



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR FEBRUARY 3, 2010

OPEC's Secretary General Abdallah Salem El-Badri said OPEC's compliance level of 55-56% in January, down from 80% a year earlier is "worrying." He said there is a risk that prices will fall.

A US official said the US is ready to listen if Iran was proposing a new offer to an impasse over its disputed nuclear program. Meanwhile, US Defense Secretary Robert Gates said Iran faces the prospect of severe sanctions imposed by the US and other powers over its nuclear program. Iran's President Mahmoud Ahmadinejad on Tuesday said Iran was ready to send its enriched uranium abroad in

Market Watch

The Institute for Supply Management said the US services sector grew slightly in January. It said its services index increased to 50.5 in January from 49.8 in December. It is slightly below the average forecast of 51.

ADP reported that US private employers cut 22,000 jobs in January, less than the 61,000 jobs lost in December. December's job cut was revised to 61,000 from an original estimate of 84,000.

The US Labor Department's January payroll report on Friday is expected to show that nonfarm payrolls increased by 5,000 after an unexpected 85,000 decline in December. The unemployment rate is expected to increase to 10.1% from 10% in December. The Department of Labor has estimated that the level of employment for the 12 months to March 2009 will be revised down by about 824,000, meaning there were more jobs lost than previously estimated.

Two House committee chairmen have filed a bill to block the EPA from regulating greenhouse gases under its own power. They said Congress, not unelected bureaucrats, should set environmental policy. The EPA cleared the way for regulation under air pollution laws a month ago, when it ruled that greenhouse gases endanger human health. The EPA could act as early as March to offer regulations. Efforts were being made in both chambers of Congress to derail EPA regulation. Besides blocking EPA regulation of six gases, including carbon dioxide, methane and nitrous oxide, blamed for global warming, the House bill would remove two roadblocks to greater use of biofuels. It would also bar EPA from holding US fuels responsible for forest clearing and cropland expansion overseas.

Separately, the EPA said that ethanol and other renewable fuels must account for 8.25% of total gasoline sales in 2010 to meet Congress' mandate for the production of nearly 13 billion gallons of renewable fuels. However it lowered the original 100 million gallon cellulosic ethanol output target Congress set for this year to 6.5 million gallons. The EPA set the 2009/2010 combined biomass diesel output target at 1.15 billion gallons.

The CFTC said its recent rule enforcement review of the IntercontinentalExchange's US futures exchange found that ICE lacked the compliance staff needed to conduct self regulatory responsibilities. It said the ICE should hire additional staff and monitor the compliance division's size and workload. It also said the ICE should conduct annual open outcry saturation record keeping reviews, re-examine its trading card compliance program to get a better compliance record, make sure the department uses its authority to issue meaningful fines to violators, improve its audit trail program, complete investigations in a more timely manner and record the dates on which completed investigative reports are approved by compliance staffers.

The head of the IAEA, Nobuo Tanaka said the US must adopt a carbon pricing system if it hopes to meet its UN commitments on greenhouse gas emissions. He said the US' 2020 target of cutting carbon emissions by 17% from 2005 levels meant it would have to adopt new legislation imposing a cost on carbon waste. He said the US Senate needed to pass an energy bill, already approved by the House of Representatives, which would allow a cap-and-trade system to set limits on greenhouse gas emissions and allow companies to trade permits. He also stated that greater transparency was needed to address the volatility of energy markets and added the IEA was organizing a seminar at the end of February in Tokyo to discuss the matter.

DOE Stocks

Crude – up 2.317 million barrels

Distillate – down 948,000 barrels

Gasoline – down 1.306 million barrels

Refinery runs – down 0.8%, at 77.7%

exchange for nuclear fuel. Iran's Foreign Minister Manouchehr Mottaki said that a UN proposal for Iran to have its low enriched uranium converted to fuel abroad was positive and called for more talks on the issue. Meanwhile, Germany's Chancellor Angela Merkel said Iran must agree to cooperate with the IAEA before its willingness to strike a nuclear fuel deal can be evaluated. China's Foreign Minister Yang Jeichi said

he believed it was urgent to continue negotiations to resolve the standoff with Iran.

Nigeria's Defense Minister Godwin Abbe denied that an amnesty program for former militants in the Niger Delta region was failing after the main militant group, the Movement for the Emancipation of the Niger Delta threatened further attacks on the energy industry. He sought to reassure the former rebels that the government would follow through on promises to provide them with education and job opportunities. Former rebels and security sources say the amnesty efforts have been hindered by Nigeria's President Umaru Yar'Adua's absence.

President Barack Obama will outline a strategy to revive US production of biofuels on Wednesday. It is part of the administration's effort to gain more votes for a climate bill stalled in the Senate that will seek to increase production of low-carbon energy and to increase energy independence. President Obama and members of his Cabinet are scheduled to meet on Wednesday with state governors to discuss energy policy and the opportunities and challenges presented by the transition to a clean energy economy. The biofuel industry is concerned that the Obama administration will move too quickly away from ethanol to more difficult techniques using wood chips and other biomass. Separately, a government inter-agency panel said the US is not on target to meet a Congressional mandate to produce 36 billion gallons of biofuels a year by 2022 or produce 100 million gallons of cellulosic ethanol a year by 2010.

Refinery News

Valero Energy Corp will conduct maintenance at a complex at the west plant of its 340,000 bpd Corpus Christi, Texas refinery. Emissions resulting from the maintenance are expected to last until February 4th.

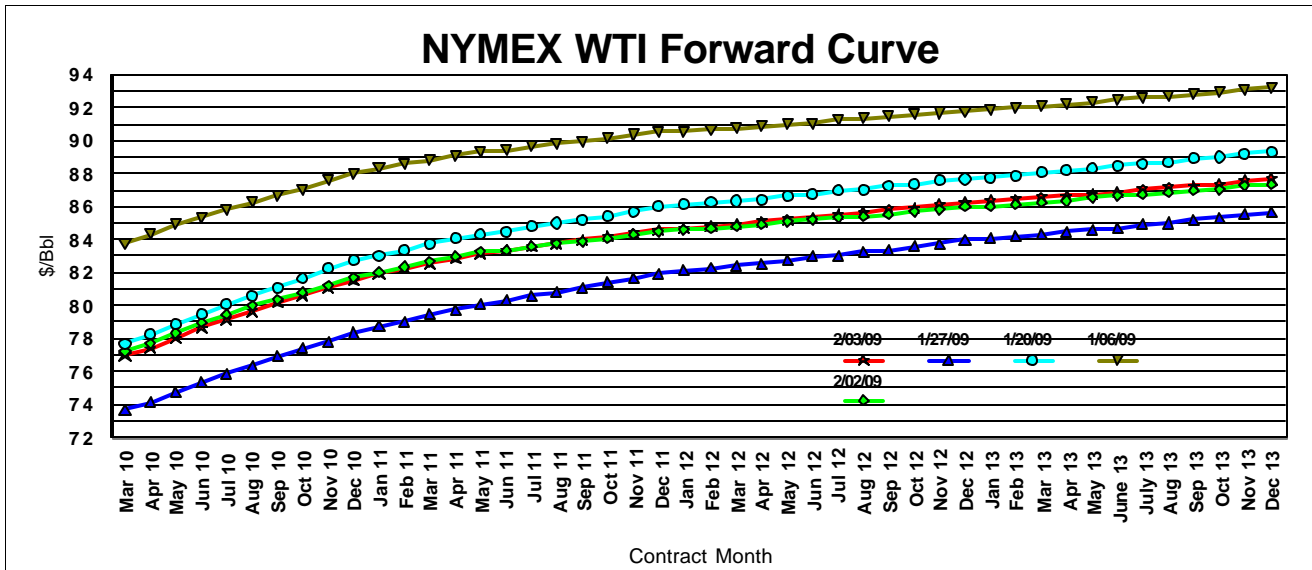
Planned maintenance work is still underway at ConocoPhillips' 280,000 bpd refinery in Lake Charles, Louisiana and its 263,000 bpd Bayway complex in Linden, NJ.

Tesoro Corp said it expects its seven refineries to run between 460,000 bpd and 500,000 bpd or 69% and 75% of combined throughput in the first quarter of 2010. It said it scaled back work at its 166,000 bpd Golden Eagle refinery in California that started in December. It is conducting work on a catalytic cracking unit, mainly for regulatory reasons. It originally planned to conduct a major turnaround but will defer it to 2011. It expects crude throughput to be about 30,000 bpd lower during the first quarter. Tesoro has scheduled maintenance at its 58,000 bpd Salt Lake City refinery during the first quarter. It has also scheduled maintenance at its 60,000 bpd refinery Mandan, North Dakota for the second quarter while work at the 94,000 bpd refinery in Kapolei, Hawaii will start in the third quarter.

ExxonMobil shut part of its Fawley refinery for maintenance work on a fluid catalytic cracking unit. It said the maintenance started in mid-January.

Venezuela's Cardon refinery restarted operations of its catalytic cracking unit after the unit was closed in late 2008 for work to expand its output. The unit is processing 66,000 bpd of its total capacity of 104,000 bpd and is expected to reach its full capacity by the end of February.

**February
Calendar Averages**
CL – \$76.21
HO – \$2.0020
RB – \$1.9954



Saudi Aramco has completed maintenance as scheduled on the asphalt unit of its 550,000 bpd Ras Tanura refinery. The unit is operating at full capacity.

French unions, CGT, FO and Sud set February 15 as the deadline for Total to restart the closed Dunkirk refinery. The unions said they will take control of the refinery if Total's management fails to meet the demands. Total closed the Dunkirk refinery for an unspecified duration on September 15 due to poor demand.

China's WEPEC will cut its crude oil processing in February by more than 10% to 150,000 bpd due to an unexpected shutdown of its 60,000 bpd catalytic cracking unit.

The Petroleum Association of Japan reported that the country's crude oil stocks in the week ending January 30th fell by 460,000 barrels on the week and by 9.3 million barrels on the year to 94.87 million barrels. Japan's gasoline stocks increased by 90,000 barrels on the week and by 1.58 million barrels on the year to 14.44 million barrels while its kerosene stocks increased by 600,000 barrels on the week and by 1.26 million barrels on the year to 14.9 million barrels and its naphtha stocks fell by 470,000 barrels on the week to 9.8 million barrels. Japanese refiners ran their facilities at an average 82.2% of total capacity, down 0.5% on the week but up 0.2% on the year. The PAJ also reported that Japan's total oil product sales fell by 8% on the week and by 6.6% on the year to 3.16 million bpd. Japan's gasoline sales fell by 1.8% on the week and by 2.2% on the year to 930,000 bpd while kerosene sales fell by 25.1% on the week and by 18.8% on the year to 480,000 bpd and gas oil sales fell by 1.2% on the week but increased by 24.6% on the year to 600,000 bpd. The PAJ also reported that Japan's naphtha sales increased by 65.4% on the week and by 9.6% on the year to 510,000 bpd.

Turkish shipping authorities closed the Bosphorus Strait to southbound traffic from the Black Sea while northbound traffic through the Dardanelles was also halted due to bad weather conditions. At least two ships with cargo of between 80,000 and 150,000 metric tons of crude were waiting at the northern end of the Bosphorus Strait. Six northbound and eight southbound vessels were waiting to pass through the Bosphorus while eight northbound and five southbound vessels were awaiting passage through the Dardanelles.

Production News

Nigeria's crude oil exports are expected to fall in March due to production problems affecting the Forcados stream. According to preliminary loading schedules, Nigeria is expected to load 1.79 million bpd in March, down from a revised 1.81 million bpd in February. Royal Dutch Shell was forced to

shutdown three pumping stations in the Niger Delta after a crude pipeline was sabotaged, cutting production from the Forcados stream.

Iran's Deputy Oil Minister Seifollah Jashnsaz said the country's Azadegan oil field has reached a production level of 40,000 bpd and will soon reach 50,000 bpd.

The National Iranian Oil Co said Italy's Eni SpA has not withdrawn from talks on developing the third phase of Iran's Darkhovin oil field. This follows a statement made by Italy's Prime Minister Silvio Berlusconi that Eni had canceled an unspecified third development phase in Iran.

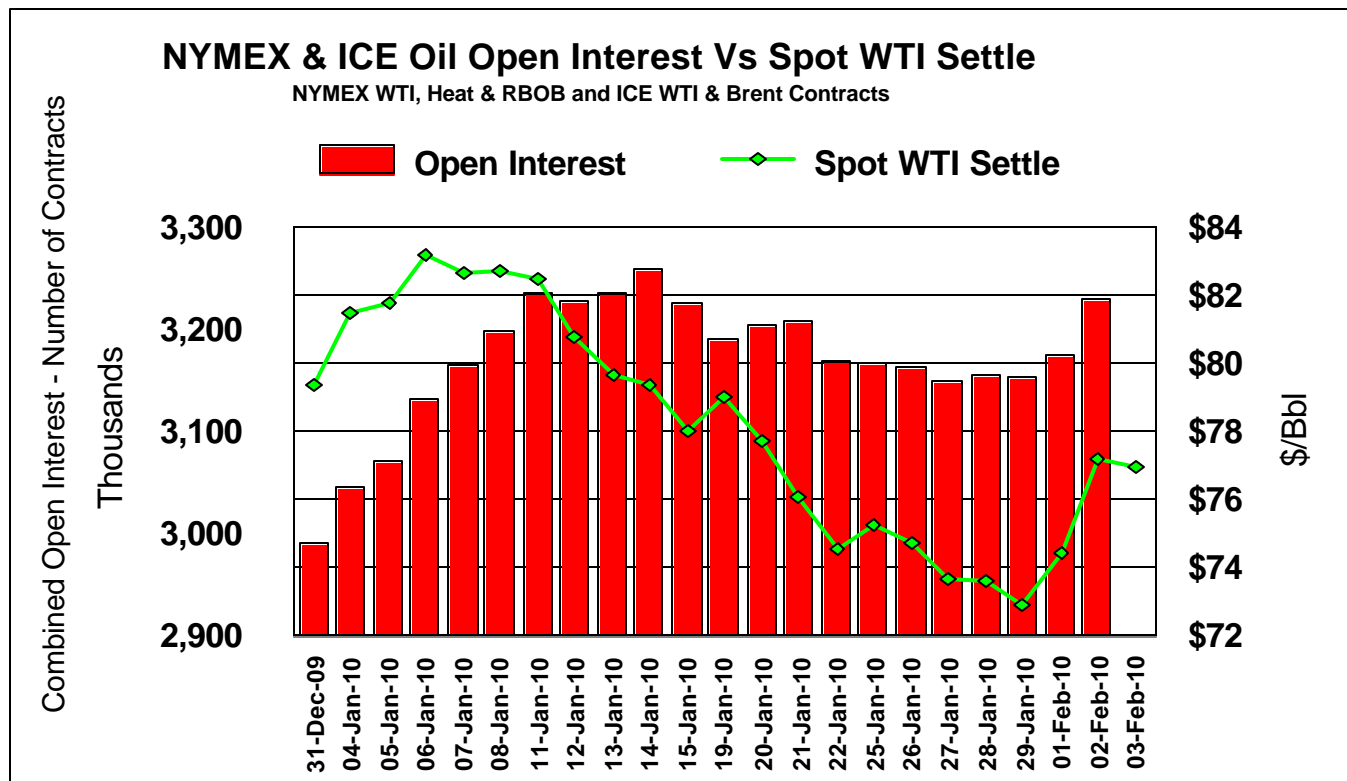
China's National Bureau of Statistics reported that the country's crude oil production in 2009 fell by 0.4% on the year to 189.49 million tons or 3.79 million bpd while its natural gas production increased by 7.7% to 82.99 billion cubic meters or 8.03 billion cubic feet/day.

Russia's Natural Resources Minister Yuri Trutnev said Russia has fully replaced oil output with new reserves since the collapse of the Soviet Union. He said Russian oil reserves as of January 1st were equal to the reserves of 1990. About 7 billion tons or 51.3 billion barrels produced since then has been fully replaced with new reserves.

Brazil's OGX estimated recoverable oil reserves from its OGX-3 well at 500 million to 900 million barrels. On Monday, it estimated recoverable reserves from drilling at the OGX-4 well at 100 million to 200 million barrels.

Ecuador's Petroecuador reported that the country's average oil production last year fell by 4% to 486,049 bpd from 506,104 bpd in 2008. Petroecuador's output averaged 281,553 bpd during 2009 while private companies produced 204,496 bpd.

Libya's National Oil Co is proceeding with its expansion plans to increase its production capacity from 2 million bpd to at least 2.5 million bpd by 2015 and will spend up to \$6 billion in 2010.



Saudi Aramco lifted most of its official selling prices for March term crude supplies to Northwest Europe. It set its Arab Extra Light crude bound for Northwest Europe at BWAVE minus \$1, unchanged on the month; its Arab Light crude at BWAVE minus \$1.65, up 15 cents on the month; its Arab Medium crude at BWAVE minus \$2.65, up 35 cents and its Arab Heavy crude at BWAVE minus \$3.10, up 55 cents. Meanwhile Saudi Aramco set its Arab Extra Light crude bound for the US at the Argus Sour Crude Index plus 80 cents, down 20 cents; its Arab Light crude at Argus Sour Crude Index minus 75 cents, down 15 cents; its Arab Medium at the Argus Sour Crude Index minus \$2.20, unchanged on the month and its Arab Heavy at the Argus Sour Crude Index minus \$3.15, up 30 cents. It set its Arab Super Light crude bound for Asia at the Oman/Dubai average plus 90 cents, down 50 cents on the month; its Arab Extra Light crude at the Oman/Dubai average plus 70 cents, down 20 cents; its Arab Light crude at the Oman/Dubai average minus 15 cents, down 25 cents; its Arab Medium at the Oman/Dubai average minus 95 cents, down 10 cents and its Arab Heavy crude at the Oman/Dubai average minus \$1.65, unchanged on the month.

Qatar raised its January retroactive official selling price for Qatar Marine crude by \$1.33 to \$76.18/barrel. It also raised its Qatar Land crude price by \$1.43 to \$76.95/barrel.

OPEC's news agency reported that OPEC's basket of crudes increased sharply to \$73.05/barrel on Tuesday from \$71.02/barrel on Monday.

Market Commentary

Both heating oil and crude oil traded in a choppy fashion as they reacted to today's release of the DOE report, which reflected a 2.3 million barrel increase in crude oil inventories and a decrease in distillate inventories of 1 million barrels. Despite the inventory draw, distillate stock levels remain high and are running in the upper boundary of the average range for this time of year, with demand lagging by 9.1 percent based upon a four-week average. Crude oil inventories are above the upper limit of the average range for this time of year. Gasoline reacted strongly to the unexpected 1 million barrel decrease in stock levels. This draw in inventories is more of a reflection of refinery cuts rather than an increase in demand, which dropped 0.5 percent based on a four-week average. The overall fundamental picture still illustrates a saturated industry which is suffering a lack of demand. The dollar is still relatively strong compared to the last time crude oil prices were at this level. Technically, there still appears to be more room to the upside for all three markets but we would rather be sellers than buyers at this point in time and therefore would wait for this technical correction to end. Gasoline should encounter resistance up around the \$2.0850 level, with heating oil encountering resistance around \$2.0665 and crude oil running into resistance at \$79.86.

Crude oil MAR.10 343,139 +4,832, Apr. 10 140,594 +3,219, May 10 99,661 +6,304 Totals 1,360,999 +35,948 Heating oil MAR.10 98,486 -3,421, APR10 42,791 +2,411 May 10 29,452 +638 Totals: 312,191 -306 Gasoline MAR.10 87,987 +415 APR10 45,172 +3,049 May 10 28,572 +1,407 Totals: 258,122 +6,774

Crude Support Based on February	Crude Resistance Based on Feb
72.49, 72.00 , 70.42, 65.05, 64.70, 63.38, 62.70, 61.61, 60.95	78.36, 79.86, 81.00, 82.00, 84.83, 85.40, 86.60, 88.80, 89.88
Heat Support	Heat resistance
1.9750, 1.8903, 11.8890, 1.8700, 1.8570, 1.8280, 1.7670, 1.7565	2.0665, 2.2270, 2.2575, 2.4200
Gasoline support	Gasoline resistance
1.8800, 1.8650, 1.85.65, 1.7900, 1.7200 1.6600	2.0846, 2.1930, 2.2270, 2.3350,

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