



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 9, 2005

OPEC ministers are expected to hold oil production steady when they meet on Monday. However flat out production could cause an oversupply come spring, putting pressure on prices and tempting OPEC to cut production. Analysts believe OPEC may order an emergency meeting for January if necessary to enforce production cuts for the second quarter.

OPEC President Sheikh Ahmad Fahad al-Ahmad al-Sabah said OPEC will likely meet again in late January or February to discuss the state of the oil market ahead of historically weaker demand and against a backdrop of members producing at full capacity. Meanwhile, Algeria's Oil Minister Chakib Khelil said OPEC should continue with its current output policy and roll over its offer of 2 million bpd of spare capacity if consumer demand warrants it. He said world oil demand will be sufficient in the second quarter to absorb current OPEC output of 30 million bpd.

The Middle East Economic Survey reported that OPEC's total oil production fell by 235,000 bpd to 29.78 million bpd

Market Watch

According to a survey by Lehman Brothers, oil and gas companies are likely to increase spending on exploration and production by at least 14.7% next year as the industry posts earnings growth. The spending increase to \$238 billion from 2005's estimated \$207 billion is driven by high energy prices and rising costs and could exceed 20%. Spending in the US is expected to rise by 14.9% from 2005 to \$57 billion while Canada is expected to increase its spending by 13.3% to \$24.7 billion. Analysts stated that crude oil would have to fall below \$45/barrel and gas below \$6.00 to \$6.50/mmbtu for the budget to be cut.

The governor of Nigeria's Bayelsa state, who stands accused of money laundering, was arrested on Friday after state lawmakers removed his immunity by impeaching him. Governor Diepreye Alamieyeseigha fled charges in Britain last month and Nigerian authorities have also accused him of financial wrongdoing. The governor alleged he was framed because of his ties to Vice President Atitku Abubakar, a foe of President Olusegun Obasanjo.

Sao Tome and Principe wants more assistance from the US to protect its security as a future oil producer. Sao Tome delivers about 15% of the US' oil imports. It is opening up its own offshore waters for oil exploration by US and other companies. Chevron is preparing to drill its first exploration well in January in waters Sao Tome jointly manages with Nigeria.

Saudi Arabia is seeking to translate its domestic confidence into a more assertive international role. Saudi Arabia hosted a summit of Muslim leaders in Mecca this week to tackle the crisis of religious extremism and economic instability. It was the latest initiative by King Abdullah to project the economic and religious weight of Saudi Arabia abroad.

The UN Climate Change Conference is entering its final day, with diplomats struggling to find a last minute deal on moves to cut carbon emissions. Negotiators have finalized details of the Kyoto Protocol and are discussing a proposal for talks on long term cuts. Japanese Environment Minister Yuriko Koike called on developing countries to join in the fight against global warming and commit themselves to cuts in greenhouse gases. Countries such as India and China are exempt from the targets agreed in the Kyoto treaty. Meanwhile, Canadian Environment Minister Stephanie Dion has been trying to persuade the US to agree to open ended discussions about future cooperation without committing itself to firm targets.

in November from 30.015 million bpd a month earlier. It estimated that the ten OPEC members produced 28.08 million bpd, down 185,000 bpd on the month. Iraqi exports fell to their lowest level in two years at 1.21 million bpd.

Refinery News

Shell said its crude unit at its Deer Park, Texas refinery was running at 80% of capacity by Friday morning. It is expected to reach full rates by the end of the day. Shell began to restart the crude unit Wednesday after it was shut on December 5 for repairs to a small leak.

BP said it plans to invest \$1 billion over five years to improve and maintain its Texas City refinery following the issuance of the final investigation report of the explosion at the refinery. The company is implementing the recommendations of the incident investigation team and modernization program to secure the long term future of the refinery. The company will install modern process control systems on major units, transition to a new maintenance management system, improve worker training, remove blow down stacks and implement other recommendations contained in the final report.

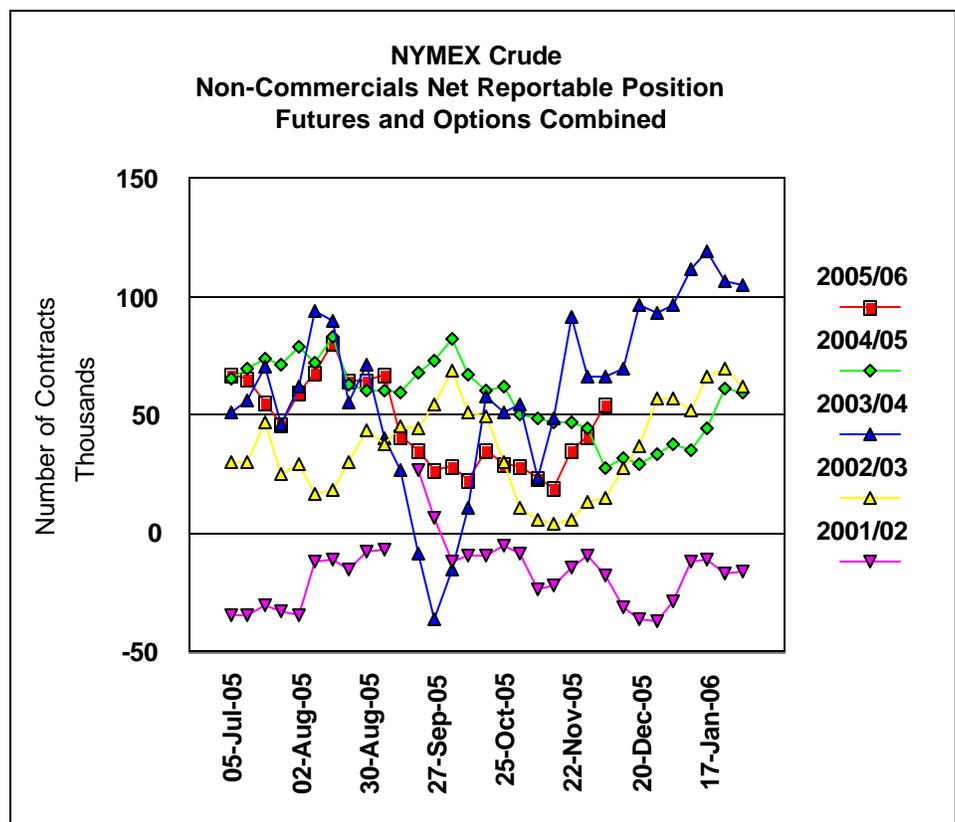
Production News

The Louisiana Offshore Oil Port LLC resumed scheduling offloading of cargoes of West African sweet crude on Thursday. The LOOP halted offloading West African sweet crude on Wednesday due to storage limitations. West African sweet crude offloading was halted as shipments out of the storage caverns were not pacing scheduled deliveries of the oil. A spokeswoman said the LOOP however continued to offload other crude grades.

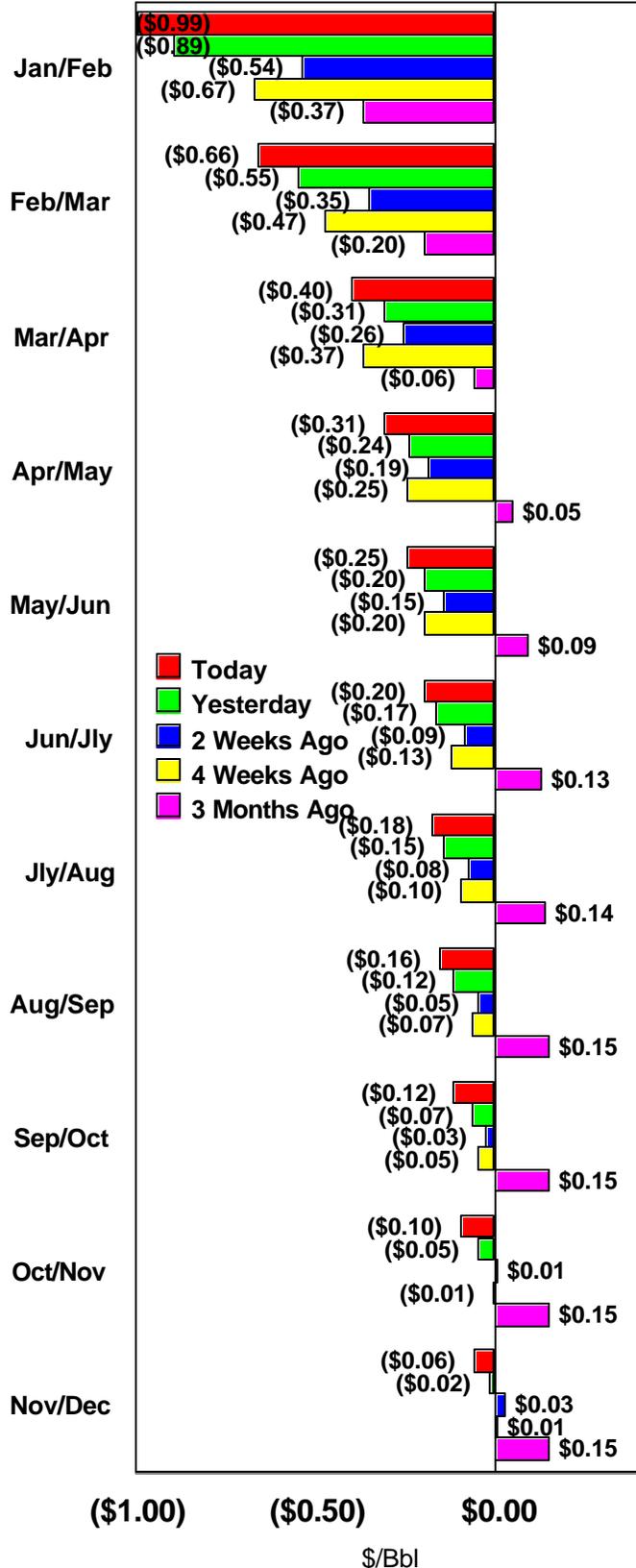
According to the MMS, US oil production shut in the Gulf of Mexico fell to 447,425 bpd on Friday, down from 464,858 bpd on Thursday. Cumulative lost oil production since August 26 reached 100.4 million barrels on Friday.

Louisiana’s Department of Natural Resources said restored crude oil production in the state stood at 57.9% of normal capacity on Friday, up from 56.6% on Thursday. In terms of volume, DNR said production stood at 117,535 bpd.

The Alaska Oil and Gas Conservation Commission said it would study how tapping Alaska’s natural gas could hurt oil production. Siphoning off large volumes of gas, used to maintain pressure in fields and force out oil trapped in porous rocks, could result in millions of barrels of oil being stranded in the ground.



NYMEX WTI Crude Spreads



The commission announced that it had signed an agreement with oil companies for a landmark technical assessment of the Prudhoe Bay oil field.

Stocks of most oil products held in independent Amsterdam-Rotterdam-Antwerp storage tanks fell this week. Gas oil stocks in the ARA storage tanks stood at 2 million tons in the week ending December 9, down from 2.095 million tons a week ago but still sharply higher than last year when they stood at 1.525 million tons. Fuel oil stocks fell to 505,000 tons this week from 550,000 tons reported last week while jet fuel stocks stood at 355,000 tons on Friday, down 15,000 tons on the week. Naphtha stocks also fell to 20,000 tons from 65,000 tons on the week. Meanwhile gasoline stocks increased by 10,000 tons to 730,000 tons on the week.

The January loading program for North Sea Oseberg crude totaled 8.61 million barrels, down from 8.93 million barrels in December.

The North Sea Brent crude stream is scheduled to load an average of 227,000 bpd in January compared to 274,000 bpd in December.

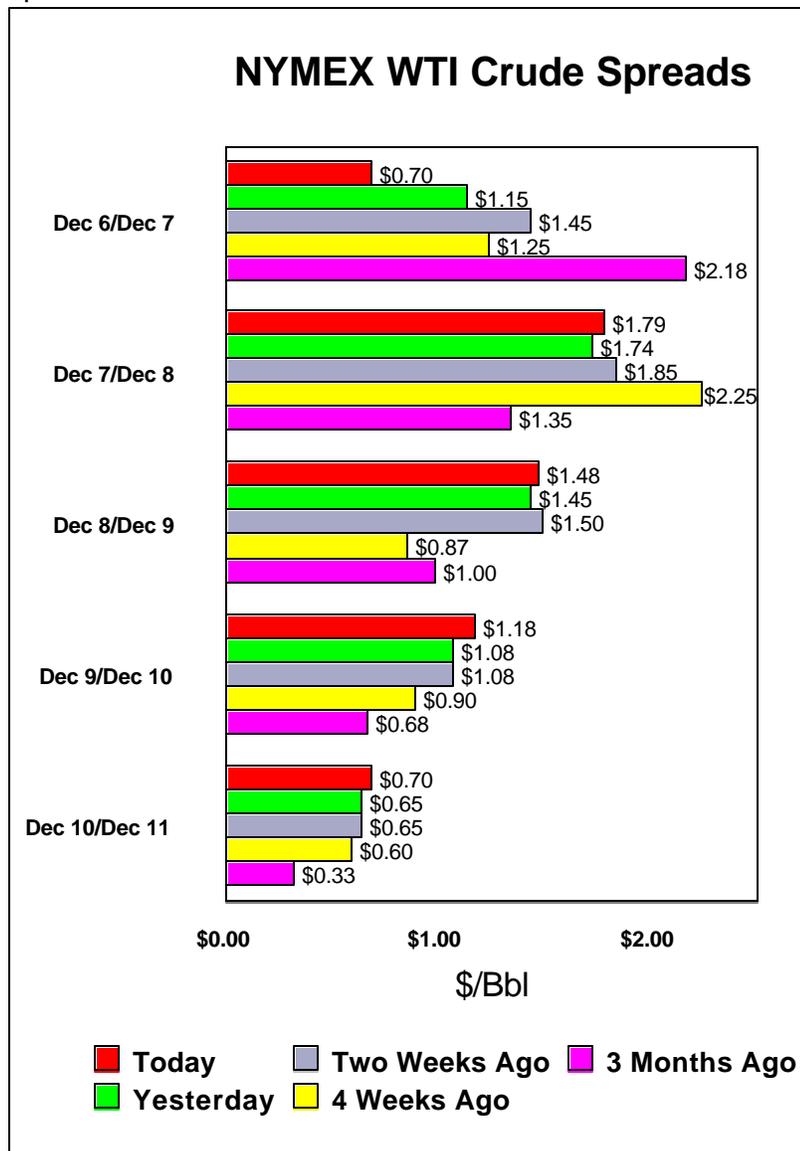
Danish Underground Consortium's oil production from its 14 fields in the Danish part of the North Sea fell by 3.5% year on year in November to 301,600 bpd.

Denmark's North Sea DUC oil stream is scheduled to load 213,000 bpd in January, down from 232,000 bpd in December.

The Norwegian Petroleum Directorate said Norway's oil production increased to 2.52 million bpd on average in November from 2.47 million bpd in October. It said that Norway's final October petroleum output totaled 131.46 million barrels of oil equivalents.

SK Corp plans to more than halve its January exports of fuel oil from December

volumes due to lower crude runs and higher domestic sales. It is expected to cut its fuel oil exports to 118,000 tons from 255,000 tons booked for overseas sales in December. As a result, South Korea's overall fuel oil exports are expected to fall to 548,000 tons in January from 645,000 tons in December. The decline is partly due to its January crude oil processing rates falling to 760,000 bpd from 800,000 bpd in December.



Colombia's Ecopetrol reported \$2.3 billion in revenues from oil and derivatives exports between January and October, up from about \$1.77 billion reported last year. It exported 50.358 million barrels of oil between January and October. In October, it exported 6 million bpd of oil compared with 4.7 million bpd last year.

OPEC's news agency reported that OPEC's basket of crudes increased slightly to \$52.94/barrel on Thursday, up from Wednesday's \$52.88/barrel.

Market Commentary

The oil market posted yet another outside trading day amid the continued volatility. The market opened down 20 cents at 60.46 in follow through selling seen late in the Access session. The crude market bounced off a low of 60.20 and posted an intraday high of 61.18 as it breached its double top at 60.80. The market later erased its gains and traded to 59.90 where it held some good support. However the oil market, which was unable to test its 60.50 level later in the session, continued to trend lower. It extended its losses to over \$1.60 as it posted a low of 59.03 ahead of the close. The crude market settled down \$1.27 at

59.39. Volume in the crude was good with over 206,000 lots booked on the day. The heating oil market settled down 5.14 cents at 173.18, leading the markets lower late in the session as the natural gas market also retraced its earlier gains. The markets were pressured amid the moderating weather forecasts. The heating oil market also posted an outside trading day after it posted a high of 180.25 and sold off more than 7.3 cents to a low of 171.00 ahead of the close. Similarly, the gasoline market rallied to a high of 167.10 early in the session before it retraced its early gains. It sold off to a low of 159.70 late in the session. It settled down 2.17 cents at 160.49. Volumes in the product market were good with 49,000 lots booked in the heating oil market and 50,000 lots booked in the gasoline market.

The latest Commitment of Traders report showed that non-commercials in the crude market cut their net short position by 14,246 contracts to a net short position of 29,527 contracts in the week ending

December 6th. Total long positions increased by 10,681 contracts to 131,832. The combined futures and options report also showed that non-commercials increased their net long positions by 13,361 contracts to 54,954 contracts. This was amid the net increase in total open interest of 24,464 contracts reported during the week. The non-commercials in the heating oil market also cut their net short positions by 4,202 contracts to a net short position of just 909 contracts. Meanwhile, non-commercials in the gasoline increased their net long positions by 3,016 contracts to 20,722 contracts on the week.

The oil market early next week may be pressured amid the expectation that OPEC producers will decide to keep their production quotas unchanged and continue to offer the 2 million bpd of spare capacity to the market at its meeting on Monday. Its stochastics also look ready to cross back down following its failure to retain its gains. The market is seen finding support at its low of 59.03 followed by 58.50 and 57.98. However resistance is seen at 60.00, 60.50 and its high of 61.18. More distant resistance is

seen at its gap from 61.25 to 61.40 followed by 62.50 and 62.70.

Technical Analysis		
	Levels	Explanation
CL 59.39, down \$1.27	Resistance 61.25 to 61.40, 62.50, 62.70 60.00, 60.50, 61.18	Remaining gap, Previous highs Friday's high
	Support 59.03 58.50, 57.98	Friday's low Previous low, 62% retracement (56.00 and 61.18)
HO 173.18, down 5.14 cents	Resistance 180.25, 183.30 174.00, 176.00	Friday's high, Previous high
	Support 171.00 168.25, 165.25	Friday's low Previous lows
HU 160.49, down 2.17 cents	Resistance 167.10, 168.00 161.00, 164.00	Friday's high, Previous high
	Support 159.70 158.58, 157.10, 156.50, 155.95	Friday's low 38% retracement(144.80 and 167.10), Previous lows, 50%