



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 24, 2007

According to military sources, Turkish forces attacked Kurdish rebels in Iraq. News of the sorties, between Sunday and Tuesday evening, in which Turkish warplanes flew 20 km or 13 miles into Iraq and ground troops advanced about 10 km, put Iraq under greater pressure to act against PKK rebels. All Turkish troops involved in the operations returned to Turkey while 34 of the PKK rebels were killed during the sorties. Turkey has been holding back from any major strike as it still hoping for a diplomatic solution to the crisis. Turkey has deployed as many as 100,000 troops, back by tanks, F-16 fighter jets and helicopter gunships, along the border in preparation for a large scale incursion. Meanwhile, Turkey's National Security Council is expected to consider possible economic measures against the Kurdish administration of northern Iraq over its failure to resolve the crisis. The president of Iraq's northern Kurdish region, Massoud Barzani has urged the PKK

Market Watch

According to investor Jim Rogers, the US has entered a recession. He said he was switching out of the dollar and into yen, the yuan and the Swiss franc.

Thousands of Venezuelan students clashed with police in Venezuela's capital, Caracas, during a protest against proposed constitutional changes that would allow President Hugo Chavez to remain as president indefinitely. Under the proposed changes, the president would also bypass legal controls on the executive during a state of emergency. Parliament has been debating the changes and would be subjected to a popular referendum later this year.

ConocoPhillips' chief executive Jim Mulva said the company would likely file for arbitration in the next weeks over assets it formerly owned in Venezuela. ConocoPhillips abandoned two heavy oil projects in the Orinoco Belt in June after Venezuela's government took majority ownership of all projects of international oil companies in the region.

The Communications, Energy and Paperworkers Union of Canada said it was asking the federal government to block regulatory approvals for TransCanada Corp's planned \$2.9 billion Keystone oil pipeline to the US because of worries it would hinder job growth. The union wants the government to rescind the decision and hold hearings on the export of unrefined oil to the US instead of building facilities to refine the petroleum in Canada. The pipeline is expected to carry 435,000 bpd of oil from the oil sands region to northern Alberta to refineries in the US Midwest and beyond beginning in 2009.

The US House of Representatives' Energy and Commerce Committee is expected to investigate whether the US government extracted sufficient penalties from BP Plc for allegedly manipulating US propane markets. BP has agreed to pay \$303 million to settle civil price fixing charges brought by federal investigators. The committee is seeking to investigate whether the penalties levied are sufficient deterrents to improper behavior.

DOE Stocks

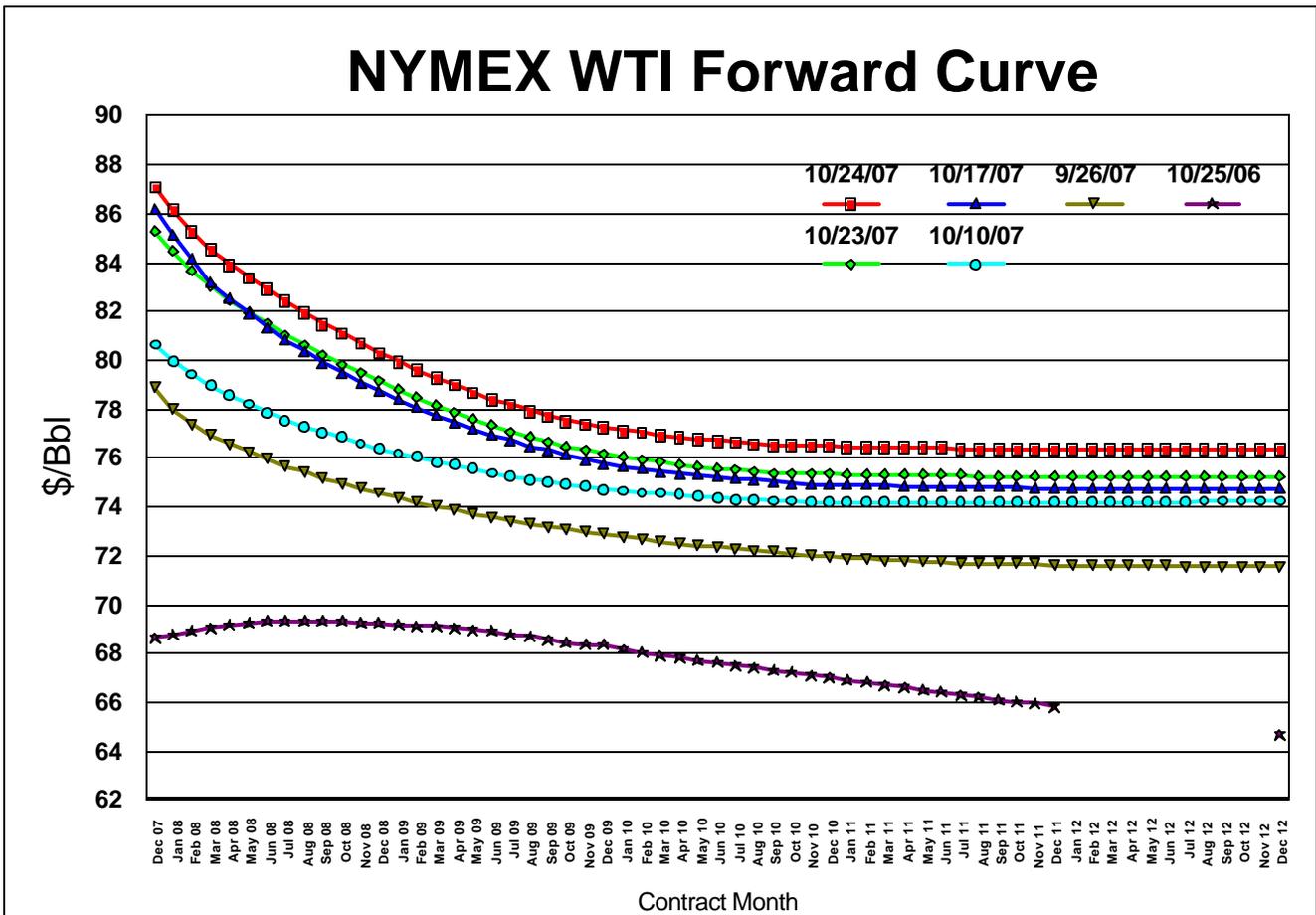
- Crude** – down 5.3 million barrels
- Distillate** – down 1.8 million barrels
- Gasoline** – down 2 million barrels
- Refinery runs** – down 0.2%, at 87.1%

to end its armed campaign against Turkey. Iraq's President Jalal Talabani told Turkey's Foreign Minister Ali Babacan that Iraq did not exclude extradition of Kurdish rebels. A high level delegation from Iraq is expected to visit Turkey on Thursday to discuss the situation. Separately, a Kurdish rebel spokesman denounced Iraq's Prime Minister Nouri al-Maliki for calling his group a terrorist organization.

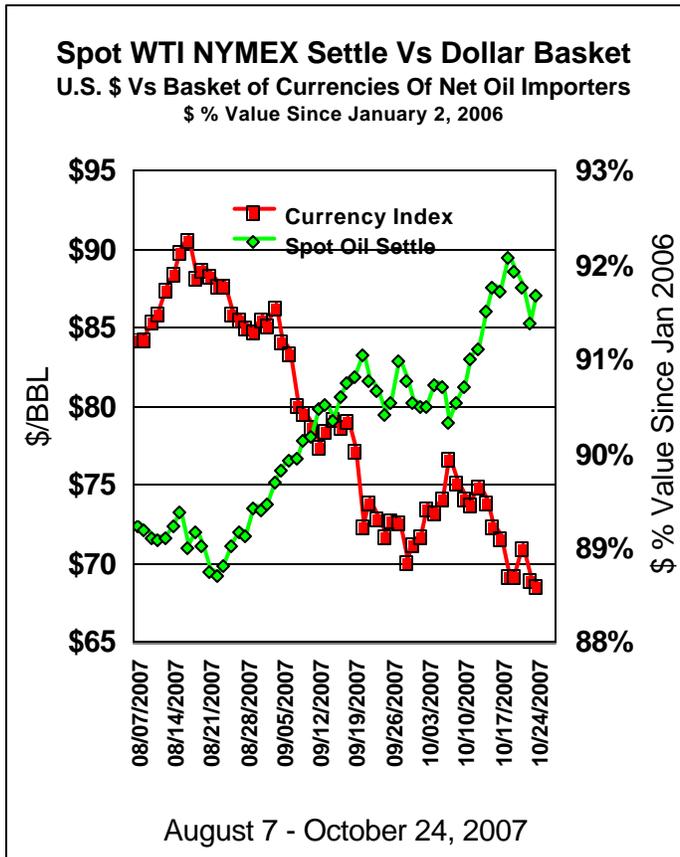
NATO's Secretary General, Jaap de Hoop Scheffer said Turkey was showing remarkable restraint in response to attacks by Kurdish rebels. He said the 26 allies expressed solidarity with Turkey in the face of the attacks but said the alliance was also urging moderation in Turkey's response.

US Energy Secretary Sam Bodman said OPEC and other world oil producers need to increase their production to counter declining inventory levels in the US and other industrial nations. He said it was too early to tell if US stocks were too low but he said that industrial nations were short inventories overall. He also stated that the US economy would eventually take a hit if crude oil prices hold near Friday's high of \$90.07/barrel.

OPEC's Secretary General Abdullah al-Badri said the group was implementing a decision taken in September to increase its production by 500,000 bpd. Separately, an OPEC delegate said OPEC should increase its output by an additional 500,000 bpd to ensure sufficient supply in the fourth quarter. The comments are in contrast with recent remarks from OPEC officials that world oil markets have enough crude oil and that the recent rally in prices reflect factors beyond OPEC's control. The



head of OPEC affairs at Iran's Oil Ministry, Javad Yarjani said fear rather than fundamentals were driving the markets. Meanwhile, China warned that oil prices were too high, as the country's energy officials met with OPEC on Wednesday.



Ecuador's Energy Ministry said Ecuador has been formally invited to participate in OPEC's November meeting, where OPEC members would decide on Ecuador's petition to rejoin the group. Ecuador's President Rafael Correa's government on Tuesday announced that the country would rejoin OPEC at its November meeting.

Iran's President Mahmoud Ahmadinejad dismissed UN Security Council resolutions imposing sanctions on Iran as "worthless paper" and vowed that Iran would not give up its right to enrich uranium. Separately, the EU's foreign policy chief Javier Solana, who met with Iran's newly appointed chief nuclear negotiator Saeed Jalili on Tuesday said the former chief negotiator Ali Larijani appeared to be leading the Iranian team. He warned that multiple negotiators from Iran could further complicate negotiations with the West.

DEBKAFfile reported that President George W. Bush and his Russian counterpart, Vladimir Putin may have a deal to the detriment of Iran,

under which the US would make a concession on the Europe based missile shield in return for Russian withdrawal of nuclear aid to Iran and support of further sanctions. Russia's President Vladimir Putin alluded to a shift, which may settle his dispute with the US on the US missile shield in East Europe. The outline of the US role in the deal surfaced when US Secretary of Defense Robert Gates suggested a possible delay in activating the proposed US missile interceptor project in Poland and radar station in the Czech Republic until an Iranian threat was definitely proved.

Total inventory of Iraqi Kirkuk crude in the port of Ceyhan stood at 5.5 million barrels on Wednesday. A shipping agent said oil continued to flow at a rate of 472,500 bpd.

Refinery News

Citgo said it would shut its No. 1 fluid catalytic cracking unit at its Corpus Christi, Texas refinery for scheduled maintenance on Wednesday until October 27.

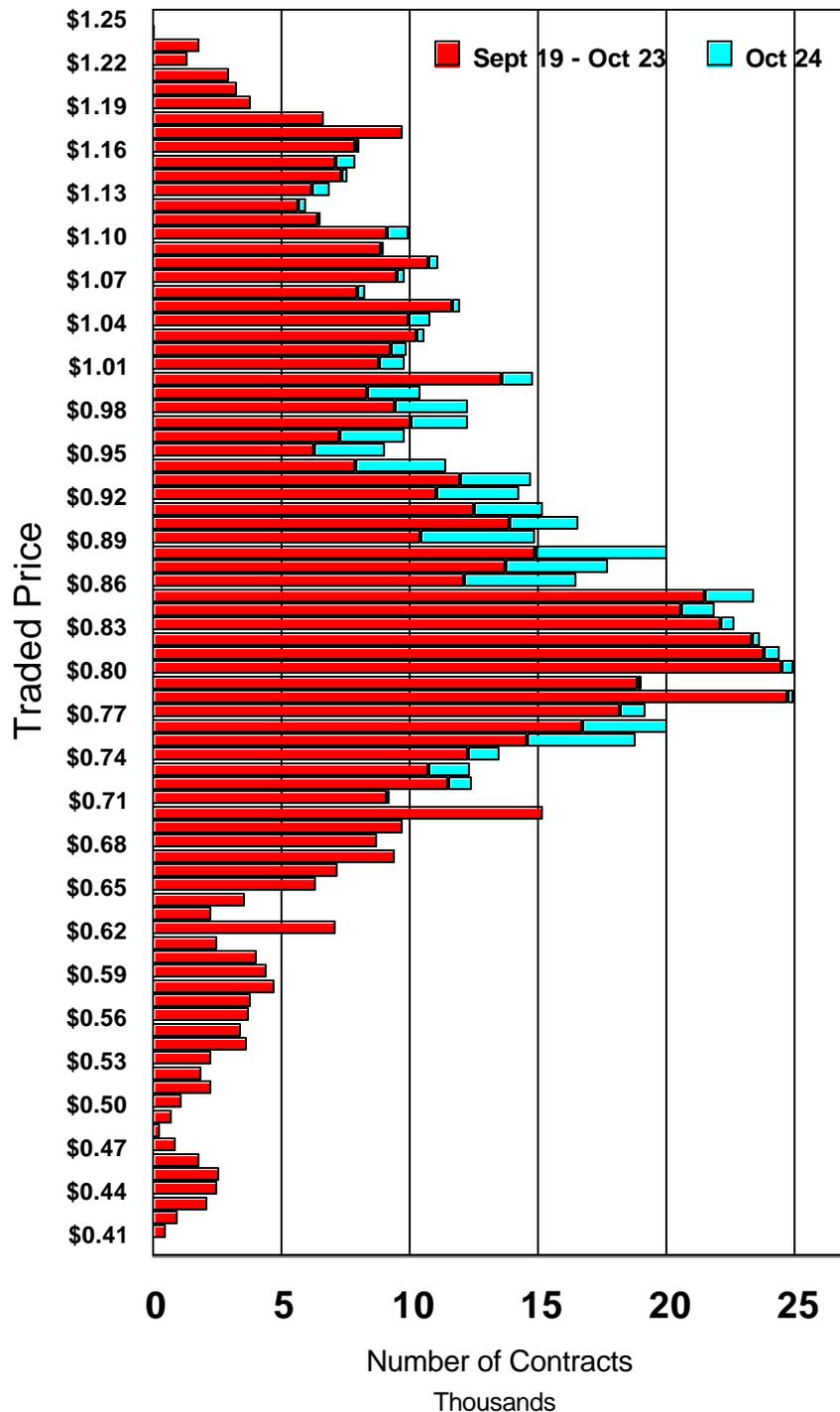
ConocoPhillips accidentally cut power to a crude distillation unit at its Sweeny, Texas refinery during maintenance on a separate processing unit's electrical system.

BP Plc is expected to restart a crude unit, a hydrotreating unit and a coker unit at its Texas City, Texas refinery in the second week in November. The crude unit has been shut since 2005, when the refinery was shut ahead of Hurricane Rita. The refinery has been operating at about 248,000 bpd. The refinery is scheduled to resume full capacity during the first half of 2008.

NYMEX WTI: December January Spread

Price Vs Volume for September 18 - October 24, 2007

Trade Weighted Avg: 10/24 .90 10/23 .83 10/22 .87 10/19 1.11 10/18 1.16



Italy's Eni said it planned to approve the development of its Longhorn hydrocarbon discovery in a deep water area of the US Gulf of Mexico by December and begin production in 2009.

Japan's Kyushu Oil Co Ltd has been cutting runs at its 26,000 bpd residue fluid catalytic cracking unit at its Oita refinery due to problems. A source said the refinery would increase exports of fuel oil due to the problem with the unit.

The National Iranian Oil Refining and Distribution Co and India's Essar Group are expected to start building a 300,000 bpd refinery in southern Iran early next year. The proposed plant at the southern port town of Bandar Abbas would process heavy crude such as Soroush and Iran Heavy to be allocated by the Iranian authorities.

Production News

Petro-Canada said it was repairing a generator at its Terra Nova oil field offshore Newfoundland. A spokesman said there was some impact on production volumes from the field.

Nexen Inc said its third quarter profit more than doubled as it added new production from the Buzzard field in the North Sea. Its net income increased to C\$403 million from C\$199 million a year earlier. The company's oil and gas production increased to 214,000 bpd of

oil equivalent from 148,000 bpd a year earlier.

Two Mexican oil workers were killed and dozens more were stranded after they fled a drilling platform damaged by a storm. Pemex's chief executive Jesus Reyes described the damaged platform as minor in terms of production but said mostly natural gas was still leaking from the well. Mexico closed its main exporting ports in the Gulf of Mexico, the oil ports of Coatzacoalcos, Dos Bocas and Cayo Arcas. Pemex said Mexico's oil exports would not be seriously hit by the closure of the country's three oil ports, as delayed shipments can be rescheduled.

The Shetland Islands Council reported that Brent crude liftings increased to 173,820 tons in the week ending October 23 from 82,965 tons in the previous week.

Nigeria lowered its official selling prices for November Bonny Light and Qua Iboe crudes to dated Brent plus \$2.70, down 40 cents on the month. Its Escravos crude was set at dated Brent plus \$2.10, down 10 cents while its Forcados crude was set at dated Brent plus \$2.45, down 25 cents on the month. Nigeria's Brass Blend price was set at dated Brent plus \$2.70, down 45 cents while its Pennington crude price was set at dated Brent plus \$4.50, down 40 cents.

Traders said Nigeria would purchase 48 cargoes of gasoline via an import tender for delivery from December to February 2008.

A senior Nigerian oil official said the country was seeking to renegotiate several contracts with foreign oil companies to increase the government's share of oil revenues. The contract changes would take months to put together and would affect several major oil companies, such as ExxonMobil, Royal Dutch Shell, Chevron Corp and Total SA.

Japan's Ministry of Finance reported that the country's customs cleared crude imports fell by 9.8% on the year in September to 18.184 million kiloliters or 3.81 million bpd of crude.

The Petroleum Association of Japan reported that Japan's crude oil inventories increased by 4.56 million barrels or 4.3% on the week to 110.24 million barrels in the week ending October 20. It reported that gasoline stocks built by 220,000 barrels to 12.34 million barrels while kerosene stocks built by 530,000 barrels to 27.58 million barrels and naphtha stocks built by 550,000 barrels to 13.1 million barrels on the week. Japanese refiners ran their facilities at an average 80.5% rate of total capacity of 4.84 million bpd last week.

Kazakhstan's President Nursultan Nazarbayev empowered the government to change or break contracts with foreign companies despite investors' call on the Kazakh leader to veto the proposal. Kazakhstan's President signed a law on amendments and changes to subsoil legislation aimed at ensuring the country's security in signing and carrying out natural resources contracts.

Russia and the European Union have agreed to set up an early warning system which would alert them to any disruptions to gas and oil supplies flowing through Russian pipelines.

According to a preliminary schedule, Russian oil export from major sea ports would likely fall by 160,000 bpd in November to 2.8 million bpd, the lowest level over the past year.

Glencore has submitted an application to Russia's Federal Antimonopoly Service to buy Russian oil company, Russneft which produces 285,000 bpd of oil. The Russian company went up for sale after its founder and CEO Mikhail Gutseryev ceded control of the firm at the end of July under increasing pressure from the Russian authorities.

Venezuela's Finance Minister said the price of Venezuela's crude is not expected to fall below \$55/barrel in 2008. Venezuela's basket of crude oil and refined products last week averaged \$77.64/barrel.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$80.11/barrel on Tuesday from \$80.23/barrel on Monday.

Market Commentary

With unexpected builds across the board, higher prices spread over the marketplace. A 13% drop in crude oil imports reflected levels of 9.1 million bpd, the lowest level since March 2nd of this year. This helped to bring total stock levels to just 5% above the 5-year average, falling from 7.8% a week ago. Overall stocks are still at the upper end of the average range, however stock levels at Cushing fell from 18.4 to 18.2. Gasoline stocks fell by 2 million barrels and are now at the lower end of the average range. Demand for gasoline e was 9.2 million barrels a day, .2% below the same period last year. Distillates fell a total of 1.85 million barrels with demand set at 4.3 million barrels a day, up 1% for the same period last year. The potential for higher prices increase today, with the December contract settling above the upward channel set at 86.79 on the spot continuation chart. Strength spanned across the forward curve today, with the backwardation looking stronger. We had mentioned previously that our bias was to the downside, but that we would have to wait and see if the market would experience a period of consolidation prior to moving higher. At this point we would concede and look to buy and sell against the list support and resistance numbers. Total open interest in crude oil is 1,408,072 down 4,609, December 423,329 down 7,775 and January 152,831 up 3,021. Support for December, comes in 86.30, 84.68, 83.00, 82.00, 80.80 and 79.00. Resistance is set 88.45, 88.85, 90.07 and 90.47. The product markets ended the session sharply higher in light of the DOE report showing an unexpected draw in gasoline stocks and a larger than expected draw in distillate stocks. The RBOB market, which posted a low of 209.88, quickly rallied to a high of 215.90 following the release of the DOE and API report. The market however erased some of its gains and settled in a sideways trading pattern ahead of the close. It settled up 3.86 cents at 214.75. The market later posted a high of 216.00 in late afternoon trading as the crude market continued to rally to a high of 87.79. The heating oil market also bounced off its low and rallied to a high of 235.37 amid the supportive

inventory reports. The market later erased some of its gains as traders took some profits ahead of the close. It settled up 4.22 cents at 234.20. The markets are seen holding their support levels as the upward trend remains intact. In the RBOB market, support is seen at 212.72, 210.65, 209.88 followed by 209.53, 208.22, 207.52, 204.78 and 204.53. Resistance is seen at 216.00, 216.85, 219.40, 220.19 and 222.00.

		Explanation
CL	Resistance	88.45, 88.85, 90.07, 90.47
	87.10, up \$1.83	87.79
	Support	86.30, 84.68
		Wednesday's low
		83.60, 83.00 82.00, 80.80, 79.00
HO	Resistance	236.44, 236.65
	234.20, down 4.22 cents	235.37
	Support	233.20, 232.85, 229.00
		Wednesday's low
		228.72, 227.93, 225.30, 224.40, 232.22
		Previous low, 38%(214.15 and 236.44), 50%, Previous lows
RB	Resistance	216.85, 219.40, 220.19, 222.00
	214.75, up 3.86 cents	216.00
	Support	212.72, 210.65, 209.88
		Wednesday's low
		209.53, 208.22, 207.52, 204.78, 204.53
		Previous lows, 50%(194.85 and 220.19), previous low, 62%