



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR AUGUST 17, 2007**

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Hurricane Dean strengthened into a Category 3 storm as it continued to move across the eastern Caribbean on Friday. It is expected to strengthen over the next two days into a Category 4 storm. It is forecast to strike the Yucatan peninsula on Tuesday before entering the Gulf of Mexico. Some hurricane models showed the storm passing between the Yucatan Peninsula and Cuba and hitting the Texas coast between the oil refining hubs of Corpus Christi and Houston.

Energy companies in the Gulf of Mexico stepped up evacuations of workers on Friday ahead of Hurricane Dean, which was projected by some models to hit refining hubs on the US Gulf Coast next week. The US Minerals Management Service reported that

the two oil and natural gas production platforms and one drilling rig in the Gulf of Mexico were evacuated due to Hurricane Dean. It estimated that 0.17% of the oil production in the Gulf or 2,163 bpd was shutin. Estimated oil production from the Gulf of Mexico as of April 2007 was 1.3 million bpd.

Murphy Oil Corp said it has removed some nonessential workers from the Gulf of Mexico production platform ahead of Hurricane Dean. Shell Oil Co said it removed 75 workers from its Gulf of Mexico operations by Friday morning ahead of Hurricane Dean and added that it planned to evacuate an additional 200 nonessential workers on Friday. Two sub-sea wells connected to the Brutus platform have been shut. The wells produce 2,000 bpd of oil and 2 million cubic feet/day of natural gas. Chevron said it was evacuating some support workers from deepwater platforms in the US Gulf of Mexico in preparation for Hurricane Dean. Meanwhile, ENI Petroleum Co said it was pulling nonessential workers from the Gulf of Mexico on Friday ahead of Hurricane Dean. Transocean said

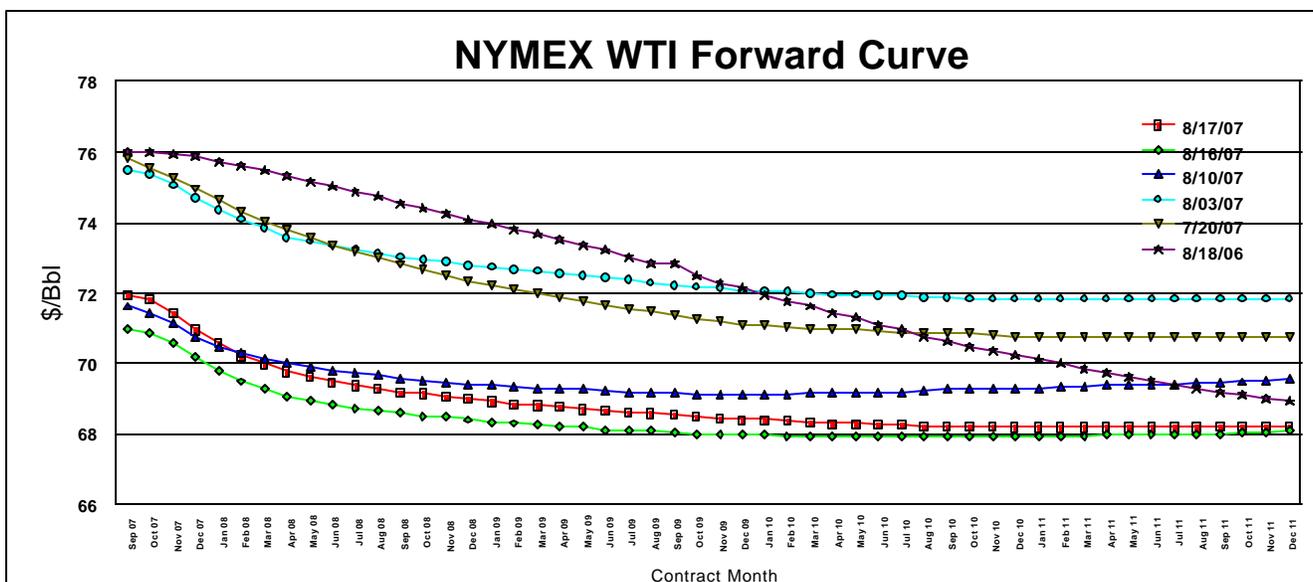
#### **Market Watch**

A Goldman Sachs analyst stated that a substantial increase in OPEC output would be needed to bring the market back into balance. He said the liquidation driven pullbacks would likely be short lived and represent increasingly attractive buying opportunities.

Traders in Asia have protested against Platts' decision to allow companies to deliver fuel oil at one of 10 floating storage vessels moored offshore Malaysia against deals used to set its benchmark prices. Platts said it would recognize the Floating Storage and Offloading vessel Kadriah I as an alternative delivery point from September 3.

The NYMEX set a daily volume record on Thursday on its CME Globex electronic trading platform. Its volume reached 1,109,933 contracts, compared with the previous record of 1,039,413 contracts set on August 9.

The US Federal Reserve lowered its discount rate to 5.75% from 6.25% during an unscheduled meeting.



that by Saturday it expected to have evacuated 92 workers from the Transocean Amiranter. Also, Marathon Oil Corp has stopped sending non-essential workers to its Gulf of Mexico operations.

Nigeria's white collar oil union PENGASSAN may withdraw its members from offices in the city of Port Harcourt due to violence. However it said it was not considering pulling workers from oilfields or export terminals. Meanwhile troops were patrolling the streets of Port Harcourt following the fighting between rival gangs. Authorities imposed a dusk to dawn curfew on Port Harcourt on Friday.

### Refinery News

Valero Energy Corp said its oil product output at its 325,000 bpd Port Arthur, Texas refinery would remain down until a problem at its coker unit was fixed. It said gasoline production at the refinery was down 70,000 bpd and distillate output was down 50,000 bpd. Separately, Valero said there was no material impact to production from a quick repair to the fluid catalytic cracking unit at its 170,000 bpd McKee refinery in Sunray, Texas. The McKee refinery has been operating at 150,000 bpd since June after the refinery was shut due to a fire in February.

Chevron shut one of two crude units at its 325,000 bpd Pascagoula, Mississippi refinery following a fire on Thursday. It could not state when the 150,000 bpd unit would resume operations.

Coffeyville Resources announced that it had restarted most major processing units at its 108,000 bpd Coffeyville, Kansas refinery, which was shut after it was flooded on July 1. It has restarted both of its crude units, vacuum units, a naphtha hydrotreater, a catalytic reformer, two distillate hydrotreaters, a fluid catalytic cracking unit, an alkylation unit, an isomerization unit, a delayed coking unit and sulfur recovery facilities.

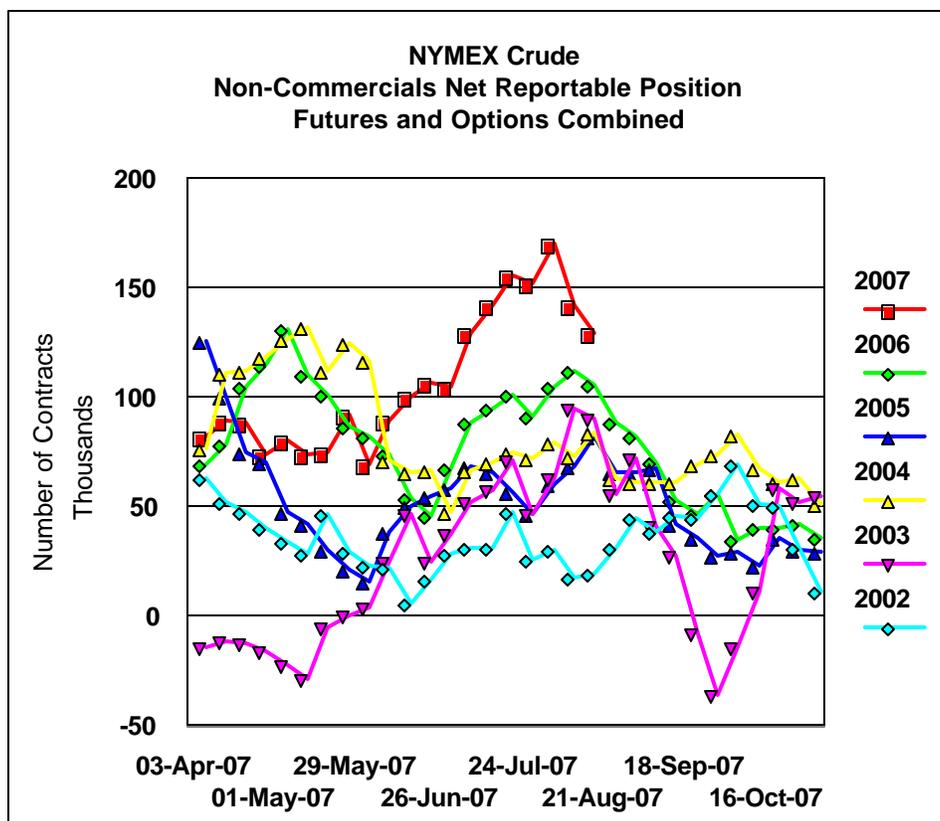
Flint Hills Resources was shutting a sulphur recovery unit at the west refinery of its 288,000 bpd Corpus Christi, Texas refining complex for maintenance. It said it was shut on August 17 and estimated the closure would last until August 22.

A fluid catalytic cracking unit at ConocoPhillips' Bayway refinery in Linden, New Jersey was restarted and currently operating near its full capacity of 120,000 bpd on Friday. The unit was shut on August 7 after had restarted the unit following a snag.

Total Petrochemicals USA shut a sulfur recovery unit and reduced feed at other units at its Port Arthur, Texas refinery on Wednesday. It shut the unit after detecting a leak on a reactor associated with the unit.

Hovensa said it did not expect Hurricane Dean to shutdown its St. Croix refinery.

South Korea's SK Incheon Oil is expected to lift its September crude refining rate to 230,000 bpd from 135,000 bpd in August as its No. 2 200,000 bpd crude distillation unit is expected to resume operations on August 23.



South Korea's Hyundai Oilbank Corp is expected to cut its crude processing rate in September to 190,000 bpd from 270,000 bpd in August due to a shutdown. It is expected to shutdown its No. 2 280,000 bpd crude distillation unit from August 25 and plans to restart the unit on September 19.

ExxonMobil Corp said it restarted its 309,000 bpd Singapore refinery following a month and a half of routine maintenance.

According to China's National Bureau of Statistics, the country's refiners processed 27.51 million tons or 6.5 million bpd of crude in July, up 1.6% from June's 27.97 million tons in June. It reported that gasoline production increased by 13% on the year and by 1.18% on the month to 5.1 million tons in July. It also reported that kerosene production increased by 24.3% on the year to 1.03 million tons while its gas oil production fell to 10.48 million tons from 10.69 million tons in June. China's crude oil production in the first seven months of the year increased by 1.1% to 108.69 million tons.

### **Production News**

According to the Aberdeen Petroleum Report, UK oil production fell by 4% on the month in June to 1.491 million bpd.

The Norwegian Petroleum Directorate said Norway's oil production increased to 2.3 million bpd in July from 1.87 million bpd in June.

Norway's Statoil ASA said that its Asgard field resumed normal operations after operations were cut due to an export compressor glitch. The field is expected to produce about 128,000 bpd of oil and 10.3 billion cubic meters of gas in 2007.

ConocoPhillips stated that UK gas field Britannia was offline due to an operational issue. At its peak, the field produces 840 million standard cubic feet of gas and about 50,000 barrels of condensate. Separately, Conoco said it is scheduled to shut in two of its four Ekofisk fields in the North Sea at the end of September to allow for a planned pipeline tie in. It is expected to shut its Eldfisk and Embla field for about 21 days from September 20. The estimated production to be shut in is about 1.3 million barrels of oil equivalent.

Nigeria's October crude oil loading program scheduled the loading of eight cargoes or 6.19 million barrels of Brass River and six cargoes or 5.9 million barrels of Amenam.

Ukraine briefly halted oil supplies via the Druzhba pipeline to Europe on Friday. However Ukratransnafta said it would be able to pump through the allotted 63,000 tons by the end of the day. It said a technical problem with power supplies at a station in the west of the country caused the suspension of flows.

Petronas said Malaysia's first deepwater oilfield Kikeh, operated by Murphy Oil Co, started production on schedule on Friday. The field would initially pump around 20,000 bpd before peaking at an average of 120,000 bpd by the end of 2008.

OPEC's news agency reported that OPEC's basket of crudes fell to \$67.61/barrel on Thursday from \$68.58/barrel on Wednesday.

### **Market Commentary**

The market finished the week basically unchanged from last week, after testing the weekly trend line at \$70.08 and bouncing off. Supported by the lowering of the discount rate by the Federal Reserve, September crude oil topped out at \$72.54. All eyes remain on the development of Hurricane Dean, which appears to be on course for Texas. Should this storm continue on its course, we could see crude oil back up into the \$76.00 - \$78.00 range. Support comes in at 70.10, **69.96**, 69.25, 68.64, and **67.70**. Resistance is set at 73.65 and **74.05**, 75.18 and **76.50**. Open interest in the crude market fell by a total of 29,896 lots, as open interest in the September contract fell by 29.120 contracts alone amid the market's sell off on Thursday. The RBOB market traded to a high of 203.99 early in the session as it bounced off its overnight low of 199.90 amid the strength in the crude market. The market was also supported amid reports of some refinery problems. It erased some of its gains and traded back towards the 201.00 level before some shortcovering pushed the market to a high of 204.10 ahead of the close. It settled up 6.05 at 203.88. Meanwhile, the heating oil market also retraced some of Thursday's losses and rallied to a high 202.37 amid the strength in the oil market. It erased some of its gains and settled in a sideways trading pattern. It settled up 3.44 cents at 201.73. The product markets

will also be driven by the hurricane updates over the weekend. If the forecasts continue to call for the hurricane to move

		<b>Explanation</b>	
<b>CL</b>	<b>Resistance</b>	73.14, 73.65, 74.05, 75.18, 76.50	Friday's high
	71.98, up 98 cents	72.54	
<b>Support</b>		71.40, 71.00	Friday's low
		70.10, 69.96, 69.25, 68.64, 67.70	Previous lows
<b>HO</b>	<b>Resistance</b>	204.98, 207.27, 207.98, 208.89	Previous high, 62%(212.72 and 192.90), Previous highs
	201.73, up 3.44 cents	202.37	
<b>Support</b>		201.00, 199.80, 198.25	Friday's low
		194.46, 194.28, 192.90	Previous lows
<b>RB</b>	<b>Resistance</b>	205.23, 206.08, 210.11, 210.66	38% (230.77 & 189.45), Previous high, 50%, Previous high
	203.88, up 6.05 cents	204.10	
<b>Support</b>		202.50, 201.00, 199.90	Friday's low
		197.15, 193.40, 192.35, 191.80	Previous lows

into the Gulf of Mexico and make landfall in the Texas coast, the markets will remain supported. The RBOB market is seen finding support at 202.50, 201.00 and 199.90. More distant support is seen at 197.15, 193.40, 192.35 and 191.80. Meanwhile resistance is seen at 204.10, 205.23, 206.08 followed by 210.11 and 210.66.

The Commitment of Traders report showed that non-commercials continued to cut their net long positions by 24,948 contracts to 81,310 contracts in the week ending August 14. The funds cut their total long position by 10,319 contracts while their short position was increased by over 14,000 contracts. The combined futures and options report also showed that non-commercials cut their net long position by 12,674 contracts to 129,011 contracts on the week. The funds in the RBOB market cut their net long positions by 6,613 contracts to 25,543 contracts while non-commercials in the heating oil market increased their net long position by 3,329 contracts to 7,084 contracts.