



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 29, 2008

The US House of Representatives defeated a \$700 billion bailout legislation, a vote that defied warnings of the potential dire consequences to the financial markets. The White House expressed disappointment with the defeat of financial market bailout legislation. President George W. Bush is scheduled to meet with his economic team later on Monday to determine the next step. The \$700 billion rescue plan for Wall Street was defeated by a bipartisan group of lawmakers in a 205-228 vote. The defeat of the legislation sent stocks plummeting with the Dow June Industrial Average seeing its largest percentage drop since September 2001. It was down 777.68.

The US Minerals Management Service said oil and natural gas production in the Gulf of Mexico continued to increase on Monday as companies brought their facilities back online following Hurricane Ike. A total of 122,670 bpd of crude production resumed since Friday, leaving 623,789 bpd still shut in as of Monday.

Market Watch

Deutsche Bank lowered its 2009 forecast for US crude oil prices to an average of \$92.50/barrel, down from its previous estimate of \$120/barrel. Deutsche Bank kept its 2010 forecast for US crude unchanged at \$100 and added that oil prices would increase by \$5 every year. The bank said it expects world oil demand to grow by just below 500,000 bpd in 2009.

According to Reuters, analysts cut their WTI crude price estimates for 2008, 2009 and 2010 from \$116.58/barrel to \$112.79, from \$113.21 to \$108.61 and from \$107.88/barrel to \$106.84/barrel, respectively. Analysts also cut the Brent price from \$114.99/barrel to \$111.46/barrel in 2008, from \$111.23/barrel to \$105.40/barrel in 2009 and from \$107.20/barrel to \$105.14/barrel in 2010.

Iraq is planning to announce by the end of the year a list of oil fields, mostly discovered but undeveloped, to be tendered in its second licensing round. Iraq's fields of Majnoon, Bin Umar, Halfaya, Nassiriya and possibly West Qurna Phase II and Qayiarah are expected to be included in the second bidding round.

US cellulosic ethanol firm BlueFire Ethanol said a global pullback from bank lending may dent the commercialization of biofuel technologies to replace conventional gasoline. A credit crisis has raised project finance costs and made ambitious targets to replace fossil fuels with renewable energy sources look less achievable.

The Federal Reserve Bank of Dallas reported that its General Business Activity index was -39.6 in September from -18.8 in August. Its manufacturing index was -21.4 in September.

The Institute for Supply Management's manufacturing index is estimated at 49.5 for September, down from 49.9 in August. The weakness reflects the generalized weakness in the overall economy, the disruption caused by the turmoil in the financial markets and the adverse effects of Hurricanes Gustav and Ike.

September Calendar Averages

CL – \$103.92

HO – \$2.9352

RB – \$2.6484

The US DOE said it would deliver 500,000 barrels of oil from the SPR to Marathon Oil. The emergency oil will go to Marathon's Midwest refineries along the Capline pipeline system. It previously announced that it is delivering 200,000 barrels of SPR oil to Placid Oil's refinery in Port Allen, Louisiana through the Shell pipeline system.

The IEA's executive director, Nobuo Tanaka said oil prices should fall in the coming months. He added that extreme weather conditions and labor disputes in the industry could create new supply bottlenecks. However he said no dramatic bottlenecks are expected between now and 2010 because oil supply was relatively generous compared to demand. After 2010 and especially after 2013, the situation would become more difficult because there was no immediate prospect of new reserves coming on to the market and this would affect prices. He said world oil production capacity will be insufficient within six years.

Venezuela's Oil Minister Rafael Ramirez said OPEC has no further plans to change its production levels as oil prices remain outside the control of fundamental factors such as supply and demand. Iran's Oil Minister Gholamhossein Nozari said rising costs for oil projects may threaten new investment in producing countries. He also added that volatility in oil prices was partly due to the instability of the US dollar.

Iran's OPEC Governor, Mohammad Ali Khatibi said a \$700 billion US bailout of the financial sector is expected to affect crude oil demand positively. He also welcomed the recent recovery in oil prices, saying it will have a positive impact on international investments in the oil sector.

Iran said it would not halt its nuclear work as demanded by the UN Security Council in its latest resolution on Iran's nuclear program. Iran's Foreign Ministry made clear Iran would not accept the main demand. The UN Security Council passed a resolution on Saturday ordering Iran to halt its uranium enrichment. The head of Iran's Atomic Energy Organization Gholamreza Aghazadeh will not take part in the IAEA's annual assembly starting on Monday. Iran's deputy Mohammad Saeedi and the country's ambassador to the IAEA, Ali Asghar Soltanieh will represent Iran. Meanwhile, the IAEA's executive director Mohamed ElBaradei urged Iran to implement all the transparency measures on its nuclear program, required to build confidence in the exclusively peaceful nature of its nuclear program.

The EIA reported that the US average retail price of diesel increased by 0.1 cent/gallon to \$3.959/gallon in the week ending September 29. It also reported that the US average retail price of gasoline fell by 8.6 cents to \$3.632/gallon on the week.

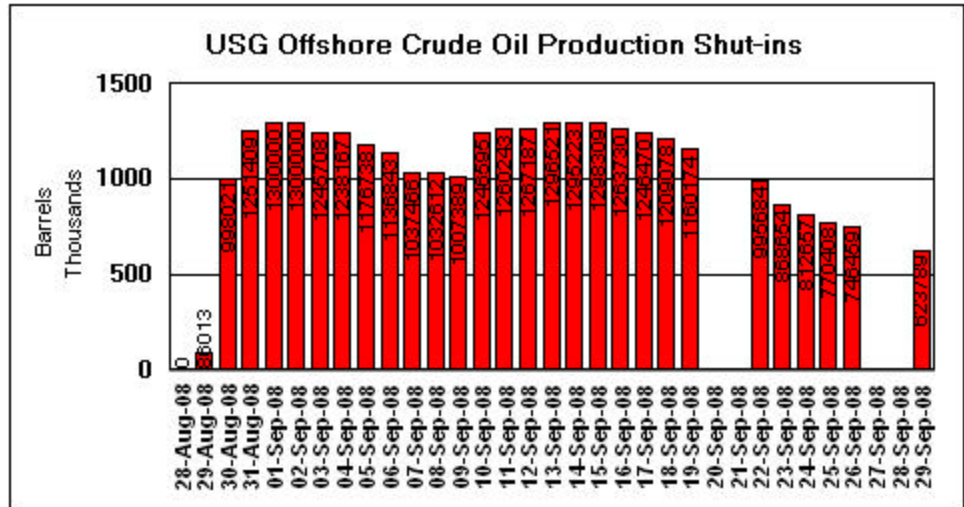
According to the Lundberg Survey, the US average price of gasoline fell by 3.8 cents to \$3.6582/gallon in the last two weeks ending September 26 from \$3.6963/gallon as Hurricane Ike led to lower demand for fuel. Diesel fuel prices also fell by 9.7 cents to \$4.1627/gallon from \$4.2597/gallon.

Refinery News

The US Energy Department said two refineries with a total capacity of 424,500 bpd remain shutdown following Hurricane Ike. It reported that 17 refineries with a capacity of 3.625 million bpd were operating at normal levels, while eight refineries with a capacity of 2.197 million bpd were operating at reduced rates. In addition, five refineries with a capacity of 1.172 million bpd were restarting.

Shell Oil said the majority of the company's oil production in the Gulf of Mexico that was shut in due to Hurricane Gustav and Ike is expected to resume within two weeks. It said its US Gulf refining throughput was about 1 million bpd out of a total of 1.2 million bpd. Shell Oil President Marvin Odum

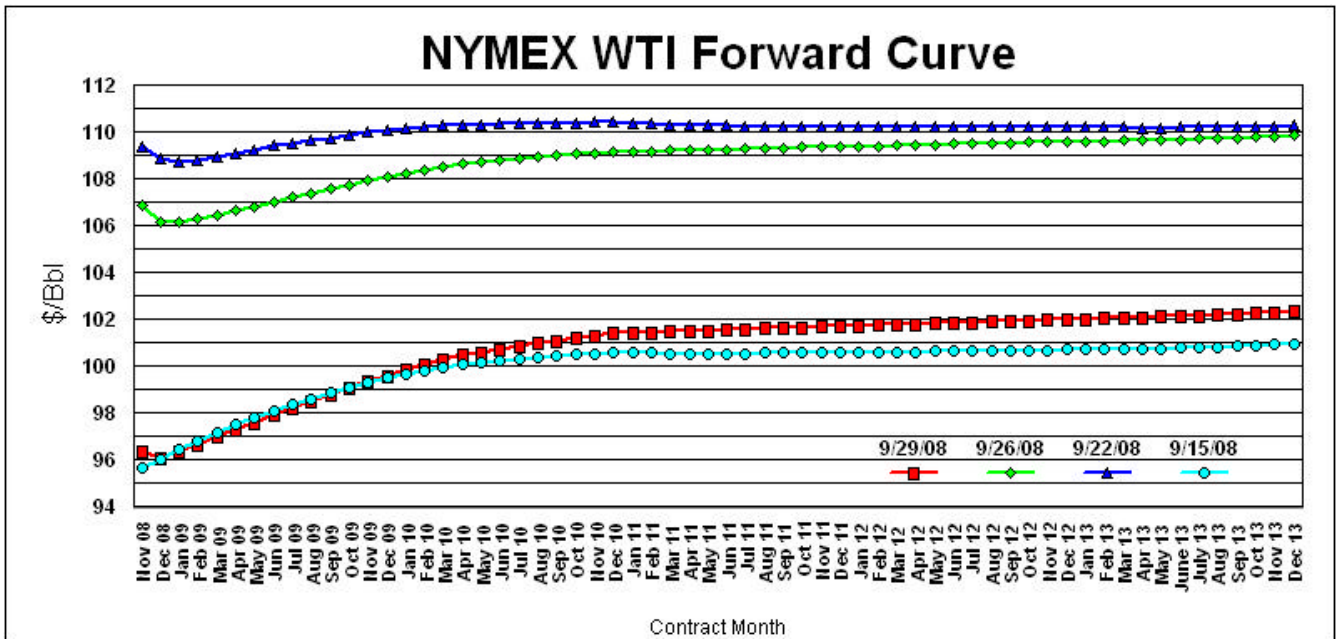
said Shell did not need emergency oil supplies for its refineries from the US SPR in the wake of the hurricanes. Shell Oil also said it will delay turnaround maintenance at some Gulf Coast sites due to the effects of the hurricanes. Separately, a 48,000 bpd fluid catalytic cracking unit at Shell's Pernis refinery is expected to close for about 10 days following an unplanned shutdown last week.



ConocoPhillips' Gulf Coast refineries have returned to normal after Hurricanes Ike and Gustav. Conoco had shut its 247,000 bpd Alliance and 239,000 bpd Lake Charles, Louisiana refinery and its 247,000 bpd Sweeny, Texas refinery due to hurricanes. However ConocoPhillips reported that it shut a Shell Claus off-gas treatment unit at its Sweeny, Texas refinery on Saturday due to an equipment malfunction.

BP is restarting an ultraformer unit at its 467,000 bpd refinery in Texas City, Texas. The restart will last until October 11.

Valero Energy Corp's 90,000 bpd Ardmore, Oklahoma and 100,000 bpd Three Rivers, Texas refineries were essentially at planned rates after being at reduced rates due to Hurricane Ike.



A residual hydrocracking unit at Neste Oil's 200,000 bpd Porvoo refinery is in a start up phase and will resume normal operation in about two weeks. An alkylation unit will also resume operations in about two weeks.

Credit Suisse said US refining margins fell in the week ending September 26 as crude prices increased. Gulf Coast margins fell by 62.2% or \$18.18/barrel to \$10.86/barrel while Midwest margins fell by 46.3% or \$14.16/barrel to \$16.40/barrel. In the Northeast, margins fell by 33.5% or \$7.02/barrel to \$13.95/barrel. In the Rockies, margins fell by 38.2% or \$13.68/barrel to \$22.14/barrel while West Coast margins fell by 21.2% or \$4.63/barrel to \$17.16/barrel.

PDVSA's fluid catalytic cracking unit at its 320,000 bpd refinery in Curacao suffered a problem over the weekend. It was not clear how much operations were affected by the problem that occurred in the fluid catalytic cracking unit, when workers started to restart it after it went offline earlier this month.

India's Reliance Industries is willing to supply diesel to state run oil marketing companies if the government amends tax rules.

Japan's Cosmo Oil Co Ltd shut its 90,000 bpd crude distillation unit at its Yokkaichi refinery on Sunday as planned. The unit is scheduled to be shut for maintenance until November 14. Meanwhile it is scheduled to restart its 80,000 bpd crude distillation unit at its Sakai refinery this week. The maintenance on the crude distillation unit started on August 22 and is scheduled to be completed on Tuesday.

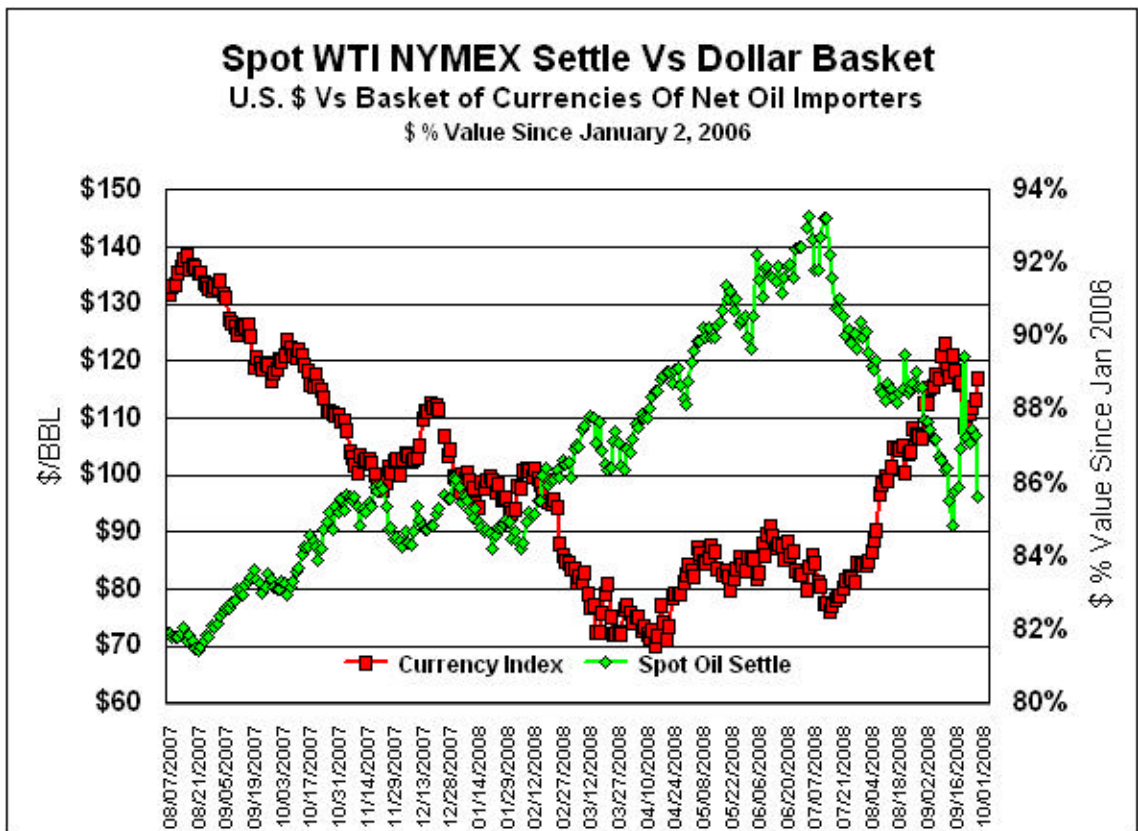
Nippon Oil Corp has delayed the restart of its naphtha cracker at its Kawasaki refinery near Tokyo.

The cracker, which can produce 450,000 tons of ethylene/year, began planned maintenance on August 21 and had been scheduled to be shut until September 27.

Production News

Abu Dhabi National Oil Co has notified one Japanese lifter that it

will supply crude oil at full contracted volumes for November, unchanged on the month.



Iraq has maintained steady crude exports of about 430,000 bpd through its pipeline to Turkey since repairing bomb damage to the line two weeks ago. A shipping agent said about 4.5 million barrels of Iraqi oil was in storage at the Turkish terminal of Ceyhan.

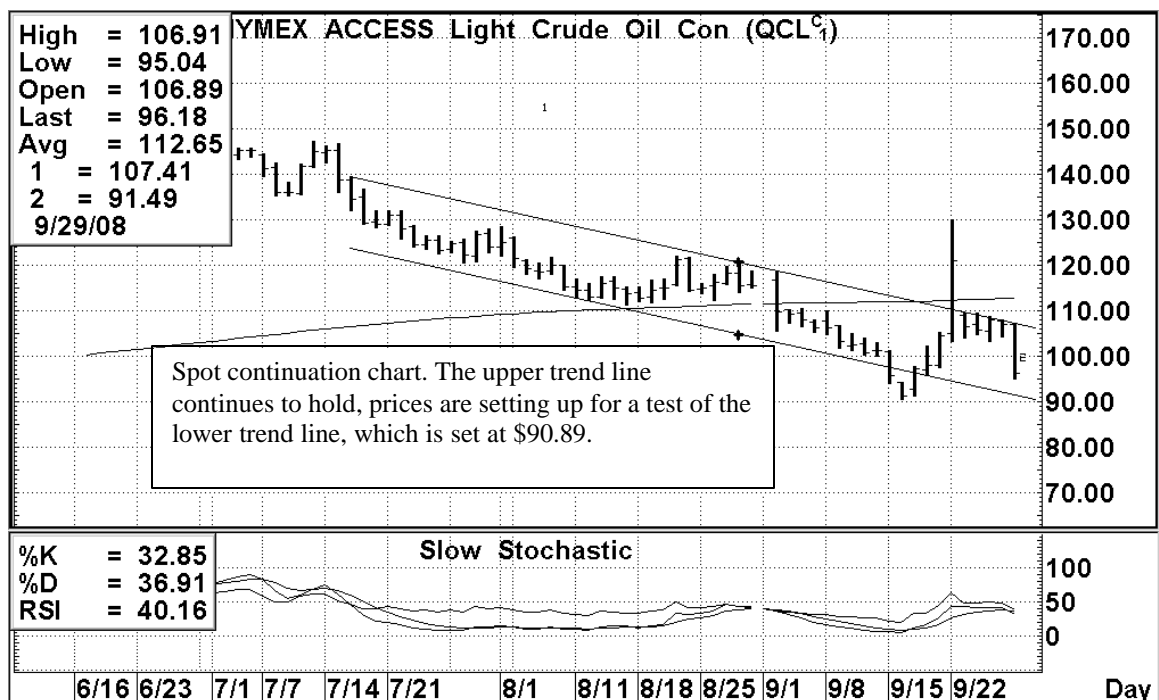
Mexico's Transport Ministry said the Dos Bocas oil export terminal was reopened while its Coatzacoalcos or Pajaritos export terminal was still closed to shipping on Monday due to poor weather conditions. The ports were closed on Friday.

Mexico's Pemex reported that the country was still pumping 250,000 bpd less oil than normal on Monday due to problems at US refineries that have cut demand for its exports. It had expected to be able to restore normal production by the end of last week but the refineries have resumed operations more slowly than expected.

Venezuela cut down its crude supply to the US by 10% during the first half of the year to 1.5 million bpd. Venezuela put overall oil production at 3.24 million bpd during the first half of 2008.

Germany's RWE mad a new oil discovery in the Libyan Sirte Basin. The new discovery is in the exploration well B1-NC 193. It was the second find announced by RWE and Libya's National Oil Corp.

OPEC's news agency reported that OPEC's basket of crudes increased to \$97.90/barrel on Friday from Thursday's \$97.68/barrel level. It also reported that OPEC's basket of crudes increased by \$9.09/barrel to



\$98.28/barrel in the week ending September 26, up from a revised \$89.19/barrel in the previous week.

Ukraine's Prime Minister Julia Tymoshenko is scheduled to visit Moscow on October 2 for talks on energy and trade with his Russian counterpart Vladimir Putin.

South Korea plans to import \$90 billion of natural gas from Russia via North Korea to reduce its reliance on more expensive cargoes arriving by sea. The two sides are expected to sign a final contract in 2010. Korea Gas Corp signed a preliminary agreement with OAO Gazprom to import 10 billion cubic meters of natural gas over 30 years starting in 2015. Gazprom Chief Executive Officer Alexei Miller said the exact delivery route has not been determined and that shipments could begin as

early as 2015. Last year, South Korea imported 25.5 million tons of gas oil and all of it arrived in a liquefied form by sea. Domestic demand for natural gas may increase by 8.3% to 27.7 million tons in 2008.

Market Commentary

With the House of Representatives rejecting the \$700 billion dollar bailout package and demand slipping away at a time when approximately 70% of refineries in the Gulf of Mexico are back on line, energy prices took a nosedive today. The outlook for the U.S. economy is still in a critical state, which will greatly impact demand near term and in the future. Considering all the factors, this sell off in prices is not all too surprising. According to the current value of the basket of currencies of net oil importers, crude oil still has more room to slide. Over the last year the times this basket of currencies was in this value range, oil prices have been in a \$85.00-\$95.00 price range. There is key support in crude oil at \$85.40. This would be the downside objective. Technical indicators are supporting additional movement to the downside. As seen on the chart depicted in this wire, the descending channel, with the exception of October's expiration, is still intact. We would look for a violation of the bottom trendline and for a test of the \$85.40 level. The November/December spread lost .28 cents today and is heading back towards negative territory. Should the -.07 level become penetrated, we would look for this spread to work back to the old -.47 to -.61 range that the spot spread has gravitated to in the past. Gasoline was greatly impacted today, settling down 0.2681 on the day. Technical indicators have crossed to the downside with %K set at 48.35 and %D set at 50.65. Demand will continue to weigh on this product, pushing prices towards support set at \$2.2883. Gasoline cracks lost value today, with the November gasoline crack spread stretching towards the \$2.1733 trendline. Heating oil continues to follow the rest of the complex lower, approaching the recent low of \$2.6712. Should heating oil dip below this level the next level to the downside is \$2.4075.

Open interest for crude oil, NOV.08 277,407 -9,055, DEC.08 189,485 -1,714. Totals: 1,097,795 -5,057
 Open interest for heating oil; is OCT.08 12,546 -3,421 NOV.08 54,414 +437 DEC.08 25,794 -816
 Totals: 207,622 -4,320 Open interest for gasoline is, OCT.08 19,033 -4,232 NOV.08 72,502 +1,573
 DEC.08 29,489 -242, Totals: 190,127 -2,397.

Crude Support	Crude Resistance
95.04,93.65, 87.10, 85.40 , 78.35, 68.63	111.35 (November 200 day MA), 118.60, 122.45, 132.75, 140.30, 144.00, 147.90,
Heat support	Heat resistance
2.6712, 2.4040	3.1050, 3.3684, 3.4574. 3798, 3.6135, 3.8215
Gasoline support	Gasoline resistance
2.3385, 2.2883	2.8521, 2.9600, 2.9989, 3.1050, 3.1460, 3.1840,80003.2620