



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR FEBRUARY 18, 2010

According to a report by the UN's IAEA, Iran has started enriching uranium at higher levels. Meanwhile, the US State Department said it had concerns about Iran's nuclear activities, particularly following the IAEA's report.

Oil Movements reported that OPEC's oil shipments, excluding Angola and Ecuador, are expected to increase by 20,000 bpd to 23.18 million bpd in the four weeks ending March 6th from 23.16 million bpd in the four week period ending February 6th.

Refinery News

BP Plc's 455,790 bpd refinery in Texas City, Texas

Market Watch

Petroleum Marketers Association of America scheduled a conference call for Monday with representatives of the CME to discuss the new New York Harbor ultra-low sulfur diesel contract. Traders have said the CME Group will change the sulfur specification of the new contract from the current specification of greater than 500 ppm to the same specification of ultra-low sulfur diesel of less than 15 ppm.

The US Labor Department reported the number of initial claims for unemployment benefits increased much higher than expected. Initial claims increased by 31,000 to 473,000 in the week ending February 13th. The previous week's level was revised upward to 442,000 from 440,000. The four week moving average fell by 1,500 to 467,500 from the previous week's revised average of 469,000. The number of continuing claims in the week ending February 6th remained unchanged at 4,563,000 from the preceding week's revised level. The unemployment rate for workers with unemployment insurance for the week ending February 6th was 3.5%, also unchanged on the week.

The Labor Department also reported that UN inflation at the wholesale level increased by more than expected in January due to higher energy costs. The Producer Price Index for finished goods increased to a seasonally adjusted 1.4% on the month in January after increasing an upwardly revised 0.4% in December. The core PPI, excluding food and energy, increased 0.3% after remaining flat in December. For the 12 months ending January 2010, the unadjusted PPI increased by 4.6%, the largest annual increase since October 2008. It reported that energy prices increased by 5.1% in January.

The National Oceanic and Atmospheric Administration said below normal temperatures are expected across the south-central and southeastern US, extending into the southern Atlantic states in March. In the Northeast, there isn't any clear weather outlook for March or the three month period. For the region and across the Midwest, NOAA forecasts equal chances of temperatures being normal, above-normal or below-normal. It said below normal temperatures are expected to extend from eastern New Mexico and the southern Plains throughout the Gulf coast and southern Atlantic Coast. The NOAA said El Nino conditions are expected to continue into spring and affect temperatures and precipitation through June.

Ecuador's Minister of Electricity and Renewable Energy said the country could start exports of electricity to Colombia and Venezuela. The announcement follows Ecuador's recovery from electricity shortages from November to January, due to a drought that cut water supplies to its main hydroelectric plant.

DOE Stocks

Crude – up 3.085 million barrels
Distillate – down 2.937 million barrels
Gasoline – up 1.62 million barrels
Refinery runs – up 0.7%, at 79.8%

is restarting an ultra cracker unit on Thursday.

Valero Energy Corp reported flaring at complex 7 of its Corpus Christi, Texas refinery East Plant due to a level controller malfunction. This also affected its sulfur recovery unit. The event is expected to last until February 18th.

A strike at Total's six French refineries entered its second day on Thursday, with unions threatening to further their strike action. France's CGT union called on striking workers to step up their action and vowed to extend the protest until fuel shortage impact motorists. The strike was initially scheduled to last 48 hours. The CGT union later said refinery workers at Total's six refineries voted for an open-ended strike. The Feyzin refinery is operating at a minimum and is expected to stop operations in 2-3 days. Workers at Total's Grandpuits refinery voted to halt its output starting Friday morning. Total said that only six of the 31 French storage units have been affected by the strike compared with 12 on Wednesday. It said the strike is still having no significant impact on fuel supply to its customers.

Talks between Britain's largest union and Milford Haven Port Authority management broke up on Thursday evening with no progress in agreeing on a deal to avert a strike planned next week at the port. Talks between Unite and the port authority over pensions are due to resume on Friday. Pilots needed to guide ships into the port are planning a 12 hour strike on February 23rd. Britain's High Court issued an injunction on Wednesday to stop a 48 hour strike over pensions that had scheduled to start on Thursday morning followed by an indeterminate period of working to rule.

Gasoline stocks held in independent storage in the Amsterdam-Rotterdam-Antwerp in the week ending February 18th fell by 5.59% on the week but increased by 18.5% on the year to 980,000 tons while gas oil stocks fell by 1.44% on the week but increased by 25.28% on the year to 2.671 million tons. Fuel oil stocks fell by 11.5% on the week but increased by 4.15% on the year to 577,000 tons while naphtha stocks increased by 14.55% on the week but fell by 41.67% on the year to 63,000 tons and jet fuel stocks increased by 8% on the week and by 16.62% on the year to 905,000 tons.

Saudi Arabia is expected to import 82,400 bpd of gasoline in March, nearly triple its imports in February to compensate for output lost from a refinery. Its Yanbu refinery has been undergoing maintenance, forcing Saudi Aramco to import more fuel.

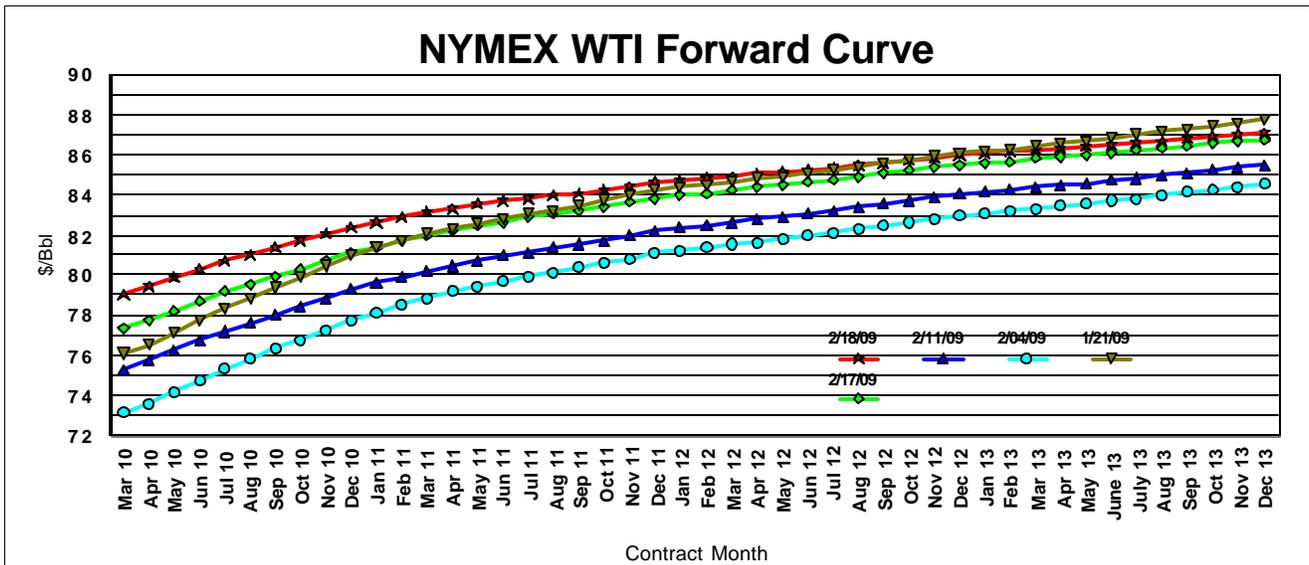
Western fuel oil arrivals in Asia are expected to total 3.8-3.9 million tons in March.

Japan's Cosmo Oil Co Ltd will cut its 2010 term contracted volumes of crude with National Iranian Oil Co. Cosmo Oil, which has a contract for about 50,000 bpd of Iranian crude for this year, will cut its term crude supplies by about 10% for its new contract that starts in April. The move comes after Cosmo Oil announced earlier in February that it would cut its runs by 80,000 bpd. Separately, Cosmo Oil announced it will shut its 120,000 bpd No. 2 crude distillation unit at its Chiba refinery starting in late April to late June and its 100,000 bpd No. 1 crude distillation unit from mid-September to the beginning of November. It has also scheduled maintenance at its 50,000 bpd No. 5 crude distillation unit at its Yokkaichi refinery from mid-October to early November.

Japan's Showa Shell Sekiyu KK plans to shut its 75,000 bpd crude distillation unit at its Yokkaichi refinery for turnaround between October and November.

Japan's Nippon Oil Corp aims to start mixing ETBE-blend gasoline at three more of its refineries in the financial year starting in April. Japan aims to

February Calendar Averages
CL – \$75.07
HO – \$1.9632
RB – \$1.9619



market the ETBE-blend gasoline nationwide this year as part of its goal to cut greenhouse gas emissions.

Unipac bought an ESPO Blend crude cargo from Rosneft for March loading, becoming the first Chinese refiner to purchase the new Russian grade. Oil companies in Japan and South Korea have already bought the crude grade, which started flowing from Eastern Siberia in late December.

Indian Oil Corp bought crude via a third tender for April, bringing the total for the month to 12 million barrels as the company completes refining capacity additions. The 12 million barrels of crude IOC has purchased via tender for April is the largest amount of crude for any month.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 605,000 barrels to 21.563 million barrels in the week ending February 17th. It also reported that the country's light distillate stocks built by 585,000 barrels to 9.689 million barrels while its middle distillate stocks fell by 1.143 million barrels to 12.12 million barrels on the week.

Russia's Deputy Prime Minister Igor Sechin said Russia's Transneft and Rosneft have made offers to supply a Turkish oil pipeline project and other companies are also evaluating supply possibilities.

Production News

The Buzzard oilfield in the UK North Sea has cut production to between 30,000 bpd of oil equivalent and 50,000 bpd of oil equivalent due to a technical problem in the platform's separator unit. Nexen said preliminary findings suggest that the Buzzard oilfield will be operating at reduced rates for the next several weeks. The oilfield's output in the fourth quarter of 2009 averaged a gross 200,000 bpd of oil equivalent.

Norway's Statoil said it and its field partners have submitted a development plan for the Gudrun oil and gas field in the North Sea. Statoil said Gudrun contains about 132 million barrels of oil equivalent, with crude accounting for about two-thirds of the amount. Norway's Oil Ministry is expected to approve the project.

Iraq's Oil Minister Hussain al-Shahristani said the country expects to produce an additional 200,000 bpd of oil this year after it signed several deals with oil majors. It said that new floating terminals will help increase Iraq's export capacity by more than 2 million bpd by the middle of 2011. Iraq aims to install four new floating oil terminals and three new undersea oil pipelines that will increase export capacity to 8 million bpd from a current 1.9 million bpd.

ConocoPhillips said it added 1.216 billion barrels of oil equivalent in 2009 of net proved reserves and replaced 141% of its production. Its total proved reserves at the end of 2009 stood at 10.326 billion barrels of oil equivalent.

Brazil's Petrobras found oil in two wells off the coast of Angola. It said more drilling in the area is expected to take place in 2010.

Mexico's Pemex is considering a \$377 million upgrade of crude oil treatment facilities to fix quality problems in its main export blend. The project envisions the construction of new equipment at the Dos Bocas oil terminal that would cut the water and salt content in Maya crude oil. Fluctuations in the quality of Maya crude oil have become more common with cargoes coming in heavier than expected or with high water content, making it harder to refine.

OPEC's news agency reported that OPEC's basket of crudes increased to \$74.33/barrel on Wednesday from \$73.06/barrel on Tuesday.

Market Commentary

Spurred by growing concerns regarding Iran's nuclear enrichment program, refinery strikes in France, inventory draws in distillate stocks and technical strength, the energy markets worked higher today. Distillate stocks decreased more than expected, reflecting a decrease of 2.9 million barrels. Heating oil stocks slipped 1.4 million barrels in response to the rash of cold weather that has hit the Eastern part of the U.S. Today's strength in the dollar was not enough to contain crude oil prices below \$78.00. An early morning sell-off quickly turned to the upside upon the opening of the floor traded session as NYMEX responded to news of the French refinery strikes and the production cut at the Buzzard oilfield in the North Sea. This run-up in prices set off technical stops, helping to exacerbate the move. Adding to the upside momentum was the aforementioned distillate number. The front month crude oil spread has been trading around an old gravitational area of -.43 since the beginning of January, with the exception of January 20th, when this spread peaked at -0.12. With crude oil stocks in Cushing, OK, the NYMEX delivery point, showing signs of draws, we would look for this spread to strengthen. The March crude oil is at its highest level since January 19, and is poised to trade higher. Coming into tomorrow's session, we would look for the March crude oil contract to work towards the \$80.00 level.

Crude oil MAR.10 80,257 -16,782 Apr. 10 249,204 +7,381, May 10 156,394 +4,907 Totals 1,305,590 +3,966 Heating oil MAR.10 49,114 -4,591 APR10 57,035 +1,705 May 10 36,091 -384 Totals: 298,800 -1,977 Gasoline MAR.10 40,560 -3,350 APR10 62,154 +355 May 10 41,432 +784 Totals: 253,807 -2,016

Crude Support Based on February	Crude Resistance Based on Feb
78.71, 76.72, 75.00, 72.60, 71.31, 70.42, 69.50, 65.05, 64.70, 63.38, 62.70, 61.61, 60.95	79.35, 81.00, 82.00, 84.83, 85.40, 86.60, 88.80, 89.88
Heat Support	Heat resistance
2.0125, 1.9975, 1.9860, 1.8570, 1.8280, 1.7670, 1.7565	2.0574, 2.0665, 2.2270, 2.2575, 2.4200
Gasoline support	Gasoline resistance
2.0660, 2.0420, 1.9970, 1.9862, 1.8650, 1.85.65, 1.7900, 1.7200 1.6600	2.0775 2.0846, 2.1930, 2.2270, 2.3350,

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