



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 1, 2006

Russia and Iran failed to achieve any breakthrough in their talks on Russia's proposal to enrich uranium for Iran. Earlier, Iran's chief nuclear negotiator said there was no need to resume a moratorium on uranium enrichment. He said all of Iran's activities are transparent. He also stated that Iran agrees to all inspections by the IAEA if they are conducted in line with international law. Meanwhile, Russia's Foreign Minister reiterated Russia's call for Iran to return to a moratorium on enriching uranium as a condition for taking part in a joint enrichment facility on Russian territory.

Market Watch

According to an analyst at the EIA, Doug MacIntyre, the surge in gasoline imports in recent weeks may reflect a desire by refiners to build up inventory on anticipation of supply tightness during the peak summer driving season when new federal standards go into effect. He said the high gasoline imports could bode well for US drivers. In six of the past eight weeks, gasoline imports have averaged more than 1 million bpd, allowing inventories of the product to increase to their highest level in seven years.

Iraqi government sources said Iraq has arrested several guards responsible for protecting the country's oil pipelines on suspicion of aiding a rebel campaign to destroy the network. Iraqi security forces raised the headquarters of Brigade 16 on Tuesday and arrested a number of men deployed by the defense ministry to guard pipelines linking Baghdad with Kirkuk.

The CBOT reported that a total of 10 ethanol delivery notices were posted against the March ethanol contract.

OPEC's President Edmund Daukoru said that \$60/barrel for oil is a fair price that could be sustained. He attributed much of the tightness of the world oil markets to a lack of refineries not production decisions. He predicted a world supply surplus of as much as 2 million bpd in the second quarter. In regards to the hostages taken by militants in Nigeria, he said he was optimistic that the hostage taking of oil workers could be resolved soon. He said once the hostages are released, 75% of the lost production could resume within a few weeks.

DOE Stocks

Crude – up 1.6 million barrels
Distillate – down 1.5 million barrels
Gasoline – up 300,000 barrels
Refinery runs – down 1.62%, at 85.2%

Iraq's new Oil Minister, Hashim al-Hashimi, is not scheduled to attend OPEC's March 8 meeting in Vienna. Iraq's delegation will be led by Iraq's ambassador in Austria and Iraq's Deputy Oil Minister Muatasem Akram, the State Oil and Marketing Organization's head of crude exports to Asia, Ali al-Hashimi and SOMO's head of finance, Kadhim al-Haboubi.

The DOE reported that US inventories of propane fell by 2.654 million barrels on the week to 37.792 million barrels in the week ending February 24. It reported that propane inventories in the East Coast fell by 360,000 barrels to 3.926 million barrels, while inventories in the Midwest fell by 1.833 million barrels to 12.669 million barrels and inventories in the Gulf Coast fell by 365,000 barrels to 20.219 million barrels on the week.

Refinery News

Giant Industries Inc delayed the full restart of its 62,000 bpd refinery in Yorktown, Virginia to April from March. The refinery was shutdown due to a fire.

Sinopec's Maoming plant plans to run at above capacity in March on expectations of improving margins. The refinery is expected to process about 1.2 million tons or 283,000 bpd of crude oil in March.

Alliance Ukraine plans to invest about \$500 million on the upgrade of Ukraine's Kherson refinery. The company plans to build a diesel fuel hydrotreating unit by 2010 and a hydrocracking unit by 2011. It said that after the upgrade, the refinery is expected to produce 700,000 tons of gasoline a year. In 2005, the refinery produced 121,600 tons of gasoline, down 44.8% on the year, 245,900 tons of diesel fuel, down 43% on the year and 431,400 tons of heating oil, down 46.8% on the year.

Production News

On Wednesday, militants holding nine foreign oil workers hostage in Nigeria, released six oil workers after nearly two weeks in captivity. There are still three others in captivity. Later, militants threatened a new attack, stating that the next attack would be on a different area of the producing region. The Movement for the Emancipation of the Niger Delta said it delayed its next attack to concentrate its resources on a crippling blow to the Nigerian oil industry.

Separately, Chevron Corp said it was unlikely that a rupture on one of its Nigerian crude oil pipelines feeding the Makaraba flow station that led to a shut in of 13,000 bpd was caused by a militant attack. It said it was investigating what caused the rupture but added that there was no indication that the rupture was caused by a militant attack.

An Iraqi oil official said Iraq's oil exports increased to 1.42 million bpd in February from 1.1 million bpd in January. Shippers said better weather conditions had reduced loading delays.

Turkey closed the Bosphorus Strait to large ships and tankers on Wednesday due to strong currents. Twelve ships were waiting to pass through the strait. Turkey's Dardanelles Strait remained open.

Russia's OAO Tatneft said it produced 1.986 million tons or 520,000 bpd of oil in February, down from 2.162 million tons or 511,000 bpd in January.

TNK-BP said that it established 1.37 barrels of new reserves for every barrel of oil it produced last year. Its total proven liquid reserves totaled 8.23 billion barrels at the end of 2005.

The Petroleum Association of Japan reported that the country's commercial crude stocks increased to 15.78 million kiloliters or 99.25 million barrels in the week ending February 25, up from 15.04 million kl reported in the previous week. It reported that gasoline stocks increased to 2.23 million kl or 14.03 million barrels from the previous week's level of 2.2 million kl while kerosene stocks totaled 2.68 million kl or 16.86 million barrels, up from 2.63 million kl in the previous week. The average operating rate of Japanese oil refiners was 92% compared with 91.7% the week before.

OPEC's news agency reported that OPEC's basket of crudes fell by 37 cents/barrel to \$56.01/barrel on Tuesday, down from \$56.38/barrel reported on Monday.

Saudi Arabia expects its Khurais crude increment project to yield 1.2 million bpd of Arab Light crude by June 2009. The project is part of a plan by Saudi Arabia to increase its oil production capacity by 14% to 12.5 million bpd by 2009.

Market Commentary

The oil market opened 24 cents higher at 61.65 as it extended Tuesday's gains ahead of the weekly petroleum stock reports. The market quickly rallied to 62.30, where it held resistance in light of the DOE and API reports. The market erased its gains following the release of the reports, which showed larger than expected crude stock builds. The crude market sold off to a low of 61.50. However it later bounced off its low and retraced its losses in afternoon trading. The market posted a high of 62.35 and settled in a sideways trading pattern ahead of the close. It settled up 56 cents at 61.97. Volume in the crude market was good with over 200,000 lots booked on the day. Similarly, the gasoline market opened up 1.43 cents at 160.50 and rallied to a high of 163.40 ahead of the reports. However the market quickly erased its gains in light of the reports showing builds in gasoline stocks for the ninth consecutive week. The market sold off to a low of 158.50, where it found good support. The market later bounced off that level and rallied back above the 162.00 level. It settled up 3.17 cents at 162.24. Meanwhile the heating oil market also settled up 2.42 cents at 174.66 after it retraced its early gains. The market rallied to a high of 176.20 early in the session before it erased its gains and sold off to a low of 172.75. The market was pressured amid the selling seen in the crude and gasoline markets. It however bounced off its low and retraced its losses ahead of the close. Volumes in the product markets were light with 38,000 lots booked in each the gasoline and heating oil market.

The crude market is seen remaining supported amid some new threats in Nigeria. The Movement for the Emancipation of the Niger Delta said it delayed its next attack to concentrate its resources on a crippling blow to the Nigerian oil industry. The market will also remain concerned over Iran and its nuclear program as talks with Russia continue. Technically, stochastics are still trending higher. The market is seen finding support at 61.50 followed by 60.30, and 59.70. More distant support is seen at

59.30 and 59.20. Meanwhile resistance is seen at 62.35, 63.25 and 63.95.

Technical Analysis		
	Levels	Explanation
CL 61.97, up 56 cents	Resistance 63.25, 63.95	Previous highs
	Support 61.50	Wednesday's high
	Support 60.30, 59.70, 59.30, 59.20	Wednesday's low Previous lows
HO 174.66, up 2.42 cents	Resistance 178.25 to 179.25 175.00, 176.20	Remaining gap (February 7th) Wednesday's high
	Support 172.75	Wednesday's low
	Support 168.00, 165.80	Tuesday's low, Previous low
HU 162.24, up 3.17 cents	Resistance 165.00, 168.30 163.40	Previous highs Wednesday's high
	Support 160.00, 158.50	Wednesday's low
	Support 154.70, 152.60, 152.25, 150.00	Previous lows