



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,
Zachariah Yurch & Karen Palladino
(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR MARCH 4, 2008

Kuwait's Oil Minister Mohammad al-Olaim said OPEC's Ministerial Monitoring Committee would recommend that the group hold its output steady. Earlier, OPEC President Chakib Khelil said he expected OPEC to keep its production policy unchanged at its meeting on Wednesday. He said OPEC would either maintain its current production or cut production. He ruled out OPEC would increase its production to control prices. Kuwait's Oil Minister Mohammad al-Olaim said he does not expect OPEC to change its production level. He said high oil prices

were not directly linked to supply and demand but added that they were due to the dollar's decline, market speculation and geopolitical factors. Meanwhile, Iran's Oil Minister Gholamhossein Nozari said OPEC would consider all factors that affect the market at its meeting on Wednesday. He said he would support a cut in production because the market is adequately supplied but expects there would

Mar Calendar Averages

CL – 100.99
HO – 281.63
RB – 260.06

Market Watch

Goldman Sachs said fund flows have been the effect rather than the cause of high oil prices. It also said that the speculative activity was not the primary driver of the price rally, although it may have had some impact on prices. It called the oil rally a structural one based on fundamentals. Goldman Sachs analysts said much of the oil rally in the past month was driven by higher long dated oil prices, underscoring its long term nature. The oil market has not been driven by concerns of short term supply-demand balance. It said short term fundamentals were weak and that there was some potential for a near term sell off. Separately, Goldman Sachs said it may increase its five year oil price forecast of \$85/barrel due to rising exploration and production costs.

Federal Reserve Governor Frederic Mishkin said signs of low consumer and business spending and the potential for a deeper housing downturn and credit contraction pose serious risks to the US economic outlook.

Police in Saudi Arabia have arrested 28 people they accuse of seeking to regroup al-Qaeda's network in the country. A ministry of interior statement said the detainees had used a recording from Ayman al-Zawahri to help raise money from Saudi citizens.

The NYMEX announced that it would list the Brent crude oil last day futures contract on the NYMEX trading floor starting Friday, March 7. The contract is currently available for trading on the CME Globex trading platform and for clearing on the NYMEX ClearPort.

be no change in OPEC's policy. The UAE's Oil Minister Mohammed al-Hamli said the oil market was adequately supplied but declined to say what action, if any, he believed OPEC should take at the meeting. A senior Gulf OPEC delegate said OPEC was pumping enough crude to keep world markets well supplied and there was no need for the group to

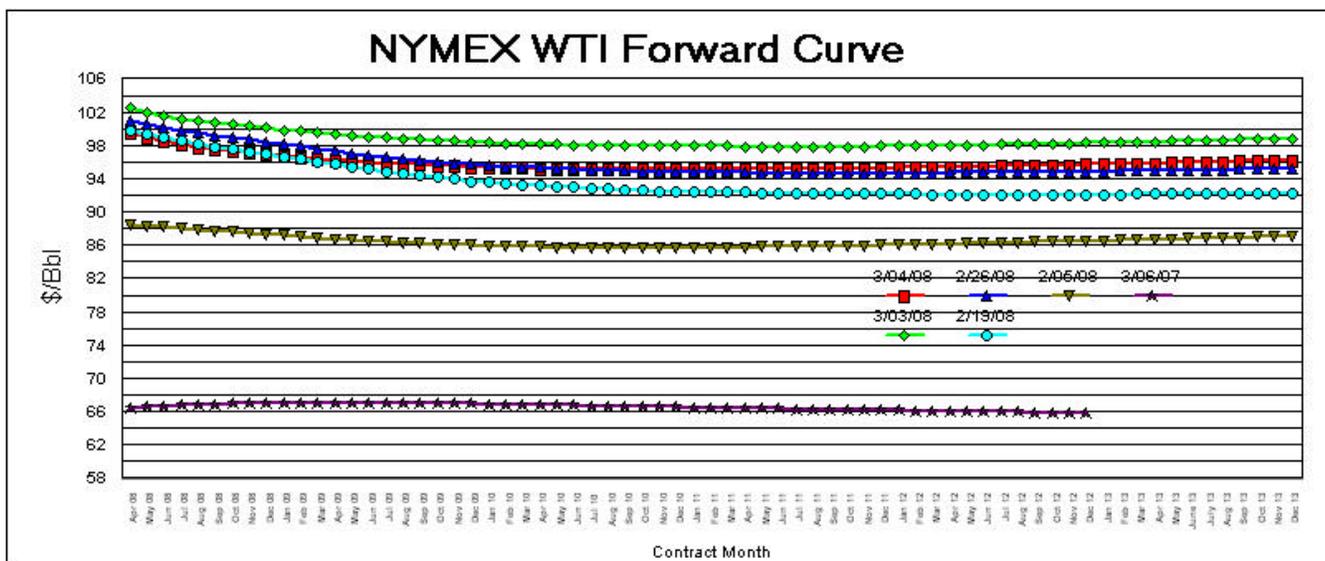
change production. Qatar's Oil Minister Abdullah bin Hamad al-Attiyah said OPEC had no choice but to maintain its current production levels. Meanwhile, the White House has urged OPEC to keep world markets well supplied. President George W. Bush warned OPEC that it would be a mistake not to increase its production to lower oil prices. US Energy Secretary Samuel Bodman reiterated his call for OPEC to increase its crude production. The EIA said OPEC needs to increase its oil production by 300,000-500,000 bpd to help build world petroleum inventories and lower oil prices. Separately, the IEA director Nobuo Tanaka said OPEC should at the very least, maintain its current production levels and signal to the market that it is prepared to act promptly should supplies decline.

Iran condemned the latest UN Security Council resolution against Iran as worthless and promised to continue its nuclear program. Russia said the UN Security Council's new resolution imposing further sanctions against Iran was a serious political signal for Iran. Meanwhile, diplomats said a resolution against Iran would not be put forward at a UN IAEA meeting. A push by western countries for an anti-Iran resolution by the IAEA's board of governors had run into resistance for fear it could jeopardize cooperation with Iran and the agency.

Israel's Prime Minister Ehud Olmert said Israel has the power to defend itself against any threat from Iran, indicating a willingness to use military force if necessary against Iran's nuclear program. He made his comments after Iran vowed to continue its nuclear program despite the new sanctions imposed against the country.

Russia's Gazprom has decided to cut gas supplies to Ukraine by a further 25% to 50% due to the lack of progress in resolving the gas debt dispute between Russia and Ukraine. Gazprom however said there were no disruptions to gas transit deliveries through Ukraine to Europe. It said export deliveries to Europe would be conducted in full. It also stated that it was ready to continue negotiations with Ukraine's partners. However Ukraine's Naftogaz said it reserved the right to take appropriate action and disrupt supplies to Europe that transit Ukraine, if Gazprom carried out the threatened additional cut on Tuesday. It said it could guarantee stable supplies to Europe as long as Ukraine's energy security is not threatened. Gazprom later said it more cuts could follow if no deal was reached. Meanwhile the European Commission voiced its concern after Gazprom said it would cut its gas supplies to Ukraine by a further 25%. The IEA said Russia's approach to resolving the debt dispute was excessively harsh and urged the two countries to resolve the dispute in a more commercial manner.

Venezuela has closed its border with Colombia as part of an escalating diplomatic crisis over the killing of a Colombian rebel leader in Ecuador. President Hugo Chavez ordered 10 battalions to its border



with Colombia. Ecuador has severed its diplomatic ties with Colombia and Venezuela expelled all Colombian diplomats, prompting the 34 member Organization of American States to plan an emergency meeting in hopes of resolving the escalating tensions. Ecuador's President, Rafael Correa said his Colombian counterpart was creating a danger for the whole region. Meanwhile, Colombia's President, Alvaro Uribe, announced his government would ask the International Criminal Court to try Venezuela's President Hugo Chavez for financing Colombia's main rebel group. Colombia's Vice President Francisco Santos told the 65 member Conference on Disarmament that police found computer evidence indicating that FARC had been trying to get radioactive material for dirty bombs to threaten Latin America. Ecuador's Oil Minister Galo Chiriboga said rising tensions with Colombia would not affect Ecuador's oil production. Venezuela's Oil Minister Rafael Ramirez said oil production was not at risk amid mounting tensions between Venezuela, Ecuador and Colombia.

US President George W. Bush has spoken with Colombia's President Alvaro Uribe and expressed support for his leadership against leftist rebels. He accused Venezuela's President Hugo Chavez of provocative maneuvers and warned he opposed any act of aggression in the region. Meanwhile, the US State Department said it expected a peaceful resolution of tensions in South America. State Department deputy spokesman Tom Casey said the OAS was the proper forum to deal with the problem.

The EIA's administrator, Guy Caruso said the addition of oil to the US SPR could increase oil prices by \$2/barrel and by 4-5 cents/gallon to the price of gasoline during an exchange with Sen. Byron Dorgan at a Senate Energy and Natural Resources Committee hearing. In regards to crude prices, he could not say whether oil had yet reached a peak. He said speculators were having an effect on prices. He said that the price of oil would decline to \$57/barrel in 2016 as expanded investment in exploration and development brings new supplies to the market. He also stated that demand of biofuels would increase to 29.7 billion gallons in 2030. The EIA said the US would not meet Congress' mandate to produce more ethanol from waste products over the next 15 years, resulting in an overall shortfall in ethanol production requirements contained in a new energy law. The new law requires the US to produce 36 billion gallons of biofuels a year by 2022. However only 32.5 billion gallons of the renewable fuels standard would be met by the target date. The shortfall would come from a smaller volume of ethanol made from cellulosic sources. The head of the EIA said the government would have to issue waivers on the mandate to ethanol producers in the coming years.

According to the DOE, shipments of crude oil into the SPR in March are expected to be the highest since September 2007 at 61,290 bpd or 1.9 million barrels. In February, about 1 million barrels or 34,483 bpd of crude oil was scheduled to be shifted into the SPR, however DOE data showed that about 500,000 barrels or 17,241 bpd were transferred to the SPR in the month. April's delivery rate is estimated at 40,000 bpd or 1.2 million barrels.

MasterCard Advisors LLC reported that US gasoline demand in the week ending February 29 increased by 1.1% on the week to 9.155 million bpd. In the latest four weeks, demand was down 3.2% from a year earlier. The US average retail price of gasoline increased by 8 cents to \$3.15/gallon, the highest price since the week ending June 1, 2007.

Refinery News

A train derailment Monday night near Mecca, California has forced Kinder Morgan Energy Partners to shut a portion of its product pipeline running from Colton to Phoenix. The derailment caused hydrochloric and phosphoric acid to leak. The pipeline is expected to remain shut until the pipeline can be inspected. No immediate impact has been seen in the southern California light product market.

World refining margins are expected to weaken this year, as a slowdown in the world economy is likely to cut demand. Margin in the US Gulf are estimated to average \$12.67/barrel, down from an average of \$16.60/barrel for 2007. Margin in Europe are expected to remain unchanged at \$7.10/barrel.

Valero Energy Corp cut rates to a 20,000 bpd fluid catalytic cracking unit at its 142,000 bpd Corpus Christi, Texas refinery on Tuesday. Maintenance on a boiler drum necessitated the rate cut to reduce emissions from the unit.

ExxonMobil Corp said sulfur dioxide was released at its oil producing facility in Torrance, California. It said the refinery continued to operate.

An electrical power failure which shutdown a coker unit at Big West's refinery in Bakersfield, California is unlikely to have any effect on the gasoline or diesel market.

Petroplus Holdings AG's 110,000 bpd Antwerp refinery was shut for scheduled maintenance.

Mexico's Transportation Ministry reported that Mexico closed its three main oil export terminals of Pajaritos, Dos Bocas and Cayo Arcas on Tuesday due to bad weather.

Russia's Lukoil has started spring maintenance on a fluid catalytic cracking unit at its 280,000 bpd Perm refinery. The maintenance outage is seen lasting until March 23. It is expected to shut a diesel line for work in late March.

Russia's Lukoil is not expected to supply oil to Germany in March for the second consecutive month due to a pricing dispute. Meanwhile, Germany's PCK refinery at Schwedt intends to produce at full capacity in March despite Lukoil's decision to halt its supplies to Germany.

Russia's Novoufimsk refinery is scheduled to shut a fluid catalytic reformer and a gas oil hydrotreater for maintenance in March.

Japan's Idemitsu Kosan Co said it would export 50,000 kiloliters or 315,000 barrels of gasoline to Asia in early March. It said the move was made possible after it increased its export capacity of gasoline at the Hokkaido refinery.

An official with Nigerian National Petroleum Corp said about 40,000 bpd of Qua Iboe production was shut in following an oil leak which was discovered last week. The official said the shut in production would be restored later this week.

Production News

According to Dow Jones, OPEC's total crude oil production fell by 12,000 bpd to 32.24 million bpd in February. Production by the group's 12 members bound by quotas fell by 82,000 bpd or 0.27% to 29.94 million bpd. Saudi Arabia cut its production by 50,000 bpd to 9.11 million bpd.

Abu Dhabi National Oil Co. said it plans to expand its crude oil production capacity to 3.5 million bpd from 2.5 million bpd over the next decade to meet rising world demand. As part of the plan, ADNOC would develop several new fields including Upper Zakum, Umm Shaif, Nasr, Sarb and Ghasha Butini.

OPEC's news agency reported that OPEC's basket of crudes increased to a record \$97.26/barrel level, up 76 cents from the previous record of \$96.50/barrel set on Friday.

Market Commentary

The crude market ended the session sharply lower after the market erased its previous gains ahead of OPEC's decision on its production policy and the release of the weekly petroleum stock reports on Wednesday. The market, which reached a record of 103.95 on Monday, held some support in overnight trading amid expectations that OPEC would not increase its supply while the escalating tension between Venezuela and Colombia lent support to the market. The market posted a high of 103.33 early in the session. However the market retraced its previous gains and sold off more than \$3.50 as it posted a low of 98.87 late in the session. It settled down \$2.93 at 99.52. The market was pressured amid reports stating the OPEC would leave its production unchanged as demand falls in the second quarter. The market on Wednesday will likely continue to trend lower amid the expectations that OPEC would leave its production policy unchanged and the expectations that the weekly petroleum stock reports would show builds in crude stocks of about 2.5 million barrels. Open interest in the crude continued to build for the fifth consecutive session, with an increase of 15,521 lots to 1,460,849. Open interest in the April contract fell by 8,774 lots to 351,114 lots while open interest in the May and June contracts contract built by 14,501 lots to 190,871 lots and by 3,053 lots to 129,775 lots, respectively. Meanwhile the product markets also settled in negative territory with the RBOB market leading them lower. The RBOB market traded off an overnight high of 268.70 and sold off 15 cents as it posted a low of 252.20 in afternoon trading. The market was pressured amid estimates that the weekly petroleum stock report would show a build for the 17th consecutive week of 1 million barrels. The RBOB market retraced more than 62% of its move from a low of 238.14 to a high of 275.56 and settled down 14.29 cents at 252.91. The April RBOB crack spread settled at \$6.702 from \$9.774 on Monday amid the sell off in the gasoline market. The heating oil market also retraced its previous gains and settled down 4.9 cents at 279.18 after the market sold off to a low of 276.96 early in the session. Unlike the RBOB market, it bounced off its low and traded mostly sideways ahead of the close. The product markets are seen trading lower on Wednesday amid the expected builds in stocks. In the RBOB, support is seen at 252.20, 250.38, 249.19, 242.37 and 238.14 while resistance is seen at 258.70, 264.85, 268.70, 273.25, 274.10 and 275.56. In the heating oil, support is seen at 277.55, 276.96, 272.45, 269.31 and 268.83 while resistance is seen at 280.75, 284.15, 285.70 and 287.39.

		Explanation
CL	Resistance	103.95, 105.00
	99.52, down \$2.93	100.50, 102.75, 103.33
	Support	98.87
		Tuesday's low
		Previous lows, 38% retracement(86.34&103.95), 50%, 62%
HO	Resistance	287.39
	279.18, down 4.9 cents	280.75, 284.15, 285.70
	Support	277.55, 276.96
		Tuesday's low
		Previous lows, 38% (238.80&287.39), 50%, 62%
RB	Resistance	273.25, 274.10, 275.56
	252.91, down 14.29 cents	258.70, 264.85, 268.70
	Support	252.20
		Tuesday's low
		Previous lows
		250.38, 249.19, 242.37, 238.14