



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR AUGUST 28, 2007**

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OPEC's Secretary General Abdullah al-Badri said that the subprime crisis in financial markets has made it very difficult for the group to gauge demand for crude. He said there was no shortage of oil in the market and added that there was no need for OPEC to increase its production when its meets on September 11. He said that if the group put more oil into the market it would end up in stocks as US refinery glitches have kept demand limited. OPEC's General Secretary said the ten OPEC members have complied with 60% of its pledged cuts and added that any level of compliance above 65% would be fine. Separately, he stated that Angola's Girassol crude would join OPEC's oil reference basket next month. Angola still has no OPEC output quota, however OPEC's Secretary General said he would expect full commitment from the OPEC member once Angola's crude is part of the group's basket price.

#### **Market Watch**

According to MasterCard Advisors' SpendingPulse report, US retail gasoline demand fell by 3.8% on the week to 9.865 million bpd in the week ending August 24. It stated that inclement weather was likely behind the fall in demand. The report showed an average price of \$2.77/gallon, up 2 cents on the week.

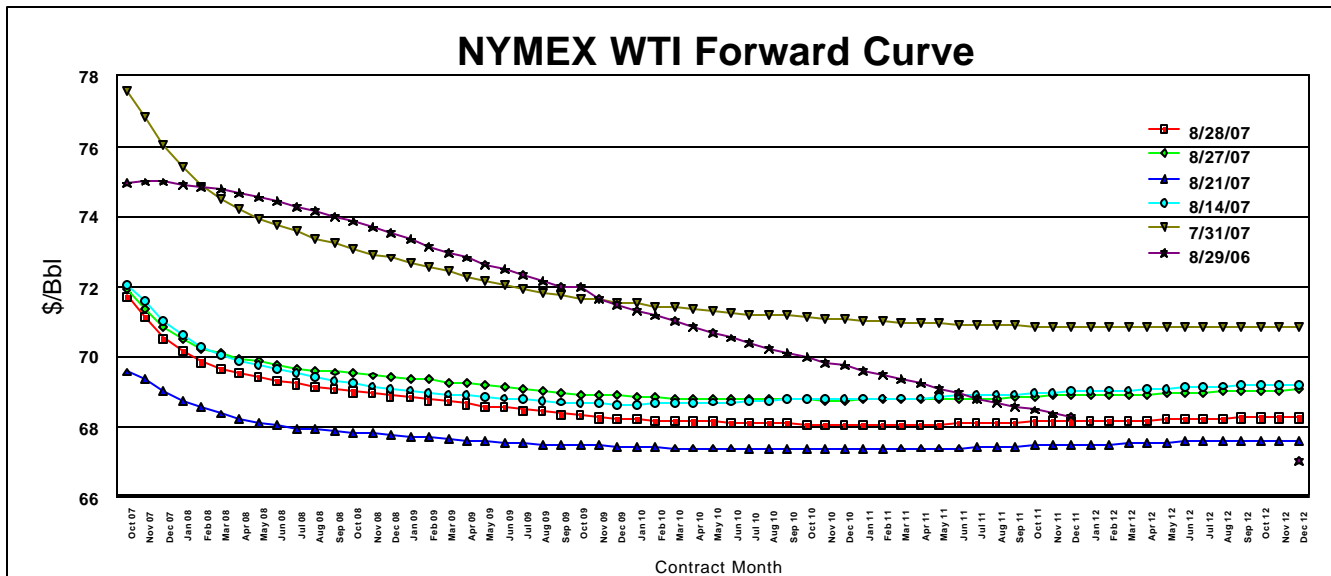
The American Trucking Associations' advanced seasonally adjusted For-Hire Truck Tonnage Index in July increased by 0.3% on the month to 110.9. It was however down 3.7% on the year. The non-seasonally adjusted index fell by 2.7% from June to 111.

US ethanol producer VeraSun Energy said it has opened 20 additional fueling stations for its E85 fuel in Ohio and Kentucky. VeraSun would sell E85, a fuel blend of 85% ethanol and 15% gasoline, at more than 100 locations in 11 states and Washington DC.

President George W. Bush said Iran had to stop helping extremists attack US forces and the Iraqi government. The White House has stated that coalition forces recently seized 240 millimeter rockets manufactured in Iran and provided to Iraqi extremist groups by Iran.

Iran's President Mahmoud Ahmadinejad rejected reports that Iran had slowed down its nuclear work. Diplomats in Vienna have stated that Iran's atomic work appeared to have slowed in pace this summer and Iran appeared to have fewer than the 3,000 centrifuges, used in enriching uranium, it planned to have working by the end of July.

Separately, Iran's President Mahmoud Ahmadinejad also stated that Iran would respond if the US were to label the Islamic state's Revolutionary Guards a terrorist force. US officials have stated that Washington may soon name the Revolutionary Guards as a foreign terrorist group, a move that would



enable the US to target the force's finances. However Iran's President said there were no plans by any country to close the Strait of Hormuz because it would be in nobody's interest. He said Iran was capable of defending its rights if the waterway was closed but did not give any further details.

The BBC reported that Iran has resolved issues raised by the UN's IAEA about the country's plutonium experiments. Iran has also offered some cooperation with the IAEA in its probe of an alleged secret uranium processing project linked by US intelligence to a nuclear arms program.

### Refinery News

A source stated that Citgo Petroleum Corp was restarting an alkylation unit at its 157,000 bpd Corpus Christi, Texas refinery which would allow an associated fluid catalytic cracking unit to return to normal rates. The alkylation unit was down for about two days for repairs to a leak in the exchanger. The outage forced the refinery to cut back the processing rate of the catcracker unit.

According to a report filed with the Texas Commission on Environmental Quality, a fluid catalytic cracking unit at Total Petrochemical USA's 232,000 bpd refinery in Port Arthur, Texas was shut following a power outage. The unit has begun the restart process. The restart is expected to take until Saturday.

BP Plc is expected to start an eight week scheduled turnaround at its Toledo, Ohio refinery in mid-September.

Germany's PCK oil refinery at Schwedt said that oil flows from Russia were normalizing after Russia cut its supplies by a third. Meanwhile, Russia's Lukoil reached an oil supply deal with Germany. Oil traders stated that Lukoil's cut was an attempt to win better terms from Germany's monopoly importer of Russian crude, Sunimex, while German refiners were unwilling to switch to direct supply contracts with Lukoil. Lukoil said it would supply about 500,000 tons in September via the Druzhba pipeline after Sunimex agreed to increase purchase prices.

ConocoPhillips said it planned to restart its Wilhelmshaven, Germany refinery sometime this week. The refinery was shut since early August due to poor economic conditions. Restarting the 275,000 bpd refinery is expected to take more than a week. It is expected to resume normal rates by the first week in September.

**NYMEX Petroleum Options Most Active Strikes for August 28, 2007**

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	3	8	P	60	02/14/2008	1.69	9,930	29.72
LO	10	7	P	70	09/17/2007	1.06	3,142	27.19
LO	10	7	P	65	09/17/2007	0.19	2,991	30.67
LO	1	8	P	65	12/13/2007	1.96	2,859	28.00
LO	10	7	P	69	09/17/2007	0.76	2,310	27.56
LO	12	7	P	65	11/13/2007	1.43	2,134	28.72
LO	10	7	C	72	09/17/2007	1.66	2,028	26.81
LO	11	7	C	71	10/17/2007	2.92	2,025	27.47
LO	10	7	P	68.5	09/17/2007	0.64	1,991	27.80
LO	10	7	P	71.5	09/17/2007	1.68	1,928	26.92
LO	3	8	P	55	02/14/2008	0.87	1,700	31.42
LO	10	7	C	74	09/17/2007	0.88	1,628	26.39
LO	12	7	C	70	11/13/2007	3.73	1,605	27.29
LO	10	7	C	75	09/17/2007	0.62	1,400	26.37
LO	10	7	P	72	09/17/2007	1.93	1,386	26.83
LO	1	8	P	70	12/13/2007	3.92	1,370	27.09
LO	10	7	P	63	09/17/2007	0.09	1,285	32.38
LO	10	7	P	62	09/17/2007	0.06	1,237	33.13
LO	3	8	P	70	02/14/2008	5.05	1,225	26.73
LO	6	8	P	60	05/15/2008	2.61	1,200	29.32
LO	10	7	C	68.5	09/17/2007	3.86	1,190	27.88
LO	10	7	C	73	09/17/2007	1.23	1,106	26.63
LO	10	7	C	71.5	09/17/2007	1.91	1,105	26.93
LO	12	8	P	63.5	11/17/2008	4.71	1,100	26.09
LO	11	7	P	65	10/17/2007	0.9	1,069	30.33
LO	11	7	P	71	10/17/2007	2.78	1,050	27.46
LO	10	7	P	69.5	09/17/2007	0.9	1,039	27.36
LO	10	7	C	76	09/17/2007	0.42	1,038	26.24
LO	12	8	P	69	11/17/2008	6.87	1,000	24.82
LO	12	8	C	69	11/17/2008	6.79	1,000	24.83
OB	10	7	C	2.1	09/25/2007	0.0333	161	45.07
OB	10	7	C	2.02	09/25/2007	0.0512	160	43.60
OB	10	7	P	1.81	09/25/2007	0.0441	152	42.37
OH	11	7	C	2.12	10/26/2007	0.0679	170	32.03
OH	11	7	P	1.91	10/26/2007	0.0488	100	31.38
OH	11	7	C	2.08	10/26/2007	0.0819	100	31.76
OH	10	7	C	2.02	09/25/2007	0.0635	91	29.61
OH	10	7	P	1.87	09/25/2007	0.0164	90	30.30
OH	10	7	C	2.08	09/25/2007	0.0403	90	29.99

Friday evening, Mexico's production in the Mexican Gulf stood at 81% of normal levels. Output should return to 100% on Thursday or Friday.

A shipping source stated that Iraq has exported nearly 3 million barrels of Kirkuk crude to Turkey after restarting the flow through its northern pipeline last week. The pipeline has been mostly idle due to sabotage attacks. A source at Iraq's Oil Ministry said Iraq would issue a sales tender for the crude when stocks at the Turkish terminal of Ceyhan reached 4 million barrels. Iraq was pumping crude at 11,000 barrels/hour or 264,000 bpd.

Iran's Oil Ministry reported that Iran planned to build two new refineries in the southern Iran. The two refineries would have a total capacity of 660,000 bpd. The projects would involve building a 360,000 bpd gas condensate refinery and a 300,000 bpd super heavy crude oil refinery in Bandar Abbas on the Persian Gulf coast. Iran also plans to increase throughput capacity at the existing Bandar Abbas refinery to 300,000 bpd from its current level of 232,000 bpd.

Taiwan's Formosa Petrochemical Corp decided to delay the restart of its 700,000 ton/year No. 1 naphtha cracker from this week to September 20. It said it would defer its planned maintenance at the 900,000 ton/year No. 2 naphtha cracker from September 3 until after the No. 1 cracker unit is restarted.

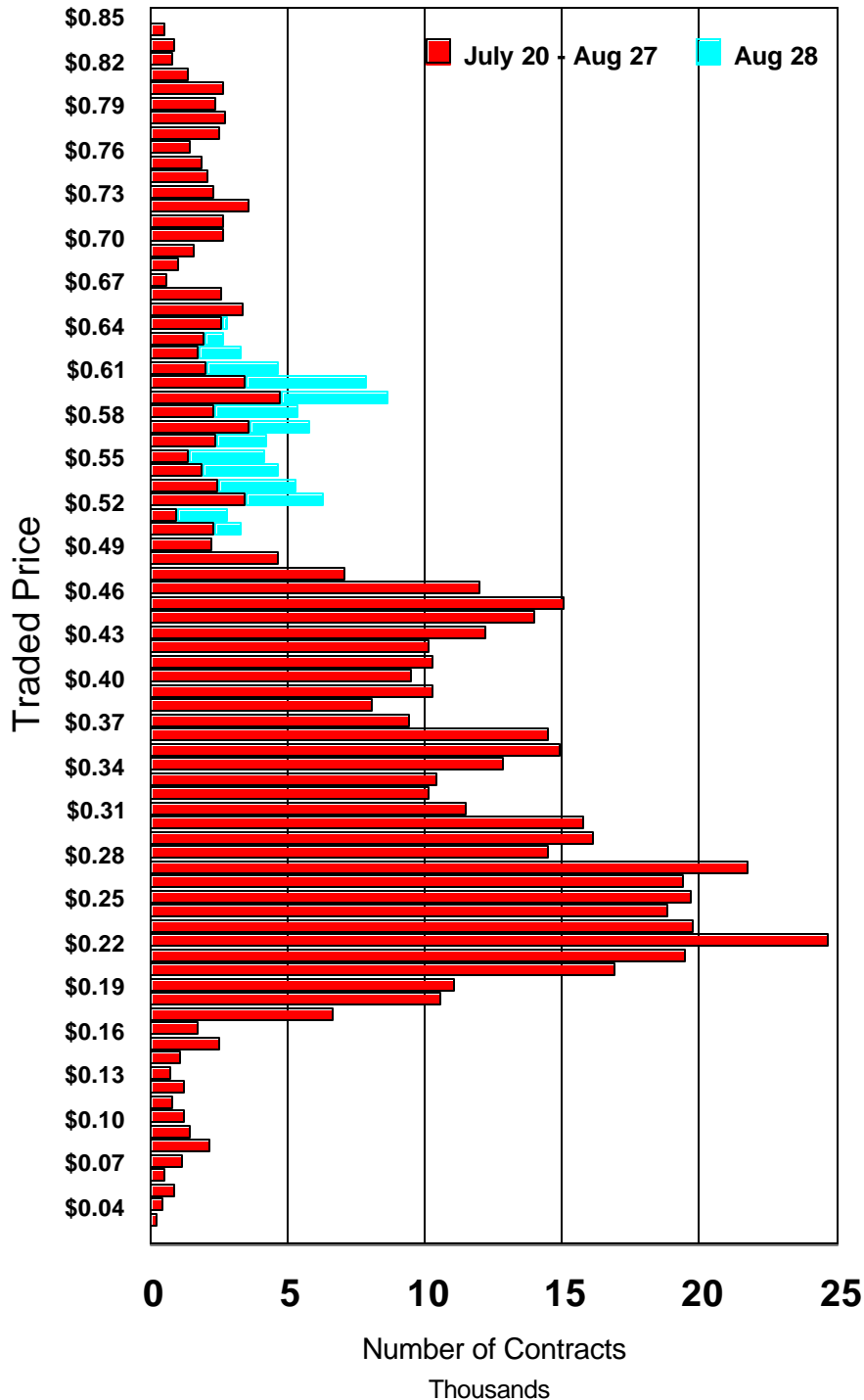
**Production News**

Pemex said Mexico expects its offshore oil production in the Gulf of Mexico to resume normal production levels by the end of the week after production was shut in due to Hurricane Dean. As of

## NYMEX WTI: October November Spread

Price Vs Volume for July 20 - August 28, 2007

Trade Weighted Avg: 8/28 .567 8/27 .527 8/24 .376 8/23 .287 8/22 .21



Russia's oil exports from major ports are expected to increase by about 110,000 bpd in September to 3.04 million bpd or 12.455 million tons from 2.93 million bpd or 12.396 million tons in August. Shipments from the port of Novorossiisk in September are expected to increase to 3.386 million tons from 3.331 million tons in August while shipments from Primorsk fell to 6.602 million tons from 6.609 million tons. Shipments from Yuzhny is expected to total 710,000 tons while shipments from Tuapse are expected to total 400,000 tons and shipments from Gdansk and Odessa are expected to total to 474,000 tons and 883,000 tons, respectively.

Iran is set to further increase its rising crude oil exports to Asia as it is close to concluding its first term contract with India's Bharat Petroleum Corp Ltd. National Iranian Oil Co is discussing a four month deal with BPCL.

Nigeria raised its official selling price for September Bonny Light and Qua Iboe crude to Dated Brent plus \$3, up 40 cents on the month.

Norway's Norsk Hydro has secured the interests in 13 blocks in the western Gulf of Mexico. It won interests in five deepwater prospects, spread over seven blocks and in six continental shelf prospects in the Gulf.

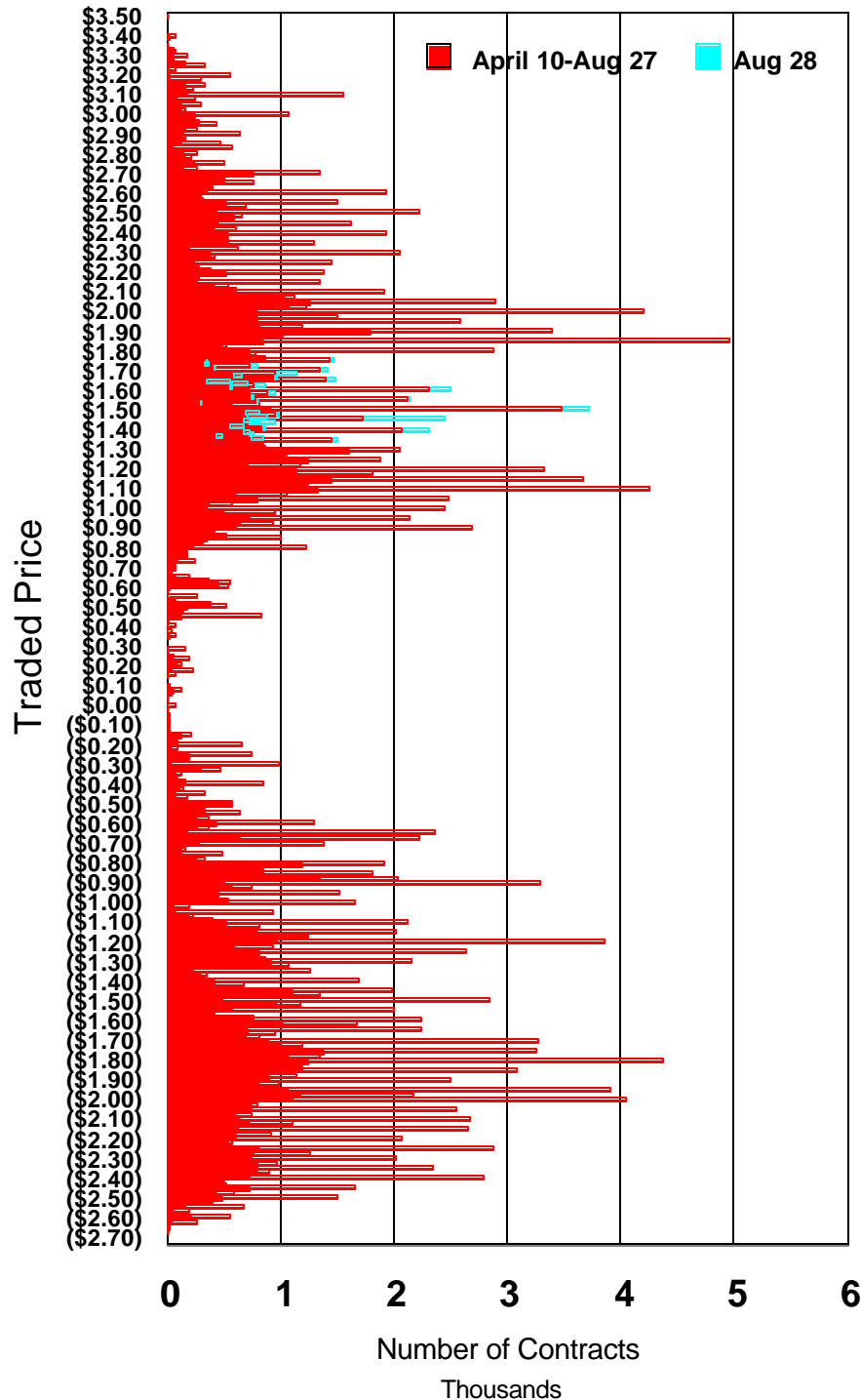
Azerbaijan's Energy Minister Natik Aliyev said Korean

National Oil Co is expected to buy 20% in Azerbaijan's undeveloped INAM oil project from Royal Dutch

## NYMEX WTI: Dec 07 Dec 08 Spread

Price Vs Volume for April 10 - August 28, 2007

Trade Weighted Avg: 8/28 1.51; 8/27 1.25; 8/24 1.19; 8/23 1.05; 8/22 1.04



Shell. He said the project would remain under the leadership of BP, which has 25%, while Shell would reduce its stake to 5% from 25%. Azerbaijan's SOCAR would continue to own a 50% stake.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$67.73/barrel on Monday from \$67.52/barrel on Friday.

### Market Commentary

Fears of a slowing economy continue to loom over the energy markets, putting pressure on prices. As expectations that demand for products will slide, October crude oil was unable to test the first minor resistance number set at 72.40. This is making for an uncomfortable market to trade with any kind of confidence and as a result we would buy and sell at the listed support and resistance numbers, scalping where we can. Support comes in 71.36, 70.20, 69.96, 69.25, 68.06, 67.20, 66.85, 66.55 and **65.10**. Resistance is set at 72.40, 73.01, 74.00, 74.87, 75.95 and 76.97. The RBOB market posted an inside trading day after failing to breach its previous high. The market posted a high of 204.49 in overnight trading and retraced some of Monday's gains amid reports that some refinery units were resuming operations. Citgo Petroleum was restarting an alkylation unit at its 157,000 bpd Corpus Christi, Texas refinery allowing its fluid

catalytic cracking unit to resume normal rates while one of two crude distillation units at Valero's Port

Arthur, Texas refinery was resuming operations. Also processing units at Chevron's Pascagoula, Mississippi refinery resumed operations limiting the market's overnight gains. The market, which held resistance

at 204.00 during the open outcry session, sold off to a low of 200.78. The market later retraced its losses and settled

		<b>Explanation</b>	
<b>CL</b>	<b>Resistance</b>	72.40, 73.01, 74.00, 74.87, 75.95, 76.97	Previous highs
	71.09, up \$1.26	72.25	Tuesday's high
<b>Support</b>		71.36, 71.20	Tuesday's low
		70.20, 69.96, 69.25, 68.06, 67.20	Previous lows
<b>HO</b>	<b>Resistance</b>	201.93, 202.37, 204.65, 204.98	38% retracement (216.16 and 193.13), Previous high, 50%, Previous high
	199.63, down 1.34 cents	200.00, 200.50, 201.59	Tuesday's high
<b>Support</b>		199.47	Tuesday's low
		196.21, 195.15, 194.83, 193.13	Previous lows
<b>RB</b>	<b>Resistance</b>	204.53, 206.08, 207.65, 210.66, 211.62	Previous highs, 50% (230.77 and 184.52), Previous highs
	201.54, down 2.39 cents	204.00, 204.49	Tuesday's high
<b>Support</b>		200.78	Tuesday's low
		196.89, 196.05, 194.53, 192.16, 191.57	Previous lows

in a sideways trading pattern ahead of the close. It settled down 2.39 cents at 201.54. The heating oil market also settled down 1.34 cents at 199.63 after it too retraced its previous gains. The market sold off to a low of 199.47 early in the session before it retraced some of its losses and posted a high of 201.59. However the market once again retraced its gains ahead of the close amid the expectations that the weekly petroleum stock reports showed a build in distillate stocks. The product markets are seen holding their resistance after they settled near their lows ahead of the release of the inventory reports which are expected to show draws in crude stocks and gasoline stocks. The RBOB market is seen finding resistance at 204.00, 204.49, 204.53 followed by 206.08, 207.65, 210.66 and 211.62. Meanwhile support is seen at 200.78, 196.89, 196.05, 194.53, 192.16 and 191.57.