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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 23, 2006

OPEC President Edmund Daukoru said it was too soon for OPEC to make a decision on any future cuts, as any such step would depend on what happens to oil markets between now and OPEC's next scheduled meeting in December. He said OPEC would need to study fundamentals again before its meeting to determine the impact of production cuts agreed to last week. In regards to Nigeria's production, Nigeria's Oil

Market Watch

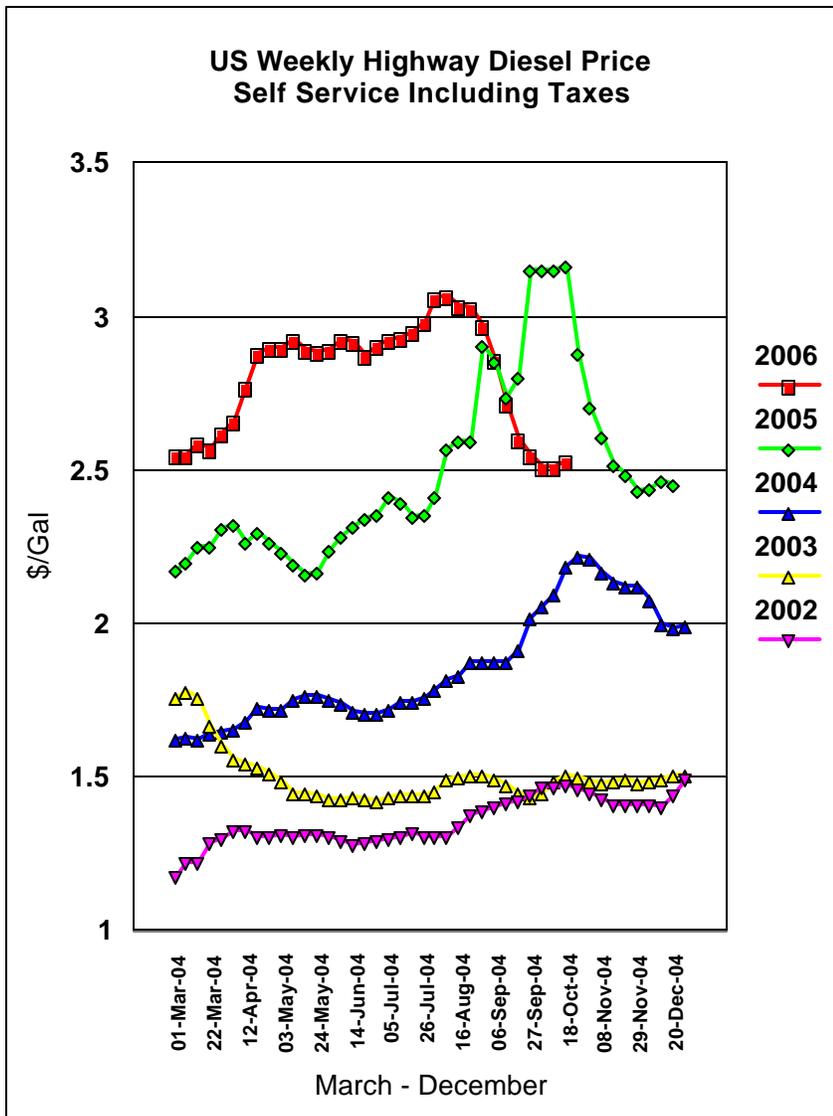
According to DEBKAfile, the US government reported a potential terrorist threat to Saudi Aramco oil facilities in Eastern Province of Saudi Arabia. The notice stated that new information indicated continuing threats against westerners living in Saudi Arabia. US government employees are advised to avoid non-essential travel to oil facilities and US citizens to take all possible precautions.

Petrobras said the company and two southern Brazilian cooperatives were planning the construction of two biodiesel plants in Rio Grande do Sul state. Petrobras is scheduled to sign a memorandum of understanding with the firms Cooperbio and Biopampa on Monday and Tuesday to continue studies for the technical and economic viability of the plants that are scheduled to produce 100,000 tons of biodiesel a year from various plants such as sunflowers and soy.

The plan by Kinder Morgan Inc to build a second pipeline from California to Las Vegas has increased the stakes to compete for a share of the fastest growing US oil products market in the Southwest. Last week, Kinder Morgan said it planned to invest \$388 million to expand further its 550 mile CALNEV pipeline system, which transports gasoline, diesel and jet fuel. The new pipeline would increase the system capacity to about 200,000 bpd and possibly 300,000 bpd with addition of pump stations. The first flow of the pipeline is scheduled for late 2009 or early 2010. Apart from Kinder Morgan, Holly Corp, Pacific Texas Pipeline Co and WesPac Pipeline were expected to build pipelines to deliver products to Las Vegas.

Minister also stated that the country was currently producing 2.4 million bpd, out of a total capacity of 2.8 million bpd. He stated that country's crude production capacity would reach 3 million bpd by the end of 2006 once the unrest in the Niger Delta is resolved and shut in output resumes.

A senior OPEC delegate said Saudi Arabia has informed all its world oil customers that they would receive less oil in November. It has informed its customers that it was cutting its production by 380,000 bpd effective November 1. Asian refiners said they had been notified of supply reductions that could total about two thirds of Saudi Arabia's production cut under the OPEC agreement. Asian refiners are expected to receive up to 8% less or about 280,000 bpd in November. Two South Korean refiners have been notified of a 5-7% cut in oil supplies. Japanese refiners are expected to receive a



cut of 7-8% in November. Trade sources stated that Saudi Arabia would make a token cut to oil supplies in November for its European customers.

The Center for Global Energy Studies said OPEC's oil production cuts would be significantly less than the agreed size of the cut, amid doubts that some members of the group would act at all. It stated that Venezuela and Iran have both claimed higher production levels, raising doubts that they would make any real cuts while Indonesia's OPEC Governor said ahead of the agreement that he hoped his country would not need to contribute to the cuts.

Iran's Foreign Ministry spokesman Mohammed Ali Hosseini said the West's "carrot and stick" method for getting it to halt its uranium enrichment was doomed to fail. He said imposing sanctions against Iran would have an impact beyond the Middle East region. Iran's chief nuclear negotiator has stated that its response could involve halting UN inspections of its declare nuclear sites. A senior diplomat close to the UN's IAEA said Iran

was likely to limit the frequency and scope of inspections to Iranian nuclear facilities but not halt them entirely, in response to an initial sanctions resolution. Meanwhile, Iran's President Mahmoud Ahmadinejad said Iran's nuclear capability has increased 10-fold over the same period last year despite western pressure to halt its nuclear program. He reiterated that Iran was ready to negotiate with the West over its nuclear program. Diplomats stated that Iran has started a second pilot uranium enrichment facility within the past few weeks. They said Iran was expanding its enrichment program even as the US Security Council focused on possible sanctions.

Separately, Russia's Foreign Minister Sergei Lavrov said he was hopeful talks with Iranians would resume and added that there was a chance for a negotiated settlement without sanctions.

The EIA reported that the US average retail price of diesel increased by 2.1 cents/gallon to \$2.524/gallon in the week ending October 23. It was the first increase following nine consecutive weeks of declining prices. The EIA also reported that the US average retail price of gasoline fell by 1.8 cents/gallon to \$2.208/gallon on the week.

According to the Lundberg survey, the US average retail price of gasoline fell 7.79 cents/gallon to \$2.2012/gallon in the two weeks ending October 20.

Refinery News

US refinery margins in most regions increased for the third consecutive week as the heavy maintenance season continues to depress crude prices. Margins in the Midwest increased by \$2.31/barrel to \$11.11/barrel in the week ending October 20. Margins in the Northeast increased by \$1.58/barrel to \$ 6.49/barrel while margins in the Gulf Coast increased by 50 cents to \$8.08/barrel. West Coast margins however fell by 81 cents to \$18.24/barrel while Rockies region margins increased by \$1.24/barrel to 18.55/barrel.

Spot ethanol prices in the New York Harbor increased to about \$2.15/gallon from about \$2/gallon in light of the news of an ethanol freight train derailment near Pittsburgh late last week. The train was delivering ethanol to the US Northeast.

Alon USA said it successfully restarted its 70,000 bpd crude unit at its Big Spring, Texas refinery after completing repairs to the crude charge line. It also stated that its fluid catalytic cracking unit also resumed full rates.

BP has successfully restarted its fluid catalytic cracking unit at its 460,000 bpd Texas City, Texas refinery. The unit was shut last Wednesday following an electrical power disruption at the refinery.

ExxonMobil Corp said it was investigating a release of nitrogen oxide gas from its 150,000 bpd Torrance, California refinery on Sunday. Late last week, the refinery was restarting its hydrogen plant after a week long overhaul. Separately, ExxonMobil said that a sulfur conversion unit at its 563,000 bpd refinery in Baytown, Texas would be down for a about a month as it undergoes planned maintenance. The outage of the unit is not expected to affect production.

BP Plc reported that a flange leak from a heater associated with a processing unit has resulted in emissions of nitrogen oxide from its oil refinery in Carson, California.

Marathon Oil is planning a full turnaround at its 72,000 bpd refinery in Texas City, Texas. The scheduled maintenance is expected to start and end in November.

Venezuela's Sincor joint venture with France's Total and Norway's Statoil said its heavy crude upgrading operations would undergo 19 days of maintenance starting on October 27. It said it would maintain supplies during the work. The project has the capacity to upgrade 200,000 bpd of Orinoco crude into 170,000 bpd of synthetic oil.

Neste Oil's 50,000 bpd Naantali refinery has not reached full production following a maintenance shutdown due to ongoing testing of new automation systems.

Kuwait has withdrawn an offer to sell its 80,000 bpd refinery in Rotterdam after deciding on a strategy to add assets. It intends to retain or add downstream assets.

The head of Royal Dutch Shell Plc's US operations said a final decision on whether to approve the expansion of Motiva's Port Arthur, Texas refinery is not expected until 2007. Motiva has been considering the expansion of the 325,000 bpd refinery to 575,000 bpd.

According to the US Coast Guard, a US flagged towing vessel loaded with 100,000 gallons of diesel sank 20 miles offshore in the Gulf of Mexico late on Saturday. The boat struck a submerged object and sank in the shallow water southwest of the entrance to Calcasieu Ship Channel in Louisiana.

China's Sinopec Group said the country's oil imports for 2006 are expected to increase by 10-18% on the year to 140 million to 150 million metric tons or 2.81 million to 3.01 million bpd. In the first eight months of the year, China imported 95.8 million tons of crude up 15.2% on the year.

India's Oil Ministry reported that Indian refiners processed 11.93 million tons of crude oil in September, up 13.5% from 10.51 million tons processed last year. Refinery processing totaled 2.9 million bpd in September, while domestic crude oil production increased 9.34% on the year to 694,600 bpd in September. It reported that India's domestic oil product sales in September increased by 6.3% on the year to 9.25 million tons. India's sales of diesel increased by 15.2% on the year to 3.24 million tons while fuel oil sales and low sulfur heavy stock fell by 6.4% on the year to 9.6 million tons. Meanwhile, India's oil product exports in September increased by 54.9% on the year to 2.65 million tons or 640,000 bpd.

Azerbaijan's SOCAR has announced a tender for 1 million barrels of Azeri Light crude for loading at the Mediterranean port of Ceyhan on November 24-26.

Shipping agents stated that Brazilian ports shipped 277,326 tons of cane ethanol in September, down from 338,409 tons in August.

Production News

PDVSA's Vice President Luis Vierma said Venezuela may produce less than 3.38 million bpd at the end of 2006 due to the OPEC cut and problems with aging oilfields. Its production is expected to be less than its target of 3.45 million bpd. He said infrastructure projects in Lake Maracaibo could help stop declining output through gas injection.

Iraq halted its oil exports through its northern pipeline to Turkey's port of Ceyhan on Saturday after four days of exports. Stocks of Kirkuk crude in storage at Ceyhan on Friday stood at about 2.5 million barrels after the flow restarted on Wednesday.

Mexico's Energy Minister Fernando Canales said Mexico's crude production has already declined this year and added that the country would not cut its production or exports after OPEC agreed to cut its production. Mexico's crude oil production has declined marginally this year as production from its main Cantarell field fell slightly. Mexico's Energy Minister forecast that the country's production in 2006 would fall slightly to about 3.23 million bpd, down between 60,000 and 70,000 bpd on the year. He said 2007 production would hold steady or increase slightly but would not exceed 3.3 million bpd.

Iraq's Oil Minister Hussain al-Shahristani said Iraq may increase its oil production to almost 3 million bpd by the end of the year from its current production of 2.4 million bpd.

The BP led Azerbaijan International Operating Co consortium started pumping oil four months earlier than planned from the East Azeri field. The AIOC said production started at the first of eight wells and first oil is expected to reach the Baku-Tbilisi-Ceyhan pipeline pump station at the Sangachal terminal near Baku in two weeks. East Azeri is expected to produce 260,000 bpd at its peak while overall Azeri field production is forecast at over 800,000 bpd by mid-2007.

Operations were back to normal at the Kazakhstan's Tengiz oil field following a mass brawl late last week. Media reported that up to 140 people were injured in the fight between Kazakh and Turkish workers at the Tengiz oil field in Kazakhstan.

Seven foreign oil workers, who were being held hostage in Nigeria's southern Niger Delta have been released. The workers were handed over by the Nigerian government to ExxonMobil officials. They were kidnapped on October 3 in a raid on a residential compound for expatriate contractors working for ExxonMobil.

Royal Dutch Shell Plc offered C\$7.7 billion or \$6.8 billion to buy out a Canadian venture to increase production from oil sands as violence has cut its Nigerian supplies and as fields mature in the North Sea. The buyout would allow the Shell group to gain more control over the costs of expanding its oilsands project.

A Japanese Trade Ministry official said the government was considering lending Iraq \$3.5 billion to support projects in the country, including three related to oil and gas development. The projects under consideration include a refinery upgrade in Basra, restoration of crude oil export facilities and an associated liquefied petroleum gas project. Japan's Trade Minister Akira Amari and Iraq's Oil Minister Hussain al-Shahristani are expected to issue a communiqué on Tuesday, which is expected to cover the cooperation between the two countries.

Market Commentary

The oil market gapped lower from 59.10 to 58.60 amid doubts that all OPEC members would cut their production levels under an agreement reached last week to cut production by a total of 1.2 million bpd. The market shrugged off the news that Saudi Arabia notified its customers that it would cut its production by 380,000 bpd starting November 1. The market sold off to a low of 58.15 early in the session before it bounced off that level and partially backfilled its gap as it posted a high of 58.95. The market however erased its gains once again and settled in a sideways trading pattern for the remainder of the session with light volume trading. The market traded towards its high ahead of the close and settled down 52 cents at 58.81. Volume was light with 137,000 lots booked in open outcry while volume on Globex stood at 141,000 lots at the close of the day session. The heating oil market also settled in negative territory, down 1.10 cents at 166.90. The market gapped lower from 167.20 to 166.00 and quickly sold off to a low of 165.30 amid the losses in the oil market. The heating oil market however bounced off its low and backfilled its gap as it posted a high of 167.90 and later traded sideways. The gasoline market also gapped lower from 146.00 to 145.00 and traded to a low of 144.50. However the market quickly bounced off its low and backfilled its gap. It traded mostly sideways

before some late short covering ahead of the close pushed it to a high of 147.50. It settled up 43 points at 147.15. Meanwhile, the RBOB market

		Levels	Explanation
CL	Resistance	60.40, 61.00, 61.25, 61.90	Previous highs
	58.81, down 52 cents	58.95 to 59.10	Remaining gap (October 23)
	Support	58.50, 58.15	Monday's low
HO	Resistance	170.30, 172.50	Previous highs
	166.90, down 1.10 cents	167.90	Monday's high
	Support	165.30	Monday's low
RB	Resistance	152.50, 154.80, 155.00, 156.50	Previous highs
	150.44, down 50 points	151.00	Monday's high
	Support	148.50, 147.50	Monday's low
		147.00	Previous lows

NYMEX Petroleum Options Most Active Strikes for October 23, 2006

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
GO	11	6	P	1.45	10/26/2006	0.0146	20	45.22
GO	11	6	C	1.55	10/26/2006	0.0032	15	46.14
GO	12	6	P	1.3	11/27/2006	0.0098	11	36.38
LO	4	7	P	50	03/15/2007	0.53	5,100	30.28
LO	12	6	P	55	11/14/2006	0.52	4,565	32.86
LO	12	6	C	65	11/14/2006	0.25	3,443	32.65
LO	12	6	P	77	11/14/2006	18.19	3,200	56.07
LO	12	6	P	75	11/14/2006	16.19	3,000	50.59
LO	12	6	P	58.5	11/14/2006	1.68	2,423	32.02
LO	12	6	P	60	11/14/2006	2.51	2,353	32.10
LO	12	6	P	52	11/14/2006	0.17	2,300	35.44
LO	12	6	C	58.5	11/14/2006	1.99	2,240	32.05
LO	12	6	C	75	11/14/2006	0.01	1,945	38.53
LO	12	6	C	62	11/14/2006	0.71	1,873	32.08
LO	12	6	C	63	11/14/2006	0.51	1,858	32.27
LO	6	7	C	64	05/17/2007	5.1	1,725	26.69
LO	6	7	P	64	05/17/2007	4.7	1,725	26.65
LO	12	6	P	57	11/14/2006	1.05	1,632	32.08
LO	12	6	P	58	11/14/2006	1.45	1,550	32.06
LO	12	6	C	64	11/14/2006	0.36	1,537	32.46
LO	4	7	P	55	03/15/2007	1.29	1,400	28.83
LO	4	7	P	60	03/15/2007	2.7	1,225	27.47
LO	12	6	P	56	11/14/2006	0.74	1,191	32.25
LO	12	6	C	60	11/14/2006	1.32	1,169	32.00
LO	2	7	C	65	01/17/2007	1.96	1,115	27.84
LO	12	6	P	65	11/14/2006	6.42	1,102	33.00
LO	9	7	C	75	08/16/2007	2.59	1,100	25.25
LO	9	7	P	55	08/16/2007	2.05	1,100	28.23
LO	12	6	C	65.5	11/14/2006	0.2	1,080	32.44
LO	3	7	C	78	02/14/2007	0.37	1,056	27.82
LO	12	6	P	78	11/14/2006	19.19	1,000	58.76
LO	12	6	P	79.5	11/14/2006	20.69	1,000	62.73
OB	4	7	C	1.79	03/27/2007	0.1372	150	32.11
OB	4	7	P	1.79	03/27/2007	0.1505	150	32.18
OB	5	7	C	1.9	04/25/2007	0.1129	100	30.53
OB	4	7	P	1.84	03/27/2007	0.1813	100	32.76
OH	2	7	C	2.1	01/26/2007	0.0274	325	32.38
OH	2	7	P	1.65	01/26/2007	0.049	325	30.03
OH	1	7	C	1.84	12/26/2006	0.0562	310	30.68
OH	12	6	P	1.79	11/27/2006	0.1175	310	32.84
OH	11	6	P	1.86	10/26/2006	0.191	310	44.30
OH	1	7	C	2.5	12/26/2006	0.0013	300	36.91
OH	12	6	C	2.19	11/27/2006	0.0016	250	38.76
OH	12	6	C	2.43	11/27/2006	0.0003	250	41.84
OH	12	6	C	1.74	11/27/2006	0.0535	200	31.99
OH	12	6	P	1.89	11/27/2006	0.1972	170	34.68
OH	11	6	P	1.97	10/26/2006	0.301	170	71.37
OH	12	6	C	2.29	11/27/2006	0.0008	125	40.61

settled down 50 points at 150.44 after it rallied to a high of 151.00 ahead of the close. Volume in the product markets remained light with 33,000 lots booked in the heating oil market, 6,000 lots in the gasoline and 22,000 lots traded in the RBOB market.

The oil market, which failed to remain supported in light of the Saudi notification to its customers that they would receive less oil in November, is likely to continue to trade lower as the market believes the OPEC output cut would be less than the agreed amount. The market is seen finding support at 58.50 followed by today's low of 58.15. More distant support is seen at its previous low of 56.55. Meanwhile, resistance is seen at its gap from 58.95 to 59.10 followed by 60.40. More distant resistance is seen at 61.00, 61.25 and 61.90.