



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR APRIL 21, 2008**

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A faction of the Movement for the Emancipation of the Niger Delta said it attacked two pipelines located at Isaka River and Abonnema River in Rivers State in what it called a message to the US to stop supporting injustice in the region. The rebel group said the attacks were a way of saying welcome to a US warship, which has been visiting the Gulf of Guinea to conduct training with the Nigerian navy. It complained that President George W.

Bush had not responded to past requests from it to mediate talks with the Nigerian government. Meanwhile, Royal Dutch Shell confirmed that its Soku-Buguma and Buguma-Alakri pipelines were sabotaged on Monday. It also stated that an attack last week forced the suspension of 169,000 bpd of oil production. It declared a force majeure on crude oil liftings from its Bonny Light terminal for April and May. The force majeure is effective from April 22.

The IEA's executive director Nobuo Tanaka said current oil production is sufficient. He said that oil prices were too high and developing nations were suffering the most. He was met with silence from an audience that included OPEC members, when he asked if they shared the IEA's view that prices were too high. However he also stated that fundamental factors such as tight crude oil supplies and high demand in China and other emerging markets were the main factors driving oil prices, not speculative trading.

#### **April Calendar Averages**

**CL** – 110.27

**HO** – 314.65

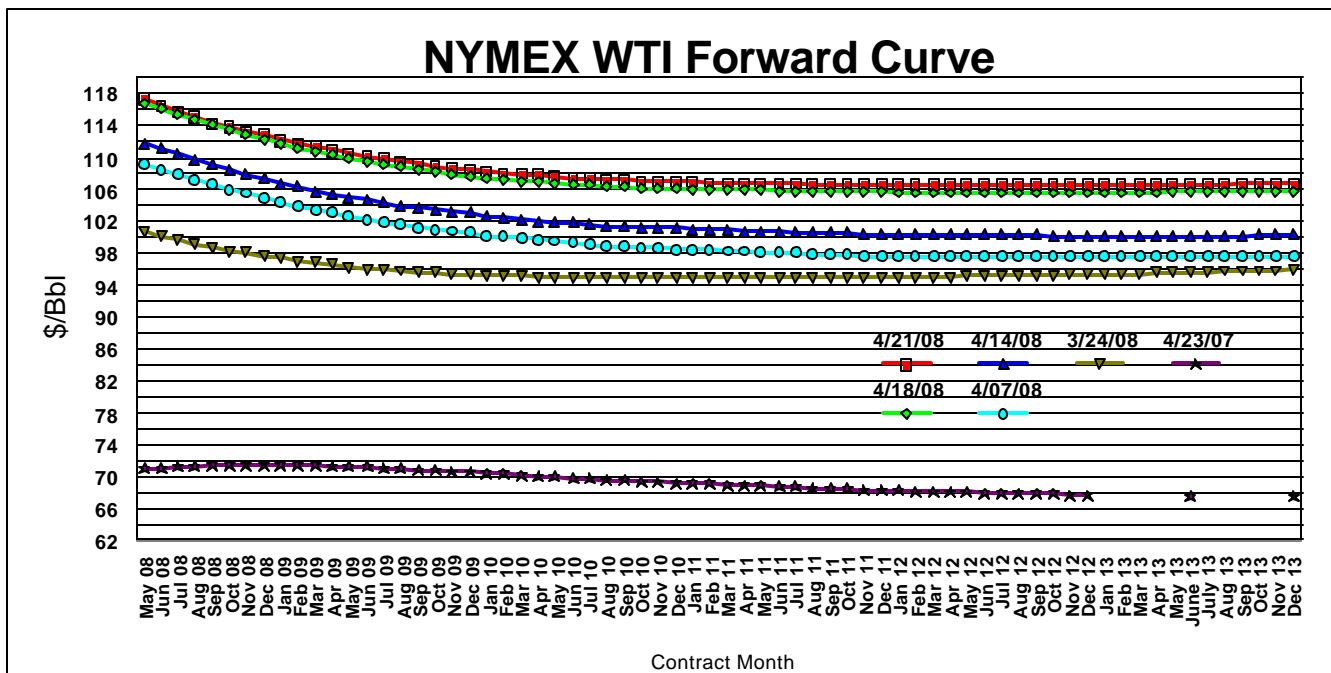
**RB** – 282.46

#### **Market Watch**

The first deputy managing director of the International Monetary Fund, John Lipsky said record oil prices was slowing world economic growth. He said the IMF saw economic growth declining by between 1 and 2 percentage points. The IMF's latest World Economic Outlook earlier this month put world growth at 3.7% this year, down from a growth forecast in January of 4.1%.

A top energy official in Mexico said the country could lose its status as one of the world's largest oil exporters if contracts to increase private sector investment are kept out of the planned energy reform. Reform proposals including allowing Pemex to sign contracts with a performance bonus for foreign companies. He said Pemex could lose 500,000 bpd of oil production within 10 years if it does not start exploring deeper waters in the Gulf of Mexico soon.

According to a study by the Environmental Defense Fund, capping carbon emissions would cost US households less than 1% over the next two decades, contradicting critics who say mandatory limits on greenhouse gases would cost jobs and damage the economy. President George W. Bush has opposed mandatory cap and trade programs to limit emissions of carbon dioxide, citing damaging economic effects if such a plan became US law.



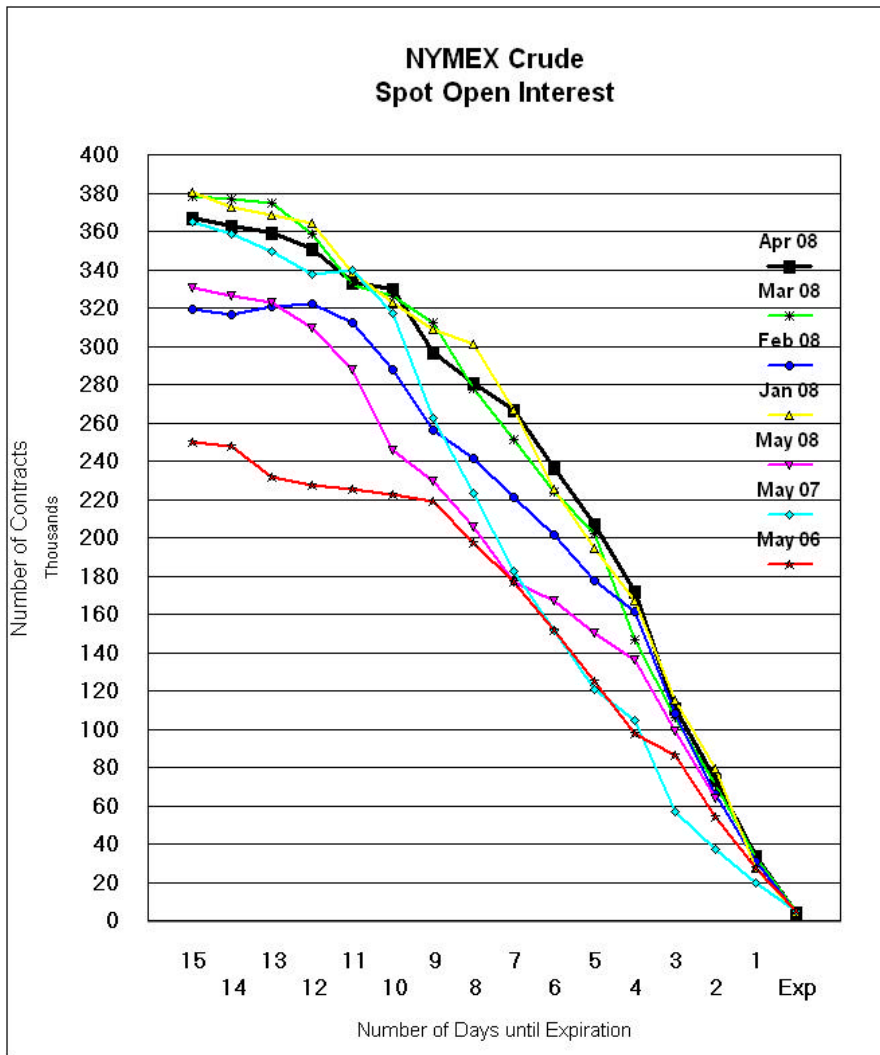
OPEC President Chakib Khelil said OPEC saw no need to increase its oil production to counter high oil prices. He added that a previous output increase had failed to bring prices down. He said the decline in the dollar's value was a key factor behind the surge in oil prices. He said OPEC wanted an appropriate price, suiting both consumers and producers but declined to say what that price would be. OPEC's President also said that OPEC had the ability to increase output by 2 million bpd. Separately, OPEC Secretary General, Abdullah al-Badri said oil prices could still continue to increase. He said factors other than supply and demand were pushing oil prices higher, mainly the weakness of the US dollar. He also stated that high costs may delay some of OPEC's projects to expand oil supply capacity, although longer term investment is on track. He said OPEC planned to invest \$160 billion over the next few years on project to expand capacity.

Kuwait's Oil Minister Mohammad al-Olaim said OPEC could increase its output if there was a need for its oil. He also reiterated that record high oil prices did not reflect the realities of supply and demand. Meanwhile, Iran's Oil Minister Gholamhossein Nozari also stated that record oil prices did not reflect oil market fundamentals. He said oil prices were supported by the weak dollar and inflation. He however stated that oil prices were not too high in real terms.

Port workers in Marseille voted on Sunday to suspend a strike against dock reforms. However a new stoppage was planned for Wednesday. However activity has not been able to resume at the oil terminal of Lavera due to a shortage of staff. It said 22 ships were waiting in the Fos harbor at the end of Monday morning, of which three were goods carriers and 19 gas, oil or chemicals vessels. Workers have been protesting against government plans to privatize loading activities at state run ports.

The EIA reported that the US average retail price of gasoline increased by 11.9 cents to \$3.508/gallon in the week ending April 21. It also reported that the US average price of diesel increased by 8.4 cents to \$4.143/gallon on the week.

According to the Lundberg survey, the US average retail price of gasoline reached a record of \$3.4737/gallon in the two weeks ending April 18, up 15.66 cents from the April 4 average.



The AAA reported that the US average retail price of gasoline increased to \$3.50/gallon. It is up 65 cents on the year.

The IAEA's deputy director general, Olli Heinonen held talks with the deputy head of Iran's atomic energy organization, Mohammad Saeedi and its ambassador to the IAEA, Ali Asghar Soltanieh, seeking answers from Iran over claims it has studied how to design nuclear weapons. The talks are scheduled to continue on Tuesday.

Azerbaijan has halted a Russian shipment of equipment intended for Iran's Bushehr nuclear plant. Trucks carrying equipment were stopped at Azerbaijan's border with Iran two weeks ago. Azerbaijan's Foreign Ministry said the country was trying to get more information about the shipment and whether it violated UN sanctions imposed against Iran.

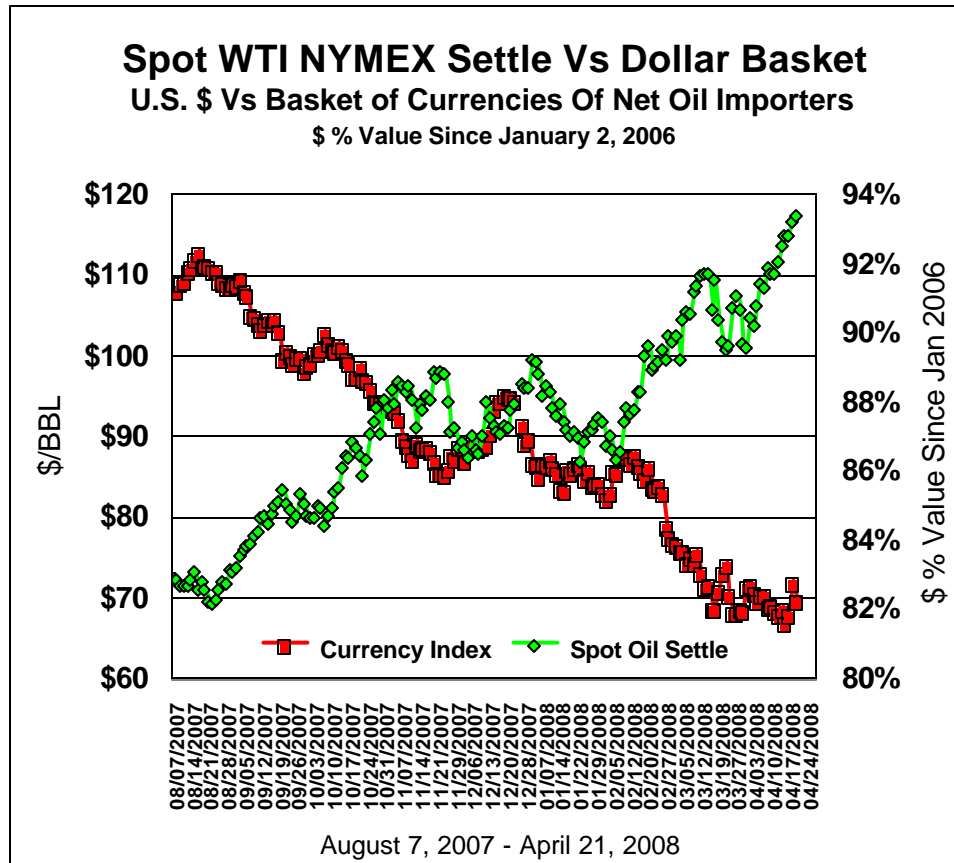
### Refinery News

BP said the impact on UK oil imports through the Forties pipeline due to a two day strike planned for next week at an oil refinery in Scotland remained unclear. Workers have threatened to strike over pensions on April 27-28 at the 200,000 bpd Grangemouth refinery, which could be forced to close for at least a month. The refinery has cut its production ahead of the two day strike. BP said it had a number of short term options for continuing crude oil production. Meanwhile, UK Energy Minister Malcolm Wicks warned of serious consequences for Britain if a threatened strike at the Grangemouth refinery halts production. The Scottish government said it was forming contingency plans and has requested the company and union resume negotiations to avert damaging consequences.

LyondellBasell's 270,000 bpd Houston refinery is expected to restart its 100,000 bpd fluid catalytic cracking unit in early May, about two weeks later than planned. The unit was shut in mid-March for unplanned work.

ExxonMobil Corp said its fluid catalytic cracking unit No. 3 at its 563,000 bpd Baytown, Texas refinery was operating normally on Sunday after being shut and restarted over the weekend. The unit was shut on Friday night due to a suspected mechanical failure and was restarted Saturday morning.

BP Plc's 265,000 bpd refinery in Carson, California reported an equipment failure that triggered flaring early on Sunday morning. A notice filed with the South Coast Air Quality Management did not say which unit or units broke down.



Alon Energy USA Inc's 67,000 bpd refinery in Big Spring, Texas shut and restarted its sulfur recovery unit No. 2 on Saturday. The cause of the brief shutdown was under investigation.

Marathon Oil Corp's 104,000 bpd fluid catalytic cracking unit at its 226,000 bpd refinery in Catlettsburg, Kentucky resumed operations over the weekend after its was shut on April 10 due to a fire at an electrical substation.

Credit Suisse said US refinery margins increased in most regions of the US last week. US Gulf Coast

margins increased 49 cents to \$13.10/barrel in the week ending April 18 while margins in the Midwest increased 44 cents/barrel to \$12.98/barrel. Margins in the Northeast increased 16 cents to \$10.95/barrel while margins in the Rocky Mountain region fell by \$1.28/barrel to \$16.34/barrel and margins in the West Coast fell by \$3.64/barrel to \$19.75/barrel.

Euroilstock reported that refinery output in Europe fell by 0.4% on the month to 12.799 million bpd in March due to planned maintenance outages. Refinery utilization fell in March to 89.77%, down from 89.79% in February but up from 87.27% in March a year ago.

South Korea's SK Energy has increased its crude processing rates to 850,000 bpd from about 780,000 bpd earlier this month. It said it may increase its runs to 870,000 bpd in May.

South Korea's Hyundai Oilbank said it would cut its crude runs to 280,000 bpd from the current 300,000 bpd due to maintenance at one of its crude units. It is scheduled to shut its No. 1 110,000 bpd crude distillation unit on May 17-June 12.

India's Hindustan Petroleum Corp Ltd said it would shut all units at its 110,000 bpd Mumbai refinery for 40 days starting Tuesday for planned maintenance and to add new clean fuel units.

Indian Oil Corp said India's oil demand is expected to grow by 8-10% this year, a rate which is unsustainable. The chairman of Indian Oil Corp said oil demand growth has not slowed as subsidized

fuel prices insulate consumers from record oil prices. He said oil demand growth was outpacing growth in refining capacity to meet domestic demand.

China is expected from May 1 to require wholesalers of refined oil prices to maintain stocks equivalent to 15 days of sales, in an effort to reduce recurrent shortages and rationing. China's Sinopec and PetroChina have already increased their gasoline and diesel imports in April and May to increase stocks head of the Beijing Olympics. China has been reluctant to raise fuel prices amid rising inflation and instead has imposed a range of tax cuts aimed at slowing refiners' slide into the red. It extended a value added tax rebate covering fuel imports into the second quarter and is expected to bring in a similar discount to the cost of crude imports. The new requirements would strengthen China's ability to manage the market and prevent market fluctuations.

Indonesia may increase fuel prices to cut its subsidy bill amid the continuing increase in oil prices, risking social unrest. A decision to cut subsidies and raise fuel prices could spark anti-government protests ahead of next year's parliamentary and presidential elections. Indonesia nearly tripled its planned fuel subsidy spending to 126.6 trillion rupiah or \$13.79 billion in a revision to the 2008 state budget.

### NYMEX Petroleum Options Most Active Strikes for April 21, 2008

Symbol	Month	Year	Call Put	Strike	Exp Date	Settle	Volume	IV
LC	12	8	P	110	11/17/2008	8.77	1,525	37.32
LC	12	8	C	130	11/17/2008	4.97	1,425	26.84
LC	7	8	C	115	06/17/2008	6.89	1,304	31.59
LC	12	8	P	90	11/17/2008	2.29	1,275	36.24
LC	7	8	C	120	06/17/2008	4.77	1,154	32.66
LC	7	8	C	122	06/17/2008	4.11	1,000	33.16
LC	12	9	C	150	11/17/2009	4.47	1,000	21.78
LC	7	8	C	118	06/17/2008	5.53	1,000	32.18
LO	6	8	P	95	05/15/2008	0.15	5,563	43.46
LO	9	8	P	100	08/15/2008	2.92	5,090	34.38
LO	6	8	P	100	05/15/2008	0.39	4,871	41.80
LO	6	8	P	90	05/15/2008	0.05	3,937	44.97
LO	6	8	P	94	05/15/2008	0.13	3,880	44.24
LO	9	8	P	90	08/15/2008	1.2	3,878	36.28
LO	8	8	P	100	07/17/2008	2.23	3,211	35.98
LO	8	8	C	130	07/17/2008	2.99	2,800	35.82
LO	6	8	C	82	05/15/2008	34.63	2,500	71.23
LO	6	8	C	80	05/15/2008	36.63	2,500	76.24
LO	12	8	P	103.5	11/17/2008	5.97	2,475	31.37
LO	6	8	C	125	05/15/2008	1.78	2,402	39.46
LO	7	8	P	99.5	06/17/2008	1.29	2,200	37.92
LO	7	8	P	90	06/17/2008	0.36	2,085	39.68
LO	12	8	C	112	11/17/2008	10.62	2,046	31.58
LO	12	8	P	112	11/17/2008	9.83	2,025	31.50
LO	6	8	C	78	05/15/2008	38.63	2,000	81.38
LO	12	8	C	49.5	11/17/2008	63.3	2,000	92.54
LO	6	8	C	79	05/15/2008	37.63	2,000	78.79
LO	8	8	P	110	07/17/2008	5.19	1,850	34.43
LO	7	8	P	100	06/17/2008	1.37	1,808	37.84
LO	6	8	C	122	05/15/2008	2.53	1,806	38.97
LO	7	8	C	80	06/17/2008	35.81	1,700	57.16
LO	6	8	C	74	05/15/2008	42.63	1,700	92.07
LO	6	8	C	115	05/15/2008	5.41	1,671	38.65
LO	6	8	C	102.5	05/15/2008	14.71	1,554	41.93
LO	7	8	C	103	06/17/2008	14.67	1,550	38.13
LO	7	8	P	95	06/17/2008	0.73	1,541	38.73
OB	9	8	C	3.06	08/26/2008	0.165	532	33.61
OB	9	8	C	3.12	08/26/2008	0.148	527	34.16
OB	9	8	C	3.05	08/26/2008	0.168	476	33.51
OB	9	8	C	3.11	08/26/2008	0.151	476	34.07
OB	5	8	C	3	04/25/2008	0.039	313	39.38
OB	5	8	P	2.95	04/25/2008	0.036	308	39.53
OB	9	8	C	2.95	08/26/2008	0.201	302	32.61
OB	9	8	C	2.9	08/26/2008	0.221	301	32.26
OH	5	8	P	3	04/25/2008	0.001	1,003	47.37
OH	7	8	P	2.75	06/25/2008	0.02	300	32.84
OH	6	8	C	3.4	05/27/2008	0.096	230	35.30

### Production News

Saudi Arabia said it has no plans to increase its oil production capacity beyond the amount it is already pursuing for several years until there are clearer signs about future crude consumption. He said growth in alternative energy such as biofuels was making it difficult to estimate future demand for oil. Saudi Arabia is expected to increase its pumping capacity to a total of 12.5 million bpd by 2009, up about 11% from current capacity of 11.3 million bpd.

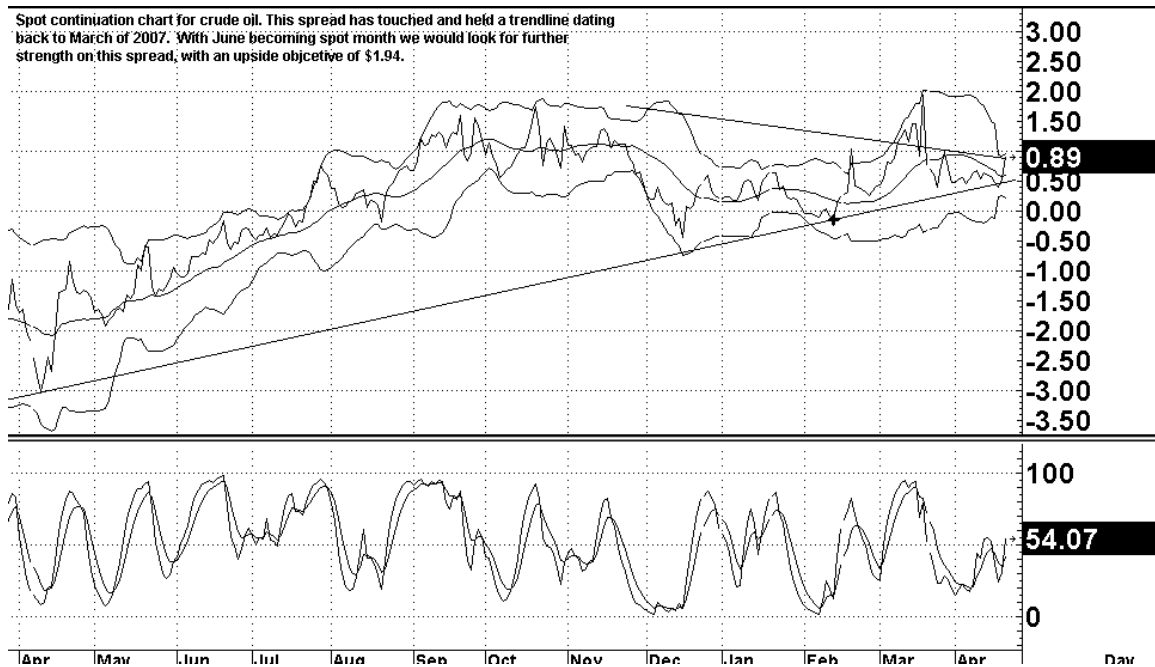
The head of Saudi Aramco, Abdullah Jumah said Saudi Arabia started up its 500,000 bpd Khursaniyah oilfield.

Iraqi Oil Minister Hussein al-Shahristani said that the country was producing more and exporting more after oil operations recover from recent tensions in the south. He said Iraq was producing 2.5 million bpd and exporting about 2 million bpd. Separately, Iraq's Oil Minister said Iraq would call for bids this summer for oil service contracts.

Italy's Eni SpA said the company would return to Iraq as soon as safety conditions permit. According to a newspaper, Eni is seeking an imminent return to Iraq as soon as Iraq approves a law governing oil revenue.

Turkish Petroleum Corp is in talks with some companies for possible cooperation on large scale oil exploration in Iraq.

Turkish Petroleum Corp was excluded from a list of 35 oil companies given licenses by Iraq last week for oil exploration. It said if one of the firms won an oil exploration contract in



Iraq, Turkish Petroleum Corp could work together with them in Iraq. It is expecting to be invited for oil exploration in medium sized oilfields.

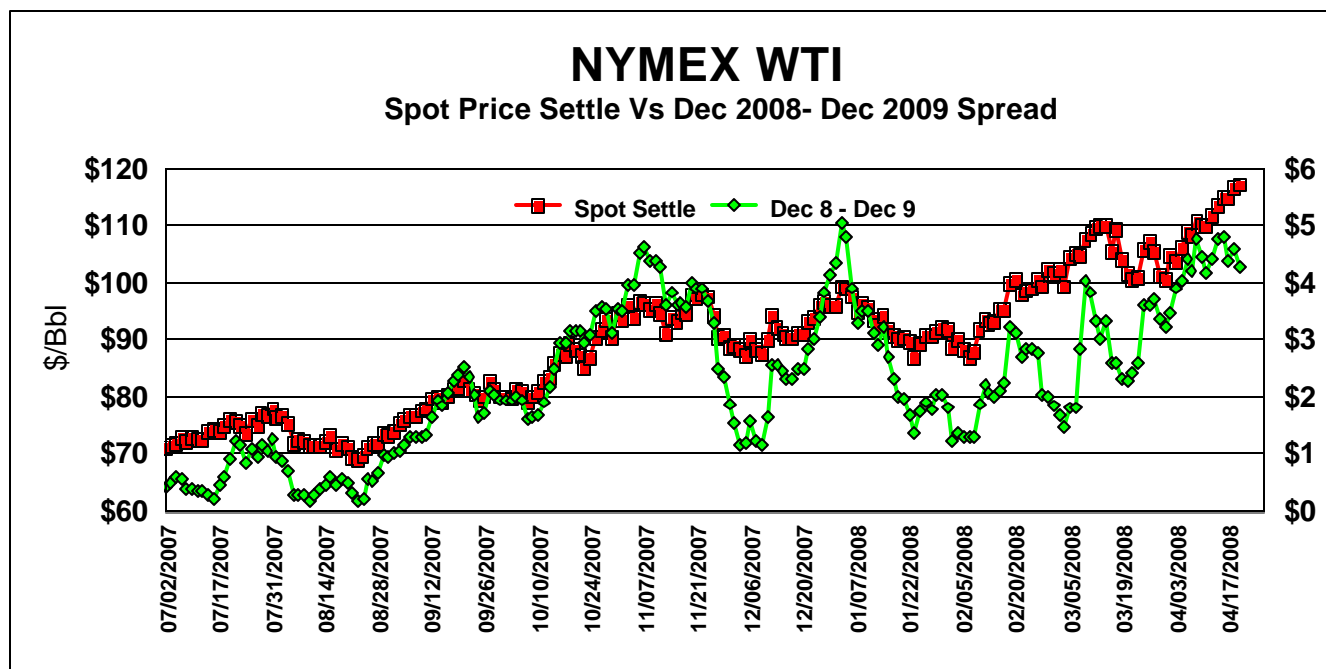
Mexico's Pemex said the country's oil production fell by 7.8% in the first quarter to 2.91 million bpd due to reduced production at the Cantarell offshore field, other offshore fields and the southern region. Its oil production in March fell to 2.847 million bpd, down from 2.929 million bpd in February. Its crude oil exports during the first quarter fell by 12.5% to 1.5 million bpd due to lower oil production while its exports in March increased to 1.628 million bpd from 1.429 million bpd in February. Pemex also reported that Mexico's gasoline imports in March increased to their highest level since last November to 360,700 bpd.

Russia's Energy Minister Viktor Khristenko said Russia's oil production growth would slow this year to 1% compared with expected output growth of 1.7%. However he said Russia would return to its strategy which sees output levels in 2010 at 520-530 million tons.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$107.75/barrel on Thursday from \$107.63/barrel on Wednesday. It also reported that OPEC's basket of crudes increased \$3.79/barrel to \$106.36/barrel last week.

### Market Commentary

Last week's attack on Royal Dutch Shell PLC's Nigerian pipeline has forced the suspension of 169,000 barrels per day of output. This is in addition to output lost through previous attacks since 2006. Furthering prices along was news that oil workers in Scotland have threatened a strike at the



Grangemouth refinery. Although the 200,000 barrels per day refinery supplies domestically, shortages will have to come from elsewhere. Emerging markets continue to add to the strength in crude oil as demand from China, India, Russia and the Middle East outpace that of the United States. U.S. consumption is expected to decrease to 24% of the world's consumption, compared to 26% in 2001. The June crude oil contract managed to penetrate the bottom trendline on the ascending channel, however there was a lack of follow-through to the downside. As the dollar continued to weaken, investors once again turned to energies in order to secure some of their investments. Another record high of \$117.02, basis June, was achieved. The May contract expires tomorrow and some market participants are in agreement that a squeeze is on in this contract. Upon examination of the forward curve, today's move higher was front end dominated. The May/June spread which settled Friday at .53 cents, settled today's session at .85 cents. This spread has not been at this level since March 27<sup>th</sup>. Upon examination of the spot continuation chart, this spread as held a trendline dating back to March 2007. With the June becoming spot month, we would look for the June/July spread to continue higher, with an upside objective of \$1.94. As for the May gasoline, it met its projected move to \$300.37, the measured move upon the breakout of the ascending flag. Prices have since retreated from the projected move and are poised to test \$295.60 support level. Gasoline gave up some of its recent gains against the heating oil and crude oil as forecast for lower U.S. demand pressured these spreads. Slow stochastics are in the upper end of the overbought level and appear to be getting ready to cross.

A further sell-off may come tomorrow, however it may not be an aggressive one, as industry sources await the release of the DOE/API numbers due out on Wednesday. Gasoline stocks are expected to draw 2.3 million barrels. We would focus our attention on the demand and import numbers in order to get a better read of stock levels. Heating oil reached records highs once again as demand for diesel abroad continues to remain strong. Basis the May contract, prices settled above the top of a pennant formation, allowing for a projected move to \$347.69. Stock levels for heating oil are expected to be unchanged. This could be supportive for prices, given the demand for diesel in emerging markets. Once again the supply versus demand factor will have to be given great concern as things are changing overseas. Total open interest for crude oil is 1,328,724 down 41,507, May08 64,307 down 35,057, June08 376,504 down 3,297 and Dec08 195,902 up 64. Total open interest for heating oil 229,982

down 105,  
 May  
 35,597  
 down  
 3,056 and  
 June  
 72,538 up  
 1,745.  
 Total open  
 interest for  
 gasoline,  
 265,583  
 up 6,123,  
 May 49,659-576 and June 79,816 up 3,253.

		<b>Explanation</b>	
<b>CL</b>	<b>Resistance</b>	117.73, 118.78, 122.34	Basis trendlines
	117.48, up 79 cents	117.02	Monday's high(June)
	<b>Support</b>	116.50, 115.01	Monday's low(June)
		112.33, 111.74, 111.25, 109.14, 107.07, 103.20	Previous lows
<b>HO</b>	<b>Resistance</b>	344.19	Basis trendline
	331.14, up 1.91 cents	332.00, 333.09	Monday's high
	<b>Support</b>	330.10, 328.00, 326.06	Monday's low
		322.47, 321.16, 317.13, 315.57, 314.68, 308.99	Previous lows, 38%(284.89 and 333.09), 50%
<b>RB</b>	<b>Resistance</b>	305.97	Basis trendline
	297.91, down 1.02 cents	298.80, 299.25, 300.40	Monday's high
	<b>Support</b>	295.95, 295.60	Monday's low
		288.90, 288.79, 286.81, 286.61, 284.62, 279.74	Previous low, Basis trendline, low, 38%(259.08 and 299.34), 50%