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ENERGY MARKET REPORT FOR SEPTEMBER 7, 2010

The director of the Bureau of Ocean Energy Management, Regulation and Enforcement Michael Bromwich said the US Department of the Interior could decide before the end of October to modify the duration of a moratorium imposed on drilling in the Gulf of Mexico. The moratorium is in effect until November 30th. He also stated that a fire on another Gulf of Mexico oil platform last week will not slow a decision whether to lift the US drilling moratorium. The Mariner Energy Inc production platform suffered a fire last Thursday.

Meanwhile, Chevron Corp urged the US

government to lift the US Gulf of Mexico drilling moratorium, which is set to expire at the end of November. Gary Luquette, president of Chevron North America Exploration and Production said the oil industry is ready to go back to the US Gulf of Mexico using improved practices. He said the drilling moratorium has been damaging for the industry. A possible extension of the ban will cause rigs to leave the Gulf of Mexico and increase costs of operations.

Market Watch

The National Hurricane Center reported that showers and thunderstorms remain disorganized in association with the remnants of Gaston, located about 120 miles southeast of Puerto Rico. Development of this system is expected to be slow as it moves westward. There is a low 20% chance of the system becoming a tropical cyclone again during the next 48 hours. It also reported that a tropical wave approaching the Cape Verde Islands is producing a large area of disorganized showers and thunderstorms. Development, if any, is expected to be slow as it moves westward. There is a 20% chance of the system becoming a tropical cyclone during the next 48 hours.

The Conference Board said its Employment Trends Index fell to 96.7 in August from a revised 97.4 in July. The index is up 9.4% on the year.

According to minutes from an August policy meeting, two regional Federal Reserve Banks, Kansas City and Dallas, called for a modest increase in the discount rate of 1%. The Federal Reserve kept the discount rate unchanged at 0.75% at its August 10th meeting. The Fed also left the federal funds rate unchanged in the zero to 0.25% range but moved to reinvest maturing mortgage backed securities into Treasury debt to push down borrowing rates further.

The premium of Brent crude to US crude futures increased to more than \$3.33/barrel on Tuesday as high stockpiles in the US, maintenance in North Sea fields and strong prices for Russian Urals crude helped push the spread to its widest since mid-May.

Germany's Chancellor Angela Merkel said the EU needs a common energy policy that would take into account smaller nations.

Shell said it is not preparing a second attempt to acquire Australia's Woodside Petroleum. Shell, with a 34% stake in Woodside, failed to gain full control in 2001 after the Australian government blocked the move.

**September
Calendar Averages**
CL – \$74.41
HO – \$2.0588
RB – \$1.9158

Iraq's Oil Minister Hussain al-Shahristani said he does not see big demand for crude oil and therefore there is no reason for OPEC to change its current production levels at its next meeting. He said the current production levels should be maintained but added that OPEC should hold an extraordinary meeting if world oil prices fall below \$70/barrel.

Iran's Oil Minister Massoud Mirkazemi said Iran increased its gasoline production to 66.5 million liters/day to attain self sufficiency. Iran previously produced 44 million liters/day and imported 20 million liters/day to meet the market's demand.

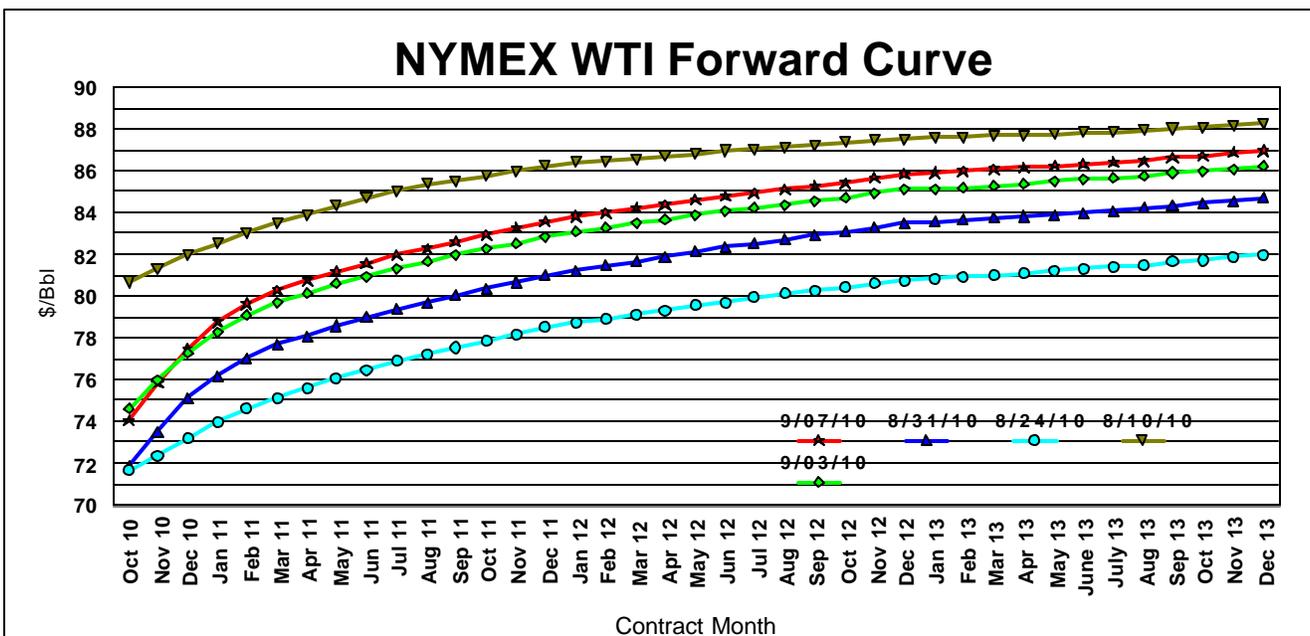
The EIA reported that the US average retail price of diesel fell by 0.7 cents to \$2.931/gallon in the week ending September 6th. The price of diesel is up 28.4 cents/gallon or 10.7% on the year. It also reported that the US average retail price of gasoline was unchanged at \$2.682/gallon in the week ending Monday. The price of gasoline is up 9.4 cents or 3.6% on the year.

Russia's Foreign Minister Sergei Lavrov urged Iran on Tuesday to cooperate with the IAEA following claims Iran was hampering its work by barring inspectors from the country. An IAEA report, said Iran was blocking some of its inspectors from entering the country. The IAEA also voiced concern about possible activities in Iran aimed at developing a nuclear armed missile, urging Iran to grant access to relevant sites, equipment and personnel without further delay. Russia's Foreign Minister, echoing a similar call from China earlier on Tuesday, said Iran needed to respond to the agency's demands. Meanwhile, the White House called the UN's IAEA report on Iran troubling and said it showed Iran was still trying to develop a nuclear weapons capability.

South Korea will temporarily close the local branch of an Iranian bank as part of its effort to join UN sanctions over Iran's nuclear program. However the move will likely disappoint US officials because South Korea does not appear ready to further sever business ties. A task force led by South Korea's finance ministry has been working for more than a month to develop the penalties under UN resolution 1929 and is scheduled to formally announce them on Wednesday.

Refinery News

Mexico's Pemex said there was an explosion at its 275,000 bpd Cadereyta refinery. The refinery processed 217,000 bpd of crude in 2009, accounting for about 17% of Pemex's refining output that



year. Pemex said the explosion killed one worker and injured 10 others. It said the explosion was caused by a hydrogen compressor leak at a diesel fuel hydrodesulfurizing plant.

Credit Suisse said US refined product margins were mixed last week. Refinery margins in the Midwest saw the largest growth, up 25.6% or \$2.44/barrel to \$11.98/barrel. Margins in the Rockies region increased by 3.6% or 94 cents to \$27.01/barrel while margins in the Northeast increased by 12 cents to \$5.97/barrel. Margins in the Gulf Coast fell by 36 cents to \$9.05/barrel while margins in the West Coast fell by \$1.84/barrel to \$13.02/barrel.

ConocoPhillips reported flaring at its 247,000 bpd refinery in Belle Chase, Louisiana following the shutdown of a sulfur recovery unit for repairs.

Sunoco Inc cut rates at its 130,000 bpd crude distillation unit at the Point Breeze section of its 335,000 bpd Philadelphia refinery following a fire over the weekend.

ExxonMobil reported a shutdown of an unspecified unit at its 238,600 bpd refinery in Joliet, Illinois on Friday.

BP Plc stopped supplying feedstock into a gasoline reformer unit at its 437,080 bpd Texas City, Texas refinery on Sunday due to a compressor seal failure.

The Confederation Generale du Travail said Total SA's French refineries are all on strike for 24 hours as part of a general strike in the country. Shipments from four of five refineries, except for Feyzin, are blocked. The refineries are operating at a minimum capacity. Workers across France are on strike to protest government policies including a planned overhaul of pensions. The union said it would take about a week of continuous strike at the refineries before supplies are affected.

Crude throughput at China's twelve major refineries in September is expected to increase by 2.8% on the month to 2.95 million bpd. The September volume would represent 92% of their total refining capacity.

China bought most of Angola's October oil exports. China bought between 25 and 30 cargoes, equivalent to between 23.75 million barrels and 28.50 million barrels for October. Angola plans to export at least 59 cargoes of oil for loading in October, equivalent to about 1.85 million bpd.

Taiwan's Bureau of Energy said the country's crude oil imports in July increased by 12% on the year to 33 million barrels. The country's two refiners, CPC Corp and Formosa Petrochemical Corp, refined a combined 4.55 million kiloliters of oil, down 9% both on the year and on the month. The refinery utilization rate fell to 73.22% in July from 83.24% in Jun.

Indian Oil Corp Ltd booked four million barrels of West African crude as part of a monthly spot tender for oil available to load in the final week of October and during November.

Production News

Major Gulf of Mexico oil producers said that their offshore operations were unaffected by the passage of Tropical Storm Hermine. BP Plc, Chevron Corp and Shell Oil Co said their operations continued as normal through the storm on Monday. Shell Oil Co said its operations in the Gulf of Mexico were not been affected by Tropical Storm Hermine. Hermine, the eighth named storm of the 2010 Atlantic hurricane season, formed early Monday and went ashore at near hurricane strength on the northeast Mexican Gulf Coast on Monday night. It is forecast to dissipate over the next three days as it moves across Texas and into Oklahoma.

Mexico's Pemex said its offshore production facilities were undamaged following Tropical Storm Hermine's passage.

ExxonMobil Corp said normal operations resumed on Sunday at Sable Island, offshore Nova Scotia, as nonessential personnel returned to the platform. The company had evacuated the workers ahead of Hurricane Earl.

TransCanada Corp will restart its Keystone oil pipeline on Wednesday after shutting the line for a week of unscheduled maintenance. A TransCanada spokesman declined to say how much oil the line would ship following the restart.

Enbridge Inc agreed to build a pipeline and related assets connecting a proposed oil sands project to its own Cheecham operations in Alberta. It will construct a new originating terminal at the Sunrise oil sands project and provide pipeline services on its existing regional oil sands system for up to 90,000 bpd of diluted bitumen. The initial capacity of the project is expandable to 270,000 bpd. The facilities are expected to be in service in the latter half of 2013.

Ecuador's Central Bank said the country's average oil production increased by 1% to 15.14 million barrels or 488,500 bpd in July from 14.98 million barrels a year earlier. Petroecuador averaged 8.89 million barrels in July while private companies produced 6.25 million barrels.

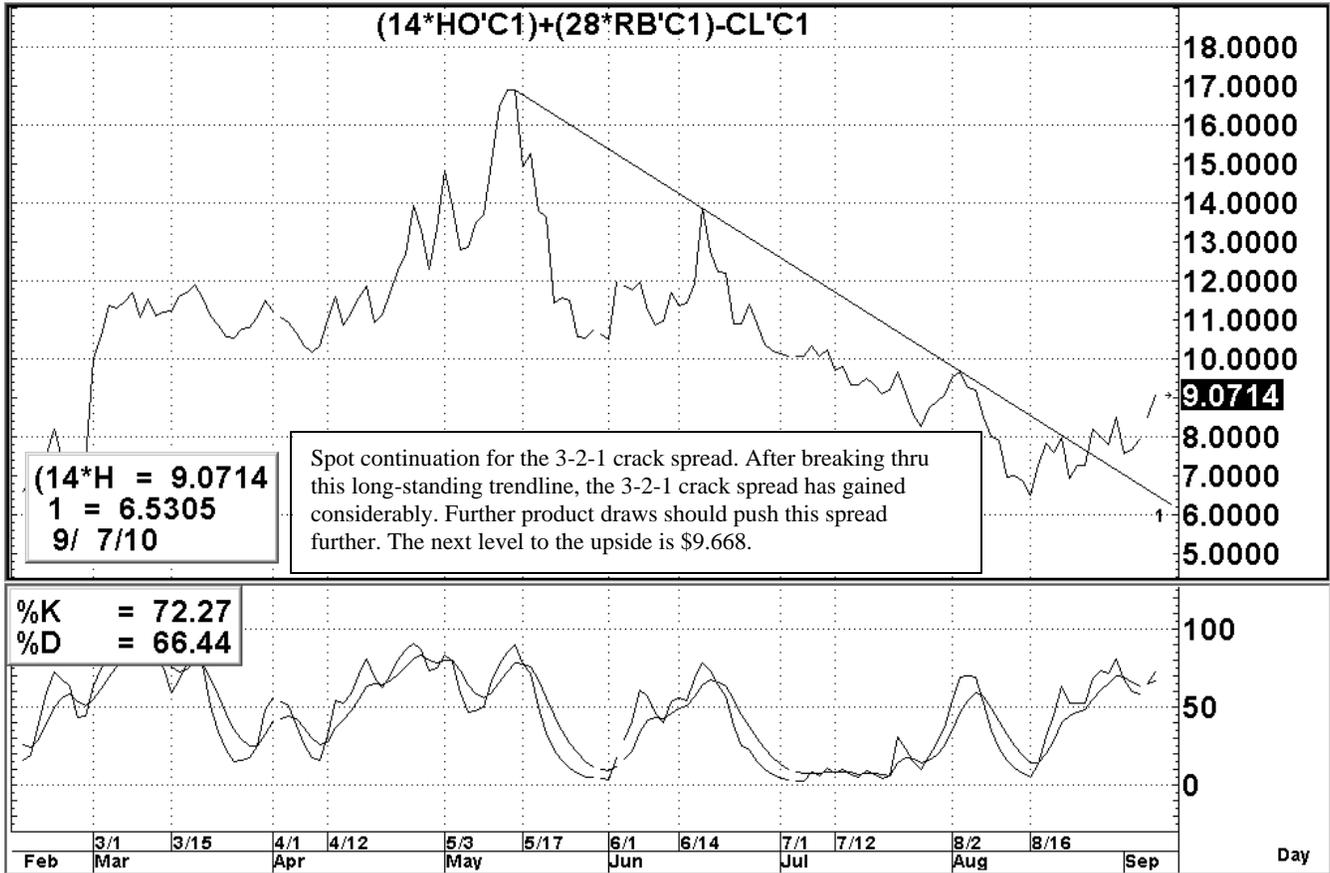
OPEC's news agency reported that OPEC's basket of crudes increased by 38 cents to \$73.43/barrel on Monday from \$73.05/barrel on Friday.

Market Commentary

Crude oil opened the session on the down side as the dollar strengthened and the euro tumbled. A drop of 2.2 percent in German factory orders and the inability of the European Union to reach an agreement regarding taxes on financial transactions, sent waves of concern through the marketplace that the European debt crisis would worsen. A short-lived late session rally occurred as the market had a late response to an explosion at PEMEX'S 275,000 barrels per day Cadereyta refinery. The explosion caused concern that Mexico would have to import more petroleum products. Mexico already imports 40 percent of its gasoline in order to meet domestic demand. The 3-2-1crack spread has gained considerably with the recent draws in product inventories and the gain in crude stockpiles. Today's Mexican refinery explosion helped move this spread 14% higher from Friday's settlement. Additional draws are expected in gasoline inventories, which should lend further strength to this spread. Based upon a spot continuation chart, we would look for a test at the \$9.668 level. With the equities markets weaker and the dollar stronger, crude oil should continue to be range bound between \$75.00 and \$80.00.

Crude oil: Oct 10 301,218 -2,217 Nov 10 194,586 +7,776 Dec 10 219,699 +5,208 Totals 1,353,729 +12,368 Heating oil: Oct 10 80,365 -2,347 Nov 10 47,772 +118 Dec 10 59,103 +1,463 Totals 317,446 +315 Rbob: Oct 10 89,612 -578 Nov 10 53,505 +1,940 Dec 10 32,107 -317 Totals 240,813 +3,203.

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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