



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR JANUARY 25, 2006**

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OPEC's President Edmund Daukoru said OPEC does not need to cut its production quotas when it meets on January 31. He blamed current high oil prices of over \$65/barrel on a lack of refining capacity. He said new tighter gasoline specifications in the US, reduced output in Nigeria and geopolitical tension in the Middle East were also supporting prices.

An Iraqi oil official said insurgents sabotaged at least two Iraqi oil pipelines on Wednesday, halting exports to Turkey.

Iran's High Council of National Security Secretary Ali Larijani welcomed Russia's proposal that would allow Iran to enrich its uranium in Russia. However he said the proposal needed more work and threatened to renew the country's uranium enrichment activities if his country was referred to the UN Security Council. He indicated that Iran did not necessarily see the proposal as the key to solving the diplomatic impasse. Russian officials have stated that further talks with Iran is scheduled for February 16, long after the February 2 meeting of the UN's IAEA, which could send the Iran standoff to the UN Security Council.

#### Market Watch

The NYMEX will halt trading its MTBE gasoline futures contract in January 2007 and only offer its RBOB contract. Currently, the NYMEX offers both gasoline contracts, with most of its volume done in the MTBE gasoline contract.

An ExxonMobil Corp told congressional aides that flat North American gasoline demand forecast through 2030 means there is no need to build new US refineries. The manager of Exxon's economics and energy division, Scott Nauman, said Exxon does not want to build any new refineries due to flat demand for petroleum products by 2030. It expects North American diesel fuel demand to grow about 2.6% a year through 2030. However over the same period, Exxon's projections call for 3.8% annual growth in gasoline demand in the Asia Pacific region.

Amerada Hess' chairman and chief executive John Hess said the warm weather in January would pose a challenge in forecasting refinery earnings for the first quarter of the year. He said the warm weather would impact refining earnings.

Kuwait's Parliament is scheduled to meet on Sunday to elect a new emir. It is almost certain that it would be the country's Prime Minister, Sheikh Sabah al-Ahmad al-Sabah, who has been the de facto leader of Kuwait for years.

Norway's Statoil sees a stabilization of oil prices in 2006 at around \$50-\$60/barrel.

#### **DOE Stocks**

**Crude** – down 2.3 million barrels

**Distillate** – up 1.8 million barrels

**Gasoline** – up 3.2 million barrels

**Refinery runs** – down 0.35%, at 86.2%

The DOE reported that US inventories of propane totaled 52.321 million barrels in the week ending January 20, down 662,000 barrels on the week. It reported that propane inventories in the East Coast increased by 64,000 barrels to 4.562 million barrels. It also reported that inventories in the Midwest increased by 122,000 barrels to 17.725 million barrels while inventories in the Gulf Coast fell by 838,000 barrels to 28.476 million barrels.

### **Refinery News**

Motiva Enterprises LLC shut a compressor in a delayed coking unit at its Port Arthur, Texas refinery on Tuesday. The refinery was set to begin a turnaround on its fluid catalytic cracking unit, alkylation unit and sulfur recovery unit. Work on the units was scheduled to last throughout February.

Delek USA's Tyler, Texas refinery shut a sulfur recovery unit for maintenance work on Tuesday. During inspection and maintenance to the sulfur recovery unit's reboiler, the coking unit and diesel hydrotreater unit will remain shut and charge to its fluid catalytic cracking unit will be reduced.

Valero Energy Corp said there was no significant impact on production at its 250,000 bpd refinery in Port Arthur, Texas following a problem with a wet gas compressor. Separately, Valero said it delayed maintenance on some US refinery units planned for 2006. It is scheduled to perform maintenance on a 35,000 bpd coker unit at its Aruba refinery in January for 40 days while an 18,000 bpd coker unit and a 100,000 bpd crude unit at its Corpus Christi, Texas refinery is shut in January for about 28 days and a 20,000 bpd catcracker and a 13,000 bpd hydrocracker unit are shut for maintenance in March for 21 days. The work on its hydrocracker was originally scheduled for January. It also reported that a 35,000 bpd hydrocracker at its Benicia refinery is scheduled to undergo maintenance in February for 10 days while its 190,000 bpd Memphis refinery is shut in February for 30 days. Its 80,000 bpd crude unit and 34,000 bpd catcracker at its Krotz Spring refinery are scheduled to undergo maintenance in March while a 40,000 bpd catcracker and 23,000 bpd coker unit at its Lima refinery is scheduled to undergo maintenance in the third or fourth quarter. The maintenance at the Lima refinery was originally scheduled for March.

ConocoPhillips reported that the post hurricane recovery of its Alliance refinery in Belle Chase, Louisiana continues on track. Partial operations have resumed at the 247,000 bpd refinery, with full operations expected around the end of the first quarter.

Petrol-Is, a labor union in Turkey, said some 4,000 workers for Tupras will go on strike Thursday and Friday to protest the privatization of the company. Petrol-Is said workers would stop the filling, sales and transportation of fuel oil and petroleum products at the Izmit, Izmir, Kirikkale, Batman refineries and Korfez petrochemical plant.

### **Production News**

According to the US Minerals Management Service, US oil and natural gas production from the US Gulf of Mexico is recovering slowly. It said about 373,407 bpd or 24.89% of the Gulf's production capacity remained shut.

Royal Dutch Shell's Nigerian unit expects loadings of its Forcados crude to be delayed by a further two weeks due to delays in repairing the Trans-Ramos pipeline recently attacked by militants. Militant attacks on Nigerian oil installations have so far forced Shell Petroleum Development of Nigeria to declare force majeure on 115,000 bpd of its crude exports. The force majeure also remains in place on its Forcados and EA oil exports. Meanwhile, other oil companies in Nigeria said there had been no change in their operating conditions despite attacks by militant groups. However villagers fled the Niger Delta amid fears of military reprisals. The army deployed more troops to key installations while

oil companies tightened security around offices. Oil unions have threatened to pull out from the delta, if security deteriorates further. Separately, analysts stated that attacks against Nigerian oil facilities and foreign oil workers are likely to increase in the months ahead as militants, better armed and more determined than in past struggle for power and battle the government ahead of the presidential elections in 2007.

ConocoPhillips said its net income in the fourth quarter increased to \$3.68 billion compared with \$2.43 billion. The company's exploration and production benefited from high oil and gas prices. In the fourth quarter it produced 1.88 million barrels of oil equivalent, including 1.59 million boe/d from its exploration and production unit, up from 1.52 million boe/d a year earlier.

Shell Canada Ltd plans to shut its Athabasca Oil Sands Project and bitumen upgrader this spring for their first major turnarounds. It said the Muskeg River oil sands mine and Scotford upgrading plant are expected to be off line for eight weeks starting in the second quarter.

The Shetland Island Council reported that Brent crude liftings from Sullom Voe increased to 398,460 tons in the week ending January 24, up from 279,700 tons in the previous week.

Russia's Surgutneftegaz said its oil production in 2005 increased by 7.5% to 1.28 million bpd.

Russia's Lukoil said it discovered a major deposit in the Caspian Sea and bought a new oil firm with massive reserves in the same region. Lukoil said the acquisition and discovery could contain combined reserves of over 3.3 billion barrels of oil equivalent. Lukoil paid \$261 million to buy control of Primorieneftgaz. Separately, Lukoil expects its oil production to increase by 3% to 5% annually in the next 10 years. Lukoil said its oil production increased by 4.5% on the year to 90.1 million tons in 2005. Of the total, Lukoil's oil production in Russia stood at 86.3 million tons in 2005.

Traders stated that Asian refiners have absorbed more than 1.5 million bpd or 44 cargoes of February loading West African crude oil. Refiners in China bought 24 cargoes or about 814,000 bpd for February.

Nigerian National Petroleum Corp increased its official selling price for all its grades of crudes for February loadings. Its prices for benchmark Bonny Light crude and Qua Iboe crude were increased by 25 cents each. The official selling price for Bonny Light and Qua Iboe crude was set at a Brent-Forties-Oseberg crude plus 80 cents/barrel.

China's apparent oil consumption increased 3.1% in December. However China's National Statistics Bureau said oil consumption fell by 0.5% last year despite a 9.9% growth in GDP. China's GDP totaled \$2.26 trillion, making it the fourth largest economy in the world. The official figure showing China's oil consumption fell last year may hint at a build up of inventories. However given the secrecy surrounding stock levels, not all analysts were convinced of the stock build theory or the demand drop figure. Analysts were equally skeptical about the idea that China's efforts towards greater energy efficiency had allowed it to curb consumption, a reason given for the demand fall by the head of the National Statistics Bureau.

The Petroleum Association of Japan reported that kerosene stocks fell by 2.5% on the week to 3.02 million kiloliters or 18.995 million barrels in the week ending January 21. The stock level was well above the five year average in January of about 2.5 million kl. Japanese oil refineries operated their plants at an average of 93.9% of capacity on the week. It reported that due to high operating rates, commercial crude stocks totaled 15.55 million kl or 97.81 million barrels in the week ending January

21. Its gasoline stocks increased to 2.25 million kl or 14.15 million barrels from the previous week's level of 2.2 million kl.

Indonesia's Pertamina is expected to reduce its oil products stocks to 20-22 days from the current 27 days due to low consumption and to cut costs. The consumption currently is 15% below the daily target of 175,000 kiloliters or 1.1 million bpd.

### Market Commentary

The oil market gapped lower from 67.00 to 66.50 on expectations that the weekly petroleum stock reports would show builds across the board. The market partially backfilled its gap as it posted a high of 66.70 early in the session following the release of the DOE report which showed that crude stocks fell by 2.3 million barrels on the week. However it just as quickly gave up its gains amid the weakness in the product markets. The market partially backfilled a previous gap from 65.75 to 64.75 as it extended its losses and posted a low of 65.45. It later bounced off its low and erased some of its losses ahead of the close. The market however found some resistance and settled down \$1.21 at 65.85. The market remained pressured in light of the weakness in the product markets. Volumes in the crude market were good with over 232,000 lots booked on the day. The heating oil market settled down 2.65 cents at 179.06 after it sold off in light of the builds reported in distillate stocks. The market gapped lower on the opening from 181.50 to 180.55, which it backfilled early in the session. It sold off to a low of 177.20 following the release of the DOE report. The market however erased some of its losses and traded back to 180.00 ahead of the close. The gasoline market continued to lead the complex lower following the release of the DOE report, which showed a build of over 3 million barrels in gasoline stocks. The market gapped lower from 173.50 to 172.00, which it partially backfilled as it posted a high of 172.50. However the market extended its losses to over 11 cents as it sold off to a low of 163.40. It later erased some of its losses and settled in a sideways trading pattern ahead of the close. The gasoline market settled down 7.98 cents at 166.46. Volumes in the product markets were good with over 47,000 lots booked in the heating oil and 75,000 lots booked in the gasoline market.

The oil market will likely continue to find some selling pressure as it stochastics crossed to the downside and are still trending lower. The weakness in the product markets, following the builds in products stocks, is also pressuring the oil market. The market will likely seek to backfill its remaining gap from 65.45 to 64.75. It is seen finding further support at 63.90, 63.55 and 63.25. More distant support is seen at 62.50.

However resistance is seen at 66.50 followed by its gap from 66.70 to 67.00 and its previous high of 68.10.

| Technical Analysis |                                              |                                              |                                                                      |
|--------------------|----------------------------------------------|----------------------------------------------|----------------------------------------------------------------------|
|                    | Levels                                       | Explanation                                  |                                                                      |
| CL                 | <b>Resistance</b><br>65.85, down \$1.21      | 68.10<br>66.50, 66.70 to 67.00               | Previous high<br>Remaining gap                                       |
|                    | <b>Support</b>                               | 65.45 to 64.75<br>63.90, 63.55, 63.25, 62.50 | Remaining gap<br>Previous low, 50% (57.95 and 69.15), Previous lows  |
| HO                 | <b>Resistance</b><br>179.06, down 2.65 cents | 185.25<br>180.00, 181.50                     | Previous high<br>Wednesday's high                                    |
|                    | <b>Support</b>                               | 177.20<br>174.74, 174.00 to 172.50           | Wednesday's low<br>62% retracement(165.80 and 189.20), Remaining gap |
| HU                 | <b>Resistance</b><br>166.46, down 7.98 cents | 172.50 to 173.50, 178.00<br>167.75, 170.00   | Remaining gap (January 25th), Previous high                          |
|                    | <b>Support</b>                               | 165.00, 163.40<br>162.95, 162.25             | Wednesday's low<br>62% retracement (149.50 and 184.70), Previous low |