



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR SEPTEMBER 27, 2007**

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Israel Radio reported that Israel sent several fighter jets toward its border with Syria Thursday after air force radar screens showed Syrian attack helicopters in flight on the Syrian side of the frontier. Tensions between Israel and Syria have been high following reports of an Israeli airstrike in northern Syria on September 6.

#### **Market Watch**

The DOE reported that about 700,000 barrels of crude originally scheduled to be shipped to the US SPR in September have been rescheduled for October delivery. A delivery schedule shows some 2.4 million barrels of crude are scheduled to be shipped to the SPR in September, down from 3.1 million barrels. The deliveries to the SPR are taking place under the Royalty in Kind program, in which oil companies producing oil under federal leases pay royalties by shipping oil to the reserve rather than pay in cash. Under the new schedule, September crude deliveries into the SPR would average 80,000 bpd, instead of 103,332 bpd. October deliveries are scheduled to average 61,290 bpd, up from 41,935 bpd.

According to Oil Movements, OPEC's oil exports are expected to increase by 70,000 bpd to 24.17 million bpd in the four weeks ending October 13. It said the slight increase suggested that the 500,000 bpd increase was not leaking out early.

A bomb ruptured an Iraqi pipeline carrying crude to the Baiji refinery on Thursday. It was the fourth attack on oil or gas pipelines in the country in 10 days. Sources stated that the attack would not affect crude oil exports to the Turkish port of Ceyhan.

#### **Refinery News**

Hovensa shut its 150,000 bpd fluid catalytic cracking unit at the 530,000 bpd St. Croix refinery on Thursday to repair the wet gas scrubber. Meanwhile a power outage at the refinery temporarily shut several other processing units Thursday morning. Power was restored to all of the affected units and said they were being started. The fluid catalytic cracking unit is expected to restart over the weekend. Meanwhile, prompt conventional M3 gasoline scheduling in cycle 56 on the Colonial Pipeline gained 1.25 cents from the start of trade on Thursday, trading 5 cents over the screen.

Operations at Valero Energy Corp's Port Arthur, Texas refinery have returned to planned rates after it was shutdown due to a power outage on September 13 as Hurricane Humberto passed through Texas. The refinery resumed operations at reduced rates on September 19 and continued the restart process until earlier this week.

ConocoPhillips notified California's South Coast Air Quality Management District of excess flaring at its 139,000 bpd Los Angeles area refining complex during the month of October. The notice could be an indication of an overhaul planned for a unit or units at the refinery in October.

Nippon Oil Corp said it planned to refine 3.29 million kiloliters or 20.7 million barrels of crude in October to meet domestic demand, up 4% on the year due in part to a lighter refinery maintenance schedule. Separately, it said it would delay starting regular maintenance at its Negishi refinery until October 4, two days later than originally planned. A part of the 340,000 bpd Negishi refinery would be closed for maintenance until November 13 as planned.

**Production News**

The oil export terminals along Mexico's Gulf Coast remained open and offshore drilling operations continued without any interruptions on Thursday despite the presence of Tropical Storm Lorenzo. Mexico's Pemex said offshore oil operations continued normally and there were no signs that the storm would cause any production halts. The National Hurricane Center said Tropical Storm Lorenzo is expected to reach the coast of Mexico as a hurricane.

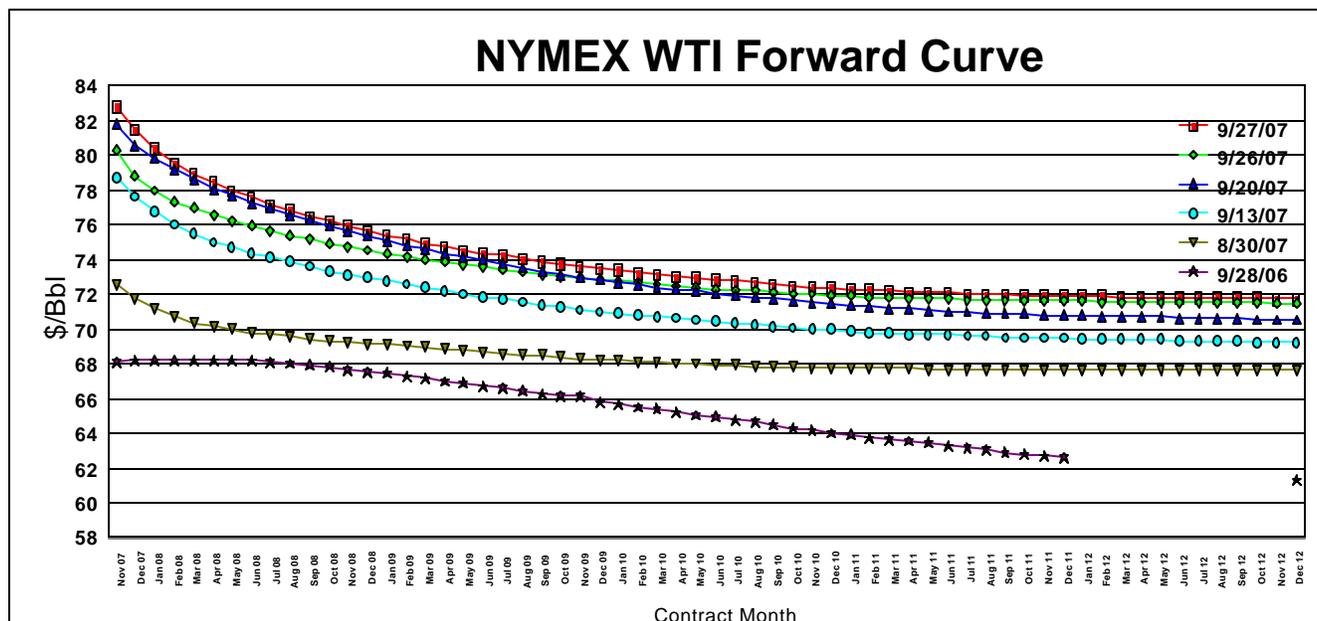
PDVSA said it aimed to raise production in old wells to overcome an oil rig shortage and increase production. It said it hoped to increase production by 250,000 barrels in two year.

UK crude oil production increased by 2.8% on the year to 19.7 million tons during the second quarter due to the start up of six oil fields, including the Buzzard field in the UK North Sea.

Russia has increased its October oil loading plan from major ports by two large cargoes in the final schedule to a total of 2.96 million bpd. However exports were still 80,000 bpd below September levels.

Royal Dutch Shell and Russia's Tatneft signed a deal to jointly develop heavy oil deposits in the Russian Volga region. Earlier reports estimated the output potential of the project at about 40,000 bpd.

Singapore's International Enterprise reported that the country's residual fuel stocks fell by 465,000



barrels to 12.977 million barrels in the week ending September 27. It also reported that the country's light distillate stocks fell by 140,000 barrels to 8.102 million barrels while middle distillate stocks built by 1.113 million barrels to 7.627 million barrels.

According to the Petroleum Association of Japan, Japan's gasoline inventories fell to a three year low of 11.43 million barrels in the week ending September 22. It was down 210,000 barrels on the week. It reported that crude stocks fell by 80,000 barrels to 103.36 million barrels while kerosene stocks built by 340,000 barrels to 26.63 million barrels. It also reported that naphtha stocks fell by 1.1 million barrels to 10.99 million barrels on the week. It reported that crude runs fell by 10,000 bpd to 3.83 million bpd while refinery utilization rates fell by 0.3% to 79.3%.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$75.11/barrel on Wednesday from \$75.80/barrel on Tuesday.

**Market Commentary**

The price of crude oil rose once again today, as concerns over stock levels at Cushing, Oklahoma loomed over the market. Stock levels at Cushing, which are 18.13 million, are at their lowest level since 2005. There is also speculation as to whether or not the crude stored at Cushing is light sweet crude, the deliverable grade against the NYMEX contract, or Canadian crude oil, which is a heavier crude oil. Adding to the mix of bullish sentiment was a late session report of Israeli fighter planes being sent towards the Syrian border. This sent prices to yet another record high. At this point we would have to say that trading this market is like running with the bulls in Pamplona, stay out of the bull's way or you might get trampled. This market most likely will continue higher, but we would look for a little sideways trading prior to another run. It appears that there are longs putting on positions in the November/December spread ahead of the rolls. This spread traded in a range of 1.75 – 1.32, and in the after hour session, gave back most of the days gains. Prior to this run this spread was trading in an area of congestion between 1.32 and 1.15. Should it take out the 1.00 level on the downside, we would look for a test of recent lows at .66. Total open interest for crude is 1,410,877 up 975, November 349,125 down 6,560 and December 222,684 up 3,134. Support for November, comes in at 81.25, 80.40, 79.15, 78.40, 77.30, 76.79 and 75.70. Resistance is set at 83.35, 83.85 and 84.10. The product markets ended the session sharply higher ahead of the front month contracts' expiration on Friday. The RBOB market, which posted a low of 202.52 in overnight trading bounced off that level and rallied over the 207.00 level in light of reports that a catcracker at Hovensa's St. Croix refinery was shutdown on Thursday. The market later erased some of its gains and traded towards the 203.00 level before it bounced off and extended its gains to over 6.9 cents ahead of the close. It traded to a high of 209.65 and settled up 6.65 cents at 209.39. The November RBOB crack, which was trading below the 4.00 level, rallied late in the session and settled at 4.231. The heating oil market posted a

low of 218.26 in overnight trading and never looked back as it retraced most of its recent losses. The market held good support above the

			Explanation
<b>CL</b>	<b>Resistance</b>	83.35, 83.85, 84.10	Thursday's high
	82.88, up \$2.58	83.09	
	<b>Support</b>	81.95, 81.25, 80.50	
<b>HO</b>	<b>Resistance</b>	226.09, 226.35, 233.40	Previous highs, Basis trendline Thursday's high
	225.21, up 6.95 cents	225.60	
	<b>Support</b>	222.00, 218.26	
<b>RB</b>	<b>Resistance</b>	211.30, 215.64	Previous highs Thursday's high
	209.39, up 6.65 cents	209.65	
	<b>Support</b>	206.90, 204.75, 202.52	
		198.75, 196.64, 194.00, 193.50	Thursday's low Previous low

222.00 level for much of the day and rallied to a high of 225.60 late in the session. It settled up 6.95 cents at 225.21. The product markets will likely retrace some of its gains early in the session. However the markets' losses will be limited by the front month contracts' expiration at the close. The RBOB market is seen finding support at 206.90, 204.75, 202.52 followed by 198.75, 196.64, 194.00 and 193.50. Meanwhile resistance is seen at 209.65, 211.30 and 215.64.