



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR DECEMBER 27, 2006**

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#### **Refinery News**

Shell Oil Products reported a third problem in two days that forced flaring at its Wilmington, California refinery.

The US Coast Guard said divers are expected to plug a hole in the High Island Pipeline System in the Gulf of Mexico later on Wednesday and inspect the damage caused by a ship's anchor that led to an oil spill on Sunday. The pipeline pumps up to 26,000 bpd of crude oil from fields in the High Island and East Breaks sectors of the Gulf of Mexico. Plains All American Pipeline LP said it would not be able to say how long the pipeline would be shutdown until an undersea inspection is completed.

Hovensa shut a 150,000 bpd fluid catalytic cracking unit at its 495,000 bpd St. Croix refinery for two to six days last week for unplanned maintenance.

Saudi Aramco said it would start upgrading its diesel production facility at its Ras Tanura refinery in January. The project is on target for completion within three years with no interruption to crude processing at the refinery. The construction of the new hydrotreater unit would remove 190 metric tons of sulfur and produce 105,000 barrels of low sulfur diesel fuel.

Nippon Oil Corp said it would reduce its crude refining volumes for January by 6% on the year to 5.2 million kiloliters. The refining volume is equivalent to 1.06 million bpd, representing about 87% of Nippon Oil's total refining capacity.

Russia's Black Sea port of Novorossiisk reopened on Tuesday after a week long closure due to bad weather.

The Shetland Island Council said Brent crude oil liftings from Sullom Voe increased to 308,506 tons in the week ending December 26, up from 247,428 tons in the previous week.

#### **Market Watch**

South Korea said it aimed to become the oil storage and transshipment hub for North Asian consumers by the end of the decade. Increasing import demand from China, expanding crude exports from eastern Russia and the expansion of South Korea and Japan's refining systems have been increasing demand for storage and blending tanks in North Asia. The Korea National Oil Corp has stated that it aimed to expand its total capacity to 146 million barrels by 2010, up from 121 million barrels. It currently rents out 27 million barrels of capacity to oil companies. It said it hope to expand its joint storage deals to 40 million barrels by 2010.

According to the Petroleum Association of Japan, the country's kerosene stocks fell by 61,568 kiloliters or 1.31% to 4.63 million kl or 29.12 million barrels in the week ending December 23. It also reported that Japan's crude stocks fell to 16.52 million kl or 103.91 million barrels while gasoline stocks were relatively unchanged at 2.15 million kl or 13.52 million barrels. Total product inventories fell by 3.37% on the week to 15.09 million barrels. The Petroleum Association of Japan stated that Japanese refiners operated at an average 87.9% of total capacity of 4.83 million bpd, down from 88.7% the previous week. It reported that crude throughput stood at 4.724 million kl while gasoline production stood at 1.128 million kl.

Azerbaijan's Socar is expected to supply over 320,000 tons of refined products to Georgia and Iran in the first half of 2007.

### **Production News**

Iraq has pumped about 150,000 barrels of Kirkuk crude from its northern field to Turkey since Tuesday, increasing inventories to 3.65 million barrels. Tanks at the Turkish terminal of Ceyhan held 350,000 barrels less than the 4 million barrels that would trigger Iraq's SOMO to issue a tender.

Austria's OMV said it started oil production in central Yemen and was awarded a new exploration license in the country. Daily production at the first production well in block Al Uqlah amounted to 1,000 barrels and output would be developed further in a two phase plan. In the second phase, production would be increased to 32,000 bpd in 2009/2010.

OPEC's news agency reported that OPEC's basket of crudes fell to \$57.45/barrel on Tuesday from \$57.98/barrel on Friday.

### **Market Commentary**

The oil market opened 45 cents lower at 60.65 as the market continued to extend its previous losses amid the mild weather. The WSI Corp on Tuesday stated that the warmer than normal temperatures would likely remain in the northern part of the country for the rest of the winter. The crude market traded to 60.45, where it found some support. It bounced off that level and retraced some of its early losses as it traded to a high of 61.15. However the market erased its gains and continued to trade in negative territory. It breached its early support level and sold off to a low of 60.25 in a late bout of selling. It settled down 76 cents at 60.34. The market sold off amid the sell off seen in the natural gas market ahead of January natural gas contract's expiration. Volume in the crude market was light with only 64,000 lots booked during the open outcry session. The heating oil market was holding support at 161.40 before it traded to a high of 163.00. However the market erased its gains and extended its losses to

1.83 cents as it posted a low of 160.50 ahead of the close. The market sold off sharply amid the sell off in the natural gas market ahead of its expiration.

Technical levels		
	Levels	Explanation
<b>CL</b> 60.34, down 76 cents	<b>Resistance</b>	62.60, 62.95
		61.15
	<b>Support</b>	60.25
		60.00, 59.50
<b>HO</b> 160.88, down 1.45 cents	<b>Resistance</b>	168.50, 170.90
		162.50, 163.00
	<b>Support</b>	160.50
		157.00
<b>RB</b> 158.89, up 1.73 cents	<b>Resistance</b>	163.50, 165.70, 168.00
		161.40
	<b>Support</b>	158.50, 156.25
		155.25, 153.00
		Previous highs
		Wednesday's high
		Wednesday's low
		Previous lows
		Previous highs
		Wednesday's high
		Wednesday's low
		Previous low
		Previous highs
		Wednesday's high
		Wednesday's low
		Previous lows

The heating oil market retraced some of its losses and settled down 1.45 cents at 160.88. Meanwhile, the RBOB market settled in positive territory after it retraced its early losses. The market gapped lower from 156.50 to 156.25, its intraday low. However the market retraced its losses and rallied to a high of 161.40. The market later erased some of its gains in line with the rest of the complex. It retraced more than 50% of its early move higher as it traded to 158.50 ahead of the close and settled up 1.73 cents at 158.89. Volumes in the product markets were light with 26,000 lots booked in the heating oil market and 21,000 lots booked in the RBOB market.

The oil market on Thursday will be driven by the weekly petroleum stock reports, which are expected to show draws in crude stocks of up to 1.3 million barrels and builds in distillate and gasoline stocks of about 500,000 barrels each. The market, which has remained pressured by the weather forecasts, is seen retracing some of its losses, especially if the reports continue to show draws in crude stocks. The market is seen finding support at its low of 60.25 followed by 60.00 and 59.50. Meanwhile resistance is seen at 61.15, 62.60 and 62.95.