



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MARCH 9, 2006**

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Iran rejected the decision made by the UN's IAEA to refer its nuclear program file to the UN Security Council. Iran's President Mahmoud Ahmadinejad said Iran would not accept coercion and unjust decisions by international organizations. Iran's Supreme Leader Ayatollah Ali Khamenei also urged officials not to give in to western pressure. On Wednesday, the IAEA board concluded a three day meeting on Iran's nuclear program, formally opening the path to Security Council action. Meanwhile, Russia's Foreign Minister Sergey Lavrov criticized efforts to bring Iran and its nuclear program before the UN Security Council. Iran stated that while it would not use oil as a weapon at this time, it would review its oil policies if the situation changed. The US ambassador to the UN, Gregory Schulte, said the US was seeking "a considered and incremental" approach. US Secretary of

State Condoleezza Rice said Iran may be the biggest challenge to US policy in the Middle East. Meanwhile, the five permanent members of the UN Security Council weighed proposals for an initial response to the Iran nuclear crisis. The US urged the other members to consider targeted sanctions. However Russia and China are opposed to sanctions and would most likely block any effort for the Security Council to impose such measures.

#### Market Watch

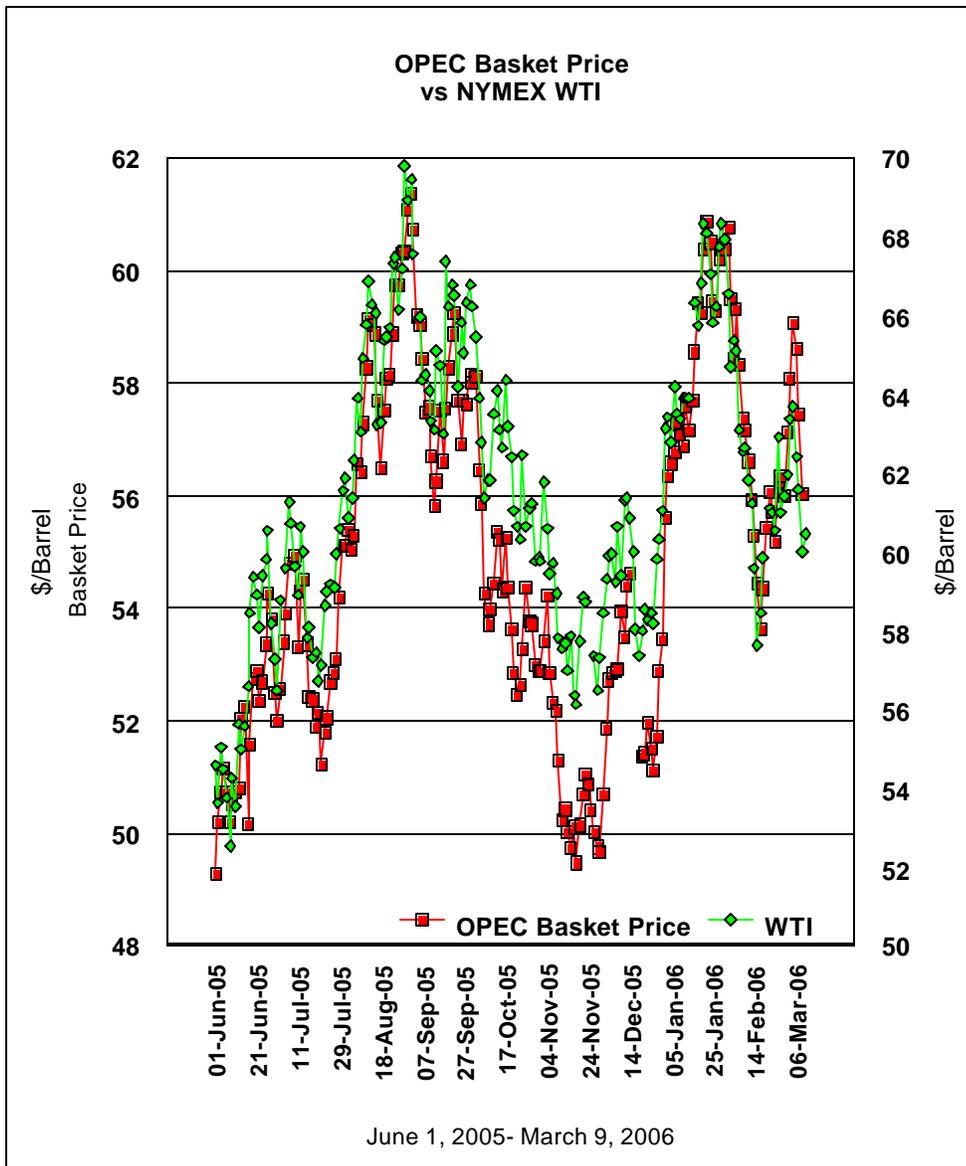
The director general of economics and marketing for Iraq's SOMO, Shamkhi Faraj, said both the country and its oil industry would need years to recover from current turmoil. Fuel shortages this year would add to growing frustration among Iraqis. He said there will be a gasoline and gas oil shortage and added that it does not have much money available for imports. Iraq has set aside \$2.4 billion in its budget to import oil products in 2006, down from its \$4 billion import bill last year.

Separately, US Secretary of State Condoleezza Rice said the US hopes Iraq would be able to produce 2.8 million bpd of oil and export 2.2 million bpd by the end of the year.

A former Iraqi ambassador to the UN, Mohamed Aldouri, said Iraq was headed for civil war and blamed the occupation forces for the sectarian violence. He said the occupation forces were acting as a magnet for extremists bent on preventing Iraq from developing into a full democracy.

The NYMEX is expected to end floor trading in London energy futures within weeks and shift over to electronic trading. The NYMEX has started the process of seeking final approval from regulators and its board of directors to abandon floor trading in its Brent contract.

The Washington Times reported that the US and Israel are concerned that Saudi Arabia may be breaking the promise it made last year when it entered the World Trade Organization by hosting a meeting next week on the Arab economic boycott of Israel. Saudi Arabia promised not to seek an exemption for Israel from WTO requirements to treat all members equally.



The Washington Times reported that the Movement for the Emancipation of the Niger Delta warned that foreign oil workers must leave the Niger Delta or risk being killed. The militants have stated that they are fighting for justice and economic development. The militant group holding three foreign oil workers hostages said it clashed with army troops in the Niger Delta as they attempted to capture a fuel tanker. A military spokesman confirmed an exchange of fire Wednesday with armed men on the Escravos River. Separately, Ijaw militants warned that they would wage a consistent and intensified mass campaign against Mobil Producing Nigeria Unlimited, a unit of ExxonMobil Corp until the company pays compensation for an oil spill caused by its

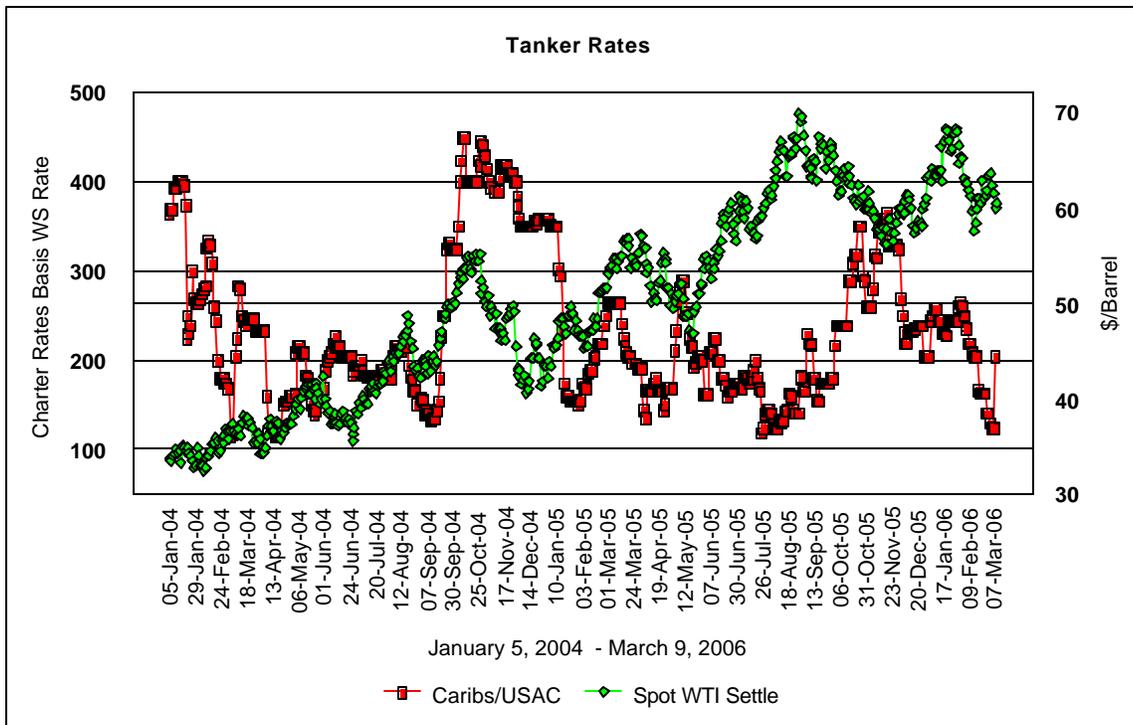
operations in January 1998. It presented the company with an ultimatum giving it 21 days to pay compensation for the oil spill.

US Energy Secretary Sam Bodman welcomed the decision by OPEC to leave its production levels unchanged. He said OPEC decision was a reflection of conversations he had with both OPEC and non-OPEC oil producers that the world needs more crude supplies. Separately, Venezuela's Energy Minister Rafael Ramirez said oil market fundamentals showed the need for an OPEC production cut.

According to Oil Movements, OPEC's oil exports are expected to fall by 550,000 bpd to 24.75 million bpd in the four weeks ending March 25. It said the first two months, some 20 million extra barrels flowed to western refiners.

Iraq halted exports from its southern Basra oil terminal earlier on Thursday due to strong winds.

**Refinery News**



Alon USA Energy Inc plans to perform maintenance on several units at its 70,000 bpd refinery in Big Spring, Texas from April 21 to May 10. During the maintenance period, crude runs would be cut to between 40,000-

42,000 bpd from its normal rate of 70,000 bpd. Gasoline production would be 9,000 bpd for the first ten days of work. Its production would increase to 21,000-25,000 bpd in the beginning of May and reaching 50,000 bpd by May 10.

ExxonMobil Corp's 149,000 bpd crude unit at its 155,000 bpd Torrance, California refinery is expected to begin its restart on March 17. The crude unit and four other units have been out of service following a fire on February 12. Also a lack of feedstock has forced it to shut a 25,000 bpd delayed coker while a 27,000 bpd delayed coker is operating at minimum rates.

### **Production News**

According to Euroilstock, total oil and product stocks fell by 9.8 million barrels or 0.8% on the month to 1.144 billion barrels in February. It reported that crude stocks fell by 1.24 million barrels or 0.3% on the month to 480.12 million barrels while its gasoline stocks increased by 940,000 barrels to 146.97 million barrels. Middle distillate stocks fell by 6.22 million barrels to 382.43 million barrels in February, while fuel oil stocks fell by 4.16 million barrels to 108.68 million barrels on the month. Euroilstock reported that capacity utilization increased to 93.79% on the month.

Petroecuador could take at least two months to restore its production to its normal level of 200,000 bpd after production was cut due to a strike. It said its production increased to 110,000 bpd on Thursday after troops and technicians moved to clear out oil installations and wells affected by the shutdown. A unit of Petroecuador, Petroproduccion, has told its outsourced companies to return to work by Friday or they would have their contracts terminated. About 5,000 contracted workers walked out on Monday demanding payment of salaries. Petroecuador owes the contracted companies about \$150 million. Meanwhile, the workers said they would remain on strike until their demands were met.

The North Sea Ekofisk crude system is scheduled to load 577,000 bpd in April, up from 561,000 bpd in March. Meanwhile the Oseberg crude system is scheduled to load 7.45 million barrels in April, down from 8.33 million barrels in March.

The Norwegian Petroleum Directorate reported that Norway's oil production fell to 2.46 million bpd in February from 2.49 million bpd in January.

Russia's federal customs service stated that Russia's oil products exports increased by 21.8% in January to 7.04 million tons amid high customs duties on crude exports. It stated that out of the total, 6.73 million tons was exported to non-CIS countries, up 15% on the year.

Azerbaijan's crude oil production in January-February stood at 4.43 million tons or 550,000 bpd, up 70% on the year from 2.6 million tons last year. The BP-led group said its output from the Chirag and Azeri oilfield increased to 2.97 million tons or 369,000 bpd in January-February 2006 compared with 1.15 million tons last year. Azerbaijan's Socar said its output was relatively unchanged at 1.46 million tons. Azerbaijan exported 2.7 million tons of oil in January-February, up from 1.4 million tons reported last year. Its exports of oil products increased to 472,000 tons from 175,000 tons during the previous year.

Singapore's International Enterprise said the country's residual fuel stocks fell by 196,000 barrels to 11.833 million barrels in the week ending March 8. It reported that middle distillate stocks fell by 343,000 barrels to 6.934 million barrels while light distillate stocks fell by 59,000 barrels to 9 million barrels on the week.

Indonesia purchased 600,000 barrels of crude oil in its May tender, down 1 million barrels from April and more than 4.5 million barrels lower than March.

A pipeline ruptured in a central Russian region, spilling about 210,000 gallons of crude. Russia's Emergency Situations Ministry stated that the break, along a section of the Nizhnevartovsk-Kurgan-Kuibyshev pipeline, occurred on Wednesday afternoon in the Bashkirya region.

Russia's Supreme Court rejected an appeal against the route of a Siberian oil pipeline. The court ruled that a government decision last December authorizing the construction of the pipeline was legitimate. The pipeline is expected to run to Russia's Pacific Coast, allowing increased oil exports to China, Japan and South Korea.

OPEC's news agency reported that OPEC's basket of crudes fell to \$56.04/barrel on Wednesday, down from \$57.47/barrel on Tuesday.

Ecuador's central bank reported that the country's oil export revenues totaled \$585.07 million in January, up from \$327.38 million in 2005. In terms of volume, Ecuador exported 12.53 million barrels in January, up from 11.27 million barrels reported last year.

### **Market Commentary**

The energy complex ended in positive territory as the gasoline market led the complex higher. The oil market posted an inside trading day after it failed to breach Wednesday's trading range. It settled up 45 cents at 60.47 in light of the ongoing crisis over Iran's nuclear program and the reports of renewed turmoil in Nigeria. The crude market opened 53 cents higher at 60.55 and traded to 60.65 early in the session before it sold off to a low of 59.55. The market however bounced off its low and rallied to a high of 60.90 amid the fresh violence in Nigeria, dampening hopes that Nigeria's production could return to normal levels. Volume in the crude market good with over 255,000 lots booked on the day. Meanwhile the gasoline market settled up 6.99 cents at 172.01 after it gapped higher from 165.40 to 168.25 on the opening. It partially backfilled its gap as it traded to a low of 167.00. However the market bounced off its low and never looked back. The market extended its gains to over 7.4 cents as it rallied to a high of 172.50 on the close. The heating oil market opened about 2 cents higher at

171.50 and traded to 172.70 early in the session. It later gave up some of its gains and posted a low of 169.50. However the market retraced its losses and rallied to a high of 173.30 ahead of the close amid the strength in the gasoline market. Volumes in the product markets were good with over 63,000 lots booked in each the gasoline and heating oil market.

The oil market, which held its support, is seen trading higher ahead of the weekend amid the continuing geopolitical issues. If the market does retrace some of its gains, its losses will be limited amid the ongoing talks over Iran's nuclear program and the continuing violence in Nigeria. The market is seen finding support at 60.10 followed by its low of 59.55. More distant support is seen at 59.25,

59.20 to 59.12, 58.50 and 58.00. Meanwhile resistance is seen at 60.90 followed by 61.25, 62.50 and 63.50.

Technical Analysis		
	Levels	Explanation
<b>CL</b> 60.47, up 45 cents	<b>Resistance</b> 61.25, 62.50, 63.50	Previous highs
	<b>Support</b> 60.90	Thursday's high
	60.10, 59.55	Thursday's low
	59.25, 59.20-59.12, 58.50, 58.00	Previous low, Remaining gap, Previous lows
<b>HO</b> 172.00, up 2.59 cents	<b>Resistance</b> 174.75 to 175.55, 179.50	Remaining gap (March 7th), Previous high
	<b>Support</b> 173.30	Thursday's high
	171.25, 169.50	Thursday's low
	167.00, 165.80, 162.55	Previous lows
<b>HU</b> 172.01, up 6.99 cents	<b>Resistance</b> 174.75, 175.50, 178.90	Previous highs
	<b>Support</b> 172.50	Thursday's high
	170.50, 169.00	
	167.00 to 165.40	Remaining gap (March 9th)