



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 6, 2005

Algeria's Oil Minister Chakib Khelil said OPEC is expected to keep output unchanged at its meeting on December 12. He said the current oil price reflected fundamentals and the market was balanced. He also added that he expected oil prices to remain around \$50/barrel next year as economic growth in China and the US had slowed.

The head of the IEA, Claude Mandil said OPEC should keep its output unchanged when it convenes for its December 12 meeting. He also said he liked the plan proposed by OPEC's President Sheikh Ahmed al-Sabah, who said OPEC was comfortable with its oil stocks increasing to 56 days of forward demand cover by the end of the first quarter of next year. Currently, oil supplies in industrialized countries are at about 52 days of forward supply.

According to the EIA's Short Term Energy Outlook, many of the same factors that drove world oil markets in 2005, such as low OPEC spare capacity and rapid world demand growth will continue to affect markets in 2006. It said world demand is estimated to increase by about

Market Watch

Venezuela's government made its first delivery of discounted heating oil to a New York City low income housing development on Tuesday. Citgo will sell about 8 million gallons of heating oil to three non-profit housing developments in New York for 40% less than its usual price through April 1, 2006. Venezuela has agreed to sell oil at a discount to residents in other US cities, including Quincy, Mass.

The Colorado State University hurricane research team said nine of 17 storms predicted for 2006 would become Atlantic hurricanes, with five of them intense or major hurricanes with winds exceeding 110 mph. The average season produces 9.6 storms, of which 5.9 become hurricanes and 2.3 are intense or major hurricanes. It said 2006 would again be well above average.

The UK's Finance Minister Gordon Brown said oil prices are expected to remain high, defending his decision to raise taxes on North Sea oil companies. He raised a supplementary charge on North Sea oil and gas profits to 20% from 10%, increasing the effective tax rate on oil and gas production to 50% from 40%.

Nigeria's Vice President Atiku Abubakar has denied involvement in any coup plot in the country amid rising tensions between him and President Olusegun Obasanjo. The Sun newspaper reported that Obasanjo was poised to accuse him falsely of plotting a coup as a precursor to impeaching him.

The Dubai Metals and Commodities Exchange said Dubai is set to launch a fuel oil futures contract in the first half of next year. Singapore Exchange's clearing house, which is expected to be launched in the first quarter will also include the residual fuel in its list of oil product futures contracts. It will cater to 380 centistoke (cst) parcels of 100 ton lot each for delivery to the UAE's bunkering port of Fujairah.

Germany's new government is planning to raise taxes on biodiesel fuel. However a spokesman for the federal Finance Ministry declined to comment on the rise or on press reports that full taxes could be imposed by 2007.

1.7 million bpd in 2006, up from 1.2 million bpd in 2005. It reported that world demand is expected to total 83.7 million bpd in 2005, up 100,000 bpd from its previous estimate. In 2006, world demand is estimated at 85.4 million bpd, unchanged from its previous report. The EIA said China's oil demand is forecast to hold steady at 7.2 million bpd in the first quarter of 2006. In terms of supply, it said 2006 will likely see a 1 million bpd increase in spare oil production capacity to 2-2.5 million bpd. Meanwhile total US petroleum demand in 2005 is projected to average 20.6 million bpd, unchanged from its previous estimate. It is however down 0.5% from its 2004 level due to hurricane related disruptions and higher prices. Petroleum demand in 2006 is estimated to average 21.1 million bpd, up 100,000 bpd from its previous estimate. It said total US refinery output this year is projected to decline by about 0.3% compared with 2004 due to hurricane outages. The EIA stated that relatively warmer October and November weather across most of the US led it to reduce the winter heating expenditure estimates. It stated that households heating primarily with heating oil could pay on average \$255 more this winter than last, down from its previous estimate of \$325. It also stated that households heating primarily with propane could expect to pay on average \$167 more this winter than last year, down from \$230 estimated last month. The EIA also lowered its WTI price to \$57/barrel in 2005 and to \$63/barrel in 2006, down from its previous forecast of \$64-\$65. In regards to OPEC, the EIA reported that total production in November increased slightly by 50,000 bpd on the month to 30.155 million bpd.

Refinery News

Deer Park Refining is repairing equipment associated with the larger of two crude distillation units following mechanical failure in an associated unit on Monday and expects to return several affected units to service by Wednesday or Thursday. A spokeswoman said the distilling unit and several associated production units are in standby mode while repairs are made to a debutanizer line at a hydrotreater unit.

BP is expected to resume production at some units at its 437,000 bpd Texas City, Texas refinery at the end of the year after restarting some operations this weekend. In October, BP said it would not resume production until late in the fourth quarter. The company said at the time that the three month shutdown was due to a slow restart of the plant's steam system.

Sunoco Inc plans to expand a fluid catalytic cracking unit at its 330,000 bpd refinery in Philadelphia to 85,000 bpd from 70,000 bpd. It also stated that another improvement at the plant, in residual fuel processing, will allow 25,000 bpd of heavy residual fuel to be upgraded into more valuable light products such as gasoline and diesel fuel. The work is expected to start in the first quarter of 2007. Also a crude unit expansion at its 160,000 bpd Toledo, Ohio refinery will increase the refinery's crude throughput to 210,000 bpd over the next 5 years. The first phase of the expansion, an additional 20,000 bpd would come on line in the first quarter of 2007. Plans are also in place to increase the processing capability of the fluid catalytic cracking unit over 90,000 bpd from the current 66,000 bpd and upgrade the unit to improve product yield and feedstock flexibility.

Citgo Petroleum Corp is planning major turnaround at two refineries and maintenance at a third during 2006. It has scheduled turnarounds at its Lemont, Illinois refinery in June and July and at its Lake Charles, Louisiana refinery in October and November. Its Corpus Christi, Texas refinery is scheduled to undergo maintenance in May.

Separately, Citgo's CEO and President Felix Rodriguez said none of its five US refineries is for sale. He said Citgo is also not considering a sale of its interest in joint venture Lyondell-Citgo Refining LP, which operates a 268,000 bpd refinery in Houston, Texas.

India's Reliance Industries Ltd said it has resumed normal operations at its Jamnagar refinery complex.

Production News

The MMS reported that the US Gulf of Mexico oil production shut in due to the hurricanes showed a small improvement. It reported that a total of 503,187 bpd of crude production was shut in as of Tuesday, down from 509,270 bpd on Monday.

Iraq's Oil Minister Ibrahim Bahr al-Uloum said Iraq plans to increase its crude oil production by about 25% to reach pre-war levels of 2.6 million bpd next year. Officials said the country's production would rise as Japan helps it improve its southern oil terminals, increasing exports to 2 million bpd.

Local shipping agents stated that delays for oil tankers transiting the Turkish Straits increased to 18 days for a round trip on Tuesday, a day after Turkey limited transit through the straits due to strong currents. Oil tankers faced delays of 10 days to pass north through the Dardanelles and Bosphorus and 8 days coming south. The shipping agents said about 25 oil tankers were waiting to pass north while another 20 were waiting to come south.

Russian Railways said Russian companies' crude oil exports to China by rail through the Zabaikalsk and Naushki border stations increased by 35.8% on the year to 7.09 million tons in January-November.

Georgia's Black Sea port of Batumi increased its crude and refined products shipments by 14% in January-November 2005 due to new volumes of Azeri crude. A terminal source said volumes increased to 8.761 million tons from 6.142 million tons in January-November 2004. In November alone, crude oil shipments stood at 847,040 tons, up from 667,677 tons in October 2005. Total shipments of oil and refined products increased to 1.03 million tons in November 2005 from 501,876 tons in November 2004 and up from 871,651 tons in October 2005.

India's Petroleum and Natural Gas Minister Mani Shankar Aiyar said that the country's crude oil production may fall by 3% to 32.95 million tons in the current financial year. In April-October, the first seven months of the current fiscal year to March 2006, India produced 18.83 million tons of crude compared with 19.88 million tons a year earlier. Separately, a senior Indian Petroleum Ministry official said India's exports of petroleum products in October increased by 6.25% on the year to 1.7 million tons.

Nigeria's President Olusegun Obasanjo said the country would base its 2006 budget on an average oil price of \$33.00/barrel. He also said he expects Nigeria's oil production to average 2.5 million bpd in 2006. He said the 2006 crude production target is less than an estimated output level of 2.7 million bpd for 2005. He said delays in bringing into operation some of Nigeria's oil fields led to the cut in output in 2005.

An industry source reported that Indonesia's crude oil production increased by 4,400 bpd on the month to 943,400 bpd in November. Indonesia also produced 128,000 bpd of condensate last month.

OPEC's news agency reported that OPEC's basket of crudes increased by 85 cents/barrel to \$52.72/barrel on Monday.

Colombia's January export program for sweet Cusiana crude will consist of 1.5 million barrels, up 400,000 barrels from the previous month.

Market Commentary

The crude market opened slightly lower as it continued to retrace some of Monday's sharp gains. It partially backfilled its gap from 59.65 to 59.55 as it posted an intraday low of 59.60. The market tested its support several times before it bounced off the low and traded above the 60.00 level amid the reports of problems at the Deer Park, Texas refinery. It posted a high of 60.45 late in the session only see it erase most of its gains ahead of the close in a lightly traded, choppy session. The market once again posted a mostly neutral trading session as traders were reluctant to make a commitment ahead of Wednesday's release of the DOE and API reports. The market settled up 3 cents at 59.94. Volume in the crude was light with 141,000 lots booked on the day. The product markets ended the session in negative territory, with the heating oil market settling down 1.76 cents at 177.20 and the gasoline market settling down 63 points at 158.35. The heating oil market gapped lower from 178.25 to 176.50 and partially backfilled it before it sold off to a low of 175.50. However the market later bounced off that level and completely backfilled its opening gap as it posted a high of 178.40. The heating oil market later retraced some of its gains ahead of the close. The gasoline market also gapped lower from 158.50 to 157.30 and quickly backfilled its gap before it sold off to a low of 155.70. The market later traded to its high of 159.20 amid the refinery news and settled in sideways trading pattern during the remainder of the session. Volumes in the product markets were light with 39,000 lots booked in each the heating and gasoline markets.

The oil market on Wednesday will seek further direction from the weekly petroleum stocks reports. The DOE and API reports are expected to show draws of about 1 million barrels in crude stocks and builds of about 1 million barrels in each distillate and gasoline stocks. If the reports do show the builds in product stocks, the markets will remain pressured and find resistance at its high of 60.45. However more distant

resistance is seen at 60.80 and its gap from 61.25 to 61.40. Meanwhile support is seen at its remaining gap from 59.60 to 59.55 followed by 58.50 and 57.10.

Technical Analysis		
	Levels	Explanation
CL 59.94, up 3 cents	Resistance 60.80, 61.25 to 61.40 60.05, 60.45	Monday's high, Remaining gap Tuesday's high
	Support 59.60 to 59.55 58.50, 57.10	Remaining gap Friday's low, Previous low
HO 177.20, down 1.76 cents	Resistance 183.30, 183.50, 188.25 178.40	Monday's high, Previous highs Tuesday's high
	Support 175.50 174.25, 172.15, 168.25	Tuesday's low Friday's low, 62% (165.25 and 183.30), Previous low
HU 158.35, down 63 cents	Resistance 163.90, 164.80, 167.00, 168.00 159.20	Previous highs Tuesday's high
	Support 155.70 154.35, 152.10, 150.00	Tuesday's low 50% and 62% (144.80 and 163.90), Previous low