



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JUNE 20, 2007

Nigeria's labor unions launched a general strike to protest government fuel price increases. The unions, including Nigerian oil workers, rejected concessions made by Nigeria's new President Umaru Yar'Adua's government aimed at averting the strike. Unions spared oil production and exports on the first day of the strike but threatened to withdraw key staff of sector regulator, the Department of Petroleum Resources from oilfields and shipping terminals on

Market Watch

An Alaska North Slope crude cargo for August delivery was sold on Wednesday at \$1.80 over the NYMEX WTI. It strengthened the ANS/WTI differential by 20 cents.

Venezuela's Energy Minister Rafael Ramirez said he expected negotiations on the nationalization of oil projects between Venezuela and oil majors to end this week, bringing forward by a few days a deadline the government set for the takeover of their four heavy crude upgrading investments in the Orinoco oil belt. The government has given the companies a Saturday deadline to end negotiations, rather than the original official final date of Tuesday. In regards to OPEC, Venezuela's Energy Minister said OPEC did not need to increase production from current levels. He said Venezuela has cut a total of 195,000 bpd of production. He said high oil prices were due to geopolitical tensions and refining problems in the US rather than oversupply.

The UK Met Office issued its hurricane season forecast calling for ten named storms for the remainder of the season or a total of 12. Its forecast for 10 storms for July through November was below the average of 12.4 for the active hurricane period that began in 1995 and well below the predictions of the other major seasonal forecast teams.

The Netherlands Environmental Assessment Agency said China has overtaken the US as the top emitter of carbon dioxide due to increasing energy use amid its economic boom. Other experts have estimated that China would only surpass the US in coming years. It stated that China's 2006 carbon dioxide emissions surpassed those of the US by 8%. China's carbon dioxide emissions totaled 6.2 billion tons in 2006. US emissions totaled 5.8 billion tons last year. Separately, the UK Foreign Office said China was building about two power stations every week. He said there was no point blaming China for rising global carbon dioxide emissions.

The US Senate on Tuesday approved a plan that would enable the federal government to sue OPEC for price manipulation. However the White House has threatened to veto the measure while opponents of the bill warned that OPEC could retaliate by cutting their exports. The Senate approved the attachment of the proposal to energy legislation it is expected to vote on by the end of the week. Even if it became law, the Bush administration's Justice Department would have to initiate any lawsuit.

DOE Stocks

Crude – up 6.9 million barrels

Distillate – up 100,000 barrels

Gasoline – up 1.8 million barrels

Refinery runs – down 1.6%, at 87.6%

Thursday. Oil companies deployed managers to maintain essential operations. Nigeria's senior staff oil union, Pengassan said it would withdraw its members from crude export terminals by midnight on Wednesday. Meanwhile, Chevron Corp said oil production at its facilities in Nigeria was not affected by the strike.

Iran's top nuclear negotiator Ali Larijani is scheduled to meet with the UN's IAEA director Mohamed ElBaradei on Friday. They are expected to discuss the continuation and strengthening of cooperation between the IAEA and Iran. Separately, Iran's top nuclear negotiator denied the country's Revolutionary Guards have any connections to Iran's nuclear program and said UN sanctions on commanders of the force would only increase their status.

US Energy Secretary Sam Bodman said slow fuel production from the country's oil refineries in the face of increasing prices has been disappointing. Refinery activity fell 1.6% last week to 87.6% of capacity, which is below normal for this time of the year.

The EIA stated that US refiners have started cutting their inventories of heating oil as new federal environmental regulations cut demand. It said the limits on sulfur content in heating oil and diesel have led to a sharp decline in demand for the high sulfur fuel, leading refiners to reduce their inventories of heating oil and build inventories of diesel. Since June, EPA regulations required all non-road locomotive and marine users to use distillate fuel with less than 500 parts per million of sulfur.

The AAA said the average retail price of gasoline in the US fell below \$3/gallon after nearly a month of declines from the \$3.227/gallon peak price seen on May 24.

Refinery News

A fluid catalytic cracking unit at Murphy Oil Corp's Meraux, Louisiana refinery has been experiencing problems since last week. A spokesman said the unit should be operating normally by the weekend.

BP Plc was restarting a de-ethanizer tower within alkylation unit 3 at its Texas City, Texas refinery on Wednesday. The restart was expected to last through the day.

Valero Energy Corp said it was restarting its fluid catalytic cracking units at its Krotz Springs, Louisiana refinery and at its Houston, Texas refinery on Wednesday. The two units were shut on June 5 and resulted in a loss of about 25,000 bpd of gasoline production at its Krotz Spring refinery and 40,000 bpd at its Houston refinery for more than two week. Separately, Valero said it was checking a saturated gas recovery unit at its 325,000 bpd Port Arthur, Texas refinery for a propane leak.

ExxonMobil's refinery in Baton Rouge took several units offline for two days during the past week. A hydrocracker, hydrofiner and several light ends units were shut following a problem with a pair of pumps that are used to provide steam to the units. The source could not say how significantly the unit outages impacted crude runs at the 501,000 bpd refinery.

Crude oil refining in Russia increased by 5.2% on the year to 92.39 million metric tons in January-May. In May, oil refining increased by 5.4% on the year to 18.514 million tons. Meanwhile, Russia's Industry and Energy Ministry reported that Russia's diesel fuel exports fell by 1.2% on the year to 2.908 million tons in May.

Nippon Oil Corp is expected to refine about 10% more crude in July than a year earlier, as its refineries return from maintenance and outages. It processed 4.3 million kiloliters or 901,000 bpd of crude last July. The company said last month it planned to process 3.9 million kl or 797,000 bpd.

South Korea's S-Oil Corp is not expected to export gasoline in July due to refinery maintenance. It recently shut its 65,000 bpd residual fluid catalytic cracking unit for month long maintenance. The unit would resume operations in mid-July.

Production News

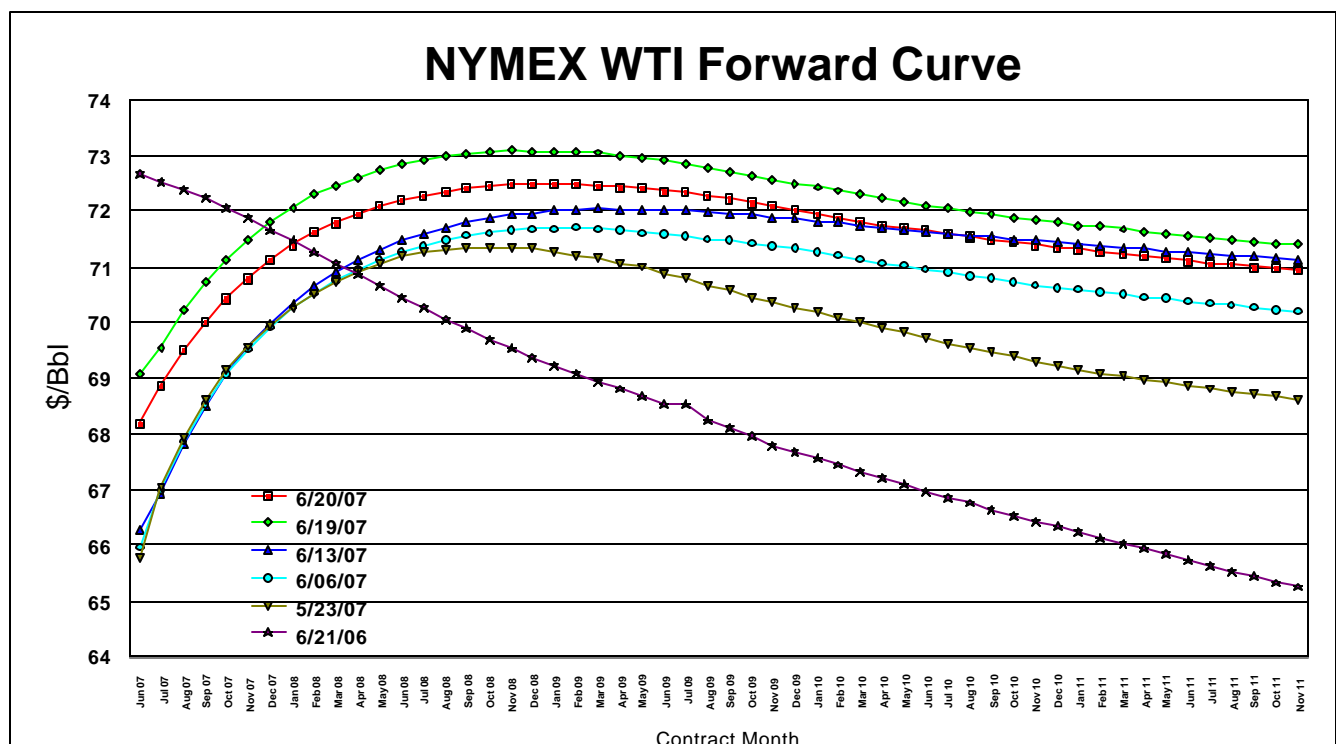
The Shetland Island Council said Brent crude oil liftings in the week ending June 19 fell to 166,643 tons, down from 172,058 tons in the previous week.

According to the Aberdeen Petroleum Report, UK oil production increased by 5.2% on the month to 1.583 million bpd in March.

Production at Venezuela's Corocoro oilfield has been delayed a few months until September as PDVSA takes over operations. The delays underscore the challenges facing PDVSA as it starts managing projects that were set up by international oil companies. Initial production was expected to start in June however PDVSA has yet to complete the fourth of ten wells needed to start pumping oil.

Iran's Foreign Minister Manouchehr Mottaki pressed for a larger territorial stake in the Caspian Sea during a meeting Wednesday of nations bordering the sea. Iran has insisted that any new agreement should give an equal portion of the seabed for each of the five countries, while most other countries want the division based on shoreline, which would give Iran a smaller share. Russia, Kazakhstan and Azerbaijan signed their own bilateral deals dividing 64% of the sea between them. However Iran does not recognize the agreements.

China National Aviation Fuel Holding Co is expected to import 4.3 million tons of jet fuel in 2007 compared with 4.9 million tons last year as added refining capacity increases its output. Official data



showed that China's imports in the first four months of the year increased by less than 7% on the year while output increased by 15%.

The Petroleum Association of Japan reported that the country's gasoline stocks fell by 350,000 barrels to 12.84 million barrels in the week ending June 16 as refinery runs fell and demand remained low. It also reported that crude stocks built by 6.76 million barrels to 113.17 million barrels while kerosene stocks built by 700,000 barrels to 15.37 million barrels on the week. Japan's refiners ran their facilities at an average rate of 72.7% of total capacity of 4.83 million bpd, down 1.1% on the week.

South Korea's Korea National Oil Corp reported that crude stocks stood at 22.949 million barrels in May, up from 19.797 million barrels in April and 13.469 million barrels last year. Its oil product stocks stood at 48.829 million barrels, up from 43.3 million barrels in April. It also reported that South Korea's crude imports increased to 78.056 million barrels, up from 68.085 million barrels last month and 77.703 million barrels last year. Domestic oil products demand in May increased by 4.4% on the year to 63.76 million barrels.

The head of India's Directorate General of Hydrocarbon said India was planning to offer 80 oil and gas blocks in August in the seventh round of auctions under the New Exploration Licensing Policy. He said the blocks to be offered in the round would mostly be off the western coast of India.

Australia's Santos Ltd said the startup of Indonesia's Oyong oil field has been deferred to the third quarter, bringing delays to get the field on stream to a full year. First oil from the offshore field in East Java is expected late in the third quarter at a 5,000-8,000 bpd rate.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$68.23/barrel on Tuesday from Monday's \$67.90/barrel level.

Market Commentary

Bulls took a breather today in reaction to the DOE/API numbers, with the August contract topping out at 69.60, which is a double top on the spot continuation chart. Crude oil stocks rose 6.9 million barrels on the week, the largest one-week gain since March 19th. Although this provides for a bearish sentiment, this could be short lived and provide us with a buying opportunity. As long as the August contract can remain above 67.66 on settlement, we would not change our bullish stance. The objective to the upside still remains 70.45, with possible gains to 71.10. Support is set at 68.24, 67.66, 67.40, 67.16 and 66.40. Resistance is set at 69.59, 70.00, 70.45, 71.10, 71.90 and 72.39. Meanwhile, the products markets ended well off their lows after the markets retraced their earlier losses. The RBOB market,

which posted a high of 223.59 in overnight trading, breached its support levels as it sold off sharply in light of the bearish DOE report. The

Technical levels		
	Levels	Explanation
CL 68.86, down 68 cents	Resistance 70.00, 70.45, 71.10, 71.90, 72.39 68.95, 69.60	Wednesday's high
	Support 68.24, 67.65 67.40, 67.16, 66.40	Wednesday's low
HO 203.39, up 71 points	Resistance 204.27, 206.75 203.55	Previous highs Wednesday's high
	Support 202.75, 201.91, 201.40, 200.89 199.25, 195.71	Wednesday's low, Previous low
RB 222.81, down 65 points	Resistance 226.25, 227.85, 227.96, 231.90 223.59	Previous highs, Double top Wednesday's high
	Support 222.25, 219.55, 218.75 217.43, 215.00	Wednesday's low, Previous low

market extended its losses to over 6 cents as it posted a low of 217.43. The market however bounced off that level and retraced its losses. While the reports did show builds in stocks, refinery runs fell by 1.6% on the week. The RBOB market traded back towards the 223.00 level late in the session and settled down 65 points at 222.81. Unlike the rest of the complex, the heating oil market settled in positive territory, up 71 points at 203.39. The market sold off to a low of 199.25 early in the session before it bounced off that level and rallied to a high of 203.55 ahead of the close. The product markets may retrace some of its gains early in the session. However the losses are seen limited as the market will likely continue to focus on the fall in refinery runs. The RBOB market is seen finding support at 222.25, 219.55, 218.75 followed by its lows of 217.43 and 215.00. Meanwhile resistance is seen at 223.59, 226.25, 227.85, 227.96 and 231.90.

Intersting to note that the interest in the December calls continued to blossom once again for the second day in a row in both the 2007 and 2008 contracts.

NYMEX Petroleum Options Most Active Strikes for June 20, 2007								
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	8	7	C	69.5	07/17/2007	1.59	6,140	25.35
LO	8	7	P	69.5	07/17/2007	2.22	6,120	25.26
LO	12	8	C	100	11/17/2008	1.28	4,400	23.36
LO	8	7	P	65	07/17/2007	0.57	4,310	26.39
LO	12	7	C	100	11/13/2007	0.25	3,755	30.99
LO	12	8	P	60	11/17/2008	3.22	3,650	26.97
LO	8	7	P	60	07/17/2007	0.14	2,535	32.27
LO	12	7	C	75	11/13/2007	2.95	2,500	26.46
LO	8	7	C	75	07/17/2007	0.33	2,478	27.32
LO	8	7	C	80	07/17/2007	0.12	2,135	32.49
LO	9	7	C	90	08/16/2007	0.08	2,001	32.35
LO	12	7	C	85	11/13/2007	0.96	2,000	27.27
LO	8	7	C	72	07/17/2007	0.74	1,942	25.13
LO	9	7	P	65	08/16/2007	1.17	1,927	27.36
LO	12	7	C	70.5	11/13/2007	4.75	1,875	26.69
LO	6	8	C	80	05/15/2008	3.51	1,650	24.44
LO	6	8	P	60	05/15/2008	2.47	1,650	28.63
LO	12	7	P	70.5	11/13/2007	4.45	1,625	26.64
LO	10	7	C	75	09/17/2007	1.75	1,511	26.42
LO	9	7	P	62	08/16/2007	0.64	1,500	29.30
LO	12	8	C	80	11/17/2008	4.37	1,450	22.50
LO	10	7	P	65	09/17/2007	1.63	1,326	27.31
LO	9	7	P	61	08/16/2007	0.52	1,310	29.98
LO	8	7	P	59	07/17/2007	0.11	1,283	33.71
LO	12	7	P	66	11/13/2007	2.64	1,250	27.54
OB	10	7	C	1.98	09/25/2007	0.1472	556	32.68
OB	12	7	C	1.91	11/27/2007	0.1583	556	29.80
OB	7	7	P	2.06	06/26/2007	0.0019	328	36.30
OB	7	7	C	2.5	06/26/2007	0.0003	250	36.91
OB	8	7	P	1.8	07/26/2007	0.0032	237	35.53
OB	7	7	P	2.2	06/26/2007	0.0279	212	35.76
OB	7	7	C	2.28	06/26/2007	0.0205	200	35.91
OB	9	7	C	2.4	08/28/2007	0.0499	157	35.26
OB	8	7	P	2.05	07/26/2007	0.0354	155	34.22
OB	12	7	P	1.5	11/27/2007	0.02	150	32.30
OB	8	7	P	1.95	07/26/2007	0.0155	150	34.76
OB	8	7	C	1.95	07/26/2007	0.2621	150	35.38
OH	12	7	P	2.02	11/27/2007	0.1129	325	29.47
OH	8	7	P	1.8	07/26/2007	0.0074	200	29.92
OH	12	7	P	2.14	11/27/2007	0.1701	200	29.28