



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta &
Zachariah Yurch

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

www.e-windham.com

ENERGY MARKET REPORT FOR NOVEMBER 8, 2006

Saudi Arabia and other Gulf OPEC members assessed the impact of OPEC's agreement to cut production by 1.2 million bpd and whether a further reduction would be needed by the end of the year. Officials dismissed a US government report stating that OPEC would barely cut 60% of the planned supply curb. A Saudi oil official said Saudi Arabia has fully complied with its 380,000 bpd cut it agreed to in late October. The UAE's Oil Minister Mohammed bin al-Hamli said all of OPEC is committed to cutting production. Qatar's Oil Minister Abdullah al Attiyah also stated that he was confident that all OPEC members would comply with their recent pact to cut oil supplies. Kuwait's Oil Minister Sheikh Ali al-Jarrah al-Sabah said OPEC is expected to meet its commitment to cut production and added that no further cuts would be needed if US oil prices remain around \$60/barrel.

Market Watch

Oman's Oil Minister Mohammed bin Hamad al-Rumhy said the Dubai Mercantile Exchange is scheduled to launch its Oman crude oil futures contract in the first quarter of 2007. The government of Oman was in discussions to take a stake in the exchange.

Lehman Brothers' chief energy economist said crude oil prices may increase 10% before the end of the year as OPEC enforces its production cuts and demand from refiners rebound after maintenance shutdowns. He said oil prices may increase to as much as \$66/barrel in the fourth quarter. Next year, oil prices may average as much as \$8/barrel more than in 2006. He said OPEC was cutting its production closer to 1 million bpd than 500,000 bpd.

Archer Daniels Midland Co said world biodiesel production should increase 350% during the next five years. It said world biodiesel production should increase from 4.5 million tons in 2005 to 16 million tons in 2010, with the largest increase coming from Europe. It forecast US ethanol demand of at least 14 billion gallons, well above the 7.5 billion gallons of renewable fuels mandated by the US government by 2012.

Meanwhile, the Clean Fuels Development Coalition said US ethanol production may increase to 15 billion barrels a year by 2013. It stated that from 2010, second generation ethanol made from organic waste is expected to have matured. Ethanol production in August increased 27% on the year to an average of 13.8 million gallons/day.

The NYMEX energy futures on the CME Globex platform set new daily volume records on Tuesday. Total energy futures traded 437,601 contracts, surpassing the 415,437 lots traded on October 31. Crude oil futures reached 254,330 contracts while natural gas futures volume increased to 64,599 contracts.

Venezuela's President Hugo Chavez said Venezuela would work to prevent oil prices from falling below \$50/barrel. He said OPEC's output cuts have stabilized oil prices between \$55 and \$60/barrel. This followed comments made by Venezuela's Energy Minister Rafael Ramirez, who stated that \$60/barrel was a fair price for crude produced in the US.

DOE Stocks
Crude – up 400,000 barrels
Distillate – down 2.7 million barrels
Gasoline – down 600,000 barrels
Refinery runs – down 0.90%, at 88.1%

Iran's Supreme Leader Ayatollah Ali Khamenei said Iran would continue to acquire nuclear technology. He also stated that Iran would challenge what he called "Western fabrication." Separately, Iran's Foreign Minister Manouchehr Mottaki postponed a visit to Russia planned for this week a move seen as a diplomatic snub reflecting Iran's annoyance at Russian hints of a delay to the construction of the country's first nuclear power plant. He was scheduled to hold talks with his Russian counterpart Sergey Lavrov in Russia during a two-day visit starting on Thursday. Later Wednesday, Iran's top nuclear negotiator, Ali Larijani said he would travel to Russia within the next day or two for talks including nuclear issues. Experts believe that Russia, which has rejected the European proposed resolution, could be using its contract to build the plant in the southern city of Bushehr as a lever of pressure on Iran.

Refinery News

Chalmette's fluid catalytic cracking unit at its 190,200 bpd refinery in Chalmette, Louisiana is scheduled to undergo three weeks of maintenance starting at the end of November.

Alon USA Energy Inc cut the rates on a sulfur recovery unit at its 70,000 bpd refinery in Big Spring, Texas on Tuesday. In a report filed with the Texas Commission for Environmental Quality the No. 1 scot unit unit was shut after the mix chamber flame scanner shutdown.

A crude pipeline in Unita county, Wyoming was shut in following a fire at an oil tank near the pipeline. Workers shut the pipeline, which extends between Utah, Idaho and Wyoming.

Shell Oil said it had started up service on its 180,000 bpd Seajack crude pipeline in the Gulf of Mexico. The link would allow Gulf of Mexico oil producers in the Southern Green Canyon area to ship their crude oil through Shell's Amberjack system.

Colonial Pipeline said it would allocate the oil products shipped on the main distillate line north of Collins, Mississippi for the 64th cycle because of strong demand for diesel, heating oil and jet fuel.

Louisiana's Governor Kathleen Blanco said she hoped to leave Kuwait on November 12 with a memorandum of understanding to build an oil refinery in Louisiana. However she indicated that the agreement would not mean the construction was a done deal. Meanwhile Kuwait's Oil Minister Sheikh Ali al Jarrah al Sabah said the talks were in the early stages and added that no agreement was expected imminently.

Japan's Showa Shell Sekiyu KK restarted its 75,000 bpd No. 2 crude distillation unit at its Yokkaichi refinery on Wednesday as scheduled following planned maintenance. The unit had been shut since October 5.

The Oil Ministers of the Gulf Cooperation Council agreed on Wednesday not to build an oil export pipeline that would bypass the Straits of Hormuz. The pipeline was planned to avoid possible disruption in the Straits of Hormuz amid concerns that Iran could block the straits should the international community decide to take military action against the country over its nuclear program.

BP has suspended crude exports from the Georgian port of Supsa on the Black Sea after discovering anomalies in a pipeline. The pipeline transports about 150,000 bpd of crude from Azerbaijan. BP said the oil shipments would be diverted to the Turkish port of Ceyhan, the Georgian port of Batumi and the Black Sea port of Novorossiisk.

India's Oil Minister Murli Deora said India would increase its annual refining capacity to 148.97 million tons in April 2007 from the current level of 138 million tons. He said annual capacity should increase to 234.96 million tons by 2011-2012.

The Petroleum Association of Japan reported that kerosene stocks fell by 0.9% to 5.4 million kiloliters or 33.96 million barrels in the week ending November 4. It reported that gasoline stocks totaled 2.16 million kl or 13.6 million barrels, up 0.9% on the week. Crude stocks fell by 1.4% to 18.3 million kl or 115.16 million barrels over the same period. Japanese refineries ran their facilities at an average 77.6% of total capacity of 4.79 million bpd, up from 74.8% the previous week.

Australia's Natural Fuel started construction of a biodiesel plant in Singapore, which is expected to become the world's largest biodiesel plant. The first phase of the plant is expected to begin operations by the end of next year and would produce about 600,000 tons or 12,000 bpd of biodiesel. A second and third phase would increase output to 1.8 million tons of biodiesel per year.

China's General Administration of Customs reported that China imported 120.1 million tons of crude in the first 10 months of the year, up 14.1% on the year. It reported that China imported 10.82 million tons of crude oil or 2.56 million bpd in October. Separately, traders stated that China imported five diesel cargoes in November, amounting to 150,000 tons. The cargoes would be supplied from South Korea, Taiwan and Russia. China imported 120,000 tons in each month in September and October.

China's Sinopec has secured a deal to use 10 million barrels of storage at the new strategic oil reserve tanks and is in talks to double that. Shifting some management responsibilities to Sinopec could make it easier for China and its state firms to draw or build supplies as prices rise and fall, increasing uncertainty about China's buying habits.

Production News

Chevron Corp said it started crude oil production at the Landana North reservoir in the Tombua-Landana development area offshore Angola. The estimated peak production is about 100,000 bpd by 2010.

Total SA said production from its Dalia field offshore Angola should start in mid-December and increase to represent about 4% of group output. It said 2006 production should average about 2.35 million bpd of oil equivalent.

Venezuela's Oil Minister Rafael Ramirez said ExxonMobil Corp must give Venezuela a majority stake in the promising La Ceiba oilfield before beginning commercial production. La Ceiba is expected to eventually produce over 40,000 bpd of medium grade oil.

An Oil Ministry report stated that India's Oil and Natural Gas Corp would seek to acquire 20 million tons of foreign oil and oil equivalent gas production by 2020. ONGC's overseas investment arm, ONGC Videsh Ltd produced about 6.62 million tons of oil and oil equivalent gas in 2005-06 from its assets in Sudan, Vietnam and Russia.

Korea National Oil Corp said it was in talks with India's ONGC to store crude from Russia's Sakhalin-1 field and would increase its storage capacity by about 20% by 2010. KNOC planned to increase its capacity to 146 million barrels from 121 million barrels in 2006.

OPEC's news agency reported that OPEC's basket of crudes increased to \$55.64/barrel on Tuesday, up from \$54.91/barrel on Monday.

Ecuador's central bank reported that the country exported 101.81 million barrels in the first nine months of the year, up 6% from 96.1 million barrels exported last year. It reported that Ecuador's oil export revenues totaled \$5.37 billion between January and September.

Market Commentary

The oil market opened up 32 cents at 59.25 as Gulf oil ministers meeting in Abu Dhabi said OPEC was committed to cutting production in line with their agreement to cut their output by a total of 1.2 million bpd. The market was well supported following the release of the DOE, which showed larger than expected draws in distillate stocks and unexpected draws in gasoline stocks. The crude market rallied to a high of 60.30. However the market erased its gains and sold off to a low of 59.10 late in the session before some short covering pushed the market back towards the 60.00 level ahead of the close. It settled up 90 cents at 59.83. Open outcry trading volume in the crude market remained light with 174,800 lots booked on the day. Volume in the crude market on the Globex platform was better with about 230,000 lots traded during the open outcry session. The heating oil market opened at its low of 168.50 and extended its gains to over 4.4 cents as it rallied to a high of 172.50. The market was well supported by the larger than expected draws reported in distillate stocks of over 2 million barrels. The market however retraced most of its gains later in the session before some short covering pushed the market back towards 171.50 ahead of the close. The heating oil market settled up 3.03 cents at 171.06. The RBOB market also opened at its low of 155.00 and rallied to a high of 158.90 in light of the unexpected draw reported in gasoline stocks. The RBOB market later erased some of its gains and traded to 155.70 before it traded back towards its high ahead of the close. It settled up 4.21 cents at 157.77. Volumes in the product markets were light with 33,500 lots booked in the heating oil market and 20,000 lots booked in the RBOB market.

The crude market is seen remaining in its recent trading range after the market bounced higher from its late sell off. The market is seen remaining supported in light of the supportive inventory reports and the statements made by OPEC members that they are committed to cutting their production. The market is seen finding support at its low of 59.10, 58.90 and 58.30. More distant support is seen at 57.60 and 57.05.

Meanwhile resistance is seen at 60.30, 60.55, 61.00 and 61.70.

		Levels	Explanation
CL	Resistance	60.55, 61.00, 61.70	Previous highs
	59.83, up 90 cents	60.30	Wednesday's high
	Support	59.10	Wednesday's low
HO	Resistance	173.70, 174.70, 178.20	Previous highs
	171.06, up 3.03 cents	171.50, 172.50	Wednesday's high
	Support	169.30, 168.50	Wednesday's low
RB	Resistance	159.75, 160.00, 163.50	Previous highs
	157.77, up 4.21 cents	158.90	Wednesday's high
	Support	155.70, 155.00	Wednesday's low
		152.75, 149.50, 145.50, 144.25	Previous lows, Double bottom, Previous low