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Windham Group



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR OCTOBER 4, 2010**

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The US Energy Department said no oil refineries have requested oil loans from the SPR due to a supply disruption following the closure of the Houston Ship Channel. The upper Houston Ship Channel is scheduled to reopen by Tuesday night. The Houston Ship Channel was shut after a barge struck a highline electrical tower early Sunday. The Coast Guard said 33 ships were waiting to move through the waterway.

The head of the US Commodity Futures Trading Commission, Gary Gensler, urged a regulatory panel to consider making recommendations on price and volume limits for brokered trades. He said an advisory panel of experts should consider new obligations for brokers to avoid trades from clients that could disrupt the market.

#### **Market Watch**

The Commerce Department reported that US factory orders fell more than expected in August, the third decline in the past four months. US manufactured goods orders fell by 0.5% to \$408.94 billion. Orders in July increased 0.5%, revised from a previously reported 0.1% increase.

US pending home sales increased for the second consecutive month in August. The National Association of Realtors' index for pending sales of used homes increased by 4.3% to 82.3. Year over year, the pending sales index was 20.1% below a level of 103 in August 2009.

The NYMEX reported that deliveries against the expired October RBOB contract will total 1.8 million barrels, more than double the number of deliveries in September. Traders took 1,773 lots of the October RBOB gasoline contract to delivery when it expired on Friday, up from 734 lots in September.

Delegates warned at a carbon conference that the global carbon market will not be worth \$1-2 trillion a year by 2020 if the US does not speed up efforts for a federal emissions trading scheme. Some expect the \$144 billion global carbon market to grow to \$1-2 trillion/year by 2020, as demand for carbon credits increases after 2012 when the UN's Kyoto Protocol is due to expire.

India's Environment Minister, Jairam Ramesh said the country could not have high economic growth and a rapid rise in carbon emissions now that the nation was the number three emitter after China and the US. He said India's economic growth could not come at the expense of the environment.

The National Hurricane Center said a low pressure system in the eastern Caribbean Sea has a 20% chance of strengthening into a tropical depression over the next day or two. Most computer models forecast the system would pose no threat to the Gulf of Mexico, projecting it would turn northeast after reaching Hispaniola in a couple of days and return to the Atlantic Ocean. Elsewhere, the NHC continued to monitor a small area of low pressure in the Atlantic Ocean about 1,000 miles east of the eastern Caribbean Islands with a 10% chance of strengthening into a depression.

**October  
Calendar Averages**  
**CL – \$81.53**  
**HO – \$228.93**  
**RB – \$208.97**

**Refinery News**

Valero Energy Corp and LyondellBasell said operations were continuing as planned amid the shutdown of the upper Houston Ship Channel. Valero said its 83,000 bpd Houston, Texas refinery is scheduled to receive a crude shipment on Wednesday, a day after the channel is expected to reopen.

Royal Dutch Shell's 327,000 bpd refinery in Deer Park, Texas has not been impacted by the upper Houston Ship Channel shutdown.

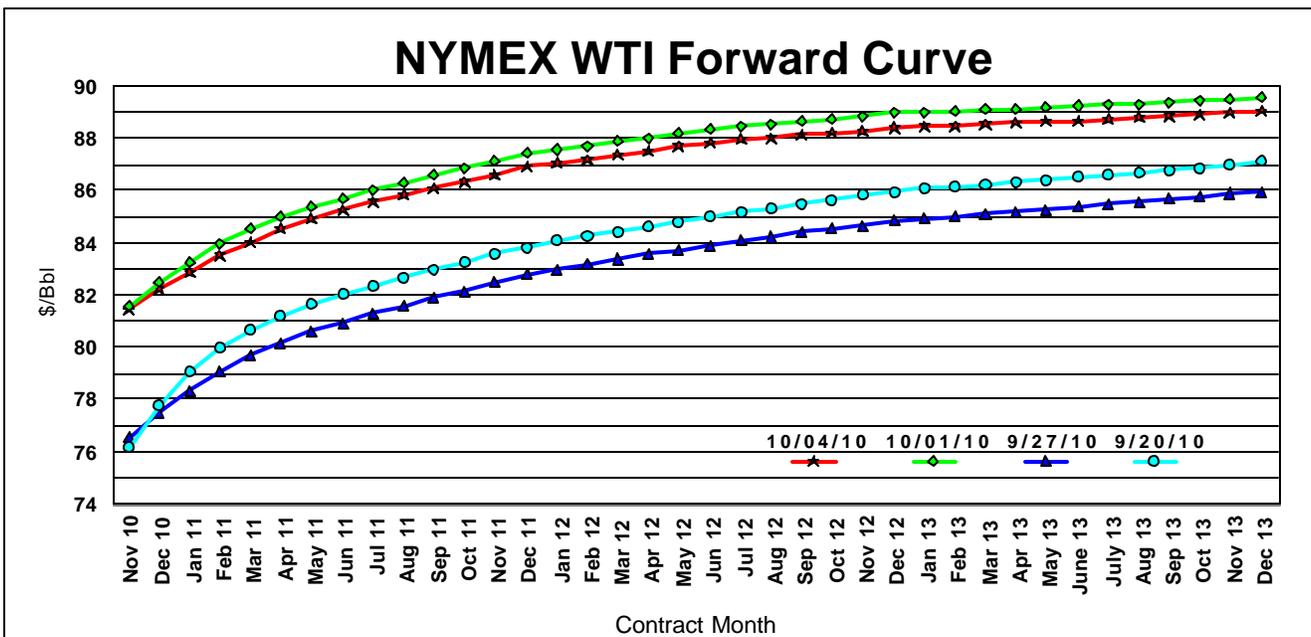
Flint Hills Resources LP's 290,078 bpd refinery in Corpus Christi, Texas will shut a hydrocracker unit at its West Plant to perform maintenance work on Monday.

ConocoPhillips' 247,000 bpd refinery in Sweeny, Texas shut unit 26.1 to repair a leak on Saturday. Separately, ConocoPhillips said an emergency shutdown of a unit at its 239,400 bpd Westlake, Louisiana refinery resulted in flaring on Saturday. It did not specify if there was any impact on production from the unit shutdown.

BP Plc's ultraformer 3 unit at its 437,080 bpd refinery in Texas City, Texas will resume operations following a maintenance outage early on Saturday. The company expects the startup to continue for three days.

Washington State's Labor & Industries Department said an explosion at Tesoro Corp's Anacortes, Washington refinery that claimed the lives of seven workers was preventable.

Workers at the French port of Marseille-Fos ended the strike they called on Friday to protest pension plan reforms. However France's CGT union said French port workers have decided to prolong the strike at the Fos-Lavera oil terminal until Tuesday. A CGT union official said Total started using strategic crude oil stocks at its La Mede refinery on Monday due to the strike. The country's oil industry lobby (UFIP) said strategic oil stock levels were not affected due to the port strike, despite a union official stating that Total's refinery had started using the stocks. About 41 ships were waiting to dock at the oil terminal. The refineries dependent on the Fos-Lavera oil terminal will halt operations in about a week if the port strike continues. Fuel supply shortages for motorists could start in 2-1/2 weeks if the strike lasts. Meanwhile, a union spokesman at LyondellBasell's 80,000 bpd Berre l'Etank



refinery will run out of crude within the week if the port strike continues. ExxonMobil's 115,000 bpd Fos-sur-Mer refinery is operating at minimum rates and has 8 days left of crude reserves. Total's distillation unit at its Feyzin refinery near Lyon is operating at minimum levels. Ineos said the strike has little impact on the output of its 207,000 bpd Lavera refinery.

A total of 10-12 vessels carrying 400,000 tons of US diesel are set to arrive in Northwest Europe in the first half of October. The cargoes are likely to ease supplies in Northwest Europe, where an eight day strike at the Fos-Lavera port has blocked oil tankers and forced some refiners to cut output.

Japan's JX Nippon Oil & Energy Corp shut its 140,000 bpd No. 3 crude distillation unit at its Mizushima refinery for planned maintenance on Sunday as scheduled. The unit is expected to restart on November 2<sup>nd</sup>. It is currently conducting scheduled maintenance on its 150,000 bpd No. 4 crude distillation unit at its Neigishi refinery between September 19 and October 15.

Kuwait supplied 8.1% of Japan's crude oil in August, up 1.3% on the year. Kuwait exported 8.96 million barrels or 290,000 bpd of crude to Japan in August. Saudi Arabia remained the largest oil supplier to Japan, with a total of 1.04 million bpd of imports. Japan's crude oil imports in August increased by 0.3% on the year to 3.61 million bpd.

Lithuania's oil terminal Klaipėdos Nafta loaded 5.9 million tons of oil products in January-September, up 6% on the year.

Chevron will delay the loadings of prompt Minas and Duri crude cargoes for a few days after a leak in a gas pipeline supplying power to the oilfields halted output. Crude production of 150,000 bpd is expected to resume in the coming week after the pipeline leak has been fixed.

### **Production News**

Statoil's Oseberg South platform has been shut for extensive repair work, halting some 25,000 bpd in production for Statoil and its partners in the North Sea oil field. It has been shut since September 20<sup>th</sup>.

Russia's Energy Ministry reported that the country's oil and gas condensate production reached a record of 10.16 million bpd, up from 10.06 million bpd in August. It reported that the country exported 4.16 million bpd of crude in September to countries outside the Commonwealth of Independent States.

Iraq's Oil Minister Hussein al-Shahristani said Iraq's West Qurna oil field in Basra is the country's largest and the world's second largest with total proven oil reserves of 43 billion barrels of oil. Iraq's total proven oil reserves were estimated at 143.1 billion bpd. Meanwhile, the head of Iraq's State Oil Marketing Organization, Falah al-Amri said the rise in its oil reserves would help it obtain a higher crude export quota from OPEC.

The cost of decommissioning the UK Continental Shelf's offshore oil and gas platforms in response to declining production could exceed \$30 billion over the next 30 years. About 260 offshore oil and gas platforms will be put out of service over the next 30 years. UK oil output is expected to fall by 50,000 bpd to 1.42 million bpd this year and by 100,000 bpd to 1.32 million bpd next year.

Ecopetrol plans produce 615,000 bpd to 620,000 bpd by the end of 2010 and increase to 750,000 bpd in 2011. The company, which produced 580,000 bpd in the second quarter, expects to increase production from several of its existing fields while also nearly doubling production from the assets in Colombia it recently purchased from BP Plc.

Brazil's cane industry association, Unica, said the country's ethanol production in the 2010/11 season from April through September 16<sup>th</sup> is expected to total 18.8 billion liters, up from 15.2 billion liters a year ago.

OPEC's news agency reported that OPEC's basket of crudes increased to \$79.52/barrel on Friday from \$77.48/barrel on Thursday. It also reported that OPEC's basket of crudes increased by \$1.67/barrel to \$76.53/barrel in the week ending October 1<sup>st</sup>, up from \$74.86/barrel the previous week.

**Market Commentary**

Crude oil rose to an eight-week high gaining strength on signals that the economy in the U.S. is improving. A surge in U.S. capital goods and an increase in sales of previously owned homes helped to bolster prices above \$82.00. Adding to today's higher move was the closure of the Houston Shipping Channel, which is expected to remain closed until late Tuesday. Gasoline also edged higher in response to continued strikes in France, lending support to crude oil. Coming into tomorrow's session, we should see follow through to the upside, with continued stretches towards the projected upside objective of \$84.61. The November/December crude oil spread showed signs of strength based upon the short-term disruption of supply due to the aforementioned channel closure. We would expect for this spread to continue to gain strength, working towards the longstanding gravitational level of -.43-resistance level.

Crude oil: Nov 10 327,984 -13,512 Dec 10 235,954 +691 Jan 11 106,445 -730 Totals 1,367,465 -3,049  
 Heating oil: Nov 10 107,437 -1,389 Dec 10 79,345 +1,400 Jan 11 45,888 +1,618 Totals 340,125 +5,223  
 Rbob: Nov 10 104,684 +3,577 Dec 10 48,844 +2,910 Jan 11 30,061 +1,391 Totals 253,600 +13,048

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
7945		19236	22965	18240	
7865		18965	23775	<b>16010</b>	22345
7727	8461	18920			24880
7367					27085
7307					

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