



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 17, 2007

Algeria's Oil Minister Chakib Khelil said OPEC may increase its oil production at its February meeting if the market needs more crude. He said oil demand is expected to strengthen next month and oil prices would remain at present levels. He however said the market is currently well supplied. He also stated that the group could opt to hold output steady if the winter is mild and the US economy weakens further.

Russia has delivered the first shipment of nuclear fuel to Iran's Bushehr nuclear station. Iran confirmed the first batch of about 80 tons has been delivered. An official said Iran required 82 metric tons of nuclear

Market Watch

The National Weather Service said US heating demand would be 8% below normal this week as temperatures increase above average in most of the key heating regions. Demand for heating oil is expected to average about 2% above normal this week.

Iraq's Kurdish government has agreed to delay by six months the referendum to decide the future of the northern oil city of Kirkuk. The Prime Minister of the Kurdish government, Nechirvan Barzani said the six month extension should be used for a UN supervised mechanism to sort out the issue of Kirkuk.

The NYMEX announced it would increase fees for its futures and options trading on its NYMEX and COMEX divisions and the CME Globex platform starting January 2. NYMEX futures and options fee on the CME Globex electronic trading platform, NYMEX Clearport Clearing platform and the NYMEX trading floor would increase by 10 cents per side and 5 cents per side for cross division trades.

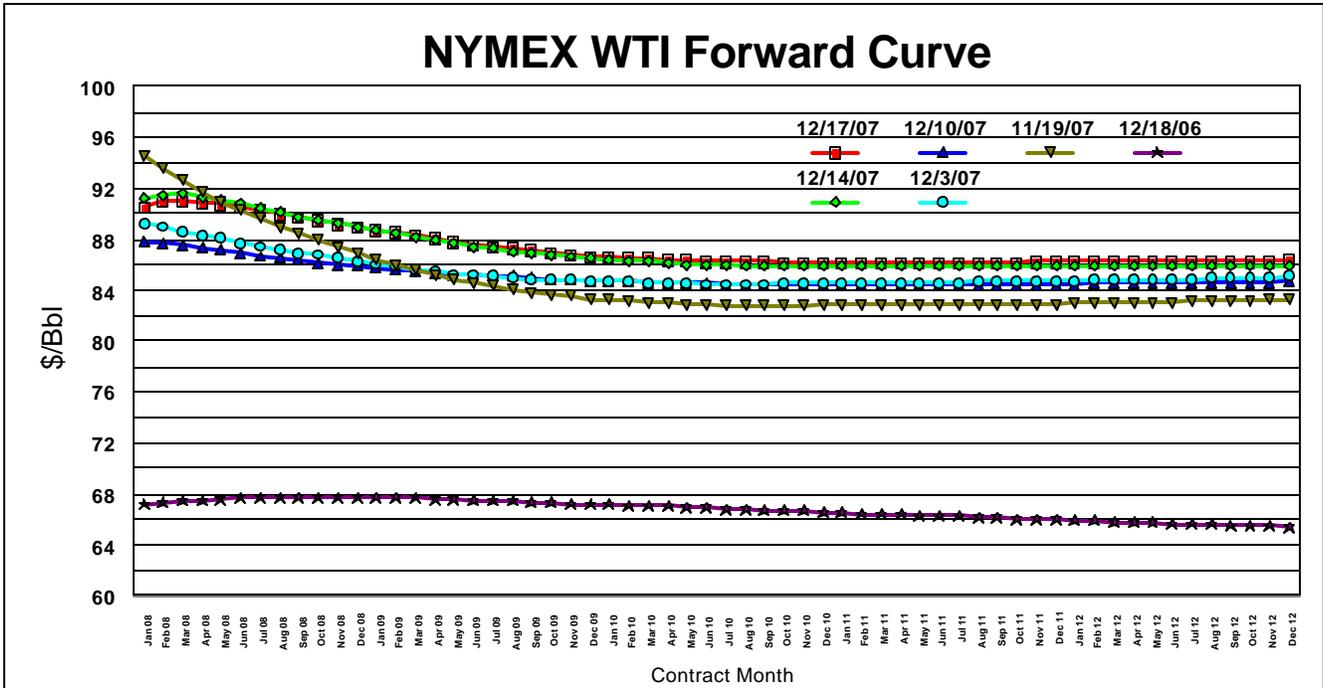
Prices for shipping oil on the world's top export routes from the Gulf soared to more than three year highs on Monday, breaching the W300 rate for the first time since late 2004. Crude oil freight rates on other principal exports routes from West Africa and the Mediterranean have also increased sharply.

The US Commerce Department said the US current account deficit narrowed more than expected in the third quarter to \$178.5 billion from a downwardly revised gap of \$188.9 billion in the second quarter. Separately, the New York Federal Reserve said manufacturing activity in New York State factories declined sharply in December to a seventh month low with falling new order and shipment indexes. Its New York general business conditions index fell to 10.31 in December from 27.37 in November.

Dec Calendar Averages

CL – 90.00
HO – 254.78
RB – 229.95

fuel for the first year of operations at its nuclear power station. Anticipating a diplomatic storm over the announcement, Russia said Iran had given it assurances the fuel sent to Bushehr would not be used for other purposes and it urged Iran to drop its own uranium enrichment program. Russia's Foreign Ministry said the fuel would be under the control and guarantees of



the IAEA. However a senior Iranian official said the country would not halt its enrichment program. The head of Iran’s atomic energy organization Gholam Reza Aghazadeh said it needed the fuel for a new nuclear power station it is building in western Iran. He said Iran was building a 360 megawatt nuclear reactor in Darkhoyen.

A US State Department spokesman Tom Casey said it would consult again Tuesday with the UK, France, Russia, China and Germany on elements of a draft UN Security Council resolution for tougher sanctions on Iran over its disputed nuclear program. Meanwhile, US President George W. Bush called Iran “a danger to peace” and added that Iran did not need to enrich uranium after Russia shipped nuclear fuel to Iran.

Germany’s Foreign Minister Frank-Walter Steinmeier said the US intelligence report on Iran’s nuclear program had won more time for negotiating a solution however he doubted Iran would use it.

An influential rebel commander in Nigeria’s Niger Delta has ordered the suspension of peace talks with the government because of military incursions and the arrest of another commander. He said the government’s stated intention to bring peace to the delta was at odds with the military’s attitude. A statement by the commander said he met with other fighters and agreed to stop talks with the government and instead decided to hold internal meetings to decide what to do next.

Iraq complained that Turkey had not coordinated with Baghdad before sending dozens of warplanes to bomb Kurdish rebel targets in northern Iraq. As many as 50 fighter jets were involved in the airstrikes. Turkey’s military chief said the US gave intelligence and tacit approval for Sunday’s predawn raid in which fighter jets bombed suspected rebel positions close to the border with Turkey and in the Qandil Mountains. However the Iraqi government had expected Turkey to coordinate with it before striking the rebels inside Iraq. Turkey’s Prime Minister Recep Tayyip Erdogan lauded the operation and suggested Turkey could stage more attacks on PKK hideouts in northern Iraq.

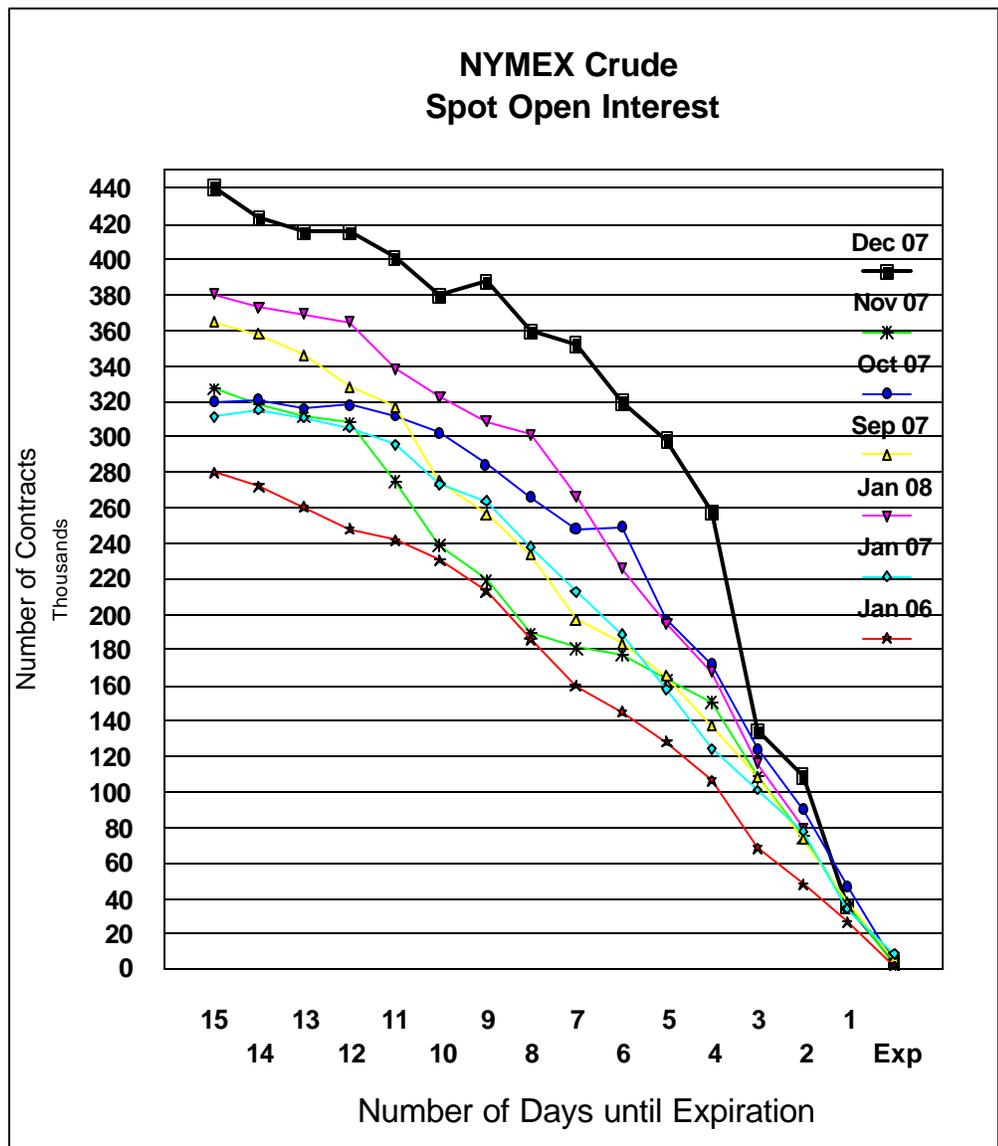
The EIA reported that the US average retail price of diesel fell by 1.6 cents/gallon to \$3.309/gallon in the week ending December 17. It also reported that the US average retail price of gasoline fell by 0.2 cents/gallon to \$2.998/gallon on the week.

The AAA said US travel over the Christmas and New Year's holidays would increase just 0.7% on the year, the slowest rate of growth in five years amid increasing fuel prices. It estimated that about 65.2 million Americans would travel 50 miles or more during the holidays, up from 64.7 million last year.

Refinery News

Colonial Pipeline has extended the allocation for its main gasoline line for cycle 72 north of Collins, Mississippi as demand for shipping space exceeds capacity.

According to Credit Suisse, US refining margins were mixed last week. Margins in the Northeast increased by \$1.02 to \$8.03/barrel while margins in the Midwest fell by 53 cents/barrel to \$7.35/barrel. Gulf Coast margins increased by 37 cents/barrel to \$7.67/barrel. Margins in the West Coast increased by 21 cents/barrel to \$17.45/barrel.



Shell Oil Co's 340,000 bpd refinery in Deer Park, Texas has returned several units to normal rates following an equipment malfunction on Sunday. Operations on a sulfur block unit and hydrotreater were cut on Sunday following a glitch at a sulfur recovery unit.

Citgo Petroleum Corp halted operations of a fluid catalytic cracking unit at its 157,000 bpd Corpus Christi, Texas refinery most of Sunday while it repaired a valve malfunction.

Frontier Oil Corp said it experienced a fire in the delayed coking unit at its Cheyenne Refinery on December 15. It said the coker outage would last less than 30 days. It is expected to run its crude unit at reduced rates during the outage.

Japan Energy Corp restarted a 30,000 bpd coking unit at its 205,200 bpd Mizushima refinery on December 15 following an unplanned shutdown late last month.

Mexico's three oil export ports of Cayo Arcas, Pajaritos and Dos Bocas in the Gulf of Mexico remained closed early Monday after they were closed on Sunday afternoon due to a storm.

Seibu Oil Co Ltd is scheduled to shutdown its 120,000 bpd crude distillation unit at its Yamaguchi refinery for 37 days from early September.

Iraq has invited Russia's Stroytransgaz to submit an offer to re-activate an oil export pipeline linking the Kirkuk fields to Syria's Mediterranean terminal of Banias.

China has agreed to increase its oil imports from Saudi Arabia by over a third next year. Saudi Arabia would sell Sinopec Corp and PetroChina about 200,000 bpd or 38% more crude in 2008 than this year. The deal comes after confirmation that China would also increase imports from Iran by a third. The increased Saudi supplies would mostly be of medium and heavy grades.

According to preliminary customs data, China raised its November diesel imports to 200,000 tons. The imports were near the highest in three years, after a month long diesel rationing forced the government to announce a surprise 10% increase in pump fuel prices on November 1. Its fuel oil imports fell to 1.25 million tons in November, down from 1.32 million tons in October. Gasoline exports fell by 44% on the year to 220,000 tons.

China has granted state refiners a diesel tax break from December to March to help ease the burden of loss making imports aimed at covering domestic shortages and replenish stocks. Sinopec and PetroChina bought a total of 540,000 tons of gas oil for January so far, following a hefty purchase of 823,000 tons for December.

Production News

According to government data, North Sea oil production fell by about 390,000 bpd to 3.52 million bpd in August as production fell in Britain and Norway. Production in Britain fell by 200,000 bpd to 1.12 million bpd while production in Norway fell by 200,000 bpd to 2.08 million bpd. Denmark's oil production increased by 10,000 bpd to 320,000 bpd in August.

Royal Dutch Shell Plc said its Cormorant Alpha platform in the North Sea resumed crude production on December 14 following a power failure on November 27.

Brazil's Petrobras said its overall domestic and international production of oil and gas increased to 2.26 million bpd of oil equivalent in November, up from 2.23 million bpd of oil equivalent in October. Petrobras said its oil output from domestic fields increased to 1.761 million bpd in November from 1.73 million bpd in October.

Pemex said it regained full control of an offshore oil well following a fire on the platform. The fire was mostly extinguished on December 3 and Pemex has been replacing parts of the Kab-101 platform to strengthen its structure.

OPEC's news agency reported that OPEC's basket of crudes fell to \$87.97/barrel on Friday from Thursday's \$88.62/barrel. It also reported that OPEC's basket of crudes increased by \$1.46/barrel to \$86.43/barrel in the week ending December 14.

Market Commentary

The oil market continued to trend lower after the market traded off an overnight high of 91.95. The market was pressured amid the strength in the dollar.

		Explanation
CL 90.63, down 64 cents	Resistance	93.57, 94.71, 96.35, 98.06
	Support	89.87
		89.08, 88.26, 87.80, 87.05, 86.88, 85.60
HO 259.79, down 1 cent	Resistance	266.46, 266.86, 268.61, 270.57, 273.85
	Support	261.00, 263.86
		257.83
RB 233.54, down 63 points	Resistance	239.90, 241.79, 241.98, 243.29, 248.40
	Support	234.40, 235.41
		231.66
		Previous highs Monday's high(Feb) Monday's low(Feb) Previous lows Previous highs Monday's high Monday's low 38%(244.50 and 266.86), 50%, 62%, Previous low Previous highs Monday's high Monday's low 50%(218.75 and 241.98), 62%, Previous lows

The market was further pressured by comments made by Algeria's Oil Minister Chakib Khelil, who stated that OPEC may increase its production during its February meeting if the market needed more oil. The January crude contract, which expires on Tuesday, retraced almost 62% of its move from a low of 85.82 to a recent high of 94.85 as it sold off to a low of 89.49 by mid-day. The market later bounced off that level as it failed to breach it and traded above 90.50 ahead of the close. The January crude contract settled down 64 cents at 90.63 while the February crude contract settled down 50 cents at 91.05. Meanwhile the Feb/Mar crude spread continued to weaken, settling at -.10, and is still seen poised to test its support at -.35. The market on Tuesday will be driven by expiration and will likely see the market retrace some of its recent losses ahead of expiration. Support, basis the February contract, is seen at 89.87, 89.08, 88.26 followed by 87.80, 87.05, 86.88 and 85.60. Resistance is seen at 91.40, 92.19, 93.57, 94.71, 96.35 and 98.06. Open interest in the crude market fell by a total of 20,527 lots, with open interest in the January contract falling by 35,777 lots to 79,908 lots ahead of its expiration on Tuesday. Open interest in the February contract however built by 10,121 lots to 315,584 lots. The product markets also settled in negative territory, with the heating oil settling down 1 cent at 259.79 and the RBOB market settling down 63 points at 233.54. The heating oil market also traded off an overnight high of 263.86 to a low of 257.83 by mid-day. It later bounced off that level and retraced some of its earlier losses as it traded back above the 260.00 level ahead of the close. The Jan/Feb heating oil spread narrowed to 35 points is seen trading back at flat. The RBOB market also continued to retrace its previous gains. It sold off from an overnight high of 235.41 to a low of 231.66 early in the session. The market later settled in a range as it found some resistance at 234.40. The product markets are seen continuing their downward trend. In the heating oil market support is seen at 257.83, 255.68, 253.04 and 250.32 while resistance is seen at 261.00, 263.86, 266.46, 266.86 followed by 268.61, 270.57 and 273.85. In the RBOB market, support is seen at 231.66, 230.37, 227.62, 226.90, 224.50 and 223.20. Resistance is seen at 234.40, 235.41, 239.90, 241.79 and 241.98.