



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR FEBRUARY 1, 2006

OPEC President Edmund Daukoro said OPEC encourages the use of renewable energy sources as part of the broader energy sector. US President George W. Bush said in his State of the Union address that the US should cut down sharply on its use of oil imported from the Middle East and promote alternative energy sources.

Market Watch

Iraq's Deputy Prime Minister Ahmad Chalabi said Iraq is set to spend \$2 billion this year on oil export infrastructure and production facilities to increase output to 3.5 million bpd within a year. Its plans include drilling 300 wells in southern Iraq that could add an additional 750,000 bpd to its production, expanding storage facilities by 2 million barrels, a new export pipeline to Iran and rapid response mobile repair teams for the northern oil export pipeline to Turkey. However he said democracy in Iraq could come at the expense of a rapid recovery in the country's oil exports.

Iran's top nuclear negotiator, Ali Larijani, said Iran would resume large scale enrichment of uranium and stop intrusive UN inspections of its facilities if it is referred to the UN Security Council. He warned that Iran's main enrichment plant at Natanz was ready for full operation. However he stated that Iran was committed to the Nuclear Nonproliferation Treaty despite calls from hard line newspapers to withdraw from the agreement if the IAEA refers Iran to the Security Council on Thursday. Earlier, Iran's President Mahmoud Ahmadinejad promised to pursue its nuclear program.

Separately, the New York Times reported that a report from the IAEA points to evidence suggesting links between Iran's nuclear program and its military work on explosives and missiles. According to the Times, the IAEA says in the report it has repeatedly confronted Iran with the allegations with Iran dismissed as baseless adding that it would provide further clarification later. Iran has stated that all of its nuclear projects were conducted under the authority of its national atomic energy agency and not the military. The IAEA report said Iran has not been fully cooperative on all of the outstanding nuclear issues that the agency has questioned for years.

The DOE reported that US inventories of propane totaled 48.288 million barrels in the week ending January 27, down 4.033 million barrels on the week. It also reported that propane inventories in the

East Coast fell by 772,000 barrels to 3.79 million barrels, while inventories in the Midwest fell by 1.665 million barrels to 16.06 million barrels and inventories in the Gulf Coast fell by 1.364 million barrels to 27.112 million barrels.

DOE Stocks

Crude – up 1.9 million barrels
Distillate – down 200,000 barrels
Gasoline – up 4.2 million barrels
Refinery runs – up 0.93%, at 87%

Refinery News

Miro is scheduled to partially shutdown its 310,00 bpd refinery in Karlsruhe, Germany for maintenance work in late February. The turnaround is expected to last between four and six weeks.

Petroplus International NV plans to shut its 117,000 bpd Teesside refinery in England for seasonal maintenance in June. The shutdown is expected to last 28 days.

ERG SpA's 240,000 bpd Isab Sud refinery in Sicily is scheduled to undergo maintenance starting in the beginning of May.

Production News

Norsk Hydro ASA's 45,000 bpd Oseberg South platform in the North Sea was shut down early Wednesday after smoke was detected. However production is expected to resume by noon on Wednesday. It said a defect in a transformer caused the smoke.

Shipping sources stated that Iraq's oil exports were relatively unchanged in January at 1.11 million bpd compared with December's export level of 1.08 million bpd. Exports have declined as sabotage attacks virtually halted oil flows from northern Iraq to Turkey while bad weather, power cuts and insufficient storage hampered shipments out of the country's southern terminal of Basra.

Nigeria's Oil Minister Edmund Daukoru said Nigeria expects to have at least 500,000 bpd of additional crude oil production capacity online by midsummer. Nigeria produces about 2.5 million bpd of crude.

Russia's Yukos said it significantly cut its tax debt by paying \$21.3 billion in back taxes to the Russian Federation. It said its outstanding debt stood at \$6.3 billion, excluding the latest \$3.5 billion claim. It also stated that it planned to increase its oil production by 12% from current levels to about 485,000 bpd by December 2006. It said it plans to invest \$890 million in oil production and \$280 million in refining and petrochemical output in 2006.

PDVSA is still working to move a tanker that ran aground late Monday after leaving the Jose port along Venezuela's eastern coast. The tanker was headed for the Hovensa refinery in St. Croix with a cargo of 1 million barrels of medium and heavy crude when it ran aground. PDVSA began transferring the cargo to another tanker to ensure the shipments continued to the Hovensa refinery.

Mexico's Energy Minister Fernando Canales said the country would maintain its crude oil production at current levels of about 3.8 million bpd. Its exports however are unlikely to increase as it plans to increase domestic refining capacity.

The Petroleum Association of Japan reported that Japan's commercial crude oil inventories fell below 15 million kiloliters for the first time in more than 30 years as refiners continued operating at near record levels. Its crude oil inventories held by refiners fell by 4% to 14.92 million kl or 93.84 million barrels in the week ending January 28. Meanwhile it stated that kerosene stocks fell by 6.4% to 2.82 million kl or 17.74 million barrels on the week. The average operating ratio of Japanese oil refineries was 93.6% in the week ending January 28, largely unchanged from the previous week's 93.9%.

TransCanada Corp is moving ahead with plans for a \$2 billion crude pipeline that would run through eastern North Dakota. It has secured long term contracts to ship 340,000 bpd of crude for its proposed Keystone Pipeline. Company official said they plan to seek approval from regulatory agencies in the US and Canada. It hopes to begin operations on the pipeline in late 2009.

OPEC's news agency reported that OPEC's basket of crudes were steady at \$60.40/barrel on Tuesday compared with \$60.39/barrel on Monday.

Market Commentary

The oil market posted a large trading range of \$2.70 after the market saw a sharp reversal in prices. The market opened relatively unchanged at 67.90 and traded to 68.10 before it sold off to a low of 67.40 following the release of the DOE and API reports, which showed larger than expected builds in crude and gasoline stocks. The crude market found support and bounced off its low and rallied to a high of 69.00. However the market later erased its gains after it failed to breach its resistance and test a previous high of 69.15. The market sold off to a low of 66.30 in profit taking and settled down \$1.36 at 66.56. The late selling also appeared to have been prompted by talk that some private forecasters were backing down on their forecasts for colder temperatures in February. The volume in the crude market was good with over 256,000 lots booked on the day. The gasoline market also settled sharply lower at 172.88, down 7.63 cents after it sold off sharply on some late profit taking. The market traded to a low of 176.40 early in the session following the release of the DOE and API reports, which showed gasoline stocks built by 4.2 million barrels and 3.659 million barrels, respectively. However the market bounced off its low and posted a high of 180.70 before profit taking pushed the market down more than 8 cents to a low of 172.50 ahead of the close. Meanwhile the heating oil market rallied to a high of 189.00 following the release of the DOE and API, which showed unexpected draws in distillate stocks. However the market sold off as the natural gas market also gave up its gains amid the talk of a change in weather forecast. The market sold off to a low of 181.90 and settled down 2.39 cents at 182.40. Volumes in the product markets were good with 59,000 lots booked in the gasoline market and 49,000 lots booked in the heating oil market.

The crude market may retrace some of its losses early in the session. However the market still has room to the downside after its stochastics crossed to the downside. The market will be further pressured if the weather forecasts calling for colder temperatures in mid-February change. The latest National Weather Service forecast was still showing the eastern half of the US below normal. The

market is seen find support at 66.30 followed by 65.55 and its gap from 65.45 to 64.75. Meanwhile resistance is seen at 67.00 followed by its highs of 69.00 and 69.15.

Technical Analysis			
		Levels	Explanation
CL 66.56, down \$1.36	Resistance	69.15 67.00, 69.00	Previous high Wednesday's high
	Support	66.30 65.55, 65.45 to 64.75	Wednesday's low Previous low, Remaining gap
HO 182.40, down 2.39 cents	Resistance	190.00 184.25, 189.00	Previous high Wednesday's high
	Support	181.80 179.50-179.45, 177.50	Wednesday's low Previous lows
HU 172.88, down 7.63 cents	Resistance	183.80 176.00, 180.70	Previous high Wednesday's high
	Support	172.50 170.75, 168.40	Wednesday's low Previous lows