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## ***ENERGY RISK MANAGEMENT***

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

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Turkish government officials said today that they would exhaust all diplomatic channels before launching any military strike into northern Iraq, to squash Kurdish rebels. This comes on the heels of Turkish domestic political calls for action following an attack over the weekend by Kurdish rebels on a group of Turkish soldiers that left at least 17 Turkish soldiers dead. Meanwhile Iraqi government officials announced today that the PKK, the Kurdish guerilla group, would announce a ceasefire Monday

evening. The U.S. earlier in the day had called on the Iraqi government to act quickly to stop Kurdish rebels in northern Iraq from mounting further cross-border attacks into Turkey. US President George W. Bush spoke to Turkey's President Abdullah Gul and Iraq's Prime Minister Nouri al-Maliki to urge the two governments to work together to counter the threat from the PKK.

In a letter to France, Iran's Foreign Minister, Manouchehr Mottaki said Iran would not abandon its right to nuclear technology despite the threat of further sanctions. He said taking actions and imposing unilateral sanctions against countries is illegal and added that it contradicted their commitment to resolving the issue through diplomacy. Meanwhile, the head of the UN's IAEA, Mohamed ElBaradei said that Iran needed three to eight years to make a nuclear bomb, allowing time for diplomacy. The major powers have agreed to hold off on more penalties until at least November to see if Iran cooperates with the IAEA to explain its nuclear aims and to await a report from EU foreign policy chief

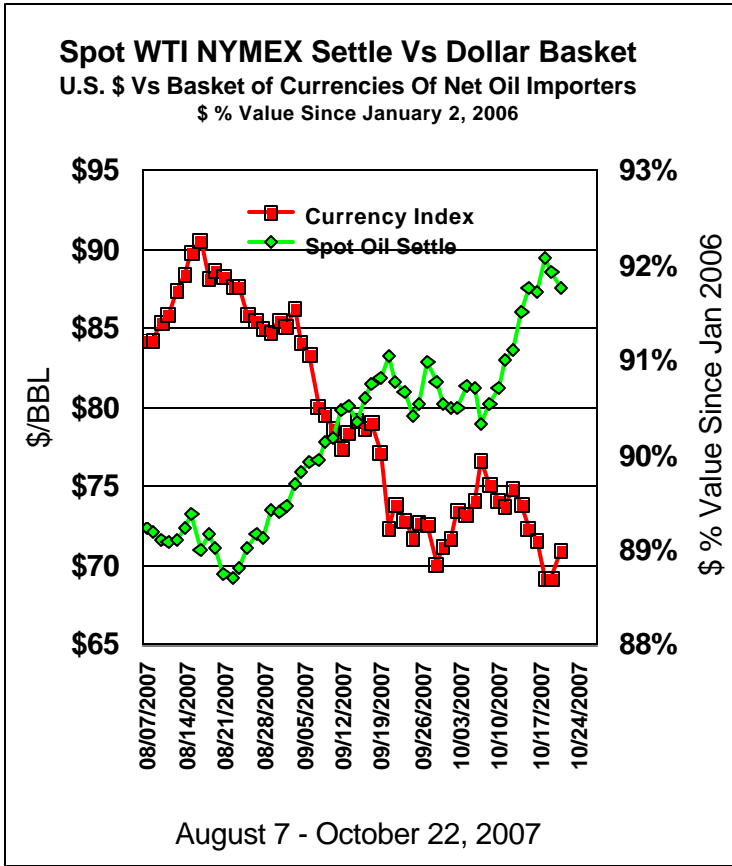
#### **Market Watch**

The state Brazilian government of Parana will open that country's first public ethanol terminal at the Port of Paranagua on Tuesday morning. The facility will have a capacity for storage of 37,500 cubic meters of ethanol and can handle up to 15 ships per month.

The NWS reported this morning that heating demand in the United States was running some 40% behind normal and is expected this week 45% below normal.

The head of the International Monetary Fund, Rodrigo Rato warned that there were risks of an abrupt fall in the dollar, linked to a loss of confidence in dollar assets. He suggested that Europe could take steps to temper the strong appreciation of the euro. He warned that a downturn would exacerbate other risks that already exist in the world economy, citing some emerging economies' reliance on capital inflows and the potential that central banks may not curb rising inflationary pressures.

A board member of Austria's oil and gas group OMV said oil prices could reach \$100/barrel for a short time and added that speculative investors had increased and driven up prices.



Javier Solana. US Vice President Dick Cheney said the world would not stand by and let Iran develop a nuclear weapon and added that the US has not ruled out an attack.

OPEC's head of research, Hasan Qabazard said geopolitics and the prospects of storms in the Gulf of Mexico were driving oil prices. He also stated that the fall in the dollar was a concern for OPEC. Kuwait's acting Oil Minister Mohammad al-Olaim also stated that geopolitics and a lack of refining capacity was driving oil prices higher. He said the price of oil was not related to the supply demand situation. He said OPEC's 500,000 bpd oil production increase would ease prices.

Saudi Arabia's Minister of Finance and National Economy, Ibrahim al-Assaf said the price of oil is not justified by demand. He said the price of oil was supported by the political tensions, speculation and shortage of refinery capacity.

Libya's National Oil Corp chairman Shokri Ghanem said oil prices could reach \$100/barrel due to political tension and speculation.

A Nigerian government spokesman said all seven foreign hostages seized by gunmen from an offshore Nigerian oilfield were released on Monday after two days in captivity. The attack on Shell's EA field was the first big raid since President Umaru Yar'Adua took office in May. The attack had no immediate impact on oil output because the field was still halted after an earlier militant attack in February 2006. The field had been expected to restart by the middle of next year.

The EIA reported that the retail price of gasoline increased by 6.1 cents/gallon to \$2.823/gallon in the week ending October 22. It also reported that the retail price of diesel increased by 5.5 cents/gallon to \$3.094/gallon on the week.

**Refinery News**

Total's 328,000 B/d Gonfreville refinery is expected to be fully restarted by the end of the week. The refinery has been undergoing maintenance work since August 20<sup>th</sup>, which had resulted in half the units being taken offline. The maintenance work went a week longer than originally planned. The company is expected to start a major seven week turnaround at its 119,000 Feyzin refinery that is expected to last until December 8<sup>th</sup>.

Neste Oil's new diesel hydrocracking unit at the Porvoo refinery, which has been shut since mid-September to replace a faulty valve reportedly still has not returned to service.

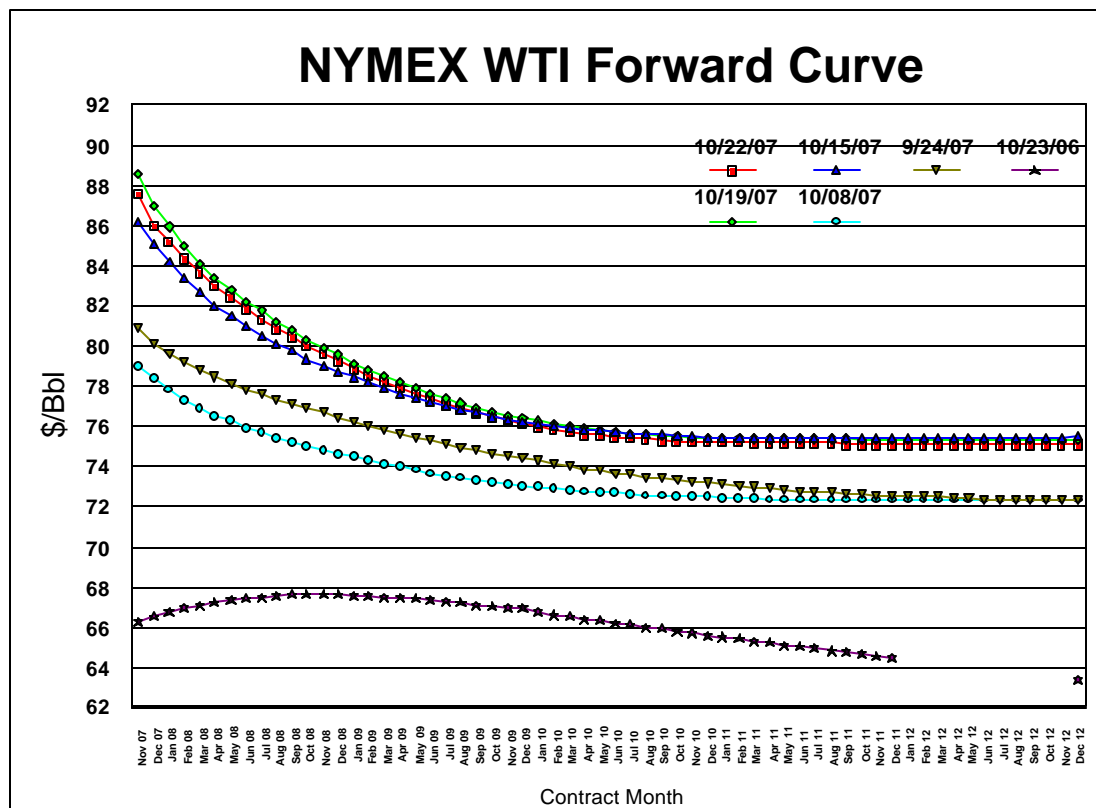
ExxonMobil's 150,000 b/d Torrance, California refinery, which had been restarted last week following a two month overhaul, was operating at normal levels this morning.

The restart process has started at BP's Carson, California refinery at units that were shut on October 5 for scheduled turnaround. The units that were taken out of service include a 60,000 bpd crude unit and a 20,000 bpd coker unit. A reformer unit was also shut at the time and would also be part of the restart process currently underway.

ConocoPhillips reported to regulators that it has scheduled a carbon monoxide boiler unit for maintenance at its 146,000 b/d refinery in Borger, TX.

Citgo Petroleum Corp was carrying out three days of maintenance at its Corpus Christi, Texas refinery. The maintenance started on October 22 and is scheduled to end on October 25.

Shell said its Deer Park refinery would undergo maintenance starting October 22.



Credit Suisse said US refining margins last week fell across all regions as crude prices reached record levels. Margins in the Rocky Mountain region fell by \$5.12/barrel to \$16.53/barrel while margins in the West Coast fell by \$3.93 to \$16.77/barrel in the week ending October 19 as refineries resume operations

following a spate of outages the previous week. Margins in the Midwest fell by \$3.26/barrel to \$7.88/barrel while margins in the Gulf coast fell by \$1.42/barrel to \$5.53/barrel. Margins in the Northeast also fell by 72 cents to \$7.50/barrel.

The CEO of Greece's Hellenic Petroleum said today that diesel supplies in Europe will become even tighter in coming years due to stricter environmental regulations, such as Britain's reduction in sulfur content in December and the Rest of the EU in January 2008.

**NYMEX Petroleum Options Most Active Strikes for October 22, 2007**

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	2	8	P	75	01/16/2008	1.2	5,252	28.69
LO	2	8	P	83	01/16/2008	3.55	5,050	26.41
LO	2	8	P	60	01/16/2008	0.11	3,152	35.63
LO	12	7	C	90	11/13/2007	1.16	3,073	31.36
LO	12	7	P	85	11/13/2007	2.12	2,906	31.15
LO	12	7	P	70	11/13/2007	0.08	2,854	43.12
LO	2	8	P	65	01/16/2008	0.26	2,663	33.23
LO	12	7	P	80	11/13/2007	0.76	2,255	34.51
LO	3	8	P	70	02/14/2008	0.79	2,100	28.45
LO	1	8	P	86.5	12/13/2007	4.36	2,000	28.86
LO	12	7	C	65	11/13/2007	21.02	1,975	58.30
LO	4	8	P	70	03/14/2008	1.13	1,900	27.88
LO	12	7	C	100	11/13/2007	0.2	1,716	38.27
LO	1	8	P	40	12/13/2007	0.01	1,700	70.48
LO	1	8	C	150	12/13/2007	0.01	1,700	50.91
LO	2	8	P	80	01/16/2008	2.39	1,543	26.89
LO	5	8	P	81	04/17/2008	4.71	1,500	24.56
LO	5	8	C	83	04/17/2008	5.04	1,500	23.99
LO	12	7	C	50	11/13/2007	36.02	1,500	113.16
LO	12	7	P	76	11/13/2007	0.32	1,478	37.94
LO	6	8	P	80	05/15/2008	4.8	1,400	24.43
LO	12	7	C	85	11/13/2007	3.14	1,399	31.21
LO	12	7	C	87	11/13/2007	2.16	1,349	31.06
LO	12	7	C	55	11/13/2007	31.02	1,200	93.19
LO	12	7	C	53	11/13/2007	33.02	1,200	100.95
LO	1	8	P	85.5	12/13/2007	3.78	1,165	28.62
LO	12	7	P	82	11/13/2007	1.16	1,152	33.02
LO	5	8	P	82	04/17/2008	5.12	1,100	24.20
LO	12	7	C	93	11/13/2007	0.66	1,096	33.29
LO	12	7	C	97	11/13/2007	0.33	1,094	36.23
LO	12	7	C	85.5	11/13/2007	2.86	1,020	31.03
LO	12	7	P	86.5	11/13/2007	2.86	1,015	31.10
LO	1	8	P	87	12/13/2007	4.66	1,000	28.94
OB	11	7	P	2.1	10/26/2007	0.0168	151	34.76
OB	11	7	C	2.1	10/26/2007	0.0502	101	34.76
OB	11	7	P	1.8	10/26/2007	0.0001	100	59.06
OB	12	7	C	2.28	11/27/2007	0.0314	100	30.45
OH	12	7	C	2.3	11/27/2007	0.1001	370	29.53
OH	11	7	C	2.33	10/26/2007	0.0234	321	33.07
OH	11	7	C	2.24	10/26/2007	0.0787	200	33.07
OH	1	8	C	2.15	12/26/2007	0.2249	125	26.80
OH	1	8	P	2.18	12/26/2007	0.0376	125	26.30
OH	11	7	C	2.06	10/26/2007	0.2509	125	44.30
OH	11	7	P	2.33	10/26/2007	0.0425	125	33.07
OH	3	8	P	1.9	02/26/2008	0.0155	100	26.72
OH	3	8	P	2.05	02/26/2008	0.0409	100	26.74
OH	3	8	P	1.95	02/26/2008	0.022	100	26.72
OH	12	7	C	2.23	11/27/2007	0.142	100	29.61
OH	12	7	C	2.29	11/27/2007	0.1055	100	29.51

The Ukraine said on Monday a shortage of crude had forced it to close part of its largest oil refinery, Kremenchug. Transneft confirmed it had halted oil flows to the plant. The plant normally processes 180,000 b/d of Russian crude oil.

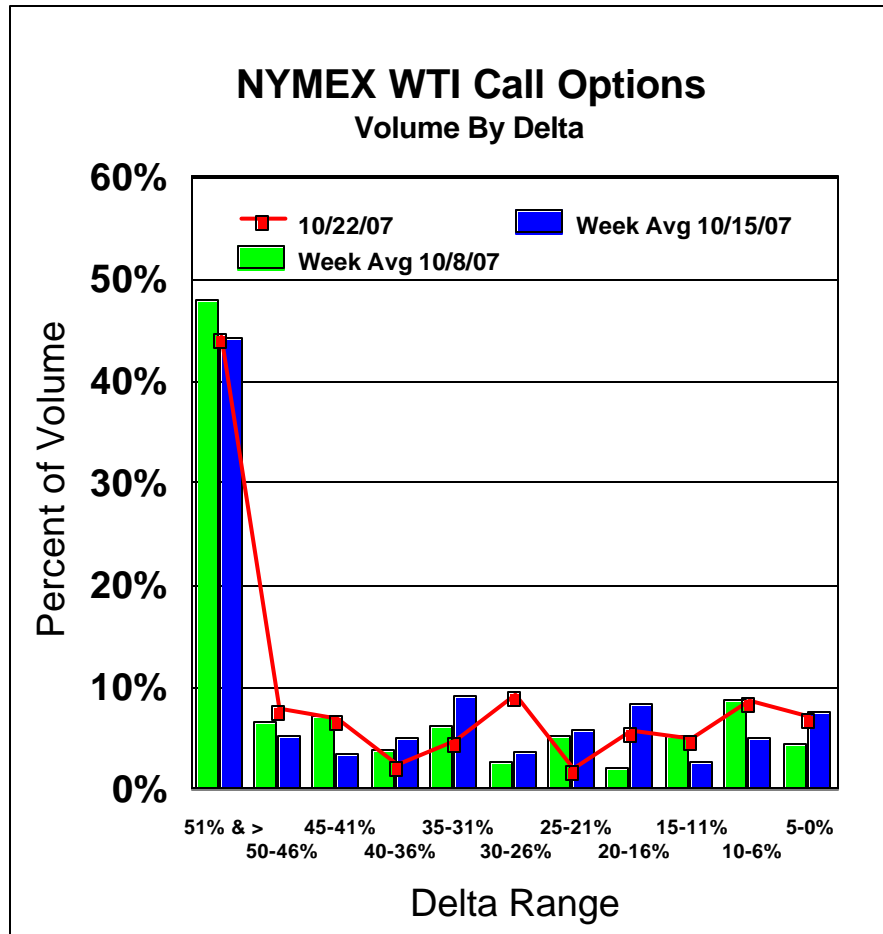
**Production News**

Mexican crude oil production rose to 3.161 million b/d in September, up from 2.843 million b/d in August. Oil exports reached 1.679 million b/d up 2.9% from August levels. Meanwhile, Mexico's total output of refined products fell by 6.5% to 1.38 million bpd in September, down from 1.47 million bpd in August.

Iraq issued a new sales tender for 6 million barrels of Kirkuk crude oil, the fifth such sale in less than two months. Interment flows over the past month have allowed Iraq to export 17.1 million barrels. Pumping along the northern pipeline which had been halted last Sunday, resumed on Friday at a rate of around 480,000 b/d.

Nigeria's preliminary crude oil loading plan for December indicated that seven cargoes of Bonga crude would be exported. The loading plan indicated that three cargoes containing 1 million barrels of Bonga each and four cargoes of 950,000 barrels would be shipped.

The managing director of the National Iranian Offshore Oil Co said Iran's crude production from the Persian Gulf and the Gulf of Oman would increase to 1 million bpd by 2011.



The government of Kazakhstan and the consortium of Western oil companies led by Eni agreed today to continue talks on the future of the Kashagan oil field development, despite an original October 22<sup>nd</sup> deadline set by the Energy ministry.

Russia's Lukoil said it suspended work on the Anaran oil project in Iran due to US sanctions while its partner Norway's StatoilHydro said it was still studying the project. It said it could not work in Iran because there was a US state department ban on foreign investments of third countries for over \$20 million. The companies have estimated that the field's reserves were 2 billion barrels. StatoilHydro said it was still considering plans for developing the field but added

that no new decisions had been made regarding the project.

BP is expected to begin drilling a second exploration well at the Inam project in Azerbaijan by the start of the next year following a six year delay. Exploration at the Caspian Sea project would start in late 2007 or early 2008.

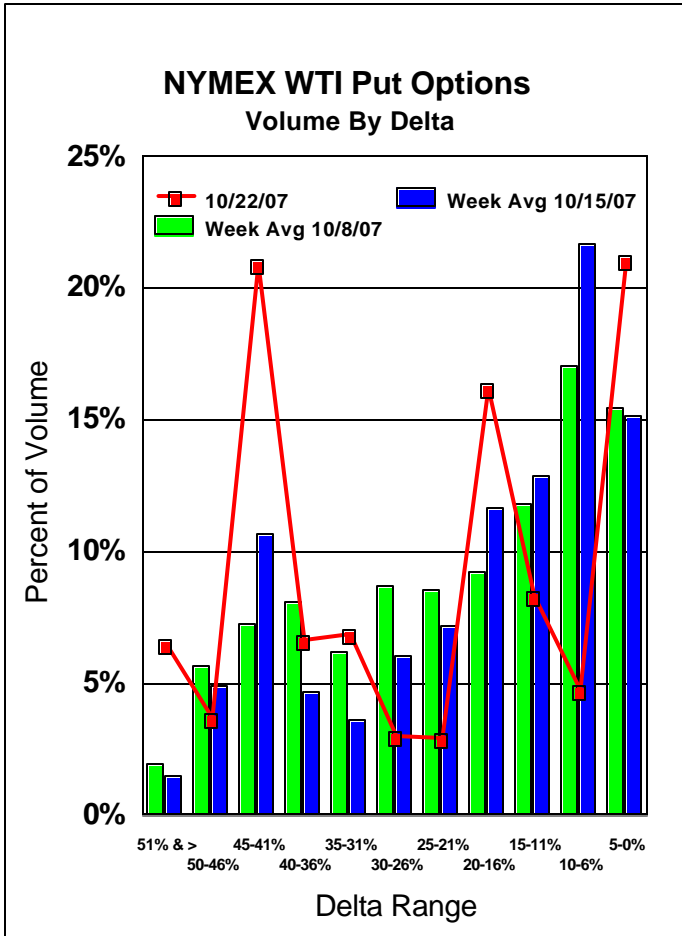
Kuwait Oil Co said it reached a preliminary deal with ExxonMobil Corp to produce heavy oil in the Lower Fars field and aimed to reach 900,000 bpd by 2020.

Ecuador's Central Bank reported that the country's oil export revenues totaled \$625 million in August, down 6% from the \$664 million reported last year. In terms of volume, Ecuador exported 10.21 million barrels in August, down 9% from 11.21 million barrels shipped last year.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$81.55/barrel on Friday to \$81.14/barrel on Thursday.

**Market Commentary**

November expiration combined with a stronger dollar put pressure on crude oil prices today. The U.S. dollar experienced its greatest increase in two weeks, sending sighs of relief across the market place. With signs of a slight economic recovery, speculators were taking profits out of the commodities



market on what would be considered profit taking. Now that November is off the board and December is the front month, we will have to wait and see if the sell off continues. From a technical stand point this market is poised to go lower, with the December contract setting up to trade as low as 77.71. Prices have now settled below the top of the upward channel on the spot continuation chart. This should at least bring prices to 78.35, barring any significant market news. Total open interest in crude oil is 1,458,376 down 10,703, November 36,416 down 38,973, December 448,191 up 23,051 and January 148,707 up 1,615. Support for December, comes in 83.60, 83.00, 82.00, 80.80 and 79.00. Resistance is set 89.00, 90.47. The RBOB opened at its high of 216.85 and breached its support at 213.75 as it sold off to a low of 210.50 in overnight trading amid the losses in the oil market. The market however bounced off its low and settled in a sideways trading pattern before the market traded back above 215.00. It later gave up some of its gains once again on a late bout of profit taking and settled down 3.53 cents at 213.34. The heating oil market sold off to a low of 228.72 early in the session. It however bounced off that level and rallied to a high of 234.33 in

afternoon trading ahead of a late bout of selling. The heating oil market settled down 1.97 cents at 231.09. The product markets are seen trading in a range following their sharp losses. The markets' losses are still seen limited. The RBOB market is seen finding support at 211.50, 210.50 followed by 208.22, 207.52, 204.78 and 204.53. Meanwhile resistance is seen at 215.60, 216.85, 219.40, 220.19 and 222.00.

Crude oil option volume today was the smallest since October 10<sup>th</sup> as just over 110,000 lots changed hands. For the second day in a row puts outpaced calls for traders interest.

		Explanation
<b>CL</b>	<b>Resistance</b>	88.49, 89.00, 90.47 87.00
	<b>Support</b>	85.60, 85.25, 84.73 83.60, 83.00, 82.00, 80.80, 79.00
<b>HO</b>	<b>Resistance</b>	236.44, 236.65, 240.00 234.33
	<b>Support</b>	203.40, 229.70, 228.72 227.93, 225.30, 224.40, 232.22, 222.66
<b>RB</b>	<b>Resistance</b>	219.40, 220.19, 222.00 215.60, 216.85
	<b>Support</b>	211.50, 210.50 208.22, 207.52, 204.78, 204.53