



ENERGY RISK MANAGEMENT

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According to a report by the UN's IAEA, Iran is proceeding with its nuclear enrichment by feeding uranium gas into centrifuge cascades. Iran says its plans are peaceful but the IAEA's chief inspector Mohamed ElBaradei said he could not be sure. He said it was regrettable that questions over its nuclear program remained unanswered after three years of intensive agency verification. He said to clarify the uncertainties, Iran's full transparency was still essential. Meanwhile, Iran's Foreign Minister Manouchehr Mottaki said Iran was determined to pursue enrichment. He said Iran would continue with its uranium enrichment even if it accepted a Russian offer for a joint enrichment venture. However he said he hoped continuing talks with Russia on a proposal that Iran conduct nuclear fuel enrichment in Russia would ease international concerns over its nuclear ambitions. An Iranian delegation headed by senior security official Ali Hoseyni-Tash is due to arrive in Russia on Tuesday to resume weekend talks on the joint venture in Russia.

Market Watch

While US gasoline prices increase further this summer, Congress seems unlikely to lift import duties on ethanol to meet a domestic shortfall in the fuel additive due to opposition from US producers and farmers. US oil refineries will need more ethanol to mix with their gasoline and they stop using the fuel additive, MTBE. Current US ethanol production averages 275,000 bpd while the EIA says another 130,000 bpd of ethanol may be needed to replace MTBE. The US is expected to allow 24 Caribbean basin countries to ship up to 269 million gallons to the US market this year duty free. However ethanol exports from the region are expected to fall short at only 80 million gallons. As a result US refineries are expected to rely on more ethanol shipments from Brazil, which are expected to increase from 60 million to 70 million gallons this year.

Connecticut's Department of Social Services started notifying nonprofit agencies that they have permission to supply low income residents with discounted heating oil from Venezuela. Attorney General Richard Blumenthal ruled that the Venezuela oil program is legal.

Saudi Arabia's Interior Ministry said four of five militants killed by Saudi security forces were on the most wanted list of al Qaeda linked suspects. It said that two of the men participated in the attack on the Abqaiq oil facility last week. Tuesday's statement means that almost all of the suspects on a list of 36 issued last year have been killed or arrested.

The US Supreme Court ruled that Shell Oil Co and Texaco Inc cannot be held liable under the antitrust law for their now defunct joint ventures. The justices unanimously overturned a US appeals court ruling that the antitrust law's automatic prohibition against price fixing applied to the economic arrangements under the two joint ventures that were discontinued in 2001. The ruling stemmed from a lawsuit brought by 23,000 gas station owners who alleged the two companies conspired to fix prices for their gasoline brands through the joint ventures.

The Commerce Department said the US economy grew at an annual rate of 1.6% in the fourth quarter. The increase in GDP compares with a 1.1% rate reported on January 27 and a 4.1% rate in the third quarter. For all of last year, the economy grew 3.5% compared with 4.2% in 2004. According to a survey by the National Association for Business Economics, the economy will expand at an annual rate of 4.5% from January through March.

Separately, Russia's Vladimir Putin stated later that Iran was expected to agree soon to enrich its uranium in Russia.

OPEC's President, Edmund Daukoru, is scheduled to meet with US Energy Secretary Sam Bodman on Wednesday to discuss world energy security issues ahead of the OPEC meeting on March 8th. They are expected to discuss the importance of suppliers meeting ongoing demand and a range of other issues.

Algeria's Energy and Mines Minister Chakib Khelil reiterated that OPEC should leave its output unchanged at its next ministerial meeting.

Refinery News

ExxonMobil restarted a vacuum distillation unit at its 240,000 bpd Port Jerome refinery in France on Sunday. The refinery's other vacuum distillation unit and the rest of the plant was not affected by the fire at the unit on February 6.

Chevron's 112,000 bpd refinery in Cape Town was shut on Tuesday following a power outage. Chevron expects to restart the refinery as soon as power supply has stabilized. It is likely to restart on Thursday.

Nippon Oil Corp is expected to refine 17% more crude oil in March than in February. It is scheduled to refine 5.5 million kiloliters or 1.116 million bpd of crude oil March compared with estimated February crude refining volume of 4.7 million kl or 1.056 million bpd.

Production News

Chevron has cut 13,000 bpd of oil production in Nigeria due to a pipeline leak. It has shut in the Makaraba pipeline and suspended production at the Makaraba flow station.

Nigerian authorities have approached Western governments about providing defense equipment to help protect its oil producing delta region from militant attacks. However western partners would like Nigeria to do more first to reduce corruption and improve government in the southern Niger Delta where ethnic militants have recently stepped up attacks on oil installations and kidnappings of oil workers. Meanwhile, Nigeria's vice president Atiku Abubakar claimed the US is too slow to supply the military supplies need to protect the country's oil assets against rebel attacks. Military analyst said Nigeria needs 200 boats to guard the Niger Delta from attacks on oil facilities and abductions of foreign oil workers.

An Iraqi Oil Ministry official said Iraq's crude oil exports in February increased by 420,000 bpd on the month to 1.43 million bpd due to improved weather in the Persian Gulf. Iraq's SOMO is expected to defer 8 million barrels of crude loadings to March from February. The barrels would come in addition to the 43 million barrels already scheduled to load in the March program.

The managing director of the Saudi National Security Assessment Project said Saudi Arabia is expected to decide soon whether to proceed with plans to increase capacity at its oilfields beyond the 2009 target of 12.5 million bpd. Saudi Arabia is on track to add 2.3 million bpd by August 2009, about 800,000 bpd of which would be used to offset natural declines. Saudi Arabia has fast tracked oilfield expansion plans to increase its output capacity to 12.5 million bpd by 2009 to maintain spare capacity and meet increasing world demand. Beyond 2009, Saudi Arabia plans an increase of 1.35 million bpd to bring sustainable capacity to 13.05 million bpd by 2013.

Russia's oil production is still down at about 9.47 million bpd due to extreme cold in February. It is well below December's record of 9.65 million bpd.

Russian gas oil exports out of the Russian Black Sea port of Tuapse were expected to fall in March. Shipments out of the port were set to fall to 340,000 tons in March, down from 90,000 tons from the previous month.

According to Japan's Ministry of Economy, Trade and Industry, Japan's oil inventories fell to 15.13 million kl at the end of January, down 18.2% year on year. Refiners operated facilities at an average of 93.9% of capacity in January. Japan's January crude imports fell by 1.3% from a year earlier to 21.38 million kl or 4.34 million bpd. The ministry reported that shipments of direct burning crude oil to electricity producers doubled to 1.06 million kl or 215,000 bpd in January to meet strong power demand. Japan's kerosene inventories fell by 11% to 2.9 million kl.

China's National Bureau of Statistics said the country's energy consumption increased by 9.5% last year. China used the equivalent of 2.22 billion tons of coal in 2005 to power a 9.9% increase in the size of the economy. It said crude oil consumption grew by 2.1% to 300 million tons.

China's government is considering a plan by southern Guangdong province to build a new national oil reserve base in addition to others being constructed elsewhere in the country. It has been assessing a plan to ease energy shortages in Guangdong, which consumes about one third of the country's annual oil imports.

Pemex produced 3.372 million bpd of crude oil in January, down from December's 3.388 million bpd level. It exported 2.052 million bpd in January compared with 1.848 million bpd in December.

Egyptian authorities blocked six ships from entering the Suez Canal on Tuesday due to an oil spill. About 3,000 tons of oil spilled into the canal on Monday when a vessel ran aground and hit the western bank of the canal.

Supplies of Russian gas to Italy are expected to be 14.2% short of demand on Tuesday following a shortfall of 9.5% on Monday.

OPEC's news agency reported that OPEC's basket of crudes increased by \$0.14/barrel to \$56.38/barrel on Monday.

The Nigerian National Petroleum Corp raised the official selling price for all its grades of crude for March loading. It increased the price of Bonny Light and Qua lboe by 25 cents to the dated Brent-Forties-Oseberg crude plus \$1.05. Its Escravos crude was increased by 15 cents to dated BFO plus 65 cents while its Forcados crude was increased by dated BFO plus \$1.05.

Market Commentary

The crude market recovered from its earlier losses amid the strength in the product markets ahead of their expiration at the close. The oil market gapped lower from 60.85 to 60.58 and continued to trade lower as it traded to a low of 60.30. The market however bounced off its low as it failed to test its support at the 60.00 level. It rallied to 61.50 and held some resistance at that level before further buying pushed the market to a high of 61.80 ahead of the close. It settled up 41 cents at 61.41. Volume in the crude market was better today with over 247,000 lots booked on the day. The product markets settled higher with the heating oil market settling up 2.94 cents at 171.20 and the gasoline market settling up 3.06 cents at 155.56. The heating oil market opened lower and posted a low of 167.00 as it continued to retrace some of its previous gains. However the market quickly bounced off

its low and traded higher throughout the session. The market rallied to a high of 172.00 ahead of the close as traders liquidated their March positions. The April heating oil contract also rallied from a low of 168.00 to a high of 173.40 ahead of the close. It settled up 2.60 cents at 172.24. Meanwhile, the gasoline market opened at its intraday low of 151.50 and quickly rallied to a high of 155.80, where it held good resistance. The market traded mostly sideways before further buying ahead of the close pushed it to a high of 158.50. It later retraced some of its gains on the close. The April gasoline market rallied from a low of 154.70 on the opening to a high of 160.00 ahead of the close. It settled up 4.07 cents at 159.07. Volumes in the product markets were excellent with over 64,000 lots booked in the heating oil market and 60,000 lots booked in the gasoline market.

The oil market on Wednesday will be driven by the weekly petroleum stock reports which are expected to show builds in crude stocks of up to 1.2 million barrels. Meanwhile

| Technical Analysis | | |
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| | Levels | Explanation |
| CL 61.41, up 41 cents | Resistance 62.10, 63.25 61.80 | Monday's high, Previous high Tuesday's high |
| | Support 60.75, 60.30 59.70, 59.30 and 59.20 | Tuesday's low Previous lows |
| HO 172.24, up 2.60 cents | Resistance 175.05, 178.25 to 179.25 173.40 | Previous high, Remaining gap (February 7th) Tuesday's high |
| | Support 171.00, 170.50 168.00, 165.80 | Tuesday's low, Previous low |
| HU 159.07, up 4.07 cents | Resistance 161.50, 165.00 160.00 | Previous highs Tuesday's high |
| | Support 156.00, 154.70 152.60, 152.25, 150.00 | Tuesday's low Previous lows |

distillate stocks are expected to fall by 1.3 million barrels while gasoline stocks are expected to remain relatively unchanged. The market may remain rangebound if the reports do not show any surprises. The market is seen holding support at 60.75, 60.30, 59.70, 59.30 and 59.20. Meanwhile resistance is seen at 61.80, 62.10 and 63.25.