



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR APRIL 3, 2007**

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Iran and Britain signaled possible movement toward ending the standoff over the 15 detained British sailors and marines. Iran's chief international negotiator Ali Larijani said Iran would not put the British sailors on trial and added that it wanted to solve the standoff through proper diplomatic channels. He said a guarantee must be given that such a violation of Iranian territory would not be repeated. He also called on all involved to stop using "the language of force." Meanwhile, Iran's First Vice President Parviz Davoudi said Britain must first admit it entered Iranian waters and guarantee that it would not illegally enter

Iran's territory again before Iran releases the 15 British sailors and marines. A senior Iranian diplomat also stated that the standoff should be resolved very soon. Britain's Prime Minister Tony Blair has responded by saying the door was open to resolve the situation in a diplomatic manner and added that the next two days would be critical. The British government has agreed to consider ways to avoid such situations in the future. However Britain's President later stated that if peaceful negotiation was not possible, the UK would have to take increasingly tougher decisions. UK Foreign Secretary

#### **Market Watch**

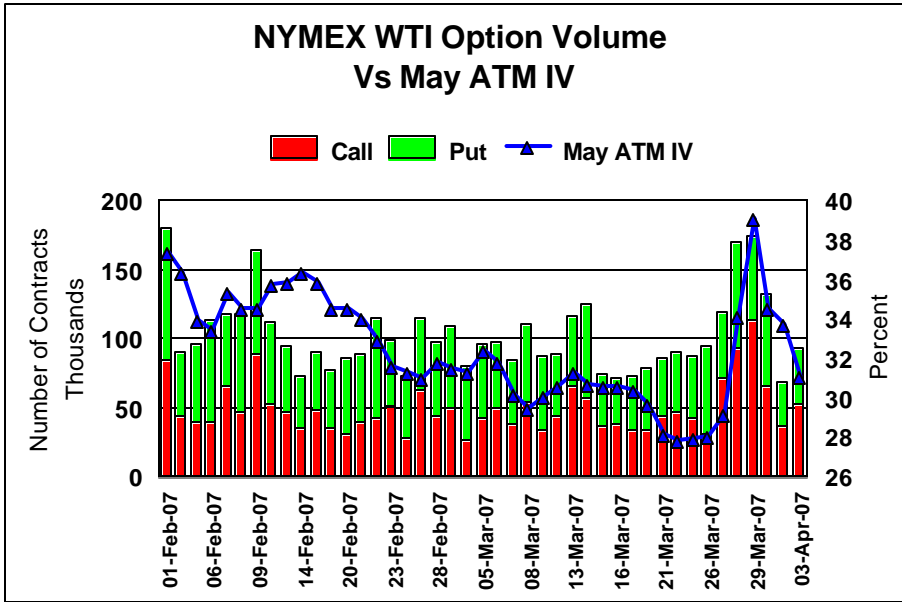
Forecasters at Colorado State University said the 2007 Atlantic Basin hurricane season is expected to be very active with 17 named storms, nine hurricanes, including five intense storms ranked as Category 3 or above. It said the probability of a major hurricane making landfall along the US coastline is 74%. It said there was a 49% chance of a major hurricane making landfall on the Gulf Coast.

Venezuela's PDVSA chartered a spot clean oil product tanker to deliver gasoline to Iran. It booked a 38,000 ton capacity clean tanker to load unleaded gasoline on April 8-10 in the Caribbean.

IntercontinentalExchange said average daily volume for ICE Futures increased by 89.2% on the year in the first quarter to 530,825 contracts.

The NYMEX announced that its average daily volume for the first quarter was 1.512 million contracts, up 40% on the year. Total volume stood at 92.2 million contracts for the first quarter. Average daily volume in March was 1.372 million contracts, up 44% on the year.

The Dubai Mercantile Exchange, a joint venture between the Dubai government and the NYMEX, approved more than 28 companies for membership with more being processed as it prepares to launch its sour crude futures contract on May 1. It said that of the 28 members, 17 are off floor members and 11 are clearing members. The DME is expected to initially list a physically delivered Oman crude oil futures contract and two financially settled contracts, a Brent-Oman spread contract and a WTI-Oman spread contract.

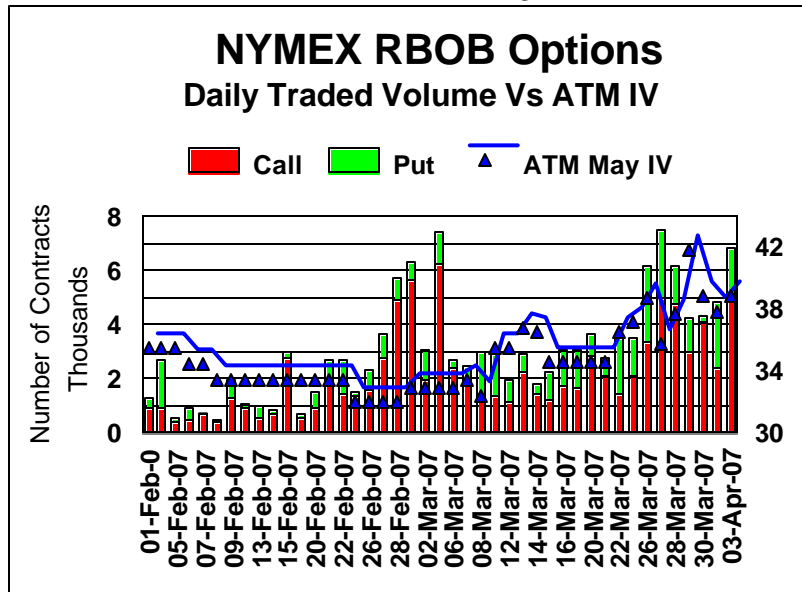


Margaret Beckett urged caution over expecting a swift resolution to the crisis. She said the UK still had not been granted consular access to the detained sailors. She said Britain was seeking to resolve the issue through diplomatic channels.

Separately, DEBKAfile reported that the US released second secretary at the Iranian embassy in Baghdad and allowed to return to Iran, in an attempt to influence the Iranians' decision on the fate of the British hostages.

Sources stressed that the Iranian government's decision on the detained British sailors would depend on the way it interprets the reported intrusion by two US warplanes over Abadan city on Saturday. A Revolutionary Guard chief said the two warplanes entered Iranian airspace before flying southwest into Iraq. The heads of pragmatic school, Supreme ruler Ayatollah Ali Khamenei and national security adviser Ali Larijani argue that the incident was a warning that the British marines should be release or the US would launch operations to inflict damage on Iran's oil industry. However it reported that Iran's President was not worried.

The IEA's executive director Claude Mandil said OECD countries have enough crude oil stocks to cover any shortfall in Iranian oil exports. He said 1.5 billion barrels of the more than 4 billion barrels held in OECD countries it owned directly by IEA member states. He also called on OPEC to increase its production due to a number of geopolitical uncertainties that have unnerved markets about possible supply disruptions. Separately, the IEA's Claude Mandil said Russia's Gazprom could be short of marketable gas in coming years and its Blue Stream pipeline alone would not help Hungary diversify supply. He said that a 1.2 billion cubic meter strategic gas storage being built by Hungary's MOL would be costly and not necessarily the best solution to ensure the security of supply.



Iran said that any decision by Russia not to deliver atomic fuel to its first nuclear power station would show Iran was right to continue its work to make its own fuel. Russia, which is building the atomic plant in Bushehr, did not deliver fuel as planned in March because of what it said were delayed payments by Iran.

NYMEX Petroleum Options Most Active Strikes for April 3, 2007								
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	5	7	C	80	04/17/2007	0.02	5,527	46.18
LO	5	7	C	74	04/17/2007	0.08	5,413	38.92
LO	6	7	P	66	05/17/2007	2.66	4,633	30.89
LO	6	7	C	66	05/17/2007	2.95	3,319	30.92
LO	12	7	C	70	11/13/2007	5.48	3,140	27.56
LO	6	7	P	62	05/17/2007	1.16	2,911	31.66
LO	12	7	C	90	11/13/2007	0.95	2,600	27.86
LO	10	7	P	60	09/17/2007	1.71	2,551	29.03
LO	10	7	C	80	09/17/2007	1.63	2,550	27.70
LO	12	7	C	80	11/13/2007	2.27	2,450	27.00
LO	5	7	C	65	04/17/2007	1.4	2,047	31.16
LO	5	7	C	64	04/17/2007	1.9	1,714	31.15
LO	5	7	P	64	04/17/2007	1.26	1,483	31.11
LO	6	7	C	78	05/17/2007	0.26	1,375	32.26
LO	6	7	P	63	05/17/2007	1.44	1,350	31.25
LO	6	7	P	52	05/17/2007	0.06	1,325	34.98
LO	5	7	P	60.5	04/17/2007	0.27	1,278	31.19
LO	5	7	P	64.5	04/17/2007	1.49	1,113	31.00
LO	5	7	C	66	04/17/2007	1.01	1,087	31.40
LO	6	7	P	55	05/17/2007	0.16	1,010	33.52
OB	7	7	C	2.05	06/26/2007	0.1038	710	32.92
OB	5	7	C	2.1	04/25/2007	0.0453	531	39.68
OB	5	7	C	2	04/25/2007	0.0855	500	39.03
OB	6	7	P	1.8	05/25/2007	0.0334	425	37.45
OB	7	7	C	2	06/26/2007	0.1238	334	32.45
OB	7	7	P	1.95	06/26/2007	0.0966	300	32.65
OB	5	7	C	1.8	04/25/2007	0.2284	290	40.53
OB	6	7	C	2	05/25/2007	0.1132	215	36.61
OB	7	7	P	1.9	06/26/2007	0.0763	214	32.88
OB	11	7	P	1.65	10/26/2007	0.0842	214	31.30
OB	7	7	C	2.15	06/26/2007	0.0724	210	33.88
OB	6	7	C	2.15	05/25/2007	0.0601	205	37.88
OB	6	7	C	2.05	05/25/2007	0.0919	202	36.88
OB	5	7	C	2.4	04/25/2007	0.0047	183	42.76
OB	6	7	C	2.1	05/25/2007	0.0745	175	37.38
OB	10	7	P	1.85	09/25/2007	0.1412	160	30.67
OB	10	7	C	1.85	09/25/2007	0.1625	160	30.74
OB	8	7	C	2.1	07/26/2007	0.1023	124	32.92
OB	6	7	C	2.2	05/25/2007	0.0482	114	38.34
OB	5	7	C	2.06	04/25/2007	0.0589	110	39.34
OB	7	7	P	1.7	06/26/2007	0.0238	110	33.84
OB	5	7	C	2.3	04/25/2007	0.0105	100	41.76
OB	5	7	C	2.24	04/25/2007	0.0166	100	41.07
OB	5	7	C	2.2	04/25/2007	0.0224	100	40.68
OB	6	7	P	1.85	05/25/2007	0.0463	100	37.22
OH	5	7	C	1.9	04/25/2007	0.0426	295	37.80
OH	5	7	C	1.82	04/25/2007	0.0766	100	37.53

The Washington Times reported that the US government was seeking information from Iran about a former FBI agent who was reported missing while on a business trip several weeks ago. An FBI spokesman said the agent had retired nearly ten years and appeared to be in Iran on private business. He said he was not working for the FBI as a contractor. The US State Department said the US saw no connection between the missing man and the current crisis between Iran and Britain.

An appeals court ruled against a leading Nigerian opposition candidate seeking to overturn his disqualification from the presidential elections. It dismissed the argument by Vice President Atiku Abubakar that the commission lacks the powers to screen candidates and determine their worthiness to hold office. His lawyers have promised an immediate appeal.

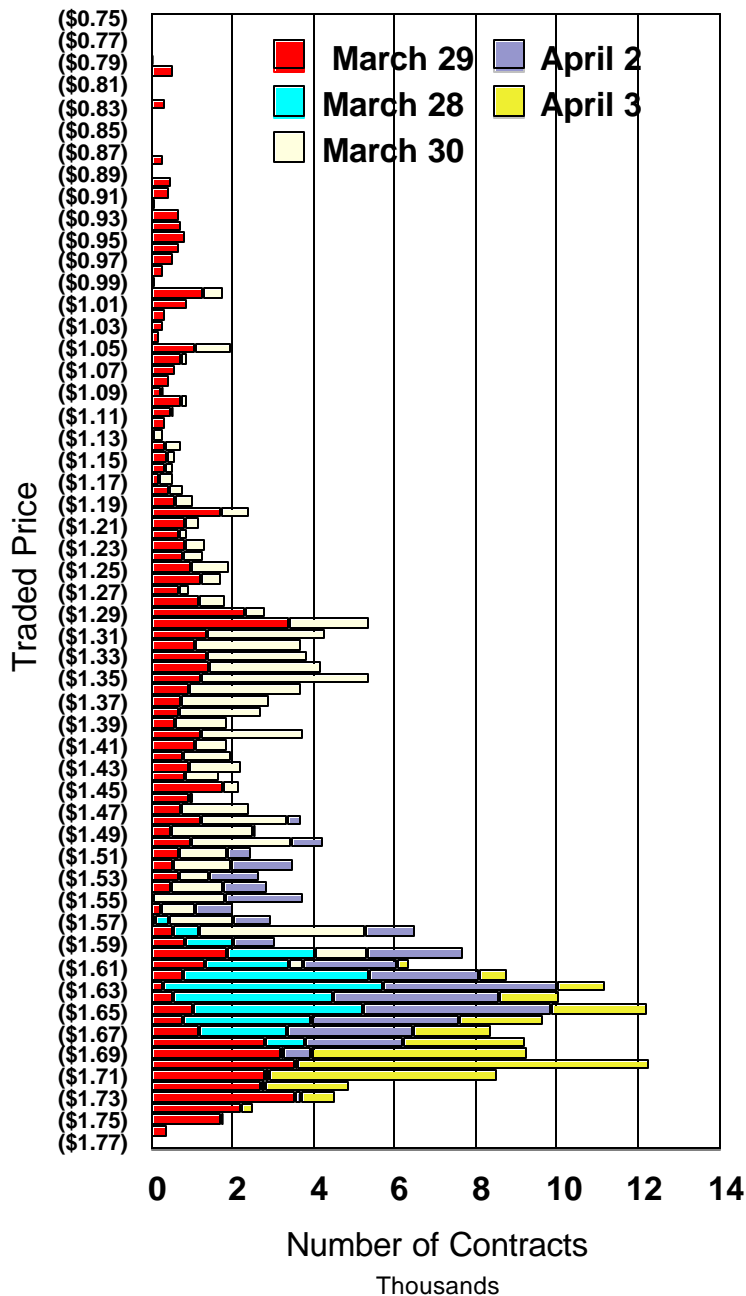
The EIA reported that US ethanol production in January increased by 5% on the month and by 23% on the year to 375,000 bpd. It reported that ethanol demand averaged 414,000 bpd in January, up from 399,000 bpd in December and from 271,000 bpd a year ago. Meanwhile ethanol inventories fell by 154,000 barrels on the month to 8.593 million barrels. Ethanol imports stood at 1.138 million barrels, with Brazil providing the majority of the imports in January.

### **Refinery News**

Shipping traffic on the Houston

**NYMEX WTI: May June Spread  
Price Vs Volume for Mar 28-Apr 2, 2007**

Trade Avg: 4/3 -1.687 4/2: -\$1.617 3/30: -\$1.389 3/29: -\$1.43: 3/28: -\$1.63



Ship Channel resumed on Tuesday morning after it was halted for more than two hours due to dense fog.

Venezuelan authorities have restricted traffic through the Lake Maracaibo Ship Channel following the grounding of a tanker carrying heavy crude.

ExxonMobil Corp said its 150,000 bpd refinery in Torrance, California was restarting units that were shut for unplanned repairs on March 22. A planned two month overhaul of units, including the hydrotreating system which started in February continues. The planned work on the hydrotreater, hydrogen plant and second SRU is expected to finish by mid-April.

Chevron Corp said coker operations were reduced at its 260,000 bpd refinery in El Segundo, California following a small fire on Sunday. No other units were damaged during the fire.

Valero Energy Corp shut its hydrotreater units at its 195,000 bpd refinery in Memphis, Tennessee last week for 14 days for maintenance. A Valero spokesman declined to comment on a report that the unit was shut due to operational problems.

Hovensa S.A. said it was planning a major turnaround at its 495,000 bpd refinery in the US Virgin Islands starting on May 7. It has scheduled work on two amine units, one desulfurization unit, two crude units, two vacuum distillation units and a gas recovery unit. The work is expected to last for 35 days.

Abu Dhabi's International Petroleum Investment Co said it remained committed to building an export refinery

in Fujairah in the UAE and has been holding talks with several international companies to help it implement the project. ConocoPhillips called its participation in the refinery into question due to an escalation in cost. IPIC and ConocoPhillips last year agreed to carry out a feasibility study of building a 500,000 bpd refinery in Fujairah. The refinery would receive crude oil feedstock from Abu Dhabi's Upper Zakum field.

Russia's Lukoil said it was considering buying a German refinery from its strategic partner and ConocoPhillips.

South Korean refiners are expected to slightly lift overall April crude processing rates by 20,000 bpd to 2.39 million bpd due to margin recovery.

### **Production News**

According to a Dow Jones Newswire survey, the ten OPEC members increased their production by 35,000 bpd on the month to 26.6 million bpd in March. They produced 720,000 bpd of oil above their output target of 25.88 million barrels. Saudi Arabia's production increased by 100,000 bpd to 8.65 million bpd while Iran's production increased by 40,000 bpd to 3.89 million bpd. Total OPEC production increased to 30.06 million bpd in March from 29.99 million bpd in February. Iraq's production remained unchanged at 1.9 million bpd while Angola's production increased by 30,000 bpd to 1.56 million bpd.

Reuters reported that the ten OPEC members produced 26.54 million bpd, down 120,000 bpd on the month. Total OPEC production fell by 10,000 bpd to 30.1 million bpd in March. It reported that Iraq's production increased to 1.97 million bpd in March from 1.89 million bpd in April while Angola's production increased by 30,000 bpd to 1.59 million bpd.

OPEC's research director Hasan Qabazard said oil supplies from non-OPEC producers is expected to increase by as much as 4 million bpd and peak in 2015 at 50.5 million bpd before it falls by about 2 million bpd to 48.6 million bpd until 2030. It said OPEC would increase its crude production from 35.1 million bpd in 2005 to 59.1 million bpd in 2030.

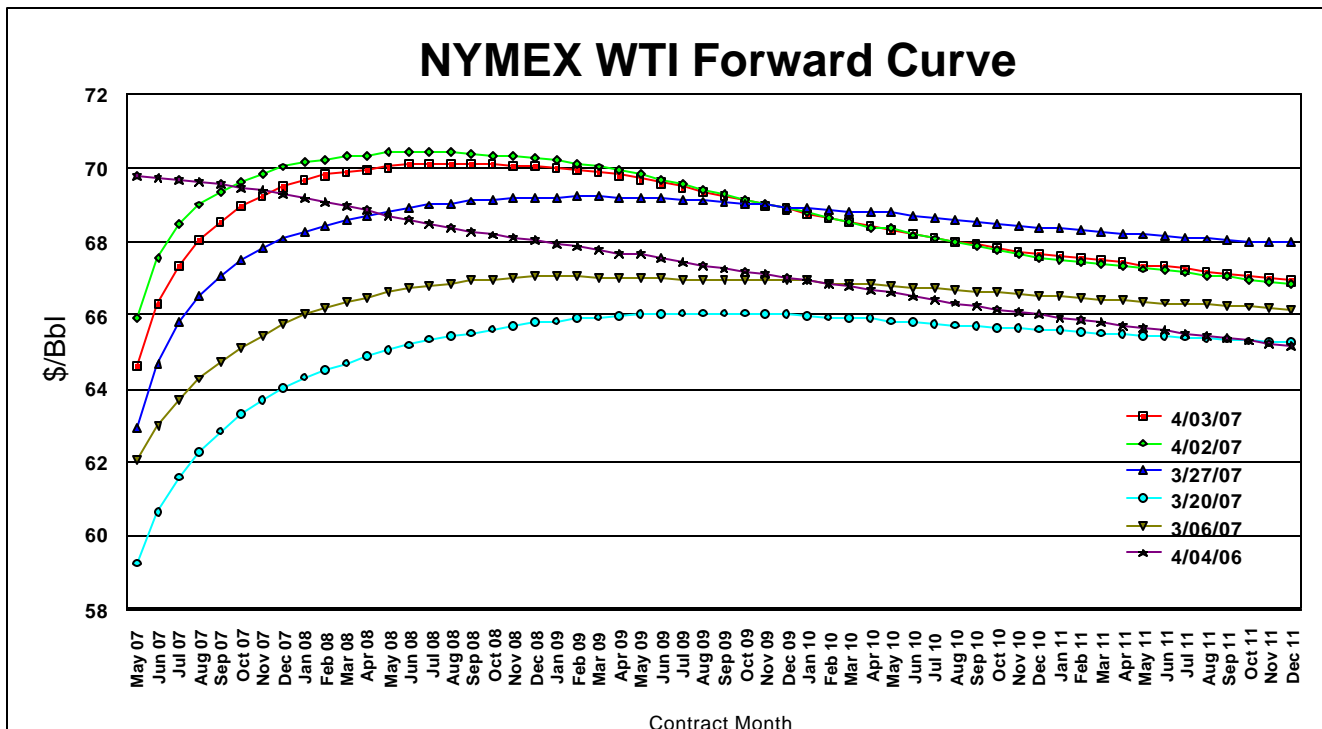
Iraq's Oil Ministry said it has issued invitation for 15 Arab, Asian and American firms to drill 100 oil wells in the country's south as part of efforts to increase production. The new wells would produce 50,000-60,000 bpd.

Murphy Oil said initial output from the Kikeh oilfield is expected to start in the third quarter of 2007. The field would take as long as a year and a half to reach its peak of 125,000 bpd after coming on stream.

The European Commission said it supported the planned construction of the Pan-European Oil Pipeline that would link the Black Sea to Central European markets. It would reduce tanker traffic through the Bosphorus Straits and parts of the Mediterranean. The pipeline, with a capacity of 1.2-1.8 million bpd, could help the European Union limit its reliance on Russian energy supplies. Officials from Romania, Serbia, Croatia, Slovenia and Italy signed the declaration to start work on the pipeline.

Russia's Energy Ministry reported that Russian fuel oil and gasoline exports increased in March. Exports of fuel oil increased by 13.5% to 3.189 million tons from 2.809 million tons in February while gasoline exports increased by 21.7% to 539,800 tons in March from 443,400 tons in February. Meanwhile gas oil exports fell by 3.6% to 2.536 million tons.

Azerbaijan is expected to cut oil exports to Russia's Black Sea port of Novorossiisk in the second quarter as the country's top oil project would re-route crude to the Mediterranean. Azerbaijan's Socar



said it would continue shipping up to 60,000 tons a month to Novorossiisk in the second quarter while a BP led group would send all volumes to the Turkish port of Ceyhan. The BP-led group shipped 300,000 tons a month to Novorossiisk in the first quarter.

The Caspian Pipeline Consortium said its exports of Kazakh oil to the Black Sea fell by 94,000 bpd in March to 22.01 million barrels or 710,000 bpd from 804,000 bpd in February.

According to Reuters, total former Soviet Union gas oil exports from the Baltic and Black Sea regions increased to 2.56 million tons in March, up from 2.49 million tons in February.

TengizChevroil has delayed first oil shipments via the Baku-Ceyhan pipeline by at least six months to early 2008. The pipeline is expected to pump 3.5 million tons via Baku-Ceyhan at the first stage and

increase to 5million tons a year or 100,000 bpd.

Brazil's Petrobras is seeking to become the first company to have a floating,

Technical levels			
	Levels	Explanation	
CL	66.69, 66.80, 67.46, 67.60, 68.20		
	<b>Resistance</b> 64.64, down \$1.30	65.94	Tuesday's high
	<b>Support</b>	63.96	Tuesday's low
HO	63.50, 63.36, 62.24	Previous lows	
	<b>Resistance</b>	188.40, 190.55	Previous highs
	<b>Support</b>	186.00	Tuesday's high
RB	181.00	Tuesday's low	
	<b>Resistance</b>	207.10, 209.00	Previous highs
	<b>Support</b>	202.00, 204.30	Tuesday's high
	198.57	Tuesday's low	
	197.73, 194.45, 194.29	50% retracement(183.15 and 212.30), Previous low, 62%	

production, storage and offloading vessel in the Gulf of Mexico. Production from the FPSO in the Gulf is expected to begin in 2009.

OPEC's news agency reported that OPEC's basket of crudes increased by 26 cents/barrel to \$63.87/barrel on Monday.

### **Market Commentary**

The crude oil market opened lower this morning, hammered by a statement out of Iran that there is no need to put the British hostages, being held by that country, on trial. The chief Iranian negotiator, Ali Larijani, also suggested talks, which offered signs of hope in ending the crisis. Sending prices higher was a statement from the Iranian Vice-President Parviz Davoodi, that the U.K. would have to admit that it violated Iran's territorial waters, which the U.K. denies, and guarantee that it would never do so again. Although this market still has a bullish tint, it appears that a breather is due. There is a gap set between 63.70 and 63.05 that would be a near term objective, with a shake out to 60.45 possible. After being under considerable pressure last week the back end of the curve, although still soft, appears to be holding its' own. The front end is another story, and for the first time in a week, it is starting to show signs of running out of steam, as you can see by the curve chart above. Barring any news out of Iran, we would look for further weakness. The May/June spread traded today in a narrower range on lighter volume, in comparison to previous days. Globex yesterday had a range of -1.47 - -1.80 with 49,546 contracts traded, today there were 37,470 contracts traded between -1.60 - 1.74. However, the rolls typically begin on the fifth business day of the month so volume should pick up and we would look for the June to gain additional strength. Volume in the crude market was light with 254,742 lots booked on the day. Meanwhile, the product markets ended the session in negative territory once again as the markets continued to erase their previous gains. The markets were pressured amid the weakness in the crude market. The markets are likely to find some support early in the session, amid the expectations that the weekly petroleum stock reports would show small draws in product stocks, before they continue to retrace their previous gains and trend lower.