



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 27, 2007

The US Navy said it had no information to substantiate a market rumor that Iran had fired at a US naval vessel in the Persian Gulf.

DEBKAFfile reported that more than 10,000 US personnel, two aircraft carriers and 100 warplanes started the largest war games in the Gulf on Tuesday since the 2003 invasion of Iraq. It reported that intelligence sources in Russia claimed to have information that a US strike against Iranian nuclear installations has been scheduled for April 6. The sources said the US operation would last no more than 12 hours and consist of missile and aerial strikes to set Iran's nuclear program several years back.

Britain's Prime Minister Tony Blair said the UK hoped diplomacy would win the release of the

Market Watch

AccuWeather forecaster, Joe Bastardi said the US Gulf Coast was at a much higher risk of destructive weather in the 2007 Atlantic hurricane season. Meanwhile director of forecast operations, Ken Reeves, said there was a distinct possibility that strong hurricanes would make landfall in the same region of the Louisiana and the Texas Gulf Coast that was struck in 2005.

Iran's central bank stated that the country has cut the share of dollars in its foreign reserves to a minimum, about 20% as it seeks to hold less of the US currency. The head of the central bank said Iran's economy could withstand UN sanctions and added that the country had enough foreign reserves to handle any major shocks. He said the new sanctions posed little threat to Iran's oil-led economy. Separately, China's Zhuhai Zhenrong Corp started paying of its oil in euros late last year. Industry sources stated that Japanese refiners, who import about 500,000 bpd of Iranian crude, continue to pay in dollars but would be willing to shift to the year if asked.

Platts reported that Ekofisk crude would be added to the widely used benchmark based on North Sea crudes. However it said there were no plans to remove Forties crude from the benchmark. The North Sea benchmark is currently made up of Brent, Forties and Oseberg crude. The declining production of Brent and Oseberg and the changes in the quality of Forties has created liquidity and pricing issues for the benchmark. Platts said it was adding Ekofisk crude to address some of the issues.

The IntercontinentalExchange Inc said it planned to launch WTI crude oil options on April 20. ICE has already listed options on its Brent crude and its gasoil futures contracts.

The NYMEX said it was increasing its margins for RBOB gasoline and related futures contracts as of the close of business Wednesday. Margins for the first month of RBOB, RBOB financial and RBOB calendar swap futures would increase to \$6,413 from \$6,075 for customers. The margins for the second to eighth months would increase to \$6,075 from \$5,738 for customers. Margins for the first month of miNY RBOB would increase to \$3,206 from \$3,038 for customers while margins for the second to eighth months would increase to \$3,038 from \$2,869 for customers.

15 British sailors and marines but added that it was prepared to move to a different phase. A spokesman for Britain's Prime Minister said the government was attempting to discreetly talk to the Iranians. He added that if the talks were unsuccessful, the government may have to become more explicit. Meanwhile, Britain's Foreign Secretary, Margaret Beckett said it wanted the dispute over Iran's capture of 15 British sailors and marines to be resolved swiftly and peacefully. Iran has stated that the 15 British sailors and marines were in good health and were treated in a humane manner. Britain's Foreign Secretary said Iran should follow up on its reassurance by allowing UK access to the detained personnel.

The European Union's foreign policy chief, Javier Solana said he aimed to continue talks with Iran's top nuclear negotiator, Ali Larijani, early next week to discuss Iran's willingness to return to the negotiating table over its nuclear program.

Russia's Foreign Ministry criticized the US for what it called over reliance on force and warned the US against any military action against Iran. However it said that Russia was ready to cooperate to end world crises if the US treated it as an equal partner. Meanwhile it also criticized Iran for its unconstructive stance, reflecting Russia's irritation with Iran's refusal to freeze its uranium enrichment. Russia's Foreign Minister Sergey Lavrov said that the latest set of sanctions was a call for the resumption of talks rather than an instrument of punishment. Russia's Foreign Ministry emphasized the need to conduct a balanced course on Iran, protecting national interests in the country while preventing violations of the nuclear non-proliferation regime. The ministry hinted that Russia would tie weapons sales to Iran to its cooperation on the enrichment program.

Algeria's Energy Minister Chakib Khelil said he saw no reason to make further output cuts. He said current prices were reasonable.

OPEC's head of research, Hassan Qabazard said world supply overhang is expected to total about 700,000 bpd in the second quarter compared with an average of about 1 million bpd during the past few years. He said OPEC does not need to add crude to the market.

Nigeria's President Olusegun Obasanjo said Nigeria was satisfied with the current level of oil prices and added that he would not complain if they increased by a few more dollars.

Refinery News

Wholesale gasoline prices in the Los Angeles cash market fell 9 cents on Tuesday as refinery buying was slowing while annual overhauls end. Dealers aid prices were also pressured by the end of the first cycle of pipeline shipment scheduling for April.

A crude unit and fluid catalytic cracking unit at BP Plc's Whiting, Indiana refinery is expected to remain shut for four to six weeks. BP moved up its maintenance scheduled for May following a fire on a catalytic feed hydrotreater last Thursday. Maintenance work on the refinery's 175,000 bpd crude unit would be performed while the hydrotreater is being repaired from fire damage. According to a source, the refinery was still producing fuel to meet its customers' demands.

Valero Energy Corp said it completed repairs to a 100,000 bpd fluid catalytic cracking unit at its 190,000 bpd St. Charles refinery in Norco, Louisiana. The unit was shut on March 13 for unplanned repairs to a flue gas cooler. Valero had estimated that 85,000 bpd of gasoline production and 15,000 bpd of diesel production was lost during the repairs.

Total shut sulfur recovery unit-1 at its 232,000 bpd refinery in Port Arthur, Texas on Monday after hydrogen sulfide was released.

NYMEX Petroleum Options Most Active Strikes for March 27, 2007

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	6	7	C	70	05/17/2007	0.97	13,792	28.97
LO	10	7	C	100	09/17/2007	0.17	5,875	29.68
LO	5	7	C	63	04/17/2007	1.71	4,768	29.09
LO	6	7	P	64.5	05/17/2007	2.73	3,039	29.45
LO	6	7	P	60	05/17/2007	1.09	2,850	30.62
LO	7	7	C	90	06/15/2007	0.07	2,667	31.68
LO	6	7	P	62	05/17/2007	1.65	2,582	29.63
LO	7	7	P	60	06/15/2007	1.35	2,363	30.19
LO	6	7	P	55	05/17/2007	0.33	2,279	33.17
LO	6	7	C	64.5	05/17/2007	2.88	2,135	29.47
LO	6	7	P	52	05/17/2007	0.15	2,101	35.03
LO	7	7	P	63	06/15/2007	2.29	2,100	29.57
LO	5	7	C	60	04/17/2007	3.59	2,002	30.09
LO	5	7	C	74	04/17/2007	0.05	1,800	34.15
LO	5	7	P	59.5	04/17/2007	0.56	1,700	30.31
LO	5	7	P	52	04/17/2007	0.02	1,650	35.24
LO	5	7	C	75	04/17/2007	0.04	1,600	35.25
LO	6	7	P	49	05/17/2007	0.06	1,550	36.58
LO	5	7	P	62	04/17/2007	1.3	1,401	28.97
LO	12	7	C	90	11/13/2007	0.77	1,350	27.46
LO	6	7	C	74	05/17/2007	0.38	1,302	29.05
LO	6	7	C	60	05/17/2007	5.71	1,253	30.91
LO	8	7	C	66	07/17/2007	4.39	1,200	28.91
LO	5	7	P	62.5	04/17/2007	1.53	1,150	29.06
LO	5	7	C	70	04/17/2007	0.19	1,124	31.95
LO	5	7	C	62.5	04/17/2007	1.96	1,117	29.09
LO	5	7	C	58	04/17/2007	5.24	1,100	31.76
LO	5	7	C	64	04/17/2007	1.27	1,067	28.98
LO	5	7	P	56	04/17/2007	0.14	1,050	32.72
LO	7	7	C	69	06/15/2007	2.23	1,050	29.04
LO	12	7	C	100	11/13/2007	0.33	1,005	28.57
LO	6	7	P	58	05/17/2007	0.7	1,002	31.72
LO	7	7	C	74	06/15/2007	0.97	1,001	28.74
LO	3	8	C	70	02/14/2008	5.82	1,000	26.72
LO	3	8	P	60	02/14/2008	3.17	1,000	28.49
OB	6	7	C	1.99	05/25/2007	0.115	712	35.03
OB	6	7	C	2.03	05/25/2007	0.0977	702	35.26
OB	7	7	P	1.6	06/26/2007	0.0138	700	33.76
OB	6	7	C	1.9	05/25/2007	0.1655	621	35.63
OB	7	7	P	1.9	06/26/2007	0.0848	500	32.34
OB	5	7	C	2.06	04/25/2007	0.0645	333	36.11
OB	6	7	P	1.9	05/25/2007	0.0673	300	35.41
OB	5	7	C	2.05	04/25/2007	0.0684	279	35.99
OH	11	7	P	1.65	10/26/2007	0.049	200	28.49
OH	5	7	P	1.83	04/25/2007	0.0882	115	31.42
OH	5	7	C	2.4	04/25/2007	0.0001	115	34.45
OH	6	7	C	2.4	05/25/2007	0.0016	115	33.84
OH	6	7	P	1.8	05/25/2007	0.0904	115	30.95
OH	6	7	C	2	05/25/2007	0.0266	100	31.84

ExxonMobil has initiated a controlled shutdown of its 155,000 bpd Torrance, California refinery following Thursday's shutdown of a sulfur recovery unit. The company was in the process of a planned two month turnaround of hydrotreaters, hydrogen plants and sulfur recovery units.

A Total refinery is among six whose operations have been impacted by a two week strike at the port of Marseilles. Total said it cut output by about a third at the 119,000 bpd Feyzin refinery due to the disruption to crude oil deliveries. It was also forced to cut production at its 155,000 bpd La Mede refinery by a third. Port workers in Marseille voted on Tuesday to continue to strike, which has left 51 vessels stranded.

The joint venture Miro refinery in Karlsruhe, Germany is expected to return to full operations by the end of the week following a planned maintenance shutdown.

Valero Energy Corp has deferred capacity expansion work at its refinery in Quebec until 2008. It said the postponement of work to expand the crude distillation unit as a measure of capital discipline. The expansion project would increase capacity by 45,000 bpd to 260,000 bpd.

Cosmo Oil Co Ltd said that

its new 12,000 bpd gasoline desulfurization unit at its Sakaide refinery has started normal operations. Separately, Cosmo Oil Ltd is expected to cut its middle distillate shipments to 30,000 tons in April compared with 120,000 tons in March.

Production News

A cyclone approaching the coast of Western Australia on Tuesday has forced a shutdown of about half of the country's production. About 180,600 bpd of oil production has been temporarily shut in as Woodside Petroleum, Santos Ltd, BHP Billiton Ltd and Chevron Corp shut operations at their oilfields. Woodside Petroleum closed its 7,000 bpd Legendre field and 100,000 bpd Cossack Pioneer field. Santos has also shut in production at its 55,000 bpd Mutineer-Exeter field. Meanwhile, BHP Billiton Ltd said it planned to restart production at its 10,600 bpd Griffin oilfield later on Tuesday after it was shut on Monday due to an approaching cyclone. Chevron said it closed the Barrow and Thevenard Islands field, with a combined production level of 8,000 bpd.

The Rhine River remained closed to shipping near Cologne in Germany following an accident involving a container ship over the weekend. The river is expected to remain closed until all of the containers have been recovered. Over 100 ships were now waiting in the Rhine river. German authorities said shipping lanes may reopen on Friday at the earliest after a barge lost containers.

A PDVSA official said Venezuela did not anticipate any production problems at four heavy oil projects when it takes over operations on May 1. He said the projects had a spare capacity of over 100,000 bpd due to OPEC's output cuts. Industry and union officials warned that ongoing oil nationalization could leave the country long on equity but short on talent. They stated that production fell at 32 conventional oil fields that PDVSA took control of during a similar contract overhaul with private operators.

Separately, PDVSA said that its 2006 profit fell 26% in 2006 as a social spending program cut into record high sales. It reported that its profit fell to \$4.8 billion in 2006 from \$6.5 billion in 2005, despite an increase in sales to \$102 billion from \$86 billion. Meanwhile, the company's social spending increased to \$13.2 billion from \$6.9 billion in 2005. PDVSA said its production at the end of 2005 was 2.9 million bpd but did not disclose a more recent production level.

Venezuela's President said the country would supply China with 500,000 bpd of crude by the end of 2007. Last year, Venezuela shipped 150,000 bpd to China. However senior Venezuelan officials said Venezuela would send about 300,000 bpd of crude to China this year.

Ecuador's Energy Minister Alberto Acosta stated that the Ecuadorean government could develop the Ishpingo-Tambococho-Tiputini, or ITT oilfield on its own without a company partnership. The ITT field has proven reserves of about 1 billion barrels of petroleum. Developing the field could require at least \$5 billion. Separately, he said he was optimistic that Brazil's Petrobras would be able to resume production in Orellana province by Wednesday. Petrobras was forced to suspend operations because of protests by local residents who are demanding infrastructure projects for the area.

OPEC's news agency reported that OPEC's basket of crudes increased \$1.03/barrel to \$59.95/barrel on Monday, up from Friday's \$58.92/barrel.

Market Commentary

After failing to take out yesterday's high and posting an inside trading day during the open outcry session, the market briefly rallied more than \$5 to a high of 68.09 in late electronic trading amid the rumors that Iran had fired on a US naval vessel. It looks like 30,000 contracts traded in the May crude from 63.00 up to 63.25 and then another 6,000 lots up to the high of 68.09. However the market later retraced some of its sharp gains as the US said it had no information to substantiate the market rumor. Ahead of the spike, the market had settled up 2 cents at 62.93 as the market found some profit taking following Monday's sharp gains. The May contract, which settled above two trend lines set at 62.64 and 62.45 and rallied above its resistance level at 63.75, is seen finding initial resistance at 64.80. Below the 61.50 level, the next major number to the downside is 60.50 and 60.00. With average expectations calling for a 1.1 million barrel build in crude and draws of 800,000 barrels and 1.8 million barrels in heat and gasoline stocks respectively, we could see support in the market making it likely that we will reach the aforementioned resistance at 64.80. The May/June continues to gain strength, but one has to wonder once the BP Whiting, Indiana unit comes back on line, will this spread come back in. Meanwhile, the RBOB market also retraced some of Monday's sharp gains but still remained supported amid the continuing refinery problems. The market traded to 208.35 amid reports that the refinery units at BP's Whiting refinery would remain down for four to six weeks as BP moved up its maintenance that was scheduled for May. The market later rallied to a high of 210.00 in late Globex trading

amid the strength in the oil market. The heating oil market also traded mostly sideways as it retraced some of

Technical levels		
	Levels	Explanation
CL 62.93, up 2 cents	Resistance 64.80, 68.09	Globex high
	Support 63.08	
	62.24 61.50, 60.50, 60.00	Tuesday's low
HO 178.64, up 1.03 cents	Resistance 178.70, 179.57, 184.27	Previous highs, Globex high
	Support 178.91	
	178.00, 176.17 174.95, 172.75, 171.10, 170.50	Tuesday's low 50% and 62% retracement (165.63 and 184.27), Previous lows
RB 207.30, up 53 points	Resistance 210.00, 211.60	Globex high, Basis trendline
	Support 208.35	Monday's high
	203.32 199.15	Tuesday's low Previous low

Monday's gains. Similar to the rest of the complex, the market rallied to a high of 184.27 on Globex. The oil complex on Wednesday is seen remaining supported as the markets remain jittery in light of the Iranian situation. Even if the weekly petroleum stock reports fail to show supportive draws in product stocks, the market will continue to trend higher in light of the continuing refinery problems and the concerns over the increasing tension with Iran.