



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR FEBRUARY 21, 2008**

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Qatar's Oil Minister Abdullah al-Attiyah said OPEC would not change its production level in response to record oil prices above \$100/barrel. He said the surge in prices was due to speculation and international political tension, not due to any problems with the fundamentals. Separately, Ecuador's Oil Minister said it was too early to decide if OPEC should change its oil output level.

Kurdish and rebel officials stated that Turkish military opened fire on suspected Turkish Kurdish insurgent positions in Iraqi Kurdistan. The Turkish army has since December 16 conducted five air raids

#### Market Watch

Hedge fund manager T. Boone Pickens said crude oil prices would decline \$10-\$15/barrel in the second quarter. However he said oil prices would rally back to \$100/barrel in the second half of the year.

According to Alfa Bank, oil prices at \$100/barrel may seem cheap within five years if OPEC production fails to keep pace with world demand growth. Some forecasts indicate Saudi Arabia may be unable to reach sustainable output of 15 million bpd and fail to meet an annual demand increase of 1.5 million bpd.

The National Weather Service forecast that the US Northeast would have equal chances of experiencing above or below normal temperatures during March. No clear pattern has emerged for March temperatures in the US Northeast. For the March to May period, temperatures should be above normal for the western and southern US.

The IMF said the world economy can absorb the latest surge in oil prices since it remains driven by high demand, not supply constraints. It said the effects of the higher oil prices on global growth have been manageable so far. The IMF Director of External Affairs Masood Ahmed said that with growth rates worldwide expected to ease, including in emerging markets, it should help lower oil prices.

Standard & Poor's said that assets benchmarked to its S&P GSCI commodity indices were estimated at between \$80-\$85 billion at the end of last year. It said that for 2008, assets benchmarked to the index are expected to grow in excess of 20%. The S&P GSCI total return index gained 32.67% in 2007.

#### DOE Stocks

**Crude** – up 4.2 million barrels  
**Distillate** – down 4.5 million barrels  
**Gasoline** – up 1.1 million barrels  
**Refinery runs** – down 1.6%, at 83.5%

on PKK targets in northern Iraq and a cross border land operation to stop a group of militants from infiltrating Turkey. However a spokesman for Iraq's Kurdish Peshmerga security forces denied there had been any clashes with Turkish troops on Thursday.

Nigerian police accused the detained rebel leader from the

Niger Delta, Henry Okah, of killings, arms dealing, oil smuggling and other crimes on Thursday. Militants in Nigeria's Niger Delta have been angered by the government's failure to give more news of detained rebel leader. This threatens to cause a new round of violence and discourage those trying to negotiate with the government. Government officials said the rebel leader was alive and in safe custody but have declined to give any other details about where Okah is.

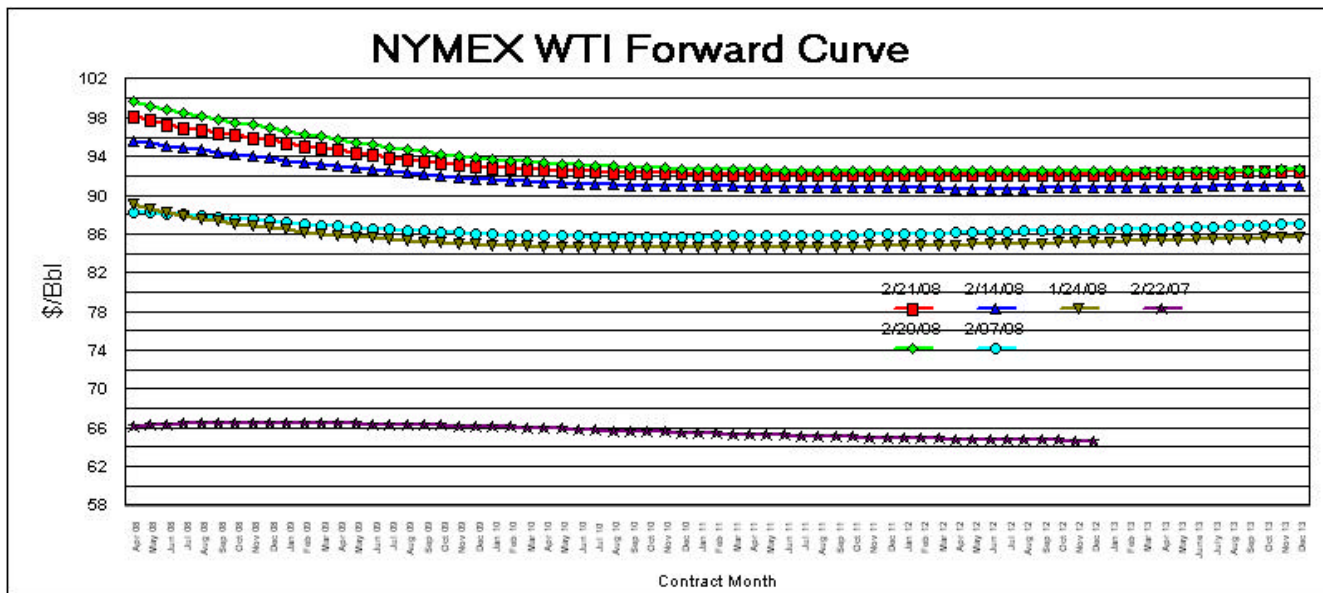
**Feb Calendar Averages**  
**CL** – 93.14  
**HO** – 258.49  
**RB** – 239.71

The top military adviser to Iran's supreme leader, General Yahya Rahim Safavi said the assassination of a top commander of the Lebanese Shiite militant group Hezbollah, Imad Mughniyeh, has hastened the "certain death" of Israel. He accused Israel of carrying out the attack that killed the leader and added that security terrorists from the US and one Arab nation had cooperated.

According to Oil Movements, OPEC's exports are expected to remain relatively unchanged in the four week period ending March 8. OPEC exports are estimated to fall by 20,000 bpd to 24.54 million bpd in the four week period. Deliveries from OPEC producers in the Middle East are expected to fall by 50,000 bpd to 17.67 million bpd.

The EIA stated that US refinery gasoline production this spring may be up to 200,000 bpd higher from the same period last year.

The AAA reported that the US average retail price of diesel increased by 3.2 cents/gallon to \$3.503/gallon on Thursday.



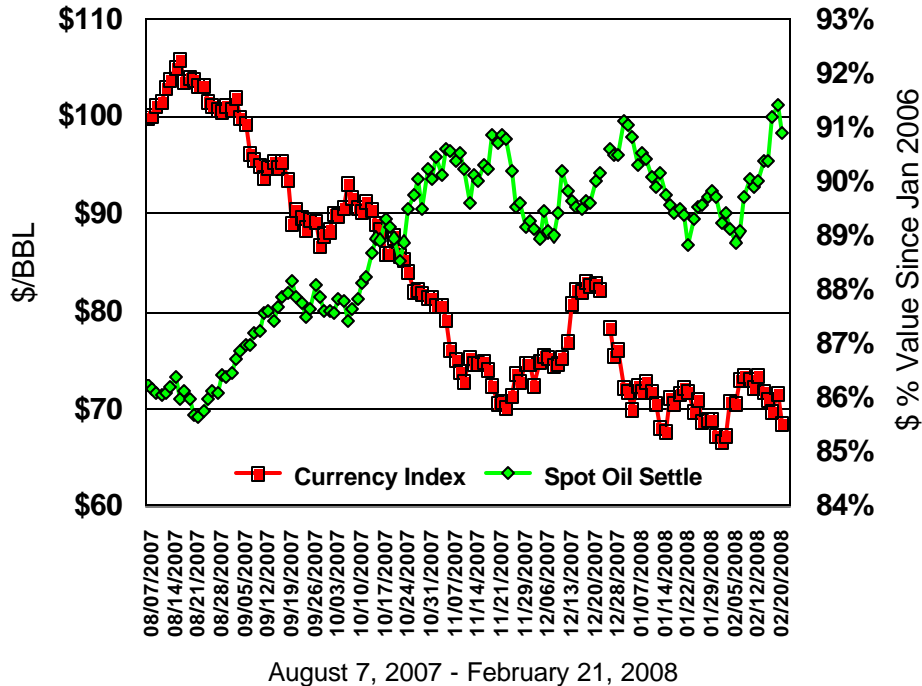
**Refinery News**

A fluid catalytic cracking unit at Pasadena Refining Systems Inc's Pasadena, Texas refinery is scheduled to restart Thursday following repairs.

The Houston Ship Channel reopened on Thursday after it was closed early in the morning due to heavy fog. There were 23 ships waiting to enter and 15 ships were waiting to depart the waterway when it reopened. Meanwhile, the Sabine Ship Channel, which serves Port Arthur, and the Corpus Christi Channel remained closed due to fog.

### Spot WTI NYMEX Settle Vs Dollar Basket U.S. \$ Vs Basket of Currencies Of Net Oil Importers

\$ % Value Since January 2, 2006



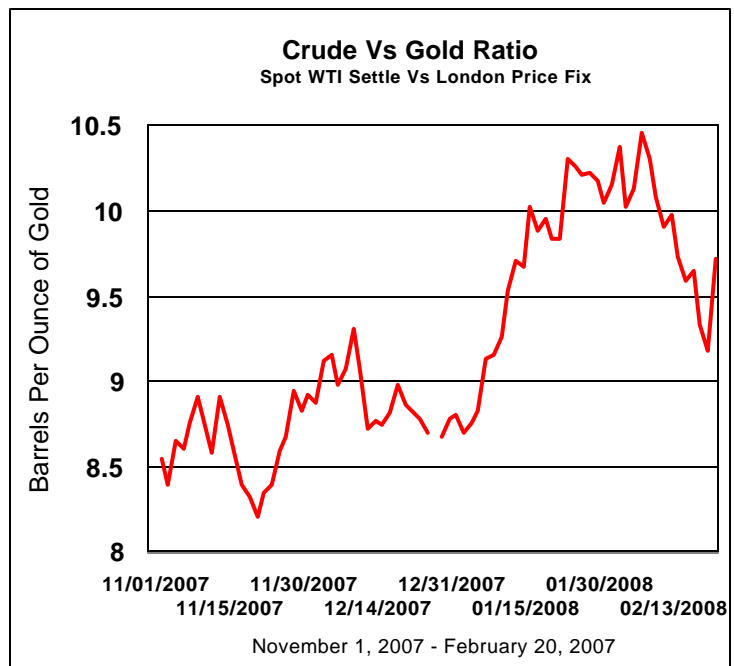
Taiwan's Formosa Petrochemical Corp is scheduled to shut a desulphurizer from March 10 for 45 days of maintenance. The refinery would reduce gas oil exports to 420,000 tons in March from 480,000 tons in February due to the shutdown.

Enbridge Inc has renewed plans for a C\$4 billion or \$3.96 billion pipeline to move oil sands derived crude to Canada's West Coast, which would allow oil sands exports to Asia. The company has attracted enough of its customers to fund the remaining costs to get the Gateway Pipeline project, which would have a capacity of 400,000 bpd,

to the regulatory approval stage.

TransCanada Corp is planning to build a larger pipeline beyond its Keystone project to ship Canadian crude to the US Gulf Coast and is considering a direct route to the refining hub. The Keystone Pipeline, designed to ship 590,000 bpd to refineries in southern Illinois and to Cushing, Oklahoma, is set to start construction in the next few months. The pipeline is scheduled to be in service in 2009 or 2010.

According to Euroilstock, total petroleum production fell by 83,000 bpd on the month to 13.036 million bpd in January. It reported that gasoline production increased by 30,000 bpd to 3.337 million bpd while middle distillate production fell by 89,000 bpd to 6.281 million bpd. It reported that fuel oil production fell by 50,000 bpd to 1.749 million bpd while naphtha production fell by 43,000 bpd to 965,000 bpd. The refinery utilization rate fell to 91.96% from 93.35% in December. Refinery runs in Denmark fell by 33,000 bpd to 139,000 bpd in January. German runs fell by about



**NYMEX Petroleum Options Most Active Sttrikes for February 21, 2008**

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	6	8	P	80	05/15/2008	1.05	8,162	29.96
LO	6	8	C	105	05/15/2008	1.71	4,281	29.77
LO	4	8	P	80	03/14/2008	0.21	4,124	34.39
LO	3	8	C	94	02/14/2008	0.52	3,746	42.70
LO	3	8	C	95	02/14/2008	0.24	3,492	42.48
LO	3	8	P	90	02/14/2008	0.05	3,483	43.09
LO	3	8	P	88	02/14/2008	0.01	3,025	49.41
LO	3	8	C	93	02/14/2008	0.97	2,866	42.59
LO	4	8	C	100	03/14/2008	1.09	2,661	31.05
LO	4	8	P	93.5	03/14/2008	3.23	2,330	30.00
LO	6	8	P	85	05/15/2008	2	2,210	28.54
LO	8	8	C	105	07/17/2008	2.54	2,200	28.11
LO	4	8	C	120	03/14/2008	0.05	2,172	38.88
LO	3	8	P	92	02/14/2008	0.34	2,137	42.60
LO	4	8	C	105	03/14/2008	0.49	2,046	33.11
LO	3	8	P	91.5	02/14/2008	0.22	2,035	42.39
LO	3	8	P	92.5	02/14/2008	0.49	2,025	42.18
LO	8	8	P	90	07/17/2008	4.98	2,000	26.81
LO	8	8	P	80	07/17/2008	1.79	2,000	27.80
LO	3	8	C	96	02/14/2008	0.1	1,889	42.91
LO	3	8	C	93.5	02/14/2008	0.72	1,503	42.57
LO	4	8	P	85	03/14/2008	0.63	1,426	31.83
LO	3	8	P	91	02/14/2008	0.14	1,404	42.64
LO	3	8	P	93	02/14/2008	0.7	1,392	42.58
LO	5	8	P	85	04/17/2008	1.48	1,277	30.09
LO	4	8	C	97	03/14/2008	1.78	1,118	30.12
LO	6	8	P	88	05/15/2008	2.9	1,100	28.09
LO	12	8	C	48.5	11/17/2008	43.28	1,000	67.55
LO	12	8	C	49.5	11/17/2008	42.28	1,000	65.33
OB	3	8	P	2.2	02/26/2008	0.0095	1,000	37.38
OB	3	8	P	2.15	02/26/2008	0.0049	500	37.84
OB	5	8	P	2.2	04/25/2008	0.0197	200	30.34
OB	10	8	C	2.38	09/25/2008	0.2023	100	28.28
OB	3	8	C	2.38	02/26/2008	0.0685	100	35.45
OB	3	8	P	2.38	02/26/2008	0.0586	100	35.45
OB	3	8	C	2.5	02/26/2008	0.0258	100	36.45
OB	3	8	C	2.48	02/26/2008	0.0308	100	36.26
OB	3	8	P	2.28	02/26/2008	0.0235	100	36.45
OB	10	8	P	2.38	09/25/2008	0.1985	100	28.26
OH	3	8	P	2.25	02/26/2008	0.0005	1,000	34.45
OH	3	8	C	2.85	02/26/2008	0.0092	1,000	36.15
OH	3	8	P	2.6	02/26/2008	0.0586	400	33.76
OH	3	8	P	2.52	02/26/2008	0.0282	300	33.76
OH	6	8	C	2.74	05/27/2008	0.0698	275	27.05
OH	6	8	P	2.43	05/27/2008	0.0879	275	25.90
OH	5	8	C	2.52	04/25/2008	0.1499	275	29.32
OH	5	8	P	2.4	04/25/2008	0.0627	185	29.11
OH	4	8	C	2.46	03/26/2008	0.1814	175	31.49
OH	5	8	C	2.56	04/25/2008	0.1301	175	29.26

50,000 bpd while Euroilstock's revised estimate showed stable runs in Britain of 1.5 million bpd.

An Iranian oil official stated that Iran's oil exports could fall by about 200,000 bpd in early second quarter due to lower global refinery demand.

Russia's TNK-BP Holding said it would invest \$1.5-\$2 billion in its existing oil refining assets over the next five years. It said it would invest in units at its oil refineries to satisfy Western Europe's increasing diesel deficit and increasing domestic demand in Russia for high quality gasoline.

Nigeria's provisional crude oil loading plan for April showed 12 cargoes of Qua Iboe grade crude would be exported. The plan also indicated that three full cargoes each carrying 950,000 barrels of Yoho grade crude would be shipped.

Pertamina said it would increase February diesel imports by 600,000 barrels to supply more of the fuel to electricity company PT Perusahaan Listrik Negara. It is also expected to increase its fuel oil imports by 370,000 barrels.

Singapore's International Enterprise reported that

the country's residual fuel stocks fell by 548,000 barrels to 14.432 million barrels in the week ending February 21. It also reported that light distillate stocks fell by 222,000 barrels to 7.378 million barrels and middle distillate stocks fell by 917,000 barrels to 7.71 million barrels on the week.

Japan's Ministry of Finance reported that the volume of Japan's customs-cleared crude imports increased by 1% on the month in January to 20.309 million kiloliters or 4.12 million bpd. Imports from Asia increased by 71.1% to 1.274 million kl while imports from the Middle East increased by 0.3% to 17.497 million kl.

### **Production News**

Mexico's Pemex produced 2.96 million bpd of crude oil in January, relatively unchanged from December but down 5.9% on the year. It said the decline in production was largely due to the decline in production from the offshore Cantarell oilfield. It exported 1.43 million bpd of oil in January, down 9.4% on the year. Meanwhile, its natural gas production reached a record 6.534 billion cubic feet/day in January, up 13.9% on the year.

Royal Dutch Shell's CEO Jeroen van der Veer said the company hoped Iraq would pass an oil law this year. He said the oil law and improved security were prerequisites for being able to work there. Iraq gave firms until February 18 to submit documents that would allow them to compete in tenders for service contracts to help develop its oil infrastructure. Iraq's Oil Ministry is expected to announce in March which companies it has accepted as qualified to bid for future contracts.

Oil sales from Saudi Arabia, Iran, Kuwait and the UAE to North Asia increased by 346,000 bpd in the quarter to 6.38 million bpd. Saudi Arabia restored exports to Asia to full contracted volumes from November onwards, up 10% from the previous months, leading to a 130,000 bpd increase to North Asia or up 5% from the third quarter. Quarterly exports from Iran increased by 325,000 bpd, increasing its annual total to the region to 1.255 million bpd. China led the rise in imports of Iranian crude, with a 22.4% increase to 410,000 bpd. Imports of Iranian crude by China are expected to increase to about 500,000 bpd this year.

Kazakhstan's Prime Minister Karim Masimov said the country would stop using production sharing agreements as a form of cooperation with companies seeking to tap its vast energy and metals reserves.

OPEC's news agency reported that OPEC's basket of crudes increased by \$1.59/barrel to \$94.23/barrel on Wednesday.

Total's Yemen LNG project is on target to come online on schedule at the end of the year. The project would have a capacity to produce 6.7 million tons per year of LNG.

Russia's Gazprom said it would start pipeline gas exports from its Arctic Shtokman gas deposit in 2013 and start shipments of liquefied natural gas from the field in 2014.

### **Market Commentary**

In response to the sixth straight build in a row, crude oil prices traded lower today, settling down \$1.47 on the day. Crude oil stock levels built by 4.2 million barrels and at 305.3 million barrels are 1.9% above the 5-year average. Gasoline stocks were up 1 million barrels and are set at 230.3, their highest level since February of 1994. Total distillate stocks drew by 4.45 million barrels and are set at 122.5. With weak product demand during a time of a slowing economy, it is no wonder that refiners are cutting runs. Eventually, the fundamentals have to kick in, lending pressure to the market. Although the market was lower, the shape of the forward curve was little changed, indicating that this move is more

of a shift in supply and demand, rather than position taking. At this point we would look for both the fundamental and technical factors to be in

		<b>Explanation</b>	
<b>CL</b>	<b>Resistance</b>	100.86, 101.38, 102.10, 103.53	Previous high, Basis trendlines
	<b>Support</b>	96.87	Thursday's high
<b>HO</b>	<b>Resistance</b>	280.00, 290.61	Basis trendline
	<b>Support</b>	274.00, 277.15	Thursday's high
<b>RB</b>	<b>Resistance</b>	261.00, 261.69	Previous highs
	<b>Support</b>	247.87	Thursday's high
		246.74, 246.50, 242.12, 239.13, 237.50	38% retracement(222.55&261.69), low, 50%, low, 62%

agreement, so therefore prices should work lower from here, barring any major new fundamentals. Our near term objective for the April contract is \$95.31 which is the 62% retracement using the range of \$86.84 - \$100.86. Open interest in crude oil is 1,352,994 down 2,141, April08 364,292 up 20,131, May08 137,291 up 2,727. The heating oil market bounced off an early low of 272.05 and rallied to a high of 277.15 in light of the larger than expected draws reported in distillate stocks. However the market later erased its gains and sold off to a low of 269.30 in early afternoon trading as the crude market failed to test its previous high. The heating oil market, which posted an outside trading day, once again bounced of its low and traded towards the 274.00 level ahead of the close. It settled down 1.65 cents at 273.81. Meanwhile the RBOB market posted a high of 259.30 in overnight trading and continued to erase its previous gains. The market, which held some support at 254.10, later extended its losses further to over 10.6 cents as it sold off to a low of 247.87. The market breached its support line before it retraced some of its losses ahead of the close and settled down 6.32 cents at 252.20. The markets are seen holding resistance at its recent highs after the crude and gasoline markets failed to test those levels. In the heating oil, support is seen at 272.19, 271.75, 269.30, 264.50, 263.12, 258.79 and 254.45. Resistance is seen at 274.00, 277.15 followed by 280.00. In the RBOB, support is seen at 247.87, 246.74, 246.50, 242.12, 239.13 and 237.50 while resistance is seen at 252.90, 255.44, 259.30, 261.00 and 261.39.

### Trade Tracker

Trade	Date	Entry level	Current	Profit/Loss
-Jun/+Dec/-Dec9 fly	2/21/08	-.63	-.99	+.36