



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 14, 2007

In its Oil Market Report, the IEA said world oil demand would increase by 2.1 million bpd in 2008, up 200,000 bpd from its previous forecast. The IEA however cut its forecast for growth in oil demand in the last quarter of 2007 by 200,000 bpd to 1.3

million bpd. It also reported that stocks in OECD member countries fell by 22.4 million barrels in October to 52.6 days of demand, just below the five year average. In regards to production, the IEA said production from Bahrain, Oman, Syria and Yemen stood at 1.6 million bpd and could fall towards 1.5 million bpd in 2008. The IEA also stated that current prices may slow gasoline demand growth in the US but are not expected to cut demand significantly in coming months. It also said Europe's distillate supply would be tight next year as demand increases to seasonal norms later this winter. Its imports are expected to increase by 210,000 bpd. In contrast, its gasoline exports would increase by 80,000 bpd due to falling demand as drivers are shifting to diesel.

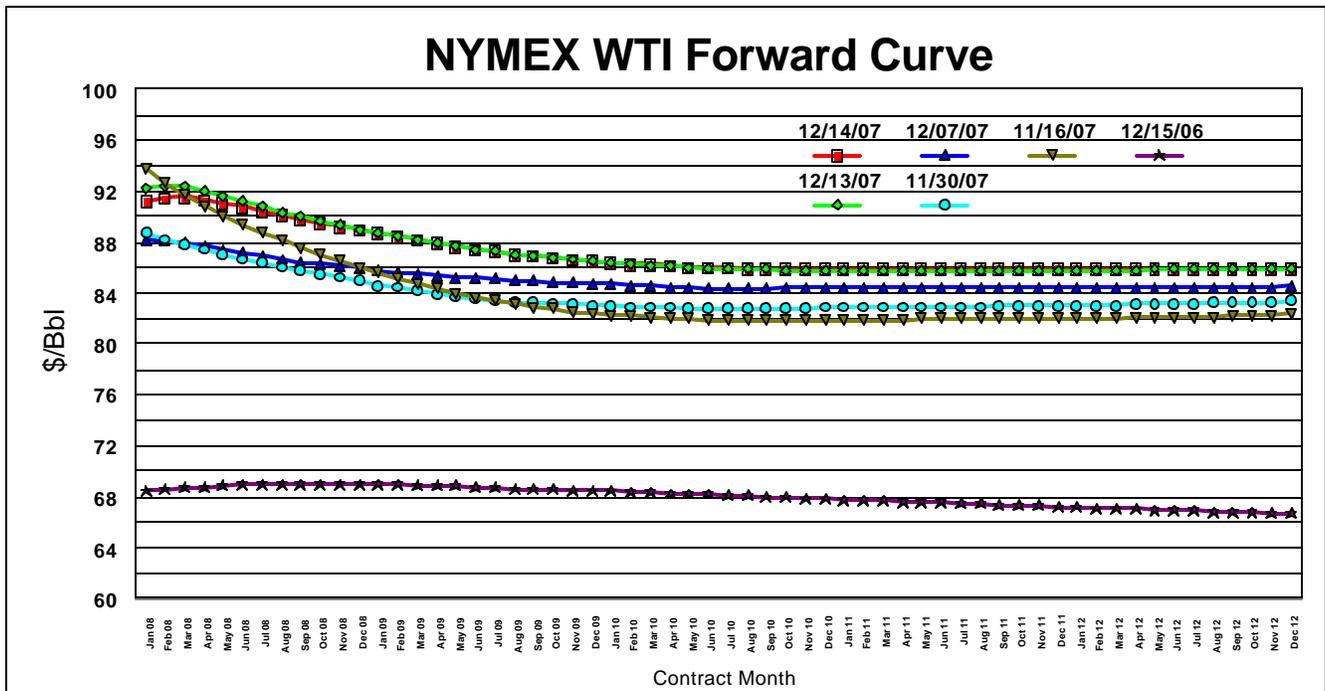
Market Watch

The US Senate late Thursday approved a broad energy bill that would increase the fuel efficiency of US cars and trucks for the first time since 1975 and significantly increase production of renewable motor fuels such as ethanol. Senate democrats dropped from the bill about \$13 billion in taxes on big oil and gas companies to hopefully avoid a White House veto of the measure and to appease Republicans. In response, the White House said President George W. Bush would not veto the broad energy bill approved by the Senate.

OPEC, in its December Monthly Oil Market Report, left its 2007 forecast for oil demand growth unchanged at 1.2 million bpd, or 1.42%, to average 85.74 million bpd. However it estimated world oil demand would grow by 1.3 million bpd next year, steady from its previous estimate. World demand is estimated to total 87.1 million bpd. It said demand for its oil next year is expected to fall an average of 300,000 bpd on the year to 31.4 million bpd. OPEC reported that its production in November fell by 131,000 bpd to 31.5 million bpd. OPEC also stated that there were risks an economic slowdown could worsen in 2008. It estimated world economies would grow by 4.8% next year, down from 5.2% in 2007.

Dec Calendar Averages

CL – 89.94
HO – 254.28
RB – 229.60



Iraq issued a new tender to sell 6 million barrels of Kirkuk crude. The crude would be lifted by the end of December 31. Iraq's SOMO awarded nearly 6 million barrels of Kirkuk crude on Thursday to five companies, including Total SA and ExxonMobil.

Refinery News

Colonial Pipeline extended shipping allocations on its main distillate line from Collins, Mississippi to Greensboro, North Carolina to the 72nd cycle of the year.

The US Coast Guard said ships were running normally along the Houston Ship Channel on Friday morning.

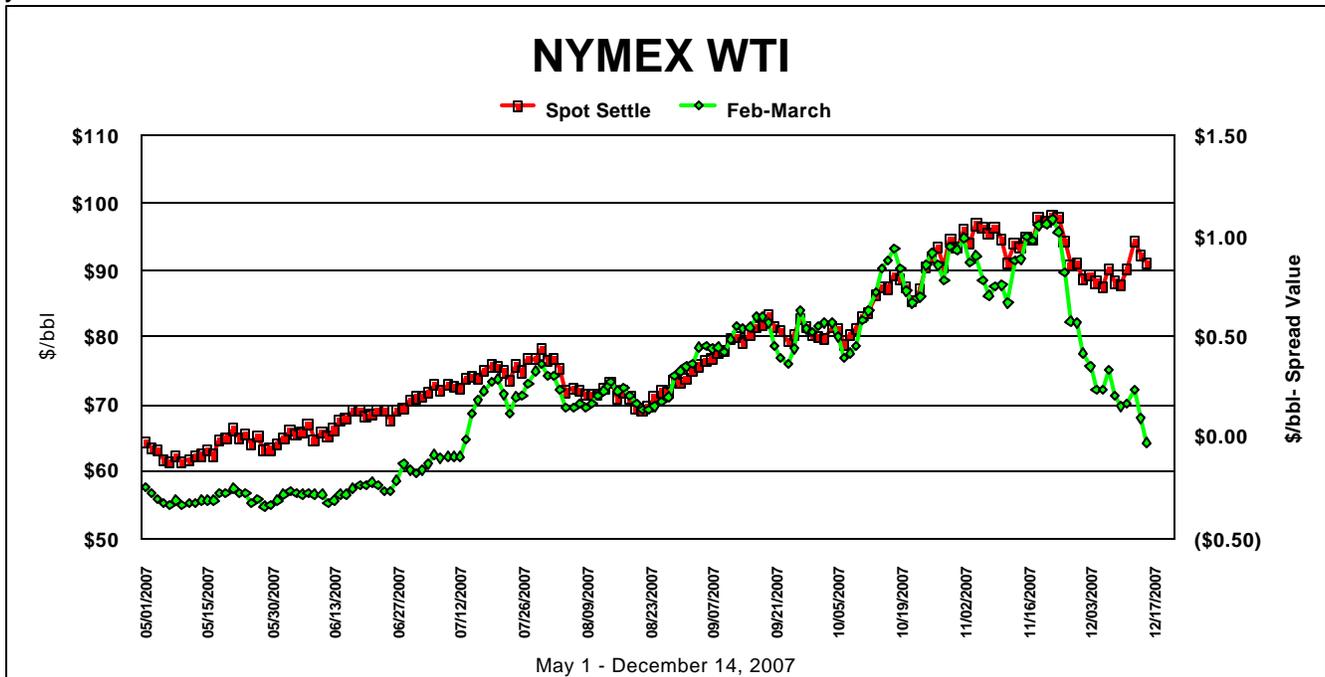
PDVSA's 200,000 bpd Puerto La Cruz refinery has restored operations at its alkylation unit following an accident that shut the unit. Separately, PDVSA's 300,000 bpd Cardon refinery is currently operating at minimal rates because four of its six steam boilers are out of service, leaving the facility without enough steam to keep units functioning.

Venezuela's President Hugo Chavez said PDVSA would take part in the construction of a refinery in northeastern Brazil. He said a joint company would be formed in Brazil for the construction of the 200,000 bpd Abreu de Lima refinery. He said Venezuela would supply the refinery, which is due to open in 2010, with 100,000 bpd of oil.

Russia's Moscow refinery is expected to cut its high octane gasoline production by up to 30% following an emergency shutdown of its catalytic cracking unit on Wednesday. The 125,000 bpd refinery is expected to increase its output of gasoil and fuel oil instead.

Ukraine's Lysychansk refinery is expected to increase its petrol output this month by 21% to 191,000 tons and lower its diesel production by 3.49% to 138,000 tons.

Work has started to extend the China-Kazakhstan crude pipeline that is expected to eventually pump 400,000 bpd of oil to China. Construction on the pipeline extension started this week and is expected to be completed by October 2009. An existing pipeline from Atasu to Alashankou however has been running at nearly 50% of its 200,000 bpd capacity since it started commercial operations in July last year.



An official at China's National Development and Reform Commission said he was opposed to giving further subsidies to Chinese oil refiners. The comment contrasts some analysts' expectation that Sinopec would receive subsidies for a third year, following a \$1.2 billion handout in 2005 and \$640 million last year. In an effort to ease refiners' losses and end China's fuel crisis, the government raised motor fuel prices by 10% in November.

Production News

According to Petrologistics, OPEC's oil production is set to increase sharply in December as supply in the UAE rebounds and Nigeria increases its production. OPEC's ten members are forecast to supply 27.7 million bpd, up 500,000 bpd from November. Supply from all 13 members is estimated to increase to 32.5 million bpd from 31.6 million bpd in November.

Ecuador's Central Bank stated that the country's average oil production fell by 6% to 508,332 bpd in the first 10 months of the year from 540,563 bpd last year. Petroecuador averaged 256,563 bpd in the first 10 months while private companies' output was 251,769 bpd.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$88.35/barrel on Thursday from Wednesday's \$86.71/barrel level.

Market Commentary

Unable to sustain the gains of yesterday, the February crude oil contract settled below the 50% Fibonacci retracement level of \$91.86, based on the high of \$98.12 and low of \$85.60. Several bearish factors weighed on prices today, among those were, an increase in exports by OPEC, excluding Angola and Ecuador, by 460,000 in the four weeks ending Dec. 29th, which is 400,000 higher than a year ago, the coming back on line of Valero's Texas City 85,000 bpd FCC unit after the

Dec 3rd outage and Iraqi oil output in the north now at levels not seen since the U.S. lead invasion of that country. The increase in the dollar against the euro today was the largest gain since August of 2004. This broke traders confidence in an additional rate cut in January. Although we cannot confidently support a higher move in prices, the possibility for a run towards \$100.00 is still possible, but our bias would be towards the downside. The forward curve indicates a weakening for the front end for the second day in a row, with spreads across the curve narrowing. The February/March spread is now at its lowest level since mid – July and is poised to test the -.35 support level. The last time the February/March spread was at this level, the spot price for crude oil was in the \$70.00 range. Based upon this, we would look to the February contract to come under further pressure, and therefore we would be outright sellers of the February contract. Total open interest in crude oil is 1,397,774 up 1,795, JAN.08 115,685 down 51,943, FEB.08 305,463 up 34,066. Meanwhile, the product markets traded sideways after they failed to test their previous highs. The heating oil market retraced its overnight gains after it posted a high of 266.46 and traded to a low of 260.31. However the market retraced more than 50% of its earlier move before it traded lower once again ahead of the close. The market sold off to a low of 260.25 and settled down 68 points at 260.79. The RBOB market continued to trade within Wednesday’s trading range. It settled down 3.27 cents at 234.17 after it retraced little more than 38% of its move from a low of 218.75 to a high of 241.98 as it sold off to a low of 233.00 ahead of the close. The product markets are seen trading lower following their failure to continue retracing their losses. In the heating oil, support is seen at 260.25, 258.32, 255.68, 253.04 and 250.32 while resistance is seen at 263.25, 266.46 followed by 266.86, 268.61, 270.57 and 273.85. In the RBOB, support is seen at 233, 230.37, 227.62, 226.90, 224.50 and 223.20. Resistance is seen at 236.00, 238.65, 239.90, 241.79, 241.98, 243.29 and 248.40.

The Commitment of Traders report showed that non-commercials in the crude market cut their net long position by 158 contracts to 46,914 contracts in the week ending December 11. The combined futures and options report however that non-commercials increased their net long position by 983 contracts to 126,024 contracts on the week. The non-commercials in the heating oil market increased their net long positions by 2,040 contracts to 19,426 contracts while non-commercials in the RBOB market cut their net long position by 3,601 contracts to 38,061 contracts on the week.

		Explanation
CL 91.27, down 98 cents	Resistance	94.70, 96.35, 97.60, 98.12, 99.29
	Support	92.28, 93.38
HO 260.79, down 68 points	Resistance	266.86, 268.61, 270.57, 273.85
	Support	263.25, 266.46
RB 234.17, down 3.27 cents	Resistance	241.79, 241.98, 243.29, 248.40
	Support	236.00, 238.65, 239.90
		Friday's high
		Friday's low
		Friday's high
		38% (244.50 and 266.86), 50%, 62%, Previous low
		Friday's high
		Friday's high
		Friday's low
		50% (218.75 and 241.98), 62%, Previous lows