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## ***ENERGY RISK MANAGEMENT***

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## **ENERGY MARKET REPORT FOR FEBRUARY 29, 2008**

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Turkey's military said it completed its goals against Kurdish rebels in Iraq and its troops have withdrawn from Iraq. Meanwhile, Iraq Foreign Minister Hoshyar Zebari confirmed Turkey ended its incursion targeting Kurdish rebels in northern Iraq on Friday.

### Market Watch

PDVSA argued in a UK court that even if ExxonMobil Corp had a case for freezing the Venezuelan company's assets it should refer to a much smaller number of assets and not the \$12 billion targeted by ExxonMobil. PDVSA's lawyers said ExxonMobil's \$12 billion claim referred to a shortfall in payments it would have received through to 2035 had the project not been nationalized last year. It also reiterated that the case should not be played out under UK jurisdiction.

IntercontinentalExchange Inc confirmed that MF Global remained in good standing and continued to meet all obligations at its US and Canadian futures clearinghouses.

The Federal Reserve Bank of Dallas' Texas monthly manufacturing index showed that general business activity was down 21.4 in February from -20.7 in January.

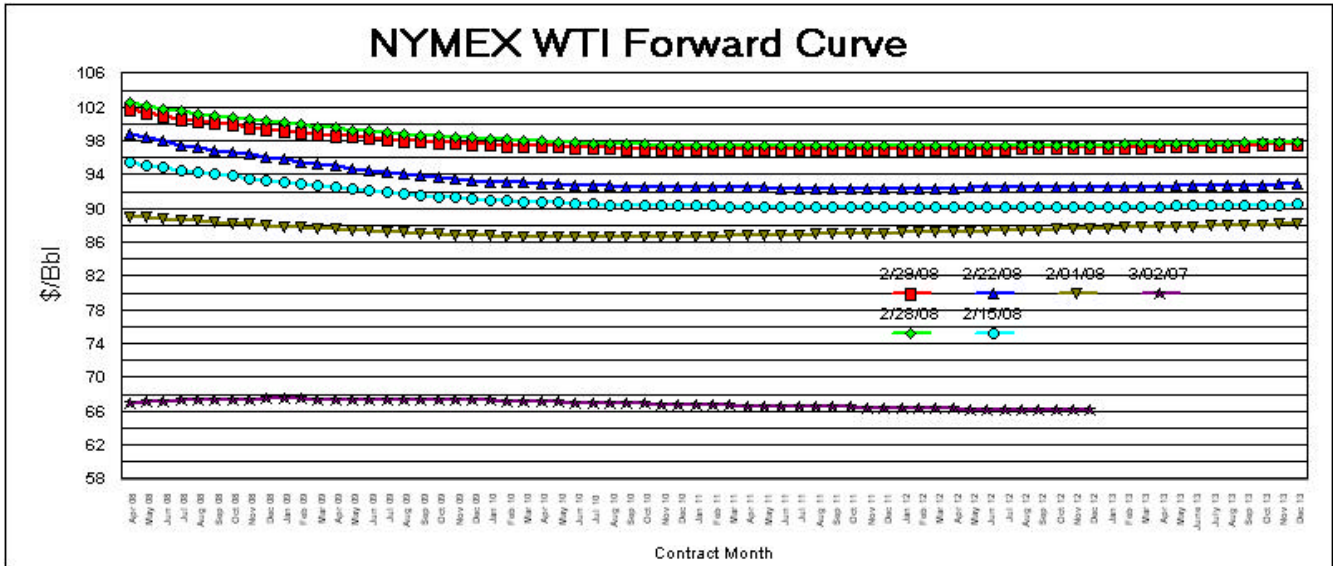
Members of OPEC's Economic Commission Board met Thursday and Friday and heard that there was no evidence to support an increase in production as supply is set to exceed demand this year. Demand is expected to increase 1.2 million bpd this year, while oil supplies increase by 1.4 million bpd.

Libya's Oil Minister Shokri Ghanem said OPEC was unlikely to change its production level at its meeting on March 5 if the price of oil remains around \$100/barrel. Meanwhile, Nigeria's Oil Minister, Odein Ajumogobia, said he did not support a cut in OPEC's production but added that there was still time to change that view. Separately, Iraq's Oil Minister Hussain Al-Shahristani said OPEC should keep its oil output steady at its meeting. He said there was no justification in asking OPEC to increase its production.

Members of the UN Security Council agreed to continue discussing a draft resolution imposing further sanctions against Iran over its nuclear program. The new draft includes a travel ban on officials involved in Iran's nuclear and missile programs, as well as inspections of suspicious import and export shipments. The draft resolution has already approved by the five permanent members of the Security Council Britain, China, France, Russia and the US. Britain and France have delayed a UN Security Council vote on new sanctions against Iran until Monday to try to get more support for the resolution. They were expected to put the resolution to a vote on Saturday.

### **Feb Calendar Averages**

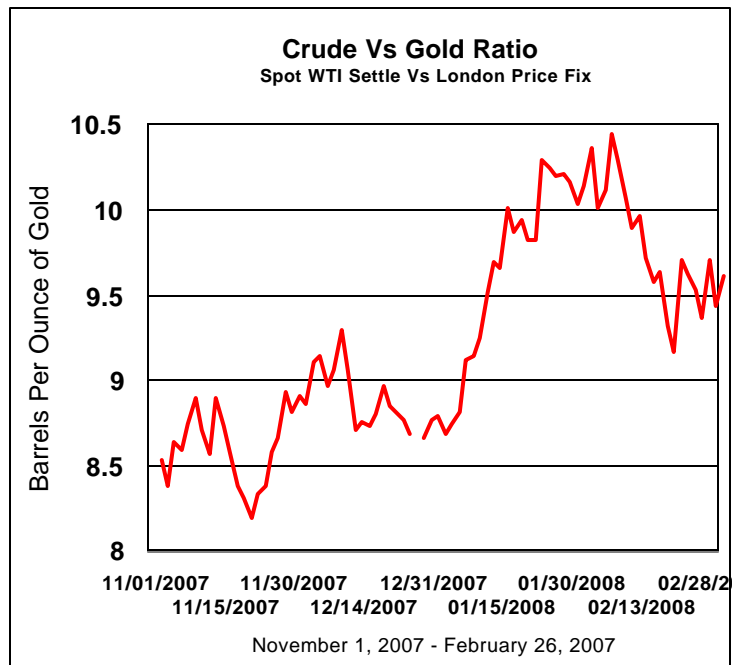
**CL** – 95.35  
**HO** – 265.04  
**RB** – 243.35



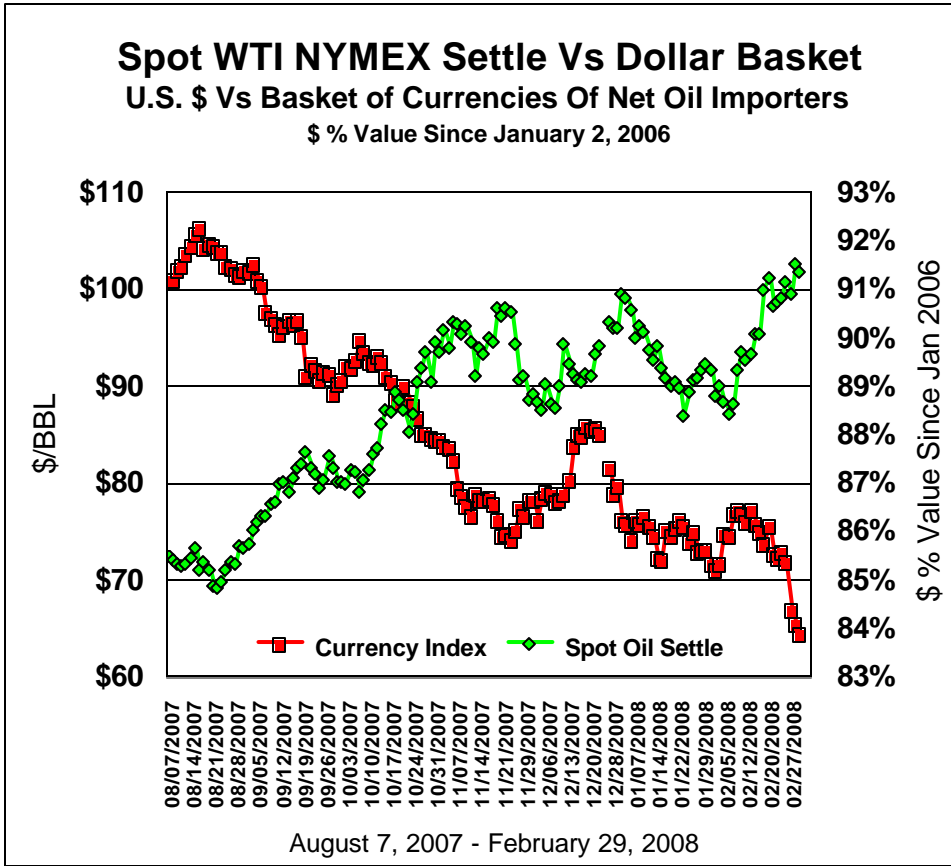
The Movement for the Emancipation of the Niger Delta said the imprisoned leader of the group was not granted access to his lawyers yet after a court ordered Nigerian authorities to allow the militant leader, Henry Okah, visits from his family and lawyer. The militants said they would file another court case seeking to force officials to allow lawyers to visit the militant leader. The militants have threatened further turmoil if their demands are not met.

Iraq's Northern Oil Co said the flow of crude oil from Iraq's northern oil fields to the Turkish port of Ceyhan has resumed after a technical fault was repaired. An engineer said a number of small leaks in the pipeline leading to Ceyhan had also been repaired. Meanwhile Iraq's Oil Minister Hussain al-Shahristani said Iraq's oil exports in February have averaged 2 million bpd up until February 25. Its oil production stood at 2.48 million bpd.

Israel's Defense Minister, Ehud Barak, said Israel was not afraid of launching a major ground invasion in Gaza amid ongoing air raids in Gaza. He said the major ground operation was real and tangible. The threat of an invasion came as the Israeli military continued to shell Gaza on Thursday, killing 20 Palestinians. Meanwhile Hamas hit Israel with more than 80 rockets. In Tokyo on Thursday, the US Secretary of State, Condoleezza Rice, briefly met with Israel's Prime Minister, Ehud Olmert, and said the Hamas rocket attacks needed to stop. She is expected to visit the Middle East next week to help push peace efforts forward.



## Refinery News



According to a trade publication, ExxonMobil Corp has declined an offer from PDVSA to supply 45,000 bpd to the companies' jointly owned Chalmette, Louisiana refinery. ExxonMobil has increased its purchases of Maya crude at the expense of Venezuelan crude.

A 72,000 bpd fluid catalytic cracking unit at Valero's 165,000 bpd Benicia, California refinery was shut on Thursday in order to repair a leaking pipe. Valero said the unit should resume operations within a week.

An alkylation and fluid catalytic cracking unit at ExxonMobil Corp's

185,000 bpd Chalmette, Louisiana refinery resumed operations following a major turnaround.

BP is expected to start feeding crude to its 225,000 bpd sour crude unit at its Texas City, Texas refinery sometime next week. The entire refinery was shutdown ahead of Hurricane Rita in September 2005 and has been restoring its operations.

A small fire started on Friday at Kuwait's 200,000 bpd Shuaiba refinery. Production was not affected after the fire was extinguished within hours. The fire started in a distillation tower in a heavy oil refining unit which was closed for the past three days in preparation for planned maintenance. The refinery is expected to continue operating at full capacity.

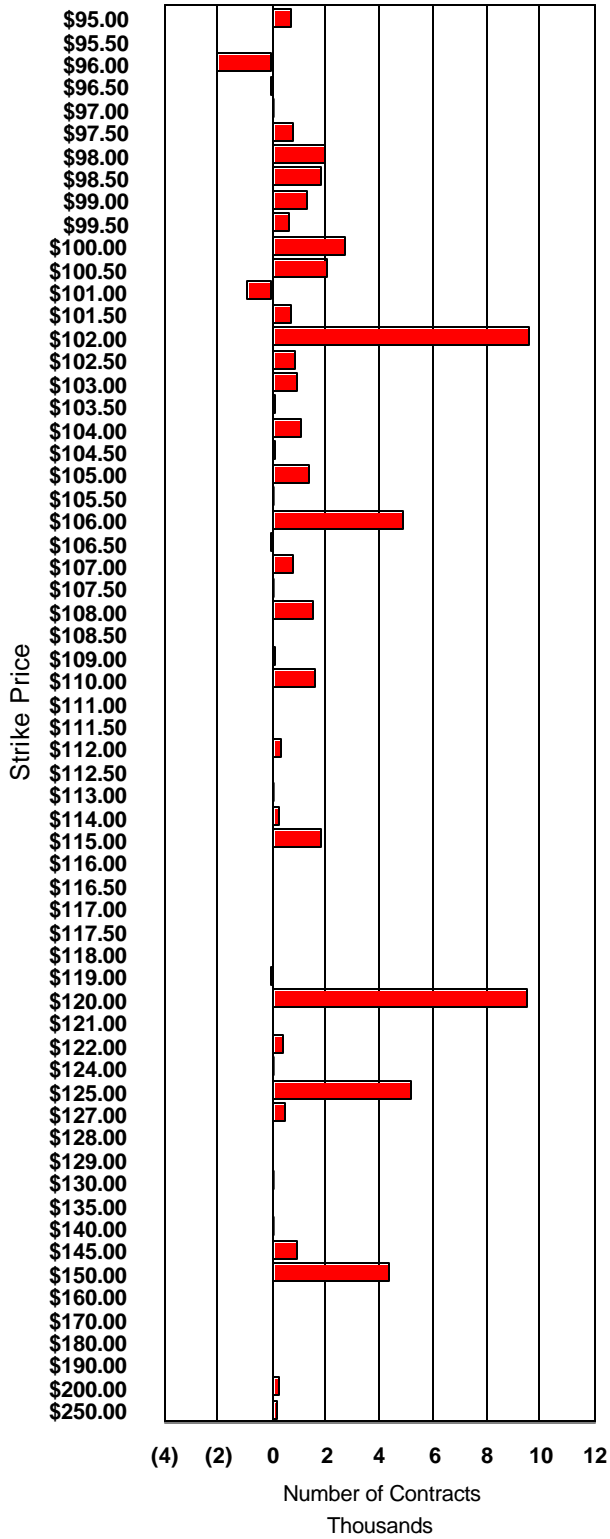
Nigeria's Kaduna Refinery and Petrochemicals Co said it was restarting production Friday two years after it was shut due to the vandalization of the Chanoni Creek Pipeline, which supplies it with crude from Warri. It said crude was on its way to the refinery from Warri in the Niger Delta. Production was also started earlier in the month at the 125,000 bpd Warri Refining and Petrochemicals Co, which was shutdown in February 2006 when armed militants destroyed the pipeline that carried its crude from the Niger Delta.

Murphy Oil's 107,000 bpd Milford Haven refinery in Britain is scheduled to shut a reformer unit for regeneration for 10 days in March.

According to an analyst, Europe's spring-summer refinery maintenance is likely to be heavier this year than last year.

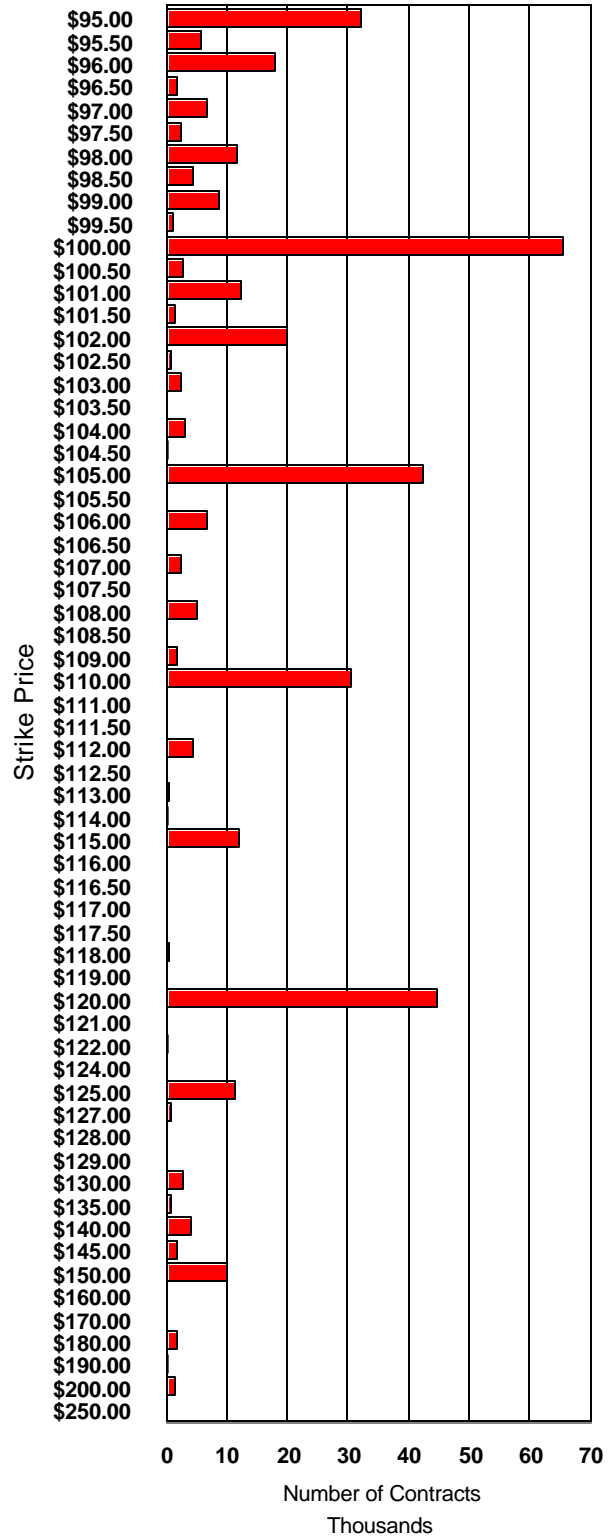
# NYMEX WTI Call Open Interest

Net Change in Open Interest as of Feb 28 From Feb 21  
April, May, June & July



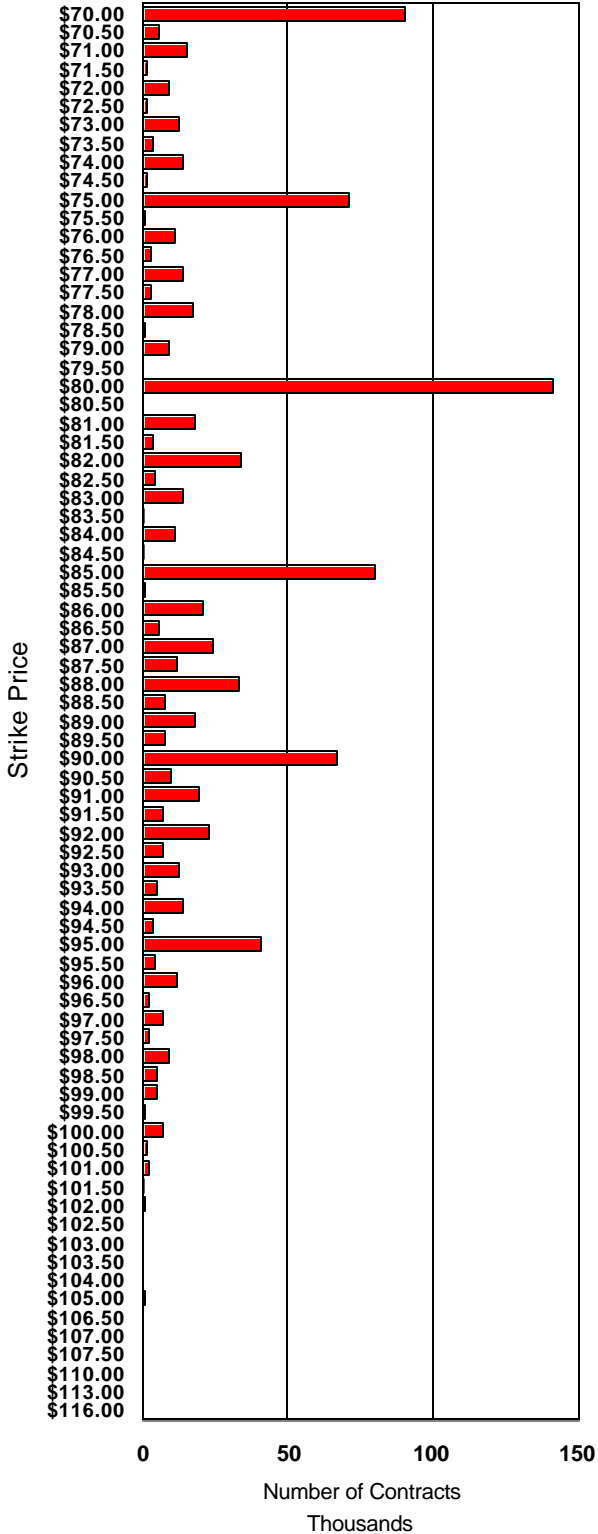
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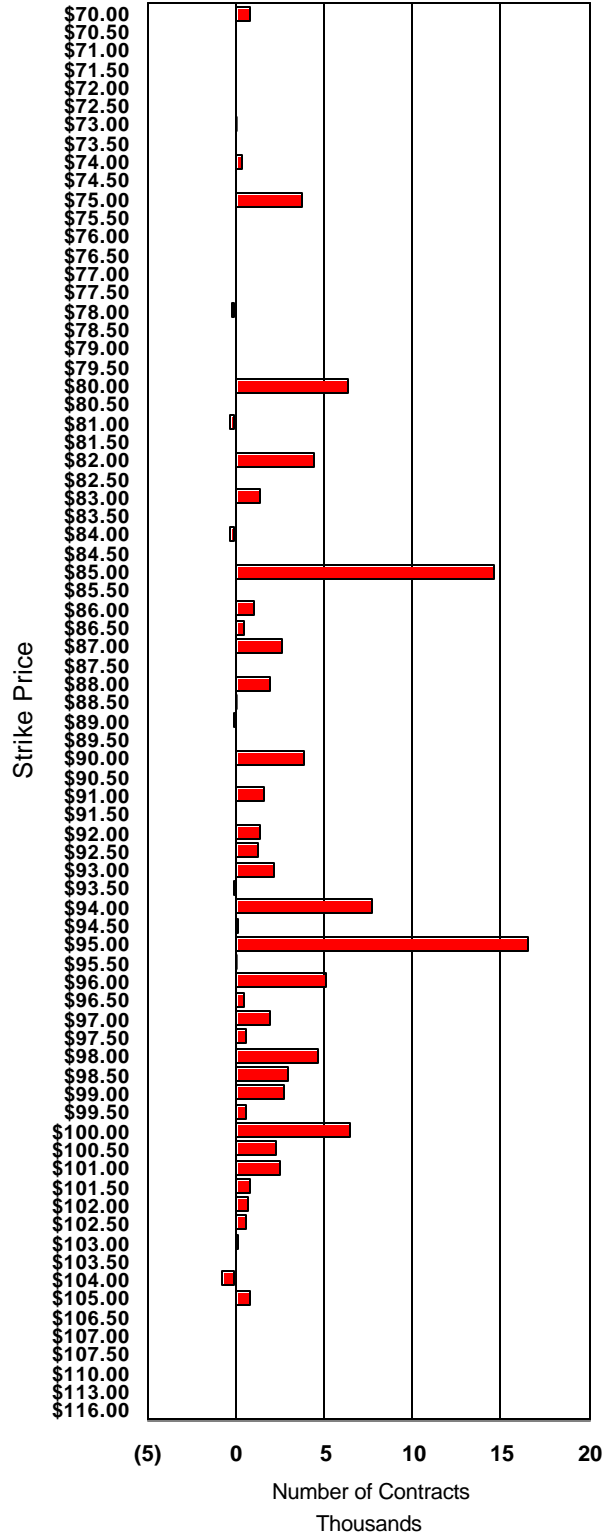
# NYMEX WTI Put Open Interest

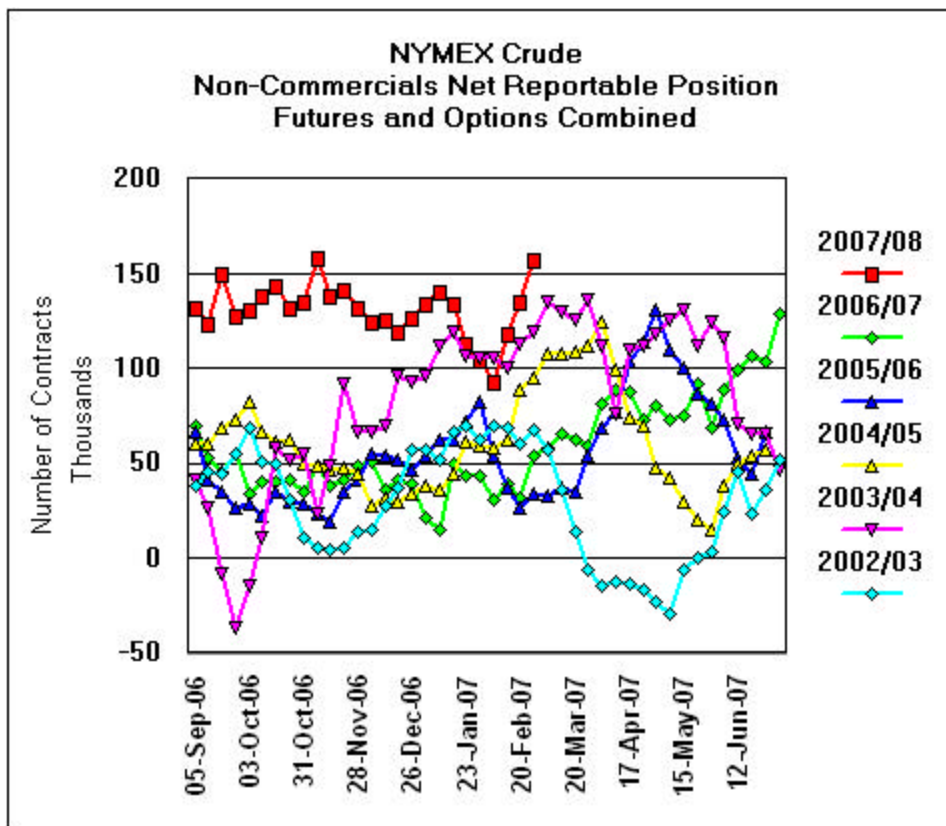
Open Interest as of February 28, 2008  
April, May, June & July



# NYMEX WTI Put Open Interest

Net Change in Open Interest as of Feb 28 From Feb 21  
April, May, June & July





Port authorities said Mexico reopened the Pacific coast oil terminal of Salina Cruz on Friday after bad weather prompted authorities to shut it down for two days.

### **Production News**

Chevron Corp confirmed that its subsidiary Chevron Nigeria Deepwater Limited was proceeding with the development of the offshore Usan field in Nigeria. The development plan for the Usan field includes a floating production, storage and offloading vessel with a storage capacity of 2 million barrels of oil. First production is expected in late 2011 with peak production of 180,000 bpd.

Ecuador's Oil and Mining Minister, Galo Chiriboga, said crude production and exports were not disrupted by damage to its SOTE pipeline. Late Thursday, Petroecuador declared the SOTE pipeline in a state of emergency and suspended its operations to prevent more infrastructure damage due to a rupture caused by a landslide. He said oil flows would be diverted to a privately owned pipeline, OCP pipeline, to avoid a default on oil shipments. An OCP spokesman said Petroecuador could divert crude to the line but added that it could take a couple of days. Petroecuador said it could take up to three days to repair its main oil pipeline.

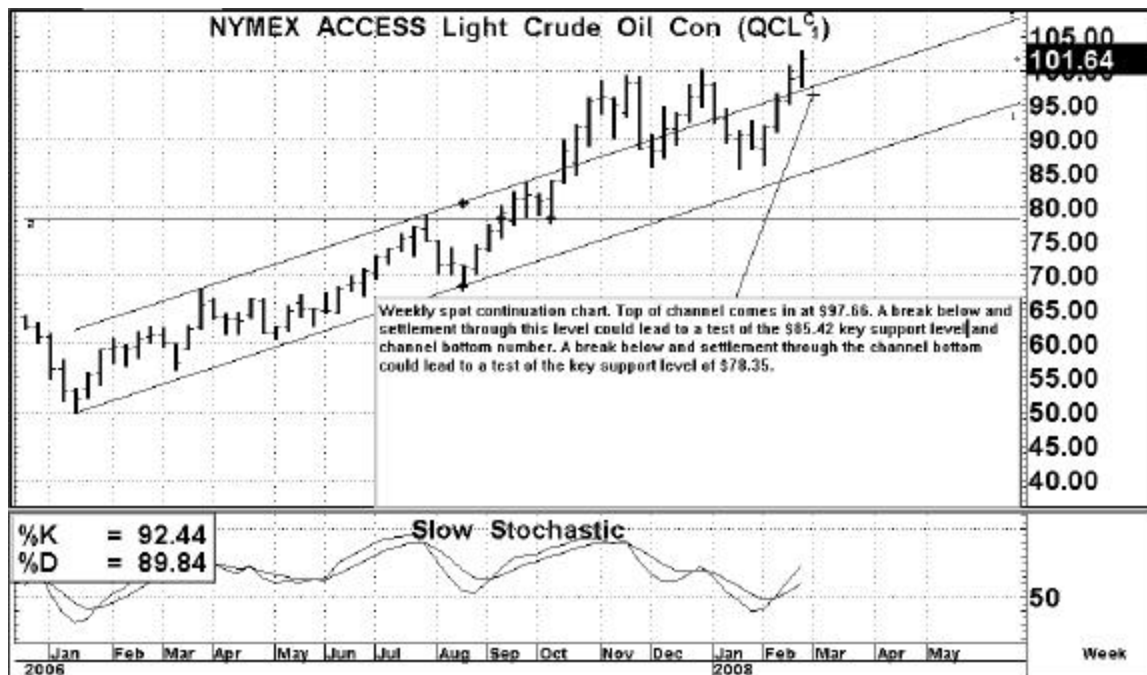
Pemex said average output at Mexico's Cantarell oilfield is expected to fall by as much as 20% in 2008 as the field matures. It said output at the Cantarell field would range from 1.2-1.3 million bpd this year compared with an average of 1.5 million bpd in 2007. In January, its production fell to 1.27 million bpd. Despite the decline in Cantarell's production, Pemex still plans to produce an average of 3.1 million bpd this year.

Italy's Foreign Minister Massimo D'Alema announced that Eni SpA and PDVSA would invest \$10 billion in the Orinoco region. Eni recently received \$700 million in compensation to settle a dispute with PDVSA stemming from the nationalization of the Dacion field in 2006.

Turkey's Bosphorus Straits was reopened to only northbound traffic after it was closed to both north and southbound traffic early on Friday. The Dardanelles Strait was also closed to southbound traffic and northbound traffic on Friday due to poor visibility caused by dense fog.

### **Market Commentary**

April crude oil traded up to \$103.05 in overnight electronic trading. A consistently weak dollar continues to give strength to crude oil as investors use it as a hedging tool against the bleak economic outlook. This is indeed an emotionally charged



market, and when these emotions start to fade, prices will fall hard and fast. Based on the weekly spot continuation chart, this is the second week in a row that prices have settled above the weekly channel that began back in January of 2007. Although the slow stochastics have not crossed to the downside, they are in over bought territory on both the daily and weekly charts. As the dollar weakens and the economy remains feeble, demand should suffer on several fronts. This will surely have an impact on prices and bring them back into more realistic territory. Open interest in crude oil is 1,428,982 up 17,712, April08 362,998 down 4,573, May08 172,470 up 11,571 and Dec08 202,308 up 3,231. The expiring products ended mixed with the March heating oil contract settling down 59 points at 283.97 and the March RBOB contract settling up 1.66 cents at 251.23. The March heating oil contract posted a high of 286.20 in overnight trading as the crude market rallied to its high following the continued weakness in the dollar. The heating oil market however gave up its gains on profit taking and sold off to a low of 281.99 early in the morning. The market later traded back above the 285.00 level and remained rangebound during the remainder of the session. The April heating oil contract also sold off from a new high of 284.12 to a low of 279.51. It bounced off its low and held good support above the 280.00 level ahead of the close. It settled down 1.59 cents at 280.69. The March RBOB contract, which retraced some Thursday's gains held support at its previous low as it posted a low of 245.59 and quickly bounced off that level. Unlike the heating oil market, it rallied to its high of 252.45 ahead of the close. The April RBOB contract settled down 18 points at 266.99. It was set to post an inside trading day before it rallied to a high of 267.77 late in the session. The markets are seen retracing some of their recent gains. In the heating oil, support is seen at 279.51, 279.18, 272.45, 269.31, 266.81, 261.46 and 256.11 while resistance is seen at 282.65, 284.12, 286.20 and 295.09. In the RBOB, support is seen at 264.84, 262.01, 261.27, 256.85 and 252.43 while resistance is seen at 267.77, 270.66, 272.50, 274.10 and 275.56.

Despite the upward march in oil prices over the last week, crude oil option activity does not seem to be reflecting the same bullish price fever. In fact put volume has accounted for the majority of trading interest over the past several weeks, with puts accounting for nearly two thirds of the growth in option open interest over the past week. The biggest gains were registered in the \$95 and \$85 puts over the first four contract months, with the \$102 and \$120 calls posting the biggest gains during the period. This seems to be a warning signal that oil traders are not behind this rally, since past moves to the

		<b>Explanation</b>	
<b>Resistance</b>		103.53	Basis trendlines
	<b>CL</b> 101.84, down 75 cents	102.10, 103.05	Friday's high
<b>Support</b>		101.36	Friday's low
	100.59, 98.91, 98.46, 96.67, 95.31, 94.70, 92.72		Previous lows, 38% retracement(86.34&103.05), 50%, 62%
<b>Resistance</b>		286.20, 295.09	Basis trendline
	<b>HO</b> 280.69, down 1.59 cents	282.65, 284.12	Friday's high
<b>Support</b>	April	279.51	Friday's low
	279.18, 272.45, 269.31, 266.81, 261.46, 256.11		Basis trending, Previous lows, 38% (238.80&284.12), 50%, 62%
<b>Resistance</b>		270.66, 272.50, 274.10, 275.56	Basis trendline, Previous highs
	<b>RB</b> 266.99, down 18 points	267.77	Friday's high
<b>Support</b>	April	264.84	Friday's low
	262.01, 261.27, 256.85, 252.43		Previous low, 38% retracement(238.14&275.56), 50%, 62%

\$100 level saw a greater bullish fever sweep the option market, especially in interest in out of the money calls.

The Commitment of Traders report showed that non-commercials in the crude market continued to increase their net long position as the crude market rallied to its highs. The funds increased their net long position by 30,752 contracts to 91,625 contracts in the week ending February 26. The combined futures and options report showed that non-commercials increased their net long position by 22,371 contracts to 157,740 contracts, the highest level seen since the week ending November 6. They have continued to increase their net long position in the past few trading sessions, amid the market's rally to new highs and increase in open interest. The non-commercials increased their total long position by 23,720 contracts to 302,206 contracts on the week. The non-commercials in the product markets also increased their net long positions, with funds in the heating oil increasing their net long position by 3,046 contracts to 29,780 contracts and funds in the RBOB market increasing their net long position by 3,038 contracts to 42,630 contracts.