



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 10, 2006

The head of the EIA, Guy Caruso, said OPEC needs to hold its crude oil production at current levels to meet world oil demand in 2006. Separately, he said the level of US refinery maintenance would be higher in 2006 than it was last year because many refineries delayed maintenance in order to meet supply shortages after hurricanes shut down most of the Gulf Coast refining capacity. He said nearly all US Gulf Coast refineries should be on line by the end of the first quarter. He said heating oil costs in 2006 are expected to increase by 17% on the year. He also stated that heating costs for those using oil would increase about 36-37%.

According to the EIA's Short Term Energy Outlook, total US energy demand in 2006 and 2007 is expected to increase at an annual rate of about 1.4% each year, contributing to continued market tightness and projected high prices for oil and natural gas. Its estimate is however down from its previous estimate of 2% for 2006. The EIA stated that the price of WTI crude, which averaged \$56/barrel in 2005 is estimated to average \$63/barrel in 2006

Market Watch

The deputy head of Iran's Atomic Energy Organization, Mohammad Saeedi said Iran resumed atomic fuel research on Tuesday, drawing fierce Western criticism. He said there is a difference between research and producing nuclear fuel and added that production of nuclear fuel is still under suspension. In response, the US said any Iranian nuclear enrichment would be a serious escalation. A White House spokesman said Iran risked referral to the UN Security Council. British Foreign Secretary Jack Straw said the conflict with Iran had to be resolved by diplomatic and other non-military means. He said military action is not on the agenda. The head of the IAEA said Iran intended to carry out limited uranium enrichment at its Natanz facility. Although the scale of the centrifuge research would be small, diplomats said it could enable Iran to master the art of enriching uranium. The foreign ministers of Britain, France and Germany and the EU foreign policy chief Javier Solana plan to meet on Thursday to discuss what to do about Iran.

New York's attorney general, Eliot Spitzer, said New York retailers of gasoline or other products would be presumed to be illegally price gouging under a new law if they raised their prices or markups 25% more after a market disruption like a hurricane. The new law would fine gougers \$500 per violation plus three times their profits per violation.

Under testing changes the EPA proposed, the fuel economy ratings of new vehicle models would fall an average of 10% to 20% in city driving and up 5% to 15% in highway driving for most 2008 models. The EPA's new fuel economy estimate would include vehicle specific data from tests designed to more accurately reflect high speed driving, rapid acceleration, use of air conditioning and cold temperatures.

China's Xinhua news agency said China's bird flu outlook is not optimistic. It said measures to prevent and control the epidemic should be strengthened as the danger of bird flu not only exists in China but also threatens other countries. The World Health Organization said of the eight confirmed cases in China, five have died.

and \$60/barrel in 2007. The EIA reported that retail gasoline price is seen at \$2.41/gallon, unchanged from its previous report. It also stated that households heating primarily with heating oil can expect to pay on average \$275 or 23% more this winter than last. It is up from its previous estimate of \$255. It also stated that households heating primarily with propane could expect to pay on average \$184 or 17% more this winter than last. The EIA reported that world oil demand growth is expected to increase from 1.2 million bpd in 2005 to 1.6 million bpd in 2006, largely because US demand is projected to recover from a net decline in 2005 to show growth of 410,000 bpd in 2006. Demand growth is projected to increase further to 1.9 million bpd in 2007. Total world petroleum demand is estimated at 85.3 million bpd in 2006 and 87.2 million bpd in 2007. Meanwhile, total US petroleum demand in 2006 is projected to average 21 million bpd, up 1.7% from the 2005 level. Additional growth in demand of 1.9% is expected for 2007. Gasoline demand is estimated to average 9.29 million bpd in 2006 and 9.45 million bpd in 2007 while distillate demand is estimated at 4.22 million bpd in 2006 and 4.36 million bpd in 2007. In regards to OPEC, it reported that ten OPEC members increased their production by 105,000 bpd in December to 28.41 million bpd. Including Iraq, OPEC's oil production increased by 5,000 bpd to 30.16 million bpd in December. The EIA also stated that OPEC's net oil export revenues are expected to increase by a further 10% this year to \$522 billion. It said the projection is contingent on oil output from the 11 members averaging 30 million bpd.

Refinery News

Shell has yet to return its 412,000 bpd Pernis refinery back to normal operating levels five days after the refinery was affected by utility failure.

BP Plc has delayed a restart of its Texas City, Texas refinery to complete a thorough inspection of its steam system. A person familiar with the plant's operations said the 460,000 bpd refinery, which was shut on September 22 ahead of Hurricane Rita, could restart in March or April.

Italy's Anonima Petroli Italiana is expected to shut its 80,000 bpd Falconara refinery in eastern Italy from March 5 to April 15 for turnaround.

GS-Caltex Corp plans to shut a 100,000 bpd No. 1 crude distillation unit at its 650,000 bpd Yosu refinery for about four weeks of maintenance starting mid-April.

S-Oil Corp plans to shut its 90,000 bpd crude distillation unit at its 580,000 bpd Onsan refinery for about 20 days of maintenance from mid-October.

Production News

The North Sea Brent crude oil stream is scheduled to load an average of 214,000 bpd in February compared to 227,000 bpd in January.

The February loading program for North Sea Oseberg crude scheduled 7.1 million barrels, down from 8.93 million barrels in January. Meanwhile, the February loading program for North Sea Staffjord crude scheduled 8.55 million barrels, down from 9.41 million barrels in January.

Woodside Petroleum Ltd said it expected production at two oil fields off the coast of Western Australia to resume on Wednesday, two days after closing as a cyclone threatened the region. It shut operations at its 90,000 bpd Cossack Pioneer and its 9,000 bpd Ocean Legendre oil fields. The company said there was no damage to any of the facilities at the fields.

Nigeria's central bank reported that it exported 2.05 million bpd of crude oil in November. It said Nigeria's total production in November was 2.5 million bpd, including condensates and liquefied natural gas, up from 2.47 million bpd in October.

The Caspian Pipeline Consortium, which is pumping oil from Kazakhstan and Russia to the Black Sea said its exports fell about 11% in December compared with November. It said its crude shipments fell to 2.6 million tons or 657,675 bpd in December compared with 2.8 million tons or 732,722 bpd in November.

Russia's Energy Ministry reported that Russia's oil and gas condensate production increased to 470.196 million tons or 9.44 million bpd in January-December 2005, up 2.5% from 458.808 million tons or 9.19 million bpd last year. In December alone, Russia's oil production increased to a new high of 9.65 million bpd from 9.63 million bpd in November. Russia's oil exports via Transneft increased by 11% to 218.095 million tons or 4.38 million bpd in January-December from 197.232 million tons or 3.95 million bpd reported a year ago. Its seaborne exports increased to 129.858 million tons or 2.61 million bpd in 2005 from 116.187 million tons or 2.33 million bpd in 2004.

The head of Kazakh state oil and gas company KazMunaiGas said Kazakhstan and Azerbaijan will soon sign a deal allowing Kazakh oil to flow through the new Baku-Ceyhan pipeline. The Baku-Ceyhan pipeline is projected to eventually pump over 1 million bpd from the Caspian Sea to the Turkish Mediterranean coast.

Royal Dutch Shell said it started crude production from Phase III of its Champion West field, offshore Brunei, two months ahead of schedule. It said the well had showed an initial flow of 16,700 bpd.

Market Commentary

The crude market opened about 30 cents higher at 63.81 in follow through strength seen in overnight trading amid the news that Iran had broken seals on its nuclear enrichment facility. Iran stated that it would conduct limited research, however the news prompted some concern over a potential military confrontation between the US and Iran over Iran's suspected efforts to build nuclear weapons. The oil market, which posted an inside trading day, quickly posted a high of 64.10. It failed to test its previous high of 64.25 and erased its gains. It sold off to a low of 63.20 in afternoon trading before it attempted to end the session in positive territory. However the market's gains were limited by the losses seen in the product markets in light of the builds expected in inventories on Wednesday. The oil market settled down 13 cents at 63.37. Volume in the crude was excellent with over 263,000 lots booked on the day. The product markets ended the session in negative territory with the gasoline market settling down 3.06 cents at 173.71 and the heating oil market settling down 2.98 cents at 173.79. The product markets

were pressured amid the expectations of further builds in product stocks. The gasoline market opened relatively unchanged at 176.80 and quickly traded to a

Technical Analysis		
	Levels	Explanation
CL 63.37, down 13 cents	Resistance 65.10 to 65.60, 66.90 64.10, 64.25, 64.45	Gap (October 4th), Previous high Tuesday's high, Monday's high, Friday's high
	Support 63.20, 62.90 62.60, 62.50, 61.75 to 61.25	Tuesday's low, Monday's low Previous lows, Gap (January 3rd)
HO 173.79, down 2.98 cents	Resistance 181.50, 181.75, 182.40, 185.50 177.25, 179.00	Previous highs Tuesday's high, Monday's high
	Support 173.50 173.33, 171.25, 170.50	Tuesday's low 62% (165.80 and 185.50), Previous lows
HU 173.71, down 3.06 cents	Resistance 180.50, 181.90 182.05 175.50, 177.50	Previous highs Tuesday's high
	Support 173.00 171.53, 168.33, 165.70, 165.12	Triple bottom 38%, 50% (154.75 and 181.90), Previous low, 62%

high of 177.50. However it found good resistance and posted a triple bottom as it sold off to a low of 173.00. The heating oil market quickly posted its intraday high of 177.25 on the opening. However the market erased its gains and sold off to a low of 173.50 ahead of the close. The market retraced nearly 62% of its move from a low of 165.80 to a high of 185.50 as it traded to its low. Volume in the product markets were good with 54,000 lots booked in the gasoline market and 53,000 lots booked in the heating oil market.

The oil market will seek further direction from the DOE and API reports which are expected to show draws in crude stocks of less than 1 million barrels, builds in distillate stocks of about 2 million barrels and builds in gasoline stocks of less 2 million barrels. The market is seen trading lower if the reports show the expected builds in product stocks. Technically, the market is also seen remaining under pressure as it continues to find good resistance above the 64.00 level. Its daily stochastics is also rounding its top and looks ready to cross to the downside. The market is seen finding resistance at 64.10 followed by 64.25 and 64.45. More distant resistance is seen at 65.10 to 65.60 and 66.90. Meanwhile, support is seen at its low of 63.20 followed by 62.90. More distant support is seen at a previous lows of 62.60, 62.50 and its gap from 61.75 to 61.25.