



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 31, 2007

OPEC's President Mohammed bin Dhaen al-Hamli said OPEC would always step in to meet supply shortfalls but added that an increase was not on the agenda for OPEC's informal talks in mid-November. Separately, Saudi Minister of State Abdullah Alireza said an additional increase in Saudi Arabian oil production would not help lower record oil prices.

Market Watch

Iraqi soldiers are taking charge of protecting the country's oil terminals from insurgents under a plan to hand over control to Iraqis. They said they were ready to take full responsibility for their protection.

Iran's President Mahmoud Ahmadinejad proposed Gholamhossein Nozari as the new permanent oil minister, a move that had been widely expected.

The IEA warned that its long term global energy outlook for 2007 would contain energy consumption and world pollution forecasts that are worse than those projected last year. It is expected to release its report on November 7.

The head of trading at Vitol urged OPEC, oil majors and other oil producers to start using the energy futures markets that now dictate the oil price. OPEC has traditionally not used the futures markets to hedge production because of fears the group would be accused of manipulating the market higher.

The head of OPEC affairs at Iran's Oil Ministry Javad Yarjani said an oil price bubble was not due to any shortage but was fueled by political tensions. He said the market was well supplied. He also stated that producers would not welcome prices climbing to \$100.

The head of Iran's Revolutionary Guards warned the US on Wednesday that it would find itself in a "quagmire deeper than Iraq" if it attacked Iran. Meanwhile, the five permanent members of the UN Security Council and Germany are expected to meet in London on Friday to discuss a possible third round of UN sanctions. Following talks with Iranian President Mahmoud Ahmadinejad, Russian

DOE Stocks

Crude – down 3.9 million barrels

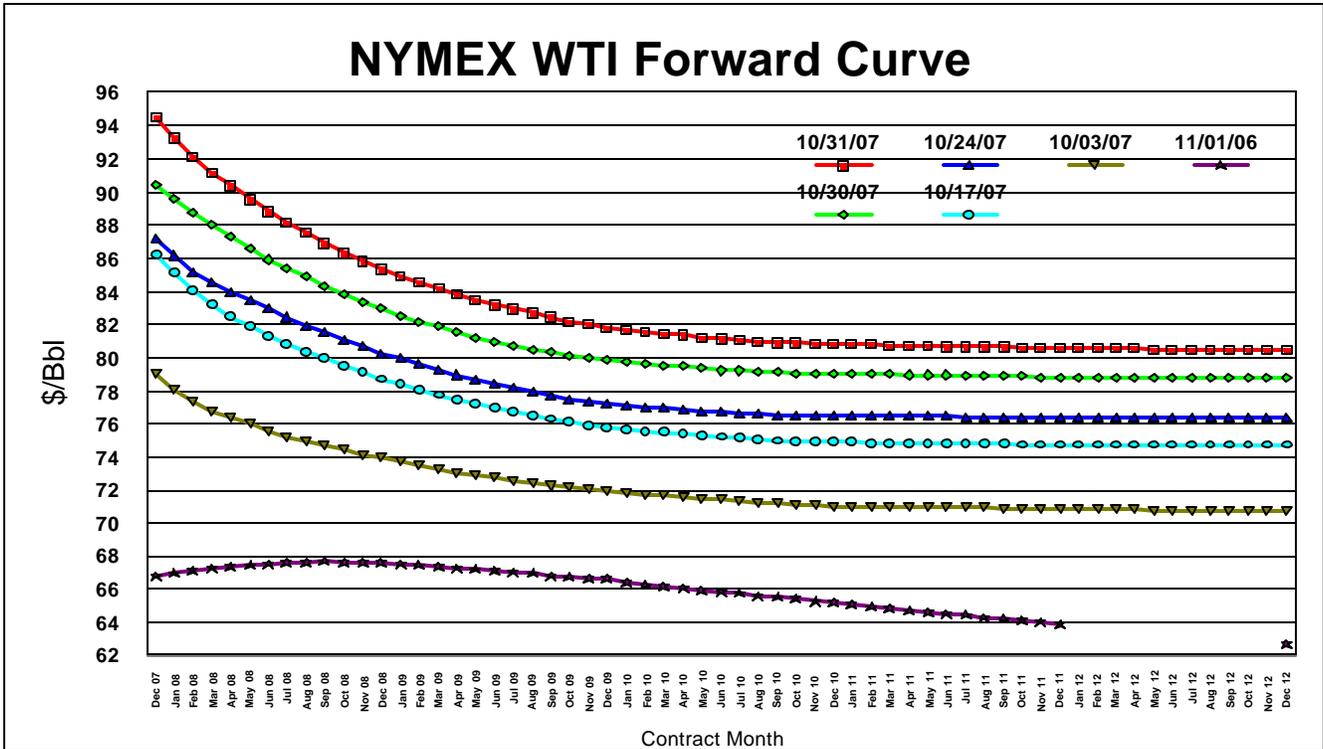
Distillate – up 800,000 barrels

Gasoline – up 1.3 million barrels

Refinery runs – down 0.9%, at 86.2%

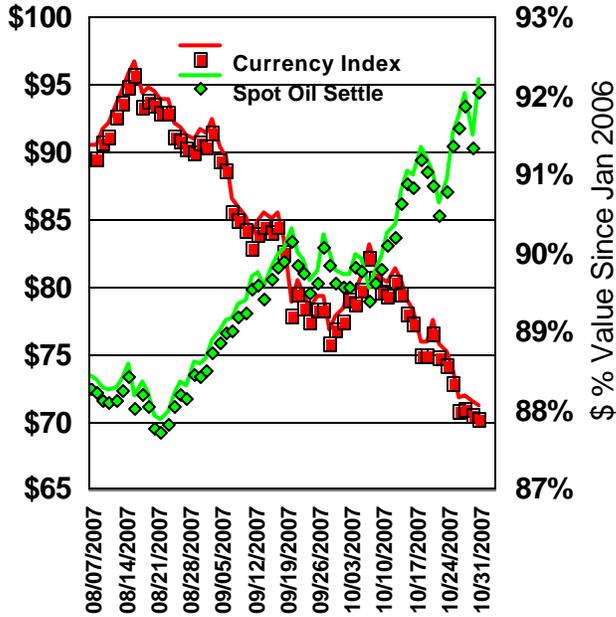
Foreign Minister Sergei Lavrov said he encouraged Iran's leadership to undertake further work with the IAEA to clear up questions, which have been raised by the agency with regard to the Iran's nuclear program.

The Movement for the Emancipation of the Niger Delta has claimed responsibility for three attacks this month, including



one on a Nigerian navy vessel on Wednesday that killed one officer and wounded several others. The militant group said the attack was meant to show the government and oil companies that the presence of Nigerian military in the Niger Delta would not deter an attack nor provide protection to oil facilities.

Spot WTI NYMEX Settle Vs Dollar Basket
U.S. \$ Vs Basket of Currencies Of Net Oil Importers
 % Value Since January 2, 2006



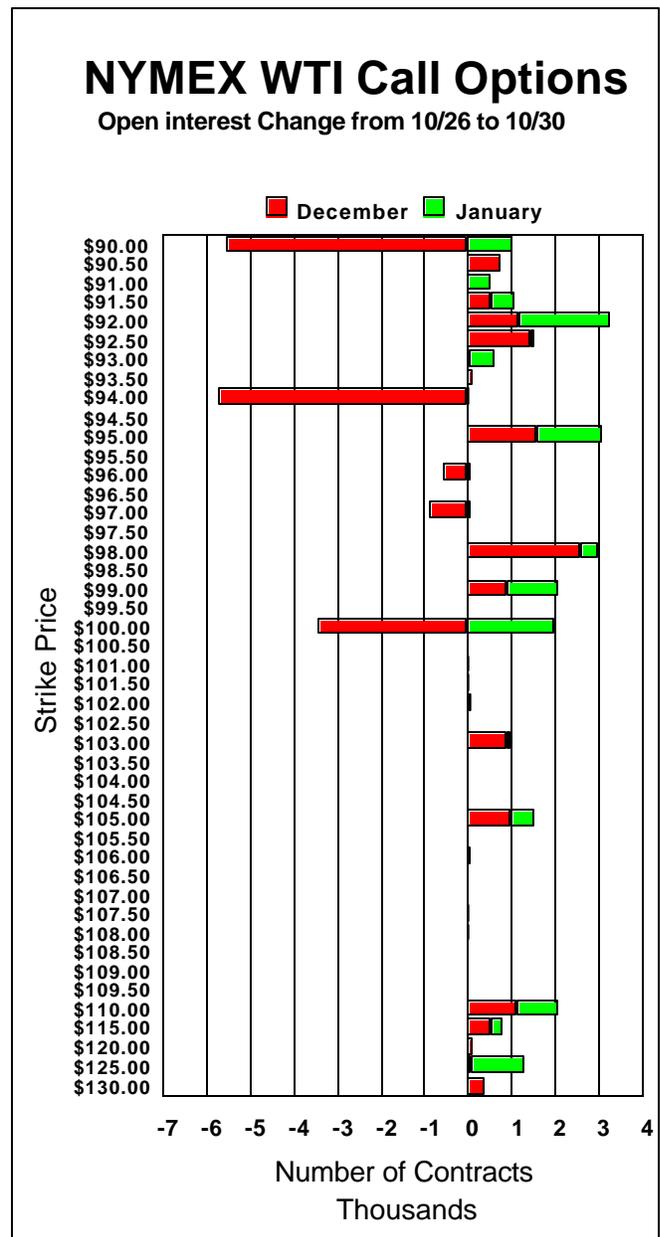
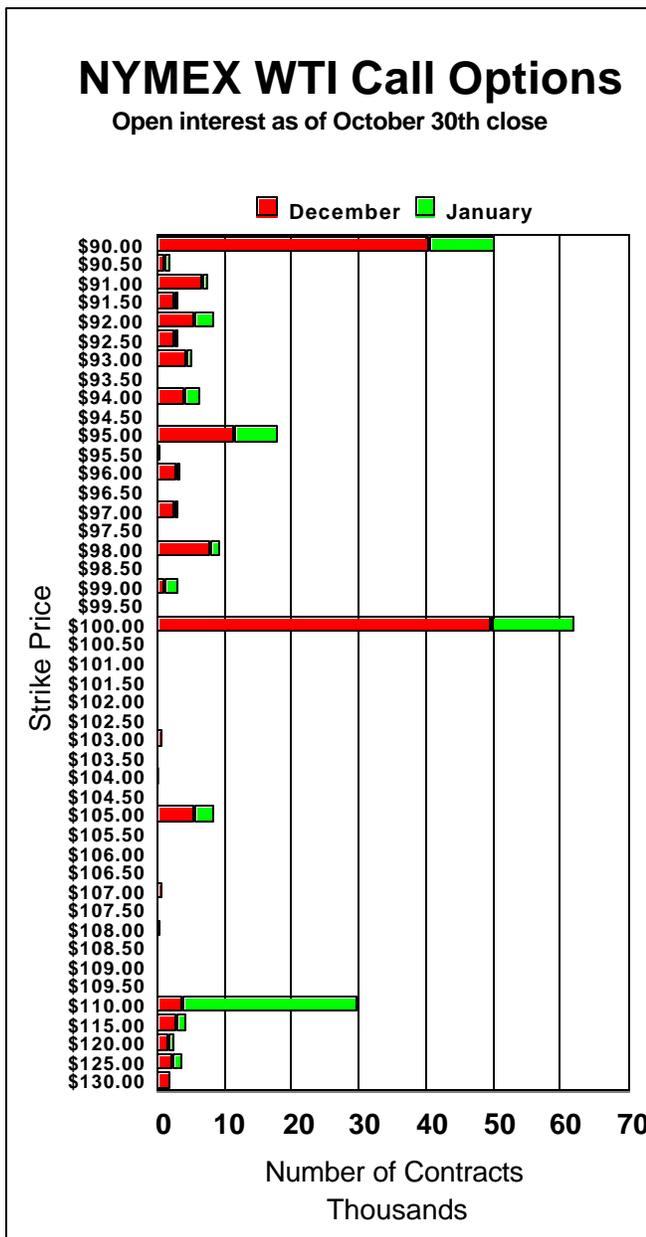
August 7 - October 31, 2007

The EIA stated that US oil imports need to increase above recent shipment levels or refiners will have to use their inventories to make gasoline and heating oil this winter. It said crude oil imports increased by 278,000 bpd to 9.4 million bpd. The EIA said US crude imports in the last four weeks averaged 9.7 million bpd, down 500,000 bpd on the year, causing a draw down in refiners' crude stocks. It said US weekly oil imports need to average 9.9 million bpd in November and 9.8 million bpd during December to meet refiner demand. Meanwhile, the head of the EIA, Guy Caruso said consuming nations are likely to face a tight market going into the winter due to a lack of sufficient spare oil production capacity and average to low levels of crude and products inventories.

The EIA also reported that the average price US homeowners paid for heating oil increased by 8.3 cents to a record \$2.95/gallon over the last week. The national heating oil price is 57 cents higher on the year. Heating oil expenses for the typical household in the Northeast would be \$1,827, up 22% from \$1,499 last winter.

Refinery News

Valero Energy Corp's 100,000 bpd Three Rivers, Texas refinery reported use of its safety flare on Tuesday morning. The flare was used in complex I of the refinery for about 290 minutes.



A fire at Petroplus' Coryton refinery was extinguished on Wednesday. It shut several units as a precaution.

A partial outage at Petroplus' Ingolstadt refinery is set to continue for at least another week after an attempt to restart a broken unit failed. The company partially closed the 110,000 bpd refinery on October 12 for about two weeks of maintenance.

Marathon Oil Corp said its board approved a \$1.9 billion expansion of the company's Detroit refinery. The expansion would increase heavy oil production by 80,000 bpd and total crude refining capacity by about 15% to about 115,000 bpd. It is expected to complete the expansion in late 2010.

Iran, Malaysia and Venezuela have signed a deal with Syria to build a 140,000 bpd oil refinery in the country. Syria's Deputy Prime Minister Abdullah Dardari said the aim was to cut imports of oil products into the country, where production has declined to about 400,000 bpd, down 200,000 bpd since 1996.

Oil and Natural Gas Corp's proposed refinery at Kakinada is expected to cost 2400-250 billion rupees or \$6.1-\$6.36 billion. The new 300,000 bpd refinery would be a private entity in which ONGC would have a stake.

Production News

Pemex said it is expected to restore all of the offshore production it shut in this week in the Gulf of Mexico on Wednesday. Pemex has restored 800,000 bpd of crude production and would resume an additional 300,000 bpd of production later on Wednesday. Mexico reopened the oil port of Cayo Arcas on Tuesday afternoon and the port of Dos Bocas on Wednesday as stormy weather dissipated. The port of Pajaritos remained closed.

Iraq issued a new sales tender for 6 million barrels of Kirkuk crude, the sixth sale in two months. A senior SOMO official said Iraq awarded its fifth Kirkuk crude tender in two months to five companies selling them 3.54 million barrels. Italy's Eni was awarded 570,000 barrels, Spain's Cepsa was awarded 775,000 barrels, France's Total was awarded 1 million barrels while API Oil and Repsol were awarded 600,000 barrels each.

Total SA's chief executive Christophe de Margerie warned that the world's capacity to produce oil would fall short of official forecasts. He said it would be difficult to reach 100 million bpd. The IEA has previously stated that oil supply would reach 116 million bpd by 2030, up from the current 85 million bpd level. He also stated that oil's surge to record highs was due to supply and demand fundamentals rather than speculation.

ExxonMobil said it hoped to establish a significant position in Libya after returning to the country following a period of political instability. ExxonMobil, which has been aiming to increase its African output by about 50% by the end of the decade, has earmarked Libya as one of its promising new markets. Separately, ExxonMobil said it was interested in new exploration blocks in Angola despite the prospect that an OPEC output quota could cut the country's production levels.

Italy's Eni SpA said it was losing about 50,000 bpd of oil equivalent in Nigeria due to disruptions. An Eni official said the company's current output in Nigeria was about 130,000 bpd of oil equivalent.

Royal Dutch Shell Plc said crude oil theft at sites in Nigeria was rising, posing a problem for development. Shell has been slowly returning to the region but continues to see security as a top priority there.

According to the Shetland Island Council, Brent crude oil liftings increased to 460,685 tons in the week ending October 30 from 173,820 tons in the previous week.

Sudan's Greater Nile Petroleum Operating Co said it was struggling to maintain its current production of 250,000 bpd. Meanwhile western firms have tended to avoid the country due to political instability, much of it is related to violence in Sudan's restive Darfur region.

Japan's Ministry of Economy, Trade and Industry reported that the country's oil product sales increased to 17.74 million kiloliters or about 3.7 million bpd in September, up 9.7% on the year. It reported that gasoline sales increased by 7.7% on the year to 5.23 million kl or 1.1 million bpd while

kerosene sales increased by 32.2% on the year to 1.09 million kl or 230,000 bpd. It reported that Japan's crude oil imports fell by 13% to 17.01% kl or 3.6 million bpd. Crude oil throughput at Japanese refineries fell by 4.1% on the year to 18.13 million kl. Japan's METI reported that oil companies held 15.36 million kl of crude in their storage tanks at the end of September, down 12.4% on the month. Meanwhile gasoline stocks totaled 1.79 million kl at the end of September, down 12.1% on the month.

Separately, the Petroleum Association of Japan reported that Japan's crude oil inventories fell by 12.87 million barrels to 97.89 million barrels in the week ending October 27. It also reported that gasoline stocks increased by 110,000 barrels to 12.43 million barrels while kerosene stocks fell by 1.36 million barrels to 26.33 million barrels and naphtha stocks fell by 690,000 barrels to 12.36 million barrels on the week. It reported that crude runs fell by 160,000 bpd to 3.73 million bpd while refinery utilization rates fell by 3.4% to 77.2%.

China is expected to export at least 100,000 tons of gasoline in November, down from 190,000 tons in October due to overall thin fuel supply in the domestic market.

China unexpectedly raised domestic gasoline and diesel prices by a tenth or 500 yuan on Thursday, the first increase in 17 months. The move would help balance the books of Sinopec, which has shouldered mounting losses by selling fuel at the regulated, below market prices that China maintained to avoid inflation and social unrest. The increase would increase gasoline prices by 9% and diesel by 10%. China's National Development and Reform Commission said it planned to adjust natural gas prices soon following a 10% rise in fuels costs.

OPEC's news agency reported that OPEC's basket of crudes fell to \$85.50/barrel on Tuesday, down from Monday's \$85.84/barrel.

Market Commentary

As if the price of crude oil wasn't high enough, the December contract topped out today at \$94.74. The run up in prices was propelled by a draw of 3.9 million barrels in crude stocks, of which 3.1 million was in Cushing, OK, the delivering point for crude oil. There is a question as to whether or not this move higher is due to what one might term as the "wrong" reason or the "right" reason. Are prices going higher due to a weaker economy, ie the weak dollar, supply shortages or geopolitical tensions? Could it be growing economies like China and India, greater individual wealth and or better efficiency in the utilization of crude oil? If prices are gaining strength off of the "wrong" reason, then something needs to be done to take prices lower. If the "right" reason is behind this move higher, is it necessary to panic over this recent surge in prices. Whatever the reason, prices aren't hinting at a pullback yet. Technically speaking, the December crude oil experienced an outside trading day, which typically means higher prices. Based on the upward channel on the spot continuation chart, the initial projected upside objective is 96.10 and above that 100.33. Until there is concrete evidence that this trend is over, we would have to stick with buying at the support levels, with tight stops below. Total open interest in crude oil is 1,448,114 down 404, December 416,303 down 6,875 and January 175,440 up 5,112. Support for December, comes in 93.35, 92.65, 91.00, 90.55, 87.55 and 82.45. Resistance is set 95.49, 96.10 and 100.33. Similarly, the product markets posted outside trading days after the market opened at their lows and rallied sharply higher on the oil market's strength. The RBOB market posted a low of 224.00 in overnight trading as it continued to trade lower following Tuesday's sell off. However the market retraced its move and rallied over the 230.00 level amid the strength in the crude market in light of the unexpected draw in crude stocks. The November RBOB contract later extended its gains to over 10 cents as it rallied to a high of 235.78 ahead of its expiration. It settled up 8.29 cents at 234.00. The December RBOB contract settled up 8.69 cents at 233.70 after it rallied to a high of 233.85. The market's uptrend continued in overnight trading as it rallied to a high of 235.62. The

November heating oil contract also rallied over 9.7 cents to a high of 252.18 ahead of its expiration. It settled up 8.32 cents at 250.78 while the December contract settled up 8.75 cents at 252.93. The markets are seen retracing some of today's sharp gains before it continues on its upward trend. In the RBOB market, support is seen at 226.09, 223.15, 222.21 followed by 220.21 and 216.02. Meanwhile

resistance is seen at 235.62, 237.74 and 240.00.

| | | Explanation | |
|-----------|-------------------|-----------------------------------|--|
| CL | Resistance | 95.49, 95.80, 96.10, 100.33 | Wednesday's high |
| | | 95.28 | |
| | Support | 93.35, 92.65, 91.00, 90.55, 88.92 | Wednesday's low |
| | | 87.55, 82.45 | |
| HO | Resistance | 255.82, 256.23 | Basis trendline |
| | | 254.46 | Wednesday's high |
| | Support | 250.00, 245.34, 242.52, 241.53 | Wednesday's low |
| | | 239.70, 236.65, 230.96 | 62% (230.58 and 254.46), Previous lows |
| RB | Resistance | 237.74, 240.00 | Basis trendline |
| | | 235.62 | Wednesday's high |
| | Support | 226.09, 223.15, 222.21 | Wednesday's low |
| | | 220.21, 216.02 | 62% (210.68 and 235.62), Previous low |