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## ***ENERGY RISK MANAGEMENT***

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## **ENERGY MARKET REPORT FOR DECEMBER 3, 2007**

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OPEC Ministers said the group may decide not to increase its production after a fall in crude prices from record highs. They believe OPEC is producing enough to meet world demand and increasing production would do little to ease prices. Saudi Arabia's Oil Minister Ali al-Naimi said the meeting would focus on oil market supply and demand fundamentals as crude prices are determined by the market. He

### Market Watch

The US National Weather Service reported that US heating demand would be less than 1% below normal in the week ending December 8. Demand for heating oil is expected to average about 13% above normal as chilly weather sets into the Northeast in the wake of a winter storm.

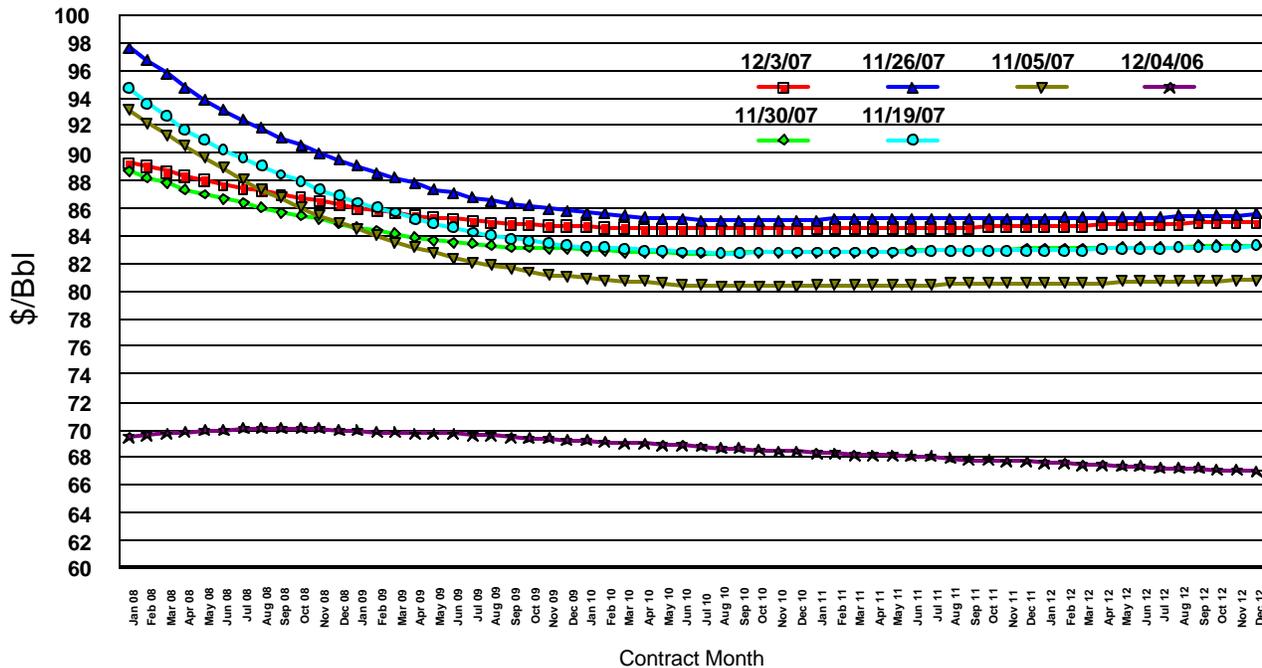
Massachusetts Gov. Deval Patrick proposed a bill that would require all home heating oil and diesel fuel to contain at least 5% of fuel derived from soybeans by 2013. The bill would make Massachusetts the first US state to require home heating oil to contain biofuels, beginning with 2% renewable fuel alternatives by 2010 and increase to 5% by 2013. Leaders in the state legislature support the bill, though it has yet to go to a vote.

Morgan Stanley raised its long term forecast for the price of WTI to \$85/barrel from \$65/barrel. It said it may trade at an average of \$80/barrel in 2008. Between 2008 and 2012 prices are most likely to average \$85/barrel.

The UAE foreign minister and the finance ministers of Qatar and Saudi Arabia avoided questions about a common position on currencies in the Gulf Cooperation Council. They said that currency reform was not on the agenda of the two day summit that ends on Tuesday.

however said OPEC's decision this week on production policy was wide open. He said it was too soon to say whether there was a consensus within OPEC. Qatar's Oil Minister Abdullah al-Attiyah said it was unlikely OPEC would alter output. Algeria's Oil Minister Chakib Khelil said OPEC would keep its targets unchanged because there was no need to increase production. The head of Libya's OPEC delegation, Shokri Ghanem said OPEC did not need to increase its oil production adding that the market was well supplied. Meanwhile Venezuela's Oil Minister said Rafael Ramirez said the country would not support an increase in oil production quotas during the upcoming OPEC meeting on Wednesday. He also stated that a key issue under discussion would be a proposal to create a currency basket to price crude sold by all OPEC members. Ecuador's Oil Minister Galo Chiriboga said the world is well supplied with oil for the winter and does not need more crude from OPEC. OPEC President Mohammed bin Dhaen al-Hamli said demand for crude oil in 2008 is expected to grow at

## NYMEX WTI Forward Curve



levels similar to 2007, when asked if a decline in demand would affect the decisions of OPEC ministers.

Separately, Venezuela's Oil Minister reiterated President Hugo Chavez's earlier threats against Spanish companies and warned that business with Spain's oil company Repsol YPF SA was also under review. Venezuela's President has threatened to nationalize some Spanish companies and kick others out of the country following a diplomatic spat with Spain's King Juan Carlos last month. Venezuela's President conceded defeat in a referendum on allowing him to run indefinitely for re-election. He however said that the reform proposals remained alive, suggesting he may try to push them through later. Venezuelans managed to block the measure by a small margin of 50.7% of the vote.

Iraq's Oil Minister Hussain al-Shahristani said oil contracts signed by the Kurdish region were illegal and the Iraqi government had told the companies involved.

US Undersecretary of State Nicholas Burns said talks on a third UN sanctions resolution on Iran over its nuclear program have taken a step forward with China's cooperation. Separately, according to a new assessment by US intelligence agencies Iran halted its nuclear weapons development program in the fall of 2003 under international pressure but believed it was continuing to enrich uranium. An official said the new findings suggest that diplomacy was effective in containing Iran's nuclear ambitions. The National Intelligence Estimate report concluded that if Iran were to end the freeze of its weapons program, it would still be least two years before Iran would have enough enriched uranium to produce a nuclear bomb.

During the Gulf Cooperation Council meeting, the emir of Qatar, Sheikh Hamad bin Khalifa al-Thani warned leaders of the Gulf region that it was facing serious threats to its security and prosperity. The leaders of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE, are worried that the standoff between western states and Iran over its nuclear program could escalate into military conflict. They

have called for dialogue to resolve the issue. Meanwhile, Iran's President Mahmoud Ahmadinejad offered a security pact with the Gulf Arab leaders. He also stated that he wanted to create an economic cooperation block for Gulf states and offered to share Iranian expertise in a range of areas including energy and new technologies. Iran's President said the issue of Iran's controversial nuclear program was closed and that his country was prepared for any eventuality.

Turkey's President Abdullah Gul reasserted the country's right to intervene in northern Iraq to fight the Kurdistan Workers' Party. Turkey said it carried out an intervention in northern Iraq on Saturday, sending in about 100 special forces.

DEBKAfile said a third aircraft carrier, the USS Harry S. Truman, arrived in the Central Command area over the weekend to join the USS Enterprise and USS Nimitz. Its military sources interpreted the new build up as signifying US preparedness for a possible military confrontation with Iran.

The EIA reported that the US average retail price of diesel fell by 2.8 cents/gallon to \$3.416/gallon in the week ending December 3. The EIA also reported that the US average retail price of gasoline fell by 3.6 cents/gallon to \$3.061/gallon on the week.

### **Refinery News**

Enbridge Inc said its Line 3 crude oil pipeline was shipping 430,000 bpd of Canadian crude to refiners in the US. The line returned to service early Monday.

Credit Suisse said US refining margins in the Northeast fell in the week ending November 30 while Midwest and West Coast margins gained on weaker crude prices. Northeast refiners saw margins fall \$1.45 to \$7.63/barrel while Gulf Coast margins fell 3 cents to \$7.28/barrel. Midwest refiners saw margins increase by 30 cents to \$8.81/barrel while West Coast margins increased by 73 cents to \$16.89/barrel.

According to Reuters data, world refining profits fell over the last week. A complex refiner in the Rotterdam area running Brent crude saw its profits for the week ending November 30 fall to \$6.78/barrel from \$7.43/barrel in the previous week. In the US, a refinery in the Gulf running WTI crude saw its margins fall to \$3.66/barrel from \$4.68/barrel in the previous week. A complex refinery in Asia using Dubai crude saw its profit increase to \$8.92/barrel from \$8.66/barrel in the previous week.

Valero Energy Corp was restarting its 245,000 bpd Texas City, Texas refinery on Monday following a plantwide outage on Sunday night. There was no estimated time for completing the restart. Marathon Oil was also restarting its 72,000 bpd refinery in Texas City, Texas following the power outage late Sunday.

BP Plc said the main producing units at its refinery in Texas City, Texas were operating as planned, following a power outage from an outside provider on Sunday. Separately, BP cut rates to a coking unit at its Texas City, Texas refinery on Sunday after a vent gas compressor associated with the unit tripped. It cut rates to the coker shortly after the event occurred and began to repair the compressor.

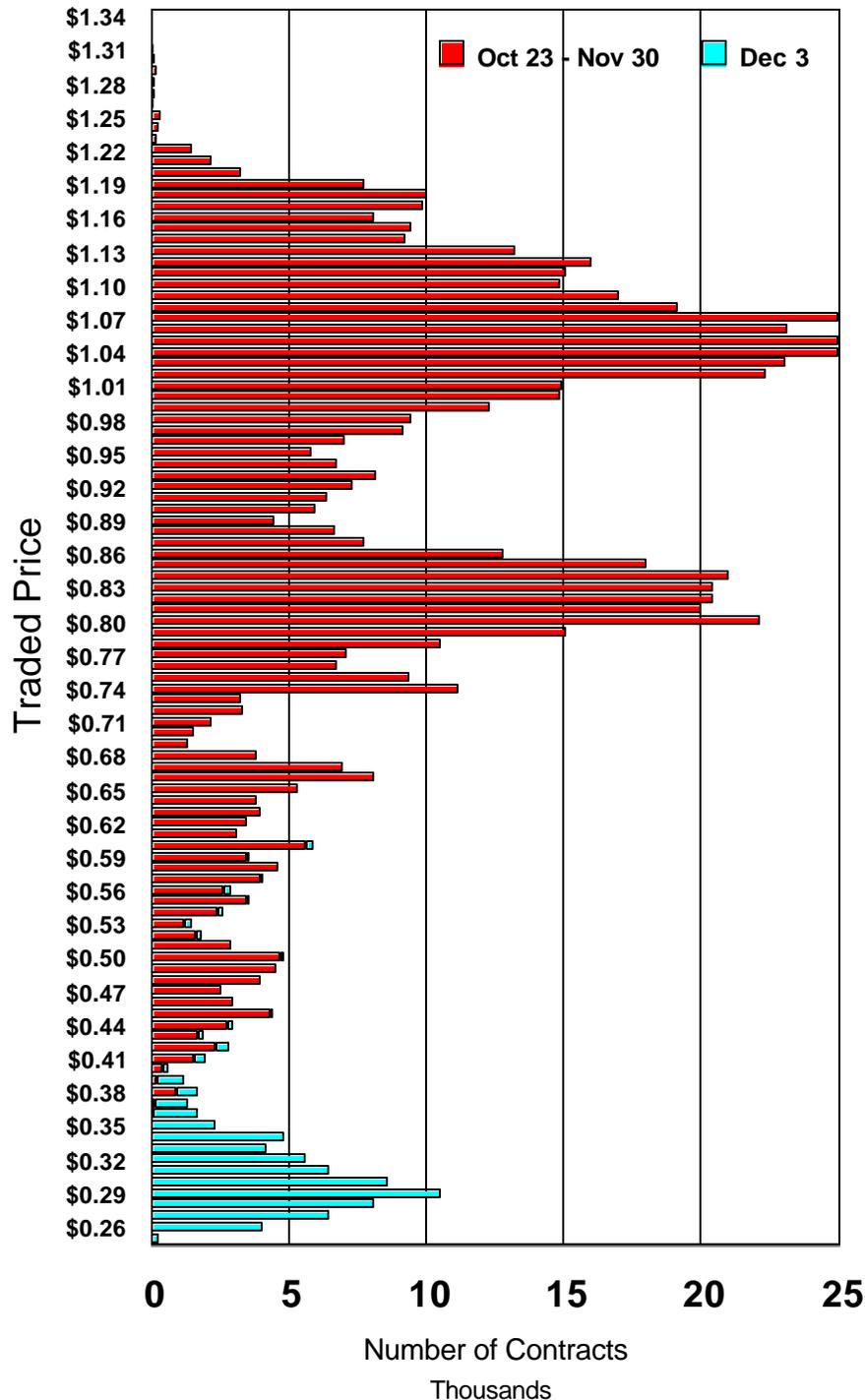
Flint Hills shutdown a sulfur recovery unit at its 288,000 bpd refinery in Corpus Christi, Texas for planned work on the waste heat boiler. It said the No. 1 SRU would be shutdown beginning on Monday and return to service on December 7 after repairing a slight steam leak on the waste heat boiler associated with the unit.

The Saudi Aramco Lubricating Oil Refining Co refinery was shutdown due to a fire. It said the fire would not affect the company's supplies and the refinery would be reopened within a short period of

## NYMEX WTI: January February Spread

Price Vs Volume for October 23 - December 3, 2007

Trade Weighted Avg: 12/3 .31 11/30 .50 11/28 .666 11/27 .82 11/21 1.11



time after carrying out some tests on the products. It said the fire started Saturday night in a storage tank when a malfunctioning cooling fan ignited a propane leak.

A unit at Petroplus Holdings AG's Coryton refinery in the UK remains shut after a fire at the plant on October 31.

Kyushu Oil Co Ltd restarted a 26,000 bpd residue fluid catalytic cracking unit at its Oita refinery on November 30, about three weeks after an unplanned shutdown.

China National Petroleum Corp said it was considering building an oil refinery with 10 million tons of capacity in the southwestern province of Yunnan. CNPC has also proposed to extend a planned Myanmar-China crude oil pipeline to southwestern Chongqing, where it plans to build a refinery.

According to a first draft of the country's energy law, China would require its oil firms to build their own reserves to supplement a government owned strategic inventory. The draft released on Monday did not mention an energy ministry. The legislation, which also aims for greater energy efficiency, better statistics and a plan to tackle energy crises, still face several rounds of revision and would not be put formally to lawmakers for several months.

Brazil's Foreign Trade

Ministry said the country exported 228.7 million liters of ethanol to world markets in November, down from 328.4 million liters in October and 336.6 million liters in September.

### **Production News**

According to Reuters, OPEC's 10 members bound by output targets, produced 26.99 million bpd, up 10,000 bpd from October. Total OPEC production, excluding Ecuador, increased its production by 70,000 bpd to 31.09 million bpd. It reported that Saudi Arabia increased its supply by 260,000 bpd to 9.06 million bpd in November while UAE production fell by 420,000 bpd to 2.15 million bpd. Iraq's oil production was steady at 2.3 million bpd.

A Dow Jones survey showed that OPEC's total oil production increased by 1% or 283,000 bpd to 31.51 million bpd. Oil production by the group's 10 members fell by 72,000 bpd to 27.2 million bpd. Saudi Arabia's oil production increased by 150,000 bpd to 9.05 million barrels while Iraq increased its production by 285,000 bpd to 2.5 million bpd.

Russia's Energy Ministry reported that the country's oil production and exports fell in November as oil firms cut production due to several unexpected shut ins at key refineries and bad weather on the Black Sea. It showed that Russia cut production by 0.8% or 80,000 bpd to 9.85 million bpd in November. Oil exports via Transneft pipelines to Europe fell by 2.25% or 100,000 bpd to 4.34 million bpd.

Kazakh and Russian oil exports via the Caspian Pipeline Consortium to the Black Sea fell by about 13% in November to 640,010 bpd from 735,040 bpd in October.

Shipping sources stated that Iraq's oil exports eased in November by 50,000 bpd from the highest rate in more than three years to 1.79 million bpd. In November, Iraq sold about 8.95 million barrels of Kirkuk crude, down from 9.1 million barrels the previous month.

Petroecuador increased its oil production to 174,289 bpd on Monday following protests in the Orellana province.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$85.91/barrel on Friday from \$87.78/barrel on Thursday.

### **Market Commentary**

Statements from within OPEC made the decline in prices short lived today, as crude oil bounced back from below the 38.2% retracement number of \$87.42. Stating that OPEC members are pumping enough to meet world demand and that an increase would do little to ease prices, Qatar's oil minister added that OPEC

members should not create a glut in oil. As we indicated on Friday, the forward curve was showing signs of weakness in the front end

		<b>Explanation</b>	
<b>CL</b>	<b>Resistance</b>	93.38, 94.32, 95.17, 97.28, 99.29	Monday's high
	89.31, up 60 cents	89.99	
	<b>Support</b>	87.30, 87.14	
		86.43, 84.00, 78.30	Monday's low
<b>HO</b>	<b>Resistance</b>	259.86, 266.65, 268.61, 270.57	Previous highs
	251.11, down 39 points	253.53	Monday's high
	<b>Support</b>	246.05	Monday's low and 50% retracement(218.25 and 273.85)
		243.61, 239.49, 238.79, 232.90, 232.67	Previous low, 62% retracement, Previous lows
<b>RB</b>	<b>Resistance</b>	228.53, 236.09, 239.77	Previous highs
	225.01, up 1.95 cents	226.93	Monday's high
	<b>Support</b>	220.19	Monday's low
		218.20, 217.52, 212.90, 212.82, 210.27	Previous low, 62%(198.39 and 248.48), Previous lows

and in fact flattened further today. The January/February spread gave into this weakness, settling .20 cents lower on the day. With the upcoming OPEC meeting and stock level numbers coming out on Wednesday, prices may show further strength and may need to be re-evaluated again. For now the initial upside objective would be \$94.32, top of daily channel on the January chart. Should this level become penetrated the next up side level would be \$95.17. Fibonacci retracement numbers based on the low of \$68.22, and the recent high, \$99.29, are as follows; 38.2% - \$87.42, 50% - \$83.76 and 61.8% - \$80.09. Total open interest in crude oil is 1,404,579 down 2,049, JAN.08 364,875 down 4,170, FEB.08 122,404 up 2,842. The product markets ended mixed with the heating oil market settling down 39 points at 251.11 and the RBOB market settling up 1.95 cents at 225.01. The heating oil market posted a high of 253.53 in overnight trading and sold off to a low of 246.09 early in the session as the crude market traded to its low. The heating oil market however retraced its losses and traded back towards the 253.00 level ahead of the close. The RBOB market also sold off to a low of 220.19 early in the session. The market later bounced off that level and never looked back as it extended its gains and posted a high of 226.13 ahead of the close. The market continued to trend higher in late afternoon trading and rallied to a high of 226.93 amid the continued strength in the crude market. The markets are seen trading sideways on Tuesday as traders position themselves ahead of OPEC meeting and the release of the weekly petroleum stock reports on Wednesday. In the heating oil market, support is seen at 246.05, 243.61, 239.49, 238.79, 232.90 and 232.67. Resistance is seen at 253.53, 259.86, 266.65, 268.61 and 270.57. In the RBOB, support is seen at 220.19, 218.20, 217.52, 212.90, 212.82 and 210.27 while resistance is seen at 226.93, 228.53, 236.09 and 239.77.