



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 21, 2008

OPEC Secretary General Abdullah al-Badri said the world will face an oversupply of oil next year if leading producers fail to reduce output. However he said OPEC has not made a decision to cut production yet. He stated that no observers, including Russia, would attend an emergency OPEC meeting on Friday. Iran's Oil Minister Gholam Hossein Nozari said OPEC could cut its production by as much as 2-2.5 million bpd

Market Watch

Saudi Arabia's former Oil Minister Sheikh Ahmed Zaki Yamani said the price of oil will probably continue falling as long as Saudi Arabia resists pressure from other OPEC member states to cut production. He said the price of oil has fallen in recent months because of lower demand in the face of the world economic crisis.

Total SA is confident in its strategy to increase production, even though oil prices have declined considerably amid expectations of a world economic slowdown. Total said there is no fundamental reason to delay projects.

Credit derivative spreads on Glencore International AG have widened on concerns about its exposure to short term debt, which was reported at \$12 billion as of June. Credit analysts however said that the market fears may be unjustified because Glencore has sufficient cash and credit lines.

US Rep. Barney Frank, chairman of the US House Financial Service Committee said Congress would address mark to market accounting next year. He said it is possible that Congress would leave mark to market accounting in place but provide flexibility on its negative consequences.

Financial Services Roundtable said credit default swaps need a clearinghouse, which would need oversight. It suggested that the US Commodity Futures Trading Commission or the Federal Reserve should oversee the clearinghouse.

Mexico's Senate this week is set to approve a package of energy reform bills that should help overhaul its oil industry. Seven compromise energy bills drafted by a Senate committee are expected to pass the Senate on Thursday with the support of the ruling conservatives, the main opposition party and many leftist legislators.

According to a report issued by the Government Accountability Office, the US EPA may be overstating the impact of its enforcement programs. It recommended that the EPA overhaul its reporting methods. Overall, the GAO's report found that adjusted for inflation, the EPA's total assessed penalties fell from \$240.6 million in fiscal year 1998 to \$137.7 million in 2007. Lawmakers accused the Bush administration of trying to cover up the decline in enforcement through inflated pollution reduction and environmental savings estimates.

October Calendar Averages

CL – \$82.58
HO – \$2.3813
RB – \$1.9409

if demand falls by 8-10% amid ongoing world financial turmoil. Separately, Qatar’s Energy Minister Abdallah bin Hamad al-Attiyah said that the best price for oil was \$80-\$90/barrel. He also said OPEC may be obliged to reduce production to balance supply and demand at its meeting on Friday. He said a possible production cut would fit within a range of 1 million to 3 million bpd. Qatar’s Energy Minister suggested he would welcome Russia joining any decision by OPEC to cut oil production at its emergency meeting later this week.

Norway’s Oil Ministry said it has the country has not considered reducing its oil output to stem falling crude prices. Meanwhile, Russia’s Energy Minister said Russia will continue constructive talks with OPEC but keep its policies independent after OPEC called on producers to join production cuts.

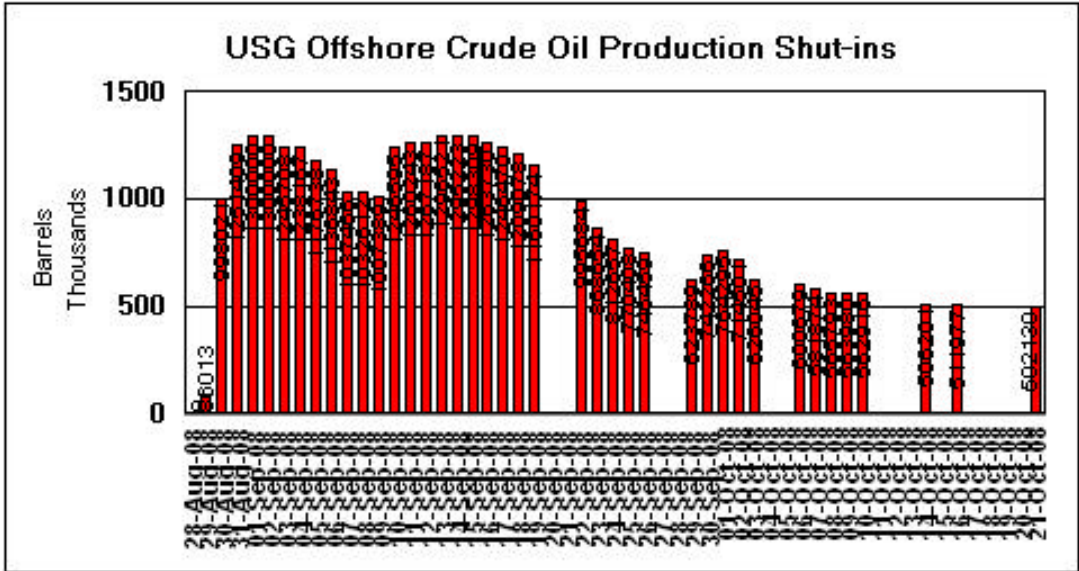
According to Lloyd’s Marine Intelligence Unit said OPEC’s crude exports, excluding Ecuador, fell by 900,000 bpd in the four weeks ending October 5 to 22.766 million bpd. It said supply from Gulf producers fell by 660,000 bpd to 17.66 million bpd from 18.323 million bpd. It also stated that West African supply, which includes Nigerian and Angolan exports, fell by 170,000 bpd to 3.381 million bpd.

The American Petroleum Institute reported that the sharp decline in oil prices over the past three months could slow down investments in new oil fields. The API’s chief economist John Felmy said that no oil companies have yet announced project cancellations.

Gunmen have kidnapped two children of a Nigerian Shell oil worker in the Niger Delta oil city of Port Harcourt. Nigerian Police said no group had yet claimed responsibility for the latest kidnappings.

The US Minerals Management Service reported that the 9,838 bpd of crude production shut in the Gulf of Mexico following Hurricanes Gustav and Ike was restored since last Thursday, leaving 502,139 lots still shut in as of Tuesday. The MMS also reported that the amount of natural gas production shut in the Gulf of Mexico increased by 12 mmcf/d to 2.717 bcf/d.

The MasterCard Advisors said US weekly retail gasoline demand averaged 8.986 million bpd in the week ending October 17, up 1.6% on the week but down 6.4% on the year. The four week average of gasoline consumption amounted to 8.864 million bpd, down 7.6% on the year. It also reported that the US average retail price of gasoline stood at \$3.09/gallon, down 32 cents on the week. Gasoline prices are still 10.8% higher than they were last year.



Refinery News

Sunoco Inc shut a reformer unit at its 335,000 bpd Philadelphia refinery. A source said Sunoco shut the unit due to poor margins on gasoline production. The unit will be shut for at least 30 days and potentially for six months.

Husky Energy Inc shut a hydrocracker unit at its 160,000 bpd refinery in Lima, Ohio, cutting production at the facility by 20,000 bpd over the planned three week shutdown. The unit was shutdown over the weekend. It said the work will add an additional 5,000 bpd of capacity at the unit once work is completed.

Euroilstock reported that European refinery production in September fell as utilization rates fell from 90.6% to 88.99% mainly due to planned maintenance shutdowns at some key refineries. Total production fell by 1.3% on the month and by 3.2% on the year to 12.707 million bpd. Gasoline production in September fell by 2.4% on the month and by 7.7% on the year to 3.145 million bpd while middle distillate production fell by 3.4% on the month and by 2.8% on the year to 6.163 million bpd. Fuel oil production in September increased by 0.8% on the month but increased by 3.9% on the year to 1.623 million bpd while naphtha production fell by 0.1% on the month and by 0.7% on the year to 851,000 bpd.

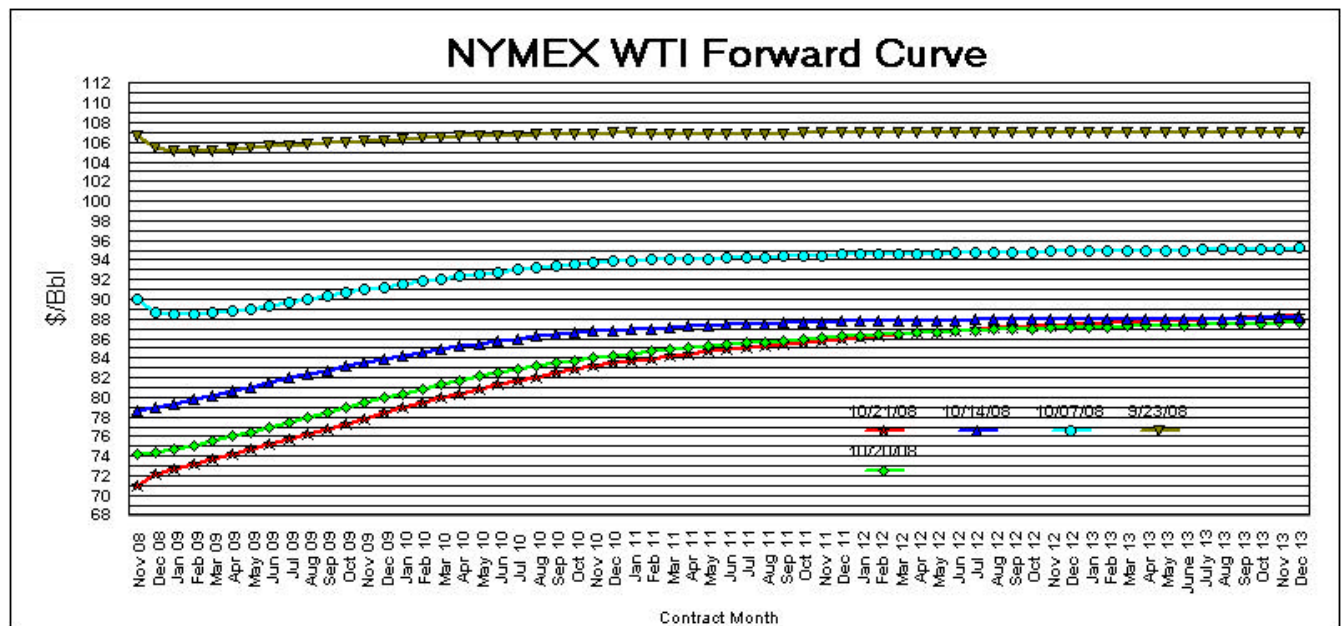
India's Reliance Petroleum Ltd said its new 580,000 bpd refinery is progressing as planned and the project is in an advanced stage of completion. The refinery is scheduled to start operations this December and the company earlier said it will commission the unit ahead of target.

India's Oil Minister Murli Deora said India will not cut retail fuel prices anytime soon despite a fall in world crude oil prices.

BP has booked 65,000 tons of ultra low sulfur diesel for Europe for loading at the end of October from Japan. The arbitrage outflows to Europe for October loadings increased to a record monthly high of 795,000 tons as Asian demand fell.

Production News

A shipping agent reported that crude oil flowing from Iraq's Basra terminal returned to normal at 1.6 million bpd on Tuesday after a week long power shortage lowered it to about 1.3 million bpd.

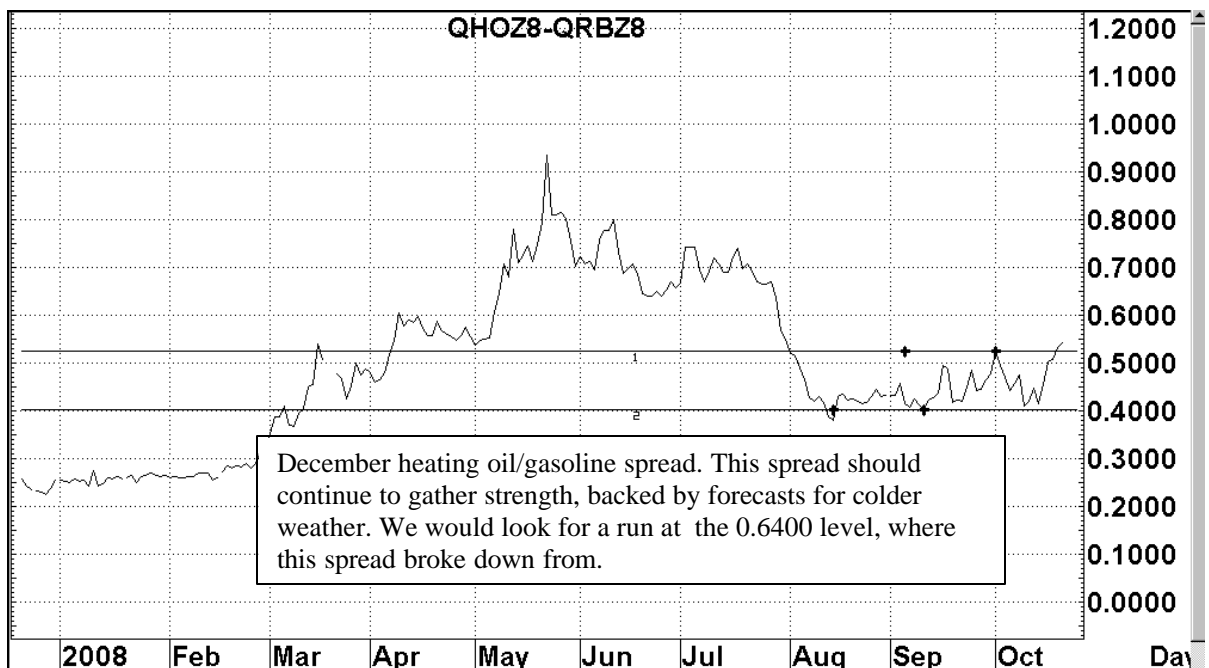


OPEC's news agency reported that OPEC's basket of crudes increased to \$64.63/barrel on Monday from a revised \$62.92/barrel level on Friday.

Market Commentary

Energy prices were lower today as commodities lost their appeal as the dollar strengthened. Yesterday's concerns over OPEC cuts were short lived as the realization that OPEC members may be between a rock and a hard place. Although OPEC may cut production, this cut comes at a time when the global economy is at a crucial point. Adding to the decline in prices was a report by MasterCard Inc. that gasoline demand for the week ending October 17th, decreased by 6.4%. This is the twenty sixth week in a row that gasoline demand has decreased. Tomorrow's release of the DOE/API numbers are calling for an increase in crude oil stocks of 2.65 million barrels, a build in gasoline stocks of 2.1 million and a slight build in distillate inventories of 100,000. This market has been unable to sustain any strength that it has been able to muster. The forward curve continues to move lower on the scale as the front end drags the deferred ever lower. This continues to give a bearish hue to the market. This is a clear indication that demand still remains at the forefront of market direction. For now

we would have to stick with buying and selling against the listed support and resistance numbers, with partiality to selling against resistance. Gasoline



cracks gained slightly today, but continue to trade in negative territory. Should expectations for tomorrow's stock levels be met, we would look for continued pressure on gasoline crack spreads. Heating oil sold off as well but fared better against the crude oil than the gasoline did. Weather forecasts for next week are calling for colder weather, which should lend strength to the heating oil market. In contrast to last year, when gasoline out performed the heating oil, heating oil is currently the stronger of the two. We would look for the December heat oil to gasoline spread to gather momentum, looking for a test of the 0.6400 level.

Open interest for crude oil, NOV.08 15,748 -35,713, DEC08 329,395 +14,586. Totals: 1,039,318 - 15,550. Open interest for heating oil; is NOV.08 23,674 -1,458, DEC.08 51,476 +330. Totals: 214,638 -434. Open interest for gasoline is, NOV.08 27,632 -894, DEC.08 61,150 +2,267, Totals: 162,175, +1,886.

Crude Support	Crude Resistance
68.63, 67.30, 60.68, 49.90	72.53, 74.30, 76.10, 85.40, 87.10, 98.58, 110.07
Heat support	Heat resistance
, 1.9730	2.1844, 2.4500, 2.5732, 2.6400, 2.6880, 2.6965, 2.7475 3.0184
Gasoline support	Gasoline resistance
1.4700, 1.3351	192.85, 2.0270, 2.0690, 2.1400, 2.1980, 2.2865

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