



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR FEBRUARY 11, 2008

Venezuela's President Hugo Chavez threatened to stop exporting oil to the US unless it halted an "economic war" after ExxonMobil won international court orders freezing PDVSA's assets. He also warned that such US aggression could cause world oil prices to spike to \$200/barrel. Trades said PDVSA has moved its export payment accounts to UBS bank in Switzerland after

ExxonMobil secured a court ordered asset freeze. Meanwhile, a State Department spokesman said the US expects Venezuela's government to respect international law in dealing with the court battle between ExxonMobil Corp and PDVSA.

Saudi Arabia is expected to keep its crude oil supply to customers in Europe unchanged in March. There was no report yet on supply to Asia or to the US.

The EIA reported that the US average retail price of diesel was unchanged at \$3.28/gallon in the week ending February 11. The EIA also reported that the US average retail price of gasoline fell by 1.8 cents/gallon to \$2.96/gallon on the week.

Feb Calendar Averages

CL – 89.71
HO – 248.78
RB – 230.30

According to the Lundberg survey, the US average retail price of gasoline fell 3.5 cents/gallon in the past two weeks ending February 8 to \$2.9423/gallon.

Refinery News

Market Watch

The National Weather Service forecast that US heating demand would be 4% above normal in the week ending February 16 as cooler weather returns to the northern states. Demand for heating oil is expected to average about 3.6% above normal this week.

Russia agreed to write off most of Iraq's \$12.9 billion debt in a deal that opens up Iraq for \$4 billion in investment from Russian firms, including oil major Lukoil.

A Nigerian official said oil companies should be obliged to pay compensation for degradation resulting from their exploration and production activities, particularly in the Niger Delta region. He said the oil companies had an obligation beyond their exploration and production to restore degraded land to its original state.

Goldman Sachs said the impact of a US recession on oil demand growth is likely to be meaningful but maintained its forecast that WTI would average \$105/barrels a year from now amid tight OPEC supplies, active US fiscal and monetary policies and growing demand in developing countries.

Credit Suisse reported that US refinery margins east of the Rockies fell last week as product prices failed to keep pace with crude prices. Northeast margins fell 68 cents to \$5.38/barrel while Midwest margins fell by 10 cents to \$7.95/barrel and Gulf Coast margins fell 6 cents/barrel to \$8.68/barrel. Margins in the Rockies increased by \$1.51 to \$16.73/barrel while margins in the West Coast increased by 8 cents to \$16.64/barrel.

Valero Energy Corp said a key gasoline-producing unit was restarted at its 210,000 bpd Delaware City, Delaware refinery following a power outage on Sunday. The crude unit and coking units were restarted earlier on Monday and the impact to production was still being assessed as of late Monday afternoon. The rest of the units were in the process of restarting. Valero did not expect a significant impact to production at the plant.

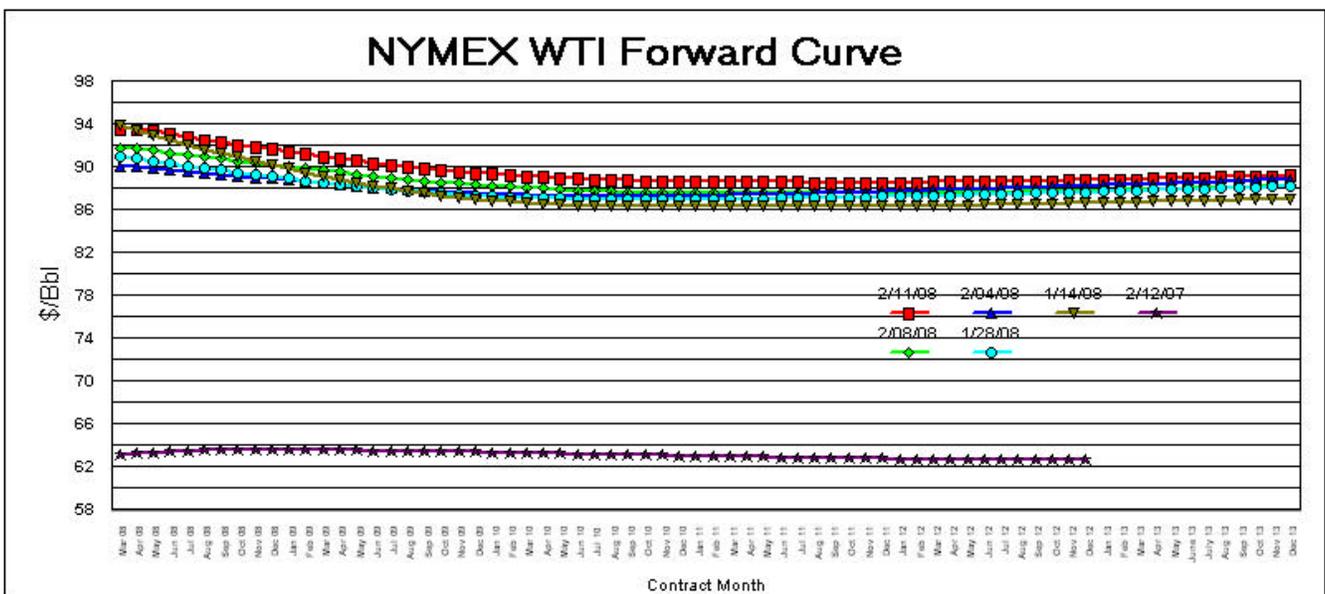
Citgo Petroleum Corp was restoring operations at its 430,000 bpd refinery in Lake Charles, Louisiana following a partial electrical power outage on Sunday.

An instrumentation problem is suspected in causing an upset on a sulfur unit at ConocoPhillips' 247,000 bpd refinery in Sweeny, Texas. The upset on the refinery's SCOT unit started on Saturday night and continued until early Sunday morning. Separately, ConocoPhillips is scheduled to shut a crude distillation unit and reformer unit at its 238,000 bpd Bayway refinery in Linden, NJ in early March for maintenance work.

ExxonMobil Corp said minor maintenance planned for 11 days at its 150,000 bpd refinery in Torrance, California was not expected to impact production. The work is scheduled to start Monday and last through February 22.

Valero Energy Corp said it would perform maintenance work on an unspecified unit at its Houston, Texas refinery.

A 200,000 bpd heavy crude upgrader in Venezuela is scheduled to undergo a major maintenance outage for seven weeks starting in February. The upgrader in Venezuela's Orinoco reserve has the capacity to produce 200,000 bpd of heavy crude that it can then process into about 180,000 bpd of synthetic crude.



Euroilstock reported that total oil and product inventories in Europe increased by 16.52 million barrels on the month but fell by 31.92 million barrels on the year to 1.124 billion barrels. It reported that crude stocks fell by 140,000 barrels on the month but increased by 15.07 million barrels on the year to 478.3 million barrels. It reported that distillate stocks built by 12.07 million barrels on the month but fell by 25.46 million barrels to 374.1 million barrels while gasoline stocks increased by 2.47 million barrels on the month but fell by 14.53 million barrels to 127.42 million barrels. Refinery utilization fell to 91.6% of capacity from 93.04% a month earlier.

According to a Reuters survey, oil refinery upgrades in Europe are expected to continue to concentrate on advanced systems to increase ultra low sulfur diesel output until 2011-13, when investment is expected to stall. Sulfur removal projects to build hydrotreaters and desulphurizers are also widely planned ahead of further tightening of EU environmental regulations to reduce diesel sulfur content to 10 parts per million from 2009, down from the current 50 ppm.

Russia's Energy Ministry reported that the country's refinery runs in December fell by 1.3% on the month but increased by 3% on the year to 20.076 million bpd. It reported that Russia's gasoline production increased by 4.5% on the month and by 1.7% on the year to 3.202 million bpd. Its gasoil production increased by 1.6% on the month and by 2.6% on the year to 6.048 million bpd while fuel oil production increased by 1.9% on the month and by 8.8% on the year to 5.932 million bpd.

Production News

The Danish Underground Consortium's oil production from the Danish part of the North Sea fell about 3% on the month in January to 261,800 bpd.

The head of Iraq's state bank said Iraq would have to spend \$15 billion to increase the country's oil production to its target of 4 million bpd in the next few years. He said Iraq was currently producing 2.4 million bpd of oil and its exports averaged 1.9 million bpd. He also stated that Iraq was losing \$72 million a day of oil equivalent by flaring gas.

Royal Dutch Shell affiliate Petroleum Development Oman said oil production in 2008 would fall for the eighth year to 550,000 bpd as fields age. However production is expected to increase again in 2010, when major enhanced oil recovery projects go on stream. It is expected to increase its production to 600,000 bpd in 2011. Oman's Undersecretary for Oil and Gas, Nasser al-Jashmi said the country's total production fell to 710,000 bpd in 2007 from 790,000 bpd in 2006.

Petrobras has started a long term test output at its Marlim Leste field in Brazil's Campos Basin. The FPSO Seillean rig would produce about 20,000 bpd of oil from the field off the coast of Rio de Janeiro. Petrobras in the second half of the year at the same field is expected to start production from the 180,000 bpd capacity P-53 platform.

OPEC's news agency reported that OPEC's basket of crudes increased to \$86.24/barrel on Friday from \$84.81/barrel on Thursday. It reported that OPEC's basket of crudes fell by \$2.26/barrel to \$85.77/barrel in the week ending February 8.

Nigerian officials stated that there was no attack on a gas terminal in southern Nigeria, contrary to earlier reports stating that gunmen attacked a gas export plant in southern Nigeria on Monday. The unknown attackers stormed the liquefied natural gas plant at Bonny Island and shot at navy personnel before fleeing. A naval officer was killed in the attack. No group has claimed responsibility for the incident.

Market Commentary

Several key fundamentals were behind the higher move in prices today. Among those fundamentals were news that Valero's Delaware City refinery was down due to a power outage, threats by Venezuelan President, Hugo Chavez, to stop oil shipments to the US, possible cuts in supplies of up to 1 million barrels per day of Nigerian crude and below normal temperatures in the northeastern part of the US. Chavez's statements were in reaction to an attempt by Exxon Mobil to freeze \$12 billion of Venezuelan oil money. This market will continue to be overly sensitive to any fundamentals as long as the current economic situation exists. Although it is difficult to accept prices at their current level, we cannot buck the trend. With crude oil advancing \$5.00 in two days, the forward curve for crude oil is taking on somewhat of a supportive appearance. For now we would look to buy and sell this market against the support and resistance areas. In our wire of January 30th we mentioned that we would like to sell the June08, buy the Dec08 and sell the Dec09 contracts on a butterfly. Currently, this butterfly is in the money by 20 cents and should continue to weaken and ultimately reach our objective of minus \$1.00. Open interest in crude oil is 1,385,700 up 9,644, March08 251,738, down 26,716 and April08 206,705 up 27,485. The product markets also settled sharply higher following the markets' rally early in the session. The heating oil market, which posted a low of 254.08 in overnight trading, bounced off some support at 255.00 and extended its gains to over 9.2 cents as it rallied to a high of 264.62 amid the cold snap and the refinery news. However similar to the rest of the complex, the heating oil market gave up its gains amid reports that some refinery units at Valero's refinery resumed operations. The market held support at 260.00 ahead of the close and settled up 5.03 cents at 260.44. The RBOB market quickly bounced off a low of 233.87 and rallied to a high of 243.46 in light of the refinery news. The market however later gave up some of its gains ahead of the close following reports that some of the refinery's units resumed operations. The RBOB market settled up 3.9 cents at 239.62. Technically, the markets are seen trading higher after the markets failed to retrace Friday's sharp gains and instead rallied higher during today's session. In the heating oil, support is seen at 260.00, 255.00, 254.08 followed by 246.14, 240.42 and 239.75. Resistance is seen at 264.62, 266.02, 268.20, 271.40 and 273.31. In the RBOB, support is seen at 239.25, 235.69, 233.87, 226.45, 222.55 and 217.33 while

resistance is seen at 243.46, 246.37, 247.50, 252.05, 253.28 and 255.14.

			Explanation
CL	Resistance	95.75, 97.53, 98.22, 99.77, 100.15	Previous highs
	Support	94.72	Monday's high
HO	Resistance	93.05, 92.60, 90.92	Monday's low
	Support	88.00, 86.55, 86.24, 85.90, 85.42, 82.60	Previous lows
HO	Resistance	266.02, 268.20, 271.40, 273.31	Previous high and basis trendline, Previous highs
	Support	264.62	Monday's high
RB	Resistance	260.00, 255.00, 254.08	Monday's low
	Support	246.14, 240.42, 239.75	Previous lows
RB	Resistance	246.37, 247.50, 252.05, 253.28, 255.14	62% (261.10&222.55), Previous highs
	Support	243.46	Monday's high
		239.25, 235.69, 233.87	Monday's low
		226.45, 222.55, 217.33	Previous lows