



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 13, 2008

OPEC's petroleum studies department said the world financial crisis and worsening economic outlook is likely to sustain a bearish oil market and this poses a risk of oversupply in the first half of 2009.

OPEC's President Chakib Khelil said during the next meeting OPEC will study measures to balance the world oil market over the next six months in case it becomes oversupplied amid a deteriorating world financial situation. He also stated that current oil price reflected the true balance of supply and demand following the departure from the market of speculators.

Iran's OPEC governor, Muhammad Ali Khatibi said the recent fall in oil prices

Market Watch

The equity markets rallied as US Treasury Secretary Henry Paulson said the US was developing plans to buy equity in financial institutions while Britain, Germany, France, Italy and other European governments announced rescue packages to stave off a world financial crisis.

Goldman Sachs cut its commodity price forecasts. It said crude will trade at \$70.50/barrel in January. It warned that crude prices could fall as low as \$50/barrel. It said it underestimated the depth and duration of the world financial crisis and its implications on economic growth and commodity demand. Goldman Sachs now sees oil averaging \$86/barrel in 2009, down \$37 from its prior forecast.

Goldman Sachs has been restricted from making a market in price assessment agency Platts' daily oil trading window as counterparty anxiety increases. Goldman Sachs is the latest in a series of major investment banks to be placed under review by Platts. However the investment bank will still be able to trade during the window and that its deals would be taken into account by Platts. It will not be able to submit bids and offers to make a market during the assessment.

Iran's Deputy Central Bank Governor Hossein Ghazavi said the fall in oil prices is an alarm bell for Iran. He said the financial crisis sweeping the world would only have a limited impact on Iran's economy.

Traders said water levels on the Rhine River in central and south Germany and on the Danube River remain low and added that freight surcharges are still in force for cargo shipping. Surcharges were imposed on cargo customers in late September to compensate vessel owners for lost revenues when the ships have to sail partly loaded because of low water levels.

Analysts expect oil refining margins in Europe to remain strong into next year while US refiners may see their profit levels fall due to a fall in gasoline demand.

Chinese media reported that the country's independent oil firms hope to sue Sinopec and PetroChina under a new anti-monopoly law. Sinopec and PetroChina have crushed their smaller rivals as they fought to protect their own bottom line from the impact of unprofitably low state set fuel prices.

October Calendar Averages

CL – \$88.74
HO –\$2.5180
RB – \$2.0830

and worsening world financial crisis would be studied carefully before it makes a proposal on output reductions for OPEC. On Sunday, Iran's Oil Minister Gholamhossin Nozari said it would push for a cut in oil output at the group's emergency meeting on November 18. Qatar's Oil Minister Abdullah al-Attiyah said OPEC should take preventive measures at its November meeting to deal with a fall in oil demand that will result from world financial turmoil. He however declined to give a size of any possible supply cut at the meeting on November 18. Kuwait's Oil Minister Mohammad al-Olaim said any decision to cut Kuwait's oil production levels will be done through OPEC. Iraq's Oil Minister Hussain al-Shahristani said OPEC will consider cutting its output if there is no need for its oil.

Saudi Arabia's finance minister H.E. Ibrahim Al-Assaf said, in a statement at the annual International Monetary Fund and World Bank meetings in Washington, that the country has been concerned that the volatility and levels of oil prices reflect more than just the fundamentals of supply and demand. He said factors such as the flow of speculative funds into commodity markets, refining limitations and geopolitical tension were also behind the price fluctuations.

Algeria's President Abdelaziz Bouteflika said the country, which is heavily dependent on energy income, needs to brace for a possible oil price collapse.

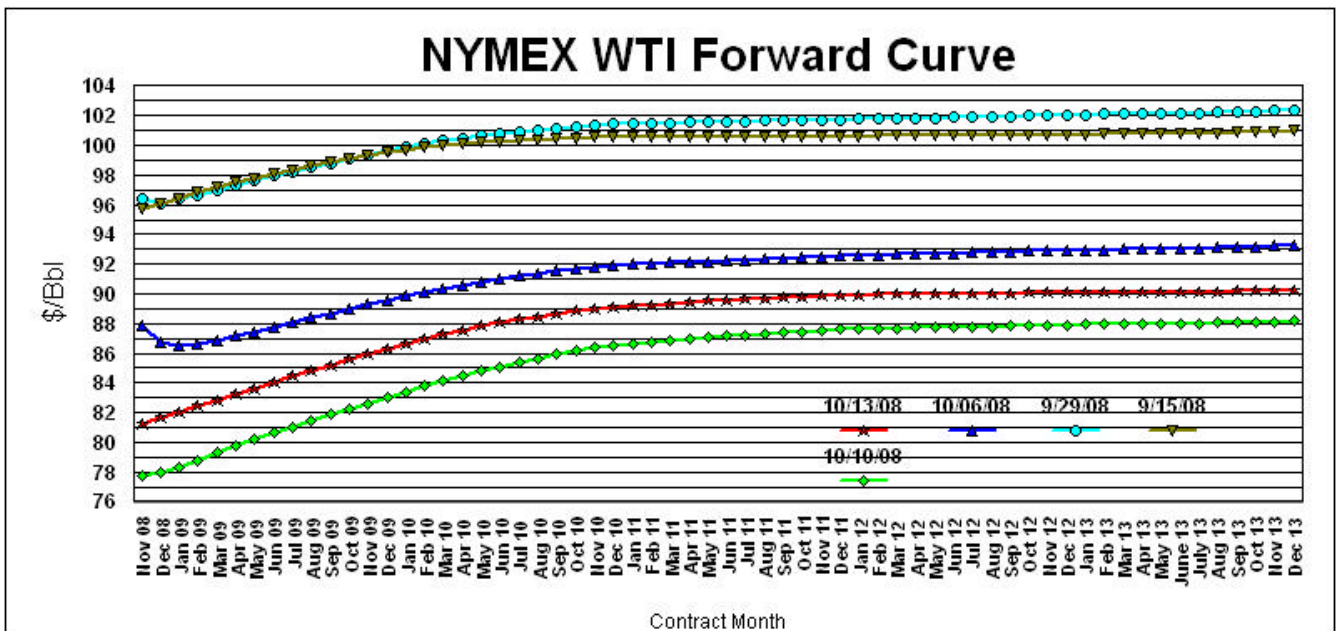
Turkey's military said Turkish warplanes bombed Kurdish rebel positions in northern Iraq. It was the seventh cross border air strike since a PKK attack on a Turkish outpost on October 3.

The AAA reported that the US average retail price of gasoline fell by 90 cents from its summer peak to \$3.206/gallon in the week ending October 13.

Refinery News

Credit Suisse said US refining margins fell last week due to weaker product prices. US Gulf Coast margins fell by \$8.67 to \$3.29/barrel in the week ending October 10 while margins in the Northeast fell by \$3.00 to \$9.80/barrel. Margins in the Midwest fell by \$1.46 to \$20.91/barrel while margins in the West Coast fell by 78 cents to \$20.34/barrel.

The DOE said it is shipping 200,000 barrels of crude from the SPR to Placid Oil's Port Allen, Louisiana refinery.



Magellan Pipeline said it had shortages of ultra low sulfur diesel in some of its upper tier terminals due to low supply entering the system and strong agricultural demand.

Valero Energy Corp said there was no impact to production at its Wilmington, California refinery after its sulfur recovery units tripped offline briefly on Monday. Separately, Valero Energy Corp said that a 65,000 bpd fluid catalytic cracking unit at its Houston, Texas refinery was back at planned rates after it was shut due to Hurricane Ike. It also stated that all major units at its 260,000 bpd Port Arthur, Texas refinery are operating and the plant is ramping up to full production. Valero Energy also stated that a problem in a heavy oil cracker at its 340,000 bpd refining complex in Corpus Christi, Texas was quickly corrected and had no impact on production.

Alon's 80,000 bpd refinery in Krotz Springs, Louisiana has started receiving emergency crude oil supply and was working its way toward full rates after recent hurricanes. Alon had requested 100,000 bpd of emergency oil supply from the SPR because of supply disruptions caused by hurricanes Gustav and Ike.

Motiva Enterprises' 285,000 bpd Port Arthur, Texas refinery is expected to reach full rates next weekend after it was shut ahead of Hurricane Ike.

ExxonMobil Corp said there is still no start up time set for its 348,000 bpd Beaumont, Texas refinery, which was shutdown due to Hurricane Ike.

Lyondell Basell said that planned maintenance work on a coker unit at its 268,000 bpd refinery in Houston, Texas would last through the end of October. The refinery has restarted its other units that were shut due to Hurricane Ike.

Delek US Holdings reported an upset at an alkylation unit during unscheduled maintenance at its 55,000 bpd refinery in Tyler, Texas on Thursday.

Neste Oil said the start up phase of a residual hydrocracking unit at its 200,000 bpd Porvoo refinery proceeded according to its plan.

Kuwait National Petroleum Co said it shutdown its three refineries, with a combined capacity of 930,000 bpd, due to a power outage but added that exports were not affected because storage tanks were full. The refineries are gradually resuming work and are expected to return to full capacity within 24 hours.

South Korea's GS Caltex said it will restart on Tuesday its 130,000 bpd No. 2 crude distillation unit that suffered a fire around midnight on Sunday.

China's crude oil imports in the first nine months of the year increased by 8.8% on the year to 140 million tons. While China did not report data for September alone, the figures for the first nine months suggested shipments of about 15 million tons, up 10% on the year.

India's Hindustan Petroleum Corp is seeking 130,000 tons of low sulfur diesel for December to January delivery, up from 95,000 tons in November. It is also seeking 57,000 tons of kerosene and gasoline in the tender.

Production News

Saudi Arabia will cut supplies next month to a major Europe based refinery. However it will maintain shipments to Asian refiners.

Norway's Petroleum Directorate said the country's daily oil production fell to 1.988 million bpd in September from August's level of 1.993 million bpd.

Norway's North Sea Gullfaks crude oil system is scheduled to load about 313,500 bpd in November, down from 330,900 bpd in October. Norway's North Sea Statfjord oil system is set to load about 285,000 bpd in November, down from 303,000 bpd in October. Norway's Forties crude system is scheduled to load 19.2 million barrels in November, down from 19.8 million barrels in October. Norway's Oseberg crude system is scheduled to load 6.35 million barrels in November, down from 6.6 million barrels in October.

Iraq's northern oil exports to Turkey stood at about 480,000 bpd, although there was a brief halt in pumping on Thursday.

BP said crude oil production at the Plutonio oilfield in Angola has yet to restart. Last week, traders said they expected the 200,000 bpd field to resume production on October 10. The Plutonio field was closed on August 16 following an incident at a gas plant at the facility.

Woodside Petroleum Ltd said it has no plans to shelve any expansion projects.

Saudi Aramco plans to upgrade its onshore Dammam oilfield to produce 100,000 bpd of crude at an estimated cost of \$1.2 billion. The project is in addition to the existing large scale Saudi oil field developments such as Khurais, Khursaniyah and Manifa aimed at increasing the country's crude production capacity to 12.5 million bpd by the end of 2009.

Russia's Finance Minister Alexei Kudrin said it plans no deliberate cut in oil production and added that it can sustain a long term oil price of \$50/barrel.

Shipments of Azeri crude are expected to total about 455,000 bpd in November, down from the usual total of 800,000-900,000 bpd. It is down sharply from previous levels as flows of Azeri crude have been disrupted since August.

Plans for Canadian oil sands projects may be revised rather than delayed or cancelled as financial turmoil makes their economics increasingly difficult amid falling oil prices and high costs.

The National Iranian Oil Co increased the price of its Iranian Light crude bound for NW Europe by 20 cents to BWAVE minus \$4.80 while its Iran Heavy and Forozan crude were kept unchanged at BWAVE minus \$6.65 and BWAVE minus \$6.70, respectively. Meanwhile it cut the price of its Iran Light crude bound for Asia by 65 cents to the Oman/Dubai average minus 35 cents, its Iran Heavy crude by 40 cents to the Oman/Dubai average minus \$2.87 and its Forozan crude by 40 cents to the Oman/Dubai crude minus \$2.80.

Iraq's State Oil Marketing Organization left the November official selling prices of its Basra Light crude destined to the US and Europe unchanged at second month WTI minus \$7.05/barrel and Dated Brent minus \$4.35/barrel, respectively. Meanwhile its Basra Light crude bound for Asia was set at the Oman/Dubai average minus \$2.05/barrel, down 50 cents on the month. November Kirkuk crude for the US was unchanged at first month WTI minus \$4.55 while its Kirkuk crude bound for Europe was set at dated Brent minus \$2.25/barrel, down 15 cents.

Pemex has launched a tender to build four offshore oil platforms for the Cantarell field. It said the four platforms will be used in the Akal section of the field for oil well repairs.

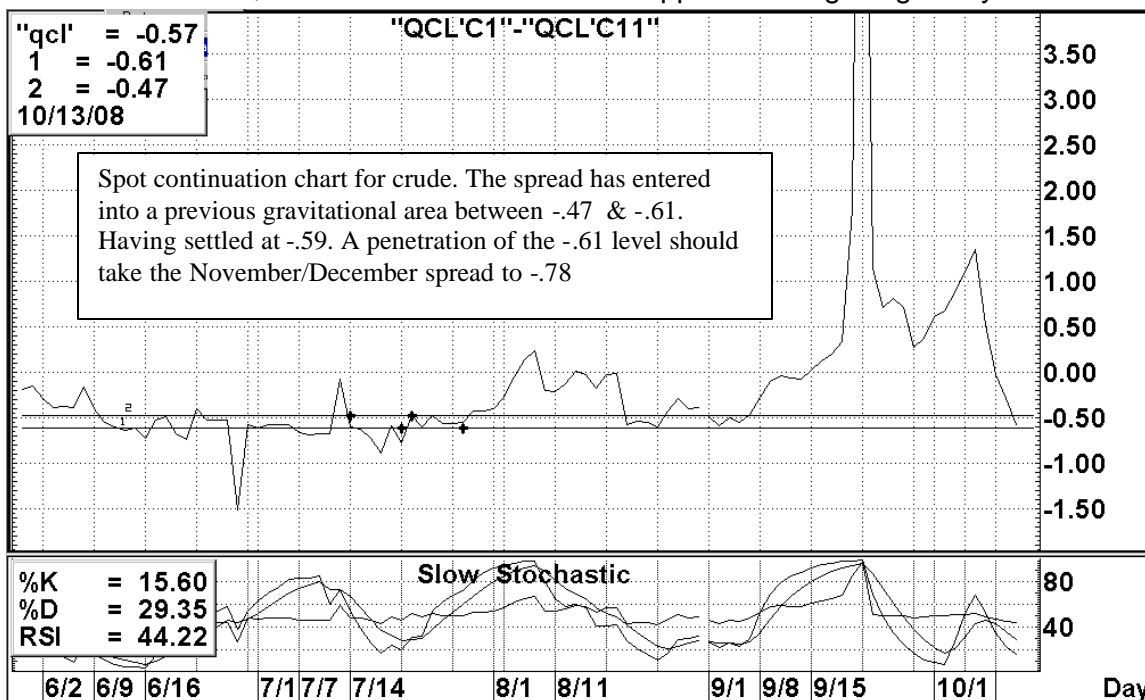
Brazil's Petrobras and Colombia's Ecopetrol signed a memorandum of understanding to partner on projects in Brazil, Colombia and elsewhere. The two companies will evaluate the possibility of exploring and developing oil fields and exploration blocks operated by either company in Brazil and Colombia.

OPEC's news agency reported that OPEC's basket of crudes fell to \$72.67/barrel on Friday from a revised \$78.24/barrel level on Thursday.

Market Commentary

As the dark cloud lifted, great joy spread across the market place. This weekend's G-7 meeting led to heightened confidence in the global economy. Oil climbed from a 13-month low after governments in Europe, the U.S. and Asia agreed to support banks. Although demand will still be impacted by the recent global economic meltdown, hopes are for original forecasts not to be as grim as originally thought. Goldman Sachs Group Inc. lowered its crude oil price forecasts for a second time this year. It reduced its estimate for the U.S. benchmark West Texas Intermediate crude for the fourth quarter to \$75 a barrel from \$110, and cut its year-end target to \$70 a barrel from \$115. "We clearly underestimated the depth and duration of the global financial crisis and its implications on economic growth and commodity demand," the analysts wrote. A financial focus will still aid in the determination of prices in the future, given its recent impact on the market. The forward curve continues to take on a bearish hue, with the front end dragging the deferred ever lower. The November/December crude oil spread has now re-entered the -.47 to -.61 previous congestion range, with technical indicators calling for further weakness of this spread. A penetration of the -.61 support level, will take this spread to -.78. At this point in time it may be too early to jump on the bull and go for a ride. This whole financial situation will most likely take some time to unravel and in between this time, we would look to buy and sell against listed support and resistance numbers buying and selling against the listed support and resistance numbers. The November gasoline contract traded above, but was unable to sustain strength above resistance set at \$1.9285. Technical indicators appear to be getting ready to cross to

the upside, however we would be more comfortable selling against listed resistance, looking for this market to experience intermittent peaks and dips, with the potential to dip greater. Heating oil



also showed signs of recovery as well, but again it is too early to determine a bullish change to this market. As with the gasoline, would be cautious in our trading, leaning more towards selling against listed resistance levels.

Open interest for crude oil, NOV.08 132,575 -26,745, DEC.08 293,883 +17,669. Totals: 1,084,312 +412
 Open interest for heating oil; is NOV.08 35,578 -3,788, DEC.08 43,397 +5,302. Totals: 212,422 +4,819.
 Open interest for gasoline is, NOV.08 42,479 -4,646, DEC.08 48,107 +5,741, Totals: 162,750 +3,368.

Crude Support	Crude Resistance
78.35, 68.63, 49.90	85.40, 87.10, 98.58, 110.07
Heat support	Heat resistance
2.1450, 2.1270, 1.9730	2.4040, 2.6590, 3.0184
Gasoline support	Gasoline resistance
1.8985, 1.8070, 1.7980, 1.60.75, 1.4700, 1.3351	192.85, 2.0690, 2.1400, 2.1980, 2.2865