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## <sup>5</sup>**ENERGY RISK MANAGEMENT**

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### **ENERGY MARKET REPORT FOR APRIL 13, 2007**

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The speaker of Iraq's parliament, Mahmoud al-Mashhadani warned Turkey against interference after Turkey's military asked the government to approve attacks on Kurdish rebels in northern Iraq. Turkey has urged the Iraqi government and US forces in Iraq to crack down on an estimated 4,000 rebels from the Kurdistan Workers Party who use northern Iraq to attack targets inside Turkey. Meanwhile, DEBKAfile reported that Turkish forces crossed over the northern border of Iraq to destroy the Kurdish PKK rebel bases in Iraqi Kurdistan.

US Energy Secretary Sam Bodman said the

US government was relatively confident that gasoline supplies would be sufficient to meet peak summer demand despite declining stocks. However he added that he was concerned gasoline prices may be comparable to last summer's driving season, when prices spiked over \$3/gallon.

Nigeria's President Olusegun Obasanjo said that the government would not tolerate any disruption of or violence related to Saturday's state elections. He said the government had made adequate arrangements to ensure voters' security.

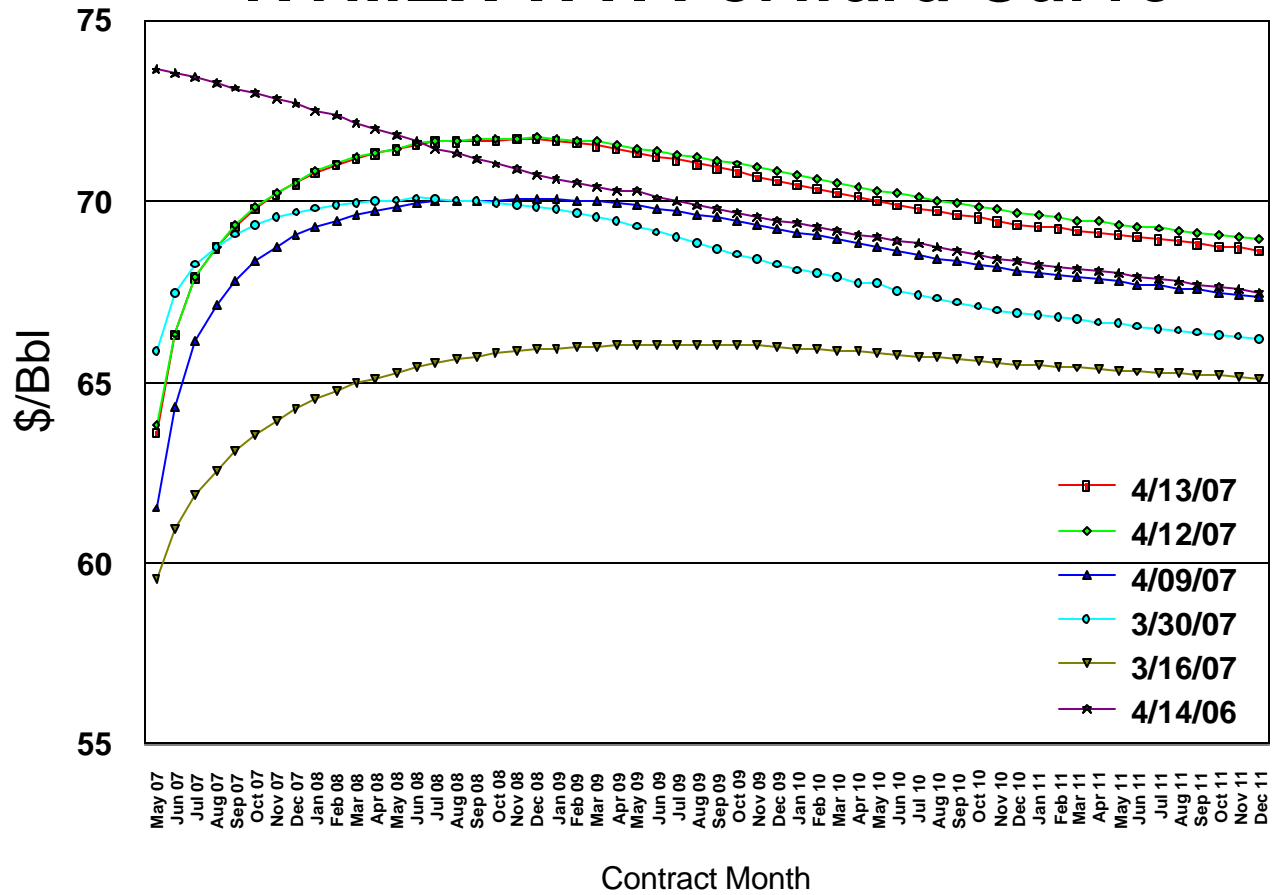
#### Market Watch

Russian tycoon Boris Berezovsky stated that he was plotting the overthrow of President Vladimir Putin from his base in Britain after forging close contacts with members of Russia's ruling elite. He claimed he was supporting people close to the president who were conspiring to mount a coup. In response, the Kremlin denounced his statements as a criminal offence, which it believed, should undermine his refugee status in Britain. Russian authorities have sent an extradition request to London.

Goldman Sachs increased its three month price forecast for ICE Brent crude by \$1/barrel to \$70/barrel. It however lowered its three month forecast for NYMEX WTI crude by \$1/barrel to \$69/barrel. Goldman Sachs also adjusted its longer term forecasts, raising both its six month and 12 month forecasts for WTI by 50 cents/barrel to \$72/barrel and \$72.50/barrel, respectively. The US crude grade has been under pressure in recent weeks due to record inventory levels at Cushing, Oklahoma following a spate of refinery problems.

Goldman Sachs has lowered its 12 month forecast for the S&P GSCI Total Return Index of commodities to 6.4% from 8.1%, as sharp prices rises in energy and industrial metals so far this year reduced the likelihood of further big gains. It reduced its energy and metals total return forecasts to 6.5% and 5% from 9% and 7.5% respectively. Goldman Sachs said it remained positive on energy because it sees tightening supply/demand fundamentals over the next six months. It said the main downside risk to its forecasts was the increasing spread between the US WTI and other major crude prices, such as North Sea Brent. It expects the differential to moderate in the coming months.

# NYMEX WTI Forward Curve



## Refinery News

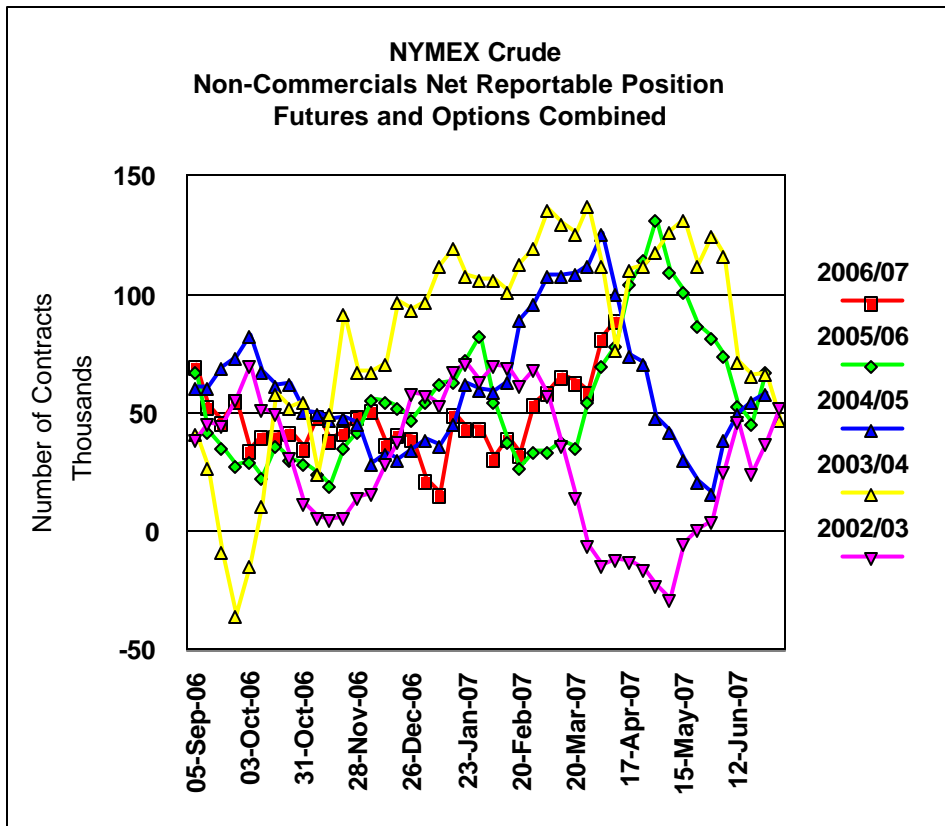
Valero Energy Corp has begun to restart its McKee refinery in Sunray, Texas with production expected early next week. The refinery was shut down on February 16 following a fire. The refinery is expected to operate at reduced rates.

Alon USA's 40,000 bpd Paramount, California refinery was shut briefly after high winds caused a power outage late Thursday. A report filed with the Governor's Office of Emergency Services did not specify whether a unit outage was involved or whether there was an impact on production.

Citgo is expected to restart a 120,000 bpd crude distillation unit at its 425,000 bpd refinery at Lake Charles, Louisiana early next week. The unit was shut earlier this week for unplanned maintenance.

ConocoPhillips is scheduled to install a new coker unit at its Borger, Texas refinery in May. The planned work is expected to take about 30-45 days. To install the coker unit, the refinery's fluid catalytic cracking unit would be taken offline.

ExxonMobil Corp's 348,500 bpd refinery in Beaumont, Texas is scheduled to undergo two months of repairs starting on May 11. A coking unit is scheduled to undergo maintenance that would require shutting down the refinery's sour crude unit.



Venezuela's PDVSA is expected to carry out a 30 day maintenance program at crude unit No. 1 at its 200,000 bpd Puerto La Cruz refinery in August.

Merrill Lynch more than doubled its profit forecast for European refining margins in 2009 and 2010, as gasoline production capacity remains tight through the end of the decade. It raised its 2009 European refining profit margins forecast to \$5.50/barrel, up from its previous estimate of \$2.17/barrel while its 2010 estimate was increased to \$5.00/barrel from \$2.17/barrel. Its 2011 estimate was increased to \$3.50/barrel from its

previous estimate of \$2.17/barrel.

Venezuela said it would increase its ethanol production, despite Fidel Castro's recent statements that producing ethanol could starve the world's poor. Venezuela's ambassador to Cuba, Ali Rodriguez, said the initiative would produce additives to the gasoline it exports to the US as well as a substitute for gasoline sold domestically. He said the plant is to meet an existing demand, not to participate in the US plan to increase ethanol production.

### **Production News**

Venezuela's President Hugo Chavez said oil majors at the four extra heavy oil projects in the Orinoco River basin could sue Venezuela should they wish to over an ongoing contract overhaul that would give PDVSA a 60% stake in each venture. Venezuela has set a May 1 deadline for the companies to hand operations over to PDVSA. He said soldiers would escort government officials when they take over the projects.

According to Germany's MWV, total sales of oil products in Germany fell by 12.2% on the year in March to 6.36 million tons. Germany's gas oil sales fell by 41.3% on the year to 1.45 million tons while its diesel sales increased by 3.9% to 2.49 million tons and its fuel oil sales increased by 1% to 530,000 tons. Germany's gasoline sales in March increased by 2.2% on the year to 1.89 million tons.

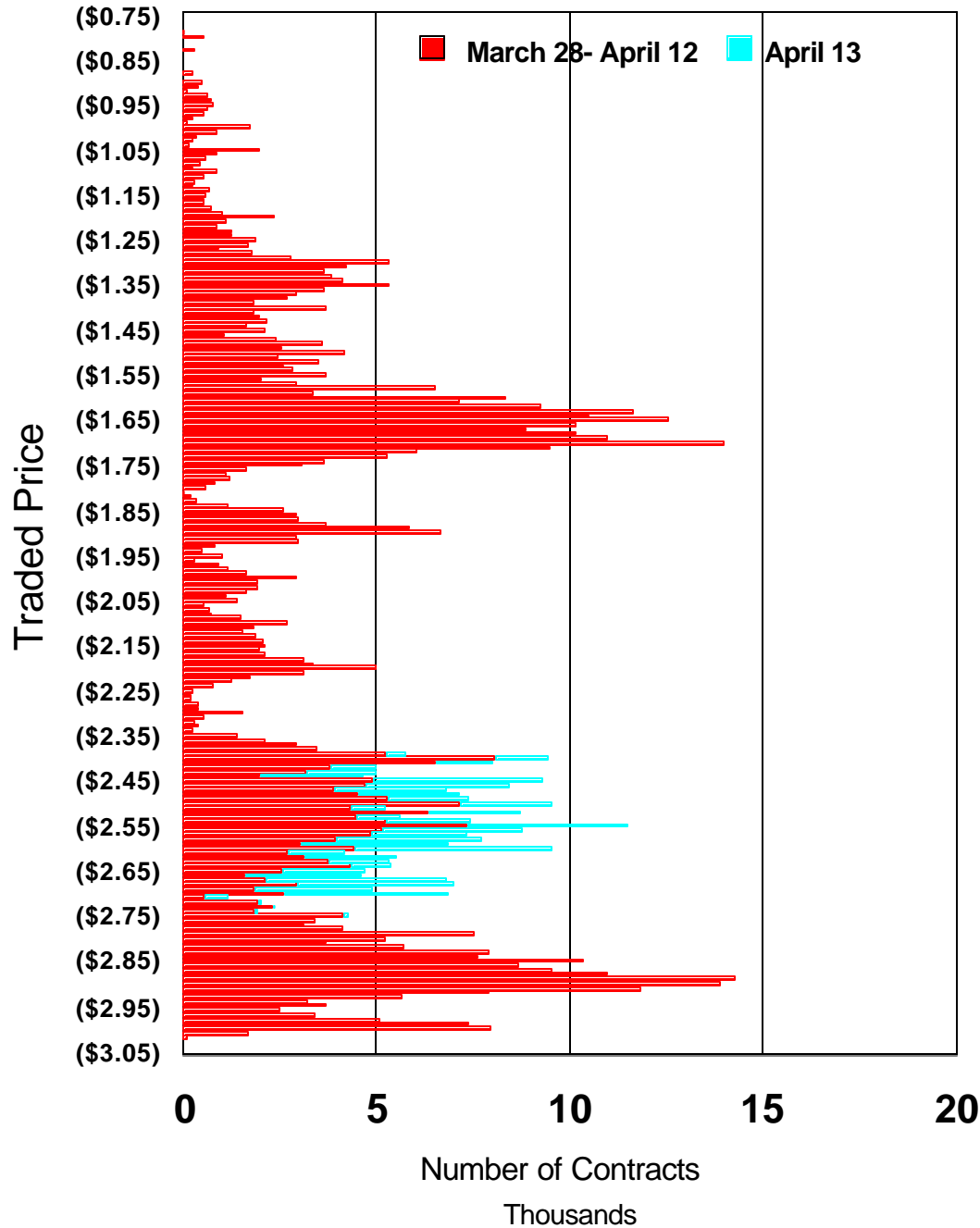
Russia's seaports handled a total of 103 million tons of cargo in January-March, up 9.5% on the year.

Crude and refined products shipments from Georgia's Black Sea port of Batumi fell in March to 912,100 tons from 1.205 million tons last year. In February, shipments totaled 817,000 tons.

# NYMEX WTI: May June Spread

Price Vs Volume for March 28 - April 12, 2007

Trade Weighted Avg: 4/13 \$-2.564 4/12 \$-2.512 4/11 \$-2.858 4/10 \$-2.918;



China is expected to increase its April gas oil exports to 150,000 tons from about 60,000 tons in March amid the high international prices.

India's oil product sales increased by 4.6% on the year to 111.7 million tons or 2.24 million bpd during the last fiscal year ended March 31. During March, India's oil product sales totaled 10.56 million tons compared with 9.56 million tons. India's diesel sales totaled 42.87 million tons last fiscal year compared with 40.09 million tons in the previous year. Its gasoline sales totaled 9.29 million tons compared with 8.65 million tons a year earlier.

Ecuador's Central Bank stated that the

country's average oil production fell by 8% to 507,250 bpd in February from 551,179 bpd last year. Petroecuador's oil production averaged 254,393 bpd in February while private companies' oil production averaged 252,857 bpd.

Colombia invited companies to bid on contracts to explore 13 oil blocks off the country's Caribbean coast. The country risks becoming a net oil importer by 2011, if it fails to find new sources of crude.

OPEC's news agency reported that OPEC's basket of crudes increased by 30 cents/barrel to \$63.66/barrel on Thursday.

### **Market Commentary**

In May crude, 63.84 acted as a pivotal area today with the first hour of trade taking place below this number. Not until reports by Debka news that Turkish forces had crossed over the northern border of Iraq, were prices able to gain enough momentum to break above 63.84, topping out at 64.35. Stochastics have crossed to the upside with %K at 33.72 and %D at 33.45 and for the second straight day in a row the market has settle above the downward trendline which comes in at 62.02 today. The long-term trendline stemming from the lows of January has held since then, and comes in at 61.69. As long as this trendline holds, we would look for prices to edge higher back towards 66.00. May/June experienced a wide range today trading between -2.38 and -2.76, with the bulk of the trading taking place between -2.60 and -2.55. With the rolls technically over for the month this spread could easily test -2.25 and possibly retreat to -1.70. The spread may also narrow amid the late news that the McKee refinery has begun to restart operations, sooner than expected. Total crude open interest built by a total of 21,365 contracts following the declines seen in the previous four trading sessions. Open interest in the May contract however continued to fall by 31,420 lots amid the continued spread rolls

while open interest in the June and July contracts built by 33,671 lots and 11,470 lots, respectively. Meanwhile, the RBOB

<b>Technical levels</b>		
	<b>Levels</b>	<b>Explanation</b>
<b>CL</b> 63.63, down 22 cents	<b>Resistance</b>	64.94, 65.09 64.00, 64.58
	<b>Support</b>	63.38 63.35, 62.97, 62.58, 61.84, 61.53
		Retracement levels (61.35 and 64.58), Basis trendline, Previous low
<b>HO</b> 190.07, down 54 points	<b>Resistance</b>	194.02, 194.36 190.90, 192.57
	<b>Support</b>	189.31 186.80, 185.59
		Previous high, Basis trendline Friday's high
<b>RB</b> 217.97, down 1.21 cents	<b>Resistance</b>	227.00, 227.75 218.90, 220.00, 221.34
	<b>Support</b>	217.01 213.71, 212.74, 212.64, 209.95
		Previous high, basis trendline Friday's high  Friday's low Previous lows, 38% retracement (198.57 and 221.34), 50%

market, which has been well supported amid the spate of refinery problems is likely to retrace some more of its recent gains amid the earlier than expected restart of the McKee refinery. The market is seen finding support at its lows of 217.01 followed by 213.71, 212.74 and 212.64.

The latest Commitment of Traders report showed that non-commercials in the crude market continued

NYMEX Petroleum Options Most Active Strikes for April 13, 2007								
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	6	7	P	57	05/17/2007	0.16	6,900	33.22
LO	5	7	C	65	04/17/2007	0.2	3,279	35.55
LO	5	7	P	62	04/17/2007	0.14	3,270	35.43
LO	5	7	C	64	04/17/2007	0.49	2,555	34.96
LO	6	7	C	72.5	05/17/2007	0.45	2,110	28.80
LO	5	7	P	64	04/17/2007	0.86	2,027	34.97
LO	6	7	P	65	05/17/2007	1.63	1,908	28.94
LO	6	7	C	74	05/17/2007	0.28	1,710	28.81
LO	5	7	C	64.5	04/17/2007	0.31	1,604	34.64
LO	5	7	P	63	04/17/2007	0.39	1,557	35.18
LO	6	7	C	80	05/17/2007	0.05	1,341	30.96
LO	5	7	C	66	04/17/2007	0.07	1,272	36.37
LO	12	7	C	75	11/13/2007	3.69	1,200	26.44
LO	6	7	P	54	05/17/2007	0.06	1,200	35.55
LO	12	7	P	60	11/13/2007	1.79	1,100	28.54
LO	6	7	C	65.5	05/17/2007	2.67	1,051	28.90
LO	5	7	P	60	04/17/2007	0.02	1,028	41.37
LO	1	8	C	78	12/13/2007	3.07	1,000	25.66
LO	1	8	P	62	12/13/2007	2.52	1,000	28.23
LO	5	7	P	62.5	04/17/2007	0.24	946	35.23
LO	12	7	C	85	11/13/2007	1.35	900	25.97
LO	5	7	P	63.5	04/17/2007	0.59	895	34.79
LO	6	7	P	62	05/17/2007	0.73	853	30.02
LO	1	8	C	80	12/13/2007	2.56	800	25.62
OB	7	7	P	2	06/26/2007	0.0743	2,410	35.41
OB	7	7	P	1.9	06/26/2007	0.0463	2,050	36.61
OB	7	7	C	2.35	06/26/2007	0.0559	1,025	35.61
OB	7	7	C	2.42	06/26/2007	0.0429	1,025	36.18
OB	8	7	P	1.8	07/26/2007	0.0348	825	33.68
OB	8	7	P	2	07/26/2007	0.0921	800	32.76
OB	7	7	C	2.2	06/26/2007	0.0972	200	34.41
OB	7	7	C	2.08	06/26/2007	0.1515	195	34.57
OB	8	7	P	2.12	07/26/2007	0.1471	180	32.42
OB	5	7	C	2.2	04/25/2007	0.0581	169	46.99
OB	9	7	C	2.2	08/28/2007	0.1102	161	32.97
OB	8	7	C	2.28	07/26/2007	0.0834	157	33.88
OB	8	7	C	2.22	07/26/2007	0.1001	157	33.32
OB	7	7	C	2	06/26/2007	0.2007	156	35.68
OB	9	7	C	2.26	08/28/2007	0.0942	145	33.53
OB	8	7	C	2.05	07/26/2007	0.1701	136	32.68
OB	9	7	P	2.06	08/28/2007	0.1495	135	31.82
OB	8	7	C	1.99	07/26/2007	0.2049	134	33.11
OB	6	7	C	2.15	05/25/2007	0.1094	125	39.53
OH	5	7	P	1.65	04/25/2007	0.0006	200	39.38
OH	5	7	C	2.05	04/25/2007	0.0074	200	38.76
OH	12	7	C	2.3	11/27/2007	0.0901	100	28.82

to add to their net long position. In the week ending April 10, the funds increased their net long position by 8,509 lots to 75,184 lots, a level not seen since mid-August. The combined futures and options report also showed that non-commercials increased their net long position by 7,604 lots to 88,538 lots on the week. The non-commercials have likely continued to add to their positions in recent trading days as the market held its trendline and retraced its previous losses. Also as mentioned previously, open interest in the back months has increased as new longs are added. Meanwhile non-commercials in the heating oil market also increased their net long position by 1,236 lots to 14,404 lots while non-commercials in the RBOB market cut their net long position by 1,272 lots to 33,534 lots on the week.