



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta &  
Zachariah Yurch

**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

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### **ENERGY MARKET REPORT FOR FEBRUARY 28, 2007**

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Iraq's Prime Minister Nuri al-Maliki invited neighboring countries and world powers to a March 10 meeting in Baghdad. He said he hoped the meeting would help bring reconciliation and support for his government. He has invited Egypt, the five permanent members of the UN Security Council, the Arab League and the Organization of the Islamic Conference. Iraq's Foreign Minister Hoshiyar Zebari said the meeting in March would

be a chance for western and regional powers to try to bridge their differences on Iraq. Meanwhile, Secretary of Iran's Supreme National Security Council, Ali Larijani said Iran was considering the invitation. The US has stated that it would attend the meeting while Syria has also stated that it would attend. The US State Department did not rule out the possibility that US officials may hold bilateral talks with Iranians on the sidelines of the conferences.

Nigerian police reported that gunmen abducted a Lebanese construction worker near the city of Port Harcourt in the Niger Delta. The kidnapping increased to nine the number of foreigners held by armed groups in the delta.

#### **Refinery News**

Delek US Holdings said it would not shut a sulfur recovery unit and a SCOT unit at its 55,000 bpd refinery in Tyler, Texas to repair the SCOT unit, contrary to its previous report filed with the Texas Commission for Environmental Quality. Delek also stated that it restored power to its fluid catalytic cracking unit. The company said an electrical fault caused the feeder to the flare blower motor to trip, which cut power to the fluid catalytic cracking unit early Tuesday. Power was restored on Tuesday evening.

#### **Market Watch**

Analysts stated that Europe's increase in diesel fuel supplies is not expected to meet increasing demand for the fuel. Goldman Sachs forecast that Europe's structural diesel shortage would increase by about 5 million tons by 2008. The region's demand growth would require an extra 500,000 bpd of gas oil and diesel by 2010 compared with five years ago.

The Commerce Department estimated that the US economy grew at a weaker than expected rate in the last three months of last year. It stated that GDP expanded at an annual rate of 2.2% in the fourth quarter of 2006. It was revised down from the 3.5% advance in the government's prior estimate. The core PCE price index, which excludes food and energy prices, increased 1.9%, down from its previous estimate of a 2.1% gain.

#### **DOE Stocks**

**Crude** – up 1.4 million barrels  
**Distillate** – down 3.8 million barrels  
**Gasoline** – down 1.9 million barrels  
**Refinery runs** – up 0.94%, at 86%

**NYMEX Petroleum Options Most Active Strikes for February 28, 2007**

| Symbol | Month | Year | Call/Put | Strike | Exp Date   | Settle | Volume | IV    |
|--------|-------|------|----------|--------|------------|--------|--------|-------|
| LO     | 6     | 7    | P        | 55     | 05/17/2007 | 0.83   | 6,176  | 34.15 |
| LO     | 7     | 7    | C        | 80     | 06/15/2007 | 0.63   | 3,650  | 31.76 |
| LO     | 5     | 7    | P        | 50     | 04/17/2007 | 0.11   | 3,636  | 36.04 |
| LO     | 5     | 7    | C        | 70     | 04/17/2007 | 0.73   | 3,350  | 31.43 |
| LO     | 6     | 7    | P        | 62     | 05/17/2007 | 2.77   | 2,560  | 32.06 |
| LO     | 5     | 7    | P        | 60     | 04/17/2007 | 1.58   | 2,350  | 32.28 |
| LO     | 7     | 7    | P        | 55     | 06/15/2007 | 1.03   | 2,300  | 33.05 |
| LO     | 7     | 7    | P        | 60     | 06/15/2007 | 2.31   | 2,250  | 32.08 |
| LO     | 5     | 7    | P        | 62     | 04/17/2007 | 2.36   | 2,145  | 31.90 |
| LO     | 5     | 7    | C        | 80     | 04/17/2007 | 0.1    | 2,007  | 34.70 |
| LO     | 6     | 7    | C        | 75     | 05/17/2007 | 0.68   | 1,935  | 31.36 |
| LO     | 6     | 7    | P        | 60     | 05/17/2007 | 2.02   | 1,894  | 32.47 |
| LO     | 5     | 7    | C        | 65     | 04/17/2007 | 2.03   | 1,655  | 31.54 |
| LO     | 5     | 7    | C        | 62     | 04/17/2007 | 3.41   | 1,649  | 31.91 |
| LO     | 4     | 7    | P        | 57     | 03/15/2007 | 0.27   | 1,617  | 35.11 |
| LO     | 7     | 7    | C        | 61     | 06/15/2007 | 6.31   | 1,575  | 32.18 |
| LO     | 5     | 7    | P        | 55     | 04/17/2007 | 0.49   | 1,553  | 34.14 |
| LO     | 12    | 7    | C        | 100    | 11/13/2007 | 0.37   | 1,500  | 28.73 |
| LO     | 4     | 7    | C        | 62     | 03/15/2007 | 1.56   | 1,361  | 33.33 |
| LO     | 5     | 7    | P        | 57     | 04/17/2007 | 0.81   | 1,318  | 33.37 |
| OB     | 7     | 7    | C        | 2.3    | 06/26/2007 | 0.0374 | 1,000  | 35.34 |
| OB     | 7     | 7    | C        | 2.25   | 06/26/2007 | 0.0436 | 776    | 34.82 |
| OB     | 7     | 7    | C        | 1.7    | 06/26/2007 | 0.2519 | 501    | 33.15 |
| OB     | 5     | 7    | C        | 1.9    | 04/25/2007 | 0.089  | 489    | 32.49 |
| OB     | 5     | 7    | C        | 2      | 04/25/2007 | 0.052  | 452    | 32.53 |
| OB     | 5     | 7    | P        | 1.7    | 04/25/2007 | 0.025  | 300    | 31.99 |
| OB     | 7     | 7    | C        | 2.05   | 06/26/2007 | 0.0822 | 163    | 32.88 |
| OB     | 7     | 7    | C        | 1.99   | 06/26/2007 | 0.0996 | 148    | 32.32 |
| OB     | 4     | 7    | P        | 1.77   | 03/27/2007 | 0.0294 | 145    | 35.18 |
| OB     | 4     | 7    | P        | 1.79   | 03/27/2007 | 0.0354 | 120    | 35.07 |
| OB     | 4     | 7    | C        | 1.96   | 03/27/2007 | 0.037  | 100    | 34.76 |
| OB     | 4     | 7    | P        | 1.74   | 03/27/2007 | 0.0218 | 100    | 35.30 |
| OH     | 4     | 7    | C        | 1.65   | 03/27/2007 | 0.1502 | 400    | 37.07 |
| OH     | 5     | 7    | C        | 1.68   | 04/25/2007 | 0.1434 | 300    | 33.15 |
| OH     | 4     | 7    | C        | 1.8    | 03/27/2007 | 0.0598 | 250    | 36.38 |
| OH     | 5     | 7    | C        | 1.79   | 04/25/2007 | 0.0825 | 200    | 32.53 |
| OH     | 4     | 7    | C        | 1.63   | 03/27/2007 | 0.1658 | 150    | 37.30 |
| OH     | 6     | 7    | C        | 1.78   | 05/25/2007 | 0.1066 | 150    | 31.45 |
| OH     | 6     | 7    | P        | 1.65   | 05/25/2007 | 0.0523 | 150    | 31.99 |
| OH     | 5     | 7    | C        | 1.9    | 04/25/2007 | 0.043  | 130    | 32.34 |
| OH     | 6     | 7    | P        | 1.7    | 05/25/2007 | 0.0701 | 100    | 31.76 |
| OH     | 6     | 7    | C        | 1.74   | 05/25/2007 | 0.1271 | 100    | 31.72 |
| OH     | 6     | 7    | C        | 1.8    | 05/25/2007 | 0.0979 | 100    | 31.53 |
| OH     | 9     | 7    | C        | 1.85   | 08/28/2007 | 0.1463 | 100    | 29.65 |

Workers at Shell's 334,000 bpd refinery in Deer Park, Texas were attempting to repair a propane leak on Wednesday that forced the evacuation of workers from a section of the refinery. The leak started early on Wednesday morning.

The US Energy Department said it would spend up to \$385 million over four years to fund six new bio-refineries which would turn cellulosic sources into ethanol. It said the plants to be located in Kansas, Florida, California, Iowa, Idaho and Georgia would cost about \$1.2 billion to build and produce more than 130 million gallons of cellulosic ethanol per year.

Imperial Oil Ltd said its 118,000 bpd Nanticoke refinery in Ontario restarted following a fire on February 15. The company said it was operating at restricted rates until mid-March and that the rationing of gasoline was still in place. Imperial also stated that it expected to complete repairs to a hydrocracker unit at its 121,000 bpd Sarnia, Ontario refinery by the end of June. The unit was damaged by fire in December.

Trinidad and Tobago's Petrotrin said its refinery

would return to normal operations next week following the completion of its maintenance. It said supplies to local and regional markets were not affected by the refinery upgrade and maintenance due to adequate inventories.

Western Refining Inc said the close of its purchase of Giant Industries was delayed again by a request from the Federal Trade Commission for additional information. The deal is now expected to close in the second quarter of 2007. With the acquisition, Western Refining would double its crude processing capacity to 216,000 bpd.

Oman said it aimed to start its new 116,000 bpd Sohar refinery on March 11, six months later than planned after the plant suffered start up problems. The country's other refinery, the Muscat refinery is expected to restart on March 25 after it was shutdown for expansion and maintenance that started on January 10. The plant's capacity is expected to increase to 106,000 bpd from 85,000 bpd.

According to the Petroleum Association of Japan, the country's kerosene stocks fell by 267,000 kiloliters or 7.7% to 3.18 million kl or 20.02 million barrels in the week ending February 24. Japan's crude stocks increased by 1.1% to 17.01 million kl on the week while its gasoline stocks fell to 2.27 million tons or 14.29 million barrels, down 100,000 barrels on the week. Japanese refiners ran their facilities at an average of 87.8% of total capacity of 4.83 million bpd.

Official data showed that China unexpectedly became a net importer of naphtha in January while imports of other fuels also increased. Meanwhile China's crude oil imports increased by 3.5% to 13.69 million tons or 3.22 million bpd while its kerosene imports increased 68.9% to 523,545 tons. China's diesel imports in January also increased by 50.1% to 115,017 tons while its fuel oil imports fell by 12.6% to 1.87 million tons. Meanwhile its gasoline exports fell by 2.9% to 348,707 tons while its diesel exports fell by 50.7% to 29,560 tons.

China's National Bureau of Statistics said China used 1.23% less energy per unit of GDP in 2006.

### **Production News**

Canadian regulators conditionally approved Imperial Oil Ltd's plans for the 300,000 bpd Kearl oil sands project in northern Alberta.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$57.09/barrel on Tuesday, up from Monday's \$56.94/barrel.

Japan's Information Center stated that Japan's retail regular gasoline prices fell to their lowest level in 13 months in the week ending February 26.

The average price of regular gasoline in Japan stood at 129 yen or \$1.09 per liter or \$4.13/gallon.

| <b>Technical levels</b> |                       |                     |                    |
|-------------------------|-----------------------|---------------------|--------------------|
|                         |                       | <b>Levels</b>       | <b>Explanation</b> |
| <b>CL</b>               | <b>Resistance</b>     | 62.25, 62.35, 62.95 | Previous highs     |
|                         | 61.79, up 33 cents    | 62.10               | Wednesday's high   |
|                         | <b>Support</b>        | 61.50, 60.30        | Wednesday's low    |
| <b>HO</b>               | <b>Resistance</b>     | 60.10, 59.75        | Previous lows      |
|                         | 177.81, up 76 points  | 178.75, 180.30      | Previous highs     |
|                         | <b>Support</b>        | 178.00              | Double top         |
| <b>RB</b>               | <b>Resistance</b>     | 176.00, 174.10      | Wednesday's low    |
|                         | 187.38, up 2.47 cents | 172.80, 172.50      | Previous lows      |
|                         | <b>Support</b>        | 190.16              | Previous high      |
| <b>RB</b>               | <b>Resistance</b>     | 188.00              | Wednesday's high   |
|                         | 187.38, up 2.47 cents | 186.00, 182.75      | Wednesday's low    |
|                         | <b>Support</b>        | 181.00              | Double bottom      |

### **Market Commentary**

The oil market continued to trade lower in overnight trading and opened down 66 cents at 60.80 as it remained pressured following the sell off in the stock market late Tuesday. The crude market traded

above the 61.00 level early in the session and continued to trend lower. The market seemed to hold some support following the release of the weekly petroleum stock stocks, showing a build in crude and draws in products stocks. However it quickly sold off to a low of 60.30 as the market seemed to be looking for a larger draw in distillate stocks. The crude market posted an inside trading day as it held its support and later rallied above the 62.00 level ahead of the close. It traded to a high of 62.10 and settled up 33 cents at 61.79 as it failed to test its previous high of 62.25. Volume in the crude market was good with over 306,190 lots booked on Globex. The heating oil market also posted an inside trading as it failed to breach its previous trading range. It sold off to a low of 174.55 as the market seemed to be looking for a larger draw than the 3.8 million barrel draw reported by the DOE. The market however bounced off its low and rallied to a high of 178.00 as traders liquidated their position ahead of its expiration at the close. It settled up 11 points at 178.04. The April heating oil contract settled up 76 points at 177.81. Meanwhile, the RBOB market opened up 39 points higher at 182.00 and traded to a low of 179.80 following the release of the DOE report which showed a draw in gasoline stocks of 1.9 million barrels. It however bounced off that level and rallied to high of 187.00 ahead of its expiration at the close. It settled 3.15 cents at 184.76 amid the continuing refinery problems. The April RBOB contract settled up 2.47 cents at 187.38. Volumes in the product markets were better, with 50,176 lots booked in the heating oil market and 50,343 lots booked in the RBOB market.

The crude market, which was able to hold its support as the stock market recovered, is seen remaining its recent trading range. The market is seen testing its recent highs after it settled in positive territory. The market is also seen remaining headline driven in light of the recent refinery problems and the renewed concern over Iran's continued defiance. The market is seen finding resistance at its highs of 62.10, 62.25 followed by 62.35 and 62.95. Meanwhile support is seen at 61.50 followed by 60.30, 60.10 and 59.75.