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## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JULY 12, 2007**

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Iran and the UN's IAEA reached an agreement on how to conduct negotiations over Iran's nuclear program and would continue talks in search for a final resolution. The head of Iran's delegation, Javad Vaeedi called the talks constructive and added that the three rounds of talks made good progress. He said the talks progressed much beyond the preparatory discussions on resolving the nuclear standoff.

Officials in Iraq's autonomous Kurdistan said Iranian artillery shelled near Iraqi Kurd villages as Iranian troops clashed with Kurdish guerillas making an

#### Market Watch

The head of Mexico's industrial group, Canacindra said up to 1,200 companies have stopped production in Mexico due to problems with the supply of natural gas following several pipeline explosions caused by rebels. The leftist Popular Revolutionary Army has claimed responsibility for four attacks to Pemex's pipelines carrying natural gas, liquefied petroleum gas, crude oil and gasoline over the past week. Mexico has deployed soldiers and federal police to protect Pemex's oil wells and pipelines from further attacks.

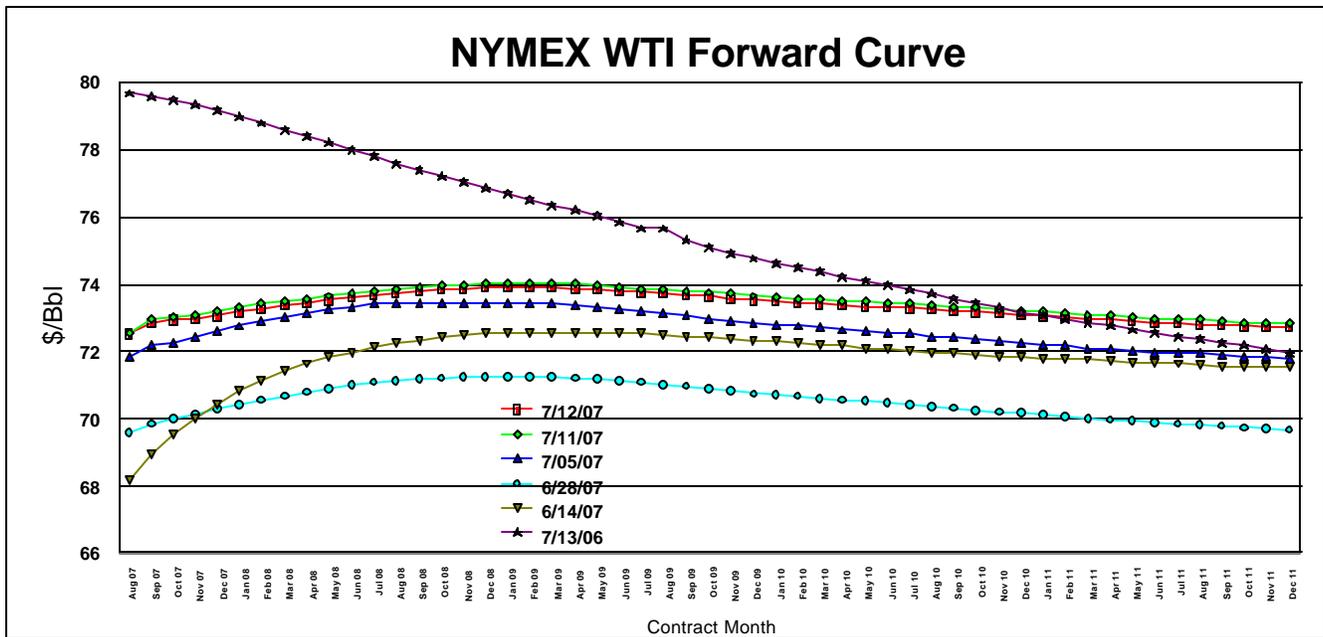
The NYMEX said it would launch a new cash settled Brent crude oil last day futures contract on the CME Globex electronic platform. The contract would be cleared through the NYMEX Clearport electronic platform. The first listed month would be the September 2007 contract, starting July 29 for trade date July 30. The contract would expire at the close of business of the session immediately preceding the 15<sup>th</sup> day before the first day of the delivery month.

ICE said physical delivery against the expired July gas oil futures contract fell to 400 lots or 40,000 tons. It is down from 47,000 tons delivered in June.

The Commodity Futures Trading Commission said it was actively investigating about 100 allegations of energy market manipulation. It said 35% of the cases were referred by exchanges, such as NYMEX Inc's NYMEX and the ICE. The rest were tip offs and probes raised by CFTC surveillance.

The UK's Met Office said winter 2007/08 is likely to be less mild than winter 2006/07 but still above seasonal normal temperatures across western Europe are expected.

China's National Bureau of Statistics said the country made significant progress in energy saving in the first five months of the year but still a long way from its goal to lower energy use and achieve sustainable economic growth. It said the energy used to generate each dollar of national income fell more than 2% in the period versus a year ago, leaving it far behind its goal of a 20% reduction by 2010. China revised the reduction in energy use achieved in 2006 to 1.33% from 1.23% reported earlier.



incursion across the border.

According to Oil Movements, OPEC's oil exports are expected to increase by 140,000 bpd to 24.22 million bpd in the four weeks ending July 28, compared with 24.08 million bpd in the four weeks ending June 30. The forecasts suggest OPEC has been relaxing its adherence to its agreed supply cuts. It estimated that OPEC was meeting about 850,000 bpd of its pledged output cuts.

Nigerian police reported that a three year old Nigerian boy was kidnapped in the Niger Delta, four days after a British girl of the same age was released by her kidnappers. A police spokeswoman said the boy was the son of a traditional ruler in the community of Iriebe, on the outskirts of Port Harcourt.

### **Refinery News**

BP was preparing to restart its 250,000 bpd crude unit at its Whiting, Indiana refinery on Thursday, with full rates seen by early next week. The unit was shut to repair a small leak found earlier in the week.

Separately, BP was preparing to restart a 63,000 bpd reformer unit at its Texas City, Texas refinery after it was shut due to an operating problem. A source said the unit would likely be restarted by the weekend and added that the shutdown would have little impact on overall fuel production from the refinery. The refinery also has a 60,000 bpd reformer unit shut for planned maintenance that started in mid-June and is expected to restart soon.

Coffeyville Resources was still assessing the effects of a flood at its 108,000 bpd Kansas refinery and has not yet determined when the plant would be restarted. The plant draws much of its crude oil feedstock from the NYMEX delivery point of Cushing, Oklahoma.

A fire in a chemical tank at Sunoco Inc's Eagle Point refinery in New Jersey was extinguished late on Wednesday without spreading to the rest of the complex. A fire started on Wednesday afternoon when lightning hit a chemical storage tank.

Valero Energy Corp estimated that a fluid catalytic cracking unit at its Ardmore, Oklahoma refinery would likely restart in 8-10 days. Fuel production lost during the outage is estimated at 30,000 bpd of gasoline and 15,000 bpd of diesel.

A SCOT unit at Total Petrochemicals USA's Port Arthur, Texas refinery was shut on Wednesday.

Saudi Aramco has contained a leak in an underground pipeline that feeds crude to its 550,000 bpd Ras Tanura refinery. The leak did not affect Aramco's oil operations.

### **Production News**

Royal Dutch Shell said a force majeure notice imposed on July crude oil exports from Nigeria's Forcados terminal remained in place. However a small amount of new oil production has started from the field. There is a total of 587,000 bpd of Nigerian crude production still shut in.

Chevron Corp and ConocoPhillips have halted oil production from two North Sea platforms following the shutdown of the Central Area Transmission System gas pipeline. Oil production has been affected because the operators are not able to store the natural gas that is produced when oil is taken from the fields nor will they flare it.

According to Reuters, the average daily loading rate of nine main North Sea crude streams is expected to fall by 12% in August to 2.212 million bpd, down from 2.515 million bpd in July.

The North Sea Troll system is expected to load 198,000 bpd in August, up from 181,000 bpd the previous month.

Inventories of gasoline in independent Amsterdam-Rotterdam-Antwerp storage tanks increased by 25,000 tons to 638,000 tons in the week ending July 12 as supplies from Russia, Scandinavia, the UK and France combined with local ARA production to outpace exports to Nigeria, the US and Mexico. Fuel oil stocks fell by 32,000 tons to 494,000 tons while gas oil stocks increased by 7,000 tons to 2.06 million tons. Naphtha stocks increased by 9,000 tons to 73,000 tons while jet fuel stocks fell by 2,000 tons to 325,000 tons on the week.

Georgian Black Sea port of Batumi shipped 860,400 tons of crude oil and refined products in June, down from 867,500 tons in the same month a year ago. The source said some volumes were rerouted to the new Baku-Ceyhan oil pipeline.

An aide to Russia's President Vladimir Putin was quoted as saying that an oil pipeline to Lithuania has many problems and that a new pipeline may be needed. Russia shut the Druzhba pipeline, saying it was leaking and needed repairs. The closure came after Lithuania sold the refinery to Polish PKN Orlen rather than Russian rivals.

Transneft said oil firm Rosneft is expected to almost fully fill Russia's first pipeline to Asia, leaving little space for private firms when the route opens later this decade. It is expected to supply five-sixths of the crude for the 600,000 bpd link.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 1.581 million barrels to 11.843 million barrels in the week ending July 12. It said light distillate stocks fell by 820,000 barrels to 9.34 million barrels while middle distillate stocks built by 572,000 barrels to 8.134 million barrels.

Indonesia's Pertamina purchased 4.6 million barrels of crude in its tender for September arrival, up from the 4.1 million barrels initially believed to have been purchased.

Indian Oil Corp bought 4 million barrels of West African crude from Vitol for September loading.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$71.90/barrel on Wednesday from Tuesday's \$71.59/barrel level.

OAO Gazprom chose Total SA to help develop Shtokman, an offshore field that may hold enough gas to supply Europe for more than three years. The company may sell half of the field's output as liquefied natural gas to new customers like the US, helping President Vladimir Putin realize his plan to turn gas into a globally traded commodity like oil.

### **Market Commentary**

Early in the session, the oil market resumed its upward trend after the market posted an inside trading day on Wednesday. The market rallied to a high of 73.79 on the strength in the Brent market, which reached an 11 month high of 77.07. The oil market was well supported amid concerns over production in the North Sea after Chevron and ConocoPhillips said oil production at two small platforms was halted following the closure of a gas pipeline. There were also reports that a force majeure imposed by Royal Dutch Shell on its Forcados exports remained in place. The crude market however failed to sustain its sharp gains and sold off sharply amid the weakness in the RBOB market, which was attributed to the restart of BP's Whiting, Indiana refinery. Reports of an agreement between Iran and the UN's IAEA on how to conduct negotiations over Iran's nuclear program also weighed on the market. The crude market sold off to a low of 71.92 before it retraced some of its losses and settled down 6 cents at 72.50. The market on Friday is seen retracing some more of today's losses, with funds continuing to drive the market higher. The market is seen remaining supported ahead of the weekend. It is seen finding support at 72.50, 71.92 followed by 71.60, 71.56 and 70.81. Meanwhile resistance is seen at 72.75, 73.00, 73.50 and 73.79. More distant resistance is seen at 74.00. The RBOB market settled down 4 cents at 226.63 after the market tumbled to a low of 224.41 on the refinery news. It extended its losses to over 6.2 cents but still held support at its upward trendline. The market is seen finding support at 225.14 followed by its low of 224.41 and 222.12. Meanwhile resistance is seen at

at  
227.70,  
230.00, its  
high of  
234.30  
followed by  
236.05 and  
238.36.

		Levels	Explanation
CL	Resistance	74.00	Thursday's high
	Support	72.75, 73.00, 73.50, 73.79	
	Support	72.50, 71.92	
HO	Resistance	71.60, 71.56, 70.81	Thursday's low Previous lows
	Support	215.00, 216.67	
	Support	210.50, 212.00, 214.29	
RB	Resistance	208.70, 208.00	Basis trendline Thursday's high
	Support	207.25, 205.03	
	Support	236.05, 238.36	
RB	Resistance	227.70, 230.00, 234.30	Thursday's low Previous lows
	Support	226.63, 226.63	
	Support	225.14, 224.41	
		222.12	Basis trendline, Thursday's low Previous low