



## ***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 DECEMBER 10, 2007**

---

US Energy Secretary Samuel Bodman said world oil inventories were lower than they should be and were adding to geopolitical concerns. He said he hoped OPEC and non-OPEC producers would increase supplies to ensure the markets were adequately supplied. He said additional output could come from OPEC members Angola and Iraq, whose production levels were not limited by this year's production curbs.

Separately, he stated that he favored the use of ethanol in the gasoline pool as a way to diversify supplies. He said oil refiners should increase their capacity to meet rising demand, which coupled with increased prices, has placed an indirect tax on families. He also stated that US would likely have enough heating oil this winter but could dip into the Northeast emergency reserve if supplies run short.

Iran's Oil Minister Gholamhossein Nozari said Iran has stopped selling any of its oil in US dollars. For nearly two years, Iran has been reducing its exposure to the dollar, saying the weak US currency was eroding its purchasing power.

### Market Watch

According to Morgan Stanley economists, the US economy is likely headed to a recession, pulled down by ongoing tightening in credit markets that is curbing business spending.

The US National Hurricane Center said a low pressure system could develop during the next 24 hours in the Atlantic Ocean near Puerto Rico. Meanwhile Accuweather said some weather models indicated out of season development of the system could occur over the next couple of days. It said the water in the area was still warm enough to support tropical development and the winds were not strong enough to prevent development.

Iran's Deputy Oil Minister Mohammad Reza Nematzadeh said Iran planned to increase the monthly gasoline quota for private motorists by 20% to 120 liters. He added that Iran aimed to end gasoline rationing by March 2009 through expanding domestic production of fuel and encouraging the use of vehicles powered by natural gas. Iran introduced rationing in June to curb fuel consumption that was far outstripping domestic output and to reduce costly gasoline imports.

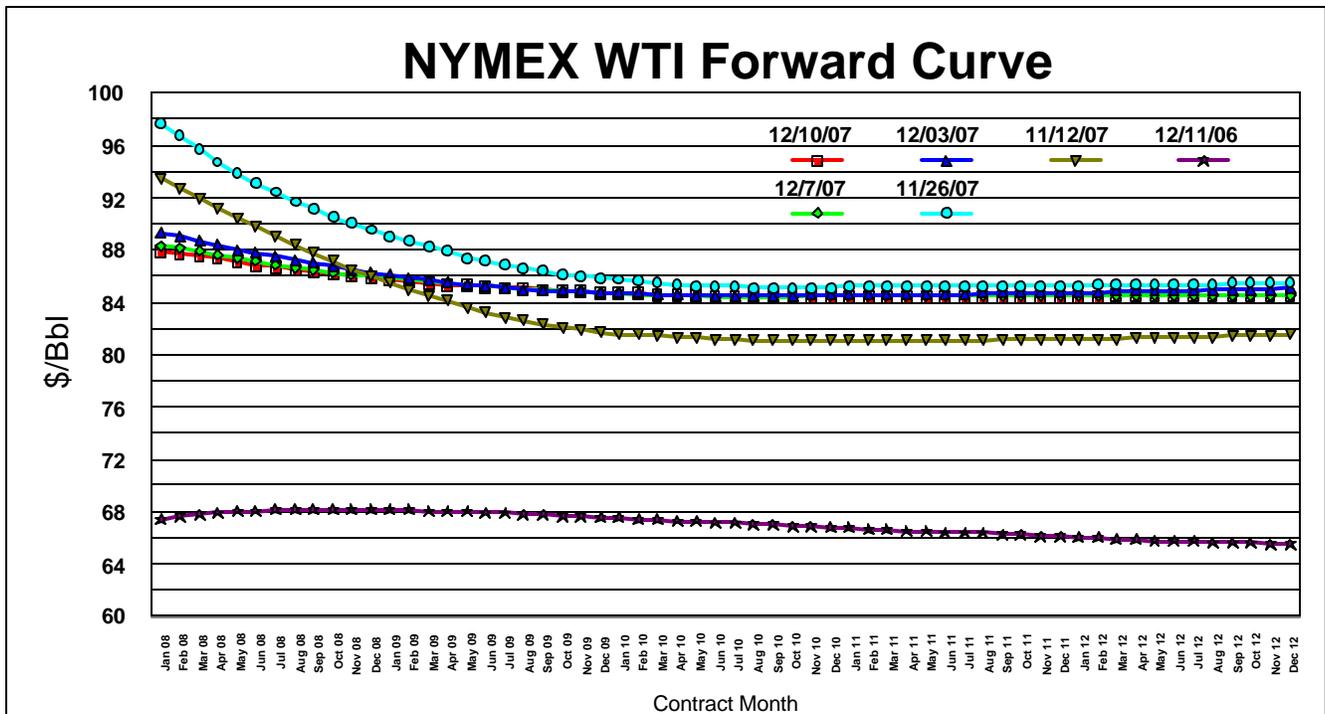
### **Dec Calendar Averages**

**CL** – 88.58

**HO** – 250.655

**RB** – 225.653

Iranian and UN IAEA officials started a new round of talks, this time to probe the source of weapons grade uranium that was found at Tehran's university. It was not clear from the report how or when the weapons grade uranium was discovered. Meanwhile, US Secretary of State Condoleezza Rice said senior officials of the five permanent members of the UN Security Council are scheduled to hold telephone consultations



regarding Iran's nuclear program on Tuesday.

There was renewed tension in Nigeria's oil delta. On Monday, hundreds of ethnic Ogoni protesters staged a rally outside the Shell compound in Port Harcourt to air their grievances about what they see as the company's role in polluting their lands. In Bayelsa, the father of the deputy governor was abducted on Monday morning by suspected ransom seekers. Also, in Okrika, a waterfront community that is the stronghold of militia leader Ateke Tom, troops conducted a house to house search for weapons. The incursion caused concern among other militants who said the authorities were violating the peace process.

The EIA reported that the US average retail price of diesel fell by 9.1 cents/gallon to \$3.325/gallon in the week ending December 10. It also reported that the US average retail price of gasoline fell by 6.1 cents to \$3.00/gallon.

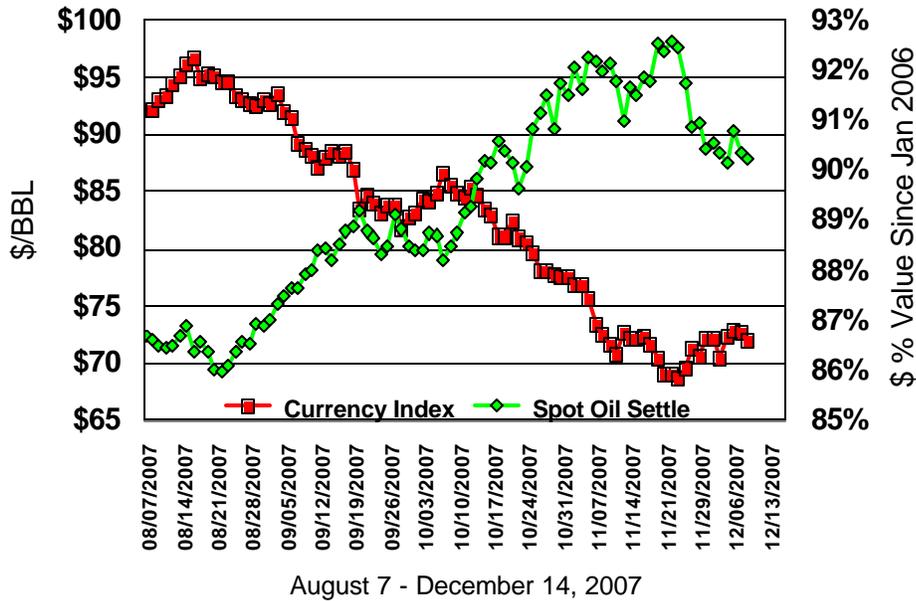
According to the Lundberg survey, the average price of gasoline in the US fell substantially over the past three weeks and could continue to decline if oil prices do not increase. The national average price of gasoline was \$3.0043/gallon on December 7, down 8.76 cents/gallon since November 16.

#### Refinery News

The Houston Ship Channel remained shut on Monday after it was closed due to fog. The US Coast Guard said 54 ships were waiting to enter the Houston Ship Channel while another 17 ships were waiting to exit the channel on Monday. Ship traffic along the Sabine-Neches Waterway, which services the Beaumont-Port Arthur oil refining complex, was also halted by fog. Twelve inbound ships were waiting to enter the ports while five or six others were waiting to leave the port. The fog is not expected to lift until Wednesday. Meanwhile, Royal Dutch Shell's Deer Park refinery and ExxonMobil Corp's Beaumont refinery were operating at normal rates.

Colonial Pipeline said it would allocate space for shipping gasoline during cycle 70 on its main pipeline as demand for space exceeds capacity. It is the fourth 5-day cycle that has been allocated.

**Spot WTI NYMEX Settle Vs Dollar Basket**  
**U.S. \$ Vs Basket of Currencies Of Net Oil Importers**  
 \$ % Value Since January 2, 2006



Credit Suisse said refining margins in most regions of the US fell in the week ending December 7 due to weak fuel prices. Margins in the Midwest fell by 93 cents/barrel to \$7.88/barrel while margins in the Northeast fell by 62 cents to \$7.01/barrel. Margins in the US Gulf Coast increased by 2 cents to \$7.30/barrel while margins in the Rockies fell by \$1.30 to \$17.17/barrel.

Sunoco Inc said there was no impact to production from a small fire in the Girard Point section of its 335,000 bpd refinery in Philadelphia. The fire started in a water separation unit.

BP Plc's 265,000 bpd refinery in Carson, California reported flaring on Saturday. Separately, an industry source stated that a long term maintenance program is planned for BP's 105,000 bpd fluid catalytic cracking unit at its refinery in Carson, California. The unit is expected to be taken out of service on January 9 and remain out of service until the end of February.

Total restarted some sulfur processing units at its 240,000 bpd Port Arthur, Texas refinery over the weekend. The hydrotreater, which was shut after a problem early Friday with a blower, had restarted and was back on line.

Venezuela's 640,000 bpd Amuay refinery restarted its 64,000 bpd flexicoker unit following its maintenance shutdown. It is expected to be fully operational in 10 days. Meanwhile, the Cardon refinery, which together with Amuay forms the 940,000 bpd Paraguana refining complex, was shutdown last week after a power surge shut several units. It is expected to remain in warm shutdown for another seven days.

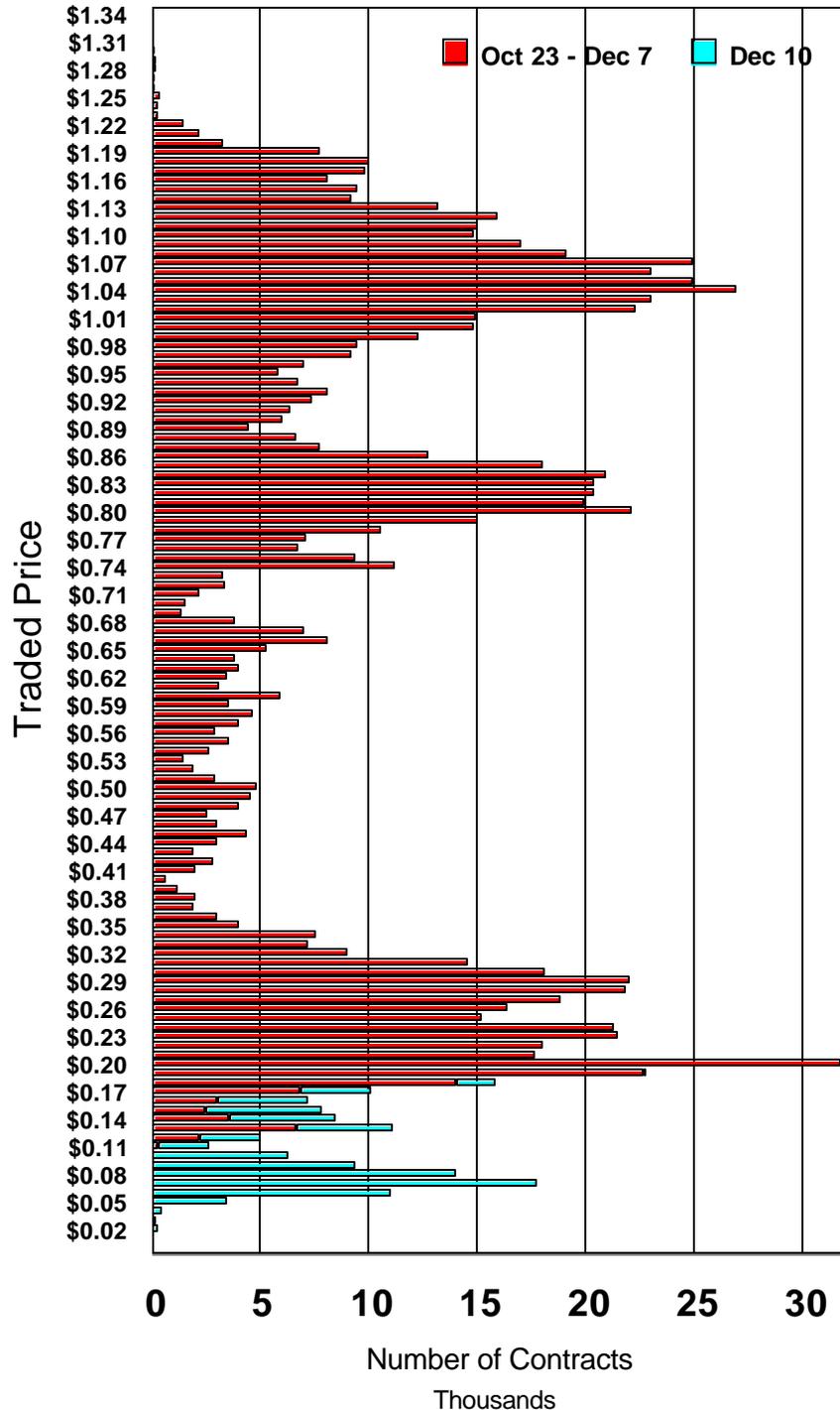
Iraqi oil officials said a rocket landed in a storage tank for refined crude in Iraq's al-Dora refinery. Firefighters were battling a fire at the refinery. However the US military later issued a statement saying that the fire was the result of an industrial accident. The refinery is one of two that produce Iraq's fuel and receives crude from the north and south to supply refined products to Baghdad.

Separately, oil shipments through a pipeline from Iraq's Kirkuk oil fields into the Turkish port of Ceyhan resumed at a rate of 12,000 barrels/hour or 288,000 bpd. Total inventory of Kirkuk crude at Ceyhan stood at 4.15 million barrels on Monday.

## NYMEX WTI: January February Spread

Price Vs Volume for October 23 - December 10, 2007

Trade Weighted Avg: 12/10 .10 12/7 .21 12/6 .29 12/5 .22 12/4 .21



A small fire started late of Sunday at Lithuanian refiner Mazeikiu Nafta but was put out rapidly and did not cause any major damage. The refinery has not recovered yet from a large fire which damaged a vacuum distillation unit last October, almost halving the output from 197,000 bpd.

Russian oil and refined product exports out of the Black Sea port of Tuapse are expected to total 14.5 million tons in 2008, unchanged on the year. The port is expected to export 4.2 million tons of crude next year and export 10.3 million tons of refined products.

China's top oil refiners are expected to increase its production for the second month to a near record in December to 2.519 million bpd, up from 2.476 million bpd in November. Sinopec Corp and PetroChina also increased its imports of diesel to over 800,000 tons in December.

Total said it started a new distillate hydrocracker at the Wepec refinery in Dalian, China. The new unit would increase the refinery's annual diesel fuel production capacity by 40% to 3.5 million metric tons, helping it meet a growing demand for low sulfur products.

Algeria's Sonatrach sold 3 million barrels of January light sweet Saharan Blend crude to Asian end users out of its

storage tanks in South Korea.

Pacific Ethanol Inc said it suspended construction of a new ethanol plant in California, the latest project that has been suspended due to falling profit margins for the biofuel. Pacific Ethanol said that despite the construction suspension, it was committed to completing the 50,000 gallon per year plant when market conditions improved. High corn costs and falling gasoline prices have narrowed margins for ethanol over the past several months, forcing producers to mothball plants or cancel expansion plans. The average weekly US ethanol margins fell last week to about 52 cents/gallon from 62 cents the previous week. US ethanol production capacity has increased about 35% since January 1 to 7.27 billion gallons per year. There are 134 ethanol distilleries currently operating in the US, with 66 more plants under construction and 10 undergoing expansion.

Traders and producers said lower sugar prices in Brazil have encouraged Brazil's center-south mills to transform raw sugar into ethanol, which is currently more profitable to companies. An official of the Unialco group of mills said it planned to produce 2-3% more ethanol or 3 million liters this season than previously expected. Equipav group would also divert 5,000-7,000 tons of VHP sugar to ethanol production. Traders and producers did not give an estimate for the whole region.

### **Production News**

A source at a European refiner said Saudi Arabia would keep its crude oil supply steady in January.

Britain's North Sea Brent crude oil system is scheduled to load about 200,000 bpd in January, up from 162,000 bpd in December.

Norway's North Sea Statfjord crude system is set to load about 275,806 bpd in January, down from the 276,000 bpd in December. The North Sea Oseberg crude system is scheduled to load about 193,550 bpd in January, down from 213,000 bpd in December.

Iran signed a contract with China's Sinopec on Sunday for the development of Iran's Yadavaran oilfield.

The Center for Global Energy Studies stated that Gulf Arab oil producers would generate a second year of record oil sales in 2007 of \$320 billion on higher prices. They earned \$305.5 billion in oil sales last year.

Indonesia's Pertamina said it planned to lift its spending on upstream activities by 20% in 2008 to 12 trillion rupiah or \$1.3 billion. It also said it planned to increase its overall oil production by 16.4% to 170,000 bpd next year as the government tries to limit the impact of high oil prices on its budget.

Ecuador's central bank reported that the country's oil export revenues totaled \$705.68 million in September, up 16% from the \$607.37 million reported last year. In terms of volume, Ecuador exported 10.91 million barrels in September, down 11% on the year.

Chevron, Total and BP Plc agreed to build a liquefied natural gas project in Angola with Sonangol. The Angola LNG project would process about 1 billion cubic feet/day of gas from offshore producing fields which are already producing oil. The plant would produce 5.2 million tons/year of LNG for export via pressurized ship to the Gulf LNG energy regasification terminal, which would be built near Pascagoula, Mississippi.

OPEC's news agency reported that OPEC's basket of crudes increased to \$85.26/barrel on Friday from \$84.48/barrel on Thursday.

**Market Commentary**

Reacting to news that the Houston Shipping Channel was closed due to fog, coupled with a weakening dollar, crude oil prices traded higher early in the session. With statements from Morgan Stanley, echoing those of Merrill Lynch that the U.S. will slip into a mild recession, prices sold off to a low of \$87.09. It appears that this market is struggling for direction with declining volume and open interest and is trading in a period of consolidation. With the end of the year drawing nearer, we would look for this pattern to continue barring any major fundamentals. We would look to buy and sell at the listed support and resistance numbers until a definitive direction is made clear. Should the 95.25 resistance area become penetrated, we would look for a test back towards the 99.29 all time high, and should the

		Explanation
<b>CL</b> 87.86, down 42 cents	<b>Resistance</b>	90.68-.73, 91.52, 93.38, 94.32, 95.25, 97.28, 99.29
	<b>Support</b>	88.40, 89.20, 89.80
<b>HO</b> 247.74, down 2.73 cents	<b>Resistance</b>	87.30, 87.09-87.07
	<b>Support</b>	86.43, 84.65, 84.00, 78.30
<b>RB</b> 225.01, down 1.89 cents	<b>Resistance</b>	255.25, 255.40, 257.29, 259.86, 266.65, 268.61
	<b>Support</b>	249.25, 250.00, 252.00, 253.55
	<b>Resistance</b>	246.24
	<b>Support</b>	244.50, 243.61, 239.49, 238.79, 232.90
	<b>Resistance</b>	231.50, 236.09, 239.77
	<b>Support</b>	226.00, 228.65, 230.41
	<b>Resistance</b>	223.20
	<b>Support</b>	218.75, 218.20, 217.52, 212.90, 212.82

83.75 support number become penetrated we would look for a test of the 78.20 major support level. The forward curve dipped slightly in

the front end and remained unchanged in from the middle to the end. 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 1,384,364 down 5,990, JAN.08 266,833 down 34,309, FEB.08 191,256 up 21,293. Meanwhile, the heating oil market continued to trade within Thursday's trading range. The market rallied to a high of 253.55 early in the session amid the strength in the crude market. However as the market failed to test its previous high, the market erased its gains and extended its losses to 4.23 cents as it sold off to a low of 246.24. The heating oil market later bounced off its low and settled down 2.73 cents at 247.74. The RBOB market also settled down 1.89 cents at 225.01 after it too sold off from an early high of 230.41 to a low of 223.20 amid the weakness in the rest of the complex. The markets are still seen trading sideways ahead of Tuesday's Federal Reserve rate decision and Wednesday's weekly petroleum stock reports. In the heating oil, support is seen at 246.24, 244.50, 243.61, 239.49, 238.79 and 232.90 while resistance is seen at 249.25, 250.00, 252.00, 253.55 followed by 255.25, 255.40, 257.29 and 259.86. In the RBOB, support is seen at 223.20, 218.75, 218.20, 217.52, 212.90 and 212.82. Resistance is seen at 226.00, 228.65, 230.41, 231.50, 236.09 and 239.77.