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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 18, 2006

The governing board of the International Atomic Energy Agency is scheduled to hold an emergency meeting on Iran's nuclear work on February 2 at the request of the UK, France, Germany and the US. The countries are expected to urge to have Iran referred to the UN Security Council after it resumed the enrichment of uranium. The US and the European Union said they saw no point in holding further talks with Iran on its nuclear programs, increasing diplomatic pressure and increasing the possibility to imposing sanctions on Iran. However Russia and China are wary of Security Council involvement while other members of the IAEA board are also adopting a cautious approach. Russia and China have multibillion dollar oil and natural gas projects hanging in the balance. Instead of oil sanctions, experts expect a step-by-step application of sanctions that could restrict travel visas, air flights, spare parts, arms sales or gasoline sales to Iran. In response to the development, Iran's President Mahmoud

Market Watch

The US Coast Guard Marine Safety Office lifted its wind alert on New York area vessel traffic as wind speeds fell below 30 knots per hour. Restrictions however remain in place for vessels larger than 350 feet that are moving through the Port of Newark. Earlier in the day, high winds and rough seas slowed some movement of refined oil products such as gasoline and heating oil. Citgo Petroleum halted discharge operations at its Linden, NJ terminal but continued to load vessels.

A Senate Environment Committee aide said republicans could send a US refinery expansion bill directly to the Senate if retail gasoline prices increase further. The Gas Price Act was shelved last year after it failed a committee vote. The bill would offer some federal funding to help build refineries at US military bases and allow state governors to consult with the federal government on permitting decisions.

According to a Saudi oil official, Saudi Arabia is expected to increase its crude oil production capacity to 12.5 million bpd by the end of the decade but meeting future oil demand would be a challenge for the world's producers because OECD production has fallen and growth in the former Soviet Union has slowed. The general manager of Saudi Petroleum Ltd, Ahmed A Al-Subaey, said some of the additional capacity would offset natural decline while the rest would allow the company to expand maximum sustained capability from 10.5 million bpd to 12 million bpd. However meeting future demand would still be a challenge with demand for OPEC oil expected to increase over time due to declines in other producing areas.

Russia is on a strict energy conservation program as overnight temperatures fell below minus 30 C or minus 22 F in the capital and to substantially colder levels elsewhere in the country. Russia has targeted power cutbacks at various businesses and has also cut power on billboard advertisements, casinos and gaming halls and at construction sites that use powerful floodlights for nighttime work. Russia's gas monopoly, Gazprom, warned power companies throughout the European part of Russia that it may have to reduce gas deliveries by up to 50% because of the cold temperatures.

White House economic adviser Al Hubbard said the US economy should grow at a slower rate of 3.3% to 3.4% in 2006. He said the economy has been resilient in the face of high oil prices but he added that he was concerned about anything that would keep prices elevated, including moves by OPEC to cut production.

Ahmadinejad accused the UK, France, Germany and the US of trying to deprive Iran of peaceful technology. Iran has launched its own campaign to lobby developing nations on the IAEA board ahead of any vote. Iran's President is heading to Syria on Wednesday, the country's Oil Minister is visiting India while other Iranian officials are in Egypt and South Africa. Earlier, Iran's Foreign Minister Manouchehr Mottaki said the chances of Iran being referred to the UN Security Council over its nuclear program were slim. Iran's Supreme Leader, Ayatollah Ali Khamenei said the world could not deflect Iran from its scientific developments. Meanwhile, Central Bank Governor Ebrahim Sheibani said Iran would repatriate its oil earnings held in foreign accounts if necessary. It is estimated that Iran will have earned more than \$40 billion in oil revenues by the end of the year to March 2006.

Indonesia's Energy Minister Purnomo Yusgiantoro reiterated that Indonesia would ask OPEC to cut its production ceiling during the group's meeting at the end of the month.

Refinery News

Alon USA is scheduled to shutdown a light distillate hydrotreater and a gas oil hydrotreater at its 70,000 bpd refinery in Big Spring, Texas in the beginning of February. It said feed would be taken out of the light distillate hydrotreater and the gas oil hydrotreater starting on February 3 and reintroduced on February 12.

Iraqi refineries used 350,000-400,000 bpd of crude oil in 2005, well short of its capacity of 600,000 bpd. However throughput is expected to increase this year as maintenance work is carried out.

China's crude runs in December increased by 2.3% on the year to 24.68 million tons as an increase in net imports of fuel helped meet domestic demand. China's refineries processed 286.22 million tons in 2005, up 6.5% on the year. The country's 16 major oil refineries are expected to increase daily output by about 6% or 160,000 barrels in 2006 to meet the expected increase in demand. The plants, representing about 45% of China's total capacity, are expected to process 2.79 million bpd of crude this year compared with 2.63 million bpd in 2005.

South Korea's SK Corp is expected to cut its February crude runs to 715,000 bpd, down 55,000 bpd from January's level due to weak refining margins. Meanwhile, Incheon Oil Refinery Co is expected to cut its February crude runs 140,000 bpd from 165,000 bpd in January. The weak margins also forced Hyundai Oilbank Corp to cut its February crude runs to 340,000 bpd from 370,000 bpd in January.

Production News

The Movement for the Emancipation of the Niger Delta, which has caused major disruption at Royal Dutch Shell and is holding four foreign oil workers hostage, said it has decided not to limit its attacks to Shell as its ultimate aim is to prevent Nigeria from exporting oil. It said it has attacked installations run by France's Total and Italy's Agip. However both companies dismissed the statement, stating that their operations were not attacked. Nigeria's President Olusegun in an emergency meeting with senior security chiefs set up a team to coordinate moves to free the four hostages. Meanwhile, Royal Dutch Shell is taking measures to ensure the safety of its workers in the Niger Delta after a spate of attacks and is reviewing its deployment of staff. Shell still has 221,000 bpd of oil production shut in. ExxonMobil Corp, which dismissed a report that loadings at two export terminals were suspended on Tuesday, also denied a report that it shut an administrative facility in Nigeria due to recent unrest. It said its operations were continuing at all facilities.

Separately, Nigeria's Pengassan and Nupeng unions said oil companies and the Nigerian government must meet to their responsibility to provide protection to oil workers.

According to an Iraqi Oil Ministry spokesman, Iraq resumed exporting crude oil from its northern fields in Kirkuk to the Turkish terminal of Ceyhan at 200,000 bpd and aims to reach 400,000 bpd in a few days. He also stated that oil exports from the south increased to 1.65 million bpd from 1.55 million bpd reported last week.

Saudi Arabia booked three more Very Large Crude Carriers to the US this week, increasing its spot shipments to 14.4 million barrels through February. Vela International Marine has provisionally hired the Elisabeth Maersk, the Younara Glory and the Eagle Valencia to carry 285,000 tons each. The cargoes are due to load on February 17, 19 and 20, respectively.

The Shetland Island Council reported that Brent crude liftings from Sullom Voe increased to 279,700 tons in the week ending January 17 from 79,040 tons in the previous week.

Statoil ASA is cutting production at its 100,000 bpd Norne oilfield as bad weather prevents unloadings from the production ship. Meanwhile, Statoil is still hoping to restart its Asgard B platform in the North Sea by the end of the week. The platform, which produces a total of 118,000 bpd of condensate and 45 million cubic meters of gas, was shut in on Sunday.

The Interfax news agency reported that Russia's oil output would increase by about 2% this year to 482 million metric tons or 9.653 million bpd. In 2005, Russia's oil and gas condensate production increased by 2.5% to 470 million tons.

China's General Administration of Customs reported that China's imports of refined oil products fell by 17% on the year to 31.4 million tons.

OPEC's news agency reported that OPEC's basket of crudes increased to \$58.58/barrel on Tuesday, up from Monday's \$57.71/barrel.

Thailand's PTT PCL said the country's oil imports in January-November fell by 3.9% on the year to 824,700 bpd. Refined products imports increased by 18.2% on the year to 37,900 bpd. Thailand's domestic crude oil production in January-November increased by 32.8% on the year to 112,700 bpd.

Nigeria's NNPC said the country expects to make the final investment decision on two liquefied natural gas projects later this year. The company's managing director Funsho Kupolokun said the final investment decision on a 20 million ton per year Olokola LNG project would be signed in the third quarter while that on the Brass project would be signed in the fourth quarter. Brass, Nigeria's third LNG plant would produce an initial 10 million tons of LNG and 2.5 million tons of liquefied petroleum gas per year as well as substantial quantities of condensate.

Market Commentary

The crude market, which continued to trend higher during overnight trading on Access, opened unchanged at 66.31 amid the concerns over the situation in Iran and Nigeria. Iran's standoff over its nuclear ambitions and the escalating tensions in Nigeria helped push the market to its resistance at 66.90 early in the session. The market however failed to breach that level and erased its gains. The market gradually sold off to a low of 65.25 ahead of the close as the product markets were pressured by expectations that the DOE and API reports would show builds in product inventories. The crude market settled down 58 cents at 65.73. Volume in the crude market was excellent with over 267,000 lots booked on the day. Meanwhile the gasoline market, which saw the largest gain on Tuesday, this time posted the largest loss. The market settled down 5 cents at 177.33 after it posted an inside trading day. The gasoline market opened down 1.33 cents at 181.00 and quickly posted an intraday high of 182.00. The market failed to test its resistance at its previous high of 182.50 and quickly

retraced its recent gains. The market later gradually sold off to a low of 176.00 ahead of the close, still holding support at its low of 175.50. The heating oil market posted a double top at 179.70 early in the session before it continued to retrace its recent gains. The market sold off to a low of 174.00 as it partially backfilled its previous gap. The heating oil market settled down 3.60 cents at 175.55. The product markets were mostly pressured in light of the expectations that the DOE and API reports would show builds in product stocks. Volumes in the product markets were good with 58,000 lots booked in the gasoline market and 53,000 lots booked in the heating oil market.

The crude market on Thursday will be driven by the weekly petroleum stock reports, which are expected to show draws in crude stocks of less than 500,000 barrels, builds of about 2 million barrels in gasoline stocks and builds of about 2.5 million barrels in distillate stocks. If the reports do show the expected builds in product inventories, the markets will continue to retrace their recent gains. The weather forecasts should also provide some pressure. The market will however remain concerned over the Iranian situation and the continuing unrest in Nigeria. Technically, the crude market looks overbought and its stochastics have just started to cross to the downside. The market is seen finding resistance at 65.90, 66.20 and its double top at 66.90. More distant resistance is seen at 67.30 and 67.55.

Support is however seen at its low of 65.25 followed by its gap from 64.95 to 64.10.

Technical Analysis		
	Levels	Explanation
CL 65.73, down 58 cents	Resistance 66.90, 67.30, 67.55 65.90, 66.20	Double top, Previous highs
	Support 65.25 64.95 to 64.10	Wednesday's low Opening gap (January 17th)
HO 175.55, down 3.60 cents	Resistance 179.70, 181.50, 181.75, 182.40 176.00	Double top, Previous highs
	Support 174.00 to 172.50 169.6, 169.10	Remaining gap (January 18th) Previous lows
HU 177.33, down 5 cents	Resistance 182.00, 182.50, 183.50, 183.90 178.00, 180.00	Wednesday's high, Tuesday's high, Previous highs
	Support 176.00 175.50 to 173.90	Wednesday's low Opening gap (January 17th)