



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JULY 16, 2007**

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OPEC said that world oil demand in 2008 would increase moderately while supply from non-OPEC producers would expand, reducing the need for OPEC oil. It said world oil demand in 2008 would increase by 1.34 million bpd or 1.6%, slowed in part by conservation and use of other fuels. OPEC's 2008 forecast compares with an estimate for growth of 1.3 million bpd in 2007. Demand for OPEC's oil in 2008 was estimated at 30.71 million bpd, down from 30.78 million bpd this year. OPEC said refining capacity would grow by 1 million bpd, less than demand

#### Market Watch

Goldman Sachs stated that US crude prices could breach the \$90/barrel level and reach \$95/barrel by the end of the year if OPEC keeps its production at current levels. It said if OPEC kept its production at current levels, total petroleum inventories would fall by over 150 million barrels by the end of the year. It said an increase in Saudi Arabian, Kuwaiti and UAE production by the end of the summer was critical to avoid prices from breaching the \$90/barrel level. Goldman Sachs stated that world oil production was down about 1 million bpd from last summer's levels and added that disappointing growth from non-OPEC producers also helped tighten supplies. A decision by OPEC to increase its production could take \$5-\$10 off the price of crude, although it added that the fall may be brief.

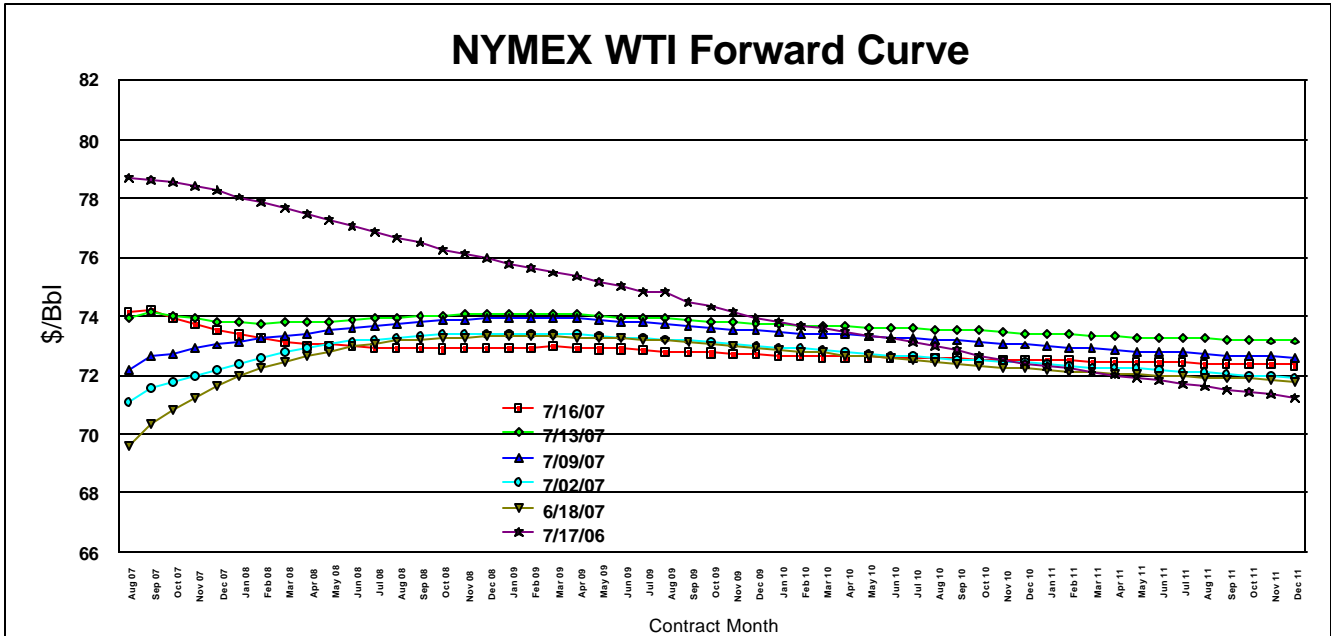
Deutsche Bank raised its long term oil price forecast to \$60/barrel from \$45/barrel.

The NYMEX said it would likely allow the delivery of light sweet Canadian synthetic crude against its West Texas Intermediate crude oil contract within six to 12 months. Plans to make Canadian oil deliverable against the WTI contract have been discussed since pipeline connections began allowing oil to flow from Alberta's oil sands to the NYMEX delivery point at Cushing, Oklahoma.

Iran said the country would not sell gasoline outside a rationing system launched last month, at least until March, despite calls from drivers for more fuel. Iran began rationing fuel last month, a move aimed at curbing consumption in the country, which does not have enough refining capacity to meet domestic gasoline needs. Private drivers receive 100 liters of fuel a month at a heavily subsidized price of 1,000 rials or 11 cents.

Global Insight said world production of ethanol and other biofuels is expected to increase to more than 100 billion gallons annually by 2030. Industry forecasts have predicted that up to 6.5 billion gallons of renewable fuels would be distilled in 2007, up from 5 billion gallons last year.

Tokyo Electric Power Co shutdown three major generators at the world's largest nuclear power plant after an earthquake in Japan on Monday caused a brief fire in one of the units. Tepco added that 1.5 liters of water containing radioactive materials had leaked from a unit closed for maintenance at the Kashiwazaki-Kariwa nuclear power plant.



growth in the lowest case scenario. In regards to its oil production, the ten OPEC members, excluding Iraq and Angola, produced 26.381 million bpd in June, down from 26.403 million bpd in May.

The deputy director for international affairs of the National Iranian Oil Co, Mohammad Ali Khatibi said any increase in OPEC oil production would increase world stocks of crude rather than lower prices. He said the market lacked refining capacity and was not short of crude supply. He also reiterated that prices could reach \$80/barrel, though he did not specify which crude.

Separately, the director for international affairs at the National Iranian Oil Co, Hojjatollah Ghanimifard said Iran would like to maximize oil export revenue in non-US dollar currencies while the dollar remains weak. He said Iran has asked customers in Japan to pay for their crude in yen instead of dollars. He said it was not a political gesture, adding that Iran would lose its purchasing power if it continued to sell its oil in US dollars.

Iraqi police stated that at least 85 people were killed and over 100 were wounded on Monday in two separate suicide bomb attacks in the northern Iraqi city of Kirkuk. The blast, near an office of the Patriotic Union of Kurdistan of Iraqi President Jalal Talabani, was one of several attacks in Kirkuk, which is supposed to vote to decide the status of the city later this year. The Kurds would like the city to join the semi autonomous region of Kurdistan but many other residents prefer that it remain under the control of the central government in Baghdad.

The EIA reported that the US average retail price of gasoline increased by 6.8 cents/gallon to \$3.049/gallon in the week ending July 16. It also reported that the US average retail price of diesel increased by 4 cents to \$2.889/gallon on the week.

### Refinery News

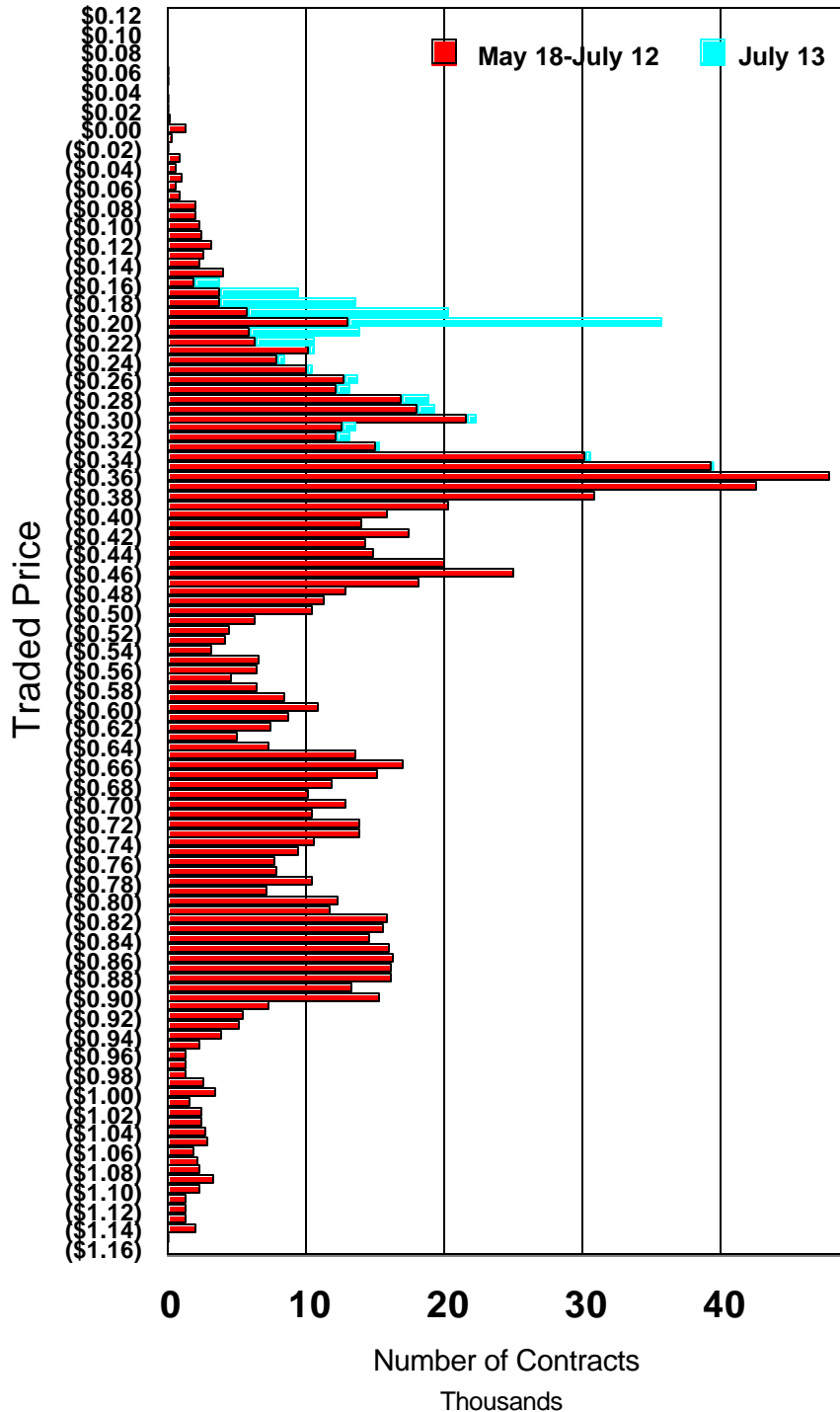
The Explorer Pipeline is expected to resume operations between Port Arthur, Texas and Hammond, Illinois early Tuesday morning after a leak shut the pipeline north of Houston on Saturday.

BP Plc's restart of an ultracracker unit at its Texas City, Texas refinery is expected to stretch into the week and may take until July 22 to be completed. The ultracracker was shut July 10 following malfunctions involving an associated compressor and flanges. Some additional work involving the

# NYMEX WTI: August September Spread

Price Vs Volume for May 18 - July 13, 2007

Trade Weighted Avg: 7/13 -.206 7/12 -.356 7/11 -.365 7/10 -.37 7/9 -.439



replacement of some components has extended the restart by several days. Meanwhile, its 60,000 bpd reformer unit completed its restart over the weekend after it was down for several weeks for maintenance.

Meanwhile, the largest of three crude units at BP's 410,000 bpd Whiting, Indiana refinery was restarted over the weekend following the completion of repair work. The 250,000 bpd unit was shut on July 9. The unit is expected to resume full rates by midweek.

Valero Energy Corp said its 30,000 bpd hydrocracker unit at its 170,000 bpd McKee, Texas refinery was successfully restarted over the weekend after it was shut for unplanned work on Friday. It said there was no material impact to production due to the shutdown of the unit. Valero said the refinery has been operating at reduced rates of 150,000 bpd since the beginning of July and is not expected to reach full rates until the end of the year when the propane deasphalter is rebuilt.

ExxonMobil said it restarted a hydrocracker unit at its 563,000 bpd refinery in Baytown, Texas following the completion of maintenance that started in late June. It said customers' needs were being met during the entire maintenance and restart processes.

Coffeyville Resources' flooded 108,000 bpd refinery in Kansas is not expected to restart until early September. Moody's Investors Service said the Coffeyville refinery has stated that the flood damage to its pumps and motors were extensive. However it stated that major process units and equipment were not directly impacted by the flood.

Flint Hills Resources said it planned to shutdown its sulfur recovery unit No. 1 at its 288,000 bpd Corpus Christi, Texas refinery for maintenance on Sunday. In a report filed with the Texas Commission on Environmental Quality Flint Hills said the maintenance may be completed by midday Monday.

Credit Suisse stated that US refining margins in the Midwest increased more than \$7/barrel to \$31.96/barrel in the week ending July 13, while Gulf Coast margins increased by 43 cents to \$21.28/barrel. Midwest fuel supplies tightened following the shutdown of key refining units. West Coast margins increased by \$1/barrel to \$22.91/barrel while refineries in the Rockies saw margins increase by \$1.16 to \$32.92/barrel. Margins in the Northeast fell by \$2.24/barrel to \$10.43/barrel.

Bad weather has forced the closure of Qatar's oil export terminal at Al-Shaheen on Monday and has delayed the loading of 1 million barrels of crude.

Sinopec Group said its crude throughput in the first half of the year increased by 5.61% on the year to 81 million tons or 3.24 million bpd. It said output for oil products, including gasoline, kerosene and diesel, during January-June increased by 2.2 million tons or 4.8% on the year.

PetroChina Co Ltd lagged forecasts with a 3.7% increase in quarterly oil and gas production. PetroChina said its worldwide oil and gas production increased to 275.1 million barrels of oil equivalent in the April to June period. Its crude runs increased by 3.8% to 407.7 million barrels in the January to June period.

### **Production News**

Wood Mackenzie estimated that the closure of the Central Area Transmission Pipeline may cut North Sea oil and condensate output by as much as 170,000 bpd.

A Nexen spokeswoman said production from the Buzzard oilfield in the North Sea has returned to just below 200,000 bpd. The field produced an average of 166,036 bpd in May and 166,645 bpd in June. Buzzard had some lower production figures early last week, when some new equipment was being commissioned.

ExxonMobil Corp said it would drill two wells at the Cepu block in July to determine oil reserves in the area. The Cepu oilfield is estimated to have recoverable reserves of up to 600 million barrels, equivalent to about 6.7% of Indonesia's total and is expected to produce up to 180,000 bpd at its peak. Pertamina's president has previously stated that production from Cepu may start at 10,000 bpd in late 2008.

China unexpectedly increased its gasoline exports in June from May, despite forecasts for lower shipments as increasing car sales increase demand. China exported 530,000 tons of gasoline in June. China's General Administration of Customs reported that the country's kerosene exports totaled 450,000 tons while its imports stood at 340,000 tons. Its diesel exports stood at 30,000 tons while its imports stood at 20,000 tons. It also reported that its fuel oil exports totaled 290,000 tons in June while its imports totaled 2.710 million tons.

Pemex said a natural gas pipeline attacked by rebels was operating normally after service was suspended on Tuesday due to several explosions on different sections of the pipeline. The left wing guerrilla group EPR claimed responsibility for the explosions and vowed to continue the attacks.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$72.49/barrel on Friday from Thursday's \$71.96/barrel level. It also reported that OPEC's basket of crudes increased by \$2/barrel to an average of \$71.86/barrel in the week ending July 13.

### Market Commentary

The oil market continued on its upward trend as it gapped higher in overnight trading on Globex. The market retraced its overnight gains and posted a low of 73.63 early in the session. The market however bounced off its low and rallied to a high of 74.48 in light of the Goldman Sachs report stating that oil prices could reach the 95.00 level unless OPEC increased its production. The market's gains however were limited by the sharp losses in the product markets, especially the RBOB market, which was pressured by the reports of refinery units resuming operations. The market retraced most of its gains only to see it bounce back into positive territory ahead of the close. It settled up 22 cents at 74.15. The Aug/Sep crude spread continued to come in and settled at -.05 amid the continued buying in the September contract. Open interest in the crude market built by a total of 19,891 contracts. Traders continued to roll their positions, as open interest in the August contract fell by 20,336 lots while open interest in the September contract built by 35,035 lots. The oil market is seen remaining supported after the market was able to settle above the 74.00 level. It is seen finding support at 74.00, its low of 73.63

followed by more distant support at 72.26. Resistance is seen at its high of 74.48 followed by 74.65, 74.81, 75.00 and 76.52. Meanwhile,

		Levels	Explanation
<b>CL</b>	<b>Resistance</b>	74.67, 74.81, 75.00, 76.52	Basis trendline, Previous highs
	74.15, up 22 cents	74.48	Monday's high
	<b>Support</b>	74.00, 73.63	Monday's low
<b>HO</b>		72.26, 71.92, 71.60	Previous lows
	<b>Resistance</b>	212.84, 214.29	Previous highs
	205.56, down 5.5 cents	208.25, 210.70, 212.48	Monday's high
<b>RB</b>	<b>Support</b>	205.25	Monday's low
		205.03, 202.94	Previous lows
	<b>Resistance</b>	224.08	Monday's high
	215.00, 217.25, 220.00, 221.75		
	<b>Support</b>	212.41	Monday's low
		210.16, 208.15	Previous low

the RBOB market settled down 9.86 cents at 212.62 as it continued to trend lower amid the reports that several refinery units were resuming operations. The market posted a high of 224.08 early in the session before it extended its losses to over 10 cents as it posted a low of 212.41. The August RBOB crack spread also continued to weaken as it settled down at 15.64. The RBOB market will likely remain pressured amid the expectations that the weekly petroleum stock reports would show builds in stocks. The market is seen finding support at 212.41 followed by 210.16 and 208.15. Meanwhile resistance is seen at 215.00, 217.25, 220.20, 221.75 and 224.08.