



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR FEBRUARY 22, 2006

Iranian officials stated that the country is not ready to accept Russia's proposal aimed at resolving the international dispute over Iran's nuclear program. Iran's and Russia's negotiators on Tuesday completed two days of inconclusive talks on a Russian offer to enrich uranium for Iran to avert suspicions that the Iranians could use the uranium for atomic weapons. Iran insisted on the right to conduct its own enrichment activities. Iran's top negotiator, Ali Hosseinitash called the meeting positive and constructive. However Russian officials voiced concern Iran was using the proposal to stall for time and avert international sanctions.

Market Watch

The EIA warned that the US East Coast and Texas regions may face local supply disruptions and price spikes as oil refineries switch to blending the motor fuel with ethanol. The government in May will no longer require refineries to use gasoline oxygenates like MTBE. Refiners plan to stop using MTBE before the summer driving season begins and switch to clean burning ethanol. However the EIA said US ethanol production is running near capacity and is not adequate to replace the MTBE lost at this time. As a result, the East Coast and the Texas regions may face tight gasoline supplies and higher fuel prices for reformulated gasoline.

Iraqi President Jalal Talabani warned Iraqis not to allow an attack on a Shi'ite Muslim shrine to draw the country into civil war. A large explosion heavily damaged the golden dome of one of Iraq's most famous Shi'ite shrines. The explosion at the Golden Mosque in the northern city of Samarra was the third major attack against Shia targets in as many days, sparking sectarian reprisals. The attackers were accused of attempting to derail negotiations on a national unity coalition. Iraq's President called on all communities in Iraq to condemn the attack and said it would not thwart efforts to create a government of national unity. Ambassador Zalmay Khalizad said the US government would help repair the shrine and accused al Qaeda of a deliberate attempt to foment sectarian strike in Iraq and the region. Prime Minister Ibrahim al-Jaafari declared three days of mourning and called for Muslim unity. British Prime Minister Tony Blair condemned the bombing of the shrine and pledged funds toward its reconstruction. Meanwhile senior cleric Ayatollah Ali Sistani called for mass protests and declared seven days' mourning.

Lehman Brothers Holdings Inc lowered its estimates for 2006 crude oil and natural gas prices. It said crude oil prices would average \$59.99/barrel, down 7.7% from its previous forecast of \$65/barrel.

Nigerian militants said they could continue attacks on the country after they took nine foreign oil workers hostages on Saturday. James Ibori, the governor of Delta state, called on Royal Dutch Shell to resume operations in Nigeria's far south, assuring the company that there would be no more

sabotage. The governor said the military had given him assurances that the attacks would stop and therefore the militants could release the hostages. The militants confirmed that they had been contacted by the governor but said they had no intention of negotiating with him. The militants said they had no plans to release their hostages soon and later threatened to take more Western captives from cities in the southern Niger Delta. Separately, the Houston Chronicle reported that while the oil industry attempts to get a handle on what exactly the militant group wants, some experts are linking the violence to domestic political rivalries and jockeying for power as the mid-2007 elections come closer. An analyst said the same increase in violence was seen before the 2003 election.

Refinery News

A coker unit at Citgo's 425,000 bpd refinery in Lake Charles, Louisiana was shut for unplanned maintenance. The unit is expected to resume operations by the end of the week.

A fluid catalytic cracking unit at Shell's 100,000 bpd Wilmington, California refinery was malfunctioning on Wednesday.

Alon USA is expected to reduce runs at its sulfur recovery unit on March 2 to repair a fan. The repair work is not expected to affect its output.

ConocoPhillips Corp is scheduled to perform maintenance at its 190,000 bpd refinery in Trainer, Pennsylvania starting on April 1. The entire refinery will be down until the middle of May.

The maintenance of a coking unit at Valero's 275,000 bpd refinery in Aruba has not exceeded the 40 day time frame previously announced by the company. Traders said the company would not finish the restart on time after failing to restart the unit.

BP confirmed that its 175,000 bpd Coryton refinery in England was in a partial maintenance shutdown since February 9. However it stated that the maintenance work was suspended due to a dispute with contractors. Talks between the refinery management, contractor management and union representatives are continuing.

ExxonMobil said it plans to restart a vacuum distillation unit at its Port Jerome refinery next week. The unit was shut following a fire on February 6. The remainder of the units at the 240,000 bpd refinery were operating normally.

German refiner Bayernoil's Ingolstadt refinery is scheduled to shutdown next month for maintenance work. Maintenance work is set to start on March 20 and last three to four weeks.

One of two crude distillation units at Kuwait Petroleum's 80,000 bpd refinery in Rotterdam is scheduled to shutdown for planned maintenance starting in early March.

Indonesia's Pertamina may restart the crude distillation unit at its 125,000 bpd Balongan refinery next week. It had shut the crude distillation unit and residue cracking unit at the Balongan refinery for planned maintenance on February 15.

Indian Oil Corp is expected to shut its 120,000 bpd Barauni refinery for 30 days for planned maintenance in April. The refinery was originally scheduled to be shut for maintenance in October but it was deferred because of a shortage of liquefied petroleum gas. The company is also planning to shut its 13,000 bpd Digboi refinery for maintenance in March.

Production News

According to the US Coast Guard, shipping traffic resumed on the Houston Ship Channel after dense fog dissipated. However traffic from the port of Houston was limited to outbound ships. The two day halt along the channel did not affect production at several refineries. Production at ExxonMobil's 557,000 bpd Baytown, Texas refinery was unaffected by the traffic halt. Shell Oil's 340,000 bpd Deer Park, Texas refinery, Valero Energy's 83,000 bpd Houston refinery and its 210,000 bpd Texas City, Texas refinery were also unaffected by the halt in ship movement.

The MMS reported that a total of 362,796 bpd or 24.2% of crude production remained shut in the Gulf of Mexico following the hurricanes in 2005. It is down slightly from 364,195 bpd reported on February 8.

The March loading program for North Sea Gullfaks crude scheduled a total of 11.12 million barrels, up from 10.26 million barrels in February.

According to the Aberdeen Petroleum Report, the UK's oil production in December increased by 6.7% on the month to 1.581 million bpd.

A senior Iraqi oil ministry official said Iraq's southern oil exports averaged 1.5 million bpd in the first three weeks of February. Iraq's southern crude oil production stood at 1.75 million bpd while total crude production from northern and southern fields remained at about 2 million bpd. The oil ministry's efforts to repair damaged infrastructure and build production to targeted levels have been put on hold as the country waits for a new government and the appointment of an oil minister.

Ecuador's OCP pipeline suspended operations on Tuesday after dozens of protestors from Napo provinces took over the Sardinas station. The OCP transports about 130,000 bpd. A company spokeswoman did not rule out the possibility that OCP could declare a force majeure on its crude oil exports. The protestors demanding a larger share of Ecuador's oil wealth were holding 24 workers hostage on Wednesday. Ecuador's President Alfredo Palacio declared a state of emergency in Napo province. Extraordinary power has been given to the army to restore order.

Nigeria's central bank reported that the country's oil production, including condensates and natural gas liquid increased to 2.47 million bpd in December, up from a revised figure of 2.33 million bpd in November.

Venezuela is seeking to optimize heavy oil operations and has asked Chevron Corp to increase its heavy crude production by 16.6% under a plan to pay for royalties with crude instead of cash.

The Petroleum Association of Japan reported that the country's commercial crude oil inventories increased by about 7% in the week ending February 18 to 15.04 million kiloliters. Lower refinery operations due to a partial outage at its refinery in Hokkaido have increased stocks, which fell below 14 million kl two weeks ago, their lowest level since 1972. Crude inventories remain 21.4% less than a year ago and well below the five year end of February average of 17.35 million kl. Japanese refiners operated at about 91.9% of capacity in the week ending February 18, down from 92% the previous week.

China's Sinochem Corp imported 15.99 million tons of crude oil in 2005, up 28.42% on the year. It also imported 3.2 million tons of fuel oil in 2005. China's crude oil imports in 2005 totaled 126.8 million tons, up 3.2%. Separately, China's State Information Center stated that China's crude oil production is expected to increase by 3.3% in 2006.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$56.07/barrel on Tuesday, up from \$55.46/barrel on Monday.

Market Commentary

The oil market opened 79 cents lower at 61.95 as it gave up some of its sharp gains as geopolitical worries eased. The market was pressured amid reports that the Niger Delta's governor said the hostages held by militants in Nigeria would soon be released. The market was also pressured amid the expectations of builds in crude and gasoline stocks. The oil market posted a high of 62.12 and quickly gave up its gains. It backfilled its previous gap and retraced more than 62% of its from a low of 59.20 to its high of 62.95 as it sold off sharply to a low of 60.52 late in the session. The crude market however bounced off its low and traded above the 61.00 level ahead of the close. It settled down \$1.73 at 61.01. Volume in the crude market was good with 234,000 lots booked on the day. The gasoline market settled down just 12 points at 147.45 amid the selling of the Mar/Apr gasoline spread. The gasoline market gapped lower from 144.50 to 144.00 and quickly backfilled its opening gap as it traded to 145.00. The market however posted a low of 143.30 and settled in a sideways trading pattern before some good selling of the Mar/Apr spread pushed the March contract higher ahead of the close. Meanwhile, the heating oil market settled down 1.43 cents at 165.21. The market erased its recent gains as it gapped lower on the opening from 166.00 to 165.25. The market backfilled its gap as it posted a high of 166.00 before some further selling pressure pushed the market to a low of 164.00. It however bounced off its low ahead of the close retraced some of its losses. Volumes in the product markets were good with 53,000 lots booked in the gasoline market and 52,000 lots booked in the heating oil market. Volume in the RBOB contract stood at 1,354 contracts, of which 1,344 contracts

traded via spreads.

The oil market on Thursday will be driven by the weekly petroleum stock reports. The reports are expected to show

Technical Analysis		
	Levels	Explanation
CL 61.01, down \$1.73	Resistance 62.95, 63.95 61.50, 62.12	Previous highs Wednesday's high
	Support 60.52 to 60.50 59.30, 59.20	Remaining gap (February 17th) Previous lows
	Resistance 169.00, 169.80, 170.90 166.00, 169.00	Previous highs Wednesday's high
HO 165.21, down 1.43 cents	Support 165.00, 164.00 159.70	Wednesday's low Previous low
	Resistance 153.00, 156.50, 158.80 147.80	Previous highs Wednesday's high
HU 147.45, down 12 points	Support 146.00, 144.00 143.40, 138.50	Wednesday's low, Previous low

builds of almost 1 million barrels in each crude stocks and gasoline stocks and draws of about 1.5 million barrels in distillate stocks. The market will remain pressured if the reports continue to show builds in inventories. Technically, the market is seen finding support at 60.52-60.50 followed by 59.30 and 59.20. Meanwhile resistance is seen at 61.50 and its high of 62.12. More distant resistance is seen at 62.95 and 63.95.