

W The
Windham Group



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta,
Zachariah Yurch & Karen Palladino
(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR MARCH 29, 2007

Prime Minister Tony Blair said Britain would not negotiate over British sailors and marines held hostage by Iran. He again called for the unconditional return of the 15 Royal Navy personnel who were seized by Iran last week. He said Britain was freezing most contacts with Iran. Britain circulated a draft press statement to the UN Security Council asking it to deplore Iran's action and demand the immediate release of the captives. European Union foreign

Market Watch

According to an economic advisor at the Royal Bank of Scotland, crude oil prices should average \$50/barrel this year amid the geopolitical risk premium. However he said the long term outlook was more bearish as the market was moving to excess capacity, given additional production expected to come onstream in 2008 that would cap upside price risk.

UK Transport Minister Stephen Ladyman said Britain was looking for a way to stop biofuels imports from the US, which it believed would undermine the commercial case for European production. European biodiesel producers have complained sales of US biodiesel was increasing with the help of unfair subsidies.

Arab leaders at their summit on Thursday agreed to call for Israel to accept their land-for-peace offer and open direct negotiations with the Arab countries. The initiative offers Israel recognition and permanent peace with all Arab countries in return for Israeli withdrawal from lands captured in the 1967 Middle East war. It also calls for setting up a Palestinian state with east Jerusalem as its capital and a just solution to the issue of Palestinian refugees forced out of lands in what is now Israel.

policy chief Javier Solana also urged Iran to free the captives, saying the standoff was blocking efforts to improve relations. Meanwhile, Iran backed off its pledge to release a British servicewoman, saying her release would be delayed due to Britain's referral of the issue to the UN Security Council. Iran has stated that Britain had to admit that its sailors entered Iranian waters for the standoff to be resolved. However Britain's Foreign Office insisted that the crew was seized in an Iraqi controlled area and no admission would be forthcoming. Iran's top negotiator, Ali Larijani, said British leaders have miscalculated the issue and added that if they follow through on their threats, the sailors and marines may be put on trial. Separately, in Iraq, the Iranian consul in Basra charged that British soldiers on Thursday surrounded his office and fired shots into the air. The Ministry of Defense in London said the shooting was an exchange of gunfire after British troops near the Iranian consulate were ambushed. Later, the UN Security Council agreed on a statement expressing grave concern over Iran's capture of 15 British sailors and marines and called for an early resolution of the problem including their release.

Russia's Foreign Minister Sergei Lavrov told the US on Thursday that it should be cautious not to aggravate tensions over Iran with its naval presence in the Gulf. The US Navy this week has been conducting its largest exercises in Gulf waters in four years, which are scheduled to end on Thursday. The US' decision to hold the exercises was taken within the last two weeks and planning for the drills accelerated as tension mounted between Iran and the West over Iran's nuclear program and its capture of the British sailors. Separately, a US Navy spokesman said at no time would there be three US aircraft carriers in the Persian Gulf during the deployment of the USS Nimitz. The US Navy said last week the USS Nimitz would be deployed to the Persian Gulf to replace another aircraft carrier, the USS Dwight D. Eisenhower, in a routine rotation. The USS John C. Stennis is also currently deployed in the Gulf. The USS Nimitz is expected to arrive in the third week of April.

US Deputy Energy Secretary Clay Sell said Iran's heavy dependence on imported crude products is "a vulnerability." Meanwhile, Undersecretary of State Nicholas Burns said Iran's heavy dependence on imported gasoline is a point of leverage for the US. Iran imports about 40% of its gasoline supplies.

The head of the EIA, Guy Caruso said the US could use its SPR to counter a short term disruption in Middle East Gulf oil shipments caused by tensions with Iran. He said about 4 million bpd of oil can be taken out of the emergency reserve, double the average 2 million bpd that is bound for the US market from the Gulf.

European Union Energy Commissioner Andris Piebalgs said he did not expect tensions over Iran to cause oil prices to increase to such an extent that it would cause a crisis.

A Nigerian candidate of the opposition Alliance for Democracy, Adebayo Adefarati, died suddenly, ahead of next month's elections. However, Nigeria's electoral commission said the presidential elections would not be affected by the death of a candidate. The candidate for the Alliance for Democracy was not considered a leader among the 24 candidates elections officials had cleared to run.

Petrologistics said OPEC was set to cut its oil production in March by 200,000 bpd to 26.7 million bpd as members including Saudi Arabia and Iran cut their supply further. Saudi Arabia cut its supply in March to 8.6 million bpd from a revised level of 8.66 million bpd in February while Iran cut its output by about 50,000 bpd in March to about 3.9 million bpd. OPEC's production, including Iraq and Angola, is expected to fall to 30.3 million bpd from 30.5 million bpd in February.

According to Oil Movements, OPEC's oil exports are expected to increase by 290,000 bpd to 24.35 million bpd in the four weeks ending April 14 compared with the previous four week period. The head of the tanker tracker said the surge was partly due to higher demand for crude from oil refiners. He said higher oil prices would also mean that OPEC's exports would continue to increase in the weeks ahead. He also added that OPEC's compliance with its recent output cuts had not declined to just below 700,000 bpd, despite members agreeing to adhere more strictly to their production cuts.

Refinery News

PDVSA's alkylation unit at its 200,000 bpd Puerto La Cruz refinery was expected to be back on line over the weekend. The unit was in its pre-startup phase.

Murphy Oil Corp has filed to modify the operating permit for its 120,000 bpd refinery in Meraux, Louisiana to allow it to revamp two units to make cleaner fuel.

NYMEX Petroleum Options Most Active Strikes for March 29, 2007

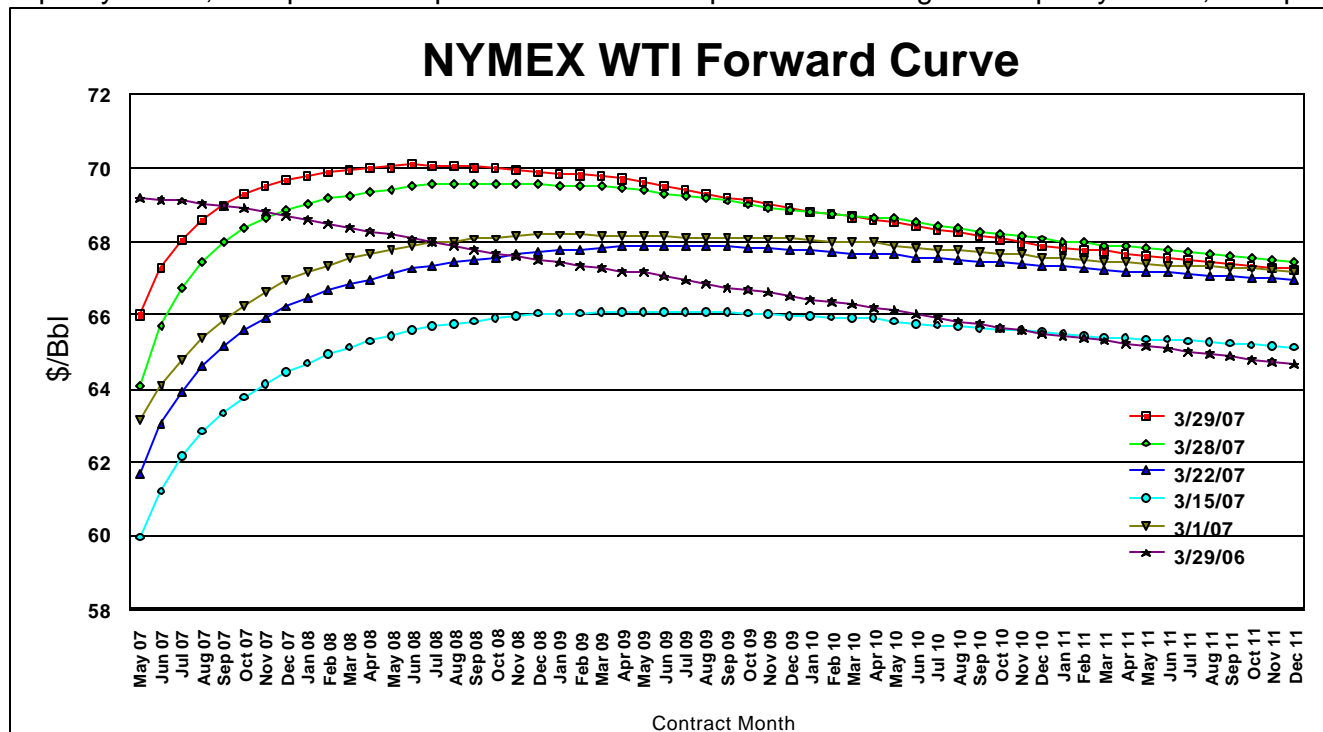
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	6	7	C	80	05/17/2007	0.54	9,310	38.46
LO	6	7	C	74	05/17/2007	1.25	7,556	35.79
LO	6	7	C	75	05/17/2007	1.05	6,421	35.76
LO	6	7	P	55	05/17/2007	0.31	6,351	39.07
LO	6	7	C	70	05/17/2007	2.36	6,113	35.74
LO	5	7	C	70	04/17/2007	1.02	5,986	40.88
LO	5	7	C	75	04/17/2007	0.4	4,874	45.97
LO	5	7	C	80	04/17/2007	0.18	4,124	51.36
LO	6	7	C	85	05/17/2007	0.32	3,724	41.94
LO	6	8	P	58	05/15/2008	2.85	3,400	28.53
LO	6	7	C	100	05/17/2007	0.11	2,936	52.34
LO	5	7	C	67	04/17/2007	1.9	2,698	39.02
LO	12	7	C	105	11/13/2007	0.45	2,674	31.90
LO	10	7	C	85	09/17/2007	1.38	2,650	30.74
LO	10	7	P	55	09/17/2007	1.03	2,650	32.55
LO	5	7	C	67.5	04/17/2007	1.72	2,303	39.35
LO	7	7	P	57	06/15/2007	0.76	2,101	36.19
LO	7	7	C	70	06/15/2007	3.35	2,085	33.92
LO	8	7	P	61.5	07/17/2007	1.87	2,050	32.55
LO	5	7	P	62	04/17/2007	0.86	1,992	40.34
LO	7	7	P	63	06/15/2007	2.1	1,971	34.69
LO	12	7	C	85	11/13/2007	1.88	1,948	29.55
LO	6	7	P	60	05/17/2007	0.97	1,904	37.39
LO	5	7	C	66	04/17/2007	2.35	1,873	39.03
LO	6	7	C	73	05/17/2007	1.47	1,815	35.70
LO	7	7	C	68	06/15/2007	4.21	1,802	33.97
LO	6	7	C	68	05/17/2007	3.16	1,718	35.86
LO	12	7	C	100	11/13/2007	0.63	1,718	31.28
OB	8	7	C	2.13	07/26/2007	0.1095	397	34.05
OB	8	7	C	2.19	07/26/2007	0.0926	397	34.61
OB	5	7	C	2	04/25/2007	0.1341	359	42.26
OB	8	7	C	2.2	07/26/2007	0.09	339	34.70
OB	8	7	C	2.14	07/26/2007	0.1065	333	34.15
OB	6	7	P	2	05/25/2007	0.1018	267	39.26
OB	5	7	P	1.91	04/25/2007	0.0322	196	42.60
OB	5	7	P	1.86	04/25/2007	0.0215	140	42.84
OB	5	7	C	1.95	04/25/2007	0.1667	124	42.60
OB	5	7	C	2.1	04/25/2007	0.0824	122	42.14
OH	5	7	C	2	04/25/2007	0.0378	766	40.64
OH	8	7	C	2	07/26/2007	0.1132	650	33.95
OH	8	7	P	1.84	07/26/2007	0.1045	650	33.93
OH	5	7	C	1.7	04/25/2007	0.1974	550	41.07
OH	8	7	C	2.1	07/26/2007	0.083	350	34.57
OH	7	7	C	2.15	06/26/2007	0.0514	276	36.11
OH	10	7	C	2.3	09/25/2007	0.0779	200	33.88
OH	10	7	P	1.6	09/25/2007	0.0386	200	33.07
OH	12	7	C	2.5	11/27/2007	0.0714	200	32.67
OH	12	7	C	3	11/27/2007	0.0299	200	36.09
OH	7	7	P	1.75	06/26/2007	0.0632	125	35.13

Refinery output of California's CARB gasoline fell 4.9% in the latest week to its lowest level since mid-July, as retail prices in some regions rallied to record highs. According to the Californian Energy Commission, output of CARB RFG lagged year ago levels by 13.4% in the week ending March 23. Crude oil processing rates at the state's refineries increased to 1.553 million bpd, up from 1.378 million bpd two weeks ago.

Production News

Gaz de France and striking workers at France's Fos-Lavera oil and gas terminal attempted to reach a compromise on Thursday in a bid to end a 16 day strike. Some refineries could start shutting down as soon as Friday if the dispute is not resolved. It was the third attempt to try to end the strike, which started on March 14 to demand that only port staff are used to hookup liquefied natural gas cargoes at a Gaz de France terminal due to start up at the end of 2007. The strike, which is blocking 57 ships, including 33 oil tankers, could close about half of French refineries by next Wednesday and halt fuel supplies. ExxonMobil and Total have been forced to cut production by a third at their Fos-Lavera dependent refineries. Ineos said it planned to shut down its 207,000 bpd Laver refinery at the start of next week.

BP Pipelines said it would conduct Phase One of an open season for a proposed pipeline reversal project. It is conducting preliminary engineering to assess the viability of reversing an existing pipeline that would deliver light Canadian crude oil from the Chicago area to Cushing, Oklahoma. The reversed pipeline could be in southbound service as early as the middle of 2009 with an expected capacity of 100,000 bpd and the potential for future expansions to bring total capacity to 200,000 bpd.



Norway's DNO said it would soon start production at its Tawke field development in northern Iraq. It said the Tawke No. 5 well delivered a maximum flow rate of 9,860 bpd.

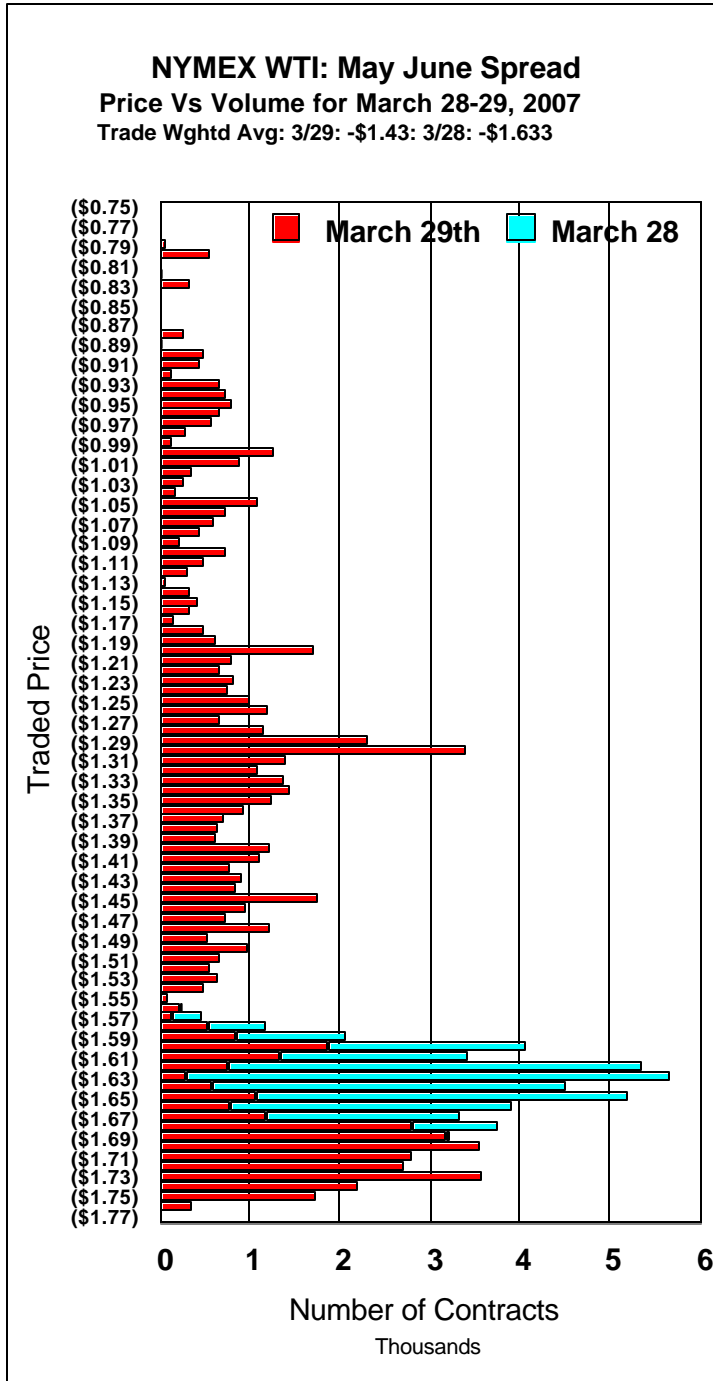
Kazakhstan urged Poland on Thursday to include Russia in a project to extend an oil pipeline. The project would reverse the flow of Ukraine's Odessa-Brody pipeline, which brings Russian crude to the Black Sea port of Odessa. It would instead transport Caspian oil from the Black Sea through Ukraine to Poland and the Baltic.

Singapore's International Enterprise said the country's residual fuel stocks built by 1.005 million barrels to 11.34 million barrels in the week ending March 28. It reported that Singapore's light distillate stocks fell by 892,000 barrels to 7.882 million barrels while its middle distillate stocks built by 169,000 barrels to 8.669 million barrels on the week.

According to a newspaper run by China's Ministry of Land and Resources, China's commercially recoverable reserves of crude totaled 2.04 billion tons or equivalent to 11 years of current production. It reported that China discovered 195 million tons of proven extractable reserves in 2006.

Industry officials said a 2.2 billion barrel reserve estimate for PetroChina's Jidong oilfield is an oil-in-place figure more than a year out of date and is expected to be revised by July. Chinese firms normally estimate 20-30% of discoveries can be produced, putting the field's recoverable reserves closer to 700 million barrels.

Venezuela's Energy Minister Rafael Ramirez gave details of the control it would grant China in the Orinoco Belt. He said an 800,000 bpd venture formed with the China National Petroleum Corp would



draw 200,000 bpd from the Junin 4 block in the Orinoco region and 400,000 bpd from the Carabobo block. Another 200,000 bpd would come from an area called MPE3. CNPC would have a 40% stake in the exploitation of crude from these areas. He also stated that Congress had given its approval to grant the Zumano fields to CNPC, with the expectation that production would increase to 100,000 bpd from 40,000 bpd.

Malaysia's Petrolia Nasional Bhd said oil is expected to start flowing from its Kikeh offshore oilfield in late August or early September. The Kikeh field has reserves of 400-700 million barrels.

Norway's Statoil said compressor problems plagued its Troll field for the second day on Thursday, limiting its ability to pipe gas to Britain.

OPEC's news agency reported that OPEC's basket of crude increased further to \$61.73/barrel on Wednesday from \$60.37/barrel on Tuesday.

Market Commentary

Sparked by reports of the assassination of the opposition presidential candidate in Nigeria, and a statement by a U.S. official that Iran's dependence on gasoline imports could be used as leverage, the crude oil market once again gained strength today. Volume in the crude was excellent with over 465,000 lots booked on Globex during the open outcry session. Looking at the 5 minute chart, once May retreated back to 64.90 and held, it appears that every half hour the market experienced a new surge of buying. Based on a weekly chart we would like to see May settle over the 65.85. We see resistance

up around 66.80,67.46,67.60 and 68.20 with support down at 65.85,65.65 65.40 65.20 **64.90** 64.60,64.45 64.00 **63.53**.

The May/June and June/July played out nicely, just as we expected. We could see a test in May/June down around -.70 and -.50, where this spread started to lose most of its strength. The weighted average on this spread gained -.20 cents from yesterday. However keep in mind that the rolls will be taking place and this should lend some strength to the June contract. As for the Jun/July, the next level to the down side would be -.55. The front of the crude curve appears to be \$3.00 below last year in comparison to \$5.00 after yesterday's close, indicating front-end strength. The middle of the crude

curve is softening in comparison to the front, but clearly is stronger than the same time last year and even one month ago.

The product markets, which also traded higher amid the strength in the oil market, will continue to see some strength on Friday ahead of the April products' expiration at the close. The oil complex will also remain headline driven and supported amid the continuing concerns over the Iranian situation. It is yet to be seen whether Iran would follow through on the UN's Security Council's call to release the UK sailors and marines captured last week. The heating oil market is seen finding resistance at 189.14 followed by more distant upside at 191.35 and 194.40. Support is however seen at 186.00, 184.85, 183.19 and 180.30. The RBOB market is seen finding resistance at its high of 214.33 followed by

217.40 and 219.50 while support is seen at 212.00, 210.50, 208.80 followed by 204.73.

The NYMEX crude oil options saw strong activity

Technical levels		
	Levels	Explanation
CL 66.03, up \$1.95	Resistance 66.80, 67.46, 67.60, 68.20	Thursday's high
	Support 66.45	
HO 187.72, up 4.98 cents	Resistance 65.85, 65.65, 65.40, 65.20	Previous highs Thursday's high
	Support 64.90, 64.60, 64.45, 64.00, 63.50	
RB 213.55, up 7.83 cents	Resistance 191.35, 194.40	Thursday's low Previous low, 38% retracement (165.63 and 189.14), 50%
	Support 189.14	
RB 213.55, up 7.83 cents	Resistance 186.00, 184.85, 183.19	Basis trendline, Backfills gap(continuation chart) Thursday's high
	Support 180.30, 180.16, 177.39	
RB 213.55, up 7.83 cents	Resistance 217.40, 219.50	Thursday's low 38% retracement(186.68, and 214.33), Previous low, 50%
	Support 214.33	
RB 213.55, up 7.83 cents	Resistance 212.00, 210.50, 208.80	Thursday's low 38% retracement(186.68, and 214.33), Previous low, 50%
	Support 204.73, 203.77, 203.32, 200.50	

again today with over 113,870 calls traded vs over 61,000 puts. Far out of the money calls continued to attract attention. The June \$100 call which started the day bid at 2 and offered at 4 cents ended up trading between 8-14 cents and settling up at 11 cents with an implied volatility of over 52%!.