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ENERGY MARKET REPORT FOR JANUARY 7, 2008

Pentagon officials said five Iranian Revolutionary Guard boats swarmed three US warships in the Strait of Hormuz over the weekend and made threats via radio. They said a US captain had been in the process of giving an order to fire but the order was not carried out as the Iranian boats moved away from the US ships. US officials said the Iranian vessels came within 200 yards of the US ships in international waters in the strait on Saturday. Iran's Foreign Ministry played down the incident, describing the event as an "ordinary occurrence."

The head of the IAEA, Mohamed ElBaradei, is scheduled to visit Iran this week to try to accelerate implementation of nuclear safeguards in Iran. He is hoping to resolve all remaining outstanding issues and enabling the agency to provide assurance about Iran's past and present nuclear activities.

Jan Calendar Averages

CL – 97.95
HO – 268.41
RB – 251.28

Market Watch

The National Weather Service forecast showed that US heating demand would be 38.5% below normal in the week ending January 12 as temperatures increase well above normal in most parts of the country. Demand for heating oil is expected to average about 40% below normal this week.

Temperatures in northwest Europe are expected to vary between slightly above normal to a few degrees below normal over the coming week, taking energy demand mostly above average.

Options to buy oil for \$200/barrel increased 10 fold in the past two months to 5,533 contracts, a record increase for any similar period. Meanwhile oil forecasters said there was no chance of \$200 crude as the US economy slows. Prices are expected to average \$78/barrel this year, down 20% from current levels and \$75/barrel in the fourth quarter.

Federal Reserve Bank of Atlanta President Dennis Lockhart said there was heightened uncertainty due to financial turmoil and he expected weak but modest economic growth in the first half of the year.

Venezuela's President Hugo Chavez promised to continue pushing for change in Venezuela but at a slower pace following his defeat when his proposed constitutional reforms were voted down. Last week, he announced a minor cabinet reshuffle which saw 13 new ministers. He said he would focus on fighting violent crime, corruption and inflation and would engage the private sector in carrying out the changes.

Iran's oil exports continued as heavy winds forced the intermittent closure of Kharg Island, Iran's primary export terminal.

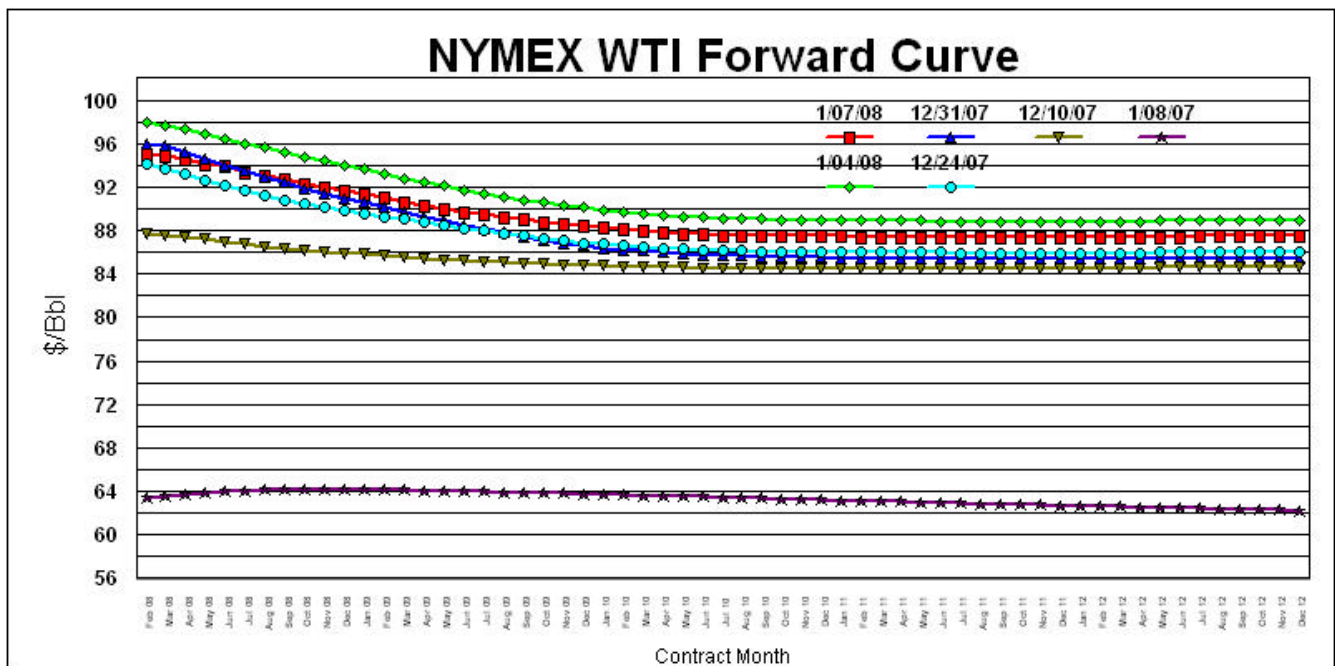
Iraq's Oil Minister Hussain al-Shahristani said the country resumed pumping Kirkuk crude at a rate of 480,000 bpd through its northern pipeline to Turkey. Stocks of Iraqi crude in the Turkish port of Ceyhan stood at 2.5 million barrels.

OPEC President Chakib Khelil said he expected oil prices to keep rising during the first quarter of the year before stabilizing in the following quarter. He linked the steady rise of oil prices to political tension in Pakistan, escalating violence in Nigeria and a decline in oil inventories. OPEC is scheduled to meet on February 1. Saudi Arabia's Oil Minister Ali al-Naimi reiterated that record oil prices were set by market forces. UAE Oil Minister Mohammed al-Hamli said high oil prices were due to international political tensions and speculation and other factors not related to supply and demand fundamentals. His comments echoed the words of several OPEC ministers that have said factors other than supply were driving the oil market's rally. Qatar's Oil Minister Abdullah al-Attiyah said OPEC was not behind the recent increase in oil prices as markets were well supplied and the price was driven by speculators. Venezuela's Energy and Petroleum Minister Rafael Ramirez said the oil market was well supplied and there was no need to increase its oil output at OPEC's next meeting.

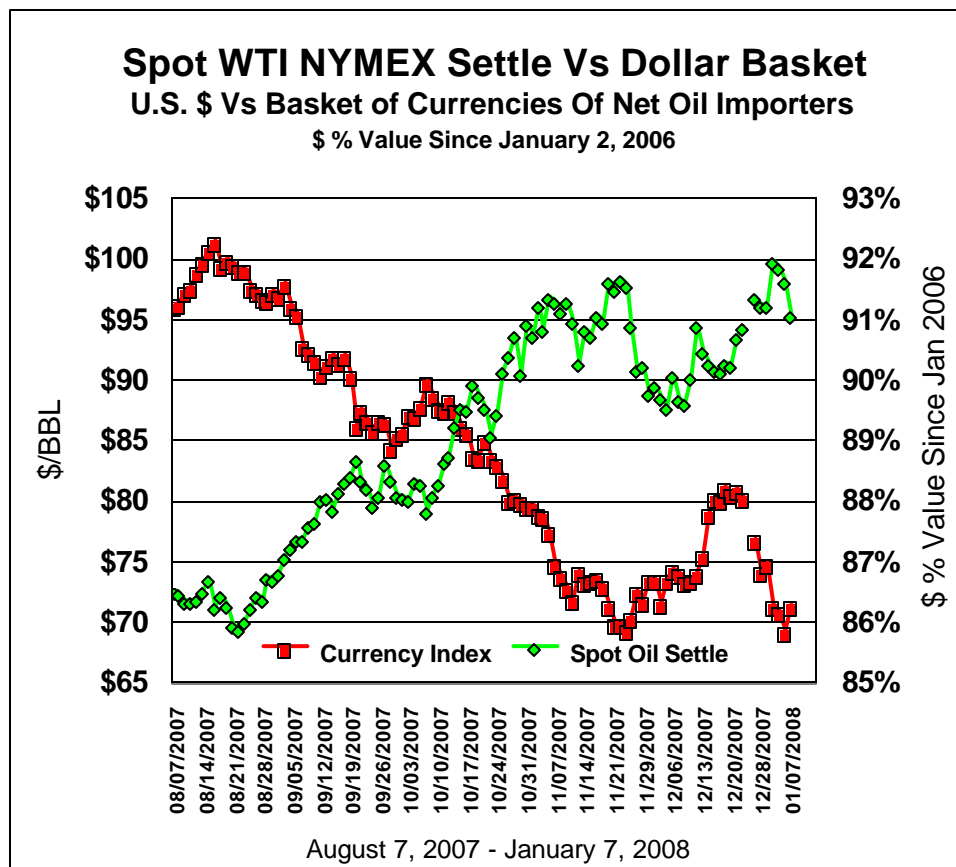
An Iranian oil official said many OPEC countries were producing as much oil as they could, limiting the ability of the cartel to increase its output even if such a decision was made to help lower oil prices. The deputy director of international affairs at the National Iranian Oil Co, Mohammad Ali Khatibi said increasing crude oil would not help balance the market because there was no significant possibility to increase the capacities of refineries and refineries are faced with limitations.

Nigerian National Petroleum Corp said vandals ruptured a major crude pipeline in the Niger Delta, derailing plans to bring two oil refineries back online this month. It previously stated that the 125,000 bpd Warri refinery would resume operation in January and the 110,000 bpd Kaduna refinery would follow before the end of the month.

The Movement for the Emancipation of the Niger Delta said foreign mercenaries were operating in the



Niger Delta region. It said the mercenaries were training youths in various camps in the region. It warmed against the further militarization of the Niger Delta. Meanwhile, presidential spokesman, Olusegun Adeniyi said negotiations with militants were taking longer than expected and a summit could be held early in 2008.



The EIA reported that the US average retail price of diesel increased by 3.1 cents/gallon to \$3.376/gallon in the week ending January 7. It also reported that the US average retail price of gasoline increased by 5.6 cents/gallon to \$3.109/gallon on the week.

Refinery News

Colonial Pipeline said it would auction off a total of 150,000 barrels of 88-grade heating oil. The heating oil would be available at the Linden Junction tank farm.

Credit Suisse reported that US refining margins

fell last week. Margins in the US Gulf Coast fell 78 cents to \$8.14/barrel while margins in the Northeast fell by 89 cents to \$9.19/barrel. Margins in the Midwest fell by \$1.62 to \$7.70/barrel while margins in the West Coast fell by \$2.23/barrel to \$15.93/barrel. Margins in the Rocky Mountain fell by 78 cents to \$6.70/barrel.

US ethanol production capacity has increased by 40% on the year to 7.53 billion gallons per year. There are 136 US ethanol distilleries with 63 plants under construction and 8 undergoing expansion. If all the new plants and expansions come on line in 2008 or later, total US capacity would be about 13.3 billion gpy.

Delek US started maintenance on a distillate hydrotreater unit at its 55,000 refinery in Tyler, Texas. The turnaround maintenance would include catalyst change out, other unit maintenance activities and substantive repairs to the DHT cooling tower.

Iraq's Baiji refinery was continuing to operate on Monday despite a fire that destroyed its liquefied petroleum gas unit. An engineer at the refinery said firefighters have succeeded in bringing the blaze under control. Witnesses said an explosion at a fuel storage tank caused the fire at the refinery on Monday.

India's Essar Oil Ltd said it aimed to operate its Vadinar refinery at full capacity of 210,000 bpd this month once newly commissioned secondary units stabilize.

Production News

Mexico's Salina Cruz oil export port on the Pacific coast reopened over the weekend after it was shut on January 2 amid rough seas and strong winds.

Talisman Energy Inc said 25,000 bpd production from two fields in the North Sea region remained shut following storms over the weekend.

StatoilHydro said it restarted some of its 20,000 bpd production at its Veslefrikk platform in the North Sea. It is expected to resume full production later on Monday.

Denmark's North Sea DUC crude oil stream is scheduled to load about 186,000 bpd in February, down 8,000 bpd from the previous month.

Marathon's Alvheim oil project in Norway is not expected to start up towards the end of the first quarter of the year, about a year later than previously expected. The 120,000 bpd project has been delayed due to tight oil services and personnel markets.

Saudi Aramco said Saudi Arabia is due to bring its delayed Khursaniyah oilfield project on stream in the first quarter. The 500,000 bpd project was expected to start last month. Separately, a Saudi Aramco official said the country was on track to reach its oil production capacity of 12 million bpd in 2009.

Saudi Aramco increased its official selling prices for crude bound for the US. Its Arab Extra Light crude price was increased by \$2.80 on the month to WTI minus \$1.10, its Arab Light crude price was increased by \$2.70 to WTI minus \$4.15, its Arab Medium crude price was increased by \$2.60 to WTI minus \$7.45 and its Arab Heavy crude price was increased by \$2.50 to WTI minus \$10.75. Its crude prices for Saudi crude destined for northwest Europe were cut from 5 to 35 cents on the month. Its Arab Extra Light crude was cut by 35 cents to BWAVE plus \$1.20, its Arab Light was cut by 25 cents to BWAVE minus \$3.15, its Arab Medium was cut by 5 cents to BWAVE minus \$5.70 and its Arab Heavy was cut by 5 cents to BWAVE minus \$7.90. Meanwhile its Arab Super Light crude bound for Asia was priced at the Oman/Dubai average plus \$6.05, down \$1 on the month, its Arab Extra Light crude price was cut by 40 cents to the Oman/Dubai average plus \$4.95, its Arab Light price was cut by 20 cents to the Oman/Dubai average plus \$1.55, its Arab Medium price was increased by 10 cents to the Oman/Dubai average minus \$1.75 and its Arab Heavy price was increased by 30 cents to the Oman/Dubai average minus \$4.80.

Iran has cut natural gas exports to Turkey, a week after reducing supplies from 25 million cubic meters/day to about 5 million cubic meters/day. The move was prompted by Turkmenistan cutting off gas exports to Iran following a dispute over price, forcing Iran to hold back exports to meet domestic demand. A Turkish energy ministry official said Turkey expected the cut in its natural gas imports from Iran to last a long time. Meanwhile, Russia said it could not provide additional gas during the shortage.

According to Platts, strong demand for spot LNG has prompted India to pay more than \$16.50/mmbtu for a January arrival cargo. Traders said India has a demand for further spot cargoes, either January or February delivery, and is willing to match the prices paid by more affluent consumers in Japan or South Korea. The increase in demand for LNG coincided with the shutdown of one of the domestic offshore gas production units at the Mumbai High fields.

OPEC's news agency reported that OPEC's basket of crudes fell to \$93.67/barrel on Friday from Thursday's \$93.94/barrel level.

Market Commentary

Despite several bullish fundamentals today, the crude oil market traded lower, stopping a penny below the \$94.48 trendline.

Still existing tensions in Nigeria, coupled with Iranian threats against U.S. Naval Ships in that region, weren't bullish enough to

		Explanation	
CL	Resistance	99.41, 100.09, 100.15, 102.25	Previous highs, Basis trendline
	Support	95.60, 96.70, 98.40	Monday's high
HO	Resistance	94.92, 94.47	Basis trendline, Monday's low
	Support	93.99, 93.34, 91.86, 90.38, 86.63, 85.55, 83.00	Previous lows
RB	Resistance	272.70, 274.75	Previous highs
	Support	261.00, 265.00, 269.08	Monday's high
HO	Resistance	257.41	Monday's low
	Support	256.20, 255.74, 253.77, 253.21, 250.15	Previous low, 62%(244.05 and 274.65), Previous lows
RB	Resistance	254.41, 257.85	Previous highs
	Support	244.25, 245.00, 247.25, 251.57	Monday's high
RB	Resistance	241.55	Monday's low
	Support	241.50, 239.64, 238.50, 236.15, 235.35	Previous low, 50%(221.45 and 257.84), Previous lows, 62%

combat a weakening economy in the U.S. and Europe and warmer than normal temperatures in the Northeastern part of the U.S. On a technical perspective, this market appears to be due for a correction to the downside with an initial objective of \$92.85, which is the 50% retracement from \$100.09 and \$85.60. Based on the weekly chart, the downside objective for the February contract is \$91.11. Barring any major bullish fundamentals, this is the objective we would look for. Once again the February/March spread contracted slightly and as long as it remains under 0.34 cents, it should continue to do so. Total open interest in crude oil is 1,418,444 up 5,142, FEB.08 312,344, down 10,443, March 216,770, up 15,827. The product markets sold off sharply amid the losses seen in the oil market. The heating oil market led the products lower as the warmer than normal weather in the Northeast pressured the market. It posted a high of 269.08 early in the session and quickly sold off as the open outcry session started. The market breached its support at 264.30 and retraced more than 50% of its move from a low of 244.05 to a high of 274.65 as it sold off to a low of 257.41. The heating oil market later retraced some of its losses and traded sideways ahead of the close. It settled down 9 cents at 259.35. The RBOB market settled down 7.6 cents at 243.50 after the market also breached its support at 246.36 and retraced more than 38% of its move from a low of 221.45 to a high of 257.84. The markets are seen retracing some of today's sharp losses and trade mostly sideways. In the heating oil market, support is seen at 257.41, 256.20, 255.74, 253.77, 253.21 and 250.15 while resistance is seen at 261.00, 265.00, 269.08 followed by 272.70 and 274.75. In the RBOB, support is seen at 241.55, 241.50, 239.64, 238.50, 236.15 and 235.35. Resistance is however seen at 244.25, 245.00, 247.25, 251.57, 254.41 and 257.85.