



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 2, 2010

The National Hurricane Center said Hurricane Earl weakened slightly to a Category 3 storm on Thursday as it approached the North Carolina coast. The hurricane is expected to pass near the North Carolina Outer Banks Thursday evening. A turn to the north-northeast and away from the US eastern seaboard still remains in the forecast for Friday. It issued a hurricane warning for the coast of Massachusetts, from Westport eastward around Cape Cod to Hull. The warning includes Martha's Vineyard and Nantucket. The NHC said Tropical Storm Gaston weakened to a tropical depression early Thursday. Some strengthening is expected during the next 48 hours as the system moved west-northwest at 7 mph. It is located about 970 miles west of the southernmost Cape Verde Islands.

Market Watch

The US Labor Department said the number of initial unemployment claims fell by 6,000 to 472,000 in the week ending August 28th. New claims for the previous week, ending August 21st, were revised upward to 478,000 from 473,000. The four week moving average fell by 2,500 to 485,500. The prior week's average was revised to 488,000. It reported that the number of continuing claims in the week ending August 21st fell by 23,000 to 4,456,000 from the preceding week's revised level of 4,479,000. The unemployment rate for workers with unemployment insurance in the week ending August 21st was 3.5%, unchanged on the week.

The Labor Department also reported that US productivity in the second quarter fell more than previously estimated. Nonfarm business labor productivity fell by a seasonally adjusted annualized rate of 1.8% compared to the prior quarter. It had originally estimated that second quarter productivity fell by 0.9%. It reported that productivity in the first quarter increased by 3.9%.

The Commerce Department said new orders for US manufactured goods were up by a modest 0.1% in July to \$409.48 billion. It was the first increase following two consecutive declines in orders. In June, new orders for manufactured goods fell by a revised 0.6%, less than the previously reported 1.2% decline for the month.

The National Association of Realtors' index for pending sales of used homes increased by 5.2% to 79.4 in July. The report represents a reversal after the index fell two months in a row following the April 30th expiration of a tax credit for buyers. Year over year, the pending sales index was 19.1% below its level of 98.1 in July 2009. In its monthly forecast on the industry, the NAR projected existing home sales of 4.91 million this year and 5.44 million in 2011.

Thomson Reuters data showed that same store sales in August increased by 3.3% compared with estimates of a 2.5% increase.

The CME Group and IntercontinentalExchange Inc said their daily trading volume increased in August from a year earlier. The CME's daily volume averaged 11.7 million contracts in August, up 15% on the year, with 82% of August's total of 258 million contracts traded electronically. Meanwhile, the ICE said its daily average volume increased by 19% to 1.2 million contracts last month.

**September
Calendar Averages**
CL – \$74.47
HO – \$2.0517
RB – \$1.9054

Most computer models show the system tracking in a westerly direction into the Caribbean. Tropical Storm Fiona, in the western Atlantic about 550 miles south of Bermuda, is expected to steer north and then northeast, passing near Bermuda by early Saturday. It is expected to remain a tropical storm as it moves in a northeasterly direction into the North Atlantic.

Mariner Energy Inc confirmed a fire at a production platform on the vermilion block 380 in the Gulf of Mexico, 80 miles south of Louisiana. During the last week of August, production from the facility averaged 1,400 barrels of oil and condensate. The cause of the incident was not known. The US Coast Guard said thirteen workers on the rig at the time of the fire were accounted for. The work crew on the platform was painting and sand blasting at the time of the incident. No oil-related operations were taking place at the time. The US Coast Guard said oil sheen was seen surrounding the platform. The fire aboard the platform, which started Thursday morning, was still burning in the afternoon but was contained. The US Interior Department said the platform was not in active production and was undergoing maintenance.

Oil Movements reported that OPEC's oil exports, excluding Angola and Ecuador, are expected to fall by 280,000 bpd in the four weeks ending September 18th to 23.26 million bpd.

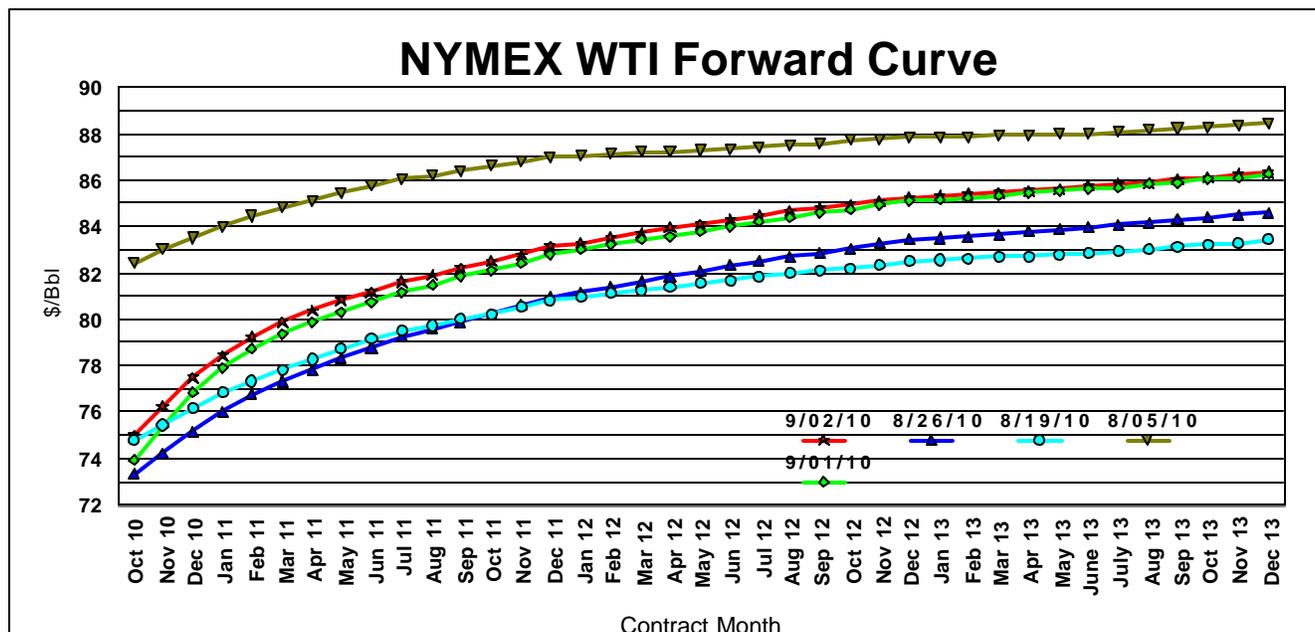
Genscape reported that oil inventories in Cushing, Oklahoma fell by 777,561 barrels to 37.89 million barrels in the week ending August 31st. It estimated that Cushing crude tanks were filled to 72% of capacity as of Tuesday, down from 74% the previous week.

Russia's Lukoil Holdings said it will not work with Iran until international sanctions have been lifted.

BP Plc has started operations to remove a capping stack above the Deepwater Horizon well, another step towards the replacement of a broken blow out preventer and the ultimate plugging of the well.

Refinery News

Oil refineries along the East Coast are operating normally Thursday and continuing to monitor the path of Hurricane Earl in the Atlantic. All the refiners have contingency plans in place should the course of the storm change. Western Refining said low lying areas at its 70,000 bpd refinery in Yorktown, VA have been sandbagged and empty crude oil storage tanks have been secured. Sunoco said it has taken steps to protect personnel and safeguard equipment at its 335,000 bpd Philadelphia



refinery and its 178,000 bpd Marcus Hook refinery. ConocoPhillips said operations at its 238,000 bpd Bayway refinery in Linden, NJ and its 185,000 bpd refinery in Trainer, PA have been unaffected by the approaching storm. Valero Energy said no decisions to alter operations at its 195,000 bpd refinery in Paulsboro, NJ have been made as of Thursday afternoon. Korea National Oil Co's North Atlantic refinery or Come-By-Chance refinery in Newfoundland is monitoring the storm. Imperial Oil's 82,000 bpd Dartmouth, Nova Scotia refinery is also monitoring the storm.

Separately, the EIA said Hurricane Earl could impact 1.1 million bpd of US operable refinery capacity or about 7% of the country's total capacity. It includes 858,000 bpd at four refineries in the Philadelphia area, a 238,000 bpd refinery in NY Harbor and a 66,000 bpd refinery in Yorktown, Virginia.

A fire at Marathon Oil's 74,000 bpd St. Paul, Minnesota refinery was extinguished on Wednesday.

Husky Energy reported flaring of hydrogen sulfide at its 150,000 bpd refinery in Lima, Ohio following a process upset at an unidentified unit on Tuesday.

Finland's Neste Oil repaired the 58,000 bpd Naantali refinery and is now operating at full capacity following fire damage three weeks ago. The Naantali refinery halted most production after two small fires started on August 12 and the return to full production was delayed while a damaged catalytic cracking unit was repaired.

The French CGT trade union has called for a national strike at all Total sites on September 7th to protest against government pension reform plans.

PetroChina Co's 200,000 bpd Qinzhou refinery has started trial operations. The refinery's move to commercial operations will depend on the result of the trial run. The refinery was originally scheduled to start trial runs at the end of June. It is designed to process mostly crude produced at China National Petroleum Corp's fields in Sudan. The refinery has the capacity to supply 7 million tons of gasoline, diesel and jet kerosene a year to markets in southwestern China.

Russia will supply about 70% of oil at market prices for the proposed Tianjin refinery jointly owned by Rosneft and China National Petroleum Corp. Under a \$15 billion oil-for-loan deal agreed in April 2009, the Russian oil major agreed to transport 15 million tons or 300,000 bpd of crude from 2011 to China starting from late 2010. The other 30% of oil for the refinery will be delivered from Asia.

Kuwait Petroleum Corp sold 80,000 tons of gas oil to Vitol for September by tender. Kuwait has diverted cargoes originally destined for Pakistan, which declared force majeure on taking delivery of at least two gas oil cargoes following the floods in the country.

Gasoline inventories in independent storage in the Amsterdam-Rotterdam-Antwerp area in the week ending September 2nd fell by 13.25% on the week but increased by 20.97% on the year to 825,000 tons. Gasoil stocks increased by 8.51% on the week but fell by 7.27% on the year to 2.805 million tons while fuel oil stocks fell by 10.84% on the week but increased by 70.33% on the year to 666,000 tons. Naphtha stocks increased by 44.68% on the week and by 28.3% on the year to 68,000 tons while jet fuel stocks fell by 2.72% on the week but increased by 5.93% on the year to 714,000 tons.

Singapore's International Enterprise reported that the country's residual fuel stocks in the week ending September 1st fell by 305,000 barrels to 20.261 million barrels. It also reported that Singapore's light distillate stocks increased by 1.486 million barrels to 11.626 million barrels while its middle distillate stocks increased by 292,000 barrels to 14.206 million barrels on the week.

Production News

Enbridge Inc said it will expand capacity at its Athabasca pipeline to 430,000 bpd, depending on crude slate. The additional capacity will be available in the third quarter of 2014. It said the expansion will accommodate recent shipping commitments by the Christina Lake oil sands project operated by Cenovus. The pipeline can be expanded to as much as 570,000 bpd.

Iraq resumed crude oil pumping from its northern Kirkuk oil fields to Turkey's port of Ceyhan following a suspension of nearly four days. The flow resumed at about 300,000 bpd, lower than its normal rate of more than 400,000 bpd.

According to Dow Jones, OPEC's total oil production fell by 0.77% or 225,000 bpd to 29.2 million bpd. Oil production from OPEC's 11 quota bound members, excluding Iraq, fell by 0.37% or 100,000 bpd in August to 26.91 million bpd. OPEC's rate of compliance increased to 51% in August compared with 48.5% in July.

Russia's Energy Ministry reported that the country's oil production fell by 0.8% in August to 10.06 million bpd from a record 10.14 million bpd in July. Exports via pipeline monopoly Transneft fell to 4.37 million bpd from 4.53 million bpd in July. Russia's gas output fell to 1.39 billion cubic meters/day in August from 1.42 bcm/d in July.

Italy's Eni is moving its deepwater rig from the Gulf of Mexico to West Africa and will keep the contract with Transocean Ltd until its expiry. Transocean's Marianas rig departed last week bound for Nigeria. It is the first rig to move from the Gulf of Mexico following the Obama administration's deepwater drilling moratorium on US offshore oil and gas operations.

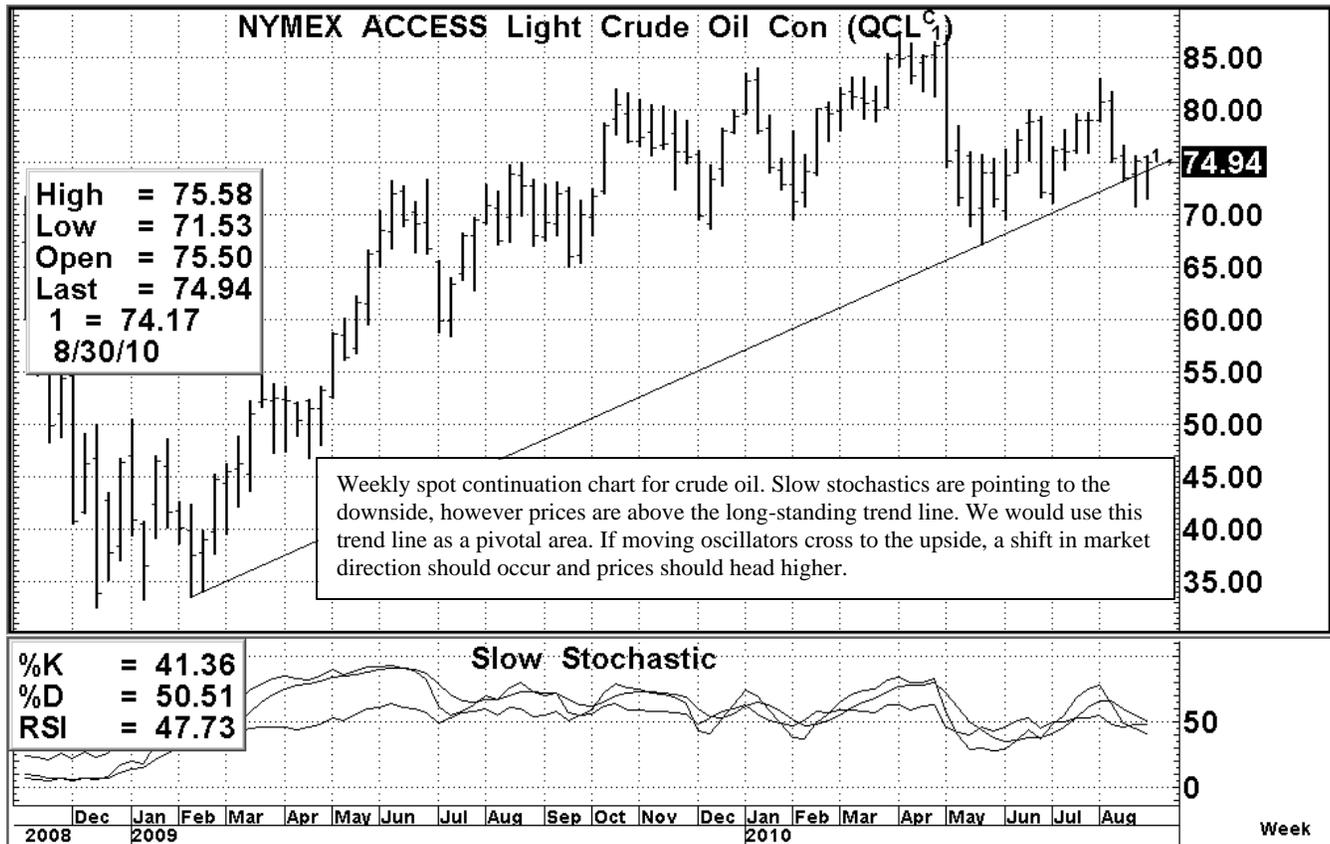
Abu Dhabi National Oil Co posted the official selling price of its Murban crude oil at \$74.60/barrel retroactively for August term supply, a \$1.60/barrel increase from the previous week. The price of its Lower Zakum crude was increased by \$1.60/barrel to \$74.35/barrel while the price of its Umm Shaif crude was increased by \$1.70/barrel to \$74.15/barrel and the price of its Upper Zakum crude was increased by \$1.60/barrel to \$72.80/barrel.

OPEC's news agency reported that OPEC's basket of crudes increased by 10 cents to \$72.49/barrel on Wednesday.

Market Commentary

An explosion at one of Mariner Energy Inc's platforms located in the Gulf of Mexico, spurred the crude oil market higher today. This raised concern that the explosion would result in tighter regulations, reducing output. The U.S. government has been trying to implement a new or lift a drilling moratorium put into place since the BP explosion but has yet to come to an agreement. Looming in the Atlantic Ocean is Hurricane Earl, which is expected to threaten east coast refineries. Even with crude oil stockpiles at extremely high levels, this market has managed to rebound and appears to be forming a bottom. With uncertainty about the economy, an ever-present factor, this market will continue to be sensitive and trade in a choppy fashion. Coming into tomorrow's session, we would look for crude oil to hold on to its recent strength, given the long weekend. Once again, there is a long-standing trendline based upon a weekly spot continuation chart that is set at \$74.17 for this week. Prices settled back above this trendline last week after penetrating it and are back above it based upon today's settlement. This would be our target area for tomorrow's session.

Crude oil: Oct 10 308,681 -7,803 Nov 10 170,378 +7,952 Dec 10 206,777 +3,320 Totals 1,313,998 +5,956 Heating oil: Oct 10 83,747 -3,743 Nov 10 46,791 +854 Dec 10 55,491 +854 Totals 313,374 -1,537 Rbob: 91,268 -1,609 Nov 10 50,012 Totals 236,094 +1,082.



Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7190	7559	18965	22530	18240	
7109	7634	19236	22700	16010	22345
7000	7781	18920	22945		24880
6715	7831		23775		27085

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