

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 SEPTEMBER 1, 2009

Iran's top nuclear negotiator, Saeed Jalili said Iran is ready for new talks with world powers over its nuclear program. He said Iran has updated its package of proposals. The six world powers are scheduled to meet on Wednesday to look into stricter UN sanctions

Market Watch

The US National Hurricane Center said a broad area of low pressure about 275 miles east of the Leeward Islands has a high chance of becoming a tropical depression or tropical storm in the next couple of days. It gave the system a greater than 50% chance of becoming a tropical cyclone during the next 48 hours as it moves west-northwest. Forecast models show the system tracking just north of the Caribbean, possibly towards South Florida or the Southeast US Coast. Meanwhile, the NHC said a tropical wave in the far eastern Atlantic Ocean between the Cape Verde Islands and Africa is showing signs of organization.

Russia has increased its oil price forecast for 2009 to average \$57/barrel this year, up from a previous forecast of \$54/barrel. Russia's Finance Ministry also increased its forecast for 2010 to \$58/barrel from \$55/barrel, for 2011 to \$59/barrel from \$56/barrel and for 2012 to \$60/barrel from \$57/barrel.

Qantas Airways Ltd has hedged about 80% of its fuel needs for the current fiscal year to June 2010. It said it hedged at a worst-case price scenario for oil of \$89/barrel.

Separately, the outgoing head of the UN's IAEA, Mohamed ElBaradei called the threat from Iran hyped and said there was no evidence that Iran will soon have nuclear weapons. In a report last week, the IAEA said that Iran had slowed production of enriched uranium and agreed to tighter monitoring of its enrichment plant. The US downplayed the report, saying that Iran was still not cooperating fully with the UN inspectors. He voiced hope that Iran and the US would start talks.

According to an OPEC official, OPEC has not invited non-members to its September 9th meeting in Vienna.

MasterCard Advisors LLC said US gasoline demand fell by 2.9% in the week ending August 28th to 9.101 million bpd. It is down 5% on the year. In the last four weeks, demand was 9.327 million bpd, down 2% on the year. It also reported that the US average price of gasoline fell by 1 cent to \$2.60/gallon, down 29% on the year.

API Stocks

Crude – down 3.193 million barrels
Distillate – up 920,000 barrels
Gasoline – down 2.811 million barrels
Refinery runs – up 2.2%, at 84.5%

The California State Board of Equalization said gasoline demand in California increased by 0.6% on the year in May to 1.29 billion gallons. Diesel demand continued to fall with a 7% decline in May to 209 million gallons.

Refinery News

Colonial Pipeline Co placed the fifth consecutive limit on gasoline deliveries on the 51st cycle nominations for shipment through its Line 01 gasoline mainline north of Collins, Mississippi because volume exceeded the company's ability to meet a five day lifting cycle.

| |
|---------------------------------------------------------------------------------------------------------------|
| September Calendar Averages CL – \$68.05 HO – \$1.7589 RB – \$1.7822 |
|---------------------------------------------------------------------------------------------------------------|

Reuters said margins of complex US oil refineries fell to the lowest level in five months last week due to the weakness of lighter oil products. US refiners on the Gulf Coast posted an average margin of \$2.21/barrel. In contrast, northwest European margins increased modestly, supported by firmer middle distillates cracks. Complex margins in Europe's refining hub of Rotterdam also increased to \$3.39/barrel last week compared with \$2.98/barrel the previous week. Simple refining margins in the Rotterdam area averaged \$2.62/barrel last week, up 40 cents from the previous week. Complex Mediterranean refiners posted an average profit of \$1.54/barrel of Russian Urals. Asian margins increased about \$1/barrel.

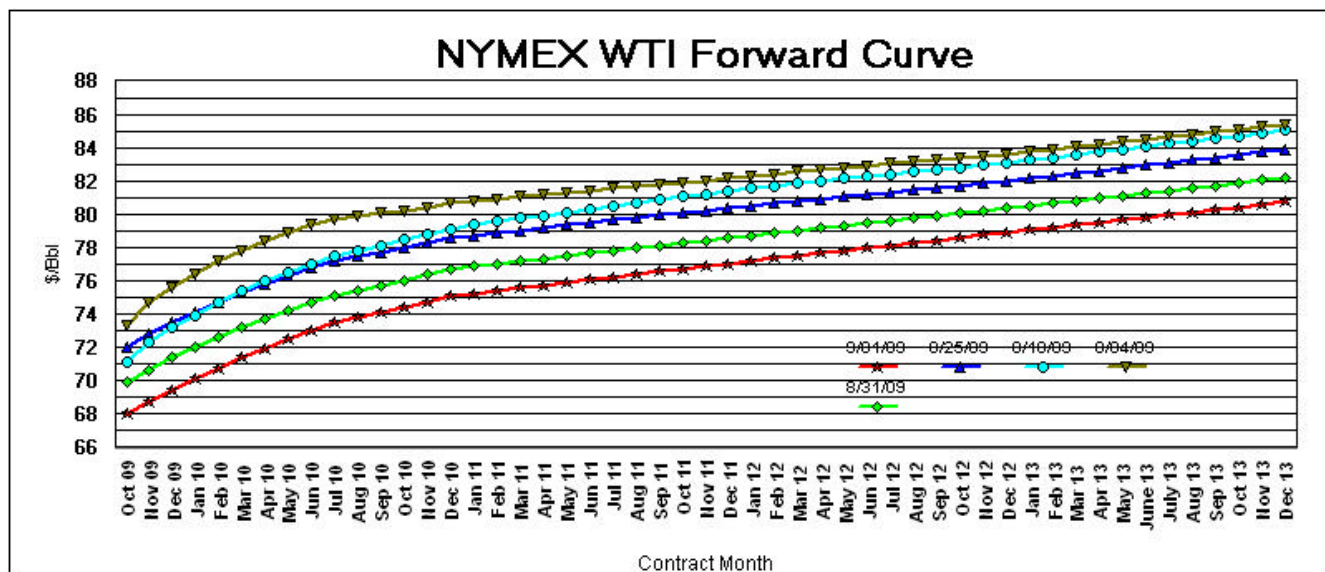
BP Products North America reported flaring at its 450,000 bpd Texas City, Texas refinery, affecting units including an ultracracker and an ultraformer unit.

Sunoco's Girard Point refinery in Philadelphia shut an alkylation unit late Monday.

ConocoPhillips shut its 71,000 bpd Whitegate refinery on the east coast of Ireland for planned maintenance. The refinery was shut August 26th for four to five weeks of maintenance work.

Japan's Showa Shell Sekiyu KK plans to refine 7.95 million kiloliters or 544,000 bpd of crude in the third quarter, down 8% on the year due to lower oil product demand.

Venezuela's PDVSA will probably have to import fuel to cover domestic demand due to outages at gasoline units at three of Venezuela's oil refineries. For the last year, Venezuela's refinery system has suffered a series of stoppages because of accidents and planned maintenance, reducing output and the export of oil product to the US market. The 108,000 bpd fluid catalytic cracking unit at the Amuay refinery has been offline intermittently this month. Meanwhile, Cardon's 77,000 bpd fluid catalytic cracking unit has been closed for maintenance and expansion in 2008 and PDVSA has not given a date for it to restart. Also, the 54,000 bpd fluid catalytic cracking unit at its El Palito refinery remains closed after maintenance work that started in March. PDVSA plans to restart a fluid catalytic cracking unit at its Isla refinery this week following an August 27th power failure.



Vitol has commenced operations at its new 560,000 cubic meter storage facility in the UAE port of Fujairah. The first phase of the new expansion, will be dedicated mostly to clean product storage, while the existing 460,000 cubic meters will be used mostly for fuel and crude oil storage. The second phase, which involves the construction of 140,000 cubic meters of new storage tanks, will be dedicated for dirty petroleum products when it comes online in the second quarter of 2010. The combined storage capacity will increase Vitol's total volume at the port to about 1.1 million cubic meters.

India's local fuel sales in July increased by an annual 3.6%, led by higher consumption of gasoil. Oil product sales totaled 10.94 million tons in July. The government expects oil product demand to increase by 2.4% in current fiscal year ending March 2010. India's diesel sales in July increased by 10.8% on the year to 4.52 million tons while petrol sales increased by 10.1% on the year to 1.01 million tons. Crude oil imports in July fell by 16% on the year to 2.37 million bpd or 10.02 million tons.

Production News

According to a Dow Jones survey, output from OPEC's 11 members bound by quotas increased by 1.29% or 335,000 bpd to 26.365 million bpd in August from a revised level of 26.03 million bpd in July. OPEC-11 produced 1.52 million bpd above the production quota of 24.845 million bpd. OPEC's total production increased by 310,000 bpd to 28.865 million bpd in August. It reported that Saudi Arabia's oil production increased by 150,000 bpd to 8.145 million bpd, about 94,000 bpd above its quota of 8.051 million bpd. Iran's oil production increased by 30,000 bpd to 3.78 million bpd while Venezuela's oil production increased by 10,000 to 2.18 million bpd and Nigeria's oil production increased by 100,000 bpd to 1.87 million bpd. Meanwhile, Iraq's oil production fell by 25,000 bpd to 2.5 million bpd.

Reuters reported that OPEC's oil production continued to increase for the fourth consecutive month due to higher output from Saudi Arabia. Production by the 11 OPEC members bound by quotas increased to 26.2 million bpd. It is 1.36 million bpd over its implied quota of 24.845 million bpd. OPEC's compliance rate is at 68% in August, down from a revised 70% in July.

The head of Iraq's State Oil Marketing Organization, Falah Alamri said the country's oil exports in August fell slightly by 1.29% to 2.009 million bpd from 2.035 million bpd in July.

Norway's petroleum authorities have cut their estimates of the oil and gas resources in the Barents Sea by 11.7% due to higher development costs and smaller than expected reservoir properties. The Norwegian Petroleum Directorate cut its estimated recoverable resources in the Barents Sea to 910 million standard cubic meters of oil equivalent.

Russia's OAO Rosneft is planning a considerable increase in its crude production in the second half of the year. The start of the Vankor field will help increase its production by 5-6% in the first half. The deposit began output last month at 130,000 bpd and is expected to increase to 220,000 bpd by the end of the year. Rosneft is benefiting from a temporary exemption from the mineral extraction tax and may receive a further exception from export duties under government proposals. The push to suspend the export duty is likely because production is not profitable within the current tax structure and transport costs.

ExxonMobil restarted crude oil production from the Cepu block in the Central Java with output at about 1,500 bpd. Cepu is expected to produce 165,000 bpd when it reaches peak output in 2012. Separately, Indonesia's BPMIGAS said that the country's oil production fell about 1% in August to 817,600 bpd from 826,600 bpd in July due to maintenance work at several wells.

A PetroChina official said China will increase retail prices for gasoline and diesel by 300 yuan/ton or 4-5% starting Wednesday.

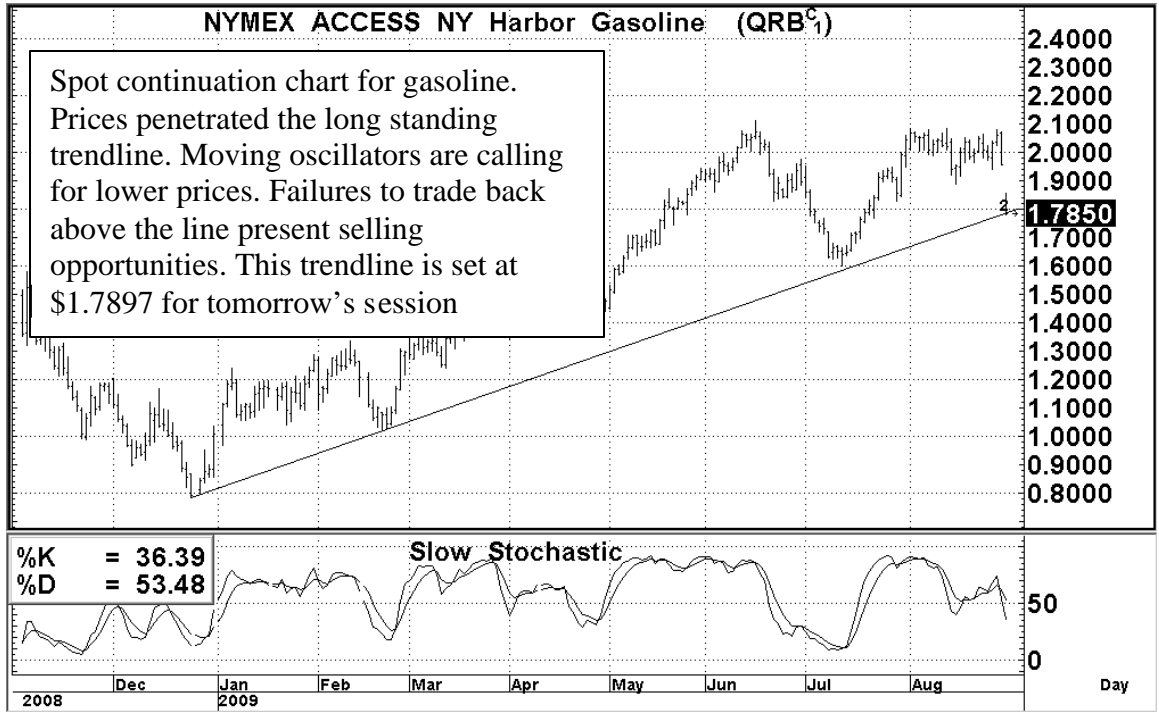
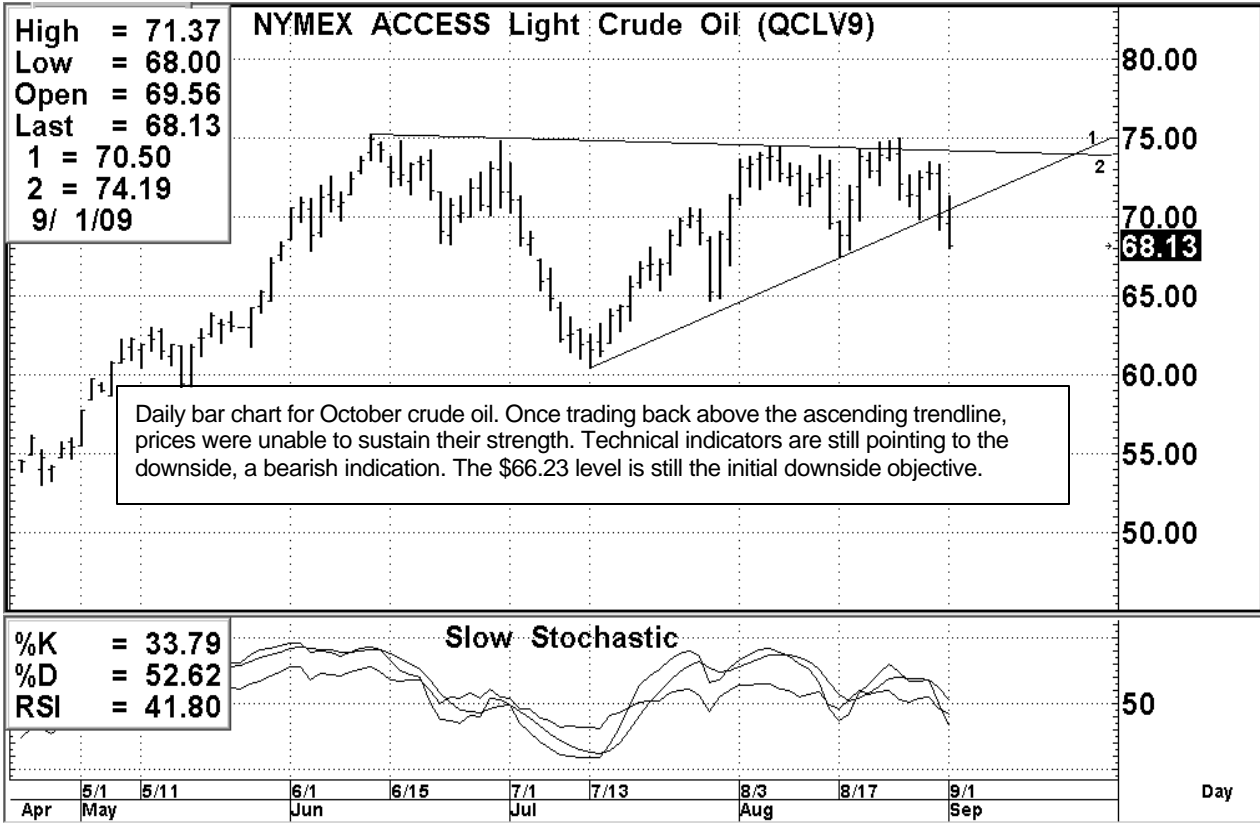
OPEC's news agency reported that OPEC's basket of crudes fell to \$70.37/barrel on Monday from \$71.72/barrel on Friday.

Market Commentary

Crude oil fell almost \$2.00 today, after early session gains, as the market responded to a strong dollar and falling equities markets. It is evident that the current economic situation continues to be at the forefront of investor's minds, as concerns regarding the economic recovery led to cautious trading. Although faint signs point to an economic recovery, the process is slow and prices may have gotten ahead of themselves. Supply remains substantial, while demand has been somewhat flat lined. Crude oil has been somewhat range bound over the past month, trading between the range of \$67.10-\$75.00. From a technical standpoint prices should make an attempt at the projected downside objective of \$66.23. Gasoline has settled below a longstanding trendline that began back in December of 2008. This is the first time that prices have traded and settled below this line. We would like to see two days of settlements below this line to confirm that the uptrend is over. This trendline comes into tomorrow set at \$1.7897. Failures to penetrate this trendline would present selling opportunities. Moving oscillators are calling for additional downside movement.

Crude Oil OCT.09 250,813 -5,734 NOV.09 146,267 +7,081 DEC.09 166,237 +2,595 JAN.10 39,128 -44 FEB.10 26,761 +400 MAR.10 28,295 +831 Totals: 1,162,798 +4,323 Heating SEP.09 1,309 -4,678 OCT.09 67,522 -2,167 NOV.09 38,312 +1,429 DEC.09 46,810 -12 JAN.10 23,778 -345 FEB.10 16,394 +25 Totals: 295,305 -5,401 GASOLINE (RB) SEP.09 502 -4,218 OCT.09 84,062 -2,026 NOV.09 38,974 +631 DEC.09 32,862 +88 JAN.10 15,740 +213 FEB.10 4,594 +33 Totals: 207,265 -4,824

The API reported a larger than expected draw in crude stocks of 3.193 million barrels on the week, with a large draw of 4.161 million barrels reported in Padd 3 alone. It reported the draw in crude stocks as runs increased by 434,000 bpd to 14.797 million bpd on the week. It however showed that crude imports increased by 413,000 bpd to 9.764 million bpd. Meanwhile the API showed that distillate stocks built by 920,000 barrels on the week. Total distillate stocks are up 25% on the year. It reported a large build of 2.415 million barrels in Padd 3. It reported the build in stocks as apparent demand fell by 1.1% on the week and by 10.8% on the year to 4.234 million bpd while apparent demand basis its three week moving average increased by 3% on the week and fell by 10.9% on the year to 4.159 million bpd. The API also reported that distillate production also increased by 146,000 bpd or 3.6% to 4.191 million bpd. Gasoline stocks saw a larger than expected draw of 2.811 million barrels on the week. It reported a draw of 2.501 million barrels in Padd 3. It reported the draw in stocks as gasoline production fell by 59,000 bpd or 0.6% to 9.084 million bpd and imports fell by 204,000 bpd to 250,000 bpd on the week. Apparent demand however fell by 1.2% to 9.736 million bpd while apparent demand basis its three week moving average increased by 0.9% to 9.669 million bpd.



| | |
|-------------------------------------------------|-----------------------------------------------------------------------------|
| Crude Support | Crude Resistance |
| 66.23, 64.70, 63.38, 62.70, 61.61, 60.95, | 73.24, 73.85, 75.00, 76.13 |
| Heat Support | Heat resistance |
| 1.7340, 1.6600, 1.4870, 1.4220, 1.4130, 1.3720 | 2.0420, 204.65 |
| Gasoline support | Gasoline resistance |
| 1.6010, 1.5887, 1.5370, 1.5260, 1.3520, 1.3400, | 1.7897, 1.8559, 1.9551, 2.0210, 2.0400 20.567, 2.1100, 2.1600, 2.3350 |

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 purposes only. 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.