



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 7, 2011

The National Hurricane Center said Tropical Storm Maria formed late Wednesday morning in the Atlantic and was headed west with winds of 50 mph. Tropical Storm Maria is about 1,200 miles east of the Lesser Antilles and is moving to the west. In its five day projection, the NHC expects the storm to pass just north of Puerto Rico by about 8 am Sunday and to be east of the Bahamas by late Monday morning. The NHC also reported that Tropical Storm Nate formed in the Gulf of Mexico. Forecast models show the storm could cross the Bay of Campeche into Mexico or turn northeast and head for the US Gulf Coast. Meanwhile Hurricane Katia, currently a category 1 storm, continued to move northwestward. It was about 310 miles southwest of Bermuda.

Market Watch

The Mortgage Bankers Association's seasonally adjusted mortgage application index fell by 4.9% in the week ending September 2nd. Demand for US home loans fell for a third consecutive week last week. The MBA's seasonally adjusted refinancing application index fell 6.3% while its index of loan requests for home purchases increased 0.2%.

Federal Reserve Bank of Chicago President Charles Evans said high levels of unemployment call for the Federal Reserve to take additional steps to help the economy, even if it raises inflation levels over desired levels. He said further policy accommodation would increase the risk that inflation could increase temporarily above the long term goal of 2%.

China's National Bureau of Statistics revised up its economic growth rate for 2010 to 10.4% from the previously reported 10.3%.

Oil producers from Brazil to Azerbaijan are targeting Asia to expand sales as growth declines in the US and Europe, highlighting confidence that the world's fastest growing energy market will offset any demand decline in industrialized countries. At the Asia-Pacific Petroleum Conference, company executives are still upbeat about increasing energy consumption in the region, despite the uncertainty surrounding the pace of global economic growth. Brazil is increasing its crude exports to Asia to 38% of the country's total this year, up from 34% in 2010. Meanwhile, Azerbaijan's Socar expects crude sales to Asia to increase to 7-9 million barrels a month by the end of 2011, up from 5-6 million barrels.

The Bureau of Ocean Energy Management, Regulation and Enforcement said about 36.9% or 516,451 bpd of oil production and 18.1% or 958.4 bcf/d of natural gas production in the US Gulf of Mexico was shut down on Wednesday following Tropical Storm Lee.

Royal Dutch Shell said that the company was continuing to redeploy workers to Gulf platforms and were ramping up production. Meanwhile, BP Plc said it was monitoring the yet unnamed system that could possibly head to the US Gulf Coast. ExxonMobil Corp said the company was ramping up production shut due to Tropical Storm Lee and was monitoring the other system.

API Stocks

Crude – down 2.968 million barrels

Distillate – up 3.952 million barrels

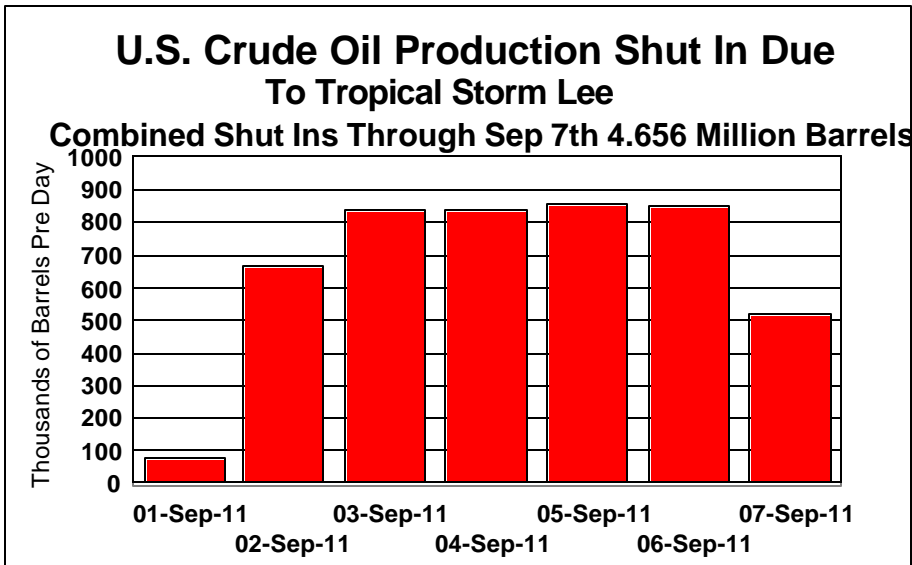
Gasoline – down 871,000 barrels

Refinery runs – down 1.2%, at 85.7%

The EIA stated in its latest Short Term Energy Outlook that it expects markets to draw upon inventories to meet at least some of the growth in demand over the fourth quarter of 2011 and beyond. In 2012, oil demand growth from countries outside of the Organization for Economic Cooperation and

Development is projected to outpace the growth in supply from producers that are not members of OPEC, implying a need for OPEC producers to increase their production to balance the market. It expects world crude oil demand in 2011 to increase by 1.37 million bpd to 88.2 million bpd while demand in 2012 is expected to increase by 1.39 million bpd to 89.59 million bpd. Its demand estimate for 2011 was increased by 10,000 bpd and its estimate for 2012 was cut by 240,000 bpd from its previous estimate. The EIA expects non-OPEC supply in 2011 to increase by 500,000 bpd to 52.28 million bpd while its supply in 2012 is expected to increase by 780,000 bpd to 53.06 million bpd. OPEC's oil production in 2011 is estimated to fall by 370,000 bpd to 29.4 million bpd while production in 2012 is expected to increase by 520,000 bpd to 29.92 million bpd. The EIA expects OECD commercial inventories to fall in 2011 and 2012. Days of supply, which stood at 58 days in 2010, is expected to fall to 57 days during the fourth quarter 2011 and 56 days during the fourth quarter 2012. The EIA also reported that US oil demand in 2011 is expected to fall by 70,000 bpd to 19.01 million bpd in 2011 but increase by 80,000 bpd to 19.09 million bpd in 2012. Gasoline demand is expected to fall by 160,000 bpd to 8.83 million bpd in 2011 but increase by 40,000 bpd to 8.87 million bpd in 2012. Distillate demand in 2011 is expected to increase by 60,000 bpd to 3.86 million bpd and increase by 40,000 bpd to 3.9 million bpd in 2012. The EIA stated that following the completion of the release of about 31 million barrels of oil from the SPR, commercial crude oil stocks are expected to increase to 364 million barrels by the end of September 2011, 34 million barrels higher than the

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| <p align="center">September Calendar Averages CL – \$87.69 HO – \$3.0338 RB – \$2.8657</p> |
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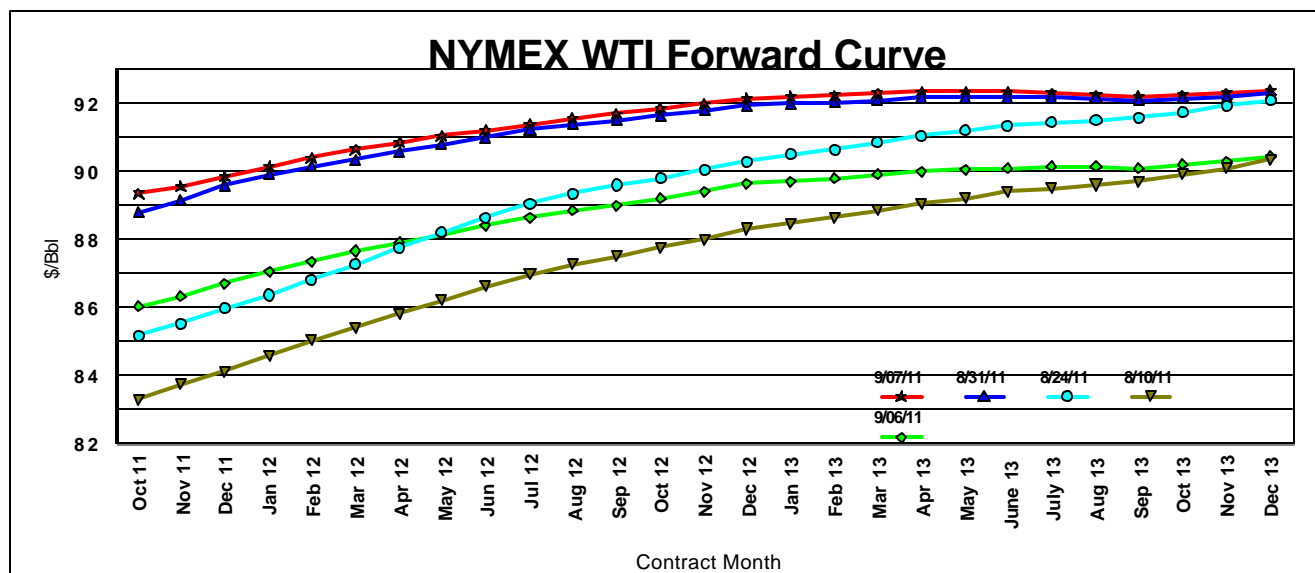
previous 5 year average. Total gasoline and distillate inventories are expected to average about 1 million barrels and 7 million barrels, respectively than their previous 5 year averages at the end of 2011. The EIA expects the US refiner average crude oil acquisition cost to average \$100/barrel in 2011 and \$103/barrel in 2012 compared with previous estimates of \$100/barrel and \$107/barrel, respectively. The price of gasoline is expected to increase from \$2.78/gallon in 2010 to \$3.56/gallon in 2011 and fall to \$3.54/gallon in 2012. The average price of diesel, which averaged \$2.99/gallon in 2010, is expected to average \$3.85/gallon in 2011 and \$3.87/gallon in 2012.

According to a SpendingPulse report released by MasterCard Advisors LLC, US gasoline demand fell by 5.9% on the week to 8.739 million bpd in the week ending September 2nd. It reported that the four week average was down 3% on the year at 9.057 million bpd. It also reported that the price of gasoline increased by 5 cents to \$3.58/gallon on the week.

The head of the IEA, Maria von der Hoeven said Libya's oil exports are unlikely to return to their pre-war level before 2013. Libya produced about 1.6 million bpd before the unrest started in mid-February. About 85% of Libya's output was exported to Europe.

Libya's Oil and Finance Minister Ali Tarhouni said the country's oil industry will be prepared to resume production in one to two weeks. He said the country's oil sector is in better shape than expected following a six month uprising. He said only between 10% and 20% of oil installations were damaged, mostly by vandalism and looting.

Syria's Finance Minister Mohammad al-Jleilati said the country can sidestep European and US import bans by selling its oil to Russia and China. The European Union has banned Syrian oil imports to pressure President Bashar al-Assad to end his violent crackdown on anti-government protests. However the EU stopped short of banning all oil trade between European companies and Syria because the EU did not want to increase the suffering of the Syrian people by cutting off fuel needed for power generation. Syria is searching for new buyers for about 150,000 bpd of crude it typically exports and hopes Russia and China will buy some of it.



ConocoPhillips moved to repair its frayed relations with Chinese regulators on Wednesday, apologizing for an oil spill in northern China's Bohai Bay and saying it would establish a fund to address the company's responsibilities. The proposed fund would be designed to benefit the general environment in Bohai Bay, but it did not state how large the fund would be. Its operations at an oilfield in Bohai Bay have been shut following an order by China's marine authority. Separately, ConocoPhillips expects to sell \$5 billion to \$10 billion in assets in 2012. It said its chemical and midstream joint ventures would go to the refining company after the split.

The US Ambassador to Libya, Gene Crenztz said failure to capture Muammar Gaddafi could weaken the ability of Libya's new regime to restore peace and order.

Refinery News

Colonial Pipeline was allocating its main gasoline line north of Collins, Mississippi for Cycle 52 as nominations on its line exceeded the company's ability to meet the five day lifting cycle. It was also allocating its Linden Delivery Line segment L2-IMTT, servicing deliveries to IMTT Bayonne for Cycle 49.

Total Petrochemicals USA is resuming normal operations of its sulfur recovery unit at its 232,000 bpd Port Arthur, Texas refinery following an earlier upset.

NuStar Energy signed an agreement with Valero Energy Corp to create a new pipeline system that would transport crude oil from south Texas to Valero's refineries in the state. The project would create two pipelines of unspecified capacity to bring oil from the Eagle Ford shale to Valero's refinery in Corpus Christi.

China's refineries are expected to increase their crude throughput in September to the highest level this year. China's 12 major refineries plan to process 2.94 million bpd of crude oil this month, up 5.8% from August.

Iran's Abadan refinery suffered a fire on Wednesday.

Iran has been importing four to five cargoes of gasoline per month, with most of it supplied by China as Iran finds ways to get around the US led sanctions imposed against it. Separately, Iran has started exporting jet fuel. Iran signed its first contract for exporting jet fuel with a foreign company. The National Iranian Oil Products Distribution Co did not say who the buyer was or how much would be exported.

India's Mangalore Refinery and Petrochemicals Ltd may increase middle distillate exports by about 80% and halt fuel oil exports from 2013/14 once it completes its capacity expansion. It is increasing the capacity of its refinery by 27% to 300,000 bpd to process cheaper grades.

The Petroleum Association of Japan reported that the country's crude oil stocks in the week ending September 3rd fell by 10.49 million barrels on the week and by 6.62 million barrels on the year to 89.15 million barrels. It also reported that the country's gasoline stocks fell by 320,000 barrels on the week but increased by 1.44 million barrels on the year to 13.59 million barrels and kerosene stocks increased by 40,000 barrels on the week and by 4.88 million barrels on the year to 19.33 million barrels. Japan's naphtha stocks fell by 220,000 barrels on the week and by 1.62 million barrels on the year to 10.5 million barrels. Japan's refinery utilization rate fell by 4.2% on the week but increased by 1.6% on the year to 79.8%. The PAJ also reported that Japan's total oil sales fell by 5.4% on the week and by 2.6% on the year to 2.87 million bpd.

Qatar International Petroleum Marketing Co is offering 2 million barrels of deodorized field condensate and low sulfur condensate in a November 2011 spot sale.

Production News

ConocoPhillips said it returned its workers early September 6th to its US Gulf Magnolia platform and is making preparations to resume production as soon as possible. Its net production from the Magnolia platform, which averaged 5,000 bpd of oil equivalent last year, was shut in due to Tropical Storm Lee.

BP Plc announced the drilling of a successful appraisal well in a previously untested northern segment of the Mad Dog field in the US Gulf of Mexico. It said total hydrocarbons initially in place in the complex are now estimated to be up to 4 billion barrels of oil equivalent.

Chevron Corp said its Moccasin oil discovery in the Gulf of Mexico's deepwater could be developed jointly with a neighbor field that is already being appraised, a move that could accelerate its first oil production. The Moccasin discovery is located near the company's 2009 Buckskin discovery. It could take five to six years for Buckskin to start production, which could put Moccasin's development on about the same schedule.

Iraq's Oil Minister Ahmed al-Shamma said the country's oil production could reach up to 4 million bpd by the end of next year. He said Iraq was aiming for oil production of about 3 million bpd by the end of the year.

Russia's OAO Lukoil Holdings said Russia can double its oil reserves if the government is determined to exploit the potential in the Arctic. He said the development of the Arctic fields needs political will and support from the government.

Kazakhstan's KazMunaiGas Exploration Production said it may miss its 2011 production targets because of an ongoing strike. It said the oil unit's Uzenmunaigas facility would likely underperform this year. Six hundred of the 9,000 workers at the facility went on strike on May 26th. Production at the facility fell 7.4% from 2.951 million metric tons of crude to 2.733 million tons. The strike has mainly impacted the company's export volumes.

Iraq's Oil Ministry added six firms to the list of international oil companies qualified for its fourth bidding round scheduled to be held in January, bringing the number of prequalified companies to 46.

Anadarko Petroleum expects to begin exploration in the waters of the Ivory Coast later this year after political unrest there forced the US company to shut its operations in February. Anadarko has secured rigs to drill at the Kosrou prospect this year.

Market Commentary

As we await tomorrow's televised announcement by President Obama, traders supported the market, bidding the October crude oil contract close to \$90.00 a barrel. It is expected that President Obama will announce a new plan to spur employment within the U.S. A stronger Asian stock market and hopes of economic easing out of Europe also lent strength over night. The products were spurred by the possibility of supply disruptions in the Gulf of Mexico. The October crude oil contract approached the \$90.00 level again, only to retreat from it. Coming into tomorrow's session, we would look for continued moves higher. Should prices be able to gain strength above \$90.00, the next upside objective would be \$91.10-20 area.

Crude oil: Oct 11 269,097 -8,619 Nov 11 194,356 +7,271 Dec 11 208,157 +1,014 Totals 1,523,907
 Heating oil: Oct 11 93,924 +329 -2,256 Nov 11 45,388 1,089 Dec 11 53,932 +449 Totals 312,753
 +4,800 Rbob: Oct 11 80,629 -2,884 Nov 11 44,925 +422 Dec 11 45,472 +1,541 Totals 261,739
 +1,985

| Crude Oil | | Heating Oil | | Rbob | |
|-------------------|--------------|-------------|------------|---------|------------|
| Support | Resistance | Support | Resistance | Support | Resistance |
| 7552 | 8988 | 27020 | 32777 | 25145 | 33369 |
| 7487 | 9122 | 26680 | 33370 | 24240 | 35915 |
| 7365 | 9726 | 27375 | 33510 | 23631 | 36310 |
| 6423 | 9872 | 23685 | | 23414 | |
| 6394 | 10071 | 22960 | | | |
| 6119 | 10222 | | | | |
| | | | | | |
| | | | | | |
| 50-day MA | 91.10 | | | | |
| 200-day MA | 95.40 | | | | |

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