



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 7, 2008

The US Minerals Management Service reported that a total of 18,805 bpd of crude production returned to the market, leaving 581,874 bpd of crude production still shut in the Gulf of Mexico as of Tuesday. It also reported that a total of 141 mmcf/d of natural gas production was restored, leaving 2.86 bcf/d of natural gas production still shut in.

Market Watch

According to a Goldman Sachs analyst, Arjun Murti, oil prices are unlikely to rebound significantly while pessimism about the strength of the world economy continues. He said "oil prices increasingly appear unlikely to sustain a rally until global GDP expectations bottom." He has maintained his prediction that oil will average \$120/barrel in the fourth quarter of the year but acknowledged that the recent fall in oil prices and the world economic slowdown now made this less likely than before.

Merrill Lynch's global head said the inflationary effects of the US government's finance sector bailout could push oil prices back above \$150/barrel in the long term. He said near term the price of oil could fall due to the negative effects on the world economy of the ongoing credit contraction.

The chairman of Libya's National Oil Corp, Shokri Ghanem said OPEC may need to cut oil supply further to increase oil prices. He said OPEC members were watching the market closely and OPEC could decide to meet to review output before its next scheduled meeting on December 17.

Iran's OPEC governor, Muhammad Ali Khatibi said Iran is concerned that the deepening world financial crisis is having a larger impact on oil demand growth than previously expected. He said it is too early to say if OPEC would have to cut production at its December meeting to match lower demand growth. When asked if the current oil price was too low, he said the stronger US dollar was cushioning the impact on oil producers of falling prices.

US Energy Secretary Sam Bodman said that OPEC was being responsible in keeping the market supplied with crude oil, despite the economic slowdown in the US.

October Calendar Averages

CL – \$92.85

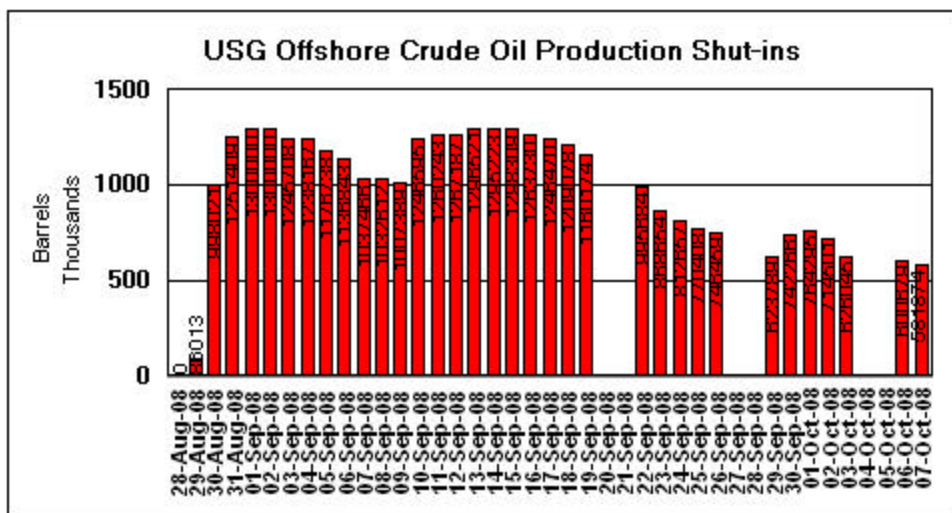
HO – \$2.6396

RB – \$2.1930

According to Lloyd's Marine Intelligence, OPEC's oil exports, excluding Angola and Ecuador, fell by 50,000 bpd to 23.528 million bpd in the four weeks ending September 21. It said supply from Gulf producers including Iraq fell by 440,000 bpd to 18.178 million bpd, down from 18.619 million bpd in the previous four weeks. However it said exports increased close to 170,000 bpd from Nigeria to 3.536

million bpd, up from 3.368 million in the same period.

Tropical Storm Marco formed on Monday in the southern Gulf of Mexico, prompting Pemex to evacuate four offshore plants and shutdown wells. Pemex said it was evacuating workers at its Lankahuasa, Bagre "B", Carpa "B" and Bagre "C" platforms. It also said it had shut six wells at Lankahuasa, which primarily produces natural gas and was taking preventive action at



onshore oil facilities along the Gulf coast. Pemex said Tropical Storm Marco did not affect the country's main offshore oil fields in the Campeche Sound when it passed through the area on Tuesday. Despite the storm, Mexico's government reported that all three main oil exporting ports on the Gulf of Mexico were open as of Monday afternoon.

UK Foreign Secretary David Miliband warned of a nuclear arms race in the Middle East if Iran was allowed to proceed with its nuclear program. Speaking a day after Iran's nuclear negotiator protested over the West attitude to Iran's atomic program, he said Britain was concerned about Iran's refusal to be open with the IAEA.

The EIA reported in its Short term Energy Outlook that the average household expenditures for all space heating fuels are projected to be \$1,137 this winter, up 15% over the \$986 spent last winter. It reported that households heating primarily with heating oil could expect to pay an average of \$449 or 23% more this winter. In the Northeast, the average household is expected to pay 24% more than last winter as a result of an 18% increase in prices and a 5% increase in consumption. Residential heating oil prices in the Northeast are projected to average about \$3.90/gallon during the winter season compared with \$3.31/gallon last winter. Its estimate is down from its previous estimate of \$4.13/gallon. The EIA also estimated that WTI prices are projected to average \$112/barrel in both 2008 and 2009. In regards to world demand, the EIA estimated that world oil would increase by about 300,000 bpd in 2008 and by 800,000 bpd in 2009. The growth estimate for 2008 is about 350,000 bpd lower than last month's projection. It estimated world demand at 86.14 million bpd in 2008 and 86.92 million bpd in 2009, down from its previous estimates of 86.48 million bpd and 87.4 million bpd, respectively. It reported that OECD inventories held steady during the second quarter of 2008, well below the average build of 900,000 bpd. At the end of the second quarter, estimated OECD inventories stood at 2.56 billion barrels, 35 million barrels below the 5 year average. Stocks are expected to increase by about 280,000 bpd in the third quarter compared with an average build of 400,000 bpd. It reported that US oil demand is expected to average 19.85 million bpd in 2008, down 830,000 bpd from 2007 while oil demand in 2009 is expected to fall by 100,000 bpd to 19.75 million bpd. Its 2008 and 2009 US oil demand estimates are down 220,000 bpd and 240,000 bpd respectively from its previous estimates. It cut its previous gasoline demand estimate for 2008 and 2009 by 600,000 bpd to 9.08 and by 800,000 bpd to 9.05 million bpd, respectively. It also estimated distillate demand at 4.01 million bpd and 3.99 million bpd in 2008 and 2009, respectively. The EIA stated that gasoline inventories as of September 30 stood at 180 million barrels, 23 million barrels below the 5 year average and the lowest since

August 1967. By the start of the second quarter next year, total gasoline inventories are expected to reach 205 million barrels, about 4 million barrels below the previous 5 year average. Distillate stocks as of the end of September stood at 122 million barrels, down 12 million barrels on the year and 11 million barrels below the previous 5 year average. Total distillate inventories at the end of March 2009 are estimated at 104 million barrels, down 6 million barrels below the 5 year average.

According to MasterCard Advisors, US gasoline demand fell to its lowest level since September 2005 due to the US economic slowdown. It reported that demand stood at 8.625 million bpd in the week ending October 3, down 5% on the week and down 9.5% on the year. The four week average of gasoline demand amounted to 8.921 million bpd, down 6.2% on the year. It also reported that gasoline prices fell by 12 cents to \$3.71/gallon.

The Pentagon denied an Iranian news report that a US military aircraft had violated Iranian territory and had been forced to land in Iran. Iranian television later reported the plane belonged to a European aid agency.

Refinery News

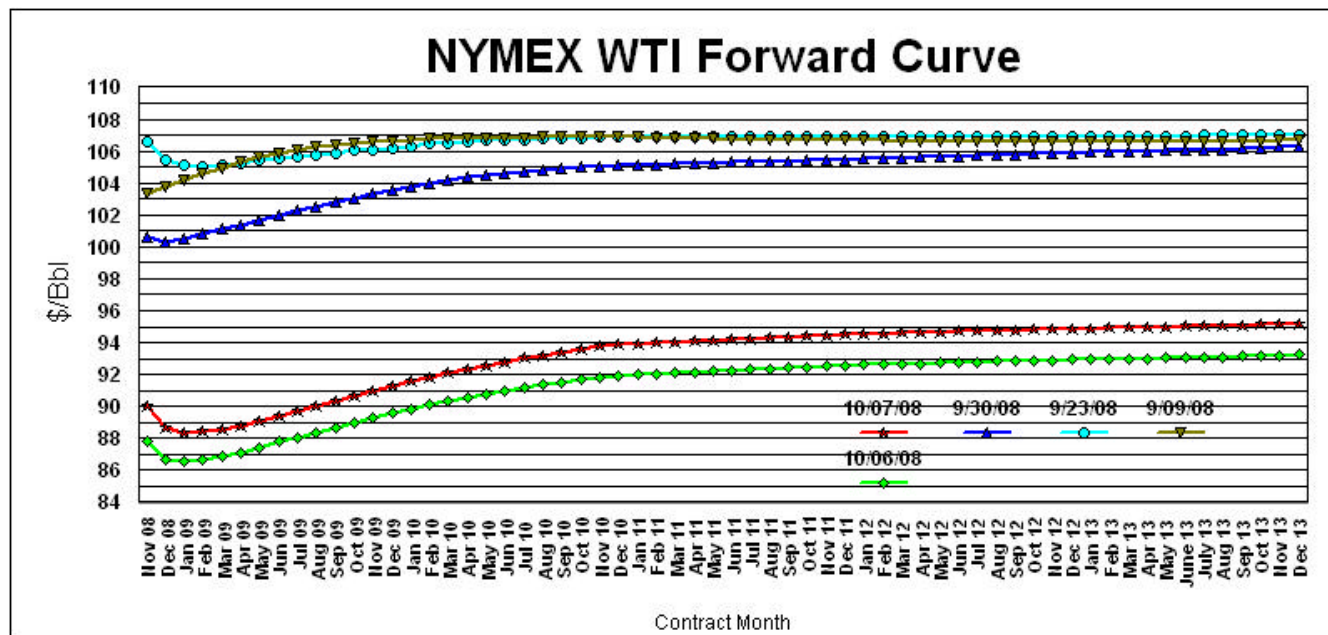
ConocoPhillips started planned maintenance on electrostatic precipitators on a fluid catalytic cracking unit at its 153,000 bpd refinery in Borger, Texas on Monday. The maintenance is scheduled to end on October 16. It was not clear if the maintenance would affect rates on its fluid catalytic cracking unit.

Valero Energy Corp reported flaring as a result of the restart of a saturated gas recovery unit at its Port Arthur, Texas refinery after the unit was shut due to Hurricane Ike.

ExxonMobil Corp said it has no estimate for restarting units at its 348,000 bpd Beaumont, Texas refinery. It said mechanical repairs from Hurricane Ike damage were progressing.

Husky Energy Inc said its 165,000 bpd oil refinery in Lima, Ohio is back near planned rates after it was forced to cut rates following a breach in a crude oil pipeline that supplies the region. It hopes to reach 140,000 bpd on Tuesday.

Total started its maintenance program at its 155,000 bpd La Mede refinery in southern France on October 6 as planned. The maintenance is scheduled to last two months.



China's top refineries will likely increase its crude throughput in October. China's twelve major refineries that account for more than a third of China's capacity plan to process 2.52 million bpd of crude this month, up from 2.44 million bpd in September. The rate is at about 89.4% of China's total refining capacity.

PetroChina's Lanzhou refinery will increase crude throughput in October by more than 50% from last month to 214,300 bpd following repairs.

Indonesia's October oil product imports fell by 4% on the month to 11.46 million barrels, led by lower diesel and fuel oil imports. Indonesia's Pertamina imported 11.92 million barrels of oil products last month. The October imports were below earlier estimates for 12.02 million barrels despite an upcoming refinery maintenance. Indonesia is expected to import 4.8 million barrels of gas oil, 740,000 barrels of fuel oil, 420,000 barrels of jet fuel and 5.5 million barrels of gasoline.

Production News

Norway's total oil and gas production is expected to grow by 3.8% next year from 2008 and increase further by 2012 as more production of natural gas offsets less oil. Oil production is expected to total 139 million cubic meters of oil equivalent or 2.4 million bpd next year compared with 140 million cubic meters this year. Gas sales are expected to increase to 106 billion cubic meters in 2009 from 96 billion this year. Overall oil and gas output is expected to increase to 245 million cubic meters of oil equivalent next year from 236 million in 2008. By 2012, total output would increase to 251 million cubic meters.

BP plans to introduce Tengiz crude oil into its Baku-Tbilisi-Ceyhan pipeline following production problems caused by partial shutdowns of its Azeri field. First deliveries into BTC are expected in the second half of October for arrival in Ceyhan in mid-November.

Russia's Lukoil said it can increase its production next year and maintain capital expenditure at levels close to this year only if oil prices remain above \$105/barrel. It said Russian oil output was likely to remain at between 460 million and 490 million tons or 9.24-9.84 billion bpd over the next few years as production from easy to access deposits slows.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$81.57/barrel on Monday from Friday's \$86.37/barrel.

Market Commentary

With expectations that OPEC will cut back on production, coupled with a weaker dollar, energy prices rebounded today, halting four days of consecutive declines for crude oil and gasoline and five consecutive days for heating oil. Oil increased as Libya's top oil official called for a production cut, and Qatar's oil minister said the country is reducing output in line with quotas. OPEC President Chakib Khelil, said yesterday the group will take "appropriate measures" to stabilize markets. Industry sources believe that the level at which OPEC will decrease output is \$80.00. Crude oil rallied at the end of the floor traded session, gaining 2.8%, to settle \$2.25 higher on the day. Tomorrow's API/DOE numbers are expected to increase 1.8 million barrels, based on estimates of six industry analysts. While this market may experience periods of upside movement, these intermittent rebounds may prove to be short lived. The global economy is in turmoil and hasn't shown signs of recovery, despite the approval of the U.S. recovery plan. The shape of the forward curve remains relatively unchanged, with the tip of the curve turning upward. It is quite possible that the November/December spread will remain strong through out expiration due to offline production and pipeline capacity in the Gulf. After

experiencing its lowest price since October 10, 2007, November gasoline fought back, gaining 0.97 cent, or 0.5 percent, to \$2.0688 a gallon. Gasoline is down 43 percent from a record \$3.631 on July 11. This market is being greatly impacted by the global economic situation, as demand continues to fall. Expectations for tomorrow's gasoline supplies are calling for an increase of 1.5 million barrels as refineries that shut for hurricanes Gustav and Ike last month resumed output. Refineries operated at their lowest rate in at least 19 years after the storms struck the Gulf of Mexico coast. Stockpiles of gasoline in mid-September were the lowest since 1967. Based on a spot continuation chart, gasoline is approaching support at \$1.9485, the low made back in October 2007. Heating oil for November delivery rose 3.69 cents, or 1.5 percent, to \$2.5109 a gallon. It was the first increase in five sessions. Despite the fact that heating oil is reaching its peak demand season, prices should continue to fall in concert with the rest of the market place. The next support level is \$2.4614, the lows of early February 2008.

Open interest for crude oil, NOV.08 242,985 -10,985, DEC.08 206,351 +1,797. Totals: 1,086,843 – 4,466 Open interest for heating oil; is NOV.08 53,670 –2,026 DEC.08 29,579 +1,622. Totals: 207,757 +1,504 Open interest for gasoline is, NOV.08 67,194 -2,870 DEC.08 31,042 +1,969, Totals: 165,929 - 824.

Crude Support	Crude Resistance
87.10, 85.40, 79.30 , 78.35, 68.63	105.62, 111.57 (November 200 day MA), 118.60, 122.45, 132.75, 140.30, 144.00, 147.90,
Heat support	Heat resistance
2.4040	3.1050, 3.1937, 3.3684, 3.4574. 3798, 3.6135, 3.8215
Gasoline support	Gasoline resistance
192.85, 1.9050, 1.8452	2.5266, 2.8521, 2.9600, 2.9989, 3.1050, 3.1460, 3.1840, 80003.2620