



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR FEBRUARY 23, 2007

US Vice President Dick Cheney said the US has not taken any option off the table in keeping Iran from acquiring nuclear weapons. However he stressed that it was seeking a diplomatic solution. The Weekend Australian reported that US Vice President Cheney had no doubt that Iran was striving to enrich uranium to the point where it could make nuclear weapons. Meanwhile, representatives of the five permanent Security Council members plus Germany are scheduled to meet in London for talks on drafting a second resolution sanctioning Iran on Monday.

Iran's President Mahmoud Ahmadinejad said Iran should not show weakness over its nuclear program, a day after Iran ignored the UN deadline to stop nuclear work. He said in the past, compromise over the program led to increased demand from the West. Iran has stated that the UN's call for it to halt its uranium enrichment is unacceptable.

The US Energy Department is likely to issue multiple solicitations to purchase 11 million barrels of crude for the country's SPR in late March.

Market Watch

Analysts stated that increasing violence against foreign workers in Nigeria had delayed investment in some energy projects and was forcing multinationals to rethink their plans. The lack of security had delayed investment decisions and construction plans in some projects.

The NYMEX said that starting February 26 it would expand block trading and exchange of futures for swaps to include its core energy futures contracts. NYMEX said it would also expand trading at settlement on the floor and electronically to include the third nearby trading month for all eligible energy contracts. Block trades would be available with a minimum quantity of 200 contracts for crude oil futures and 100 contracts for natural gas, heating oil and gasoline futures.

The NYMEX announced that the daily volume of its RBOB contract traded on the CME Globex electronic platform reached a record of 68,890 lots on Thursday. It surpassed the previous record of 64,052 contracts traded on February 15.

The PIW reported that gasoline prices may ease this year as domestic inventories are at a comfortable level ahead of the driving season, imports are flooding the country and there are no specification changes. Retail prices at \$2.29/gallon are slightly above this time last year however they are not expected to increase above \$3/gallon. It said that the heavy refinery turnaround season is likely to cut stocks. However the big difference compared with last year is that there are no regulatory changes. It said ethanol supply has increased by almost 20% in the past year to well above 330,000 bpd, with more coming on line in the second half of the year. The US should also receive sufficient imports from Northwest Europe, the Baltic, Latin America, the Caribbean and the Mediterranean to make up for insufficient domestic refining capacity.

Venezuela's Energy Minister Rafael Ramirez said world oil markets were oversupplied by 500,000 bpd and added that OPEC would evaluate new production cuts at its next meeting in March.

Gunmen shot dead a Lebanese construction engineer on his way to work in Nigeria's Port Harcourt on Friday. Separately, at least seven people have been killed in clashes between fighters from two communities in the Niger Delta sparked by the murder of an elderly woman. The clashes started when the corpse of a woman from Mogho community in the Ogoni area was found on Wednesday. Mogho immediately blamed Bodo, a neighboring community for the woman's death. Meanwhile, the Italian Foreign Ministry stated that two Italians were kidnapped in Nigeria on Friday near the city of Port Harcourt. They were working for construction company Impregilo.

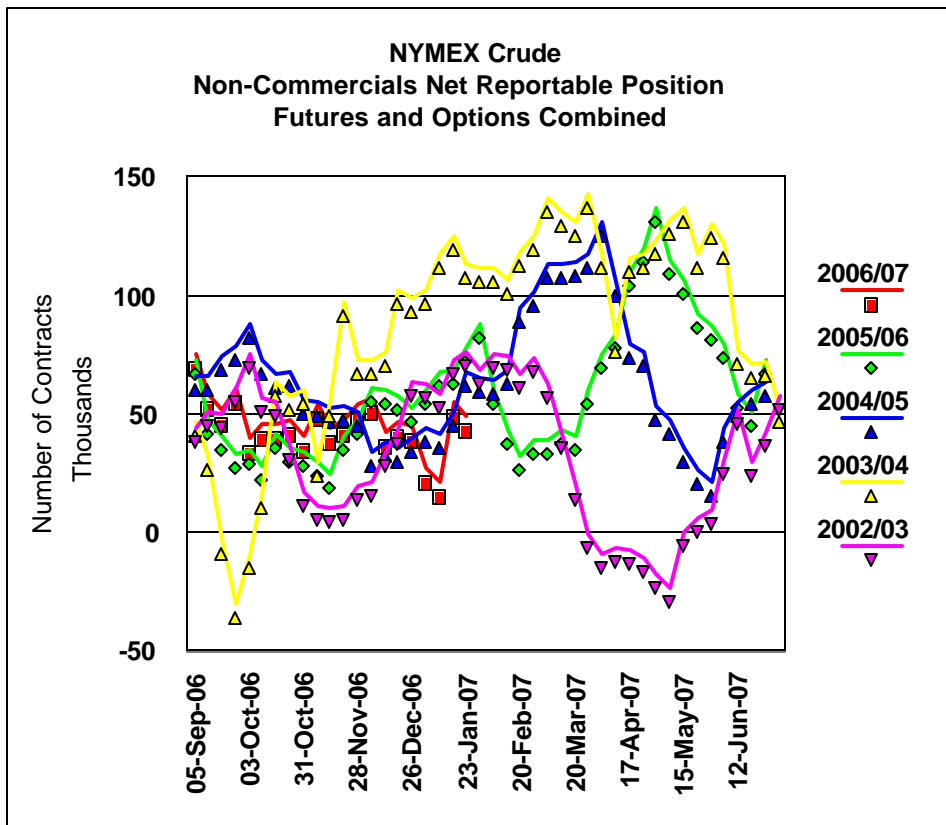
Refinery News

The Joint Pipeline Office said oil tanker loading operations at the port of Valdez resumed after weather conditions improved. High winds delayed oil tanker loadings at the Valdez terminal in Alaska, leading to an increase in crude inventories at the port.

The US Coast Guard said about 35 tankers were waiting to enter the Houston Ship Channel on Friday as fog continued to disrupt shipping on the waterway for the second consecutive day.

TEPPCO Partners LP said it was operating the restarted portion of the 240,000 bpd refined products pipeline at full pressure. The portion of the pipeline was shut due to a valve leak earlier in the week.

US Gulf Coast regular gasoline strengthened on Friday on a cycle change on the Colonial Pipeline and continued support from recent refinery outages and seasonal maintenance. ExxonMobil Corp said a 36 hour outage of a compressor at the 563,000 bpd Baytown, Texas refinery had minimal impact on operations.



Imperial Oil said repairs to its fire damaged Nanticoke, Ontario refinery were still two weeks away from being completed. Gasoline, diesel and heating oil supplies have been squeezed in Ontario due to the fire at the 118,000 bpd refinery nine days ago.

According to government data, India's oil refinery throughput increased by 9% on the year in January to 12.73 million tons or 3 million bpd. Refinery throughput increased as most units ran at higher capacity to profit from rising international refining margins. India's crude production in January stood at 2.9 million tons or 685,700 bpd, down from December's 2.92 million tons or 690,400 bpd.

South Korea's S-Oil Corp said it planned to maintain its crude oil processing rate for March at 550,000 bpd, unchanged from February. Meanwhile, GS Caltex said it planned to maintain its crude runs for March at 620,000 bpd from February.

Production News

Iraq's Oil Minister Hussain al-Shahristani said consumer fuel prices would be increased by about 15% in March as Iraq implements an agreement with the International Monetary Fund to cut subsidies. The government continues to control prices, fostering a black market in fuel for those unwilling to wait to fill their vehicles.

Italy's ENI said first oil from the Kashagan field is expected in the third quarter of 2010.

Japan's Mainichi newspaper stated that Russia would delay a decision on extending a planned oil pipeline from

NYMEX Petroleum Options Most Active Strikes for February 23, 2007								
Symbol	Month	Year	Call/Put	Strike	Exp date	Settle	Volume	IV
LO	5	7	P	50	04/17/2007	0.17	6,305	35.92
LO	4	7	C	60	03/15/2007	2.46	3,446	32.63
LO	6	7	P	50	05/17/2007	0.33	3,384	35.10
LO	4	7	C	65	03/15/2007	0.56	2,805	32.29
LO	12	7	P	55	11/13/2007	1.96	2,700	29.92
LO	6	7	C	66	05/17/2007	2.61	2,584	31.34
LO	7	7	C	65	06/15/2007	3.87	2,408	30.93
LO	6	7	P	45	05/17/2007	0.09	2,333	36.81
LO	5	7	C	72	04/17/2007	0.5	2,220	32.57
LO	12	8	C	68	11/17/2008	7.28	2,175	24.36
LO	12	8	P	68	11/17/2008	7.79	2,175	24.49
LO	12	7	C	75	11/13/2007	2.89	2,168	27.49
LO	12	7	P	60	11/13/2007	3.4	2,085	29.16
LO	6	7	C	62	05/17/2007	4.42	2,011	31.95
LO	9	7	C	65.5	08/16/2007	4.95	1,925	29.56
LO	9	7	P	65.5	08/16/2007	5.28	1,925	29.58
LO	4	7	P	57	03/15/2007	0.48	1,629	33.83
LO	4	7	C	61.5	03/15/2007	1.67	1,559	32.35
LO	4	7	P	60	03/15/2007	1.32	1,284	32.54
LO	8	7	C	65	07/17/2007	4.6	1,276	30.21
LO	12	7	C	66.5	11/13/2007	5.86	1,225	28.41
LO	12	7	P	66.5	11/13/2007	6.17	1,225	28.44
LO	12	7	C	70	11/13/2007	4.42	1,201	27.88
LO	4	7	C	64	03/15/2007	0.78	1,163	32.14
LO	5	7	C	66	04/17/2007	1.56	1,102	31.43
LO	7	7	C	62	06/15/2007	5.37	1,006	31.48
LO	7	7	C	66	06/15/2007	3.45	1,006	30.83
LO	5	7	C	62	04/17/2007	3.13	1,000	31.64
LO	6	7	C	75	05/17/2007	0.64	995	31.21
OB	9	7	C	1.7	08/28/2007	0.2305	100	30.45
OB	6	7	C	1.77	05/25/2007	0.1592	65	31.57
OB	7	7	C	1.96	06/26/2007	0.0919	63	30.80
OB	6	7	C	2.05	05/25/2007	0.0521	60	32.72
OB	6	7	C	1.83	05/25/2007	0.1255	58	31.15
OB	7	7	C	1.97	06/26/2007	0.0889	55	30.92
OB	7	7	C	2.03	06/26/2007	0.0725	55	31.45
OB	4	7	P	1.72	03/27/2007	0.0342	50	35.07
OB	7	7	C	2.05	06/26/2007	0.0678	50	31.65
OH	4	7	P	1.76	03/27/2007	0.0826	474	36.72
OH	6	7	C	2	05/25/2007	0.0396	400	34.59
OH	5	7	C	1.78	04/25/2007	0.0853	237	36.18
OH	9	7	C	2	08/28/2007	0.0921	236	31.72
OH	4	7	C	1.8	03/27/2007	0.0531	225	36.99
OH	4	7	P	1.5	03/27/2007	0.0073	200	37.91
OH	5	7	P	1.67	04/25/2007	0.0678	187	36.34
OH	4	7	C	1.65	03/27/2007	0.1315	101	37.30

East Siberia to the Pacific Coast until it confirmed there would be enough oil to fill it. Russia's Energy Minister Viktor Khristenko said reserves are expected to be proven by the end of 2008. The first part of the pipeline is expected to be finished in 2008, when oil is due to start flowing. In the first stage, oil would flow from East Siberia to China by pipeline and from Skovorodino to the Pacific by railway.

OPEC's news agency reported that OPEC's basket of crudes increased to \$54.99/barrel on Thursday, up from \$53.85/barrel on Wednesday.

Lithuania said it may join Poland in blocking talks between the EU and Russia on a new cooperation pact unless the bloc acts to restore Russian oil supplies. Russia's Transneft shut the Druzhba link to Mazeikiu Nafta following a reported leak last July and had not restored it yet. Analysts said Russia may be using the pipeline shutdown to reduce Mazeikiu Nafta's value and thus encourage Poland's PKN Orlen to abandon its acquisition.

Market Commentary

The oil market opened 25 cents higher at 61.20 as the market remained supported by statements made by Iran's President over its nuclear program. He stated that Iran would not show weakness over its nuclear program after the country ignored the February 21 deadline to halt its uranium enrichment. The complex was also supported amid the refinery problems. The oil market traded to a high of 61.80 as it held support at 61.00. However the market erased its gains and sold off to a low of 60.50. The market however bounced off its low and traded back towards 61.50 ahead of the close as traders covered their shorts. The market settled up 19 cents at 61.14. Volume in the crude market was good with 284,415 lots booked on the day. The heating oil market gapped higher from 172.70 to 174.20 as it remained supported by the larger than expected draw in distillate stocks. It settled in a sideways trading pattern from 174.00 to 176.00 before it sold off to a low of 172.80. The market later bounced off its low and settled up 2.55 cents at 175.05. The RBOB market also gapped higher from 176.00 to 176.50 and backfilled its gap as it sold off to a low of 173.00. The market, which traded to a high of 177.75, settled up 83 points at 176.31. Volumes in the product markets were light with 38,507 lots booked in the heating oil market and 41,461 lots booked in the RBOB market.

The Commitment of Traders report showed that non-commercials in the crude market switched their net short position of 7,213 contracts to a net long position of 7,862 contracts in the week ending February 20. The combined futures and options report showed that non-commercials cut their net long positions by 6,439 contracts on the week. Given the market's move higher in the past few trading sessions, non-commercials have likely continued to add to their net long position. The non-commercials in the heating oil market cut their net short position by 877 contracts to 4,512 contracts while non-commercials increased their net long positions by 546 contracts to 18,376 contracts on the week.

The oil market is seen remaining headline driven as the permanent members of the UN Security Council plus Germany

Technical levels			
	Levels	Explanation	
CL	Resistance	62.00, 62.95	Previous highs
	61.14, up 19 cents	61.80	Friday's high
	Support	60.50	Friday's low
		59.75, 58.30, 57.80, 57.20	Previous lows
HO	Resistance	178.25, 179.40, 179.95	Previous highs, Basis trendline
	175.05, up 2.55 cents	176.05	Friday's high
	Support	172.80	Friday's low
		168.20	Previous low
RB	Resistance	178.71	Basis trendline
	176.31, up 83 points	177.75	Friday's high
	Support	176.00, 173.00	Friday's low
		171.00, 164.60	Previous lows

are scheduled to meet on Monday for talks on drafting a second resolution sanctioning Iran. Technically, the market is seen remaining supported as stochastic continue to trend higher. Support is seen at 60.50 followed by 59.75, 58.30, 57.80 and 57.20. However resistance is seen at 61.80 followed by 62.00 and 62.95.