



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 10, 2007

Over the weekend the acting Kuwaiti oil minister lent his voice to the growing majority of OPEC members calling for the cartel to keep its production quotas unchanged at this week's meeting in Vienna. The Saudis though have remained quiet on the issue of production levels. This despite reports in the market led by Washington-based consultancy PFC Energy saying Saudi Arabian sources have signaled OPEC may need to boost output by up to 1 million barrels per day. Meanwhile Iran's acting oil minister again reiterated his view Monday that there is enough oil supply in the world market, while OPEC's president and UAE oil minister said that "current supplies to the petroleum market are sufficient". But at midday at the conclusion of the meeting of the OPEC Ministerial Monitoring Committee, the committee noted that low oil stocks and a tight world oil market existed. This coupled with a "OPEC source" as telling reporters that Gulf Arab members favored a small increase in the cartel's production quota. But by the afternoon, The Qatari oil minister said he was not pushing for an increase in OPEC oil production, and said he "...cannot confirm anything, I have my own opinion." This sent the this market higher.

IEA again repeated that they see the current oil markets as very tight, and expected the situation to continue for the remainder of 2007. The IEA executive director though said it was up to OPEC to decide whether to increase output and he did not see non-

Market Watch

Indian oil ministry officials said it has no immediate plans to raise prices of auto fuels, but may issue bonds worth nearly \$2 billion to state run oil firms by the end of the month.

IAEA head Mohamed El Baradei defended his current agreement with Iranian officials for them to clarify questions about past sensitive nuclear activities once hidden, as an important step in the right direction. But responding to western government recent criticisms he noted that the plan was limited and in itself would not absolve Iran of all suspicions, despite Iranian assertions since agreeing to the pact that its nuclear file is now "closed". He said for that to happen Iran must permit wider-ranging inspections, targeting sites not declared nuclear and suspend enrichment-related activity as mandated by the IAES and the UN Security Council resolutions.

A large explosion some 3 miles inside Turkey occurred along the natural gas pipeline that carries Iranian natural gas to Turkey on Sunday. Officials hoped to have the line back into service by Tuesday. While no official cause for the blast was given, it was believed to be sabotage by Kurdish militants.

China's third set of strategic oil reserve tanks in Qingdao will be completed by the end of the year adding some 3 million cubic meters of capacity. The facility originally was scheduled to be completed in 2008.

Debka.com reports that Syria has mobilized armored, missile air crews and aid defense units and placed these units on full alert. This response seems to follow in the wake of Israeli incursions in its airspace last week and in response to the partial call up of reserves in Israel that began last Thursday, September 6th.

OPEC states will be able to make up for additional supplies.

Lloyd's Marine Intelligence Unit said today that OPEC exports, excluding Angola, rose 477,000 b/d in July compared with June levels as OPEC compliance with output curbs slipped.

Refinery News

ExxonMobil said the Baytown to Dallas 8 inch gasoline pipeline was restarted over the weekend, following a rupture on Friday caused by construction workers.

Operators at ConocoPhillips 216,000 b/d refinery in Sweeny, Texas on Sunday shut a regenerator on a FCC unit for two weeks of repairs. The unit was being restarted on Friday following emergency repairs on Thursday.

Total Petrochemicals restarted a unit at its 232,000 b/d Port Arthur refinery on Saturday while shutting down another for maintenance.

Valero Energy reported process malfunctions in Complex 1 of its 170,000 b/d McKee refinery in Sunray Texas on Friday and Sunday. The Sunday malfunction lasted about 2 and one-half hours while the Friday malfunction lasted for seven minutes. The McKee refinery is operating at about 160,000 b/d as operators continue to repair damage from a February fire.

BP's 463,000 b/d Texas City refinery shut a catalytic feed hydrotreating unit late on Friday after a malfunction. The unit reduces the sulfur content in gasoline feedstock.

Operators at BP's Carson, California refinery are expected to curb output over the next several days for minor repairs. The refinery is scheduled for a major turnaround in late October. Flaring during the repairs is expected to start at 4:45 PDT and last until next Monday. But late in the day Reuters reported that BP had in fact restarted the unit and denied that the refinery would be flaring this week despite its filing with government regulators.

Shell's Argentine Doc Sud refinery was continuing to coast down production as a result of a government order. Deliveries to retail service stations have continued during this period, as the company has been able to make up supply short fall by dipping into stocks. But the company warned that if negotiations with government regulators do not give the refiner the green light to resume normal operations by tomorrow the refinery will be totally shut down by week's end.

An executive vice president for supply and distribution at Royal Dutch Shell said that they see an approaching oversupply of global refining capacity in the next four years if all the expansion projects announced in the world are completed. The oversupply could be "several million barrels per day."

Colonial Pipeline announced the allocation of the 53rd cycle distillate nominations Monday, which followed the decision earlier to freeze nominations on the 51st and 52nd cycles. The restrictions will affect shipments on Line 2 between Collins, Mississippi and Greensboro, North Carolina.

A flaring even at ExxonMobil's 155,000 b/d refinery took place at 12 noon PDT today after an electrical failure breakdown.

Production News

Iraq's northern oil pipeline was restarted on Saturday and was pumping at a rate of 528,000 b/d. Current stocks at the Ceyhan terminal stood at six million barrels.

Trade sources reported that the Norwegian North Sea Gullfaks crude stream is scheduled to load around 303,400 b/d in October down from 314,000 b/d in September. Meanwhile the Ekofisk crude oil stream in October will load 440,300 b/d up from 393,000 b/d. North Sea Forties October production is seen at 690,000 b/d, up from 620,000 b/d in September. Norwegian Troll oil stream for October was set at 187,000 b/d, up from 153,000 b/d in September.

The BP led Baku-Ceyhan pipeline reportedly is scheduled to increase exports in October to 677,4000 b/d from September's estimated rate of 433,333 as a result of exports being restricted due to construction work and maintenance.

OPEC has added new member Angola's Girassol grade to its basket of crudes. The reference price on Friday stood at 72.01 down 9 cents from Thursday's level. The old reference price for Thursday had been listed at \$71.99.

Saudi Arabia has notified European and Asian customers that it will keep its crude supplies steady for October from September levels.

Talks between ENI and the Kazakhstan government on the Kashagan oil field will soon yield results according to Kazakhstan officials.

Nigerian Forcados field is expected to be back to normal by the end of the 2Q08, according to the Nigerian oil ministry.

Kinder Morgan reported today that it has restarted the western portion of its 164,000 b/d Platte crude oil pipeline between Casper, Wyoming and Salisbury. The Salisbury to Wood River portion of the pipeline was expected to be restarted later Monday.

PEMEX reported that leftist guerillas once again struck its energy infrastructure this morning as bombs blew up several natural gas pipelines on the Gulf of Mexico in the state of Veracruz, as well as a 30-inch crude oil line. And two LPG lines. PEMEX officials said the blasts should mainly affect the domestic market, but did not rule out an impact on exports. It is expected crude deliveries to the Pemex refineries at Tula and Salamanca will be impacted but late in the day the company said it expected to be able to meet domestic supply of LPG and gasoline in the affected zones.

Kuwait's news agency reported today that Kuwait plans to tighten security at its oil installations and is coordinating with the U.S. authorities on this security plan.

Total said today that they plan to produce 2 million tons of oil at the Kharyaga field in Russia's Nenets Autonomous District in 2007-2008.

Over the weekend Hunt Oil announced it had reached an agreement with Iraq's semiautonomous Kurdish region to explore for oil. This is the first deal since the Kurds put in place their own oil law in August. Iraq's oil minister though noted that the Federal Authority must approve all oil deals, before they are legal. The Hunt agreement was not presented for approval and therefore has no standing.

Market Commentary

The oil markets opened lower this morning as traders began to believe market whispers heard late last week that the Saudis may be looking for a minor increase in OPEC production levels. At midday, news reports began to circulate of an informal meeting of Gulf Arab producers held earlier in the day that a consensus for a production increase seemed to be emerging. This coupled with the OPEC Monitoring Committee at the conclusion of its meeting noting that in fact the market faced a tight supply session

seemed to embolden the bears and kept trading near the lows of the day. But an hour before the close news services quoted the Qatari oil minister, one of the so called Gulf Arabs, as saying he was not pushing for an OPEC increase and could not confirm anything in regards to what tomorrow's OPEC meeting would bring. This spooked the bears and it triggered a stampede to the exits late in the session as the highs from Friday and Thursday were breached and stops were hit allowing crude oil prices to soar to settle at their second highest level ever. Prices traded even higher late in the Globex session reaching \$78.47 before finishing the Globex session around \$78.00 as some 545,121 futures between the floor and the electronic session were recorded for the day.

To state the obvious this market will be influenced by the OPEC meeting tomorrow. We would be surprised to see the Saudis officially endorse higher production quotas tomorrow given the background global financial market problems from the sub-prime problems. The last major global financial market problem, that of the Southeast Asian market meltdown in the late 1990's that the Saudis pushed through a production increase, saw the oil market crash over the following months. We feel that this memory should still be fresh in their minds. We feel that the Saudis would rather allow additional leakage to occur in production levels among members rather than formalize a production increase at this time.

We would look for resistance tomorrow to be found in the October crude contract at 78.77 followed by \$78.97, \$80.19 and more distant resistance at 81.92. Support we see at \$76.00 followed by \$75.52, \$75.40, \$74.71, \$74.29, \$73.55 and \$73.07.