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ENERGY MARKET REPORT FOR SEPTEMBER 3, 2010

The National Hurricane Center said Hurricane Earl was moving up the US East Coast as a weaker Category 1 storm while two other tropical systems in the eastern Atlantic were being monitored. There were still no immediate storm threats to oil and gas producing facilities in the Gulf of Mexico. Earl passed near Cape Hatteras, North Carolina early Friday and was about 350

miles south southwest of Nantucket, Massachusetts. While it was not forecast to make US landfall, it was expected to steer northeast along the Eastern Seaboard at about 18 mph and approach southeastern New England by Friday evening. A slow weakening was forecast during the next 24 to 36 hours. Meanwhile Tropical Storm Fiona was located in the western Atlantic about 310 miles south-southwest of Bermuda. It was expected to move north and then north-northeast, passing near Bermuda on Saturday. A gradual weakening was forecast during the next couple of days and it is not expected to strengthen to hurricane strength. The remnant low pressure area of former Tropical Storm Gaston remained in the central Atlantic moving west at 5-10 mph. The NHC said conditions could become more favorable for the system to redevelop during the next couple of days but gave it a low 20% chance of becoming a tropical cyclone again during the next 48 hours. The NHC was also monitoring a tropical wave located off the west coast of Africa, where conditions were marginally conducive for development. The system was given a 10% chance of becoming a tropical cyclone during the next 48 hours.

Market Watch

The US Labor Department said job losses continued to increase in August, though at a more modest pace than expected. Nonfarm payrolls fell by 54,000 in August. The estimate for July was revised to 54,000 job losses from an original estimate of a 131,000 drop in payrolls. The unemployment rate increased to 9.6% as expected after holding at 9.5% during the previous two months.

The Institute for Supply Management said the US non-manufacturing sector expanded at a much slower pace than last month. Its non-manufacturing purchasing managers' index fell to 51.5 in August from 54.3 in July. The ISM said its August business activity/productivity index fell to 54.4 from 57.4 in July. The new orders index fell to 52.4 in August from 56.7 in July. The ISM's non-manufacturing employment index fell to 48.2 in August from 50.9 in July.

The API's petroleum stocks report will be delayed until Wednesday at 4:30 pm EDT due to the Labor Day holiday. The EIA's weekly petroleum report will also be delayed by one day until Thursday at 11 am EDT.

The executive director of the IEA, Nobuo Tanaka said the world oil market is currently well supplied. He also said dependency on OPEC oil is expected to increase in the next 5-10 years as non-OPEC

**September
Calendar Averages**
CL – \$74.51
HO – \$2.0536
RB – \$1.9101

supplies are expected to decline. He said global oil demand would increase by 1.8 million bpd on the year to 86.6 million bpd in 2010.

The head of the municipal security committee in Iraq's southern oil terminal of Basra, Ali al-Maliki said Iraq has tightened security around oil infrastructure and oilfields in the south in response to intelligence suggesting al Qaeda and other insurgent groups plan to attack oil facilities. He said information indicated that al Qaeda in Iraq and the outlawed Baath Party were switching their sights to economic targets and oil companies.

Consulting firm PFC Energy said OPEC may be driven to cut oil supplies next year due to signs of a slowing global economy and stronger than expected supply from rival producers. It said views held by some OPEC members that a strong economy would drive growth in world demand this year and the non-OPEC supply would fall have proven groundless. PFC Energy expects oil prices to average \$74.65/barrel in the third quarter and fall later in the year to average \$69/barrel in the fourth quarter.

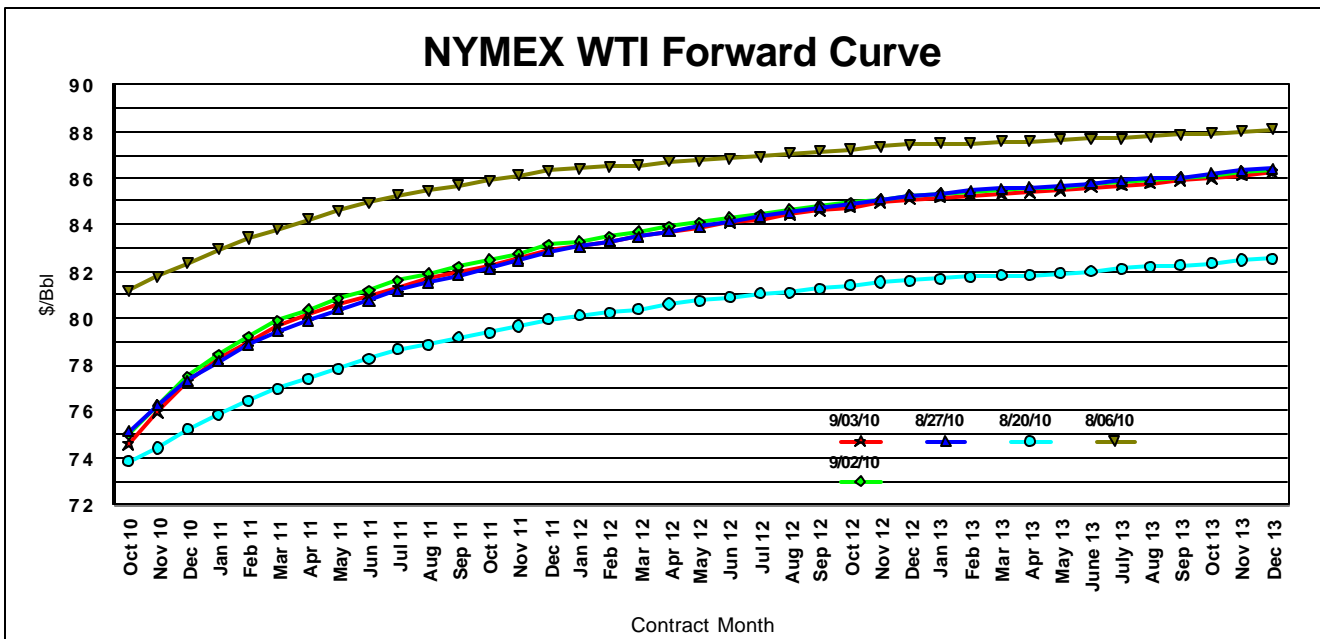
US Treasury Secretary Timothy Geithner and Secretary of State Hillary Clinton applauded Japan's new sanctions against Iran. They said the sanctions "market a significant step forward in the international community's efforts to combat proliferation and prevent Iran's development of nuclear weapons." Japan's news sanctions include a freeze on the assets of 88 groups and 24 individuals linked to the country's nuclear program. The sanctions also include Japanese banks' being required to suspend agency arrangements with 15 Iranian banks. It also said it would suspend any new oil and gas investments in Iran but there are no plans to restrict imports of crude oil from Iran.

Iran's armed forces chief of staff Hassan Firouzabadi said Iran would retaliate by striking Israel's nuclear facility if Israel attacked its nuclear activities.

BP Plc said the capping stack on top of the Deepwater Horizon or blowout preventer was removed on Thursday. A drilling rig is on standby to resume drilling the relief well. It said that depending on weather conditions, mid-September is the current estimate of the most likely date by which the relief well will intercept the MC252 well.

Refinery News

ConocoPhillips implemented hurricane response plans at its 185,000 bpd Trainer, PA refinery and its



238,000 bpd Linden, NJ refinery ahead of Hurricane Earl. Separately, ConocoPhillips notified Texas state environmental regulators of a plan to perform brief maintenance on Friday on a fluid catalytic cracking unit at its 247,000 bpd Sweeny, Texas refinery. ConocoPhillips also reported that emission of sulfur dioxide vapor exceeded the reportable quantity of 500 pounds due to flaring caused by a unit start up at its Rodeo, California refinery on Friday morning. A report filed with the California Emergency Management Agency did not specify what unit was restarted.

Western Refining Inc said operations were normal at its 66,300 bpd refinery in Yorktown, Virginia after Hurricane Earl passed through the region.

Frontier reported an emissions release of hydrogen sulfide at its 135,000 bpd refinery in El Dorado, Kansas on Thursday after a compressor shut down. It said the compressor was restarted several hours after tripping off line on Thursday.

The loss of a boiler at Alon USA Energy Inc's 67,000 bpd Big Spring, Texas refinery caused a brief period of emissions as the shutdown caused a reduction in steam production.

Royal Dutch Shell started planned turnaround at its 412,000 bpd Pernis refinery. It also shut down its 70,000 bpd Fredericia facility in Denmark on Friday for two weeks of maintenance. The refinery is expected to take an additional two weeks to restart.

Iran has been storing fuel oil on supertankers for at least three months, with at least 550,000-600,000 tons held at sea at any one time, in a move prompted by low feedstock demand from China this year. The move was also due to increasing difficulty for some term buyers to obtain credit from Western banks for trade with Iran due to sanctions.

Asian imports of West African crude will increase sharply in September due mainly to a substantial increase in purchases by Indian refiners as their processing capacity increases. Indian buyers have taken a total of 26 cargoes of West African crude loading September, mostly from Nigeria. Buyers in China bought a similar volume of crude for September loading but mostly from Angola and also bought cargoes from Guinea. In total, Asian buyers bought 1.77 million bpd of crude oil for loading in September, up from 1.32 million bpd in August.

Oil product loadings at Lithuania's oil terminal Klaipėdos Nafta increased to 5.25 million tons during the first eight months of the year, up from 4.9 million tons loaded in the same period last year. In August, oil product loadings at the terminal totaled 560,000 tons, up from 540,000 tons last year.

Production News

Nigeria's presidential adviser on petroleum issues, Emmanuel Egbogah said the country's oil production, including condensate, is currently about 2.6 million bpd. He confirmed that Nigeria remains on course to pass a new Petroleum Industry Bill this month.

Angola's Deputy Minister of Petroleum, Anibal Silva said the country is aiming for another offshore oil bid round in 2011. Angola is producing about 1.9 million bpd and is expected to maintain that level for the rest of the year.

Russia's Lukoil is producing almost no oil at its new Caspian field, the Korchagin field, which started operations in April as it awaits tax breaks. Lukoil has been pressing the government to introduce tax breaks for its Caspian project.

Russia's oil pipeline monopoly Transneft will not increase oil shipping fees in 2011. The shipping tariff was increased by an average of 3.3% from August 1st and will increase by a further 9.9% starting December 1st.

OPEC's news agency reported that OPEC's basket of crudes increased by 40 cents to \$72.89/barrel on Thursday from \$72.49/barrel on Wednesday.

Market Commentary

A mixed economic outlook continues to manipulate this market, putting pressure on crude oil. Prices fell after the release of the Institute for Supply Management's index indicated that non-manufacturing fell to 51.5 in August from 54.3 in July. This pared earlier gains in response to a government report that showed non-farm payrolls increased by 67,000. It appears that longs put on yesterday after the Mariner explosion news broke, exited positions today. Supply is still in abundance and refining capacity is plentiful. These fundamentals do not support higher prices, however technical indicators are calling for higher numbers. Crude oil should remain economically reactive and if economic news is as erratic as it has been, this market will continue to have choppy trading sessions. There is resistance in crude oil up at \$75.59. We would look for prices to work back towards that level, selling failed attempts to penetrate. Our overall view of this market is that prices will remain range bound between \$83.00 and \$67.00 dollars and we would look to buy and sell against the listed support and resistance numbers.

The latest Commitment of Traders report showed that non-commercials in the oil market cut their net long position by 14,203 contracts to 13,120 contracts in the week ending August 31st. The combined futures and options report showed that non-commercials in the crude market cut their net long position by 12,163 contracts to 100,699 contracts on the week amid the weakness in the market. The disaggregated futures and options report showed the managed money funds continued to cut their net long position for the fourth consecutive week by 3,329 contracts to 78,695 in the latest week. Meanwhile, the combined futures and options report showed that non-commercial in the heating oil market cut their net short position by 5,833 contracts to 64 contracts while non-commercials in the RBOB contract cut their net long position by 583 contracts to 15,671 contracts on the week.

Crude oil: Oct 10 303,435 -5,246 Nov 10 186,810 +16,432 Dec 10 214,491 +7,714 Totals 1,341,361 +27,363 Heating oil: Oct 10 82,712 -1,035 Nov 10 47,654 +863 Dec 10 57,640 +2,149 Totals 317,131 +3,757 Rbob: Oct 10 90,190 -1,078 Nov 10 51,565 +1,553 Dec 10 32,424 +106 Totals 237,610 +1,516.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7320	7559	18965	22530	18240	
7260	7634	19236	22700	16010	22345
7190	7781	18920	22945		24880
7109	7831		23775		27085
7000					

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