



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JANUARY 26, 2006

OPEC's President Edmund Daukoru said speculators in the oil futures markets were contributing to price volatility that could affect the world economy. He reiterated that there was no need for OPEC to cut its production during its meeting on January 31. However he said OPEC may agree to a future cut during its meeting. He also stated that Iran was unlikely to halt its oil exports in response to pressure over its nuclear program. Meanwhile, Libya's Oil Minister Fathi Omar bin Shatwan also said OPEC would keep oil production quotas unchanged at its meeting next week.

Saudi Arabia's Oil Minister Ali al-Naimi said Saudi Arabia would pump extra crude to fill any supply gap left by Iran or Nigeria.

According to Oil Movements, OPEC's oil exports are expected to fall by 80,000 bpd to 24.9 million bpd in the four weeks ending February 11. It however said oil exports were still flowing at 1.5 million bpd higher than year ago levels.

Market Watch

The US DOE has no plans to allow oil companies to keep delaying repayment of crude they borrowed last year from the SPR. The Bush administration loaned oil refineries about 9.8 million barrels last year from the SPR. The DOE permitted companies to skip returning the borrowed oil during December, January and February to keep more oil in the market this winter. However the government does not plan to allow further delays in March, April and May.

The CFTC said it is not conducting a formal investigation of speculative funds in the oil futures markets. Funds have been accused of causing swings in crude oil futures prices during the past two years. The spike in energy prices can be attributed to market fundamentals not to any conspiracy to manipulate prices.

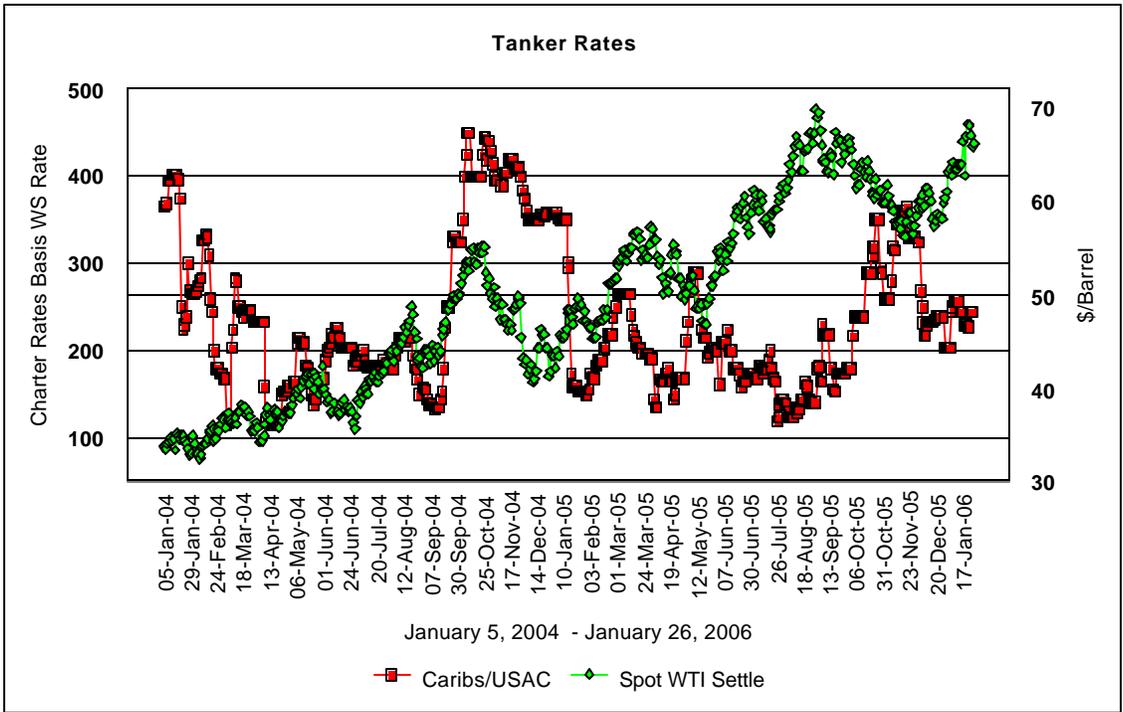
Japan's vice finance minister for international affairs, Hiroshi Watanabe, said that oil prices did not yet pose a major threat to the world economy, although they were close to levels requiring caution and would be an important topic during the G8 meeting in Russia on February 10-11.

Kuwait's parliamentary ouster of its ailing ruler has prompted calls for reforms to prevent a chaotic transition of power that would allow parties and the appointment of a premier from outside the ruling family. Kuwait's Prime Minister, Sheikh Sabah al-Ahmad al-Sabah's appointment as emir, which is expected to be confirmed by parliament on Sunday would formalize a role he has played in the past four years due to the illness of both the late emir and his heir. His appointment broke with tradition in the Sabah family of alternating leadership between its two rival clans.

Kinder Morgan Inc said its Canadian unit had received commercial support from shippers and producers to expand its Trans Mountain pipeline system. Under the agreement, the Trans Mountain pump station expansion would result in an increase of system capacity from 225,000 bpd to 260,000 bpd in early 2007 and the Anchor Loop phase of the Trans Mountain expansion will increase the capacity of the system by an additional 40,000 bpd to 300,000 bpd in late 2008.

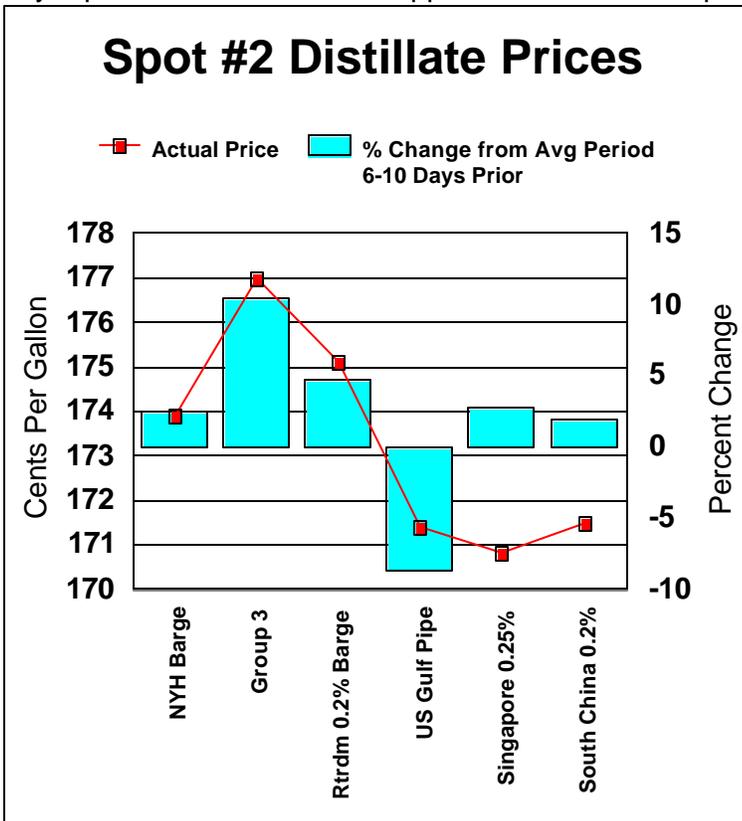
The NYMEX announced that it received permission from the Financial Services Authority to launch a NYMEX Europe miNY Brent crude contract in London. The contract is scheduled to launch on February 6. The CFTC also approved direct access from within the US for electronic trading of NYMEX Europe products.

An official police official said China is preparing to strike hard against rising public unrest. An official at China's Ministry of Public Security said China would face a long period of dangerous social discontent.



The head of the IAEA, Mohamed ElBaradei said he was hopeful that the Russian proposal could help provide a solution to the Iranian nuclear issue. He said he was encouraged that all parties were still talking about a diplomatic solution.

Meanwhile, Iran and China expressed support for a Russian proposal to resolve Iran's standoff with western governments over its nuclear program. Top Iranian nuclear negotiator, Ali Larijani, on a one day trip to China to seek its support said the Russia production needed further discussion. Chinese



officials said all countries involved should intensify efforts to broker a solution ahead of the IAEA's February 2 meeting. The UN Security Council's members are expected to meet on Monday to try to resolve the differences on Iran. Separately, the EU urged Iran to accept Russia's offer to have uranium enriched in Russia. It said the enrichment of Iranian uranium in Russia would put oversight in the hands of the international community and ease concerns that Iran is developing nuclear weapons.

A top US Treasury official said an offer from the IEA to release oil reserves if Iran and Nigeria disrupt supplies is a welcomed move to stabilize the oil market. The Under Secretary for International Affairs, Tim Adams, said he could not predict whether such a move would prove necessary but noted that the risk of rising energy costs was a major concern among business leaders and policymakers attending the World Economic Forum.

Refinery News

Lyondell Chemical Co said it could switch production of MTBE to an alternative by this summer, if necessary. However it would rather not because it is harder to make the same amount of alternatives as MTBE. It also stated that when plants switch to making alternatives or roll back making MTBE, about a month's worth of production could be lost.

Marathon Oil Corp said it expects throughput at its refineries in 2006 to be very near the high levels achieved last year. The company's refinery system processed an average of 1.24 million bpd in the fourth quarter, up 5.4% on the year.

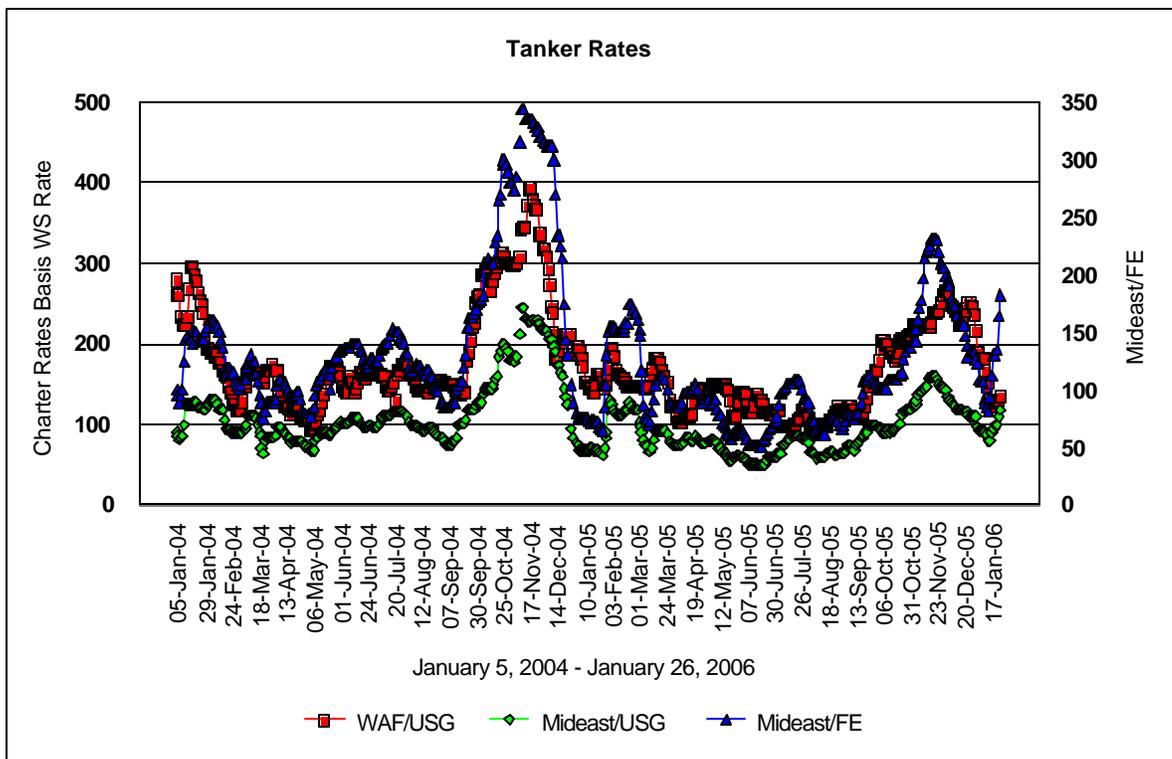
Total confirmed that it would shut half of its 155,000 bpd La Mede refinery in Provence from February 1 until April for maintenance.

South Korea's GS Caltex Corp has shut a 25,000-26,000 bpd reformer for about a week since Monday due to a minor problem. The impact from the outage on gasoline and naphtha markets is expected to be limited.

Production News

Nigerian military authorities started to mobilize troops to oil facilities located in the Niger Delta. In addition, troops are also being sent to Bayelsa state, the source for the current campaign by militants pressing for

greater control of oil and gas resources located in the region. Nigeria's President Olusegun Obasanjo said Nigeria is making progress in talks with the kidnappe



rs of four foreign oil workers, playing down any impact on investment in the country. Royal Dutch Shell said it is seeking a quick solution to the hostage crisis. It also denied reports that new hostages were taken by militants. It also stated that it had no intention of leaving Nigeria despite the unrest in the country. Meanwhile, an unconfirmed report in Nigeria's Thisday newspaper said security operatives arrested the secretary of the Movement for the Emancipation of the Niger Delta.

A senior Iraqi oil official said Iraq's oil exports are expected to average 1.1 million bpd in January, the second consecutive month. Iraq's exports have been halted due to sabotage attacks in the north and bad weather in the south. The official said Iraq would struggle to meet its supply commitments in the first half of the year.

The head of Saudi Aramco, Abdullah Jumah, said Saudi Arabia is proceeding with its oil expansion plan and increasing exploration to meet future demand. It has plans to increase production capacity from 11 million bpd to 12.5 million bpd by 2009. It has been producing about 9.5 million bpd of crude for months.

Turkey's Dardanelles Strait opened for tanker and other traffic after a two and a half day closure on Thursday while the Bosphorus was closed for a fourth day due to snow and fog. The closures of the waterways have increased delays for oil tankers to 20 days on a round trip from the Mediterranean to the Black Sea.

An analyst stated that gas oil stocks held in independent Amsterdam-Rotterdam-Antwerp storage tanks fell as a cold snap increased heating oil sales. Gas oil stocks fell by 125,000 tons to 1.95 million tons in the week ending January 26. Meanwhile, gasoline stocks also fell by 30,000 tons to 830,000 tons while naphtha stocks fell by 10,000 tons to 60,000 tons. However fuel oil stocks increased by 140,000 tons to 580,000 tons and jet fuel stocks increased by 10,000 tons to 445,000 tons on the week.

According to an official at the National Iranian Oil Co, sales from offshore Iranian oilfields are progressing and added that there is no truth to reports that Iran is considering shutting in Soroush and Nowrouz production. A report earlier said that government was considering halting its production because it was unable to sell the heavy crude and stocks were building.

Libya's Oil Minister Fathi Omar bin Shatwan said Libya, which has a maximum capacity of 1.7 million bpd, would expand its capacity to 2 million bpd at the end of the year. Libya's current oil reserves total 40 billion barrels. It expects to increase its reserves to 100 billion in the future.

Germany's AGEBA said the country's total primary energy use in 2005 fell by 1.3% on the year to 485.8 million tons of coal equivalent. It is down from 492.3 million tons reported in 2004.

China's Commerce Ministry deflected blame for higher world oil prices, saying its per barrel import cost of crude is lower than benchmark prices. The ministry said the average price of China's imported crude was \$51.50/barrel in 2005, \$2.80 lower than benchmark oil prices.

Chevron's Angolan unit started production at its deepwater Benguela Belize Lobito Tomboco project. The deepwater field is the first field of the \$2.3 billion BBLT project to come on stream. The project's daily peak production is expected to reach about 200,000 bpd.

Marathon Oil Corp said quarterly profits increased due to higher oil and gas prices. Its net income in the fourth quarter increased to \$1.27 billion compared with \$429 million a year earlier.

Suncor Energy Inc reported that its fourth quarter net income increased to C\$694 million, up from C\$333 million reported a year ago. It attributed the stronger earnings to increased production, higher oil and natural gas prices, lower hedging losses and the receipt of fire insurance proceeds. Its combined oil-sands and natural gas production for the fourth quarter was 302,700 barrels of oil equivalent/day, up from 258,600 boe/d a year earlier. Its oil-sands production in the quarter averaged 267,700 bpd, up from 222,500 bpd a year ago. Separately, Shell Canada Ltd reported a net income of

C\$2.01 billion in 2005, up more than 50% from C\$1.29 billion reported a year earlier. It said its ability to upgrade its Canadian crude production allowed it to take advantage of higher oil prices.

Market Commentary

The oil market settled in positive territory, following three consecutive down days, amid the strength in the gasoline market. The market opened up 25 points at 66.10 and sold off to a low of 65.55, as the complex seemed to be pressured by the weakness in the natural gas market early in the session. The oil market however bounced off its low after failing to test its support at 65.45 and erased its losses. The market partially backfilled its gap as it rallied to a high of 66.90 late in the session. It however gave up some of its gains ahead of the close as it failed to completely backfill its gap. The market settled up 41 cents at 66.26. Volume was good with over 237,000 lots booked on the day. Meanwhile, the gasoline market settled up 1.97 cents at 168.43 after posting an inside trading day. The market opened up 34 points at 166.80 and quickly posted its low of 165.50. However the market bounced off its low and extended its gains to over 3.9 cents as it rallied to a high of 170.40. The gasoline market later retraced some of its gains ahead of the close. The heating oil market followed the natural gas market lower early in the session but continued to sell off even as the natural gas held its support following the EIA report, which showed a draw of 81 bcf. The heating oil market breached its previous low and posted a low of 176.50. However it erased its losses and rallied to a high of 179.60 late in the session. The market erased some its late gains and settled down 1.26 cents at 177.80 amid the weather forecasts calling for warmer than normal temperatures. Volumes in the product markets were good with 51,000 lots booked in the gasoline market and 49,000 lots booked in the heating oil market.

The crude market is seen remaining supported after it failed to breach its previous low in follow through selling seen late Wednesday. The market will likely hold its

Technical Analysis		
	Levels	Explanation
CL 66.26, up 41 cents	Resistance	68.10
	Support	66.90 to 67.00
	Support	65.55, 65.45 to 64.75 63.90, 63.55, 63.25, 62.50
HO 177.80, down 1.26 cents	Resistance	181.50, 185.25 178.00, 179.60
	Support	176.50
	Support	174.74, 174.00 to 172.50
HU 168.43, up 1.97 cents	Resistance	172.50 to 173.50, 178.00 170.40
	Support	167.50, 165.50
	Support	163.40, 162.95, 162.25

support ahead of the weekend as the market awaits further development of situation in Iran and Nigeria. However technically, the market's gains are limited with its daily stochastics still trending lower. The market is seen finding resistance at 66.90 to 67.00 followed by 68.10. Meanwhile support is seen at its low of 65.55, 65.45 to 64.75 followed by 63.90. More distant support is seen at 63.55, 63.25 and 62.50.