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ENERGY RISK MANAGEMENT

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

www.e-windham.com

ENERGY MARKET REPORT FOR FEBRUARY 28, 2011

Libya's opposition forces, in control of the country's major oil installations said they were resuming oil exports, with the expected departure of a tanker bound for China. It would be the first cargo of crude to sail from Libya since February 19th.

Earlier, the European Union's energy commissioner said most of Libya's oilfields are no longer under control of Libyan leader Muammar Gaddafi. Meanwhile shipping sources said crude oil shipments from Libya are at a virtual standstill as reduced production and bad weather hamper exports from the country. At least four tankers carrying about 2.4 million barrels of oil were unable to

Market Watch

The National Weather Service forecast that US heating demand this week is expected to be 11.9% below normal. Demand for heating oil this week will average 7.9% below normal while heating demand for natural gas will average 9.3% below normal.

The US Commerce Department reported that US consumer spending increased less than expected in January. Consumer spending increased by 0.2%, the smallest increase in seven consecutive months of gains following an upwardly revised 0.5% increase in December. It reported that the personal consumption expenditures price index, excluding food and energy, increased 0.1% in January. In the 12 months through January, the core PCE index increased by 0.8%.

The National Association of Realtors Pending Home Sales Index fell by 2.8% to 88.9 in January from a downwardly revised index of 91.5 in December. It is the second consecutive decline and the slowest pace since October.

The IMF warned that global economic growth could suffer if the price of oil remained at its current high level for an extended period.

T. Boone Pickens said the price of oil is expected to increase amid the unrest in the Middle East and could reach \$130/barrel.

JP Morgan Chase revised its average forecast for Brent crude up by about 14% in 2011. It increased its 2011 Brent oil forecast to \$108/barrel, up from the previous \$95/barrel. It also increased its 2011 average forecast for US crude by 3.2% to \$96/barrel.

Unicredit increased its Brent and WTI oil price forecast for 2011 to \$11/barrel on Monday. It said the contagion of unrest to other oil producing countries including Iran, Iraq and Nigeria was a concern and would make offsetting a shortfall in production impossible.

China's National Bureau of Statistics reported that the country's energy consumption in 2010 increased by 5.9% to 3.25 billion tons of standard coal.

India's GDP grew at a slower than expected 8.2% in October-December.

Germany's IFO business climate index increased to 111.2 in February from 110.3 in January. However business confidence in France, Italy and the Netherlands fell slightly in February.

Joule Unlimited claimed that it discovered a way to create biodiesel using sunlight, water and carbon dioxide. However there are some engineering challenges to overcome before the process becomes practical. Its process uses cyan bacterium that it claims to be able to manufacture 15,000 gallons of diesel fuel per acre at about \$30/barrel, using very little biomass that has to be grown and then disposed of. The challenge it is facing is finding a way to extract the biodiesel from the water where the cyan bacterium will be. There is a relatively small amount of biodiesel in a large amount of water.

**February
Calendar Averages**
CL – \$89.74
HO – \$2.7772
RB – \$2.5524

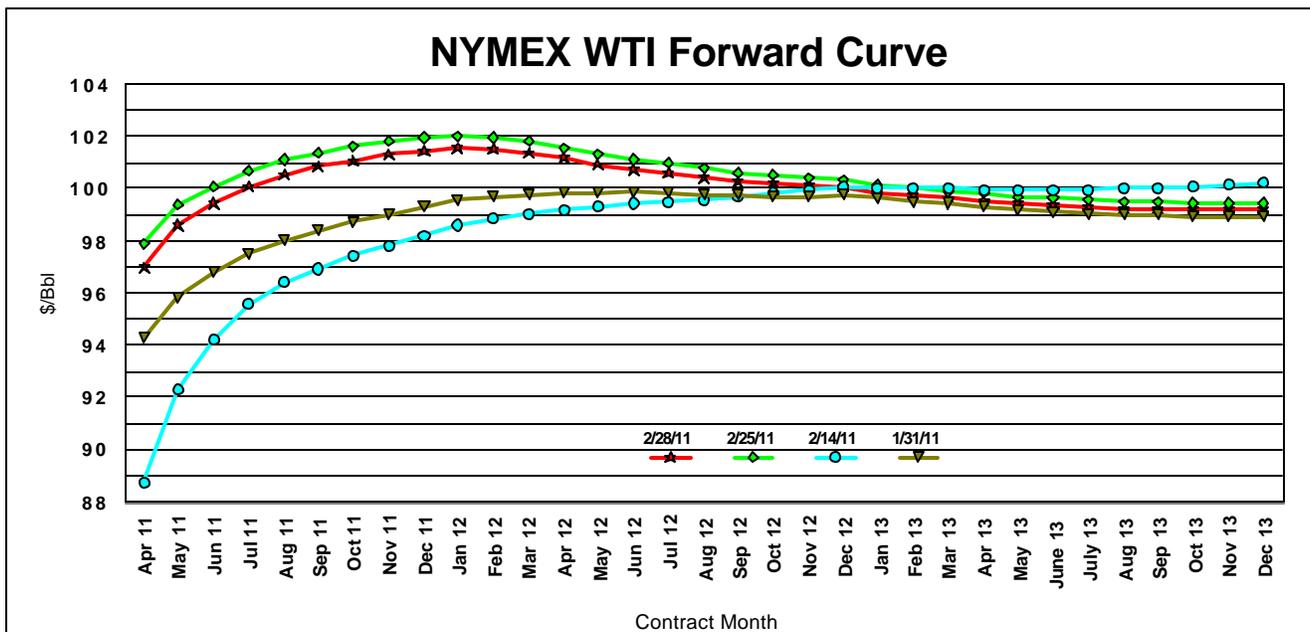
either load or leave Libyan ports due to bad weather in the Mediterranean. Libya's Hamada oilfield has halted production and the eastern fields of Sarir, Nafoora and Misla are producing about half their normal capacity. The export terminal of Marsa el Brega in the east, which is under rebel control, remained closed. Separately, the chief economist of the IEA, Fatih Birol said the uprising in Libya cut the country's oil production of about 1.6 million bpd by 50%. He also added that there was a major risk of derailment of the global economic recovery if oil prices remained at current levels of about \$110/barrel. Italy's Eni said about two-thirds of Libyan oil and gas production was halted. It said it would shutdown its hydrocarbon output in Libya soon unless exports from the country restarts. ConocoPhillips closed its operations in Libya and evacuated some employees due to the unrest in the country.

Libya's National Oil Corp is working with tribes reported to have seized major oilfields and is urging foreign oil workers who fled the violence to return. It also stated that Libya's oil production was cut by 50% due to the ongoing unrest in the country. Meanwhile, a unit of Libya's National Oil Corps said it decided to operate separately from its parent until Libyan leader Muammar Gaddafi is overthrown and Tripoli is free of his rule.

Saudi Arabia said it is committed to the stability of the oil market and to ensuring that oil supplies remain available following the decline in Libya's oil production. It added that it hopes that Libya's oil production would return to normal soon. Meanwhile, Saudi Aramco said all demands for extra oil have been met. An industry source on Friday said Saudi Arabia increased its production to more than 9 million bpd. Saudi Arabia has spare capacity of about 3.5 million bpd. Separately, trading sources said China's Unipet has so far declined Saudi Arabia's offer of more crude and is not buying any more barrels to replace Libyan crude supplies. The company typically buys between 3 and 4 million barrels of Libyan crude a month.

An official at Kuwait Petroleum Corp said Kuwait has the capacity to produce more oil to help calm volatile oil market if Libya's oil production is halted.

Bank of America Merrill Lynch said unrest in Libya could make oil supplies from the country unavailable to the market for months. It said initial reports suggested companies had already shut onshore production and estimated that as much as 1.2 million bpd of crude may have been shut.



Libya's leader Muammar Gaddafi accused western countries of abandoning his government in its fight against terrorists. He called US President Barack Obama a "good man" but said he appeared to be misinformed about the situation in Libya.

Opponents of Libyan leader Muammar Gaddafi held off an attack by pro-government forces near the town of Misrata and shot down a military aircraft. Aircraft bombed an arms dump inside eastern Libya on Monday. Several people were killed and others wounded on Monday after forces loyal to Libyan leader Muammar Gaddafi opened fire to disperse a protest in the capital. Meanwhile, Libya's eastern rebel army is urging young men eager to move west and engage Muammar Gaddafi's forces to wait so they can turn them into an effective fighting force.

The EU on Monday agreed to impose an assets freeze and travel ban on Libyan leader Muammar Gaddafi and 25 members of his family and inner circle.

US Secretary of State Hillary Clinton said that supporting political transitions in the Arab world was not just a question of ideals but a strategic imperative. She also urged the international community to work together on further steps to help end the crisis in Libya. She said the US is prepared to offer any kind of assistance to Libyans seeking to overthrow the regime of Muammar Gaddafi. The US began repositioning naval and air force units around Libya on Monday. However she stated that the US is not planning any imminent military action involving US naval vessels. Meanwhile, The New York Times reported late Sunday that US and European officials discussed plans to impose a no fly zone over Libya to prevent further killings of civilians by troops loyal to Gaddafi. The UK's Prime Minister Cameron said he does not rule out the use of military assets.

Yemen's President Ali Abdullah Saleh said he is ready to form a unity government with the opposition if they submit names for ministerial posts.

Oman's health minister said clashes between police and protesters killed one person in an industrial port town on Sunday. A supermarket was set on fire on Monday and several hundred protesters were rallying in the town's main roundabout, demanding higher salaries, jobs for unemployed youths and the dismissal of some government ministers. Oman is the latest in the Arab world's challenges to authority. Oman shares control with Iran over the Strait of Hormuz at the mouth of the Gulf. Meanwhile, shipments of refined crude from the port of Sohar are continuing despite antigovernment protests blocking roads. The port shipping 160,000 bpd of a range of products from the Sohar refinery.

Saudi King Abdullah chaired the first cabinet meeting on Monday after returning home from three months aboard for health treatment, with no signs of any government reshuffle or reforms demanded by activists. Analysts and diplomats expect the king to make changes in his cabinet where some ministers have been around for decades. He may also announce new municipal elections to address calls for change.

Iran is believed to have told the UN's IAEA that a broken pump had made it necessary to remove fuel from its first nuclear power reactor. Experts said it was a potentially serious problem likely to cause more delays for the Russian built Bushehr plant, which has yet to start injecting power into Iran's national grid. Meanwhile, Iran's Foreign Minister Ali Akbar Salehi said he held fruitful discussions with his European Union counterpart on Monday that he hoped would lead to further talks on Iran's nuclear program with the permanent members of the UN Security Council

The EIA reported that the US average retail price of diesel increased by 14.3 cents/gallon to \$3.716/gallon in the week ending February 28th. It also reported that the US average retail price of gasoline increased by 19.4 cents to \$3.383/gallon on the week.

AAA Daily Fuel Gauge reported that the US average retail price of gasoline increased by 19.7 cents/gallon to \$3.368/gallon in the latest week. The price of gasoline was up 26.7 cents on the month and 66.4 cents on the year.

Refinery News

Magellan Midstream Partners said it could restart its Texas oil products pipeline as soon as Monday afternoon, once regulatory approval is received. The oil products pipeline was shut following a 6,000 barrel leak of gasoline.

Enterprise Products Partners said it plans to convert a carbon dioxide pipeline into a 54,000 bpd crude pipeline to carry oil from shale plays into Midland, Texas and Cushing, Oklahoma. The pipeline will carry oil from the new Bone Springs/Avalon play in New Mexico and Texas into the Basin Pipeline, which serves storage facilities including Midland.

Credit Suisse said refinery margins fell last week by about 13% on average. Margins in the Northeast fell by \$1.59 to \$5.57/barrel while margins in the Midwest fell by \$1.85 to \$18.53/barrel. Margins in the Gulf Coast fell by \$2.33 to \$20.16/barrel, margins in the Rockies region fell by \$5.16 to \$26.15/barrel and margins in the West Coast fell by \$1.45 to \$23.92/barrel.

ConocoPhillips said a power outage resulted in the loss of a distilling wet gas compressor at its 362,000 bpd Wood River, Illinois refinery.

Alon USA Energy exceeded opacity at the CO boiler at its 67,000 bpd refinery in Big Spring, Texas.

Valero Energy Corp said a crude unit turnaround was completed at its 83,000 bpd Houston, Texas refinery. It also stated that work being done at a processing unit at its 315,000 bpd Corpus Christi, Texas refinery over the weekend did not affect production.

Coffeyville Resources restarted a unit at its 115,700 bpd refinery in Coffeyville, Kansas on Sunday.

Kinder Morgan Energy Partners said it was buying a 50% stake in crude oil storage tank in Cushing, Oklahoma and joining a venture with Mercuria Energy Trading and Deeprock Energy Resources. It said it would pay \$25 million for the stake in an oil tank farm with a capacity of 1 million barrels. The joint venture would also build three new storage tanks with the incremental storage capacity of 750,000 barrels expected to be in service by the third quarter.

Russia's Energy Ministry reported that Russia's oil refining runs in January fell by 0.4% on the month but increased by 4% on the year to 5.09 million bpd. Gasoline production in January fell by 4.6% on the month but increased by 3.9% on the year while fuel oil production in January fell by 2.8% on the month but increased by 3.5% on the year.

Japan's Ministry of Economy, Trade and Industry reported that the country's total oil product sales in January fell by 1.7% on the year to 18.045 million kiloliters. Its production increased by 0.1% to 18.083 million kl while its inventories fell by 2% to 11.254 million kl. It reported that Japan's oil product imports increased by 5.6% to 2.876 million kl and its exports increased by 25.6% to 2.614 million kl. Japan's crude imports fell by 1.7% on the year to 4.015 million bpd.

March loading fuel oil volumes from Saudi Arabia reached 500,000-550,000 tons, steady from February.

Production News

The US Coast Guard said high winds and rough seas in southern Alaska forced the Port of Valdez to shutdown to oil tanker traffic on Saturday.

Oil exports from Iraq's southern Basra terminal were restored to 1.872 million bpd on Monday after falling to 1.2 million bpd in the last two days due to bad weather.

Australia's Woodside restarted production at its Enfield oil field off the coast of western Australia after Cyclone Carlos passed. Production from its Cossack Pioneer floating, production, storage and offloading vessel on the North West Shelf remains shut.

Apache said its Varanus Island gas processing hub off the coast of western Australia is operating at 80% of capacity and its Stag oil field is fully operational at 9,000 bpd after they were both shut due to Cyclone Carlos. It expects production at the Van Gogh oil field to restart soon.

Colombia's Cano Limon-Covenas pipeline remained shut on Monday following a rebel attack on Friday afternoon. The pipeline was recently pumping 80,000 bpd.

Russia is expected to ship 6.2 million tons of Urals crude from Primorsk in March, up from 4.9 million tons in February.

Nigeria is expected to export five cargoes of Bonny Light crude in April, two less than scheduled for loading in March. It is expected to export six Brass River cargoes, eight Agbami cargoes, six Bonga cargoes, four Erha cargoes, seven Forcados cargoes and two Okono cargoes.

Bangladesh's imports of fuel oil are expected to increase by 28% to 4.8 million tons this year due to higher domestic demand and increasing oil prices in the global market. Its imports costs would increase to about \$5 billion in 2011.

Oil India said it expects its subsidy payout to increase in the March quarter against the previous quarter after Monday's federal budget left tax structures on crude oil and oil products unchanged.

Saudi Aramco set its March contract price for propane at \$820/tons, steady from February while it increased its butane price by \$50 to \$860/ton.

Market Commentary

The crude market settled in negative territory after seesawing between gains and losses for most of the session. The market was pressured amid the news that Saudi Arabia offered to make up for supplies lost because of unrest in Libya and on reports that Libya's oil exports were resuming. The crude market, which posted a high of \$99.96 in overnight trading, traded lower ahead of the opening of the open outcry session this morning. The market posted a low of \$96.71 in early morning trading on the Saudi offer, before it bounced off that level and traded back above the \$98.00 level. It later settled in a sideways trading pattern before it sold off once again on news that Libya was resuming its crude exports. The crude market traded back towards its earlier low and settled down 91 cents at \$96.97. The market will remain driven by any news of unrest in the Middle East, as Oman became the latest country to see anti-government protests. The market is seen finding support at its lows of \$96.71, \$96.17, \$95.62 followed by \$95.14 and \$89.77. Meanwhile resistance is seen at \$98.27, \$98.50 followed by its high of \$99.96. More distant resistance is seen at \$103.41.

Crude oil: April 11 289,592 -8,770 May 11 197,900 +2,721 June 11 135,245 -1,435 Totals 1,524,041 -947
Heating oil: Mar 11 7,536 -6,122 Apr 11 96,399 +161 May 11 44,802 +1,539 Totals 300,763 -1,552
Rbob: Mar 11 8,452 -8,932 Apr 11 93,585 +5,111 May 11 56,473 +2,826 Totals 280,153 -73.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9671	9827	29247	29652	28880	29170
9617	9850	28766	30767	28754	29215
9562	9996	28583	30955	28605	29436
9514	10341	27966	31525	28443	30354
8977		27275		27450	

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