



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,
Zachariah Yurch & Karen Palladino
(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR SEPTEMBER 18, 2007

The Oil Ministers of Qatar and Libya, Abdullah bin Hamad Al Attiyah and Shokri Ghanem played down suggestions that sustained high oil prices would trigger a further increase in OPEC's output. Qatar's Oil Minister said further increases in OPEC's production would not lower oil prices. Meanwhile, an OPEC source stated that OPEC would likely hold consultations about a further output increase if the price of oil remained above \$80/barrel for more than 15-20 days. The source said it was too early to say if OPEC needed to increase its supply further. He also stated that any talks held by OPEC ministers would likely be by telephone rather than at an emergency meeting.

Russia and China expressed alarm over comments made by France's Foreign Minister Bernard Kouchner that the country should prepare for the prospect of war with Iran. However France's Foreign Minister seeking to downplay his comments said they were meant as a message of peace. Russia's Foreign Minister Sergei Lavrov said Iran should be left to work with the IAEA before the world considers further sanctions or military action. He

Market Watch

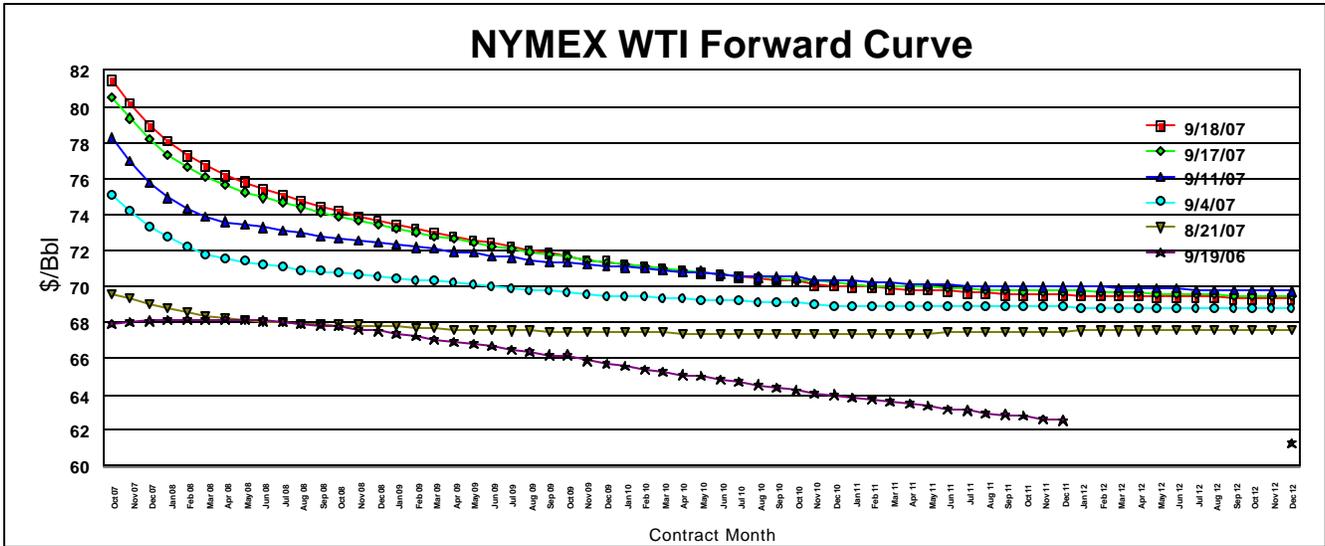
Traders and brokers in Europe said arbitrage windows for European oil companies to ship gasoline to the US have opened for October, while shipment volumes in September were seen falling. In September, about 20 cargoes carrying 703,000-705,000 tons of gasoline from Europe to the US Atlantic coast have been booked.

An analyst at BNP Paribas said the fallout from the US subprime crisis would not have a detrimental effect on world oil demand until the first half of 2008. In the short term, he expects the current tightness in the crude oil market to remain in place despite OPEC's recent decision to increase its production level. The fundamental tightness would be maintained through the northern hemisphere winter as demand for oil is expected to outstrip supply capacity.

Money has still been flooding into commodities investments while more pensions funds have also been looking at commodities investments. The amount of long only investments in commodities indexes reached \$120 billion by the second quarter of 2007, up 50% on the \$80 billion invested at the same point in 2006. The Dow Jones-AIG Commodity Index has \$38 billion of long only money, up from \$24 billion at the same point last year.

Sen. Carl Levin introduced legislation that would allow US regulators to track trading of energy futures contracts on currently exempt electronic exchanges to help prevent price manipulation and excessive speculation of oil, natural gas and other energy commodities. The bill would close a loophole by requiring all energy trading facilities to register with the CFTC and comply with the same standards that apply to regulated futures exchanges. Under the legislation, exempt markets would have to impose position limits.

The CFTC may seek new rules on electronic energy trading which is now exempt from government regulation. NYMEX President James Newsome, argued at a hearing that ICE functioned like a traditional futures exchange in setting energy prices and should be subject to CFTC regulation like NYMEX. ICE Chairman Jeffrey Sprecher cautioned against one size fits all market regulation because it would burden the efficient operation of markets and potentially stifle innovation and competition in the process.



warned against the use of force in Iran and against unilateral sanctions to punish Iran for its nuclear program. He said there was no military solution to any modern problem, including Iran's uranium enrichment program. During talks, Russia's and France Foreign Ministers differed on the topic of a third round of UN Security Council sanctions against Iran over its uranium enrichment program as well as possible unilateral sanctions imposed by the US or the EU. China also condemned France's remarks. Meanwhile, Iranian President Mahmoud Ahmadinejad shrugged off a French warning of war if Iran developed a nuclear weapon.

The head of Russian state atomic energy agency Rosatom, Sergei Kiriyenko, said there were no political constraints to building Iran's first nuclear power station, signaling it could be finished if payment problems are resolved. Russia has been helping to build Iran's Bushehr nuclear power plant on the Gulf but has repeatedly put back the start up date citing Iranian payment delays.

According to a report by MasterCard Advisors LL, US gasoline demand fell by 1.1% to 66.797 million barrels or 9.542 million bpd in the week ending September 14. The report also showed that gasoline prices averaged \$2.80/gallon, down 1 cent on the week.

Mexico's attorney general said a guerrilla group, EPR that bombed fuel pipelines last week indirectly helped Mexico's drug cartels by diverting police and army resources away from combating trafficking. Mexico has reinforced guards at its 19,000 oil installations since the explosions. The EPR bombed Pemex's pipeline network in six places last week, cutting off natural gas, disrupting oil refining and costing the country hundreds of millions of dollars.

An Iraqi police official said a bomb was set off under an oil pipeline near the northern city of Baiji, setting off a fire and causing large quantities of crude oil to spill into the Tigris River. The US military said the explosion was caused by al-Qaeda insurgents in the area. Separately, a senior Iraqi oil official said Iraq resumed crude oil exports to Jordan for the first time since the US led invasion in 2003. Exports of Kirkuk crude by trucks to Jordan started on Sunday. He said Iraq's SOMO was targeting about 10,000 bpd of exports, which would gradually increase to 30,000 bpd.

According to a Dow Jones Newswire survey, oil prices are expected to remain high through the end of the year and into next year as demand from China, India and emerging economies continue to increase while new oil supplies are only sufficient to offset falling resources elsewhere. The average

price of crude in the fourth quarter was revised up by 1.9% to \$68/barrel. In 2007 and 2008, the US Light, Sweet crude price is estimated to average \$66/barrel, up \$1/barrel from its previous survey.

Refinery News

ConocoPhillips began restarting a fluid catalytic cracking unit at its Sweeny refinery in Texas. The unit was shut on September 6 for one day of unplanned maintenance at an associated reactor but was shut again on September 9 due to a catalyst problem at a fractionator.

Separately, ConocoPhillips filed an unplanned flare event notice for its Los Angeles refining complex. In the notice, Conoco told the South Coast Air Quality Management District that the event was not due to a breakdown at the Carson, California plant.

Japan Energy Corp restarted a 52,000 bpd fluid catalytic cracking unit at its Mizushima refinery on Tuesday. The unit was shut on September 9 due to a problem.

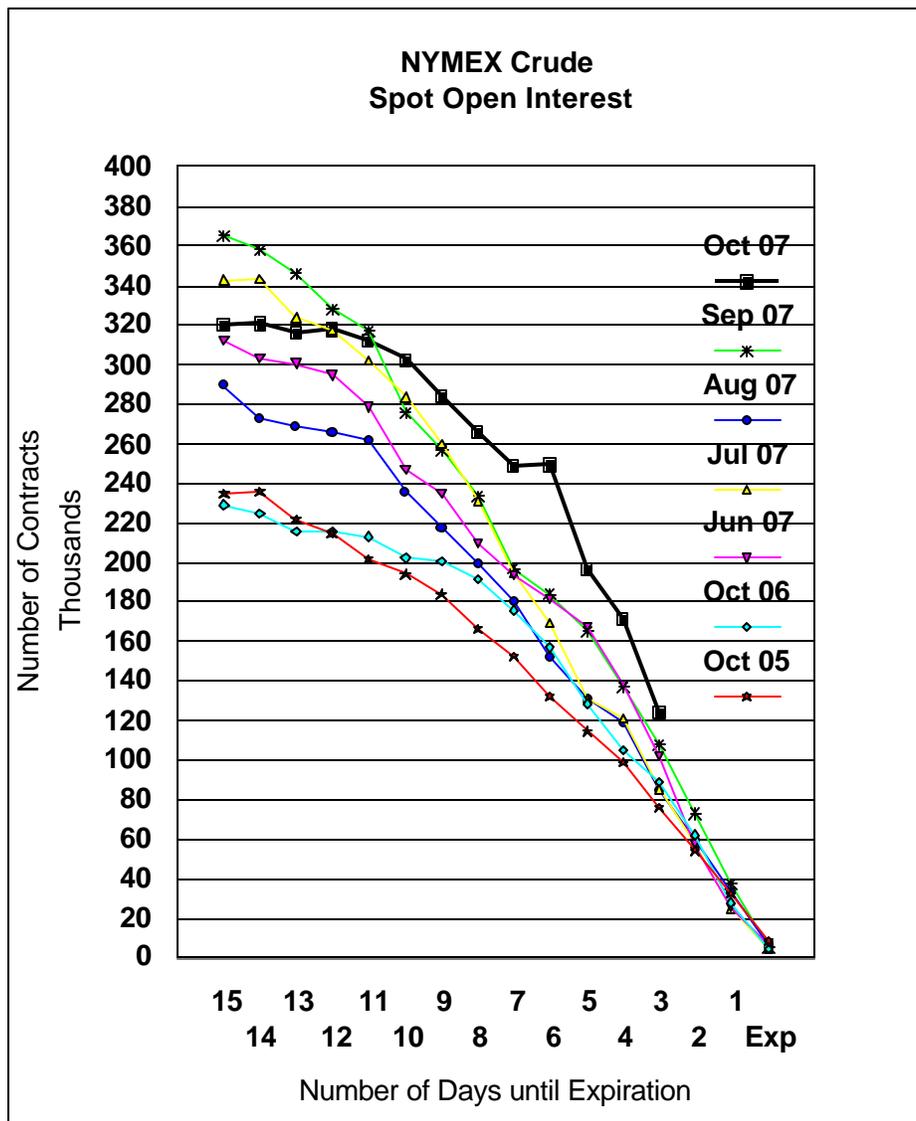
Japan's Cosmo Oil Co said it aimed to double its oil product exports to 4 million kiloliters/year by the year ending March 2011.

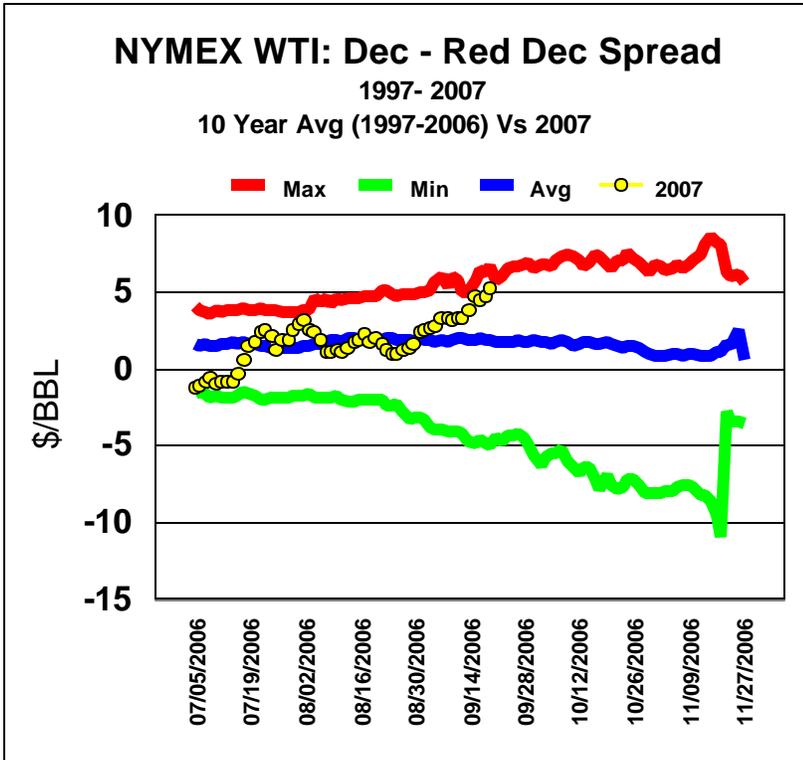
Singapore complex refining margins extended their losses in the week ending September 14 to \$7.20/barrel, down 6 cents.

Production News

Alaska North Slope oil production has averaged 695,000 bpd since the 2008 fiscal year started on June 1, down 9% from the 764,000 bpd annual level projected by the state. Oil output is unlikely to achieve the forecast level as the extensive outages mean North Slope producers would have to pump over 792,000 bpd for the rest of fiscal 2008.

BP Plc and its partners said they planned to invest \$300 million-\$400 million per year in its onshore output project in Colombia. BP, Ecopetrol and Total SA would invest in operations of oil and gas extraction in the Cusiana-Cupiagua field.





Total SA and Chevron Corp have submitted a study on the development of one of Iraq's largest oil fields, Majnoon to Iraq's Oil Ministry. Iraq's Oil Ministry has set up a committee to study the possibility of signing a memorandum of understanding with the two companies.

Total SA, Chevron Corp and other companies are scheduled to load at least 53 crude cargoes in November from Angola. Angola's shipments of Girassol crude is expected to increase to 9 in November from 8 in October while shipments of Nemba is expected to fall to 9 from 10. Shipments of Kuito is expected to remain unchanged at 1, while loadings of Dalia crude would increase by 1 to 7, shipments of Cabinda would remain unchanged at

6, Hungo shipments would fall by 1 to 8 and shipments of Kissanje would fall by 1 to 7. Shipments of Xikomba crude is expected to remain unchanged at 1.

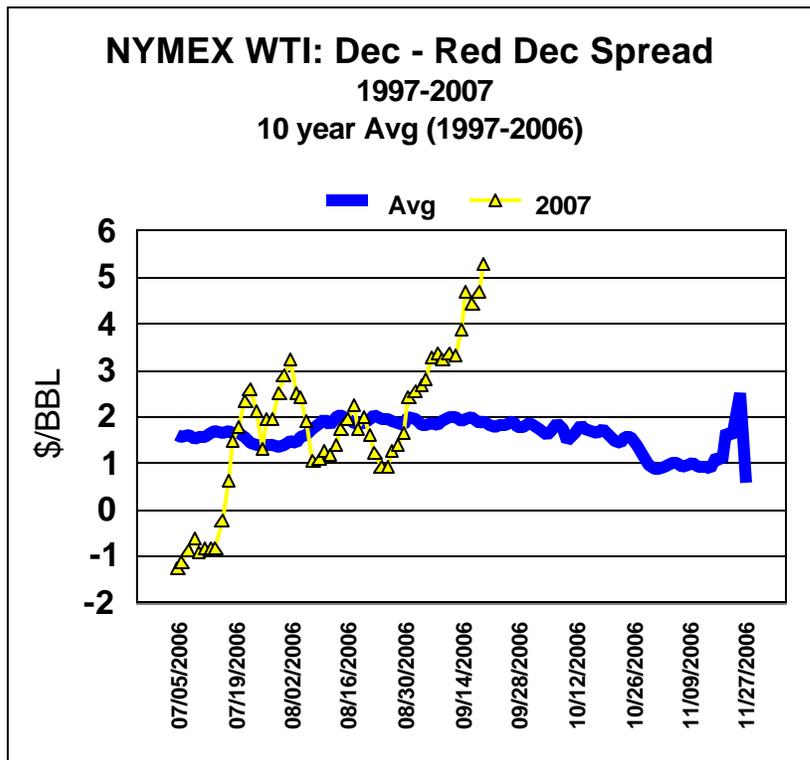
Brazil's Petrobras said its total domestic and international production of oil and gas fell slightly to 2.32 million barrels of oil equivalent/day in August. It said oil production was down from 2.33 million boe/d in July. It said oil production from domestic fields fell to 1.807 million bpd in August from 1.815 million bpd in July.

Indonesia's BPMIGAS has asked the country's Energy Ministry to extend the contract for two exploration areas operated by France's Total and Korea National Oil Corp. The exploration rights of the two blocks expire this year. The two blocks have the potential to produce natural gas and oil.

OPEC's news agency reported that OPEC's basket of crudes fell by 42 cents to \$74.06/barrel on Monday.

Market Commentary

All eyes were on the clock today, waiting for 2:15 pm, when the Federal Reserve was to make their



announcement regarding interest rate cuts. In anticipation of a rate cut, crude oil reached yet another record high, trading higher in the after hours session, peaking at 82.38. Perhaps the biggest move was in the Dec07/Dec08 spread which experienced a 71 cents range. Opinion has it, that a short squeeze is going on in this spread. Going back over the past 10 years, this spread tends to peak at this time of year and then sells off prior to expiration of the nearby December contract. Although we have to admit, history may play a small part given today's market conditions, one should consider the seasonality of this spread. Today's move could very well be exaggerated and this spread could sell off prior to December 07 expiring. Total open interest in crude oil fell by 23,300 contracts to 1,524,551. The October contract drew by 47,457 contracts, November built 15,827 contracts and December built by 3,027. Crude oil support comes in at 80.40, 80.08 **78.45, 78.00**, 77.52, 76.92 and 75.52. Resistance is set at 80.63 and 81.08 and 81.45. The NYMEX crude's premium to ICE Brent crude widened to near \$3/barrel, its highest level in 20 months following the oil market's rally. The Brent market failed to keep up and has yet to break its \$78.65/barrel peak reached in August 2006.

The product markets ended the session near their highs as the markets remained well supported by the strength in the oil market. The RBOB market posted a low of 202.26 early in the session and quickly bounced off that level amid the rally in the crude market. The market extended its gains to close to 2 cents as it rallied to 206.34 ahead of the close. The RBOB market settled up 1.61 cents at 206.03. The market later continued to rally in overnight trading and traded to a high of 208.05. Similarly the heating oil market posted a low of 219.89 and never looked back. The market rallied to 224.53 ahead of the close and settled up 1.36 cents at 224.23. It rallied further in overnight trading to a high of 226.20 amid the strength in the crude market. The markets are seen remaining supported following the late rally. They are also seen remaining supported amid the expectations that the weekly petroleum stock reports would show draws in crude stocks of 1.5-2 million barrels, draws in gasoline stocks of 1 million barrels and builds in distillate stocks of about 1 million barrels. The RBOB market is seen finding support at 206.00, 204.25 and 202.26. More distant support is seen at 201.08, 200.19 and 196.64.

Meanwhile resistance is seen at 208.05, 208.70, 212.33 and 212.97.

		Explanation	
CL	Resistance	83.21, 83.58	Basis trendline
	81.51, up 94 cents	80.63, 81.08, 81.45, 82.38	Tuesday's high
	Support	81.00, 80.40, 80.23	Tuesday's low
		78.45, 78.00, 77.52, 76.92, 75.52	
HO	Resistance	229.51	Basis trendline
	224.23, up 1.36 cents	226.20	Tuesday's high
	Support	224.17, 222.30, 219.89	Tuesday's low
		219.10, 217.71, 215.57	Previous lows
RB	Resistance	208.70, 212.33, 212.97	Previous highs
	206.03, up 1.61 cents	208.05	Tuesday's high
	Support	206.00, 204.25, 202.26	Tuesday's low
		201.08, 200.19, 196.64	Previous lows