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## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta &  
Zachariah Yurch

**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

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### **ENERGY MARKET REPORT FOR FEBRUARY 8, 2007**

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White House spokesman, Tony Snow said President George W. Bush and his administration was not considering invading Iran. Iran's Supreme Leader Ayatollah Ali Khamenei said his country would target US interests if it came under attack. Meanwhile Iran's ambassador to the UN, Javad Zarif warned in a column in the New York Times that efforts to isolate Iran would backfire on the US, increasing sectarian tensions in the Middle East, including Iraq.

#### Market Watch

UBS launched a commodity index which would attempt to cut the losses from rolling forward futures contracts and would diversify risk by using contracts with longer maturities. Recent losses on index products were partly due to a negative roll yield. The persistent contango in the crude market was largely responsible for the Goldman Sachs Commodity Index's 15% year on year loss last year. The UBS Bloomberg Constant Maturity Commodity Index would look at seven different maturities between three months and five years. It would allocate 29.4% to agriculture, 32.9% to energy, 28.9% to industrial metals, 4.5% to precious metals and 4.3% to livestock.

Societe Generale said US farmers rushing to meet increasing ethanol demand may plant between 9 million and 12 million more acres of corn this year than in 2006. US farmland planted with corn could reach between 87 million and 90 million acres in 2007 as farmers switch from crops like soy and wheat.

According to Lloyd's Marine Intelligence Unit, OPEC's total exports, including Iraq and excluding Angola, in January averaged 22.6 million bpd, down from 22.8 million bpd in December and down from 24.1 million bpd in November. Exports from the 11 OPEC members, totaled 24.64 million bpd in the week ending February 4, down from 25.98 million bpd in the week ending January 28. It said Saudi Arabia remained the main driver of the cuts in January while Kuwait and Iraq also showed significant cuts in exports.

An official at Nigeria National Petroleum Corp said Nigeria has cut volume of crude loadings for February and March, in compliance with the decision by OPEC to cut its production. He said Nigeria cut its exports by 250,000 bpd in February and by 300,000 bpd in March.

Oil Movements reported that OPEC's oil exports are expected to fall by 120,000 bpd to 24.32 million bpd in the four weeks ending February 24, down from 24.44 million bpd in the four week ending January 27. It said the latest cuts were mainly due to a seasonal decline in demand.

US Energy Secretary Sam Bodman said adding crude to the US SPR would have little impact on prices during a House Energy and Commerce Committee hearing on the Energy Department's proposed budget for the 2008 spending year. The Energy Department has stated that it planned to buy about 11 million barrels of oil for the SPR this spring.

**Refinery News**

ConocoPhillips shut unit 22 at its 146,000 bpd Borger, Texas refinery on Thursday for a seven day maintenance period.

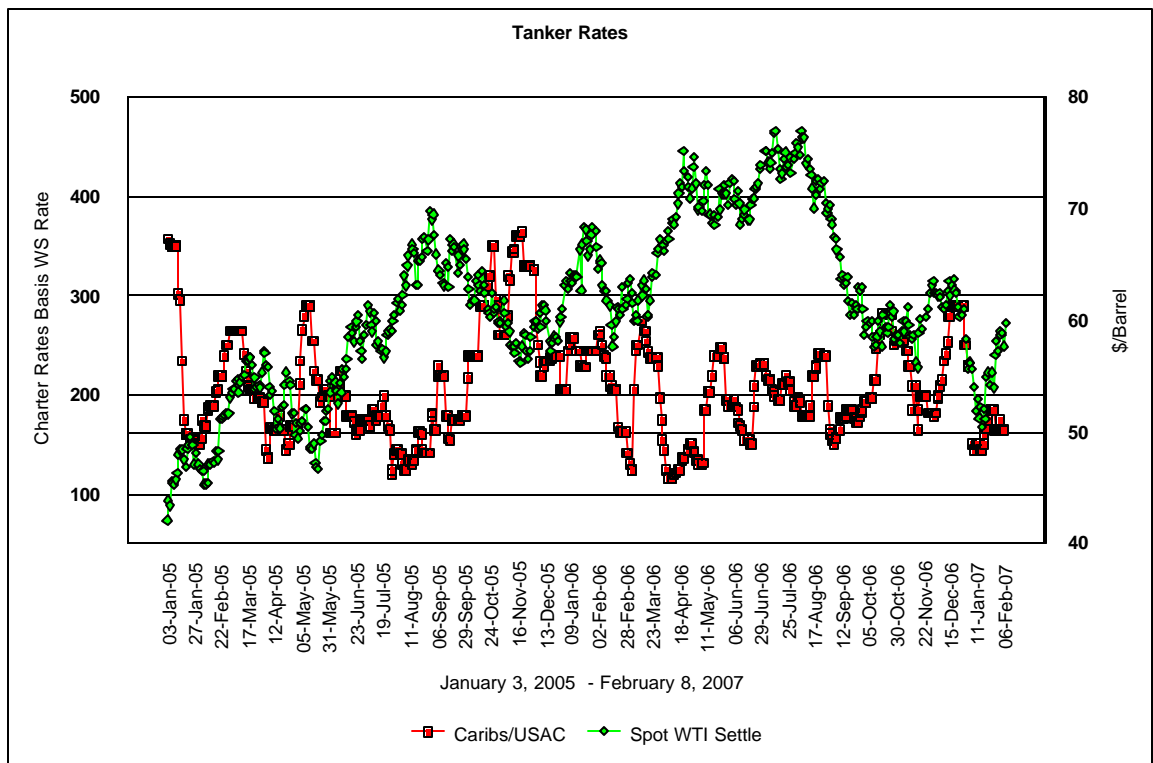
Valero Energy Corp said it did not expect to delay the restart of a fluid catalytic cracking unit and crude distillation unit at its Texas City, Texas refinery. It shut the units January 28 for three weeks of repairs following a fire.

Refined products exports from Russia's Baltic Sea port of St. Petersburg increased in January by 16.4% on the year to 932,000 tons due to warm weather. Its fuel oil exports totaled 669,000 tons while its diesel exports totaled 263,000 tons.

Gas oil stocks in independent storage in the Amsterdam-Rotterdam-Antwerp area increased by 39,000 tons on the week to 2.117 million tons in the week ending February 8. Gasoline stocks in the ARA area however fell by 26,000 tons to 789,000 tons while fuel oil stocks also fell by 28,000 tons to 695,000 tons on the week. Naphtha stocks in the ARA area increased by 10,000 tons to 86,000 tons while jet fuel stocks increased by 5,000 tons to 360,000 tons on the week.

Singapore's International Enterprise stated that the country's residual fuel stocks fell by 691,000 barrels to 9.675 million barrels in the week ending February 8. It reported that Singapore's light distillate stocks built by 272,000 barrels to 9.221 million barrels while middle distillate stocks fell by 62,000 barrels to 7.912 million barrels on the week.

The first phase of Singapore's underground oil storage project is expected to be ready in four years, up to two years later than planned. Officials stated that the oil storage caverns would be for commercial rather than strategic use. Phase one would have a capacity of 9.2 million barrels. A second phase that could have a capacity of



about 8.1 million barrels remained under consideration. If both phases were completed, the project could increase storage capacity in Singapore to almost 70 million barrels.

#### **NYMEX Petroleum Options Most Active Strikes for February 8, 2007**

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	6	7	P	50	05/17/2007	0.71	11,598	36.84
LO	6	7	P	53	05/17/2007	1.23	5,777	36.08
LO	7	7	P	57	06/15/2007	2.55	4,675	34.10
LO	6	7	C	60	05/17/2007	5.1	3,818	34.39
LO	8	7	P	60	07/17/2007	3.92	3,375	32.71
LO	6	7	P	47	05/17/2007	0.39	2,995	37.86
LO	9	7	P	58	08/16/2007	3.19	2,950	31.61
LO	5	7	P	58	04/17/2007	2.2	2,665	34.97
LO	4	7	P	48	03/15/2007	0.08	2,173	39.89
LO	4	7	C	68	03/15/2007	0.54	2,148	36.28
LO	3	7	C	64	02/14/2007	0.11	2,100	38.47
LO	3	7	C	62	02/14/2007	0.38	1,984	38.28
LO	3	7	P	55	02/14/2007	0.07	1,685	40.26
LO	3	7	C	61	02/14/2007	0.65	1,660	38.42
LO	3	7	C	59	02/14/2007	1.56	1,444	38.64
LO	12	7	C	80	11/13/2007	1.68	1,402	28.47
LO	12	7	C	63	11/13/2007	6.6	1,400	29.47
LO	2	8	P	62.5	01/16/2008	5.5	1,350	28.10
LO	2	8	C	62.5	01/16/2008	7.4	1,350	28.43
LO	3	7	P	45	02/14/2007	0.01	1,350	86.75
LO	3	7	P	57	02/14/2007	0.28	1,320	39.13
LO	7	7	C	61	06/15/2007	5.31	1,276	33.50
LO	7	7	P	59	06/15/2007	3.29	1,276	33.77
LO	3	7	P	58	02/14/2007	0.51	1,245	38.96
LO	1	8	P	60	12/13/2007	4.34	1,200	28.88
LO	5	7	P	51	04/17/2007	0.55	1,164	36.76
LO	5	7	C	65	04/17/2007	2.08	1,158	34.40
LO	3	7	P	56	02/14/2007	0.14	1,157	39.28
LO	7	7	P	53	06/15/2007	1.43	1,150	34.83
LO	4	7	P	55	03/15/2007	0.78	1,031	37.45
LO	3	7	P	77.5	02/14/2007	17.79	1,000	86.36
LO	3	7	P	75	02/14/2007	15.29	1,000	75.52
LO	3	7	P	53	02/14/2007	0.01	1,000	40.11
LO	7	7	P	58	06/15/2007	2.9	1,000	33.90
OB	7	7	C	2	06/26/2007	0.0695	50	32.86
OB	7	7	P	1.6	06/26/2007	0.0552	50	31.86
OB	7	7	C	1.82	06/26/2007	0.1226	30	31.22
OB	7	7	C	1.88	06/26/2007	0.1015	30	31.76
OH	3	7	C	1.9	02/23/2007	0.0081	2,101	39.68
OH	3	7	P	1.45	02/23/2007	0.0008	2,100	40.61
OH	6	7	P	1.5	05/25/2007	0.0366	500	33.34
OH	6	7	C	1.85	05/25/2007	0.0698	500	33.15
OH	4	7	C	2.37	03/27/2007	0.0017	300	41.84
OH	3	7	P	1.76	02/23/2007	0.0748	200	39.61
OH	4	7	C	1.9	03/27/2007	0.0334	100	38.22
OH	5	7	P	1.73	04/25/2007	0.114	100	34.53
OH	5	7	C	2.32	04/25/2007	0.006	100	38.53

#### **Production News**

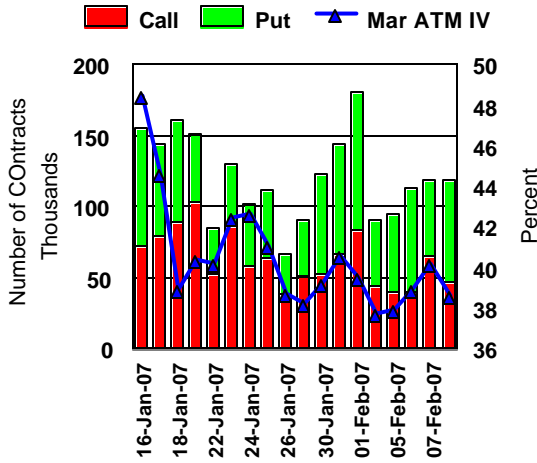
Occidental Petroleum Corp declared force majeure on oil and gas supplies from its Elk Hills, California field following a fire on Tuesday. An Occidental spokesman said 95% of its output has been shutin. It produces about 120,000 barrels of oil equivalent/day, of which 60% is liquids.

The UK North Sea Forties crude system is set to load 561,000 bpd in March, up from 536,000 bpd in February.

Norsk Hydro's Oseberg oilfield in Norway is scheduled to undergo maintenance in March. The Oseberg crude system is scheduled to load 193,000 bpd in March, down from 249,000 bpd the previous month.

Azerbaijan's crude oil production increased by 62.4% year on year in January to 3.46 million tons or 818,100 bpd compared with 2.13 million tons or 504,000 bpd last year. The BP-led group said its output from the Chirag and Azeri oilfields increased to 2.699 million tons or 638,000 bpd in January 2007 from 1.373 million tons or 325,000 bpd a year ago. Azerbaijan's Socar said its production increased to 759,000 tons or 180,000 bpd in January from 755,000 tons or 179,000 bpd last year.

### NYMEX WTI Option Volume Vs March ATM IV



Total said it and Sociedade Nacional de Combustiveis de Angola made two new oil discoveries in Block 32 in the ultra deep waters off Angola. It said complementary technical studies were being carried out to fully evaluate the drilling results. The Manjeric well tested more than 5,000 bpd while the Caril-1 well produced at a rate of 6,300 bpd. Angola's oil production is expected to reach at least 2 million bpd by 2008 as new fields come onstream.

Britain's Trade and Industry Secretary, Alistair Darling urged Russia to respect the sanctity of foreign investments. He raised concerns over BP's and Shell's Russian ventures during talks with Russia's finance, economy and energy ministers. He said investors were worried that Shell was forced to cede control of the Sakhalin-2 project to Gazprom.

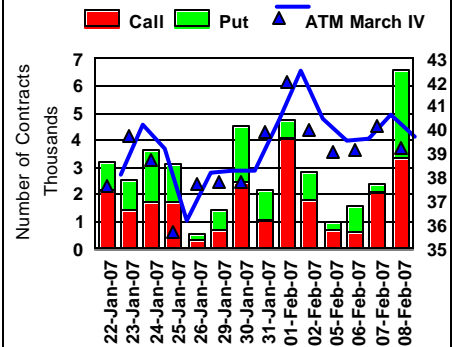
Petroecuador exported 184,317 bpd of oil in January, down 10.2% from 205,426 bpd in December.

OPEC's news agency reported that OPEC's basket of crudes fell to \$54.29/barrel on Wednesday from \$54.58/barrel on Tuesday.

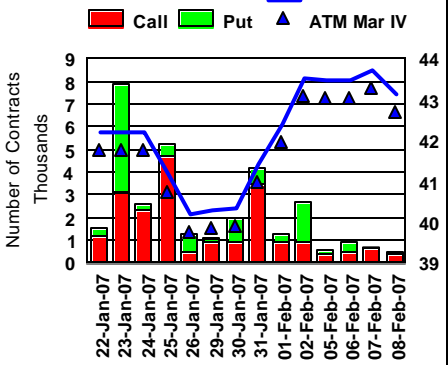
### Market Commentary

The oil market opened relatively unchanged and quickly posted a low 57.50. The market retraced its losses and settled in a sideways trading range for much of the day as it traded in a range from 57.50 to 58.45. The crude market however breached its resistance and extended its gains to over \$2.00 as it posted a high of 59.80 ahead of the close. The market was supported in light of reports that Occidental Petroleum Corps declared a force majeure

### NYMEX Heat Options Daily Traded Volume Vs ATM IV



### NYMEX RBOB Options Daily Traded Volume Vs ATM IV



on its oil and gas supplies from the Elk Hills crude and natural gas field following a fire on Tuesday. The market settled up \$2.00 at 59.71. Volume in the crude market was good with 366,079 contracts traded on Globex during the open outcry session. The heating oil market also posted a low of 166.50 on the opening and traded mostly sideways after it traded to 168.75. The market however breached its early high and rallied over 6.3 cents to a high of 172.95 ahead of the close. It settled up 5.89 cents at 172.50. Similarly, the RBOB market also rallied to a high of 160.00 ahead of the close amid the strength in the oil market after it traded in a range of 153.80 to 156.25. It settled up 5.18 cents at 159.33. Volumes in the product markets were good with 50,781 lots booked in the heating oil market and 37,606 lots in the RBOB market.

Once again the June out of the money puts were the most active strikes again today, as interest in the \$50 put traded nearly 11,600 times at 90cents despite finishing the day down at 71 cents, give the flat price rally at the end of the day. Despite the intraday price action, IV's settled lower on the day.

The oil market, which failed to test its resistance at the 60.00 level once again despite its strength late in the session, is seen retracing its

Technical levels		
	Levels	Explanation
<b>CL</b> 59.71, up \$2	<b>Resistance</b> 59.84, 59.99, 60.00, 61.20	Previous highs
	<b>Support</b> 58.00, 57.50	Thursday's high
<b>HO</b> 172.50, up 5.89 cents	<b>Resistance</b> 175.05	Thursday's low
	<b>Support</b> 172.95	Previous lows, 38% (51.20 and 59.99), Previous low, 50%
<b>RB</b> 159.33, up 5.18 cents	<b>Resistance</b> 170.00, 166.50	Previous high
	<b>Support</b> 165.60, 164.00, 163.42	Thursday's high
<b>RB</b> 159.33, up 5.18 cents	<b>Resistance</b> 163.25	Thursday's low
	<b>Support</b> 160.00	Previous lows, 38% (148.00 and 172.95)
<b>RB</b> 159.33, up 5.18 cents	<b>Resistance</b> 156.25, 153.80	Previous high
	<b>Support</b> 152.75, 152.00, 151.52	Thursday's high
		Thursday's low
		Previous lows, 38% retracement (137.80 and 160.00)

gains. Technically, the market still looks overbought as it continues to trend towards the 60.00 level. The market is seen finding support at 58.00 followed by its low of 57.50. More distant support is seen at 57.25, 57.05 and 56.63. Resistance is seen at its high of 59.80-59.84 followed by the 60.00 level. However if the market does breach its resistance, more distant resistance is seen at 61.20.