



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 17, 2007

Turkey's Parliament on Wednesday approved a motion allowing troops to cross into northern Iraq to hunt down Kurdish rebels. Turkish Prime Minister Tayyip Erdogan has played down expectations of an imminent incursion however the parliamentary vote gives Turkey's second largest army the legal basis to cross the border. Deputy Prime Minister Cemil Cicek told parliament any army incursion would target only the estimated 3,000 Kurdistan Workers Party rebels in Iraq. Meanwhile, US President George W. Bush said it would not be in Turkey's interest to send its troops into Iraq. Iraq's government said it would send a team to Turkey for further talks while NATO and the EU also urged restraint. Iraqi President Jalal Talabani cautioned

Market Watch

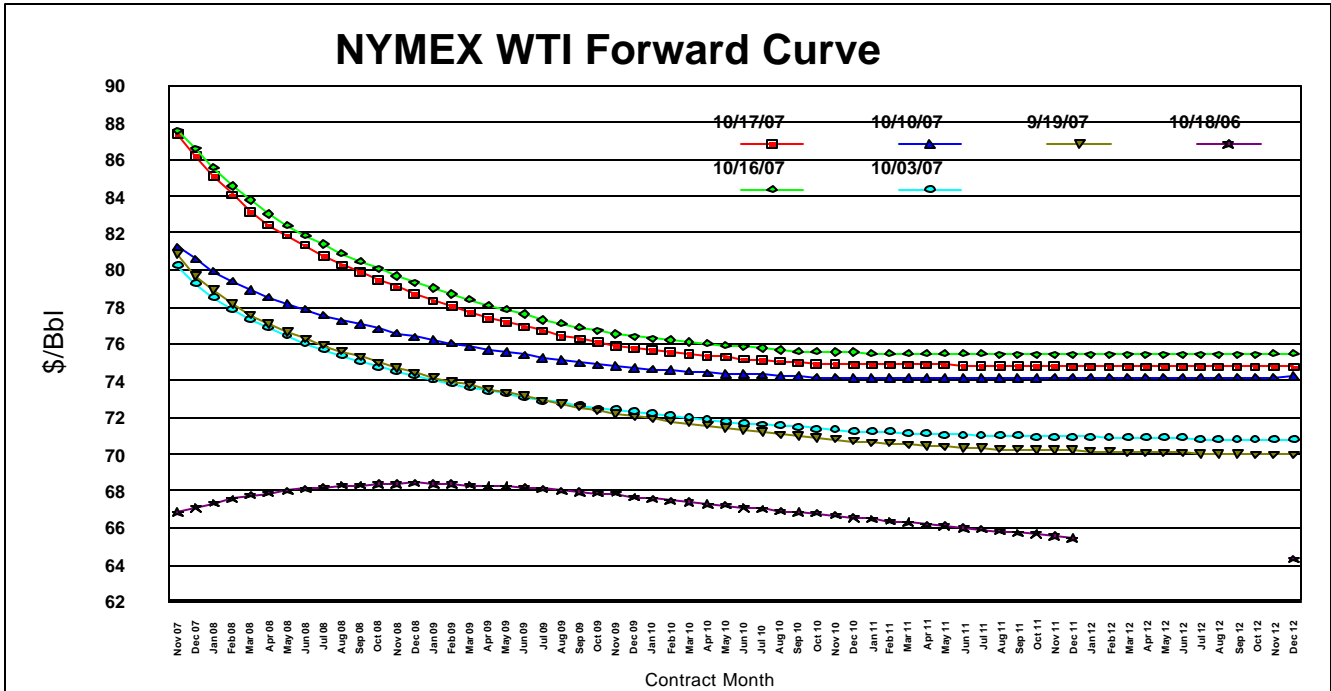
BP Capital Management LP chief executive Boone Pickens said he saw oil reaching \$100/barrel within a year. He said the weak dollar has contributed to the high price of oil.

According to a Dow Jones Newswire survey, oil prices are expected to increase substantially amid an increasingly tight supply outlook and with little sign that demand would ease. The price of WTI crude is estimated to average \$67.80/barrel in 2007 and \$67.70/barrel in 2008, up from a previous estimate of \$66.00/barrel. The price of Brent is estimated to average \$69/barrel in both 2007 and 2008, up from a previous estimate of \$67/barrel and \$65/barrel, respectively.

Merrill Lynch said interest in commodities and energy sectors is seen remaining strong. It said oil prices were supported by a combination of contracting world supply, robust demand, falling inventories and lately, geopolitical tensions between Turkey and Iraq. Merrill's head of global commodity research said a colder than expected winter could be another factor to increase the chances of oil reaching the \$100/barrel level.

According to traders and analysts, speculators have been purchasing options at increasingly higher levels, pointing to higher prices. Options on the November crude contract, which expired at the close of business on Wednesday, were concentrated at \$88 and \$90/barrel. Meanwhile the open interest in the December crude contract is also high, with open interest in the \$90 call at 66,000 and the \$100 call at 55,000. Meanwhile, the International Monetary Fund said in its World Economic Outlook that there is a one in six probability that prices would rise above \$95/barrel by the end of 2008.

France's chief investment officer said its main pension fund planned to channel a greater proportion of its 34 billion euro or \$48.23 billion assets pool into areas such as commodities to ensure greater diversification. France's Fonds de Reserve pour les Retraites has invested about 300 million euros in commodities. The fund had aimed to invest about 2 billion more euros in commodities.



Turkey that it should not expect much help in fighting PKK rebels from Iraqi security forces. He called on the PKK rebels in Turkey to stop fighting. The Kurdish regional government in northern Iraq said that a Turkish attack on Kurdish separatists would not be effective and would only harm regional stability. Separately, Syria's President Bashar Assad said Turkey had a legitimate right to stage a cross border offensive against Kurdish rebels based in Iraq.

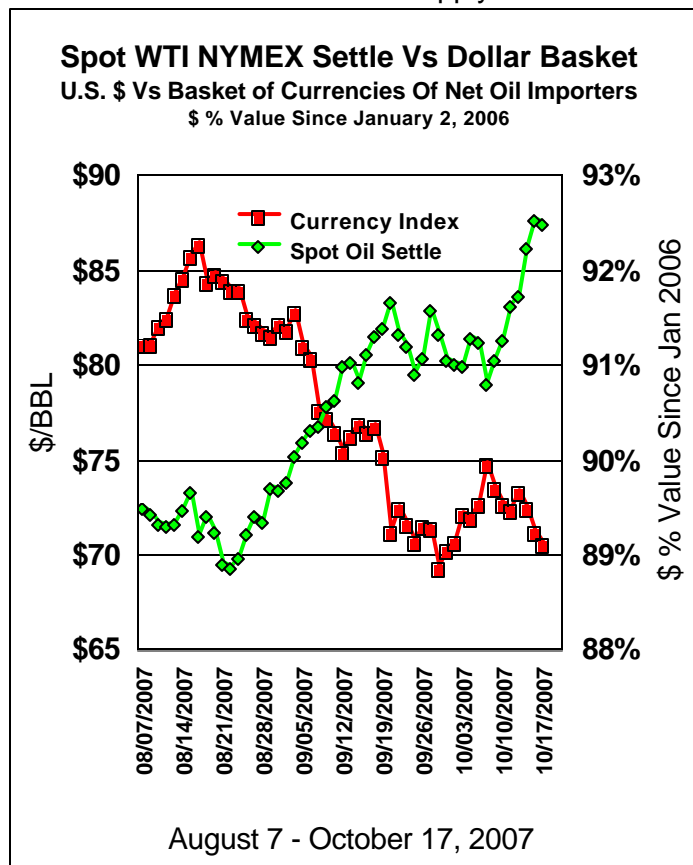
The Iraqi and Kurdish governments are increasing security at the Iraqi portion of the Kirkuk pipeline that extends from northern Iraq to the Turkish Mediterranean port of Ceyhan. The Kurdish Regional Government in northern Iraq also said it was increasing oversight of about 40 miles of Kirkuk pipeline. Meanwhile, Turkey has also stepped up security of the Baku-Tbilisi-Ceyhan pipeline.

The head of the oil market division at the IEA, Lawrence Eagles said the Turkish parliament's decision to approve a possible military incursion against Kurdish rebels in northern Iraq did not mean an immediate disruption to oil supplies. He however noted that supplies through the pipeline have been frequently interrupted in recent years.

Russian President Vladimir Putin sought to please both Iran and the West during his visit to Iran, maintaining ties with Iran without angering the US. He kept a margin of distance, refusing Iranian pressure to set a firm start up date for the nuclear power plant Russia is building in Iran. Also, during the trip, Russia's President made an unspecified proposal concerning Iran's nuclear program to the country's supreme leader, Ayatollah Ali Khamenei. Officials in Iran said they believed the proposal involved a time out on sanctions against Iran if it suspended its uranium enrichment. Iran's supreme leader told Russia's President that Iran was serious about its program of enriching uranium but would cooperate with the UN's IAEA.

Indonesia's Energy Minister Purnomo Yusgiantoro said there was no need for OPEC to add more supply to the oil market after agreeing to increase its output by 500,000 bpd starting in November. He said there was currently no sign of OPEC calling an emergency meeting. He added that oil prices rallied on geopolitical factors. Separately, Nigeria's Minister of State for Petroleum Odein Ajumogobia

said the recent increase in oil prices was driven by speculation and a weak dollar rather than any new demand. He added that more supply from OPEC may not lower oil prices.



A senior Palestinian official accused Israel of putting obstacles in the path of peace and called for stronger US intervention. He said the gaps between Israel and the Palestinians remained wide.

According to a shipping agent, total inventory of Iraqi Kirkuk crude available at the Turkish export terminal of Ceyhan stood at 7.98 million barrels. A source stated that the steady inventory level indicated that flow through the pipeline has stopped and would remain at current levels until the oil is lifted. Meanwhile a shipping source stated that the flow of exports through the pipeline to Turkey was on hold for the third consecutive day on Wednesday.

Lloyd's Marine Intelligence Unit reported that OPEC's total exports, excluding Angola, increased by 609,000 bpd on the month in September to 23.039 million bpd. It said most of the extra supply was heading to Asian consumers from Gulf producers but added that preliminary figures for October showed exports to the US Gulf rising steadily.

Refinery News

ExxonMobil Corp said its 60,000 bpd Billings, Montana refinery was operating following an explosion early on Wednesday. However it stated that some units were operating at reduced rates as refinery personnel assessed damages caused by a fire. It said the fire was caused by a pipeline malfunction in the hydrocracking unit.

ConocoPhillips' 47,000 bpd hydrocracker unit at its 140,000 bpd Wilmington, California refinery is in restart mode after suffering a power failure from the Los Angeles Department of Water and Power on October 3. ConocoPhillips also reported that it cut power to an electrostatic precipitator at its 247,000 bpd Sweeny refinery in Texas. The status of its fluid catalytic cracking unit was not noted in its filing with the Texas Commission on Environmental Quality.

Saudi Aramco is scheduled to shutdown its 400,000 bpd Rabigh refinery for at least a month of routine maintenance starting early next week. The shutdown could last longer than a month because it includes work that would link the refinery with the new joint venture petrochemical complex with Japan's Sumitomo Chemical Co Ltd.

Production News

Petroecuador said it lost 4,000 barrels of crude due to a protest by villagers in the Amazon while other communities threatened regional strikes to demand more benefits from the government. Protesters blocked the roads leading to the 45,000 bpd Shushufindi oil field and the 90,000 bpd oil Block 15.

The Shetland Island Council reported that Brent crude oil loadings increased to 82,965 tons in the week ending October 9 after there were no liftings during the previous week.

Norway's Eldfisk Alpha and Embla resumed production late Tuesday. ConocoPhillips said the Eldfisk Bravo platform remained shut in and is not expected to restart until Friday. The fields, which have a combined output of just under 62,000 bpd of oil equivalent, have been shut since September 20 for a planned 21 day maintenance program.

Russia's Barents Sea port of Murmansk increased its fuel oil exports slightly in the first nine months of 2007 while crude exports fell. Fuel oil exports from all terminals in the port increased by 7% to 1.832 million tons, while crude oil reloading operations fell by 12% to 2.566 million tons.

The BP led Baku-Ceyhan pipeline is expected to pump about 21.2 million barrels of crude in November or about 707,000 bpd, up from 21 million barrels or 677,000 bpd in October.

Kazakhstan's KazMunaiGas Exploration Production said it produced an average of 209,930 bpd in the first nine months of the year, up 17,261 bpd on the year.

According to preliminary customs data, China imported 79,882 tons of gasoline in September as curbs in domestic output forced refiners to increase its imports. Gasoline exports remained low at 240,000 tons. China also imported 90,000 tons of diesel in September, while exports stood at 70,000 tons.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$80.82/barrel on Tuesday, up from Monday's \$78.76/barrel.

Market Commentary

Over shadowed by the Turkish parliament's approval of military action against Kurds in Iraq, builds in crude stocks and product stocks did little to keep the market from advancing. Despite an overall build in PADD II stocks, levels at Cushing, OK fell by .2%. Total crude stock levels built by 1.8 million barrels, with distillates building 1 million barrels and gasoline building by 2.8 million barrels. Adding to the move higher was option expiration for the November contract. Upon examination of the forward curve, the deferred months came under more pressure than the nearby. This could possibly be that any shorts that are being put on are being put on in the deferred rather than the nearby, however the curve is still indicating a strong backwardation of his market. The November/December spread

although widening, has been taking its sweet time in doing so. Previously, this spread encountered resistance at the 1.34 area and should

		Explanation
CL	Resistance	89.00
	87.40, down 21 cents	86.50, 87.25, 87.59
	Support	85.72
		Wednesday's high(Dec)
		Wednesday's low(Dec)
		Previous lows
HO	Resistance	236.03
	231.89, down 1.98 cents	232.35, 234.35, 235.00
	Support	230.54
		Basis trendline
		Wednesday's high
		Wednesday's low
		Previous lows
RB	Resistance	220.19, 222.00
	214.66, down 2.71 cents	217.50, 218.60
	Support	214.00
		Previous highs
		Wednesday's high
		Wednesday's low
		38% (194.85 and 220.19), previous low, 50%, previous low, 62%

again. Once the November contract goes of the board and December becomes the spot month, we would look for the December/January spread to widen further and test the top of the channel

mentioned in yesterday's wire. The front month spot continuation spread has been on a steady increase since the beginning of March and with the current bullish tone in the market, the December/January spread could easily break out of its channel. Open interest on Tuesday was up a mere 1,217 contracts which is a surprise given the current movement in the market. This could possibly be contributed to traders being leery of taking on positions for any length of time, thereby getting in and out of the market. Total open interest in crude oil is 1,489,293 up 1,217, November 150,639 down 12,897, December 388,231 up 9,860 and January 139,904 up 3,522. Support for December, comes in at 85.08, 83.50, 83.00, 82.00, 80.80 and 79.00. Resistance is set and 89.00. The RBOB market ended the session in negative territory following six consecutive days of gains. The market rallied to a high of 218.60 ahead of the release of the DOE report. It however erased its gains and extended its losses to 2.27 cents as it sold off to 214.00 in light of the builds in inventories. The market later retraced its losses and traded back towards its high before further selling pushed the market to a low of 214.00 ahead of the close. It settled down 2.71 cents at 214.66. The heating oil market also settled down 1.98 cents at 231.89 after it sold off to a low of 231.20 on the close. The market continued to trade lower in overnight trading and posted a low of 230.54. While the markets' upward trends are still intact, they are seen taking some further profits. The markets will remain headline driven following the Turkish parliament's approval of a military incursion into Iraq. The RBOB market is seen finding support at 214.00, 210.51, 208.22, 207.52, 204.78 and 204.53. Meanwhile resistance is seen at 217.50, 218.60, 220.19 and 222.00.