



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR AUGUST 20, 2007**

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Hurricane Dean is expected to hit the Yucatan Peninsula early Tuesday and pass through the Bay of Campeche as a Category 1 or 2 storm Tuesday night. The hurricane is expected to reach Category 5 strength before it reaches land.

The US Energy Department said it was ready to make emergency oil loans to refineries, if necessary, from the country's SPR to help offset the loss of Mexican oil supplies due to Hurricane Dean.

Pemex announced that it was temporarily shutting down and evacuating its 407 oil and gas production platforms in the Campeche Sound as Hurricane Dean approached the area. It said it was shutting in 2.65 million bpd of crude and 2.634 bcf of natural gas production. Pemex evacuated 13,360 workers from the platforms in the Campeche Sound between Sunday and Monday and added that just over 1,000 workers had remained to secure the facilities. It said shipments of crude from the Gulf of Mexico port of Dos Bocas and Cayo Arcas were suspended. Pemex produces about 70% of its crude oil from offshore platforms in the Gulf of Mexico. Its exports total about 1.7 million bpd, of which 80%

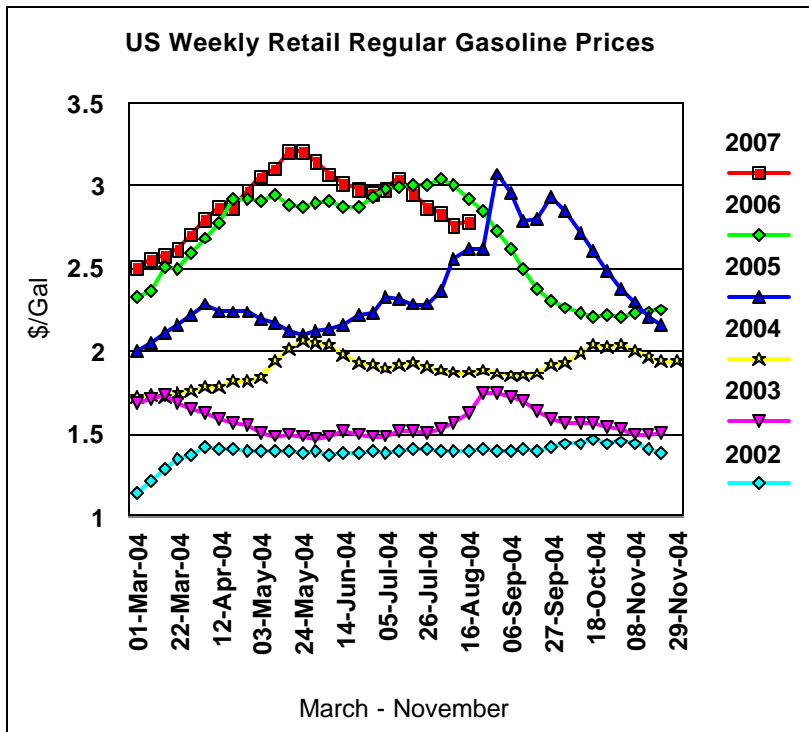
#### **Market Watch**

The NYMEX announced that it was increasing margins for its heating oil and related futures contracts as of the close of business Tuesday. Margins for the first month of the heating oil, heating oil calendar swap and heating oil financial futures contract would increase to \$6,075 from \$5,400 for customers. Margins for the second to eighth months would increase to \$5,738 from \$5,063 for customers.

ESAI reported that the market's recent bearish run is expected to be short-lived as the shortfall in OPEC production exerts greater influence on the market in coming months. ESAI reported that the WTI-Brent differential, which has returned to a WTI premium of 75 cents/barrel, should narrow towards the end of the year.

According to an official, Nippon Oil Corp is almost ready to pay Iran in yen for its crude oil purchases, instead of US dollars. National Iranian Oil Co has been asking Japanese crude oil buyers to shift to paying in yen, in line with Iran's efforts to reduce its US dollar holdings amid political pressure from the US and a weak US dollar.

Sentinel Management Group Inc, which filed for Chapter 11 bankruptcy protection late on Friday, failed to keep adequate books and records, according to a document filed by the National Futures Association. As a result, the NFA issued an order prohibiting Sentinel from liquidating, selling, transferring, encumbering or disposing of any securities. Sentinel said it was concerned that it would not be able to meet any significant redemption requests without selling securities at deep discounts to their fair value and therefore cause unnecessary losses to its clients. Meanwhile, an attorney for the US Securities and Exchange Commission said Sentinel may have violated US securities laws. It is also seeking a temporary restraining order against Sentinel.



is exported to the US. Pemex said whether or not it declares a force majeure on shipments would depend on the effects of the storm.

The US Interior Department's Minerals Management Service reported that 41,967 bpd of oil and 100 million cubic feet of natural gas production has been shut in the US Gulf of Mexico. It pales in comparison to the 2.65 million bpd of oil and 2.634 bcf of natural gas production shut in Mexican waters. The MMS reported that a total of 79,993 barrels has been shut in since Tropical Storm Erin.

US oil companies began to restart production shut in due to Hurricane Dean and halted evacuations from Gulf of Mexico oil and natural gas

platforms as Hurricane Dean was expected to miss production areas off the US coast. BP Plc and Royal Dutch Shell evacuated non-essential workers and Shell shut in 39,000 bpd of oil production and 97.5 million cubic feet of gas production. Shell said it was preparing to restore its production. Total Petrochemicals lifted a hurricane alert for its offshore operations in the Gulf of Mexico on Monday. Transocean cut the number of workers it would take off five drilling rigs and four drilling ships by the end of the day Monday to 400. Marathon Oil Corp said all of its nonessential workers were out of the Gulf by Monday but no production had been cut. Murphy Oil said some nonessential workers were also evacuated but no production was shut in.

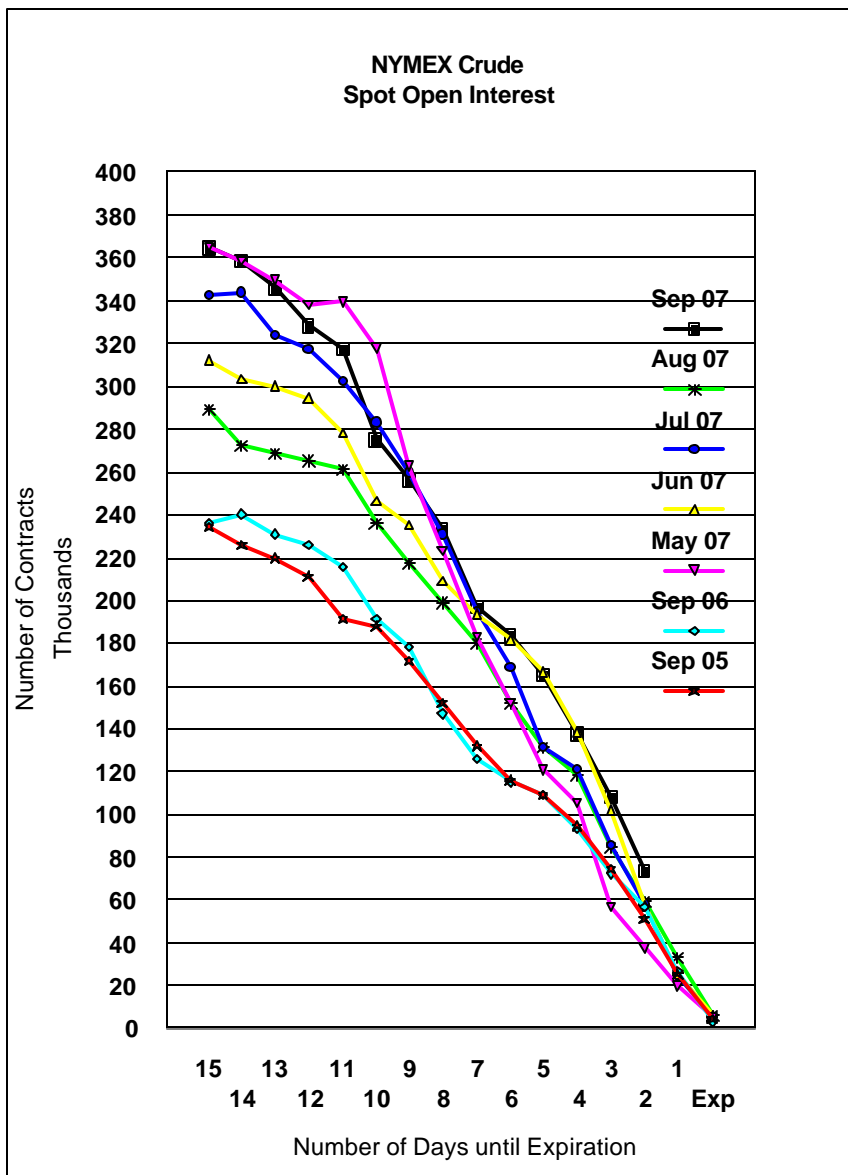
Iraq's Premier, Nouri al-Maliki, arrived in Syria, accompanied by Iraq's Oil Minister, Hussein Shahrstani planned to negotiate deal for routing Iraqi oil through Syria during his visit to the country. The US and Saudi Arabia have been keen to restarting the Tapline from Ras Tanura in Saudi Arabia via Jordan and Syria and terminate in the Mediterranean port of Tripoli to offset Iran's threat to block the Strait of Hormuz in the event for a flare up of hostilities. Saudi Arabia would like to see the Tapline back in operation and carry southern Iraqi oil out to market.

The EIA reported that the US average retail price of gasoline increased by 1.4 cents/gallon to \$2.785/gallon in the week ending August 20. It also reported that the US average retail price of diesel increased by 2.1 cents/gallon to \$2.868/gallon on the week.

### Refinery News

Valero Energy Corp restarted a fluid catalytic cracking unit at its 150,000 bpd McKee, Texas refinery after it was shut on Saturday during a startup. It said there was no material impact to fuel production as a result of the outage.

ExxonMobil Corp said a two month maintenance plan involving a 156,000 bpd crude unit and a 27,300 bpd coking unit at its refinery in Torrance, California started on Monday morning. It said it stored refined products to meet its contractual obligations.



Chevron Corp's 330,000 bpd Pascagoula, Mississippi refinery continued to operate at lower crude oil throughput following a fire in its 150,000 bpd crude unit Thursday.

ConocoPhillips said operations were normal at its 76,000 bpd refinery in Rodeo, California after a safety flare was set off on Monday morning. Separately, ConocoPhillips said its 120,000 bpd fluid catalytic cracking unit at its Bayway refinery would resume its full operations shortly. The catcracker unit at the 230,000 bpd refinery was operating at about 100,000 bpd.

Sinopec Corp's Gaoqiao refinery shut its main crude unit earlier on Monday for three months of planned maintenance. The shutdown at the 160,000 bpd may prompt the refiner to cut exports or increase imports of refined fuels to replenish stocks as production at the refinery is due to fall nearly 70% over the period.

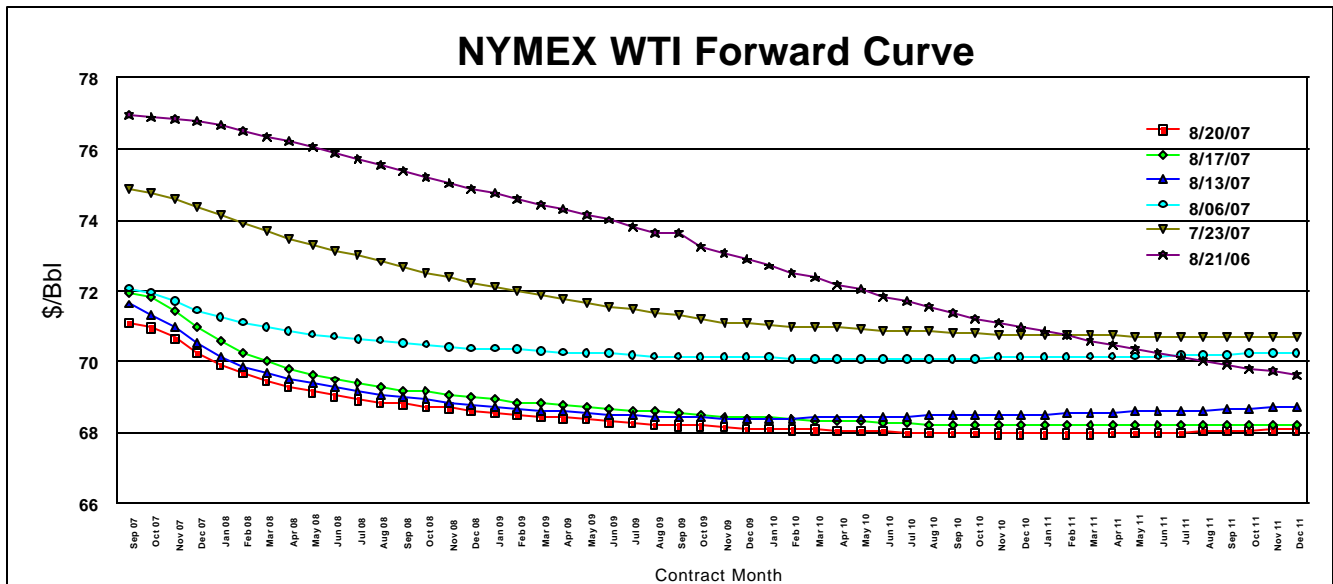
Saudi Arabia said it would invite bids for the building and operation of the planned Jizan oil refinery in the fourth quarter. The refinery

would have the capacity to process 250,000 to 400,000 bpd. Saudi Arabia's Oil Ministry would offer the documents for the project to eight Saudi companies qualified in partnership with international oil companies.

US ethanol producer VeraSun Energy closed its acquisition of three US ethanol plants with total annual capacity of 330 million gallons on Monday. The plants are located in Linden, Indiana, Albion, Nebraska and Bloomingburg, Ohio. The acquisition increases the company's production capacity to 450 million gallons/year with another 550 million gallons/year of capacity under construction.

### **Production News**

Workers at India's Oil and Natural Gas Corp, Indian Oil Corp, Bharat Petroleum Corp and Hindustan Petroleum Corp plan to strike indefinitely starting on Tuesday. India's crude oil production, refining and supplies would be affected if 45,000 workers go on strike. Oil companies could suffer a daily loss of about 45 billion rupees or \$1.1 billion if the strike starts on Tuesday as expected. Indian Oil Corp said petrol outlets would be able to manage for 2-3 days with their present stocks. It said the company had supplies to meet 30 days of demand.



An Iraqi oil official said Iraq's State Oil Marketing Organization set the September price for its Basra Light bound for the US at second month WTI minus \$6.80/barrel, down from minus \$4.40 in August. It however raised the September price for European buyers to dated BFO minus \$3.65, up from minus \$4.50 in August. Iraq also increased the price buyers in Asia to the Oman/Dubai average minus \$1.20, up from minus \$1.80.

Japan and Indonesia signed a free trade agreement on Monday that Japan hoped would help it secure energy supplies from Indonesia. The agreement, which is due to take effect early next year, would also eventually eliminate 92% of import taxes on bilateral trade. The agreement also would require Indonesia to provide LNG to Japan even when events such as new regulations force it to cut exports. In return, the agreement provides a framework to encourage Japanese investment in energy development projects in Indonesia.

Indonesia's Pertamina has increased its September allocation of low-sulfur residues by 25% to 2.41 million barrels, up from earlier estimates amid expected firm demand from Japan.

OPEC's news agency reported that OPEC's basket of crudes increased by 16 cents to \$67.77/barrel on Friday. It also reported that OPEC's basket of crudes fell by 59 cents to an average of \$67.98/barrel in the week ending August 17.

### Market Commentary

With reports that Hurricane Dean was going to miss the largest US oil production region, crude oil sold off and once again tested the 70.08 weekly trend-line, only to come roaring back. With supplies sufficient, we would still be able to run crude without disruption. Fear was being laid off in the market. Even though imports are down and stocks drew last week, U.S. crude oil inventories remain above the upper end of the average range for this time of year, with 335.2 million barrels in storage. In contrast to all of this is the September/October spread, which is still holding strong. We will have to wait and see if the front month continues to hold its strength once September goes off the board tomorrow and October takes center stage. We will continue to list the same support and resistance numbers, as they are still holding. Should the spot month settle below 70.34 this week, breaking the 69.96 major support number seems more possible. 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 21,784

lots, with open interest in the September contract falling by 34,953 lots ahead of its expiration on Tuesday. The RBOB market also retraced Friday's gains amid the dissipating concerns over the impact that Hurricane Dean would have on refineries in the Texas coast. It was also pressured as some refinery units resumed operations. The market posted a high of 200.50 in overnight trading on Globex and continued to sell off as the start of the open outcry session. The RBOB market tumbled over 11 cents as it posted a low of 192.05 in afternoon trading. The market retraced some of its losses and settled in a 2 cent trading range during the remainder of the session. It settled down 10.23 cents at 193.65. Similar to the crude market, the heating oil market posted its high of 200.83 in overnight trading before it sold off to a low of 195.30 by mid-day. The market, which held its support at a previous low, bounced off that level and retraced some of its earlier losses. The heating market settled down 3.64 cents at 198.09. The markets are likely to remain pressured after they ended near their lows amid the hurricane forecasts showing that US production would not be impacted. The RBOB market is seen finding support at 192.05, 191.80, 189.50, 189.45 and 186.68. Meanwhile resistance is seen at

194.00,  
197.10 and  
200.50  
followed by  
204.10,  
205.23 and  
206.08.

			<b>Explanation</b>
<b>CL</b> 71.12, down 86 cents	<b>Resistance</b>	72.54, 73.14, 73.65, 74.05, 75.18, 76.50 71.20, 71.77	Previous highs Monday's high
	<b>Support</b>	70.05 70.10, 69.96, 69.25, 68.64, 67.70	Monday's low Previous lows
<b>HO</b> 198.09, down 3.64 cents	<b>Resistance</b>	202.37, 204.98, 207.27, 207.98, 208.89 198.45, 199.55, 200.83	Previous highs, 62% (212.72 and 192.90), Previous highs Monday's high
	<b>Support</b>	197.80, 196.00, 195.30 194.68, 194.46, 194.28, 192.90	Monday's low Previous lows
<b>RB</b> 193.65, down 10.23 cents	<b>Resistance</b>	204.10, 205.23, 206.08 194.00, 197.10, 200.50	Previous high, 38% (230.77 & 189.45), Previous high Monday's high
	<b>Support</b>	192.05 191.80, 189.52, 189.45, 186.68	Monday's low Previous lows