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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 13, 2009

OPEC revised up its forecast for world oil demand in 2009 and 2010 as the world economy continues to show signs of recovery but warned that sustained government spending to support growth was difficult to maintain. World oil demand in 2009 is estimated to average 84.2 million bpd, up 200,000 bpd from its previous forecast due to rising demand from North America, the Organization for Economic Cooperation and Development or OECD, Pacific region India and the Middle East. OPEC also revised up world oil demand growth in 2010 by 200,000 bpd. Next year's demand growth is expected to reach 700,000

Market Watch

The floating storage of the North Sea Forties crude is likely to grow further in the short term as lower demand and increased supply continues to encourage traders to store surplus cargoes offshore. Vitol Holding B.V. is heard to have fixed a Very Large Crude Carrier, Flandre, for 30-90 days of storage in the North Sea at a cost of \$35,000/day. Should Vitol secure the tanker, supertankers employed for Forties storage in the North Sea will increase to nine, the same with the all-time high in early July.

BP's chief economist Christof Ruhl said oil prices are unlikely to spike in the next two to three years due to rising spare capacity and relatively low demand growth. He said there will soon be 6 million bpd of spare production capacity. He added that in good years, global demand was rising by 1.2 million bpd each year, so even if demand would resume that level, it would still take more than three years to burn through that spare capacity and to create markets as tense as they were a year ago. He sees world oil demand growth returning in 2010 after consumption fell from a peak above 86 million bpd in 2007 to nearly 84 million bpd this year. Still, the rate of demand growth next year is expected to be about 700,000 bpd, just over half what it was between 2004 and 2008.

China and Russia signed agreements on gas supply and cooperation in oil. A gas agreement signed by Russia's Deputy Prime Minister Igor Sechin and China's Vice Prime Minister Wang Qishan was based on a memorandum of understanding reached in June. The chief executive of Russia's Gazprom, Alexei Miller and the president of China National Petroleum Corp, Jiang Jiemin also signed a framework agreement for natural gas supply to China. In addition, Russia's Rosneft and CNPC signed an MOU on more cooperation in covering both upstream and downstream oil sectors.

PDVSA plans to start negotiating compensation for 76 oil services companies that had assets seized by the end of next month. He said that some instances, companies did not have their entire operation nationalized while others lost everything. Each company will be compensated on a case by case basis.

The US Supreme Court agreed to hear former Enron Corp chief executive Jeffrey Skilling's appeal of his conviction of using fraudulent accounting and off-the-books partnerships to deceive investors, analysts and employees about the company's deteriorating financial condition. A Supreme Court ruling in his favor could lead to a new trial. His appeal contends that under a federal statute barring honest services fraud, prosecutors need to show that he is aiming to advance his own interests, rather than those of the company. It also argues that pretrial publicity prejudiced the Houston jury and led to an unfair trial.

**October
Calendar Averages**
CL – \$71.39
HO – \$1.8365
RB – \$1.7694

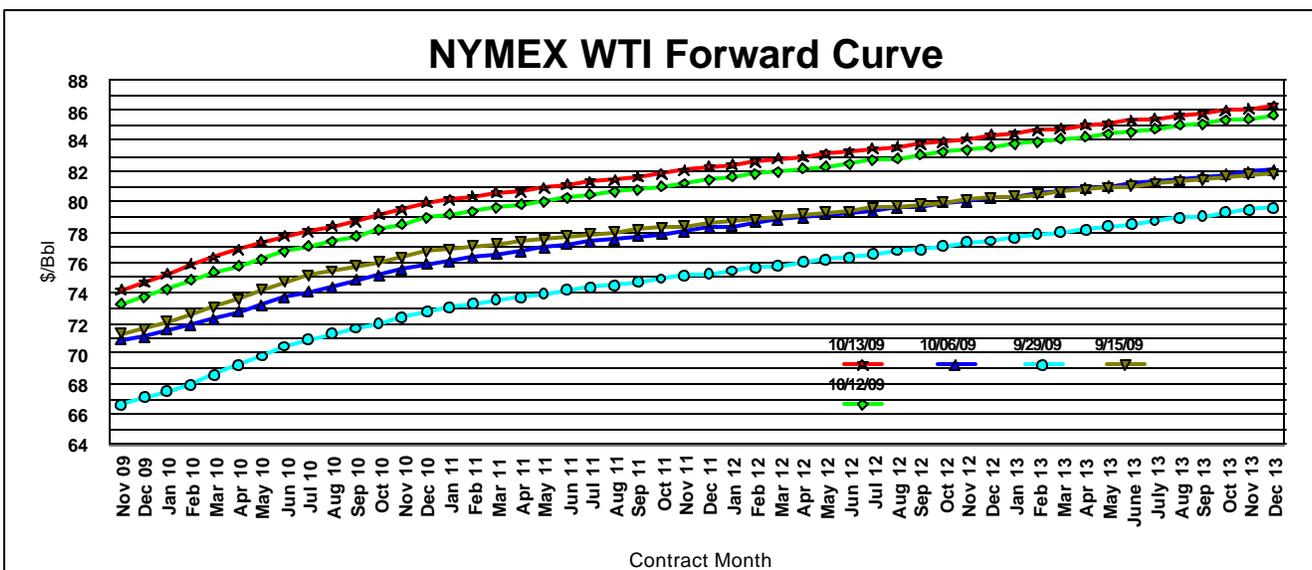
bpd to average 84.9 million bpd amid slow and weak improvement in the world economy as financial markets stabilize. According to the report, OPEC's overall production increased slightly by 40,000 bpd to 28.9 million bpd in September. OPEC-11's oil production increased to 26.42 million bpd, cutting its compliance with its output cuts to 62% from 64% in August. OPEC estimates demand for its oil this year to average 28.6 million bpd, up 100,000 bpd from its previous estimate. In 2010, demand for OPEC crude is expected to average 28.4 million bpd, up 300,000 bpd from its previous estimate. Non-OPEC oil supply is forecast to average 50.86 million bpd in 2009, up 50,000 bpd from its previous estimate. In 2010, non-OPEC supply is expected to grow 350,000 bpd.

According to IHS CERA, oil demand in the developed world peaked in 2005. It said the economic downturn caused world oil demand to fall in back to back years for the first time since the early 1980s, but the decline in developed economies, such as the US and Japan, dates back to 2005. It expects world oil demand to increase to 89.1 million bpd in 2014, up from 83.8 million bpd this year. However the majority of the growth is expected to come from developing economies, particularly China. It also said petroleum will still be the dominant fuel for transport over the next two to three decades and say alternative fuels and technologies will only gain market share slowly due to the slow turnover of cars, trucks and airplanes that use petroleum.

Investor T. Boone Pickens said the US imported 63% of it oil or 357 million barrels in September. He said the US spent nearly \$25 billion on imported oil in September.

US Secretary of State Hillary Clinton said the time has not yet come to impose further sanctions on Iran over its nuclear program and praised what she said was Russia's help in handling the issue. She said it preferred that Iran work with the international community to fulfill its obligation on inspections. Russia's President Dmitry Medvedev said that sanctions against Iran may be inevitable if it defies world powers over its nuclear program. Separately, State Department spokesman Philip Crowley said the Iranian economy is vulnerable to new sanctions the international community might impose If Iran refuses to comply with nuclear non-proliferation rules. He said US President Barack Obama and Secretary of State Hillary Clinton "have made clear, our offer of engagement with Iran is not opened."

The EIA reported that the US average retail price of diesel increased by 1.8 cents to \$2.60/gallon in the week ending October 13th. It also reported that the US average retail price of gasoline increased by 2.1 cents to \$2.489/gallon on the week.



According to a report by MasterCard Advisors LLC, US gasoline demand fell by 2.4% to 9.006 million bpd in the week ending October 9th. On a four week basis, demand was up 3.7% on the year. On a nationwide average, the retail price of regular gasoline was unchanged at \$2.45/gallon, the lowest price since July 24th.

Refinery News

Colonial Pipeline froze shipments of distillates for cycle 59 and shipments of gasoline for cycle 58 north of Collins, Mississippi as demand for space exceeded pipeline capacity.

Motiva Enterprises said a reformer at its 236,400 bpd Norco, Louisiana refinery returned to planned rates on Monday after restarting on Saturday. The unit was shut last week for unplanned repairs.

Total Petrochemicals US reported a fire at its Port Arthur, Texas refinery was contained and nearly extinguished early Tuesday. The fire started in a heavy oil line between the crude unit and the tank farm.

Suncor Energy Inc is repairing a fire damaged oil sands upgrader north of Fort McMurray, Alberta. The unit was shut for maintenance work when a fire broke out. It said the upgrader is operating at reduced rates following the fire at the facility.

Italy's Saras will run its 300,000 bpd refinery at Sarroch in Sardinia at full capacity for the rest of the year. It said it will perform some planned maintenance at a naphtha processing unit this quarter but it will have a negligible impact on production.

Japan's Energy Corp restarted a 35,500 bpd fluid catalytic cracking unit at its Kashima refinery earlier in the day after an unplanned shutdown on September 28th. The unit was shut due to a problem related to a compressor.

Toa Oil Co restarted one of two crude distillation units at its Keihin refinery in Kawasaki on Sunday as scheduled. The 120,000 bpd crude unit has been shut since October 1st to install a new catalyst on a desulphurization unit.

Russia's Rosneft and China National Petroleum Corp will build an oil refinery and a network of gasoline filling stations in China. Russia's Deputy Prime Minister Igor Sechin said the refinery will be built by the two companies about 63 miles from Beijing and the retail network will comprise 300 to 500 stations.

The Federation of Electric Power Companies of Japan reported that Japan's 10 utilities generated 75.53 billion kilowatt-hours of electricity in September, down 9% from a year ago and in line with projections. Japan's utilities burned less coal, crude and other thermal fuels in September. Japan's coal consumption fell by 2.1% on the year to 4.446 million tons, while its fuel oil consumption fell by 69.9% to 272,210 kiloliters and its crude consumption fell by 62.9% to 270,878 kiloliters. Its LNG consumption fell by 6.2% to 3.314 million tons.

India's Central Electricity Authority said coal shortages restricted growth in the country's overall power generation to an annual 7.5% in September. Generation would have increased 9.8% had enough coal been available at plants. India produced nearly 63.57 billion kilowatt hours in September, up from 59.12 billion kilowatt hours last year. The share of coal-fired plants in India's generation capacity will increase to 57% by March 2012 from the current 53.3% or 80,284 megawatts.

Production News

Royal Dutch Shell's onshore oil output in Nigeria has been curtailed by violence. The company's chief executive Peter Voser said its production is currently about 120,000 bpd, down from about 300,000 bpd. Violence in the Niger Delta has declined since Nigeria's President Umaru Yar-Adua offered an unconditional pardon to militants in June. Shell's chief executive said it was too early to say whether the improvement could be sustained.

Iraq's Oil Minister Hussain al-Shahristani said Iraq is in the final stages of negotiating deals for oilfields left over from a June energy auction after oil majors put forward new bids for production targets and accepted Iraq's fee terms. He said ENI, Occidental and KOGAS proposed a production plateau target of 1.125 million bpd for Zubair oilfield and had agreed to a fee of \$2/barrel. He also said a consortium of Lukoil and ConocoPhillips was competing against ExxonMobil for West Qurna, phase 1.

Iraq increased the official selling price of its Basra Light crude loading in November bound for customers in Asia. The November price was set at the average Oman/Dubai quotes, up 2p0 cents from a discount of 20 cents/barrel in October.

Venezuela's PDVSA aims to finalize a deal this month to drill for oil in the eastern Orinoco region with China. The head of exploration and production at PDVSA, Eulogio Del Pino said a joint venture between Venezuela and China will develop the Junin 4 block, which could produce 400,000 bpd of heavy crude. Separately, PDVSA said Venezuela's oil production should be between 3.08 million and 3.11 million bpd in 2010.

Saudi Arabia plans to inject carbon dioxide into the Ghawar oil field by 2013 to trap the climate warming gas and improve production. The field is the world's largest oilfield, with an output of about 5 million bpd in 2008, about half of Saudi Arabia's oil production.

Norway's government estimates in its 2010 draft budget, oil and gas output will fall to 233 million cubic meters of oil equivalent next year from 236 million cubic meters of oil equivalent in 2009. Oil production is expected at 126 million cubic meters of oil equivalent next year, down from 133 million cubic meters seen this year.

OPEC's news agency reported that OPEC's basket of crudes increased to \$70.06/barrel on Monday from Friday's \$68.86/barrel level.

Market Commentary

Crude oil traded higher today, reaching a seven-week high, forged ahead by a weak dollar and speculation that world oil demand will grow. OPEC as revised its 2010 global demand forecast based upon economic growth in emerging economies. Although, we have not seen any steady, clear signs that the economy is improving, promising demand revisions are supporting prices. The shape of the forward curve is indicating that there is speculation that there will be economic growth in the middle to latter part of 2010. The November contract worked towards the \$75.00 key resistance level, supported by bullish technicals. This level remains an area of concentration. Should prices fail to take this level out, the \$75.00-\$65.00 range will remain intact and we would look for prices to work back towards the bottom of this range. Forecasts calling for cooler temperatures helped lend support to heating oil, which also hit a seven-week high. Gasoline gathered support on reports of a fire at Total Petrochemical's Port Arthur, TX refinery. Despite all three markets moving higher today, the overall fundamental picture is not supportive for prices. Inventories, which are due out tomorrow, are calling for builds across the board. Without a shift in demand, we cannot see this market sustaining strength.

Crude NOV.09 165,166 -27,432 DEC.09 277,076 +23,970 JAN.10 128,561 +10,280 FEB.10 46,789 +3,288 MAR.10 34,165 -1,422 APR.10 18,257 -314 Totals: 1,225,338 +4,5720 Heating NOV.09

51,932 -2,035 DEC.09 64,048 +526 JAN.10 42,820 +690 FEB.10 21,191 +243 MAR.10 16,736 +107
 Totals: 308,066 -489 Gasoline NOV.09 61,432 -6,806 DEC.09 49,272 +5,431 JAN.10 30,409 +927
 FEB.10 9,681 +754 MAR.10 14,825 +12 Totals: 199,851 +1,837

Crude Support	Crude Resistance
64.70, 63.38, 62.70, 61.61, 60.95	75.00, 76.24
Heat Support	Heat resistance
1.6585, 1.4870, 1.4220, 1.4130, 1.3720	1.9440, 2.0420, 2.0465
Gasoline support	Gasoline resistance
1.6010, 1.5887, 1.5370, 1.5260, 1.3520, 1.3400	1.9551, 2.0210, 2.0400, 2.0567, 2.1100, 2.1600, 2.3350

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