



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR FEBRUARY 6, 2007**

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Nigeria's Oil Minister Edmund Daukoru said he was pleased with recent increase in oil prices. He stated that OPEC would likely keep its output unchanged at its March meeting if the market remained at current levels. He said Nigeria has cut six cargoes of 950,000 barrels from its February export program. He said Nigeria's oil production February would be two million bpd, plus another 60,000 bpd of condensate. A senior official at NNPC said Nigeria would cut its production by 250,000 bpd in February and 300,000 bpd in March to meet its OPEC obligations.

#### Market Watch

Nigeria's oil workers' union said they doubted if the government was serious about addressing insecurity in the Niger Delta after a meeting to discuss the problem with President Olusegun Obasanjo was cancelled. Union leaders stopped short of calling a strike but said they were disappointed that the President had no met them

Iran's Revolutionary Guards are expected to hold two days of wargames in the Persian Gulf and Sea of Oman this week, focusing on launching missiles. The exercises are scheduled to take place on Wednesday and Thursday by the missile units of the Guards' naval and air forces.

Iran's Oil Minister Kazem Vaziri-Hamaneh said he was hopeful that OPEC's two production cuts totaling 1.7 million bpd would keep oil price around current levels. Separately, Libya's Oil Minister Shokri Ghanem said the direction of oil prices would dictate OPEC's stance on whether it would need to cut its production again at its March meeting. He said OPEC would not cut its production if prices remained close to \$60/barrel.

British Prime Minister Tony Blair said no one was planning an attack on Iran. However he accused Iran of developing nuclear weapons capability in defiance of the UN and of deliberately fostering sectarianism and conflict in the region. He said a whole series of doors would open for Iran if it changed its strategy.

The Bush administration's 2008 budget request submitted to Congress on Monday included \$168 million in new funds to fill the country's SPR to its full level of 727 million barrels. The funds would go towards expanding the SPR from its current size of 691 million barrels to fill it and eventually double it to 1.5 billion barrels by 2027. US Energy Secretary Sam Bodman said environmental studies were underway for the first segment of the expansion, which would eventually take the reserve to 1 billion barrels of capacity by expanding three of the reserve's four existing sites and building a new site in Mississippi.

An Iranian was kidnapped in the central Karrada district in Iraq on Sunday by 30 gunmen wearing the uniforms of a special Iraqi army unit that often works with US military forces in Iraq. Iran's Foreign Ministry blamed US forces for the kidnapping of Jalal Sharafi, the second secretary at the Iranian embassy in Baghdad, saying it was carried out by a group attached to Iraq's Defense Ministry, which works under the supervision of US forces. Iraq's Foreign Minister Hoshiar Zebari said the government was investigating the kidnapping. A US military spokesman denied that US forces had played a role in the incident.

In its latest Short Term Energy Outlook, the EIA cut its oil price projection for WTI to \$59.50/barrel in 2007 and \$62.50/barrel in 2008 from \$64.42/barrel and \$64.58/barrel, respectively. It estimated that the average household heating fuel expenditures at \$862 this winter compared with \$948 last winter. This is down slightly from its previous estimate of \$873. Global oil demand is estimated to increase by over 1.6 million bpd in 2007 and 2008 compared with a growth rate of 800,000 bpd in 2006. World demand is estimated to total 86.4 million bpd in 2007 and 87.9 million bpd in 2008. The EIA also estimated that the ten OPEC members cut their crude production in the fourth quarter by 600,000 bpd below third quarter levels or about half of the targeted cuts. Saudi Arabia accounted for half of the reduction. The ten OPEC members produced 26.77 million bpd in January, down 110,000 bpd from December's level. It estimated that the actual February 1 OPEC cuts would total about 300,000 bpd. It projected that the OPEC cuts would be sufficient to reduce inventories to normal levels by mid 2007. Non-OPEC supply is expected to increase by about 1 million bpd in 2007 and 1.1 million bpd in 2008. The EIA estimated that total US petroleum product demand is expected to increase by 1.4% in 2007 and by 1.5% in 2008 to 20.91 million bpd and to 21.23 million bpd, respectively. This is up slightly from its previous estimates of 20.9 million bpd in 2007 and 21.2 million bpd in 2008. Gasoline demand in 2007 is estimated at 9.36 million bpd, up from its previous estimate of 9.35 million bpd while distillate demand is estimated at 4.25 million bpd, unchanged from its previous forecast. In regards to production, crude oil production is projected to increase from 5.1 million bpd in 2006 to 5.3 million bpd in 2007 and to 5.4 million bpd in 2008. Distillate inventories are expected to be at or above the high end of the normal range during the remainder of the heating season. Total distillate inventories at the end of the winter are projected to be about 122 million barrels, 2 million barrels above last year's level and 11 million barrels above the 5 year average.

According to the IEA, world oil demand growth is seen increasing 2% annually through 2011. World oil consumption growth is expected to increase on average by 1.8 million bpd over the five year period from 84.5 million bpd in 2006 to 93.3 million bpd in 2011. This compares with growth of 1.8% in 2001-2006 and 1.4% in the 1996-2001 period. The IEA also estimated that OPEC's spare oil production is expected to increase to between 3.4 million bpd and 5.2 million bpd by 2011, up from an average of 2.2 million bpd in 2006. It also stated that China's oil consumption growth is expected to increase annually by 5.7%. The IEA cut its estimate for supply of non-OPEC oil and biofuels for 2011 by 1.1 million bpd to 62.3 million bpd.

### **Refinery News**

Citgo Petroleum Corp began restarting its fluid catalytic cracking unit No. 1 in the east plant of its 156,000 bpd refinery in Corpus Christi, Texas on Monday. The unit had been shut for several weeks for maintenance. The restart is expected to last through Thursday.

Oil flow through the AB-1 pipeline transporting oil from Saudi Arabia to Bahrain has been reduced due to unscheduled maintenance work. The AB-1 pipeline transports about 230,000 bpd from Saudi Arabia to Bahrain.

China's largest oil refineries are expected to increase daily run rates in February to meet demand and capture healthy refining margins after crude prices fell. China's twelve major plants are expected to process 2.39 million bpd of crude in February, up 4% from 2.3 million bpd in January.

Taiwan's Chinese Petroleum Corp is scheduled to shut 35,000 bpd of crude processing for maintenance, up 9% from last year's 32,000 bpd. It is scheduled to shut its No. 9 crude distillation unit of 100,000 bpd at its 300,000 bpd Talin plant for 30 days of maintenance in July. It would then close the No. 6 crude unit of 100,000 bpd at the 220,000 bpd Kaohsiung plant for a month long turnaround in August.

South Korea's SK Incheon Oil Co is scheduled to shut its 200,000 crude distillation unit from July 18 to August 1 for maintenance. It is expected to restart its No. 1 crude unit with a capacity of 75,000 bpd in July, increasing the refinery's total capacity to 275,000 bpd. Its No. 1 unit was shutdown for five years due to financial problems. Separately, South Korea's Hyundai Oilbank Corp is scheduled to shut its 280,000 bpd crude distillation unit for 26 days of maintenance between August and September.

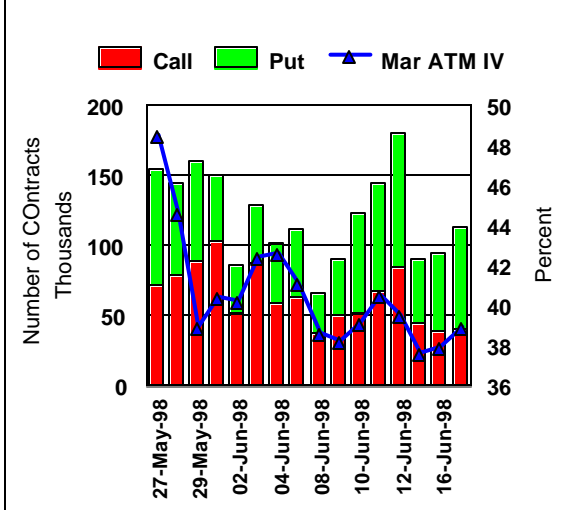
Japan's Cosmo Oil Co said its crude run rates at its refineries fell by 9.2% on the year in April-December to 76.7% of capacity due to unplanned shutdowns of its crude distillation units. To compensate for the lost output, Cosmo has imported 1.4 million kiloliters or 8.8 million barrels of oil products in the April-December period. Meanwhile Idemitsu Kosan Co said its refineries were operating at 84% of capacity in April-December, down from 85.2% a year earlier.

#### **Production News**

According to a Reuters survey, the ten OPEC

<b>NYMEX Petroleum Options Most Active Strikes for February 6, 2007</b>								
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	6	7	P	50	05/17/2007	0.77	5,950	35.61
LO	6	7	P	56	05/17/2007	2.14	5,500	33.91
LO	6	7	P	52	05/17/2007	1.11	4,950	34.97
LO	3	7	C	59	02/14/2007	1.29	3,292	38.83
LO	6	7	C	65	05/17/2007	2.45	3,001	32.89
LO	7	7	P	58	06/15/2007	3.12	2,950	33.01
LO	6	7	C	60	05/17/2007	4.44	2,800	33.11
LO	4	7	C	68	03/15/2007	0.4	2,667	35.31
LO	4	7	C	65	03/15/2007	0.81	2,455	34.79
LO	4	7	P	57	03/15/2007	1.55	2,428	35.22
LO	6	7	P	45	05/17/2007	0.26	2,260	37.01
LO	4	7	P	55	03/15/2007	0.95	2,207	35.75
LO	6	7	P	55	05/17/2007	1.83	2,135	34.12
LO	3	7	C	60	02/14/2007	0.87	2,126	38.71
LO	4	7	P	60	03/15/2007	2.89	2,025	34.61
LO	3	7	C	62	02/14/2007	0.35	1,896	38.86
LO	4	7	P	45	03/15/2007	0.03	1,775	39.45
LO	5	7	P	55	04/17/2007	1.45	1,616	34.24
LO	7	7	P	54	06/15/2007	1.8	1,500	33.75
LO	7	7	P	62	06/15/2007	4.99	1,475	32.57
LO	3	7	P	58	02/14/2007	0.95	1,450	39.01
LO	3	7	P	59	02/14/2007	1.41	1,408	38.83
LO	6	7	P	54	05/17/2007	1.56	1,135	34.40
LO	3	7	C	65	02/14/2007	0.06	1,093	38.62
LO	3	7	P	57	02/14/2007	0.61	1,031	39.39
LO	5	7	C	60	04/17/2007	3.49	1,006	33.33
LO	6	8	P	58	05/15/2008	4.12	1,000	26.40
LO	6	8	P	60	05/15/2008	4.89	1,000	26.24
OB	3	7	P	1.62	02/23/2007	0.0866	230	43.84
OB	5	7	C	1.75	04/25/2007	0.0999	117	34.65
OB	5	7	P	1.7	04/25/2007	0.0932	115	34.61
OH	3	7	P	1.78	02/23/2007	0.1143	330	40.14
OH	12	7	P	1.72	11/27/2007	0.1219	204	29.44
OH	5	7	P	1.65	04/25/2007	0.0882	150	34.59
OH	3	7	C	1.72	02/23/2007	0.0444	125	39.45
OH	12	7	P	1.9	11/27/2007	0.2097	120	29.45
OH	5	7	C	1.8	04/25/2007	0.0636	115	35.22
OH	3	7	C	1.63	02/23/2007	0.0917	100	39.53
OH	3	7	P	1.56	02/23/2007	0.013	100	39.84

### NYMEX WTI Option Volume Vs March ATM IV



members bound by production quotas cut their production to 26.84 million bpd, down 120,000 bpd from December. It was still 540,000 bpd above its November 1 limit. Total OPEC production increased to 30 million bpd from 28.75 million bpd in December after Angola became a member of the group January 1. It reported that Iraq's production fell by 100,000 bpd to 1.69 million bpd.

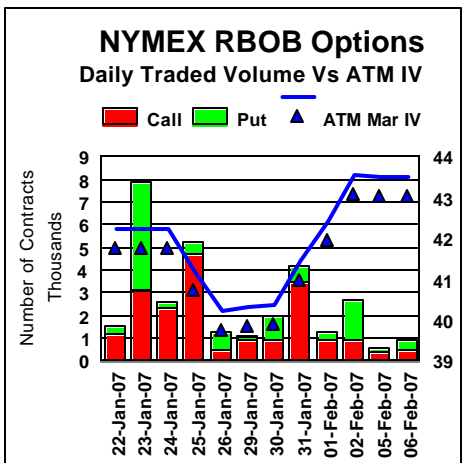
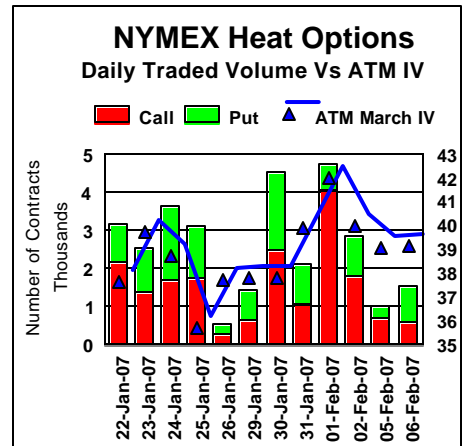
The Alyeska Pipeline Service Co was searching for a piece of a cleaning device, called a pig, that got dislodged somewhere in the Trans Alaska Pipeline System in December. So far, the missing pig part has not affected operations on the pipeline. Officials said both Alyeska and agencies that regulate the pipeline hoped to find the missing part before it id any internal damage. No damage has yet been detected.

BP Plc said startup of its Atlantis oil platform in the Gulf of Mexico has been delayed again with first oil now expected in late 2007. It said the delay was due to tightness in the market for oil field services. The platform is expected to produce 200,000 barrels of oil and about 180 mmcf/d of natural gas.

BP Prudhoe Bay Royalty Trust said its Prudhoe Bay production in 2007 would be below previous forecasts. Estimates showed that BP's share of production would fall below 90,000 bpd on an average annual basis starting in 2007.

Separately, BP said it was unlikely that a deal could be reached with Venezuela by May 1 on the country's plan to strip some of BP's controlling stakes in heavy oil projects in the Orinoco belt.

The Hibernia oilfield is expected to be shut for about one month from mid-February as its owners accelerate a maintenance shutdown planned for September. The platform was producing 180,000 bpd before January 2, when a mechanical problem reduced output to about 110,000 bpd.



Shipping sources stated that crude oil cargo loadings in Mexico and Panama were expected to be delayed by at least a few days due to stormy weather and rough seas. In Mexico, oil loadings at the port of Dos Bocas, Cayo Arcas and Pajaritos were delayed by a few days.

Sources stated that Nigerian gunmen abducted a Filipino oil contractor and killed at least one policeman escorting him on the road to Port Harcourt in the Niger Delta on Tuesday. The oil contractor was working for a Shell contractor, Netcodietmann, an oil services company.

According to the Aberdeen Petroleum Report, UK's oil production fell by 4.2% on the month in November to 1.401 million bpd.

Petroleum Development Oman said its oil production would fall by about 20,000 bpd in 2007 to between 560,000 and 570,000 bpd.

Petroecuador said repeated robberies and vandalism to equipment forced Ecuador to lose a total of 54,047 barrels of crude production in 2006 and \$2.6 million in revenue. It said robberies of copper lines need to provide electricity to oil wells in the Amazon jungle region had resulted in the loss of 6,366 barrels of petroleum in January. Petroecuador's oil production fell to 170,022 bpd as of Tuesday from 188,188 bpd it averaged in all of 2006.

ExxonMobil Corp was still optimistic about starting limited production at Indonesia's Cepu oil and gas development ahead of full output due to start in 2010. A small development of the Cepu field has been under consideration for months, however questions about its viability arose last month after Indonesia's BPMIGAS said production had been delayed by about a year to 2010 over land use issues. The Cepu development is estimated to have recoverable oil reserves of up to 600 million barrels.

The head of the China Meteorological Administration said that China was determined to cut the use of fossil fuels behind global warming. He said China was committed to improving energy efficiency by 20% in coming years and to shift the country's from dependence on coal. However he deflected questions of whether the country would accept caps on greenhouse gases.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$54.54/barrel on Monday from \$53.55/barrel on Friday.

### Market Commentary

The oil market retraced some of its losses and ended in positive territory ahead of Wednesday's release of the weekly petroleum stock reports. The market opened up \$1.06 at 59.80 and quickly rallied to a high of 59.99. The market was supported by the weather forecasts as well as OPEC comments. However the market, which once again failed to test its resistance at the 60.00 level, erased its gains. The market sold off sharply to a low of 58.55 late in the session before a late recovery lifted prices towards the 59.00 level ahead of the close. It settled up 14 cents at 58.88. Volume in the crude market was good with 296,967 lots booked on Globex. Meanwhile, the heating oil market posted an inside trading day as it failed to breach Monday's trading range ahead of the release of the weekly petroleum stock reports on Wednesday. The market opened up 3.24 cents in follow through buying seen in overnight trading in light of the weather forecasts calling for temperatures to

remain below normal for the next six to 10 days. The heating oil market quickly posted a high of 171.40 before it retraced its gains throughout

Technical levels			
		Levels	Explanation
CL	<b>Resistance</b>	60.00, 60.39, 61.20	Previous high, 62% retracement (66.07 and 51.20), Previous high Tuesday's high
	58.88, up 14 cents	59.00, 59.99	
	<b>Support</b>	58.55, 58.50	Tuesday's low, Monday's low
HO	<b>Resistance</b>	174.08, 175.05	62% retracement (190.20 and 148.00), Previous high Tuesday's high, Monday's high
	169.09, up 1.53 cents	170.00, 171.40, 171.80	
	<b>Support</b>	167.60, 167.20	Tuesday's low, Monday's low
RB	<b>Resistance</b>	159.24, 161.25, 163.25	Backfills gap, 62% retracement (175.75 and 137.80), Previous high Tuesday's high, Monday's high
	157.25, up 1.26 cents	158.90, 159.00	
	<b>Support</b>	156.20, 155.00	Tuesday's low, Monday's low
		152.00, 151.00	Previous lows

the session. It sold off to a low of 167.60 late in the day before it erased some of its losses ahead of the close. It settled up 1.53 cents at 169.09. The RBOB market also settled up 1.26 cents at 157.25 after it posted an inside trading day. The market posted a high of 158.90 on the opening and sold off to a low of 156.20 before settling in a sideways trading pattern. Volumes in the product markets were light with 35,939 lots booked in the heating oil market and 28,564 lots booked in the RBOB market.

Puts remained the dominant feature of the crude options market again today, accounting for over 64% of the volume and nearly 57% on a delta weighted basis. These percentages of the option market have not been seen since the middle of January. The June \$50, \$52 and \$56 puts accounted for nearly 38% of the total put volume on the day.

The oil complex on Wednesday is seen remaining supported ahead of the weekly petroleum stock reports. The reports are expected to show builds in crude stocks of 1 million barrels, draws in distillate stocks of 3 million barrels and builds in gasoline stocks of 1.5 million barrels. If the reports do show large draws in product stocks, the markets will continue to trend higher. The crude market is seen finding resistance at 59.00 followed by 59.99 and the 60.00 level. More distant resistance is seen at 60.39 followed by 61.20. Meanwhile support is seen at 58.55, 58.50 and 57.05. More distant support is seen at 55.75.