



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta  
& Karen Palladino

**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

---

## **ENERGY MARKET REPORT FOR SEPTEMBER 12, 2008**

---

Oil companies have shut about 96.9% of their offshore oil production in the Gulf of Mexico and 14 refineries or 22% of their US refining capacity as a precaution ahead of Hurricane Ike. Three refineries representing 5.1% of US capacity are operating at reduced rates. According to the National Hurricane Center, Hurricane Ike is expected to make landfall near Galveston, Texas as a strong Category 2 or weak Category 3 storm early Saturday morning. The storm's current

### Market Watch

The US EPA late Thursday granted temporary waivers from Clean Air Act gasoline requirements in nine southeastern states due to the continuing effects of storms in the Gulf of Mexico and the pending landfall of Hurricane Ike. It granted waivers in Alabama, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee and Texas by allowing the early use of winter grade fuel throughout this region. The waiver will be in effect starting immediately. The EPA also waived requirements for reformulated gasoline required in portions of Texas.

The US House of Representatives may vote next week on energy legislation that would open nearly the entire US coastline to offshore drilling while repealing some tax breaks for oil companies. The package proposed by Democrats would give states the option to allow drilling between 50 and 100 miles off their shores. Areas further than 100 miles from the coast would be completely open to oil exploration. The bill would also repeal tax breaks for oil companies to help fund investments in alternative energy.

BNP Paribas said it cut its 2008 price forecast for US crude futures by \$2.60 to an average \$110.50/barrel. It also lowered its 2009 forecast by \$4.30 to an average \$115.80/barrel. It also lowered its forecast for ICE Brent futures by \$2.60 from its September 3 estimate to an average \$109.60/barrel for 2008 and it lowered its 2009 forecast by \$4.30 to \$114.80/barrel.

Mexico's ruling and opposition party lawmakers said new oil deal could still be reached by October despite the continuing disagreements over the plan. Senators have so far reached only preliminary deals on minor issues such as how to plan long term energy policy. However they have not yet tackled the issues of how to get more private companies drilling in Mexico and add new refineries without breaching laws against foreign ownership of operations in either sector. Mexico's President Felipe Calderon's proposal would allow foreign companies to sign performance based contracts with Pemex as a way to increase the country's oil production.

Norway's DNO International said that its north Iraq Tawke oilfield contract has been expanded, increasing its interest in the West Dohuk structure to 55% from 40%. DNO operates the Tawke field under a production sharing deal with the Kurdish regional authorities in northern Iraq.

path forecast takes it to the refinery corridor along the ship channel linking Galveston and Houston. It has the potential to cause severe damage across the entire region. In addition to winds of up to 125 mph, Hurricane Ike could generate a 25 foot storm surge.

The US Minerals Management Service reported that the crude oil and natural gas production was nearly completely shut on Friday as Hurricane Ike approaches the Texas coast. It reported that 97.5% of the Gulf of Mexico's 1.3 million bpd of crude production remained shut.

<b>Refineries Shutdown</b>		
<b>Company</b>	<b>Location</b>	<b>Capacity</b>
ExxonMobil	Baytown	562,500
ExxonMobil	Beaumont	348,500
BP	Texas City	417,000
Shell	Deer Park	333,700
Motiva	Port Arthur	285,000
Valero	Port Arthur	260,000
Valero	Texas City	218,500
Valero	Houston	83,000
Lyondell Basell	Houston	247,000
ConocoPhillips	Sweeny	247,000
Astra/Petrobras	Pasadena	100,000
Marathon	Texas City	76,000
Flint Hills	Corpus Christi	305,000
Total	Port	240000

Meanwhile ExxonMobil reported that 36,000 bpd of liquids including oil and 270 mmcf/d of natural gas production in the US Gulf of Mexico is shut in.

US Energy Secretary Samuel Bodman said that the government has been in talks with at least two more companies about delivering more oil from the US emergency stockpile as another hurricane threatens the Gulf Coast. The Energy Department has delivered 500,000 barrels of oil from the SPR to Marathon Oil Corp refineries and 130,000 barrels to Placid Oil Corp's Port

Allen refiner. The DOE shut in its Bryan Mound site in Freeport, Texas with storage capacity of 254 million barrels and a drawdown capacity of 1.5 million bpd of crude, its Big Hill, Texas SPR site with a storage capacity of 170 million barrels and drawdown capacity of 1.1 million bpd and its Bayou Choctaw site with a capacity of 76 million barrels and a drawdown capacity of 515,000 bpd ahead of Hurricane Ike. It said the shutdowns are not interfering with deliveries of crude oil loaned to refiners after Hurricane Gustav hit the Gulf region September 1.

Saudi Aramco will maintain crude supplies in October to customers in Asia and Europe at levels agreed under annual contracts, according to refinery officials. According to a Saudi oil official, Saudi Arabia has not altered its oil policy after the OPEC meeting.

Venezuela's President Hugo Chavez expelled the US ambassador and threatened to halt oil exports to the US if there were aggression against Venezuela. He said the move was made in support of his close ally President Evo Morales of Bolivia, where violent anti-government protests have occurred. Bolivia's President expelled the US ambassador after accusing the official of instigating the anti-government protests. Meanwhile, the US has rejected the allegations by Venezuela and Bolivia. It retaliated against Bolivia by ordering its ambassador to Washington to leave. The US has also told Venezuela's ambassador to Washington that he will be expelled. A US official said the State Department has not received any official notice about the expulsion of its ambassador in Venezuela. Venezuela's President Hugo Chavez warned that he would support armed movements to back Morales in the event of a coup against him. He also recalled his ambassador from Washington.

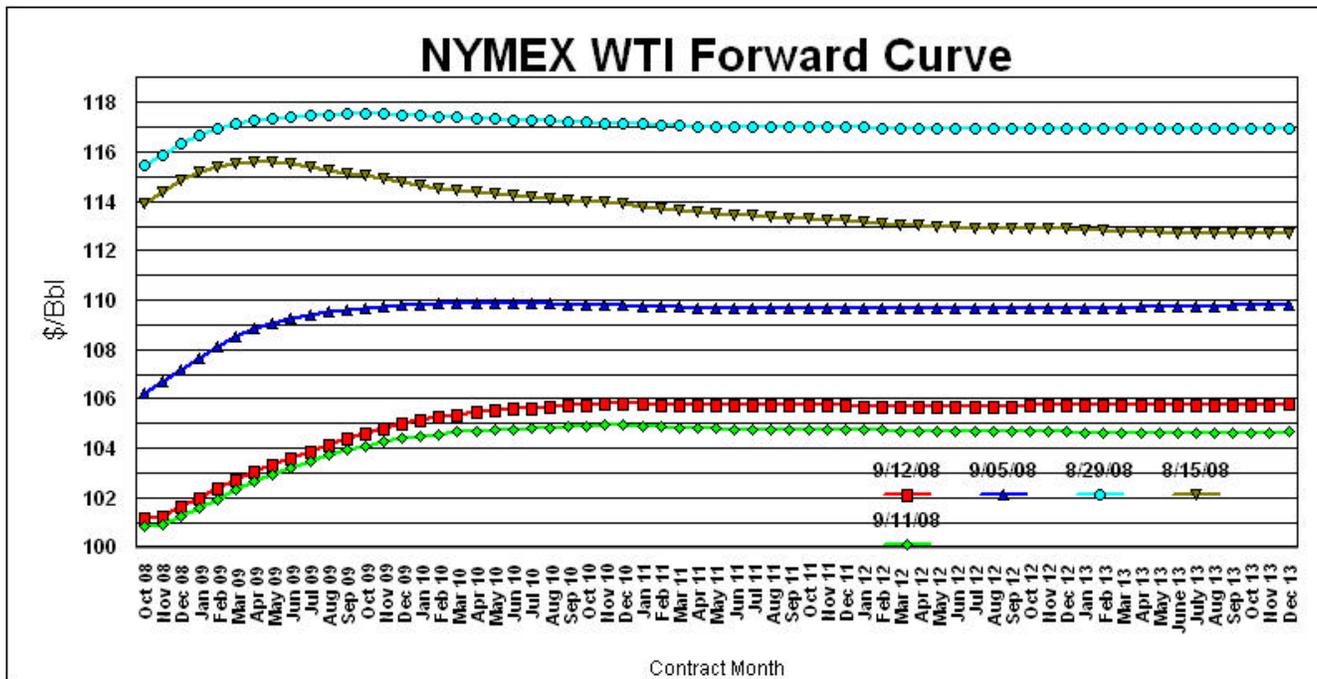
Russian Foreign Minister Sergei Lavrov held talks Friday with his Iranian counterpart, Manouchehr Mottaki on Russia's conflict with Georgia and the imminent completion of the Bushehr nuclear power plant in Iran. Russia's Foreign Minister said talks would also focus on the Georgia conflict, which as led to a diplomatic stand off with the West over the fate of two breakaway Georgian regions. On Thursday's Iran's President Mahmoud Ahmadinejad blamed foreign interference as

<p><b>September Calendar Averages</b>  <b>CL</b> – 105.27  <b>HO</b> – 298.37  <b>RB</b> – 272.33</p>
---

well as Georgia's leadership for the crisis in the country and called on regional powers to come to a peaceful resolution.

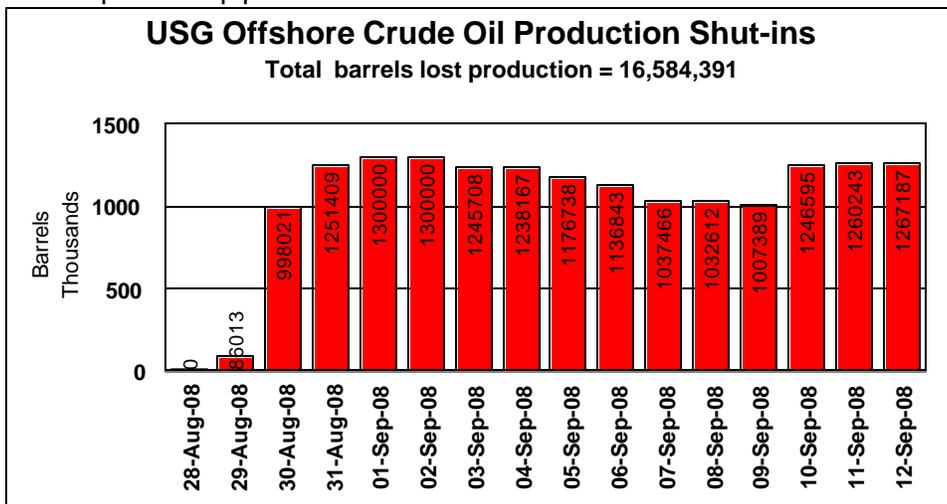
### Refinery News

ConocoPhillips is in the process of starting up its 247,000 bpd Alliance oil refinery in Belle Chase,



Louisiana after it was shut due to Hurricane Gustav. Meanwhile, its 239,000 bpd Lake Charles refinery in Louisiana was operating at reduced rates following Hurricane Gustav.

Enterprise Products Partners LP and Teppco Partners LP shut pipelines and platform operations ahead of Hurricane Ike. Enterprise shut part of its Dixie Propane Pipeline between Mont Belvieu, Texas and its sulfur pump station near Lake Charles, Louisiana. Enterprise also evacuated all nine of its platforms in the Gulf of Mexico. Meanwhile Teppco shut its TE Products Pipeline today that runs from Texas to the Northeast. The Longhorn products pipeline, Explorer products pipeline, the Centennial products pipeline were shut in ahead of the hurricane. Also, Colonial Pipeline shut down its refined products pipeline out of Houston ahead of the Hurricane Ike.



China's crude processing in August increased by 5.1% on the year to 29.19 million tons or 6.87 million bpd. This was in addition to China's imports of oil products and record diesel imports in June and July, meaning much of August's output may have been stored and could undercut processing rates later in the year. China's crude runs in the first eight

months of the year increased by 5.7% on the year to 229.58 million tons or 6.87 million bpd.

South Korea's GS Caltex has shut a 90,000 bpd residual fluid catalytic cracking unit at Yosu on Wednesday due to a technical problem. It will be shut for one to two weeks of repairs.

Indian Oil Corp has deferred the shutdown of a 120,000 bpd crude unit and other secondary units by three weeks to October 10.

India's import of West African crude for October increased by 53% on the month to the highest level in four years. India's purchase of West African crude, mostly Nigerian and Angolan, increased to 19 cargoes, 582,000 bpd in October from about 12 cargoes or 380,000 bpd in September. Meanwhile China's purchase of West African crude fell to 17 cargoes or 521,000 bpd in October from 22 cargoes or 697,000 bpd in September.

Indonesia's Pertamina cut its oil product imports in September to a six month low of 11.92 million barrels, comprising of 5.2 million barrels of gas oil, 5.5 million barrels of gasoline, 800,000 barrels of fuel oil and 420,000 barrels of jet fuel. Separately, traders said Pertamina bought 3.6 million barrels of crude for November arrival via its regular monthly tender for sweet grades, its highest volume in 14 months.

Germany's MWV stated that German oil product sales in August totaled 6.79 million tons or 2.9% on the year. It reported that Germany's heating oil sales increased by 25.6% on the year to 2.03 million tons while its diesel fuel sales fell by 3.8% to 2.51 million tons and its fuel oil sales increased by 2.3% on the year to 510,000 tons. It also stated that Germany's gasoline sales fell by 7.2% to 1.74 million tons.

### **Production News**

Norway's Troll oil system is set to load about 215,000 bpd in October, down from 260,000 bpd in September.

Iraq halted crude exports on Wednesday through its northern pipeline to Turkey's Ceyhan export terminal. A shipping agent said total inventories of Kirkuk crude stood at 3.4 million barrels.

Royal Dutch Shell has extended a force majeure until further notice on Nigerian Bonny Light oil exports after new problems were discovered during ongoing repair work that followed a militant attack in late July on its energy infrastructure. The force majeure was also extended because of security concerns in the Niger Delta region.

BP Plc shut a pipeline carrying Azeri crude oil from Baku to Turkey's Mediterranean coast near Ceyhan after a leak in the Turkish section required repairs on Wednesday. The pipeline, with a capacity of 1 million bpd, was shut for three weeks in August after an explosion engulfed a Turkish section of the pipeline.

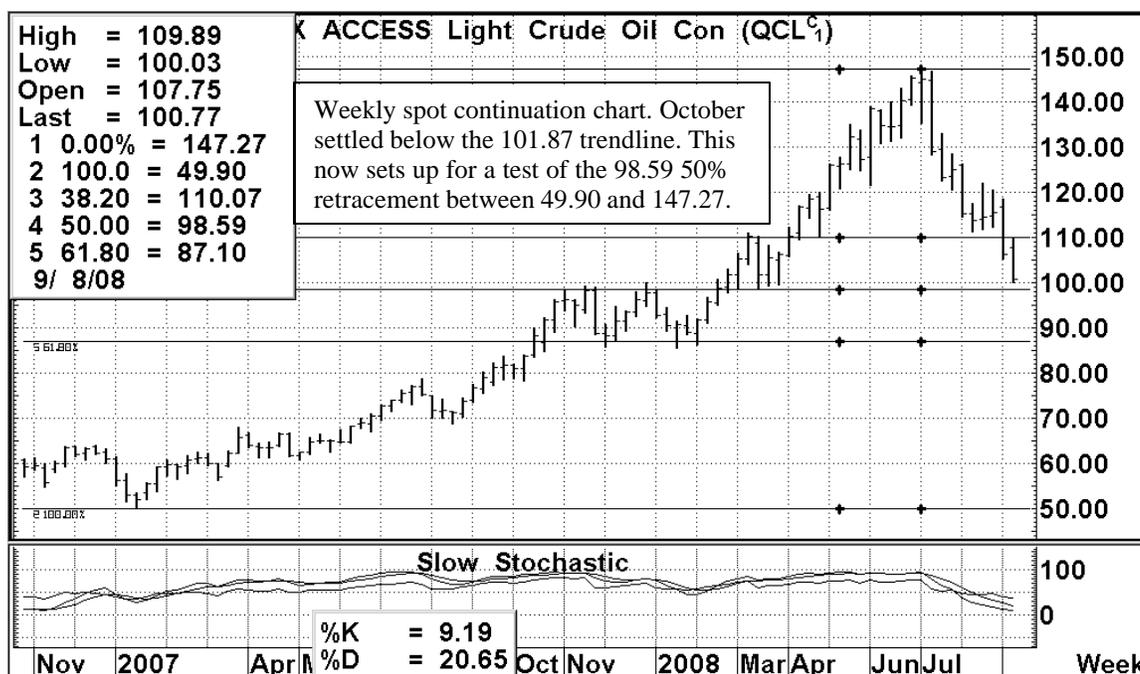
Kazakhstan's crude oil and gas condensate production totaled 46.83 million tons in January-August 2008, up 5.1% on the year. Its crude oil production totaled 38.292 million tons in the first eight months of the year. Kazakhstan's crude oil production in August totaled 4.511 million tons, down 1.7% on the month and by 3.8% on the year.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$95.29/barrel on Thursday from \$96.80/barel on Wednesday.

## Market Commentary

One would never know that a hurricane is heading towards Texas and that 98% of Gulf oil production is shut in. Energy prices, which held up for most of session, sold off just prior to the NYMEX floor trading session's close. Overshadowing a weaker dollar and Hurricane Ike was a focus on demand. Upon examination of the IEA data, global oil inventories have a surplus in regards to demand coverage. Initial reports listed demand cover at 53.8 days, or level with the norm. New data indicated that end-July totals were 34 million barrels higher, some 43 mmbbls below last year, but 7 mmbbls above normal, putting cover +2% over. According to revisions for June, Europe and Asia each had 17 million more barrels than originally thought. Figures for July indicate that stocks built at a pace of 1.32 mmbd for a total of 41 mmbbls, or +2%. Europe added 11 mmbbls more than first indicated, Asia 5 mmbbls more. With demand falling off and revisions of higher forward cover, this market should continue to sustain pressure. October crude oil broke through the \$100.00 level for the first time since March. Barring any major catastrophes from Hurricane Ike, we would look for the October contract to test the 50% retracement level of 98.59, using the range of \$147.27 and \$49.90, basis a weekly spot continuation chart. The

October/November spread traded in a narrow range today, settling .01 lower on the day. Technically, this spread appears to have more room to the upside, but how much more room



is the question. At this point in time we believe that the direction of this spread depends on whether or not Hurricane Ike on. Demand again is key here and will greatly impact the direction of this market. With European and Asian stock levels greater than originally thought to be and demand in both those regions slowing down, heating oil can suffer unseasonably low prices. Open interest for crude oil; OCT 182,319 -23,275 NOV.08 229,337 +27,459 DEC.08 183,963 +2,745. Totals: 1,216,709 +7,719. Open interest for heating oil; is OCT.08 42,239 -3,173 NOV.08 37,088 +3,376 DEC.08 24,891 +918 Totals: 214,254 + 860. Open interest for gasoline is, OCT.08 53,348 -4,708 NOV.08 52,189 +5,870 DEC.08 32,816 -1,182, Totals: 203,912 + 629

<b>Crude Support</b>	<b>Crude Resistance</b>
99.55, 98.59, <b>85.40</b>	105.08, 111.82, 118.60, 128.60, 132.05, 139.30, 144.00, 147.90,
<b>Heat support</b>	<b>Heat resistance</b>
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	2.8399, 2.9600, 2.9989, 3.1050, 3.1460, 3.1840, 3.2620

The Commitment of Traders reported that non-commercials in the crude market cut their net long position by 7,995 contracts to 6,336 contracts in the week ending September 9<sup>h</sup>. The combined futures and options report also showed that non-commercials cut their net long position by 11,487 contracts to 62,800 contracts on the week. It showed that non-commercials increased their total short position by 8,444 contracts to 131,281 contracts on the week. Meanwhile non-commercials in the RBOB market also cut their net long position by 6,595 contracts to 39,727 contracts while non-commercials in the heating oil market increased their net long position slightly by 681 contracts to 11,070 contracts on the week.