



## ***ENERGY RISK MANAGEMENT***

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## **ENERGY MARKET REPORT FOR SEPTEMBER 8, 2008**

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Energy companies are delaying the restart of offshore oil and natural gas production from the Gulf of Mexico in the wake of Hurricane Gustav as Hurricane Ike threatens the region. According to the National Hurricane Center,

Hurricane Ike is expected to threaten the oil and gas producing portion of the US Gulf by Thursday. The NHC expects Ike to emerge from Cuba as a strong tropical storm then strengthen back into a category 3 hurricane as it moves into the Gulf. Its five day projected path puts Ike off the middle of the Texas coast by Friday afternoon, with the eye making landfall near Victoria around midday Saturday. A FEMA official said the course of Hurricane Ike through the Gulf of Mexico is difficult to forecast and makes it hard to know where to concentrate disaster relief efforts. He said the storm appeared headed to Houston but added that upper-air currents could alter its course. The MMS confirmed that the recovery of crude oil output from the US Gulf of Mexico slowed on Monday. It said about 79.4% of the total oil production in the Gulf of Mexico remained shut in. It is little changed from Sunday, when 79.8% of oil production was still shut in. A total of 1.033 million bpd of oil production remains shut in. Meanwhile, Shell Oil Co said it stopped returning workers to offshore platforms in the Gulf of Mexico

### **September Calendar Averages**

**CL** – 107.90  
**HO** – 303.44  
**RB** – 273.55

### Market Watch

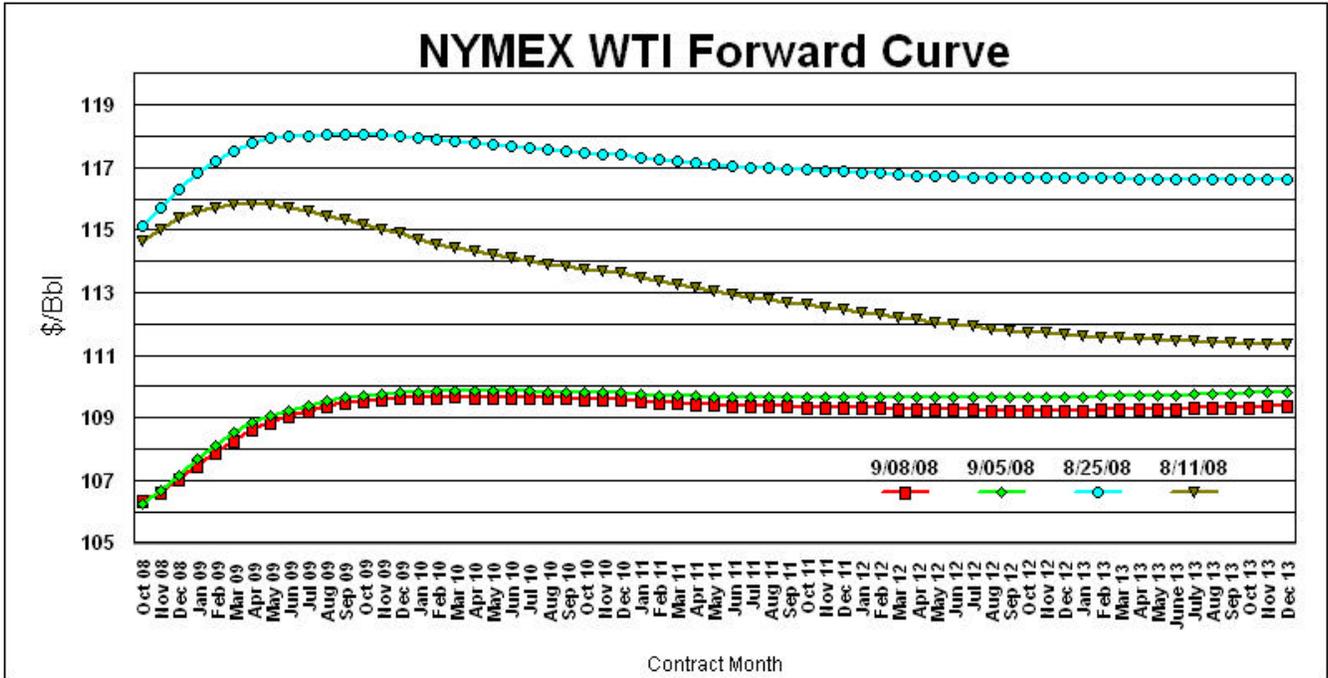
Credit Suisse said it cut its forecast for US crude oil for the third quarter and fourth quarter of 2008. It cut its third quarter US crude oil forecast to \$120/barrel from its previous forecast of \$130/barrel while its fourth quarter oil price forecast was cut to \$110/barrel from \$130/barrel. Its 2009 forecast remains unchanged at \$110/barrel.

Scientists stated in the Proceedings of the National Academy of Science that genetically engineered bacteria could make cellulosic ethanol less expensive to produce. They said the genetically engineered bacteria ferment cellulose to produce ethanol more efficiently.

Kazakhstan's Economy Minister, Bakhut Sultanov said a new oil tax proposed by the government of Kazakhstan will apply to about 56% of the country's crude output next year. He confirmed that oil majors operating in Azerbaijan under production sharing agreements, including Chevron, Shell and ExxonMobil will be exempt from the tax.

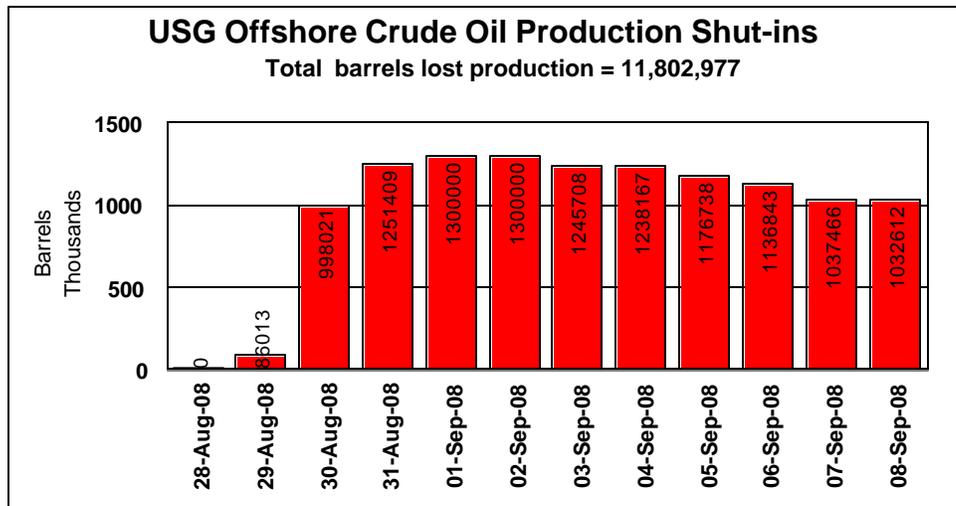
Norway's StatoilHydro said it expects the price of oil to fall to less than \$100/barrel by the end of the year amid near record OPEC production and slowing world economic growth. It expects oil prices to fall next year from an expected daily average of \$110/barrel in 2008 as the world economic slowdown impacts demand.

on Saturday due to Hurricane Ike's threat to pass through oil and natural gas production areas. Shell had returned 615 of the 1,400 workers that were evacuated ahead of Hurricane Gustav. It said it plans a full evacuation of its workers in the Gulf by Wednesday and halt its production. Marathon Oil Corp said it began evacuating



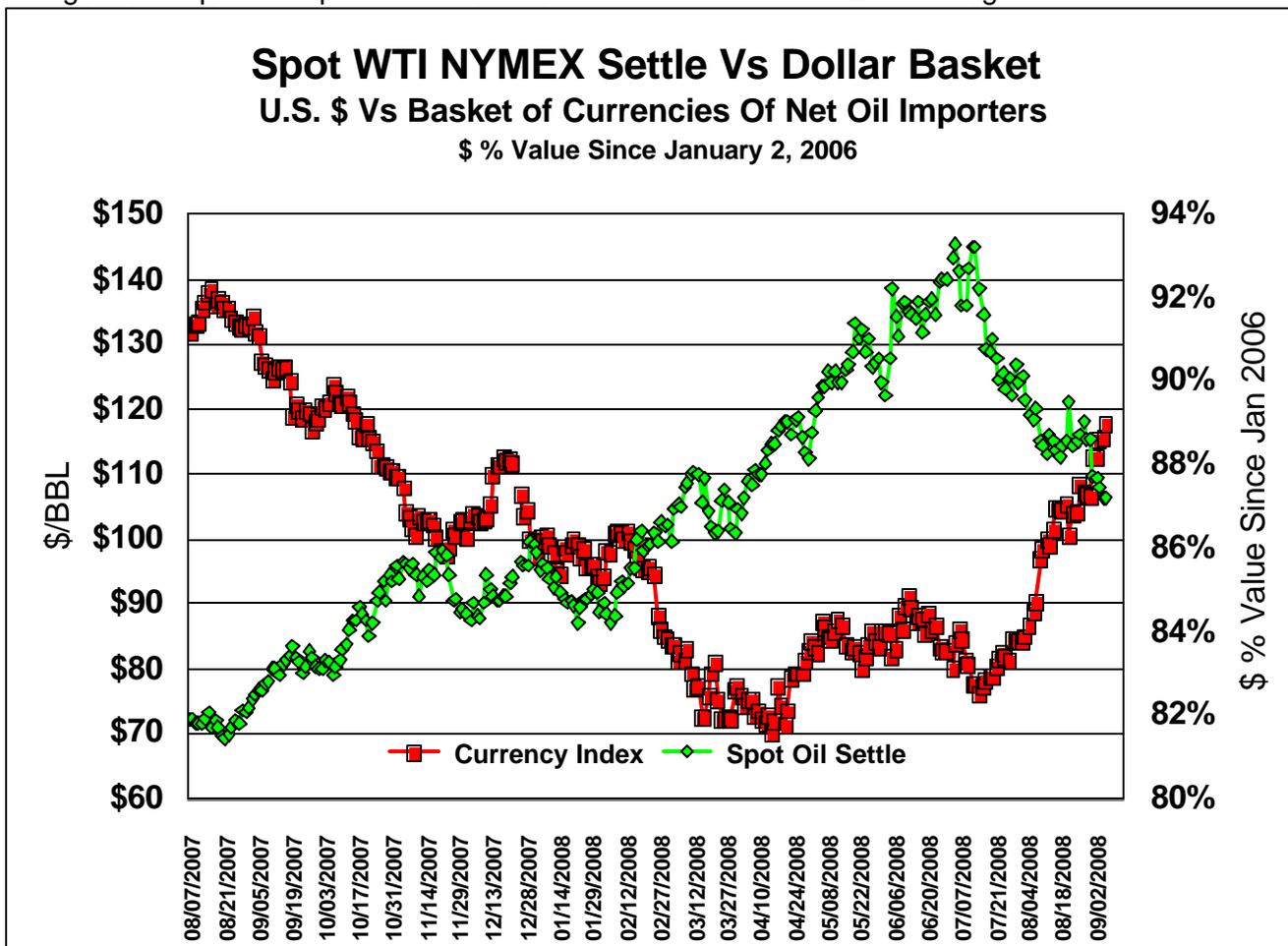
workers from its Ewing Bank A platform in the Gulf of Mexico due to the threat of Hurricane Ike. BP has also started to evacuate non-essential personnel from its offshore installations. Anadarko Petroleum Corp is evacuating non-essential personnel from the Gulf of Mexico as Hurricane Ike approaches the region. It expects to complete the evacuation on Tuesday. ExxonMobil said it expected to slow down its oil and natural gas production recovery efforts in the wake of Hurricane Gustav. Apache Corp said it was pulling workers from the Eastern Gulf of Mexico due to the threat from Hurricane Ike. Many of the eastern platforms were shut and not expected to be back on line before the hurricane passes. Transocean Inc, Diamond Offshore Drilling Inc and Noble Corp are also evacuating its offshore workers.

OPEC ministers were gathering in Vienna on Monday ahead of its meeting on Tuesday. The ministers are expected to leave formal targets unchanged. A senior Gulf source said oil supply and demand are well balanced, although there is some concern they could become imbalanced in the future. Iran's Oil Minister Gholammhossein Nozari said OPEC's Ministerial



Monitoring Committee did not reach agreement on a recommendation to make to the full group ministerial meeting. A delegate however said it would recommend compliance with production targets. Earlier, Kuwait's Oil Minister Mohammad Al-Olaim said he saw no need for OPEC to cut its oil

production. He also stated that oil inventories are building. UAE's Oil Minister Mohamad Al-Hamli said OPEC will not change its policy of keeping oil markets well supplied. He said prices continue to be impacted by speculation, geopolitical fears and bad weather. He added that OPEC will continue to monitor supply-demand trends and respond accordingly to market needs. Nigeria's Petroleum Minister Odein Ajumogobia said the country's position is to leave production unchanged. Qatar's Oil Minister Abdullah al-Attiyah also said the market is oversupplied and added that demand will fall as a result of world economic problems. Indonesia's OPEC Governor, Maizar Rahman expressed similar sentiment and said there is no need for OPEC to cut its output. Meanwhile, Iran's Oil Minister Gholammhossein Nozari said he believes the market is oversupplied. He has previously stated that \$100/barrel was the minimum acceptable. However when pressed on what OPEC would agree when its meets on Tuesday, he said "we will review the market and then decide." Iran's OPEC governor Mohammad Ali Khatibi said continued OPEC production at current levels would lead to an oversupply in the first half of 2009, causing prices to fall. He said the price of oil cannot fall below \$80/barrel as this is the production cost cited from new fields. The head of Libya's OPEC delegation Shokri Ghanem said the oil market is oversupplied and added that OPEC producers should observe the group's output targets to balance the market. Saudi Arabia's Oil Minister Ali al-Naimi is expected to arrive in Vienna early Tuesday ahead of OPEC's meeting late in the day. Iraq's Oil Minister Hussain al-Shahristani said falling world oil prices require a review of markets ahead of the OPEC meeting.



The IEA's executive director Nobuo Tanaka said OPEC should keep its oil output unchanged. He said if OPEC maintains its current level of production, the market will ease.

According to the Middle East Economic Survey, Saudi Arabia and its Gulf Arab allies would be ready to defend an oil price of \$80/barrel if the market continues to fall this year. It said even if oil prices do not fall further by the end of the year, supply and demand imbalances are likely to justify a change in OPEC's output policy.

A senior US official said Russia aims to extend its control over energy deliveries to the West and it is important that European countries push forward on efforts to diversify routes for oil and gas supplies.

French President Nicolas Sarkozy urged Russia to comply with a ceasefire agreement which Western governments say obliges Russia to pull out troops that are still in Georgia. Russia says its troops in the buffer zones are peacekeepers who are in compliance with the ceasefire deal. Russia later stated that it would pull back all its troops from Georgia within a month with the exception of the rebel regions of Abkhazia and South Ossetia.

A senior Russian nuclear official said the start up of the first reactor at Iran's Bushehr nuclear plant will be irreversible by February next year.

The EIA reported that the US average retail price of diesel fell by 6.2 cents to \$4.059/gallon in the week ending September 8. It also reported that the US retail price of gasoline fell by 3.2 cents to \$4.114/gallon on the week.

### **Refinery News**

Entergy said it restored power to all 12 of the oil refineries and petrochemical plants affected by Hurricane Gustav. However even with power, refiners are seen taking days or weeks to increase its production to normal depending on the damage.

The US DOE said four US oil refineries with a total capacity of 617,000 bpd remain shut due to Hurricane Gustav. It said nine refineries, with a capacity of 2.021 million bpd are restarting, while another five refineries, with a capacity of 1.276 million bpd are back to normal and six refineries with a capacity of 1.901 million bpd are still operating at reduced rates. The US DOE said it will deliver 250,000 barrels of crude from the SPR on Monday to Marathon's Midwest refineries after the Capline pipeline resumed partial operations along its entire length from St. James, Louisiana to Patoka, Illinois. The Capline is operating at a rate of about 750,000 bpd or 62.5%. It said Marathon's Robinson, Illinois and Catlettsburg, Kentucky refinery have been operating at reduced rates due to limited supplies. The DOE also said the Louisiana Offshore Oil Port is running at two thirds of its 1.2 million bpd capacity.

ConocoPhillips' 247,000 bpd Belle Chase, Louisiana refinery is still without power following Hurricane Gustav. It is restarting its Lake Charles refinery, a process that is expected to take 10-14 days to reach normal rates. Meanwhile, ConocoPhillips suffered a fire in its isomerization unit at its 238,000 bpd Bayway refinery in Linden, New Jersey on Sunday morning. On Sunday, a ConocoPhillips spokesman said the fire appeared to be minor and would likely have no major impact on production.

Alon USA's refinery in Krotz Springs, Louisiana is in start up after power was restored over the weekend. It was shut due to Hurricane Gustav. There is no estimate on when the refinery will resume planned rates.

Most processing units at Valero Energy Corp's 185,000 bpd St. Charles refinery in Norco, Louisiana were restarted over the weekend. It is returning to planned rates.

Shell Oil said its is restarting its 235,000 bpd refinery in Convent, Louisiana after it was shut ahead of Hurricane Gustav. It also stated that its 236,000 bpd Norco, Louisiana refinery, which was restarted last week, was increasing production back to normal rates.

BP is shutting its No. 3 fluid catalytic cracking unit at its 460,000 bpd Texas City, Texas refinery for three days of scheduled maintenance. The unit will shutdown on Monday and restart on Thursday. Its ultraformer No. 3 and a related unit will also undergo maintenance for a week starting on Monday.

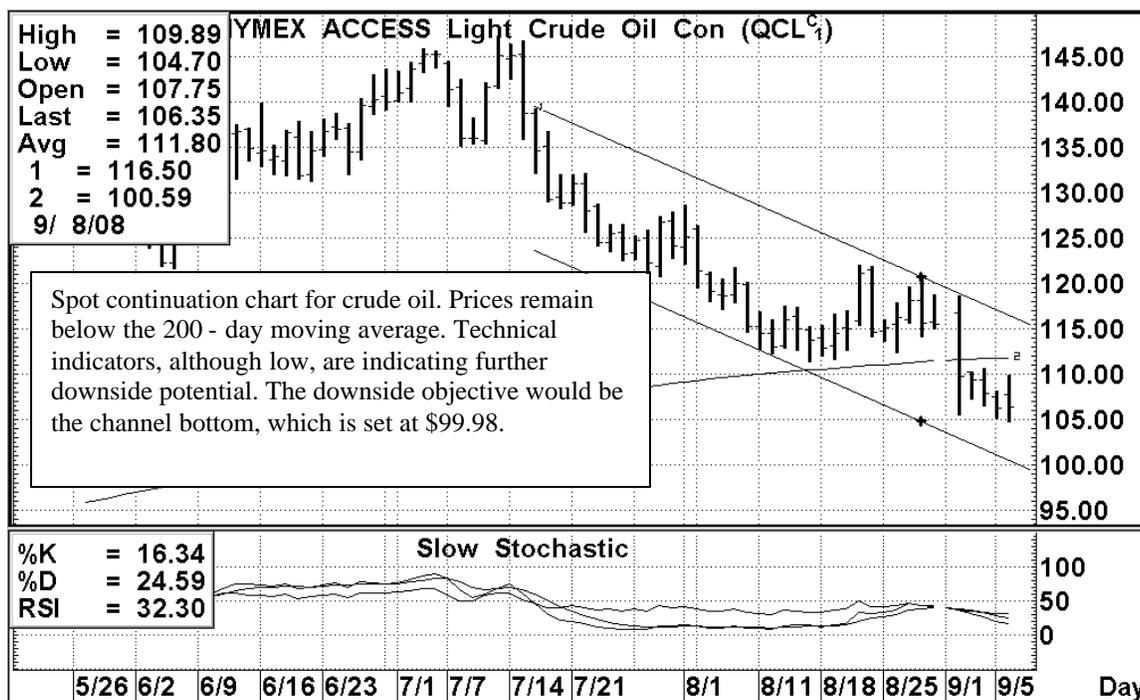
Several units at PDVSA's 320,000 bpd refinery in Curacao were offline on Monday due to a power outage.

European premium gasoline barges increased \$20 on Monday while the gasoline cracking margin firmed to a five month high on increased exports to the US. Benchmark 10 ppm barges traded in the window in a range of \$954 to \$956/ton fob ARA, up from Friday's closing range of \$936/\$937.

Royal Dutch Shell shut its 115,000-130,000 bpd No. 4 crude distillation unit at its 500,000 bpd Bukom refining complex in Singapore on Friday due to technical problems. Separately, Shell may shut a crude unit at its Stanlow refinery in the UK next month. It plans to shut its crude distillation unit 3 starting October 2 for just under four weeks. It is also scheduled to shut one of two crude units at its Pernis refinery in late September.

Japan's TonenGeneral Sekiyu said has temporarily shut some unspecified units at its 135,000 bpd Kawasaki refinery in eastern Japan after lightning caused a power outage on Sunday night.

Saudi Arabia's Oil Ministry has set March 7, 2009 as the deadline for prequalified companies to present detailed proposals to build an export refinery in Jazan, with a capacity of 250,000 to 400,000 bpd.



Shipments of Azeri crude via the Baku-Tbilisi-Ceyhan pipeline will total 28.6 million barrels or 922,581 bpd in October. It is the highest level since at least January.

**Production News**

Saudi Arabia will keep its October supplies to refiners in Europe and Asia unchanged from September. The notice of October supply volumes came ahead of OPEC's meeting on Tuesday.

Angola is producing 1.8 million bpd, slightly below its 1.9 million bpd OPEC production target.

Chevron Corp said its oil output in Indonesia is expected to fall further this year due to ageing oilfields and weather. It is expected to produce an average of 405,000 bpd this year as production may be hampered by adverse weather conditions. It is down from its previous forecast of 415,000 bpd. Its output from Indonesia's operations may fall further to an estimated 382,000 bpd next year as ageing oil fields produce less crude.

Petroecuador reported oil export revenues of \$656.12 million in August, a 7% decrease from the \$705.92 million reported in the previous month. It exported 6.56 million barrels of oil in August, down from 6.14 million bpd in July.

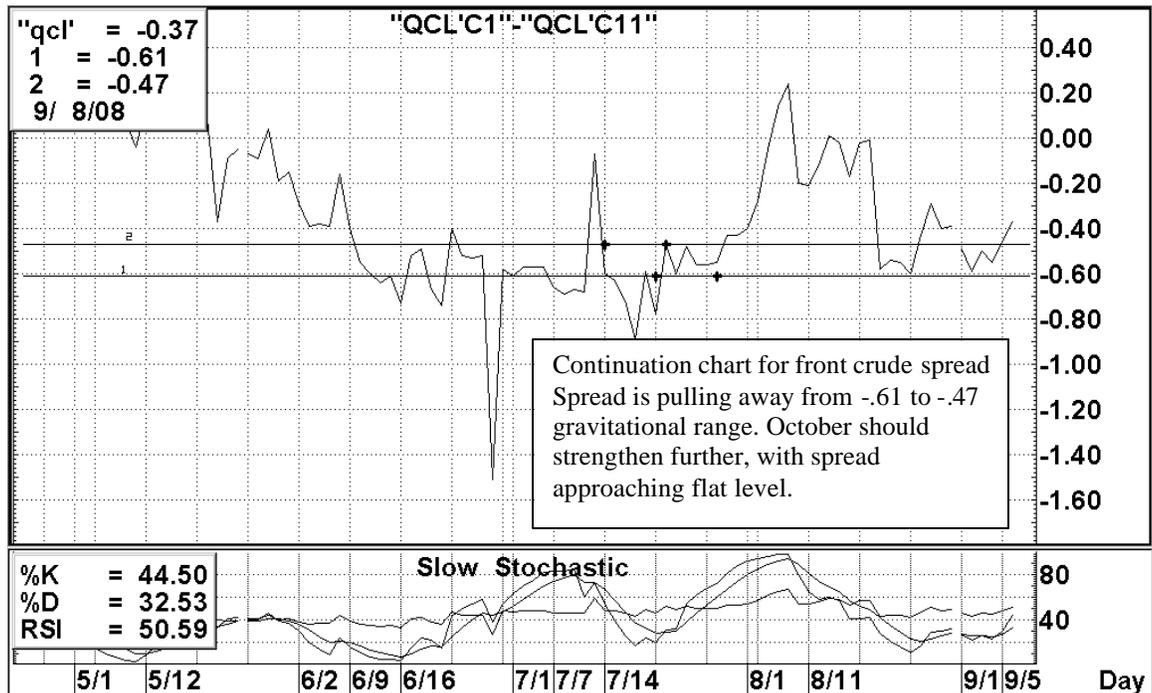
Ecuador's Oil Minister Galo Chiriboga said Ecuador will hold a 70% stake in a joint venture company created with Venezuela to develop the Sacha oilfield. An alliance between Petroecuador and PDVSA will increase its production to 70,000 bpd, up from 45,000 bpd.

OPEC's news agency reported that OPEC's basket of crudes fell to \$101.21/barrel on Friday compared with \$103.64/barrel on Thursday.

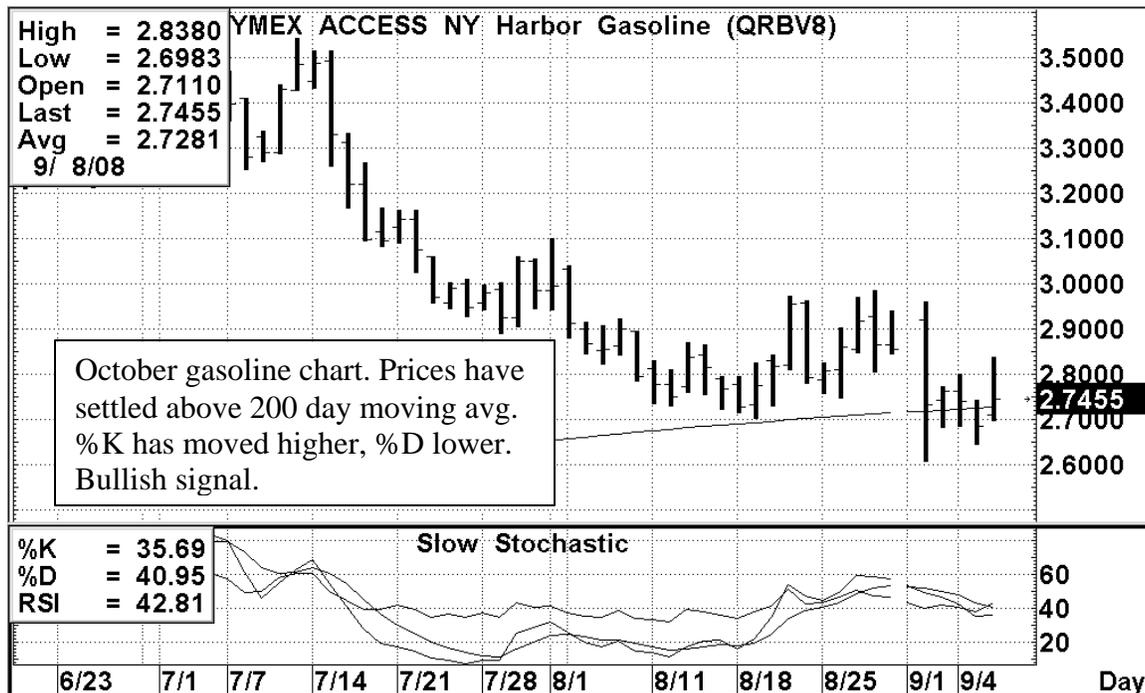
### Market Commentary

Crude oil continued to come under pressure as the dollar surged against the euro for the eighth straight day. The economic outlook, which is starting to look greener, drew investors away from commodities. Crude oil prices were at their lowest level in five-months, briefly breaking below 105.00. Not even the latest forecasts showing Hurricane Ike moving towards the Gulf of Mexico were enough to prop up prices. Basis a spot continuation chart, the October crude oil once again remained below the 200 day moving average of \$111.80. Leading technical indicators are turned to the downside and are not yet in oversold territory. With platform and refinery shut ins still ongoing and the dollar remaining

strong, pressure on crude oil should continue. Barring any major catastrophes from Hurricane Ike, we would look for crude oil to test the bottom of the descending channel on a spot continuation chart. This



channel is set at \$99.98 for tomorrow's trading. Although we would look for the crude oil to come under pressure, we would look for the October contract to gain against the November. The reason being is that the pending hurricane should disrupt tanker traffic in the Gulf of Mexico, delaying the arrival of crude oil. The October/November spread has pulled away from the gravitational range of -.61 and -.47, with the October contract gaining strength against the November. The next level to the upside would be flat. Both gasoline and heating oil gained strength today, as refineries remained idle since Hurricane Gustav and pending the arrival of Hurricane Ike. October gasoline has settled above the 200 day moving average. Slow stochastics are supporting higher prices with %K turning higher and %D lower. This is a signal that prices should continue to move higher. The October gasoline crack spread continues to gain strength and has surpassed a previous congestion high of \$8.4112. Technical indicators are in overbought territory but do not appear to be turning to the downside as of yet. For now we would look for crack spread to hold their strength due to the inability of refiners to run crude oil. Despite its seasonal debut, heating oil remains weak in comparison to the gasoline. Although the October contract was able to breach the 200 - day moving average of \$3.1312, it was unable to settle above it. This could all be attributed to a perceived lack in future demand for diesel, which some industry sources expect to wane as the world economy slows. We would not expect heating oil to lose too much in value at this point, due to the pending weather that is expected to reach the Gulf of Mexico. Open interest for crude oil is 1,201,618 up 1,567 October 08 273,877 down 3,270, November 08 140,514, up 2,051 and December 08 179,317 down 966. Total open interest for heating



oil is 213,314 down 178, October 08 51,825 down 2,540 and November 08 30,114, up 187. Total open interest for gasoline is, 205,407 up 2,188, October 08 70,800 down 565 and November 08 40,501

up 2,939.

<b>Crude Support</b>	<b>Crude Resistance</b>
104.70 99.55, <b>85.40</b>	111.75, 118.60, 128.60, 132.05, 139.30, 144.00, 147.90,
<b>Heat support</b>	<b>Heat resistance</b>
294.50, 2.8350, 2.8050	3.1050, 3.3684, 3.4574, 3.798, 3.6135, 3.8215
<b>Gasoline support</b>	<b>Gasoline resistance</b>
2.5905, 2.4655, 2.4550, 2.3385	2.8000, 2.9600, 3.1050, 3.1460, 3.1840, 3.2620