

W The
Windham Group



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,
& Karen Palladino

(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR DECEMBER 14, 2009

Kuwait's Oil Minister Sheikh Ahmad al-Abdullah al-Sabah said the recent fall in the price of oil will not affect OPEC's inclination to keep its production target unchanged when its ministers meet later this month. He said he was not concerned about the decline,

adding that \$70-\$80/barrel would be a good price range. He also said that he expects world demand for oil to increase in the first quarter but did not give further details. Separately, Kuwait's Emir Sheikh Sabah al-Ahmad al-Sabah said oil prices and demand are good under the current economic circumstances. He also said that economic growth in Asia will drive future demand for crude.

Qatar's Oil Minister Abdullah bin Hamad al-Attiyah said that \$70-\$80/barrel was a suitable price for oil.

Iraq's Oil Minister Hussain al-Shahristani said Iraq could pump below capacity in coordination with OPEC policy when deals it is negotiating increases its output potential to 12 million bpd in six years. He said actual Iraqi output in six or seven years will depend on what the oil market can absorb. He said Iraq intends to work with OPEC to maximize revenues rather than pump flat out.

Ecuador's Minister of Nonrenewable Natural Resources, Germanico Pinto said OPEC does not need to take any production decisions at its meeting scheduled for next week. He said the oil market is currently maintaining a trend towards reasonable stability and that oil producing countries will be able to maintain necessary investments in the oil industry. He said that current oil prices are acceptable for both producing countries and consumers and that an oil price of between \$70 and \$80/barrel next year would be reasonable.

Market Watch

The National Weather Service said US heating demand this week is expected to average 5.91% below normal across the country. Demand for heating oil is expected to be about 1.3% below normal this week.

Goldman Sachs Group Inc said crude oil prices will increase to \$82/barrel in the first quarter of next year as emerging markets increase demand. It said prices for WTI oil will increase as weak demand in developed countries is offset by faster growing developing economies. It also stated that distillate demand will also probably recover after warmer than normal weather gives way to winter temperatures.

**December
Calendar Average
CL – \$73.40
HO – \$1.9820
RB – \$1.9229**

US Energy Secretary Steven Chu said crude oil prices are never likely to fall as low as \$20-\$30/barrel again.

The US EIA said US petroleum demand is expected to remain flat through 2035 if the government does not enact any new policies that mandate lower

greenhouse gas levels or higher efficiencies. It said US energy consumption is expected to increase 14% by the year 2035 but added that the US will rely less on oil and other fossil fuels to meet its energy needs. The fossil fuel share of US energy demand over the next quarter century is expected to fall from the current 84% to 78%. US oil demand is forecast to remain near its current level while ethanol is expected to account for 17% of gasoline consumption by 2035. Global crude oil demand is expected to increase by 1% on the year through 2035 to 111.7 million bpd from this year's level of 84.5 million bpd.

The EIA reported that the US average retail price of diesel fell for the sixth consecutive week, by 2.4 cents to \$2.748/gallon in the week ending December 14th. The price of diesel is 13.5% or 32.6 cents above a year earlier. It also reported that the US average retail price of gasoline fell by 3.5 cents to \$2.599/gallon on the week.

Iran's Foreign Minister Manouchehr Mottaki said Iran is not insisting on exchanging its low-enriched uranium for fuel for a research nuclear reactor on its own territory after the US dismissed the offer.

Refinery News

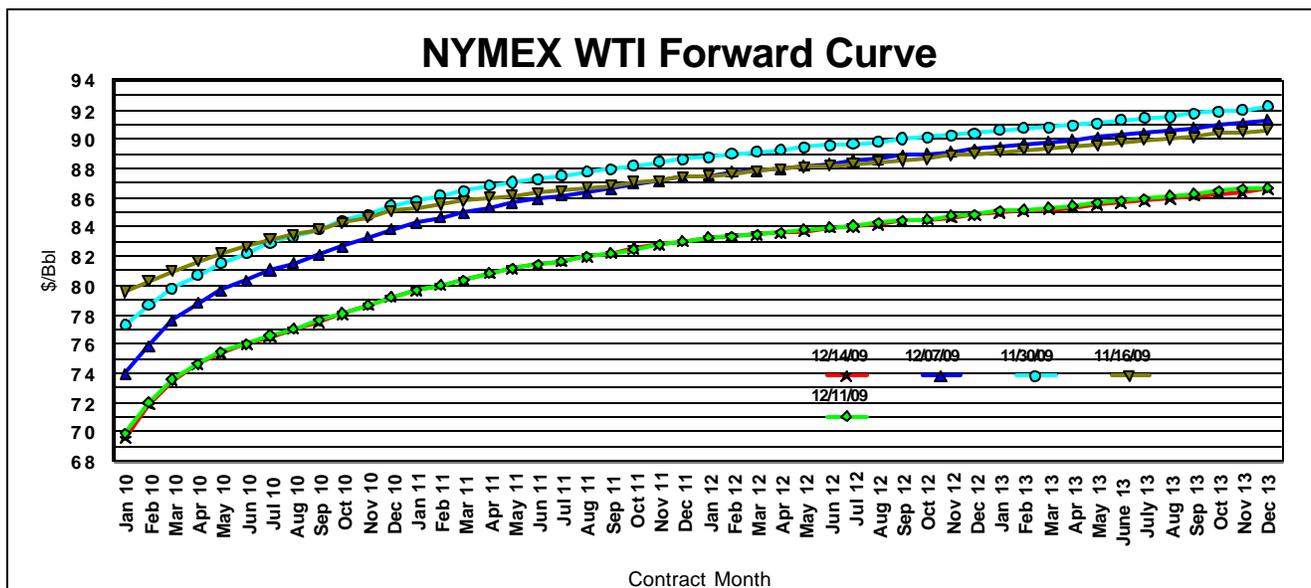
The US Coast Guard said the Houston Ship Channel remained closed for a third consecutive day on Monday due to dense fog. Ninety-two ships were waiting to enter or exit the waterway. A total of 79 ships were waiting to transit the channel to the port of Houston and 13 ships were waiting to move to or from Texas City and Galveston, Texas.

BP Plc shut its fluid catalytic cracking unit #3 at its 475,000 bpd Texas City, Texas refinery following a problem over the weekend. The cause of the problem is still under investigation. It is not expected to keep the unit offline for an extended period of time. Meanwhile, BP completed repairs to a vapor recovery section of a resid hydrotreater at its Texas City, Texas refinery.

Valero Energy Corp's fluid catalytic cracking unit at its Paulsboro refinery resumed planned rates following a turnaround.

Sunoco Inc is restarting its 160,000 bpd refinery in Toledo, Ohio after an electrical outage over the weekend shut down several units.

ConocoPhillips' 146,000 bpd refinery in Borger, Texas suffered a second power outage in four days. On Saturday, the Borger refinery was hit by a partial electrical failure while on Wednesday the outage



was plantwide.

Petroplus will restart its Reichstett refinery next week after a delay of about two weeks due to repairs on a feeder pipeline. The 85,000 bpd refinery was originally due to start in early December.

Japan's Taiyo Oil Co Ltd plans to shut two crude distillation units at its 120,000 bpd Shikoku refinery in western Japan for about two months in 2010. The two units are expected to shutdown from the middle of June until the middle of August for turnaround and as part of construction of a secondary refining complex that is scheduled to be completed in September. It will build a group of new units at its refinery including a 25,000 bpd residual catalytic cracker, a 13,000 bpd gasoline desulphurization unit, a 5,400 bpd propylene unit and a 6,000 bpd alkylation unit.

Indian Oil Corp said all its major plants will start producing superior grade petrol from April however its four smaller units will miss the deadline by three months. India plans to introduce Euro-IV-compliant fuel in some states starting April 1, 2010 while the rest of the country will switch over to Euro-III compliant fuel.

Saudi Aramco and ConocoPhillips have brought forward to January 26 the deadline for bids to build a 400,000 bpd oil refinery in Yanbu. The deadline for five engineering, procurement and construction proposals was originally due by January 31st. The companies plan to award all contracts in May 2010. They aim to complete building the refinery by March 1, 2014.

Kuwait's Oil Minister Sheikh Ahmad al-Abdullah al-Sabah said Kuwait has an alternative investor for its joint venture China refinery with Sinopec if Royal Dutch Shell pulls out from the project. Earlier this month, Shell said it had withdrawn from a joint venture with China's Sinopec, Kuwait Petroleum International and Dow Chemical to build a refinery and petrochemical plant in China.

China's Sinopec Corp started a crude oil pipeline that connects a major northern China terminal with two inland refineries, adding the final link to a pipeline network aimed at cutting processing cost. The pipeline will give two Sinopec plants, Cangzhou and Shijiang, direct access to imported crude.

Iran's gasoline imports in December is expected to fall by as much as 40% to 59,633 bpd or about seven cargoes. Iran was originally expected to purchase between 10 and 12 cargoes.

Japan's Nippon Oil Corp reached a final agreement with Abu Dhabi National Oil Co that calls for ADNOC to store 620,000 kiloliters or about 3.9 million barrels crude for three years starting from December at a reserve base in Kagoshima. The basic agreement of the deal was announced in June and is expected to help increase Japan's energy security by tapping the supply from ADNOC in times of shortages.

Production News

Russia's Deputy Prime Minister Igor Sechin said the country's oil production is estimated to total 493 million tons in 2009, up 1% on the year. Crude oil exports in 2009 are estimated at 247.4 million tons, up 1.8% on the year. Refined oil production in 2009 is estimated at 235 million tons. Russia's natural gas production in 2009 is seen at 575 billion cubic meters while its natural gas export is seen at 170.6 bcm.

Iran will start drilling its first exploratory oil well in the Caspian Sea later this week. An Iranian newspaper said the work in deep waters would start in mid-week and be carried out from a semi-floating platform.

Turkey's TPAO will invest between \$300 and \$350 million to develop Iraq's Badrah oil field, as part of a Gazprom-led consortium that won rights for the oil field last week.

Iraq's State Oil Marketing Organization said Iraq increased the official selling price of its Basra Light crude to US buyers for January by \$1.55 to second month WTI minus \$3.15/barrel while it increased the price of its Kirkuk Heavy crude to US buyers by \$2.30 to spot WTI. Basra Light crude bound for Europe was priced at BFOE minus \$1.80/barrel, down 80 cents while the price of Kirkuk crude was increased by 55 cents to BFOE minus \$1/barrel. Basra Light crude bound for Asia was priced at the Oman/Dubai average, up 15 cents.

National Iranian Oil Co set its official selling price for January term supply of Iranian Light crude bound for Asia at the Oman/Dubai average plus 70 cents, down 11 cents on the month.

China said it is not time yet for another change in retail fuel prices as benchmark crude markets have yet to break the range that will trigger an adjustment. China increased its retail petroleum and diesel prices by about 7% on November 10th.

OPEC's news agency reported that OPEC's basket of crudes fell by 58 cents to \$70.85/barrel on Friday. It also reported that OPEC's basket of crudes fell by \$3.80/barrel to \$73.31/barrel in the week ending December 11th.

Market Commentary

Despite a weakening dollar, crude oil fell for the ninth straight day as concerns over demand destruction loomed over the marketplace. Prices seesawed throughout the session in reaction to declining industrial production in Europe, smaller than expected consumer confidence numbers in Japan and a rallying equities market. High inventories have proven to be the most influential price mover, pushing the price of a barrel of crude oil closer to the \$65.00 key support area. The January/February spread continues to show signs of weakness, falling to a low of -\$2.62. With this contango condition, whereby the front month trades at a discount to the deferred, ever widening and the desire to store crude oil to sell at a future date remains attractive. This single factor should continue to boost inventories, which are already bulging. From a technical standpoint, this market is still in a downtrend and should continue to slide. We would not discount minor corrections to the upside and would not be surprised to see a test up around the \$75.00 level. For an option play, we would look to sell the \$80.00 call in February, looking to collect .90. This option is currently valued at .80.

Crude Jan. 10 172256 -16,425 FEB.10 231,544 +32,674 MAR.10 149,509 +15,738 Totals: 1,242,214 + 44,627 Heating oil Jan.10 58,173 -2,914 FEB 10 55,705 +1,280 MAR.10 43,548 +1,107 Totals 307,778 +1,307 Gasoline JAN.10 54,284 -7,897 FEB.10 48,965 +4,222 MAR. 10 40,819 +2,453 Totals: 234,298 -412.

Crude Support	Crude Resistance
65.05, 64.70, 63.38, 62.70, 61.61, 60.95	71.40, 72.40, 74.35, 75.85, 76.15, 80.50, 84.83, 85.40, 86.60, 88.80
Heat Support	Heat resistance
1.8570, 1.8280, 1.7670, 1.7565	2.1580, 2.2110, 2.2575, 2.4200
Gasoline support	Gasoline resistance
1.7900, 1.7200 1.6600	2.1100, 2.1600, 2.3350

The information contained in this letter is taken from sources, which we believe to be reliable, but is not guaranteed by us as to accuracy or completeness and is sent to you for information purposes only. The Windham Group bases its market recommendations solely on the judgment of its personnel. Reproduction in whole or part or other use without written permission is prohibited.