



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR FEBRUARY 2, 2007**

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Nigeria's oil unions, Pengassan and Nupeng remained undecided on Friday over whether or not they would stage a strike next week over increasing insecurity in the Niger Delta. The unions have stated that would stage a strike starting February over fear for their security. During a meeting with labor ministry officials late on Thursday, union leaders were promised a meeting with President Olusegun Obasanjo on February 5 to discuss the crisis in the delta. The unions stated that the plans for a strike would depend on discussions with Nigeria's President.

Venezuela's Energy Minister Rafael Ramirez said oil prices would likely remain within a certain range to be determined following OPEC's upcoming meeting on March 15. He said after OPEC stabilized oil prices by fully implementing the current output cuts, a price band would have to be defined following their meeting.

#### **Market Watch**

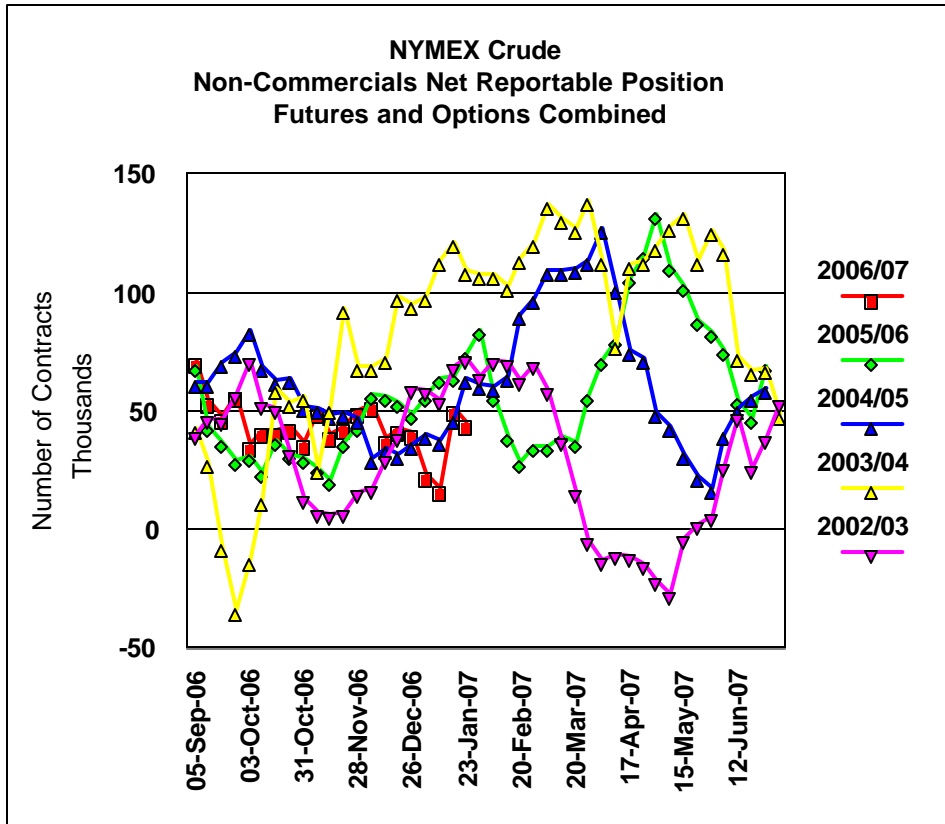
A senior official at the National Iranian Oil Co said Iran would include a clause in contracts it awards for oil and gas exploration, releasing companies from their obligations in the country if required under international sanctions. He did not say what would trigger the get out clause in the contract. Iran has been offering 17 onshore and offshore oil and gas blocks to international companies. Under new contract terms, Iran has offered international companies the chance to stay on as service providers for the full cycle of oilfields. This differs from the current terms under which companies hand over operations of the fields to NIOC after development and then receive payment from oil and gas production for a few years to cover their investment plus a fixed return.

Petroleum Intelligence Weekly reported that while the overall dollar amount spent on exploration has been increasing since 2002, its share of overall upstream capital spending has been falling from about 25% in the late 1990s to about 13% in 2005. The decline in exploration reflects the difficulties faced in trying to find new oil and gas reserves. Access to many of the most prospective regions is closed and success elsewhere is elusive, resulting in escalating finding and development costs.

PIW also reported that Royal Dutch Shell, Repsol and Total run the risk of incurring US sanctions if they proceed with upstream and LNG projects in Iran. Key members of Congress have been urging the activation of the Iran Sanctions Act which would give President George W. Bush the right to penalize companies that invest more than \$20 million per year in Iran's energy sector. The company most vulnerable to US sanction is Shell. Congress has been studying a nonbonding agreement signed at the end of last year for China National Offshore Oil Corp to develop the North Pars gas field while the Democratic head of the House Foreign Affairs Committee has urged the Malaysian government to cancel a deal for SKS to develop gas fields and LNG facilities.

According to a Bloomberg News survey, 53% of analysts surveyed said prices are expected to increase due to cold weather and a growing economy.

According to a Reuters survey, the ten OPEC members bound by output targets cut their production by 160,000 bpd to 26.8 million bpd in January. It is down 840,000 bpd from OPEC's production level in October. Saudi Arabia cut its production to 8.73 million bpd in January from 8.75 million bpd in December. Total OPEC production however increased to 29.91 million bpd from 28.75 million bpd in December after Angola became a member of the group January 1. It reported that Angola's production stood at 1.47 million bpd while Iraq's production stood at 1.64 million bpd, down from 1.79 million bpd in December.



A senior Iranian official said Iran had allowed the installation of surveillance cameras at a complex where it is set to start expanding enrichment of nuclear fuel. He denied reports that Iran had started installing 3,000 centrifuges to increase its uranium enrichment. Iran has invited six ambassadors from the Non-Aligned Movement of developing countries for a transparency visit to Iranian nuclear facilities on Saturday. However they are not expected to visit the Natanz installation. In response, the US said simply showing Iran's nuclear activities would not build confidence abroad.

Separately, US Defense Secretary Robert Gates said the US was not planning for a war with Iran.

According to a new US intelligence report, the situation in Iraq could deteriorate further unless efforts are made to reverse conditions. It said US and coalition capabilities, including force levels, resources and operations remain an essential element in Iraq. It added that a quick US withdrawal from Iraq would have dangerous consequences such as an increase in violence.

### **Refinery News**

Nigeria's Port Harcourt refinery resumed operations after it was shut in December due to technical problems. The refinery was operating at about 30% of its capacity, taking in 140,000 bpd of Bonny Light crude. The 125,000 bpd Warri refinery and 110,000 bpd Kaduna refinery remain closed after they were shut last February, when militants blew up the main feeder pipeline.

Regular maintenance is currently underway at Shell's 412,000 bpd Pernis refinery in Rotterdam.

Russia's main Black Sea port of Novorossiisk was closed for the second consecutive day on Friday due to strong winds and strong sea swells would likely delay its reopening. Shipping sources stated that six tankers were waiting to load at the port.

Nippon Oil Corp said its refineries were operating at 82% of capacity in the October-December period last year. During the April-December period, it ran its refineries at a rate of 82% to 83% of capacity.

NYMEX Petroleum Options Most Active Strikes for February 2, 2007								
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	5	7	P	55	04/17/2007	1.7	4,746	37.34
LO	6	7	P	55	05/17/2007	2.08	3,650	36.85
LO	5	7	P	51	04/17/2007	0.81	3,200	38.46
LO	6	7	C	63	05/17/2007	3.7	3,102	35.39
LO	6	7	C	69	05/17/2007	1.93	3,100	35.84
LO	3	7	C	60	02/14/2007	1.17	2,751	37.55
LO	6	7	C	65	05/17/2007	2.98	2,504	35.38
LO	6	7	C	80	05/17/2007	0.56	2,316	37.45
LO	7	7	P	55	06/15/2007	2.27	2,150	35.52
LO	6	7	P	60	05/17/2007	3.97	2,007	35.69
LO	7	7	P	50	06/15/2007	1.07	1,900	36.36
LO	6	7	C	70	05/17/2007	1.72	1,707	35.90
LO	6	7	C	68	05/17/2007	2.15	1,700	35.67
LO	6	8	P	55	05/15/2008	3.38	1,700	28.36
LO	6	8	C	70	05/15/2008	5.21	1,700	27.00
LO	3	7	C	57.5	02/14/2007	2.47	1,577	38.05
LO	5	7	P	54	04/17/2007	1.43	1,548	37.61
LO	12	7	P	50	11/13/2007	1.64	1,500	32.20
LO	4	7	C	65	03/15/2007	1.16	1,499	37.50
LO	3	7	P	57.5	02/14/2007	0.95	1,357	37.95
LO	3	7	P	57	02/14/2007	0.78	1,298	37.96
LO	3	7	C	58	02/14/2007	2.16	1,297	37.92
LO	3	7	P	50	02/14/2007	0.02	1,206	41.59
LO	6	7	C	60	05/17/2007	5.07	1,158	35.81
LO	4	7	C	63	03/15/2007	1.69	1,023	37.41
OB	7	7	C	1.95	06/26/2007	0.0856	501	33.80
OB	7	7	P	1.65	06/26/2007	0.0823	500	33.07
OB	3	7	P	1.5	02/23/2007	0.0337	422	43.45
OB	7	7	P	1.6	06/26/2007	0.0654	422	33.30
OB	5	7	P	1.65	04/25/2007	0.0729	100	35.88
OB	6	7	P	1.73	05/25/2007	0.1073	100	33.18
OB	6	7	C	1.73	05/25/2007	0.1447	100	33.28
OH	3	7	P	1.6	02/23/2007	0.0299	503	40.37
OH	3	7	C	1.69	02/23/2007	0.0615	500	40.14
OH	4	7	C	2	03/27/2007	0.02	250	41.11
OH	3	7	C	1.84	02/23/2007	0.0179	200	41.53
OH	3	7	P	1.76	02/23/2007	0.1115	200	40.84
OH	4	7	C	1.75	03/27/2007	0.0736	200	39.41
OH	4	7	P	1.66	03/27/2007	0.0857	200	39.18
OH	3	7	C	1.66	02/23/2007	0.0765	126	40.11
OH	4	7	C	1.8	03/27/2007	0.0576	126	39.76
OH	3	7	C	1.67	02/23/2007	0.0712	100	40.07
OH	3	7	P	1.56	02/23/2007	0.0193	100	40.53
OH	4	7	C	1.84	03/27/2007	0.047	100	40.03

South Korean refiners are expected to export more diesel and jet fuel in February compared to January due to improving margins. It is expected to export 980,000 tons of gas oil in February, up from 600,000 tons in January while jet fuel exports are expected to double to 530,000 tons in February.

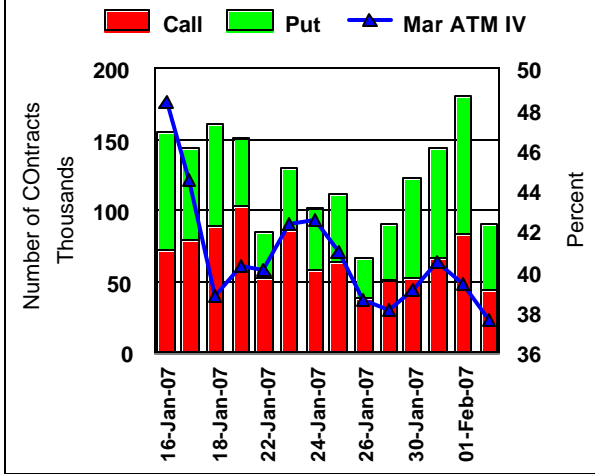
### Production News

Saudi Arabia may increase the price of its heavier crudes for Asian buyers in March but could lower its lighter grades due to slow North Asian demand for those crude grades. Traders said the higher Arab Medium and Heavy crude prices could set the trend for stronger differentials of other spot Middle East crudes, as Saudi Arabia could extend its deep supply cuts into March. Saudi Arabia is expected to notify its customers of its plans for March crude supplies around February 10.

Chevron Corp said it expected its 2007 oil and gas production to fall to 2.6 million barrels of oil equivalent/day, down from 2.67 million boe/d in 2006.

The managing director of the National Iranian Oil Co, Gholamhossein Nozari said Iran aimed to finalize a deal

### NYMEX WTI Option Volume Vs March ATM IV



with China's Sinopec to develop its Yadavaran oilfield. The field is expected to product 300,000 bpd of crude. He also stated that Iran was expected to also finalize another deal in March with France's Total to develop part of its South Pars gas field.

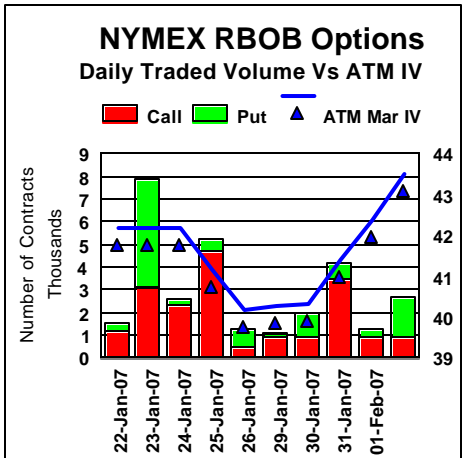
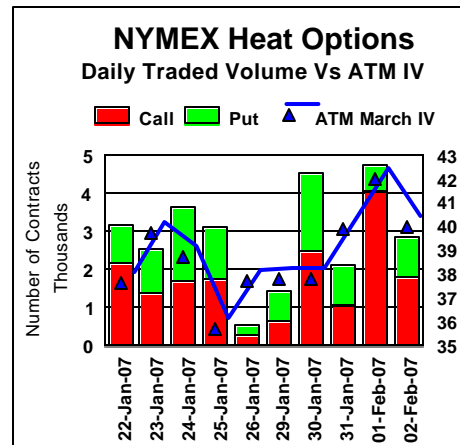
Russia's Energy Ministry reported that the country's oil production increased to 9.85 million bpd in January compared with 9.79 million bpd in December. Exports to countries outside the Commonwealth of Independent States increased by 4.4% to 4.48 million bpd. Shipments to CIS refineries fell 27% to 530,000 bpd. Russia's crude oil exports supplied to ports by Transneft increased to 12.4 million tons or 2.932 million bpd in January, up 18.2% on the year.

Russia's Lukoil said it hoped to sign a development deal for Iran's Azar oilfield in April. The oilfield is

expected to hold 2 billion barrels of oil.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$53.39/barrel on Thursday from \$52.52/barrel on Wednesday.

Sri Lanka's Petroleum and Petroleum Resources Development Minister A.H.M. Fowzie said seismic data showed that more than 1 billion barrels of oil under the sea off the country's northwest coast. If proven, the reserves would be a boost for the country which imports between \$1 billion to \$2 billion worth of oil a year. An exploration tender would be launched in early April. He said eight blocks in the northwestern Mannar basin would be licensed and exploration would start in August 2008.



### Market Commentary

The oil market rallied above the 59.00 level as it continued to trend higher ahead of the weekend. The market remained supported early in the session amid the cold weather forecasts and the threat of a possible oil strike in Nigeria starting February 5. The market opened up 55 cents at 57.85 and traded to 57.95 before the market gave up its early gains and sold off to a low of 57.05. The market however bounced off its low and retraced its losses amid short covering ahead of the weekend. The oil market breached its early high and extended its gains to \$1.80 as it rallied to a high of 59.10 on the close. The market settled up

\$1.72 at 59.02. Volume in the crude market was good with 254,082 lots booked on Globex during the open outcry session. The heating oil market opened up 86 points at 166.75 and traded to 167.00 amid the supportive weather forecasts. The market however erased its gains and settled in a range after it traded to a low of 164.00. It later bounced off its low and rallied to a high of 168.50 ahead of the close. It settled up 2.51 cents at 168.40. Meanwhile, the RBOB market posted an early high of 154.00 and

settled in a sideways trading range after it sold off to a low of 152.00. However similar to the crude market, the RBOB market breached its resistance and rallied to a high of 157.70 ahead of the close and settled up 4.76 cents at 157.29. Volumes in the product markets were light with 39,443 contracts traded in the heating oil market and 24,055 contracts traded in the RBOB market.

The Commitment of Traders report showed that non-commercials in the crude market increased their net short position by 5,843 contracts to 14,342 contracts in the week ending January 30. The non-commercials cut their total long positions by 4,714 contracts on the week. The combined futures and options report showed non-commercials cut their net long position by 35 contracts to 42,944 contracts on the week. However non-commercials have likely cut their net short positions as the market continued to trade towards the 60.00 level during the last few trading sessions. Non-commercials in the heating oil market cut their net short position by 4,900 contracts to 9,301 contracts while non-commercials in the RBOB market increased their net long position by 8,093 contracts to 15,577 contracts on the week.

The oil market will likely continue to trend higher and test the 60.00 level as it rallied higher ahead of the weekend. The market is seen remaining supported by the weather forecasts and will be further supported if Nigeria's oil unions decide to start a strike on Monday. The market is seen finding resistance at its remaining gap from 59.10 to 59.30 followed by the 60.00 level. More distant upside is seen at 61.20.

Meanwhile support is seen at 58.00, 57.05 followed by 55.75 and 54.45.

Technical levels			
	Levels	Explanation	
<b>CL</b>	<b>Resistance</b> 59.02, up \$1.72	60.00, 61.20 59.10 to 59.30	Previous high Remaining gap (January 8)
	<b>Support</b>	58.00, 57.05 55.75, 54.45	Friday's low Previous lows
	<b>HO</b>	<b>Resistance</b> 168.40, up 2.51 cents	170.00, 170.80, 175.05 168.50
<b>Support</b>		167.00, 164.00 161.80, 157.10, 155.55	Friday's low Previous lows
<b>RB</b>		<b>Resistance</b> 157.29, up 4.76 cents	159.24, 163.25 157.70
	<b>Support</b>	154.00, 152.00 151.00, 148.25, 147.10	Friday's low Previous lows