



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta &  
Zachariah Yurch

**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

---

### **ENERGY MARKET REPORT FOR MARCH 8, 2006**

---

As expected, OPEC agreed to leave its current output policy unchanged. OPEC's President Edmund Daukoru said OPEC would continue to closely monitor the supply and demand balance over the coming weeks. He said OPEC is scheduled to meet June 1 in Caracas but added that the group would monitor the market for guidance on whether to meet informally before then. Saudi Arabia's Oil Minister, Ali al-Naimi later stated that OPEC still hopes that it would not have to cut its production at all this year. Separately, Kuwait's Oil Minister Sheikh Ahmad al-Sabah said he expects oil prices to fall below \$60/barrel in the second quarter. However he believed that prices would return to the \$60s by the fourth quarter.

The head of the IEA, Claude Mandil, said OPEC's decision to leave its current output policy unchanged was good news as crude demand is unlikely to fall much in the April-June period.

#### Market Watch

Saudi Arabia's Oil Minister Ali al-Naimi said the country increased its security measures in the aftermath of the foiled attack against an oil facility.

The general leading Nigeria's fight against rebels in the Niger Delta has been replaced. Removing Brigadier General Elias Zamani was one of the demand of the militants still holding three foreign oil workers hostage. However an army spokesman said the general's redeployment was routine. The Movement for the Emancipation of the Niger Delta accused the general of escalating the crisis by using helicopter gunships to attack barges used to smuggle stolen oil.

Israel's Defense Minister Shaul Mofaz said if the UN Security Council is not capable of taking action to stop Iran from acquiring nuclear weapons, Israel would have no choice but to defend itself. He said the US and European countries should lead the issue of the Iranian nuclear program to the table of the UN Security Council.

Venezuela's Oil Minister Rafael Ramirez said oil majors operating in Venezuela's Orinoco heavy oil region must increase its output by 16.6% before December as part of a plan to pay royalties with crude production instead of cash. He said Venezuela would not grant the companies additional drilling areas to increase its output. Instead the companies must increase secondary recovery rates at existing wells to increase output. Separately, Venezuela's Oil Minister urged lawmakers in the National Assembly to quickly approve a new business model for joint ventures with private oil companies.

A senior European Union diplomat said the UN Security Council is expected to meet to discuss Iran's nuclear program as early as next week. The diplomat said the Security Council would work quickly to issue a presidential statement calling on Iran to suspend all uranium enrichment activity and fully cooperate with UN investigators into the nature of its atomic goals. He said the active involvement of the Security Council was necessary and inevitable. In a report formally delivered to diplomats, the

### **DOE Stocks**

**Crude** – up 6.8 million barrels  
**Distillate** – down 2.7 million barrels  
**Gasoline** – down 1.1 million barrels  
**Refinery runs** – down 2.58%, at 83%

head of the IAEA, Mohamed ElBaradei said the agency could not conclude that there were no undeclared nuclear materials or activities in Iran. He said Iran resumed uranium enrichment activities in defiance of demands by the international community. Diplomats said the discussion by the IAEA board of governors was expected to be brief as

the dossier was transferred automatically to the Security Council for action. The US ambassador, Gregory Schulte, said Iran had 85 tons of uranium hexafluoride gas and said it was enough to make 10 atom bombs. However, Russia's Foreign Minister Sergey Lavrov suggested that Russia would oppose sanctions on Iran because such measures rarely achieve their intended goals.

Iran threatened the US with "harm and pain" for its role in referring Iran to the UN Security Council over its nuclear program. Iran's President has stated that it would not give in to demands that it should limit its nuclear program. However Iran's envoy said Iran remains open to talks despite pending UN Security Council action over its case. Meanwhile, Iran's Oil Minister Kazem Vaziri Hamaneh said the country had no plans to halt oil exports in response to international pressure over its nuclear program. He said it would not use oil as a weapon now but added that if the situation changed, Iran would review its oil policies.

Saboteurs attacked the headquarters of Iraq's South Oil Co in Basra on Wednesday. A company official said the blast did not affect oil production or exports.

The EIA reported that the US inventories of propane fell by 1.521 million barrels to 36.271 million barrels in the week ending March 3. It reported that propane inventories in the East Coast fell by 479,000 barrels to 3.447 million barrels while inventories in the Midwest fell by 576,000 barrels to 12.093 million barrels and inventories in the Gulf Coast fell by 387,000 barrels to 19.832 million barrels.

### **Refinery News**

Operations at Valero Energy Corp's 190,000 bpd Memphis, Tennessee refinery were not affected by a steam and chemical leak near a gasoline production unit.

Alon Energy Inc is scheduled to shut its Big Spring, Texas refinery for 20 days of maintenance starting April 20. During the maintenance period, no finished diesel will be produced and gasoline production would fall to two thirds the amount of normal capacity.

### **Production News**

According to the Minerals Management Service, about 348,253 bpd of oil production remained shut in following last year's hurricanes. It is 23.22% of the Gulf of Mexico's 1.5 million bpd capacity, down from 24.19% reported on February 22.

Nigeria's Oil Minister Edmund Daukoru said about 400,000 bpd of crude production was shut in following the recent militant attacks. However the shut in amount is expected to fall to about 350,000 bpd as output at Shell's Bonga offshore field increases.

Ecuador's President Alfredo Palacio declared a state of emergency in Orellana, Sucumbios and Napo provinces in the Amazon region following a strike of about 4,000 Petroecuador workers in Orellana and Sucumbios. Extraordinary powers were given to the army to restore order. Petroecuador's oil production increased to 93,000 bpd on Wednesday afternoon despite the ongoing strike that cut production to 55,696 bpd earlier in the day.

Exxon Mobil Corp's chairman and chief executive, Rex Tillerson, said it is planning more than 20 project start ups through 2008. It said its Erha field is expected to start up next month. Company officials also said long term projects providing steady output would account for 80% of its production by 2015, up from 15% currently. It estimates that its production in 2010 would reach 5 million barrels of oil equivalent/day, up from 4 million boe/d in 2005.

According to Ecuador's central bank, the country's oil product exports revenue in December 2005 totaled \$31.32 million, up 18% on the year. It exported 816,000 barrels in December, down 24% from 1.07 million barrels reported in 2004.

Colombia's export program for sweet cusiana crude in April is expected to fall by a third to 1.1 million barrels.

Singapore based Concord Energy is planning to build a condensate splitter on Jurong Island by the end of 2007, capitalizing on increasing demand for light products and rising condensate supply. The 75,000 bpd facility is expected to use hydrotreating technology to produce light and heavy naphtha, jet kerosene and ultra low sulfur diesel from sour condensates.

Italy's Eni SpA said it expects Russian supplies of gas to fall 2.7% below requested volumes on Thursday.

OPEC's news agency reported that OPEC's basket of crudes fell by \$1.17/barrel to \$57.47/barrel on Tuesday from \$58.64/barrel reported on Monday.

### **Market Commentary**

The oil market gapped lower from 61.10 to 61.00 as it remained pressured. The market was pressured amid the news that OPEC decided to keep its output policy unchanged. The crude market backfilled its gap as it posted a high of 61.25 but quickly gave up its gains following the release of the DOE and API reports, which showed larger than expected builds in crude stocks. The market extended its losses to over \$2.30 as it sold off to a low of 59.25 in light of the large builds in crude stocks. The oil market however bounced off its low and retraced 50% of its earlier move as it traded back above the 60.00 ahead of the close. It settled down \$1.56 cents at 60.02. Volume in the crude market was excellent with over 269,000 lots booked on the day. Meanwhile, the product markets ended the session mixed, with the gasoline market settling up 1.68 cents at 165.02 and the heating oil market settling down 2.81 cents at 169.41. The gasoline market opened down 2.64 cents at 160.70 and continued to trade lower as it failed to hold its support in light of the larger than expected draws

reported in gasoline stocks. The market sold off to a low of 159.80 amid the losses seen in the crude market. However the gasoline market bounced off its low and

| <b>Technical Analysis</b>            |   |  |
|--------------------------------------|---|--|
|                                      | <b>Levels</b>   | <b>Explanation</b>   |
| <b>CL</b><br>60.02, down \$1.56      | <b>Resistance</b><br>61.25, 62.50, 63.50<br>60.25, 60.50        | Wednesday's high, Previous highs                             |
|                                      | <b>Support</b><br>59.50, 59.25<br>59.20 to 59.12, 58.50, 58.00  | Wednesday's low<br>Remaining gap, Previous lows              |
| <b>HO</b><br>169.41, down 2.81 cents | <b>Resistance</b><br>174.75 to 175.55, 179.50<br>170.00, 172.00 | Remaining gap (March 7th), Previous high<br>Wednesday's high |
|                                      | <b>Support</b><br>168.00, 167.00<br>165.80, 162.55              | Wednesday's low<br>Previous lows                             |
| <b>HU</b><br>165.02, up 1.68 cents   | <b>Resistance</b><br>170.50, 174.75<br>165.40                   | Previous highs<br>Wednesday's high                           |
|                                      | <b>Support</b><br>164.00, 162.00<br>159.80, 157.55              | Wednesday's low, Previous low                                |

retraced all of its losses and traded to its high of 165.40 ahead of the close. The heating oil market also opened lower and posted a high of 172.00 early in the session following the draws reported in distillate stocks. However the market gave up its gains and sold off to a low of 167.00. The market later retraced some of its losses ahead of the close and traded back towards the 170.00. Volumes in the product markets were good with 58,000 lots booked in the gasoline market and 54,000 lots booked in the heating oil market.

The crude market on Thursday is seen remaining pressured following the large builds reported in crude stocks. However the market's losses will be limited by the ongoing geopolitical issues. The market will remain concerned as the Security Council is expected to meet to discuss Iran's nuclear program as soon as next week. While Iran stated that it would not use oil as a weapon now, it did say that it would review its oil policy if the situation changed. The market will likely test its support at 59.00. More distant support is seen at 58.50 and 58.00. Meanwhile resistance is seen at 60.25, 60.50 followed by its high of 61.25. More distant resistance is seen at 62.50 and 63.50.