



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta &
Zachariah Yurch

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

www.e-windham.com

ENERGY MARKET REPORT FOR MARCH 21, 2007

Saudi Arabia's former Oil Minister, Sheikh Ahmed Zaki Yamani said oil prices would trade over \$100/barrel if either the US or Israel attacked Iran. He also stated that high oil prices would be detrimental to oil demand from OPEC members in the long run. He said that while OPEC members were currently benefiting from higher oil prices by paying off debts, consuming nations would respond by increasing energy efficiency, seeking other sources of energy and would eventually consume less OPEC oil.

Algeria's Mines and Energy Minister Chakik

Khelil said world oil prices are likely to stabilize at between \$50 and \$60/barrel in the second half of the year as demand increases. Meanwhile, Libya's top oil official, Shokri Ghanem said OPEC was ready to produce more oil if needed. He said there was currently a stock overhang.

Iran's Supreme Leader Ayatollah Ali Khamenei warned that Iran would retaliate if it were attacked over its disputed nuclear program.

Market Watch

Wholesale gasoline prices in the LA market fell 6 cents/gallon on Wednesday due to increasing imports to the US West Coast. Ethanol blended gasoline traded at 35 cents over the NYMEX April RBOB contract, down 6 cents on the day.

Financing for ethanol plants has tightened as increasing corn prices have made it more difficult for ethanol plants to turn a profit. The price of corn has risen to \$4/barrel while the price of oil has declined after peaking at more than \$78/barrel last summer, cutting into demand for a lower priced alternative. Financing was higher during the past few years as oil prices rallied and the government used grants and tax breaks to spur the development of ethanol. Industry capacity is expected to reach about 8 billion gallons per year by the end of 2007 compared with 5.4 billion gallons currently. The increase in capacity could cause an oversupply and lower ethanol prices, making it more difficult for producers to ultimately make a profit and possibly cause an industry shake out.

The US Department of Agriculture awarded \$6.2 million in grants to 26 small businesses and community groups to develop uses for woody biomass, including renewable energy and new products from national forests.

Norway's Statoil said it could face US sanctions because of its activities in Iran. It said its deal to help develop Iran's South Pars gas project may be judged as a breach to the US' Iran Sanctions Act. It also said it risked losing 171 million barrels of oil reserves in Venezuela. It has a 15% stake in the Sincor heavy oil development in the Orinoco region.

Russia's Foreign Minister Sergey Lavrov said Russia would not support excessive sanctions against Iran. He also denied allegations that Russia told Iran it would not deliver nuclear fuel for the Russian built Bushehr nuclear plant unless Iran complied with UN demands. He said there was no link between the UN resolution and the implementation of the Bushehr project.

The EIA said the WTI price is likely to strengthen relative to the prices of other crudes as Gulf Coast and Midwest refineries return from maintenance and the physical demand for WTI increases. It said it did not expect to see a significant drop in near term WTI prices.

The US Department of Energy said it was planning to start filling the SPR from March. The DOE is expected to first purchase oil with leftover cash from previous SPR oil sales, at a rate of 50,000 barrels to 100,000 bpd and then through volumes companies can pay in lieu of cash royalties. The head of the API, Red Cavaney said the amount was small enough not to influence the market. Meanwhile, the US Energy Secretary Samuel Bodman said that the DOE would seek to acquire crude oil in a manner that did not increase oil or gasoline prices. He said the DOE would slow down purchases if the process put pressure on oil prices.

The API reported that total petroleum demand increased by 2.8% to 20.676 million bpd. US gasoline demand in January increased by 3.4% on the year to 9.025 million bpd while distillate demand increased by 8% to 4.494 million bpd. Residual fuel demand however fell by 27.5% to 624,000 bpd. It reported that refinery utilization fell from December while inputs were still about 1% higher on the year. It reported that total imports fell by 6% to 12.762 million bpd. Crude stocks increased by 3.2% to 328.4 million barrels while gasoline stocks increased by 2.3% to 216.5 million bpd and distillate stocks fell by 5.7% to 136.5 million bpd.

Nigeria's ruling party has accused the opposition of coup plotting. Vice President Atiku Abubakar was omitted from the official list of candidates published by the electoral body last week because of an indictment for fraud. The Action Congress party said there would be no elections unless the vice president was allowed to contest them. A Federal high Court was expected to rule on the matter on Friday.

Refinery News

BP cuts rates on its fluid catalytic cracking unit at its 437,000 bpd Texas City, Texas refinery following problems with the alkylation unit. A problem with the alkylation unit forced the run cut at the refinery.

Valero Energy Corp said there was no flaring at its 190,000 bpd St. Charles, Louisiana refinery on Tuesday, contrary to reports of flaring at the refinery. Valero previously reported that it shutdown a 100,000 bpd fluid catalytic cracking unit at the refinery on March 13 for 10 days of unplanned maintenance to repair a flue gas cooler. Valero had estimated that the loss to production would be 85,000 bpd of gasoline and 15,000 bpd of distillates.

Marathon Oil Corp said it was not interested in acquiring a Lima, Ohio refinery from Valero Energy Corp. He said the refinery did not fit with Marathon's strategy of investing in assets with the ability to refine lower quality crude grades. Valero Energy has stated that it hoped to make a decision on a possible sale of its Lima, Ohio refinery by the end of April. It said it had about 10 bidders for the refinery.

Royal Dutch Shell started a major turnaround at its 126,000 bpd Berre l'Etang refinery on Wednesday. Meanwhile, France's Total also started a turnaround at its 229,000 bpd Donges refinery on March 6.

India's Essar Oil is expected to run its Vadinar refinery at full capacity by the end of June, two months later than originally planned. Its 210,000 bpd refinery in the western state of Gujarat is currently running at 150,000 bpd. Essar was in the process of commissioning a fluid catalytic cracking unit with an annual capacity of 2.9 million tons and a diesel hydrotreater with a capacity of 3.3 million tons/year.

NYMEX Petroleum Options Most Active Strikes for March 21, 2007								
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	5	7	P	55	04/17/2007	0.39	5,001	29.82
LO	5	7	C	60	04/17/2007	1.62	4,793	28.02
LO	5	7	C	61	04/17/2007	1.21	3,795	27.96
LO	6	7	C	61	05/17/2007	2.85	3,010	29.42
LO	6	7	P	61	05/17/2007	2.74	2,860	29.41
LO	5	7	P	58.5	04/17/2007	1.3	2,575	28.24
LO	10	7	C	80	09/17/2007	0.83	2,300	27.87
LO	5	7	P	77.5	04/17/2007	17.89	2,150	51.01
LO	7	7	C	62	06/15/2007	3.49	2,111	29.11
LO	7	7	P	62	06/15/2007	3.37	2,110	29.10
LO	6	7	P	56	05/17/2007	0.98	1,980	30.88
LO	5	7	P	75	04/17/2007	15.39	1,400	44.62
LO	5	7	P	53	04/17/2007	0.18	1,344	31.22
LO	5	7	C	62	04/17/2007	0.88	1,326	27.87
LO	6	7	C	74	05/17/2007	0.16	1,323	29.40
LO	12	7	C	90	11/13/2007	0.51	1,303	28.03
LO	6	7	P	49	05/17/2007	0.17	1,300	34.80
LO	5	7	C	65	04/17/2007	0.3	1,279	27.99
LO	6	7	P	55	05/17/2007	0.78	1,260	31.37
LO	6	7	C	66	05/17/2007	1.08	1,225	29.05
LO	10	7	C	63.5	09/17/2007	5.07	1,200	28.59
LO	5	7	P	58	04/17/2007	1.11	1,069	28.36
LO	5	7	P	59.5	04/17/2007	1.75	1,033	28.09
LO	12	7	P	60	11/13/2007	3.63	1,010	29.17
LO	12	7	C	72	11/13/2007	2.81	1,000	27.19
OB	7	7	C	2.25	06/26/2007	0.0254	300	34.18
OB	7	7	P	1.7	06/26/2007	0.0496	300	31.11
OB	9	7	C	2.05	08/28/2007	0.0769	212	32.49
OB	9	7	C	1.85	08/28/2007	0.1357	201	30.68
OB	5	7	C	2	04/25/2007	0.0398	183	35.65
OB	5	7	P	1.8	04/25/2007	0.0438	105	34.99
OB	4	7	C	1.93	03/27/2007	0.0462	101	44.30
OB	6	7	C	2.1	05/25/2007	0.039	100	36.18
OB	7	7	C	1.87	06/26/2007	0.1107	100	30.55
OB	9	7	C	2.2	08/28/2007	0.051	100	33.93
OH	5	7	P	1.55	04/25/2007	0.0256	200	34.68
OH	4	7	P	1.63	03/27/2007	0.0184	145	39.07

Brazil's Petrobras and trading house Mitsui & Co plan to jointly produce bioethanol in Brazil, with a portion bound for Japan. The project is expected to produce 3.5 million kiloliters of bioethanol annually by 2011.

Traders and shipping sources stated that term buyers of Venezuelan gasoline were not expected to seek arbitrations or compensations for the export flow stoppage since late 2006. Venezuela halted its gasoline exports to the US following persistent refinery problems. The stoppage has failed to impact the US spot gasoline market as the export flow from Venezuela was too sporadic in the past two years.

Production News

Euroilstock reported that Europe's total refinery production increased by 85,000 bpd or 0.6% on the month in February to 13.321 million bpd. It reported that gasoline production fell by 28,000 bpd to 3.282 million bpd while middle distillate

production increased by 99,000 bpd to 6.319 million bpd. It reported that fuel oil production fell by 40,000 bpd to 1.883 million bpd while naphtha production fell by 13,000 bpd to 1.037 million bpd.

France's petroleum industry body UFIP said workers at France's Fos-Lavera oil and gas terminal near Marseille voted to continue a week long strike. This followed ongoing negotiations between the port workers and port authorities. There were 35 ships blocked from entering the hub, including 23 oil tankers, five gas tankers, six cargoes transporting chemical products and one barge. The strike

started on March 14 to demand that only port staff is used to hook up liquefied natural gas cargoes at a Gaz de France terminal scheduled to start up at the end of 2007.

The Dardanelles Strait was closed to all ship and tanker traffic in both directions due to a storm. Tanker traffic in the Bosphorus Strait was normal, however Turkish meteorological authorities said that high winds may turn into a storm and tanker traffic may also be delayed in the Bosphorus. Nine ships were waiting to pass through the Dardanelles Strait in both directions.

Mexico's Pemex increased its crude production in February to 3.15 million bpd from 3.14 million bpd in January. Its production in February 2006 stood at 3.31 million bpd. It reported that its crude exports increased to 1.77 million bpd from 1.58 million bpd in January. Its exports were down from last year's level of 1.97 million bpd.

Brazil's Petrobras increased its oil production by 1.1% on the month in February to 1.805 million bpd after resuming production at the P-37 rig in the Marlim field. Petrobras also produced an average of 131,300 bpd of crude outside of Brazil in February, up from 127,800 bpd the previous month.

Russia's oil export schedule for the second quarter of 2007 is expected to remain steady. It has scheduled regular volumes for Belarus and Central Europe along the Druzhba pipeline despite a pricing dispute with Minsk in January. The schedule also showed Lithuania's Mazeikiu refiner and Butinge export terminal would not receive any crude for another three months.

Russia's Lukoil has exported a small volume of Russian and Kazakhstan crude to China via a pipeline. It shipped more than 1 million barrels of crude oil and refined products to China in 2006, some of which was sent through the pipeline. A Lukoil official said whether the company would export more crude through the pipeline would depend on the cost. Separately, Lukoil said it would start exporting crude oil through another pipeline from Eastern Siberia in the fourth quarter of 2008. The construction of the entire Eastern Siberian pipeline is expected to be completed in 2009.

The China Petroleum Daily reported that twelve tanks at China's second strategic oil reserve, with a capacity of 1.2 million cubic meters, are expected to be ready by the end of next week. Construction work at the second strategic oil reserve has been completed and a test run is currently underway.

Indonesia's President Susilo Bambang Yudhoyono signed nine oil and gas contracts on Wednesday in an effort to draw more foreign investment to the sector and increase the country's energy production. France's Total SA, Canada's Talisman Energy Inc, US' ExxonMobil, Britain's Premier Oil Plc, Norway's Statoil and Indonesia's Pertamina were among those signing the contracts.

Indonesia's PT Pertamina has asked the government to set July as the deadline for imposing the 0.35% diesel sulphur content for all users.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$56.49/barrel on Tuesday, down from \$56.62/barrel on Monday.

Market Commentary

The oil market posted an inside trading day after failing to breach Tuesday's trading range following the release of the weekly petroleum stock reports. The crude market, which traded above the 59.80 level ahead of the reports, traded lower in light of the larger than expected build in crude stocks. However it held its support as the report showed that the majority of the build was in Padd 5. The market also bounced higher amid the strength in the RBOB market, which was well supported by the larger than expected draw in gasoline stocks. The crude market settled in a sideways trading pattern before it posted a low of 59.21. The market however bounced off that level on late buying ahead of the close. It rallied back towards its high and settled up 36 cents at 59.61. Volume in the crude market was lighter with 239,123 lots booked on Globex during the open outcry session. The RBOB market rallied to a high of 196.86 following release of the DOE report, which showed a draw of 3.4 million barrels in gasoline stocks. The market was also buoyed by reports that BP cut rates on a fluid catalytic cracking unit at its Texas City, Texas refinery. The market surprisingly erased its gains and sold off to a low of 192.21 on profit taking before it retraced some of its losses and traded sideways ahead of the close. It settled down 72 points at 193.49. Meanwhile, the heating oil market traded higher early in the session amid the draw reported in distillate stocks. However it erased its gains and sold off to a low of 165.63 amid the losses in the gasoline market. It retraced some of its losses and settled down 41 points at 166.46. Volumes in the product markets were light with 42,915 lots booked in the RBOB market and

44,745 lots booked in the heating oil market.

The oil market, which continued to retrace its earlier losses in overnight trading, will

Technical levels		
	Levels	Explanation
CL 59.61, up 36 cents	Resistance	60.34, 60.98, 61.12
		60.13, 60.18
	Support	59.21, 59.15
		58.85, 58.54, 58.00
HO 166.46, down 41 points	Resistance	171.08, 173.68
		168.29
	Support	165.63
		164.46, 162.24, 160.45
RB 193.49, down 72 points	Resistance	198.33, 203.20
		196.86
	Support	192.31
		190.30, 186.68

likely remain supported amid the strength in the gasoline market as traders focus on continued draws in stocks. Also, stochastics crossed to the upside as it held its support levels. The market is seen holding its support at its lows of 59.21 and 59.15. More distant support is seen at 58.85, 58.54 and 58.00. Meanwhile resistance is seen at its highs of 60.13 and 60.18 followed by 60.34, 60.98 and 61.12.