



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 12, 2006

Kuwait's Oil Minister Sheikh Ali Al-Jarrah Al-Sabah said most OPEC members were comfortable with an oil price of \$60/barrel. He said Kuwait did not favor an additional OPEC output cut if the price of oil remained above \$60/barrel. He said OPEC would meet and study all OPEC reports before reaching a decision on December 14. However OPEC's President Edmund Daukoru said OPEC should cut its production further at its meeting on Thursday. He said any cut should be reasonable. Also, Iran's Oil Minister Kazem Vaziri Hamaneh said he would try to convince OPEC of the necessity to cut its output further due to the oversupply of oil in the market. He said most OPEC members were in favor of a cut in production. He said Iran did not regard a crude oil price below \$60/barrel as appropriate. An official of

Market Watch

Senior Russian officials said that European negotiators have overcome many of their objections to a draft resolution imposing sanctions against Iran. Russia's and China's UN envoys were seeking to eliminate or soften some of the resolution's provisions, including an asset freeze and a travel ban on 23 entities and people linked to Iran's nuclear and missile programs. However Russia's Foreign Minister Sergei Lavrov praised the revised draft presented on Friday by Britain, France and Germany saying it echoed Russia's preference for pursuing a diplomatic strategy that encourages Iran to return to the negotiating table. He said it was drafted to ban only those nuclear activities, including the enrichment and reprocessing of uranium, that the council was seeking to stop.

Russia's Gazprom said it planned to purchase about 50% of the Shell led Sakhalin-2 oil and gas project for cash and assets. Industry sources stated that Shell had offered to cede control of the project to Gazprom after doubling its cost estimate of Sakhalin-2 to \$22 billion. Separately, Russia's environmental agency, RosPrirodNadzor, said it may triple a damages claim against the Royal Dutch Shell-led Sakhalin-2 energy project to \$30 billion after being advised by lawyers. The deputy head of the agency, who has accused Shell of breaching environmental law on the Pacific island of Sakhalin said he was determined to press ahead with legal action regardless of Shell's future role. He also stated that Russia would start new checks of the Sakhalin-1 project in January. Previous checks by Russia's technical standards agency, RosTekhNadzor, have delayed full scale exports from the project by several months after it said Exxon needed to do more work at its export terminal.

The ICE stated that physical delivery against the expired ICE December gas oil futures contract fell to 191 lots or 19,100 tons, down from 31,800 tons in November.

Barclays Capital said the flow of money into commodity index funds is slowing due to the current roll over cost in crude oil futures. According to a survey, the proportion of Barclays Capital's clients expecting to invest more than 10% of their portfolio in commodities over the next three years has more than tripled in the past year to 53%. More than 50% of the respondents expect to be invested in hedge funds in the next three years, up from 21% last year while those seeking to invest in index funds has declined to just 3% from 47% a year ago. Goldman Sachs in November increased its estimate of investment in weighted index funds, including its Goldman Sachs Commodities Index to \$110 billion from \$70 billion.

the National Iranian Oil Co said Iran was hoping oil prices would go back to the \$70/barrel range. UAE Oil Minister Mohammed al-Hamli said oil markets were suffering from high levels of strategic reserves and supplies that were exceeding market demand. He said OPEC would work to bring them back to equilibrium. He said there would be no crude production cut unless absolutely necessary. He added that the current oil price of about \$60/barrel was reasonable. Meanwhile, Qatar's Oil Minister Abdullah bin Hamad al-Attiyah said OPEC was very worried about the effects the weaker dollar was having on its purchasing power. He said OPEC would focus on the high level of inventories during talks on Thursday.

The US Department of Energy said there is no need for OPEC to cut its production given current market conditions. Assistant secretary for policy and international affairs, Karen Harbert said supply and demand for oil were currently evenly balanced and in the short term the price of oil looked set to stay above current levels. US Energy Secretary Samuel Bodman reiterated that he hoped OPEC ministers would not decide to cut crude oil output levels further when they meet on Thursday. In regards to China, he said he wanted to encourage China to rely more on the world energy market and less on acquisitions as a way to increase its energy security. He reiterated that he would encourage China to use its strategic petroleum reserve as a buffer against physical supply disruptions rather than as a means of manipulating world oil prices.

Saudi Aramco notified several customers in Asia and Europe that their crude volumes in January would be lower than those in December. Saudi Aramco notified China's Unipet of a 10% reduction in the company's term crude liftings in January, concentrated on Arab Heavy. Other refiners in China are expected to get a reduction of 7-8% compared with 5-6% in December. It also informed Japanese refiners of a 9% reduction in term crude liftings for January compared with a 45% reduction in December. In Europe, some major oil companies and refiners were notified that their January crude nominations would be reduced by about 5%.

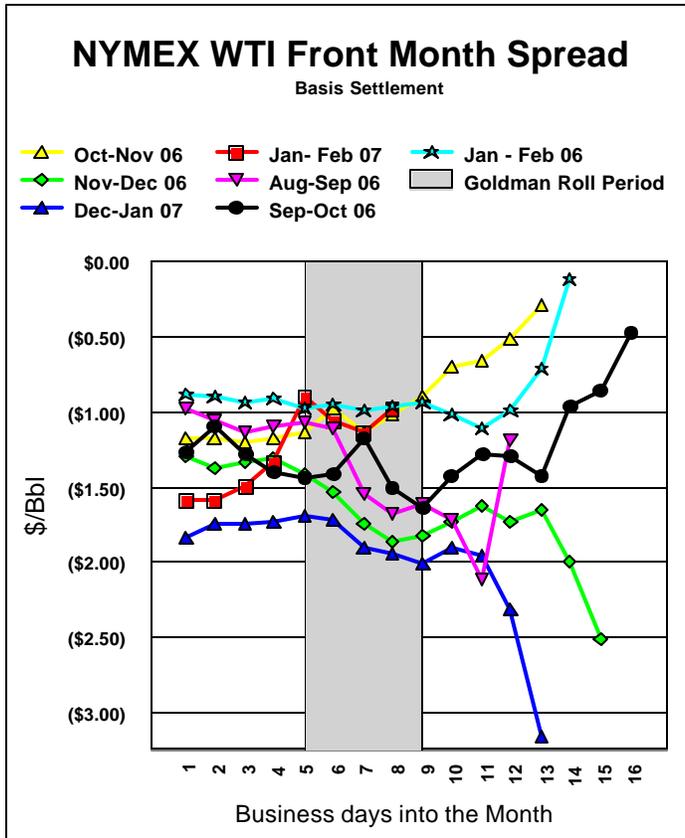
Petrologistics said OPEC has yet to show signs so far in December of lowering its output from November, when members did not cut supply as much as targeted. According to Petrologistics, the ten OPEC members, excluding Iraq, cut production to 27.3 million bpd in November and there is little to suggest a further cut so far this month.

OPEC's Secretary General Mohammed Barkindo said OPEC would decide this week on whether it would allow Angola to participate as a full member. With a production level of 1.4 million bpd, Angola would move ahead of Algeria, Indonesia and Qatar in the OPEC rankings of top oil producers.

Barclays Capital said OPEC may cut more crude oil output than necessary to increase prices as supplies of refined products in the US and other top economies are already lower than a year ago. It has forecast crude to average \$80/barrel by the third quarter of 2007 as producers cut production for fear that stocks are too high.

The EIA reported in its latest Short Term Energy Outlook that world demand in 2006 and 2007 would total 85 million bpd and 86.5 million bpd, respectively. Its demand outlook was left unchanged from its previous estimates. Its demand estimates for the fourth quarter of 2006 and first quarter of 2007 were also left unchanged at 87.1 million bpd and 86.5 million bpd, respectively. In regards to total US petroleum demand, demand in 2006 and 2007 were estimated at 20.7 million bpd and 21 million bpd, respectively. Gasoline demand in 2006 is estimated at 9.25 million bpd and increase to 9.36 million bpd in 2007. Meanwhile distillate demand is estimated to total 4.21 million bpd in 2006 and increase to 4.28 million bpd in 2007. Domestic oil production in 2006 is estimated to average 5.17 million bpd while production in 2007 is expected to increase by 4.1% to 5.38 million bpd. The EIA also reported that China's oil demand growth in 2007 is estimated at 500,000 bpd. Its demand is expected to

increase to 7.9 million bpd. In regards to OPEC, the EIA stated that OPEC cut its production in November as most members complied with a recent production cut agreement. It said the ten OPEC members produced an average of 26.97 million bpd in November compared with a target of 26.3 million bpd and an average of 27.4 million bpd produced in October. It estimated OPEC's production cut at 800,000 bpd in November and December in the wake of OPEC's agreement in October. It said most members complied with the agreement, with Kuwait reducing output by 100,000 bpd to 2.5 million bpd, UAE producing 100,000 bpd less oil, Libya and Algeria together cutting 110,000 bpd in production and Qatar and Iran cutting its production by a combined 85,000 bpd. Saudi Arabia's October production level was revised down to 8.8 million bpd from 9.2 million bpd to account for its early decision to cut production. OPEC, including Iraq, produced 28.97 million bpd in November, down from 29.46 million bpd in October.



Refinery News

The US Coast Guard said traffic on the Houston Ship Channel remained halted due to dense fog.

Colonial Pipeline allocated cycle 71 for heating oil, diesel and jet fuel on its main distillate line north of Collins, Mississippi.

Valero Energy Corp said there would be no major effect on production from a small fire at its 210,000 bpd refinery in Texas City, Texas. According to trade sources, Valero shut an alkylation unit and an 80,000 bpd fluid catalytic cracking unit following a fire late Monday.

Western Refining Co was investigating the cause of flaring at the north plant of its 116,000 bpd refinery in El Paso, Texas.

Chevron Corp shut a unit at its 260,000 bpd refinery in El Segundo, California on Monday. The refinery's safety flare was triggered by the shutdown.

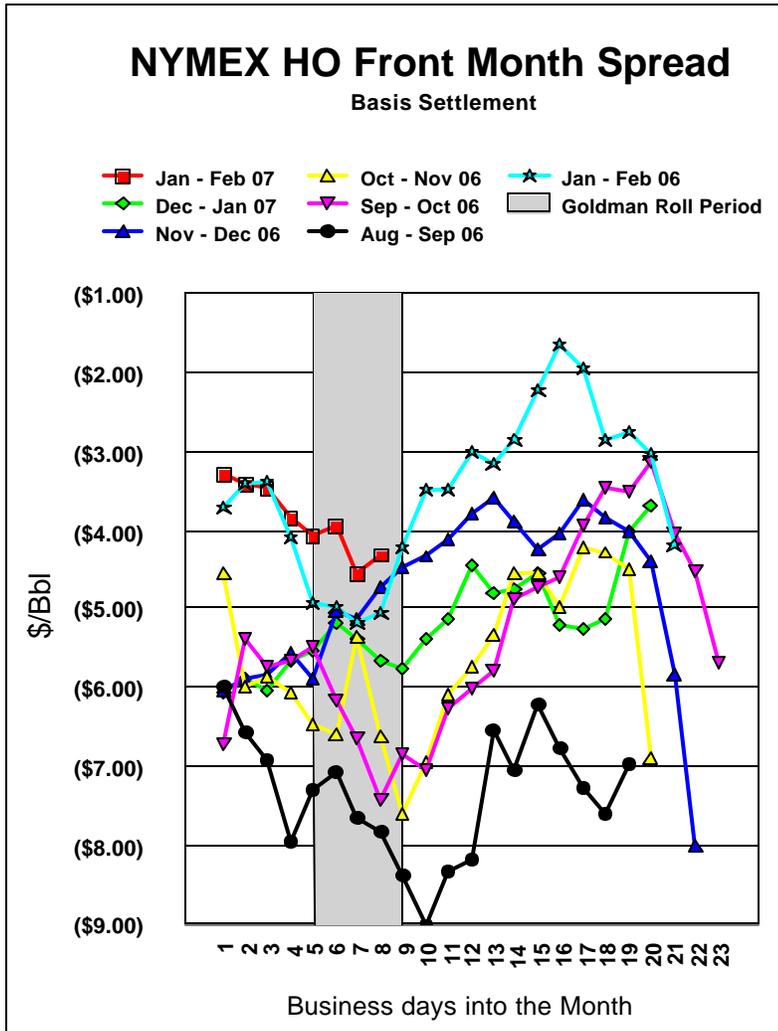
South Korea's five oil refiners are expected to export 295,000 tons of fuel oil in December from 510,000 tons in November, as domestic utilities' use of fuel oil would increase in the winter season. Crude runs cuts are also affecting the export volume, as less fuel oil would be produced with low runs.

The Russian government stated that Russia would impose full duties on exports of crude oil on Belarus from January 2007. Russian crude oil exports to Belarus and Kazakhstan have previously been exempt from export duties, which currently stand at \$180.70/ton. Russia's Prime Minister Mikhail Fradkov signed a resolution introducing the tariff saying it was in the economic interests of the Russian Federation.

Production News

The January North Sea loading plans for the Brent, Forties and Oseberg oil streams was revised higher to 902,000 bpd after Royal Dutch Shell added a cargo to the Brent program. It is up from the initial program of 882,000 bpd. However BFO exports were still down 129,000 bpd from December.

Royal Dutch Shell revised the January Brent crude oil export program to 159,000 bpd, up from the initial program of 139,000 bpd.



The North Sea Ekofisk crude system is expected to load about 532,000 bpd in January, down 2,000 bpd from December's level.

An official at China's Development and Reform Commission said the country's increasing energy demand is not to blame for higher world oil prices and added that it did not pose any threat to world energy security. He said China needs to import oil and gas to supplement domestic production but added that China's imports would never impose a threat to world energy security in the short or long term. In 2005, China's oil consumption totaled 320 million metric tons or 2.3 billion barrels, of which 181 million tons was domestic production and 136 million tons was net imports. He said it was unfair to refer to China as only an energy consumer and ignore that it is a major producer. The official also stated that China would continue to rely on domestic supply to meet its energy demand, given its abundant coal resources and potential to increase oil production.

Russia's Energy Minister Viktor Khristenko said the country's oil production was likely to increase by 2-3% in 2007. Russia's Economy Ministry has stated that it expected oil production growth to exceed 2% in 2007 to reach 492 million tons or 9.89 million bpd.

According to the World Bank, Angola's oil production is expected to peak in 2011 at 2.6 million bpd and begin to decline starting 2012 in the absence of new discoveries. Angola's oil production has increased more than 10% to 1.4 million bpd since last year. Output is expected to reach 2 million bpd in 2007.

OPEC's news agency reported that OPEC's basket of crudes fell by 89 cents/barrel to \$57.74/barrel on Monday.

Market Commentary

The oil market retraced some of its losses and opened up 23 cents at 61.45 amid the mixed signals ahead of OPEC's meeting scheduled for Thursday. While some OPEC members have stated that there is no need for a cut if prices remain above \$60/barrel, other members have stated that they were leaning towards a cut of at least 500,000 bpd to counter rising stocks. The crude market quickly posted a high of 62.00. However the market, which failed to test its previous high, erased its gains and sold off sharply. The market breached Monday's low of 61.05 and posted a low of 60.65. It later retraced some of its losses and settled down 20 cents at 61.02, its lowest settlement since late November. The market was pressured ahead of the close ahead of the release of the DOE report on Wednesday. Volume in the crude market was light with 136,700 lots booked on the day. The heating oil market also ended the session in negative territory, down 19 points at 172.24. The market posted a high of 174.40 within the first hour of trading. However similar to the crude market, the heating oil market erased its gains and sold off sharply to a low of 171.00 amid the expectations that the weekly petroleum stock reports would show builds in distillate stocks on Wednesday. Meanwhile the RBOB market also rallied to a high of 161.75 early in the session before it gradually sold off to a low of 158.25. The market was pressured by the expectations that the weekly petroleum stock reports would also show builds in gasoline stocks. The RBOB market later retraced some of its losses and settled up 12 points at 159.70.

Volumes in the product markets were light with 37,000 lots booked in the heating oil market and 26,000 lots booked in the RBOB market.

Technical levels		
	Levels	Explanation
CL 61.02, down 20 cents	Resistance	62.15, 63.65, 63.75
		61.55, 62.00
	Support	60.65
		60.35, 60.20, 59.55
HO 172.24, down 19 points	Resistance	175.00 to 175.50, 181.90
		173.00, 174.40
	Support	171.00
		169.15, 168.80
RB 159.70, up 12 points	Resistance	162.70, 167.00
		160.00, 161.75
	Support	158.25
		158.00, 157.71, 155.25

The oil market early in the session will likely trade lower amid the expectations that the weekly petroleum stock reports will show builds in product stocks. However the market's losses are seen limited as the market awaits the outcome of OPEC's meeting scheduled for Thursday. The OPEC ministers have continued to send the market mixed signals on whether it would cut its production further. The market is seen finding support at its low of 60.65 followed by 60.35 and 60.20. More distant support is seen at 59.55. Meanwhile resistance is seen at 61.55, 62.00 and 62.15. More distant resistance is seen at 63.65 and 63.75.

NYMEX Petroelum Options Most Active Strikes for December 12, 2006

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	2	7	C	62	01/17/2007	2.04	4,573	26.54
LO	1	7	C	63	12/14/2006	0.09	4,379	35.66
LO	4	7	C	70	03/15/2007	1.24	3,551	26.69
LO	2	7	C	65	01/17/2007	0.93	3,053	26.53
LO	1	7	P	60	12/14/2006	0.26	2,665	36.16
LO	1	7	C	62.5	12/14/2006	0.16	2,277	35.55
LO	3	7	C	85	02/14/2007	0.02	2,250	29.20
LO	4	7	C	66	03/15/2007	2.34	2,200	26.41
LO	1	7	P	59	12/14/2006	0.09	2,055	37.39
LO	1	7	C	62	12/14/2006	0.27	1,981	35.52
LO	1	7	P	60.5	12/14/2006	0.42	1,743	36.07
LO	2	7	P	54	01/17/2007	0.18	1,742	30.34
LO	1	7	P	61	12/14/2006	0.63	1,509	35.53
LO	12	7	P	60	11/13/2007	3.51	1,500	27.59
LO	1	7	P	58	12/14/2006	0.03	1,461	39.72
LO	3	7	C	67	02/14/2007	1.28	1,235	26.67
LO	4	7	P	60	03/15/2007	1.84	1,100	27.25
LO	5	7	C	70	04/17/2007	1.83	1,096	26.38
LO	2	7	P	60	01/17/2007	1.21	1,076	27.02
LO	1	7	C	63.5	12/14/2006	0.05	1,044	36.15
LO	2	7	P	46	01/17/2007	0.01	1,000	36.99
LO	5	7	P	55	04/17/2007	0.97	1,000	29.02
LO	3	7	C	63	02/14/2007	2.75	925	26.91
LO	2	7	C	64	01/17/2007	1.23	907	26.53
LO	3	7	P	63	02/14/2007	2.83	875	26.92
LO	1	7	C	60.5	12/14/2006	0.94	867	36.09
LO	2	7	P	61	01/17/2007	1.59	828	26.74
LO	1	8	P	60	12/13/2007	3.69	750	27.67
LO	11	7	P	60	10/17/2007	3.41	750	27.80
LO	1	7	C	61.5	12/14/2006	0.43	715	35.48
LO	3	7	P	55	02/14/2007	0.47	711	28.90
LO	5	7	P	50	04/17/2007	0.38	700	30.84
OB	4	7	C	1.9	03/27/2007	0.0881	171	32.42
OB	2	7	C	1.63	01/26/2007	0.0718	110	31.99
OB	1	7	P	1.83	12/26/2006	0.2334	100	35.38
OB	1	7	P	1.93	12/26/2006	0.333	100	46.14
OB	2	7	C	1.73	01/26/2007	0.0335	100	31.30
OH	1	7	P	1.85	12/26/2006	0.1353	457	33.38
OH	2	7	P	1.8	01/26/2007	0.0957	440	31.30
OH	1	7	C	1.75	12/26/2006	0.0314	316	32.38
OH	2	7	P	1.63	01/26/2007	0.0257	300	31.61
OH	2	7	C	1.8	01/26/2007	0.0613	300	31.22
OH	3	7	C	1.83	02/23/2007	0.075	300	28.69
OH	2	7	C	1.83	01/26/2007	0.0507	200	31.53
OH	2	7	C	1.95	01/26/2007	0.0226	200	32.76
OH	2	7	P	1.66	01/26/2007	0.0285	100	28.84