



## **ENERGY RISK MANAGEMENT**

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### **ENERGY MARKET REPORT FOR SEPTEMBER 5, 2008**

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The MMS reported that crude oil and natural gas production in the US Gulf of Mexico continued to recover following the shutins ahead of Hurricane Gustav. It said about 90.5% or 1.177 million bpd of oil production remains offline as of Friday morning. It is down from 1.238 million bpd reported on Thursday.

The DOE said the possibility of further requests for oil loans from the SPR will remain unclear until the Capline crude pipeline

#### Market Watch

A Federal Emergency Management Agency official said Hurricane Ike may be on course toward a potentially dangerous route into the Gulf of Mexico. The National Hurricane Center's latest forecast showed its track move slightly westward and further in the GOM

European Union Energy Commissioner Andris Piebalgs said that falling oil prices is positive factor for the economy and added that it could fall to as low as \$70/barrel. He added that \$100/barrel is seen as a likely stabilizing point for oil prices.

Deutsche Bank said activity in NYMEX options suggest increased expectations that crude oil futures will fall below \$100/barrel. It said expectations of the December 08 crude contract expiring below \$100 have increased to a 27% likelihood from 8% in July while the prospect of \$150/barrel has fallen to 9% from 58% in July.

The Economic Cycle Research Institute's US Future Inflation Gauge fell to 109.3 in August from 112.4 in July. The reading was the lowest since July 2002, when the index stood at 108.2.

The Labor Department reported that the US unemployment rate unexpectedly increased to 6.1% in August, its highest in five years. It said 84,000 jobs were lost in August. Meanwhile July's job losses were revised up to 60,000 and June's to 100,000 from a previously reported 51,000 in each month.

Russia's Energy Ministry is preparing a proposal to cut the mineral extraction tax for the country's oil companies. It is proposing to increase the cutoff price, above which oil firms will pay tax, to \$25/barrel from \$15/barrel. It said it was proposing a further cut because the reduction already approved by the government was not sufficient to mitigate falling oil production. It said it was not enough to stimulate oil companies to invest more in new fields. Russia's oil production is expected to increase by 1% to 497-500 million tons or 9.95-10 million bpd in 2008 from 491.5 million tons last year. In the first eight months of the year, production fell by 0.5%.

Venezuelan lawmakers approved a law that eliminates the role of the middlemen from the buying and selling of gasoline and diesel in Venezuela and gives the state control over the transport of liquid hydrocarbons in some instances as well. Gas station owners however remain in control of their assets and must now deal directly with PDVSA for their supplies.

becomes fully operational and normal offshore oil output resumes. A DOE official said issues surrounding Marathon Corp's request for loans from the SPR will not be able to be resolved until Capline resumes operations. He said to meet Marathon's request, the SPR crude would need to flow through the 1.2 million bpd capacity Capline. The official said that as the Capline restarts and as offshore crude oil production resumes, refiners' potential needs for SPR crude will become clearer.

**September Calendar Averages**  
**CL** – 108.30  
**HO** – 303.97  
**RB** – 273.18

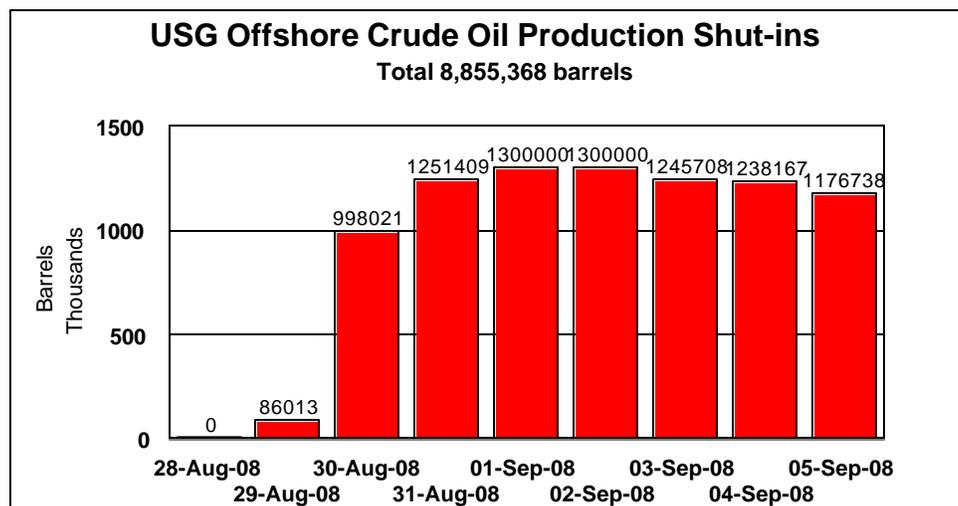
OPEC is expected to leave its output targets unchanged when it meets on September 9, despite the slower demand, an economic downturn and lower oil prices. An analyst at consultancy PFC Energy said consensus was building within OPEC on the need to cut production however with the price of oil still above \$100/barrel, OPEC could be reluctant to risk the political backlash of making a public cut at its meeting. Meanwhile Goldman Sachs Group Inc said OPEC is unlikely to cut supply at next week's meeting in Vienna due to the hurricane season. An analyst said that given demand destruction, oil prices will likely fall further once the OPEC meeting ends. Separately, a Goldman Sachs analyst, Arjun Murti who first wrote of a "super spike" in oil prices in March 2005, is maintaining his forecast for WTI crude to average \$130/barrel in the fourth quarter. WTI crude is forecast to average \$140/barrel in 2009.

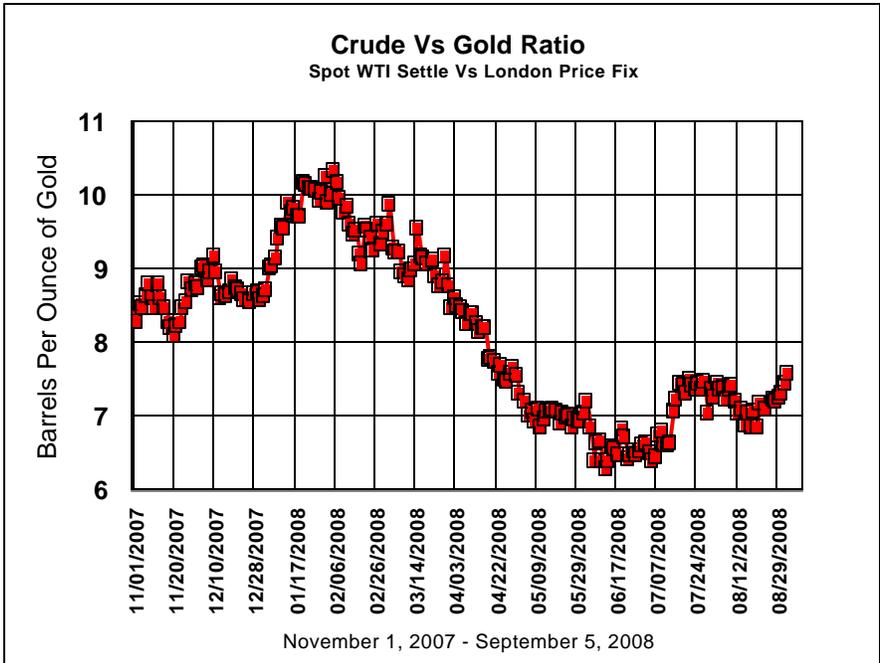
Iran's OPEC Governor, Mohammad Ali Khatibi said crude prices are acceptable at \$100/barrel and reiterated that OPEC members should reduce production to their previously agreed quotas. Separately, the chairman of Libya's National Oil Corp, Shokri Ghanem said the oil market is oversupplied and added that OPEC aimed to balance supply and demand. However he said OPEC was not going to make decisions before studying the market situation.

The IEA's executive director, Nobuo Tanaka said the oil market remains tight and price volatility remains a risk. He said the oil market may ease in the short term amid slower economic growth and high prices. However he sees the market tightening again in the mid-term around 2013 amid strong growth.

Iran's Foreign Ministry spokesman Hassan Ghashghavi dismissed as baseless remarks by French President Nicolas Sarkozy that Iran was pursuing its nuclear program for military purposes. He said nuclear weapons are not part of Iran's defense doctrine. France's President warned that Iran's determination to continue with its uranium enrichment program risked provoking an Israeli military strike. Meanwhile, Israel's President Shimon Peres said Iran's nuclear program demands a political rather than a military response following the comments made by France's President.

US Secretary of State Condoleezza Rice said she was satisfied with work between the European Union and the US to counter Russia's military intervention in Georgia. Meanwhile the foreign





ministers of the 27 EU member states will meet on Friday and Saturday in Avignon, France. French President Nicolas Sarkozy is scheduled to visit Moscow on Monday with top EU officials for talks with Russia's President Dimitri Medvedev.

The USS Mount Whitney arrived in the Georgian port of Poti on Friday carrying aid. It is the last of three vessels sent by the US to deliver supplies to Georgia after its five day war with Russia.

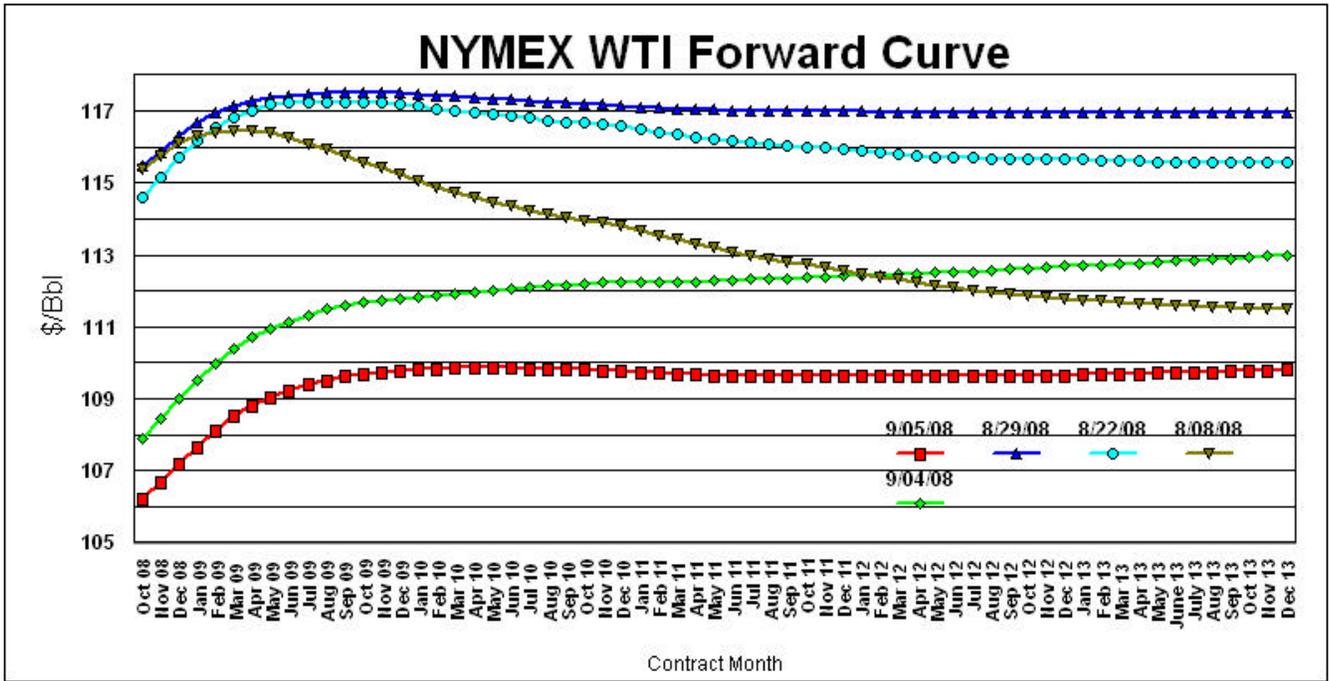
Nigeria has appointed a 40 member committee to try to solve the crisis in the Niger

Delta. The committee, headed by former finance minister Kalu Idika Kalu, will review previous reports on the Niger Delta and make recommendations to solve the crisis.

**Refinery News**

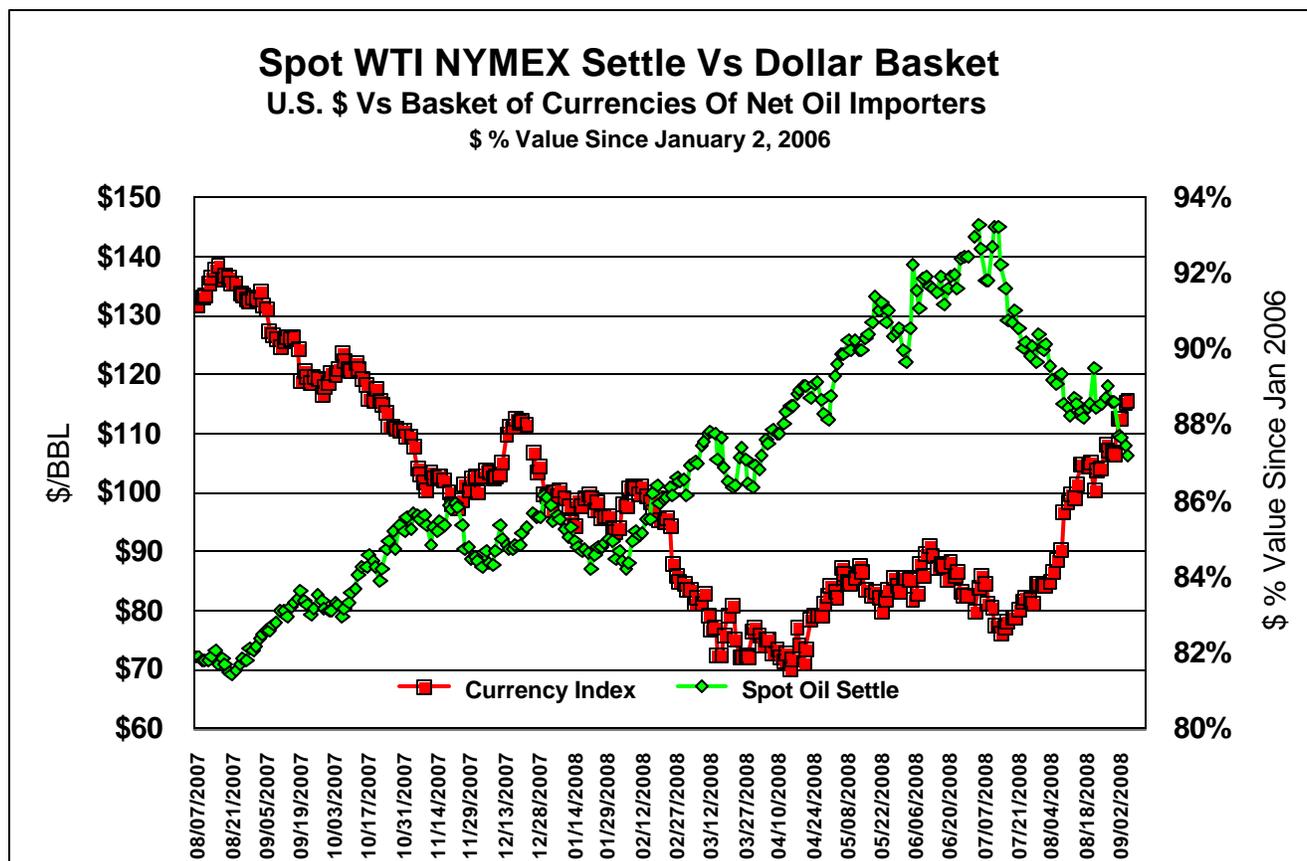
Energy Corp said eight of 12 refineries its serves in Louisiana are operational. It said power was restored to 11 of 12 refineries in Louisiana following damage to the electric grid caused by Hurricane Gustav. The utility said it will be able to supply the large power load required by refineries to restart and return to normal production. It declined to name the refinery that remains without electricity.

ConocoPhillips' 247,000 bpd Alliance refinery in Belle Chase, Louisiana is still without power.



Alon USA Energy Inc said its 80,000 bpd Krotz Springs, Louisiana refinery was still without power, keeping it from restarting following Hurricane Gustav.

ExxonMobil's 500,000 bpd Baton Rouge and 192,760 bpd Chalmette refineries began a sequential restart Friday after they were closed due to Hurricane Gustav. It will continue restarting units over the weekend. It said it is moving product from its Baton Rouge terminal in order to meet any shortfall from Gustav. The Baton Rouge terminal has transferred more than 4.1 million gallons of fuel to the area.



Chevron Corp said its 330,000 bpd Pascagoula, Mississippi refinery was ramping up to normal rates after the US Coast Guard reopened the ship channel leading to the refinery.

Motiva Enterprises began restarting its 240,000 bpd refinery in Norco, Louisiana which was shut last week ahead of Hurricane Gustav. It should begin to produce gasoline as early as Sunday. Meanwhile, Motiva's refinery in Convent, Louisiana was continuing to repair damaged power lines and is expected to restart some units. Meanwhile more than half of Shell's branded gasoline stations have reopened in Louisiana.

Valero Energy Corp stands to lose 80,000 bpd of gasoline production and 7,500 bpd of distillate production for at least a week at its Corpus Christi, Texas refinery following a fire. The refinery's heavy oil cracker was shut Thursday and could be down for seven to ten days.

Separately, Valero Energy Corp restarted a 54,000 bpd fluid catalytic cracking unit at its Wilmington, California refinery following repairs. It said the unit resumed planned rates. It also said that repairs on

a CO boiler in the fluid catalytic cracking unit at its 210,000 bpd Delaware City, Delaware refinery were finished. The FCC had remained in operation during the work.

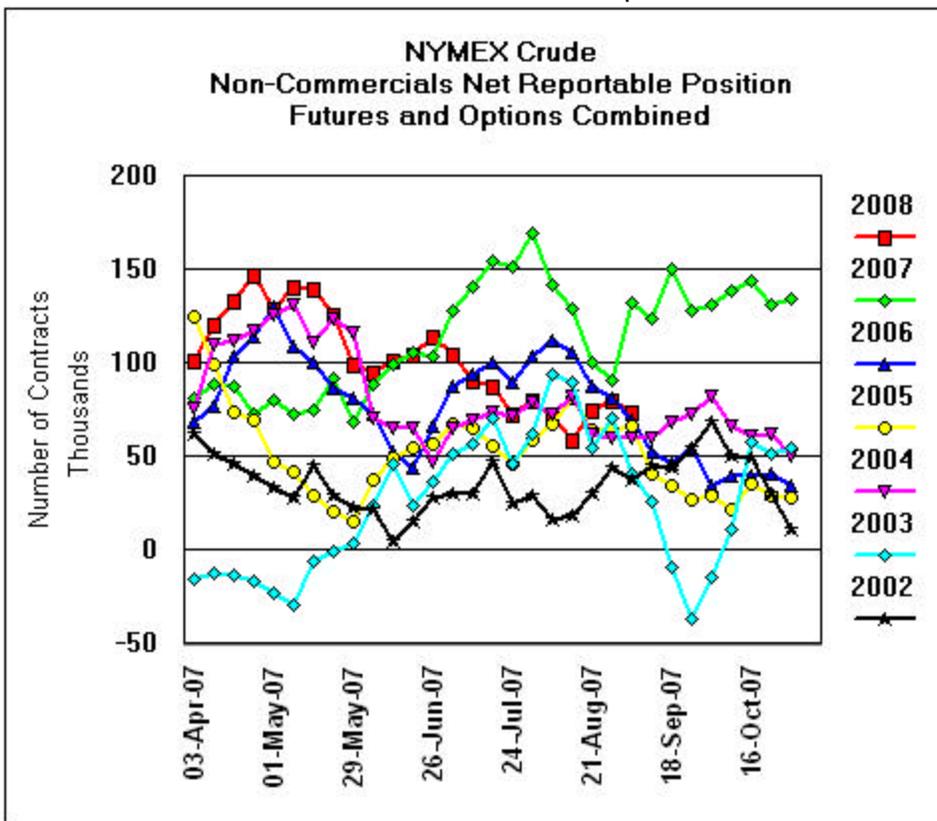
Murphy Oil Corp is restarting its 125,000 bpd Meraux, Louisiana refinery after power was restored following Hurricane Gustav.

Citgo's 430,000 bpd refinery in Lake Charles, Louisiana sustained no damage from Hurricane Gustav and is resuming normal operations. The refinery reduced its rates ahead of Hurricane Gustav last weekend.

Colonial Pipeline said the return of a booster station has allowed it to increase rates on its main oil pipeline but added that flow was still reduced by power outages after Hurricane Gustav.

The LOOP restarted its offshore operations following its shut in due to Hurricane Gustav. However it said its operations will remain at reduced rates until full power is restored.

Restrictions were lifted on the Calcasieu Ship Channel on Thursday. The channel was under restrictions while the US Coast Guard replaced buoys removed for Hurricane Gustav.



Idemitsu Kosan Co will cut its fourth quarter crude refining by 14% to 7.5 million kiloliters or 513,000 bpd. It is down 1.2 million kl on the year.

China has halted its diesel imports after it imported 530,000 tons in August and 972,000 tons in July. The halt in imports, which lent support to world fuel markets during a summer that experienced lower demand, threatens to add more pressure to falling world prices. Meanwhile, China's gasoline imports fell to 90,000 tons for

September from 210,000 tons for August. Its gasoline exports however increased to 150,000 tons in September from 90,000 tons in August. China's return as a net gasoline exporter will also further pressure the Asian market for gasoline that is already impacted by weak demand. Reflecting higher inventories, China's top 12 refineries cut processing rates in September to 2.41 million bpd, down from 2.49 million bpd in August.

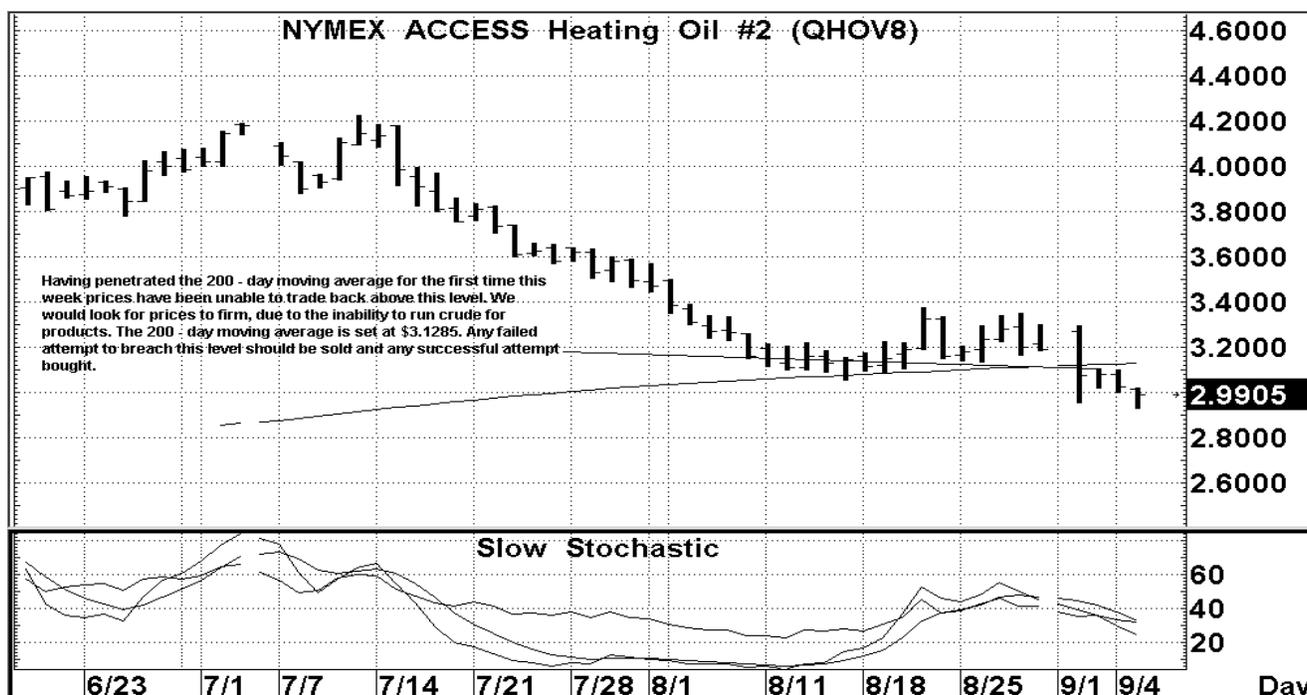
South Korea's SK Energy sold a 30,000 ton spot gasoline cargo for September loading to Mexico's PMI. Another 60,000 tons of South Korean gasoline for September/October lifting could also be headed to Mexico via two Western trading houses to meet demand.

## Production News

Shell Oil said it expects to restart the majority of its offshore oil and gas production over the next several days following the shutins ahead of Hurricane Gustav. It said it found only minor damage on its Mars, West Delta 143 and Cognac offshore platforms which would likely delay the restart of production from those platforms until no sooner than next week. It also stated that it restarted a section of its 1.2 million bpd Capline crude oil pipeline from Mississippi to Illinois and expects to restart the rest of the pipeline over the weekend.

Chevron Corp is finalizing its assessment of offshore damage. It will resume operations at undamaged platforms in the Gulf of Mexico.

Nexen Inc said its Gulf of Mexico oil and gas facilities suffered only minor damage from Hurricane Gustav and expects its production to return to normal next week. It was producing 30,000 bpd of oil equivalent ahead of its shutins.



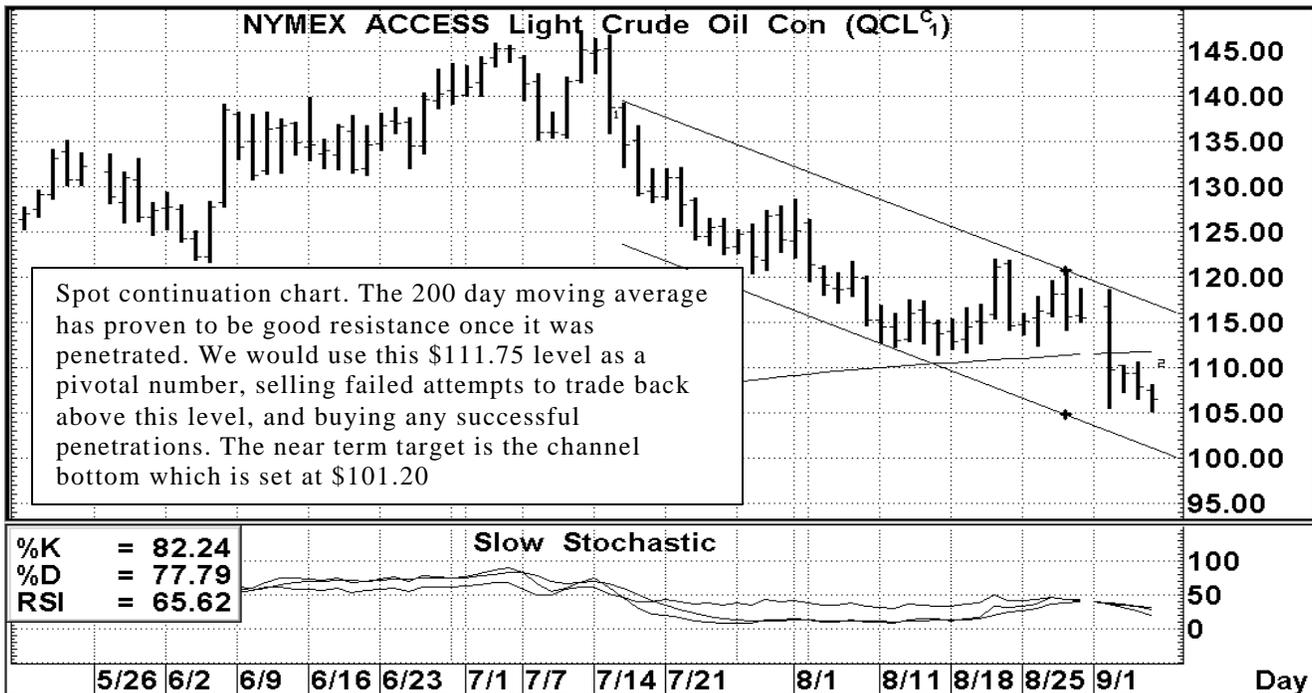
Colombia's Energy Minister Hernan Martinez said the country aims to double its Caribbean coast refining capacity to 150,000 bpd by 2011 from its current production level of 600,000 bpd.

OPEC's news agency reported that OPEC's basket of crudes fell slightly to \$103.64/barrel on Thursday from \$103.69/barrel on Wednesday.

## Market Commentary

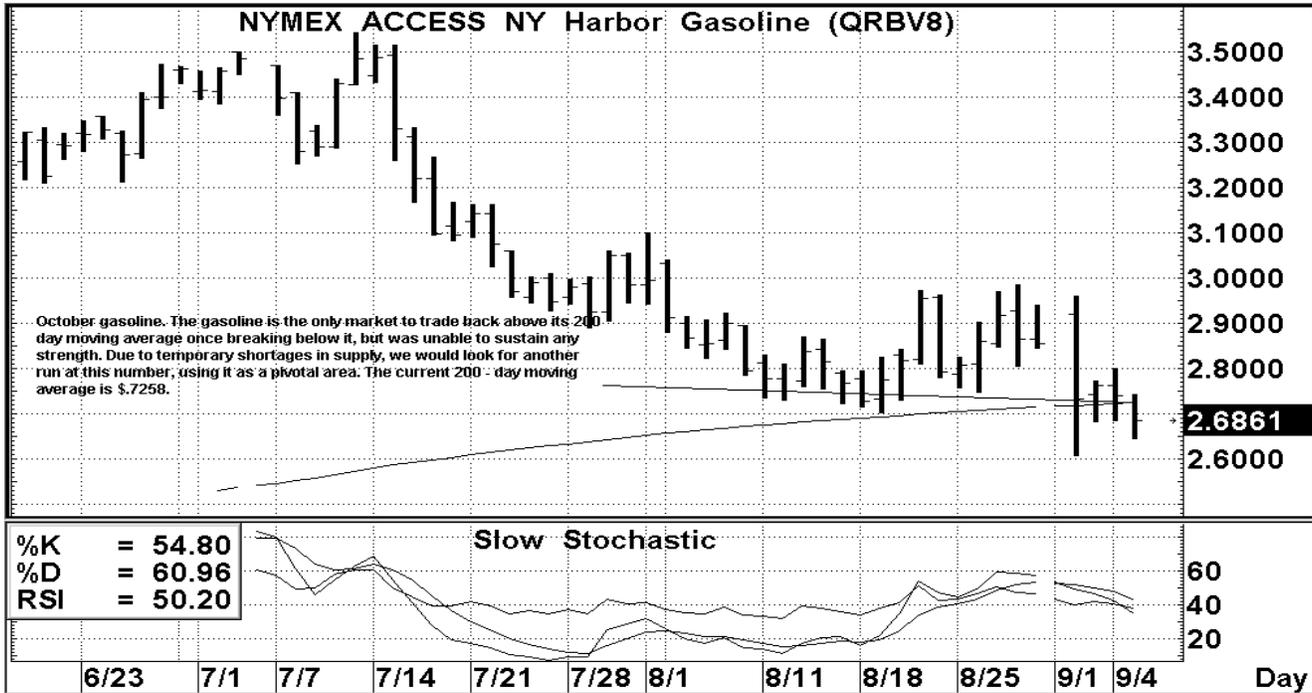
Once again the fundamentals of the market took second stage to the economic outlook. Crude oil fell to a five month low as the dollar continued to strengthen and the U.S. unemployment rate rose more than expected. Since breaking through the 200 - day moving average on a spot continuation chart, the October crude oil has not been able to trade back above it. This level should be considered good resistance and any future failures to penetrate it to the upside should be considered a selling opportunity. Likewise, any penetrations above this level would present a buying opportunity. Although

moving oscillators are low, they are not in over sold territory. We would continue to look for more downside movement, using the \$111.75 200 day moving average as a pivotal number. Surprisingly, the products continue to come under pressures as well. With shut-ins occurring in the Gulf of Mexico, it has been difficult for refiners to run crude oil for products. Even though demand is waning due to the economic outlook, this should eventually lead to a shortage of both gasoline and diesel. The products have a better upside potential than the crude oil, based on this we would think that the crack spreads for both products should firm. The October heating oil has found good resistance up at the 200 – day moving average and has not been able to trade back above it. Given our supportive view of this



market, we would look for prices to make a run up at this level. The 200 – day moving average currently stands at \$3.1285. Unlike the heating oil and crude oil, gasoline was the only market that was able to trade back above its 200 – day moving average, but was unable to sustain any strength. Given our view that the shut – ins in the Gulf will lead to a shortage of supply, we would look for gasoline to trade back above the \$2.7258 200 – day moving average. Open interest for crude oil is 1,200,051 up 6,556 October 08 277,147 down 4,544, November 08 138,463, up 9,380 and December 08 180,28. up 823. Total open interest for heating oil is 213,492 up 1,720, October 08 54,365 up 40 and November 08 29,927, up 916. Total open interest for gasoline is, 203,219 down 323, October 08 71,365 down 3,967 and November 08 37,562 up 2,625.

The latest Commitment of Traders report showed that non-commercials in the crude market cut their net long position by 5,835 contracts to 14,331 contracts in the week ending September 2. They cut their total long position by 11,919 contracts to 193,540 contracts on the week. The combined futures and options report also showed that non-commercials in the crude cut their net long position by 5,935 contracts to 74,287 contracts on the week. Given the market's continued sell off, non-commercials have continued to cut their net long positions. Meanwhile the combined futures and options report showed that non-commercials in the RBOB and heating oil markets increased their net long positions. The funds in the RBOB market increased their net long position by 1,328 contracts to 46,322 contracts while non-commercials in the heating oil market increased their net long position by 681 contracts to 11,070 contracts on the week.



<b>Crude Support</b> 105.18, 99.55, <b>85.40</b>	<b>Crude Resistance</b> 111.75, 118.60, 128.60, 132.05, 139.30, 144.00, 147.90,
<b>Heat support</b> 294.50, 2.8350, 2.8050	<b>Heat resistance</b> 3.1050, 3.3684, 3.4574. 3798, 3.6135, 3.8215
<b>Gasoline support</b> 2.5905, 2.4655, 2.4550, 2.3385	<b>Gasoline resistance</b> 2.8000, 2.9600, 3.1050, 3.1460, 3.1840, 3.2620

