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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 23, 2007

Britain's Ministry of Defense said Iran Revolutionary Guards navy captured fifteen British Royal Navy personnel during a routine boarding operation of a merchant ship, suspected of smuggling cars, in Iraqi territorial waters on Friday. Britain has demanded the immediate release of the sailors. Iran's ambassador to London arrived at Britain's Foreign Office after being summoned over the seizure of the Navy personnel and met Foreign Office permanent undersecretary Peter Ricketts. The foreign secretary said the meeting was "brisk but polite" and added that the British ambassador in Iran had also been speaking to officials in Iran. Meanwhile, the US Navy said none of its military personnel was captured by Iran. The White House said it was closely monitoring the situation.

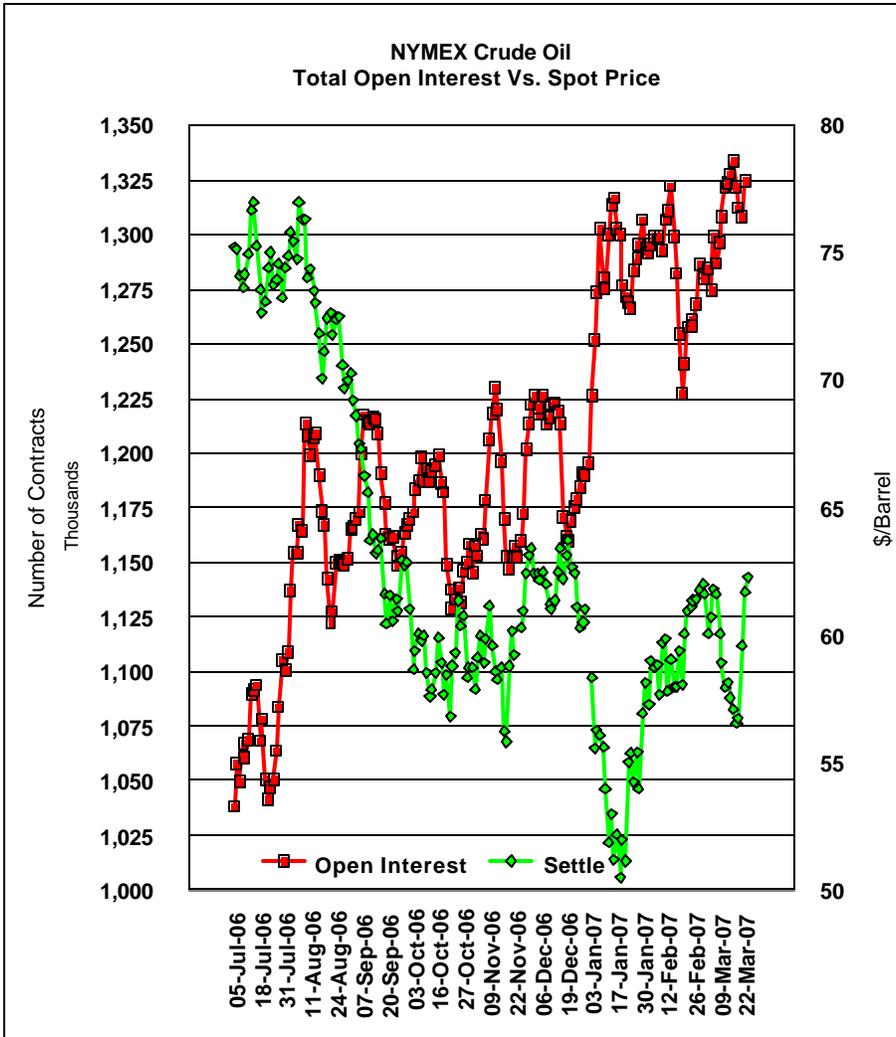
Market Watch

The chairman of the US House of Representatives' Foreign Affairs Committee said America's demand for crude oil had compromised its security and called for conservation measures. He said the US has not pursued links between Saudi Arabia and funding of terror groups because Saudi Arabia is the world's top oil producers and the de facto leader of OPEC. He said that over 70% of the world's oil is controlled by countries where the US has troubled relations and said US policymakers need to push for more efficient US automobiles and more renewable energy. He also suggested that Iran's status as the world's fourth largest oil exporter has made Western countries overly cautious about imposing sanctions for alleged nuclear weapons development. Meanwhile, an analyst warned that a military strike against Iran's nuclear facilities would significantly impact oil prices. He said prices could reach \$120/barrel if Iran retaliated for any strike by shutting down the Strait of Hormuz.

A senior OPEC official said OPEC was willing to provide guarantees to Asian oil companies to use its reserve crude as a strategic oil reserve. He said that under long term guaranteed contracts from OPEC member countries in securing reserves, Asian oil companies would not need to build huge storage facilities in their own countries.

Venezuela's Oil Minister said ExxonMobil has not notified Venezuelan authorities if it would stop operating in the country following the nationalization of its oil project. ExxonMobil is a partner with BP and PDVSA in the Cerro Negro heavy oil project.

ICE chief executive Jeffrey Sprecher said ICE could increase is \$9.5 billion all stock bid for CBOT Holdings Inc if an examination of the CBOT's books allow it. CBOT's board has authorized the company to start discussions with ICE following the surprise bid. The CBOT has also postponed an April 4 vote on the merger with CME until it has had time to consider the bid from ICE.



Shipping analysts said news of the capture of 15 British naval personnel by Iranian forces is not expected to slow the flow of crude oil from the region. However they stated that tanker freight rates may increase as a result.

A British diplomat said the new UN Security Council resolution imposing further sanctions on Iran was approved by members and would go to a vote on Saturday. A minimum of nine votes in favor and no veto is needed to pass the resolution. The new resolution would ban exports of all weapons and freeze assets abroad of 28 more people and institutions, including commanders of Iran's Revolutionary Guard and companies they control and the state owned Bank Sepah. It also calls for restrictions on new financial assistance or loans to the Iranian government. The new draft restates an offer of economic and diplomatic

incentives made by the five permanent council members and Germany. Iran's President Mahmoud Ahmadinejad is expected to address the council on the day of the vote on how its nuclear program is for generating energy. The White House said visas for Iran's President and other diplomats have been approved, disputing Iran's claim that the entry documents had not been approved.

US Senate Energy and Natural Resources Committee chairman Jeff Bingaman said he did not support President George W. Bush's goal of expanding the SPR to 1.5 billion barrels. He also stated that he did not expect legislation this year. He said he did not believe there was a need to expand the SPR beyond the 1 billion gallons contemplated in the Energy Policy Act of 2005. The SPR currently holds 689 million barrels of crude and has a capacity to hold 727 million barrels.

Refinery News

Valero Energy Corp started planned work on an 82,000 bpd hydrosulfurization unit at its 340,000 bpd refinery in Corpus Christi, Texas on Friday. The work is expected to end on Tuesday, March 27. Valero said there would be no impact to production. Separately, Valero discovered a leaking control valve in the complex 1 section of its Houston, Texas refinery which caused an emissions event.

ExxonMobil reported emissions of hydrogen sulfide and sulfur dioxide at its 150,000 bpd refinery in Torrance, California on Thursday. The refinery continued to operate at reduce rates due to planned shutdown activities.

Venezuela's PDVSA is scheduled to start maintenance on a crude unit at its 640,000 bpd Amuay refinery.

Singapore Refining Co is scheduled to shut a 90,000 bpd crude distillation unit at its 285,000 bpd refinery in May for a month of routine maintenance. Its two other crude units would continue to operate during the maintenance period.

Production News

The Houston Ship Channel reopened at about 10 am CDT on Friday after it was closed for a few hours due to fog.

Gunmen in Nigeria kidnapped three foreign workers in two separate incidents on Friday. Two foreign construction workers were kidnapped in the Nigerian city of Warri. This followed the kidnapping of a Dutch security manager from the city of Port Harcourt.

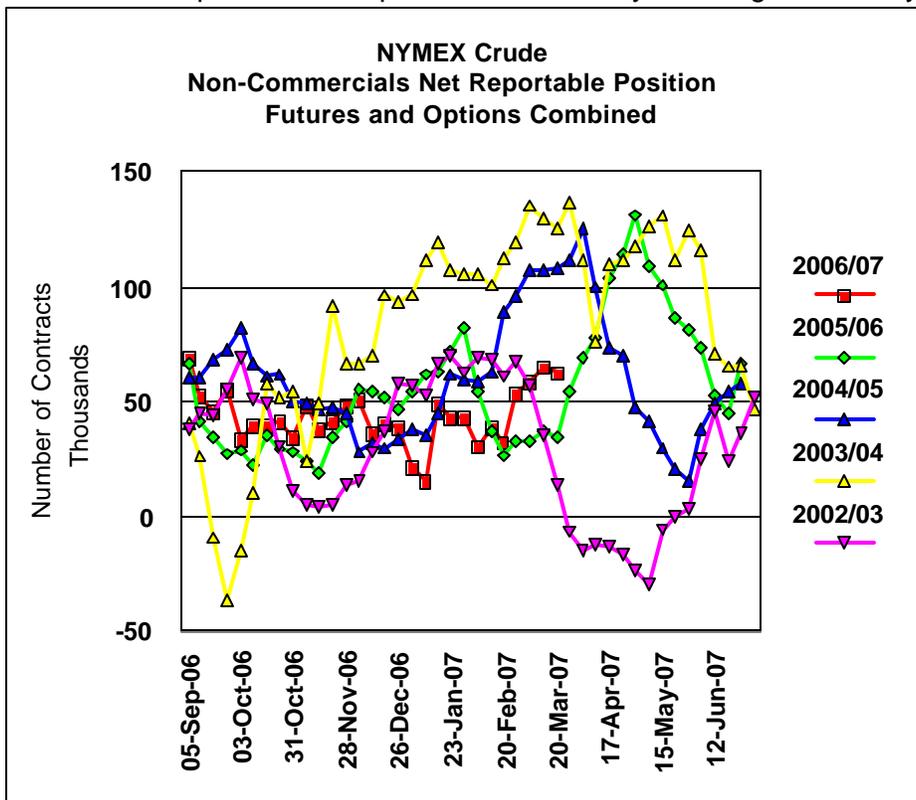
Traders said Nigeria's crude shipments were expected to fall by 100,000 bpd on the month in May to 2 million bpd due to lower output from Royal Dutch Shell's Bonga and Chevron's Escravos oilfields.

A 10 day strike at France's Fos-Lavera oil and gas terminal in Marseille was blocking 43 ships, including 20 oil tankers and five gas tankers from entering the terminal.

Algeria's Arzew crude oil port reopened on Friday while the oil port of Skikda remained closed due to bad weather. Algeria's port of Skikda is expected to reopen either Saturday morning or Sunday morning.

BP's CEO John Browne said it plans to expand in Russia through joint projects with local energy producers. TNK-BP id expected to bid at an auction for 9.44% of Russia's Rosneft next week.

China National Petroleum Corp said China's oil demand would likely increase by 6.5% annually by 2010 from this year. Its total yearly crude oil demand is expected to reach 455 million tons or 9.1 million bpd by 2010, including 250 million tons of imports. China's crude oil imports are expected to increase by 10% on the year to 160 million tons in 2007 due to economic growth and limited increase



in domestic output.

Lithuania's Economy Minister Vytas Navickas said Poland's PKN Orlen was considering buying Lithuania's Klaipėdos Nafta oil terminal. He said the other option being considered by PKN was to build its own export-import terminal at the port of Klaipėda. The company has stated that it planned to build new pipelines to Klaipėda from the Mazeikiu oil refinery. Klaipėdos handled 5.507 million tons of oil products last year, down from 5.844 million tons in 2005.

OPEC's news agency reported that OPEC's basket of crudes increased to \$57.78/barrel on Thursday from Wednesday's \$56.76/barrel.

Market Commentary

Once again the market had help today from the fundamentals. With the Iranian detention of 15 British naval personnel, the May crude contract came within range of the long-term trend line of 62.70. This trend line dates back to December, which had a high of 6746. Technically the market still looks constructive with our initial upside objective of 63.75 still in place. Above that we would look for 64.56. As expected the May/June spread tested and slightly penetrated the -1.25 level. As mentioned in yesterday's wire we would not be surprised to see this spread strengthen to -.85. The middle part of the curve appears to be losing strength as well with Dec07/Dec08 crude settling .27 cents down on the day. This spread could also reach the -.85 area. Open interest in the crude market built by a total of 16,002 lots as traders added new longs amid the market's rally after it bounced off the 60.00 level on Thursday. Open interest in the May contract built by 5,781 contracts while open interest in the June contract also built by 5,519 lots. Meanwhile, the RBOB market was also well supported by the strength in the oil market. The RBOB market extended its gains to over 4 cents as it rallied to above the 200.00 level amid the news of further refinery problems. The heating oil market however retraced its early losses and ended the session in negative territory. The product markets will continue to hold their support amid the continued refinery problems. Similar to the crude market the product markets also continue to technically look constructive. The market next week will be concerned with the news on whether the UN Security Council approved the new draft resolution imposing further sanctions against Iran. The UN Security Council is scheduled to vote on the resolution on Saturday, when Iran's President is expected to address the council.

The latest Commitment of Traders report showed that non-commercials in the crude market increased their net long positions by a total of 7,252 contracts to 44,366 contracts in the week ending March 20. It showed that non-commercials cut their total short positions by 8,657 contracts on the week. Meanwhile

, the combined futures and option report showed that non-commercials cut their net long positions by 3,038 contracts on the week. Given the market's move during the last two trading days, non-commercials have likely

Technical levels			
	Levels	Explanation	
CL 62.28, up 59 cents	Resistance	63.38, 63.75 62.65	Previous highs Friday's high
	Support	61.25 59.95, 59.21, 59.15, 58.85	Friday's low Previous lows
	Resistance	173.68, 174.24, 176.78 172.50, 173.65	Previous high, 62% retracement(179.57 and 165.63), Previous high Friday's high
	Support	170.50 166.85, 165.63, 162.24	Friday's low Previous lows
RB 199.83, up 4.08 cents	Resistance	204.55 200.81	Basis trendline Friday's high
	Support	198.00, 194.78 193.25, 192.31, 190.30	Friday's low Previous lows

continued to add to their net long position. Meanwhile, non-commercials in the heating oil market cut their net short positions by 227 contracts to 3,318 contracts while non-commercials in the RBOB market increased their net long position by 1,273 contracts to 28,769 contracts on the week.