



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 1, 2007

Qatar's Oil Minister, Abdullah al-Attiyah said increased OPEC supply would do little to ease \$80 oil as speculative investment flowing into the market from other assets was increasing the price. He said the global credit crunch had encouraged investors to switch to oil from other assets.

The flow of Iraq's Kirkuk crude through the northern oil export pipeline to Turkey was on hold for the eighth consecutive day on Monday. There was about 2.6 million barrels of Kirkuk oil in storage in the Mediterranean terminal of Ceyhan. Iraq issued a sell tender on Thursday to sell 5 million barrels from Ceyhan to be loaded in 1 million or 2 million barrel lots by October 22. Separately, a senior Iraqi oil official said Iraq's crude oil exports increased by 6.25% on the month in September to about 1.7 million bpd.

Market Watch

An Iranian oil official predicted that the price of WTI crude could increase to about \$90/barrel by December if the US dollar continued to lose value. The official said the recent crude price increases had no connection with crude oil supply.

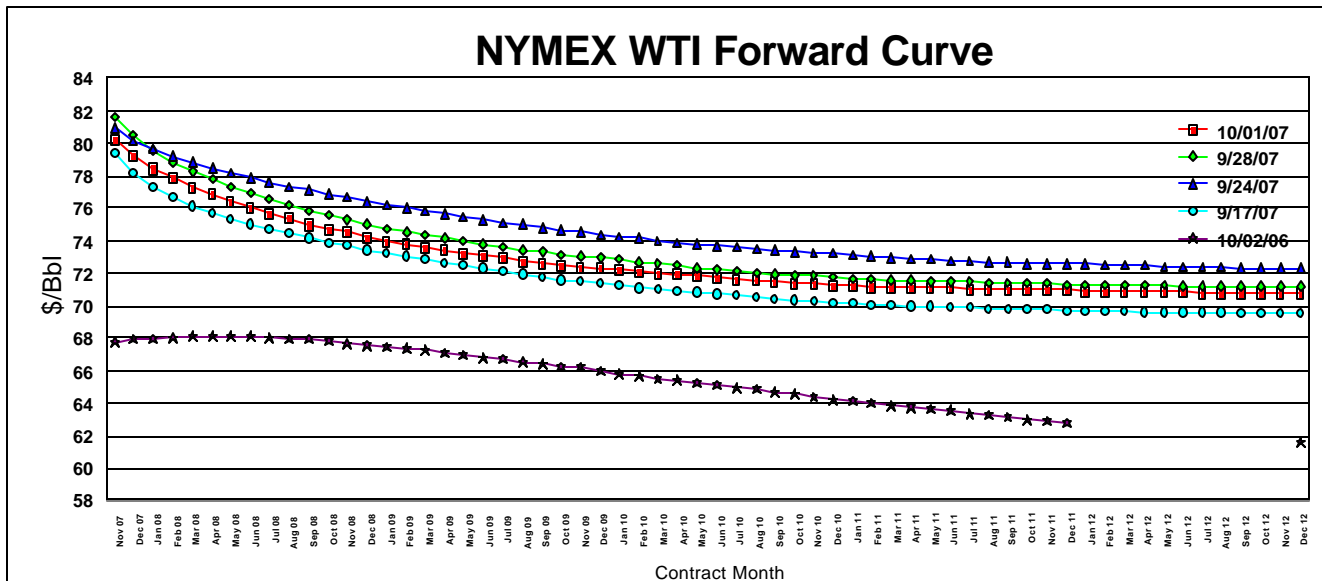
A senior aid to Iran's President Mahmoud Ahmadinejad signaled that he would nominate Acting Oil Minister Gholamhossein Nozari to take the post permanently. Iran's President is expected to present his candidate to parliament after the Muslim fasting month of Ramadan, which ends around October 13.

Ceres Inc and Texas A&M University entered into a joint multi-year agreement to develop new strains of cane sorghum that are specifically designed for cellulosic biofuels production. As part of the agreement, Ceres would obtain exclusive commercialization rights to high biomass sorghum hybrids developed by the Texas Agricultural Experiment Station of the Texas A&M University System.

The US National Hurricane Center said a tropical or subtropical system could develop during the next couple of days near South Florida as a low pressure system moves west-southwest towards the Gulf of Mexico. Weather forecaster Planalytics said tropical activity in South Florida would remain disorganized over the next 24 hours. It however said that by late Tuesday into Wednesday a large majority of weather models indicate the upper level low would supply enough energy to the surface and spark a storm system over western Cuba and adjacent areas of the Gulf of Mexico. Accuweather also predicted the South Florida system could develop tropical characteristics later this week and could intensify over the warm Gulf waters.

The head of the Supreme National Security Council, Ali Larijani, said Iran was ready to help the US stabilize Iraq if the US presented a timetable for a withdrawal of its troops. In regards to Iran's nuclear

program, he said Iran had reached an advanced stage, providing the country with a full command of the technology that no one could take away.



The EIA reported that the US average retail price of gasoline fell by 2.4 cents/gallon to \$2.788/gallon in the week ending October 1. The EIA also reported that the US average retail price of diesel increased by 1.6 cents/gallon to \$3.048/gallon on the week.

Refinery News

Chevron Corp notified the California Office of Emergency Services that a compressor shutdown on Saturday at its 260,000 bpd refinery in El Segundo, California, triggering the plant's safety flare.

Valero Energy Corp began a planned overhaul of a fluid catalytic cracking unit at its 170,000 bpd McKee refinery in Sunray, Texas on Saturday. During the work, gasoline production is expected to fall by 40,000 bpd while distillate production is expected to fall by 10,000 bpd.

ConocoPhillips said it would conduct planned maintenance on an electrostatic precipitator at its 146,000 bpd refinery in Borger, Texas from October 1-10.

Credit Suisse stated that US refining margins fell last week amid the high crude oil prices. Margins for refiners in the Midwest led the drop, falling \$1.86/barrel to \$12.84/barrel. Margins in the Northeast fell by \$1.11 to \$8.76/barrel while Gulf Coast margins fell by \$1.62 to \$8.51/barrel. Meanwhile margins in the Rockies increased by \$1.60 to \$21.83/barrel and margins in the West Coast increased by 95 cents to \$15.66/barrel.

Indonesia's Pertamina and Japan's Itochu Corp signed an agreement to increase the capacity of Balikpapan refinery to 280,000 bpd from 260,000 bpd. It is expected to begin construction in early 2009.

Pertamina said it would resume operation of its 120,000 bpd refinery in Dumai by Thursday after an explosion last week.

The Turkish Cevahir Group has applied to build an oil refinery with an annual refining capacity of 10 million tons in Yumurtalik. Yumurtalik is the terminal of a pipeline extending northward from Iraqi oilfields.

Production News

BP's Baku-Ceyhan pipeline has resumed shipments of crude oil after shipments were halted since September 27 due to technical problems at a pumping station. It said it was gradually increasing output to its regular 700,000 bpd from the reduced 160,000 bpd.

BP's new Plutonio oilfield in Angola started production this week with the first shipment expected in mid-November. Production at the oilfield is expected to increase next year to about 200,000 bpd.

Shipments of about 3 million bpd through the southern entrance to the Red Sea were unaffected by a volcanic eruption on an island off Yemen. Oil tanker movement through the Bab al-Mandab passage en route to the Suez Canal or to the southern terminal of the Sumed pipeline in Egypt to supply crude to Mediterranean countries and beyond.

Russia's Resources Minister Yuri Trutnev said Russia would auction off oil and gas blocks of the Sakhalin-3 project as strategic deposits, signaling that foreign access to the project would be limited.

Indonesia's BPMigas said the country's oil production fell to 827,400 bpd in September from 834,700 bpd in August.

OPEC's news agency reported that OPEC's basket of crudes increased sharply to \$77.28/barrel on Friday from \$76.03/barrel on Thursday. It also reported that OPEC's basket of crudes increased by 72 cents/barrel to \$76.14/barrel in the week ending September 28.

Market Commentary

With refining margins down and lower consumption expected as a result, energy prices came under pressure once again. There are still jitters over the economy as to whether or not there will be an economic slow down in response to the sub-prime mortgage debacle. The outright market came under pressure prior to the front month spread. As we get closer to roll time, we would look for continued pressure on this spread, but would continue to monitor stock levels at Cushing, which has been at the forefront of most traders' minds. Today makes the fifth day in a row that prices have settled out of the upward channel dating back to 8/22/07. As long as prices can remain below the first line of resistance set at 84.58 we would sell up at the listed resistance numbers. Total open interest in crude oil is 1,420,823 -282 November 340,915 -6,414 and December 231,590 +884. Support for November, comes in at

79.15,
78.40,
77.30, 76.79
and 75.70.
Resistance
is set at
81.24,
83.85,
84.10, 84.58
and 86.70.
Meanwhile,
the product
markets

		Explanation	
CL	Resistance	83.85, 84.10, 84.58, 86.70	Monday's high
	80.24, down \$1.42	81.24, 82.02	
	Support	79.45	Monday's low
HO	Resistance	228.25	Previous high
	218.07, down 4.49 cents	219.85, 222.15, 223.99	Monday's high
	Support	216.33	Monday's low
RB	Resistance	208.40, 208.55	Previous highs
	198.13, down 5.98 cents	199.75, 202.75, 203.80, 205.24	Monday's high
	Support	196.52	Monday's low
		195.82, 195.19, 192.52, 191.94	50% (179.40 and 212.24), Previous lows, 62% retracement

ended the session sharply lower once again. The RBOB market posted a high of 205.24 in overnight trading before it continued to retrace its previous gains. The market extended its losses to over 7.5 cents as it posted a low of 196.52 late in the session. The RBOB market bounced off its low and traded sideways ahead of the close. It settled down 5.98 cents at 198.13. The RBOB crack settled down at \$2.97, amid the sell off in the RBOB market. The heating oil market also extended its losses to over 6.2 cents as it sold off to a low of 216.33. The market retraced more than 38% of its move from a low of 197.50 to a high of 228.25. It later bounced off its low and traded sideways before it settled down 4.49 cents at 218.07. The product markets is seen trading lower after the markets failed to find support at its recent lows. The RBOB market is also seen trading lower amid the early expectations that the weekly petroleum stock reports would show builds. The market is seen finding resistance at 199.75, 202.75, 203.80 and 205.24. More distant resistance is seen at 208.40 and 208.55. Meanwhile support is seen at 196.52, 195.82, 195.19, 192.52 and 191.94.