



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 3, 2007

Venezuela's Energy Minister Rafael Ramirez said the current oil prices, which increased above \$72/barrel, was not due to a lack of crude supply. It said it was the result of political factors and limited refining capacity.

Separately,

Venezuela's Energy Minister also stated that Venezuela agreed to sell gasoline to Iran, a week after Iran imposed a fuel rationing program that has sparked violence.

Market Watch

Brazil's Petrobras made a new proposal to unions aimed at avoiding a strike that could start Thursday. The strike would impact production, as well as refining and distribution. Union directors are expected to decide on Wednesday whether to accept Petrobras' proposal or proceed with a five day strike that could begin any day starting with Thursday.

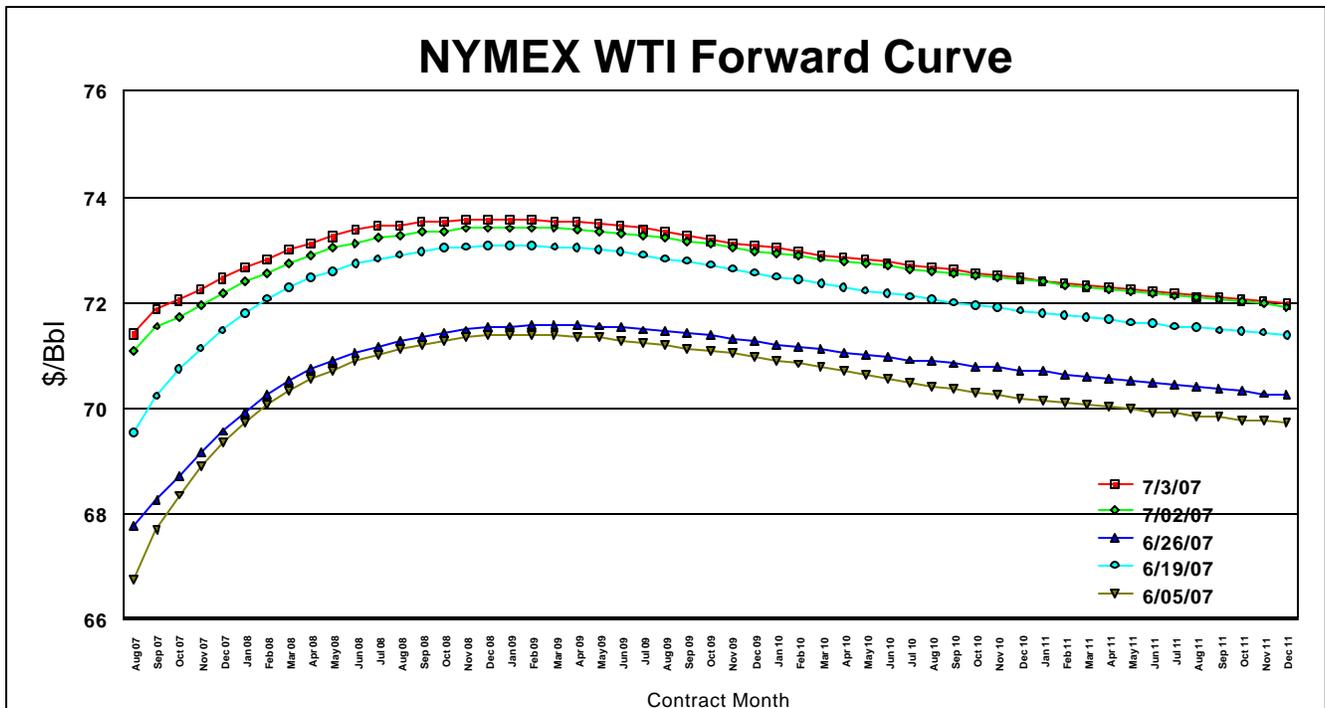
An Iranian official said the nuclear power plant Russia is building at the southern port of Bushehr would be completed by September. He said Iran hoped to start operations shortly thereafter.

Kuwait booked oil income of 22.35 billion Kuwaiti dinars or 477.57 billion from 2006 to 2007, up 8.5% on the year.

Tentative moves by Nigeria's new government to subdue attacks on the oil industry have drawn mixed reactions from rebel factions in the Niger Delta. A one-month truce declared by the Movement for the Emancipation of the Niger Delta, responsible for most of the attacks that have shutdown about 25% of the country's oil production capacity, expires on Tuesday. Some militant factions have lauded President Umaru Yar'Adua's efforts and the release on bail of a former militia leader. However others have said they were disappointed and have reiterated demands for much greater concessions from the government, especially resource control or the right of Niger Delta communities to control oil revenues from their lands. The Movement for the Emancipation of the Niger Delta said it was not extending a one month cease fire and added that more attacks may be on the way because of a June clash with the Nigerian military.

Iraq's cabinet approved changes to a draft hydrocarbon law on Tuesday and would submit the bill to parliament following months of disputes between the central government and Kurdish officials. An Iraqi official said an oil council would be formed to draw up oil policy and approve all contracts. The council would allow regions and provinces to hold talks with oil firms but approval of contracts would be authorized by the central government through the council.

Refinery News



Coffeyville Resources LLC's Kansas oil refinery remained flooded Tuesday after it shutdown over the weekend, making it difficult for company officials to fully assess the damage. There was no restart timeline.

Calgary's TransCanada Corp said it would expand the Keystone Oil Pipeline project to 590,000 bpd after securing an additional 155,000 bpd of firm contracts for the proposed project from Hardisty, Atlanta to Cushing, Oklahoma. It has now secured long term contracts for a total of 495,000 bpd with an average duration of 18 years. The Keystone Pipeline would have an initial nominal capacity to transport about 435,000 bpd of crude to the US Midwest markets at Wood River and Pakota, Ill when it begins operations in late 2009.

Finland's Neste Oil said the new diesel unit at its 200,000 bpd Porvoo refinery has yet to begin shipping the fuel, as the product does not yet meet required quality specifications. The new production line, with capacity to produce over 1 million tons of diesel annually, began operations in June.

More than 20 companies are expected to submit bids for Kuwait's planned 615,000 bpd al-Zour oil refinery. In May, Kuwait doubled the planned budget to \$12 billion for the plant.

Production News

ConocoPhillips said its second quarter production is expected to have declined due to scheduled maintenance in the North Sea, exiting from operations in Dubai, asset sales and seasonality dips in Alaska.

According to a Reuters survey, the ten OPEC members produced 26.64 million bpd in June, up 50,000 bpd on the month. Their production was 1 million bpd less than in October or about 59% of the total production cut pledged. Total OPEC production fell slightly to 30.19 million bpd from 30.2 million bpd in May.

According to a Dow Jones survey, the ten OPEC members increased their oil production by 65,000 bpd on the month to 26.9 million bpd in June. They produced about 1.02 million bpd above the group's

target of 25.88 million bpd. It reported that total OPEC production increased by 101,000 bpd to 30.63 million bpd in June. Saudi Arabia's production fell by about 100,000 bpd to 8.65 million bpd.

Australia's BHP Billiton Ltd declared force majeure on a 650,000 barrel cargo of July loading Australian Cossack crude due to production problems on the oilfield.

China is expected to keep its gas oil exports low in July at just 10,000 tons as state refiners strive to meet peak domestic demand.

Pertamina reported that Indonesia is set to cut its imports of oil products to 10.4 million barrels in August. It is expected to import 5.4-6 million barrels of gas oil, 3.4 million barrels of gasoline and about 600,000 barrels of kerosene in August.

OPEC's news agency reported that OPEC's basket of crudes increased by 76 cents/barrel to \$68.64/barrel on Monday.

Market Commentary

Crude experienced a strong close ahead of the July 4th holiday, and delayed API/DOE numbers. Technically, we are still looking for upside numbers and a fill of the gap between 71.44 and 72.38. Bare in mind however, that the August contract is trading in uncharted numbers for that particular contract, and any targets to the upside could be thin, causing prices to retreat, prior to further advancement. Resistance is set at 71.90, 72.38 and 72.97 with support set at 70.51, 69.54, 69.29, 68.79 and **66.70**. Although our stance is bullish, we would look for the September contract to gain against the August. This we feel is due to the floods out west, which will lead to a backlog of crude. We would look for this spread to move out to -.65 and possibly -.92, where we would re-evaluate our stance. We would continue to look for a flattening of the curve and would like to buy the Dec07 and sell the Dec 08, looking for a test of the -.61 level again. The product markets, which also saw lighter volume ahead of the holiday, settled in positive territory. The RBOB market posted a low of 223.20 early in the morning and never looked back as the market remained ahead of the holiday. The RBOB market remained well supported by the outages at the Coffeyville Resources refinery in Kansas and the Flint Hills Resources refinery in Texas. It rallied to a high of 226.88 in afternoon trading and settled in a sideways trading pattern ahead of the close. It settled up 1.57 cents at 226.44. The heating oil market, which posted a low of 205.21, bounced off that low and held good support above the 205.50 level during the open outcry session. It rallied to a high of 207.45 before it retraced some of its gains ahead of the close and settled up 44 points at 206.62. The RBOB market will likely remain supported ahead of the release of the weekly petroleum stock reports on Thursday. It is seen finding support at

226.00,
224.50,
223.20 and
219.06.
Resistance
is seen at
226.88,
227.31,
227.55 and
227.77.

		Levels	Explanation
CL	Resistance	71.90, 72.38, 72.97	Tuesday's high
	71.41, up 32 cents	71.44	
	Support	71.15, 70.85, 70.71	
HO	Resistance	207.48, 210.23	Previous high, basis trendline Tuesday's high
	206.62, up 44 points	207.45	
	Support	206.40, 205.85, 205.50, 205.21 202.94, 202.25, 198.08, 196.60	Tuesday's low Previous lows
RB	Resistance	227.31, 227.55, 227.77	Previous highs Tuesday's high
	226.44, up 1.57 cents	226.88	
	Support	226.00, 224.50, 223.20 219.06	Tuesday's low Previous low