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## ***ENERGY RISK MANAGEMENT***

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## **ENERGY MARKET REPORT FOR NOVEMBER 20, 2007**

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US Energy Secretary Sam Bodman said the US was not concerned about the debate within OPEC whether it should seek an alternative to the dollar in pricing oil. He also stated that OPEC should increase output at its next meeting in Abu Dhabi on December 5.

Indonesia's Energy Minister Purnomo Yusgiantoro said the country wants OPEC to increase its output further. Rising oil prices have caused Indonesia's fuel

subsidy bill to balloon, with officials warning it could reach 90 trillion rupiah or \$9.65 billion this year if prices reached \$100/barrel.

Lloyd's Marine Intelligence Unit showed that OPEC's oil exports, excluding Angola, increased by about 20,000 bpd to 22.75 million bpd in October from 22.73 million bpd in September. It said final shipment figures for the month showed exports rising 3% to Asia with a corresponding fall to the US. It said flows from the Gulf increased by 3.5% in October while flows from West Africa fell slightly.

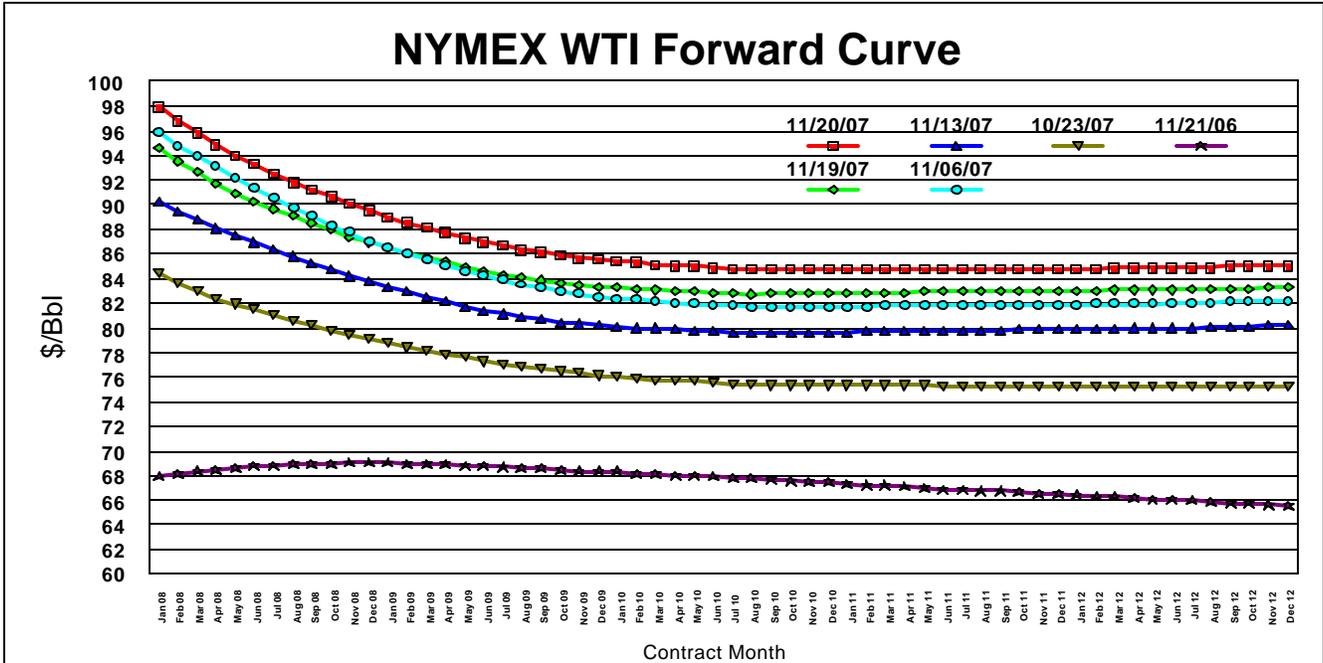
According to a report by MasterCard Advisors, US gasoline demand in the week ending November 16 increased by 0.05% on the week but fell by 0.5% on the year to 65.056 million barrels or 9.294 million bpd. The four week average demand level was 65.57 million barrels or 9.367 million bpd, down 88,000 bpd on the week. Retail gasoline prices increased by 5 cents or 1.6% to an average \$3.10/gallon over the week.

### Market Watch

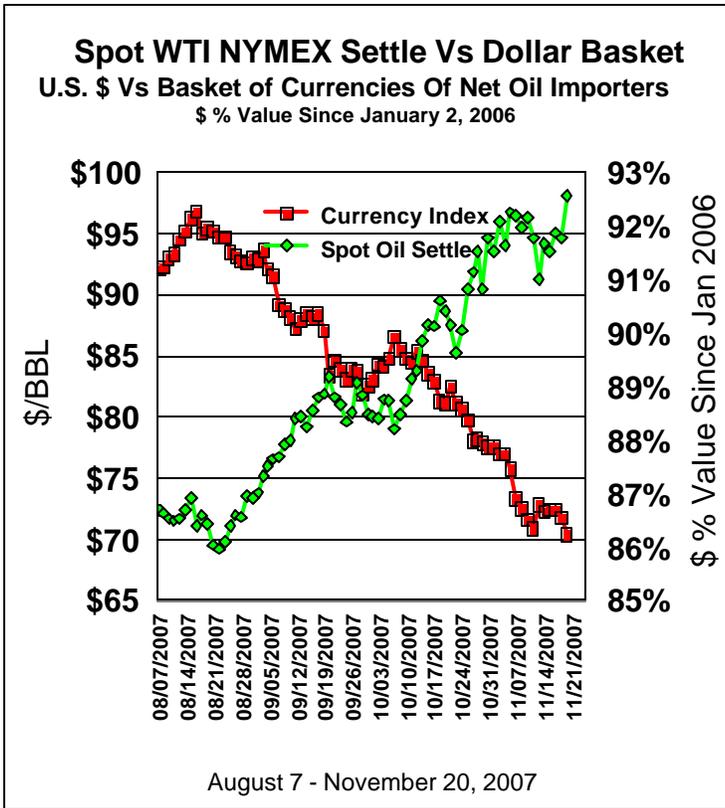
WSI Corp forecasted the US Northeast would face below normal temperatures in December before warmer than normal weather moves in during January and February. The North Central US would see below average temperatures in December and February but above normal temperatures in January. WSI forecast the South Central US would face above normal temperatures in December and January with colder weather in February. It also stated that most Northwestern states would see warmer temperatures in December and cold weather in January and February. The US Southwest would see warmer than normal temperatures in December and January and below average temperatures in February.

According to a Dow Jones Newswire survey, the average price of US light sweet crude futures in the current quarter was revised up 20.5% to \$88/barrel. Analysts said prices are expected to remain strong through the first quarter of next year and start to gradually fall in towards the end of 2008 going into 2009 on the weakening US economy and slower growth in the rest of the world's richest economies.

Turkey's Energy Minister Hilmi Guler said Turkey would continue to sign energy agreements with Iran, including deals on natural gas. The US has urged its allies, including Turkey, to cut business ties with Iran over its nuclear program.



Iran's Foreign Minister Manouchehr Mottaki said in an open letter to counterparts world over that the US' unilateral sanctions on Iran were in contradiction to claims of pursuing diplomatic solutions. He said the US imposition of unilateral sanctions was illegal. He reiterated that Iran's nuclear program was peaceful and added that a report by the UN's IAEA proved accusations Iran was pursuing nuclear weapons baseless. He said Iran had answered all the questions made by the IAEA and made progress in cooperating with it. Meanwhile Iran's deputy nuclear negotiator Javed Vaidi canceled a meeting with his European Union counterpart, saying he was ill.



Iraq's Foreign Minister said Hoshiyar Zebari said the risk of a major Turkish incursion into northern Iraq to strike at Kurdish PKK guerillas has diminished because of improved cooperation between the two countries on securing the border. Iraq's Kurdistan Regional Government has set up roadblocks to stop the flow of food and fuel to rebels of the Kurdistan Workers Party.

Iraq's Prime Minister Nouri al-Maliki warned that separating Iraq into federal regions could lead to more strife and the country's eventual breakup. He accused the country's Sunni Arab Vice President Tariq al-Hashemi of impeding political process, saying he was to blame for a backlog of

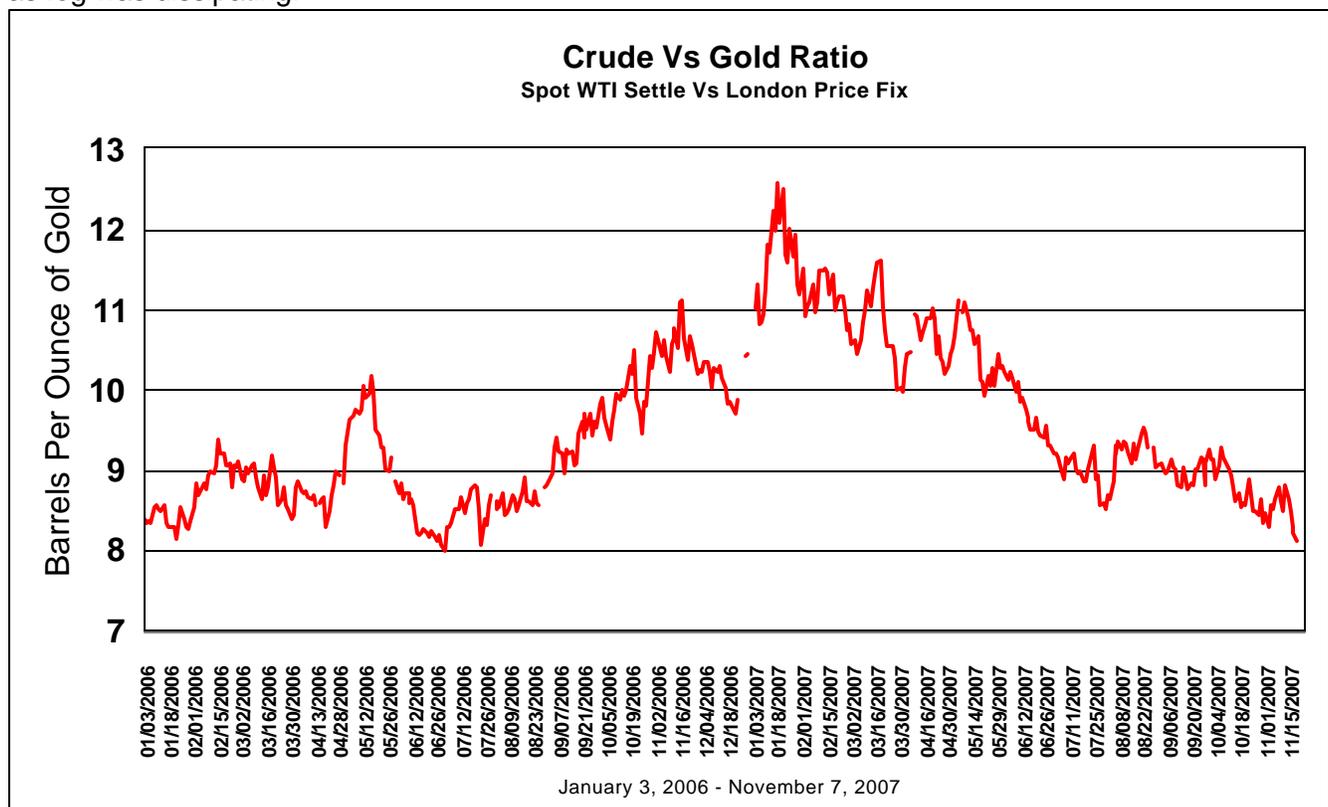
draft laws adopted by parliament but not yet ratified by the presidential council.

The US State Department said the US accepted an Iraqi proposal to hold new talks with Iran about the security situation in Iraq. The meeting would be the third round of talks between the US ambassador to Iraq and his Iranian counterpart.

The Kurdish Regional Government said it would not accept any punishment from Iraq's government over contracts agreed with foreign oil companies after Iraq's Oil Minister Hussain al-Shahristani threatened to bar the firms from doing deals with the central government.

### Refinery News

According to the US Coast Guard, more than 50 ships were waiting to enter or exit the Houston Ship Channel. Ship movement was halted on Monday after dense fog made it unsafe to steer ships along the channel. Ships were moving at the southern end of the channel from the port of Texas City, Texas as fog was dissipating.



Valero Energy Corp's fluid catalytic cracking unit at its 180,000 bpd Memphis, Tennessee was shut late Monday for an estimated 10 days of maintenance. The outage would result in a loss of 65,000 bpd of gasoline production and 35,000 bpd of distillate production.

ConocoPhillips' 156,000 bpd Borger, Texas refinery was near normal operating rates following the restart of a diesel hydrotreater and fluid catalytic cracking unit over the weekend. The units were shut on October 20 due to operational issues.

ExxonMobil said repairs have been completed at a compressor that has slowed down the fluid catalytic cracking unit at its 349,000 bpd Beaumont, Texas refinery since last week. Separately, ExxonMobil said it would begin the process of restarting a fluid catalytic cracking unit and an alkylation unit at its

Torrance, California refinery as early as Thursday. The units were shut on November 2 for three weeks of planned maintenance.

Motiva said its 235,000 bpd refinery in Convent, Louisiana resumed normal operations following problems with its two crude units. Its smaller crude unit, which was closed by a small fire in a pump on November 6, was restarted last Monday while the second and larger crude unit resumed operations over the weekend.

BP is expected to increase its runs to 400,000 bpd at its Texas City, Texas refinery by the end of the year. The refinery is working on resuming operations on its crude unit. A fluid catalytic cracking unit was expected to resume operations by the end of November as was a coker and hydrotreating unit. The refinery is expected to reach its nameplate capacity of 460,000 bpd in mid-2008 after it was shut ahead of Hurricane Rita in September 2005.

Western Refining said that while there was no exact estimate on when its diesel hydrotreater at its El Paso, Texas refinery would resume operations, the repairs were proceeding better than expected. It said the outage would be brief. The unplanned shutdown Saturday of the 30,000 bpd diesel hydrotreater unit halted ultralow sulfur diesel production at the 130,000 bpd refinery.

Royal Dutch Shell's oil sands upgrading plant near Edmonton, Alberta caught fire late on Monday. Shell and Alberta's energy regulator said the fire ignited following a release of light hydrocarbons and hydrogen sulphide at the 155,000 bpd Scotford upgrader. Shell shut down processing units but did not specify which units were shut.

Neste Oil said it still expected its new diesel production line at the Porvoo refinery in Finland to resume operations in November after it was closed in mid-September for repairs.

Taiwan's CPC Corp said it would delay the restart of its 100,000 bpd crude unit at its 220,000 bpd Kaohsiung refinery by about a month until the end of December after it was closed in late October due to a fire.

A fire on a tank at Engen's 180,000 bpd refinery on South Africa's coast raged on Tuesday after it broke out on Monday evening. Officials said the fire was under control and would not affect production.

India's Hindustan Petroleum Corp Ltd has further delayed until April or May plans to shut its Mumbai refinery for an upgrade as equipment needed for new clean fuel units is yet to arrive.

Bulgaria's Black Sea port of Varna opened after strong winds eased on Tuesday while the port at Burgas allowed small boat traffic only.

South Korea's Korea National Oil Corp said the country's domestic oil products demand increased by 6.8% to 65.69 million barrels or 2.12 million bpd in October. It cut end-October oil product stocks to 48.26 million barrels, down 7.9% on the year. South Korea's total oil stocks at the end of October stood at 70.13 million barrels, down from 74.87 million barrels at the same time last year. Stocks of heating oil stood 40% below a year ago at 3.47 million barrels while bunker-C stocks fell by 16.5% to 11.19 million barrels. October crude imports in South Korea fell by 4.1% on the year to 71.5 million barrels or 2.31 million bpd. Crude runs at its five refineries fell by 5.2% on the year to 70.79 million barrels or 2.28 million bpd.

## **Production News**

Royal Dutch Shell's Forcados export terminal is expected to export five cargoes of 950,000 barrels of Forcados crude in January despite last week's attack which ruptured a pipeline feeding into the terminal.

An offshore oil well in Mexico's Campeche Sound caught fire Tuesday morning while workers were trying to plug an oil and natural gas leak. It was the second time the well caught fire since the well was ruptured during a storm on October 23. Pemex said it would resume work on plugging the well as soon as it extinguishes the fire.

### Market Commentary

The fundamentals driving the market today, made up for the lack of fundamentals yesterday. The dollar is at a record low against the euro, the Dow Jones average was off today, speculation is spreading that the Federal Reserve will once again cut rates and there were reports of a fire at Royal Dutch Shell's Alberta plant, which lead to fears of shipment cuts to the U.S. All these fundamentals drove price back to the all time high of \$98.62, creating a double top on the spot continuation chart. At this point it is easier to pick support than resistance as prices head back into uncharted territory. With the bullish sentiment still looming over the market, buying dips is what we would prefer. The Jan 105/7700-c/p-ratio spread is very much in our favor with the 105.00 call settling at 1.00 and the 77.00 put settling at 0.05. When we talked about putting on this position, the 105.00 calls were worth 0.49 cents and the 77.00 puts were worth 0.22 cents. (We wanted to be long the 105.00 call and short the 77.00 put on a 1 to 3 ratio) It will be very tempting to take profits on the 105.00 calls and take our chances on the 77.00 puts, but we still have time on our side. Total open interest in crude oil is 1,381,981 down 274, JAN.08 393,3 94 down 3,565, FEB.08 100,854 up 4,334. Support for January, comes in

95.35,  
94.45,  
93.99, 93.15  
and 92.05.  
Projected  
resistance is  
set 100.00,  
101.45,  
104.28 and  
107.11. The  
heating oil  
market led  
the product

		Explanation	
CL	<b>Resistance</b>	100.00, 101.45, 104.28, 107.11 98.62	Double top
	<b>Support</b>	96.70, 95.35, 94.45, 93.99 93.16, 91.81, 90.50, 90.00	Tuesday's low Previous lows
HO	<b>Resistance</b>	278.41 270.18	Basis trendline Tuesday's high
	<b>Support</b>	266.60, 265.05, 262.55, 260.00, 258.80 256.94, 255.05, 253.35, 250.40, 249.02	Tuesday's low Basis trendline, Previous lows
RB	<b>Resistance</b>	248.81, 253.72 246.35	Previous high, Basis trendline Tuesday's high
	<b>Support</b>	242.25, 241.45, 239.45, 236.80 233.31 233.20, 231.04, 230.40	Tuesday's low Basis trendline, Previous lows

markets higher as it settled up 8.59 cents at 269.01, a record level. The market traded off an overnight low of 258.80 and remained well supported amid the strength in the crude market and the expected draw in distillate stocks. The market extended its gains to 8.9 cents as it rallied to a high of 269.32 late in the session. It later continued to trend higher in overnight trading and posted a high of 270.18. Meanwhile, the RBOB market traded off a low of 236.80 and rallied over 7.2 cents as it rallied to a high of 245.43 ahead of the close. The market traded higher on the crude market's strength and some refinery problems. While the inventory reports may limit the gains, amid expectations that crude and gasoline stocks built, the markets will likely retrace any losses and continue its upward trend ahead of the Thanksgiving Day holiday.