



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 14, 2009

A top US official said the upcoming talks between Iran and six world powers on Iran's latest package of proposals over its nuclear program are an important first step. Foreign Ministers from the world powers will meet next week on the sidelines of the UN General Assembly in New York.

The EIA reported that the US retail price of diesel fell by 1.3 cents/gallon to \$2.634/gallon in the week ending September 14th. The current price is \$1.389/gallon or 34.5% below last year's level. It also reported that the US retail price of gasoline fell by 1.1 cent/gallon to \$2.577/gallon on the week.

Market Watch

Morgan Stanley has increased its price forecast of US crude oil to \$105/barrel in 2012 from \$95/barrel due to tightening spare capacity. It expects world spare production capacity to remain ample through the end of 2010, before declining in 2011 and reaching 2007/08 tightness by 2012. Morgan Stanley assumes oil demand to fall by 2 million bpd this year, rebound by 1 million bpd in 2010 and then increase by just 1% thereafter.

The US Department of the Interior on Wednesday will unveil new proposals for oil and gas royalties. Interior Secretary is likely to reveal a stricter policy for the royalty-in-kind program, which allows companies to pay fees in crude in lieu of cash and variable rates for leases.

CME Group does not plan to increase enforcement of position limits on NYMEX, CME, CBOT and COMEX following an advisory sent to traders and brokers on Friday about enforcement. On Friday, the CME pledged to enforce existing position limits on the NYMEX, CME, CBOT and COMEX as of Monday, September 14th. Traders who are over the position limits will face fines or could be found guilty of price manipulation unless they have a hedge exemption. CME has no plans to change the process through which it grants exemptions to major traders to exceed nominal position limits for hedging purposes.

CME Group announced the launch of trading and clearing services for eight new petroleum production and nine natural gas liquids futures contracts. Trading and clearing are scheduled to begin on September 20 for trade date September 21st. The swap futures contracts are as follows: Gulf Coast gasoline (OPIS) (4E), Gulf Coast gasoline (OPIS) vs. RBOB gasoline spread (4F), Gulf Coast jet (OPIS) (R9), Gulf Coast jet (OPIS) vs. heating oil spread (W7), Gulf Coast ULSD (OPIS) (5P), Gulf Coast ULSD (OPIS) vs. heating oil spread (5Q), Gulf Coast heating oil (OPIS) (7O), Gulf Coast heating oil (OPIS) vs. heating oil spread (7W), Mont Belvieu natural gasoline five decimals (OPIS) (7Q), Mont Belvieu iso-butane five decimals (OPIS) (8I), Conway propane five decimals (OPIS) (8K), Conway natural gasoline (OPIS) (8L), Conway natural butane (OPIS) (8M), Mont Belvieu LDH propane (OPIS) BALMO (8O), Mont Belvieu natural gasoline (OPIS) BALMO (RO), Mont Belvieu ethane (OPIS) BALMO (8C), and Mont Belvieu normal butane (OPIS) BALMO (8J).

Water levels on the Rhine and Danube Rivers are still low and surcharges for freight shipping are still being requested by vessel operators. Surcharges were imposed on cargo customers in late August to compensate vessel owners for lost revenue as their ships must sail partly loaded due to low water levels.

Refinery News

Tesoro Corp reported unplanned flaring due to an equipment breakdown on Monday at its 100,000 bpd Wilmington refinery in Los Angeles.

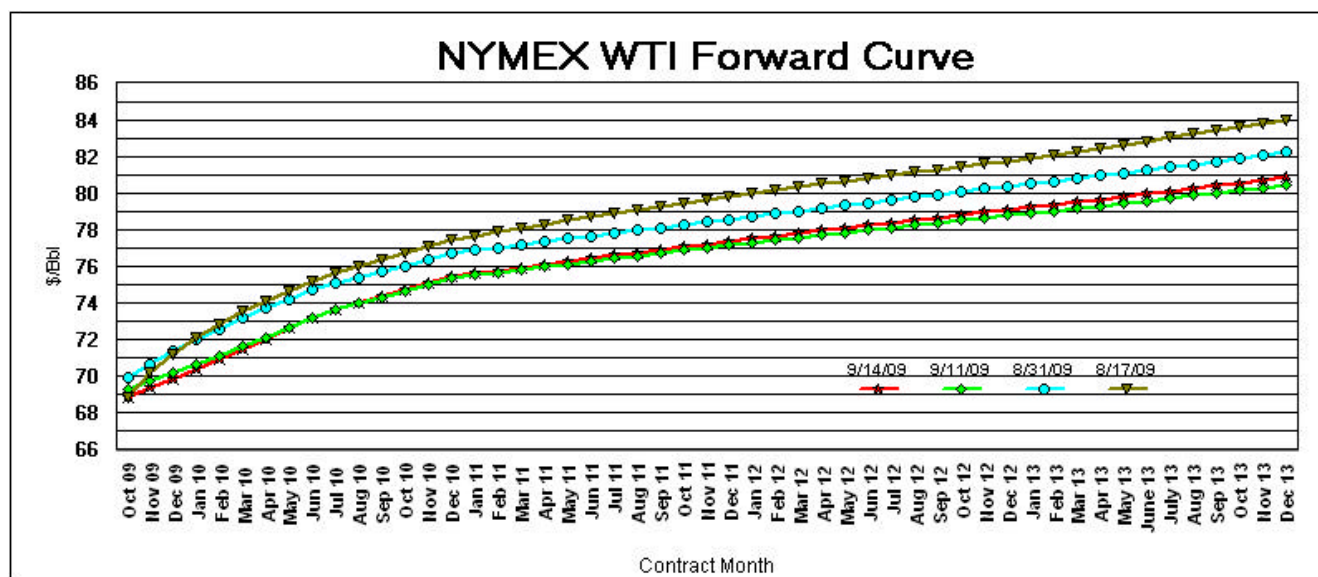
ConocoPhillips is shutting down four units at its Sweeny refinery in Texas for scheduled maintenance until October 30th. The units include a crude oil heater, a distillate hydrotreater unit and a fluid catalytic cracking unit.

**September
Calendar Averages**
CL – \$69.40
HO – \$1.7559
RB – \$1.7915

Sunoco Inc further delayed restarting a fluid catalytic cracking unit at the Girard Point section of its 335,000 bpd Philadelphia refinery. Separately, Sunoco Energy plans to restart several units this week at its 135,000 bpd Edmonton, Alberta refinery following the completion of planned work.

Valero Energy Corp's Delaware City, Delaware refinery, which is under review for possible closure is losing tens of millions of dollars a month. The facility has been unprofitable for about a year and half, though the rate of losses have accelerated with the recession. Separately, Valero Energy Corp said it is entering in a joint venture to produce renewable diesel fuel at its Louisiana refinery. Valero Energy and its partner in the project, Darling International Inc, want to build a facility that would convert restaurant grease and animal fats into fuel. Darling recycles food by products and would supply the refinery with the feedstocks. It envisions the project will process up to 135 million gallons of biodiesel a year. The plant would be located next to the 185,000 bpd refinery in Norco, Louisiana.

Total is operating its European refineries at only about 85% of capacity but plans to increase production this winter to meet an expected increase in heating demand. Oil refiners across Europe have been running their refineries at lower rates than last year as heavy product inventory levels, especially gas oil have cut their profits. Separately, Total said an oversupply of gasoline will continue to grow in Europe, rising about 56% by 2020. Gasoline surplus in 17 European nations will reach 50 million tons per year by 2020 compared with 32 million tons.



Japan's Kyokuto Petroleum Industries got approval to restart its 175,000 bpd crude distillation unit at its Chiba refinery following an unplanned shutdown last week. The unit has been shut since Wednesday after an oil leak caused a fire. It remains unclear when the unit will restart operations.

Japan's Nippon Oil Corp failed to restart operations at its 24,000 bpd continuous catalytic cracker unit at its Marifu refinery on Saturday. The company plans to restart the unit, which has been shut since September 8th after a fire, as early as Tuesday.

India's Reliance Industries' 580,000 bpd refinery is operating at close to full capacity. The new plant, next to its old 660,000 bpd refinery, has turned Jamnagar into the world's largest refining complex processing 1.24 million bpd.

Traders said about 80,000 tons of Indonesian crude oil will be loaded on September 28th for a shipment to Hawaii or the US West Coast due to ample supply in Asia and falling prices.

Production News

The loading rate for the nine main North Sea crude streams will average 2.251 million bpd in October, up from 1.957 million bpd in September and the highest level since March. The North Sea Brent crude oil system is scheduled to load 155,000 bpd in October, up 26% on the month from 123,000 bpd while the Forties crude system is scheduled to load 658,000 bpd, up 26.54% on the month from 520,000 bpd. The Oseberg crude system is scheduled to load 215,000 bpd in October, up 18.13% on the month from 182,000 bpd; the Ekofisk crude system is scheduled to load 355,000 bpd in October, up 6.61% on the month from 333,000 bpd; the DUC crude system is scheduled to load 155,000 bpd in October, down 13.89% on the month from 180,000 bpd; the Flotta crude system is scheduled to load 41,000 bpd in October, up 2.5% from 40,000 bpd; the Gullfaks crude system is scheduled to load 276,000 bpd in October, up 28.37% on the month from 215,000 bpd; the Statfjord crude system is scheduled load 165,000 bpd in October, up 44.74% on the month from 114,000 bpd and the Troll system is scheduled to load 232,000 bpd, down 7.2% on the month from 250,000 bpd.

Nexen said the North Sea Buzzard oilfield is restarting operations following six weeks of maintenance.

Iran will start drilling its first exploratory well in the Caspian Sea by early October. According to estimates, the southern part of the Caspian Sea holds at least 32 billion barrels of oil reserves.

Brazil's Petrobras said overall daily oil and natural gas production reached an average 2.531 million bpd equivalent in August. It was up 1.3% from 2.498 million boe/d in July. In Brazil, Petrobras' domestic oil production increased by 2.2% to an average of 1.98 million bpd in August, up from July's level of 1.938 million bpd. Petrobras also said that domestic natural gas output fell to 50.2 million cubic meters/day in August, down from 50.4 million cubic meters /day in July.

Colombia's Ecopetrol said the country's crude oil production will likely increase to 700,000 bpd by the end of the year. As of July, crude oil production increased to an average 657,000 bpd from 588,000 bpd in the same month last year. Colombia's natural gas production will likely be the equivalent of 150,000 bpd at the end of the year.

Venezuela's Oil Minister Rafael Ramirez said Russian companies paid Venezuela \$1 billion bonus for the right to work at the Junin 6 oil field. He said similar payments will be made at other oil projects.

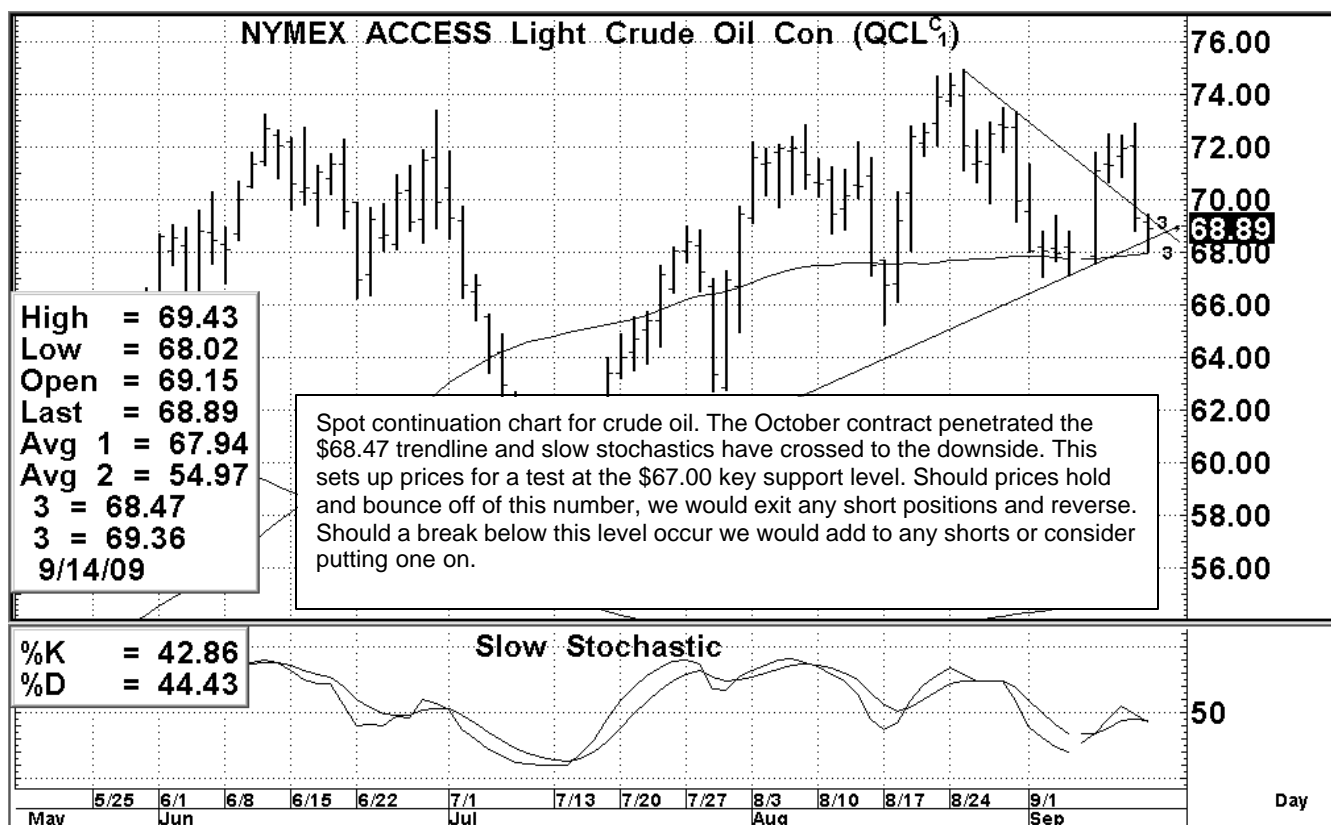
Iraq's State Oil Marketing Organization cut its October official selling price of Basra Light crude bound for the US by \$1.50 to second month WTI minus \$3.50/barrel while the price of Basra Light crude bound for Europe was unchanged at North Sea spot BFOE minus 80 cents and the price of Basra Light bound for Asia was cut by 60 cents to the Oman/Dubai average minus 20 cents. Meanwhile, the price of its Kirkuk crude bound for the US was cut by \$1.60 to spot WTI minus \$1.60 and the price of Kirkuk crude bound for Europe was unchanged at BFOE minus 45 cents.

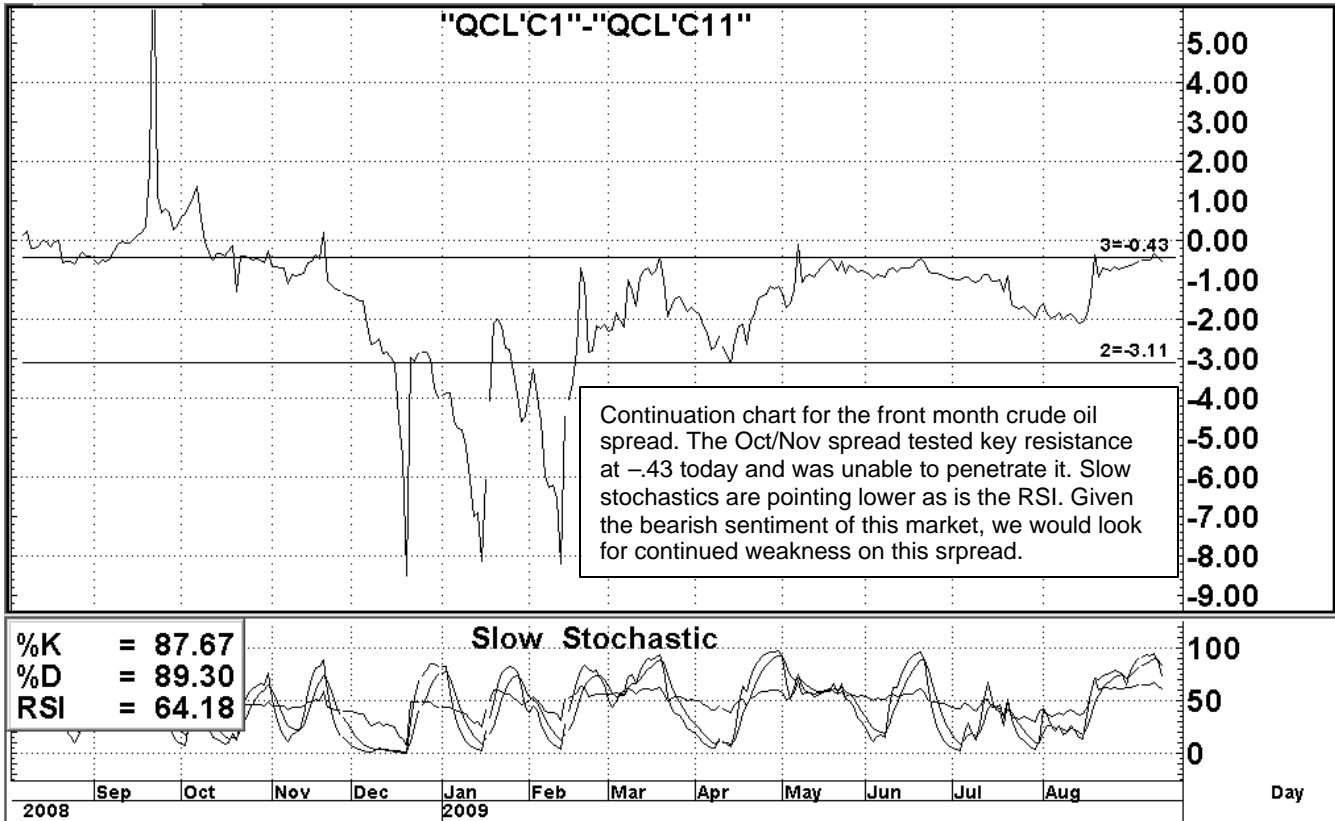
OPEC's news agency reported that OPEC's basket of crudes fell to \$68.21/barrel on Friday from \$69.23/barrel on Thursday. It also reported that OPEC's basket of crudes increased by 53 cents to \$68.09/barrel in the week ending September 11th.

Market Commentary

Crude oil headed lower again today as the true fundamentals of this market continued to weigh on prices. As this is the height of turnaround season, refiners have taken units off line for maintenance, which, would have an impact on demand. The U.S. summer driving season is over and the winter heating season has yet to begin, thereby putting a lull on this market. Possibly adding to the downward pressure was a notice released by the CME Group, Inc, stating that it would more closely monitor the enforcement of position limits on the NYMEX, CME, CBOT and COMEX beginning today. This may have caused concerns regarding current and future position limits within these exchanges, forcing the decision by traders to lighten up on their positions or to take their business elsewhere. The overall fundamentals of this market are bearish, with the technical outlook being the same. The one supportive factor is a weak dollar, which tends to bring investors in the commodities markets. We would look for crude oil to continue to move lower and for a test at the initial support level of \$67.00.

Crude OCT.09 142,398 -23,868 NOV.09 235,872 +20,867 DEC.09 168,541 -3,330 JAN.10 54,795 +3,168 FEB.10 28,874 +281 MAR.10 31,350 +564 Totals: 1,184,134 +1,107 Heating OCT.09 48,333 -4,208 NOV.09 55,560 +2,732 DEC.09 52,936 +1,775 JAN.10 28,704 +823 FEB.10 16,411 -10 MAR.10 14,824 +316 Totals: 316,391 +3,605 GASOLINE (RB OCT.09 58,397 -5,769 NOV.09 56,870 +3,748 DEC.09 31,503 -163 JAN.10 17,695 -479 FEB.10 4,882 +122 MAR.10 8,711 +155 Totals: 204,394 -2,031





Crude Support 67.00, 66.23, 64.70, 63.38, 62.70, 61.61, 60.95	Crude Resistance 73.24, 73.85, 75.00, 76.13
Heat Support 1.6600, 1.4870, 1.4220, 1.4130, 1.3720	Heat resistance 1.8480, 1.9440, 2.0420, 2.0465
Gasoline support 1.6010, 1.5887, 1.5370, 1.5260, 1.3520, 1.3400	Gasoline resistance 1.9551, 2.0210, 2.0400, 2.0567, 2.1100, 2.1600, 2.3350

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