



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR FEBRUARY 6, 2008**

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Royal Dutch Shell confirmed it declared a force majeure on exports from Nigeria's Bonny Light oil terminal due to security concerns. It said it declared force majeure because of its inability to progress with repairs to a pipeline along the Nembe Creek trunkline.

The AAA said US gasoline prices could fall by 50 cents/gallon by the spring from

#### Market Watch

The DOE said the US would add 125,000 bpd of crude oil to the SPR between May and September 2008 through direct market purchases and transfers of royalty oil. US Energy Secretary Samuel Bodman defended the Bush administration's plans to add oil to the SPR. He said increasing the reserve with royalty oil did not affect prices in any meaningful way. On Monday, DOE Secretary Samuel Bodman announced plans to spend \$584 million to purchase oil for the Reserve by the end of September.

Two US Senators will seek to stop the Bush administration from adding to the SPR when oil prices are close to record highs by offering an amendment to the economic stimulus bill that would temporarily block such an action.

A group of rebels and activists from Nigeria's Niger Delta said they wanted to resume peace talks with the government. However the absence of a key faction of the Movement for the Emancipation of the Niger Delta would likely mean that violence would continue.

#### DOE Stocks

**Crude** – up 7 million barrels  
**Distillate** – up 100,000 barrels  
**Gasoline** – up 3.6 million barrels  
**Refinery runs** – down 0.7%, at 84.3%

Wednesday's \$2.98/gallon. It said gasoline demand fell due to high prices and fears of a recession amid the housing downturn.

#### Refinery News

The US Coast Guard said Houston Ship Channel operations returned to normal on Wednesday morning after

ship traffic was halted due to dense fog.

Gary-Williams said that an alkylation unit at its Wynnewood, Oklahoma refinery was still shut following a problem on February 1.

Valero Energy said a crude and coker unit at its Aruba refinery were restarted. The units were operating at reduced rates following a fire on January 25.

Iraq resumed pumping Kirkuk crude through its northern pipeline to the

#### **Feb Calendar Averages**

**CL** – 88.63  
**HO** – 244.94  
**RB** – 227.49

Turkish port of Ceyhan after pumping was halted on Monday due to a technical fault. The flow rate through the pipeline was about 480,000 bpd. Oil in storage at Ceyhan stood at 750,000 barrels early on Wednesday.

Iraq's oil exports in January increased by 140,000 bpd to 1.97 million bpd. In January, Iraq sold about 11 million barrels of Kirkuk crude, up from 6 million barrels during the previous month. Separately, Iraq has invited foreign oil companies to compete for tenders of oil extraction and service contracts.

Traders said Nigeria would buy 35 cargoes of gasoline and 11 of dual purpose kerosene via an import tender for delivery from March to April.

Turkey's Bosphorus and Dardanelles Straits were opened to ship traffic on Wednesday following a two day closure due to fog.

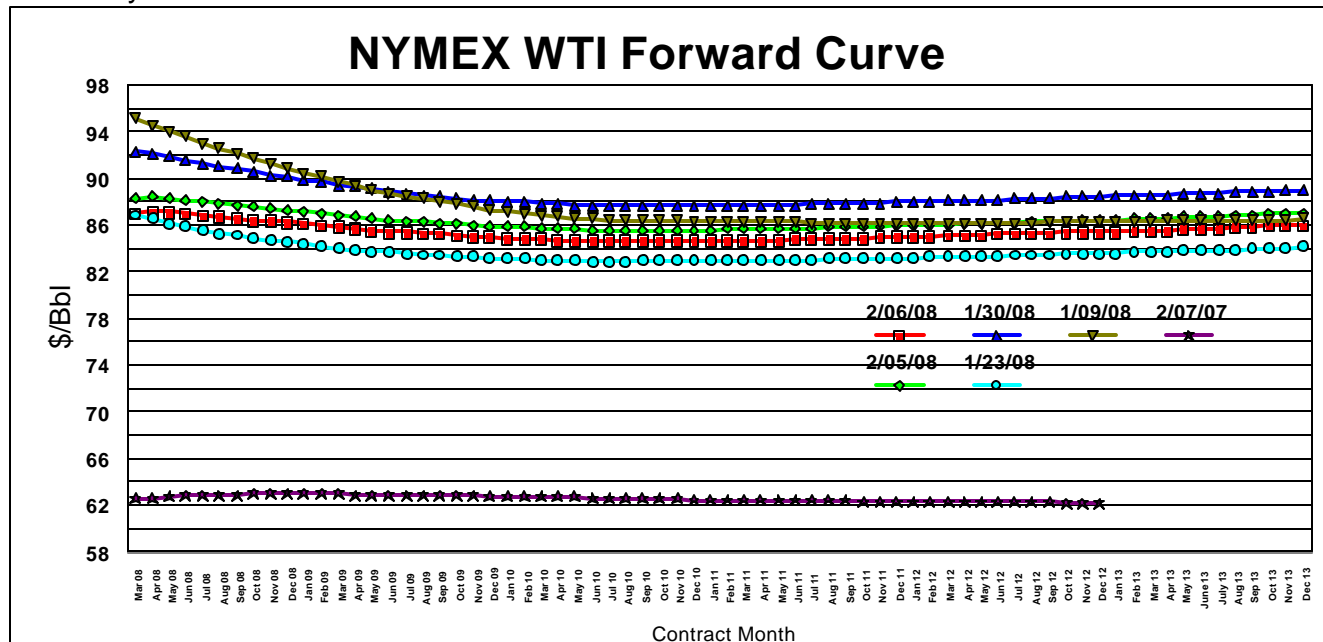
Japan's Cosmo Oil Co said it expected to cut its crude oil refining runs for the second consecutive month in February due to low domestic demand. It has not yet decided exactly how much it would cut its runs in February.

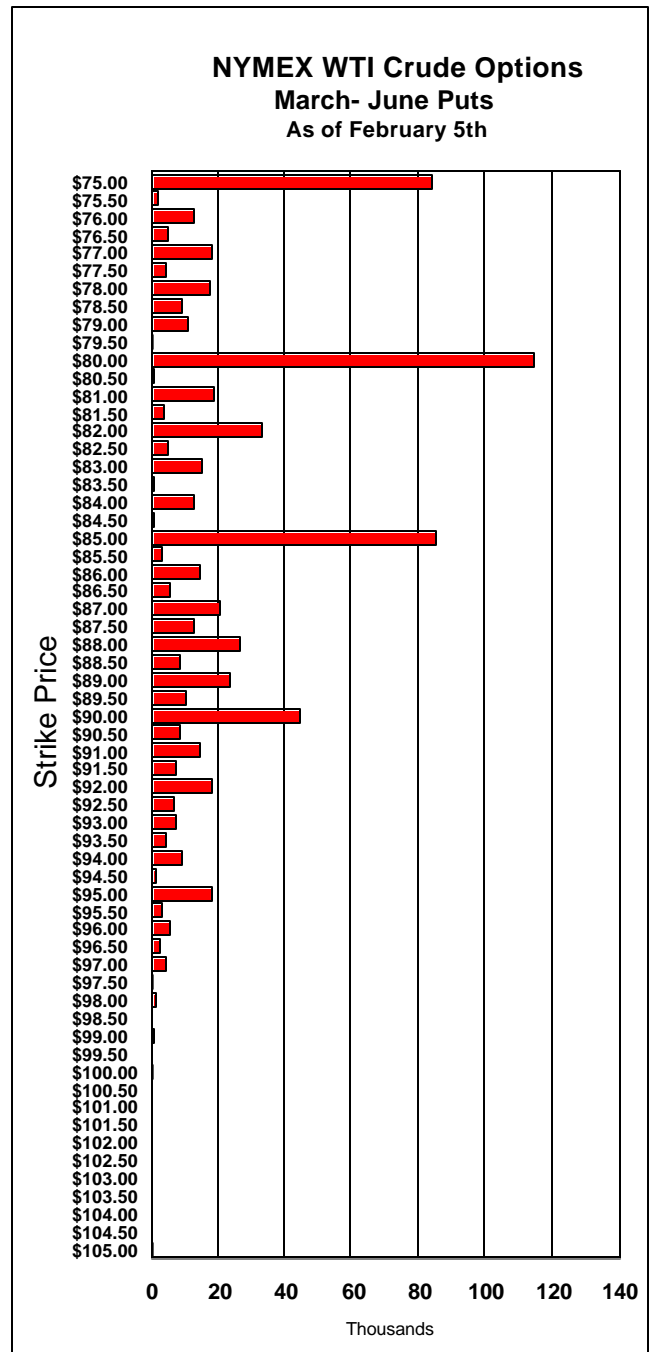
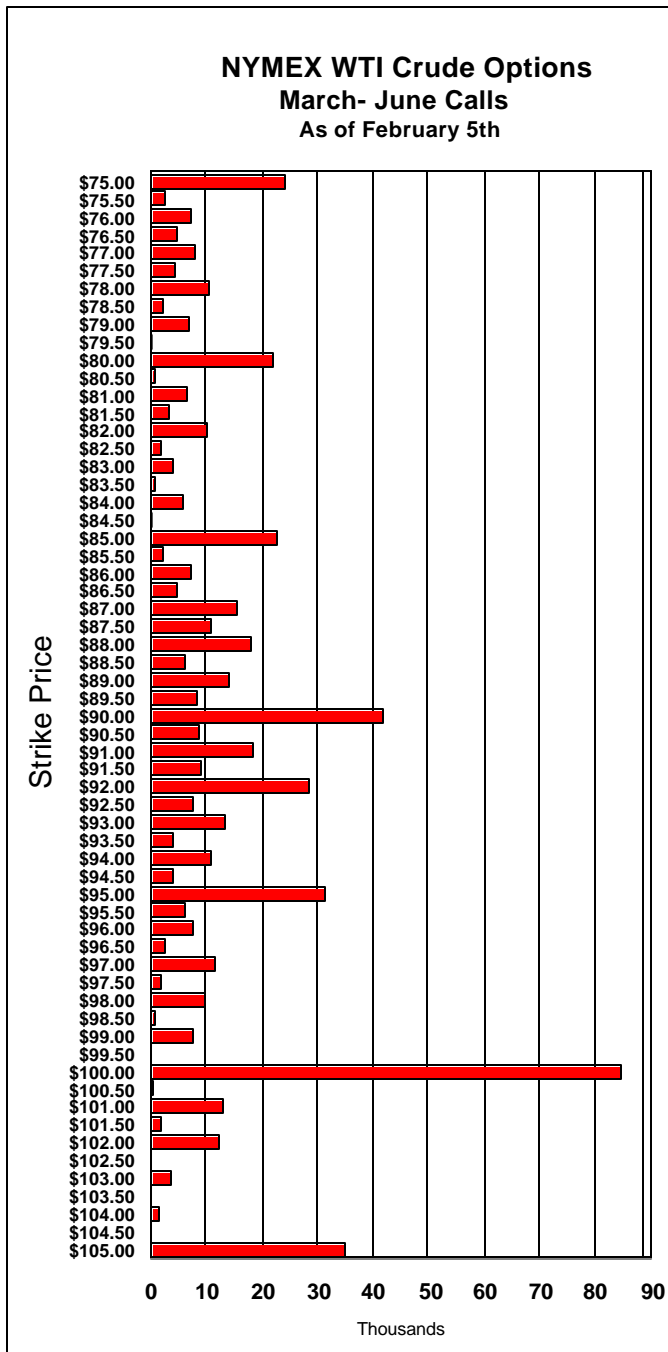
The Petroleum Association of Japan reported that Japan's crude oil stocks fell by 3.52 million barrels to 97.4 million barrels in the week ending February 2. Japanese refiners ran their facilities at an average 86.1% of total capacity of 4.9 million bpd, down from 88% the previous week. It reported that crude runs fell by 90,000 bpd to 4.22 million bpd. It also reported that gasoline stocks fell by 550,000 barrels to 13.43 million barrels while kerosene stocks fell by 2.75 million barrels to 20.43 million barrels while naphtha stocks increased by 480,000 barrels to 11.68 million barrels.

**Production News**

Total confirmed it halted oil and gas output from its Elgin/Franklin fields in the North Sea, shutting in about 280,000 bpd of oil equivalent. Production is expected to restart as soon as technical issues are resolved.

According to Bloomberg News, OPEC's oil production increased by 120,000 bpd to 32.12 million bpd in January.

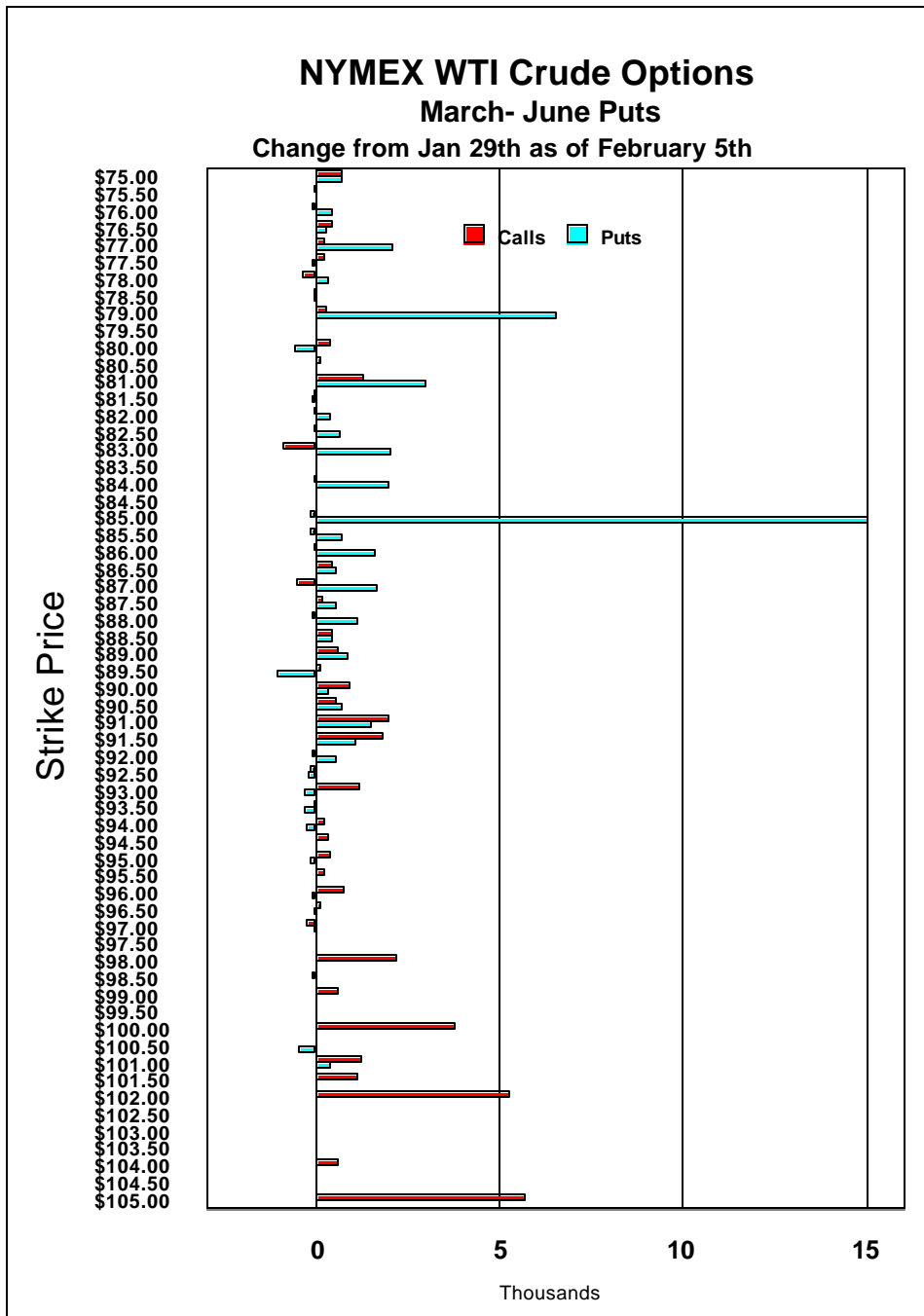




Canadian Oil Sands Trust said crude oil production has resumed at a rate of about 180,000 bpd after sub-zero weather froze instruments.

The Abu Dhabi National Oil Co said a small amount of oil leaked from an offshore oil terminal in the UAE on Monday. It said output and exports were not impacted.

Iran's Oil Minister Gholamhossein Nozari said the country's oil output reached 4.184 million bpd on Tuesday, the highest level seen since the 1979 Islamic revolution. He also reiterated that Iran's crude oil production would increase to 4.2 million bpd by the end of the Iranian year ending March 19.



Pemex regained access to four of five oilfields that were blocked by protesters on Tuesday. It said protests were continuing at its 8,400 bpd field. Protesters were blocking onshore oil wells and crude installations in Mexico's southern state of Tabasco. The protests were called by a former presidential candidate who is opposed to government attempts to increase private investment in parts of the state run sector.

The Norwegian Petroleum Directorate said Norway's oil production increased to 2.186 million bpd on average in January from a revised level of 2.168 million bpd in December.

ExxonMobil's Sakhalin-1 project, which reported peak production of 250,000 bpd early last year, is expected to cut production by over 25% this year.

Kazakhstan's President Nursultan Nazarbayev, in his annual state of the nation address, called on the state to play a more active role in energy matters.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$86.45/barrel on Tuesday from \$87.02/barrel on Monday.

An official at Cosan SA Industria e Comercio, the world's largest sugarcane processor, said Brazil planned to double its ethanol production within five years to meet rising biofuel requirements. He said Brazil would increase its ethanol production from 18 million cubic meters this year to 35 million cubic meters a year in the next five years. He said Brazil would double its ethanol production by using 2.5 million hectares of land for sugarcane production.

**NYMEX Petroleum Options Most Active Strikes for February 6, 2008**

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	4	8	P	80	03/14/2008	0.74	6,360	29.31
LO	5	8	C	102	04/17/2008	0.97	5,825	33.03
LO	6	8	P	75	05/15/2008	1	5,381	28.87
LO	12	8	C	95	11/17/2008	4.59	5,350	26.78
LO	12	8	C	90	11/17/2008	6.32	5,300	27.23
LO	3	8	P	79	02/14/2008	0.05	4,856	35.19
LO	3	8	P	85	02/14/2008	0.59	4,364	27.75
LO	4	8	P	85	03/14/2008	1.91	4,266	26.54
LO	3	8	P	80	02/14/2008	0.08	3,837	34.25
LO	3	8	C	88	02/14/2008	2.05	2,749	47.57
LO	12	10	C	57	11/16/2010	29.35	2,000	43.40
LO	5	8	P	80	04/17/2008	1.46	1,970	28.03
LO	3	8	P	88	02/14/2008	1.64	1,863	22.48
LO	3	8	P	87	02/14/2008	1.2	1,835	24.72
LO	6	8	P	85	05/15/2008	3.52	1,815	25.56
LO	3	8	C	92	02/14/2008	0.6	1,570	42.38
LO	4	8	C	88	03/14/2008	3.64	1,511	36.39
LO	3	8	P	81	02/14/2008	0.12	1,503	32.92
LO	9	8	C	87.5	08/15/2008	6.53	1,475	28.72
LO	9	8	P	87.5	08/15/2008	6.31	1,475	24.57
LO	3	8	C	91	02/14/2008	0.85	1,442	43.36
LO	5	8	P	83	04/17/2008	2.22	1,400	26.78
LO	12	8	P	65	11/17/2008	0.99	1,400	27.26
LO	12	8	P	87.5	11/17/2008	7.58	1,380	24.41
LO	5	8	C	81	04/17/2008	8.99	1,350	37.16
LO	3	8	C	76	02/14/2008	12.42	1,350	104.58
LO	12	8	C	87.5	11/17/2008	7.39	1,340	27.63
OB	3	8	P	1.95	02/26/2008	0.0029	712	34.30
OB	6	8	P	2.1	05/27/2008	0.0338	250	28.19
OB	4	8	C	3.25	03/26/2008	0.0011	220	35.07
OB	3	8	C	2.27	02/26/2008	0.068	201	39.18
OB	4	8	C	2.46	03/26/2008	0.0897	150	33.57
OB	3	8	C	2.3	02/26/2008	0.0555	105	38.84
OB	3	8	P	2.27	02/26/2008	0.0733	100	27.22
OB	4	8	P	2.32	03/26/2008	0.0611	100	27.78
OH	3	8	C	2.4	02/26/2008	0.0967	180	38.84
OH	4	8	P	2.2	03/26/2008	0.0244	110	27.69
OH	4	8	C	2.67	03/26/2008	0.0374	100	35.07
OH	3	8	P	2.45	02/26/2008	0.0736	100	25.03
OH	4	8	C	2.52	03/26/2008	0.0714	100	33.86

**Market Commentary**

Crude oil stocks experienced their biggest gain since March of 2004, building by 7 million barrels. Lower refinery runs coupled with rising imports helped to contribute to this greater than expected gain. Refinery runs are set at 14.5 million barrels per day, down 126,000, with imports up 458,000 barrels per day to 10.5 million barrels. The four-week average for imports is nearly 10.3 million barrels or 87,000 above the same four-week average for last year. At 300.0 million barrels, crude oil inventories are in the middle of the average range. Gasoline stocks increased by 3.6 million barrels, to 227.5 million barrels, their highest level since February 1999. Overall imports averaged 1.1 million barrels per day and are above the upper limit of the average range. Demand for gasoline is set at 9.0 million barrels per day, up 1% from last year. Once again this indicates a bearish outlook for the market and can be confirmed by the dipping front end of the forward crude curve. The March/April spread weakened once again settling on the day at minus

0.8. This is now the fifth straight day that the March crude oil contract has had a lower high with a lower low, further backing the bearish sentiment. Our opinion of this market remains bearish, once again looking for a test of the \$85.37 support level. The downward channel is now set at \$83.52 and \$79.40. The objective would be for prices to settle back into this channel and then ultimately test the bottom at \$79.40. Open interest in crude oil is 1,372,421 down 22,359, March08 332,364, down 26,933 and April08 137,012 up 8,390. Similar to the crude market, the product markets continued on their downward trend. The heating oil market remained pressured in light of the unexpected build reported in distillate stocks. The market, which posted a high of 246.56 early in the session, sold off sharply to a low of 241.24 following the release of the DOE report. It settled in a sideways trading

range during the remainder of the session and settled down 2.77 cents at 241.88. The RBOB market posted a high of 227.65 early in the session before it sold off to a low of 222.79 amid the losses in the rest of the complex. The market later retraced some of its losses and settled in a 2 cent trading range during the remainder of the session. It settled down 2.48 cents at 223.99. The products are still seen trading within their downward trend channels as they continue to post lower highs and lower lows. In the heating oil, support is seen at 241.24 followed by 240.84, 239.75 and 235.84 while resistance is seen at 242.50, 243.55, 245.24 and 246.56. More distant resistance is seen at 248.53, 250.25, 253.59,

254.22 and 255.49. In the RBOB, support is seen at 223.00, 222.79, 221.96, 220.35 and 217.33 while resistance is seen at 224.95, 226.00, 227.65 followed by 229.28, 230.98, 233.24, 236.00, 236.99 and 239.36.

		<b>Explanation</b>	
<b>CL</b>	<b>Resistance</b>	90.05, 92.60, 92.71, 94.05, 94.30, 95.75, 99.77, 100.15	Previous high, 50%(99.77&85.42), high, 62%, Previous highs
	<b>Support</b>	87.75, 88.55, 88.94	Wednesday's high
<b>HO</b>	<b>Resistance</b>	86.66	Wednesday's low
	<b>Support</b>	86.55, 86.17, 85.90, 85.37, 82.60	Basis trendline, Previous lows
<b>RB</b>	<b>Resistance</b>	248.53, 250.25, 253.59, 254.22, 255.49	Previous highs
	<b>Support</b>	242.50, 243.55, 245.24, 246.56	Basis trendline, Wednesday's high
<b>HO</b>	<b>Resistance</b>	241.24	Wednesday's low
	<b>Support</b>	240.84, 239.75, 235.84	Previous lows, Basis trendline
<b>RB</b>	<b>Resistance</b>	229.28, 230.98, 233.24, 236.00, 236.99, 239.36	Basis trendline, Previous highs
	<b>Support</b>	224.95, 226.00, 227.65	Wednesday's high
<b>HO</b>	<b>Resistance</b>	223.00, 222.79	Wednesday's low
	<b>Support</b>	221.96, 220.35, 217.33	Previous low, Basis trendline, Previous low

NYMEX crude oil options continue to attract interest in the \$85 and \$80 puts this afternoon as these strikes were some of the most active on the day with nearly 10,000 lots booked in the combined strike in just the first two months. While much has been made of the sizeable open interest in the \$80 puts in the first four contract months the open interest in these strikes has only changed slightly in the past week ( through the close of Tuesday), while the \$85 puts saw the largest gain in open interest during the period of 15,000 lots.