



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR FEBRUARY 22, 2008**

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Turkey's military sent 10,000 soldiers to northern Iraq in a land offensive against the Kurdistan Workers' Party. The ground operation started after Turkish fighter jets and artillery bombed suspected PKK targets on Thursday. The military said its target was the PKK and it would take care not to harm civilians. Security sources stated that Turkey's military offensive is expected to last 15 days. Kurdish officials in Iraq were concerned that the ground incursion could be the start of wider scale operations in Iraq. The Kurdish militia, the peshmerga, was put on alert in Iraq's semi autonomous Kurdish enclave in

#### Market Watch

Dallas Federal Reserve President Richard Fisher said recent news of higher inflation is not encouraging and that the US economy should avoid a prolonged period of negative economic growth. He said the Fed was doing its best to find the right balance between concerns over growth and inflation. He said a mood of pessimism is hurting the business outlook and that the US central bank must be careful not to unleash price increases as it combats slower growth with interest rate cuts.

Iran's Economy Minister Davoud Danesh-Jafari said Iran has no choice but to implement a plan to offer drivers extra gasoline at a higher price outside a subsidized rationing system. A government committee has proposed making fuel available at up to seven times the current subsidized price available under a rationing scheme in place since June. Under the proposal, drivers would be able to buy 120 liters/month at the subsidized price of 1,000 rials or 11 cents but could then buy extra fuel at between 5,000 and 7,000 rials or 55-77 cents.

Barclays Capital raised its forecast for US crude oil in 2015 to \$137/barrel from \$93/barrel after prices rallied to record highs this week. Oil for delivery in December 2015 set a record high of \$94.04/barrel on Wednesday.

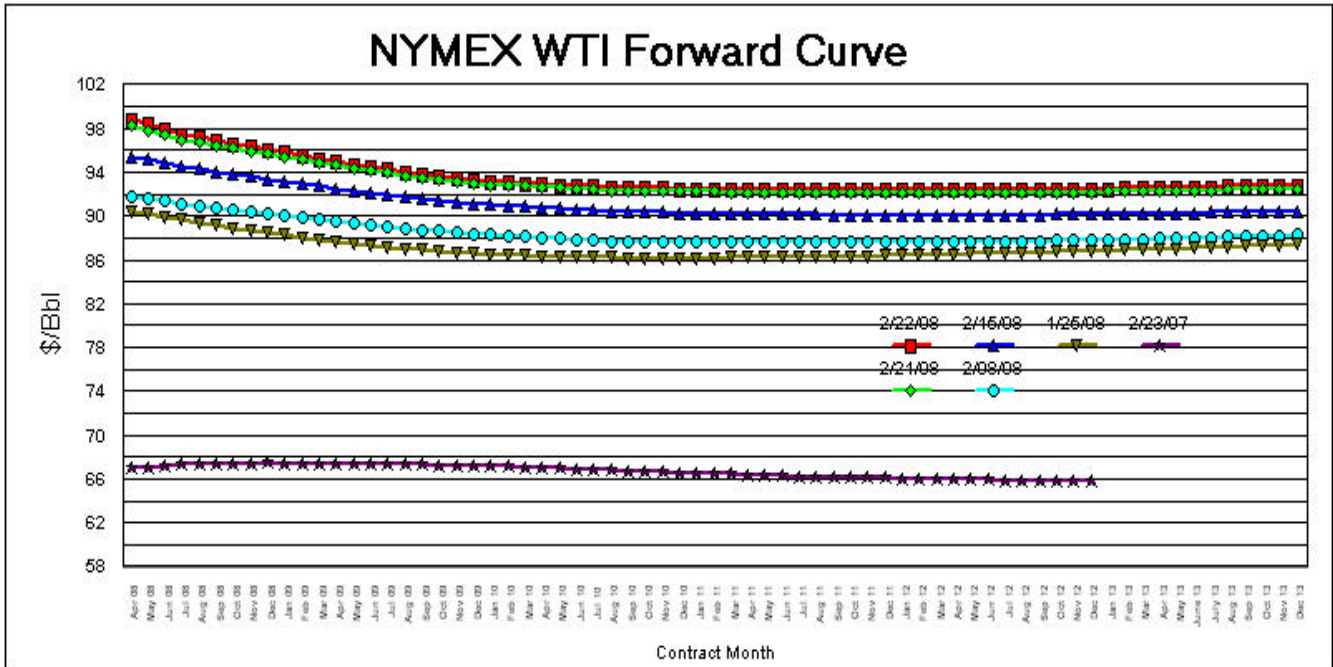
ICE gas oil futures' crack to Brent crude rallied to its highest level in more than two years. The gas oil crack to Brent increased to \$19.89/barrel, the highest level seen since mid-October 2005. Recent cold snaps in Northwest Europe and the Mediterranean have increased demand for gas oil for heating while stocks held at oil companies' and end-consumers' tanks have remained relatively low.

ConocoPhillips said it could take years to obtain any negotiated or arbitrated settlement in the dispute the company has with Venezuela for the assets that the government expropriated last year.

#### **Feb Calendar Averages**

**CL** – 93.52  
**HO** – 259.68  
**RB** – 240.62

the north while an Iraqi official called on Turkey to respect Iraq's borders. Meanwhile, White House spokesman Scott Stanzel said the US was informed in advance of Turkey's offensive in northern Iraq and urged Turkish troops to limit operations to precise targeting of Kurdish PKK



rebels. The US military said it understood that the Turkish incursion into northern Iraq was an operation of limited duration. However the UK called for Turkey to withdraw its forces from northern Iraq but at the same time condemned Kurdish militants for mounting cross border attacks.

The IAEA's chief Mohammed ElBaradei said in his report that Iran failed to suspend its nuclear enrichment program. The report also said Iran had started development of new generation centrifuges for enriching uranium. The IAEA said the IAEA made good progress in its investigation into Iran's nuclear program but added that it was still not sufficient. The report said Iran was avoiding meaningful responses to intelligence pointing to covert efforts. He said Iran allowed a number of visits but called on Iran to implement an agreement allowing for more detailed inspections. He also urged Iran to implement all necessary measures called for by the agency's board of governors and the UN Security Council to build confidence in the nature of its nuclear program. The IAEA chief stressed that until Iran provided the required information and implemented the inspections protocol, the IAEA would be in no position to provide credible assurances about the absence of undeclared nuclear material and activities. In response, Iran's top nuclear negotiator, Ali Larijani, welcomed the report released by the UN's IAEA on Iran's nuclear program, saying it provided more evidence vindicating the country. He said there was no justification for the UN Security Council's concern about the Iranian nuclear program or further sanctions. The US ambassador to the IAEA, Gregory Schulte said Iran's nuclear drive was still a source of serious concern. US Secretary of State Condoleezza Rice said there was a strong case for imposing further sanction against Iran. Senior diplomats from Britain, France, Germany, the US, China and Russia are scheduled to meet in Washington on Monday to discuss the next steps regarding Iran's nuclear program. On Thursday, France and Britain formally submitted a third sanctions resolution against Iran to the UN Security Council, on which they hope to vote next week. The draft resolution calls for asset freezes and mandatory travel bans for specific Iranian officials.

Separately, a top Iranian cleric told the UN Security Council to stay out of the crisis over Iran's contested nuclear drive. He said the Security Council was not competent to handle its nuclear file. The IAEA chief Mohamed ElBaradei is scheduled to release a report on Iran's nuclear program to its governing board in Vienna later on Friday.

Venezuela's President Hugo Chavez said oil prices at \$100/barrel was fair and Venezuela would do all it could within OPEC to support prices. He said he expected crude to stay at its present levels in the medium term.

The Movement for the Emancipation of the Niger Delta said attorneys for its detained leader, Henry Okah, filed a lawsuit in a federal court in Abuja on Thursday demanding that he be charged or released immediately.

**Refinery News**

The US Coast Guard said ships were moving along the Houston Ship Channel on Friday morning following a second overnight fog shutdown. Twenty-seven ships had been waiting to enter the channel from the Gulf of Mexico and 15 were waiting to exit.

ExxonMobil said it shut a coker drum at its 348,500 bpd Beaumont, Texas refinery briefly on Wednesday to repair a leak. It said the brief outage would have minimal impact on production.

Valero Energy Corp said that some units at its 182,000 bpd refinery in Delaware City, Delaware were still in restart following a power outage earlier this month that shut all units.

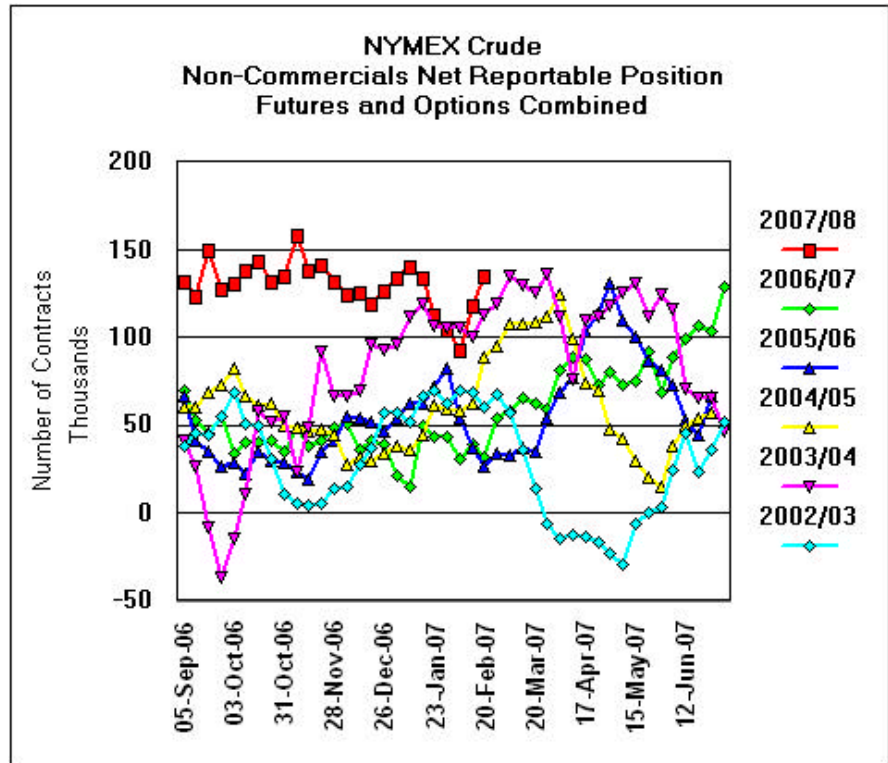
Alon USA Energy Inc said its damaged 67,000 bpd refinery in Big Spring, Texas may resume gasoline production within 60 days.

ConocoPhillips said it was working with TransCanada Corp on ways to ship oilsands from Alberta to the US Gulf Coast. ConocoPhillips and TransCanada have a joint venture to build a pipeline from Alberta to the US Midwest.

Canada's energy regulator said that Enbridge Inc could proceed with construction of the Canadian portion of its Alberta Clipper pipeline, which would transport 450,000 bpd of oil sands to US refiners. The regulator cleared the Southern Lights line, which would carry ultralight oils from the US Midwest to the oil sands region, where it would be blended into tar like bitumen so it could be shipped by pipeline.

Saudi Aramco shut a 44,000 bpd hydrocracker unit at its Ras Tanura refinery for one to two weeks following an outage. The shutdown has prompted the refiner to offer a rare vacuum gas oil cargo totaling 300,000 barrels for March lifting.

Russia's 400,000 bpd Kirishi refinery is expected to cut its runs by 20% due to maintenance on a distillation unit from March 23 to May 7.



Russia's Gazprom is scheduled to shut its 66,000 bpd condensate splitter in the Astrakhan refinery for April maintenance. The maintenance is expected to last until mid-May.

**NYMEX Petroleum Options Most Active Strikes for February 22, 2008**

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	5	8	P	85	04/17/2008	0.86	5,623	34.78
LO	9	8	C	100	08/15/2008	5.96	3,925	28.10
LO	6	8	P	85	05/15/2008	1.3	3,555	32.00
LO	5	8	C	106	04/17/2008	2.29	3,500	33.28
LO	4	8	C	69	03/14/2008	29.81	3,275	75.95
LO	4	8	P	80	03/14/2008	0.04	2,943	39.82
LO	9	8	P	82	08/15/2008	1.91	2,625	28.78
LO	9	8	P	77	08/15/2008	1.09	2,625	29.41
LO	5	8	P	90	04/17/2008	1.74	2,620	33.31
LO	6	8	P	90	05/15/2008	2.41	2,581	31.05
LO	4	8	C	70	03/14/2008	28.81	2,425	72.90
LO	4	8	P	90	03/14/2008	0.51	2,078	34.64
LO	9	8	P	95	08/15/2008	6.24	1,975	27.99
LO	4	8	P	85	03/14/2008	0.15	1,642	37.03
LO	6	8	P	86	05/15/2008	1.48	1,511	31.80
LO	6	8	C	50	05/15/2008	47.94	1,465	93.45
LO	12	8	P	85	11/17/2008	3.8	1,410	27.35
LO	5	8	P	87	04/17/2008	1.15	1,372	34.16
LO	4	8	C	74	03/14/2008	24.81	1,361	61.13
LO	4	8	C	105	03/14/2008	1.07	1,318	33.68
LO	4	8	C	72	03/14/2008	26.81	1,300	66.93
LO	4	8	P	96.5	03/14/2008	2.04	1,160	32.83
LO	4	8	C	73	03/14/2008	25.81	1,136	64.00
LO	12	8	C	48.5	11/17/2008	47.62	1,100	73.00
LO	9	8	C	85	08/15/2008	14.39	1,050	30.07
LO	5	8	C	75	04/17/2008	23.51	1,000	44.73
LO	12	8	C	49.5	11/17/2008	46.62	1,000	70.76
LO	9	8	P	85	08/15/2008	2.59	1,000	28.43
OB	4	8	C	2.75	03/26/2008	0.0802	603	34.99
OB	3	8	P	2.35	02/26/2008	0.0029	600	45.53
OB	5	8	C	3.1	04/25/2008	0.0387	480	35.95
OB	3	8	P	2.45	02/26/2008	0.016	300	44.45
OB	6	8	P	2.4	05/27/2008	0.0637	275	33.40
OB	5	8	C	2.8	04/25/2008	0.1061	251	34.53
OB	5	8	P	2.5	04/25/2008	0.0694	250	33.93
OB	3	8	P	2	02/26/2008	0.0001	150	78.75
OB	3	8	P	2.4	02/26/2008	0.0072	150	45.07
OH	3	8	C	2.9	02/26/2008	0.0089	1,003	42.60
OH	3	8	P	2.65	02/26/2008	0.0097	640	40.30
OH	5	8	P	2.49	04/25/2008	0.0599	400	32.90
OH	4	8	P	2.45	03/26/2008	0.0147	240	31.99
OH	4	8	C	2.77	03/26/2008	0.0936	200	32.53
OH	6	8	C	2.65	05/27/2008	0.1506	140	27.04
OH	4	8	C	2.54	03/26/2008	0.2325	140	32.45
OH	6	8	P	2.52	05/27/2008	0.0791	140	26.86

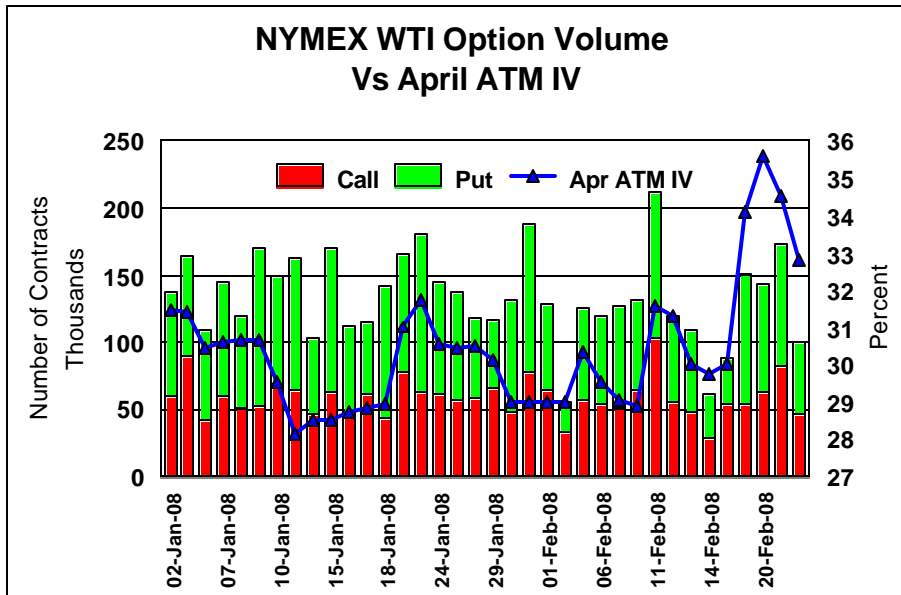
Iraq's Kirkuk crude exports from its northern oilfields to Turkey have been halted because Turkey's Ceyhan port storage was full. It halted pumping through the pipeline to Turkey since February 20.

The North Sea Sullom Voe terminal in Scotland's Shetland Islands suspended berthing because of high winds.

Gasoline stocks in independent storage in the Amsterdam-Rotterdam-Antwerp area fell by 143,000 tons on the week but increased by 146,000 tons on the year to 916,000 tons in the week ending February 22. Gasoline outflows from the ARA area went to Nigeria, the US, Mexico, and Mediterranean. Inflows into the area came from France and Britain. Gas oil stocks fell by 97,000 tons on the week and by 841,000 tons on the year to 1.201 million tons while fuel oil stocks fell by 24,000 tons on the week and increased by 37,000 tons on the year to 645,000 tons. Naphtha stocks built by 64,000 tons on the week and by 68,000 tons on the year to 113,000 tons while jet fuel stocks built by 9,000 tons on the week but fell by 176,000 tons to 211,000

tons.

South Korea's refiners are expected to cut March crude processing rates to just above 80% of total capacity, down 10% from January levels. Declining profit margins have prompted all five refiners to cut overall crude runs to 2.25 million to 2.28 million bpd, down from 2.36 million bpd in February.

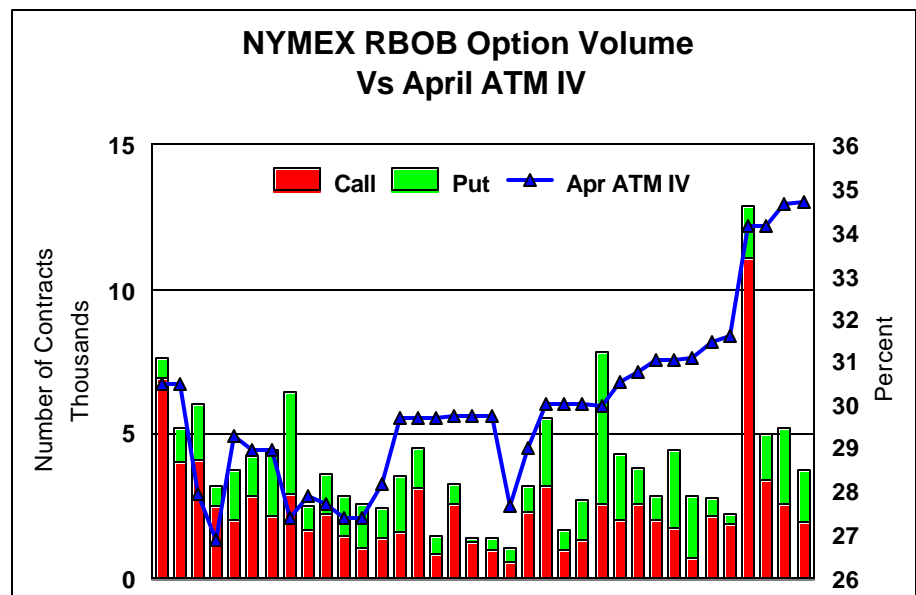


France's CGT union on Friday lifted a threat of immediate strike action in state-owned ports but kept a strike notice over a government reform plan. The CGT is scheduled to meet next week to decide what action to take after a meeting with the Transport Ministry on February 21.

Russia plans to increase crude oil exports via main sea ports by 110,000 bpd in March

to 2.79 million bpd, up from 2.68 million bpd in February.

Russia's Finance Ministry said Russian oil export duties would likely increase in April-May as world oil prices remain near record levels. An official said the oil export duty would not exceed \$340/ton but would not be lower than \$333/ton. The current duty is set at \$333.80/ton for February-March.



Russia's state railway said it hoped to keep some crude oil volumes for shipments to China after 2010, when Russia builds its first pipeline to Asia. Last year, the railway shipped 8.2 million tons of crude to China, all from Russia's largest oil producer, Rosneft. Volumes are expected to remain the same in 2008-2009. Russia's Transneft is expected to complete its first pipeline to China by the end of 2009 to export up to 30 million tons or 600,000 bpd of crude to China.

China's diesel imports increased by 631.8% on the year in January to 840,000 tons while its gasoline imports increased by 252.9% to 29,775 tons. China's gasoline exports fell by 81.8% to 60,000 tons. The country also imported 1.51 million tons of fuel oil in January, down 19.8% on the year.

## **Production News**

Baker Hughes reported that the number of rigs operating in the US fell by 2 to 1,771 in the week ending February 22. The number of rigs searching for oil fell by 3 to 333 while the number of rigs searching for natural gas increased by 2 to 1,430.

Woodside Petroleum Ltd said it has resumed production at its 74,000 bpd Cossack-Pioneer oilfield off Western Australia after a cyclone threat passed.

BP said it aimed to produce at least 2 billion barrels more of crude from Alaska's Prudhoe Bay oilfield, even after the oilfield has yielded over 11 billion barrels. BP is also looking at the once worthless shallow reservoirs of heavier oil that have become valuable as oil prices have surged to over \$100/barrel. The Prudhoe Bay oilfield currently produces less than 400,000 bpd and production has been declining at about 6% a year.

Separately, BP said it would take its Liberty oil project to the corporate board for sanctioning in April. BP expects oil production from the field, with a capacity of 40,000 bpd, to begin in early 2011.

OPEC's news agency reported that OPEC's basket of crudes fell to \$93.97/barrel on Thursday from \$94.23/barrel on Wednesday.

## **Market Commentary**

Crude oil momentarily traded higher today on news that Turkish troops entered into northern Iraq. Three thousand Turkish troops entered six-

		<b>Explanation</b>	
<b>CL</b>	<b>Resistance</b>	100.33, 100.86, 101.38, 102.10, 103.53	Previous highs, Basis trendlines
	<b>Support</b>	99.37	Friday's high
		97.75, 97.16	Friday's low
<b>HO</b>	<b>Resistance</b>	280.00, 284.12	Basis trendline
	<b>Support</b>	278.60	Friday's high
		274.08, 271.50	Basis trendline, Friday's low
<b>RB</b>	<b>Resistance</b>	259.30, 261.00, 261.69	Previous highs
	<b>Support</b>	254.58	Friday's high
		250.50, 246.90	Friday's low
		246.74, 246.50, 242.12, 239.13, 237.50	38% retracement(222.55&261.69), low, 50%, low, 62%

miles into the Kurdish territory, where airstrikes have been taking place since December. This factor had little impact on prices, as the economic situation remained at the forefront of most everyone's mind. Most analysts predict that the slide in prices will continue into next week, when another build in stocks is expected. Crude oil stocks should continue to stockpile due to seasonal maintenance at refineries. Once again, although prices have moved higher, the shape of the forward curve is little changed from the previous day. We still view this lack of change in shape as a shift in supply and demand. Coming into next week we would look for further downside potential barring any new major fundamentals. On a technical level, slow stochastics are hovering in the oversold range and have crossed to the downside. Our downside objective still remains \$95.31. Open interest in crude oil is 1,370,994 up 17,499, April08 370,494 up 6,202, May08 142,291 up 5,692. The heating oil market also ended the session in positive territory after the market retraced Thursday's losses. The market posted a low of 271.50 in overnight trading, which it attempted to retest after the market traded higher amid the news of the Turkish incursion into northern Iraq. The market bounced off its support at 271.90 and rallied to a high of 278.60 in afternoon trading. The heating oil market later retraced some of its gains and settled up 2.49 cents at 276.30. Meanwhile the RBOB market sold off to a low of 246.90 early in

the session. It bounced off that level and never looked back as it continued to retrace Thursday's losses. The market traded to a high of 253.70 and settled up 1.17 cents at 253.37. The market continued to trend higher and posted a high of 254.58 in after hours trading. The markets are seen retracing their recent gains with the heating oil seen finding support at 274.08, 271.50, 269.30, 264.50, 264.02 followed by 259.51 and 255.00. Resistance is seen at 278.60, 280.00 and 284.12. In the RBOB, support is seen at 250.50, 246.90, 246.74, 246.50 followed by 242.12, 239.13 and 237.50 while resistance is seen at 254.58, 259.30, 261.00 and 261.69.

The Commitment of Traders report showed that non-commercials in the crude market increased their net long position by 20,951 contracts to 60,873 contracts in the week ending February 19. They increased their total long position by 14,914 contracts to 232,424 contracts. The combined futures and options report showed that non-commercials increased their net long position by 17,325 contracts to 135,369 contracts. The funds continued to add to their net long position amid the market's rally to record highs above \$100. The non-commercials in the product markets also continued to add to their net long position. The funds in the heating oil increased their net long position by 12,599 contracts to 26,734 contracts while non-commercials in the RBOB market increased their net long position by 8,923 contracts to 39,592 contracts on the week.