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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR FEBRUARY 9, 2007**

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An official at Nigeria National Petroleum Corp confirmed that it would cut crude loading volumes for February and declared a force majeure. NNPC said the export program had been revised lower in line with government directives to reduce crude oil exports by 250,000 bpd in February. Earlier, the official said some oil companies operating in Nigeria may declare force majeure at loading terminals to enable them to accommodate planned production cuts for February and March. Separately, a source at an oil company said Nigeria has asked international oil companies to cut oil production by 370,000 bpd in February and by 260,000 bpd in March.

#### **Market Watch**

The US House of Representatives on Thursday approved legislation to promote the development of alternative biofuels and create the infrastructure to handle the supplies. The bill would require the government to carry out research to make alternative biobased fuels compatible with existing infrastructure to store and deliver the fuels to the point of final sale. The government would research ways to prevent or limit the damage from biofuels in corroding pipelines and storage tanks, clogging filters and producing more emissions from higher evaporation rates. The Environmental Protection Agency would be given \$10 million to conduct the research and demonstration projects.

US Energy Secretary Sam Bodman said the Bush administration would continue to oppose a mandatory cap on the total amount of greenhouse gas emissions emitted by the US. However he said he would work with Congress to craft a bill to fight global warming. He said President George W. Bush believed global warming was a serious problem but added that the administration would be against imposing a hard limit on emissions from the US market. Meanwhile, the House Energy and Commerce Committee has been working to finish a global warming bill by June 1 and is scheduled to hold two hearings on the matter next week.

According to Euroilstock, total oil and oil product stocks fell by 4.41 million barrels to 1.152 billion barrels in January. However Euroilstock would have reported a build of 6.84 million barrels if stock levels for December had not been revised upwards. Crude stocks fell by 14.02 million barrels to 473.84 million barrels in January. Crude stocks however would have declined by 10.3 million barrels if December's stock level was not revised upwards. It also reported that European gasoline stocks in January fell by 13.62 million barrels or 9% on the year but increased by 2.64 million barrels or 2% on the month to 136.94 million barrels. However if gasoline stocks for December were not revised upwards, Euroilstock would have reported a build of 5.61 million barrels on the week. Middle distillate stocks built by 4.2 million barrels to 393.38 million barrels. It is up 1.21 million barrels on the year.

Euroilstock would have reported a larger build of 7.95 million barrels if the December stock level was not revised upwards.

**Refinery News**

ExxonMobil Corp is scheduled to shut units at its 150,000 bpd refinery in Torrance, California for a two month maintenance period starting this weekend. The refinery's hydrogen plant, hydrotreater and sulfur recovery unit are scheduled to undergo maintenance.

Operations were normal at Shell Oil Co's 100,000 bpd refinery in Wilmington, California after four workers were injured while working on an electrical substation. Refinery operations were not affected due to the incident.

Russia's Lukoil said it would invest \$800 million in its refineries in 2007 as part of its strategy to refine all of its output at its own plants.

Russia's Angarsk refinery said it planned to increase processing by 7.7% in 2007 to 187,869 bpd from 174,454 bpd in 2006. The refinery said it produced 2.096 million tons of gasoline in 2006. It also produced 2.458 million tons of diesel, 1.587 million tons of fuel oil and 532,829 tons of jet kerosene in 2006.

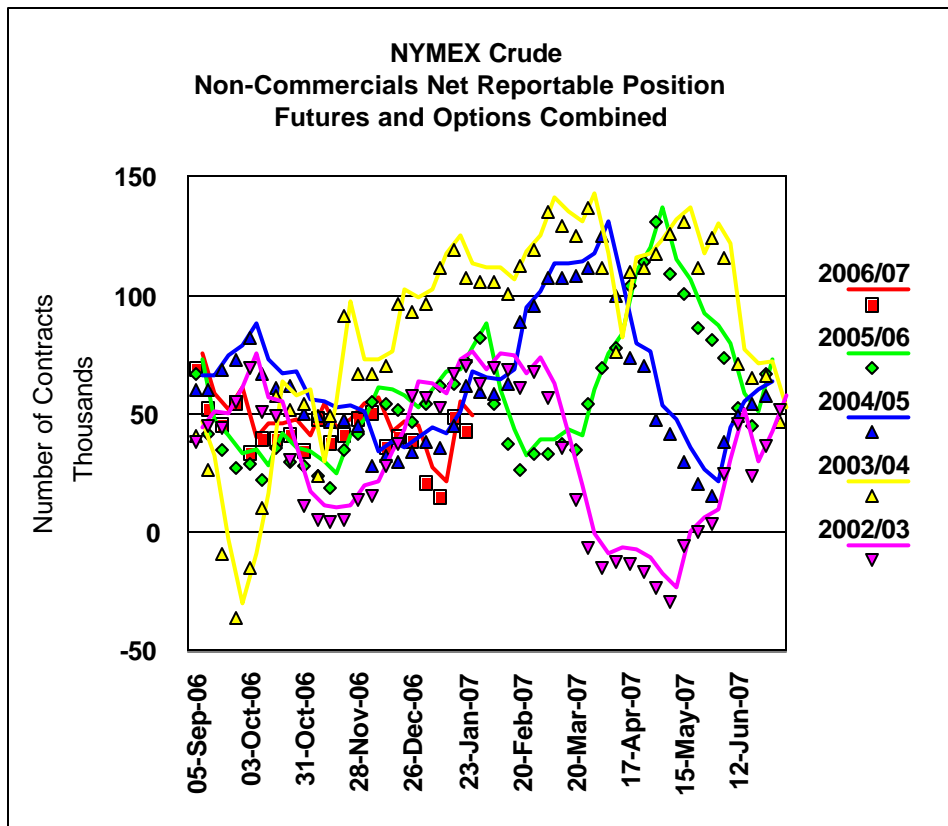
**Production News**

Chevron said it hoped to restore more of its shut-in production in Nigeria's Niger Delta after successfully restarting 13,000 bpd at the Makaraba flowstation. The Makaraba flowstation was shutdown about a year ago following a leak in a pipeline carrying oil to the Escravos tank farm.

Britain's North Sea Flotta crude oil system is scheduled to load about 63,000 bpd in March, down 7,000 bpd on the month.

Norway's North Sea Gullfaks crude oil system is expected to pump 331,000 bpd in March, up from 305,000 bpd in February. Meanwhile, Norway's North Sea Statfjord crude system is scheduled to load about 276,000 bpd in March. Norway's North Sea Troll oil system is expected to load 228,000 bpd in March, down from 243,000 bpd in February.

Canada's National Energy Board said the country's oil production would grow by 9% this year to 2.89 million bpd due to increasing production from the



Alberta oil sands and offshore oil projects.

PIW reported that the inspector general to the US Congress said that despite several US backed capital projects in Iraq's oil sector due for completion this year, there is little prospect for much improvement in production and export levels. He cited the repeated attacks on pipeline and installations, the loss of oil ministry talent, failure to provide adequate funding for operations and maintenance and the steady growth of corruption through the smuggling of oil products and the over or underreporting of oil flows. He reiterated an earlier warning that any gains from rehabilitation would be overtaken by losses due to a lack of maintenance and replacement of essential parts, materials and equipment. He also warned of Iraq's over reliance on the Basrah oil terminal. Iraq's production increased to 2.12 million bpd in 2006 however it was short of the 2.68 million bpd goal.

The head of the National Iranian Oil Co, Gholamhossein Nozari said 90 foreign firms had shown an interest in 17 new onshore and offshore blocks that were offered to investors earlier this month. The US has frowned on deals that Asian and European oil companies have signed with Iran as it seeks to punish Iran for working on nuclear enrichment.

OPEC's news agency reported that OPEC's basket of crudes fell by 77 cents/barrel to \$53.52/barrel on Thursday.

### Market Commentary

The oil market, which traded above the 60.00 level in overnight trading on Globex, opened slightly lower at 59.65 and traded to 60.30 early in the session. The market remained supported by the news that Occidental Petroleum declared force majeure on its supplies from the Elk Hills, California field. The market was also supported by the news that some oil companies operating in Nigeria would declare force majeure at loading terminals to enable them to accommodate planned production cuts for February and March. The market however retraced its gains and traded to 59.50. The crude market later bounced off its low and rallied to a high of 60.80. However the market just as quickly erased its gains and posted a low of 59.40 before it retraced some of its losses ahead of the close. It settled up 18 cents at 59.89. Volume in the crude market was good with over 388,000 lots booked on Globex. Similarly, the heating oil market traded to 173.90 early the session before it gave up its gains and traded to 171.80 before settling in a sideways trading range. The market later breached its earlier high and posted a high of 174.20 before it sold off to a low of 171.00. The heating oil market retraced its losses and settled up just 1 point at 172.51. The RBOB market also traded to 159.50 late in the session before it settled up 2.15 cents at 161.48. Volumes in the product markets were good with 49,577 lots booked in the heating oil market and 40,325 lots booked in the RBOB market.

The Commitment of Traders report showed that non-commercials in the crude market increased their net short positions by 6,982

Technical levels			
		Levels	Explanation
CL	Resistance	61.20, 62.03, 62.20	Previous highs
	59.89, up 18 cents	60.80	Friday's high
	Support	59.40	Friday's low
		57.50, 57.25, 57.13, 57.05	Previous lows, 38% (51.20 and 60.80), Previous low
HO	Resistance	175.05, 178.25	Previous highs
	172.51, up 1 point	174.20	Friday's high
	Support	171.00	Friday's low
		166.50, 165.60	Previous lows
RB	Resistance	165.00	Previous high
	161.48, up 2.15 cents	163.25	Double top
	Support	159.50	Friday's low
		153.80, 153.53, 152.75	Previous low, 38% retracement (137.80 and 163.25), Previous low

contracts to 21,324 contracts in the week ending February 6<sup>th</sup> as the market continued to fail to test the 60.00 level. The combined futures and option report showed that non-commercials cut their net long positions by 12,115 contracts to 30,829 contracts on the week. The non-commercials in the heating oil market cut its net short positions by 1,341 contracts to a net short position of 7,960 contracts while non-commercials in the RBOB market increased their net long position by 1,443 contracts to 17,020 contracts.

The crude market is seen retracing Friday's gains after it traded above the 60.00 level but settled off its highs. The market is also seen retracing its gains following the news that Occidental is expected to restart operations at its Elk Hills field in the next few days. The crude market is seen finding resistance at its high of 60.00 followed by its high of 60.80. More distant resistance is seen at 61.20. The market is seen finding support at its low of 59.40 followed by more distant support at 57.50, 57.25, 57.13 and 57.05.