



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR AUGUST 22, 2007**

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A US DOE official said the DOE has not received any requests for crude oil loans from the SPR following the shut in of Mexican production. About 2.65 million bpd of production from Pemex was shut in the Gulf of Mexico ahead of Hurricane Dean.

Libya's National Oil Corp chairman Shokri Ghanem said Libya did not see a need for OPEC to cut or increase its oil output at its September 11 meeting.

Kuwait's state news agency, KUNA, reported that the head of state of OPEC's 12 members are scheduled to attend a meeting in Saudi Arabia on November 17. Among the topics on the agenda would be OPEC's efforts to keep oil markets stable.

#### **Refinery News**

Buckeye Pipeline said its relocation project in western Pennsylvania was running about 24 hours behind schedule.

Royal Dutch Shell has cut crude runs at its Deer Park, Texas refinery on Wednesday after Hurricane Dean disrupted Mexico's oil production. The decision was made in anticipation of an interruption in crude oil supply.

#### **DOE Stocks**

**Crude** – up 1.9 million barrels

**Distillate** – up 1.3 million barrels

**Gasoline** – down 5.7 million barrels

**Refinery runs** – down 0.2%, at 91.6%

#### **Market Watch**

Iran's President Mahmoud Ahmadinejad said the leaders of the five countries on the border of the oil and gas rich Caspian Sea would hold a summit in Iran in October. Iran has insisted that each of the five countries be allotted an equal portion of the seabed while most other countries have been seeking to divide it proportionately based on the length of their shorelines.

Analysts stated that Iran's oil policy within OPEC is not expected to change following the appointment of a new acting oil minister. In a surprise move on August 12, Iran's President Mahmoud Ahmadinejad dismissed Kazem Vaziri Hamaneh and appointed Gholam Hussein Nozari as acting oil minister. The acting oil minister is expected to take on the caretaker role for a maximum of three months while parliament approves any successor suggested by the President.

Citgo Petroleum Corp shut a unit at the East plant of its Corpus Christi, Texas refinery for six days of unplanned maintenance. The shutdown is expected to last until August 28.

The National Petrochemical Refiners Association said new government policies and a complex permitting process were

threatening to undermine the ability of the industry to build new refining capacity in the years ahead. Even though the industry was increasing capacity on existing plants, NPRA Executive Vice President Charlie Drevna warned that new mandates to cut gasoline consumption that Congress was considering was making refiners have second thoughts about investment in new capacity.

Indian refiners processed 12.79 million tons or 3.02 million bpd of crude oil in July, up 4.6% from 12.23 million tons last year. Crude oil production in July increased by 0.9% to 2.89 million tons or 682,800 bpd from 2.86 million tons or 676,900 bpd last year.

Cosmo Oil Co Ltd said it would move forward the start of scheduled maintenance on its No. 1 crude distillation unit at its Chiba refinery to September 28 from October 9. Maintenance on the 110,000 bpd crude distillation unit is scheduled for September 28-November 11. Meanwhile maintenance work on its 80,000 bpd crude distillation unit at its Sakai refinery is planned to run from August 26 to October 10, a week longer than previously expected.

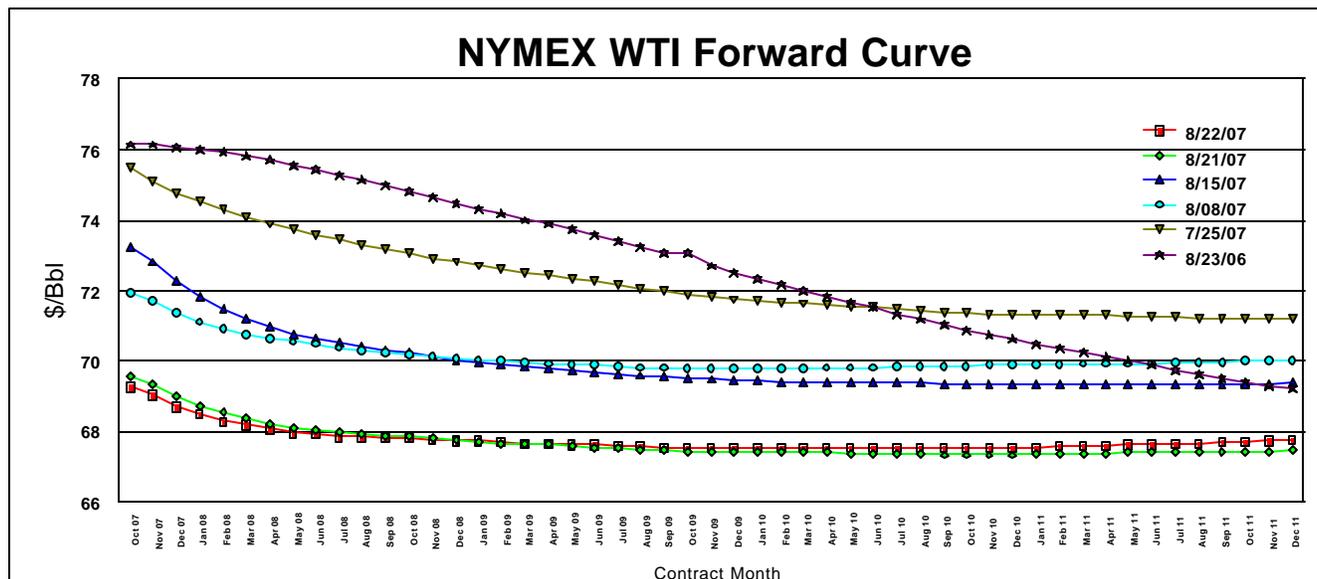
China National Petroleum Corp has started building an oil product pipeline that could eventually enable the firm to pump fuel from northwestern Xinjiang to southern Hunan province. The work of laying pipelines is expected to be completed by the end of 2008.

The Nikkei reported that Japan aimed to implement a program that would allow countries in East Asia to share oil reserves in emergencies. The Japanese government is expected to begin negotiations for such a program with New Zealand. Japan's Ministry of Economy, Trade and Industry said that an emergency oil sharing program in East Asia would help stabilize oil prices and the region's economies when shortages occur. Japan currently has more than 140 days of stockpiling and is in a position to offer the extra stocks for emergency purposes.

**Production News**

The US Minerals Management Service reported that producers restored more than 40% of the oil and gas production shut in ahead of Hurricane Dean. It said about 25,000 bpd of oil and 83 mmcf/d of gas was still shut in. The current shut in production represents 1.9% of oil produced in the Gulf and 1.1% of natural gas.

A Pemex source stated that some crude exports from Mexico would most likely be delayed as a result



of Hurricane Dean. Pemex did not invoke the force majeure clause of its sales contracts and added that it was not likely for the company to do so. Pemex has informed oil service companies that it would begin inspecting offshore oil infrastructure Wednesday afternoon. A company official also stated that it was too early to predict a timeframe for restarting offshore oil production.

Valero Energy Corp said it did not expect any crude supply problems related to a disruption of supply from Hurricane Dean. Meanwhile Citgo Petroleum Corp said it had some delays in crude oil supply from Mexico due to Hurricane Dean.

Noble Corp said it hoped to start assessing its eight drilling rigs in Mexican waters Wednesday after the passage of Hurricane Dean.

Repair work on the Central Area Transmission System North Sea gas system has started and the pipeline that supplies up to 20% of Britain's gas should return to normal operations in September. Oil production from the group of fields connected to the CATS has also been affected by the closure because many fields cannot extract oil while they are unable to send the associated gas to Britain.

The Shetland Island Council reported that Brent blend crude oil exports in the week ending August 21 increased to 221,060 tons from none in the previous week.

A trader of West African crude said production from Nigeria's Forcados oil field stood at 40,000-50,000 bpd and would accommodate at least three cargoes for export in October. Separately, traders stated that Nigerian crude exports are expected to increase to about 2.02 million bpd in October, up 20,000 bpd from the previous month.

Reuters reported that China's apparent demand in July increased by 5% on the year to 7.06 million bpd. The country's oil demand in the first seven months of the year stood at 6.9 million bpd, up 4.5% on the year. Refinery output growth slowed to 6.7% in July. Separately, the General Administration of Customs stated that China's gasoline exports in July increased by 71.6% on the year to 330,107 tons. It also reported that China's crude imports in July increased by 39.3% on the year to 14.83 million tons.

Indonesia's Pertamina stated that early oil production from the Cepu block jointly operated with ExxonMobil has been delayed by about nine months to October 2009. It was hoping to start initial production of about 10,000 bpd as early as late 2008 or early 2009.

According to the Petroleum Association of Japan, the country's crude oil stocks increased by about 311,000 kl or 1.96 million barrels over the past two weeks to 17.83 million kl or 112.1 million barrels. Japan's gasoline stocks stood at 1.85 million kl or 11.6 million barrels in the week ending August 18, up 22,368 kl or 141,000 barrels from the week ending August 4. It reported that kerosene stocks increased by about 527,000 kl over the past two weeks to 3.67 million kl or 23.1 million barrels while fuel oil stocks increased by about 100,000 kl to 1.2 million kl or 7.5 million barrels. Japanese refiners operated their plants at an average 89% of its total capacity of 4.83 million bpd.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$67.11/barrel on Tuesday from \$67.69/barrel on Monday.

### **Market Commentary**

After six weeks of declines in crude oil stocks, we finally have seen a draw in numbers. According to API figures, crude oil stocks built 2.5 million barrels, with DOE figures indicating a build of 5.7 million barrels for the week ending August 17. Following the lead of gasoline, the crude oil market initially reacted bullishly, but once the total stock scenario was realized, prices came tumbling down, trading

back into the sideways pattern between 70.08 and 65.10. We still feel confident that prices will test the objective mentioned yesterday of 65.10. The Dec07/Dec08 spread played out nicely, trading into 69 cents. We still like selling this spread and would look for negative numbers. Support comes in at 68.06, 67.20, 66.85, 66.55 and **65.10** Resistance is set at 70.08, **70.90, 71.55**, 72.40, 73.01, 74.00. Meanwhile, the RBOB market posted an inside trading day as it held its support level in light of the large draw in gasoline stocks. The market posted its high of 189.90 following the release of the weekly petroleum stock reports. The RBOB market later erased its gains amid the weakness in the crude market and posted a low of 185.60. However the market, which held support at its previous low, bounced off its low and rallied back towards its high ahead of the close amid the supportive gasoline stock draw. It settled up 2.53 cents at 188.90. The heating oil market posted a high of 196.59 early in the session before it sold off to a low of 193.13 as the market continued on its downward trend amid the weakness in the crude market. It later bounced off its low and settled down 37 points at 194.83. The RBOB market is seen retracing some of today's gains. It is seen finding resistance at 189.90 followed by 193.74, 194.31 and 196.62. More distant resistance is seen at 200.50 and 204.10. Meanwhile support is seen at 188.25, 186.50, 185.60 followed by 184.52, 181.50 and 178.25.

		Explanation
<b>CL</b>	<b>Resistance</b> 69.26, down 31 cents	70.90, 71.55, 72.40, 73.01, 74.00 70.08, 70.30
	<b>Support</b>	68.63 68.06, 67.20, 66.85, 66.55, 65.10
<b>HO</b>	<b>Resistance</b> 194.83, down 37 points	200.10, 200.83, 202.37, 204.98 195.75, 196.59
	<b>Support</b>	194.60, 193.65, 193.13 192.90, 192.04, 189.16
<b>RB</b>	<b>Resistance</b> 188.90, up 2.53 cents	193.74, 194.31, 196.62, 200.50, 204.10 189.90
	<b>Support</b>	188.25, 186.50, 185.60 184.52, 181.50, 178.25