

W The
Windham Group



ENERGY RISK MANAGEMENT

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

www.e-windham.com

ENERGY MARKET REPORT FOR FEBRUARY 14, 2011

UAE Oil Minister Mohammed Al Hamli said the oil market is well supplied and added that prices reacted to the turmoil in Egypt and not market fundamentals. He stated that there are signs of a gradual increase in demand.

ICAP Shipping reported that middle distillate stocks held in floating storage globally increased to 22.8 million barrels as of February 14th from 16.6 million barrels as of January 18th. The volume

held in the English Channel doubled to 12.6 million barrels or 1.66 million tons by mid-February. Gasoil stocks increased to almost three quarters of the total volume of distillates in floating storage at 73%, up from 52% in mid-January.

The EIA reported that the US average retail price of diesel fuel increased by 2.1 cents/gallon to \$3.534/gallon in the week ending February 14th. The EIA also reported that the US average retail price of gasoline increased by 0.8 cents/gallon to \$3.14/gallon on the week.

President Barack Obama proposed increasing funds for clean energy research and deployment in his 2012 budget cut cutting subsidies for fossil fuels such as oil, gas and coal. The budget provides the Department of Energy \$29.5 billion for fiscal year 2012, up 4.2% from the proposed 2011 budget and up 12% from the enacted 2010 budget. The budget provides \$8 billion for clean energy research. The White House is asking Congress to repeal \$3.6 billion in oil, natural gas and coal subsidies, a

Market Watch

Magellan Midstream Partners said construction of a crude oil storage project is estimated to cost about \$110 million.

The National Weather Service reported that US heating demand this week is expected to be 24.2% below normal. Demand for heating oil this week will average 22.3% below normal while heating demand for natural gas will average 23.9% below normal. Last week, heating demand was 16.7% above normal.

European Union statistics agency Eurostat reported that Euro zone industrial production in December was down 0.1% month but up 8% on the year.

Japan's economy contracted slightly in the final quarter of 2010. Its GDP contracted 0.3% in the fourth quarter. The country's annualized contraction was 1.1%.

India's wholesale price index in January increased by 8.23% on the year due to higher food prices. The annual reading for November was upwardly revised to 8.08% from 7.48%.

France's Economy Minister Christine Lagarde said the country is not proposing price controls on commodities under its presidency of the Group of 20.

United Communications Group said it had terminated an agreement to sell its subsidiary Oil Price Information Service (OPIS) to Platts, citing customer dissatisfaction with the deal. In December, Platts said it would buy OPIS for an undisclosed amount.

**February
Calendar Averages**
CL – \$87.95
HO – \$2.7386
RB – \$2.4880

move that would total \$46.2 billion over a decade. The White House also proposed large funding increases for US market regulators. The budget proposed a 28% increase to \$1.427 billion in SEC funding and an 82% increase to \$308 million in CFTC funding.

Venezuela’s Oil Minister Rafael Ramirez said the country spends more than \$1.5 billion a year on subsidy that keeps the country’s domestic fuel prices at the world’s lowest level. Fuel costs nearly 10 cents/gallon in Venezuela.

Egypt’s army called for national solidarity, urged workers to play their role in reviving the economy and criticized strike action. Egypt’s ruling Higher Military Council hopes to finalize constitutional amendments within 10 days and put them to a referendum within two months. The military said on Sunday it had dissolved parliament and suspended the constitution and would govern the country for a period of six months or until new elections are held.

The director general of the UN’s IAEA, Yukia Amano said Iran is steadily producing enriched uranium. The official expressed concern that Iran might be pursuing military goals.

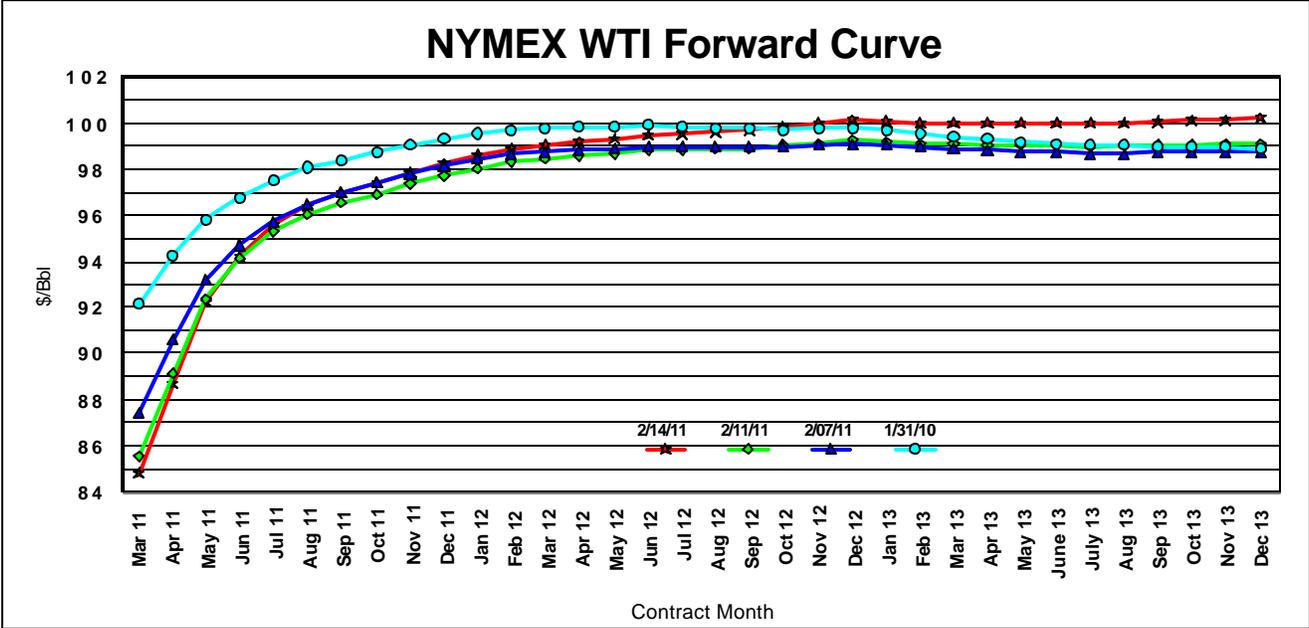
Iranian security forces fired teargas in central Tehran on Monday to disperse opposition supporters marching in a banned rally inspired by popular uprisings in Egypt and Tunisia.

Refinery News

Colonial Pipeline is freezing nominations on its Linden Delivery Line L6 servicing deliveries to BP/Amoco and Kinder Morgan Carteret for Cycle 7 starting February 14th. It also said it would allocate Linden Delivery Line segment L2-IMTT, servicing deliveries to IMTT Bayonne for Cycle 8. It also reported that it was allocating its Line 32, servicing deliveries between Dorsey Junction and Curtis Bay in Maryland, for Cycle 12 and nominations on the pipeline exceed the company’s ability to meet the five day delivery cycle.

Enbridge Inc is proceeding with a \$560 million expansion of its Bakken pipelines, adding 145,000 bpd of new capacity. It will expand its North Dakota and Saskatchewan pipeline systems in order to handle increasing oil output from the Bakken field. The project would provide needed pipeline space in the region.

Valero Energy Corp said there was no impact on production from a regenerative thermal oxidizer



snag in the waste water treatment plant at its 287,000 bpd Port Arthur, Texas refinery.

Motiva Enterprises LLC's 234,700 bpd Norco, Louisiana refinery released gases on Sunday because a process upset caused a premature release valve release.

Holly Corp said it is on schedule for its Tulsa, Oklahoma refinery turnaround.

Navajo Refining is restarting its fluid catalytic cracking unit at its 105,000 bpd refinery in Artesia, New Mexico.

Alon USA Energy has started to reconfigure its 68,000 bpd Bakersfield, California refinery as a stand-alone vacuum gasoil hydrotreater with startup expected in June 2011. The Bakersfield hydrocracker will run VGO produced at the company's 85,000 bpd Paramount refinery in Long Beach, California and produce gasoline and distillates for the Bakersfield market.

Suncor Energy Inc reported that smoke was spotted coming from an electrical substation at its 80,000 bpd Sarnia refinery. The refinery's operations were not impacted by the fire.

Hovensa LLC said the distillate desulfurization unit at its 500,000 bpd refinery in St. Croix, which suffered a fire on Friday, remained off line. The refinery is shutting down about 150,000 bpd of capacity due to poor margins.

Japan's Cosmo Oil Co failed last week to restart its 24,000 bpd fluid catalytic cracking unit at its 100,000 bpd Sakai refinery. The unit was shut on January 29th for unplanned maintenance.

China's Sinopec plans to increase its crude runs in February by 2.4% on the month to meet fuel demand from drought affected areas. Diesel stocks held by Sinopec Corp increased by 93% on the year as the refiner increased its crude oil throughput to record highs.

Australia's Caltex plans to shut a 21,500 bpd fluid catalytic cracking unit at its 109,000 bpd Lytton refinery in the first half of the year for scheduled maintenance.

China increased its crude imports in January to the highest level in four months. China imported 21.8 million metric tons or 5.15 million bpd of crude oil in January, up 27.4% on the year. China imported 3.85 million tons of oil products last month, up 51.3% on the year, exceeding oil product exports, which fell 20.7% on the year to 2.14 million tons.

China's commercial oil product inventories were lower at the end of January. Gasoline stocks fell in December due to high demand ahead of the week long Lunar New Year holiday. Diesel stocks continued to increase on the month in January after inventories increased by 16% in December.

Germany's MWV said the country's total sales of oil products in January increased by 3.6% on the year to 5.85 million tons. Germany's heating gasoil sales fell by 12.1% on the year to 1.51 million tons while its diesel sales increased by 14.7% to 2.38 million tons. Germany's gasoline sales increased by 8.3% on the year to 1.51 million tons while its fuel oil sales fell by 2.2% to 450,000 tons.

Marine fuel sales in Singapore reached a record high of 3.64 million tons in January, up 4.3% on the month.

Japan's 10 utilities consumed more fuel oil in January than a year ago to generate electricity. The utilities burned 748,606 kiloliters of fuel oil in January compared with 502,220 kl a year earlier. They burned 698,385 kl of direct burn crude oil, up from 440,534 kl a year ago.

Traders said Europe is set to export about 300,000 tons of gasoline to the US in the next few weeks following an unusual reopening of the arbitrage window.

The Rhine River was reopened to northbound and southbound shipping without restrictions on Monday after a capsized tanker was moved.

Production News

The Norwegian Petroleum Directorate said Norway's oil production in January stood at 1.84 million bpd, up from 1.81 million bpd in December. Norway's gas production fell to 10.4 billion standard cubic meters in January from 10.8 billion in December.

Colombia's 48,000 bpd Transandino oil pipeline has been repaired and has restarted operations following bomb attacks by suspected rebels. The pipeline transports an average of 25,000 to 30,000 bpd of oil from fields in Putumayo through the Narino department on the coast.

Azerbaijan's State Statistics Committee said the country's oil and condensate production fell by 3.8% on the year to 4.1 million tons in January 2011. For the full year 2010, Azerbaijan's oil and condensate production increased by 0.9% to 50.83 million tons from 50.38 million tons in 2009. It plans to produce 51.5 million tons of oil in 2011.

Gulf Keystone Petroleum Ltd said the Shaikan-3 Shallow Appraisal Well in Iraq has achieved a rate of 9,800 bpd.

Shell said Iraq's oil production is expected to double in the next decade, not quadruple as in initial government targets. In its energy scenarios to 2050, Shell said Iraq was a key uncertainty in the oil supply picture, with output likely to reach 5-6 million bpd over the next decade if reasonable stability and security are achieved. Iraq's previous government previously stated that partnerships with oil and gas companies could push output to as much as 10-12 million bpd.

Iraq's Deputy Oil Minister Ahmed al-Shammaa said Iraq will be able to increase its crude oil export capacity by 900,000 bpd by the end of the year, increasing its total export capacity to around 3 million bpd. He also stated that the Iraqi Oil Ministry has also extended a closing date for receiving bids for a fourth floating export terminal from the end of December until April.

A senior official at Indonesia's Energy and Mineral Resources Ministry said the country's oil reserves are likely to last only another 12 years with oil extraction of 960,000 bpd, making it imperative for the country to diversify into other energy sources.

OPEC's news agency reported that OPEC's basket of crudes fell by 22 cents to \$97.37/barrel on Friday from \$97.59/barrel on Thursday. It also reported that OPEC's basket of crudes fell by 2 cents to \$96.81/barrel in the week ending February 11th.

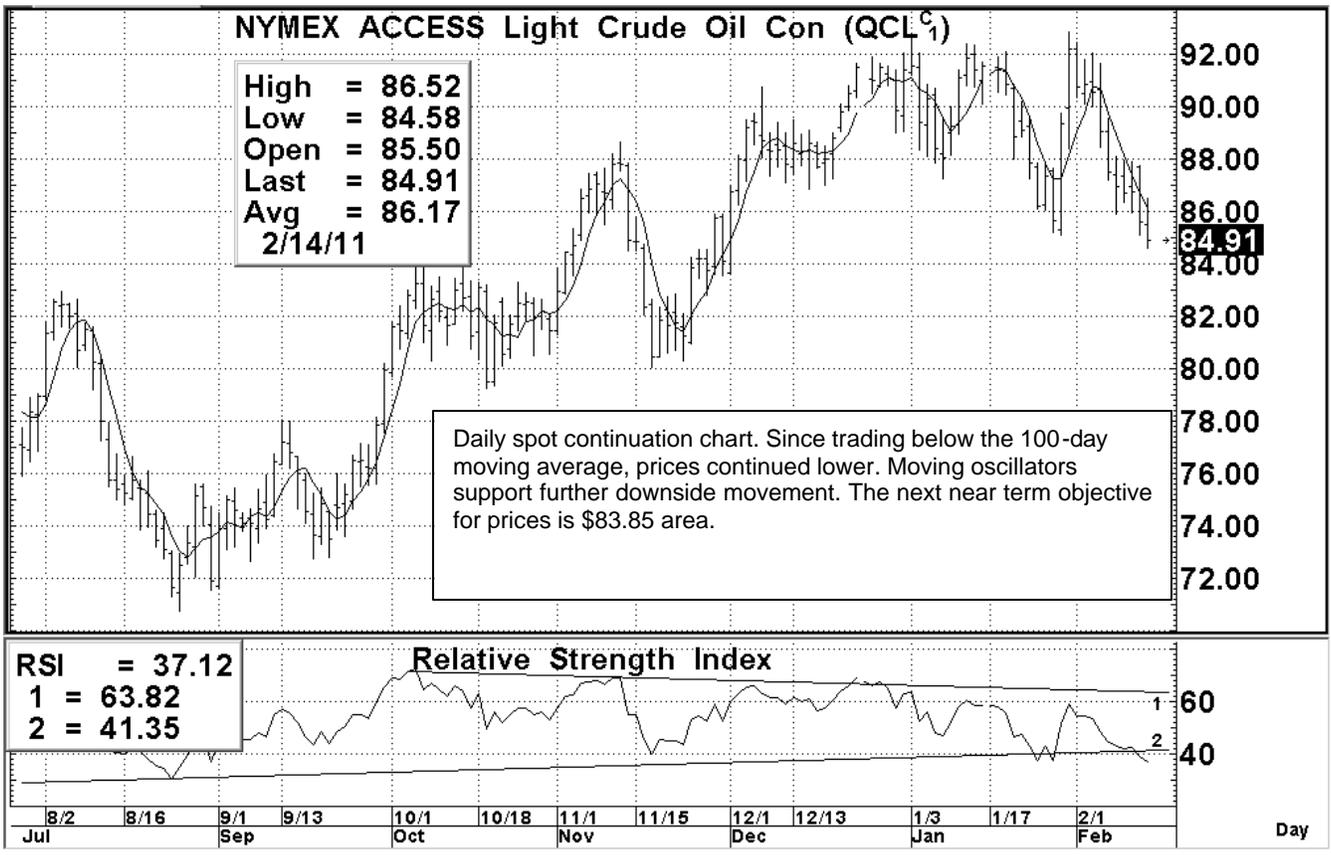
Brazil's sugar and ethanol group Cosan Industria e Comercio SA and Royal Dutch Shell disclosed more details about the \$12 billion ethanol joint venture the companies forced last year called Raizen. Raizen is expected to increase sugar cane crushing capacity to 100 million metric tons/year, up from current output of 60 million tons. Ethanol production is expected to more than double over the next five years to 5 billion liters/year from the current production level of 2.2 billion liters/year.

Market Commentary

Refinery problems in the U.S. and talk about China's need for diesel drove both heating oil and gasoline higher today, while crude oil traded mostly on the downside. Plagued by a spreading

drought, China's need to operate irrigation equipment increased net imports of crude oil to the highest level in four months. Hovensa LLC 's 525,000 barrels per day St. Croix refinery experienced a fire in a distillate desulfurizer, while problems were reported at Motiva Enterprises LLC's Norco, LA refinery. Brent continued to climb, holding on to its risk premium against the WTI, spurred higher by planned protests in the Middle East. The WTI remains below the 100-day moving average based upon the spot continuation chart, with moving oscillators calling for additional downside movement. Currently, this moving average is set at \$86.15. As long as prices continue to settle below this number, we would hold on to any shorts, looking to sell against failed attempts to settle above it. Based upon a weekly spot continuation chart, there is resistance set at \$87.07.

Crude oil: Mar 11 190,899 -30,535 April 11 243,701 21,955 May 11 162,860 +9,376 Totals 1,562,916 +13,410 Heating oil: Mar 11 71,428 -6,329 Apr 11 63,332 May 11 36,686 +3,482 Totals 311,001 +1,831 Rbob: Mar 11 60,457 -4,469 Apr 11 56,415 +3,936 May 11 45,349 +2,577 Totals 269,363 +2,078



Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
	8615				25480
8387	8707	26680	28040	22560	27085
8231	8811	23685	29500	22050	
8161	8955	22960	30955	21600	
8000	9385	22013		20300	
7984	103.85	21860		20130	
7900	111.65	21140			
7598		20702			

The information contained in this letter is taken from sources, which we believe to be reliable, but is not guaranteed by us as to accuracy or completeness and is sent to you for information purposely. The Windham Group bases its market recommendations solely on the judgment of its personnel. Reproduction in whole or part or other use without written permission is prohibited.