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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 21, 2009

Qatar's Oil Minister Abdullah bin Hamad al-Attiyah said there is an ongoing debate on whether to continue trading crude oil in the US dollar or to shift to a basket of currencies. Officials from several members of OPEC have denied a report that there was a secret debate to replace the US dollar as a currency for trading oil.

Iran and three world powers, France, Russia and the US, have been handed a draft agreement by the IAEA's Director General, Mohamed ElBaradei aimed at reducing international concerns over Iran's nuclear program. Under the draft plan, Iran would send about 1,200 kg, the majority of its stocks of enriched uranium, to Russia and then to France before it is returned to run a research reactor in Iran. The process would enable Iran to obtain

Market Watch

The US National Hurricane Center said a nearly stationary area of low pressure over the southwest Caribbean Sea and Central America still has a low chance, less than 30%, of becoming a tropical cyclone over the next 48 hours. It said the system remains poorly organized and development, if any, would be slow to occur.

Private weather forecaster WSI Corp said Britain will see generally mild weather in November and December but it will probably get much colder in early 2010. In its long-term European winter weather forecast WSI said there is about a 75% probability of a sudden and extreme warming of stratosphere even this winter, which can cause cooler than average weather, leading to a colder than average start to next year. It said a large build up of snow cover in the northern hemisphere is behind the high probability of an SSW event. However it said if one does not occur the winter could be much warmer in Europe. In regards to the US, it expects cooler than normal temperatures in the eastern and southeastern US from November to January with above normal temperatures across the western and north central US.

Morgan Stanley said its commodities trading risk increased in the third quarter but unfavorable market conditions prompted the company to keep those levels lower than a year ago. Its value at risk for commodities, or the maximum it could lose in a day trading commodities, increased to \$25 million in the third quarter from \$23 million in the second quarter. It is however down \$8 million or 25% on the year. Other banks, such as Goldman Sachs and JPMorgan Chase also reported stronger second quarter earnings for commodities compared with the third quarter. Goldman's commodities VaR fell 47% year on year in the third quarter, a sign that it was more cautious. JPMorgan increased its commodities VaR by about 36% since the first quarter but its risk levels were still down 7% on the year.

Vitol Group said oil prices will remain capped by surpluses for several years. It estimates that the oil market oversupply stands at 200 million barrels above last year, with about half of those inventories held in floating storage. It also said refining margins will remain under pressure from a broad expansion in Asian refining capacity.

The Director General of Iran's Mercantile Exchange Company said Iran plans to launch an oil exchange at Kish Island in the Persian Gulf to offer crude and petrochemical products.

DOE Stocks

Crude – up 1.312 million barrels
Distillate – down 784,000 barrels
Gasoline – down 2.214 million barrels
Refinery runs – up 0.2%, at 81.1%

enough enriched uranium for its research reactor but not enough to produce a weapon. US State Department spokesman Ian Kelly said the draft accord on Iran's nuclear fuel is a "very positive step."

The House Agriculture Committee approved a bill for federal regulation of over-the-counter derivatives. Under the bill swaps that go through clearinghouses would be required to move onto regulated exchanges or electronic platforms. Transactions that involve end users such as manufacturers, utilities and airlines would be exempt from clearing. A similar bill was approved on Thursday by the Financial Services Committee. The two legislative versions will be merged into an overall package of financial regulatory reforms for a House vote, expected by early November. The Agriculture Committee bill will require the Commodity Futures Trading Commission to set position limits on physically deliverable commodities, such as oil, and on swaps that affect futures prices. It also empowers the Securities and Exchange Commission to set position limits on security based swaps.

The US Commodity Futures Trading Commission said it could issue for public comment new position limit rules covering energy markets by the end of November. Commissioner Bart Chilton said position limits and hedge exemptions should be tailored, targeted and verifiable. He said the hedge exemptions should only cover market positions and not house books as direct investments to benefit trading houses alone. He said the CFTC should set the bar high when it sets new limits on speculative trading activity in commodity markets. Meanwhile, the CFTC's chairman said he is encouraged by a European Union Commission proposal to limit investor positions in over-the-counter markets. A draft proposal from the EU will give regulators the authority to set limits on traders' activity in off-exchange markets.

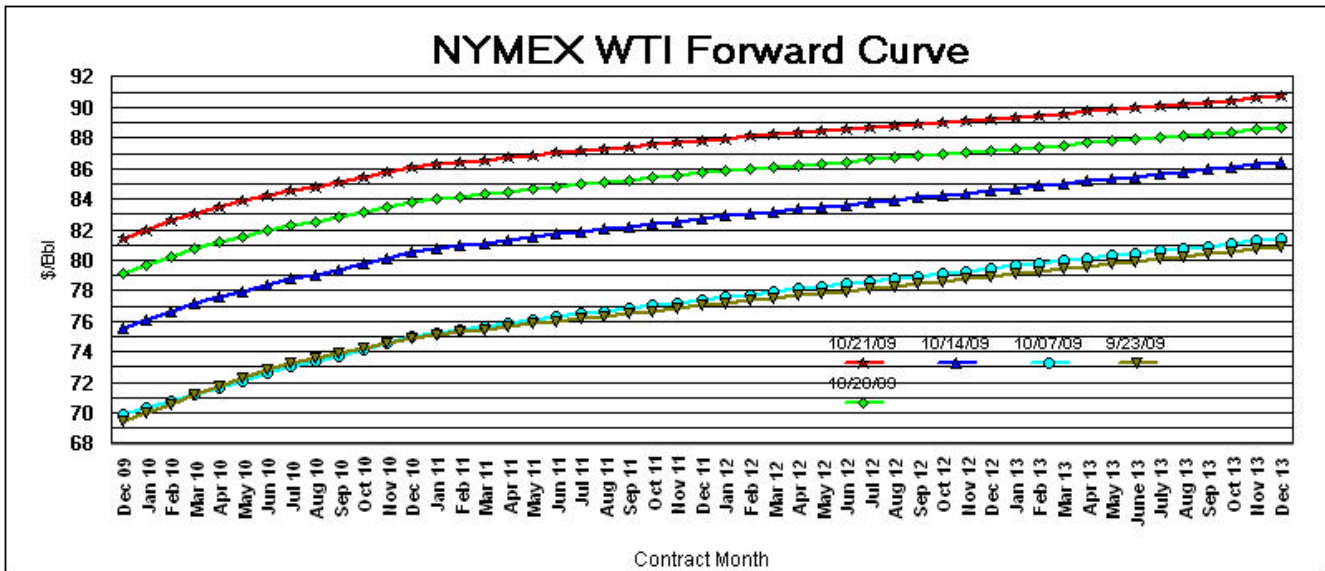
Separately, the CME's chief executive Craig Donohue said he is concerned that proposed regulatory reform may give some players in the over the counter derivatives market an unfair advantage. He said that implementation must ensure a level playing field for exchanges and clearinghouse operators.

US independent oil and natural gas producers warned Congress that the Obama administration's proposal to end certain tax breaks for the industry could cut into domestic energy production. The administration's proposal includes curbing the write off of intangible drilling and development costs incurred by energy companies searching for oil and natural gas. If enacted, the administration's plan could result in the loss of about 20% of US oil production and 12% of natural gas production.

The IEA's chief economist Fatih Birol said oil is costly enough to ensure investment. However he said the industry still faces challenges. He said he believed small and medium companies have been most prone to cutting investment this year and believed most of these still had major difficulties in accessing credit because of the financial crisis. Another challenge in ensuring sufficient supply is that valuable oil acreage is concentrated in the hands of national oil companies in a limited number of countries.

According to Euroilstock, oil refinery output in 16 European countries increased 1.8% on the month but fell by 4.5% on the year in September to 12.193 million bpd. Gasoline production increased by 0.5% on the month but fell by 2.2% on the year to 3.06 million bpd while middle distillate production increased by 2.7% on the month but fell by 3.9% on the year to 6.043 million bpd and fuel oil production increased by 7.1% on the month but fell by 3.9% on the year to 1.469 million bpd. Refinery utilization increased to 86.02% in September from 83.55% in August.

**October
Calendar Averages
CL – \$74.26
HO – \$1.9149
RB – \$1.8490**



Refinery News

Colonial Pipeline allocated shipments of gasoline and distillates for cycles 61 of this year on its main pipelines out of the US Gulf Coast. The allocations were imposed since gasoline and distillate nominations on Line 1 and Line 2, respectively exceed Colonial's ability to meet its 5 day lifting cycle.

Valero Energy Corp is restarting an incinerator and boiler for its sulfur recovery unit# 2 at its 170,000 bpd refinery in McKee, Texas.

BP Plc reported a planned flaring event at its 265,000 bpd Los Angeles, California refinery that will start Thursday.

ConocoPhillips plans to repair an oil-storage cavern at its Borger, Texas refinery. It will start the maintenance at its Johnson Tank Farm Cavern 13 on Wednesday and finish by November 13th.

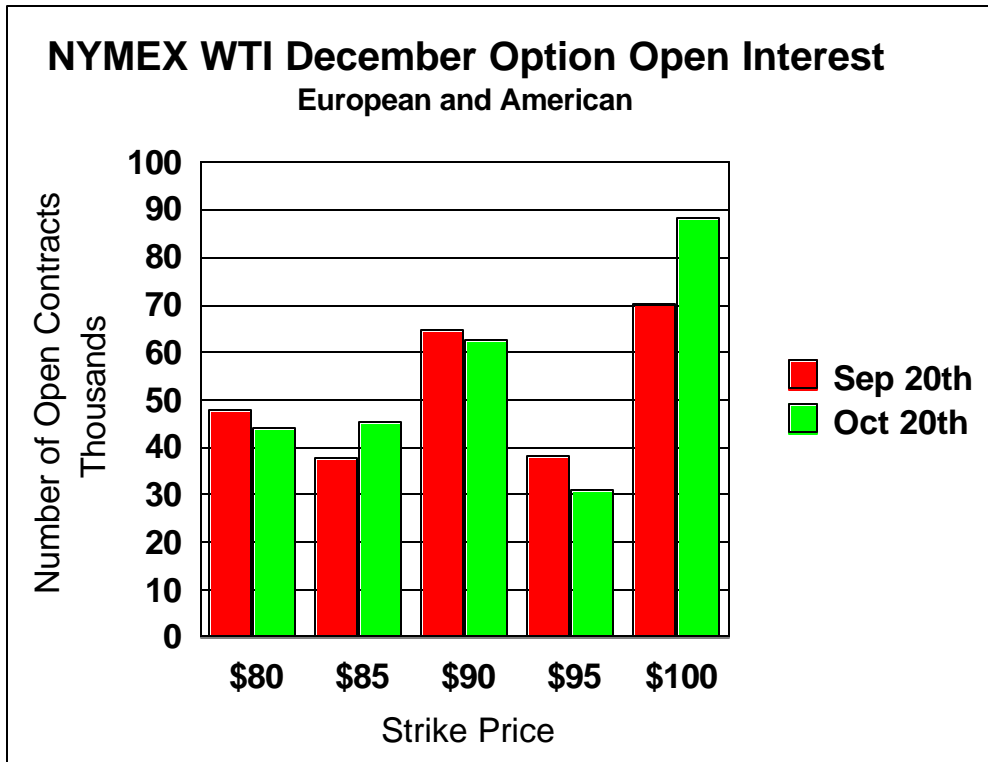
Nigeria's Rilwanu Lukman said the country hopes to restart three of its four oil refineries soon and increase their output to full capacity. Two refineries in Nigeria's Port Harcourt are currently in operation with a capacity of about 210,000 bpd. Two other refineries, Warri's 125,000 bpd facility and Kaduna's 110,000 bpd refinery could resume operations soon once repairs are completed to the Chanomi Creek crude oil pipeline connected to Nigeria's Escravos oil fields.

German residential heating oil stocks were at 68% of capacity on October 1st, up from 66% on September 1st. Between 2003 and 2008, German residential heating oil tanks were on average 62% full in October.

According to the Petroleum Association of Japan, the country's crude oil stocks in the week ending October 17th increased by 4.66 million barrels on the week but fell by 19.45 million barrels on the year to 95.6 million barrels. Japan's gasoline stocks increased by 270,000 barrels on the week but fell by 80,000 barrels to 13.14 million barrels while its kerosene stocks fell by 670,000 barrels on the week and by 4.35 million barrels on the year to 20.31 million barrels and naphtha stocks fell by 360,000 barrels on the week. Crude runs were unchanged on the week but fell by 240,00 bpd on the year to 3.32 million bpd. Its refinery utilization rate increased by 0.1% on the week but fell by 4.6% on the year to 68.1%. It also reported that total oil product sales increased by 0.3% on the week and by 9.3% on the year to 2.64 million bpd. Japan's gasoline sales fell by 10.4% on the week and by 1.1% on the year to 880,000 bpd while kerosene sales increased by 77.8% on the week and by 188.3% on the year to 350,000 bpd and gas oil sales fell by 25.2% on the week and by 17.6% on the year to

420,000 bpd. Naphtha sales increased by 107% on the week and by 182.6% on the year to 430,000 bpd while jet fuel sales fell by 97.4% on the week and by 96.9% on the year to 4,000 bpd.

Norway's StatoilHydro increased its crude oil storage capacity in South Korea to 16 million barrels to meet increasing Asian oil demand.



Russia's Transneft plans to start building the second stage of the East Siberia-Pacific Ocean oil pipeline in 2009. The pipeline will transport oil from East Siberian oil fields to the Pacific Coast, where it will then be distributed to Asian markets. It also plans to complete building an export pipeline link to the Chinese border by early 2010.

Production News

Up to 22 cargoes of North Sea Forties

crude for October and November loading have been deferred by 1-8 days due to technical problems at the oil fields.

Nigeria's Oil Minister Rilwanu Lukman said Nigeria is producing 600,000 bpd of condensate in addition to its OPEC output target. He said Nigeria's oil production now stands at 1.6-1.7 million bpd. The statement suggests oil production has yet to increase again after an uncertain peace followed militants attacks that had shut in 1 million bpd over the last few months. He hopes peace in the Niger Delta will help increase output and the development of the country's hydrocarbons industry. He also said oil at \$80/barrel is a fair price.

Maersk Oil said DUC oil and condensate production in September totaled 236,400 bpd, down from 238,400 bpd in August.

Venezuela's Oil Ministry reported that the country's oil exports in September fell by 93,496 bpd to 2.464 million bpd. In August, Venezuela shipped 2.558 million bpd, up from 2.407 million bpd in July.

An official at Iraq's North Oil Co said Iraq will soon start pumping about 30,000 bpd from the northern Ajeel oil field after a rehabilitation program started earlier this year. The Ajeel field ceased production because of destruction and looting that took place after the US led invasion in 2003. The field has estimated reserves of 1.6 billion barrels. Iraq is currently producing between 670,000-700,000 bpd from northern fields, with about 450,000 bpd being exported through the Turkish port of Ceyhan.

Russia's Rosneft said its Vankor field is currently producing 170,000 bpd and will reach 220,000 bpd by the end of the year. Production at the field will peak at 500,000 bpd in 2014. Separately a Rosneft

official said oil production at the company could be hurt after 2013 if substantial tax breaks are not granted soon and the company wants clarity on the government's plans on its tax policy. This year, Prime Minister Vladimir Putin approved a temporary zero export duty for oil produced in East Siberia but the government has not decided how long it will last.

Mexico's Energy Minister Georgina Kessel said a decline in Mexico's oil production has come to an end and it can maintain output at 2.5 million bpd during the coming years. Last month Mexico abandoned a forecast that oil production would increase to 3 million bpd by 2012 amid growing skepticism that the Chicontepec project would be as successful as Pemex has forecast.

Colombia's Ecopetrol expects its total average oil and gas output to increase about 12% in 2010. The company's average output in 2009 will like average above 490,000 bpd of oil equivalent, up from 447,000 bpd of oil equivalent in 2008. In the first nine months of the year, the average output was 487,000 bpd of oil equivalent.

OPEC's news agency reported that OPEC's basket of crudes remained unchanged at \$75.82/barrel.

Market Commentary

The energy markets reacted strongly today to the release of the Department of Energy's inventory report. Gasoline led the market higher, climbing to a seven-week high, as it responded to the 2.214 million barrel draw in inventories. Heating oil approached its highest level since November of 2008, peaking the day at \$2.129. Crack spreads edged higher, with the December 3-2-1 spread closing in on the \$6.44 high made in August. Further supporting prices was a weak dollar and stronger equities market. The momentum of the crude oil market appears to be in full steam as it breached the \$80.00 mark for the third straight day. Coming into today's session open interest in the \$80.00 strike price for December calls stood at 36,254. Bets that crude oil would reach the \$100.00 level grew, reaching an open interest of 79,358 contracts as of the close of business Tuesday. Technically, the December contract experienced its second straight day of outside trading, where it achieved a lower low and a higher high than the previous session. Today's settlement was higher on the day, which typically indicates that prices will move higher the next trading session. We would look for market participants to work towards the \$85.00 level and possibly \$90.00.

Crude DEC.09 351,895 -15,907 JAN.10 141,526 -2,098 FEB.10 57,617 +1,812 MAR.10 42,493 -364 APR.10 19,690 -42 Totals: 1,185,397 -46,187. Heating NOV.09 35,057 -2,425 DEC.09 80,834 +4,453 JAN.10 50,168 +709 FEB.10 21,813 +779 MAR.10 17,662 +109 Totals: 317,600 +2,823 Gasoline NOV.09 39,108 -4,221 DEC.09 82,394 +1,033 JAN.10 41,175 +1,033 FEB.10 15,671 +835 MAR.10 15,768 +417 Totals: 233,277 447.

Crude Support	Crude Resistance
77.60, 76.24, 74.85, 64.70, 63.38, 62.70, 61.61, 60.95	, 84.83, 85.40, 86.60, 88.80
Heat Support	Heat resistance
2.0960, 2.0770, 2.0535	2.2110, 2.2575, 2.4200
Gasoline support	Gasoline resistance
2.0430, 2.0200, 1.9965, 1.9650	2.1100, 2.1600, 2.3350

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