



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,
Zachariah Yurch & Karen Palladino
(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR OCTOBER 25, 2007

The US imposed unilateral sanctions on Iran, targeting the Revolutionary Guard and its Quds Force. It designated Iran's Revolutionary Guard Corps a proliferator of weapons of mass destruction and its elite Quds force a supporter of terrorism. A senior US official said the US has imposed sanctions on more than 20 Iranian companies, banks and individuals as well as the defense ministry, in a bid to pressure Iran to halt its nuclear program and curb its terrorist activities. The new sanctions also include US financial penalties for any world firms trading with the Revolutionary Guards. They would apply to more than 1,000 companies, in Europe, the Middle East, the Persian Gulf and Asia. The new sanctions are expected to impact Iran's economy. Meanwhile Britain said it supported the US' decision to impose new sanctions on Iran and vowed to take the lead to pulling together a third round of UN Security

Market Watch

According to Wood Mackenzie, the world's gasoline surplus is likely to grow fivefold by 2010 due mainly to an increase in ethanol consumption in the US which would reduce US gasoline imports. The surplus would grow sharply in Europe, the main foreign supplier to the US and to a smaller extent in the Asia-Pacific region. It estimated that the world gasoline surplus would increase to 50 million tons by 2010, up from about 10 million tons in 2005. In regards to production, Wood Mackenzie said non-OPEC oil production is set to increase to 46.49 million bpd this year, less than expected to due production problems involving the CATS pipeline in the North Sea.

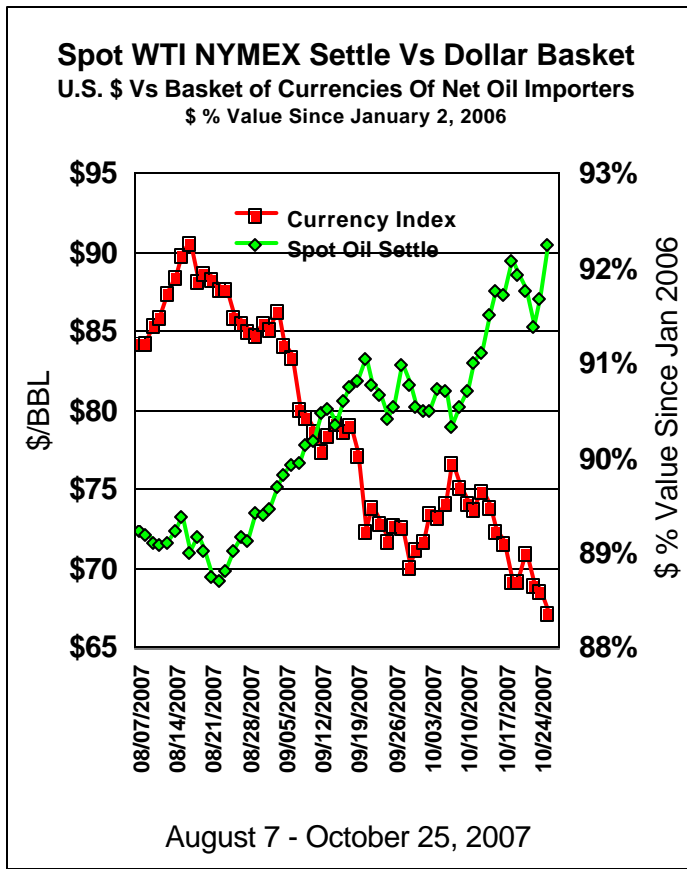
ConocoPhillips chief executive James Mulva said he believed the high oil prices were sustainable. He said he believed demand for oil was still high in developing regions of the world, despite soaring oil prices.

A Reuters survey showed that analysts increased their estimates for crude oil prices as tight supplies, geopolitical tensions and an influx of fund money continued to support the market. Analysts increased their estimate for Brent crude in 2007 from \$67.10/barrel to \$68.50/barrel while their estimate for WTI increased from \$66.07/barrel to \$68.39/barrel. They also increased their estimates for Brent crude in 2008 from \$66.66/barrel to \$69.54 while their estimate for WTI increased from \$67.00/barrel to \$70.49/barrel.

China's economy grew by 11.5% in the third quarter, despite efforts to cool the economy. The data put China on course to overtake Germany as the world's third largest economy within a matter of weeks. China's total economic output for the third quarter amounted to \$2.2 trillion.

A draft energy law that may lay the groundwork for an energy ministry will be submitted to China's cabinet by late this year or early 2008. China has made resource efficiency and security top priorities because of concerns about a growing reliance on foreign oil and massive pollution problems.

The US Justice Department said BP Plc and subsidiaries agreed to pay \$373 million fines and restitution for environmental violations and fraud charges. They also agreed that the settlement would end any ongoing criminal probes. The Justice Department also agreed not to bring additional criminal charges against BP for its Texas refinery explosion in March 2005 or the 2006 pipeline leaks in Prudhoe Bay, Alaska.



Council sanctions. However Russia's President Vladimir Putin warned against new international sanctions on Iran, saying they would lead to a dead end.

Separately, Royal Dutch Shell said it would take political issues into account when deciding whether to proceed with a gas project in Iran. Shell and Spain's Repsol signed a preliminary deal to develop part of Iran's South Pars gas field.

European Union Foreign Policy chief Javier Solana said he hoped the arrival of a new Iranian nuclear negotiator would not complicate talks with Iran over its nuclear program. He met with Iran's new nuclear negotiator, Saeed Jalili for talks this week, which were also attended by his predecessor, Ali Larijani.

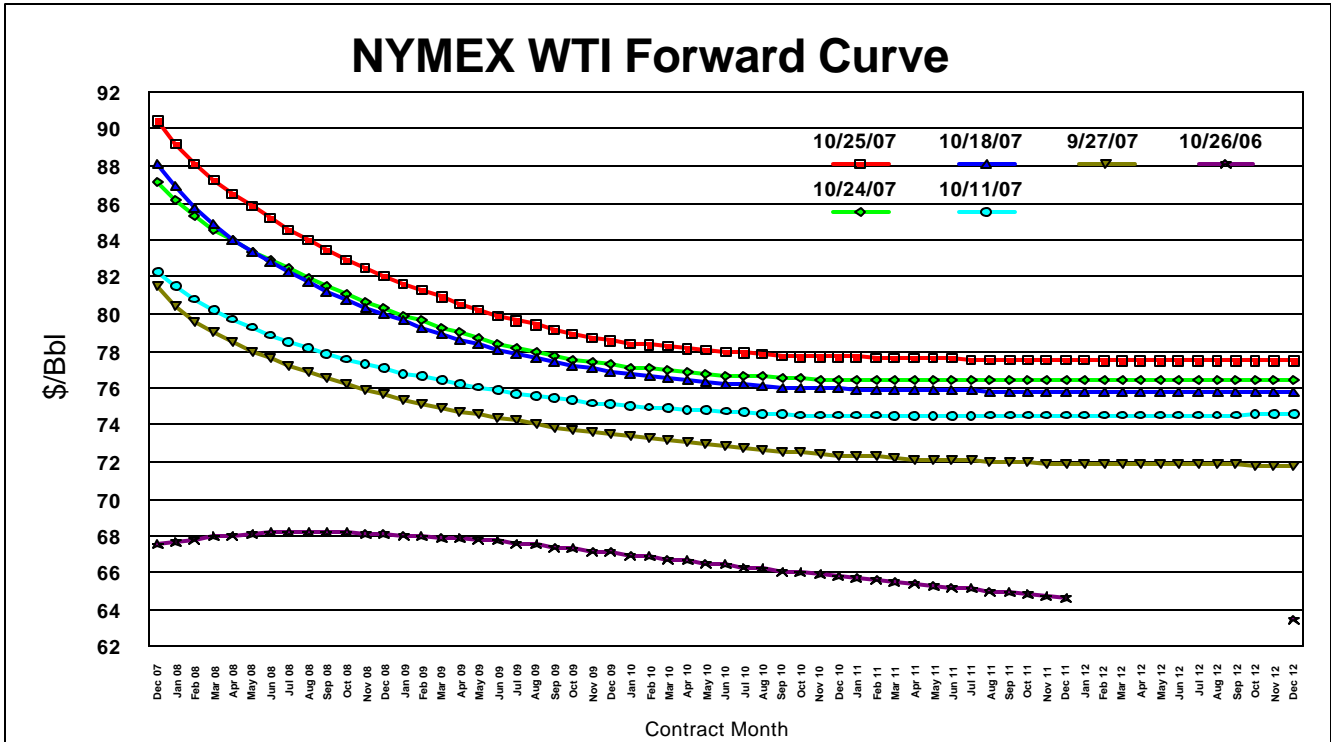
Turkey's Prime Minister Recep Tayyip Erdogan said Turkey was determined to take the necessary steps to end the threat from Kurdish guerillas. He added that any decision to stage a cross border offensive to fight Kurdish rebels is Turkey's alone. He said the US should

understand and support Turkey as an ally. Earlier on Thursday, Turkey's President Abdullah Gul said the country was running out of patience and would not tolerate Kurdish rebels' use of Iraqi soil to launch terrorist attacks. Meanwhile, the speaker of Iraq's parliament warned Turkey that his government would cut off the flow of oil from northern Iraq if Turkey followed through on its threat to level economic sanctions against the country.

OPEC's Secretary General Abdallah el-Badri said the Secretariat of OPEC is not involved in any discussions on a further increase in oil production beyond the 500,000 bpd due to come into the market in November. He said even if OPEC increased its production, refiners could not process it and it would just go into stockpiles. He said if oil prices continued to trade around \$90/barrel for a longer period, then OPEC would start worrying about it. He said it was too early to judge the impact of \$90/barrel on fuel demand and world economy and added that OPEC would study the market situation at its next meeting before deciding whether additional output is needed. Meanwhile, Indonesia's OPEC Governor Maizar Rahman said OPEC has yet to discuss a second round of production increase. Algeria's Oil Minister Chakib Khelil said OPEC was unlikely to discuss any further increase to its oil output when the group meets informally in Saudi Arabia next month.

Venezuela's President Hugo Chavez said world oil prices were heading for \$100/barrel due to geopolitical pressures and low inventories. He said the main problem remained the US' foreign policy involvement in the Middle East. Venezuela's Energy Minister Rafael Ramirez said OPEC would not change its production levels at its next meeting in November and \$90/barrel was a fair price.

According to Oil Movements, OPEC oil shipments are expected to increase to 24.03 million bpd in the four weeks ending November 10, up 20,000 bpd from 24.01 million bpd in the four weeks ending November 3. It said Middle East exports would amount to 17 million bpd in the four weeks ending



November 10, down from 17.07 million bpd in the previous four week period. Oil in transit stood at 457.25 million barrels in the four week period.

An oil shipper said oil continued to flow from Iraq to Turkey through its northern pipeline despite threats to infrastructure from Kurdish rebels and insurgent sabotage attacks further south. Iraq was pumping 400,000 bpd of Kirkuk crude to Turkey on Thursday for the seventh consecutive day. Stocks of Kirkuk crude in storage at Ceyhan stood at 4.95 million barrels on Thursday.

Refinery News

Total Petrochemicals SA was restarting a crude distillation unit at its 240,000 bpd refinery in Port Arthur, Texas refinery following a pipeline explosion earlier last week.

Oil refineries in the Los Angeles area have not suffered any disruptions to their operations from the wildfires ravaging southern California and expect to be able to continue operating normally. An official said in a worst case scenario many refineries could temporarily export fuel on ships to allow them to continue operating.

Production News

Petro-Canada said oil production at the Terra Nova oil project would fall by 15,000 bpd through the end of November due to repairs to a generator.

Royal Dutch Shell Plc's chief financial officer, Peter Vozer said about 189,000 bpd of crude oil production in Nigeria remained shut in. He also stated that oil prices were driven by speculation and political tension, not a lack of supply.

A port official said the oil ports of Coatzacoalcos and Dos Bocas were reopened following a two day closure. Mexico's oil exporting port of Cayo Arcas was reopened later on Thursday after it was closed early on Tuesday. The ports were closed after a cold front struck the Gulf of Mexico.

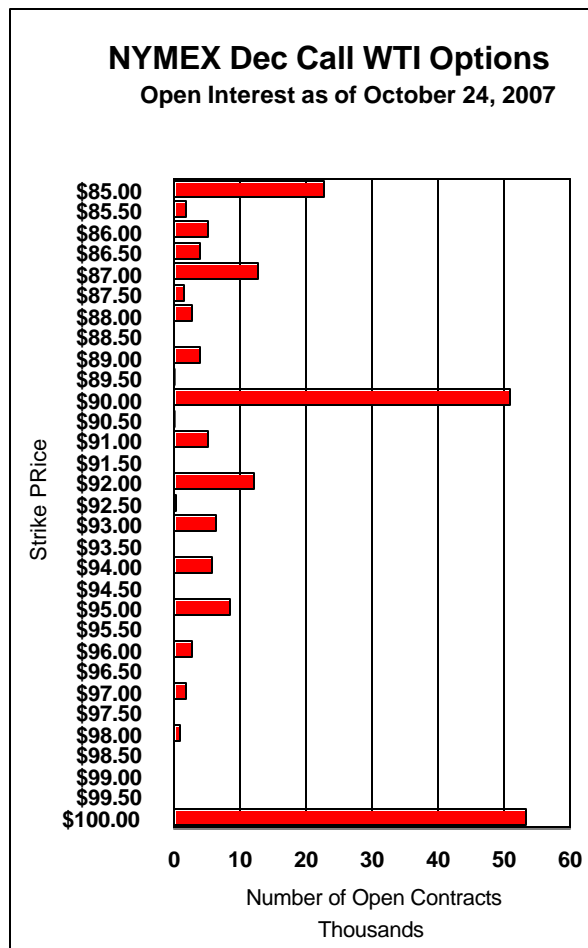
Suncor Energy Inc said its third quarter profit fell to C\$677 million or \$698 million from C\$682 million last year due to a decline in oil sands sales volumes and it lowered its production outlook for this year due to maintenance problems at its oil sands operations. It said its total upstream oil production fell to 274,300 bpd of oil equivalent during the third quarter from 277,400 bpd last year. Oil sands production fell to 239,100 bpd from 242,800 bpd last year. It cut its production forecast for the year to 240,000-245,000 bpd, down from about 260,000-270,000 bpd.

Gas oil inventory in independent storage in the Amsterdam-Rotterdam-Antwerp area fell by 13% or 248,000 tons on the year and 127,000 tons on the month to 1.642 million tons in the week ending October 25. Gasoline stocks fell by 19,000 tons on the year but increased on the week to 676,000 tons while fuel oil stocks built by 13,000 tons on the year but fell by 76,000 tons on the week to 472,000. Naphtha stocks built by 37,000 tons on the year and by 26,000 tons on the week to 83,000 tons while jet fuel stocks fell by 140,000 tons on the year to 272,000 tons.

Lundin's Luno discovery in the North Sea holds an estimated 62.9 million to 188.7 million barrels of oil.

NYMEX Petroleum Options Most Active Strikes for October 25, 2007								
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	12	7	C	90	11/13/2007	2.86	11,008	32.10
LO	1	8	C	110	12/13/2007	0.26	10,049	34.70
LO	12	7	C	100	11/13/2007	0.38	8,612	35.05
LO	12	7	P	85	11/13/2007	0.87	6,923	35.03
LO	12	7	C	68	11/13/2007	22.46	6,500	62.43
LO	12	7	P	80	11/13/2007	0.32	6,298	40.05
LO	12	7	C	94	11/13/2007	1.31	6,231	32.51
LO	12	7	C	92	11/13/2007	1.97	6,006	32.26
LO	12	7	C	66	11/13/2007	24.46	5,371	68.97
LO	6	8	C	100	05/15/2008	1.47	5,352	23.29
LO	12	7	P	62	11/13/2007	0.01	5,200	60.68
LO	12	7	C	67.5	11/13/2007	22.96	5,000	64.04
LO	12	7	C	66.5	11/13/2007	23.96	4,000	67.32
LO	12	7	C	95	11/13/2007	1.05	3,180	32.57
LO	12	7	C	91	11/13/2007	2.38	2,986	32.11
LO	2	8	P	86	01/16/2008	3.43	2,950	27.05
LO	12	7	C	50	11/13/2007	40.46	2,950	130.05
LO	1	8	P	85	12/13/2007	1.99	2,617	29.52
LO	12	7	P	82	11/13/2007	0.48	2,535	38.05
LO	12	7	P	75	11/13/2007	0.12	2,444	45.52
LO	1	8	C	90	12/13/2007	3.41	2,356	29.13
LO	2	8	P	82	01/16/2008	2.05	2,250	27.87
LO	12	7	P	70	11/13/2007	0.04	2,198	50.26
LO	1	8	C	88	12/13/2007	4.35	2,150	28.92
LO	2	8	P	87.5	01/16/2008	4.1	2,075	26.85
LO	2	8	C	87.5	01/16/2008	4.73	2,075	26.92
LO	4	8	P	83	03/14/2008	3.66	2,025	25.48
LO	2	8	P	80	01/16/2008	1.59	2,001	28.69
LO	12	7	C	62.5	11/13/2007	27.96	2,000	80.92
LO	12	7	C	63	11/13/2007	27.46	2,000	79.17
LO	12	7	C	60	11/13/2007	30.46	2,000	89.89
OB	3	8	C	2.5	02/26/2008	0.0809	1,225	29.74
OB	1	8	P	2.2	12/26/2007	0.075	1,000	28.34
OB	3	8	C	2.4	02/26/2008	0.109	585	29.09
OB	1	8	P	2.1	12/26/2007	0.0399	425	28.30
OB	5	8	P	2.4	04/25/2008	0.1688	300	27.59
OB	5	8	P	2.32	04/25/2008	0.131	215	27.49
OB	5	8	C	2.46	04/25/2008	0.1678	215	27.86
OB	5	8	C	2.2	04/25/2008	0.3052	200	28.24
OB	6	8	P	2.32	05/27/2008	0.1345	200	25.53
OB	12	7	C	2.23	11/27/2007	0.0893	200	30.53
OH	1	8	P	2.27	12/26/2007	0.0421	400	27.80
OH	12	7	C	2.43	11/27/2007	0.0852	200	30.03
OH	12	7	P	2.25	11/27/2007	0.0235	158	29.99
OH	11	7	C	2.45	10/26/2007	0.007	145	42.91
OH	1	8	P	2.25	12/26/2007	0.0368	130	27.78
OH	11	7	C	2.3	10/26/2007	0.1087	125	41.84
OH	11	7	C	2.26	10/26/2007	0.1484	125	39.38

The head of Pemex, Jesus Reyes Heróles said two deepwater oilfields under development in US Gulf waters may cause Mexican oil to leak into wells on the other side of the maritime border. The US has been developing deepwater oil reservoirs in up to 10,000 feet of water while Pemex lacks the technology to drill deeper than 3,000 feet and is constitutionally prohibited from teaming up with outside firms who can. He said information of the fields suggest they could eventually be confirmed as transborder fields.



ExxonMobil Corp said it started production at its Marimba North project off the coast of Angola. The project would add about 40,000 bpd of peak production capacity to the existing deep water block 15 production.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 647,000 barrels to 11.229 million barrels in the week ending October 24. It reported that the country's light distillate stocks fell by 200,000 barrels to 6.656 million barrels while middle distillate stocks fell by 26,000 barrels to 7.719 million bpd.

The General Administration of Customs of China reported that the country imported 13.664 million tons of oil in September while its imports in the January-September period stood at 124.069 million tons, up 13.5% on the year. China exported 197,383 tons in September while its exports in the January-September period fell by 42.9% on the year to 2.437 million tons.

India's Oil Ministry said Indian refiners processed 12.74 million tons or 3.11 million bpd of crude oil in September, up 6.9% from 11.92 million tons last year. It reported that India's crude oil production in September was 682,700 bpd, down 2.8% from August's 702,700 bpd. It was down 0.7% on the year. Its crude oil import in September fell by 1.7% on the year to 8.73 million tons as demand growth slowed and some refineries shut units for maintenance. Domestic sales increased by 1.9% on the year. It reported that India's petrol sales increased by 8.4% on the year while diesel sales increased by 2.8%. Meanwhile India exported about 3.2 million tons of oil products in September.

Ecuador's Central Bank said the country's average oil production fell by 6% on the year to 509,000 bpd in August from 544,000 bpd. Petroecuador's output averaged 259,387 bpd in August while private companies' oil production averaged 249,613 bpd.

OPEC's news agency reported that OPEC's basket of crudes increased to \$80.55/barrel on Wednesday from \$80.11/barrel on Tuesday.

Market Commentary

Tight supplies, a weaker dollar, sanctions against Iran and tensions between Iraq and Turkey have pushed crude oil to yet another record high. While the U.S. has had sanctions against Iran since the 1970's and supply shortages due to the Iraqi and Turkish situation wouldn't mean all that much, this was just

enough for speculators to continue their bullish run. The forward curve continues to reflect stronger backward

		Explanation	
CL	Resistance	91.26, 95.49	Thursday's high
	90.46, up \$3.36	90.47, 90.52	
Support		89.30, 88.06, 87.54	Thursday's low
		86.10, 82.00, 80.80, 79.00	
HO	Resistance	243.51	Basis trendline Thursday's high
	240.84, up 6.64 cents	241.15	
Support		238.40, 235.15, 234.65	Thursday's low Previous lows
		229.00, 228.72	
RB	Resistance	224.08, 228.30, 234.30	Previous highs Thursday's high
	223.58, up 8.83 cents	223.70	
Support		220.40, 218.00, 215.55	Thursday's low Previous lows
		209.88, 209.53	

tion with the front end pulling away from the back. As prices tread into new territory it is difficult to pick an upside but it appears that the \$100.00 level is the target. The December/January spread is once again approaching the top of the channel that began back in June and should test the 1.44 level. All things considered, we cannot buck the trend, and therefore would look to buy dips with tight stops. Total open interest in crude oil is 1,415,011 up 6,939, December 423,467 up 138 and January 152,436 down 395. Support for December, comes in 88.06, 87.54, 86.10, 82.00, 80.80 and 79.00. Resistance is set 90.47, 91.26 and 95.49. Meanwhile, the product markets skyrocketed in line with the gains seen in the oil market. The RBOB market opened in overnight trading at a low of 215.55 and continued to trend higher. The market extended its gains to over 8.9 cents as it posted a high of 223.70 ahead of the close. The RBOB market settled up 8.83 cents at 223.58. The heating oil market also posted its low of 234.65 on the opening and never looked back as it continued to trade higher. The market extended its gains to 6.95 cents as it rallied to a new record high of 241.15 and settled at a record 240.84, up 6.64 cents. The product markets are seen continuing their upward trend amid the strength in the crude market. While the markets may see some retracement of today's sharp gains, the markets are seen remaining supported ahead of the weekend. In the RBOB market, support is seen at 220.40, 218.00, 215.55 followed by 209.88 and 209.53. Resistance is seen at 223.70 followed by 224.08, 228.30 and 234.30.

On the option side it is interesting to note that today's upward price drive appears to have been helped along by option activity, given that it appears that 51,000 lots of open interest in the December \$90.00 calls suddenly was suddenly in the money by late in the trading session. Over 11,000 contracts at this strike traded today. It is interesting to note that this strike has basically equal open interest with the \$100 call in December.