



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR NOVEMBER 24, 2008

OPEC President Chakib Khelil said OPEC could discuss an output cut at its informal talks on Saturday. He said OPEC will make an appropriate decision at its meeting on December 17. He said if OPEC had to decide on a further cut now, a 1 million bpd cut would not be enough to support the market. However he said the supply demand balance would probably not become clear until early December. He said he had no doubt that OPEC would reach full compliance with the 1.5 million bpd cut announced in October during the first few days of December. He also stated that

Market Watch

The National Weather Service said that US heating demand this week is expected to be normal. Demand for heating oil is expected to be about 10% above normal this week. Heating demand for natural gas should average just above 1% above normal.

WSI Corp forecast temperatures will average below normal over the next three month period of December through February. Temperatures in the Northeast as well as the North Central region should average below normal levels during December and February and warmer than normal levels in January.

A Gulf Cooperation Council Secretariat official said Saudi Arabia and other member countries will inevitably have to give money to the West as the credit crunch continues to take its toll.

Total Chief Executive Christophe de Margerie said the sharp decline in the price of oil is worrying and could hinder investment in the industry. He said oil should trade between \$80-\$90/barrel to allow the industry to bring new fields on line.

The chief executive of Virgin America, David Cush, said lower fuel prices present an opportunity to hedge buying up to four years out. He said the economic crisis could push back the profit target of the company to 2011 from 2010.

Kazakhstan cut its 2009 oil price forecast by a third to \$40/barrel and its 2010-2011 price forecast to \$50/barrel. This year's price forecast is set at \$60/barrel. Kazakhstan has announced a \$21 billion rescue package, equivalent to about 20% of the economy, to help its banking sector survive the crisis.

An Iranian government official said a cut is being considered in the amount of heavily subsidized gasoline motorists can buy during winter. Iran rationed subsidized gasoline starting in June of last year, limiting motorists to 100 liters/month at a price of 1,000 rials or 10 cents/liter.

China's new fuel tax will be launched within this year and will likely be coupled with a fuel retail price reduction.

Venezuela's President Hugo Chavez's left wing party won most state races in elections on Sunday. The national electoral authority said his socialist party won in 17 of 20 states. His opponents however gained two of the most populous states and the capital Caracas.

November Calendar Averages**CL – \$58.23****HO –\$1.8791****RB – \$ 1.2563**

many new projects will not come onstream with oil prices of less than \$70/barrel.

Iran's OPEC Governor Mohammad Ali Khatibi said called for more cuts in oil supply as previous reductions have failed to halt a decline in prices. OPEC is scheduled to hold an extraordinary meeting on November 29. Iran's central bank has previously warned that if oil prices fall below \$60/barrel, the country will struggle to survive the world financial crisis. It said that with a minimum price of \$60/barrel, Iran would still need to tap savings from oil revenues to cover its budget. The fall in oil prices has also prompted Venezuela to suggest a further 1 million bpd cut when OPEC meets on Saturday. Separately, Venezuela's President Hugo Chavez said the country's economy will remain stable even if oil prices remain at or below \$50/barrel.

According to a Reuters survey, OPEC looks set to announce a further output cut of up to 1.5 million bpd this year but will likely wait until its next policy meeting in December before making the decision.

Nigerian militants threatened to bring chaos to the Niger Delta by interrupting shipping and attacking oil and gas facilities operated by Chevron unless the region's military commander was removed. The Ijaw Youth Leaders Forum said it wanted Brigadier General Wuyep Rintip, transferred immediately.

Iraq's Oil Minister Hussain al-Shahristani visited the Kurdistan region on Monday for talks over disputed contracts the Kurds have signed with oil companies but which the central government says are illegal. Iraq's Oil Minister and officials from its autonomous Kurdistan region agreed to connect two Kurdish oil fields to the main northern export pipeline to the Turkish port of Ceyhan.

The EIA reported that the US average retail price of diesel fell by 14.5 cents/gallon to \$2.664/gallon in the week ending November 24. It is at its lowest level since March 5, 2007. It also reported that the US average retail price of gasoline fell by 18 cents/gallon to \$1.892/gallon on the week. The price is the lowest since January 25, 2005. It is the first time that the national average was below \$2/gallon since March 7, 2005.

According to the Lundberg survey, the US average retail price of gasoline fell below \$2/gallon to \$1.9717/gallon in the week ending November 21, a drop of nearly 33 cents in the past two weeks.

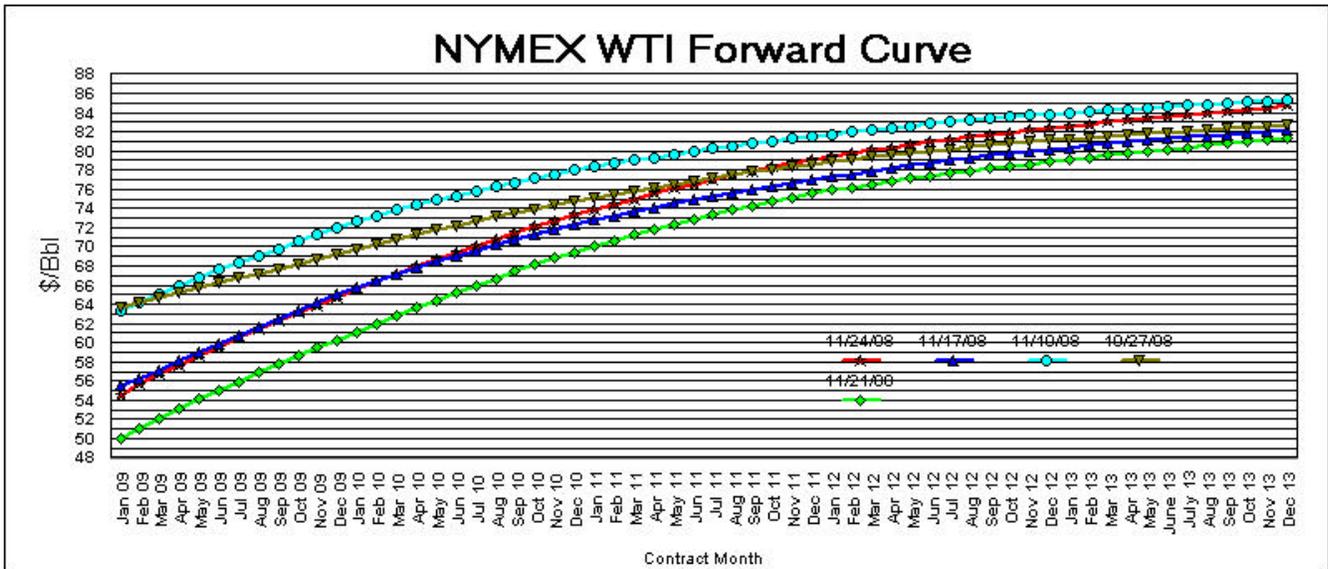
The Somali pirates who hijacked the Sirius Star supertanker off the coast of Kenya have reduced their ransom demand to \$15 million from their original request for \$25 million.

The US government dismissed the importance of Russian President Dmitry Medvedev's visit to Venezuela on Wednesday to meet Venezuela's President Hugo Chavez and the deployment of several Russian warships for joint military exercises with Venezuelan forces in the Caribbean. Meanwhile, the deputy head of Gazprom said Russia's President will discuss the creation of a joint consortium to further develop the Orinoco oil field during a visit to Venezuela.

Refinery News

Credit Suisse said US refining margins fell on lower demand. Margins in the Midwest fell by \$3.55/barrel to 33 cents/barrel while margins in the Gulf Coast fell by \$1.54/barrel to \$1.45/barrel. Margins in the Northeast fell by 36 cents to \$9.04/barrel. Margins in the Rockies fell by \$1.64/barrel to \$9.38/barrel while margins in the West Coast fell by \$3.17/barrel to \$8.45/barrel.

European oil refining margins are expected to increase further following last week's gains as winter demand started to increase. Margins are also expected to be supported by low distillate inventory



levels in the US. Margins for complex refineries running North Sea Brent crude in the Rotterdam area increased to an average of \$10.17/barrel over the past week from an average of \$9.81/barrel. Simple margins on Brent in the same area increased to about \$10.20/barrel from \$9.88/barrel in the previous week.

Colonial Pipeline notified shippers that it is allocating nominations for gasoline shipments on Cycle 68 on its main gasoline line north of Collins, Mississippi as demand exceeds line capacity. Colonial Pipeline is also allocating nominations for Cycle 68 on its main distillates line north of Collins, Mississippi.

ExxonMobil Corp said it has finished restarting a flexicoker unit at its 567,000 bpd refinery in Baytown, Texas following the completion of its planned maintenance.

BP Plc restarted an Ultracracker and resid hydrotreating unit at its 468,000 bpd Texas City, Texas refinery over the weekend. The Ultracracker was shut on Saturday and restarted on Sunday while the resid hydrotreater was shut on November 15 for unplanned work. The restart may last through November 27.

Flint Hills Resources LP began restarting its fluid catalytic cracking unit No. 2 and a sulfur recovery unit at its 288,000 bpd Corpus Christi, Texas refinery on Saturday. The units were shut for planned work on October 27. The restart could last through December 3.

Valero Energy Corp is shutting Complex 4 at its Corpus Christi, Texas refinery West plants for routine maintenance starting Monday until December 31. Meanwhile, Valero is starting about 48 hours of maintenance work at a butamer unit in Complex 6. The work is not expected to impact throughput or production at the plant. Separately, a 100,000 bpd coker unit at its Port Arthur, Texas refinery resumed normal operations after runs were cut over the weekend due to a valve snag.

Total SA denied reports that it has reduced output at its 331,000 bpd Gonfreville refinery in France. It said production is continuing at its normal level.

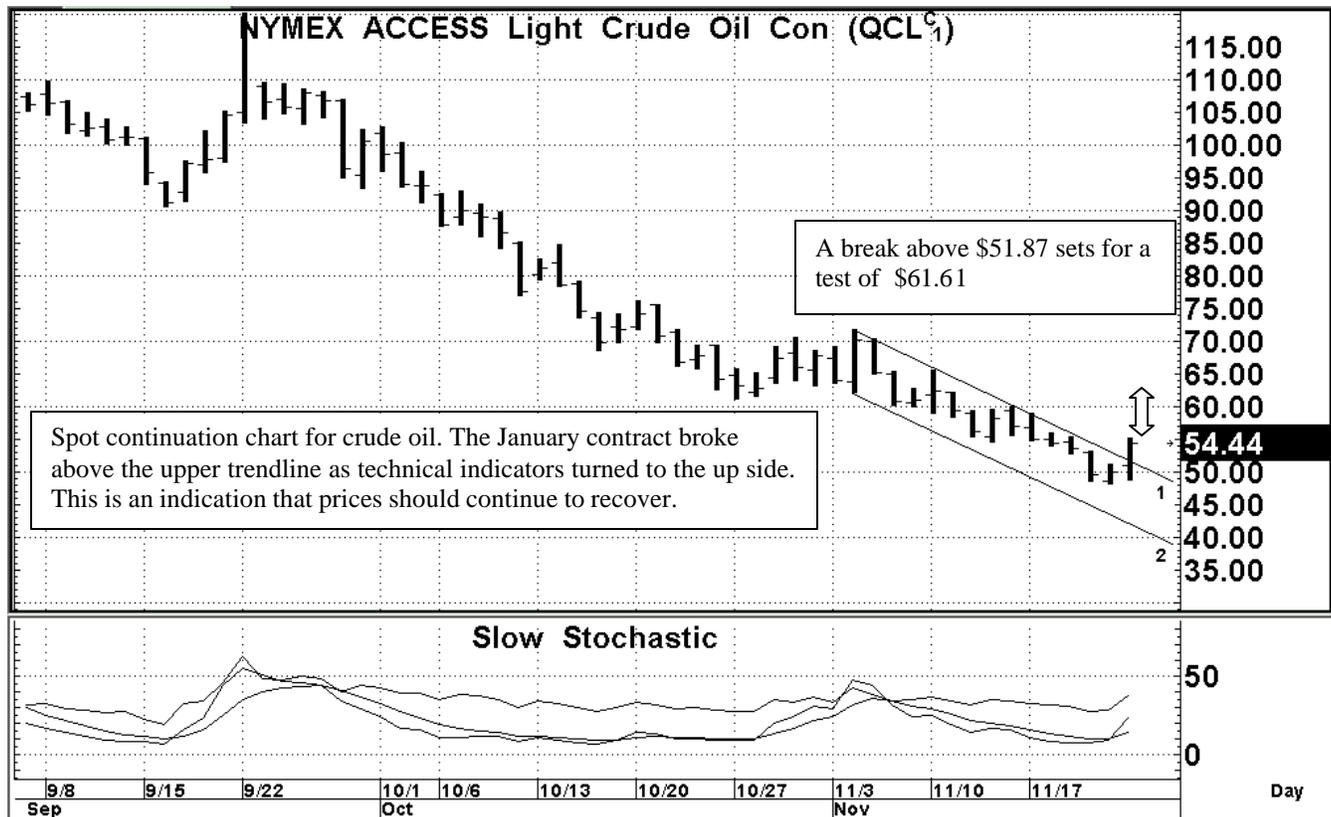
Engen's 135,000 bpd oil refinery in South Africa is expected to resume operations by mid-January after a fire destroyed its main processing unit.

According to Reuters, China's apparent oil demand increased by 4.3% in October from a year earlier. In the year through October, implied demand increased by 5.5% to 7.34 million bpd. Refinery runs in October were just over 7 million bpd, up 7% on the year. Implied gasoline demand was 1.43 million bpd, slightly below September's 1.46 million bpd but still 6.2% higher on the year. Diesel demand fell to 2.83 million bpd from 2.89 million bpd, up 12.5% on the year. China's General Administration for Customs said crude imports increased by 28.1% on the year to 3.8 million bpd.

The overall crude refining rates for South Korean refiners in December are expected fall by 1.3% on the month to 2.34 million bpd. Most refiners are keeping crude runs steady. South Korea's Hyundai Oilbank will keep its crude runs in December steady at 340,000 bpd from November. S-Oil also plans to keep its crude distillation rates in December steady at 480,000 bpd from November. SK Energy will keep its December crude runs steady at 900,000-920,000 bpd from November. However GS Caltex will cut its runs by 4.6% to 620,000 bpd due to poor margins in light distillates products.

Production News

A fire on the Kirkuk-Ceyhan oil pipeline between Iraq and Turkey was extinguished on Sunday night after the pipeline was attacked Friday night. A Turkish Energy Ministry source said oil should resume flowing through the affected portion of the pipeline within a week. The source said oil was flowing through a line that runs parallel to the affected link. Separatist Kurdistan Workers Party rebels claimed responsibility for the explosion.



An oil shipper said Iraq's oil exports from the main southern terminal at Basra fell to 960,000 bpd on Sunday from 1.54 million bpd on Saturday.

Iraq's Oil Ministry said the country's oil exports in October increased to an average of 1.7 million bpd, up from 1.64 million bpd in September. Iraq's exports through Basra increased to 1.38 million bpd in

October from 1.32 million bpd in September while its exports of Kirkuk crude from Iraq's north fell slightly to 319,000 bpd, down from 322,000 bpd in September. Its oil revenue in October fell to \$3.11 billion with an average price of \$58.90/barrel, down from \$4.214 billion in September.

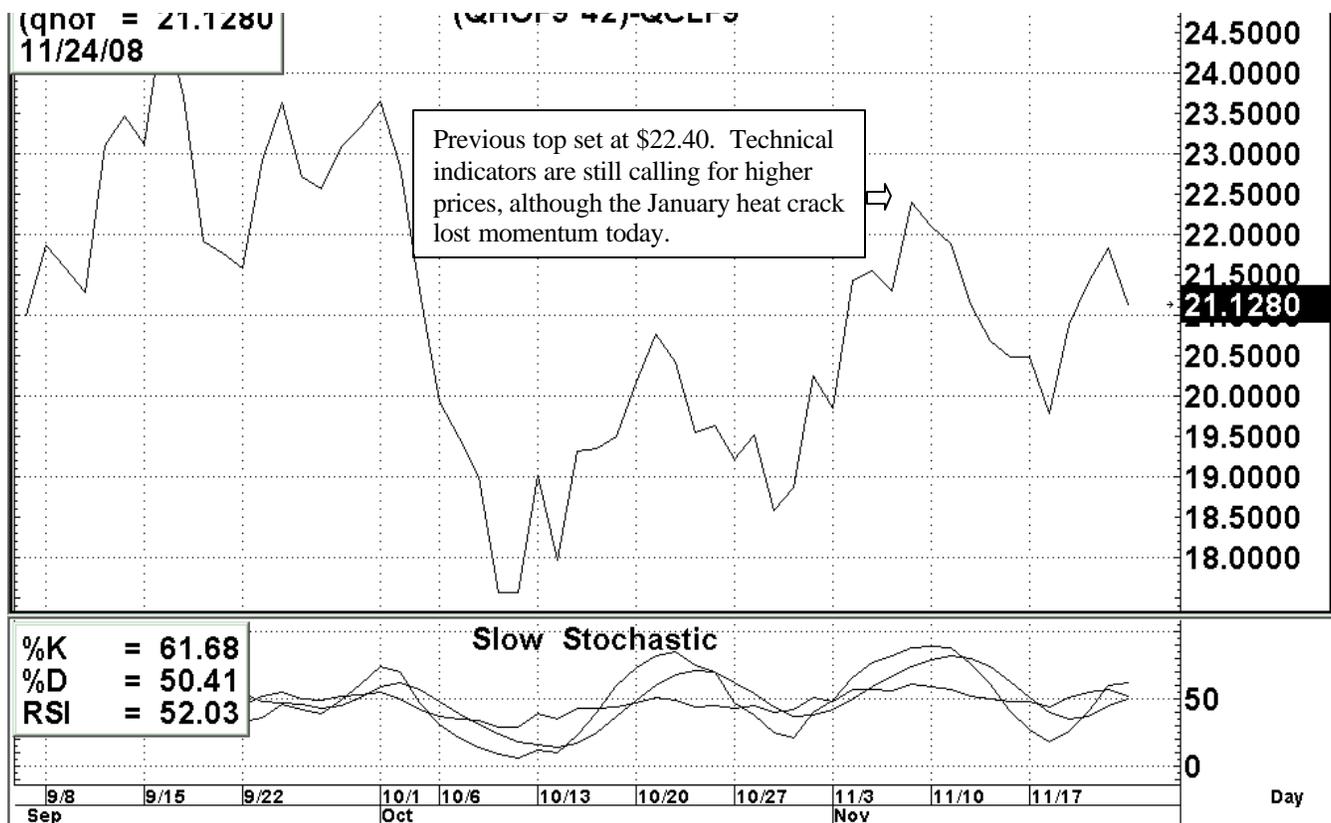
Sinopec is maintaining its production target for its Shengli field at 27.85 million metric tons or 559,289 bpd. It has applied new technology to increase output from single wells and discover deeper reserves in the aging field.

Nigeria cut its official selling prices for Bonny Light and Qua Iboe crude by 85 cents on the month to a premium of \$2.75 against Dated Brent. The official selling price of its Escravos crude was set at Dated Brent plus \$2.35, down 65 cents, its Brass Blend crude was set at Dated Brent plus \$2.80, down 90 cents, its Pennington crude was set a Dated Brent plus \$3.95, down 90 cents and its Forcados crude was set at Dated Brent plus \$3.35, down 45 cents.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$42.56/barrel on Friday from \$44.06/barrel on Thursday.

Market Commentary

A second rescue of Citigroup Inc and a weaker dollar lent confidence to the market and bolstered the demand of commodities as an investment tool. The U.S. government injected \$306 billion into Citigroup Inc. elevating hopes that the credit crisis will be alleviated and consumers will begin to spend



money again. Overall, volume was modest ahead of the Thanksgiving Holiday. This market will continue to fade its true fundamentals and instead react to the global economy. The shape of the forward curve has not change significantly, but it does appear that the fourth quarter of 2009 on back strengthened the most. This curve is still in a bearish shape. With the January contract trading and

settling above the descending channel on a spot continuation chart, we would look for a test up to \$61.61. Today's strength in crude oil overshadowed that for heating oil, as crack spreads came under pressure. The January09 heating oil crack spread has good resistance at \$22.40. Technical indicators remain supportive of this market and a test at the aforementioned resistance level is still possible. Gasoline followed the rest of the complex higher today, but lost against the crude oil. The December contract, which expires on Friday, was just shy of the \$1.1791 trendline. Demand is key here and with the early estimates for the DOE/API numbers calling for a slight build, this market could tumble, quickly, especially if demand falls again. Technical indicators are approaching the oversold area of 20.00, but have not penetrated it nor did they cross to the upside. The January09 gasoline contract, although trading above the upper \$117.91 trendline on a descending channel, did not settle above it. This trendline will begin tomorrow's session set at \$114.87, which is below today's settlement. Should prices dip back to this level and hold a buying opportunity will present itself.

Open Interest: Crude oil (CL) JAN.09 299,041 -513 FEB.09 73,236 +3,746 MAR.09 62,473 +7,973
 Totals: 1,112,812 +13,519, Heating oil (HO) DEC.08 20,383 -2,170 JAN.09 62,012 +2,365 FEB.09
 20,937 -612 MAR.09 20,452 -247 Totals: 226,593 - 296 NEW YORK HARBOR RBOB GASOLINE
 (RB) DEC.08 26,804 -3,241 JAN.09 72,094 +1,210 FEB.09 12,684 -144 MAR.09 15,262 +349 Totals:
 181,948 -1,147

Crude Support	Crude Resistance
50.45, 46.85, 40.45, 38.20, 36.75	57.23, 60.01, 62.79, 65.56, 67.00, 72.53, 74.30, 75.91, 79.35 85.50, 90.51
Heat Support	Heat resistance
1.6055, 1.4530, 1.3450	2.2796, 2.3720, 2.3806, 2.4500, 2.5732, 2.6400, 2.6880, 2.6965, 2.7475 3.0184
Gasoline support	Gasoline resistance
103.50, 94.10, 7760, .6840	121.90, 136.14, 1.8240, 192.85, 2.0270, 2.0690, 2.1400, 2.1980, 2.2865

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