



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 12, 2007

The head of OPEC affairs at the Iranian Oil Ministry, Javad Yarjani said the decision by OPEC to increase its production by 500,000 bpd is intended to slow the sharp declines in consuming countries' crude oil stockpiles. He stated that Iran's share of the 500,000 bpd increase would amount to 70,000 bpd.

US Energy Secretary Samuel Bodman said he was pleased with OPEC's decision to increase its oil production and added that it was a step in the right direction.

The US and EU powers said Iran's nuclear transparency deal with the UN's IAEA could be a recipe for delay and the lack of any provision for Iran to suspend uranium enrichment is unacceptable. The US is concerned that the Iran-IAEA deal may stymie its attempt to intensify UN sanctions if Iran did not halt its uranium enrichment work. The US has stated that it would push for new penalties unless Iran halts its uranium enrichment. US State Department

DOE Stocks

Crude – down 7.1 million barrels
Distillate – up 1.8 million barrels
Gasoline – down 700,000 barrels
Refinery runs – down 1.6%, at 90.5%

Market Watch

The Houston Ship Channel was closed on Wednesday ahead of Tropical Storm Humberto. At the time of the closure, seven ships were awaiting entry into the channel and 11 were waiting to exit. The National Hurricane Center said a tropical depression in the Gulf of Mexico strengthened into Tropical Storm Humberto on Wednesday afternoon, packing 45 mph winds that are expected to increase before landfall. Tropical Storm Humberto's sudden formation close to the Gulf Coast posed little threat to most offshore production. Marathon Oil Co, Total Petrochemicals USA, BP Plc and Apache Corp said offshore production was continuing as normal with no evacuations or production shutdowns expected. Separately, the National Hurricane Center said a tropical depression in the Atlantic about 1,065 miles east of the Lesser Antilles was nearing tropical storm strength. It predicts some strengthening over the next 24 hours, with the possibility that it may become a tropical storm Wednesday night or Thursday.

IMF chief economist Simon Johnson said the IMF expects a US slowdown, not a recession. He stated that while the IMF's recently increased forecast of 5.2% economic growth now looked unattainable, the emerging market economies of the world were strong and should remain strong.

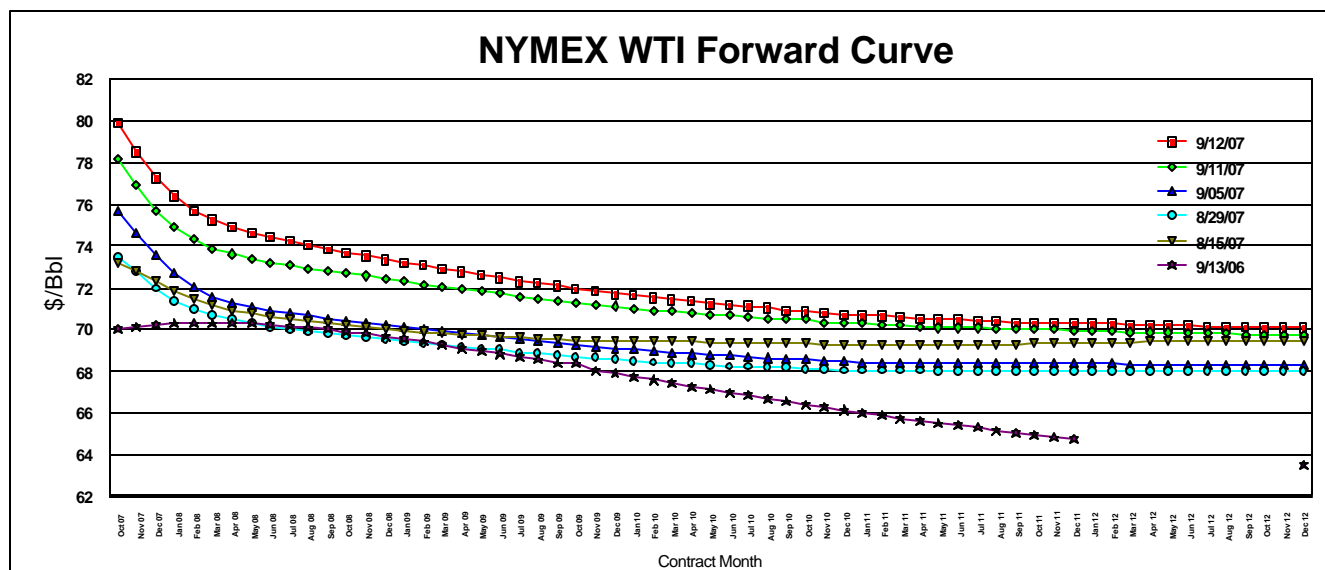
The ICE said physical delivery against the expired September gas oil futures contract was 1,476 lots or 147,600 tons, up from 40,200 tons delivered in August.

NYMEX said today it will launch a new futures contract based on an index of alternative energy firms on Globex and Clearport starting September 30th. The contract will be based on Ardour Global XL Index which is comprised of 30 well-capitalized, liquid and publically traded companies. Initially four months will be listed; March, June, September and December.

spokesman Sean McCormack said the US would host a September 21 meeting of major powers to discuss what sanctions may be included in a new UN Security Council resolution. However Iran's President Mahmoud Ahmadinejad warned against UN Security Council intervention into his country's disputed nuclear activities. He said Iran would not negotiate over its nuclear rights but added that Iran was ready to address international concerns regarding its nuclear activities. Meanwhile, Iran's chief delegate Ali Asghar Soltaneih reiterated a warning by Non-Aligned Movement nations on Tuesday that any interference could wreck the cooperation pact. Iran's chief nuclear negotiator Ali Larijani said Iran would not halt its uranium enrichment work despite a call by the EU and UN Secretary General Ban Ki-moon to halt its work.

Iran dismissed the latest accusations by US ambassador Ryan Crocker and Gen. David Petraeus that Iran was being unhelpful in Iraq and said instead US officials were attempting to shift the blame for their own failure in Iraq.

The IEA stated that world oil demand would grow more slowly than expected in the fourth quarter of 2007 and next year. It said the world credit crunch has increased the risk world oil demand growth could decline next year. It reported that world demand would increase by 2.35 million bpd in the fourth quarter, down 240,000 bpd from its previous estimate. It estimated world oil demand would average 87.8 million bpd in the last quarter of 2007, down 250,000 bpd from its previous estimate. It also cut its forecast for growth in 2008 by 70,000 bpd to 2.1 million bpd. It left its forecast for China's oil products demand in 2007 unchanged at 7.6 million bpd. However China's oil demand in 2008 is expected to increase by a further 5.7% to 8 million bpd. The IEA stated that demand for OPEC oil in the fourth quarter was expected to be 300,000 bpd less than previously expected, at between 32.4 million bpd and 32.8 million bpd. In regards to Iran, the IEA stated that Iraq's desire to double its oil production may be hampered by the security environment and low export volumes. The IEA stated that world refinery runs would likely decline this month as refinery maintenance and lower demand cut refinery throughput. It estimated that world refinery runs would reach 73.5 million bpd in September compared with a peak of 74.9 million bpd in August. The IEA reported that OECD stocks increased by 29.8 million barrels in July. Total OECD forward demand cover remained steady from June at 54.4 days, down from 55.1 days last year.



The deputy governor of the Saudi central bank, Mohamed al-Jasser said high oil prices were partly due to risk premiums, not fundamental factors. He said the risk premiums associated with geopolitical

uncertainties and the low oil refining capacities of major industrial countries have pushed oil prices to their current highs.

Royal Dutch Shell Plc's top executive said he saw no fundamental reason for crude oil prices to have increased above \$78/barrel. He however added that he expected more volatility in prices because of the psychological component.

Refinery News

Valero Energy Corp shut a crude unit at its 230,000 bpd refinery in Aruba for unspecified reasons. The larger of the two crude units was shut, with the refinery running at about 80,000 bpd. A trade source said the unit may be restarted early next week.

ConocoPhillips reported an emissions event earlier this week involving a fluid catalytic cracking unit at its 216,000 bpd refinery in Sweeny, Texas but added that there was no impact on production.

Operations at Total PetroChemicals USA's Port Arthur, Texas refinery were returning to normal on Wednesday following a storm related power outage earlier in the day. The shutdown of its sulfur recovery unit 3 triggered the reduction of rates to its fluid catalytic cracking unit, distillate hydrotreaters and the unibon unit. Its sour water stripper 1 unit was also shut to minimize the production of acid gas.

Sweden's Preem Petroleum cut runs at its 115,000 bpd Gothenburg refinery as a result of declining refining margins. The refinery cut production to 75% of capacity last week.

South Korea's S-Oil Corp is expected to cut its October crude processing rate by about 27% from September due to a shutdown at one of its crude units. It plans to process 400,000 bpd, down from 550,000 bpd in September.

South Korea's SK Energy said it planned to increase its crude runs in October to 750,000 bpd from 700,000 bpd in September. It also stated that it would resume operations at its No. 3 170,000 bpd crude distillation unit on September 20. The unit has been shut for maintenance since August 13.

Production News

Alaska officials said they were investigating BP due to a spate of fires at oilfield facilities. Oil traders said a fire started at BP Plc's Prudhoe Bay oilfield on Monday. Output at the field fell to 186,000 bpd on Monday. It was the fourth BP fire on Alaska's North Slope in the past month. The state has called the managers of BP Exploration Alaska into meetings to see if there are management, operations or structural problems at BP's oil fields. However BP stated that the impact to production has been minimal.

Harvest Natural Resources signed a final agreement with Venezuela's PDVSA that would complete the formation of a joint venture between the two companies. PDVSA would hold a controlling 60% stake while Harvest would own the rest.

Iraq's SOMO stated that it has invited bids to buy 5 million barrels of Kirkuk crude to be loaded from the Ceyhan terminal in Turkey. It would accept bids until September 21.

The Shetland Island Council reported that Brent crude oil exports in the week ending September 11 fell to 257,182 tons from 337,854 tons in the previous week.

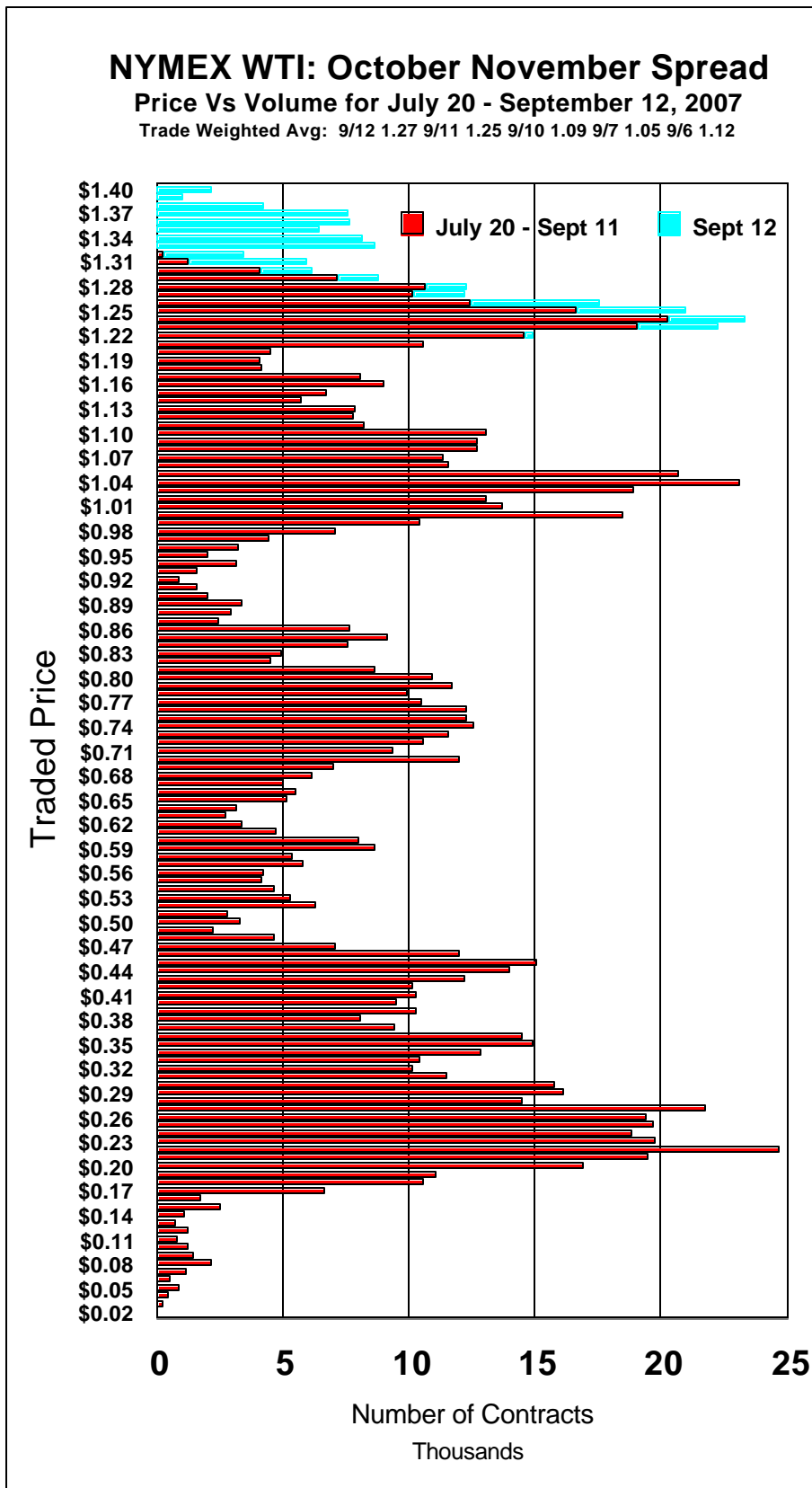
Kazakhstan's State Statistics Committee said the country's oil and gas condensate output increased by 4.7% year on year to 44.668 million tons in January-August. Kazakhstan's oil production increased

by 2.7% on the year to 36.484 million tons in January-August. It also reported that crude oil exports increased to 36.09 million tons in January-July 2007, up 15% on the year. Its oil product exports increased by 16.2% to 1.21 million tons in the January-July period.

India's Oil and Natural Gas Corp said Sudan's Nile Blend crude production was still down 15% after last month's floods and is expected to be back to normal by the end of October.

China's National Development and Reform Commission said the country's strategic oil reserve tanks already hold 2-3 million tons of crude or 15-22 million barrels. China aims to have 12 million tons or 90 million barrels of oil in its reserves by 2010. However an official said high prices meant now was not the best time to purchase crude for the reserve.

The Petroleum Association of Japan stated that the country's gasoline stocks fell by 250,000 barrels to 11.79 million barrels in the week ending September 8 amid scheduled plant maintenance. Meanwhile it reported that crude stocks fell by 6.44 million barrels to 101.06 million barrels on the week. It also reported that kerosene stocks increased by 770,000 barrels to 26.62 million barrels while naphtha stocks increased by 700,000 barrels to 11.27 million barrels. The PAJ reported that Japanese refiners operated their facilities at an average of 80%



of total capacity of 4.84 million bpd, down 4.9% on the week.

Ecuador's central bank reported that the country's oil production is expected to fall by 5.7% on the year to 184.6 million barrels in 2007. It also stated that Ecuador is expected to increase its production to 190.1 million barrels in 2008.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$73.13/barrel on Tuesday from \$72.33/barrel on Monday.

Market Commentary

With the release of the API/DOE numbers showing a draw of 7.1 in crude stocks and Tropical Storm Humberto appeared to be headed towards the Gulf of Mexico and Texas, the price of crude oil made record highs, peaking at 80.18. Prices are now up 24% from a year ago. Even though this was a significant draw, stock levels are still above the upper end of the average range for this time of year. Distillate stocks built by 1.8 million barrels and are also in the upper half of the average range for the same period last year with demand unchanged. Gasoline stocks, which are causing a bit of concern drew by 700,000 barrels and are well below the average range with demand 0.9% above the same period last year. We think that a new influx of hedge fund money has entered the market from the long side, with total open interest down 3,735, while

		Explanation	
CL	Resistance	80.40, 81.08	
	78.23, up 74 cents	80.18	Wednesday's high
	Support	78.85, 78.04, 78.01	Wednesday's low
		77.52, 76.92, 75.52	
HO	Resistance	228.27	Basis trendline
	221.91, up 3.64 cents	222.24	Wednesday's high
	Support	220.45, 218.75, 217.71	Wednesday's low
		215.57, 213.00, 212.00, 210.25	Previous lows
RB	Resistance	202.79, 205.30, 205.39, 206.97	Previous highs
	201.60, up 3.49 cents	202.63	Wednesday's high
	Support	200.00, 198.35, 196.64	Wednesday's low
		194.00, 193.50, 193.40, 191.55	Previous lows

November open interest was up 23,947. At some point we would look for longs to turn to profit taking, especially with the Federal Reserve meeting next Tuesday and expectations of rate cuts. The October/November spread although widening today took its sweet time in doing so. Last week we had mentioned that we liked buying the November RBOB and selling the November heating oil. Upon examination of this chart, it appears to be getting ready to turn in our favor closing the session at -0.2286. Crude oil support comes in at 78.85, 78.04, 77.52, 76.92 and 75.52. Resistance is set at 80.40 and 81.08. Meanwhile, the product markets were well supported by the strength in the oil market. The RBOB market settled up 3.49 cents at 201.60 after it bounced off a low of 196.64 early in the session and never looked back. It extended its gains to over 4.5 cents as it rallied to a high of 202.63 late in the session. The market was supported in light of the expected draw in gasoline stocks. The heating oil market traded to 220.00 before it sold off to a low of 217.71 in light of the build in distillate stocks. However the market bounced off its low and rallied to a high of 222.24 amid the buying seen in the crude market. The heating oil market settled up 3.64 cents at 221.91. The product markets are seen retracing some of today's sharp gains as the Tropical storm which pushed the oil market higher is not expected to impact production. The RBOB market is seen finding resistance at 202.63, 202.79, 205.30, 205.39 and 206.97. Meanwhile support is seen at 200.00, 198.35, 196.64, 194.00, 193.50, 193.40 and 191.55.

NYMEX Petroleum Options Most Active Strikes for September 12, 2007

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	10	7	C	80	09/17/2007	1.09	10,147	30.42
LO	6	8	C	92	05/15/2008	1.11	8,900	23.98
LO	12	7	P	73	11/13/2007	1.7	5,694	27.97
LO	11	7	C	79	10/17/2007	2.56	5,361	28.82
LO	6	8	C	75	05/15/2008	5.63	4,450	25.41
LO	12	7	P	70	11/13/2007	1.03	4,147	29.48
LO	11	7	P	76	10/17/2007	1.7	3,801	29.36
LO	10	7	C	82	09/17/2007	0.4	3,362	30.62
LO	11	7	C	77	10/17/2007	3.6	3,185	29.05
LO	11	7	C	76	10/17/2007	4.23	2,986	29.47
LO	10	7	C	79.5	09/17/2007	1.35	2,956	30.49
LO	11	7	P	60	10/17/2007	0.05	2,878	40.68
LO	12	7	P	50	11/13/2007	0.02	2,850	41.97
LO	10	7	C	80.5	09/17/2007	0.87	2,661	30.49
LO	12	7	P	75	11/13/2007	2.38	2,653	27.47
LO	11	7	P	75	10/17/2007	1.4	2,623	29.92
LO	10	7	C	90	09/17/2007	0.01	2,516	41.68
LO	12	7	P	77	11/13/2007	3.26	2,500	27.19
LO	11	7	C	88	10/17/2007	0.44	2,379	30.64
LO	10	7	C	83	09/17/2007	0.22	2,293	30.76
LO	10	7	C	81	09/17/2007	0.68	2,204	30.46
LO	10	7	P	76	09/17/2007	0.14	2,183	33.17
LO	2	8	P	74	01/16/2008	3.67	2,000	26.26
LO	1	8	P	70	12/13/2007	1.65	1,997	28.20
LO	10	7	C	85	09/17/2007	0.06	1,923	31.61
LO	10	7	P	77	09/17/2007	0.25	1,863	32.05
LO	10	7	C	78	09/17/2007	2.35	1,861	31.33
LO	12	7	P	76	11/13/2007	2.79	1,856	27.27
LO	10	7	P	75	09/17/2007	0.08	1,799	34.70
LO	1	8	P	76.5	12/13/2007	4.06	1,790	26.87
LO	1	8	C	76.5	12/13/2007	4	1,790	26.86
LO	12	7	C	77	11/13/2007	3.54	1,751	27.15
LO	3	8	P	55	02/14/2008	0.41	1,600	32.68
LO	12	7	C	90	11/13/2007	0.38	1,553	27.38
LO	10	7	C	79	09/17/2007	1.65	1,540	30.72
LO	11	7	P	70	10/17/2007	0.51	1,535	33.43
OB	10	7	C	2.27	09/25/2007	0.0074	458	46.14
OB	10	7	C	2.2	09/25/2007	0.014	365	44.91
OB	10	7	P	1.9	09/25/2007	0.0205	216	42.14
OB	4	8	P	2.04	03/26/2008	0.1179	200	28.50
OH	3	8	C	2.15	02/26/2008	0.1767	1,270	27.63
OH	3	8	C	2.2	02/26/2008	0.1534	855	27.59
OH	3	8	P	2.03	02/26/2008	0.0848	420	27.38
OH	10	7	C	2.21	09/25/2007	0.0566	200	31.22
OH	10	7	C	2.17	09/25/2007	0.0799	200	31.45
OH	11	7	C	2.39	10/26/2007	0.0404	200	31.53