



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta,  
Zachariah Yurch & Karen Palladino  
**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

---

### **ENERGY MARKET REPORT FOR OCTOBER 8, 2007**

---

Iran's Oil Minister Gholamhossein Nozari said OPEC could revise a decision to increase its crude oil production by 500,000 bpd starting in November if that increase pushed prices lower than was economical for producers. He however did not state what he considered would be an economical level for producers. He shrugged off calls by France for firms to avoid Iranian energy deals, saying Iran was too attractive for them to ignore.

Iran and the UN's IAEA are scheduled to hold a round of talks in Iran this week aimed at clarifying aspects of the country's disputed nuclear program. The next round of talks is scheduled for Tuesday. Iran's agreement with the IAEA allows Iran to settle questions one by one over a timeline the agency says would run to December, even as it adds centrifuges to its Natanz enrichment plant. Meanwhile, Iran's

#### Market Watch

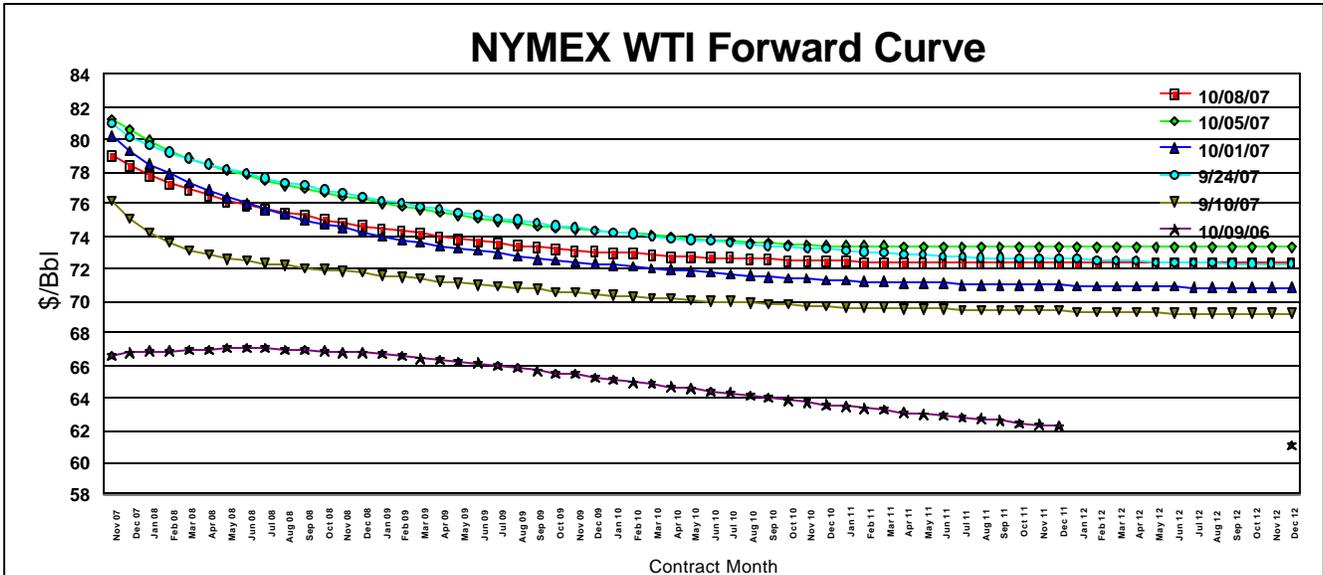
Goldman Sachs has estimated that oil prices would finish the year at \$85/barrel. It estimated a supply deficit of 1.4 million bpd on world oil demand of 87.8 million bpd. It estimated that the price of oil would increase to \$95/barrel at the end of 2008.

Merrill Lynch said oil prices could fall below \$70/barrel due to increased OPEC and non-OPEC oil production and slower economic growth in emerging markets.

Two Turkish soldiers died on Monday from Kurdish rebel landmine explosions, bringing the death toll among troops over the past 24 hours to 15. The increased attacks on security personnel have reignited talk of a Turkish military incursion into northern Iraq to crush Kurdish rebels. Turkey's government met to discuss its strategy to deal with separatist Kurdish fighters after 15 soldiers were killed in the past two days. Turkey has been pressing Iraq and the US for some time to allow it to attack Kurdistan Workers' Party bases in northern Iraq. Turkey has previously stated that it would consider a unilateral military operation into Iraq. Turkey's Prime Minister Recep Tayyip Erdogan said Turkey would evaluate the situation and take the necessary measures. He said he would also discuss the issue with President George W. Bush during a visit to Washington in November.

Ecuador's Oil Minister Galo Chiriboga said the country planned to officially rejoin OPEC at its next meeting.

Petrobras said Brazil is expected to consume more ethanol than gasoline by 2020 when flex fuel cars dominate the country's car fleet. Petrobras' chief executive Sergio Gabrielli said gasoline consumption is expected to increase but the consumption of other fuel sources are expected to rise even faster. The rapid increase in the sale of flex fuel cars is the main reason for the expected jump in ethanol sales. Ethanol in the Brazilian market is expected to represent 57% of the consumption of flex fuel cars in 2020. Petrobras estimated that Brazil would consume 29.6 billion liters of ethanol in 2020, up from 12.5 billion from the 2006-2007 harvest season. The country's ethanol exports in the same period are expected to increase to 16.5 billion liters from the current 3.4 billion liters.



Foreign Minister Manouchehr Mottaki said France's call for EU sanctions against Iran outside the UN framework was illegal, reiterating Iran would proceed with its nuclear program.

Iraq's national security adviser Mowaffak al-Rubaie said he strongly opposed any military attack on Iran and said the option should not even be considered. He said any attack on Iran would set the whole Middle East ablaze and Iraq would suffer the most.

The government in Iraqi Kurdistan continued to defend the oil and gas deals it has signed with foreign firms this year, with Kurdistan's Prime Minister Nechirvan Barzani saying two more would be signed soon. The Kurdistan Regional Government approved its own oil law in August and said last month it had signed a production sharing contract with a unit of Hunt Oil Co and with Impulse Energy Corp. It has signed eight production sharing contracts with international oil and gas companies so far.

A shipping source stated that Iraq was pumping Kirkuk crude at the rate of about 300,000 bpd through its northern pipeline to Turkey. Stocks of Iraqi crude in the Turkish port of Ceyhan reached 6.1 million barrels. Iraq's State Oil Marketing Organization has awarded its fifth Kirkuk oil tender to six European companies. BP Plc, Spain's Cepsa, Royal Dutch Shell Plc, ExxonMobil Corp, Turkey's Tupras and Italy's ERG SpA won the Kirkuk oil tender that was announced September 28.

The head of the IEA, Nobuo Tanaka said oil demand was being hit by the global credit squeeze triggered by the US subprime mortgage crisis. He also stated that high oil prices would have a negative impact on the economies of Asia. He said he was not seeking higher OPEC production, following OPEC's decision to raise its production starting in November, in an effort to lower prices.

### **Refinery News**

Valero Energy Corp said its 135,000 bpd Wilmington, California refinery completed its restart over the weekend and was at planned production levels on Monday after it was shut last Wednesday by a power outage.

Meanwhile, ConocoPhillips failed to restart a 47,000 bpd hydrocracker unit at its 140,000 Wilmington, California refinery over the weekend after it was shut by a power outage. A ConocoPhillips spokesman did not know when the unit would resume operations.

Shell Oil Products US reported that its 156,000 bpd refinery in Martinez, California was operating normally after a brief upset Sunday on a delayed coking unit. A compressor on the coker tripped offline Sunday.

BP Plc shut some units at its 400,000 bpd Nerefco refinery in the Netherlands for planned maintenance.

Total's 328,000 bpd Gonfreville refinery is scheduled to restart fully from a major turnaround on October 23. It started a major turnaround on August 20, with half of its units shutting down for work. The refinery was initially expected to restart on October 15.

Neste Oil Said it hoped to restart its diesel production line at the Porvoo refinery in southern Finland this month. It previously stated that it shutdown the diesel line for several weeks due to faulty valves.

Sinopec Corp's Maoming unit shut a 380,000 ton per year naphtha cracker on Monday due to technical problems at a downstream unit and planned to resume operations within two weeks. The shutdown may allow Sinopec to process more of its heavy naphtha into gasoline, increasing supplies of petrol.

### **Production News**

Royal Dutch Shell said it lifted a months long force majeure on its Forcados oil terminal in Nigeria in the past week. However it said its force majeure was still in place at its EA oilfield.

BP said it was on track to start its 200,000 bpd Atlantis oil field in the US Gulf of Mexico in December. Atlantis would be the biggest oil producer in the Gulf of Mexico when it starts, although it would be passed by the larger Thunder Horse field when it starts at the end of 2008. In addition to pumping up to 200,000 bpd of oil, Atlantis would also produce up to 180 million cubic feet/day of natural gas.

Venezuela's Oil Ministry said the country's proven oil reserves are at 100 billion barrels. It certified an additional 20.1 billion barrels of oil and 5.2 trillion cubic feet of natural gas found in the Orinoco river belt. The administration of President Hugo Chavez has estimated that the Orinoco heavy oil area alone can yield another 216 billion barrels of oil once the certification process is over next year.

Russia's gasoline exports fell by 13.7% on the month to 9,730 tons/day while gas oil shipments fell by 4.3% on the month to 99,090 tons/day. Shipments of fuel oil were unchanged at 119,300 tons/day. Meanwhile Russian oil exports increased by 290,000 bpd in September to 4.55 million bpd, as oil firms rushed to export crude before the introduction of higher export duty from October.

Kazakhstan reassured Italy that it had no plans to change the terms of a contract signed between the country and Italy's Eni to develop the Kashagan oilfield. Kazakhstan has threatened to strip Eni of its leading role at Kashagan due to increasing costs and production delays. Kazakhstan would like to see KazMunaiGas become co-operator of the oilfield whose start up date has been put off to 2010 from the original target of 2005. Talks between Kazakhstan and Eni on a new contract could run past an October 22 deadline.

Indonesia's Pertamina said its oil product imports were likely to fall in November from October due to lower demand. It said it planned to import about 10 million barrels of oil products next month, compared to an estimated 11.24 million barrels in October. The company is expected to import about 5 million barrels of gas oil and about 3 million barrels of gasoline, down from an estimated 5.6 and 5.36 million respectively in October.

Saudi Arabia has started issuing a new price for Saudi oil from Ras Tanura destined for the Mediterranean. It set its Arab Extra Light at BWAVE plus 45 cents/barrel, down 75 cents/barrel on the month. Its Arab Light was set at BWAVE minus \$3.10/barrel, down 95 cents/barrel, its Arab Medium was set at BWAVE minus \$4.95/barrel, down \$1.30/barrel and its Arab Heavy was set at BWAVE minus \$6.65/barrel, down \$1.35/barrel.

OPEC's news agency reported that OPEC's basket of crudes fell by 84 cents/barrel to an average \$75.33/barrel in the week ending October 5, down from \$76.16/barrel the previous week.

### **Market Commentary**

Pressure on prices continued today, with some forecasters looking for a significant drop. As refiners go down for maintenance during turnaround, demand should wane, putting further pressure on prices. Adding to the mix is a recovering dollar. Investors are feeling more comfortable with putting money back into the stock market and pulling out of commodities. During August and September of last year, prices were under pressure, and with stock levels hovering at five and six year highs, this year; we cannot comfortably justify higher prices. Crude oil has been on a steady climb since the beginning of the year but seems poised for a correction. We believe that correction should be at least to the long - term trend line dating back to January and extending to the lows of August. This trend line comes in at 72.89. At that point we would have a wait and see attitude as to whether or not prices will penetrate this level. Should they, we would look for a test of the 38.2% retracement between 83.87 and 49.90, which is 70.89. With rolls underway, the November/December spread came under pressure and traded as low as 53 cents. We mentioned several wires ago that this spread tends to narrow at the onset of roll period, but widens around day 10 of the cycle. Our next level of support on this spread is .34 cents. Should it get down there and hold we would like to buy the November contract and sell the December contract, looking for it to move back out. Total open interest in crude oil is 1,428,382 down 6,665, November 274,851 down 32,908 and December 278,500 up 20,580. Support for November, comes in at 77.30, 76.79 and 75.70. Resistance is set at 82.00, 83.85, 84.10, 84.58 and 86.70. The product markets also ended the session sharply lower amid the losses in the oil market. The RBOB market settled down 4.91 cents at 200.02 after the market sold off from its overnight high of 204.52. The market extended its losses to 6.93 cents as it posted a low of 198.00 late in the session in follow through selling seen in the crude market. The RBOB market later bounced off its low and retraced some of its losses ahead of the close. The November RBOB crack spread continued to hold its resistance as it settled at 4.99. The spread is still seen holding resistance basis its trendline at 5.054 and 5.1725. The heating oil market also posted a high of 221.96 in overnight trading before it continued to trend lower. The market extended its losses to 7.7 cents as it traded to a low of 214.65. Similar to the rest of the complex, the heating oil market bounced off its low ahead of the close. The product markets seen continuing its downward trend following today's sharp losses. The RBOB market is seen finding resistance at 200.77, 202.00, 204.10 and 204.52 followed by 206.71, 208.40 and 208.55. Meanwhile support is seen at 198.00, 197.65, 195.82, 195.19, 192.52 and 191.94.

|           |                         | <b>Explanation</b>                     |   |
|-----------|-------------------------|--|---|
| <b>CL</b> | <b>Resistance</b>       | 82.02, 83.85, 84.10, 84.58, 86.70      | Previous highs  |
|           | 79.02, down \$2.20      | 80.00, 81.11                           | Monday's high   |
|           | <b>Support</b>          | 78.35                                  | Monday's low  |
|           |                         | 77.92, 77.30, 76.79, 76.11, 75.70      | 38% (68.46 and 83.76), Previous lows, 50%, Previous low   |
| <b>HO</b> | <b>Resistance</b>       | 223.90, 224.25, 228.25                 | Previous highs  |
|           | 215.96, down 6.39 cents | 217.10, 220.05, 221.96                 | Monday's high   |
|           | <b>Support</b>          | 214.65                                 | Monday's low  |
|           |                         | 214.52, 214.40, 212.88, 209.75, 209.25 | Previous lows, 50% (197.50 and 228.25), Previous low, 62% |
| <b>RB</b> | <b>Resistance</b>       | 206.71, 208.40, 208.55, 212.24         | Previous highs  |
|           | 200.02, down 4.91 cents | 200.77, 202.00, 204.10, 204.52         | Monday's high   |
|           | <b>Support</b>          | 198.00                                 | Monday's low  |
|           |                         | 197.65, 195.82, 195.19, 192.52, 191.94 | Previous low, 50% (179.40 and 212.24), Previous lows, 62% |