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ENERGY MARKET REPORT FOR SEPTEMBER 27, 2010

The National Hurricane Center said a low pressure system in the northwest Caribbean Sea has a 30% chance of strengthening into a tropical depression over the next 48 hours as it moves north. It is too soon for computer weather models to project where the system will make landfall, if at all. Elsewhere, the NHC reported that there was a small low pressure system about 725 miles southwest of the Cape Verde Islands that had a 10% chance of developing during the next 48 hours.

Market Watch

According to a Reuters survey, US crude oil prices in the fourth quarter are expected to average \$77.48/barrel, down from a previous forecast of \$79.36/barrel. Crude oil prices in 2010 are expected to average \$77.96/barrel from a previous forecast of \$78.63/barrel. The forecast for 2011 were also cut to \$83/barrel from \$83.84/barrel in August. Meanwhile, Brent crude is expected to average \$78.25/barrel in the fourth quarter, down from a previous forecast of \$79.10/barrel.

China and Russia signed economic and political cooperation agreements on Monday. The agreements covered Russian crude oil and gas supplies to China as well as enhanced cooperation in coal, electric power, energy saving, renewable energy and nuclear power.

Kuwait's Oil Minister Sheikh Ahmad al-Abdullah al-Sabah said OPEC is unlikely to change its production quotas at its next meeting on October 14th. He said OPEC will focus on compliance at its meeting. He added that OPEC members need to adhere more strictly to existing quotas. He said OPEC would be comfortable with 75% to 85% compliance, not the current level of 52%. He also stated that crude oil prices are likely to average between \$75 and \$80/barrel in the first quarter of 2011. Meanwhile, Venezuela's Oil Minister Rafael Ramirez said he was comfortable with world oil prices but added that OPEC should focus on high global crude inventories.

Nigeria's Oil Minister Deziani Allison-Madueke said Nigeria hopes OPEC will improve the level of output quotas imposed on its members at its October 14th meeting. She also stated that she expects Nigeria's OPEC quota to increase when the group meets in December. Separately, she stated that Nigeria's parliament should adopt a new law governing Nigeria's oil industry within a few short weeks.

BP's chief operating officer for exploration and production, Doug Suttles said there will be a phased restart to offshore oil and gas operations when the Obama administration lifts its deepwater drilling moratorium. He said some projects would be better positioned than others to meet new government requirements to resume drilling. Separately, US Interior Department official, Michael Bromwich said a few rigs will be able to resume activity in the first month after the Obama administration lifts its

**September
Calendar Averages**
CL – \$75.14
HO – \$2.1003
RB – \$1.9362

deepwater drilling moratorium. He said oil companies will have to meet all new rules before drilling resumes.

An analyst at Bank of America Merrill Lynch said middle distillate oil products, which have been leading crude oil prices higher in recent months, may lose their steam only after the Northern Hemisphere winter. He said the strength in middle distillates is linked to a number of physical factors, suggesting

continued near term strength.

Russia's Foreign Minister Sergei Lavrov defended Russia's refusal to supply Iran with S-300 air defense missiles, saying such a sale would violate UN Security Council sanctions. Last week, Russia's President Dmitry Medvedev signed a decree banning supplies of the missiles and other arms to Iran. Meanwhile, Iranian lawmaker Alaeddin Borujerdi, the head of the national security and foreign affairs commission in parliament said Russia could face legal action over the deal.

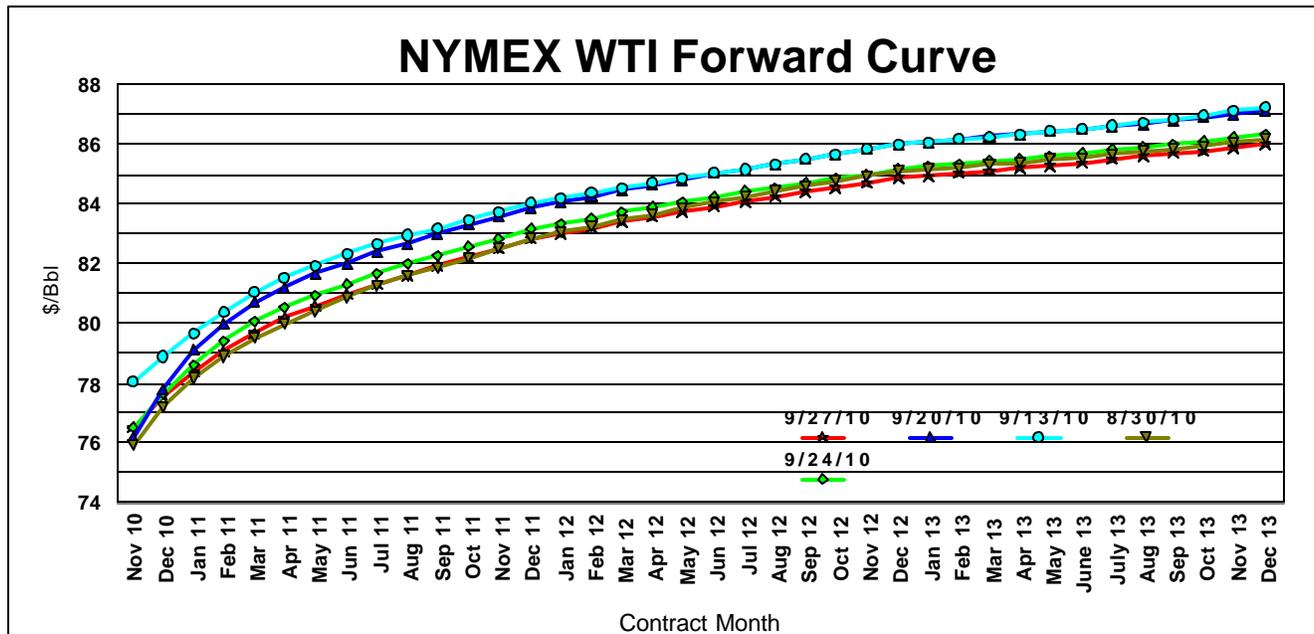
The EIA reported that the US average retail price of diesel fell by 0.9 cents to \$2.951/gallon in the week ending September 27th. The drop in price was the first following two consecutive weeks of gains of 2.9 cents. The price of diesel is priced at 35 cents or 13.5% above a year ago. The EIA also reported that the US average retail price of gasoline fell by 2.9 cents to \$2.694/gallon on the week.

Refinery News

Credit Suisse said US refined product margins were mixed last week. Midwest refinery margins fell by 19.7% or \$2.77/barrel to \$11.30/barrel due to weaker product prices. Margins in the Northeast fell by 12 cents to \$5.76/barrel while margins in the Rockies region fell by \$1.75 to \$23.29/barrel. Gulf Coast margins however increased by 41 cents to \$9.85/barrel while margins in the West Coast increased by \$1.22 to \$15.44/barrel.

BP PLC's refinery in Texas City, Texas will start work on emissions reduction equipment at a gasoline unit on Monday afternoon. It will conduct maintenance on an electrostatic precipitator stack, which is used to remove particulates at its fluid catalytic cracking unit No. 1. The work is expected to last one day.

Valero Energy Corp said a minor fire was extinguished at its 144,000 bpd Benicia, California refinery.



It said there was no impact to operations and refinery units remained in production during the incident. Separately, Valero reported flaring due to a wet gas compressor trip in its delayed coking unit at its 287,000 bpd Port Arthur, Texas refinery on Saturday. It said the coker unit resumed normal operations following the snag over the weekend.

Alon USA Energy reported increased emissions on Friday and Saturday at its 67,000 bpd refinery in Big Spring, Texas refinery following a heavy thunderstorm.

Sunoco Inc shut a diesel hydrotreater unit at its 335,000 bpd refinery in Philadelphia, PA on Saturday after it released a mist of diesel.

Spain's Cepsa said a new crude distillation unit at its La Rabida refinery in Huelva, Spain started operations and is operating at full capacity.

Hellenic Petroleum SA expects to complete an upgrade of its 75,000 bpd Thessaloniki refinery at the end of February 2011. The refinery is expected to shut down in mid-January or early February to tie in new units to existing equipment. Meanwhile, an upgrade at its 100,000 bpd Elefsina refinery is expected to be completed by the end of 2011.

Royal Dutch Shell is said to be on track for completion of its gas to liquids plant located in Qatar. The plant is set to be operational by early 2012 and has the capacity to produce 140,000 barrels per day of GTL products, which include diesel, kerosene, naphtha and lubricant oils.

Port workers at France's Fos-Lavera oil hub started a rolling strike on Monday to secure job guarantees as part of a port reform. Port workers are blocking the unloading of four oil product vessels and four crude oil tankers.

China National Petroleum Corp said the first crude oil pipeline between Russia and China will be operational officially on November 1st. The 300,000 bpd pipeline will pump oil from fields in Eastern Siberia to northeastern China's oil production and refining hub at Daqing.

Japan's Ministry of Finance said the volume of Japan's customs-cleared crude oil imports in August increased by 1.9% on the year to 18.162 million kiloliters or 3.69 million bpd. Japan's imports of liquefied natural gas totaled 6.38 million tons in August, up 18.9% on the year.

Mercuria Energy Trading SA has provisionally booked two oil tankers to ship more than 230,000 metric tons of South Korean gasoil to Europe in October. The latest provisional bookings bring Mercuria's total East to West arbitrage cargoes to more than 300,000 tons.

Production News

Nexen Inc said Forties crude production at the 200,000 bpd Buzzard field in the North Sea will fall 70-90% from the normal level in the fourth quarter due to the start up of a new platform.

Nigeria's crude oil exports in November are expected to fall to about 2.07 million bpd, down from 2.13 million bpd in October. A total of 70 full or part cargoes of Nigerian crude will load in November, down from 76 cargoes in October.

The UAE's Abu Dhabi National Oil Co said it will reduce term supply volumes of its Murban crude oil to Asian customers by 15% in November, unchanged on the month. It also said it will supply 15% less than the contracted volume of its Lower Zakum crude, 20% less for Umm Shaif and 20% less for Upper Zakum, in line with its commitments as an OPEC member.

ExxonMobil Corp and its partner Royal Dutch Shell plan to more than double the number of new wells in Iraq's West Qurna Phase One to reach its projected production target. Exxon aims to drill two to three times the current 370 well in the field as part of its development plan for West Qurna to reach plateau output of 2.325 million bpd. Crude production is currently 200,000 to 250,000 bpd.

Brazil's OGX Petroleo e Gas Participacoes SA said it completed a well test at a prospect in the Campos Basin. The test at the Inga prospect in OGX's BM-C-40 block indicated that output could be between 8,000 bpd and 12,000 bpd from a vertical well and between 25,000 and 35,000 bpd from a horizontal well.

Brazil's Mines and Energy Minister Marcio Zimmerman said Brazil should be exporting 1.5 million bpd of oil in 2015 and 2 million bpd in 2019. The increase in exports will occur as a result of increased production from Brazil's presalt oil fields.

The Sakhalin-1 consortium operated by ExxonMobil Corp will launch commercial production at a new oil field off Russia's Pacific Coast this week. Production at the project's first field, Chayvo, started in 2005 and reached a peak of 250,000 bpd in 2007 while the new Oduptu field is expected to reach peak output of about 32,000 bpd within a year. The Sakhalin-1 consortium plans to drill 10 wells at Oduptu by the first quarter of 2011. It may later drill an additional 10 well at the field, potentially increasing peak output level.

Russia plans to export 6.3 million metric tons or 1.49 million bpd of Urals crude in October from its Baltic Sea port of Primorsk, up from 5.5 million tons or 1.34 million bpd in September. Russia plans to export 32 cargoes of Urals crude totaling 3.425 million tons from the Black Sea port of Novorossiisk, up from 3.38 million tons in September.

OPEC's news agency reported that OPEC's basket of crudes increased by 73 cents to \$75.01/barrel on Friday from \$74.28/barrel on Thursday. It also reported that OPEC's basket of crudes fell by 42 cents to \$74.86/barrel in the week ending September 24th from \$75.28/barrel during the previous week.

Market Commentary

Crude oil once again attached itself to the higher movement in the dollar and the decline in the U.S. stock market, falling as much as 1.3 percent on the day. A lack of follow-through above the \$77.00 level early in the session added technical pressure to this market. Despite trading above the 200-day moving average of \$76.87, the November contract failed to settle above it. This would be our marker for prices to be able to sustain strength in order to test the \$80.00 resistance level. The spot month contract has not been above the 200-day moving average since the middle of August, when crude oil was trading just above the \$78.00 area. We would look for crude oil to continue to react to mixed economic indicators as it detaches slightly from global equities markets. Currently, there is a trendline set at \$77.27 on a spot continuation chart, making this our near-term upside objective. The 3-2-1 crack spread margin continues to slide as this spread responds negatively to weak demand brought on by economic fears and the fact that stockpiles for both distillates and gasoline are above year-ago levels. Supplies for both products are expected to increase as seasonal refinery maintenance decreases demand. With continued weak demand and supplies expected to increase this spread should further weaken.

Crude oil: Nov 10 350,962 -9,478 Dec 10 218,145 -212 Jan 11 99,024 +9,372 Totals 1,318,297 -21
Heating oil: Oct 28,274 -8,067 Nov 10 91,497 +5,828 Dec 10 71,090 -567 Totals 333,133 -858 Rbob:
Oct 10 27,847 -5,265 Nov 10 92,063 +2,597 Dec 10 38,477 -2,846 Totals 238,176 -4,541

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
	7727	19236	22530	18240	
7367	7781	18965	22700	16010	22345
7307	7866	18920	22945		24880
7260	8000		23775		27085
7190	8130				

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