.

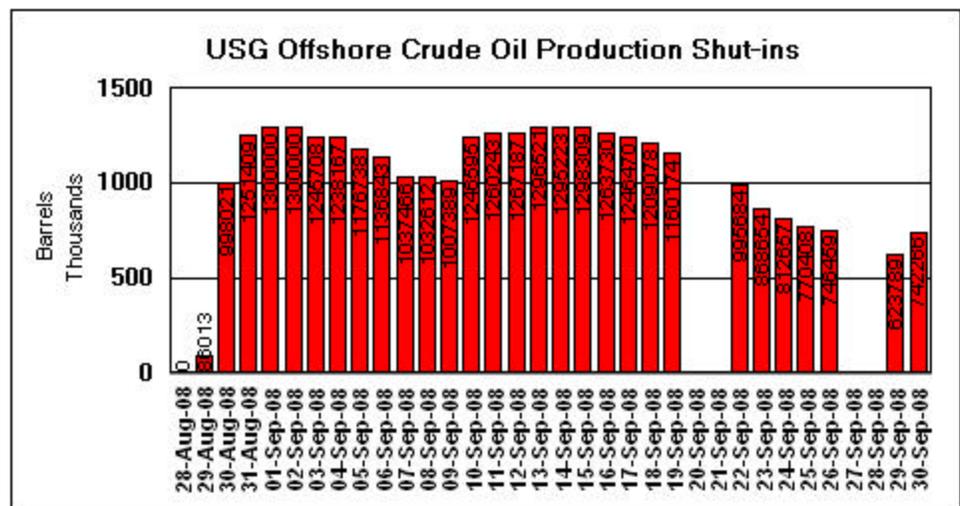
Lloyd's Marine Intelligence Unit said OPEC's oil exports, excluding Angola and Ecuador, increased by 50,000 bpd in the four weeks ending September 14 to 23.667 million bpd. It however said that Gulf supply fell 500,000 bpd from 18.837 million bpd to 18.323 million bpd.

Iran's parliament may limit the UN IAEA's inspections of the country's nuclear sites following a new UN resolution against Iran over its atomic program. A senior Iranian lawmaker said Iran had generously allowed the IAEA access to prove its goodwill but added that soon that level of the agency's access to Iran's nuclear facilities will be revised.

A local branch of the National Union of Petroleum and Natural Gas Workers Union or Nupeng said there had been no talks between it and Chevron Nigeria Ltd to settle a labor dispute. A Nupeng official said a 21 day ultimatum given to Chevron ends on Wednesday adding that a strike could be called if no solution was found. He said no further ultimatum would be given to Chevron and a strike would begin if there was no agreement between the union and the company. He said Nupeng would join the strike at the national level. He also added that about 700,000 bpd produced by Chevron could be shut in if strike action was taken.

MasterCard Advisors said US retail gasoline demand increased by 4.1% to 9.083 million bpd in the week ending September 26. Despite last week's increase however, gasoline demand remained 4.7% below the same week last year. The four week moving average for US gasoline demand fell by 5% to 9.064 million bpd. It also reported that the US average retail gasoline price fell by 1 cent to \$3.83/gallon.

According to the EIA's revised data, US oil demand in July averaged 19.412 million bpd, down 1.335 million bpd on the year and the lowest level for any month since May 2003. The 6.4% year on year decline is a sharp revision from its previous estimate, which showed demand falling by 2.9% or 599,000 bpd to 20.148 million bpd. Gasoline demand was revised down to 9.072 million bpd, down 5.9% or 568,000 bpd on the year. It is down from its previous estimate of 9.4 million bpd. Distillate demand was revised down to 3.672 million bpd, down 8.8% or 354,000 bpd on the year. It is down from its previous estimate of 4.151 million bpd. The EIA also stated that US crude oil imports in July increased



by 1.6% or 162,000 bpd on the year to 10.101 million bpd. Canada was the top supplier, with 1.96 million bpd while Saudi Arabia shipped 1.661 million bpd to the US in July, up 12.3% or 182,000 bpd on the month. Mexico's supplies to the US increased to 1.2 million bpd, up 6.8% on the month. Venezuela supplied the US with 1.187 million bpd of oil, up 9.4% on the month.

Refinery News

The DOE said it is delivering 150,000 barrels of oil from the SPR to Alon USA's refinery in Krotz Springs, Louisiana.

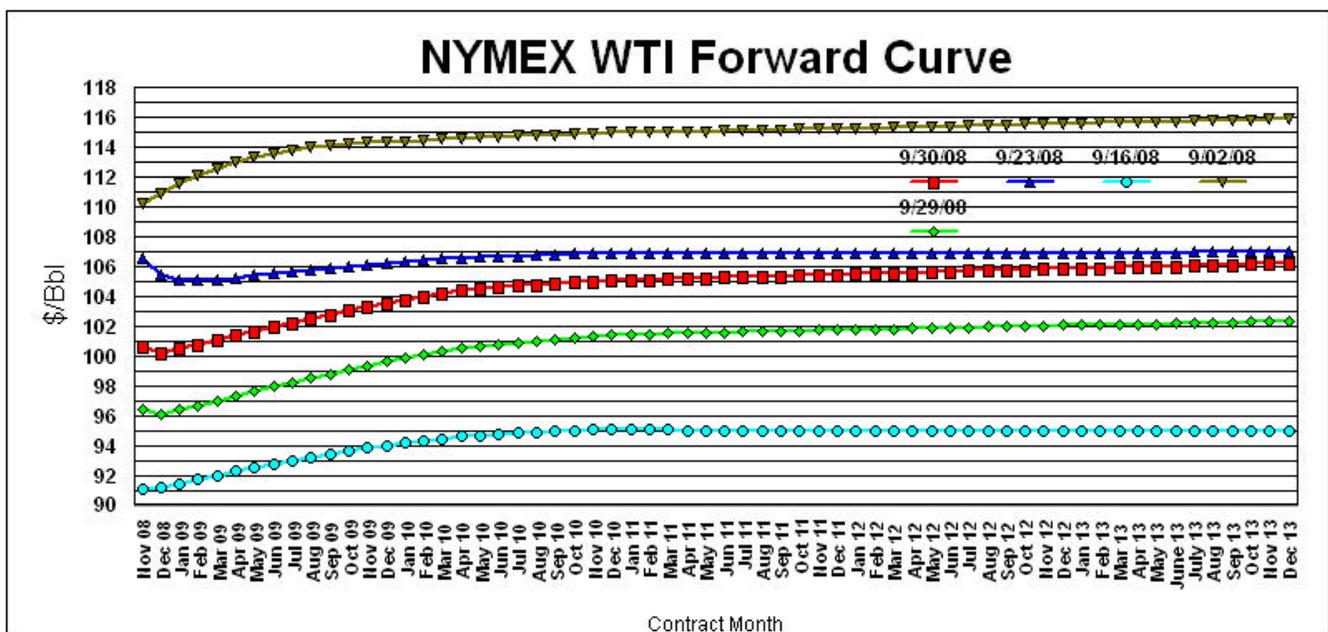
Valero Energy said it shutdown a 65,000 bpd fluid catalytic cracking unit at its 130,000 bpd refinery in Houston, Texas for repairs after problems with the unit surfaced during its restart on September 26. The unit was initially shut ahead of Hurricane Ike. During the unit's outage, gasoline production is expected to fall by 60,000 bpd and distillate production by 30,000 bpd. Separately, Valero has rescheduled its fourth quarter 2008 maintenance plans at its Texas City, Texas refinery as the original October timing would cut production too soon after its recent restart following Hurricane Ike. The turnaround maintenance of its 85,000 bpd No. 3 crude unit and vacuum tower and its 50,000 bpd coker unit will now take place in February 2009.

A fluid catalytic cracking unit at Alon's refinery in Big Spring, Texas is running at about two thirds of its 25,000 bpd capacity due to a problem with the wet gas compressor. Its operating rate was reduced to 16,5000 bpd early Sunday.

BP's 475,000 bpd refinery in Texas City, Texas began producing gasoline and diesel over the weekend after it was shut ahead of Hurricane Ike. One gasoline train, a crude unit, catalytic cracking unit and coker unit is fully operational. Its auxiliary units continue to resume operations.

The Calcaseiu refinery in Lake Charles, Louisiana is operating at 50-70% of capacity due to reduced crude supply.

Colonial Pipeline returned to the same flow rates of gasoline it was running prior to Hurricane Gustav and Ike. Colonial returned to full shipping capability quickly after each storm but lack of gasoline from the Texas and Louisiana refineries that feed the system resulted in supply shortages.



Pemex restarted a 30,000 bpd fluid catalytic cracking unit at its Madero oil refinery that was shutdown in mid-August for planned maintenance.

Venezuela's 300,000 bpd Cardon refinery has shut its catalytic cracking unit for expansion and maintenance work. A refinery source said the shutdown was proceeding normally and added that work is expected to continue into next year. The unit is expected to remain down until January or February.

Japan Energy Corp plans to raise its crude oil processing volumes for the October-December quarter by 4% from the same period last year to 6.27 million kiloliters. In the July-September period, Japan Energy estimated its crude refining volume at 5.89 million kl, up 5% on the year.

According to Japan's Ministry of Economy, Trade and Industry, the country's domestic oil product demand fell to its lowest level in 21 years in August. Japan's domestic oil product demand fell by 11.8% on the year to 15.17 million kiloliters or 3.08 million bpd. Gasoline sales fell by 14% on the year to 4.69 million kl or 951,000 bpd while kerosene sales fell by 28.5% to 410,000 kl. Japan's METI also reported that crude oil imports fell by 1.2% to 20.36 million kl or 4.13 million bpd. Japan's overall oil product output fell by 2.8% on the year to 18.6 million kiloliters in August. Meanwhile its oil product inventories increased by 1.9% on the year to 14.44 million kiloliters.

Official data showed that India's domestic oil product sales increased by 3.6% on the year in August to 9.95 million tons. In August, diesel sales increased by 9.4% on the year to 3.63 million tons. Petrol sales increased by 8% to 892,100 tons while naphtha sales increased 6.4% to 1.09 million tons. Meanwhile, India's crude oil imports increased by 10.3% on the year to 10.88 million tons while oil product imports fell by 25.2% in August to 1.45 million tons.

Europe's reliance on imported diesel will increase over the coming decade due to insufficient investment in refining capacity. While increased exports from the US are likely to ease some of Europe's supply tightness, most future imports are expected to come from Russia and the Middle East, heightening fears over the long term security of European fuel supplies. The European Petroleum Industry Association estimates that 40% of diesel supplies in Europe would be imported by 2020.

Production News

Mexico's Transportation Ministry reported that Mexico reopened the Pajaritos oil export terminal in the Gulf of Mexico that was shut last Friday amid bad weather conditions.

Russia will increase its October oil exports via ports by 90,000 bpd on the month to 2.82 million bpd.

Petrobras notified the country's National Petroleum Agency of two recent oil discoveries. It said it discovered oil in the BM-CAL-5 block offshore from Bahia state and in a layer of salt rock in the BC-60 block in the Campos Basin.

Anadarko Petroleum Corp and Devon Energy Corp said tests on a well drilled off Brazil's coast show similar characteristics to Brazil's first producing pre-salt field, which initially produced about 18,000 bpd of light oil. The well is on block BM-C-30.

Colombia's Ecopetrol SA said it found a small deposit of oil and natural gas in the north of the country. It said it needs to conduct more tests and is not in a position to make any estimate of the reserves.

The official selling price for Oman crude in November will fall below \$100/barrel for the first time in six months. The OSP will fall by \$17.25 to \$95.88/barrel.

OPEC's news agency reported that OPEC's basket of crudes fell to \$94.09/barrel on Monday from Friday's \$97.90/barrel level.

Market Commentary

Hopes of salvaging the proposed economic rescue plan aided in the recovery of the energy markets today. The U.S. House of Representatives is to meet again on Thursday to try and rectify their differences and pass a rescue plan that will hopefully stave off an economic meltdown. Energy prices recovered ahead of tomorrow's release of the DOE/API numbers. The following expectations are based on the average of seven analysts who closely monitor the market. Crude oil is expected to build by 2.4 million barrels, gasoline to decrease by 1.8 million barrels and distillates to decrease by 0.6 million barrels. The outlook for future price movement in spite of two hurricanes, expected OPEC decreases and the Russian incursion into Georgia is for further downside movement. Sources close to the industry are not all to supportive of higher prices, citing the demand factor. The third quarter of 2008 has experienced a plunge in crude oil prices of 28%, the biggest since 1991. Not until consumer confidence in the U.S. and global economy is restored and the bank-lending situation is ironed out, will any gain in prices be upheld. We would continue to look for the energy markets to drift lower, with intermittent bounces and therefore would buy and sell against the listed support and resistance numbers.

Open interest for crude oil, NOV.08 276,074 -1,333, DEC.08 193,649 +4,164. Totals: 1,102,850 +5,055
 Open interest for heating oil; is NOV.08 55,558 +1,144 DEC.08 27,100 +1,306 Totals: 205,387 -2,235
 Open interest for gasoline is, NOV.08 70,804 -1,698, DEC.08 29,065 -424, Totals: 174,797 -15,330.

Crude Support	Crude Resistance
93.35, 87.10, 85.40 , 78.35, 68.63	111.35 (November 200 day MA), 118.60, 122.45, 132.75, 140.30, 144.00, 147.90,
Heat support	Heat resistance
2.6880, 2.6712, 2.4040	3.1050, 3.1937, 3.3684, 3.4574. 3798, 3.6135, 3.8215
Gasoline support	Gasoline resistance
2.3385, 2.2883, 2.2265, 2.1720	2.5266, 2.8521, 2.9600, 2.9989, 3.1050, 3.1460, 3.1840, 3.2620