



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR FEBRUARY 28, 2008**

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Italy's Eni SpA said there was a small disruption to its Brass River crude production in Nigeria due to technical problems at a minor flowstation. It denied there was a militant attack that cut production by 50,000 bpd following reports that stated that output was reduced due to a militant attack on February 24. It said production was mostly returned to normal.

Royal Dutch Shell said that repair work to the Nembe Creek pipeline connected to the Bonny Light oil terminal in Nigeria was completed and oil started flowing through the pipeline.

Iraq halted exports of Kirkuk crude through

#### **Feb Calendar Averages**

**CL** – 95.01

**HO** – 264.05

**RB** – 242.94

#### **Market Watch**

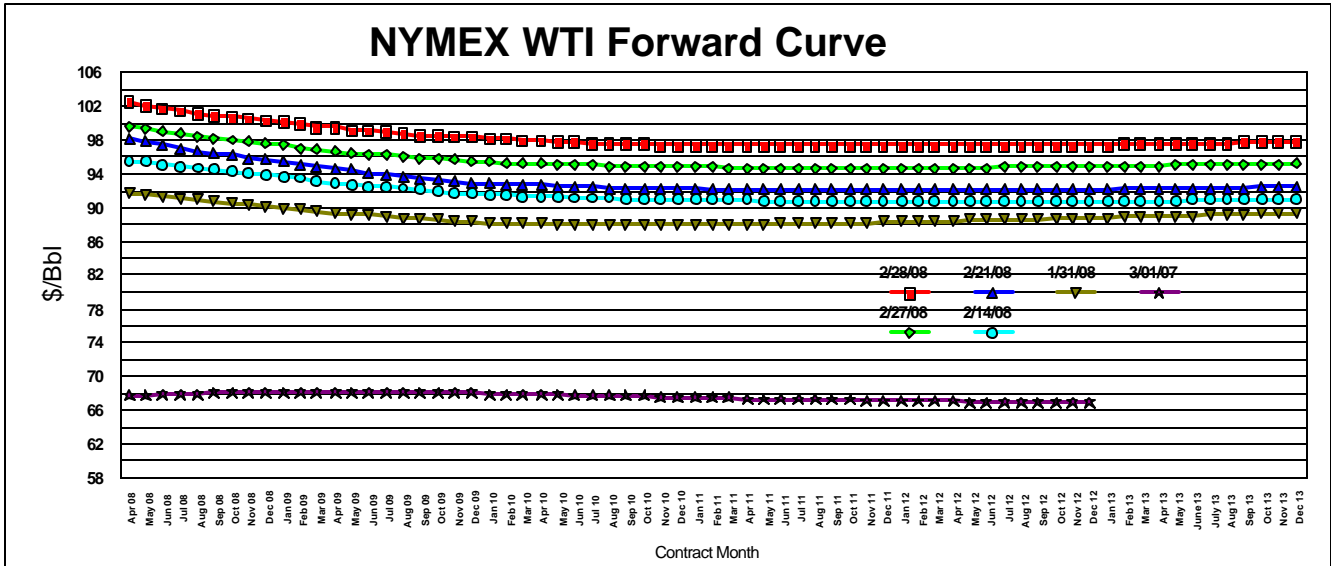
US heating oil prices may increase to record highs in the final weeks of winter amid the increasing price for crude oil. Government data this week showed households were paying \$3.46/gallon, up 40% on the year. US distillate fuel supplies are running about 6% below last year, in light of the recent cold weather. The weather outlook is for more cold weather to come. The US Northeast is forecast to see a colder than normal spring due to the La Nina phenomenon which will continue to support the heating oil market.

According to a Reuters survey, US crude futures in 2008 is expected to average \$83.87/barrel, up \$2.54 from last month's survey. The survey also showed that the average price in 2009 is estimated at \$79.21/barrel, up \$1.51 from the previous survey. Barclays Capital's estimate was the most bullish at \$97.70/barrel in 2008. It expects WTI crude to average above \$100/barrel in the second half of 2008. It was up from its previous estimate of \$87.40/barrel. It estimated that Brent crude would average \$96.40/barrel in 2008, up from \$85.80/barrel.

Option plays suggest oil prices may fall to \$80/barrel by June. There are currently about 63,863 put option contracts betting on a fall to \$80/barrel in June, 37,483 option contracts betting on a drop to \$85/barrel and 28,100 contracts betting on \$90/barrel.

Venezuela's PDVSA has asked a UK court to lift a \$12 billion freeze on its assets, saying it was unjustified and should be repealed. PDVSA's lawyers said a UK's court decision last month to order a freezing injunction had been beyond its jurisdiction and unwarranted given the nature of the dispute between PDVSA and ExxonMobil. The judge is scheduled to hear arguments for two and a half days and to issue a judgment next week or later. Separately, PDVSA and Italy's Eni are scheduled to sign an agreement on Friday that would bring Eni into the Orinoco basin as a partner.

its northern pipeline to Turkey on Wednesday. However Iraqi officials said they expected pumping to resume by Friday morning. An engineer with the Northern Oil Co blamed a technical fault in a pumping unit for the halt while a spokesman for the Oil Ministry said it was due to routine



maintenance of the pipeline. Iraq was pumping 350,000 bpd of crude before it was halted. A shipper said Iraqi oil in storage at the Turkish terminal in Ceyhan stood at 1 million barrels while the spokesman for the oil ministry said there was more than 3 million barrels in storage.

US President George W. Bush said high gasoline prices were stoking uncertainty over the direction of the US economy. He reiterated that the US Congress should pass legislation to encourage the building of refineries on abandoned military bases and open the Arctic National Wildlife Refuge in Alaska to oil drilling. He also said rising demand for ethanol gasoline blended from corn was putting pressure on food prices and called for more research into non-food cellulosic fuel sources like switch grass and wood chips.

US Federal Reserve chairman Ben Bernanke said that lower tariffs on ethanol imports would benefit the US economy. He also stated that the recent inflation gains should be temporary, giving officials the ability to respond to weak growth and strained financial markets.

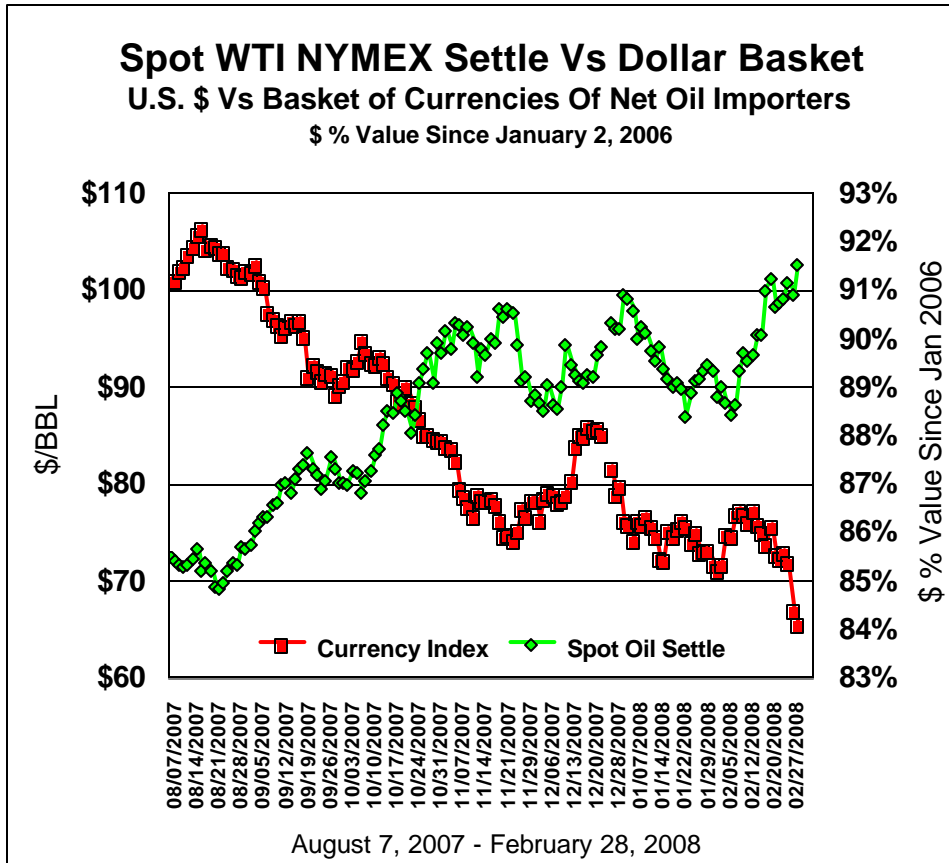
US Energy Secretary Samuel Bodman said OPEC should increase its crude production to ease pressure on record oil prices. He also said that even though the national average retail gasoline price was already at \$3.13/gallon before the annual price increase ahead of the driving season.

A Nigerian OPEC delegate said oil market fundamentals did not justify a cut in OPEC production. The head of Libya's OPEC delegation said OPEC would most likely keep its oil output steady at its meeting on March 5. Venezuela's Oil Minister Rafael Ramirez said the country may support either an output cut or a motion to leave production unchanged at next week's meeting. Meanwhile, Ecuador's Oil Minister Galo Chiriboga said it was too early to say whether OPEC would decide to increase or cut output at the next OPEC meeting.

According to Oil Movements, OPEC's crude oil shipments are expected to fall by 430,000 bpd to 24.39 million bpd in the four week period ending March 15. Deliveries from core OPEC producers in the Middle East are forecast to fall by 470,000 bpd to 17.43 million bpd in the four weeks ending March 15.

US Defense Secretary Robert Gates said Turkey's incursion against Kurdish rebels in northern Iraq should be short and focused. He urged Turkey to engage in talks with Iraqi and Iraqi Kurdish leaders. However Turkey's military chief Gen. Yasar Buyukanit has declined to set a timetable for the withdrawal

of troops. Turkey's Prime Minister Recep Tayyip Erdogan said Turkish troops would withdraw after achieving their goals.



Iran's President Mahmoud Ahmadinejad declared that Iran was the world's "number one" power. He made his comments amid the renewed efforts on the UN Security Council to agree on a new resolution imposing further sanctions on Iran.

The international affairs director of Iran's Oil Ministry, Hojjatollah Ghanimifard said Iran's oil revenue since March 2007 amounted to about \$70 billion. It earned \$62 billion from oil exports and \$8 billion from oil product exports in the past 11 months. He said Iran on average sold 2.5 million bpd of oil.

According to the California Board of Equalization, gasoline demand in California fell by 3.7% on year in November 2007 to 1.233 billion barrels as pump prices increased more than 35% to \$3.394/gallon. On average in the first 11 months of 2007, demand was lagging a year earlier by 1.2% or less than 10,000 bpd.

**Refinery News**

A pinhole leak in a valve at BP Plc's 265,000 bpd refinery in Carson, California is not expected to affect work to finish an overhaul on a fluid catalytic cracking unit. The refinery has been working to complete an overhaul of the 103,000 bpd fluid catalytic cracking unit. Separately, BP's 230,000 bpd crude unit at its Texas City, Texas refinery is expected to begin the process of restarting in the next week. The restart is in line with the company's estimate of the plant's return to a crude processing rate of 400,000 bpd by the end of the first quarter 2008. Also, BP Plc's Whiting, Indiana refinery is expected to reach normal crude oil processing rates in the second quarter and is currently operating above its end-2007 objective of 300,000 bpd. The refinery is able to process up to 410,000 bpd.

Power was restored to Pasadena Refining System's 100,000 bpd Pasadena, Texas refinery on Wednesday afternoon following a power outage earlier in the day. Workers were checking refinery units on Wednesday night in preparation to restart the refinery.

Valero Energy Corp said its 72,000 bpd fluid catalytic cracking unit at its 170,000 bpd refinery in Benicia, California refinery was shut on Thursday morning for unplanned repairs of a leak in a pipe. The unit is expected to resume planned rates within a week.

**NYMEX Petroleum Options Most Active Strikes for February 28, 2008**

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	12	8	P	70	11/17/2008	0.79	10,250	30.79
LO	5	8	C	102	04/17/2008	5.11	8,202	33.78
LO	6	8	P	90	05/15/2008	1.69	5,521	33.21
LO	6	8	P	95	05/15/2008	2.99	5,463	32.41
LO	12	8	P	75	11/17/2008	1.33	5,100	30.18
LO	5	8	C	96	04/17/2008	8.61	5,052	34.30
LO	4	8	P	95	03/14/2008	0.52	4,538	35.56
LO	6	8	C	50	05/15/2008	51.85	3,700	101.05
LO	12	8	C	52	11/17/2008	48.36	3,100	70.35
LO	5	8	P	95	04/17/2008	2.09	3,047	34.09
LO	5	8	P	90	04/17/2008	1.06	3,027	35.45
LO	12	8	C	105	11/17/2008	7.19	2,951	28.15
LO	12	8	P	95	11/17/2008	6.45	2,950	28.09
LO	5	8	P	89	04/17/2008	0.92	2,680	35.79
LO	5	8	C	70	04/17/2008	32.25	2,500	61.00
LO	6	9	P	80	05/14/2009	3.51	2,500	27.84
LO	4	8	C	105	03/14/2008	1.85	2,482	34.60
LO	12	12	C	140	11/14/2012	7.3	2,400	26.57
LO	4	8	C	70	03/14/2008	32.59	2,200	90.80
LO	4	8	C	69	03/14/2008	33.59	2,200	94.24
LO	6	8	P	82	05/15/2008	0.58	2,182	34.83
LO	6	8	P	89	05/15/2008	1.5	2,100	33.44
LO	5	8	C	100	04/17/2008	6.14	2,010	33.86
LO	6	8	C	75	05/15/2008	26.94	2,000	44.95
LO	5	8	C	120	04/17/2008	0.91	1,773	37.55
LO	5	8	P	75	04/17/2008	0.08	1,750	40.10
LO	6	8	C	100	05/15/2008	6.85	1,717	32.46
LO	6	8	P	86	05/15/2008	1.02	1,605	34.03
LO	12	8	C	42	11/17/2008	58.36	1,600	94.29
LO	12	8	C	37.5	11/17/2008	62.86	1,600	107.37
LO	9	8	P	89	08/15/2008	2.98	1,585	29.74
LO	4	8	C	102	03/14/2008	3.16	1,572	34.65
OB	4	8	P	2.2	03/26/2008	0.0034	510	39.07
OB	4	8	C	2.72	03/26/2008	0.0853	470	37.03
OB	5	8	P	2.66	04/25/2008	0.1351	464	36.09
OB	8	8	C	2.81	07/28/2008	0.1677	253	32.97
OB	8	8	C	2.87	07/28/2008	0.1508	253	33.53
OB	8	8	C	2.82	07/28/2008	0.1647	251	33.07
OB	8	8	C	2.88	07/28/2008	0.1482	249	33.63
OB	6	8	C	2.92	05/27/2008	0.1042	225	35.57
OB	6	8	P	2.48	05/27/2008	0.0849	225	34.43
OH	5	8	P	2.49	04/25/2008	0.043	850	35.41
OH	10	8	P	2.4	09/25/2008	0.0762	526	27.97
OH	4	8	C	2.9	03/26/2008	0.0793	485	36.80
OH	5	8	P	2.62	04/25/2008	0.0805	475	35.49
OH	6	8	P	2.49	05/27/2008	0.0521	425	29.34
OH	6	8	C	3	05/27/2008	0.0788	250	30.84
OH	4	8	C	2.8	03/26/2008	0.1202	233	35.80

Mexico reopened its three main Gulf of Mexico crude oil export terminals of Pajaritos, Dos Bocas and Cayo Arcas after bad weather prompted authorities to shut them for a full day. Meanwhile, the Pacific coast port of Salina Cruz remained closed.

Indonesia's Pertamina said it expected to imported 11.5-11.6 million barrels of oil products in April. It is expected to import 11.68 million barrels of oil products in March, up 6.4% on the month.

According to Singapore's International Enterprise, the country's residual fuel stocks fell by 1.628 million barrels to 12.804 million barrels in the week ending February 27. It reported that light distillate stocks built by 1.416 million barrels to 8.794 million barrels while middle distillate stocks fell by 387,000 barrels to 7.323 million barrels on the week.

Japan's Seibu Oil Ltd restarted its 120,000 bpd crude distillation unit at its Yamaguchi refinery on Wednesday following a short planned shutdown. The unit was shut from February 25 for regular cleaning and was restarted the evening of February 27.

**Production News**

BP Plc said the share of North Sea Buzzard crude oil in the Forties blend fell

for the first time in nine weeks to 33% from 35% the previous week. Fortis is one of the four North Sea crude grades that determine the price of Dated Brent.

Ecuador's central bank said the country's oil export revenue totaled \$827.82 million in December, up 69% from \$489.25 million in the same month of 2006. Ecuador exported 10.72 million barrels in December, up from 10.68 million barrels last year.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$95.20/barrel on Wednesday from \$94.09/barrel on Tuesday.

**Market Commentary**

For the second day in a row, prices defied the 3.2 million build in crude oil stocks. Economic woes and hedge investments continued to take center stage, pushing prices up above the \$102.00 level. The oil market rallied as the dollar continued to fall to new lows. The market settled up \$2.95 at \$102.59, a new record. When looking at the over all fundamentals, supply, demand, stock levels and seasonal maintenance, it is hard to conceive prices at this level. If not for economics, price most likely would not be at current levels. We cannot however stand in front of a moving train, but instead must take things as they are. We would continue to buy and sell against the listed support and resistance numbers and do not see this trend turning anytime soon. Gasoline cracks came under pressure and should continue to do so as refineries come back on line adding to an already excess in stocks. Once again the demand factor will have to come into play and so far indications are calling for strong European demand. Open interest in crude oil is 1,411,270 up 5,348, April08 367,571 down 10,451, May08 160,899 up 3,838 and Dec08 199,077 up 1,899. The heating oil market bounced off its low of 275.30 in overnight trading and never looked back. The market, which posted an outside trading day, extended its gains to over 8.5 cents as it rallied to yet a new high of 285.62 in afternoon trading. The market was well supported amid forecasts calling for cold weather. It settled up 7.45 cents at 284.56. Meanwhile, the RBOB market continued to trend lower and retraced more than 38% of its move from a low of 222.55 to a high of 261.69 as it traded to a low of 245.50. The market bounced off its low and rallied to a high of 250.40 in afternoon trading before it erased some of its gains ahead of the close. Unlike the heating oil, which settled sharply higher, the RBOB market settled up 1.8 cents at 249.57. The markets will remain supported ahead of the expiration of the March product contracts at the close of Friday before they retrace some of their gains next week. In the heating oil, support is seen at 277.15, 275.00, 274.69 and 272.45. More distant support is seen at 269.31, 267.64, 266.32, 261.06 and 255.81. Resistance is seen at 283.33 and 292.85. In the RBOB, support is seen at 264.40, 262.50,

262.01,  
261.27,  
256.85 and  
252.43.  
Resistance  
is seen at  
267.71,  
271.28,  
272.50,  
274.10 and  
275.56.

			Explanation
<b>CL</b>	<b>Resistance</b>	103.53, 106.73	Basis trendlines
	102.59, up \$2.95	102.97	Thursday's high
<b>HO</b>	<b>Support</b>	101.85, 100.25, 99.75, 98.90	Basis trendline, Thursday's low
		98.46, 97.75, 97.16, 96.87, 96.62, 94.66, 92.69	Previous lows, 38% retracement(86.34&102.97), 50%, 62%
<b>RB</b>	<b>Resistance</b>	292.85	Basis trendline
	284.56, up 7.45 cents	283.33	Thursday's high(April)
<b>RB</b>	<b>Support</b>	277.15, 275.00, 274.69, 272.45	Basis trendline, Thursday's low(April)
		269.31, 267.64, 266.32, 261.06, 255.81	Previous lows, 38% retracement(238.80&281.05), 50%, 62%
<b>RB</b>	<b>Resistance</b>	271.28, 272.50, 274.10, 275.56	Basis trendline, Previous highs
	249.57, up 1.80 cents	267.71	Thursday's high(April)
<b>RB</b>	<b>Support</b>	264.40, 262.50, 262.01	Thursday's low(April)
		261.27, 256.85, 252.43	38% retracement(238.14&275.56), 50%, 62%