



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MARCH 14, 2008**

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In its monthly oil market report, OPEC stated that it was producing more than enough oil to keep the markets well supplied. It said there was little risk of an increase in oil demand growth forecasts given the US' slowing economy. It added that a potential US recession could result in lower demand for OPEC oil. It estimated the call on OPEC's crude at 31.68 million bpd, up 150,000 bpd from its previous report. However it is below OPEC's production, which stood at 32.09 million bpd in February. OPEC's total production increased by 80,000 bpd on the month. Excluding Iraq,

#### Market Watch

Shipping sources said US exports of diesel to Europe fell to just 1-2 spot cargo fixtures this week even as European diesel prices reached record levels on a persistent shortage. They stated that during the previous week as many as eight cargoes of diesel were fixed.

Goldman Sachs said the rally in oil prices partly reflected politically driven supply constraints that could produce further price spikes in the next couple of years. It said crude prices could rise to \$175/barrel. It said solving the supply constraints would be difficult and added that constraints on investment caused by resource nationalism and constraints on labor and technology were holding back oil supply growth. It however does see the possibility of a pull back in oil prices this spring for cyclical reasons. It said oil's supply constraints make it less vulnerable to a world economic slowdown.

The NYMEX announced that its average daily volume during February increased by 20% to 1.85 million tons from 1.54 million a year ago. It stated that electronic volume on the CME Globex electronic trading platform increased by 30% to 783,212 contracts/day from 600,953 in February 2007.

The NYMEX also announced that it would increase margins for spot heating oil, New York Harbor heating oil calendar swap, heating oil financial contracts to \$9,450 from \$8,775 for customers, effective Monday, March 17. Margins for the second to eighth months would increase to \$8,775 from \$8,100. Margins for the first month of the miNY heating oil futures contract increased to \$4,725 from \$4,388 for customers.

A former president of the National Bureau of Economic Research said the current US downturn could be the worst since the Second World War.

#### **March Calendar Averages**

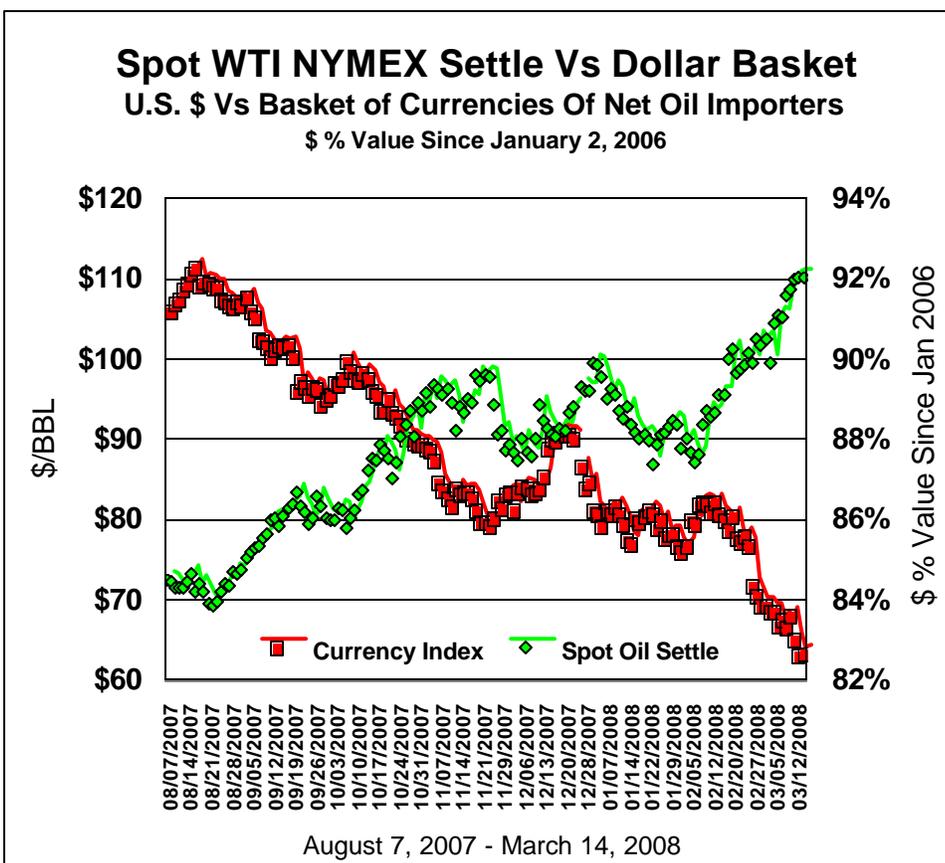
**CL** – 106.42  
**HO** – 297.61  
**RB** – 267.33

production from the 12 member bound by output quotas fell by 60,000 bpd to 29.76 million bpd in February from an estimated 29.82 million bpd in January. It reported that Iraq's oil production increased by 146,000 bpd to 2.328 million bpd. OPEC adjusted the forecast of 2008 non-OPEC supply by 160,000 bpd to 50.37 million bpd,

showing annual growth of 910,000 bpd. OPEC still expects world consumption this year to expand by 1.2 million bpd to average 86.97 million bpd. OPEC also stated that refiners may cut operating rates in the coming months, reducing oil demand due to poor margins. It said the current circumstances of the product markets and refining margins may encourage further discretionary cuts in the future. Maintenance in Europe in March is expected to cut 500,000 bpd of refining capacity from the European market. It is up from 430,000 bpd in February and an estimated 420,000 bpd and 425,000 bpd in April and May, respectively.

President George W. Bush cautioned that US energy policy has not been effective in helping cut the US' dependence on foreign oil. He said there was no quick fix to the current situation in the energy market.

US heating oil distributors said they were seeking federal help to ease a cash crunch this winter caused by delayed payments from low income customers high prices for their own inventory. The average residential heating oil price increased to a record \$3.68/gallon this week, up more than 40% on the year. Fuel retailer associations including the New England Fuel Institute, the New York Oil Heating Association and the Petroleum Marketers Association of America are considering asking Congress for an increase in funding for the Low Income Home Energy Assistance Program. The US Senate on Thursday voted to double funding for the LIHEAP program to \$5.1 billion for the 2009 budget year, which starts October 1.



Venezuela's President Hugo Chavez and Colombia's President Alvaro Uribe issued statements Thursday night saying the two had agreed to meet in person and put aside their differences following the Colombian military's cross border attack in Ecuador. They made clear their willingness to cooperate to avoid aggressions of any kind.

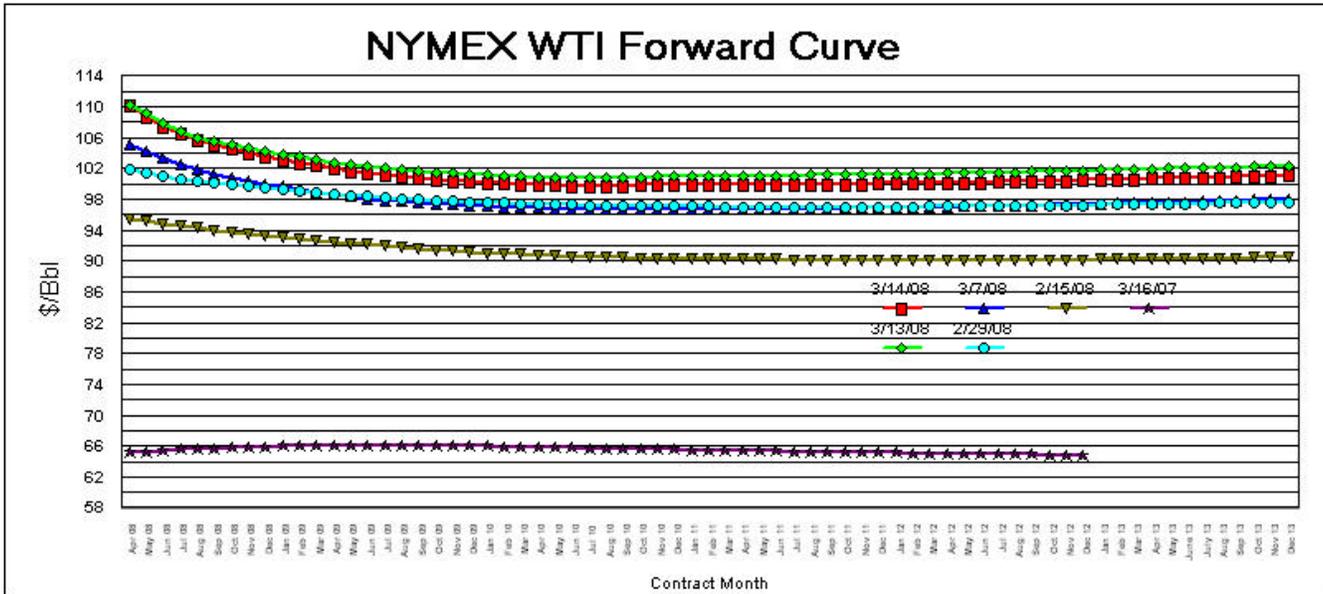
Separately, Venezuela's President Hugo Chavez dared the US to put Venezuela on a list of countries accused of supporting terrorism. He said it was one more attempt by the US to undermine him for political reasons.

**Refinery News**

US heating oil futures and cash spot market prices in the New York Harbor continued to rally on Friday amid talk that a Northeast refinery has been buying distillate to meet physical delivery commitments.

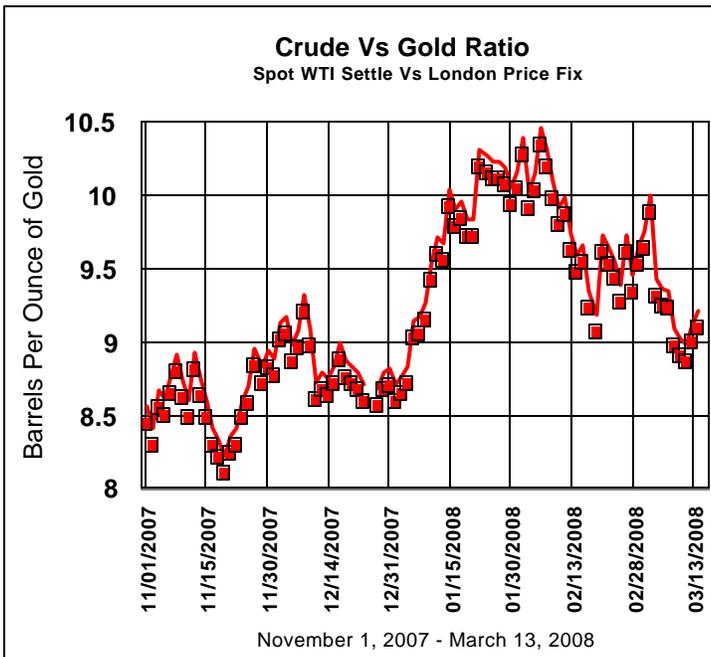
There was talk that ConocoPhillips may have an outage at the company's Bayway refinery in Linden, New Jersey.

TransCanada Corp said it would start building its 590,000 bpd Keystone pipeline in the second quarter after receiving approval from the US Department of State. The pipeline would carry 435,000 bpd of oil



sands crude from Hardisty, Alberta to Wood River and Patoka, Illinois starting in late 2009. TransCanada eventually plans to extend the pipeline down to the US Gulf Coast.

Ineos Group Holdings Plc is operating its Grangemouth refinery in Scotland at 80% of its capacity following planned maintenance that started at the beginning of February. The refinery is expected to resume full production by early next week.



### Production News

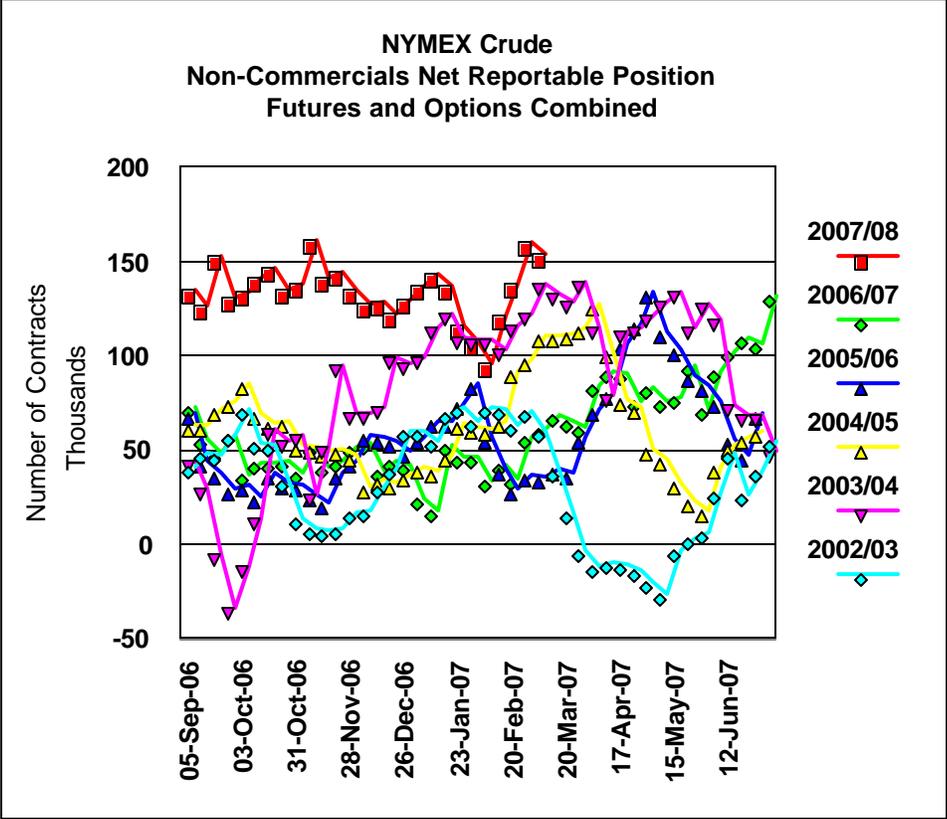
Norway's DNO said it took a step towards gaining a permit to export oil from Iraq by revising its production license deal with Iraq's Kurdish authorities. It said the DNO said the revised deal divided its Dohok license into two parts, one for its Tawke field now in production and one for the remaining Dohok are.

Iraq is unlikely to sign technical support contracts with oil majors for work on some of its largest oilfields until the summer. The deals would increase Iraq's oil production by about 500,000 bpd within a year, adding more than 20% to current production of 2.27 million bpd. Iraq's Oil Minister Hussain al-Shahristani said last month that he hoped the contracts would be signed in March.

Russia's SurgutNefteGas said it expected a further 7% decline in oil production this year. He said it is expected to produce 60 million tons or 1.2 million bpd this year, down from 64.5 million tons in 2007. The company also said it planned to increase its investment in oil exploration by a third to about 12 billion rubles or \$503.4 million this year. It is expected to use the funds to carry out exploration at its Siberian and northern deposits.

Colombia's oil production averaged more than 550,000 bpd in January this year. The National Hydrocarbons Agency said foreign direct investment in the oil sector reached about \$500 million in January. Foreign direct investment is expected to increase to \$6 billion this year compared with \$3.5 billion reported a year earlier.

Ukraine's Prime Minister Yulia Tymoshenko said Ukraine was seeking a long term agreement on gas supplies from Russia's Gazprom. Ukraine on Thursday signed an agreement with Gazprom that detailed supply volumes and prices for 2008. However they have not yet signed a deal for next year. According to the agreement, Gazprom would supply almost 50 billion cubic meters of Central Asian gas at \$179.50 per 1,000 cubic meters before the end of the year. Separately, Gazprom said it planned to increase its gas production by 2.3% to 561 billion cubic meters this year while gas exports are set to increase by 4.3% to 157 bcm of gas this year.



The head of Italy's oil industry association Unione Petrolifera said Italy could see the cost of crude oil imports increase by up to 5 billion euros or \$7.8 billion this year if prices remain around the current level.

OPEC's news agency reported that the OPEC basket price rose further to \$102.39/barrel on Thursday from \$101.38/barrel on Wednesday.

The U.S Department of Energy said that guidelines governing the release of the government's heating oil SPR has not been met despite soaring prices. A DOE official said that the oil can only be released after a determination from the White House that it is necessary given a severe regional supply interruption during extreme winter weather.

**Market Commentary**

Today's April crude oil option expiration led prices on a roll coaster ride with dips and climbs around the \$110.00 level. News of financial problems at Bear Stearns contributed to market jitters, as fears of slackening demand during times of building stockpiles caused a sell off in prices. This sell off can be viewed as more length lightening which occurred in the April contract yesterday. The April/May spread, which widened today is in contrast to yesterday, is an indication that May longs lightened their positions. This spread may continue to widen should the market come off as there appears to be more longs in the May contract than in the April contract. The forward curve is still indicative of a bullish market, with the front end of the curve pulling away from the deferred. Heating oil continued to overshadow both crude oil and gasoline today once again, gaining its strength from shortages of gasoil. Trading well above its seasonal value, the April contract peaked at \$3.2220. April heating oil to April gasoline continued to widen, however at a slower pace than yesterday. We mentioned yesterday that this spread experienced short covering in the heating oil and long covering in the gasoline. This is evident in the open interest numbers for both contracts. The April Heating oil set at 49,144 decreased by 5,762, with the April gasoline set at 53,232 decreasing by 2,566. We would expect to see more of this on Monday but perhaps not as aggressive. April gasoline experienced an inside session, which could possibly lead to a period of consolidation, although it is too early to determine this yet. We will have to see what the next couple of sessions do and make a determination then. Typically, periods of consolidation occur prior to a continuation of the previous move, which in this case would be higher prices.

Open interest in crude oil is 1,497,985 up 4,531, April08 172,508 down 35,211, May08 350,961 up 27,377 and Dec08 208,492 up 4,623.

		<b>Explanation</b>	
<b>CL</b>	<b>Resistance</b>	112.58, 116.13	Basis trendline
		110.46, 110.92	Friday's high
	<b>Support</b>	109.32, 109.00, 108.84	Friday's low
		108.25, 107.09, 104.08, 103.90, 102.85, 101.52	Previous lows
<b>HO</b>	<b>Resistance</b>	324.25	Basis trendline
		318.00, 319.10, 322.20	Friday's high
	<b>Support</b>	312.85, 311.25, 310.58	Friday's low
		301.00, 295.41, 294.85, 291.99, 291.73, 290.45	Previous low, Basis trendline, Previous lows
<b>RB</b>	<b>Resistance</b>	273.00, 273.31, 274.35, 275.56, 280.00	Previous highs
		269.25	Friday's high
	<b>Support</b>	265.80, 264.28	Friday's low
		263.75, 263.53, 262.76, 259.22, 257.69, 252.20	Previous lows, Basis trendline, Previous lows

The Commitment of Traders report showed that non-commercials in the crude market built their net long position by 13,768 contracts to 113,307 lots in the week ending March 11. The funds cut their total short position by 13,945 contracts to 145,445 contracts on the week. The combined futures and options report showed that non-commercials increased their net long position by 3,258 contracts to 154,402 contracts on the week. The funds have continued to add to their net long position in recent days amid its rally to new highs and the continued increase in open interest. Non-commercials in the heating oil market cut their net long position by 2,973 contracts to 28,434 contracts. However non-commercials have likely increased their net long position in the past few trading sessions amid the market's surge to new highs. Meanwhile, non-commercials in the RBOB markets increased their net long position by 5,725 contracts to 51,175 contracts on the week.

### Trade Tracker

<b>Trade</b>	<b>Date</b>	<b>Entry level</b>	<b>Current</b>	<b>Profit/Loss</b>
Sell M08 Buy M09	3/13/18	585	608	-230.00 per contract

