



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta
& Karen Palladino

(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR NOVEMBER 10, 2008

OPEC's President Chakib Khelil said OPEC's next meeting must confirm members have carried out all pledged oil output reductions before discussing the possibility of a further cut. He said OPEC would probably move to cut again at its December meeting if prices remained low and members had fully met their existing pledges to cut supply. Separately, OPEC's President who is also Algeria's Energy and Mines Minister said the country's oil sector could survive on \$50/barrel oil for some years and none of its foreign partners is slowing investments due to lower prices.

Iran's OPEC Governor Mohammad Ali Khatibi said OPEC would cut its production again if

the trend towards lower prices and slowing demand growth remained unchanged when the group meets on December 17. Meanwhile Iran's Oil Minister Gholamhossein Nozari said OPEC may meet before its planned gathering in December if current market conditions continued and added non-OPEC

Market Watch

The National Weather Service forecast in its weekly report that US heating demand will be about 10% above normal this week. Demand for heating oil is expected to be about 5% below normal this week while demand for natural gas is expected to be about 7% below normal.

The US DOE's weekly petroleum report for the week ending November 7th will be released at 11:00 am EST on Thursday. The report's release has been delayed due to the Veterans Day holiday on Tuesday.

Dubai Mercantile Exchange will start trading its Oman Crude Oil Futures Contract and its Oman Crude Oil Financial Contract on CME Group's Globex electronic platform in the first quarter of 2009.

China approved a stimulus plan on Sunday worth about \$586 billion in new government spending between now and 2010, focused largely on infrastructure and social projects. China's cabinet also announced a shift to a moderately easy monetary policy, suggesting more rate cuts. In Brazil, finance ministers and central bank governors representing 90% of the world's economy said they would take all necessary measures to get financial markets back to normal. Also, on Sunday, Taiwan's central bank unexpectedly cut interest rates by 25 basis points, its fourth reduction in over a month on recession fears. Meanwhile, in a communiqué, the G20 said it saw the need for comprehensive reform of the Bretton Woods institutions, such as the IMF and the World Bank so that they can more adequately reflect changing economic weights in the world economy and be more responsive to future challenges. It also called for regulation and oversight of all sectors of the financial industry. Meanwhile, European Central Bank President Jean-Claude Trichet said the agreement is encouraging but added that there was no room for complacency.

Officials stated that Libya will begin building a \$5 billion economic zone for energy firms operating in the country in January. The planned "Smart Energy City" would provide business infrastructure for oil and gas producers, refiners, and companies involved in shipping, energy trading and support services.

November Calendar Averages

CL – \$64.31
HO – \$2.024
RB – \$ 1.401

producers should help the group manage supply and demand. He also said he understood that Russia had announced that it was ready to work with OPEC to manage the oil market.

Qatar's Oil Minister, Abdullah bin Hamad al-Attiyah said oil should be above \$70/barrel to encourage investment in increased production capacity and avoid creating a future supply crisis. He said future demand will face a shortage and there will not be enough investment to cope with demand increases as deep water projects and non-conventional projects such as oil sands and refining investments have been delayed. He said it was too early to say if OPEC should cut supply t their meeting in December.

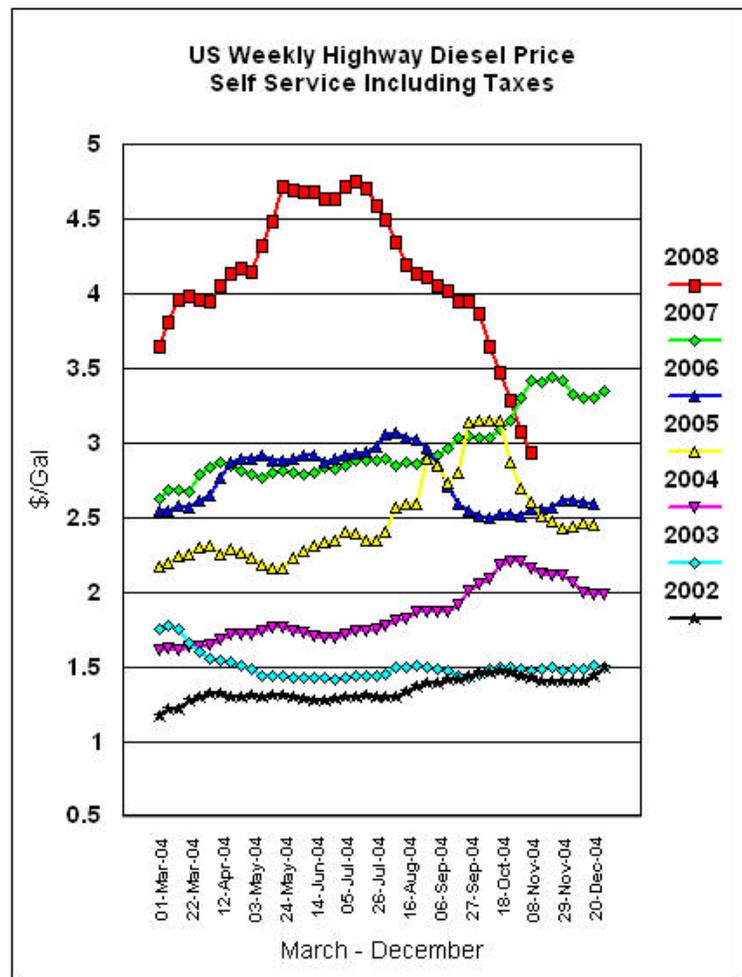
Ecuador's Oil and Mines Minister Derlis Palacios said the country is not in a position to accept another OPEC production cut. He said Ecuador will request preferential treatment when the group meets again next month.

Mexico's Energy Minister Georgina Kessel said Mexico is seeking to maintain its oil production and added that the country is not coordinating with OPEC on its oil production cuts.

Nigeria's military said armed militants in Nigeria's southern oil hub attacked a key offshore oil and gas producing facility but were repelled.

Separately, Nigeria's main militant group, the Movement of the Emancipation of the Niger Delta, said it may release within 24 hours a Ukrainian and three Nigerian hostages kidnapped in the Niger Delta two months ago. However it said it would continue to hold two Britons until the government of Britain's Prime Minister Gordon Brown stops offering training and materials to the Nigerian armed forces. The militant group later threatened to end a unilateral ceasefire and renew attacks against the oil sector in the Niger Delta if the military attacks its camps. It said it believed the military was planning to launch an attack on two of its camps in Delta and Bayelsa states in southern Nigeria.

The head of Iraq's parliamentary Oil and Gas Committee said he was concerned about a lack of transparency in a flare gas contract which the government has signed with Royal Dutch Shell. Shell said the deal gives the joint venture a monopoly over all of the natural gas collected as a by-product of oil production in Iraq's southern oil fields in Basra.



The head of border guards in Iraq's northern Kurdish province of Dahuk said Turkish artillery shelled northern Iraq on Monday.

The EIA reported that the US average retail price of diesel fell by 14.4 cents/gallon to \$2.944/gallon in the week ending November 10. The diesel price is down 48.1 cents below last year's level. It also reported that the US average retail price of gasoline fell by 17.6 cents/gallon to \$2.224 on the week.

Refinery News

Credit Suisse reported that US refining margins were mixed for the week ending November 7. Gulf Coast margins increased by 22.4% or 33 cents to \$1.78/barrel while margins in the Midwest fell by 1.8% or 37 cents to \$20.01/barrel. In the Northeast, margins fell by 2.1% or 7 cents to \$8.19/barrel while margins in the West Coast increased by 2.1% or 22 cents to \$10.50/barrel.

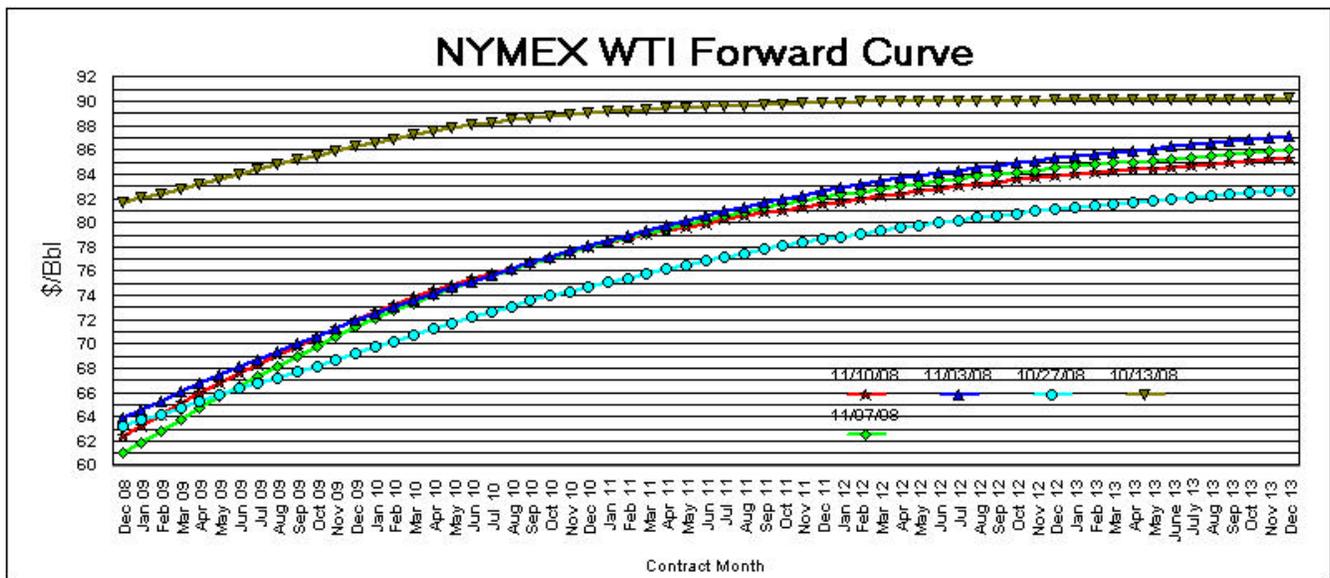
BNP Paribas said refiners will opt to implement discretionary run cuts due to sustained negative US margins. A BNP Paribas analyst said Sunoco and Valero have cut operations.

Alon USA Energy Inc said there was no impact to production from the brief outage of a CO boiler due to a snag over the weekend at its 70,000 bpd Big Spring, Texas refinery.

ConocoPhillips plans to shut on Monday a hydrogen purification unit at its Sweeny, Texas refinery for a four day maintenance period.

Western Refining said it will start a partial planned 28 day turnaround at its 125,000 bpd refinery in El Paso, Texas later this week. The turnaround will start either Wednesday or Thursday and will focus on the northern portion of the refinery while the plant's southern portion will continue to operate at about 66,000 bpd.

Valero Energy Corp said its 275,000 bpd refinery in Aruba resumed planned rates after it lost power due to Hurricane Omar in mid-October.



Irving Oil Ltd started a four week maintenance turnaround at its 300,000 bpd refinery in St. John, New Brunswick. The company said it will work on the refinery's No.3 crude unit, the No. 2 rheniformer, replace fans on a diesel hydrotreater and replace tubes at its sulfur plant.

Japan's Cosmo Oil Co said it restarted its 110,000 bpd No. 1 crude distillation unit at its Chiba refinery on Monday as scheduled. It was shut on September 13 for planned maintenance.

Iran's December gasoline imports are expected to be 30% above the past year's average to compensate for output lost during a heavy work schedule at oil refineries in the fourth quarter. The trade sources said they expect Iran to import about 136,000 bpd of gasoline in December and 120,000 bpd in November, in line with the October imports. They also said falling prices amid a world oversupply of gasoline and lower demand in the US and China was also encouraging Iran to buy more.

Production News

Saudi Aramco informed at least five customers in Asia that they would receive about 5% less than their contracted allocations next month. It is the first cutback in 14 months. A 5% cut to the region would equate to about 175,000 bpd or more than a third of the total 466,000 bpd it is expected to cut under OPEC's latest agreement. Saudi Arabia will also supply less oil in December to two of its customers in Europe. Separately, Saudi Aramco is on track to increase its capacity to 12 million bpd by mid-2009.

North Sea BFOE crude oil loadings are expected to total 1.49 million bpd in December, up from 1.44 million bpd in November. Norway's Oseberg crude oil stream is scheduled to load about 237,000 bpd or 7.35 million barrels in December. The North Sea Ekofisk crude oil production stream is scheduled to load about 13.35 million barrels in December, up from 12.25 million barrels in November.

Iraq halted crude oil exports through its northern pipeline to Turkey early Monday morning. A shipping agent said Iraq was pumping crude through the pipeline at a rate of 18,000 barrels/hour, adding there were about 4 million barrels in storage currently.

Russia's Transneft said Russian oil firms are shipping only 75% of their planned November exports as a government order to cut oil export duties failed to make exports profitable. On November 1, Russia's government cut its oil export duties. However the cut was far less than oil companies had wanted.

Russia's Prime Minister Vladimir Putin has proposed recalculating the export duty on oil and refined products every month. The oil export duty is currently adjusted every two months. He also called for measures to increase Russia's influence on world oil prices.

Kazakhstan's Energy Minister Sauat Mynbayev said the country plans to cut its crude oil export duty to \$139/ton from \$203.80/ton.

Indonesia's Energy Minister Purnomo Yusgiantoro said the government is considering lowering the price of subsidized diesel fuel amid falling world oil prices. Last week, Indonesia's government announced its decision to cut subsidized gasoline prices by about 8% to 5,500 rupiah or \$.50/liter, effective December 1. Diesel fuel prices were unchanged at 5,500 rupiah/liter.

OPEC's news agency reported that OPEC's basket of crudes fell to \$53.49/barrel on Friday from Thursday's \$54.89/barrel level.

Market Commentary

Crude oil rose after hitting a 19-month low, as China announced a \$586 billion stimulus plan. The Group of 20 nations has also pledged to help bolster growth while calling for lower interest rates. The dollar was also weaker on the day aiding prices in their recovery as was predictions of colder weather across most of the U.S. It appears that a struggle will ensue between the planned stimulus packages

and global demand. Despite posting a 19-month low, December crude oil rallied back to settle up \$1.37 higher on the day. Although prices may recover from day to day, it appears that troughs will follow any peaks in this market. Until a clear indication is given that the economy is rebounding and holding, we would look to sell against the listed resistance numbers. The December/January spread should continue to weaken, working towards the -\$1.05 support level. Expectations of colder weather should lend temporary support to heating oil. This coupled with expectations for runs to be curtailed, should aid the heating oil against the crude oil. While we do expect that heating oil crack spreads will gain strength, we do expect them to be modest gains in light of the current economic situation. Resistance is seen at \$22.75 followed by \$24.25.

Open interest for crude oil, DEC08 252,261, -20,742, January 09 160,016 +15,628. Totals: 1,149,325, +2,660. Open interest for heating oil; is DEC.08 49,448 -1,350. Jan09 40,779 +3,353 Totals: 222,985 +4,057. Open interest for gasoline is, DEC.08 57,666 -2,019, Jan09 40,990 +4,249 Totals: 161,275 +3,638.

Crude Support	Crude Resistance
52.73, 49.90	65.56, 67.00, 72.53, 74.30, 75.91, 79.35 85.50, 90.51
Heat Support	Heat resistance
1.8530, 1.7880, 1.7638, 1.6055, 1.4530	2.094, 2.2113, 2.2796, 2.3720, 2.3806, 2.4500
Gasoline support	Gasoline resistance
1.2500, 1.205, 1.035	1.4421, 1.5835, 1.8240, 1.9285

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