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Windham Group



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 16, 2009

World powers will seek to finalize an agreement with Iran next week on processing its uranium abroad. However Iran has dampened expectations it is ready to finalize an agreement. A senior Iranian official said Iran will send junior officials rather than its nuclear energy chief to the talks starting on Monday in Vienna. The Vienna talks will be the first chance for Iran to make good on new prospects for nuclear cooperation raised in Geneva. However the proposal faces pitfalls due to differences over exactly what was

agreed on October 1 and what each side wants out of the deal and Iran's continued refusal to halt its enrichment.

OPEC's Secretary General Abdalla Salem El-Badri said that oil prices need to rise above the current \$77/barrel price to encourage more investment by OPEC members. He said the current high oil prices are not due to a lack of supply but to speculation. He added that OPEC will not intervene or increase its production. He estimated a compliance rate of about 65% for OPEC's output target levels. He also said OPEC is unlikely to confer an oil output target on Iraq for several years to allow its industry to recover from decades of sanctions, war and neglect.

Market Watch

US President Barack Obama said he is in favor of finding environmentally safe ways to tap US oil and natural gas reserves and would like to see increased use of nuclear generated electricity.

The Federal Reserve said US industrial production increased by 0.7% in September, up from a revised 1.2% level in August. The rate industries used their capacity increased to 70.5% from August's 69.9%. The Fed originally estimated August capacity utilization at 69.6%. Over the 12 months ending in September, industrial production was 6.1% lower. Capacity use in September 2008 was 74.5%. Overall manufacturing production increased by 0.9% in September.

The Securities and Exchange Commission and the Commodity Futures Trading Commission asked Congress for more authority to enforce their markets. The regulators said it should be unlawful to trade using material non-public information from any government authority. The market regulators also urged Congress to impose a uniform fiduciary duty on financial professionals who provide similar investment advice or service regardless of whether the product is a security or future. Among the 20 recommendations to Congress, the regulators said legislation is needed to give the CFTC authority over exchanges and clearinghouses.

CME Group announced the launch of trading and clearing services for three new petroleum "last day" financially settled futures contracts. Trading and clearing are scheduled to begin on November 1st for trade date November 2nd. The futures contracts will be crude oil last day financial (26), heating oil last day financial (23) and RBOB last day financial (27).

**October
Calendar Averages**
CL – \$72.82
HO – \$1.8766
RB – \$1.8088

Nigeria's main militant group, the Movement for the Emancipation of the Niger Delta ended its three month ceasefire on Friday and is resuming attacks against the country's oil and gas industry and military forces. It said in its next phase, it will burn down all attacked installations and will no longer limit its attacks to the destruction of pipelines.

The US EIA reported that the US home heating oil price increased by 3 cents over the last week but fell by 86 cents on the year to \$2.53/gallon. The EIA estimates that the average heating oil price in the Northeast will be \$2.64/gallon this winter, down 2 cents on the year. Heating oil expenses for the average household in the region will be \$1,892, down 3% on the year.

Refinery News

Flint Hills Resources LP discovered a pinhole leak of fuel gas at the east refinery located in the 288,468 bpd Corpus Christi, Texas refinery. The leak was discovered in a pipe system leading to the refinery's fluid catalytic cracking unit.

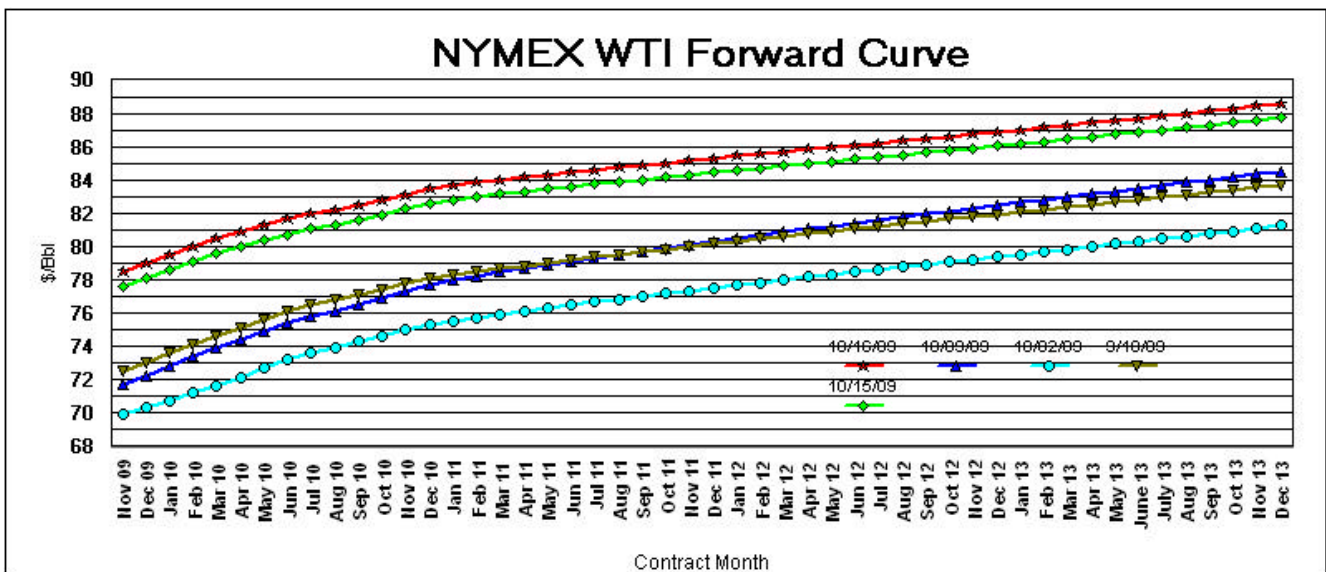
Royal Dutch Shell Plc expects some flaring at its 98,000 bpd Scotford facility in Alberta, Canada due to the restart of units following planned work.

Poland's PKN Orlen SA started maintenance at Lithuania's Mazeikiu Nafta, originally planned for next year, due to low refining margins. During maintenance, which will last six to seven days, output will remain reduced to 70% of capacity.

South Korea's GS Caltex Corp has delayed by two years the completion of one of two units under its refinery upgrading project due to weak demand. It said it will complete its 53,000 bpd fluid catalytic cracking unit project at Yeosu in 2012 instead. However it still hopes to complete a 60,000 bpd hydrocracker project in 2010.

Ukraine's State Statistics Committee said the country's gasoline output in January–September 2009 fell by 3.7% on the year to 2.447 million tons. Refineries increased gas oil production by 6.3% to 2.863 million tons so far this year.

Russia will start crude exports via the new Pacific oil terminal of Kozmino in late December, as it completes construction of the first stage of the East Siberian-Pacific Ocean pipeline. The first three 100,000 ton crude vessels are scheduled for loading on December 26-28th. Russia's Surgutneftegaz



and TNK-BP will split the first 300,000 tons of crude to be lifted from the new terminal.

Austria's OMV said it expected a link to bring Russian crude to its refinery near Vienna to be ready by 2012. The Bratislava-Schwechat Pipeline will run to OMV's Schwechat plant. The pipeline's initial annual capacity will be 2.5 million cubic meters of oil and could increase to up to 5 million cubic meters in the next phase. The project had been put on hold due to problems with the bankrupt Russian oil company, Yukos.

Latvia's oil terminal Ventspils Nafta shipped more than 8.5 million tons of oil products in the first nine months of 2009, down from 9 million tons last year.

India's Reliance Industries said it remains a buyer of Iranian crude following comments by a company official earlier this week that Reliance had halted its oil imports from Iran.

Production News

According to Baker Hughes, the number of rigs searching for oil and natural gas in the US fell by 1 to 1,040 this week. The number of rigs searching for oil increased by 4 to 309 while the number of rigs searching for natural gas fell by 5 to 721.

Nigeria's Oil Minister Rilwanu Lukman said the country's current oil production is between 1.6 and 1.7 million bpd.

Russia's Deputy Energy Minister Sergey Kudryashov said Russia may increase its 2009 oil production by 0.8% to between 492 million metric tons and 493 million metric tons.

Angola is likely to export nine Dalia crude cargoes in December, up one from November. Angola also plans to export six cargoes of Cabinda crude oil, seven Girassol, six Hungo, seven Kissanje, two Kuito, three Mondo, and three Saxi.

Venezuela's Oil Ministry reported that the country's oil exports in September fell by 230,052 bpd to 2.328 million bpd. Its domestic oil consumption totaled 512,882 bpd.

Norway's StatoilHydro has become the top lifter of Oman crude off the Dubai Mercantile Exchange, taking deliveries of up to 4 million barrels each in October and November.

Idris Al-Yassiri, the head of Iraq's state-run drilling company, IDC, said Iraq is planning to drill about 150 oil wells next year which will increase the country's crude oil production by 250,000 bpd from its current level of 2.4 million bpd. He said the ICD bought 24 rigs this year, which will increase the total number of rigs to around 53 rigs by the end of the year.

Iraq's Petroleum Contract and Licensing Directorate Sabah Abdul Kadhim said a group led by ExxonMobil is the frontrunner among bidders to develop Iraq's West Qurna oilfield. He said Exxon's bid to increase West Qurna phase 1's long-term production to 2.1 million bpd put it ahead of rival Lukoil, which had proposed a target of 1.5 million bpd. Separately, a senior Iraqi oil official said development of the West Qurna 1, Rumaila and Zubair oilfields in southern Iraq will increase the country's crude oil production to 7 million bpd. The official said Iraq could produce up to 10 to 12 million bpd if it manages to sign contracts with international companies to develop 10 groups of oilfields listed in the second bidding round which are expected to be auctioned in December this year.

China's Sinopec Group is trying to communicate with Iraq as its qualifications to participate in Iraq's second round of bidding for major oil deals is in question. Iraq's Oil Ministry has been waiting for an

explanation from Sinopec about its dealings with Addax, which has been pumping oil from Kurdistan's TaqTaq field.

Petrobras notified Brazil's National Petroleum Agency that it discovered signs of oil at an offshore block along the coast of southeastern Brazil.

Nigeria's Oil Minister Rilwanu Lukman said the country is open to forging relationships with new oil partners but wants to retain its traditional partners as well. More than a dozen oil blocks are up for renewal this year, including blocks controlled by oil majors Royal Dutch Shell Plc, Chevron Corp, ExxonMobil Corp and Total SA.

Russia's Rosneft will stop ship to ship oil transfers in the Gulf of Kola after 2014 and instead use an onshore terminal. Rosneft and Lukoil currently deliver crude in small tankers to the Belokamenka offshore floating facility next Murmansk in the Russian Arctic. The facility acts as a collection point and reloads oil into 100,000-150,000 ton carriers for export.

OPEC's news agency reported that OPEC's basket of crudes increased to \$73.20/barrel on Thursday from Wednesday's \$71.96/barrel level.

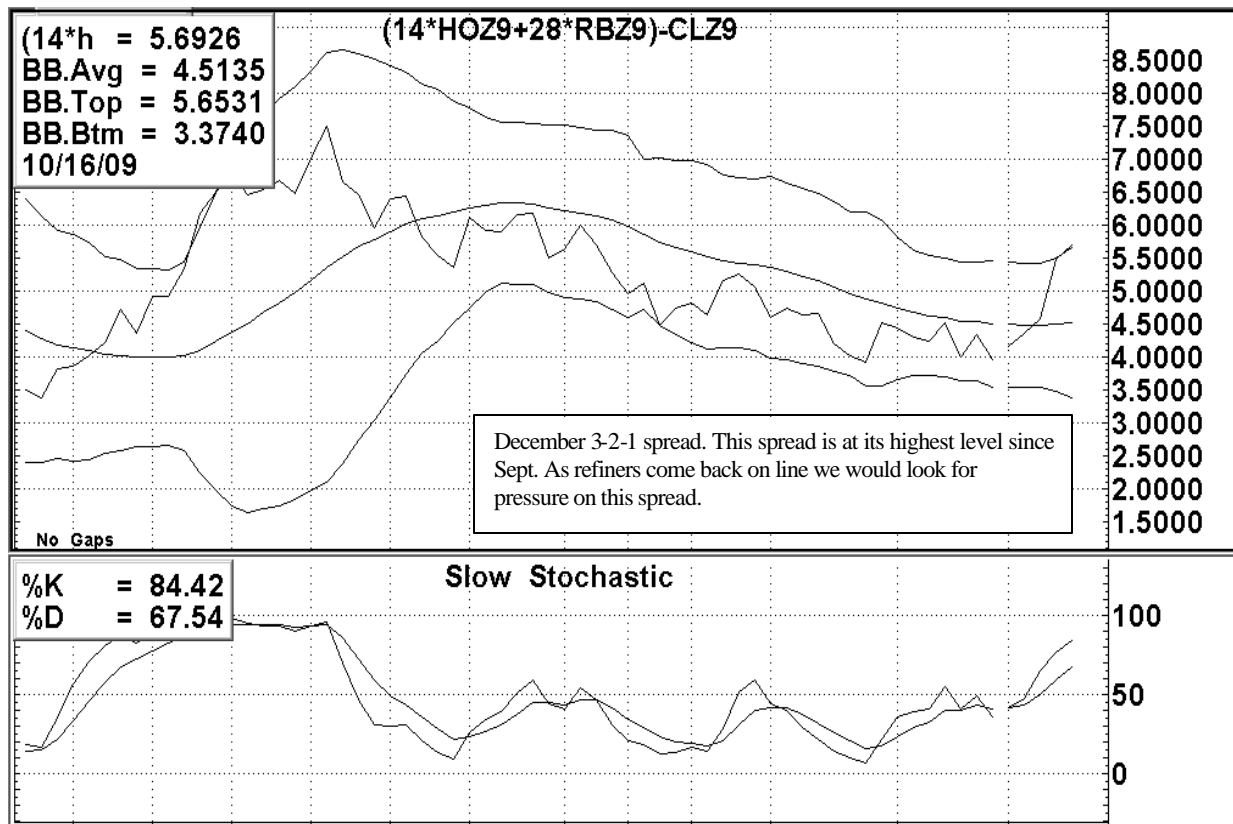
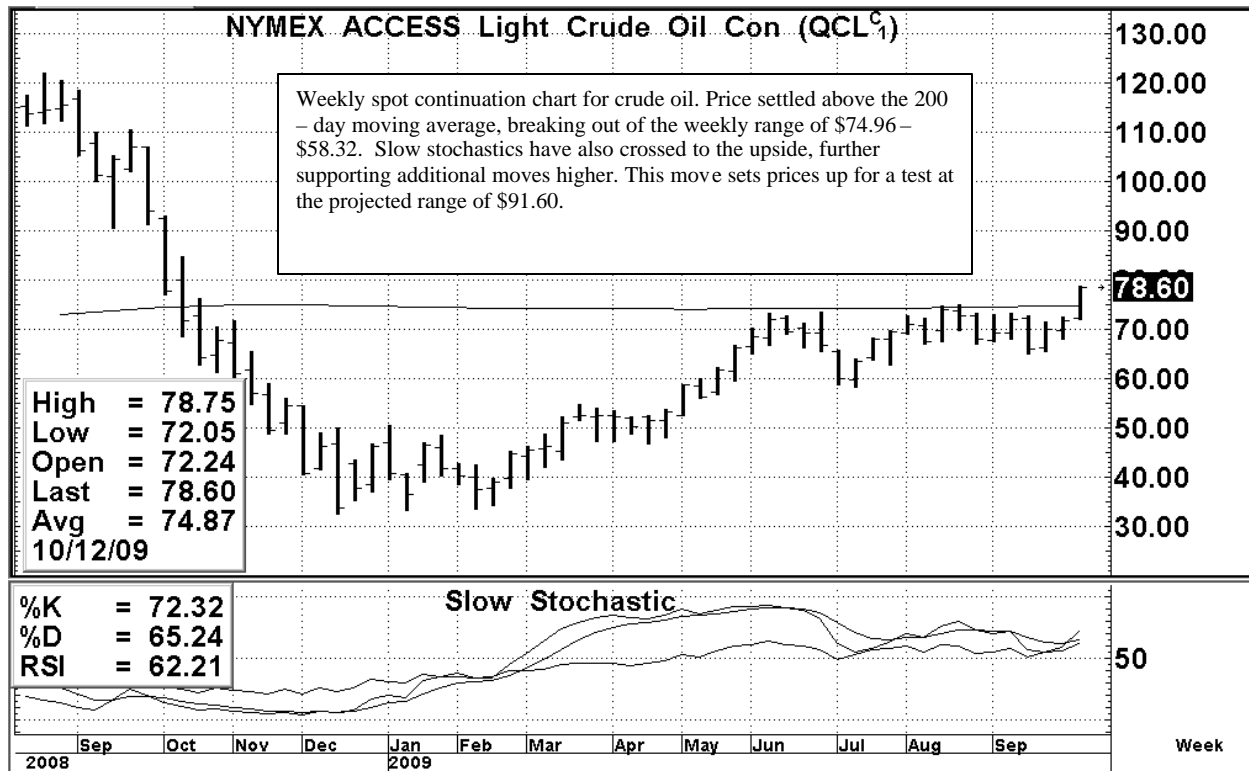
Market Commentary

Crude oil reacted strongly today after the release of a federal report that showed industrial production in the U.S. rose 0.7 percent. Investors took this as a sign that we are in the midst of a true economic recovery that will surely boost demand. Both heating oil and gasoline also rose, still reeling from yesterday's inventory report. Despite inventories shrinking last week, this should not be misconstrued as an increase in demand. Refiners have curtailed their output and there is still an abundance of inventory, even if demand were to pick up. This recent run-up in prices can be attributed to a technical move supported by investor influx into this market. The November crude oil contract broke through key resistance having settled this week above the \$74.84 200-week moving average. Coming into next week we would look for crude oil to continue to react to economic stimuli, moving higher with the equities markets and opposite the dollar. Should prices work back below the \$74.84 key support, we would look for sellers to enter the market. The cost of cracking three barrels of crude oil into two barrels of gasoline and one barrel of heating oil increased again today. The December 3-2-1 crack spread is now at its highest level since September 2nd. Refiners will soon be bringing units back on line and will want to take advantage of refining margins. This will bring about demand for crude oil, put more products on the open market, which in turn should bring this crack back down.

Crude NOV.09 98,012 -25,680 DEC.09 346,223 +14,484 JAN.10 149,963 +1,451 FEB.10 55,805 +802 MAR.10 41,693 +3,070 APR.10 20,432 +579 Totals: 1,282,336 -10 Heating NOV.09 42,918 -3,146 DEC.09 71,778 +1,580 JAN.10 47,883 +1,090 FEB.10 21,312 -131 MAR.10 16,805 -303 Totals: 314,185 +1,361 Gasoline NOV.09 48,148 +1,299 DEC.09 67,227 +4,841 JAN.10 36,023 +2,387 FEB.10 13,020 +1,553 MAR.10 15,705 -392 Totals: 218,108 +10,602.

The latest Commitment of Traders report showed that non-commercials in the crude market increased their net long position by 18,830 lots to 68,836 lots in the week ending October 13th. The combined futures and options report showed that non-commercials increased their net long position by 21,191 contracts to 151,631 contracts on the week. The funds increased their total long position by 21,823 contracts to 256,417 lots, the largest amount since the week ending February 10th when positions stood at 257,847 lots. The combined disaggregated report showed that producers/merchants increased their net short position by 3,375 to 165,947 contracts while swap dealers cut their net long position by 16,100 lots to 21,088 contracts. Managed money increased their net long position by 26,361 contracts to 136,132 contracts, while other reportables cut their net long positions by 5,171 contracts to 15,498 contracts and non-reportables increased their net short position by 1,716 contracts

to 6,773 contracts. Meanwhile, the combined futures and options report showed that non-commercials in the heating oil market increased their net long position by 3,091 contracts to 35,271 contracts while funds in the RBOB market increased their net long position by 4,648 contracts to 40,644 contracts on the week.



Crude Support	Crude Resistance
77.60, 76.24, 74.85, 64.70, 63.38, 62.70, 61.61, 60.95	84.83, 85.40, 86.60, 88.80
Heat Support	Heat resistance
1.8570, 1.8280, 1.7670, 1.7375, 1.6585	2.0940, 2.2110, 2.2575, 2.4200
Gasoline support	Gasoline resistance
1.6010, 1.5887, 1.5370, 1.5260, 1.3520, 1.3400	2.0210, 2.0400, 2.0567, 2.1100, 2.1600, 2.3350

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