



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR APRIL 26, 2007**

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Iran's nuclear negotiator Ali Larijani said Iran and the EU were nearing a united view in some areas of their talks to break the impasse over Iran's nuclear program. EU foreign policy chief Javier Solana said the talks had been constructive and conducted in a good atmosphere though no great breakthrough was

on the cards now. They are expected to continue their talks in two weeks. Some diplomats and analysts have stated that Iran and the permanent members of the UN Security Council and Germany could accept a partial enrichment suspension under strict UN inspections to break the deadlock. However both sides have publicly denied this.

Separately, a top Iranian security official accused the US of seeking to undermine Iran's clerical regime by stoking sectarian and ethnic tensions in the country and using newspapers and non-governmental agencies toward that goal.

Iraq's Oil Ministry said foreign firms should only sign oil contracts with the central government until a new oil law is passed and added that deals outside its jurisdiction would be considered illegal, referring to deals signed by the Kurdistan Regional Government with several foreign firms. The warning came as a last minute dispute between Iraq's central government and Kurdish regional authorities over the draft oil law appeared to widen. The law has yet to be approved by parliament.

Iraq's Prime Minister Nouri al-Maliki said he was willing to go to Iran to convince its leaders to attend an upcoming regional summit aimed at stabilizing Iraq on May 3-4. On Wednesday, Iraq's Foreign Minister Hoshyar Zebari visited Iran to try to convince the Iranians to attend.

#### **Market Watch**

The head of Valero Energy said gasoline prices were unlikely to increase as high as \$4/gallon this summer. He said he is concerned that gasoline prices over \$3.00/gallon this summer could hurt US consumers and slow energy demand growth.

Morgan Stanley increased its 2008 estimates for Brent and WTI crudes to \$58/barrel, up from \$48/barrel and to \$60/barrel, up from \$50/barrel, respectively. It cited OPEC's output cuts, robust demand and its lower forecast for non-OPEC production growth.

ExxonMobil Corp said it would discontinue posting daily prices for various US domestic onshore crude oils starting June 1. It said it would no longer publish daily posted prices for WTI, West Texas Sour, West Texas Yates, East Texas Sweet, New Mexico Sour, New Mexico Intermediate and Wyoming Asphalt Sour.

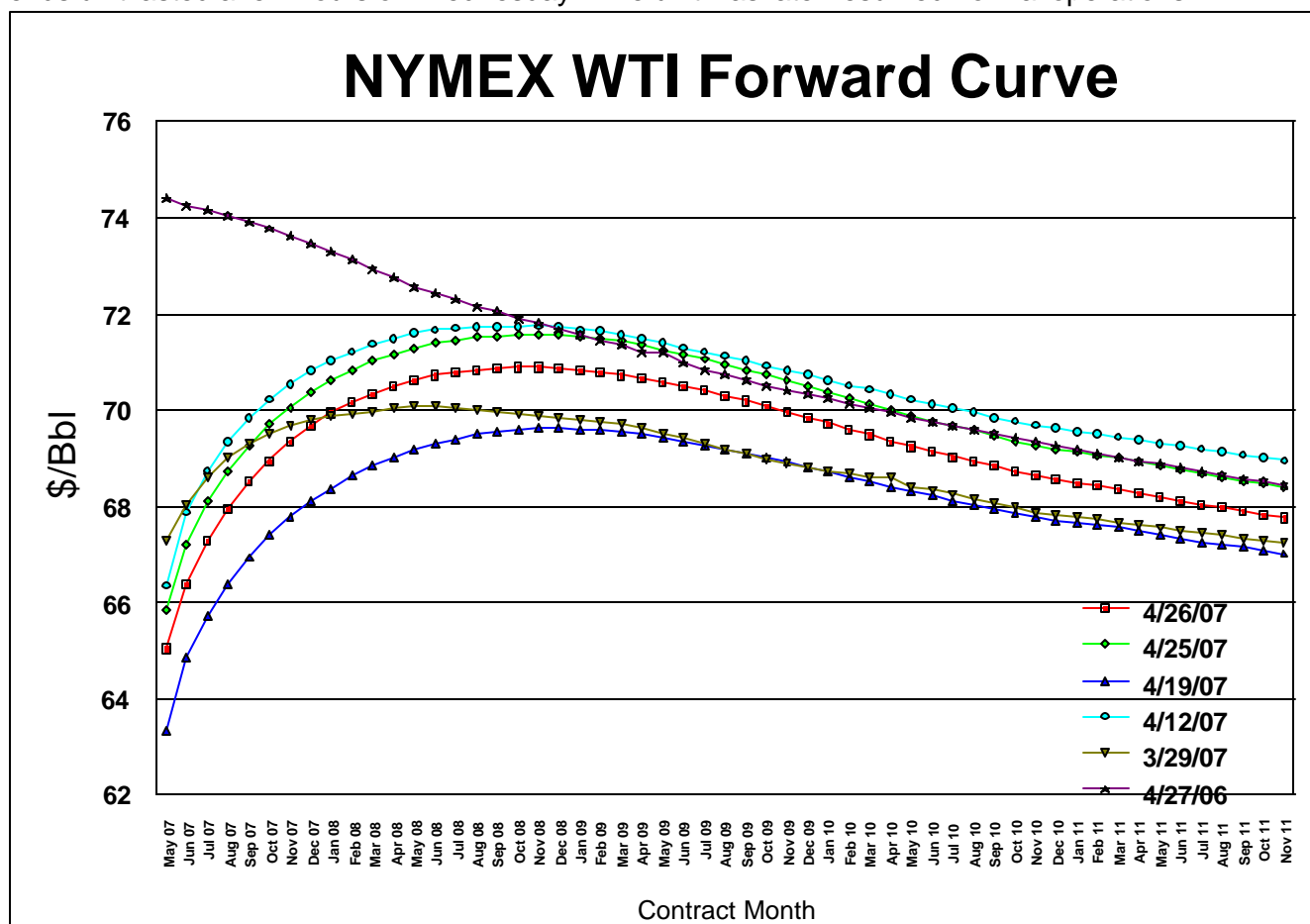
China said it was evaluating the safety of its workers abroad after an attack in Ethiopia that killed nine of its citizens but added that it would continue encouraging Chinese businesses to operate in Africa. Ethiopian officials said gunmen belonging to a rebel group, the Ogaden National Liberation Front, killed 65 Ethiopians and the Chinese at an oilfield. The rebel group, which also seized seven Chinese workers in the attack, said they had no plans to hold the foreigners.

According to Oil Movements, OPEC's oil exports are expected to ease slightly to 24.3 million bpd in the four weeks ending May 12 compared with 24.33 million bpd in the four weeks ending April 14. It said OPEC's compliance stood at 800,000 bpd.

**Refinery News**

Marathon Oil said that a fire at its 245,000 bpd refinery in Garyville, Louisiana was immediately extinguished. The fire was caused by an unidentified process unit, which tripped offline. Traders said the unit in question was a fluid catalytic cracking unit.

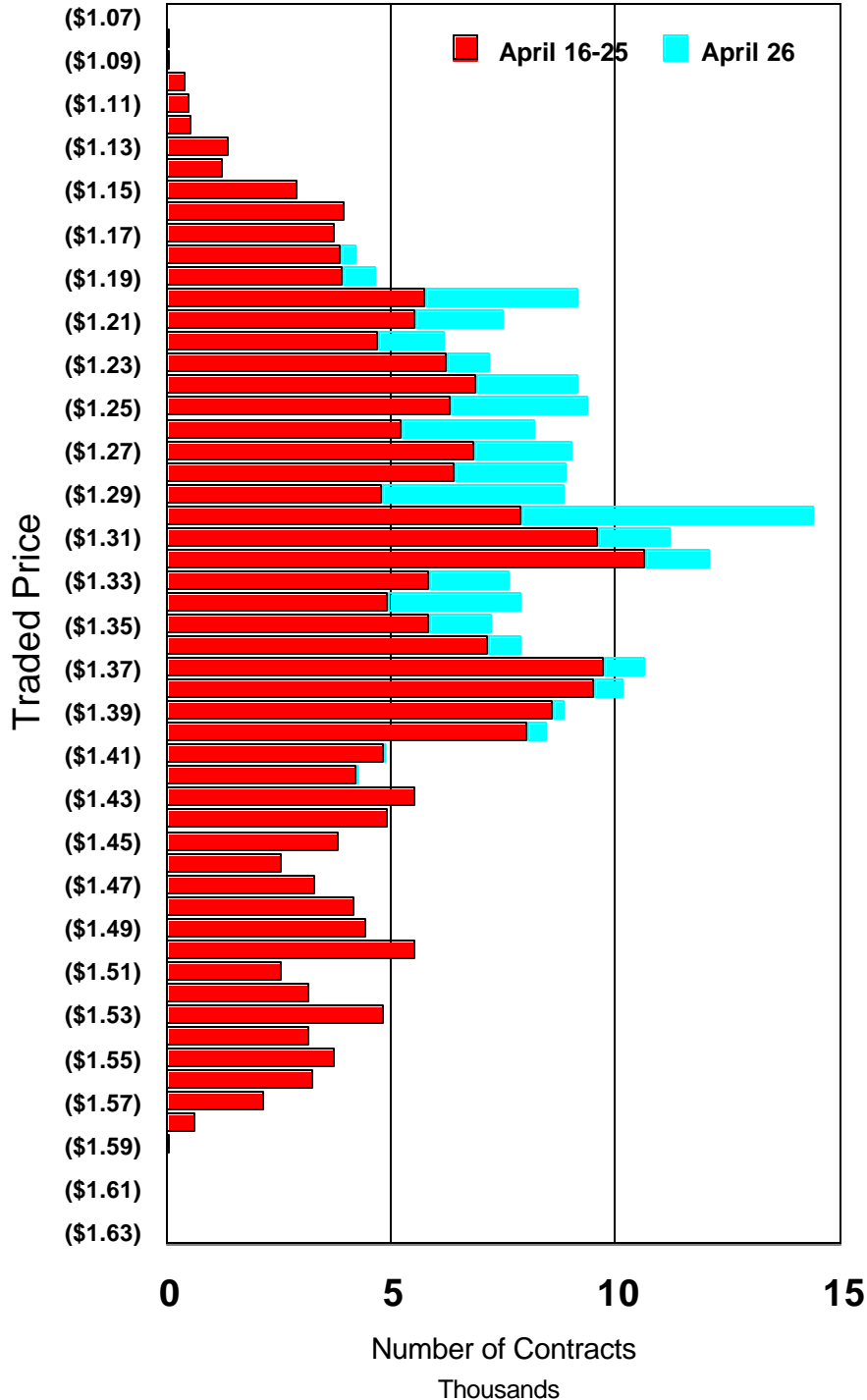
Market talk that a gasoline unit at ExxonMobil's Beaumont, Texas refinery was shut for unplanned repairs supported gasoline differentials in the Gulf Coast on Thursday. The fluid catalytic cracking unit was expected to remain shut for two or three days. Meanwhile, a compressor malfunction resulted in the brief shutdown of a processing unit at ExxonMobil's Baytown, Texas refinery. A report filed with the Texas Commission on Environmental Quality said emissions from the shutdown of a catalytic light ends unit lasted a few hours on Wednesday. The unit was later resumed normal operations.



## NYMEX WTI: June July Spread

Price Vs Volume for April 16 - April 26, 2007

Trade Weighted Avg: 4/26 -1.281 4/25 -1.40 4/24 -1.308 4/23 -1.33 4/20 -1.39



Chevron Corp's 260,000 bpd refinery in El Segundo, California reported a furnace malfunction on Wednesday. The furnace released nitric oxide for unknown reasons.

Shell Oil said an 85,000 bpd coker unit at its joint venture 334,000 bpd Deer Park, Texas refinery resumed normal operations following a brief snag. It cut coker feed to a minimum late Tuesday night after a compressor motor overloaded.

Valero Energy Corp said it expected its McKee refinery to reach processing rates of 150,000 bpd or 90% of capacity by the end of the second quarter. It is not expected to reach full rates of 170,000 bpd before the end of 2007. The refinery was operating at 85,000 bpd. Separately, Valero has delayed the restart of a crude unit at its 210,000 bpd Texas City, Texas refinery. The restart has been delayed for another week. It also stated that it was considering expansion projects at two Gulf Coast refineries in Texas and Louisiana with completion dates in 2010. Its 325,000 bpd Port Arthur, Texas refinery would be expanded by 125,000 bpd while its 250,000 bpd St. Charles, Louisiana refinery would be expanded by 50,000 bpd.

A sulfur recovery unit at Delek US Holdings' refinery in Tyler, Texas was restarted following the unit's temporary shutdown Wednesday. The unit was

shut as a result of a power outage caused by a thunderstorm.

Suncor Energy Inc said it would take one of two upgrading plants at its Alberta oil sands operation down on May 31 to hook up equipment needed for its expansion. The shutdown of Upgrader 2 is expected to last 50 days. Commissioning of the new equipment, which would lift the plant's capacity to 350,000 bpd from 260,000 bpd is expected at the end of the year.

Saudi Aramco and Shell has cut crude runs at their 305,000 bpd joint venture refinery in Jubail by 20-30% due to a technical malfunction. The runs were cut last week after the refinery had just resumed operations following a month long maintenance outage that started in March. The refinery is expected to restore runs to normal levels in about 10 days.

Belgium's second major oil union, FGTB/ABVV, voted late Wednesday to hold a strike at the country's oil refineries starting May 21 if pay negotiations were unsuccessful. Delegates of Belgium's other major union, ACV, voted in favor of a strike which would start May 9. The FGTB has asked the ACV union to postpone any work stoppage until May 21 for both groups to meet with employers.

Neste Oil said it expected a new diesel producing unit at its Porvoo refinery in southern Finland to start in April or early May. The company had previously said it expected the line to be onstream during April. The residue hydrocracker is expected to increase Neste's diesel fuel production by 1 million tons a year.

Russia's Lukoil said it would increase its crude runs at its Volgograd refinery by 14% in May to full capacity or 210,000 bpd to compensate for loss of volumes following a fire in mid-March.

Japan's Kyokuto Petroleum Industries Ltd said it shut a 34,000 bpd residual fluid catalytic cracker at its Chiba plant following a fire on Tuesday night. The plant's 175,000 bpd crude distillation was not affected by the shutdown of the RFCC.

Nippon Oil Corp said its crude refining volumes would fall again in May to 4.1 million kiloliters or 832,000 bpd, down 300,000 kl or 8% on the year. The refining cuts in May would be the fifth consecutive monthly reduction from year earlier levels. Its April refining volume was estimated at 4.2 million kl, down 600,000 kl or 13% on the year. Nippon Oil said it planned to export 7.4 million kiloliters or 46.54 million barrels of oil products this year, up 1.8 million kl from the year ending March 31.

### **Production News**

BP Plc said production at the 400,000 bpd Prudhoe Bay oilfield in Alaska was cut by 90,000 bpd since Monday due to a partial power outage. It reported the power outage after a crane contacted a power line. BP said it would carry out some maintenance at Gathering Center 2 that was scheduled for the summer during the down time and added that it expected the field to be restarted by Friday if all work was completed as planned.

A source at the Nigerian National Petroleum Co said Nigeria was seeking to increase its OPEC production quota to 2.75 million bpd from the current level of 2.058 million bpd. He said the challenge was how to convince OPEC to allow it to increase its quota.

ExxonMobil said the oil production cut enacted by OPEC lowered its output by 20,000 bpd in the first quarter. Separately, ExxonMobil said it planned to sign a document with PDVSA later this week to hand the La Ceiba oilfield over to PDVSA. Venezuela has set a May 1 deadline for all outside oil firms to hand over operations to PDVSA and has stated that it would seize any fields where an agreement is not reached before the deadline.

Norway's Statoil said it would miss its 2007 oil production target because it was shutting down its 190,000 bpd North Sea field of Kvitebjørn starting May 1. The field has been operating at half its capacity since December. Statoil had targeted a production level of 1.3 million barrels of oil equivalent/day.

Gasoline stocks in the independent storage tanks in the Amsterdam-Rotterdam-Antwerp area fell by 201,000 tons on the week and by 211,000 tons on the year to 579,000 tons in the week ending April 26 amid heavy export flows to the US. Total gasoline exports to the US in April increased to 2 million tons, even though some previously booked shipments failed over the past week or so as the transatlantic arbitrage temporarily closed. ARA gas oil stocks fell by 22,000 tons on the week to 1.914 million tons while fuel oil stocks increased by 62,000 tons to 536,000 tons. Naphtha stocks built by 24,000 tons to 110,000 tons while jet fuel stocks fell by 28,000 tons to 390,000 tons on the week.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 113,000 barrels to 12.333 million barrels in the week ending April 25. It reported that Singapore's light distillate stocks fell by 213,000 barrels to 8.533 million barrels while its middle distillate stocks built by 470,000 barrels to 8.929 million barrels.

China's CNOOC Ltd produced 5.1% more oil and gas in the first quarter, mostly due to rising overseas gas production. It said its overall oil and gas production increased to 473,280 barrels of oil equivalent/day in the January to March period. Overseas oil and gas production increased by 60.9% in January to March from a year earlier, while offshore China crude production fell by 3%.

Russia's Rosneft reported a 6.1% increase in its hydrocarbons reserves in 2006. It estimated net proved reserves of 20.089 billion barrels of oil equivalent, including 15.963 billion barrels of oil and 24.758 trillion cubic feet of gas.

Mexico's Pemex said an accident on an oil drilling platform has killed three workers and seriously injured four others. It said the accident happened at a non-producing well and would not affect the company's oil production.

Ecuador's Central Bank reported that the country's oil product export revenue in February totaled \$29.98 million, up 18% on the year. It exported 826,000 barrels in February, up 38% from 600,000 barrels reported last year.

OPEC's news agency reported that OPEC's basket of crudes fell to \$63.50/barrel on Wednesday, down from Tuesday's \$63.76/barrel.

### **Market Commentary**

Trading today's market felt like taking a ride on The Cyclone at Coney Island. The market spent the earlier part of the session making its sluggish climb to the top, gaining momentum off news that Marathon's 115,000 bpd Garyville, LA refinery was experiencing problems. As soon as crude prices made it to the top, they free fell to the lows of the day. The market tumbled as it failed to sustain its gains above the 66.00 level. Middle to back end spreads traded in a tight range, mostly around settlement. The June contract appears to be struggling to hold its strength over July and we could very easily see this spread lose further strength if it settles below -1.40. The target level for this spread at this time is -1.59. The weekly trend lines for June are 65.97 and 64.89. Meanwhile the May RBOB contract settled in positive territory, up 77 points at 229.03. The market extended its gains to over 3.5 cents in light of the further refinery glitches. However the market gave up its gains and breached the morning's upward trendline after Marathon reported that the fire was small and was immediately extinguished. The market retraced more than 62% of its earlier gains as it traded back towards the

228.00 level and settled in a sideways trading pattern. The heating oil market settled down 1.24 cents at 188.91 after it too erased its gains amid the weakness in the crude market. Similar to the rest of the complex, the heating oil breached its early upward trend. The oil complex is seen retracing some more of its gains as the crude market has continued to find resistance at the 66.00 level. The markets' losses will however remain limited as long as the refineries continue to report problems and the gasoline market continues to trend higher. Resistance in the RBOB market is seen at 231.80, 232.50 and 234.00. Meanwhile support is seen at 229.00 followed by 228.00, 226.00 and 220.70.

| <b>Technical levels</b>              |  |   |
|--------------------------------------|--|---|
|                                      | <b>Levels</b>  | <b>Explanation</b>  |
| <b>CL</b><br>65.06, down 78 cents    | <b>Resistance</b><br>66.50, 66.75, 67.05                           | Previous highs  |
|                                      | <b>Support</b><br>66.00, 66.40                                     | Thursday's high   |
|                                      | <b>Support</b><br>64.52, 64.11, 63.70, 63.10, 62.63                | Thursday's low<br>Previous lows   |
| <b>HO</b><br>188.91, down 1.24 cents | <b>Resistance</b><br>191.00, 192.00                                | 192.57<br>Previous high<br>Thursday's high                              |
|                                      | <b>Support</b><br>188.50, 187.62                                   | Thursday's low  |
|                                      | <b>Support</b><br>186.03, 184.60, 184.19, 183.91                   | 38% retracement(176.38 and 192.00), Previous low, 50%, Previous low     |
| <b>RB</b><br>229.03, up 77 points    | <b>Resistance</b><br>232.50, 234.00                                | Previous highs  |
|                                      | <b>Support</b><br>231.80   | Thursday's high   |
|                                      | <b>Support</b><br>229.00, 228.00, 226.00<br>220.70, 218.96, 215.00 | Thursday's low<br>Previous low, 38% retracement(198.20 and 231.80), 50% |