



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 26, 2007

UN Secretary General Ban Ki-moon said today that he is worried about Iran's nuclear program but hopes the stand off with the international community can be resolved through dialogue. Meanwhile Iranian émigré opposition group warned today that Iran may be closer to developing a nuclear weapon than the 3-8 year time frame suggested by the IAEA. The group said according to their sources inside the country that Iran's recent replacement of its chief nuclear negotiator with another hardline member of the Revolutionary Guard that is also a close associate with President Ahmadinejad, shows that the regime has sent a clear message that they are closer to the bomb and that no need for negotiations as was the case in previous years.

Market Watch

The White House said higher oil prices was a concern but would not comment on market movements.

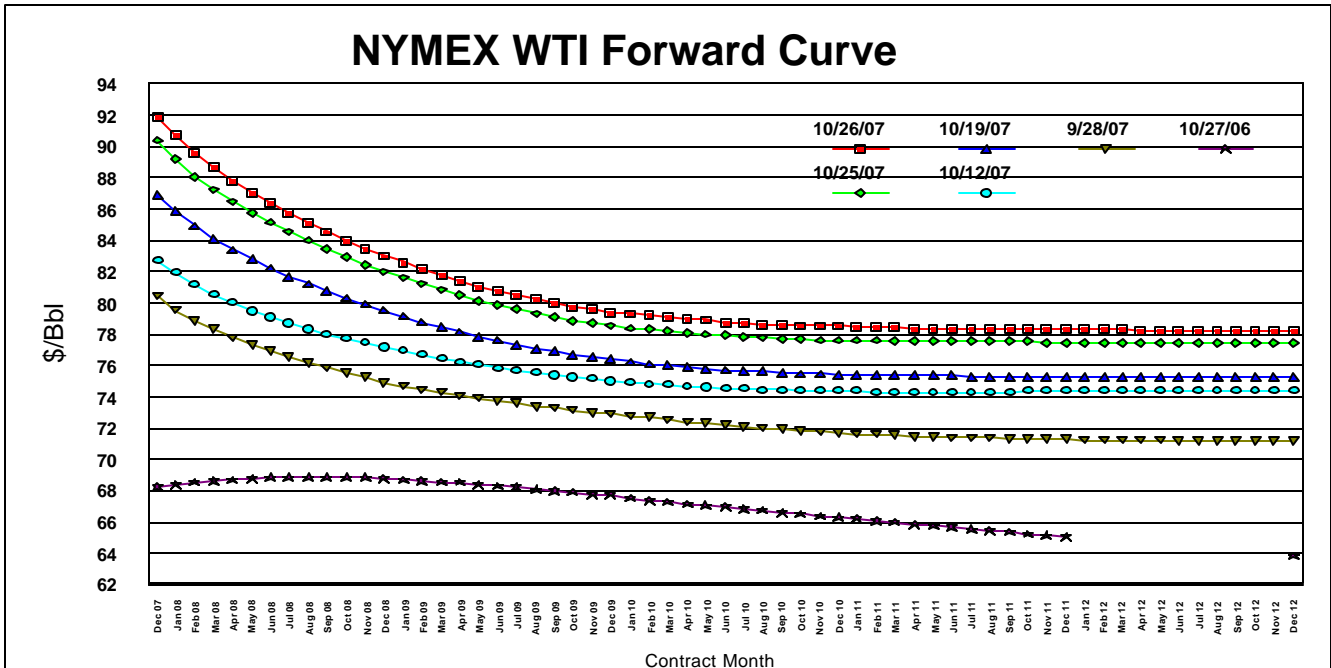
Chinese refiners reported that China is rationing diesel at retail stations in at least four coastal provinces. This appears to be the largest scale rationing since 2003. It appears the inability of refiners to pass along higher crude oil costs has prompted refiners to reduce crude oil runs at their refineries. Some manufactures have reportedly have scaled back operations in Guangdong province given the inability of truck drivers to receive adequate fuel. Some truck drivers which queue up and wait for fuel all night only receive 20 litres of fuel per visit. Rationing reportedly began a week ago. China last raised retail pump prices 17 months ago. Sinopec reported today that it is seeking to import another 60,000 tons of diesel for November, which would equal October imports and keep imports at the high for the year.

China reported that its apparent oil demand grew by only 0.3% in September over year ago levels, the lowest rate of growth in 20 months.

China's National Development and Reform Commission ordered a stop to illegal price increases of LPG and asked major producers to boost supplies. LPG prices which are less regulated than oil products have risen nearly 20% since late September in some locations.

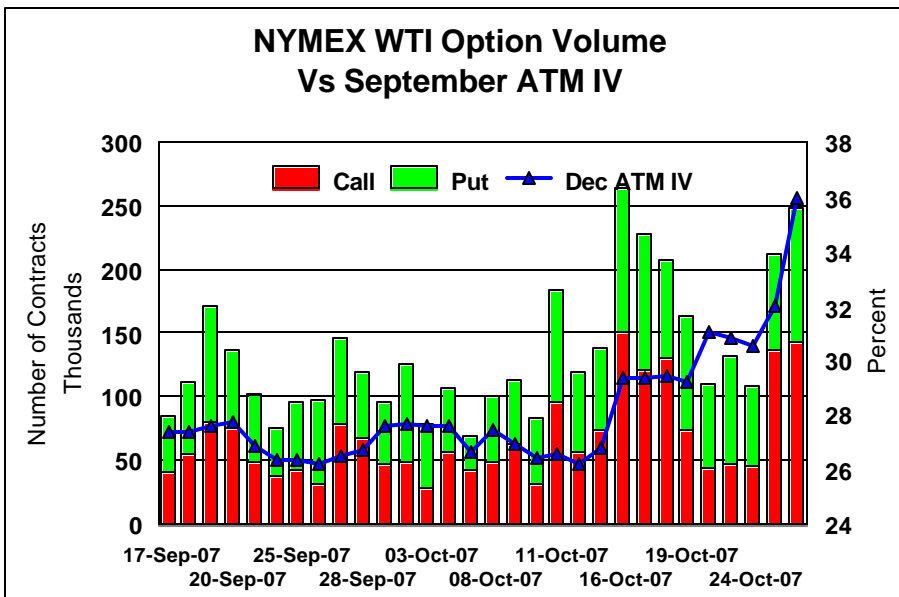
US Defense Secretary Robert Gates characterized US military planning for a strike on Iran as routine. He said the US was focused on diplomatic and economic pressure against Iran. Meanwhile, the head of Iran's Revolutionary Guards dismissed the possibility of a US military action against Iran and warned that his forces would respond with even more decisive strike if attacked.

The IEA's deputy director William Ramsey said the agency is not overly concerned about the possible closure of the Straits of Hormuz if there were a conflict with Iran. He said that while the Strait of Hormuz is indispensable as a passage for oil tankers, it is only Iran which threatening to impede trade



through the passage and Iran is dependent on oil revenues. He added that in case of an emergency, strategic reserves of the IEA member states could be used.

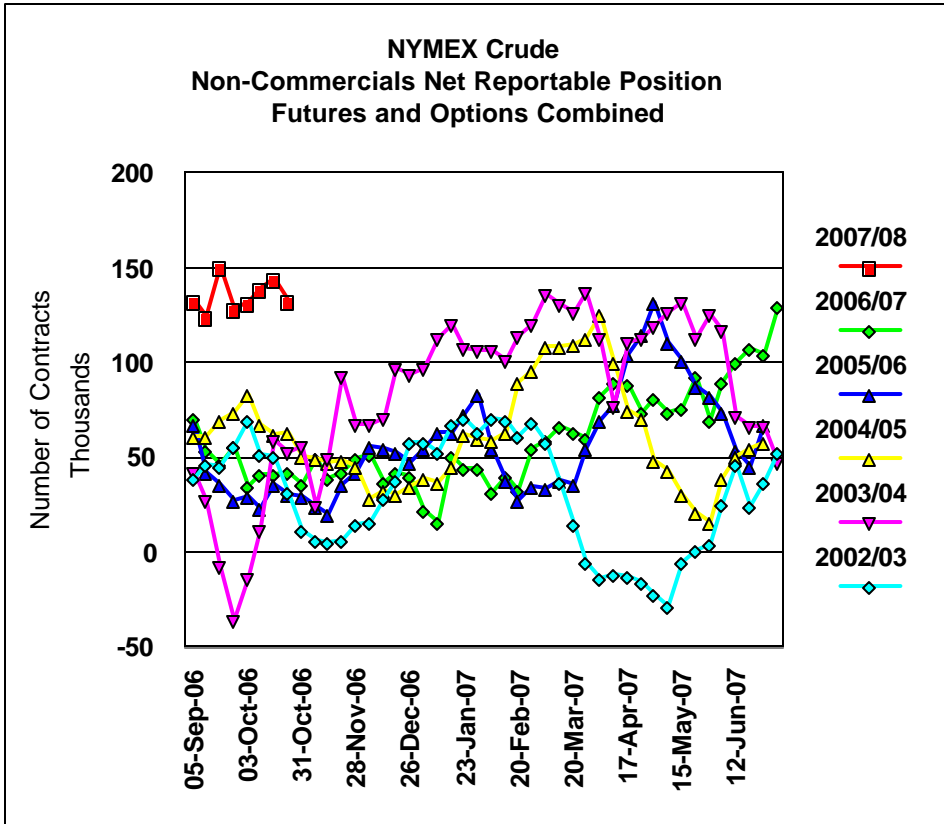
Iran's Foreign Ministry said the new sanctions imposed by the US targeting Iran's Revolutionary Guards were doomed to failure.



China's Foreign Ministry criticized new US sanctions against Iran on Friday, warning the measure could increase tensions over Iran's nuclear program and calling for renewed dialogue.

A senior Turkish diplomat said a series of proposals offered by a high level Iraqi delegation to Turkey to prevent a major military operation against Kurdish rebels in northern Iraq was unsatisfactory. Turkey's Prime Minister Recep Tayyip Erdogan said the US desire to protect the north would not hinder Turkey's fight against

members of the Kurdistan Workers Party. Meanwhile, Turkey's Deputy Prime Minister Cemil Cilik has called on Iraq to hand over all members of the separatist Kurdistan Workers Party. He also stated that Turkish air forces hit targets in northern Iraq but there had been no full land incursion. Turkish warplanes and Cobra helicopters bombed separatist hideouts in the border region inside Turkey. Parliament speaker Koksal Toptan said the Turkish public was upset over the perceived US inaction.



The US is opposed to a unilateral military move by its North Atlantic Treaty Organization ally, fearing it would destabilize Iraq's north.

Refinery News

Valero Energy Corp said its 285,000 bpd refinery in Aruba returned to full rates. The refinery was shut in early October due to a power outage.

Chevron's 265,000 b/d El Segundo, Ca refinery was operating normally again Thursday night following a problem at a compressor unit that feeds a reformer on Wednesday.

South Korea's Incheon Oil has cut its crude oil

processing rate to 170,000 b/d from 190,000 b/d due to continued volatile refining margins.

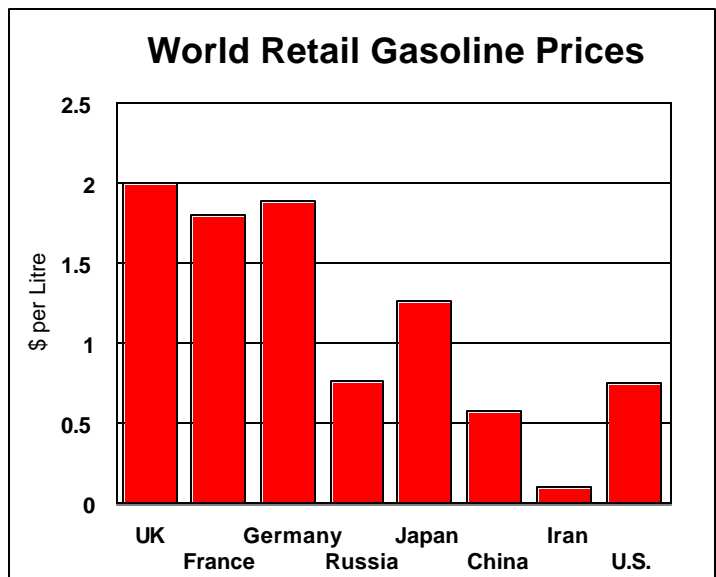
Japan's Kyushu Oil has shut its 26,000 b/d residue fluid Cat cracking unit at its Oita refinery in southwestern Japan on October 25th for unplanned maintenance.

Production News

OPEC seaborne oil exports excluding Angola, jumped a million barrels per day in the first two weeks of October versus the last two weeks of September, according to Llyod's Marine Intelligence Unit. Exports averaged 23.46 mbd. The group said that most of the extra supply was heading toward Asian markets. The group said it was too early to tell whether exports were tailing off in November, as Oil Movements reported earlier this week.

Petrologistics said OPEC supply would likely increase by 1.6% in October ahead of the group's pledge to increase supplies beginning in November.

The Italian oil company, Eni, reported that Nigerian gunmen kidnapped six workers from its oil production facility located off the Nigerian coast. Production at the facility was halted shutting in some 50,000 b/d.



According to executives and traders, Russia is not expected to meet new European Union standards for lower sulfur content in diesel from 2008 and would face a further price decline for the low quality product. They said refinery were not ready for the change. The new EU standards cut the sulfur content by 50% in diesel to 1,000 parts per million or 0.1%.

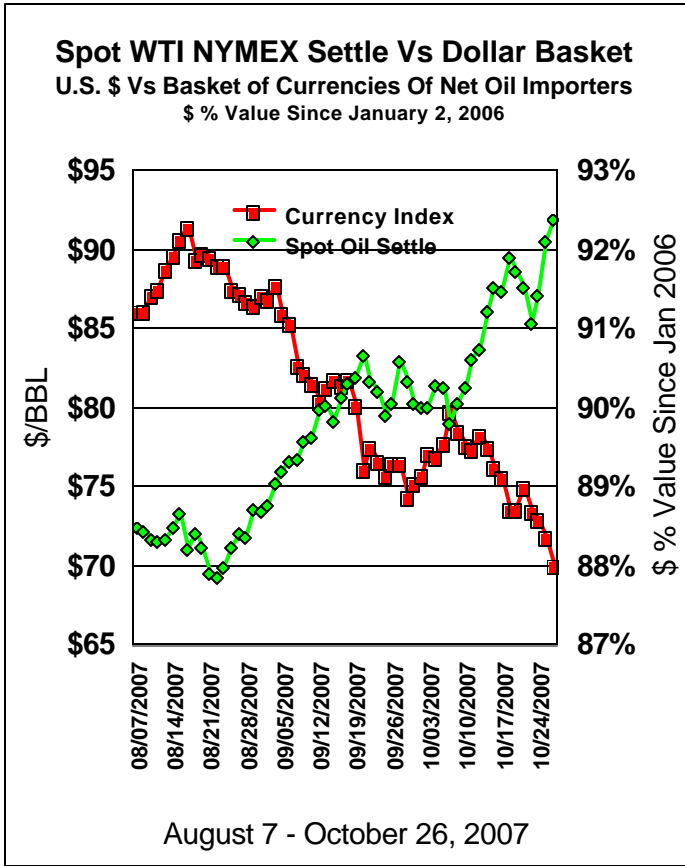
Mexico's Pemex said its crude shipments were back to normal after bad weather shut its main Gulf of Mexico exporting ports this week. A Pemex spokeswoman said that while some shipments were delayed by a few days, it would not affect Mexico's monthly oil export levels.

Venezuela's President Hugo Chavez approved a transfer decree giving Petrodelta, a joint venture between Harvest Natural Resources and PDVSA, the right to begin production. Petrodelta could drill, pump, transport and store oil for 20 years, effective immediately.

Petrobras said its 180,000 bpd P-52 platform is scheduled to start operations in the coming days. The P-52 platform would substitute the FPSO Brazil platform that has a capacity of 100,000 bpd and currently pumps from the Roncador field. The platform is scheduled to

NYMEX Petroleum Options Most Active Strikes for October 26, 2007

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	12	7	C	100	11/13/2007	0.77	15,709	40.05
LO	12	7	C	93	11/13/2007	2.41	8,207	36.09
LO	1	8	C	100	12/13/2007	1.36	7,772	33.35
LO	1	8	C	90	12/13/2007	4.45	6,208	31.50
LO	12	7	C	92	11/13/2007	2.85	6,028	35.99
LO	3	8	P	75	02/14/2008	1.07	5,508	30.04
LO	12	7	C	98	11/13/2007	1.05	5,332	38.55
LO	3	8	P	70	02/14/2008	0.53	5,297	31.50
LO	3	8	P	85	02/14/2008	3.47	4,703	27.23
LO	12	7	P	80	11/13/2007	0.23	4,512	41.48
LO	9	8	P	66	08/15/2008	1.41	4,300	27.44
LO	5	8	P	84	04/17/2008	4.43	4,050	25.66
LO	12	7	C	60	11/13/2007	31.86	3,595	95.02
LO	1	8	P	85	12/13/2007	1.81	3,395	32.06
LO	3	8	P	80	02/14/2008	1.99	3,304	28.56
LO	12	7	C	95	11/13/2007	1.69	3,025	36.37
LO	2	8	C	90	01/16/2008	4.58	2,865	28.58
LO	12	7	C	50	11/13/2007	41.86	2,825	135.95
LO	1	8	P	89	12/13/2007	3.24	2,807	31.44
LO	12	7	C	90	11/13/2007	3.92	2,776	36.15
LO	12	7	P	90	11/13/2007	2.06	2,713	36.06
LO	6	8	P	50	05/15/2008	0.07	2,700	33.07
LO	12	7	C	63	11/13/2007	28.86	2,630	84.09
LO	12	7	C	62	11/13/2007	29.86	2,630	87.67
LO	1	8	C	70	12/13/2007	20.82	2,600	44.74
LO	12	8	C	82.5	11/17/2008	7.58	2,550	23.50
LO	12	8	P	82.5	11/17/2008	7.06	2,550	23.42
LO	4	8	P	85	03/14/2008	4.17	2,300	26.36
LO	3	8	C	88	02/14/2008	5.43	2,225	26.81
LO	3	8	P	88	02/14/2008	4.73	2,225	26.72
LO	9	8	P	72	08/15/2008	2.51	2,150	26.20
LO	12	7	C	62.5	11/13/2007	29.36	2,100	85.87
LO	1	8	P	80	12/13/2007	0.87	2,077	34.55
LO	12	7	C	91.5	11/13/2007	3.1	2,064	36.07
LO	12	10	C	120	11/16/2010	1.49	2,000	20.19
LO	12	9	C	120	11/17/2009	1.25	2,000	22.40
OB	12	7	C	1.7	11/27/2007	0.5775	600	53.83
OB	12	7	C	1.45	11/27/2007	0.8275	500	83.06
OB	1	8	P	2.1	12/26/2007	0.0324	455	28.30
OH	12	7	C	2.44	11/27/2007	0.0947	457	31.07
OH	2	8	P	2.35	01/28/2008	0.0834	375	27.82
OH	3	8	C	2.36	02/26/2008	0.1967	359	28.11
OH	12	7	C	2.2	11/27/2007	0.2626	350	31.68
OH	1	8	P	2.3	12/26/2007	0.0436	340	27.84
OH	1	8	C	2.35	12/26/2007	0.1766	306	28.03
OH	12	7	C	2.25	11/27/2007	0.2205	300	31.38
OH	1	8	P	2.33	12/26/2007	0.0527	300	27.84
OH	12	7	C	2.43	11/27/2007	0.0998	200	31.11



reach output of up to 50,000 bpd by year end and likely will reach its peak output by mid-2008. Petrobras' 180,000 bpd P-54 that would also pump from the Roncador field and the 100,000 bpd FPSO Cidade de Vitoria that would pump from the Golfinho field would also start output in mid-November. Petrobras' domestic production in 2007 is expected to average 1.84 million bpd.

Vietnam's crude oil output in October is expected to fall 6.2% from last month to 296,600 b/d. Last month's production estimate though was revised upward from 268,940 to 316,350 b/d. meanwhile the government of Vietnam reported that industrial output in the first 10 months of this year was expected to rise 17% from a year earlier, while crude oil production was off 11.4% from the same period a year ago.

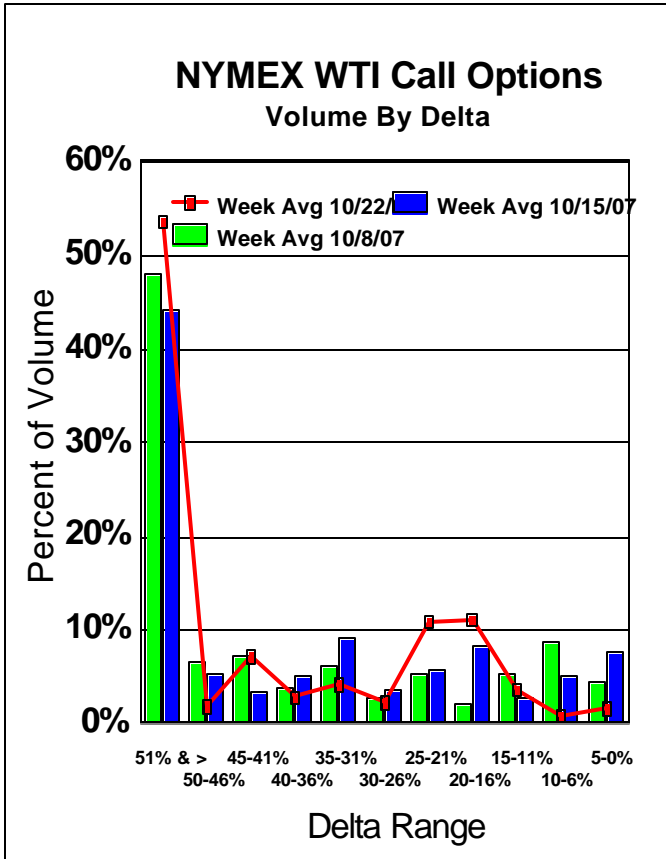
Market Commentary

Once again the bulls came out in full force today, posting yet another record high in crude oil. The continued lack of bearish news has not given an opportunity for a correction, which is

rare given how strong and quickly this market has run up. The December/January spread is not indicative of a shortage of supply, which leaves one to wonder why all the hype? Demand from China and India has not slowed, the dollar fell yet again to a record low against the euro leading to speculation that the Federal Reserve will make another rate cut. All this has lead to a belief that we will experience an economic slow down. All this seems to add to the bullish sentiment, and a belief that prices will definitely reach the \$100.00 mark. These factors appear to give cause for bulls to fulfill their belief that the aforementioned target will be met. One would think that in options calls would out pace puts, but that is not the case, total open interest in crude options is 3,773,062 with calls totaling 1,562,828 and puts totaling 2,210,234. One hundred dollar calls have 57,200 in open interest and sixty puts are totaling 50,089. We would expect the market to stretch towards that \$100.00 level up to option expiration. Total open interest in crude oil is 1,434,669 up 19,658, December 437,168 up 13,701

and
 January
 159,233
 up 6,797.
 Support
 for
 December,
 comes in
 88.06,
 87.54,
 86.10,
 82.00,
 80.80 and

		Explanation	
CL	Resistance	95.49	
		92.22	Friday's high
	Support	91.50, 90.20	Friday's low
		88.06, 87.54, 86.10, 82.00, 80.80, 79.00	
HO	Resistance	245.54	Basis trendline
		243.99	Friday's high
	Support	242.76, 240.67	Friday's high
		234.65, 229.00, 228.72	Previous lows
RB	Resistance	228.30, 234.30	Previous highs
		227.65	Friday's high
	Support	225.60, 223.45, 223.05	Friday's low
		215.55, 209.88, 209.53	Previous lows



Resistance is seen at 227.65, 228.30 and 234.30.

The Commitment of Traders report showed that non-commercials cut their net long position by 27,972 lots to 60,026 in the week ending October 23. The combined futures and options report also showed that non-commercials cut their net long positions by 12,022 contracts to 131,851 contracts on the week. However given the market's move the past few trading sessions and the increase in open interest, non-commercials have increased their net long position once again. The report also showed that non-commercials in the product markets increased their net long position. Non-commercials in the RBOB market increased their net long position by 4,071 contracts while non-commercials in the heating oil market increased their net longs by 271 contracts to 35,198 contracts on the week.

79.00. Resistance is set 90.47, 91.26 and 95.49. The product markets continued to rally on the back of the crude market's strength. The RBOB market once again posted its low of 223.05 in overnight trading and traded in a two cent trading range for much of the day from 224.10 to 226.10. The market later traded back towards its low before it bounced back ahead of the close. It rallied to a high of 227.65 on the close and settled up 3.82 cents at 227.40. The heating oil market posted yet another record high of 243.99 after the market posted a low of 240.67. It settled up 2.41 cents at 243.25. The markets will continue to be driven by the news over the weekend. The markets are technically still trending higher as the crude market continues to trade higher. In the RBOB market, support is seen at finding support at 225.60, 223.45, 223.05 followed by 215.55, 209.88 and 209.53.

