



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 26, 2006

The UN Security Council voted unanimously on Saturday to impose sanctions on Iran's trade in nuclear materials and technology. The resolution demands that Iran end all research on uranium enrichment and halt all research and development on methods of producing or delivering nuclear weapons. It bans imports and exports of materials and technology relating to uranium enrichment, reprocessing and heavy water reactors as well as ballistic missile delivery systems. Iran however immediately condemned the resolution as illegal and said it would not affect its peaceful nuclear activities. Iran's Foreign Ministry spokesman Mohammad Ali Hosseini said Iran would continue to install 3,000 centrifuge units at Natanz. Iran's Oil Minister Kazem Vaziri-Hamaneh said if necessary, Iran would use any weapon to defend itself. Iran's Fars news agency said Iran has repeated that it was ready to use its massive oil exports as a weapon to defend itself if necessary. Iran's President Mahmoud Ahmadinejad said those who supported the UN resolution would soon regret their superficial act.

Separately, Israel on Saturday praised the UN Security Council's decision to impose sanctions against Iran.

The IEA's chief economist Fatih Birol said oil prices would likely increase next year if oil producing countries do not increase their production. He said this year's average oil price was \$65 and if production was not increased, together with a harsh winter and strong demand, higher prices could be seen.

Refinery News

Valero Energy Corp flared off refinery gases at its Corpus Christi, Texas refinery for 90 minutes as it carried out maintenance on a fuel gas drum.

Market Watch

The National Weather Service forecast that US heating demand is expected to be 23% below normal this week as warmer temperatures persist in regions east of the Rockies. Separately, the WSI Corp stated that warmer than normal temperatures would likely remain in the northern part of the US for the rest of the winter.

According to the National Academy of Sciences, Iran was suffering a decline in revenue from its oil exports. It said if the trend continued income could virtually disappear by 2015. It said Iran's economic problems could make the country unstable and vulnerable. Iran earns about \$50 billion a year in oil exports. The decline is estimated at 10% to 12% annually.

Plains All American LP confirmed that a crude oil leak was detected on its High Island Pipeline system in the US Gulf of Mexico on Sunday. It said it was investigating the cause of the incident and that it was working with federal and state officials to minimize the impact of the incident. The pipeline was shut following the discovery of the leak. Meanwhile the US Coast Guard said the ruptured crude pipeline in the Gulf of Mexico spilled about 21,000 gallons of crude oil over the weekend.

Japan Energy Corp said it would refine 2% more crude oil in the first quarter of 2007 compared with a year ago. It said it planned to process 5.62 million kiloliters or 393,000 bpd of crude during the quarter. It processed an estimated 5.68 million kl in the fourth quarter of this year.

China's apparent oil demand grew by 4% in November to 6.76 million bpd, according to Reuters. Oil demand in the first 11 months of the year increased by 7.8%. Oil demand increased despite a fall in net fuel imports, which fell 23%, as a near doubling in gasoline exports and a fall in fuel oil imports more than offset sharply higher imports of diesel and kerosene. Its diesel imports in November increased by 41.9% on the year to the highest level this year. Meanwhile crude imports increased by 30.9% to 13.54 million tons or 3.29 million bpd in November while China's crude imports in the first 11 months of the year increased by 15.6% year on year to 133.6 million tons or 2.92 million bpd.

China's Ministry of Finance said it would continue taxing crude oil and coal exports in 2007. China started charging a 5% tax on both crude and coal exports from November 1 in a move that could help divert more supply to meeting rising domestic demand. The policy could further cut back China's oil exports to 5.43 million tons or 119,000 bpd.

Iraq's State Oil Marketing Organization said the country was seeking 85,000 tons of 92 octane gasoline and 100,000 tons of gas oil for delivery between February 1 and June 30 through a tender. It was also seeking 35,000 tons of liquefied petroleum gas and 24,000 tons of kerosene for the same period.

Indonesia's Pertamina said it the country's oil product imports were expected to remain stable at between 9.6-9.8 million barrels in February.

Production News

Abu Dhabi National Oil Co said it would cut sales of its Upper Zakum, Lower Zakum and Umm Shaif crudes in February by 3-5%, the first indication of an OPEC member applying new output cuts. It supplied customers with full contracted volumes in January, when traders said it complied with OPEC limits by cutting sales on the spot market. The cuts, if applied equally to ADNOC and to its joint venture foreign partners in the three fields, should amount to about 40,000 bpd in line with the UAE's commitment under a second output cut.

The Red Cross reported that 269 people were killed and 60 critically injured on Tuesday when a fuel pipeline exploded in Lagos, Nigeria after it was vandalized by thieves. Crowds of local residents went to scoop up the petrol after an armed gang punctured the underground pipeline overnight to siphon fuel into road tankers.

Market Commentary

The oil market ended a lightly traded session sharply lower as it extended its previous losses. The market opened slightly higher at 62.55 and quickly posted a high of 62.60. However the market erased its gains and sold off despite the reports that the UN Security Council agreed to impose sanctions on Iran's trade in nuclear materials and technology, drawing a warning from Iran. In response, Iran said it would use any weapon to defend itself. The Iranian response prompted a brief rally overnight however traders were skeptical that Iran would make good on its threat because of its

dependence on oil revenue. The market remained pressured amid the weather forecast still calling for above normal temperatures for most of the country. The crude market sold off to 60.95, where it held some support. However it sold off even further as it posted a low of 60.50 in a late bout of selling. The market's move lower may have been exaggerated due to the light volume trading. The oil market later retraced some of its losses and settled down \$1.31 at 61.10. Volume in the crude market was light with only 46,000 lots booked in the open outcry session. The heating oil market also settled sharply lower as it remained pressured by the weather forecasts. The market opened unchanged at 168.20 and quickly posted a high of 168.50. However it extended its losses to over 8 cents as it traded to a low of 162.00 ahead of the close. The heating oil market settled down 5.87 cents at 162.33. The RBOB market also settled down 5.93 cents at 157.16 after the market sold off sharply in follow through selling. The market posted a high of 163.50 early in the session and extended its losses to over 6.5 cents as it posted a low of 156.50 ahead of the close. Volumes in the product markets were light with 19,700 lots booked in the heating oil and 14,000 lots booked in the gasoline market.

The oil market will likely retrace some of its sharp losses as the market awaits or further developments on the Iranian situation. The market's gains will however be limited amid the lack of any indication that Iran would actually cut off its oil exports. The market's gains will also be limited by the mild weather forecasts. The market is seen finding support at 60.50 followed by 60.00 and 59.50. Meanwhile resistance is

seen at
61.60
followed by
its high of
62.60. More
distant
resistance is
seen at
62.95, 63.35
and 64.15.

Technical levels				
		Levels	Explanation	
		Resistance	Support	
CL 61.10, down \$1.31		62.95, 63.35, 64.15 61.60, 62.60		Previous highs Tuesday's high
		60.50 60.00, 59.50		Tuesday's low Previous lows
HO 162.33, down 5.87 cents		170.90 164.70, 168.50		Previous high Tuesday's high
		162.00 157.00		Tuesday's low Previous low
RB 157.16, down 5.93 cents		165.70, 168.00 158.75, 159.00, 163.50		Previous highs Tuesday's high
		156.50 155.25, 153.00		Tuesday's low Previous lows