



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 16, 2008

OPEC today lowered its forecast for oil demand this year for the sixth time, as it lowered this year's demand level to 86.6 million b/d, a 120,000 b/d reduction from its previous estimate. But that cartel still expects oil demand globally will grow this year by 880,000 b/d. The group pointed to the weakening economic situation globally, as the economic slowdown is now spreading beyond the U.S. to Europe and Japan. The group though left its outlook for 2009 unchanged, predicting growth of 870,000 b/d to 87.7 million b/d. The Kuwait oil minister followed the report up by saying there currently is a surplus of oil in the market and that OPEC compliance with oil production targets will not have much impact on prices. Meanwhile Iran's oil minister said OPEC would not be in a rush to convene an emergency meeting over the drop in oil prices, rather the members need to see the impact of their production cuts over September and October before considering a n emergency meeting.

Venezuela's oil minister said today that Venezuela has no intention of reducing its oil production based on the latest meeting of OPEC. He noted that "Saudi Arabia needs to cut a lot" and all the overproducing countries need to cut overproduction." He did note that the market would feel the recent production cuts by OPEC in a month, but that OPEC could hold an extraordinary meeting before its December 17th ministerial meeting if necessary. President Chavez said he expected oil prices to settle into a trading range of \$90-\$100.

China reported that in August its imports of gasoline and diesel retreated slightly from record levels hit in July but were still historically strong, as it appeared the country continued its stock building for the Olympics. Diesel imports climbed nearly 2600% from a year earlier to 880,000 tonnes, while gasoline imports were at 382,151 tonnes up 751% from a year ago. Overall the country remained a net importer of oil products for the fourth month in a row.

Market Watch

Nigerian President Umaru Yar'Adua said he has no plans to resign despite local media reports that he was planning to step down due to health reasons.

The Dubai Mercantile Exchange on Tuesday suspended the membership of Lehman Brothers on the DME.

The EU reported that inflation in the region in August was some 3.8% higher than a year ago.

The former president of Shell Oil said today the government should consider a temporary 1970's style of rationing in some parts of the United States to help avoid hurricane related shortages and declared the Bush Administration, the Congress and the two presidential candidates have failed to exhibit courage needed to solve America's long term energy problems.

Reliance Industries, India's largest company by capitalization, announced today that it plans to open an oil-trading arm in Houston by next year. The company already is in the process of establishing trading offices in Singapore and London as the company seeks to market fuel products from its refineries.

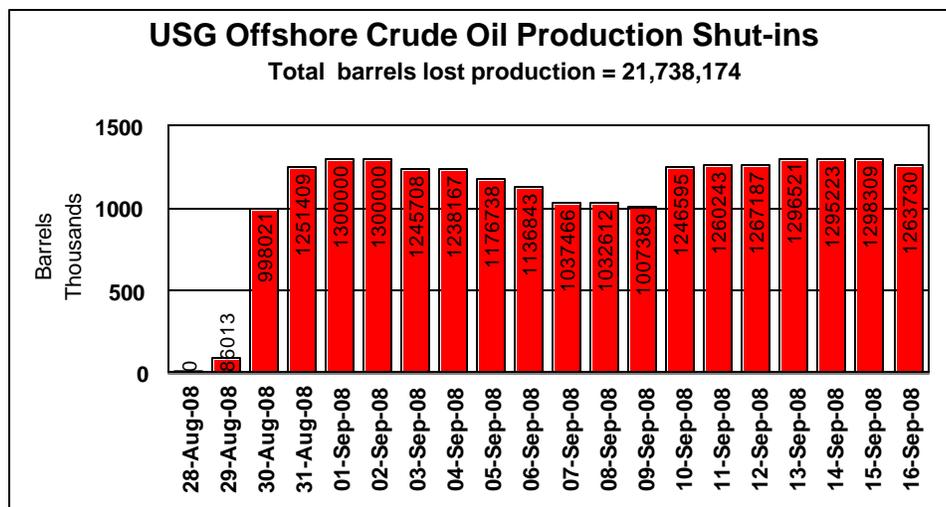
The Minerals Management Service reported that as of midday today 69.5% of the 717 manned platforms in the Gulf of Mexico we still not staffed. The agency reported that 97.2% of the crude oil production or 1.263 million b/d in the Gulf of Mexico remains shut in. Natural gas production shut in declined to 6.231 bcf/d to 84.2% of total offshore production. The agency also reported that Hurricane Ike has destroyed 28 of the 3800 offshore oil and gas production platforms in the Gulf of Mexico. Several other platforms have been reported as significantly damaged. Initial estimates are that the destroyed production platforms produced a total of 11,000 b/d of crude oil and 82 million cf/d of natural gas. Early reports indicate there is some pipeline damage but the full extent of the damage cannot be calculated until operators are able to test the systems.

MasterCard Advisors reported that U.S. gasoline demand was up slightly last week due in part to Gulf Coast residents topping off their tanks ahead of Hurricane Ike. The company estimated that gasoline demand was at 9.25 million barrels per day for the week ending September 12th, up 0.6% from the previous week, but still down 3.1% from same time a year ago.

Refinery News

The U.S. Deputy Secretary of Energy said this morning that oil refineries affected by Hurricane Ike are seen “back in a week or so”. But he noted that some refineries took “a pretty good bit of damage” and that there are at least a couple that will take a long time to come back up.” Meanwhile the head of

FEMA said that oil refineries in Hurricane Ike’s impact zone do not appear heavily damaged. He noted that there is plenty of crude oil for the market but the crucial issue is getting the refineries back up and running again.



The Department of Energy reported today that it is still considering a request from Citgo for 1 million barrels. But at this time Citgo will have to reduce crude oil

runs to minimum rates at its 429,500 b/d refinery given that the DOE can not ship crude oil from the SPR to the refinery until power is restored at the West Hackberry, Louisiana site. It did confirm it would deliver an additional 239,000 barrels of oil from the SPR to ConocoPhillips.

The EPA late Monday granted a temporary waiver from the Clean Air Act diesel requirements in Texas following ongoing supply disruptions due to Hurricane Ike. The agency said it will allow the suspension of the Texas Low Emission Diesel requirements until September 30th but federal regulations for Ultra Low Sulfur Diesel with a maximum sulfur content of 15 parts per million must still be met. The EPA earlier issued waivers for Texas for gasoline.

A letter from the IEA to its governing board, as reported by Dow Jones, noted that water damage at 10 U.S. refineries affected by Hurricanes Gustav and Ike could imply a more lengthy delay in the return of some 2.4 million b/d of refining capacity. “Although the impact of Hurricanes Gustav and Ike may be comparable to that of Hurricane Katrina, the market is taking a relaxed view of it. Against this backdrop

(it) is important not to convey a sense of anxiety to the market” the letter warned. The IEA also noted that there appears to be no major pipeline issues in the region and that offshore production did not suffer any significant damage and as a result offshore production is expected to come back on line over the coming week.

BP said that there were no signs of flooding at its Texas City refinery and that inspections of critical systems at the plant were underway. A BP spokesperson said today that the company continued to work with local authorities to restore reliable water and electrical services.

ExxonMobil said its Beaumont, Texas refinery took the “most serious hit” of its plants after Ike pushed ashore with a wall of water. The company reported it was generating its own power and providing a portion of it to a local utility company.

Valero said power has been restored to most production units at its Texas City refinery as well as its Houston refinery, but the units remain shut and the company provided no restart information. The company’s Port Arthur refinery still has no power.

Entergy said that four oil refiners in its service territory remained without power on Tuesday. The company declined to say when the power would be restored. But the utility did note that the assessment of its high voltage transmission system, which feeds many of the refineries, will be completed Tuesday.

Shell’s Deer Park refinery is in its early stages of restart, according to a company spokesman. The refinery did experience some flooding at its port along the Houston Ship Channel as well as some minor wind damage. The company noted it was possible that the facility could be back to normal rates in seven days. The refinery has a capacity of 334,000 b/d.

Marathon Oil’s 76,000 b/d Texas City refinery reported that it has had its power “generally” restored.

Lyondell’s Houston refinery will be down for at least several days.

Total said its Port Arthur refinery is without electricity but was not flooded.

ConocoPhillips has begun to restart its Sweeny, Texas refinery, while its Lake Charles refinery continues its restart process and was operating at reduced rates.

The Pasadena Refining System said its refinery sustained relatively minor damage and is waiting for employees to return before it can restart.

Shell’s Norco refinery was reportedly operating at 80% of capacity while its Convent, Louisiana plant was operating and making blending components, but is not yet able to make finished gasoline.

China reportedly is looking to cut the tax rebate rate on crude oil imports to 40% in the third quarter down from 75% in the second quarter. The fourth quarter rebate was uncertain but could be reduced further. The changes should help refiners like Sinopec and Petrochina that had been squeezed by high international oil prices while they are obliged to sell products at low prices set by the government.

Colonial Pipeline reported that the restoration of commercial power at its Houston facility coupled with the installation of portable generators at Port Arthur and Beaumont, Texas has made it possible for product to be lifted from all origin locations. The company noted that mainline supply rates have been

steadily increasing. The company asked shippers to review and remove any nominations that cannot be supplied on time.

Explorer Pipeline has regained power at its Pasadena, Texas origin point but not at Port Arthur, Texas. The pipeline is still making local deliveries in the Houston area and hopes to deliver refined product to points further along on its Lake Charles to Chicago pipeline once it lines up enough product to ship.

Fearleys A/S, an Oslo-based shipbroker, reported that some 20-tanker loads of gasoline, which had been headed toward New York, have been diverted to the Gulf Coast after Hurricanes Gustav and Ike shut down Gulf Coast refiners. ExxonMobil said Monday that it was importing gasoline from refineries in Europe, the Middle East and Asia to meet a shortfall in U.S. supplies.

Production News

BP reported that its drilling derrick on its Mad Dog oil platform in the Gulf of Mexico was toppled and was resting on the sea floor due to Hurricane Ike. The platform has the capacity to produce up to 100,000 b/d of oil and 60 million cubic feet of natural gas per day. The company said it had found minimal damage to most of its other platforms.

The LOOP was unloading ships today at "slightly below the normal rate" of 1.2 million b/d.

Chevron said Tuesday that Hurricane Ike toppled several of its production platforms in the eastern and western shelf regions of the Gulf of Mexico. But the company reported that its Blind Faith and Tahiti platforms did not receive any significant damage. The company noted workers were back at both projects and that the start up of Tahiti, which is a 125,000 b/d platform is still on schedule for 2009.

ExxonMobil reported some minor damage at its Gulf of Mexico facilities but that it would not affect the restart of these units, but further inspections were underway. The company reported that some production has been restarted at facilities that were not directly in the path of the hurricane.

Pride International reported that its Pride Wyoming, a 250 foot mat slot jackip rig operating in the Gulf of Mexico is missing and expected to be a total loss following Hurricane Ike's passage through the area. The rig had been operating at Ship Shoal 283, some 90 miles south of Houma, Louisiana.

A senior Nigerian oil official said today that Nigerian oil production is down to 2.1 million b/d down 100,000 b/d from last week's levels. Meanwhile though Nigerian militants continued their recent attacks on oil installations. The militants claimed that it bombed a "major crude oil pipeline" today belonging to Shell Petroleum Development Company and attacking Chevron's Idama oil field. The Nigerian military dismissed the claims, saying there were no security breaches on Tuesday but Shell did confirm the attack occurred in the oil rich delta region as well as Chevron. Chevron noted that the oil facility had been shut in prior to the incident as a result of ongoing pipeline repair work

Shipping sources reported that Iraq's oil exports rose by over 500,000 b/d on Tuesday as the flow resumed through the bomb damaged pipeline and weather conditions improved near Basra. Oil was flowing through he pipeline to Turkey at a rate of 450,000 b/d, while pumping at the Khor al-Amaya facility rose to 1.08 million b/d from 860,000 b/d yesterday. Recent flows through the Persian Gulf terminal had been averaging around 1.5 million b/d.

September Calendar Averages CL – \$103.12 HO – \$2.9645 RB – \$2.7071
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StatoilHydro reported this morning that its Oseberg C facility was

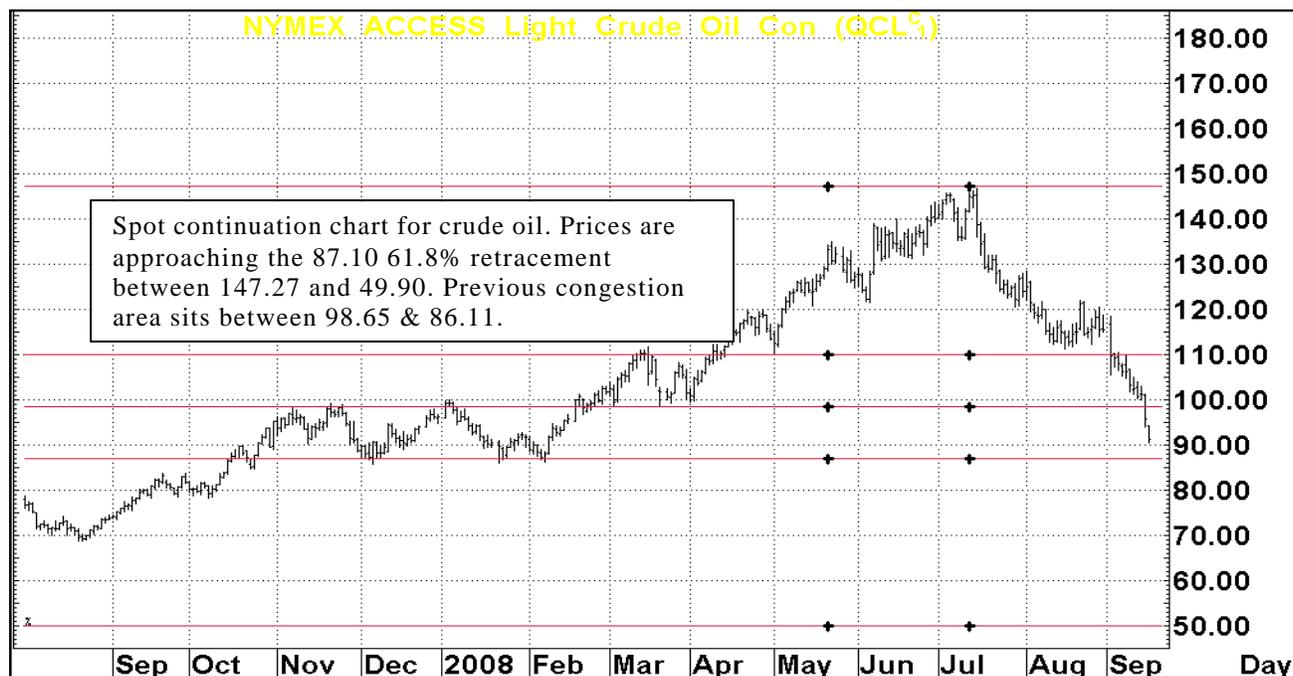
closed after a leak was discovered on Friday. There was a report of a gas leak on Friday and as a result operators shut down the facility but other parts of the Oseberg complex were operating. The combined production of the Oseberg system is 91,000 b/d and 3.49 billion cubic meters of gas.

ConocoPhillips reported that initial assessments of its Magnolia oil and natural gas platform in the Gulf of Mexico show no significant damage from Hurricane Ike. The platform produces 15,000 b/d of crude oil and 44 million cf/d of natural gas.

Angolan oil exports in November appears will be at 1.6 million b/d down from the 1.98 million barrels expected to be sold in October.

Market Commentary

Crude oil hit a seven month low today, as Wall Street woes continued to loom over the market place. Demand or lack thereof in the future, overshadowed supply, even in the wake of Hurricane Ike. Some 3.6 million barrels per day of refining capacity remains off line as 14 refineries are at a stand still. The Organization of Petroleum Exporting Countries, supplier of more than 40 percent of the world's oil, lowered its forecast for 2009 oil demand to 87.66 million barrels a day because of the global economic slowdown. This is a key factor impacting the market as the world economy continues to suffer. Crude oil, which had been in a steady incline since January of 2007, moving from \$49.90 to \$147.27, has given back slightly more than the 50% retracement of this move. The 50% retracement number is \$98.59. Prices are now approaching the 61.8% retracement of \$87.10. During crude oil's climb from \$49.90 to \$147.27, was a congestion area that formed from mid October 2007 and February of 2008. This range is from \$98.65 and \$86.11. We would look for prices to at least complete a move to the bottom of this range, pause and then decide further price movement. The October/November spread gained strength as expected. With expiration approaching and tankers at a stand still, we would look for this spread to expire on the strong side. Gasoline suffered blows once again, as industry sources cited the demand factor as the significant cause. Despite this sell off, we still believe that gasoline will



rebound as supplies run short. With refiners not running product and gasoline stations being drained dry with not much hope for replenishing supplies, this product should see higher prices. There is a

previous area of congestion on a spot continuation chart for gasoline. This congestion pattern is between 2.5784 and 2.1875. Prices have entered this area and are poised to test the bottom. We would not discount a test at this previous level, but eventually would look for prices to work their way back up. Heating oil followed the rest of the complex lower today pressured by the aforementioned reasons. With heating season coming and refineries shut in, heating oil, like the gasoline should rebound.

Open interest for crude oil; OCT 151,066 -8,519 NOV.08 270,145 +13,622 DEC.08 192,282 +5,269. Totals: 1,241,172 +17,776. Open interest for heating oil; is OCT.08 36,456 -1,984 NOV.08 43,717 +2,927 DEC.08 25,847 +827 Totals: 218,298 + 2,803. Open interest for gasoline is, OCT.08 49,199 - 1,732 NOV.08 56,588 +53 DEC.08 33,114 + 217, Totals: 205,529 – 276.

Crude Support	Crude Resistance
87.10, 85.40 , 78.35, 68.63	105.08, 111.82, 118.60, 128.60, 132.05, 139.30, 144.00, 147.90,
Heat support	Heat resistance
	3.1050, 3.3684, 3.4574. 3798, 3.6135, 3.8215
Gasoline support	Gasoline resistance
2.3385	2.8399, 2.9600, 2.9989, 3.1050, 3.1460, 3.1840, 80003.2620

