



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,
& Karen Palladino

(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR FEBRUARY 16, 2010

Iran's President Mahmoud Ahmadinejad said that any country which tried to impose new sanctions on Iran will regret its actions. He said talks were still ongoing over a proposed nuclear fuel swap. He said Iran could suspend its work to enrich uranium to the 20% level needed for a research reactor if Iran is supplied with nuclear fuel. He was speaking a day after US Secretary of State Hillary Clinton was seeking support from Saudi Arabia to help win Chinese support for additional sanctions. She said a new round of sanctions should target Iran's Revolutionary Guards, which she said were driving

Market Watch

The National Weather Service reported that US heating demand this week is expected to be 10% above normal. Demand for heating oil this week will average 1.2% above normal while heating demand for natural gas will average 8.2% above normal. Heating oil demand last week was 7.1% above normal compared with a forecast for 7.6% above normal.

The US Producer Price Index for December was revised to an increase of 0.4% compared to a previous estimate of an increase of 0.2%.

The NAHB/Wells Fargo Housing Market index increased 2 points to 17 in February. It increased more than expected.

The New York Fed's Empire State general business conditions index increased to 24.91 in February, the highest level since October and up from 15.92 in January. The inventories index increased to 0, its highest level in more than a year. However the new orders index fell to 8.78 in February from 20.48 in the previous month. The expectations index for six months ahead fell to 52.78 in February from 56.

The weekly MasterCard SpendingPulse report on US gasoline demand will be delayed from Tuesday until Wednesday due to the Presidents' Day holiday.

The National Association of Regulatory Utility Commissioners said the US economy will lose \$2.4 trillion over the next two decades if the federal government does not allow oil and natural gas drilling in restricted onshore lands and in offshore areas previously closed to energy companies. It said US imports of crude oil, petroleum products and natural gas would increase by \$1.6 trillion over the period without access to the energy resources. It said the US is expected to pay OPEC \$607 billion for an extra 4.1 billion barrels of crude oil. US resources of oil were increased by 43 billion barrels to 229 billion and natural gas was increased by 286 trillion cubic feet to 2,034 trillion cubic feet.

JP Morgan Chase said it will buy the non-US assets of commodities joint venture RBS Sempra from the Royal Bank of Scotland and Sempra Energy for about \$1.7 billion cash, roughly doubling its commodities client base. It said it will take the RBS Sempra global oil, metals and European power and gas assets in a deal set to close in the second quarter. JP Morgan had initially been in talks to buy the entire joint venture but US plans to stop proprietary trading by banks prompted it to review its strategy and leave behind RBS Sempra's North American power and gas assets.

**February
Calendar Averages**
CL – \$74.50
HO – \$1.9513
RB – \$1.9481

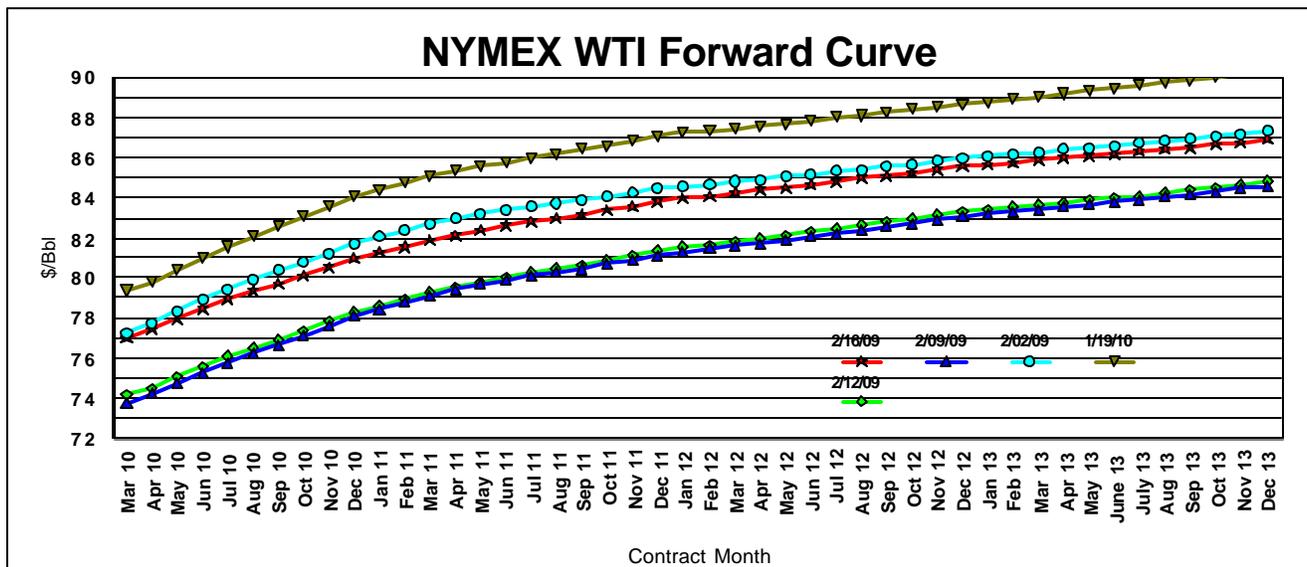
Iran towards a military dictatorship. She said evidence does not support Iran's claim it is pursuing a peaceful nuclear program. The White House said it would not rule out any options, including a military option, for dealing with Iran's nuclear ambitions. Meanwhile, Russia on Tuesday said Iran could face sanctions if it failed to allay international fears about its nuclear program. Russian President Dmitry Medvedev's spokeswoman said Iran should improve its cooperation with the UN's IAEA. In a letter to the UN's IAEA, France, the US and Russia said Iran's move to enrich uranium to a higher level raises concerns about its nuclear intentions. The US and Russia called on Iran to accept the offer to enrich its uranium abroad. Separately, Israeli Prime Minister Benjamin Netanyahu, on a visit to Russia, called for "paralyzing sanctions" against Iran's energy sector. He said the sanctions should halt Iran's oil exports and prevent the country from importing petrol. He asked Russian President Dmitry Medvedev to punish Iran by supporting "sanctions with teeth" against Iran's energy sector.

Iran's Foreign Minister Manouchehr Mottaki said Turkey can help world powers understand Iran as it is familiar with Iran's nuclear program.

Nigeria's Acting President Goodluck Jonathan expects swift progress reviving an amnesty program in the Niger Delta. The president's spokesman said five amnesty committees have been holding talks with militant leaders and were due to report back to President Jonathan in the coming days.

BP's chief economist Christof Ruehl said oil is likely to hold in its current price range during 2010, although some move higher is possible. He said the same factors that supported prices in 2009 and drove them up about 100%, lower OPEC output and the global economic recovery, will support prices in 2010 and set the price floor. He said even a stronger than expected rebound in demand should not automatically lead to a spike in prices, estimating spare production capacity is currently around 6 million bpd. He also said consolidation is needed in the global oil refining sector. He said BP does not expect a substantial improvement in refining margins in 2010. Refining margins averaged \$4/barrel in 2009, at least \$2/barrel below the 10 year average and well below the \$10/barrel in 2007. Separately, BP said it will not renew its membership in a group lobbying for a climate bill, saying the current legislation would not create a liquid carbon market and puts a burden on oil refineries.

The EIA reported that the US average retail price of diesel fell by 1.3 cents to \$2.756/gallon in the week ending February 15th. Prices have declined 12.3 cents or 4.3% in the past five weeks. Despite the decline, diesel prices are 57 cents or 26.1% above a year ago. The EIA also reported that the US



average retail price of gasoline fell by 4.4 cents to \$2.608/gallon on the week. Prices have fallen 14.3 cents or 5.2% in the past five weeks.

Refinery News

A 4 mile stretch of the Houston Ship Channel reopened on Saturday after salvage crews removed a sunken tug from the waterway.

Valero Energy Corp said its hydrocracking unit at its 315,000 bpd refinery in Corpus Christi, Texas was increasing towards planned rates after it was shut for maintenance work. It said work is continuing on its fluid catalytic cracking unit at its 265,000 bpd refinery in Quebec City, Canada which was shut by a fire on February 2nd.

Alon USA Energy Inc reported flaring at its 70,000 bpd refinery in Big Spring, Texas.

Silver Eagle Refining is planning to restart the first crude unit at its 10,250 bpd refinery in Woods Cross, Utah following a fire and explosion on November 4^h. The company closed the refinery voluntarily following the explosion after regulators found problems with piping.

Showa Shell Sekiyu KK said it will cut its crude oil refining capacity in a bid to offset falling domestic demand. It will shut the 120,000 bpd crude distillation unit at Toa Oil's Keihin refinery by September 2011, a move that would reduce the group's overall refining capacity by over a quarter to 395,000 bpd.

Saudi Arabia's 440,000 bpd Jubail refinery is scheduled to start up in late 2013, later than a previous target of March 2013.

Industrial action by 14 harbor pilots at the Milford Haven port in South Wales later this week could disrupt supplies of oil and gas to the UK. The Milford Haven Port Authority is expected to seek a legal injunction Tuesday to avert the strike over pensions and will hold talks with the Unite union.

French oil unions said refinery workers at Total will strike for 48 hours starting February 17th. Meanwhile, Total said it will hold an extraordinary meeting with unions on the future of its Dunkirk refinery on March 29th.

Angola is set to export 1.85 million bpd of crude in April, unchanged from volumes for March. A total of 58 cargoes are due to be loaded onto ships in April, down from a revised total of 60 cargoes set to load in March. Angola's output is expected to be well above its target set by OPEC.

India's Bharat Petroleum Corp bought 1 million barrels each of Algerian and Libyan crude in a tender for oil loading in April.

Indonesia's Pertamina needs to lift the volumes of subsidized diesel oil in 2010 by about 1 million kiloliters or 6.28 million bpd to meet demand from the fisheries sector. Diesel oil consumption by fishermen was expected to increase to 2.5 million kiloliters in 2010. A Pertamina official said the company may increase imports of diesel in 2010 if parliament agreed to lift supplies.

Ships are sailing only partly loaded on the German sectors of the Rhine and Danube River due to low water levels. Ice is also hampering shipping on several German canals.

Production News

Mexico's government said it closed two of its three main oil ports on Monday due to bad weather conditions. It closed its Dos Bocas and Cayo Arcas terminals.

Iraq's Oil Minister Hussain al-Shahristani said the federal government could end up paying exploration and extraction costs of oil companies working in Iraq's Kurdistan but not their profits. He added that he continued to have reservations about the contracts signed by Kurdistan Regional Government with oil firms, especially production-sharing elements of the deals. However he said that would not stop the resumption of exports soon.

Iraq's Oil Ministry is negotiating with China's CNOOC for a service contract for the 2.5 billion barrel Maysan oilfield complex. Iraq's Oil Minister Hussain al-Shahristani said CNOOC had accepted the government's proposed remuneration fee of \$2.30 for every additional barrel of oil produced.

Saudi Aramco still has 4 million bpd of spare capacity, in addition to its daily production of 12 million barrels. A Saudi Aramco official said it will need to spend \$120 billion over the next five years to fulfill its expansion plans. He expects to see the company's share of global refining capacity increase from 2.2 billion bpd to 3.2 billion bpd.

ExxonMobil Corp added 2 billion barrels of oil equivalent to its proven reserves last year, replacing 133% of 2009's production. Its proved reserves base increased to 23.3 billion barrels.

Kazakhstan's state statistics agency reported that the country produced 6.6 million tons of oil and gas condensate in January, down 3.2% on the month. Its crude oil production fell by 2.4% on the month but increased by 3% on the year to 5.581 million tons.

Russia's Surgutneftegas expects its oil output to remain stable this year. It expects to produce 59.5 million tons or 1.2 million bpd of oil this year. It also said it plans to launch four deposits during the course of the year.

Russia's Gazprom Neft expects to increase its crude oil production in Russia by 3% for the second consecutive year in 2010 to 48.6 million tons or 973,330 bpd.

Russia's Bashneft plans to increase its crude production by about 7.8% to 13.195 million tons in 2010 due to faster Greenfield development.

Oman aims to increase its crude oil production to 860,000 bpd in 2010 from 812,500 bpd in 2009. It aims to award 11 oil exploration and production contracts in 2010 as part of its efforts to increase its long term output.

OPEC's news agency said OPEC's basket of crude increased slightly to \$71.72/barrel on Monday from \$71.55/barrel on Friday.

Market Commentary

A regurgitation of news from Iran regarding the imposition of sanctions and retaliation for those sanctions, coupled with a weak dollar versus the euro, sparked off a round of buying in crude oil. After experiencing an early session run-up in what appeared to be technical buying, this market went flat, trading between the range of \$77.28 and \$76.73 for the remainder of the floor traded session. Late electronic trading did experience a run-up to \$77.42, a new high. The March contract traded and settled above the 50% Fibonacci retracement level of \$76.97, with moving oscillators pointing to the upside. Technically, there appears to be more room to the upside, with \$78.74 being the next upside objective. Fundamentally speaking, there is still plenty of supply and sluggish demand. With prices at this level, one has to consider OPEC and its member's adherence to quotas. Typically, when prices reach levels of this proportion, OPEC members tend to ignore quotas, producing more crude oil to sell. This will put more crude oil on the open market and should ultimately weigh on prices. For now,

we would continue to look for prices to work towards the aforementioned resistance level of \$78.74, where we would re-evaluate our stance.

Crude oil MAR.10 132,577 -24,133 Apr. 10 242,333 +7,265, May 10 149,792 +5,661 Totals 1,333,444 +1,980, Heating oil MAR.10 58,747 -5,728 APR10 54,288 +1,623 May 10 36,876 +204 Totals: 304,031 -2,449 Gasoline MAR.10 48,225 -3,035 APR10 59,969 +2,894 May 10 40,699 Totals: 258,198 +1,182

Crude Support Based on February	Crude Resistance Based on Feb
76.72, 75.00, 72.60, 71.31, 70.42, 69.50, 65.05, 64.70, 63.38, 62.70, 61.61, 60.95	78.74 79.86, 81.00, 82.00, 84.83, 85.40, 86.60, 88.80, 89.88
Heat Support	Heat resistance
1.8570, 1.8280, 1.7670, 1.7565	2.0110, 2.0574, 2.0665, 2.2270, 2.2575, 2.4200
Gasoline support	Gasoline resistance
1.8650, 1.85.65, 1.7900, 1.7200 1.6600	2.0420, 2.0660, 2.0846, 2.1930, 2.2270, 2.3350,

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