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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 15, 2010

CFTC chairman Gary Gensler said the CFTC will not meet a mid-January target for the agency to issue a final rule setting position limits on energy, agricultural and metal contracts. He said the CFTC may phase in new speculative trading curbs over time until it can obtain more data on the over-the-counter derivatives market. He said that spot month limits would be easier to implement first and could be set based on a percentage of deliverable supply. Meanwhile, CME Group executive chairman Terry Duffy plans to urge the CFTC to hold off imposing limits until it can collect more market data.

AAA reported that the number of Americans traveling over the year-end holidays will increase by 3.1% to

92.3 million. It said that an expected 85.7 million travelers will be making round trip journeys of 50 miles or more from home, up 3.2% on the year. That equates to 27% of the population. It stated that

Market Watch

The US Labor Department reported that the seasonally adjusted Consumer Price Index in November increased by 0.1% on the month. It was the fifth consecutive increase. The Core CPI, which excludes energy and food prices, increased by 0.1%. Economists expected consumer prices to increase by 0.2% and core CPI to increase by 0.1%.

The Federal Reserve reported that US industrial production increased by 0.4% in November. October's industrial production figure was revised down to a 0.2% decline compared with a flat reading the Fed had initially provided. Capacity utilization increased to 75.2% in November from a revised 74.9% in October.

New York manufacturing activity increased in December after contracting in November, according to the Federal Reserve Bank of New York's Empire State Manufacturing Survey. The Empire State's business conditions index increased to 10.57 in December from -11.14 in November. The orders index increased to 2.6 from -24.38 while the shipments index increased to 7.11 from -6.13. The index for employment fell to -3.41 in December from 9.09 in November. The index of business conditions six months ahead fell to 48.86 in December from 54.55 in November.

Investment bank Dahlman Rose & Co said crude oil prices may continue to increase next year, surpassing \$100/barrel due to stronger demand from emerging markets. It said crude oil prices are likely to trade close to \$100/barrel until the spring and could reach \$115/barrel in the third or fourth quarter of next year, driven by improved demand and an overall bullish sentiment on the recovery of the global economy.

The US Senate voted in favor of a one year extension of the ethanol tax credit and the tariff on ethanol imports at existing rates. The extension was part of a bill extending the lower income tax rates imposed during the administration of former President George W. Bush. The bill now goes to the House of Representatives. Unless the House and Senate agree, the 45 cent/gallon tax credit and the 54 cent tariff expire on December 31st.

China's Central Bank governor Zhou Xiaochuan said the country's economy faces an uncertain external environment and there are doubts over whether its recovery can be sustained.

DOE Stocks

Crude – down 9.854 million barrels

Distillate – up 1.094 million barrels

Gasoline – up 809,000 barrels

Refinery runs – up 0.5%, at 88%

auto travel will account for 93% of the trips. The number of air travelers is expected to increase by 2.8% to 2.75 million travelers.

Refinery News

Buckeye Partners LP made temporary repairs to its 120,000 bpd Midwest pipeline after it leaked about 500 barrels of oil in suburban Chicago. Buckeye Partners operates the pipeline

for Illinois-based West Shore Pipe Line Co. Citgo Petroleum Corp said operations were not curtailed at its Lemont, Illinois refinery. ExxonMobil's refinery in Joliet, Illinois was also unaffected.

Valero Energy Corp that flaring activity at its Memphis, Tennessee refinery was not tied to any issues that impacted output. Late Tuesday, the 195,000 bpd refinery experienced an equipment failure that caused the emissions event.

Korea National Oil Corp said it will increase capacity at its Come by Chance refinery in Newfoundland by 5% next year to 120,000 bpd.

South Korea's S-Oil Corp plans to shut its 232,000 bpd No. 2 crude distillation unit at its 580,000 bpd Ulsan complex in May 2011.

The Petroleum Association of Japan reported that crude stocks in the week ending December 11th fell by 323,071 kl to 15.008 million kl. It also reported that gasoline stocks fell by 45,126 kl to 2.177 million kl while its kerosene stocks fell by 92,602 kl to 2.703 million kl and its gasoil stocks increased by 193,541 kl to 1.828 million kl. Its naphtha stocks fell by 266,561 kl to 1.722 million kl and its jet fuel stocks fell by 2.875 kl to 837,148 kl.

The Maritime and Port Authority of Singapore reported that the number of oil, gas and chemical tankers passing through the port of Singapore in November fell by 5.1% on the month. The overall tonnage was 4.8% lower. Of the tankers handled by the port in November, 1,234 were oil tankers, down from 1,281 in October.

Production News

One standard 600,000 barrel cargo of North Sea Forties crude was added to the December loading program, increasing the number of cargoes for December loading to 27. The reason for the addition was not clear.

Statoil said its Kristin platform in the North Sea was shut on Sunday after high temperature was discovered on the outside of an exhaust duct on one of the gas turbines. The faulty platform produces gas and oil condensate from the Kristen and Tyrihans fields. Statoil said the shutdown would cut production by about 100,000 barrels of oil equivalent from the two fields. It said production may resume by the end of December.

A BP led group halted oil production at the Chirag platform in the Caspian Sea as a precaution after discovering problems with water pumps. The Chirag platform produces about 90,000 bpd and is part of Azerbaijan's largest oil project, Azeri-Chirag-Guneshli.

Armed nomads known as Blue Misseriya staged at least two attacks on an oil field in Sudan's southern Kordofan border state in recent weeks and briefly held one worker. This will re-awaken fears for the security of installations in one of Sudan's main oil producing areas. South Kordofan is a focus of increasing military tension between north Sudan and the

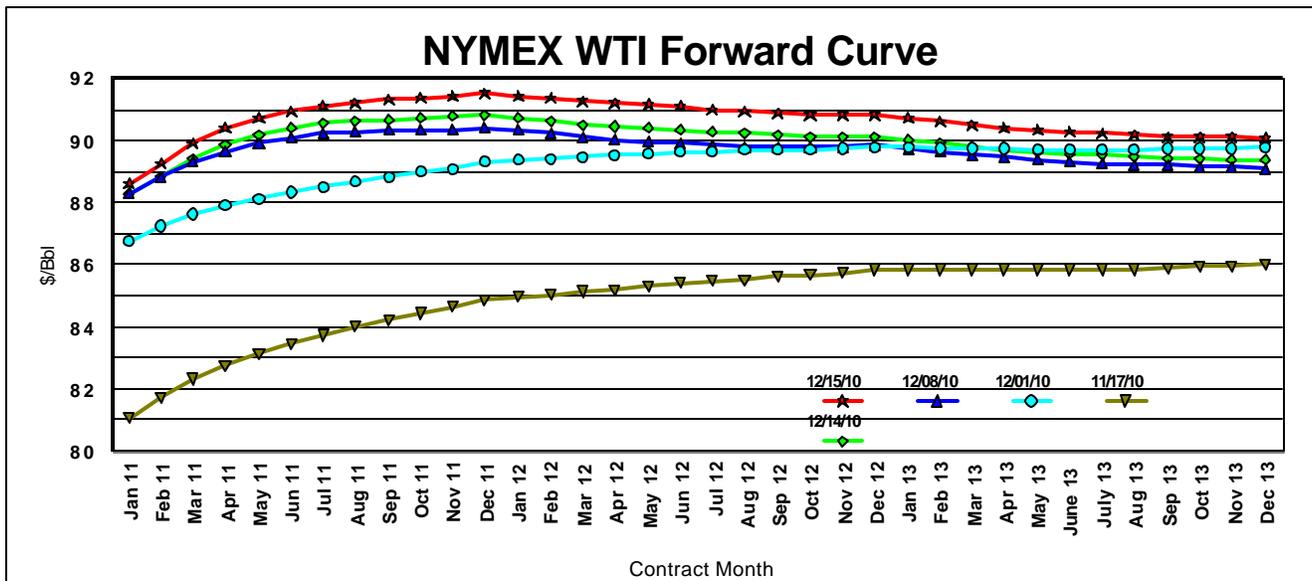
December

Calendar Averages

CL – \$88.33

HO – \$2.4612

RB – \$2.3242



neighboring region of southern Sudan which is weeks away from the scheduled start of a referendum on whether it should secede.

The Caspian Pipeline Consortium's approval of a plan to double the project's capacity removed the main obstacle to expanding Chevron's Tengiz field in Kazakhstan. Shareholders at the Chevron-led CPC agreed to spend \$5.4 billion increase the capacity of the pipeline to 67 million metric tons/year by 2014.

Russia's Deputy Prime Minister Igor Sechin said two Russian companies, Transneft and Rosneft, are expected to take part in Turkey's Samsun-Ceyhan pipeline project bringing oil from the Black Sea to the Mediterranean. Turkey's Calik Holding expects partners in the proposed pipeline project to reach an agreement next year. The Samsun-Ceyhan pipeline is expected to carry 60-70 million tons of crude a year through central Turkey as an alternative to energy supplies shipped through the Bosphorus.

Indian Oil Corp is expected to raise the price of jet fuel by 3.6% on Thursday to INR46,876.58/kl from INR 45,240/kl. Indian Oil Corp, Bharat Petroleum and Hindustan Petroleum are expected to raise petrol prices by about 5.6%. Total exports are unlikely to fall as higher costs temporarily cut demand.

South Korea wants its energy companies to supply 13% of the country's oil and gas imports from projects abroad in 2011, up from 10% as it seeks to increase its self sufficiency.

Market Commentary

An unexpected 9.85 million barrel decrease in crude oil inventories sent the January futures contract above \$89.00, discounting concerns regarding the global economy. Today's market rise came despite the fact that the dollar was stronger, which usually means lower prices for crude oil due to its dollar denomination. Cold weather in the U.S. and Europe has also contributed to the recent strength in this market. The bulk of the draws in stockpiles were seen in PADD 3, the Gulf Coast. It is at this time of year that refiners tend to hold off on deliveries in an effort to avert paying higher tax bills. Once the New Year begins, we could very easily see deliveries pick up and a replenishing of inventories ensue. For this reason we cannot be convinced that prices will be able to sustain strength for a long period of time. We may see stretches towards the \$100.00 level, but do not believe prices will move much above this number at year's end.

Crude oil: Jan 11 132,168 -16,148 Feb 11 268,558 +5,922 Mar 11 172,370 +4,708 Totals 1,380,779
 Heating oil: Jan 11 73,433 -4,066 Feb 11 62,280 +260 Mar 11 45,389 +365 Totals 304,187 -4,337
 Rbob: Jan 11 59,568 -912 Feb 11 64,467 +3,506 Mar 11 40,552 +829 Totals 268,541 +3,126

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8600		23685	26712		24880
8350	9076	22960	27070	22560	27085
7993	9100	22013	29500	22050	
7900	9385	21860	30955	21600	
7871		21140		20300	
7783		20702		20130	
7671					

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