



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta &
Zachariah Yurch

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

www.e-windham.com

ENERGY MARKET REPORT FOR OCTOBER 5, 2006

An OPEC governor and a senior delegate said OPEC ministers agreed to cut their production by 1 million bpd from its current production level, with Saudi Arabia cutting 300,000 bpd effective immediately. The delegate said nine of the 11 OPEC members are expected to cut their production, with the exception of Indonesia and Iraq. This would be OPEC's first output cut since April 2004. Saudi Arabia's production would fall to 8.8 million bpd from about 9.1 million bpd reported in September. An official stated that OPEC may make deeper cuts at its meeting on December

14. Meanwhile, Kuwait's Oil Minister Sheikh Ali-Jarrah al-Sabah denied reports of an OPEC agreement to cut production. An OPEC spokesman said there was no decision to hold an extraordinary meeting on October 18-19, contradicting a report on Algerian official news agency APS that OPEC would meet in October.

US Secretary of Energy Samuel Bodman urged OPEC ministers to keep the crude market well supplied ahead of expected winter demand. He said there was no need for the OPEC output cut despite the lower prices. He said he planned to note that the world still needs all the oil OPEC can produce in conversations with OPEC ministers. Meanwhile, European Central Bank President Jean-Claude Trichet said OPEC's decision to cut production by 1 million bpd may damage the world economy. He said oil price rises triggered by OPEC production cuts produced world economy slowdowns and inflation spikes.

Market Watch

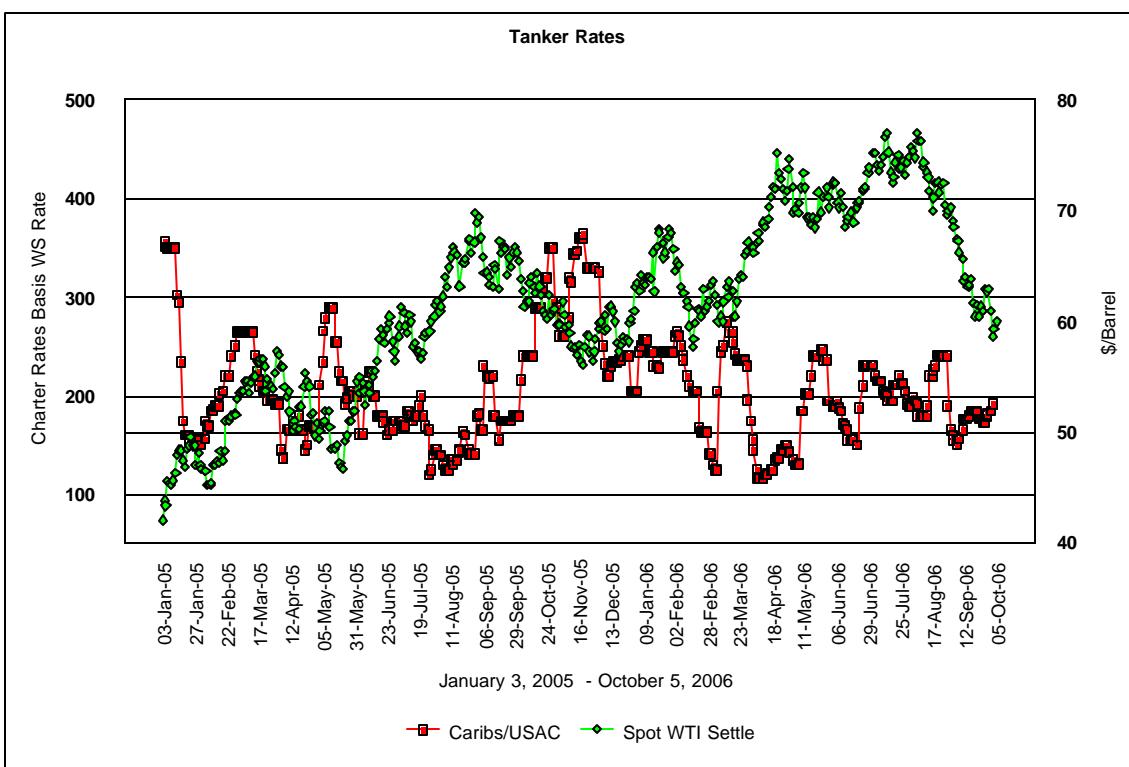
Japan's Trade Minister Akira Amari said that oil prices are expected to remain high amid tight supply and demand conditions.

Canada's government is facing a dilemma over how to deal with greenhouse gas emissions from the Alberta oilfields. At a meeting with auto industry executives, government officials backed away from reports that they would impose California's emissions standards on the auto industry in eastern Canada. The meeting exposed differences between eastern and western Canada about who should bear the cost of curbing greenhouse gases. Environmental groups said they believe the oil producers could reduce greenhouse gas emissions through techniques, such as burying the carbon dioxide. They also argue that Canada could engage in transactions known as carbon trading to remain complaint with the Kyoto pact's quotas. However the government has said it opposes adopting such a program or taxing the oil producers to encourage such measures. Separately, Canadian lawmakers passed a bill that would force the government to respect Canada's commitment to reduce greenhouse gas emissions under the Kyoto Protocol.

UK natural gas prices increased for a second day on Thursday as suppliers cut flows from North Sea fields and through import pipelines.

According to Oil Movements, OPEC's oil exports in the four weeks ending October 21 are expected to fall to 2.5 million bpd from 2.512 million bpd in the four weeks ending September 30.

Iran's President Mahmoud Ahmadinejad urged the



West on Thursday to solve the nuclear standoff through talks. However he reiterated that Iran would not halt its nuclear program. Despite four months of talks, EU foreign policy chief said on Wednesday that Iran made no commitment to suspend its uranium enrichment. He said Iran was moving close to triggering sanctions. He however said talks with Iran should continue even if nuclear talks fail.

Russia's Foreign Minister Sergey Lavrov said foreign ministers from the permanent members of the UN Security Council as well as Germany are expected to meet on Friday in London to discuss Iran. He however stated that Russia remained opposed to imposing sanctions against Iran. He said imposing sanctions would be extreme and not at all constructive. Russia's Foreign Minister also stated that the US was complicating the talks over Iran's nuclear program. Meanwhile, France's Foreign Ministry said that sanctions against Iran should be progressive, proportionate and reversible.

Refinery News

Motiva has shutdown a coking unit and crude distillation unit at its 240,000 bpd Norco, Louisiana refinery. The units were shut on October 1 for turnaround, which is seen lasting 5 weeks.

A power dip at Chevron's refinery in Richmond, California on Wednesday caused an emissions event. The power dip was not seen affecting operations at the refinery. A report filed with the Governor's Office of Emergency Services did not specify which unit was affected by the power problem.

A compressor malfunction in complex 6 in the east plant section of Valero's Corpus Christi, Texas refinery caused emissions, according to a report filed with the Texas Commission on Environmental Quality.

A source stated that BP was testing its hydrocracker at its 460,000 bpd refinery in Texas City, Texas prior to restarting the unit. The unit is expected to restart by the third week of October.

Valero extended its planned fall maintenance at its Houston, Texas refinery beyond a fluid catalytic cracking unit to the whole refinery amid falling margins. Valero however denied that declining margins were a factor in the decision to broaden the maintenance.

PDVSA said a 60,000 bpd atmospheric distillation unit at its Puerto La Cruz refinery resumed full operation on Wednesday. The unit was shutdown for planned maintenance in mid-September.

Shipbrokers and traders stated that PDVSA was selling gasoline to Iran in spite of uncertainty over its domestic refinery operations. Venezuela fixed a 38,000 ton capacity tanker to load on October 2025 in the Caribbean for delivery to Iran. The gasoline sale to Iran could be a partial payment for equipment purchased from Iran in a barter trade deal. Meanwhile gasoline imports from Venezuela to the US has declined to about 100,000 bpd from a high of 200,000 bpd about two to three years ago. A trader noted that PDVSA bought 300,000 barrels of spot gasoline from BP last week.

The UAE's 415,000 bpd Ruwais refinery is expected to close for 28 days of planned maintenance starting November 1.

TonenGeneral Sekiyu KK shut a 185,000 bpd crude distillation unit at its Kawasaki refinery following a fire on Thursday.

South Korea's SK Corp is expected to shutdown a 620,000 ton per year naphtha cracker next week for about a week to fix unexpected technical problems.

Russia's Foreign Minister Sergey Lavrov said Russian companies were supplying crude oil to Lithuania's refinery Mazeikiu Nafta, despite the July cutoff in pipeline supplies.

The Shetland Island Council reported that Brent crude liftings from Sullom Voe increased to 354,214 tons in the week ending October 3, up from 242,966 tons the previous week.

EnCana Corp and ConocoPhillips said they would create a partnership to combine two of EnCana's oil sands projects with two ConocoPhillips refineries. The companies said they plan to spend about \$10.7 billion on the projects over the next decade or so to increase production at the oil sands fields and to expand capacity at the refineries. ConocoPhillips said the deal would give 10% of its US downstream business access to a stable, long term supply of oil. The companies stated that their goal was to increase production from the assets to 400,000 bpd by 2015 from their current level of 50,000 bpd.

China National Petroleum Corp cut demand for oil exports from its Kazakh joint venture with OAO Lukoil due to an upgrade project at a refinery in China. China National Petroleum Corp has been in talks with Lukoil about supplies from its joint venture. It was seeking to import oil through a pipeline from Kazakhstan. China and KazMunaiGaz built the Atasu-Alashankou pipeline to increase deliveries to China. The pipeline has a capacity to pump 200,000 bpd of crude, which can be doubled.

Singapore's International Enterprise said the country's residual fuel stocks fell by 41,000 barrels to 10.841 million barrels in the week ending October 4. It reported that light distillate stocks built by 701,000 barrels to 8.011 million barrels while middle distillate stocks built by 833,000 barrels to 7.597 million barrels.

Production News

The Movement for the Emancipation of the Niger Delta called off its planned attacks following two clashes with Nigerian troops on Wednesday and stated that it would fight only in response to actions by the military. It stated that the suspension was temporary. It later stated that the army had razed a

village in the Niger Delta and it was considering reprisal attacks on troops or oil installations. Meanwhile Nigeria's President Olusegun Obasanjo was due to meet senior army chiefs later on Thursday to discuss the situation in the delta, while a meeting with oil executives was planned for a later date. Separately, a diplomat said seven expatriate oil workers abducted in Nigeria were in good health and added that their kidnappers were demanding a ransom. ExxonMobil suspended supply convoys in some creeks following the clashes between militants and troops on Wednesday.

Alaska North Slope crude sold on Thursday for the first time since June 21 at \$5.27/barrel under WTI for a cargo of at least 300,000 barrels to be delivered this month.

Saudi Aramco raised its November official selling prices for Northwest Europe. It set the price of its Arab Light at BWAVE minus \$5.05, up 50 cents on the month. Its Arab Medium was set at BWAVE minus \$6.95, up \$1.10 while its Arab Heavy was set at BWAVE minus \$8.70, up \$1.80 on the month.

Iran made a proposal to become a strategic export route for central Asia's oil and gas. A senior Iranian Oil Ministry official said Iran could more than double the volume of crude oil it receives under swap deals, putting the imported oil through its northern oil refineries and exporting an equivalent amount from its southern ports.

OPEC's news agency reported that OPEC's basket of crudes fell to \$54.19/barrel on Wednesday from a revised \$54.98/barrel on Tuesday.

Japan's Vice minister at the Ministry of Economy, Trade and Industry, Takao Kitabata said INPEX Holdings Inc has not yet been excluded from the Azadegan oilfield project and talks on developing oilfield were continuing. He was responding to a report stating that INPEX had lost the right to take part in the project. A media report in Iran stated that INPEX was in talks to retain a 15% share in the project, sharply below its current 75% holding.

Market Commentary

The oil market gapped higher from 59.75 to 60.60 following the news that OPEC members agreed to cut their output by a total of 1 million bpd, with Saudi Arabia cutting its production by 300,000 bpd effective immediately. The market quickly rallied to a high of 60.90. However the market retraced its gains and backfilled its opening gap as it sold off to a low of 59.41. The market's early gains were limited amid doubts that OPEC was cutting its production. OPEC President Olusegun Obasanjo said OPEC needed to agree on how much, how soon and how to distribute any cuts while Kuwait's Oil Minister, Sheikh Ali-Jarrah al-Sabah also said there was no agreement among OPEC members to cut their production.

The crude market however bounced off its low and retraced some of its losses ahead of the close amid reports that Nigerian militants were considering

Levels			Explanation
CL 60.03, up 62 cents	Resistance 62.70, 63.10, 64.00 60.40, 60.90		Previous highs Thursday's high
	Support 59.41 57.75, 57.55, 57.30, 56.90		Thursday's low Previous lows
HO 169.20, up 1.5 cents	Resistance 175.40, 176.00 170.00, 172.50		Previous highs Thursday's high
	Support 167.80 163.60, 163.20, 159.70		Thursday's low Previous lows
HU 151.65, up 1.87 cents	Resistance 156.00, 156.50, 156.90 152.00, 154.25		Previous highs, Double top Thursday's high
	Support 149.50 144.35, 143.40, 138.50		Thursday's low Previous lows

reprisal attacks on troops or oil installations after the army reportedly destroyed a village in the Niger Delta. The crude market settled up 62 cents at 60.03. Volumes in the crude market were lighter today with 151,000 lots booked on the day. The gasoline market also gapped higher from 150.50 to 152.50 amid the strength in the oil market. The market quickly rallied to a high of 154.25 as the complex traded higher on the OPEC news. The gasoline market however erased some of its gains and backfilled its gap as it posted a low of 149.50. The market later bounced off its low and traded back towards the 152.00 level ahead of the close. It settled up 1.87 cents at 151.65. The heating oil market also settled 1.5 cents higher at 169.20 after it erased its earlier gains. The market gapped higher from 168.00 to 171.25 in follow through buying and posted a high of 172.50. Similar to the crude market, the heating oil market later gave up its gains. Volumes in the product markets were light with 7,000 lots booked in the gasoline market and 36,000 lots booked in the heating oil market.

NYMEX Petroleum Options Most Active Strikes for October 5, 2006									
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Prev Settle	Volume	IV
GO	1	7	C	1.58	12/26/2006	0.1014		200	34.49
GO	1	7	P	1.58	12/26/2006	0.1009		200	34.49
GO	11	6	P	1.53	10/26/2006	0.0651	0.0753	100	40.11
GO	11	6	P	1.75	10/26/2006	0.2388	0.2561	100	43.22
LO	12	6	P	50	11/14/2006	0.15	0.18	6,975	37.94
LO	12	6	P	55	11/14/2006	0.6	0.68	6,670	34.59
LO	1	7	C	73	12/14/2006	0.51	0.47	4,951	30.33
LO	1	7	P	61.5	12/14/2006	2.72	3.03	4,325	29.39
LO	12	6	C	70	11/14/2006	0.35	0.32	3,905	31.99
LO	1	7	P	63	12/14/2006	3.49	3.84	3,400	29.41
LO	2	7	C	63.5	01/17/2007	3.52	3.32	2,850	27.93
LO	2	7	P	63.5	01/17/2007	3.84	4.17	2,850	27.91
LO	12	6	P	60	11/14/2006	1.91	2.18	2,775	31.73
LO	1	7	C	67	12/14/2006	1.48	1.36	2,752	29.38
LO	12	6	P	54	11/14/2006	0.46	0.53	2,710	35.17
LO	12	6	C	36.5	11/14/2006	24.84	24.24	2,650	89.12
LO	12	6	C	37	11/14/2006	24.34	23.74	2,250	86.77
LO	11	6	P	60	10/17/2006	1.48	1.87	2,105	34.53
LO	12	6	C	29.5	11/14/2006	31.84	31.24	2,100	126.13
LO	12	6	C	40	11/14/2006	21.34	20.74	2,000	73.32
LO	12	6	P	58	11/14/2006	1.21	1.39	1,570	32.39
LO	3	7	C	64	02/14/2007	4	3.76	1,385	27.30
LO	3	7	P	64	02/14/2007	4.12	4.37	1,385	27.25
LO	12	7	C	67.5	11/13/2007	6.22	6.03	1,350	25.39
LO	6	7	C	66	05/17/2007	4.93	4.73	1,350	26.73
LO	6	7	P	66	05/17/2007	5.53	5.72	1,350	26.83
LO	6	7	C	80	05/17/2007	1.26	1.2	1,218	26.55
LO	12	7	P	67.5	11/13/2007	6.88	6.96	1,175	25.50
LO	11	6	P	58	10/17/2006	0.7	0.94	1,012	35.24
OB	4	7	P	2.1	03/27/2007	0.3307	0.3397	810	34.18
OB	4	7	P	1.84	03/27/2007	0.1494	0.1558	405	30.65
OB	12	6	C	1.65	11/27/2006	0.0641		142	38.11
OB	12	6	P	1.73	11/27/2006	0.1852		100	39.22
OH	12	6	C	2.1	11/27/2006	0.0116	0.0098	300	36.61
OH	2	7	C	2.25	01/26/2007	0.0223	0.0193	150	32.22
OH	11	6	C	1.69	10/26/2006	0.0525		70	31.99
OH	11	6	P	1.69	10/26/2006	0.0505		70	31.99

The oil market on Friday will likely remain supported following the news of the OPEC cuts as well as the reports that Nigerian militants were considering reprisal attacks on troops or oil installations. The market will also look for further developments on the standoff over Iran's nuclear program as the foreign ministers of the permanent members of the Security Council and Germany are scheduled to meet on Friday. The market is seen finding support at its lows of 59.41, 57.75, 57.55 and 57.30. More distant support is seen at 56.90. Meanwhile resistance is seen at 60.40 and its high of 60.90. More

distant resistance is seen at 62.70, 63.10 and 64.00.