



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 2, 2006

EU members said they had agreed to last minute talks with Iran on Friday ahead of the IAEA meeting on March 6. However British, French and German diplomats held out little hope of a breakthrough in their talks, noting Iran was accelerating uranium enrichment work. This followed the talks between Iran and Russia on the proposal to enrich uranium in Russia, which ended inconclusively. Iran's chief negotiator, Ali Larijani, said insisted on the right to enrich uranium in the country. He said it was a sovereign right of any country. Meanwhile, Iran's President Mahmoud Ahmadinejad said Iran would continue its nuclear activities under the supervision of the UN's IAEA. He said Iran would not negotiate its inalienable rights to have a nuclear program.

According to a document written by a prominent ideologue of al Qaeda, the terrorist group has advised followers to attack pipelines in Saudi Arabia and Iraq. However it said oil wells should be avoided because an attack on them would cause economic and environmental damage to the people of the country. The manifesto said disrupting oil supplies was the best way to hurt the US economy and destabilize the Saudi royal family. Al Qaeda claimed the foiled suicide

Market Watch

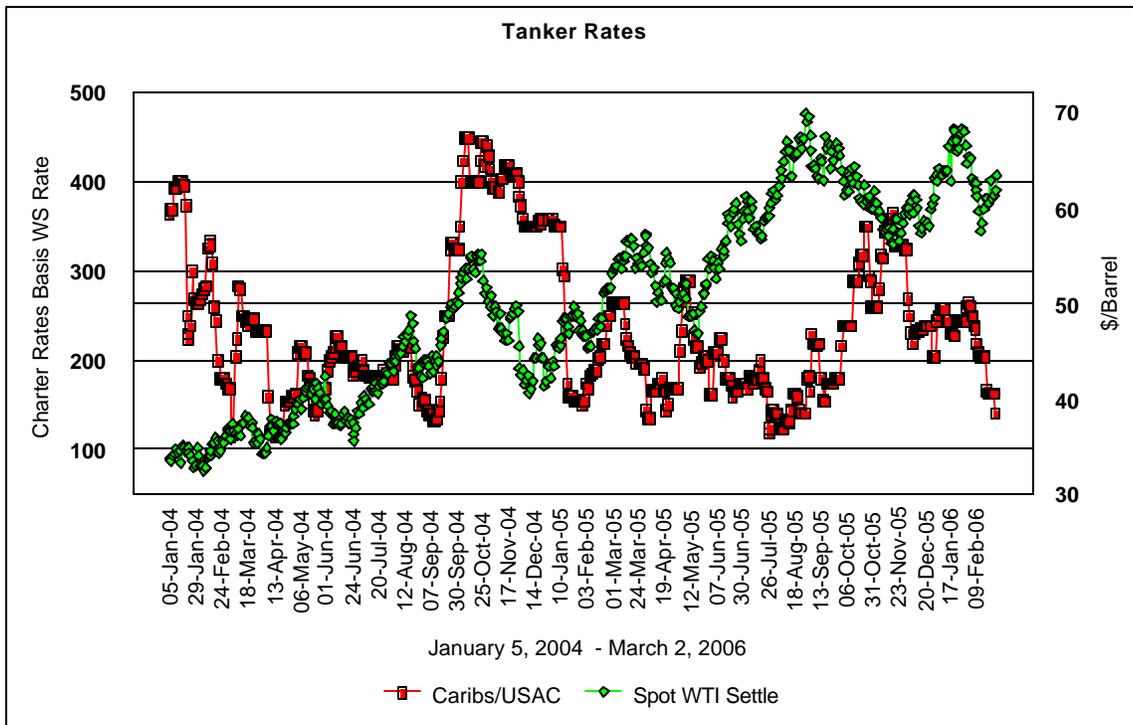
Platts reported that Kinder Morgan would still phase out the gasoline additive MTBE from its East Coast Plantation Pipeline despite Colonial Pipeline's announcement last week it had changed its decision of banning the additive. Its East Coast Plantation system plans to halt MTBE movement in mid-April for Virginia shipments after banning the additive for deliveries in Kentucky in December.

Russia's prosecutor general has opened a criminal case against the UK based Russian tycoon Boris Berezovsky, accusing him of a coup plot. Russia has sent an extradition request to the British government. The Russian tycoon said he wanted to replace what he called the anti-constitutional regime of President Vladimir Putin. On Tuesday, the UK's Foreign Secretary, Jack Staw warned him that his refugee status could be reviewed in light of his call to overthrow President Putin.

Venezuela's Oil Minister Rafael Ramirez said that companies operating four heavy oil upgraders in the Orinoco region should increase its output, enabling them to pay royalties with crude. He also dismissed the argument that the companies need a larger area so they can increase production.

Separately, Venezuela's Oil Minister Rafael Ramirez, said the joint venture proposal would be turned over to Congress for discussion before March 6. President Hugo Chavez has asked all companies that have 32 operating agreements to migrate their deals into joint ventures with PDVSA. The country's Oil Minister said the 32 operating agreements would become joint ventures next month.

Citgo has notified the US Securities and Exchange Commission it will stop filing reports with the agency. The notice, which terminates its SEC registration or suspends duty to file reports, was handed in at the end of last month after PDVSA's President Rafael Ramirez announced the company planned to stop registering its financial reports in the US.



attack on a Saudi oil facility last week and vowed more attacks in response to a call by Osama bin Laden to target oil installations

OPEC's President Edmund Daukoru said US President George W.

Bush's call to cut US imports of Mideast oil put OPEC in a bind. However he stated that OPEC would continue supplying the US. On Wednesday, OPEC's President also stated that it was too early to tell whether OPEC would cut production at its meeting next week. He also stated that his visit to the US this week was intended to stress the need for investment in Nigeria's oil industry to help it deal with the problems that have cut almost 20% of its daily crude oil production. Separately, OPEC's President said he did not believe the possible re-election of Nigeria's President Olesegun Obasanjo would lead to more disruption of the country's oil supplies. Earlier in the week, National Intelligence Director John Negroponte warned of possible conflict and interruptions in oil supplies in Nigeria if Obasanjo tried to change the constitution so he could seek a third term in office.

Venezuela's Energy Minister Rafael Ramirez said OPEC should consider a possible oil production cut of between 500,000 bpd and 1 million bpd.

US Energy Secretary Samuel Bodman said he hopes OPEC will decide to maintain its output at its meeting on March 8. He said he did not seek a commitment on what OPEC would do at its meeting from OPEC's President Edmund Daukoru.

Security sources said guards with Iraq's oil protection service killed one man and detained three others as they attempted to plant bombs under a pipeline west of Karbala. The pipeline carries crude from the Kirkuk oilfield to Basra. Separately, Iraqi authorities captured a Saudi man who confessed to taking part in last week's suspected al Qaeda attack on Saudi Arabia's Abqaiq oil facility.

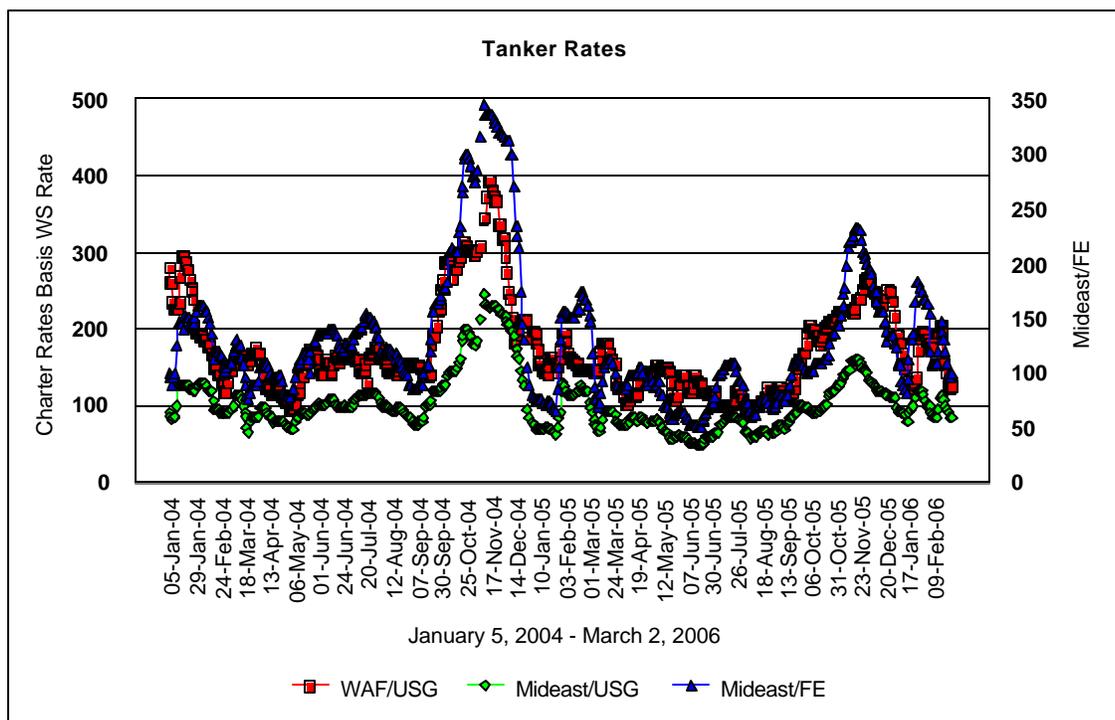
Jordan claimed to have foiled an al Qaeda linked suicide attack on a vital civilian installation. A security official said a Libyan and two Iraqis were arrested while authorities were tracking down a Saudi national and three Iraqis who took part in the plot. The militants had planned to blow up a major power plant that feeds the entire country.

According to Oil Movements, OPEC's oil exports in the four weeks ending March 18 fell by 140,000 bpd to 25 million bpd.

Refinery News

Valero Energy Corp was reportedly buying spot gasoline on Thursday for its 140,000 bpd refinery in Wilmington, California due to an undisclosed malfunction. However Valero later said it had no problems at its refinery.

Murphy Oil Corp is on track for an early April restart of its 120,000 bpd Meraux, Louisiana refinery.



Western Refining increased its crude capacity at its El Paso, Texas refinery during 2005 from 108,000 bpd to 113,000 bpd. It plans to add an additional 7,000 bpd of crude capacity in 2007, expanding the refinery's capacity to 120,000 bpd.

Russia's 78,000 bpd Tuapse refinery on the Black Sea plans to shut one of three crude distillation units for maintenance at the end of March or in early April.

Production News

Nigerian militants released six of nine hostages on Wednesday. However they warned that they would step up attacks aimed at shutting in the country's oil industry. The militants said they would not hand over the remaining hostages until two ethnic Ijaw leaders were freed from jail and Shell paid compensation to polluted villages.

The Food and Agricultural Policy Research Institute estimated that US ethanol plants would distill 4.589 billion gallons of ethanol in 2006. It forecast that ethanol production is expected to reach 5.217 billion gallons in 2007. The Renewable Fuels Association said the industry produced 3.904 billion gallons of ethanol last year.

Separately, the EPA is proposing to allow corn milling facilities that make ethanol to emit more emissions before certain clean air rules are triggered. The EPA wants to treat the different ethanol producing plants the same when it comes to air pollution. Corn milling facilities that make ethanol for human consumption can emit up to 250 tons of emissions/year before clear air rules are triggered. The threshold for plants that make ethanol for fuel is much lower, at 100 tons a year.

An analyst reported that gas oil stocks held in the independent storage tanks in the Amsterdam-Rotterdam-Antwerp area fell by 130,000 tons to 1.8 million tons in the week ending March 2. Gasoline stocks held in storage tanks in the ARA area fell by 25,000 tons to 870,000 tons, while fuel oil stocks increased by 15,000 tons to 470,000 tons. Its naphtha stocks increased by 10,000 tons to 75,000 tons while jet fuel stocks increased by 85,000 tons to 435,000 tons on the week.

Russia's average crude oil production in February was relatively unchanged on the month at about 9.46 million bpd. Exports of Russian crude totaled 18.656 million tons or 4.88 million bpd. It is up from 4.01 million bpd reported in January and 4.88 million bpd reported last year. Meanwhile Russia's seaborne oil exports supplied to ports by Transneft increased to 10.313 million tons in February or 2.7 million bpd. It is up 8.9% on the month. Russian oil companies exported 581,700 tons of oil in February via the Caspian Pipeline Consortium.

Former Soviet Union gas oil exports from Baltic and Black Sea ports stood at 2.46 million tons in February.

Oil product exports from Azerbaijan increased to 471,921 tons in January-February from 174,771 tons a year earlier.

Singapore International Enterprise reported that the country's residual fuel stocks fell by 1.325 million barrels to 12.029 million barrels in the week ending March 1. Its light distillate stocks fell by 558,000 barrels to 9.059 million barrels while middle distillate stocks fell by 286,000 barrels to 7.277 million barrels on the week.

OPEC's news agency reported that OPEC's basket of crudes increased by \$1.12/barrel to \$57.13/barrel on Wednesday, up from \$56.01/barrel on Tuesday.

Italy's Eni SpA said it expected supplies of gas from Russia to fall 9.5% below requested volumes in the 24 hour period on Friday amid severe winter weather. It also stated that supplies were also 9% below requested volumes on Thursday.

Market Commentary

The oil market gapped slightly higher from 62.35 to 62.40 as it continued to trend higher. The market was well supported by the prospect of further supply disruptions in Nigeria after militants threatened new attacks. The market was also supported amid the continuing situation in Iran over its nuclear program and reports that

al Qaeda has vowed more attacks on oil facilities in Saudi Arabia. The market quickly backfilled its opening gap as it traded to 62.35. However the

Technical Analysis		
	Levels	Explanation
CL	Resistance 63.36, up \$1.39	63.95, 64.49, 64.60 63.50
	Support	63.00, 62.50 62.35, 61.50
HO	Resistance 180.49, up 5.83 cents	184.00, 184.80 180.80
	Support	178.00 175.70, 172.75
HU	Resistance 169.25, up 7.01 cents	172.50, 174.75, 175.50 169.70
	Support	168.50, 168.50 164.25 to 163.40

Previous high, 50% (69.78 and 59.20), Previous high Thursday's high

Thursday's low, Previous low

Previous highs Thursday's high

Thursday's low, Previous low

Previous high, 50% (199.50 and 150.00), Previous high Thursday's high

Gap (March 2nd)

market bounced off its low and rallied above the 63.00 level before it gave up some of its gains and settled in a sideways trading range. The market, which failed to test its support rallied once again and traded to a high of 63.50 ahead of the close. The market settled in higher for the third consecutive session at 63.36, up \$1.39. Volume in the crude market was good with over 201,000 lots booked on the day. Similarly, the gasoline market gapped higher from 163.40 to 164.25 and continued to trend higher throughout the session amid some reports of a problem at Valero's 140,000 bpd Wilmington, California refinery. Even though Valero later stated that there was no problem at its refinery, the market continued to rally. The market extended its gains to over 7.4 cents as it traded to a high of 169.70 ahead of the close. It settled up 7.01 cents at 169.25. The heating oil market also settled up 5.83 cents at 180.49. The market posted its low of 175.70 early in the session and rallied to a high of 178.00 where it held some resistance. However the market later breached that level and rallied to a high of 180.80 ahead of the close amid the strength in the rest of the oil complex. Volumes in the product markets were good with 45,000 lots booked in the gasoline market and 48,000 lots booked in the heating oil market.

The oil market is seen remaining supported ahead of the weekend amid the renewed threats to oil facilities in Nigeria, concerns over Iran's nuclear program and concerns over terrorist strikes on oil facilities in Saudi Arabia. Technically the market, which settled near its high, is also seen trading higher as its stochastics still have room to the upside. The market is seen finding support at 63.00 followed by 62.50, 62.35 and 61.50. Meanwhile resistance is seen at 63.50 followed by 63.95, 64.49 and 64.60.