



## ENERGY RISK MANAGEMENT

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## ENERGY MARKET REPORT FOR OCTOBER 14, 2008

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US President George W. Bush confirmed that the US government will purchase equity in financial institutions, guarantee new bank debt and expand insurance for non-interest bearing accounts to address the financial crisis. He said the new measures are not intended to take over the free market but to preserve it.

The US Minerals Management Service reported that shut in oil and natural gas production continued to recover. It reported that a total of 506,201 bpd of oil production remained shut in as of Tuesday, down 56,715 bpd

### Market Watch

Speakers at an energy derivatives conference said energy companies, banks and hedge funds are turning to exchanges instead of over-the-counter markets to minimize risks in energy trading. They said lack of counterparty trust is moving volume toward cleared markets. The lack of confidence has also spread to investors in energy hedge funds. However some believe that the migration toward exchanges may be temporary and traders may return to the established over-the-counter markets once the world financial situation is more certain.

The chairman of the Senate committee that oversees futures market oversight, Senator Tom Harkin said Congress should enact stronger regulation of over-the-counter swaps and derivatives. He said Congress should consider if over-the-counter swaps and derivatives should be moved into a regulated framework where the volume and value of trade, as well as market participants, would be public. He plans to introduce a bill that would reinstate the US Commodity Futures Trading Commission's authority to regulate the derivatives. He said Congress was wrong to exclude credit-default swaps from regulation in 2000.

Barclays Capital lowered its forecasts for the 2009 average oil price to \$75/barrel from its previous estimate of \$90/barrel and natural gas to \$7/mmbtu from \$8.50/mmbtu. Barclays analyst said they expected spending on exploration in North America to fall by 15% in 2009 from 2008 levels.

Total SA said it does not expect oil prices to fall to \$60/barrel.

Saudi Arabia's economy minister said the Saudi economy will continue to show reassuring growth rates despite the world financial crisis, which is expected to ease inflation.

Iraq's central government may issue an export license allowing the Iraqi Kurdistan region to export crude oil from its Tawke field through Turkey. Oil industry sources said the Baghdad government has agreed in principle that the Kurdistan Regional Government, or KRG, exports oil from the field through the northern pipeline that extends from Kirkuk to Turkey's port of Ceyhan. Norway's DNO International ASA started production at the Tawke field in 2007 at a rate of 12,000 bpd but no crude has been officially exported. Output however has been halted since mid-August.

from Friday's level. It also reported that a total of 2.737 bcf/d of natural gas production remained shut in, down 90 mmcf/d from Friday's level.

**October Calendar Averages**

**CL – \$87.73**  
**HO – \$2.4922**  
**RB – \$2.0632**

According to Lloyd's Marine Intelligence Unit, OPEC's seaborne oil exports, excluding Angola and Ecuador, fell by 600,000 bpd in September to 23.031 million bpd. It said supply from Gulf producers fell by 844,000 bpd to 17.709 million bpd in September.

UN Secretary General Ban Ki-moon arrived in Geneva on Tuesday to meet senior European diplomats ahead of talks over the conflict between Russia and Georgia in August. The talks in Geneva will be the first time Russia and Georgia have met face to face since the August conflict.

The President of Iraq's Kurdish autonomous region, Massud Barzani will hold talks Tuesday with Turkish officials on the crisis over Kurdish rebels. Turkish warplanes have been bombing Kurdish rebel hideouts across the border in Iraq following an October 3 attack by militants from the Kurdistan Workers Party against a Turkish border outpost.

The EIA reported the US average retail price of diesel fell by 21.6 cents/gallon to \$3.659/gallon in the week ending October 13. The price fell to its lowest level since March 3. However the price is still 62 cents above last year's level. It also reported that the US average retail price of gasoline fell by 33.3 cents to \$3.151/gallon on the week. Gasoline prices are up 38.9 cents on the year.

**Refinery News**

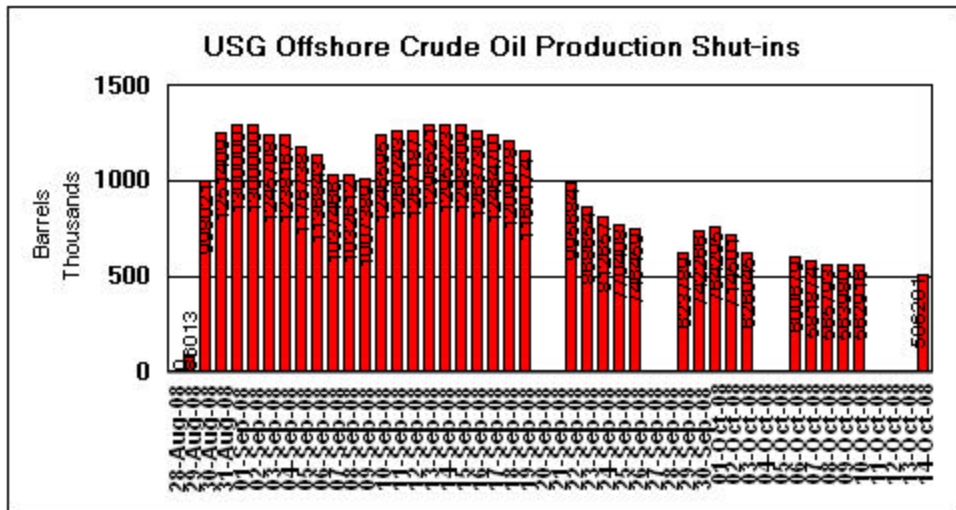
BP is shutting down an ultraformer unit at its 467,000 bpd refinery in Texas City, Texas for a week of maintenance. The ultraformer unit No. 3 will be shut from Tuesday until October 21.

Hess said it expects no effect on operations at its 500,000 bpd joint venture refinery in St. Croix from Tropical Storm Omar. The US National Hurricane Center is forecasting that Tropical Storm Omar will move to the US Virgin Islands by Wednesday night.

Officials stated that Tropical Storm Omar caused an electrical outage at Venezuela's Puerto La Cruz refinery, leaving several units down. The refinery's distillation unit was shut as the result of a power failure. PDVSA said no damages have been reported as a result of the outage. It said it will continue to supply domestic and international customers normally.

Sempra Energy plans to develop an oil import and storage facility with Valero Energy Corp in the refining hub of Port Arthur, Texas. The terminal would import crude oil, with the possibility of importing other petroleum products. Sempra is planning to build a separate import terminal there for liquefied natural gas.

Kuwait National Petroleum Co said it was processing 265,000 bpd after a power outage on Monday, which led to the shutdown of its three oil refineries. It shutdown its Shuaiba, Mina Abdullah and Mina al-



Ahmadi refineries, which have a combined capacity of 930,000 bpd. The refineries are expected to process at full capacity within 24 hours.

Italy's ERG SpA said a fire started at one of two power production lines at the ISAB energy plant but it said it had no impact on the refinery.

South Korea's GS Caltex Corp will restart its 130,000 bpd No. 2 crude distillation unit at its Yeosu refinery later Tuesday. The unit was shut on Sunday due to a fire. The unplanned maintenance will not impact the company's production and exports due to the short downtime.

PetroChina's Fushun refinery has started test runs of a new 160,000 bpd crude distillation unit. The project is part of a plan to upgrade and slightly expand capacity at the refinery. It will upgrade the larger of the two existing plants, with current capacity of 114,000 bpd, to 200,000 bpd.

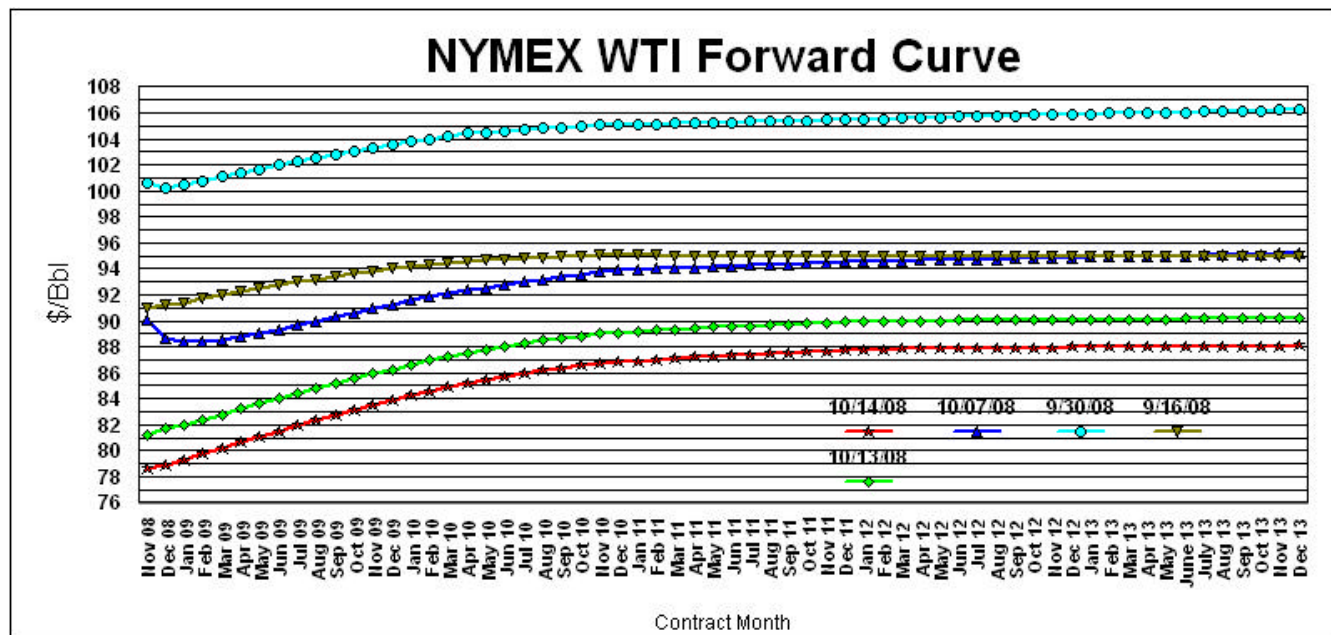
Traders said about 330,000 tons of Asian diesel were booked for Europe for the second half of October loading, taking the total for the month to 640,000 tons, the highest on record. Buyers in Germany have been purchasing cargoes ahead of the winter.

China's General Administration of Customs reported that the country's crude oil imports in September increased by 10% on the year to 15.03 million tons or 3.66 million bpd. It also reported that for the first nine months of the year, crude imports totaled 135 million tons.

A shipping agent reported that Iraq's Basra oil exports fell to 1.32 million bpd on Tuesday from 1.54 million bpd on Monday due to a power shortage.

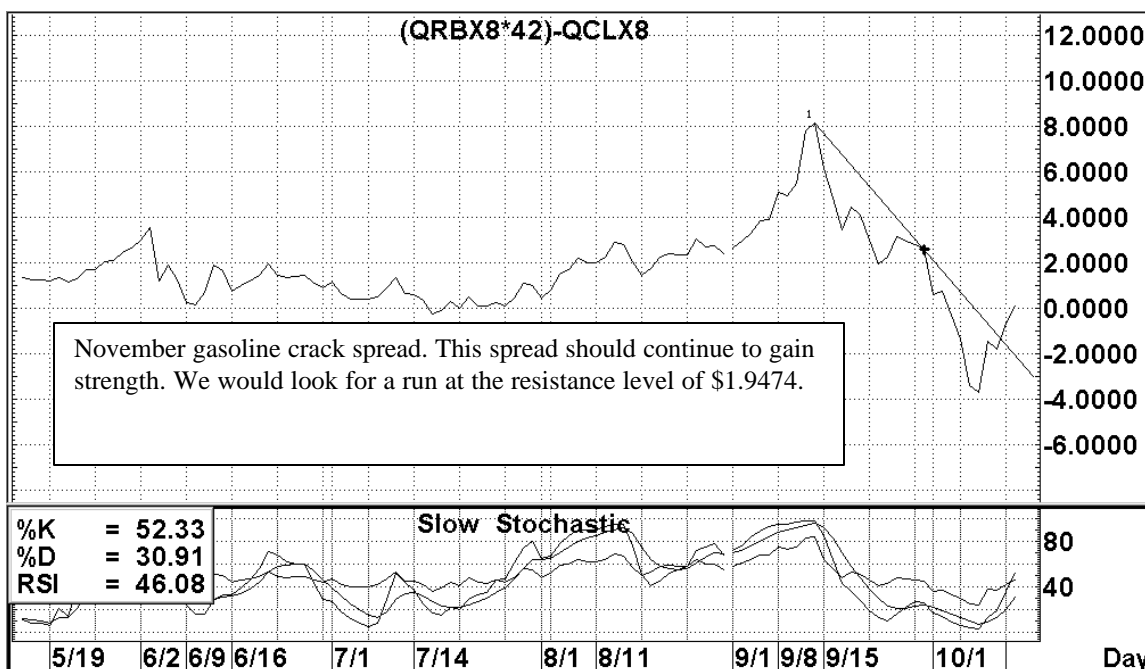
Kazakhstan's State Statistics Committee reported that the country's crude oil exports increased by 0.6% on the year to 41.2 million tons in January-August 2008. Its oil products exports increased by 2.4% on the year to 2.549 million tons.

Hungary's section of the Druzhba pipeline, carrying oil from Russia to Hungary's Szaszhalom batta refinery, was accidentally punctured by a construction machine near Budapest on Tuesday. Hungary's MOL Nyrt has sealed off the affected part of the pipeline and is currently working on blocking the oil flow.



**Production News**

The loading rate of nine of the main North Sea crude streams will average 2.477 million bpd in November, down from 2.51 million bpd in October. The North Sea Brent crude stream is scheduled to



load 144,000 bpd, down 13,000 bpd on the month. The North Sea Forties crude stream is scheduled to load 640,000 bpd in November, up 1,000 bpd on the month while the North Sea Oseberg crude system is scheduled to load 245,000 bpd in November, up 32,000 bpd on the month. The North Sea Ekofisk crude system is scheduled to load 408,000 bpd, down 26,000 bpd on the month. Britain's North Sea Flotta crude oil stream is scheduled to load 65,000 bpd in November, up 2,000 bpd on the month. The Gullfaks crude stream is set to load 313,000 bpd, down from 17,900 bpd on the month while the Staffjord crude system is set to load 285,000 bpd, down 18,000 bpd on the month. Norway's Troll oil system is set to load about 197,000 bpd in November, down from 215,000 bpd in October. Denmark's DUC crude oil system is scheduled to load about 180,000 bpd in November, up from 155,000 bpd in October.

According to Germany's MWV, total sales of oil products in the country increased by 15% on the year to 7.42 million tons in September. It reported that Germany's gas oil sales increased by 35.9% on the year to 2.46 million tons, while its diesel sales increased by 8.7% on the year to 2.66 million tons and gasoline sales increased by 1.7% to 1.78 million tons.

Petrobras found oil in an offshore well in the Campos Basin. It has not determined if the find can be developed commercially yet.

OPEC's news agency reported that OPEC's basket of crudes fell to \$71.96/barrel on Monday from \$72.67/barrel on Friday.

**Market Commentary**

The energy markets were driven lower by concerns about the global economic crisis. Skepticism, over the \$250 billion investment into the U.S. banking system by the U.S. government and its ability to alleviate economic constraints, weighed on energy prices. Anyone who rode the bull yesterday, had to dig his or her spurs in and hold on tight. The rodeo clown, in this case the global economic debacle, distracted the bull from the true fundamentals of this market, taming him and once again bringing him

to his knees. Yesterday's inside trading session was overshadowed by today's outside session. The November crude oil, opened higher today, but was unable to sustain its strength, closing \$2.56 lower on the day. We would continue to look for erratic trading and still feel more comfortable selling against the listed resistance numbers. The November/December crude oil spread followed its expected path, weakening to as low as -.83 on the day but rallying back to settle at -.32. There is one factor that may help to weaken this spread, the difficulty of refiners in obtaining letters of credit due to the financial crisis. This is making it difficult to buy crude oil and make fuels such as gasoline. With imports still coming this way and refiners not running at capacity, the November/December spread could slip into deeper contango. Gasoline, although coming under pressure again, gained against the crude oil. Although we are still not comfortable that this product will sustain any gains, we would expect for it to continue to strengthen against the crude oil. Reason being, is the aforementioned letter of credit issue and its impact on production. Technically, gasoline is still due for a correction to the upside, but we would not look for anything too significant. The initial upside objective would be \$2.1458. As mentioned earlier, gasoline crack spreads posted gains today and may continue to do so. Heating oil continues to be a delicate market, as it approaches its seasonality. For now we would look for this market to continue to struggle with any attempts to move higher. As we approach winter with expectations for colder than average temperatures, demand should grow, however financially strapped consumers may choose to keep their thermostats at a lower temperature. We would continue to trade this market cautiously, still more comfortable selling against listed resistance numbers.

Open interest for crude oil, NOV.08 117,630 -14,945, DEC.08 304,705 +10,822. Totals: 1,091,887 +7,575. Open interest for heating oil; is NOV.08 30,941 -4,637, DEC.08 45,428 +2,031. Totals: 212,512 +90. Open interest for gasoline is, NOV.08 36,015 -6,464, DEC.08 51,166 +3,059, Totals: 159,529 -3,221.

<b>Crude Support</b>	<b>Crude Resistance</b>
78.35, 68.63, 49.90	85.40, 87.10, 98.58, 110.07
<b>Heat support</b>	<b>Heat resistance</b>
2.1450, 2.1270, 1.9730	2.4200, 2.5324, 2.6400, 2.6880, 2.7475 3.0184
<b>Gasoline support</b>	<b>Gasoline resistance</b>
1.8800, 1.8070, 1.7980, 1.6075, 1.4700, 1.3351	192.85, 2.0270, 2.0690, 2.1400, 2.1980, 2.2865