



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR FEBRUARY 12, 2007

Saudi Arabia's Oil Minister Ali al-Naimi said he could not predict with certainty what OPEC would decide but said if the trend remains unchanged with the market moving closer to balance, there may not be any reason to change its production level. Saudi Arabia's oil production stood at 8.5 million bpd to 8.6 million bpd. Meanwhile, Qatar's Oil Minister Abdullah al-Attiyah said barring any unforeseen events, he was confident that OPEC would not change its output at its March meeting. OPEC ministers from Kuwait, Nigeria and Algeria have already said they see no need for further OPEC supply cuts.

Market Watch

US Energy Secretary Sam Bodman is scheduled to travel to Mississippi this week to officially approve a new site for the country's emergency oil stockpile. The Energy Department in December selected a group of salt domes in Mississippi to hold about 160 million barrels of oil as part of the government's plan to expand the SPR.

The National Weather Service stated that US heating demand was expected to be about 18% above normal this week. Demand for heating oil was expected to average more than 19% above normal.

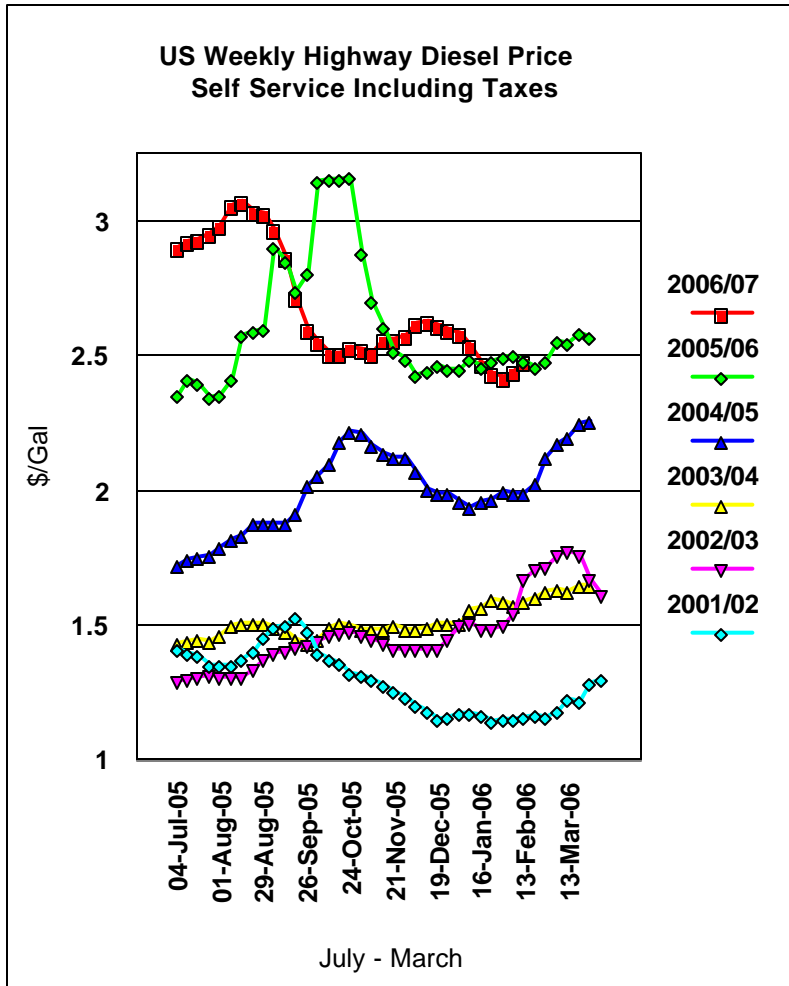
DTN Meteorologix predicted that heating demand in the Northeast would average well above normal during the next five days.

The ICE announced that physical delivery against the expired ICE February gas oil futures contract increased to 1,180 lots or 118,000 tons, up from 64,000 tons in January.

OPEC's head of research, Hasam Qabazard said he saw no need for OPEC to cut oil production at its next meeting in March. He said he expected no more than average stockbuild in the second quarter of 300,000-400,000 bpd. Separately, a senior official said there was no pact among OPEC countries for a moratorium on new member Angola's contribution to future agreed production changes. Angola's production stood at 1.5 million bpd.

The IEA's executive director Claude Mandil said that OPEC's effective spare capacity stood at 2.5 million bpd. He stated that the industry needed to invest massively to maintain this spare capacity.

Russia's President Vladimir Putin said he believed the market, not politics, should determine energy prices. He said Russia was aiming for transparent conditions. In regards to Iran, Russia's President said he failed to understand why Iran had not answered all the UN's IAEA's questions about its nuclear



program. The UN's IAEA has repeatedly urged Iran to answer questions about its uranium enrichment program and other activities.

Iran's ambassador to the UN, Javad Zarif said the US was trying to fabricate Iran's involvement in attacks on US troops in Iraq. He said Iran had no interest in providing weapons to any insurgent group in Iraq.

The Washington Times reported that leaders of Sunni Arab states are starting to spend billions of dollars of oil revenue to purchase military equipment in an attempt to contain the growing threat from Iran. It reported that Saudi Arabia alone had a shopping list of \$50 billion for fighter aircraft, cruise missiles, attack helicopters and more than 300 new tanks. The UAE has also earmarked \$2 billion for a rapid reaction brigade and an additional \$6 billion would be spent on missile defense batteries, airborne early warning systems and aircraft. The two countries are members of the Gulf Cooperation Council while other members, including Kuwait, Bahrain and Qatar are

expected to spend heavily in the coming months. Meanwhile, Iran's President Mahmoud Ahmadinejad insisted that Iran would not give up its uranium enrichment program. He also promised to announce Iran's atomic progress in the next two months.

The Washington Post reported that Iran's top nuclear negotiator, Ali Larijani said Iran had no intention of aggression against any country adding that Iran posed not threat to Israel. He also stated that Iran was willing to resume negotiations. He said Iran has made recent progress in its nuclear development but did not give specifics. US and European officials expressed doubts about the sincerity of Iran's stated willingness to talk.

According to the Lundberg survey, the US average price of gasoline was \$2.22/gallon during the past three weeks. It is up 3.63 cent from January 19.

Two Saudi border policemen were wounded in a clash with gunmen who opened fire at security forces while trying to enter Yemen on Monday.

The EIA reported that the US average retail price of diesel increased by 4.1 cents/gallon to \$2.476/gallon in the week ending February 12. It also reported that the US average retail price of gasoline increased by 5 cents to \$2.241/gallon on the week.

Refinery News

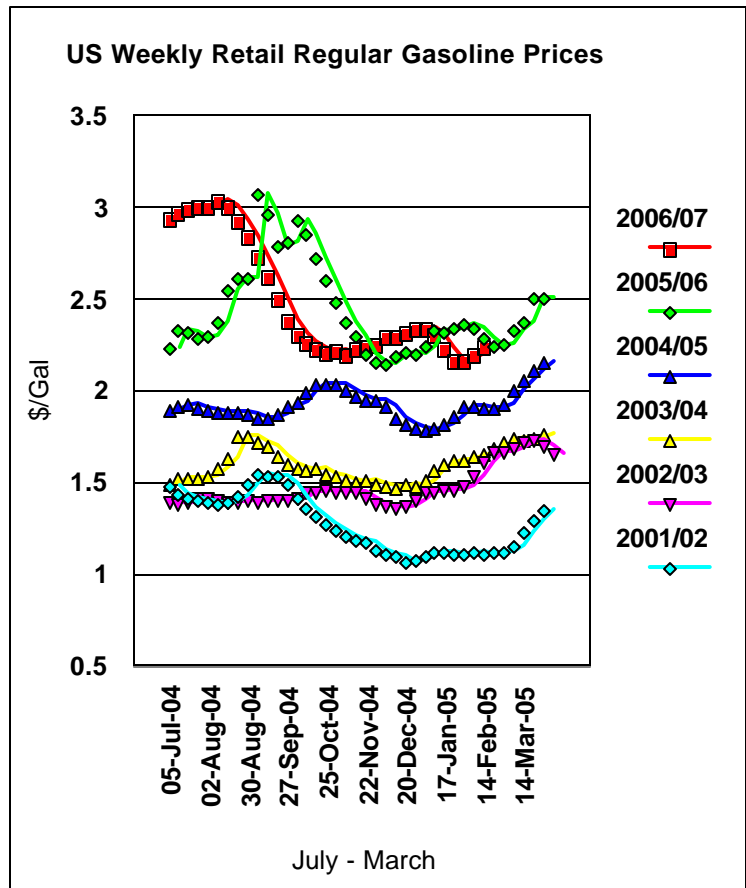
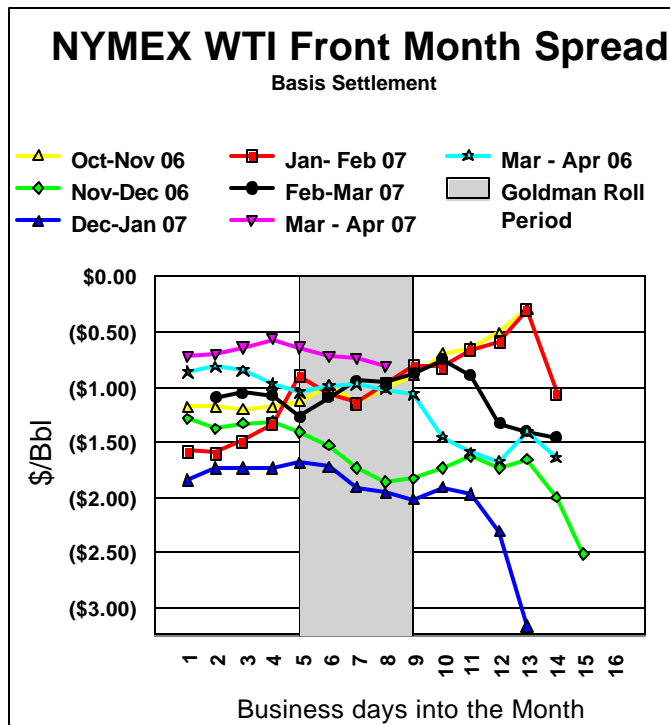
Colonial Pipeline has extended shipping allocations on its main distillates line north of Collins, Mississippi to the 11th cycle of the year because demand for space has exceeded the pipeline's capacity. It previously froze nominations on cycles 8 and 9 and allocated nominations on the 10th cycle.

Citgo Petroleum Corp was restarting fluid catalytic cracking unit No. 2 on Monday at the east plant of its 156,000 bpd Corpus Christi, Texas refining complex. The catalytic cracking unit was shut on Wednesday for repairs.

Shell Oil Co said operations at its 156,000 bpd refinery in Martinez, California returned to normal on Sunday following emergency flaring on Friday.

A hydrocracker unit at Valero Energy Corp's refinery in Delaware City, Delaware suffered a fire on Monday. It reported that it had no material impact on production.

ConocoPhillips Corp restarted its 190,000 bpd Trainer refinery on Sunday after it was shut on Friday due to a propane gas leak.



Gaoqiao Petrochemical Corp shut a 800,000 ton per year catalytic cracker due to technical problem. The unit was shut on Friday and is expected to need about 10 days to be repaired.

Kuwait National Petroleum Co said its plan to build a 615,000 bpd refinery by 2010 has hit a snag as international firms have proposed much higher prices than expected to carry out the work. The planned complex would produce low sulfur fuel oil for the country's electricity plants.

China imported 3.22 million bpd of crude oil in January. China's General Administration of Customs reported that China imported 13.69 million tons of crude, taking advantage of the lower oil prices and as refiners built up stocks ahead of the Lunar New Year holiday. It also reported that net imports of refined oil products, excluding liquefied petroleum gas, increased by 88% on the month to 1.84 million tons.

NYMEX Petroleum Options Most Active Strikes for February 12, 2007

| Symbol | Month | Year | Call/Put | Strike | Exp Date | Settle | Volume | IV |
|--------|-------|------|----------|--------|------------|--------|--------|-------|
| LO | 6 | 7 | C | 100 | 05/17/2007 | 0.05 | 6,250 | 42.65 |
| LO | 3 | 7 | P | 55 | 02/14/2007 | 0.08 | 4,230 | 49.10 |
| LO | 3 | 7 | P | 57 | 02/14/2007 | 0.47 | 4,178 | 47.88 |
| LO | 4 | 7 | P | 55 | 03/15/2007 | 1.18 | 3,955 | 39.57 |
| LO | 3 | 7 | C | 60 | 02/14/2007 | 0.16 | 3,571 | 48.07 |
| LO | 3 | 7 | P | 58 | 02/14/2007 | 0.91 | 3,302 | 47.48 |
| LO | 6 | 7 | P | 48 | 05/17/2007 | 0.64 | 3,250 | 38.37 |
| LO | 4 | 7 | P | 50 | 03/15/2007 | 0.28 | 2,751 | 41.29 |
| LO | 3 | 7 | C | 59 | 02/14/2007 | 0.36 | 2,627 | 47.65 |
| LO | 7 | 7 | C | 73 | 06/15/2007 | 1.26 | 2,500 | 34.98 |
| LO | 6 | 7 | P | 50 | 05/17/2007 | 0.94 | 2,400 | 37.80 |
| LO | 3 | 7 | P | 59 | 02/14/2007 | 1.55 | 2,061 | 47.68 |
| LO | 6 | 7 | P | 45 | 05/17/2007 | 0.34 | 2,005 | 39.35 |
| LO | 6 | 7 | C | 72.5 | 05/17/2007 | 0.96 | 2,000 | 36.60 |
| LO | 4 | 7 | C | 55 | 03/15/2007 | 4.8 | 1,800 | 39.83 |
| LO | 6 | 7 | P | 49 | 05/17/2007 | 0.78 | 1,800 | 38.10 |
| LO | 3 | 7 | C | 62 | 02/14/2007 | 0.02 | 1,799 | 48.14 |
| LO | 6 | 7 | P | 60 | 05/17/2007 | 4.2 | 1,325 | 35.30 |
| LO | 6 | 7 | C | 60 | 05/17/2007 | 4.19 | 1,325 | 35.30 |
| LO | 4 | 7 | P | 57 | 03/15/2007 | 1.88 | 1,319 | 39.12 |
| LO | 3 | 7 | C | 61 | 02/14/2007 | 0.07 | 1,230 | 49.69 |
| LO | 3 | 7 | P | 57.5 | 02/14/2007 | 0.67 | 1,225 | 47.93 |
| LO | 6 | 7 | C | 65 | 05/17/2007 | 2.34 | 1,155 | 35.26 |
| LO | 6 | 7 | P | 53 | 05/17/2007 | 1.57 | 1,100 | 36.87 |
| LO | 4 | 7 | P | 58 | 03/15/2007 | 2.31 | 1,044 | 38.79 |
| LO | 5 | 7 | P | 52 | 04/17/2007 | 0.96 | 1,004 | 37.59 |
| LO | 6 | 7 | C | 62.5 | 05/17/2007 | 3.14 | 1,000 | 35.10 |
| OB | 4 | 7 | C | 1.77 | 03/27/2007 | 0.05 | 250 | 37.53 |
| OB | 5 | 7 | P | 1.6 | 04/25/2007 | 0.0522 | 126 | 33.91 |
| OB | 5 | 7 | C | 1.8 | 04/25/2007 | 0.0676 | 125 | 34.30 |
| OH | 6 | 7 | C | 1.7 | 05/25/2007 | 0.0924 | 994 | 32.68 |
| OH | 4 | 7 | C | 1.6 | 03/27/2007 | 0.1113 | 779 | 38.91 |
| OH | 5 | 7 | C | 1.85 | 04/25/2007 | 0.0304 | 600 | 32.72 |
| OH | 5 | 7 | P | 1.6 | 04/25/2007 | 0.0676 | 500 | 31.61 |
| OH | 4 | 7 | C | 1.9 | 03/27/2007 | 0.019 | 300 | 40.30 |
| OH | 5 | 7 | C | 1.9 | 04/25/2007 | 0.0227 | 300 | 33.07 |
| OH | 3 | 7 | C | 1.61 | 02/23/2007 | 0.0693 | 200 | 44.14 |
| OH | 3 | 7 | C | 1.51 | 02/23/2007 | 0.1434 | 200 | 44.76 |
| OH | 4 | 7 | C | 1.75 | 03/27/2007 | 0.0486 | 200 | 39.26 |
| OH | 5 | 7 | C | 1.7 | 04/25/2007 | 0.0695 | 200 | 31.72 |
| OH | 5 | 7 | C | 1.6 | 04/25/2007 | 0.1159 | 200 | 31.76 |
| OH | 3 | 7 | C | 1.6 | 02/23/2007 | 0.0754 | 150 | 44.14 |
| OH | 3 | 7 | C | 1.57 | 02/23/2007 | 0.0957 | 125 | 44.30 |
| OH | 5 | 7 | C | 1.65 | 04/25/2007 | 0.0897 | 125 | 31.42 |
| OH | 5 | 7 | C | 1.72 | 04/25/2007 | 0.0612 | 105 | 31.38 |
| OH | 5 | 7 | P | 1.58 | 04/25/2007 | 0.0595 | 100 | 31.72 |
| OH | 5 | 7 | P | 1.62 | 04/25/2007 | 0.0765 | 100 | 31.59 |
| OH | 5 | 7 | C | 1.75 | 04/25/2007 | 0.0533 | 100 | 32.07 |

Indonesia's oil product imports are expected to increase to 11.02 million barrels for March, up 2.7% on the month. It is expected to purchase 4.18 million barrels of gasoline and 6.1 million barrels of gas oil and jet fuel.

Production News

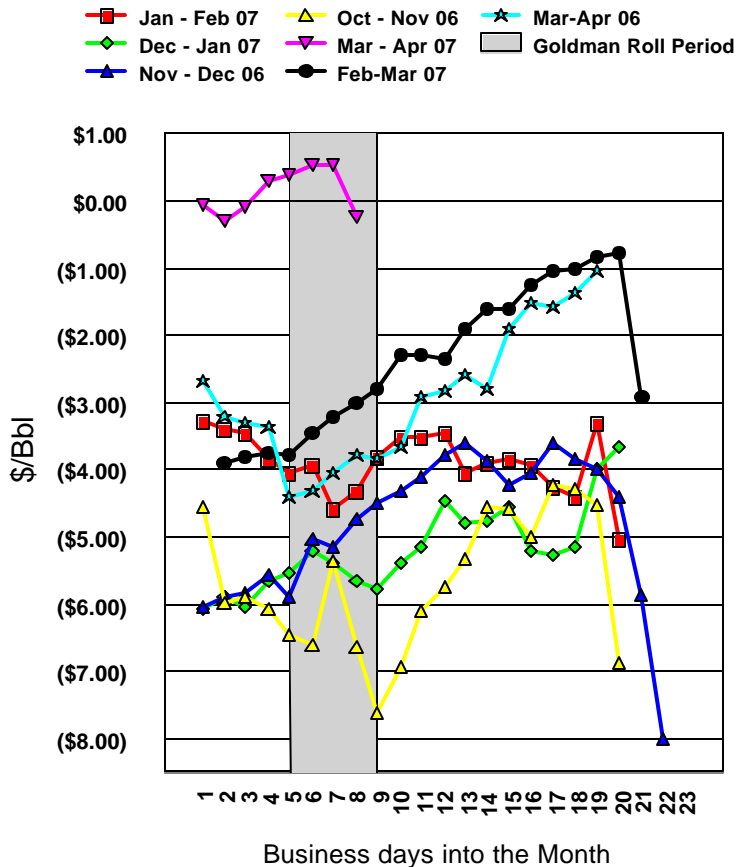
Trade sources stated that Saudi Arabia would keep its oil supplies steady to some of its largest customers in March. In Asia, however some smaller refiners were expected to receive slightly higher volumes than they did for February. Saudi Aramco said it would ship 7% less than contracted volumes to Asian refiners in March compared with a cut of as much as 14% in February.

According to Platts, the ten OPEC members produced an average of 26.95 million bpd in January, down 50,000 bpd from December's 27 million bpd. It is still 650,000 bpd over its 26.3 million bpd target set in November and far from reaching the 25.8 million bpd target imposed February 1. It reported that Nigeria increased its output to 2.25 million bpd in January from 2.23 million bpd in December partly offsetting a 70,000 bpd output decline achieved by Algeria, Libya, Saudi Arabia and Venezuela.

Cambridge Energy

NYMEX HO Front Month Spread

Basis Settlement



month WTI minus \$6.70/barrel, up \$2.05 from minus \$8.75/barrel in February. The March official selling price for European customers was set at dated Brent minus \$5.45/barrel, up \$1.20/barrel from minus \$6.65/barrel in February. Basra Light crude for Asian customers was set at the Oman/Dubai average minus \$2.25/barrel, up 60 cents from minus \$2.85/barrel in February.

OPEC's news agency reported that OPEC's basket of crudes increased by \$1.47/barrel to \$54.99/barrel on Friday. It also reported that OPEC's basket price increased by \$2.10/barrel to \$54.38/barrel in the week ending February 9 from \$52.28/barrel the previous week.

India's Oil Ministry reported that the country is expected to cut retail fuel prices in the next few days to reflect a decline in the oil price.

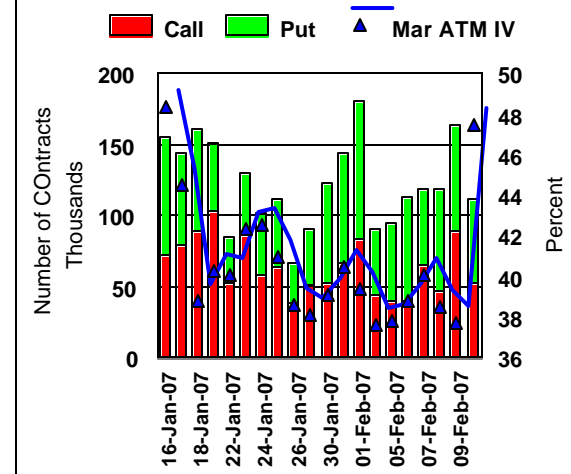
Research Associates said costs to produce oil and gas have increased more than 53% in the past two years and added that the increase was causing companies to slow or stop projects. It said the upward trend in costs is not expected to slow significantly before 2008 or 2009.

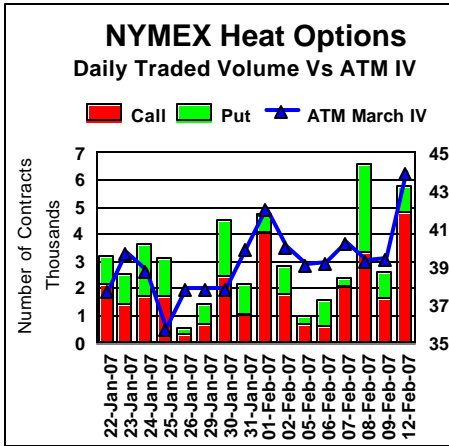
ExxonMobil Corp said output from its Sakhalin-1 oil and gas project in Russia has been averaging close to 250,000 bpd, its current full capacity.

Ecuador's President Rafael Correa said the country planned to renegotiate some oil contracts to increase the state petroleum intake from foreign companies operating in the country. He said Ecuador started drafting a strategy to renegotiate foreign oil contracts. He said Ecuador planned to develop the Ishpingo-Tambococha-Tuputini project, a heavy crude field in the Amazon. He said the field could generate up to \$1 billion in revenues for the state every year.

Iraq's SOMO has increased the March official selling price for its Basra Light crude oil destined to the US, Europe and Asia. Basra Light crude for delivery to the US in March was set at second

NYMEX WTI Option Volume Vs March ATM IV





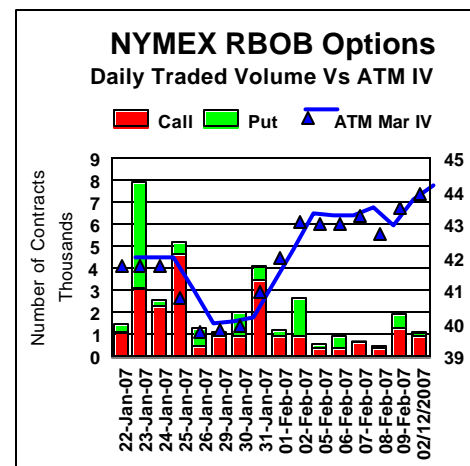
PDVSA stated that Venezuela and Ecuador agreed to conduct feasibility studies on possible joint projects in natural gas and in liquefied petroleum gas projects.

Preparations for the first delivery of liquefied natural gas to Excelerate Energy's new Teesside Gas port in England started Monday morning.

Market Commentary

The oil market gapped lower from 59.65 to 58.80 as it continued to retrace Friday's late gains. The market's early selling pressure was triggered by comments made by Saudi Arabia's Oil Minister Ali al-Naimi on the prospect of another output cut. He stated that if the market trend remained unchanged, OPEC was unlikely to

cut its production further. The market partially backfilled its gap as it traded to a high of 59.10. However it erased its gains and continued to trend lower. The market retraced almost 38% of its move from a low of 51.20 to a high of 60.80 as it sold off to a low of 57.40 late in the session. The market later settled in a sideways trading pattern and settled down \$2.08 at 57.81. Volume in the crude market was good with over 318,000 lots booked on Globex. The heating oil market settled sharply lower, down 7.97 cents at 164.54 after the market gapped lower from 171.00 to 168.90 on the opening. The market quickly posted a high of 169.00 before it continued to trend lower amid the losses in the oil market. The market was also pressured amid the moderation in the weather forecasts. The market retraced most than 38% of its move from a low of 148.00 to a high of 174.20 as it posted a low of 163.50 ahead of the close. The RBOB market also gapped lower from 159.25 to 159.00, which it partially backfilled as it traded to a high of 159.40 early in the session. The market however extended its losses to 6.98 cents as it traded to a low of 154.50 late in the session. The RBOB market settled down 6.21 cents at 155.27. Volumes in the product markets were good with 70,422 lots booked in the heating oil market and 42,886 contracts booked in the RBOB market.



The crude oil options market despite seeing flat prices in retreat all day saw strong interest in the June \$100 call for the second day in a row. Today in fact this strike was the most active in the oil complex as it traded

6,250 times on the day at 7 cents, settling at 5 cents at the end of the day.

The crude market will continue to trade lower after

| Technical levels | | |
|------------------|----------------------------------|--|
| | Levels | Explanation |
| CL | Resistance 57.81, down \$2.08 | 60.80 Previous high |
| | Support | 58.25, 59.10 to 59.40 Remaining gap (February 12th) |
| HO | Resistance | 57.40 Monday's low |
| | Support | 57.25, 57.13, 57.05, 56.00 Previous low, 38% (51.20 and 60.80), Previous low, 50% |
| RB | Resistance | 174.20 Previous high |
| | Support | 166.50, 169.00 to 171.00 Remaining gap (February 12th) |
| RB | Resistance | 163.50 Monday's low |
| | Support | 161.80, 161.10, 158.01 Previous low, 50% retracement (148.00 and 174.20), 62% |
| RB | Resistance | 163.25 Previous high |
| | Support | 157.00, 159.40 Monday's high |
| RB | Resistance | 154.50 Monday's low |
| | Support | 153.80, 153.53, 152.75, 152.00 Previous low, 38% retracement (137.80 and 163.25), Previous lows |

the market gapped lower and settled in negative territory in light of the Saudi comments. The market is also seen trading lower as stochastics crossed down and continue to trend lower. The market is seen finding support at its low of 57.40 followed by 57.25, 57.13 and 57.05. More distant support is seen at 56.00. Meanwhile resistance is seen at 58.25 and its gap from 59.10 to 59.40. More distant resistance is seen at 60.80.