

W The
Windham Group



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta &
Zachariah Yurch

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

www.e-windham.com

ENERGY MARKET REPORT FOR MARCH 12, 2007

OPEC President Mohammed al-Hamli said OPEC would be very flexible when ministers meet on Thursday. He said compliance was good among OPEC members with 1.7 million bpd of cuts agreed last year. Algeria's Energy and Mines Minister Chakib Khelil said oil prices would remain at their current level until the end of 2007 due to strong demand and Iran's standoff with the West over its nuclear program. Meanwhile, Qatar's Oil Minister Abdullah al-Attiyah said OPEC should keep output steady at the meeting if prices remain as they are, adding that compliance with agreed output cuts was good.

UN diplomats said ambassadors from the five permanent members of the UN, the US, Britain, France, Russia and China, along with Germany failed to agree late on Sunday on new sanctions to pressure Iran to suspend its uranium enrichment. They are scheduled to meet again late Monday. The possible new sanctions include a travel ban, an arms embargo, trade restrictions and an expected list of people and companies subject to an asset freeze. However Russia and China have been reluctant to impose new sanctions. UN diplomats stated that there appeared to be an agreement among the six countries to

Market Watch

During a regional meeting called by Iraq's Prime Minister Nuri al-Maliki, both Iran and Syria said US forces had to withdraw from Iraq because they were fueling the violence. The conference agreed to hold a ministerial level meeting in April in Istanbul. Debkafile's military sources revealed that American air contingents from the US and Europe continued to land at US air bases in the Persian Gulf. Iran responded by placing its air defense units on a war footing and deploying Revolutionary Guards special forces units around its nuclear installations.

According to Meteorlogix, the Northeastern US should see a brief mild spell this week. It is expected to be warmer than normal until Friday, when temperatures are expected to fall back below average and remain there next week. Meanwhile Northwest Europe is expected to continue to experience above average temperatures and below average energy demand for heating this week.

According to a survey by the National Association of Business Economists, US oil prices would have to reach \$90/barrel to drive the economy into a recession. The median forecast for summer 2007 oil prices is \$60/barrel compared with a forecast for almost \$75/barrel in the last survey conducted in August 2006.

A new Kuwaiti cabinet due to be announced soon would see finance minister Bader al-Humaidhi and energy minister Sheikh Ali al-Jarrah al-Sabah swap posts.

The ICE reported that physical delivery against the expired March gas oil futures contract fell to 578 lots or 57,800 tons. It is down from 90,800 tons delivered last year.

impose an embargo on arms exports from Iran, though a decision has not been reached on the list of weapons that would be included. There also appeared to be an agreement on expanding the list of individuals and entities subject to an asset freeze. However there is no agreement on a travel ban and a ban on arms imports to Iran, export credit guarantees or any other major trade restrictions.

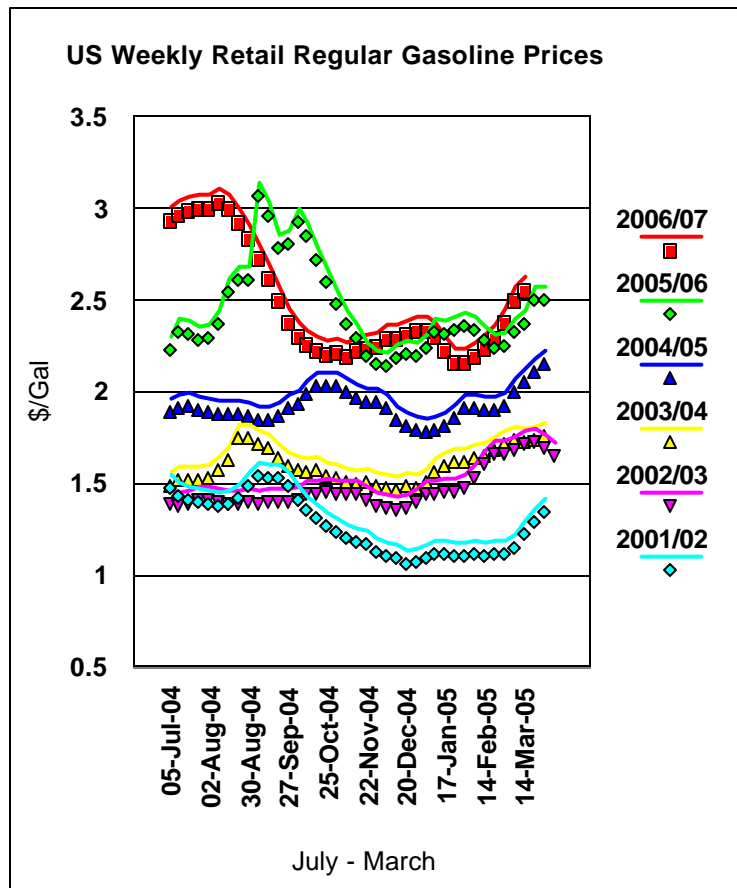
Iran's state television reported that Iran's President Mahmoud Amadinejad is expected to defend its right to use nuclear energy by attending a council meeting on the country's nuclear program.

Russia's RIA agency reported that Iran's Bushehr nuclear power station would not be launched in September and that nuclear fuel would not be delivered to the station this month as previously planned because of Iranian payment delays. Meanwhile, Russian news agencies quoted an informed source as saying that Iran was abusing Russia's stance on the country's nuclear program.

The International Monetary Fund stated that the US' sanctions against Iran's Bank of Saderat did not contravene foreign exchange rules after Iran complained that the move has affected the bank's currency business.

Nigerian troops on Monday rescued two Croatians and one Montenegrin man who were being held by suspected ransom seekers in Ngeria's oil producing Niger Delta. The three men working for oil services company, Hydrodrive, were kidnapped on February 19 from a bar outside their base in the city of Port Harcourt. Two Italians and one Frenchman seized by different armed groups are still in captivity in the Niger Delta.

The EIA reported that the US average retail price of diesel increased by 5.9 cents/gallon in the week



ending March 12 to \$2.685/gallon. It reported that the average retail price of gasoline increased by 5.4 cents/gallon to \$2.559/gallon on the week.

According to the Lundberg Survey, the average US retail gasoline price increased by 20 cents/barrel to \$2.55/gallon in the two weeks ending March 9.

Refinery News

Credit Suisse reported that US refining margins continued to rally for the seventh week as strong demand and low refinery activity kept fuel inventories tight. US Gulf Coast margins increased by 53 cents in the week ending March 9 to \$15.40/barrel while Midwest margins gained \$2.29/barrel to \$20.48/barrel. Northeast margins increased by 26 cents to \$13.58/barrel last week while West Coast margins increased by \$3.78/barrel to \$34.84/barrel.

The Houston Ship Channel was reopened Monday morning after it was shut to traffic late Sunday night due to fog. At the time of the closure, 18 ships were waiting to arrive

and eight were waiting to leave the channel.

Venezuela's PDVSA said it has not started to repair the alkylation unit of its 200,000 bpd Puerto La Cruz refinery following a fire on Saturday because it was still making the area safe for work.

Shell Oil Co's 156,000 bpd refinery in Martinez, California was operating at reduced rates on Sunday night as it struggled to restart boilers shut since Friday. The carbon monoxide boilers that were closed supply steam to the refinery's 73,000 bpd fluid catalytic cracking unit along with other units. No date has been set for completing the repair work.

ExxonMobil Corp restarted one of two sulfur recovery systems on Saturday at its 150,000 bpd refinery in Torrance, California as part of two month planned overhaul. The second sulfur recovery system is in the process of shutting down as part of the work. It shut several units starting February 10.

Oman's 116,400 bpd Sohar oil refinery started full production on Sunday, six months later than planned after it suffered start up snags. Exports from the refinery are expected to start within a few days. Oman's Muscat refinery is expected to restart March 25 following a full shutdown for expansion and maintenance that started on January 10. The Muscat refinery capacity would increase to 106,000 bpd from 85,000 bpd.

Russia's Lukoil cut oil processing at its Volgograd refinery following a fire over the weekend, which fully shut an 80,000 bpd unit. The refinery is expected to restart normal operations by May 1.

A Kuwait Petroleum Corp official said Kuwait would issue a new tender for its planned al-Zour oil refinery soon after it deemed the first round of bids by international companies too costly. It is expected to start operations by the end of 2010. The new refinery, which would replace the 200,000 bpd Shuaiba refinery would cost slightly more than \$6 billion. It would have a variable capacity of up to 615,000 bpd depending on the crude slate.

Cosmo Oil Ltd said it started maintenance on its crude distillation unit as scheduled on Saturday. It is expected to remain shut until April 25. The unit is scheduled to shutdown again on October 9 November 15.

Production News

Saudi Arabia has notified refiners in Japan, South Korea, Taiwan and China that it would increase its April crude supply cuts to about 10% below term contracts for April compared with 78% below contracted volumes in March. Traders said the deeper cuts for April could be a signal for better compliance with OPEC's existing supply cuts and aimed at supporting oil prices. The cuts come as demand from Asian refiners is likely to fall in the second quarter. Meanwhile, European refiners said Saudi Arabia was keeping supplies steady in April compared with March. A US refinery said Saudi Aramco was keeping its April crude allocations unchanged on the month.

Tropical cyclones in Australia's western coast have shut about 50% of Australia's oil production for the fifth day. The approach of a second storm, Cyclone Jacob, has continued to shutdown at least 172,600 barrels of offshore oil production. Woodside Petroleum said the 100,000 bpd Cossack Pioneer field and the 7,000 bpd Legendre oilfield were still shut in on Monday and were not expected to restart until later in the week. Santos' 55,000 bpd Mutineer-Exeter field also remained shut.

The North Sea Forties crude system is set to load about 560,000 bpd in April, relatively unchanged on the month. The North Sea loading plans for Brent, Forties and Oseberg crude oil systems showed

daily loadings would fall by 1.9% in April to 28 million barrels. The daily loading rate fell to about 933,000 barrels from 951,000 barrels in March.

An official from the Iranian Offshore Oil Co said Iran is expected to shutdown its Soroush and Nowruz crude oilfields in the second quarter of this year for a scheduled two week upgrade. It is expected to replace the Floating Storage Unit at the Soroush and Nowruz crude oilfields.

Germany's oil industry association MWV said German oil product sales in February 2007 totaled 5.48 million tons, 15.7% less than in February 2006. Total gasoline sales fell by 7.4% on the year to 1.54 million tons while diesel fuel sales increased by 3.1% to 2.08 million tons. It reported that heating oil sales fell by 41.2% to 1.36 million tons while fuel oil sales fell by 1.4% to 500,000 tons.

Germany's state statistics office, BAFA said the country's crude oil imports bill in the 12 months to January 2007 totaled 40.7 billion euros or \$53.44 billion, up 10.9% on the year. Crude imports in the 12 months were down 2.9% on the year at 108.9 million tons.

Kazakhstan's State Statistic Committee said its oil and gas condensate production increased by 10.3% on the year to 10.642 million tons in January-February 2007. It also reported that Kazakhstan's oil exports increased to 5.052 million tons in January 2007, up 32.5% on the year.

According to customs data, China's crude oil imports increased by 8.3% on the year in February to 3.15 million bpd. In the first two months of the year, China imported 25.79 million tons, up 5.7% on the year. China's net imports of oil products fell by 52.7% on the month and by 36.5% on the year in February to 870,000 tons. Its net imports in the January-February period fell by 11.1% on the year to 2.71 million tons.

Russia's President Vladimir Putin is scheduled to visit Greece to sign a Balkan oil pipeline deal with Greece and Bulgaria on Thursday. The pipeline between the Bulgarian Black Sea port of Burgas and the Greek Aegean Sea port of Alexandroupolis would bypass the congested Turkish Bosphorus Straits where tanker delays are costing companies about \$1 billion/year. The pipeline would rival the new \$4 billion Baku-Ceyhan pipeline from Azerbaijan to the Mediterranean and pump

OPEC reported that OPEC's basket of crudes fell slightly to \$58.20/barrel on Friday from \$58.64/barrel on Thursday.

Market Commentary

The oil market continued to trend lower and gapped lower from 60.00 to 59.15 on the opening after the market settled sharply lower on Friday. It was also pressured amid the expectations that OPEC would not cut its production further at its upcoming meeting on Thursday. OPEC's President said Mohammed al-Hamli said OPEC would be flexible when ministers meet while Qatar's Oil Minister, Abdullah al-Attiyah said OPEC should leave its output unchanged if prices remain unchanged. The market partially backfilled its gap as it posted a high of 59.65 early in the session. However it erased its gains and posted a low of 58.70 early in the session. The crude market later bounced off that level and traded to 59.30 before it settled in a sideways trading pattern. It settled in negative territory for the third consecutive session as it settled down \$1.14 at 58.91. Volume in the crude market was good with over 323,649 lots booked on the day. The product markets were mixed with the heating oil market settling down 2.99 cents at 168.23 and the RBOB market settling up 84 points at 191.05. The heating oil market gapped lower from 171.00 to 168.60 in follow through selling. It partially backfilled the gap as it posted a high of 169.90 early in the session. However the market sold off to a low of 167.40 before it retraced some of its losses and settled in a sideways trading pattern during the remainder of the session. The RBOB market also gapped lower from 193.80 to 187.55 and sold off to

a low of 187.00. The market later bounced off its low and backfilled its gap as it rallied to a high of 192.80. The market remained supported amid reports of refinery problems. Venezuela's PDVSA said it has not started to repair the alkylation unit of its 200,000 bpd Puerto La Cruz refinery following a fire on Saturday while Shell Oil Co's 156,000 bpd refinery in Martinez, California was operating at reduced rates on Sunday night as it struggled to restart boilers shut since Friday. Volumes were good with 45,005 lots booked in the heating oil and 66,435 lots booked in the RBOB market.

The oil market, which continued to settle in negative territory, is still seen trending lower. Its stochastics still have further room on the downside. The market is seen remaining pressured amid the expectations that OPEC will leave its output unchanged at its meeting on Thursday. The market is seen finding support at its low of 58.70 followed by 58.43 and 58.30. More distant support is seen at

its previous low of 57.20. Meanwhile resistance is seen at 59.65 to 60.00 followed by more distant resistance at 61.72 and 62.30.

Technical levels		
	Levels	Explanation
CL 58.91, down \$1.14	Resistance 61.72, 62.30	Previous highs
	Support 59.65 to 60.00	Remaining gap (March 12th)
HO 168.23, down 2.99 cents	Resistance 176.35, 177.80, 178.80	Previous highs
	Support 169.90 to 171.00	Remaining gap (March 12th)
RB 191.05, up 84 points	Resistance 194.50, 198.07	Previous highs
	Support 185.90, 181.50, 181.00	Monday's high
		Monday's low
		38% (52.00 and 62.40), Previous low, 50% and Previous low
		50% (149.70 and 178.80), Previous low, 62%
		Monday's low
		Previous lows, Double bottom