



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

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### **ENERGY MARKET REPORT FOR APRIL 16, 2007**

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The head of OPEC's research division, Hasan. Qabazard said OPEC does not need to increase its production this year based on current estimates for world demand. Meanwhile, OPEC's Secretary General Abdullah al-Badri said oil market fundamentals were in good shape and there was no need for OPEC ministers to meet ahead of their scheduled meeting in September. He said OPEC would not meet before September unless there was some abnormal disruption in the market.

In its Monthly Oil Market Report, OPEC acknowledged the current tightness in gasoline markets ahead of the US summer driving season but said crude supplies were ample and that increasing crude supply would resolve the tightness in downstream markets. It noted that recent pressure on oil prices was due more to the geopolitical issues rather than fundamentals, while refinery concerns and worries over summer gasoline stocks have also lent support to higher crude prices. OPEC lowered its 2007 demand forecast for its own crude by 120,000 bpd to 30.28 million bpd. It estimated world demand at 85.44 million bpd, down 40,000 bpd from its previous forecast of 85.48 million bpd. It lifted its world oil demand growth forecast in 2007 by 1.3 million bpd or 1.5% compared with actual demand growth in 2006. Non-OPEC crude supply however is revised upward by 80,000 bpd to 50.72 million bpd from its previous forecast of 49.92 million bpd. It reported that production from its ten members bound by the

#### Market Watch

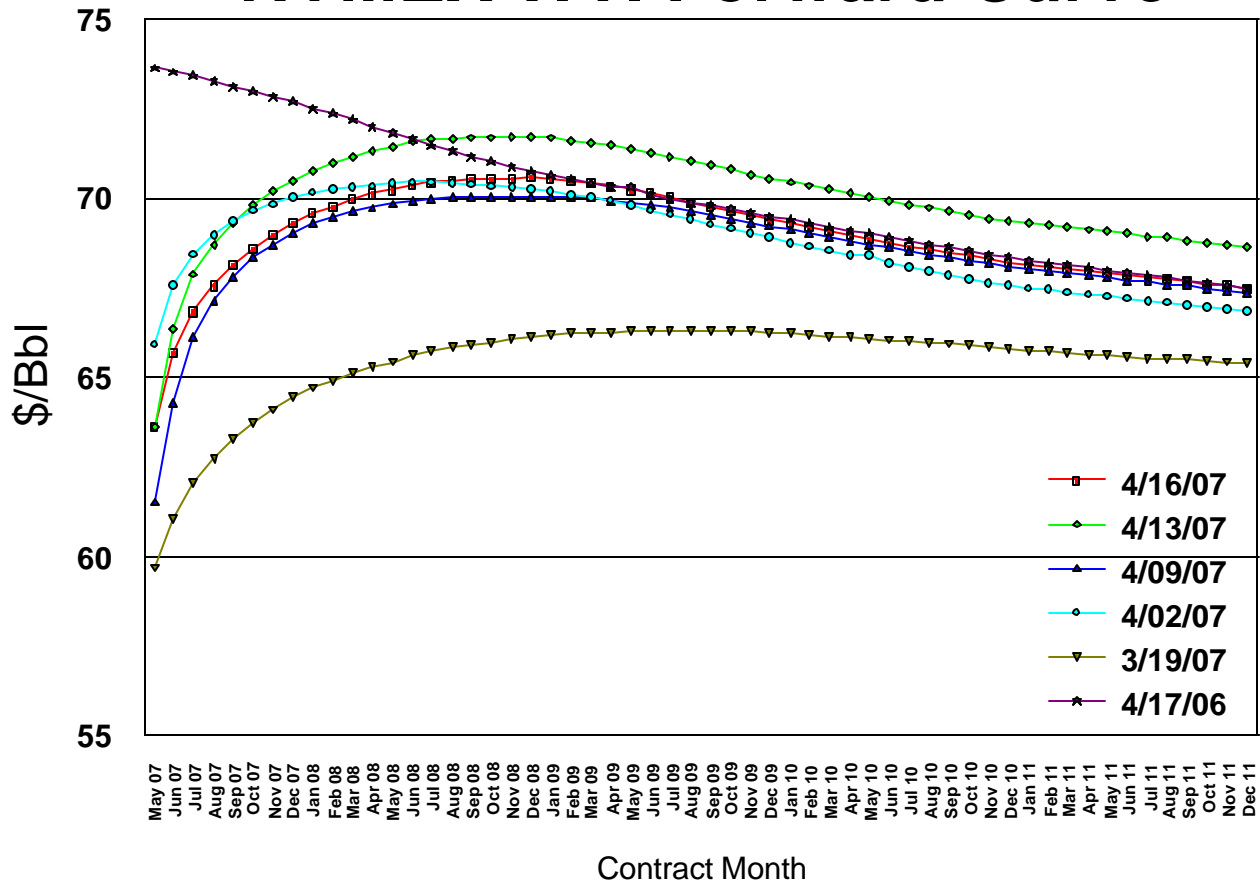
Analysts at Lehman Brothers said US crude oil futures would continue to trade at a discount to North Sea Brent crude futures through 2008. WTI crude fell to an unprecedented \$6/barrel discount to Brent futures this month as refinery outages around the WTI delivery point at Cushing, Oklahoma led to a build up in inventories.

Russia's chief prosecutor requested UK authorities to strip self-exiled tycoon Boris Berezovsky of his asylum and extradite him. He said he sent a new request for his extradition over the exiled tycoon's call for a forcible change of power in Russia.

US EPA Administrator Stephan Johnson and Canadian Minister of the Environment Minister John Baird said the two countries plan to negotiate an annex to the US-Canada Air Quality Agreement aimed at reducing particulate matter emissions on both sides of the border.

The NYMEX announced that it signed an agreement to introduce uranium futures on its electronic platforms next month. It signed a 10 year agreement with Ux Consulting Co to introduce on and off-exchange traded uranium futures products on CME Globex and NYMEX Clearport platforms on May 6 for trade date May 7.

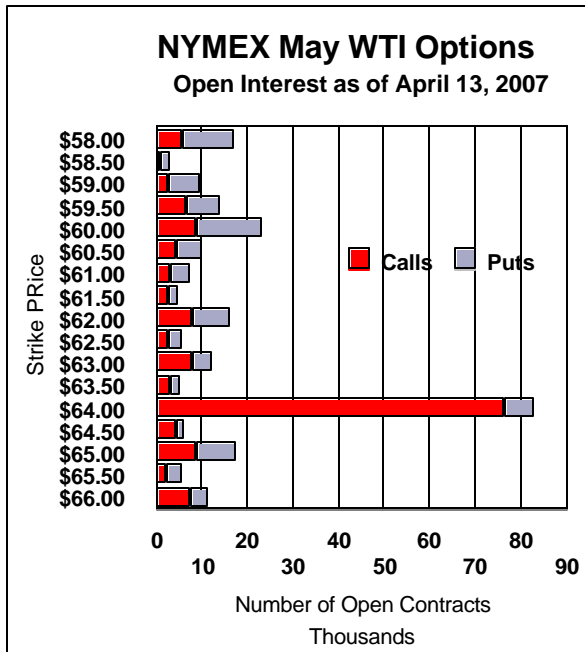
# NYMEX WTI Forward Curve



output agreements totaled 26.37 million bpd in March, down from a revised level of 26.436 million bpd in February but 570,000 bpd above the OPEC-10 output target of 25.8 million bpd.

Iran's President Mahmoud Ahmadinejad said additional UN sanctions would cause Iran to increase its nuclear development even further. He however did not provide details on how the country would ramp up its development in response to a third set of sanctions. He said Iran would not back down from its right to pursue nuclear development and maintained the peaceful nature of the country's program. Meanwhile, US Chief of Naval Operations Adm. Michael Mullen attempted to quell concerns over a military strike against Iran's nuclear facilities by saying the US had no plan to attack Iran and the heightened naval presence was meant to reassure its regional allies.

Nigeria's Supreme Court ruled that Nigeria's electoral commission unlawfully disqualified Vice President Atiku Abubakar from running for president. The ruling struck down an earlier appeals court decision that said the commission had the right to vet and disqualify candidates. However it was not clear if new ballot papers could be printed in time for Nigeria's 60 million voters. Meanwhile, Nigerian police reported that 21 people died as a result of violence surrounding the country's elections. Oil flow has not been interrupted but unrest is expected to continue until after the presidential elections on April 21.



A US senior military official said US believed the most important way to mitigate Iranian pressure against the Iraqi government is for Middle East allies to support Prime Minister Nouri al-Malaki's administration and involve it more in the political discourse of the region.

The EIA reported that the US average retail price of gasoline increased by 7.4 cents/gallon to \$2.876/gallon in the week ending April 16. It also reported that the US average retail price of diesel increased by 3.7 cents/gallon to \$2.877/gallon on the week.

### Refinery News

Enbridge Inc discovered a leak Sunday night on the Canadian portion of its 450,000 bpd Line 3 crude pipeline. It said it was pulling crude from another system and was meeting downstream needs. Enbridge was still determining how much oil was spilled as well as how long it would take to repair the pipeline.

Valero Energy Corp began restarting a fluid catalytic cracking unit at its 158,000 bpd McKee refinery in Sunray, Texas on Sunday. The restart report to the Texas Commission on Environmental Quality followed the company's announcement that it started the initial phases of the startup process at the plant. Its crude unit and reformer unit were also restarted and operating. The refinery is expected to operate at half its capacity by the end of April.

BP has restarted an ultracracker at its Texas City, Texas refinery and is almost at full rates. The restart of the ultracracker has been delayed several times. It was originally scheduled to restart in January but several snags on components delayed the process.

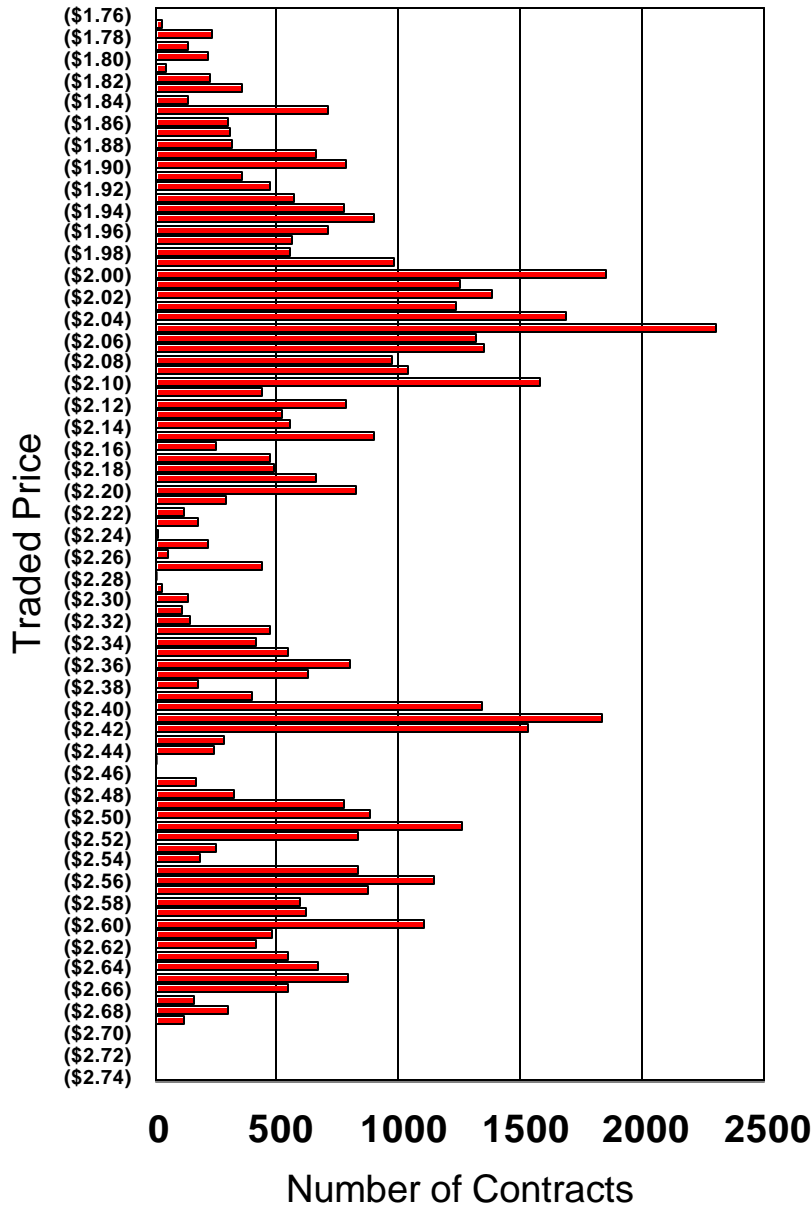
Imperial Oil Ltd started a six week shutdown of its 88,000 bpd refinery in Dartmouth, Nova Scotia for scheduled maintenance. It said the closure was routine and would include detailed inspection of the facility's equipment. It does not expect any shortage of gasoline or other refined products because of the temporary closure.

According to Credit Suisse, US refining margins continued to trend higher last week as utilization rates remained low for this time of year, import levels remained too low to balance the market and product demand remained strong. Margins in the Gulf Coast increased by \$6.75/barrel to \$27.39/barrel while margins in the East Coast increased by \$3.12/barrel to \$13.30/barrel. Margins in the West Coast increased by \$5.44 to \$38.94/barrel.

According to senior executive at Royal Dutch Shell, the world refining industry was overreacting to the high margins, with almost a decade's worth of refining capacity planned to come onstream in less than half the time. Between 7 million and 10 million bpd of new distillation capacity had been announced while incremental capacity growth through upgrades and efficiency improvements could add a further 2 million to 3 million bpd by the end of the decade. He said if all this comes onstream, run cuts would be necessary.

The Times of London reported that BP Plc faced new concerns over its safety record after a routine check of its Baku-Supsa pipeline showed what BP has described as anomalies in certain sections. The pipeline was closed temporarily for what BP said was routine maintenance. BP has insisted that

**NYMEX WTI May June Spread**  
**Price Vs Volume traded- April 16, 2007**  
**Trade Weighted Price: \$-2.222**



no leaks have been found and repairs to the pipeline have not been viewed as a priority because of the development of the Baku-Tbilisi-Ceyhan pipeline.

A Petrobras official said PDVSA and Petrobras were on track to begin construction of a new refinery in Pernambuco this year. The 200,000 bpd refinery is expected to cost \$2.8 billion to build and should be completed by 2011. It is expected to produce diesel, liquefied petroleum gas and naphtha.

**Production News**

Trade sources stated that Royal Dutch Shell is expected to resume operations at its Forcados oilfield in Nigeria by June after being shut a year ago due to militant attacks. The field was producing about 380,000 bpd due to the February 2006 attack. However Royal Dutch Shell declined to comment on when the oilfield would resume operations.

Mexico's transport ministry reported that the country's port of Dos Bocas and Pajaritos were reopened on Monday after the ports were closed to shipping on Sunday due to adverse weather conditions. The Cayo Arcas port and the port of Salina Cruz on the Pacific Coast remained closed due to low visibility and stormy seas.

Colombia's ambassador to Venezuela said Ecopetrol SA could invest in an oil project in

Venezuela's Orinoco tar basin. He said Colombian officials planned to discuss possible investment in the Orinoco with Venezuelan counterparts at a South American energy summit taking place this week in Venezuela.

**NYMEX Petroleum Options Most Active Strikes for April 16, 2007**

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	7	7	P	60	06/15/2007	0.67	6,700	28.37
LO	7	7	C	67	06/15/2007	2.87	5,546	27.57
LO	7	7	C	70	06/15/2007	1.7	5,510	27.50
LO	5	7	P	63	04/17/2007	0.21	4,707	34.12
LO	12	7	P	55	11/13/2007	1	4,600	29.16
LO	6	7	C	68	05/17/2007	1.15	3,477	27.33
LO	7	7	P	65	06/15/2007	2.09	3,450	27.69
LO	5	7	C	63	04/17/2007	0.82	3,232	34.13
LO	6	7	C	65	05/17/2007	2.45	3,148	27.85
LO	5	7	P	62	04/17/2007	0.04	2,918	34.53
LO	5	7	P	62.5	04/17/2007	0.1	2,684	34.57
LO	12	7	P	60	11/13/2007	1.96	2,550	28.13
LO	7	7	C	90	06/15/2007	0.05	2,490	33.29
LO	5	7	C	65	04/17/2007	0.06	2,485	33.65
LO	5	7	P	63.5	04/17/2007	0.4	2,287	34.14
LO	5	7	C	64	04/17/2007	0.28	2,170	33.65
LO	10	7	C	70	09/17/2007	3.99	2,150	26.73
LO	12	7	P	70	11/13/2007	5.75	1,530	26.86
LO	12	7	P	62	11/13/2007	2.51	1,500	27.85
LO	9	7	P	60	08/16/2007	1.23	1,475	27.91
LO	6	7	C	74	05/17/2007	0.17	1,400	27.64
LO	9	7	P	65	08/16/2007	2.71	1,400	27.17
OB	8	7	C	2.19	07/26/2007	0.0896	633	33.18
OB	8	7	C	2.25	07/26/2007	0.0741	633	33.76
OB	8	7	C	2.24	07/26/2007	0.0765	216	33.66
OB	8	7	C	2.18	07/26/2007	0.0925	215	33.09
OB	5	7	P	2.05	04/25/2007	0.0305	200	44.14
OB	5	7	C	1.85	04/25/2007	0.2673	150	47.37
OB	6	7	C	1.95	05/25/2007	0.1923	150	40.53
OB	12	7	C	1.86	11/27/2007	0.1496	150	30.86
OB	12	7	P	1.86	11/27/2007	0.1904	150	31.03
OB	5	7	P	2.1	04/25/2007	0.0498	122	43.53
OB	5	7	C	2.15	04/25/2007	0.0426	121	43.60
OB	9	7	C	2.17	08/28/2007	0.1007	111	32.92
OB	9	7	C	2.23	08/28/2007	0.0856	109	33.49
OB	7	7	C	2.35	06/26/2007	0.0419	103	35.53
OB	7	7	C	2.5	06/26/2007	0.0228	102	36.68
OH	5	7	C	1.92	04/25/2007	0.0203	220	37.38
OH	12	7	C	2.05	11/27/2007	0.1465	156	27.51
OH	12	7	P	2.05	11/27/2007	0.1883	150	27.70
OH	5	7	C	1.65	04/25/2007	0.21	110	39.38
OH	7	7	P	1.78	06/26/2007	0.0491	110	28.95
OH	7	7	C	1.78	06/26/2007	0.1535	110	29.19

Brazil's President Luiz Inacio Lula da Silva said he hoped to discuss a recent spat over ethanol with Venezuela's President Hugo Chavez during an energy summit in Venezuela. Venezuela's President Hugo Chavez last week said ethanol was an environmental disaster that produced food for cars, not people and threatened to challenge a recent Brazilian-US agreement to promote the use of ethanol throughout Latin America. Brazil's President also rejected criticism that ethanol production would increase food prices, saying there was sufficient land in South America and Africa. According to the Center for Advanced Applied Economic Studies, ethanol prices in Brazil from 1.071 Brazilian reals or \$0.52/liter in the week of April 1-5 to BRL1.070 in the week from April 9-13. Prices started declining as the 2007 sugar cane crop started to hit the market.

Former Florida Governor Jeb Bush said the US should eliminate the tax on ethanol imports from Brazil. The US charges a tax on Brazilian ethanol of 54 US cents/gallon. He also said the US should treat ethanol as part of its energy policy, not agricultural policy.

An official at Japan's Ministry

of Economy, Trade and Industry said Japan would not require ethanol blended gasoline anytime soon because of limited world ethanol supplies. METI has maintained its target set last May to blend ethanol equivalent to 500,000 kiloliters of crude oil into gasoline in Japan's 2010 fiscal year. However it has no plans to make the blend compulsory.

Azerbaijan's State Statistics Committee said the country's oil product production was almost flat on the year in January-March, up 0.1% to 1.8 million tons. Its oil product exports fell by 33% on the year to 488,340 tons in January-March.

OPEC's news agency reported that OPEC's basket of crudes increased by \$1.05/barrel to \$64.71/barrel on Friday. It also reported that OPEC's basket of crudes fell by 14 cents/barrel to \$63.59/barrel in the week ending April 13.

### **Market Commentary**

The market opened slightly higher today, only to fall off sharply in response to news that Royal Dutch Shell is expected to resume operations at its Forcados crude oil steam in Nigeria, by June, which has been down since a year ago due to militant attacks. The May/June however, did not reflect market movement and not until it was able to break below -2.35, did this spread show any indication of breaking down. With the lack of rolls in the market and floor traders holding onto some late length, this spread proved to be weak and choppy. For the remainder of the session, this spread was unable to gain enough strength to get back over the -2.25 level. Just as quickly the market had a knee jerk reaction to news of Enbridge Inc's Canadian #3 pipeline was experiencing a leak. This pipeline transports 450,000 bpd of sour crude and should not have had the bullish reaction it did. Regardless, this could be construed as a shortage due to draws on stockpiles. With May going off the board on Friday, we should turn our attention to the June contract. At this point in time the outlook for prices appears to be somewhat constructive. However, we would not discount any pullbacks in June to the 65.00 level, where we would like to be buyers with stops set just below 64.90. Support in June is set at 64.48, 64.00, and 63.75 with resistance set at 65.80, 66.40, 66.80, 67.00, 67.50 and 68.20. With the exception of the May contract the entire curve came under pressure today, with the middle to back end of the curve reflecting levels of a year ago. We would look for a continuation of this pattern. Relative to July, the June contract looks strong and should continue to gain strength bringing the discount into -60 or better. June should gather strength with the expectations of stockpiles being sent to the SPR. Open interest in the crude market continued to build by a total of 16,924 lots. Open interest in the May contract fell by 30,950 lots while open interest in the back months built amid the continued rolls ahead of the May contract's expiration on Friday. Open interest in the June and July contracts increased by 29,520 lots and 7,196 lots, respectively.

The RBOB market continued to sell off as traders took profits following the news that Valero began to restart a fluid catalytic cracking

<b>Technical levels</b>		
	<b>Levels</b>	<b>Explanation</b>
<b>CL</b> 63.63, down 22 cents	<b>Resistance</b> 64.58, 64.94, 65.09	Previous highs
	<b>Support</b> 64.21	Monday's high
	<b>Support</b> 62.55	Monday's low
<b>HO</b> 190.07, down 54 points	<b>Resistance</b> 62.00, 61.86, 61.53, 61.35	Basis trendline, Previous lows
	<b>Resistance</b> 192.57	Previous high
	<b>Support</b> 187.10, 188.00, 191.26	Monday's high
<b>RB</b> 211.57, down 6.4 cents	<b>Resistance</b> 185.28	Monday's low
	<b>Support</b> 182.29, 181.71, 181.26, 179.12	38% retracement (165.67 and 192.57), Previous lows, 50%
	<b>Resistance</b> 221.34, 222.64	Previous high, basis trendline
<b>RB</b> 211.57, down 6.4 cents	<b>Support</b> 214.00, 216.00, 218.90	Monday's high
	<b>Support</b> 211.23	Monday's low
	209.95, 209.70, 208.46, 207.27	50% (198.57 and 221.34), Previous lows, 62%

unit at its McKee refinery on Sunday. The market retraced more than 38% of its move from a low of 211.23 to a high of 221.34, as it extended its losses to 6.74 cents to a low of 211.23 ahead of the close. It settled down 6.4 cents at 211.57. Meanwhile, the May RBOB crack continued to come in to 25.47 amid the weakness in the RBOB market. The crack is seen finding some support at 23.20 followed by 22.00 and 20.00. The heating oil market also settled down 4.14 cents at 185.93 after it

retraced more of its previous gains. It sold off to a low of 185.28 ahead of the close. The product markets will likely retrace some of today's sharp losses as traders position themselves ahead of the weekly petroleum stock reports. The markets are also seen retracing some of their losses, as the restart of the McKee refinery is not expected to significantly change fundamentals.