



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 9, 2007

Algeria's Energy and Mines Minister Chakib Khelil said oil prices are expected to remain high. However he stated that the prices would subside after the summer season. He also stated there was not much OPEC could do to bring down high oil prices as world oil stocks were already sufficient.

The IEA stated that world oil demand would increase by an average 2.2% a year between

2007 and 2012, up from a previous medium term forecast of 2%. The IEA's previous medium term report called for world demand growth of 2% a year between 2006 and 2011. It estimated that world demand to reach 95.8 million bpd, up from 86.1 million bpd in 2007. It also stated that world production of biofuels would reach 1.75 million bpd by 2012, more than double 2006 levels. The IEA cut its forecast for supply from non-OPEC producers by 800,000 bpd in 2011, partly because of project delays. It said demand for OPEC crude would increase to 34.7 million bpd in 2011, up 1.3 million bpd from the previous projection. The IEA also stated that OPEC member countries are set to become

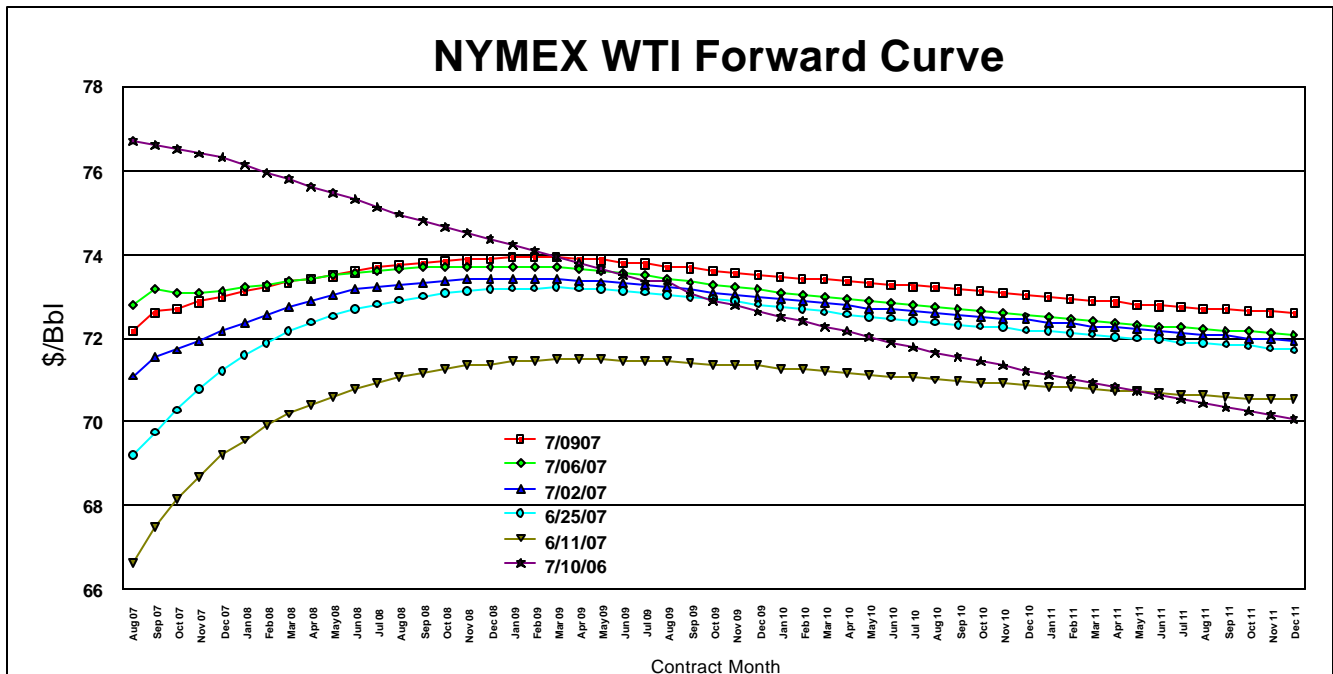
Market Watch

Prosecutors alleged that a man who sympathized with al Qaeda plotted to blow up US energy installations. He believed gasoline prices could reach astronomical levels if he succeeded in attacking the Alaska pipeline or the Transcontinental Pipeline connecting the Gulf of Mexico and the US Northeast.

A Kuwaiti newspaper, Alam Alyawm reported that several Kuwaiti deputies have threatened not to approve this year's national budget if the government fails to disclose the size of its oil reserves. Parliament is expected to approve the budget by the end of its final session on Wednesday. The size of the oil reserve has been a sensitive issue in Kuwait since Petroleum Intelligence Weekly said in January 2006 it had seen internal records showing they were about 48 billion barrels, half the officially stated 99 billion barrels.

China's Datang International Power Generation Co Ltd said its power generation increased by 35.5% in the first half of the year. It generated 56.042 billion kilowatt hours of electricity in January-June.

Market analysts stated that proposals to increase government oversight of the energy markets, particularly the over the counter trading, was unlikely to reduce volatility in those markets. The Democratic led Congress has been considering legislation that would give the CFTC greater authority over energy trading and require more public disclosure of over the counter trading. They stated that increased speculation in the markets may actually curb large price swings by increasing liquidity in the markets. They added that requiring traders on ICE to report their positions could help explain market movements but such disclosure alone was not likely to have an impact on volatility.



suppliers of the marginal barrel of oil products such as gasoline or diesel by 2012. Investments in new refineries in Saudi Arabia as well as Kuwait and Iran, look set to result in 51% of world refining capacity lying in non-OECD regions by 2012, up from 48%. China is expected to add four times more refining capacity in 2008 than it would this year. China is forecast to open up 706,000 bpd of new refining capacity in 2008, nearly half of the predicted 1.492 million bpd that would be added globally. It said the world fuel oil markets may tighten over the coming years as refineries produce less of the product and use it as a feedstock to make higher value fuels such as diesel. In regards to resource nationalism, the IEA stated that it restricted access to a country's oil reserves and could backfire by cutting investment.

Iraqi Foreign Minister Hoshiyar Zebari said the Turkish army had 140,000 soldiers along its border with northern Iraq as part of a mobilization. Turkey's armed forces have urged the government to allow an incursion into northern Iraq to crush up to 4,000 Turkish Kurdish militants who use the region as a base to attack security and civilian targets inside Turkey. Iraq's Foreign Minister said Iraq wanted talks to resolve the issue.

Separately, Iraqi leaders warned on Monday that an early US troop withdrawal could tip Iraq into all out civil war following a New York Times report stating that disagreements were growing in the White House over the scaling back of forces. Iraqi officials said the country's own security forces were not ready and warned a premature withdrawal of some of the US troops could produce a security vacuum. The New York Times reported that Bush administration officials fear that political support among US Senate Republicans for President Bush's Iraq strategy was collapsing around them. Administration officials said it appeared forces were converging against President Bush just as the Senate prepares this week to begin a debate on the war's future and financing.

Iran's President Mahmoud Ahmadinejad said Iran was ready to hold more talks with the US to help secure Iraq.

The director of the UN's IAEA, Mohammed ElBaradei said Iran has slowed the installation of centrifuge machines that enrich uranium for its nuclear program. He said agency inspectors who visited Iran's underground enrichment plant at Natanz last week found it was scaling back its expansion in

operations. However he could not say whether the slowdown would affect Iran's timetable to have 3,000 centrifuges running by the end of July. Senior IAEA officials are scheduled to visit Iran for talks on a plan of action to clear up longstanding IAEA questions about the nature of Iran's program.

The British government said it would maintain its tough stance on Iran's nuclear ambitions. Britain's Foreign Secretary David Miliband said that the Iranian regime did not have the right to set off a nuclear arms race in the Middle East. The UK is expected to proceed with a third UN resolution that would tighten sanctions, if necessary.

The Movement for the Emancipation of the Niger Delta said the abduction of a three year old British girl was unrelated to political violence and the struggle over oil revenues would continue. The girl was released on Sunday night after four days of captivity. Separately, gunmen attacked oil installations in southern Nigeria and kidnapped two senior employees of Royal Dutch Shell Plc late Sunday.

The EIA reported that the US average retail price of gasoline increased by 2.2 cents/barrel to \$2.981/gallon in the week ending July 9. It also reported that the average retail price of diesel increased by 2 cents/gallon to \$2.849/gallon on the week.

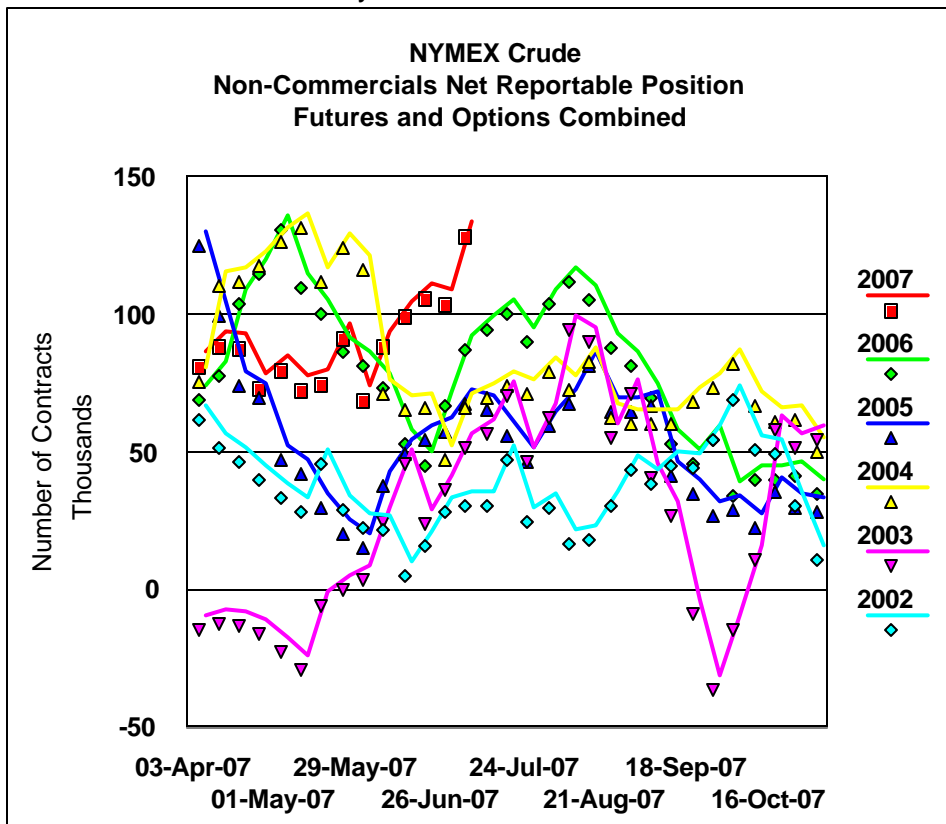
Refinery News

BP has shutdown the largest of three crude distillation units at its 410,000 bpd refinery in Whiting, Indiana to fix a leak. It said work on the 250,000 bpd unit was unplanned, adding that the unit was brought down slowly which allowed stockpiling of barrels to feed its fluid catalytic cracking unit. Repairs are seen completed within 7-10 days.

The floodwaters have mostly receded at Coffeyville Resources LLC's Kansas refinery. Damage inspection and assessment have been underway. There were no estimates for when assessment of the 108,000 bpd refinery would be finished or when it may restart.

Valero Energy Corp said it was returning units to normal at its Texas City, Texas refinery following a power outage on Friday while repairs continued on a fluid catalytic cracking unit at its refinery in Ardmore, Oklahoma. The duration of the outage was not known. Fuel production lost during the outage is estimated at 30,000 bpd of gasoline and 15,000 bpd of diesel.

According to the Texas Commission on Environmental Quality, sulfur recovery units 1 and 2 at Delek US Holding Inc's 58,000 bpd refinery in Tyler, Texas were shut for



about an hour on Sunday. The units were shut due to a brief power outage.

According to a report filed with California's Governor's Office of Emergency Services, Chevron Corp was attempting to restart its 51,000 bpd hydrocracker unit at its 260,000 bpd refinery in El Segundo, California on Monday. It stated that a compressor malfunctioned. The affected unit is the plant's isomax unit.

BP said its Spanish refinery was restarted again on time after it was closed for maintenance since May 20. It however said one of five units at the 110,000 bpd Castellon refinery would not resume operations until the middle of next week and until then the refinery would be running at about 80% of capacity.

Indonesia's Pertamina has restarted operations at its Balongan refinery following a power outage on Friday. Output at the 125,000 bpd stood at 40% of capacity and is expected to reach 100% by Wednesday. The brief shutdown mainly affected its gasoline production. Its gasoline stocks are estimated to be able to cover needs for the next 18-19 days.

Production News

Apache Corp said two North Sea oil platforms linked to the Forties crude system would undergo scheduled maintenance starting August 10, causing the deferment of 320,000 barrels.

Iraq's South Oil Co has issued a new tender to drill or complete drilling 16 oil wells in southern Iraq. It said the closing date for companies to offer their bids is the close of business on July 10.

Iraq's Oil Minister Hussein al-Shahristani said the Iraqi oil industry was subjected to nearly 160 attacks by insurgents and saboteurs last year. Iraq's oil exports were cut by about 400,000 bpd. Iraq's oil production during the fiscal year that ended July 1 averaged 1.964 million bpd compared with 1.853 million bpd a year earlier. Its exports stood at an average of 1.552 million bpd, up from 1.407 million bpd in the previous year.

Venezuela's Energy Minister Rafael Ramirez said production in the country's Orinoco heavy crude belt stood at 418,000 bpd. The country's total production stood at 3.07 million bpd, with 1.439 million bpd coming from the east, 79,000 bpd from the central south region, 1.134 million bpd from the west and 418,000 bpd from the Orinoco belt.

Royal Dutch Shell Plc said it signed a cooperation deal with Rosneft for oil and gas production and refining in Russia and abroad.

Iran left its official selling price for its Iranian Light crude bound for Asia unchanged at the Oman/Dubai average plus 79 cents while it increased its Iranian Heavy and Forozan crude by 30 cents each to the Oman/Dubai average minus \$2.05 and to the Oman/Dubai average minus \$1.85, respectively. The National Iranian Oil Co also increased its prices for its Iranian Light crude and Iranian Heavy crude bound for Northwest Europe by 25 cents to BWAVE minus \$2.60 and BWAVE minus \$3.40, respectively. Its Forozan crude was increased by 35 cents to BWAVE minus \$2.80. The National Iranian Oil Co increased its Iranian Light crude bound for the Mediterranean by 10 cents to BWAVE minus \$3.70. Its Iranian Heavy was unchanged at BWAVE minus \$5.15 and its Forozan crude was increased by 5 cents to BWAVE minus \$4.55.

Petrobras stated a Brazilian oil rig, which was briefly shut after a fire last week returned its output to 160,000 bpd. The rig has been producing 160,000 bpd since Saturday.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$71.14/barrel on Friday from Thursday's \$70.22/barrel. It also reported that OPEC's basket of crudes increased by \$2.37/barrel to an average \$69.86/barrel in the week ending July 6.

Market Commentary

Prices based on the August contract for crude oil, failed to take out the 73.00 resistance level for the second straight trading session. With news of BP's Whiting, Indiana refinery shutting another unit, demand for crude oil is expected to fall. Refinery runs are running at 90% of capacity, short of the 94-95% norm for this time of year. This is in marked contrast to the Brent crude oil contract, which gained 90 cents on the WTI contract. Brent continues to run higher in price based on higher than expected demand amid supply short falls. On Friday we stated that we could easily see this arbitrage trade at -5.00 level, and for now we would not change this opinion. As for flat price, basis the August contract, resistance is thin and any failed attempt to take this market higher could lead to harsher sell-offs. We would look for the August contract to continue in a side-ways to higher pattern and would want to sell against the listed resistance numbers. Not until the major support of 66.70 is broken would we consider this market turning bearish. Resistance is set at 73.00, 73.38, 73.65 and 74.00 with support coming in at 71.80, 71.10, 70.51, 69.48, 68.79 and **66.70**. The RBOB market bounced off its low of 230.20 early in the session and quickly rallied to 234.62 following the reports of further refinery problems. The market retraced some of its gains and traded in a sideways pattern before it breached its earlier high and extended its gains. The market rallied over 3.9 cents as it posted a high of 234.89 late in the session. It settled up 3.5 cents at 234.46. Meanwhile, the heating oil market bounced of its low of 207.25 and rallied to a high of 210.53 amid the strength in the gasoline market. It however retraced some of its gains as it failed to test its previous high. It settled down 23 points at 209.28. The RBOB market will likely give up some of its sharp gains as traders position themselves ahead of the weekly petroleum stock reports due on Wednesday. The market is seen finding support at 233.00, 232.50, 230.20 followed by more distant support at 227.68, 222.12 and 219.06. Resistance is seen at 234.89 and 237.14.

The Commitment of Traders report showed that non-commercials increased their net long positions by 28,983 lots to 96,147 contracts in the week ending July 3 as funds added to their net long positions. The combined futures and options report showed that non-commercials increased their net long positions by 24,865 lots to 128,625 contracts. It is the highest level seen since May 2006, when non-commercials were net long over 130,000 lots. They have continued to add to their position in recent days as open interest has continued to increase. Meanwhile, non-commercials in the RBOB market cut their net long positions by 1,407 lots to 38,622 lots while non-commercials in the heating oil market increased

their net long positions by 5,874 lots to 22,495 lots on the week.

		Levels	Explanation
CL	Resistance	73.38, 73.65, 74.00	Monday's high
		72.56, 73.00	
	Support	71.80	
		71.56, 71.10, 70.51, 69.48, 68.79, 66.70	Monday's low
HO	Resistance	211.45	Basis trendline
		209.70, 210.10, 210.53	Monday's high
	Support	208.40, 208.00, 207.25	Monday's low
		205.03, 202.94, 202.25	Previous lows
RB	Resistance	237.14	Basis trendline
		234.89	Monday's high
	Support	233.00, 232.50, 230.20	Monday's low
		227.68, 222.12, 219.06	Previous lows