



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR FEBRUARY 27, 2008

A UN Security Council vote on new sanctions against Iran over its nuclear program is not expected to happen until next week as sponsors of the draft consider new amendments in an attempt to secure unanimous support. The vote on the draft resolution was expected to be held on Friday. Meanwhile, Russia warned Iran that it would support further UN sanctions over its nuclear program unless Iran halted its uranium enrichment in the next few days. Separately, a State Department official said the US State and Treasury departments are expected to look into whether a \$16 billion

Market Watch

The US House of Representatives approved a bill that would repeal \$18 billion in tax breaks for big oil companies that would help pay for developing renewable energy sources. Under the bill, energy companies would no longer be able to exclude a certain portion of their oil and gas production income from US taxes and would also have to pay US taxes on some foreign income that was also taxed in the country where it was earned. The bill would extend tax credits for producing energy from wind, solar, geothermal, cellulosic ethanol, biofuels and other renewable sources. The bill is still pending a vote by the Senate. Republicans in the Senate blocked a similar bill last year.

Federal Reserve chairman Ben Bernanke said the behavior of crude prices this year would determine the evolution of inflation this year. He also said the Fed's job was to control domestic inflation and not the value of the dollar or the rate of money supply growth. He also stated that the investment of sovereign wealth funds in the US assets was constructive and encouraged banks to use them for additional capitalization.

US Director of National Intelligence Michael McConnell said world oil prices at \$100/barrel have failed to stimulate expected levels of production investment and surpluses. He also said that any decision by Venezuela to stop selling oil to the US would probably hurt the Venezuelan economy more than the US economy.

The German Economy Ministry stated that the euro's rise to a record high against the dollar helps reduce the negative impact of record oil prices.

DOE Stocks

Crude – up 3.2 million barrels
Distillate – down 2.5 million barrels
Gasoline – up 2.3 million barrels
Refinery runs – up 1.2%, at 84.7%

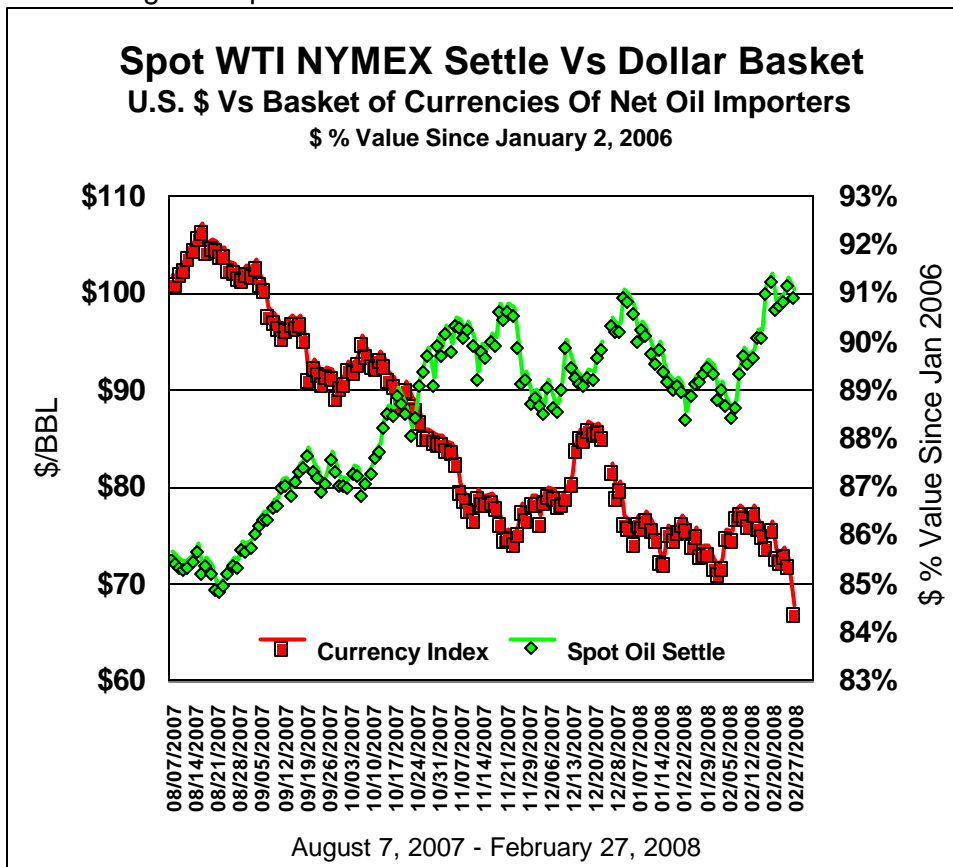
gas deal with China's national oil company, CNOOC, violates US sanctions law. Iran's Oil Ministry on Tuesday reported that Iran was expected to sign a \$16 billion contract to develop its North Pars gas field with CNOOC on Wednesday.

Israeli Prime Minister Ehud Olmert said it was not inevitable that Iran would produce a nuclear bomb.

A top Iranian cleric criticized Iran's President Mahmoud Ahmadinejad's attacks on Israel, saying a foreign policy of coarse slogans was not in the national interest. He said Iran needed to show more flexibility and desire for talks.

Feb Calendar Averages	
CL	94.59
HO	262.91
RB	242.57

The Turkish military said they killed 77 Kurdish rebels in northern Iraq. The total death toll for the rebels since the operation started February 21 reached 230. Two dozen soldiers and three pro-government village guards have also been killed. The rebels from the Kurdistan Workers' Party or PKK have disputed the military figures, saying only a few PKK fighters and more than 80 Turkish troops have died. Iraq has demanded the withdrawal of Turkish troops. Acting Iraqi Prime Minister Barham Saleh warned that a prolonged offensive would lead to dire consequences for the region. However Turkey has stated that it would continue its incursion until it achieved its military goals. It has refused to give Iraq a timetable for its withdrawal.

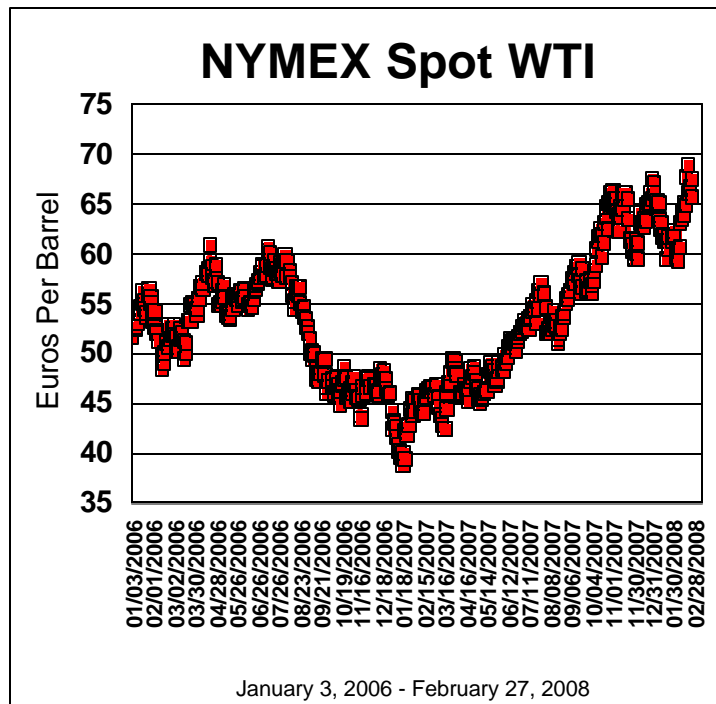


Analysts believe gasoline prices could reach \$4/gallon by spring. With growth slowing, high energy prices that were once easily absorbed by consumers are now more likely to act as a drag on consumption. A Harvard University economist said the effect of high oil prices today could be the difference between having a recession and not having a recession. Economists have stated that the energy's share of disposable income is slowly increasing again. OPIS has estimated that gasoline prices would peak at \$3.50-\$3.75/gallon while the AAA has stated that \$4/gallon is possible this summer. According to

the Energy Department's latest forecast, gasoline prices should peak \$3.40/gallon. It said crude oil prices may fall gradually through 2008 but not enough to give consumers much savings at the pump. Separately, the White House said it was mindful of the effect increasing gasoline prices have on the US economy. White House spokeswoman Dana Perino reiterated the Bush administration's view that there was no quick fix to rising energy costs. She said oil producing countries should increase their output and added that domestic production should also increase to help ease high energy costs.

The EIA reported that the average retail price for home heating oil increased by 6.6 cents over the past week to a record \$3.46/gallon.

Rilwanu Lukman, an oil adviser to Nigeria's President said OPEC is unlikely to cut its production if prices remain at their current levels.



Refinery News

Chevron Corp reported flaring at its 260,000 bpd El Segundo, California refinery on Wednesday.

Flint Hills Resources said its Rosemount, Minnesota refinery was not operating at its new expanded capacity of 320,000 bpd due to a delay in the expansion of the Minnesota Pipeline. The refinery is currently running at 295,000 bpd, using about half of the 50,000 bpd expanded crude distillation capacity that was added in late 2007. An expansion of the Minnesota Pipeline was required to support the refinery expansion project. The pipeline expansion project would add 165,000 bpd to the capacity of the Minnesota Pipeline. The expansion is expected to start in the fourth quarter of 2008.

Mexico's Gulf coast oil ports of Pajaritos, Dos Bocas and Cayo Arcas were closed Wednesday due to poor weather conditions.

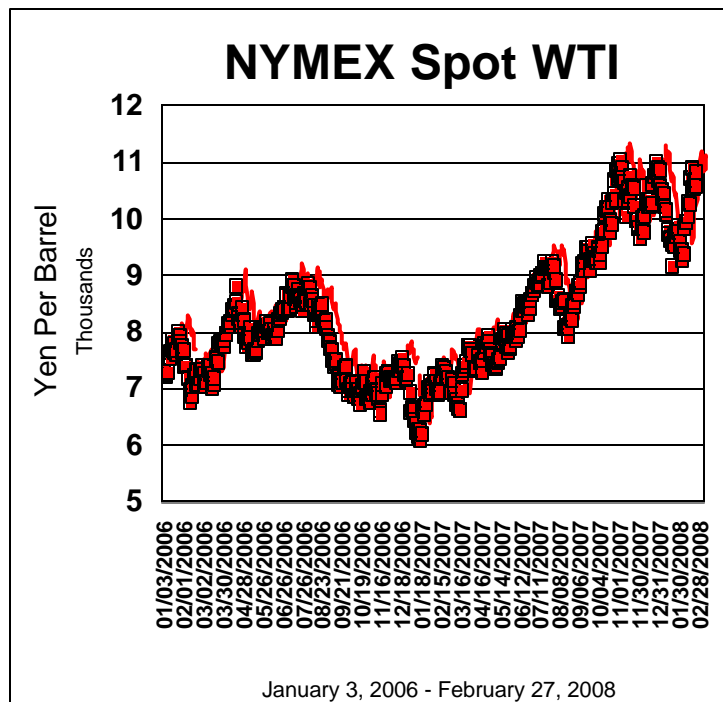
Abu Dhabi National Oil Co notified its Asian customers that it would supply crude at full contracted volumes for April, unchanged from March. Demand for additional supplies from Abu Dhabi is expected to remain limited for April as refineries in Asia enter the refinery turnaround season and oil demand falls.

The Shetland Islands Council said Brent crude oil exports from Sullom Voe fell to 173,110 tons in the week ending February 26 from 253,723 tons in the previous week.

France's Total and Saudi Aramco are likely to proceed with plans to build a 400,000 bpd refinery in Saudi Arabia despite escalating costs. Total and Saudi Aramco are expected to make a final investment decision on the project in May or June.

Nippon Oil Corp said it planned to refine 4.43 million kiloliters or 27.9 million barrels or 961,000 bpd in March to meet domestic demand. Its February crude refining volume for domestic demand was estimated at 4.21 million kl.

The Petroleum Association of Japan



reported that Japan's crude oil stocks built by 1.6 million barrels to 92.06 million barrels in the week ending February 23. Japanese refiners ran their facilities at an average 87.4% of total capacity of 4.9 million bpd in the week, up from 86.6% the previous week. Its crude runs increased by 40,000 bpd to 4.28 million bpd. It also reported that gasoline stocks fell by 100,000 barrels to 13.74 million barrels while kerosene stocks fell by 1.69 million barrels to 14.64 million barrels on the week.

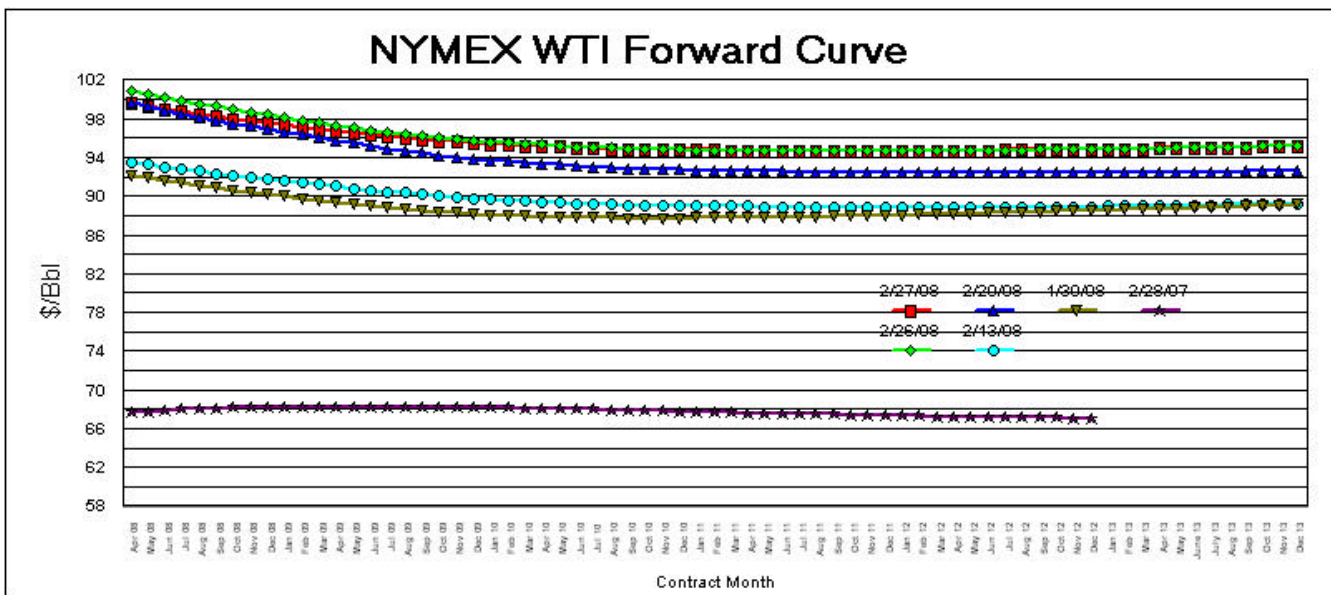
Indian refiners processed 3.23 million bpd of crude oil in January, up 5.3% on the year from 3.07 million bpd. Crude oil production in January fell by 0.2% on year to 684,500 bpd.

Production News

Mexico's Energy Ministry reported that crude oil production from the Cantarell offshore field fell to 1.243 million bpd in January, the lowest average monthly output level in several years. It is down from 1.26 million bpd in December.

The Chevron-led Tengizchevroil said it planned to increase its output sharply this year after new production facilities start up. It said it has the capacity to produce 540,000 bpd by mid-2008. It produced 13.9 million tons or 320,000 bpd last year.

BP said it replaced its annual production by 112% in 2007, taking its proved reserves of oil and gas to 17.8 billion barrels. It said a \$60/barrel oil price assumption supported an estimated production potential of about 4.3 million bpd by 2012.



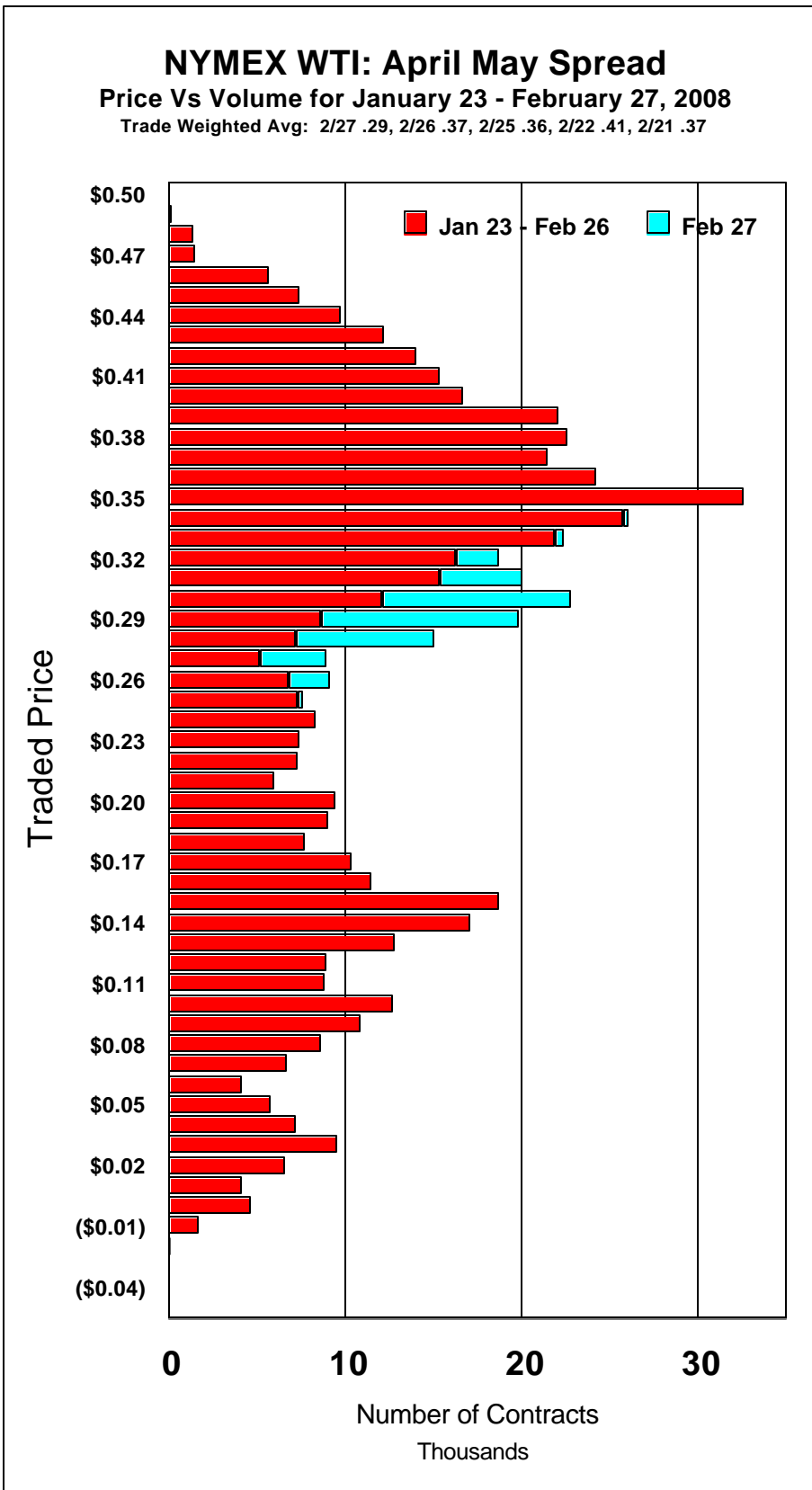
OPEC's news agency reported that OPEC's basket of crudes increased to \$94.09/barrel on Tuesday from \$93.63/barrel on Monday.

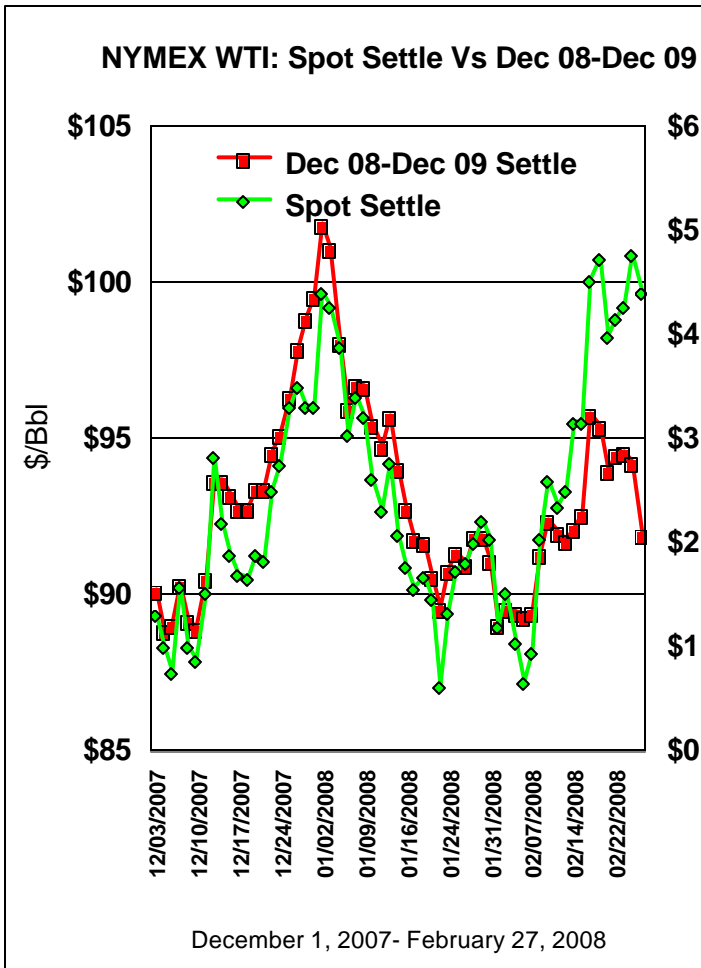
Saudi Aramco increased the price for propane cargoes loading in March by 2.5% to \$820/ton. It also increased the price of butane by 2.5% to \$825/ton.

Market Commentary

The fundamentals driving energy prices may not be directly related to oil, but nonetheless, their impact is having the same affect. As the US dollar fell to an all time low against the euro, crude oil prices set yet another record high, halting at \$102.08. This rise in prices was short lived after the release the weekly DOE/API numbers indicating that crude oil stocks rose 3.23 million barrels. This is the seventh

week in a row that stock levels for crude oil have risen, putting stock levels 743,000 above the same four week period last year. More crude is on its way, at a time when demand is at a critical point. Total gasoline stocks rose by 2.3 million barrels and are now above the upper limit of the average range. Distillate stocks fell 2.5 million barrels and are in the lower half of the average range. There appears to be a struggle going on between the true fundamentals of crude oil and the economic fundamentals. As the dollar becomes weaker, crude oil prices tend to rise in order to compensate the seller. This coupled with investors pouring money into commodities has helped to bring prices to these previously unforeseen levels. On the flip side of all this, is the demand factor which will come into play as the economy struggles. With stock levels rising and demand at extreme lows, prices should come off. While we are waiting to see how all this plays out, it would be wise to buy and sell against the listed support and resistance numbers. The forward curve is starting to show signs of front end weakening, with the tip of the curve bowing to the deferred. With the Goldman rolls coming, the front end may come under further pressure. With this in mind perhaps one might want to sell the front end, April 08 or May 08 contract and buy the December 08 contract, looking for the deferred to gain against the nearby.





It is also interesting to note the significant collapse in the crude Dec 2008- Dec 2009 spread, which breached a modest three week support trendline this morning, and then over the course of the trading session gave back more than 62% of the gains during the period. One though has to wonder if this spread has gotten ahead of the overall price movement in the spot contract.

Open interest in crude oil is 1,405,922 up 16,026, April08 378,022 up 5,514, May08 157,061 up 2,340 and Dec08 197,178 up 1,301. The heating oil market also posted a new high of 283.45 in overnight trading as the crude market also posted its record high. The heating oil market however erased its gains and sold off further to 277.40 following the release of the weekly petroleum stock reports, which pressured the rest of the complex. The market later retraced some of its losses only to see the market trade lower on a late bout of selling ahead of the close. It settled down 4.39 cents at 277.11 and sold off to a low of 276.61 in late afternoon trading. The gasoline market also settled down 7.28 cents at 247.77, in light of the larger than expected build in gasoline stocks. The market retraced almost 38% of its move from a low of 261.69 to a high of 253.54 as he market sold off to a

low of 247.03. The product markets are seen trading lower after the market retraced their gains on the larger than expected builds in stocks. Stochastics have also crossed back to the downside. In the heating oil, support is seen at 276.81,

		Explanation
CL	Resistance	102.10, 103.53 Basis trendlines
	Support	101.38, 102.08 Wednesday's high
HO	Resistance	100.32, 99.43 Basis trendline, Wednesday's low
	Support	97.75, 97.16, 96.87, 96.07, 94.21, 92.35, 86.34 Previous lows, 38% retracement(86.34&102.08), 50%, 62%, low
RB	Resistance	294.39 Basis trendline
	Support	278.92, 281.05 Wednesday's high(April)
RB	Resistance	276.81, 274.28 Basis trendline, Wednesday's low(April)
	Support	273.55, 269.31, 267.64, 264.91, 259.93, 254.94 Previous lows, 38% retracement(238.80&281.05), 50%, 62%
RB	Resistance	274.10, 275.56 Previous highs
	Support	268.90, 272.50 Wednesday's high(April)
RB	Resistance	263.88 Wednesday's low(April)
	Support	262.55, 261.27, 256.85, 252.43 Previous low, 38% retracement(238.14&275.56), 50%, 62%

274.28, 273.55, 269.31, 267.64, 264.91, 259.93 and 254.94. Resistance is seen at 278.92, 281.05 followed by more distant resistance at 294.39. In the RBOB, support is seen at 263.88, 262.55, 261.27, 256.85 and 252.43 while resistance is seen at 268.90, 272.50, 274.10 and 275.56.

NYMEX Petroleum Options Most Active Strikes for February 27, 2008

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	4	8	P	96	03/14/2008	1.23	5,962	32.67
LO	4	8	P	94	03/14/2008	0.74	5,949	32.98
LO	6	8	P	85	05/15/2008	1.08	4,652	32.43
LO	5	8	P	90	04/17/2008	1.36	3,583	33.16
LO	4	8	C	120	03/14/2008	0.06	3,408	42.05
LO	6	8	P	82	05/15/2008	0.7	3,238	33.02
LO	4	8	P	95	03/14/2008	0.95	3,111	32.64
LO	9	8	P	75	08/15/2008	0.79	3,036	30.56
LO	4	8	P	100	03/14/2008	2.9	2,990	32.71
LO	6	8	P	80	05/15/2008	0.51	2,912	33.37
LO	5	8	P	89	04/17/2008	1.17	2,728	33.40
LO	5	8	P	95	04/17/2008	2.73	2,507	32.25
LO	4	8	C	105	03/14/2008	0.94	2,373	33.47
LO	12	12	P	72	11/14/2012	5.15	2,000	23.19
LO	4	8	P	93	03/14/2008	0.57	1,876	33.33
LO	4	8	P	90	03/14/2008	0.25	1,804	34.67
LO	9	8	P	82	08/15/2008	1.73	1,750	29.39
LO	9	8	P	77	08/15/2008	1.01	1,750	30.29
LO	4	8	C	100	03/14/2008	2.54	1,721	32.69
LO	6	8	P	95	05/15/2008	3.7	1,708	31.10
LO	6	8	P	87	05/15/2008	1.42	1,646	32.09
LO	6	8	C	120	05/15/2008	1	1,515	34.99
OB	8	8	C	2.82	07/28/2008	0.1436	516	31.81
OB	8	8	C	2.88	07/28/2008	0.1283	511	32.36
OB	6	8	C	3	05/27/2008	0.0714	350	34.57
OB	7	8	C	2.89	06/25/2008	0.1076	278	32.07
OB	7	8	C	2.83	06/25/2008	0.1248	278	31.82
OB	9	8	C	2.66	08/26/2008	0.1923	254	29.51
OB	9	8	P	2.66	08/26/2008	0.2299	254	29.67
OB	6	8	C	2.74	05/27/2008	0.1449	242	33.40
OB	8	8	C	2.84	07/28/2008	0.1383	241	31.99
OB	8	8	C	2.9	07/28/2008	0.1237	241	32.55
OB	6	8	C	2.75	05/27/2008	0.1412	226	33.45
OB	6	8	C	2.83	05/27/2008	0.114	226	33.78
OB	8	8	C	2.93	07/28/2008	0.1171	215	32.84
OB	8	8	C	2.86	07/28/2008	0.1332	212	32.18
OB	5	8	C	3.1	04/25/2008	0.0323	201	36.53
OB	4	8	P	2.65	03/26/2008	0.1036	200	35.26
OH	5	8	P	2.62	04/25/2008	0.0957	450	32.49
OH	5	8	C	2.6	04/25/2008	0.1979	450	32.72
OH	5	8	C	2.74	04/25/2008	0.1268	450	32.92
OH	7	8	C	2.7	06/25/2008	0.1512	200	27.19

