



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR FEBRUARY 14, 2007

US Energy Secretary Sam Bodman said there was no imminent need to repeal tariffs on importing ethanol into the US despite increasing demand for the product. He said he did not believe tariffs should be waived before December 31, 2008, when the 54 cent/gallon tariff on ethanol imports expires.

An adviser to Iran's Supreme Leader Ayatollah Ali Khamenei suggested that Iran may consider suspending its nuclear program. The

comments are the latest in a series of conflicting signals from Iran on whether it would halt its uranium enrichment. Iran's President Mahmoud Ahmadinejad ruled out suspension in a speech on Sunday. Separately, DEBKAfile reported that Switzerland submitted a proposal to Iran that could solve the crisis over Iran's nuclear program. The proposal stipulates that Iran would be allowed to produce a predetermined quota of enriched uranium. The IAEA inspections would be extended to encompass nuclear weapon activity and in return for Iran's acceptance of the first two points, the IAEA would supply Iran with advanced nuclear technology and Russia would release nuclear fuel rods to power its Bushehr atomic reactor. The proposal also stipulates that the UN Security Council sanctions against Iran would not be stiffened, the US and Europe would promise to desist from any military attack on Iran and the US and Europe would close down their clandestine support programs for Iran's disaffected minorities.

DOE Stocks

Crude – down 600,000 barrels
Distillate – down 3 million barrels
Gasoline – down 2 million barrels
Refinery runs – down 0.8%, at 86.6%

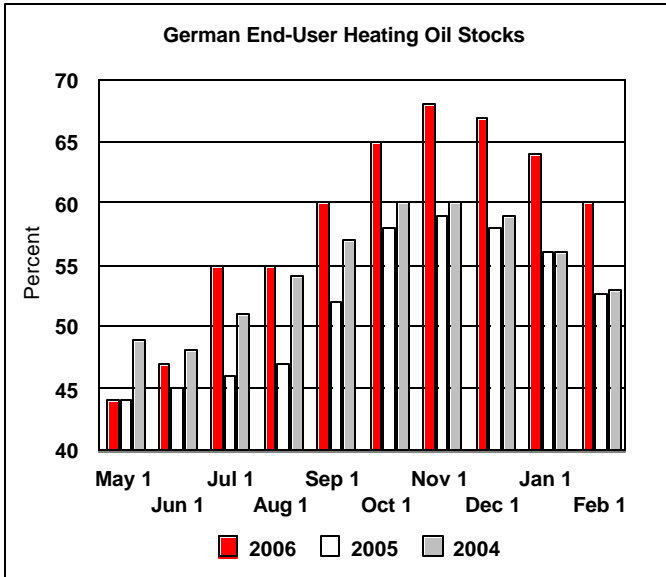
Market Watch

Venezuela's President Hugo Chavez said the US was free to stop buying oil from Venezuela amid the continuing political tensions between the two countries. He was responding to US government efforts to reduce reliance on foreign oil. US Energy Secretary Sam Bodman said the current level of energy insecurity in the world posed an unacceptable risk to the US economy and security.

A Saudi wing of al Qaeda called for attacks on US oil sources saying targets should not be limited to the Middle East. It listed Canada Venezuela and Mexico as US oil suppliers. Meanwhile, the Alberta Energy and Utilities Board said there was heightened awareness of security needs at critical infrastructure following a web posting by a Saudi wing of al Qaeda, which called for attacks on oil suppliers to the US.

The National Weather Service stated that temperatures in the Northeast would be near or above normal in the week ending February 27.

Agence France-Presse reported that the Movement for the Emancipation of the Niger Delta advised foreigners to leave immediately or risk being caught in a war.



BBC News reported that eleven people were killed in a bomb blast in the city of Zahedan in Iran. The bomb targeted members of Iran's Revolutionary Guard. A military commander said it was an act of terrorism and blamed rebels. Reports stated that suspects behind the attack were arrested.

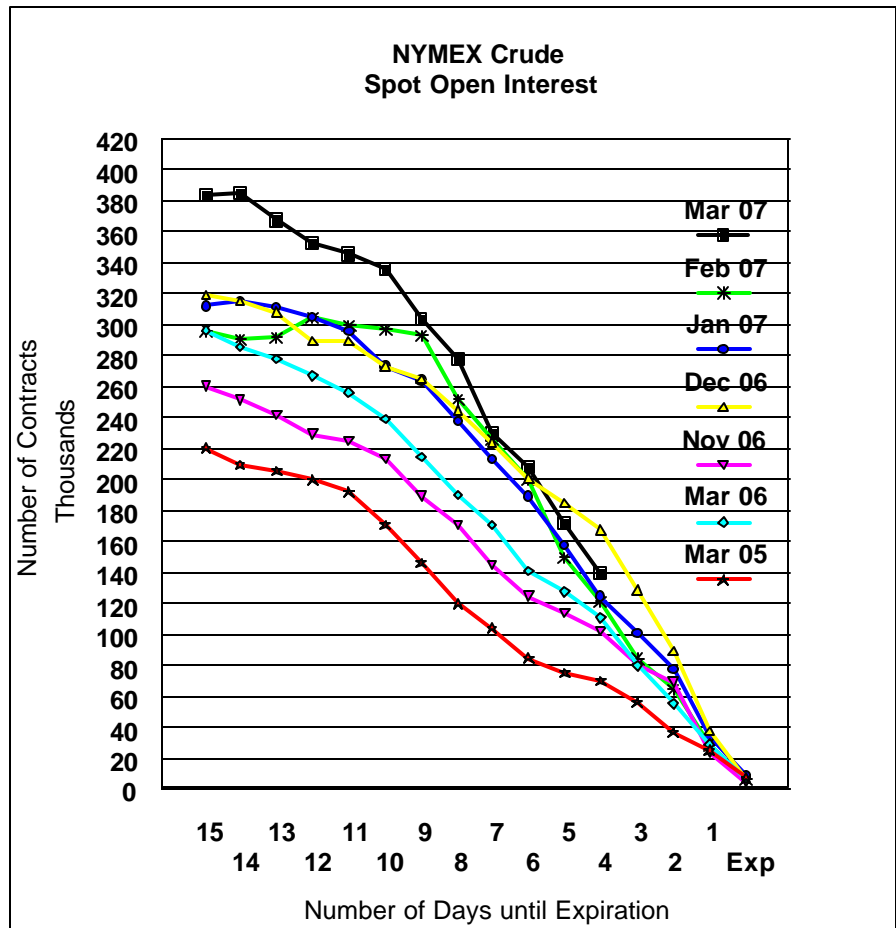
The American Petroleum Institute said total US oil demand in January increased by 2.8% on the year to 20.676 million bpd. It said gasoline demand increased by 298,000 bpd or 3.4% to 9.025 million bpd while distillate demand increased by 333,000 bpd or 8% to 4.494 million bpd. It reported that gasoline and distillate production reached their highest January output levels at about 9 million bpd and 4.1 million bpd, respectively. January's combined imports of

crude oil and petroleum products fell by 6% to 12.762 million bpd. US crude oil production increased 3.8% on the year to 5.264 million bpd.

Iraq halted its crude oil exports from its southern Basra terminal early on Wednesday due to rough weather, which forced port operators to suspend berthing operations. Loading operations at the terminal were continuing at about 73,000 barrels per hour. There was no immediate indication when operations would resume.

German consumer stocks of heating oil fell to 60.1% as of February 1, down from 64% the previous month. However stocks were up from 52.7% reported last year.

Total oil storage capacity in Singapore could reach about 11 million cubic meters or 70 million barrels with the addition of 2.77 million cubic meters of commercial storage from underground caverns. Total new storage in Asia is expected to increase to 17 million cubic meters or 108 million barrels by 2011, with another 5 million cubic meters or 31 million barrels of commercial tankage being built in China. Floating storage



capacity in Southeast Asia is expected to increase to 2.35-2.4 million tons or 34% by the second quarter.

Traders stated that Asian refiners purchased 1.26 million bpd of West African crude for March, up 170,000 bpd from February. They said improving refinery margins and higher fuel product demand helped increase Chinese purchases for March. China purchased 674,000 bpd in March, up 63,000 bpd on the month.

China's Ministry of Commerce reported that China's oil demand increased by 9.3% to 347 million tons or 6.9 million bpd. Domestic production increased by 1.7% to 183.7 million tons while imports of crude oil and oil products increased by 20% to 162.9 million tons or 47% of total demand.

Production News

Kuwait Petroleum Corp notified its customers that it would end an option for Asian refiners to receive as much as 5% more crude oil than their contracts stipulate amid the OPEC cuts. Meanwhile, Saudi Arabia is expected to cut its exports by as much as 14% in March.

OPEC's news agency reported that OPEC's basket of crudes fell by 68 cents/barrel to \$53.26/barrel on Tuesday.

Market Commentary

The oil market opened 16 cents lower as it retraced Tuesday's late rally, which was prompted by the news of a fire at Valero's Delaware City refinery. The crude market traded to a high of 59.20 following the release of the DOE report showing an unexpected draw in crude stocks of 600,000 barrels and a large draw in total petroleum stocks of 11.3 million barrels. However the oil market just as quickly erased its gains in light of the smaller than expected draw reported in distillate stocks. The market extended its losses to \$1.56 as it sold off to a low of 57.50. The crude market however bounced off its low and retraced some of its losses ahead of the close. It settled down \$1.06 at 58.00. Volume in the crude market was good with over 308,000 lots booked the day. Open interest in the crude market built by a total of 11,528 lots. Open interest in the March contract fell by 31,504 lots while open interest in the April and May contracts built by 25,790 lots and 11,048 lots, respectively as traders continued to roll their positions. The heating oil market posted a high of 168.60 on the opening and continued to retrace its previous gains in light of the smaller than expected draw of 3 million barrels in distillate stocks. The market extended its losses to 6.82 cents as it traded to a low of 162.50. It however retraced

some of its losses and settled down 5.49 cents at 163.83. Meanwhile, the RBOB market settled in positive territory, up 71

Technical levels		
	Levels	Explanation
CL	Resistance	59.60, 60.80
	58.00, down \$1.06	58.55, 59.20
	Support	57.50
		Wednesday's low
		Previous lows, 38% (51.20 and 60.80), Previous low
HO	Resistance	169.80 to 171.00
	163.83, down 5.49 cents	165.50, 168.60
	Support	162.50
		Wednesday's low
		Previous lows, 50% retracement (148.00 and 174.20), 62%
RB	Resistance	165.00, 168.75
	161.62, up 71 points	164.35
	Support	158.50
		Wednesday's low
		Previous lows, 38% retracement (137.80 and 164.35)

points at 161.62 after the market rallied to a high of 164.35 late in the session. Volumes in the product markets were good with 63,531 lots booked in the heating oil and 44,229 lots booked in the RBOB market.

The oil market, which failed to sustain its early gain amid the unexpected draw in crude stocks and large draw in total petroleum stocks, is seen continuing to trade lower as stochastics are still trending lower. The market will also find some resistance amid the moderation in the weather forecasts. The crude market is seen finding resistance at 58.55 followed by its high of 59.20. More distant resistance is seen at 59.60 and 60.80. Meanwhile, support is seen at 57.50-57.40, 57.25, 57.13 and 57.05.