



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JUNE 19, 2007**

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Italy's Eni SpA declared force majeure at the Ogoibi oil flowstation following an attack by militants on Sunday. It said the force majeure was declared on Sunday.

Nigerian union leaders rejected a series of Nigerian government concessions aimed at averting a general nationwide strike. In a late night meeting Monday, the government offered to cut its fuel price by 50% and repeal a hike on the value added tax as well as raise civil service salaries by 15%.

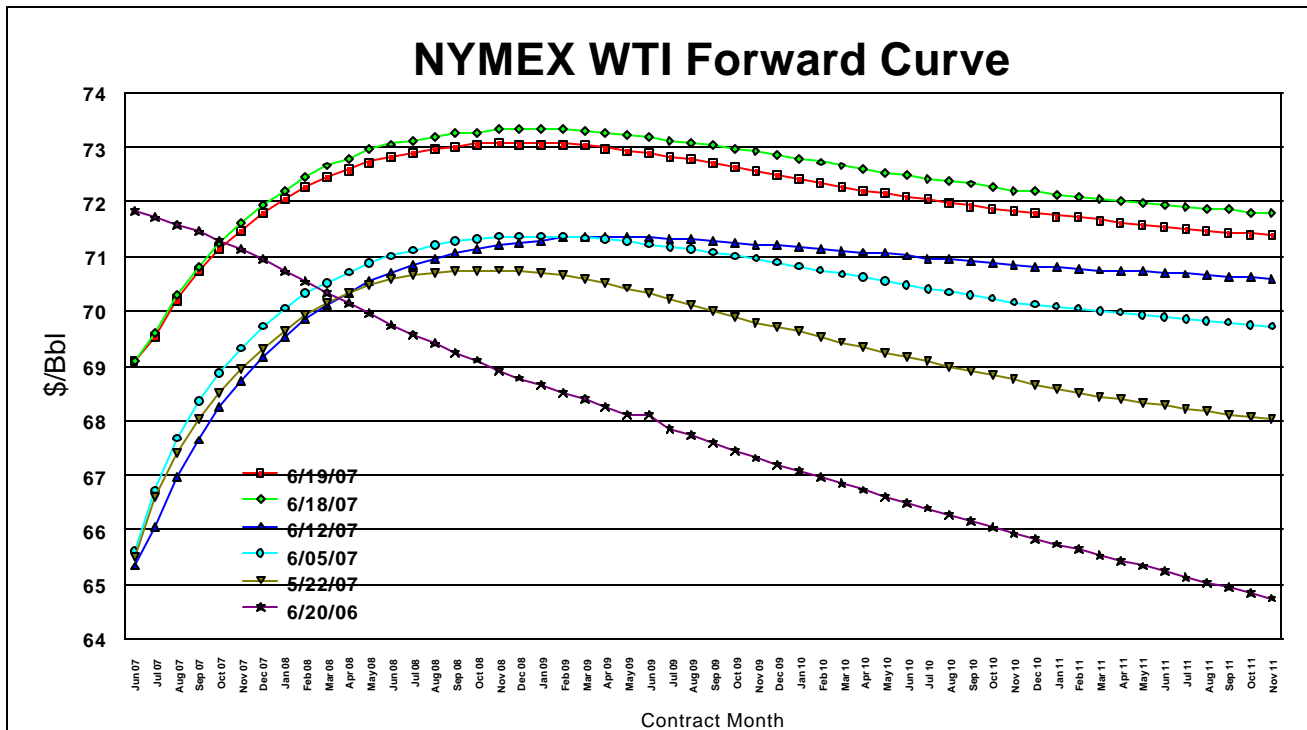
#### Market Watch

Ship brokers stated that ship charters were declining to extend their charters of more than 10 Very Large Crude Carriers used for crude storage in the US Gulf due to a weak crude contango price trend.

Analysts predict that there would be a supply glut in the ethanol industry and cause profit margins to fall, amid the expansion of the industry. The National Corn Growers Association have stated that there would be a temporary oversupply for several months. Lehman Brothers analysts estimated the surplus at 1 million gallons/day starting in the second half of 2007. Archer Daniels Midland Co, the country's largest ethanol producer has an annual capacity of 1.1 billion gallons and has expansion plans that would raise that to 1.6 billion gallons. Meanwhile US BioEnergy, with a capacity of 300 million gallons is expected to expand its capacity by as much as 450 million gallons. Its goal is 1 billion gallons by 2009. VeraSun Energy Corp opened a new plant in April that increased its capacity to 340 million gallons and is expected to increase its capacity to 670 million gallons.

The National Ethanol Vehicle Coalition said that while there are 5 million flexible fuel vehicles on US roads that can handle ethanol based fuel called E85, there are only 1,145 public stations that offer the fuel nationwide. The country's 167,000 retail gas outlets have been slow to invest and offer the fuel because of unknowns in the market. The National Ethanol Vehicle Coalition said E85 needs to be priced proportionally less than standard gasoline to provide the value to drivers.

Spain's renewable energy association APPA said US biodiesel threatened to put European producers out of business and added that governments should take action. German and French producers have noted the loophole in US tax laws that give substantial credits to biofuels that have passed through US ports. Spain has approved mandatory blending levels for plant based biodiesel and bioethanol which should support the industry. However APPA said it would help national producers if refined US biodiesel was coming in below the price of raw vegetable oil in Europe. The association has urged the Spanish government and the European Commission to put pressure on the US to stop giving tax credits of 0.20 euros/liter for biodiesel exports.



However the union leaders said only a full reversal of the price increase by midnight Tuesday would avert a strike on Wednesday. Meanwhile, the militant leader freed on bail, Mujahid Dokubo-Asari said that armed groups in Nigeria would halt attacks on oil installations to give the new government a chance to deal with the region's problems. However he warned that there would not be an immediate end to the seizure of foreign workers.

Iran's Governor to OPEC, Hussein Kazempour Ardebili said Iran would never discard the use of oil as a weapon against the US as long as the US does not denounce the use of force in its standoff with Iran. He however stated that Iran would never initiate the use of oil as a weapon.

Separately, Iran's top nuclear negotiator, Ali Larijani, and European Union foreign policy chief, Javier Solana, are scheduled to meet in Portugal on June 23 for a new round of talks over Iran's nuclear program.

Angola's Oil Minister Desiderio da Graca Verissimo e Costa said the world oil market was healthy and did not need more supplies from OPEC. He said high prices were caused by Nigeria and a lack of refining capacity. He also stated that it was too early to say whether Angola would be bound by an OPEC production quota next year. In regards to Angola's production, he said Angola was facing technical issues that was challenging its ambitions to lift oil output by 20% by next year. Angola's crude production stood at about 1.65 million barrels in May.

The executive director elect of the IEA, Nobuo Tanaka warned that the world was on a pathway of energy trends that was not sustainable, amid the increasing energy demand in Asia in particular. He said the increase in oil demand would intensify world energy security concerns.

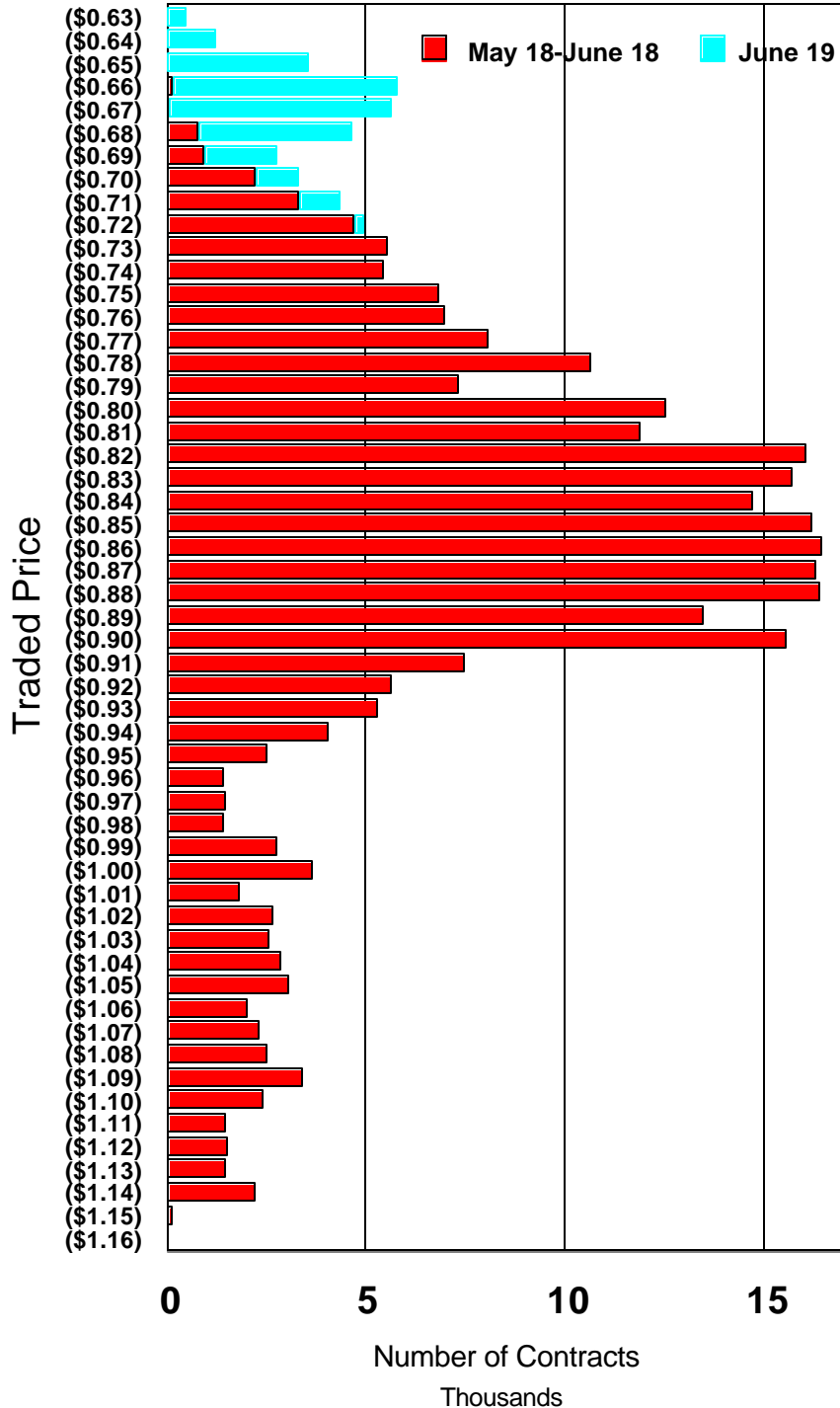
#### **Refinery News**

Alon USA said its fluid catalytic cracking at its 70,000 bpd refinery in Big Spring, Texas was operating at full rates.

## NYMEX WTI: August September Spread

Price Vs Volume for May 18 - June 19, 2007

Trade Weighted Avg: 6/19 -.669 6/18 -.73 6/15 -.78 6/14 -.786 6/13 -.886



### Production News

OPEC's Secretary General Abdalla Salem el-Badri said Ecuador would soon become an active member of OPEC again. It confirmed that the country had recently expressed an interest in rejoining the group.

Petroecuador reported oil export revenues of \$1.259 billion between January and May, down 7% from the \$1.358 billion registered in the same period of last year. Petroecuador exported 26.22 million barrels of crude oil in the first five months, down 2% from 26.79 million barrels reported last year.

Ecuador's Central Bank reported that Ecuador's average oil production fell by 8% to 502,067 bpd in April from 545,967 bpd last year. Petroecuador's oil production averaged 250,933 bpd in April, while private companies' oil production averaged 251,134 bpd.

OPEC's news agency reported that OPEC's basket of crudes increased by 51 cents/barrel to \$67.90/barrel on Monday.

### Market Commentary

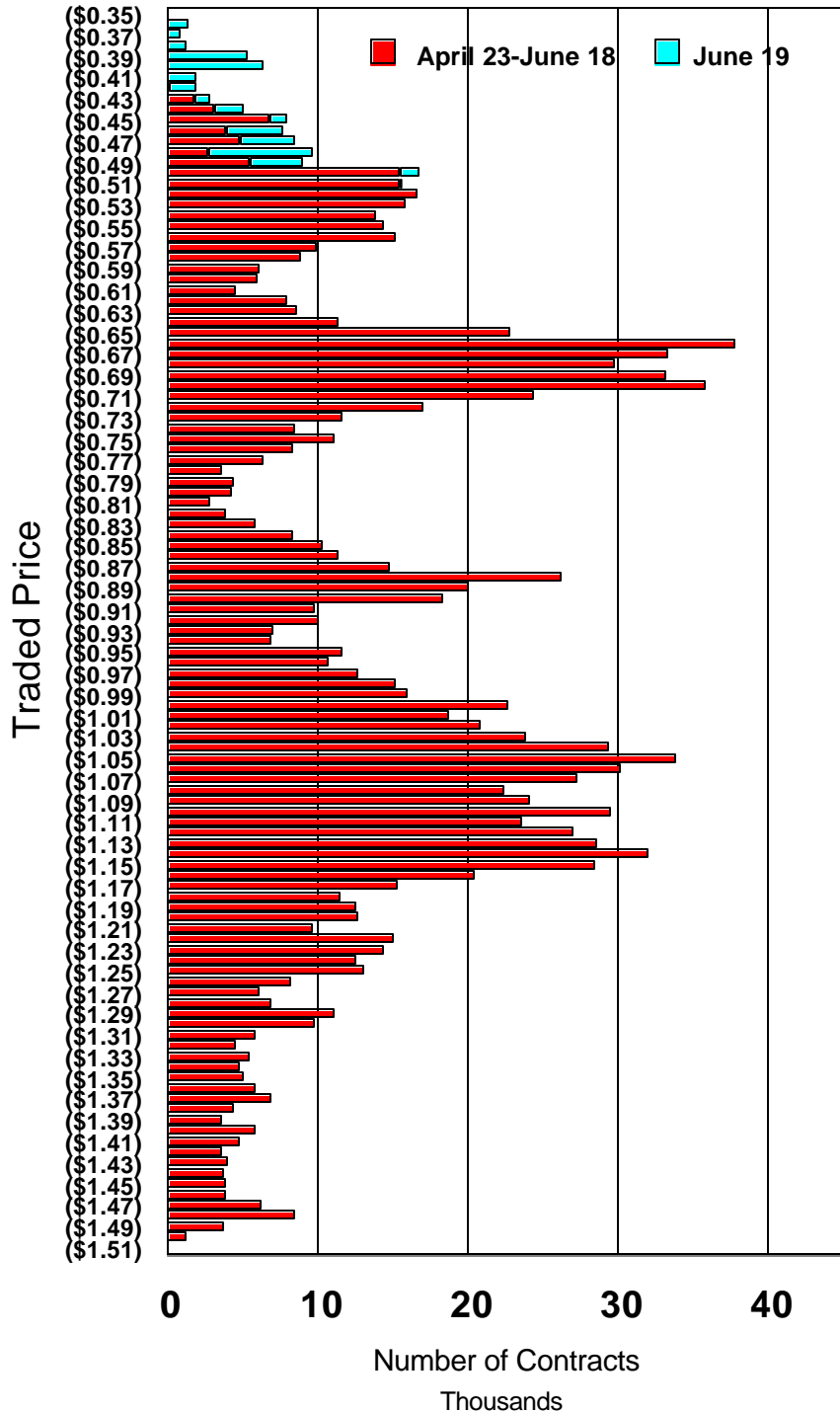
With July going off the board tomorrow, August will become the spot month. This contract stopped dead; right on the projected high (69.97) basis the inverse head and shoulders pattern on the spot continuation chart. Currently, this market is poised to go higher, which should make

our bulls happier than they already are. The initial upside objective is 70.45, with 71.10 behind that.

## NYMEX WTI: July August Spread

Price Vs Volume for April 23 - June 19, 2007

Trade Weighted Avg: 6/19 -.446 6/18 -.55 6/15 -.50 6/14 -.546 6/13 -.665



Here is a gap on the spot continuation chart set between 71.10 and 72.39. Support is set at 69.20, 68.90, 68.20, 67.95 and 67.40. The Dec07/Dec08 spread met our target of -1.55 capturing an additional 10 cents before running out of steam. Given the current bullish sentiment, we still feel that this spread has further strength in it and the next target would be -1.34. Open interest continued to fall by a total of 3,813 contracts, with open interest in the July contract falling by 27,473 contracts ahead of its expiration on Wednesday. Meanwhile, the product markets ended in negative territory in light of the expectations that the weekly petroleum stock reports would show builds across the board. The RBOB market remained in negative territory throughout the session as it posted a high of 226.25 in overnight trading. The market breached its support levels and sold off to a low of 221.40 early in the session. However the market later bounced off that level and rallied back towards the 225.50 level as the crude market retraced its losses on the supportive Nigerian news. The RBOB market retraced some of its gains and settled down 2.97 cents at 223.46. The heating oil market posted an inside trading day as traders positioned themselves ahead of the weekly inventory reports. The market posted a high of 203.40 in overnight trading. It however sold off to a low of 201.50 by mid-day before it retraced its losses and settled in a sideways trading pattern. The product markets is initially

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<b>Technical levels</b>		
	<b>Levels</b>	<b>Explanation</b>
<b>CL</b> 69.10, up 1 cent	<b>Resistance</b> 70.45, 71.10	Tuesday's high(August)
	<b>Support</b> 69.97	
<b>HO</b> 202.68, down 74 points	69.20, 68.90	Tuesday's low
	68.20, 67.95, 67.40	Previous low
<b>RB</b> 223.46, down 2.97 cents	204.27, 206.75	Previous highs
	203.40	Tuesday's high
<b>RB</b> 223.46, down 2.97 cents	202.25, 201.50	Tuesday's low
	199.49, 198.41, 196.60, 195.71, 194.78	Previous low, 38%(188.92 and 202.68), 50%, Previous low, 62%
<b>RB</b> 223.46, down 2.97 cents	227.85, 227.96, 231.90	Previous highs, Double top
	226.25	Tuesday's high
<b>RB</b> 223.46, down 2.97 cents	223.10, 222.55, 222.00, 221.40	Tuesday's low
	221.16, 219.06, 216.96, 215.00	38% (210.16 and 227.96), 50%, 62%, Previous low

seen trading lower early in the session amid the expectation of inventory builds. However the losses will be limited as the crude market lends some support in light of the possibility of a strike in Nigeria. The RBOB market is seen finding support at 223.10, 222.55, 222.00 and 221.40. More distant support is seen at 221.16, 219.06, 216.96 and 215.00. Support is seen at 226.25 followed by 227.85, 227.96 and 231.90.