



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 11, 2006

The White House said that Iran has made a serious miscalculation by deciding to resume uranium enrichment. White House spokesman Scott McClellan said intensive diplomacy was under way with European allies and others about what to do. He said if the European led negotiations had run their course, then there was no other option but to refer Iran to the UN Security Council for possible sanctions. In response, Iran's President Mahmoud Ahmadinejad shrugged off the international outcry over the country's decision to resume uranium enrichment. He said Iran is not frightened by the superpowers and their noise.

Market Watch

The EIA stated that US retail gasoline prices may continue to increase for the next few weeks and then begin to level off in late January or early February. It said strong gasoline demand during December may be the biggest factor behind the recent increase in gasoline prices.

The Center for Global Energy Studies said non-OPEC crude oil producing capacity is expected to increase over the next five years then taper off after 2010 and could fall by 14% from peak production levels by 2020. Total oil production capacity from non-OPEC is forecast to increase from 47.3 million bpd in 2004 to 52.8 million bpd by 2010. Capacity is then expected to fall to 50.1 million bpd by 2015 and 45.5 million bpd by 2020. It also forecast OPEC's production capacity would increase from about 32.6 million bpd in 2004 to 38.7 million bpd by 2010, 46.7 million bpd by 2015 and 48.4 million bpd by 2020.

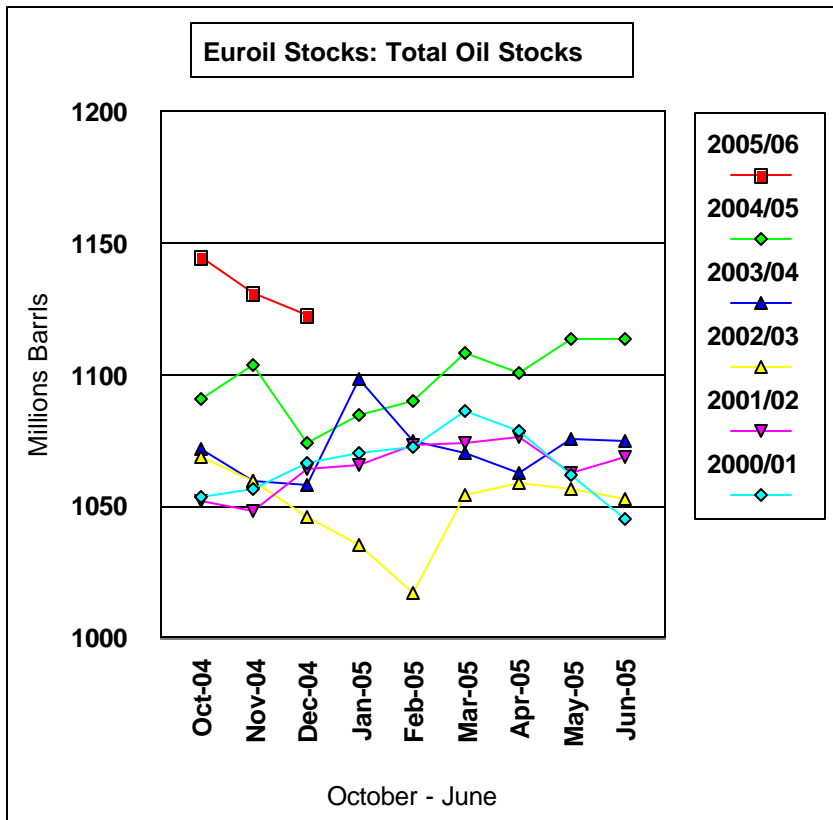
The DOE reported that US inventories of propane totaled 55.963 million barrels in the week ending January 6, down 1.621 million barrels. It reported that propane inventories in the East Coast increased by 469,000 barrels to 4.613 million barrels, while inventories in the Midwest fell by 375,000 barrels to 18.162 million barrels and inventories in the Gulf Coast fell by 1.681 million barrels to 31.411 million barrels.

Refinery News

Alon USA plans to shut down a fuel gas treator unit for maintenance at its Big Springs, Texas refinery on January 20. The unit is being shut to facilitate repairs on an amine reboiler. There was no indication of when the fuel gas treator unit would be restarted.

Taiwan's Formosa Petrochemical Corp will keep an 80,000 bpd vacuum distillation unit closed for 7-10 additional days as repair work continues.

Production News



Colonial Pipeline Co has again restricted product nominations at its distillate main line, Line 2, from Collins, Mississippi and Greensboro, North Carolina due to continued over nominations by shippers. It placed 5th cycle nominations on allocation early Wednesday to ensure its ability to deliver on schedule.

The MMS reported that there was still 396,786 bpd of US Gulf of Mexico oil production still shut in following the hurricanes. It is down from 402,259 bpd reported on Monday.

Euroilstock reported that total oil stocks fell by 7.9 million barrels on the month to 1.123 billion barrels in December. Crude inventories increased by 1.17 million barrels to 471.87 million barrels while gasoline stocks increased by 1.44

million bpd to 141.44 million barrels in December. It reported that distillate stocks fell by 5.85 million barrels to 373.88 million barrels while fuel oil stocks fell by 2.02 million barrels to 111.54 million barrels and naphtha stocks fell by 2.64 million barrels to 24.2 million barrels. It reported that refinery utilization fell to 95.36% from 96.85% on the month.

According to the Shetland Island Council, Brent crude liftings fell to 79,040 tons in the week ending January 10, down from 447,220 tons the previous week.

The UK North Sea loading plan for Brent, Forties and Oseberg totaled 1.03 million bpd for February, up about 5,000 bpd from January. The February loading program for North Sea Forties crude scheduled a total of 16.3 million barrels, up from 16.05 million barrels in January.

The North Sea Gullfaks stream is scheduled to load 366,000 bpd in February, up from 359,000 bpd in January.

Statoil said a storm off Norway has cut production at the 100,000 bpd Norne oilfield by 50% because transport barges cannot ship oil to shore. It hopes to resume normal operations again by Saturday or Sunday.

BP said that its overall production in the 4Q05 is expected to total about 4.01 million barrels of oil equivalent/day. BP's average production for 2005 would be about 4 million boe/d, below the 4.1-4.2 million boe/d BP had hoped for before its Gulf of Mexico production was hit by hurricanes in the third quarter.

Azerbaijan produced 445,000 bpd of oil in 2005, compared with 312,000 bpd in 2004. Its production in 2006 is expected to increase to 572,000 bpd. The BP led Azerbaijan International Operating Co

pumped 13.193 million tons or 265,000 bpd from Chirag and Azeri oilfields in 2005, up from 6.572 million tons produced in 2004.

National Iranian Oil Co set its official selling price for February term crude oil supply. Its Iranian Light to Northwest Europe was set at Brent weighted average minus \$5.39, down 59 cents on the month, its Iranian Heavy blend was set at Brent weighted average minus \$6.94, down 64 cents on the month and its Forozan Blend was set at Brent weighted average minus \$6.84, down 64 cents on the month. Its Iranian Light to the Mediterranean was set at Brent weighted average minus \$7.30, down 95 cents on the month, its Iranian Heavy was set at Brent minus \$9.45, down \$1.10 and its Forozan Blend was set at Brent minus \$9.35, down \$1.10 on the month.

China's Xinhua news agency reported that China is expected to invest 12 trillion yuan or \$1.5 trillion in energy and transport projects over the next five years to alleviate bottlenecks in its economy. It said about 40-50 billion yuan would be used to develop the oil industry each year and another 20 billion to 30 billion yuan would be channeled for natural gas development.

OPEC's news agency reported that OPEC's basket of crudes fell by 18 cents/barrel to \$57.11/barrel on Tuesday.

Indonesia's Pertamina plans to import 8.5 million barrels of oil products in March. Pertamina's marketing director previously stated that it planned to import between 9 and 9.2 million barrels of oil products in February.

Petroecuador said it exported 53.21 million barrels of oil last year, up from 50.42 million barrels reported in 2004. It exported a total of 5.08 million barrels in December, up 23% from 4.14 million barrels reported a year ago.

Energy companies are diverting liquefied natural gas cargoes from the US to Europe where gas prices have increased this winter due to falling North Sea output. US liquefied natural gas imports are expected to fall in January to 39 billion cubic feet.

Market Commentary

The oil market ended in positive territory amid heavy speculative buying. The market opened 12 cents lower at 63.25 and quickly sold off to a low of 62.60 following the release of the DOE and API reports. The energy complex sold off as the reports showed larger than expected builds in product stocks amid the fall in demand. The oil market however bounced off its low and breached its early high of 63.90 as it extended its gains to over \$1.40. It rallied to a high of 64.80 amid some heavy buying ahead of the close. It later retraced some of its gains ahead of the close and settled up 57 cents at 63.94. Volume in the crude was excellent with over 359,000 lots booked on the day. The product markets ended in negative territory amid the large builds in product stocks reported by the DOE and API. The heating oil market settled down 1.08 cents at 172.71 after the market retraced some of its early losses. The market gapped lower from 173.50 to 172.50, which it partially backfilled as it traded to an early high of 173.15. The market sold off more than 4.6 cents to a low of 169.10 amid the builds reported in distillate stocks. It however bounced off its low and retraced its losses as it traded to a high of 174.90. The market later erased some of its gains as the builds in inventories seemed to have limited its gains. The natural gas market also sold off sharply ahead of the close. The gasoline market also gapped lower from 173.00 to 172.60 before it sold off to a low of 169.10 following the reports, which showed large builds in product stocks. The market however bounced off its low and rallied to a high of 176.20 before it retraced some of its gains. It settled down 6 points at 186.07. Volumes in the product markets were good with 66,000 lots booked in the heating oil market and 53,000 lots booked in the gasoline market.

The oil markets may further retrace their losses early on Thursday. However the gains are seen limited following the release of the weekly petroleum stock reports, which showed large builds in stocks. The markets may also be pressured by the weather forecasts, which are still calling for above normal temperatures. The crude market is seen finding resistance at its high of 64.80 followed by its gap from 65.10 to 65.60 and 66.90. Meanwhile, support is seen at 63.90, 63.50 followed by 62.60 and 62.50. More distant support is seen at its gap from 61.75 to 61.25.

Technical Analysis		
	Levels	Explanation
CL 63.94, up 57 cents	Resistance 65.10 to 65.60, 66.90 64.80	Gap (October 4th), Previous high Wednesday's high
	Support 63.90, 63.50, 62.60 62.50, 61.75 to 61.25	Double bottom Previous lows, Gap (January 3rd)
HO 172.71, down 1.08 cents	Resistance 177.25, 179.00 174.90	Previous highs Wednesday's high
	Support 172.50, 170.00, 169.10 167.00, 165.80	Wednesday's low Previous lows
HU 173.31, down 40 points	Resistance 180.50, 181.90 182.05 176.20, 177.50	Previous highs Wednesday's high, Previous high
	Support 173.00, 172.00, 169.10 168.33, 165.70, 165.12	Wednesday's low 50% (154.75 and 181.90), Previous low, 62%