



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 22, 2008

The IEA said it would not release emergency oil stocks after Hurricane Gustav and Ike disrupted oil production. It said the IEA and the US government have decided that collective action to release oil to the market from the strategic reserves is not necessary.

The US Minerals Management Service said crude oil and natural gas production in the US Gulf of Mexico continued coming back online on Monday following Hurricane Ike. It said 995,684 bpd or 76.6% of production remained shut in.

Saudi Arabia has cut its oil supplies to international majors and US refiners since the start of September. A source said Saudi Arabia's supply to international oil majors was down about 5% in September from August.

The deputy head of the IEA, William Ramsay said the oil markets are trying to find a level somewhere around \$100/barrel. However he added that prices may fall further later in the year if the US financial crisis hurts the world economy. He said oil prices are unlikely to fall to \$60/barrel but it would not rally back to \$150/barrel this year.

Market Watch

Investor T. Boone Pickens said oil prices will return to \$150/barrel next year with limited new supplies coming online and stagnate world demand. He said OPEC will attempt to maintain a floor price of \$100/barrel.

The Federal Reserve agreed to convert Goldman Sachs and Morgan Stanley into more conventional depository institutions in the latest effort to restore calm to the markets. It followed talks between the Bush administration and Congress to prevent the crisis from pushing the economy into severe recession. By agreeing to much tighter Fed regulation as bank holding companies, Goldman Sachs and Morgan Stanley moved to avoid the same fate of their rivals that either collapsed or were taken over.

The Bush Administration moved forward with plans to provide as much as \$8 billion worth of loan guarantees for advanced projects that reduce greenhouse gas emissions.

Iraq's Deputy Oil Minister said Iraq and Royal Dutch Shell signed a natural gas deal to process 800 million cubic feet of gas produced from fields in the southern Basra province. Earlier this year, Iraq said Shell has submitted a proposal to develop Iraq's natural gas resources, planning to supply the local market and export through its southern ports or through a pipeline.

September Calendar Averages

CL – \$103.65

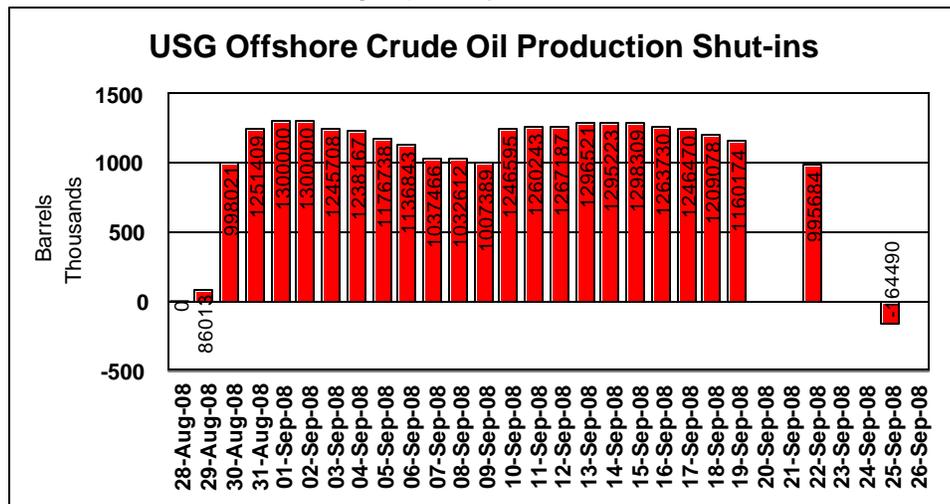
HO – \$2.9275

RB – \$2.6679

Ecuador's Mining and Oil Minister Galo Chiriboga said that an OPEC meeting before December is necessary. He added that OPEC believes oil prices will be least \$100/barrel next year. He

said world oil prices will stabilize due to OPEC's recent cut and winter demand.

Nigeria's main militant group, the Emancipation of the Niger Delta, began a unilateral ceasefire on Sunday after a week of clashes with the military and attacks on oil installations. The militant group launched strikes against pipelines, flowstations and other oil and gas facilities last Sunday in response to what it said were ground and air strikes by the military against one of its bases. MEND said it started a ceasefire following a plea by elders but warned it would restart its campaign if it came under



attack from the security forces. It also warned that other groups aligned with it may not respect the ceasefire.

Nigerian government officials said production has fallen by 150,000 bpd over the past week and estimate the country's current output at 1.95 million bpd.

Royal Dutch Shell said it declared a second force majeure on crude oil shipments from Nigeria

following militant attacks in recent days on its facilities in the Niger Delta.

The EIA reported that the US average retail price of diesel fuel fell by 6.5 cents/gallon to \$3.958/gallon in the week ending September 22. The EIA also reported that the US average retail price of gasoline fell by 11.7 cents to \$3.718/gallon on the week.

Refinery News

The DOE reported that nine Texas refineries with a capacity of 2.268 million bpd were still shut due to Hurricane Ike. Separately, it said it started the delivery of 125,000 bpd of crude oil from the SPR to Alon USA's Krotz Springs refinery in Louisiana in the wake of supply disruptions caused by Hurricane Ike.

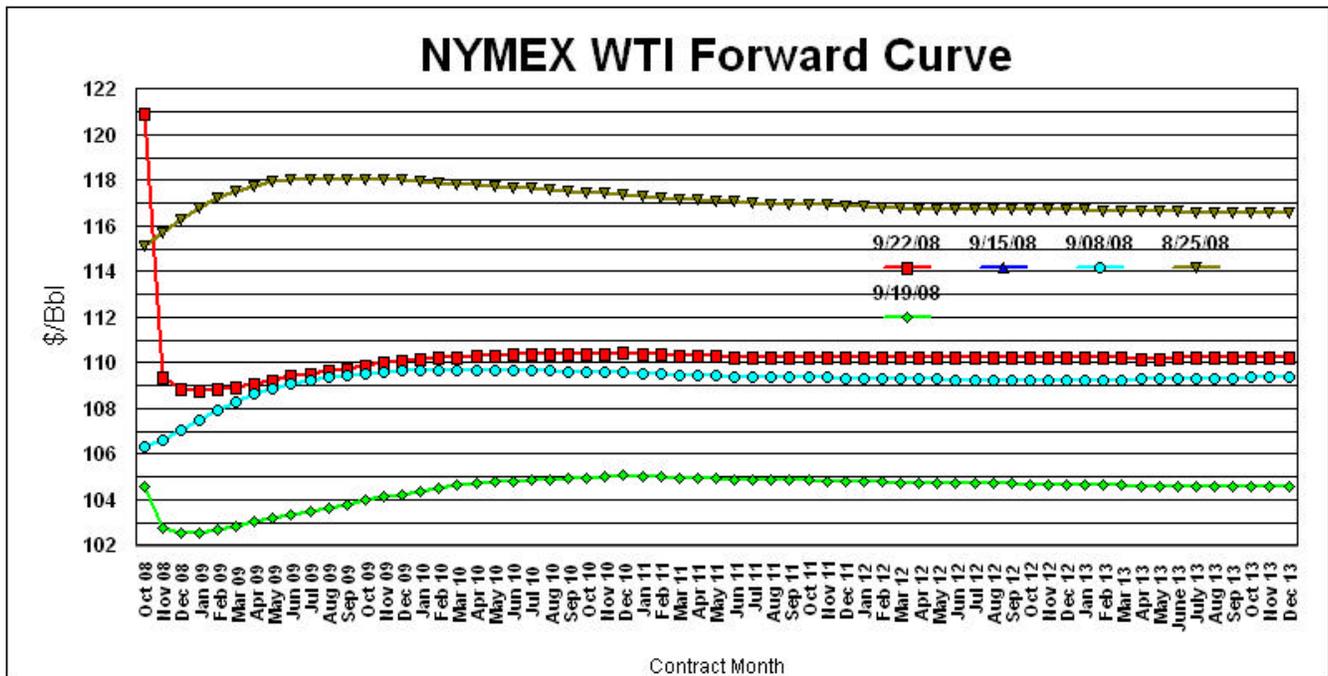
European and US refinery margins fell on Monday as the impact of Hurricanes Gustav and Ike was less than feared. US gasoline margins fell to a month low of \$2.11/barrel on Monday while heating oil margins in the US also fell. Wholesale gasoline prices in the US Gulf are declining as waivers from the US EPA loosening air quality restrictions are seen easing supply. US refinery margins are expected to fall further once inventories have been restocked following the hurricanes as European demand is weak. A complex European refinery in the Rotterdam area saw its margins on Monday fall to \$9.88/barrel compared with \$14.91/barrel last week. Meanwhile a complex refinery in Singapore processing Dubai crude saw its margins increase to \$10.50 on Monday, up from \$9.58/barrel last week.

Shell Oil's Motiva Enterprise's 285,000 bpd Port Arthur, Texas refinery was restarting on Sunday after being shut for Hurricane Ike. The restart is scheduled to last through September 26. It also stated that its 332,000 bpd Deer Park, Texas refinery will begin producing finished fuels on Tuesday. Separately, Motiva's 235,000 bpd refinery in Convent, Louisiana returned to normal after being shut ahead of Hurricane Ike.

ExxonMobil Corp's 348,500 bpd Beaumont, Texas refinery restarted a portion of its electrical co generating unit late last week. The cogeneration plant was supplying electricity to the local grid in the Beaumont area, which is near the Texas-Louisiana border and has been without power since Hurricane Ike.

Valero Energy Corp is several days from beginning the restart process at its 295,000 bpd Port Arthur, Texas refinery which was shut ahead of Hurricane Ike.

TEPPCO said it would begin to accept M4 conventional gasoline with an RVP of 13.5 immediately. Incoming gasoline vapor pressure normally moves from 11.5 to 13.5 lbs on October 1.



Nippon Oil Corp cut its cut crude runs for September by 240,000 bpd kiloliters from its original plan of 3.22 million kiloliters or 675,000 bpd due to slow domestic demand.

China's apparent oil demand increased by 7% on the year in August as energy firms increased their imports to increase their inventory for the Olympics. In the year through August, implied demand increased by 6.1% to 7.39 million bpd. It reported that crude import increased by 11.5% on the year to 3.69 million bpd.

South Korea's Korea National Oil Corp reported that crude imports in August increased by 2% on the year to 70.32 million barrels or 2.27 million bpd. Despite the increase in imports, South Korea's commercial crude inventory fell by 10.2% to 15.61 million bpd by the end of August. It also reported that domestic crude products demand in August fell by 4.2% on the year to 60.60 million barrels.

CNPC on Sunday started building a 100,000 bpd refinery as part of its plan to increase refining capacity along a crude pipeline in western China. The refinery will be able to produce 1.73 million tons of gasoline, 2.38 million tons of diesel, 210,000 tons of liquefied petroleum gas and 100,000 tons of polypropylene unit each year after being put into operation.

Production News

The BP led Baku-Tbilisi-Ceyhan pipeline is pumping less oil following a September 17 gas leak that cut production from fields in the Caspian Sea. Crude oil loadings in October will be delayed due to the partial shutdown of an oilfield. Azeri crude oil cargoes scheduled to load during the first 10 days of October are set to be delayed by seven days.

Iraq's Oil Ministry reported that Iraq's oil exports fell to an average of 1.75 million bpd, down from 1.9 million bpd in July. Iraq exported 1.45 million bpd through Basra in southern Iraq while exports of Kirkuk crude fell to an average of 306,000 bpd in August from 383,000 bpd in July. Separately, a shipping agent said Iraq's oil exports from its southern Basra terminal recovered after a storm reduced the flow a week ago. Total southern exports stood at 1.82 million bpd on Sunday, up from 1.056 million bpd on Thursday.

Pemex reported that Mexico's oil production fell over the January to August period to 2.834 million bpd, down 9.2% on the year. Mexico's oil exports averaged 1.439 million bpd during the first eight months of the year, down 19% on the year.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$91.72/barrel on Friday from \$89.39/barrel.

Market Commentary

October crude oil experienced what one would call a squeeze play. It appears that producers must have put on hedges when the cash market was trading at a significant premium to the screen, but never had the barrels, due to Hurricane Ike. This left them short supply and with the October contract expiring, these shorts scrambled to cover. The October contract had the largest single gain ever, far surpassing that of the November and December contracts. Indeed, someone needed to get their hands on supplies. The weak dollar did not help matters. A lower stock market scared investors in commodities, helping to bolster prices higher. With the October expiring today, November now becomes the front month. Although October contract surpassed its 200-day moving average the November did not, falling shy by 50-cents. The 200-day moving average for the November contract is \$111.05. Based on a descending channel on the November daily bar chart, the projected move to the up side is \$124.95, should prices settle above \$109.30. At this point in time it is difficult to think that the November

contract will inherit the strength of the October. The November crude contract is seen finding resistance at \$112.60 followed by more distant

		Explanation	
CL	Resistance	112.60, 118.31, 119.45	38% retracement(148.47 and 90.42), Previous high, 50%
	109.37, up \$6.62	110.45	Monday's high
	Support	108.00, 105.55, 104.80, 101.98	Monday's low
		97.02, 95.50, 91.11, 90.42	Previous lows
HO	Resistance	310.68, 315.24, 329.65	62% retracement(337.60 and 267.12), Previous highs
	304.30, up 14.52 cents	307.19	Monday's high
	Support	302.45, 297.85, 292.65, 287.55	Monday's low
		277.68	Previous low
RB	Resistance	273.66, 280.25, 287.93	62% retracement(298.50 and 233.48), Previous highs
	270.38, up 10.41 cents	271.95	Monday's high
	Support	266.50, 262.00, 257.75	Monday's low
		247.71	Previous low

resistance at a previous high of 118.31 and 119.45, its 50% retracement level from a high of 148.47 and a low of 90.42. Support is seen at 108.00, 104.80, 101.98 followed by 97.05 and 95.50. The product markets followed the crude market higher. The heating oil market, which posted an inside trading days on Friday, breached last week's trading range as it rallied over 17.4 cents on the day. It retraced more than 50% of its move from a high of 337.60 to a low of 267.12 as it posted a high of

307.19. Meanwhile, the RBOB market retraced almost 62% of its move from a high of 298.50 to a low of 233.48 as it rallied to a high of 271.95. The RBOB market is seen finding resistance at 273.66 followed by 280.25 and 287.93.

Open interest for crude oil; OCT 23,130 -36,909 NOV.08 294,979 +908 DEC.08 185,923 +3,243. Totals: 1,127,815 -37,600. Open interest for heating oil; is OCT.08 27,683 -2,653 NOV.08 48,091 +515 DEC.08 25,210 +111 Totals: 213,470 -2,450. Open interest for gasoline is, OCT.08 39,993 -2,217 NOV.08 59,966 +503 DEC.08 30,689 +409, Totals: 198,541 -818.