

**W** The  
Windham Group



## ***ENERGY RISK MANAGEMENT***

Howard Rennell & Pat Shigueta  
**(212) 624-1132 (888) 885-6100**

**www.e-windham.com**

---

### **ENERGY MARKET REPORT FOR JANUARY 19, 2006**

---

Iran's top nuclear negotiator, Ali Larijani, said Iran was ready to compromise over its nuclear program. He said Iran was willing to discuss concerns about its nuclear program and offer guarantees. However the UN's IAEA is scheduled to hold an emergency meeting on February 2 to discuss whether to refer Iran to the UN Security Council. Iran Economy Minister Davoud Danesh-Jafari said Europe has no right to freeze Iran's overseas assets and would spark a damaging capital flight from European banks if it did so. Meanwhile, Germany's Foreign Minister Frank-Walter Steinmeier insisted that European efforts to refer Iran to the UN Security Council did not mean it was abandoning attempts to reach a diplomatic solution. Separately, Japan warned Iran that its relations with the rest of the world would deteriorate if it continued with its nuclear program.

A senior OPEC delegate said Saudi Arabia and its OPEC partners are ready to fill any oil supply gaps due to the

#### Market Watch

Al-Jazeera broadcast portions of an audio tape purportedly from Osama bin Laden, saying al-Qaeda was preparing for new attacks in the US but added that the group was open to a conditional truce with Americans. The voice said heightened security in the US was not the reason there were no attacks since September 11. He said the reason was because there were operations that needed preparations. The speaker however did not give conditions for a truce in the excerpts released by Al-Jazeera. A US counter terrorism official said US intelligence was assessing the tape in an effort to determine its authenticity. Separately, a web site reportedly affiliated with Al-Qaeda is calling for attacks on oil and gas facilities in Alaska. A 12 page report on the web site provides detailed Internet links to maps and information to the Alyeska Pipeline and the Valdez tanker port in Alaska and other strategic targets both in and outside the US.

Goldman Sachs increased its forecast for oil prices in 2006 by \$4.50 to \$68.50/barrel and added that the risks in Iran and Nigeria could push the price above \$70/barrel before the fourth quarter. It expects oil to breach \$70/barrel by the fourth quarter in any case due to strong demand. It forecast that world demand would increase by 1.84 million bpd to 85.7 million bpd in 2006 as the world economy grows by over 4%.

Turkey's Minister of State Kursad Tuzmen said it would halt its fuel supplies to Iraq if the country did not pay its debts in two days. Turkey is major supplier of refined oil products to Iraq, including unleaded gasoline, diesel fuel, liquefied natural gas and jet fuel.

France's President Jacques Chirac said it would be ready to use nuclear weapons against any country that carried out a terrorist attack against it. He said there was no change in France's overall policy, which rules out the use of nuclear weapons in a military conflict. However his speech pointed to a change of emphasis to underline the growing threat France perceives from terrorism.

problems in Nigeria. He said OPEC is unlikely to cut production at its January 31<sup>st</sup> meeting. He said Saudi Arabia and some OPEC producers are capable and willing to increase their production if there is an actual need for extra oil.

Venezuela's President Hugo Chavez said he believed there is no need for OPEC to cut its output. He added that Venezuela would only cut its production if crude prices fell.

**DOE Stocks**  
**Crude** – up 2.7 million barrels  
**Distillate** – up 900,000 barrels  
**Gasoline** – up 2.8 million barrels  
**Refinery runs** – down 3.67%, at 86.5%

According to Oil Movements, OPEC's exports increased by 480,000 bpd to 25.17 million bpd in the four weeks ending February 4. Incremental barrels were roughly split between Asian and western consumers.

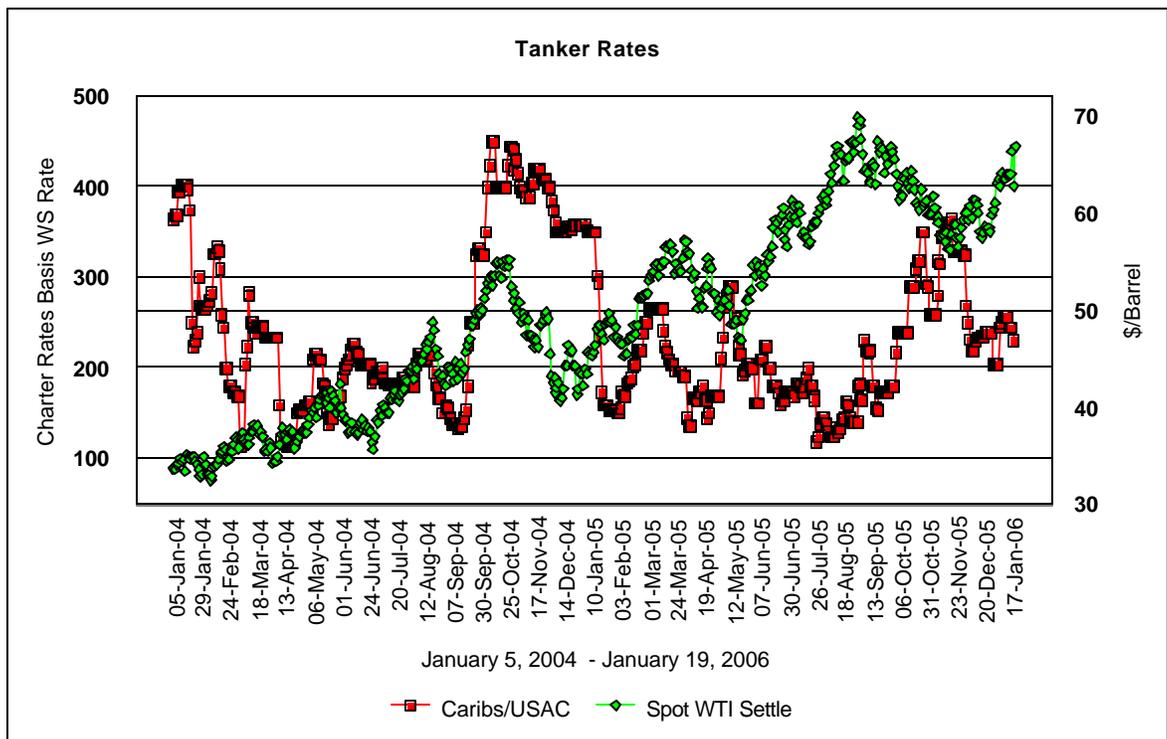
The EIA said US refiners would likely increase seasonal maintenance and increase gasoline production in preparation for the driving season.

The API stated that the US should not experience any gasoline shortages if Iran cuts its oil exports and the federal government does not impose fuel price controls in response. The API's chief economist John Felmy said as long as the market system is allowed to work, there will be price adjustments that allocate scarce gasoline supplies. However he said Saudi Arabia's excess oil production capacity would not be sufficient to offset a complete shutdown of Iranian oil exports.

The DOE reported that US inventories of propane totaled 52.983 million barrels in the week ending January 13, down 2.98 million barrels on the week. It reported that inventories in the East Coast fell by 115,000 barrels to 4.498 million barrels while inventories in the Midwest fell by 559,000 barrels to 17.603 million barrels and inventories in the Gulf Coast fell by 2.097 million barrels to 29.314 million barrels on the week.

**Refinery News**

ConocoPhillips is planning to conduct maintenance on a fluid catalytic cracking unit at its Linden, NJ refinery for about five weeks starting at the end of February. It is also planning a six week



shutdown of its 180,000 bpd Trainer, Pennsylvania refinery starting March 30.

The Texas Natural Resource Conservation Commission reported that the Sweeny refinery shutdown an aromatics recovery unit on Thursday for turnaround. The turnaround is expected to end on Friday.

Deer Park Refining LP plans to restart a gasoline hydrotreater at its 334,000 bpd Deer Park, Texas refinery on January 23. It is expected to conclude the restart process by January 28.

Nigerian National Petroleum Corp will build two refineries with a combined capacity to refine 700,000 bpd with multinational joint venture partners.

Hellenic Petroleum cancelled a buy tender for a cargo of Urals crude as poor refining margins prompt the company to cut crude runs.

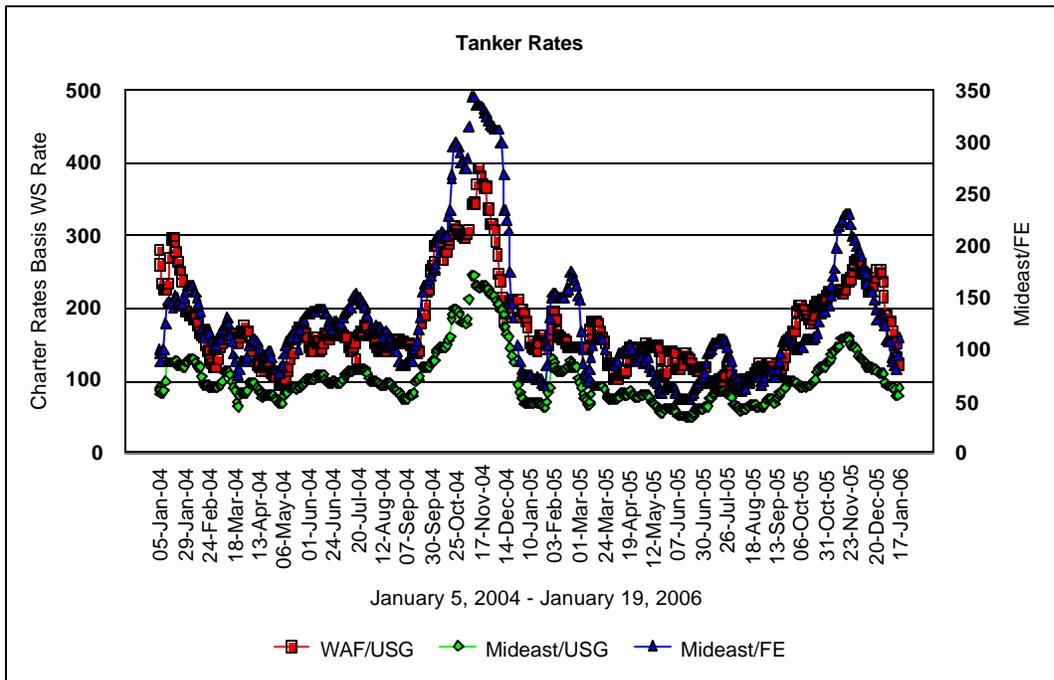
Belarus' 239,000 bpd Naftan refinery is starting an upgrading plan this year to increase crude throughput by about a third and reduce output of low value fuel oil. The refinery, which processed about 9.5 million tons or 190,000 bpd of crude in 2004, plans to increase throughput to 12 million tons a year during the upgrade.

**Production News**

Colonial Pipeline extended allocations for the 7<sup>th</sup> cycle on its main distillate line between Collins, Mississippi and Greensboro, North Carolina.

The MMS characterized the amount of damage inflicted on oil and gas platforms and pipelines by Hurricanes Katrina and Rita as substantial because of the large amount of infrastructure in the path of the hurricanes. Hurricane Katrina destroyed 46 offshore platforms and damaged 20 others. It also accounted for 100 damaged pipelines, including 36 large diameter pipelines, of which only 12 have returned to service. Hurricane Rita destroyed 69 platforms and damaged 32 others. It also said the storm caused damage to 83 pipelines, including 28 large diameter pipelines, of which 10 have returned to service.

Chevron Corp said its Nigerian operations have so far been unaffected by the threats made by militants to disrupt the country's oil exports. The company's oil facilities are continuing to operate normally. Meanwhile, employees of Mobil Producing Nigeria Unlimited returned to work at the company's operational base in the eastern Niger Delta. ExxonMobil had asked nonessential workers not to report to work on



Wednesday. Separately, the Nigerian National Petroleum Corp said Nigeria's oil production targets this year would be missed if unrest in the Niger Delta continues. It said there were mounting concerns in the government that its targeted crude output of 2.7 million bpd could be jeopardized if the unrest continues. The Movement for the Emancipation of the Niger Delta said four foreign oil workers being held hostage would not be harmed unless the government attempts a rescue. The militants said they would not accept ransom offers and insisted on demand that two ethnic Ijaw leaders be released for them to consider a temporary suspension of attacks on oil installations.

Statoil ASA's Asgard B may restart Friday morning if all goes well in inspecting the platform's machinery. Smoke and sparks from an exhaust pipe prompted a shutdown on Sunday at the platform, forcing a shut-in of about 118,000 bpd of condensate and 45 million cubic meters of gas. Statoil also stated that output at its Norne field is currently running at 6,500 bpd, down from its 100,000 bpd capacity. Continuing bad weather conditions have lowered production levels and unloading is unlikely to start before Saturday. Statoil also shutdown its 35,000 bpd Visund field on Wednesday and some workers were evacuated after gas and fire detectors were activated on the platform. Meanwhile, Norway's Petroleum Safety Authority said it would investigate whether there was a link between several problems at Statoil operated oil and gas fields, which has reduced the country's oil production by 10% and gas exports by 20%.

Iraq's State Oil Marketing Organization has cut the February official selling price for Basra Light crude oil bound to Europe to Dated Brent minus \$8.20/barrel compared with Dated Brent minus \$6.90/barrel in January. The February official selling price for Basra Light crude to the US was set at WTI minus \$10.50/barrel, compared with WTI minus \$10.65/barrel in January. It also set the official selling price for Basra Light crude bound to Asia at the Oman/Dubai average minus \$2.25/barrel, down from minus \$1.95/barrel in January.

Traders stated that Russia's cold spell is not expected to cut the country's fuel oil exports in January, as the volumes were pre-sold. However its exports in February could be affected if the cold weather continues. Power monopoly RAO UES has dramatically increased the use of gas and was also consuming an extra 55,000 tons of fuel oil a day. However traders said the company was depleting its own stocks.

Turkey's Dardanelles Straits reopened to large tankers on Thursday following a two day suspension caused by a dry bulk ship with a coal cargo running aground.

According to the Korea National Oil Corp, South Korea imported about 77 million barrels of crude in December, up 3.3% on the year. Its total crude imports for the year stood at 843.2 million barrels, up 2.1% on the year. South Korea's refineries ran 78.1 million barrels of crude during December, up 2.1% on the year while total refinery runs for all of 2005 stood at 852.4 million barrels, up 3.1%. Commercial crude stocks in December fell by 40% to 15.3 million barrels. It also reported that South Korea's oil product output in December stood at 84.2 million barrels, up 2% on the year while its oil product exports in December increased by 3.7% on the year to 25.6 million barrels.

OPEC's news agency reported that OPEC's basket of crudes increased by \$.84/barrel to \$59.42/barrel on Wednesday.

Pemex stated that its crude production increased to 3.39 million bpd in December, up from 3.22 million bpd last year. Its crude production in all of 2005 fell to 3.33 million bpd from 3.38 million bpd in 2004. It exported a total of 1.85 million bpd of crude in December, down from 1.91 million bpd in November and from 1.97 million bpd reported in December 2004.

Venezuela's PDVSA and Argentina's Energia Argentina S.A. have signed an agreement for joint offshore exploration in Argentina's San Jorge Gulf. Venezuela's President Hugo Chavez said Venezuela would begin to evaluate investments for exploration in the continental platform in the Gulf of San Jorge. He also stated that the San Jorge Gulf project would also involve the participation of Brazil's Petrobras. Argentina's state oil company would be allowed oil exploration rights in Venezuela's Orinoco tar belt.

Royal Dutch Shell and India's Oil and Natural Gas Corp have agreed to cooperate on oil projects. The deal is the latest in a series of preliminary agreements India has signed, hoping to get help from foreign partners to gain access to oil and gas fields abroad.

Colombia's Ecopetrol said the country's oil production averaged 525,000 bpd in 2005 compared with 528,000 bpd in 2004.

**Market Commentary**

The oil market posted an inside trading day but ended the session more than \$1 higher in light of a new taped warning from Osama bin Laden that al-Qaeda was preparing new attacks inside the US. The market opened down 28 cents at 65.45 and posted a double bottom at its low of 65.25 following the release of the DOE reports, which showed builds across the board. The crude market however bounced off its low and retraced its losses despite the mostly bearish reports. The geopolitical tensions overshadowed the DOE and API reports. The February crude contract rallied on further buying ahead of the close and posted a double top at 66.90. It settled up \$1.10 at 66.83. Volume in the crude market was good with over 214,000 lots booked on the day. The heating oil market, which looked set to post an inside trading day rallied on the close and settled up 4.14 cents at 179.69. The market opened down 75 points at 174.80 and sold off to a low of 174.25 following the release of the weekly petroleum stock reports. However the market failed to test its previous low and quickly bounced off its low as the DOE reported a smaller than expected build in distillate stocks. The market settled in a sideways trading pattern before further buying ahead of the close pushed the market to its high of 180.10. This was amid the late rally in the natural gas market, which posted a high of 9.00 and settled 21 cents higher at 8.905. Meanwhile, the gasoline market settled up 27 points at 177.60 after it retraced its earlier losses. The market, which opened at 176.00, backfilled its previous gap and sold off to a low of 172.55 following the release of the inventory reports showing builds of about 2.8 million barrels in gasoline stocks. However the market also bounced off its low and retraced its losses as it rallied to a high of 178.00 ahead of the close. The market settled up 27 points at 177.60. Volumes in the product markets were good with over 50,000 lots booked in the heating oil market and 56,000 lots booked in the gasoline market.

The crude market will likely continue to trend higher ahead of the February crude contract's expiration at the close on Friday after

Technical Analysis			
		Levels	Explanation
CL	<b>Resistance</b>	67.30, 67.55	Previous highs
	66.83, up \$1.10	66.90	Double top
	<b>Support</b>	66.00, 65.50	Double bottom, Gap (January 17th)
		65.25, 64.95 to 64.10	
HO	<b>Resistance</b>	181.50, 181.75, 182.40, 185.50	Previous highs
	179.69, up 4.14 cents	180.10	Thursday's high
	<b>Support</b>	178.00, 176.50	Thursday's low, Remaining gap (January 18th)
		174.25, 174.00 to 172.50	
HU	<b>Resistance</b>	182.00, 182.50, 183.50, 183.90	Previous highs
	177.60, up 27 points	178.00, 180.00	Thursday's high
	<b>Support</b>	176.00, 174.00	Thursday's low, Previous low
		172.55, 170.00	

it settled near its high. The market will remain supported by the geopolitical tension, with the continuing unrest in Nigeria, fears that Iran's nuclear ambitions could lead to sanctions and the new al-Qaeda threat. The market is seen finding support at 66.00, followed by 65.50 and 65.25. More distant support is seen at its gap from 64.95 to 64.10. Meanwhile resistance is seen at its double top of 66.90 followed by 67.30 and 67.55.