



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,
Zachariah Yurch & Karen Palladino
(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR OCTOBER 5, 2007

French President Nicolas Sarkozy's spokesman said EU member states could take their own steps to slow trade with Iran before the block agrees on extra sanctions to punish Iran for pursuing nuclear work. He said talks at the UN and within the EU should continue. The government has asked large French companies not to bid for tenders in Iran as France increases its pressure on Tehran to comply with UN demands that it suspend activities linked to uranium enrichment. France's President has sent a letter to his EU counterparts this week, appealing to the 27 nation bloc to start exploring sanctions now, suggesting that it initially add Iranian banking firms and officials to its list of asset freezes and visa bans. Meanwhile, France's Foreign Minister Bernard Kouchner said his country respects Iran and would continue talks with Iran over its disputed nuclear program.

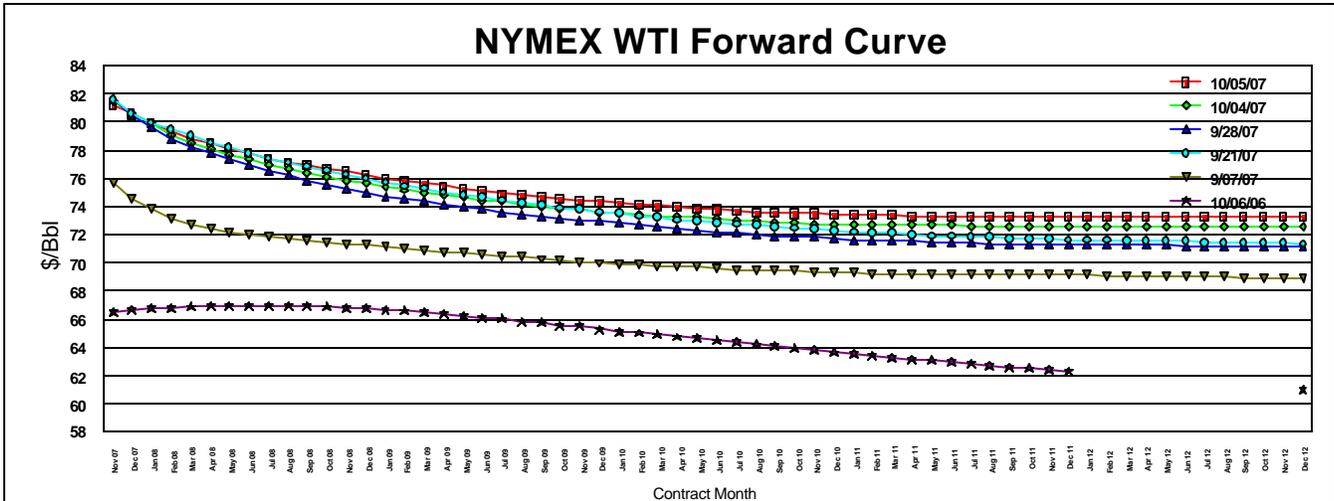
Market Watch

The US Department of Energy's weekly petroleum stock report for the week ending October 5 will be released on Thursday instead of Wednesday due to the Columbus Day holiday.

The US Labor Department said US employment rebounded last month and August payrolls were revised high, providing further evidence that while the US economy may slow a bid due to the housing crunch, it is likely to avoid a recession. Non-farm payrolls increased by 110,000 in September and August's level was revised to an 89,000 increase from a previous estimate of a 4,000 decline.

The US Senate Finance Committee passed a \$16 billion farm bill tax program giving tax benefits for cellulosic ethanol, coal to liquids and other alternative fuels while it cuts the tax credit given to refiners that blend corn based ethanol into gasoline. The bill lowers the ethanol blending tax credit by 5 cents/gallon to 46 cents/gallon when ethanol production exceeds 7.5 billion gallons/year, a move that could save \$854 million over 10 years. The legislation also extended until 2011 a 54 cent/gallon tariff on ethanol imports. The bill is still pending approval by the full Senate, which would hold off on the package until the Agriculture Committee completes work on the legislative side of the farm bill.

Japan is expected to start its first test sale of gasoline mixed with ethanol in Osaka next week to meet Kyoto emissions targets. The test sales are two months behind schedule due to difficulties in finding a petrol supplier outside the country's major refineries. It is expected to start selling gasoline blended with up to 3% of ethanol at a price similar to regular gasoline on October 9. Japan has targeted to replace 500,000 kiloliters a year or 0.6% of annual crude oil consumption for auto use, with biofuels by 2010.



Iran's President Mahmoud Ahmadinejad said Iran would not negotiate over its nuclear rights but said the government was prepared to answer questions from the UN's IAEA. He said Iran has already achieved proficiency in the whole nuclear fuel cycle, from extracting uranium or to enriching it, and that Iran has removed any hurdles in the way of its nuclear progress.

Iraq's Oil Minister Hussein al-Shahristani said Iraq was planning to ask international oil companies to buy its crude oil produced from its Kirkuk oil fields through term contracts rather than the current auction system. He said about 300,000 bpd of Kirkuk crude would be available for sale. He also stated that the government was expected to sign oil technical support agreement with five international oil companies before the end of the year. The new agreements would help increase production in the Rumeila South, Rumeila North, Zubair, Subba/Luhais and Missan in southern Iraq and the Kirkuk oilfields in the north. Separately, Iraq's Oil Minister said the Iraqi government was considering blacklisting foreign oil companies that sign contracts with northern Iraq's Kurdistan Regional Government. The KRG earlier this week approved new production sharing contracts with subsidiaries of Canada's Heritage Oil Co and France's Perenco SA. Earlier in the month, it also signed a production sharing agreement with Hunt Oil Co. He said the government's position toward the new deals is that any contract signed without its approval is not considered a contract. He also stated that oil and gas exports produced from fields as a result of contracts signed between the KRG and foreign oil companies and not approved by the central government would be considered illegal and categorized as smuggling. Under current Iraqi hydrocarbon law, the only Iraqi body authorized to export Iraqi oil and gas is the State Oil Marketing Organization.

Nigerian troops freed a British hostage on Friday after he had been held in the Niger Delta since August 10. Soldiers acted on a tip and raided the Abaara-Etche community close to the southern oil city of Port Harcourt before dawn. They exchanged gunfire with the kidnappers before freeing the Briton, David Ward, a manager at Hydrodive, an oil services company.

Refinery News

Valero Energy Corp started a six day planned shutdown of a hydrotreater unit at its 325,000 bpd Port Arthur, Texas refinery to perform work on the unit's catalyst. The unit is expected to restart on October 11. Separately, Valero Energy said there was no major impact to production from emissions associated with the restart of the reformer unit at its 210,000 bpd Delaware City, Delaware refinery. Valero Energy Corp's 135,000 bpd refinery in Wilmington, California continued restarting units Friday after it was shut due to a loss of power on Wednesday.

ConocoPhillips's 139,000 bpd refinery in Wilmington, California was restarting on Friday after it was shut due to a power outage. It is expected to reach full production sometime this weekend. Separately, ConocoPhillips said it would carry out maintenance on electrostatic precipitators at its 146,000 bpd Borger, Texas refinery from October 5-21. The work was originally scheduled to take place October 1-10.

ExxonMobil Corp said a hydrogen unit at its 150,000 bpd refinery in Torrance, California resumed operations on Friday after being shut on Wednesday by a malfunction. ExxonMobil however continued an overhaul of a crude unit and a coking unit at the refinery. It started on August 20 and was expected to last two months.

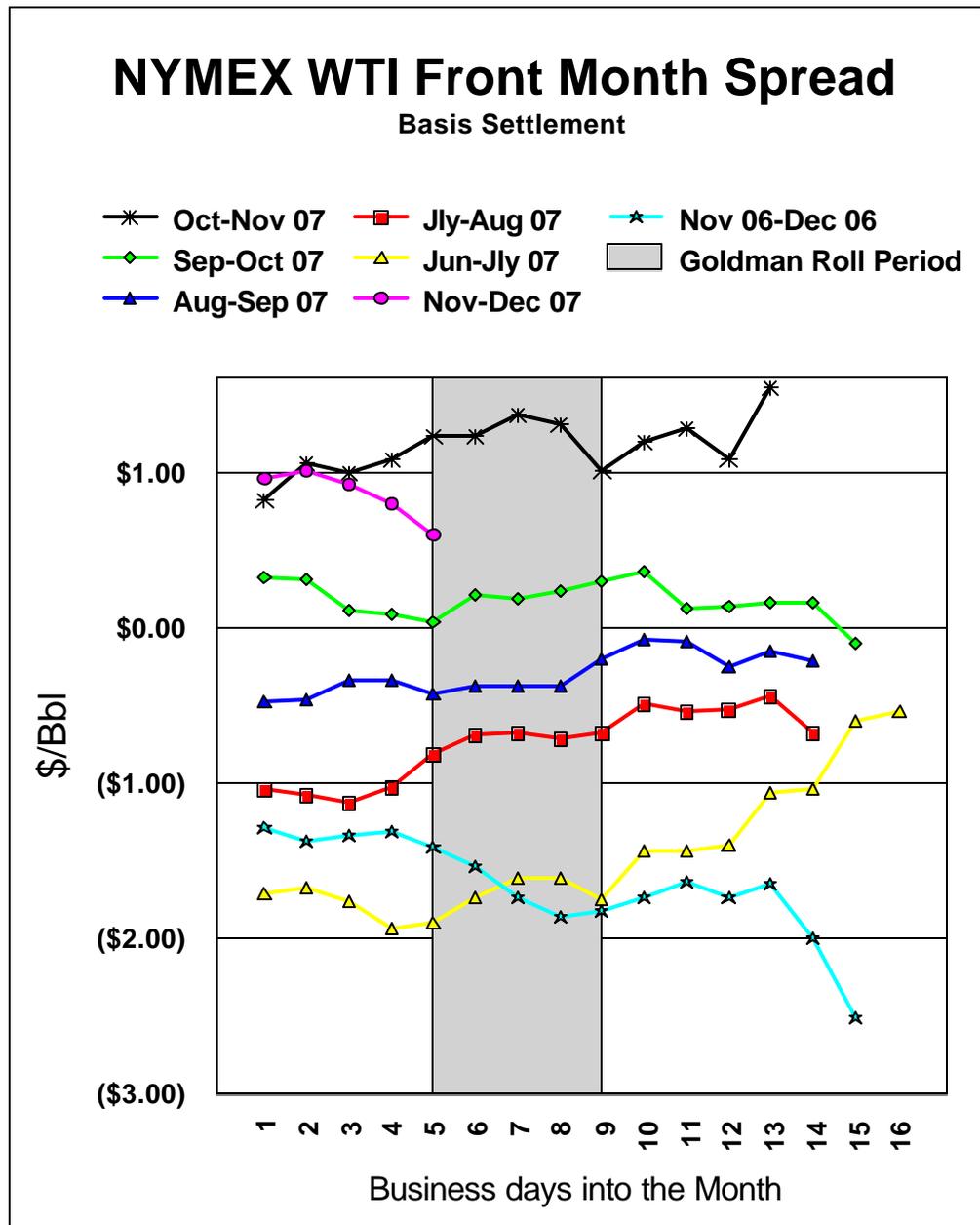
BP Plc's 265,000 bpd refinery in Carson, California started a three week overhaul on a crude unit and a coking unit on Thursday.

A fire started in a reformer unit at Somerset Refinery Inc's 5,500 bpd refinery in Somerset, Kentucky on Friday morning but was quickly extinguished. The company decline to answer questions on the refinery's status.

PDVSA said a power outage at its 200,000 bpd Puerto La Cruz refinery took several units offline on Thursday, the second time this week an electricity failure has affected refinery operations.

Production News

Norway's Ministry of Oil and Energy said that 2007 oil production is set to fall to 2.6 million bpd, its lowest level since 1994. It said production is estimated at about 2.5 million bpd in 2008 and 2009 and is

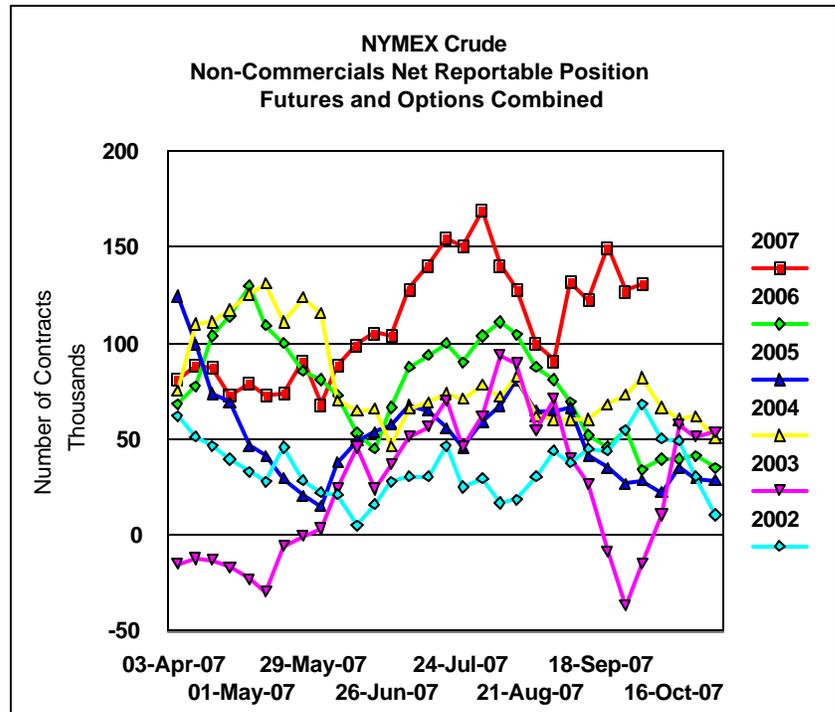


then expected to gradually decrease.

Brazil's Petrobras said it won 26 blocks in the US part of the Gulf of Mexico for \$108 million in a lease sale organized by the US Minerals Management Service.

BP Plc has reached preliminary agreement with Universal Terminal to take up an additional 250,000-300,000 cubic meters or 1.57-1.89 million barrels of fuel oil storage in Singapore by the first quarter of 2008. Its total capacity would increase to 600,000 cubic meters or 3.78 million barrels.

The official selling price of Iranian Heavy crude bound for Asia in November was set at the Oman/Dubai average minus 64 cents/barrel, it is up 55 cents on the month. The November official selling price for Forozan Blend was set at the Oman/Dubai average minus 55 cents/barrel, up 55 cents/barrel on the month. The November Iranian Light crude was set at the Oman/Dubai average plus \$2.70/barrel, up \$1/barrel on the week.



OPEC's news agency reported that OPEC's basket of crudes fell by 13 cents to \$74.83/barrel on Thursday.

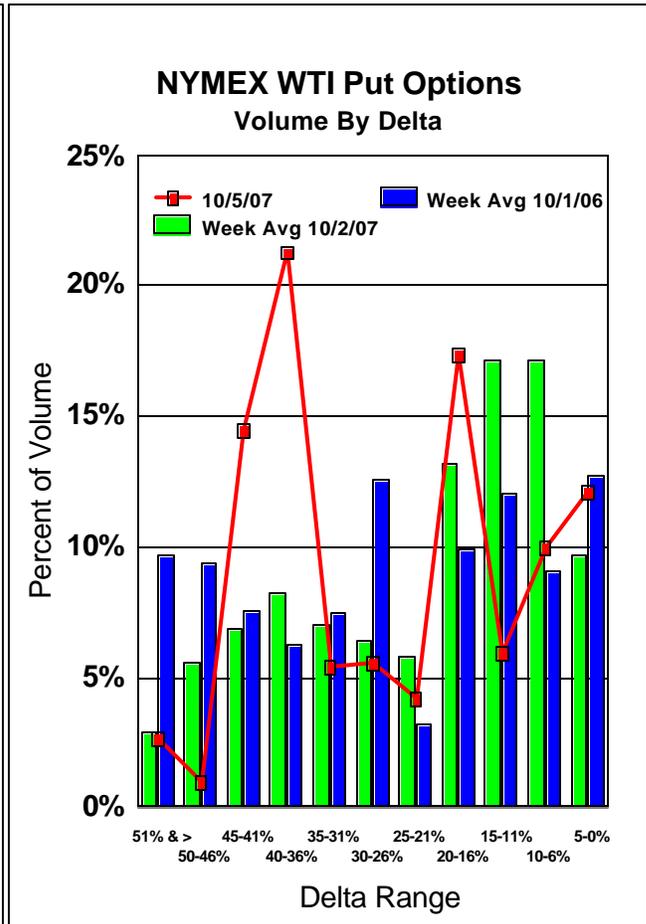
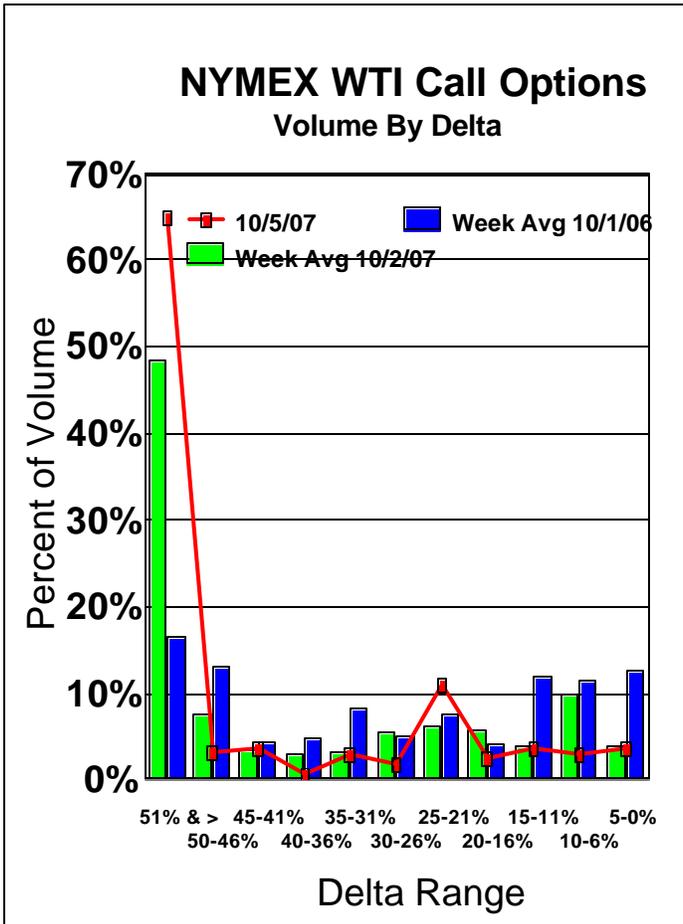
Market Commentary

Better than expected job growth, up 110,000, led to a strengthening in the U.S. dollar, which generally has a bearish effect on commodities. As a result the price of crude oil tumbled today. Typically, investors will turn to commodities on a weakening dollar, so today may have possibly seen investors exiting the market. This is the first time in 5 weeks that the crude oil market settled lower on the week, but continues to trade in a sideways pattern. In yesterday's wire we mentioned that the November/December spread was totally detached from the market. After today's activity we would have to say that the market needed to play catch up with the spread. With the Goldman rolls technically underway, we would look for this spread to come under further pressure. Total open interest in crude oil is total 1,435,047 up 2642, November 307,759 down 4312 and December 257,920 up 5163. Support for November, comes in at 78.40, 77.30, 76.79 and 75.70. Resistance is set at 82.00, 83.85, 84.10, 84.58 and 86.70. The RBOB market traded mostly sideways after the market posted a high of 206.71 in overnight trading. The market was holding resistance at 206.15 and sold off to a low of 202.60 on profit taking ahead of the weekend. It however bounced off its low on some late day buying and settled down just 29 points at 204.93. The RBOB crack spread settled at 4.85 after it traded out to 5.56. The spread is seen finding resistance at 5.179 followed by 5.297, basis a trendline. The heating oil market also settled down 78 points at 222.35 after it posted an inside trading day. The market posted a high of 223.90 in early morning trading and extended its losses to over 2.5 cents as it

posted a low of 220.61 amid the sell off in the complex. The market later retraced some of its losses ahead of the close.

		Explanation
CL	Resistance	81.75, 82.02, 83.85, 84.10, 84.58, 86.70
	Support	81.68
HO	Resistance	224.25, 228.25
	Support	223.20, 223.90
RB	Resistance	208.40, 208.55, 212.24
	Support	206.00, 206.71
		Friday's high
		Friday's low
		Previous highs
		Previous lows
		Friday's high
		Friday's low
		Previous highs
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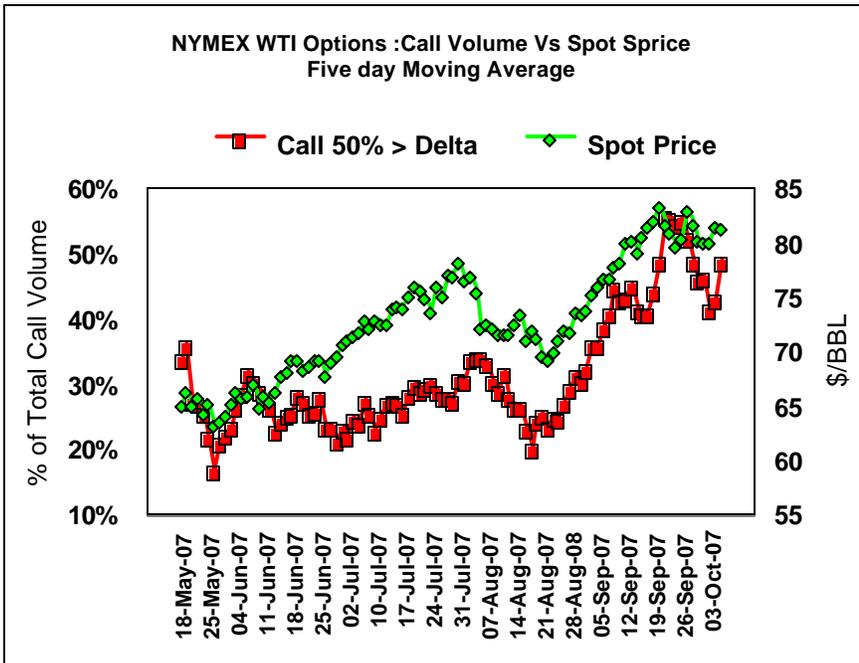
The product markets will likely continue to trade lower early next week. The RBOB market is seen finding resistance at 206.00, 206.71, 208.40, 208.55 and 212.24. Support is seen at 202.60, 202.12, 198.25, 197.65 and 194.85.



201.21, 198.25, 197.65 and 194.85.

The Commitment of Traders report showed that non-commercials increased their net long position by 12,906 lots to 56,470 lots in the week ending October 2. This was amid the fall in total short positions of 17,114 lots. The combined futures and option report showed that non-commercials increased their

net long position by 3,247 lots on the week. The non-commercials have likely increased their net long position, as the market has been able to bounce above the 80.00. Non-commercials in the RBOB market cut their net long position by 2,800 lots to 44,382 lots while non-commercials in the heating oil market cut their net long position by 8,183 lots to 28,391 lots.



It is interesting to look at the recent activity in crude oil options. Since basically the start of September there has been a significant change in the trading interest in the crude oil option skew, primarily in the call options. From October 2006 through the end of August 2007, in the money call options, those options with a delta of 51% or higher, accounted for just 23% of call volume on the average trading session. But since the start of September, these calls have on average accounted for better than 46% of the daily activity in call trading, and on

three occasions accounting for over two-thirds of the total call traded activity. This we feel is a signal at least temporarily of a shift in the trading style in this market and thus one must be wary of paradigm shift can have on not only flat price trading but spread trading as well.