



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JANUARY 12, 2006**

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According to Oil Movements, OPEC's seaborne exports are expected to increase by 510,000 bpd to 25.23 million bpd in the four weeks ending January 28, as the market makes up for an unseasonable fall in exports reported in late December. It said westbound shipments are making up the bulk of the increase.

US Secretary of State Condoleezza Rice called on the UN to demand Iran halt its nuclear program. She said she was gravely concerned about Iran's secret operations and its dangerous defiance of the entire international community. Earlier, Russia's Foreign Minister Sergei Lavrov said envoys from Britain, France, Germany, the US, China and Russia are scheduled to meet early next week to discuss Iran's nuclear plans. He said Russia was concerned about Iran's decision and added that Russia would do its best to persuade Iran to renew its nuclear moratorium. Iran's President Mahmoud Ahmadinejad has vowed to continue with its nuclear program, which Iran says is designed to produce civilian

#### Market Watch

The US Interior Department gave final approval to develop the Teshekpuk Lake region. The decision came a year after the Bureau of Land Management recommended drilling in the region. It said there are about 1.5 billion barrels of recoverable oil. If an oil lease sale is held next September, it could lead to oil drilling as soon as the winter of 2007-08.

BP Plc and the state of New Jersey settled a dispute over the company's gasoline pricing practices, with BP agreeing to pay \$315,000 in penalties. BP did not admit any wrongdoing in settling the case, which stems from gas station inspections around the Labor Day weekend in 2005.

Kinder Morgan Energy Partners LP plans to spend \$57 million to upgrade a New Jersey terminal and buy a bulk facility in South Carolina. It plans to build nine storage tanks with capacity of 1.4 million barrels of gas, diesel and jet fuel at its Perth Amboy, New Jersey terminal. The facility currently has a capacity of 2.3 million barrels. The new tanks are expected to be in service in the first quarter of 2007.

The release of the EIA and API weekly petroleum stock reports will be delayed due to the Martin Luther King holiday on Monday, January 16. The reports are scheduled to be released on Thursday, January 19 at 10:30 am.

The CEO of Citgo, Felix Rodriguez, and Maine's Governor John Baldacci celebrated the first delivery of heating oil under a Venezuelan sponsored program to provide fuel assistance to low income households in Maine. They signed an agreement stating that Citgo would donate \$5.5 million to help low income families in Maine. Under the agreement, Citgo is expected to sell 8 million gallons of heating oil on the open market and donate what amounts to a 40% discount to Maine. It would provide an additional \$100 worth of fuel to each of Maine's 48,000 low income beneficiaries.

energy. Meanwhile, a senior Iranian official said Iran still believes the standoff over its nuclear program could be resolved diplomatically. This comes after the foreign ministers of Britain, France and Germany said they decided to stop negotiations and refer Iran's nuclear program to the UN Security Council.

**Refinery News**

Exxon Mobil Corp said maintenance on a flexicoker unit at its 557,000 bpd refinery in Baytown, Texas had started as planned. The unit is expected to return to operation in the last week of February.

Alon USA is scheduled to shut its sulfur recovery unit 2 at its Big Springs, Texas refinery for repairs on January 20.

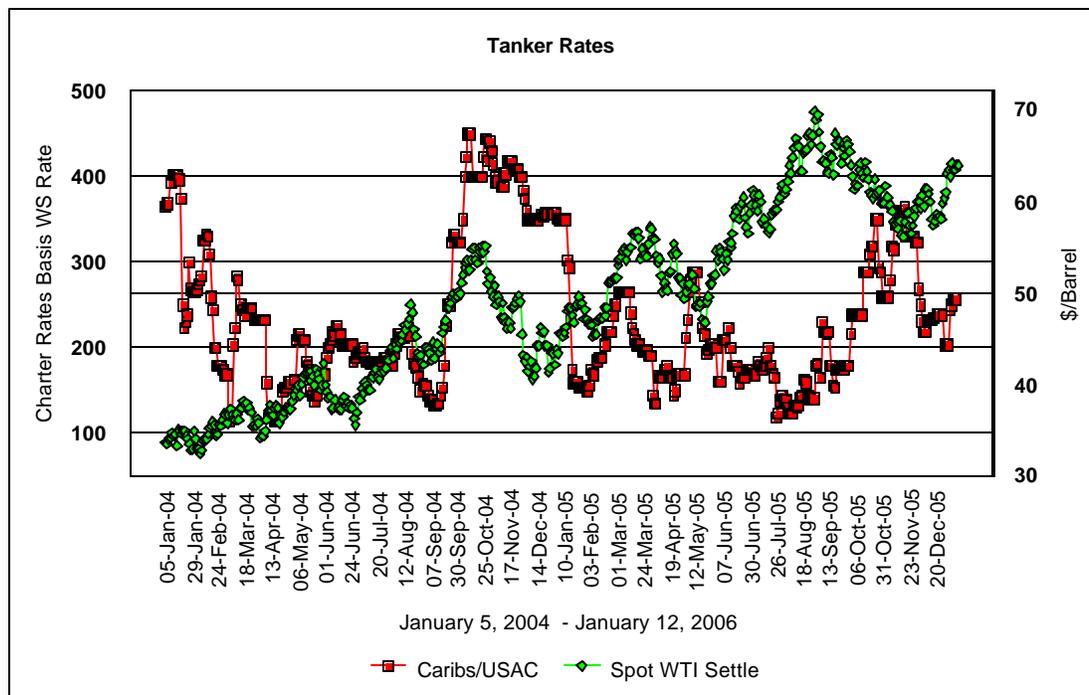
Shell is still working to return its 412,000 bpd Pernis refinery in Rotterdam back to full production a week after operations were hit by utility failure. Meanwhile its chemical units at Pernis were in the process of being started up after they were shut for precautionary safety reasons.

Lithuania's Mazeikiu Nafta refinery is expected to resume normal operations after its operations were cut by 50% due to scheduled maintenance last week. It is expected to return to full capacity by the end of Thursday.

**Production News**

An explosion on a crude oil pipeline in Nigeria has forced Royal Dutch Shell to cut 106,000 bpd of production. The explosion on the pipeline carrying Forcados crude oil at Brass Creek occurred on Wednesday. Meanwhile, Shell was also forced to shut in 120,000 bpd of production at an offshore oil field following an armed attack, in which four workers were abducted. Shell has started evacuating workers from its EA oilfield.

Statoil said it has cut production at the Norne oilfield from 100,000 bpd to about 25,000 bpd due to a storm off Norway. Statoil hopes to resume normal production during the weekend. Stormy weather has prevented crude unloading since earlier this week.



Danish Underground Consortium's oil production from its 14 fields in the Danish part of the North Sea fell by 8.8% year on year in December and by 1.6% on the month to 296,700 bpd.

The North Sea Ekofisk crude stream scheduled the loading of

576,000 bpd in February, up from 553,000 bpd in January.

The UK's North Sea Flotta crude system plans to load 70,000 bpd in February, up from 63,000 bpd in January.

Norway's Petroleum Directorate said Norway's

2006 oil production is expected to fall by 5% to 886 million barrels from 933 million barrels in 2005.

Germany's MWV said German oil product sales in December totaled 6.8 million tons, down 12.1% on the year. Its gasoline sales fell by 8.5% on the year to 1.87 million tons while heating oil sales fell by 22.3% to 2.13 million tons and diesel fuel sales fell by 4.3% to 2.25 million tons.

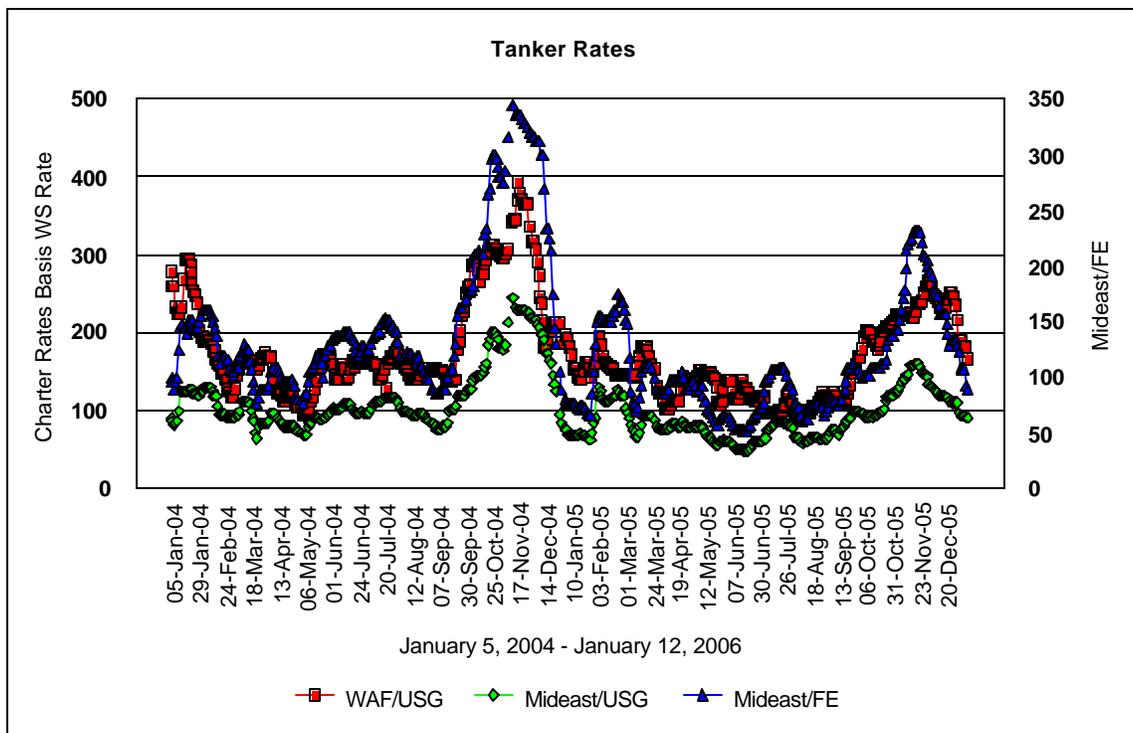
Kazakhstan's State Statistics Committee reported that its crude oil exports increased to 47.9 million tons or 1.08 million bpd in the first 11 months of 2005. It is up 0.7% on the year. Its oil product exports increased by 51.7% on the year to 3.325 million tons.

Lithuania's petroleum products terminal Klaipedos Nafta handled 5.844 million tons of crude oil and petroleum products in 2005, down from 6.528 million tons in 2004. Shipments in December stood at 562,000 tons, down 9.2% on the year.

China produced 181 million tons of crude oil in 2005, up 3.7% on the year. According to a senior energy policy maker, China has 24.8 billion tons of proven oil reserves and 4.4 trillion cubic meters of natural gas reserves. It hopes to add 900 million to 1 billion tons of crude oil reserves and 400 billion to 450 billion cubic meters of natural gas reserves a year between 2006 and 2010.

Singapore's International Enterprise reported that the country's light distillate stocks fell by 96,000 barrels to 8.533 million barrels in the week ending January 11<sup>th</sup>. It also reported that Singapore's middle distillate stocks increased by 427,000 barrels to 8.008 million barrels while residual fuel stocks fell by 645,000 barrels to 9.982 million barrels.

OPEC's news agency reported that OPEC's basket of crudes fell by 24 cents/barrel to \$56.87/barrel on Wednesday.



**Market Commentary**

The oil market ended the session unchanged at 63.94 after the market gave up its earlier gains amid the weakness in the product markets. The crude market opened up 46 cents higher at 64.40 and traded to a high of 65.05 early in the session amid the concerns over escalating tensions over Iran's nuclear program. The market was also buoyed amid the reports that more than 200,000 bpd of Nigerian crude oil production was shut in following a pipeline explosion and the shut in of an oilfield due to an armed attack. The market later retraced its gains and settled in a sideways trading pattern after it failed to test its resistance at a previous high of 65.10. The oil market however sold off to a low of 63.86 in follow through selling seen in the product markets, which were pushed lower by the sell off in the natural gas market. It settled unchanged at 63.94. Volume in the crude was excellent with over 246,000 lots booked on the day. Open interest in the crude market built by a total of 8,573 contracts amid the continued buying. Open interest in the February contract fell by 22,864 lots while open interest in the March and April contracts built by 17,088 lots and 5,554 lots, respectively. The product markets ended the session in negative territory, with the heating oil market settling down 1.58 cents at 171.13 and the gasoline market settling down 1.46 cents at 171.85. The heating oil market rallied to a high of 175.70 early in the session, before it retraced its gains and continued its downward trend. The market sold off to a low of 171.00 on the close as the natural gas market sold off and breached its support at 9.00. The gasoline market gapped slightly higher from 176.20 to 176.30 and rallied to a high of 176.70 on the opening. However the market erased its gains and sold off to a low of 171.60 ahead of the close amid the losses seen in the natural gas market. Volumes in the product markets were good with over 64,000 lots booked in the heating oil and 59,000 lots booked in the gasoline market.

The crude market will likely retrace some of its late losses and remain supported during Friday's shortened trading session ahead of the long holiday weekend. Even though the market looks overbought and its stochastics look ready to cross to the downside, its losses will be limited ahead of the weekend as the market remains concerned over Iran's nuclear program. The tension over its nuclear program has stoked fears of supply disruption. The market is seen finding support at 63.86 followed by 62.60 and 62.50. More distant support is seen at its gap from 61.75 to 61.25. Meanwhile resistance is seen at 64.50, 65.05 and its gap from 65.10 to 65.60. More distant resistance is seen at its

previous high of 66.90.

Technical Analysis		
	Levels	Explanation
<b>CL</b> 63.94, unchanged	<b>Resistance</b> 65.10 to 65.60, 66.90 64.50, 65.05	Gap (October 4th), Previous high Thursday's high
	<b>Support</b> 63.86 62.60, 62.50, 61.75 to 61.25	Thursday's low Previous lows, Gap (January 3rd)
<b>HO</b> 171.13, down 1.58 cents	<b>Resistance</b> 177.25, 179.00 174.00, 175.70	Previous highs Thursday's high
	<b>Support</b> 171.00, 169.10 167.00, 165.80	Thursday's low, Wednesday's low Previous lows
<b>HU</b> 171.85, down 1.46 cents	<b>Resistance</b> 176.70, 177.50, 180.50, 181.90 173.60, 174.90	Thursday's high, Previous highs
	<b>Support</b> 171.60 169.10, 168.33, 165.70, 165.12	Thursday's low Previous low, 50% (154.75 and 181.90), Previous low, 62%