



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 10, 2006

President George W. Bush said Iran was a national security concern but said he sought a diplomatic way to cap its nuclear ambitions. Britain's Prime Minister Tony Blair promised to pursue Iran's case through the Security Council, adding that a failure by Iran to meet its world obligations would lead to a serious situation. Meanwhile, Russia's Foreign Minister Sergey Lavrov called for talks to resolve differences over how to proceed with the Iran nuclear crisis. He said talks should include Russia, the US, China, France, Germany and the UK. However his call for IAEA chief Mohammed ElBaradei to be included as well as Germany, which is not a member of the Security Council, appeared to indicate he meant the talks should take place outside the framework of the Security Council. The five permanent members of the Security Council were scheduled to meet on Friday to discuss a proposed response to the Iranian nuclear crisis. The measures could range from a statement urging compliance to sanctions or even military measures. The Security Council will likely first urge Iran to accept IAEA demands that it halt all uranium enrichment work.

Market Watch

Some industry pundits believe that foreign refiners should be able to fulfill the US demand for gasoline imports this summer despite the change in specifications as MTBE is phased out. However other analysts caution the transition may not be smooth. The API's chief economist, John Felmy, expressed some caution and noted the uncertainty that comes with large fuel specification changes. He said demand would be one of the key factors.

Traders stated that March gasoline exports from northwest Europe to the US may barely increase from 1.3-1.5 million tons in February, when the arbitrage was mostly closed and European barrels diverted to other markets. While spot fixtures have been few early in March, loadings are likely to accelerate at the end of the month as the contango narrows and US refinery maintenance cuts gasoline stocks.

The NYMEX announced that the minimum tick value for its miNY Heating Oil and miNY Unleaded Gasoline contracts will be modified down to \$0.001 or \$21.00 per tick from its current level of \$0.002 or \$42.00 per tick. Also the maximum transaction size for the heating oil and gasoline contracts would fall to 30 contracts per order from 250 contracts. The changes become effective on the opening on Monday, March 13th.

The IEA's executive director Claude Mandil said it would be able to fill a supply gap for several months if Iran decided to halt its exports. He said the IEA's emergency crude stocks could fill the gap left by any cutoff in Iran's exports for as much as 18 months.

Refinery News

Valero Energy Corp's scheduled maintenance at its Texas City, Texas refinery is expected to begin on Friday.

Total Petrochemicals USA plans to perform maintenance work at its 233,000 bpd Port Arthur, Texas refinery in April. On April 5, it plans to shut two units for a catalyst change out and conversion to an ultra low sulfur diesel production.

Total's 227,000 bpd refinery in Leuna, Germany is expected to shut one of two vacuum distillation units for planned maintenance work this June.

South Korea's GS Caltex Corp plans to cut April crude runs by 44,000 bpd on the month to 590,000 bpd. GS Caltex Corp is also expected to shut the 100,000 bpd crude distillation unit at its 650,000 bpd Yosu refinery for about four weeks of routine maintenance starting in mid-April.

Production News

BP reported that a crude leak at its pipeline on Alaska's North Slope spilled between 201,000 and 267,000 gallons of crude oil. The spill took place at a transit line on Alaska's North Slope.

Saudi Arabia's crude oil allocations to refiners in Europe will remain unchanged in April. European companies have been receiving 70% of their contractual volumes since reducing their intake at the beginning of the year.

Petroecuador's output continued to recover on Friday, increasing to 141,000 bpd. It was up 28% from Thursday's level but still down 30% from the normal level of 200,000 bpd. A company official reiterated that resuming normal production could take no less than two months, assuming there are no more attacks on oil facilities and support infrastructure. Separately, Petroecuador said it exported 11.68 million barrels of crude in January-February, up 28% from the 9.13 million barrels reported last year.

The Brent crude system is scheduled to load 7.6 million barrels of crude in April, down from 7.8 million barrels in March.

Norway's Statfjord crude system is scheduled to export 171,000 bpd in April, down from last month's 303,000 bpd due to seasonal maintenance work. Loadings from the Statfjord oilfield will stop from April 1-10 due to pipeline maintenance.

The UK North Sea Forties crude system is scheduled to load 548,000 bpd in April, down 21,000 bpd on the month.

Norway's 300,000 bpd Oseberg oilfield is set to undergo planned maintenance from April 4-6, cutting output during that period. Normal production is expected to resume on April 7. The Oseberg crude stream is expected to load 248,000 bpd in April, down from 269,000 bpd in March due to the maintenance. Meanwhile, the loading plan for Brent, Forties and Oseberg crudes showed loadings of 1.05 million bpd in April, down 40,000 bpd from March.

Norway's Gullfaks stream is scheduled to load 257,000 bpd in April, down from 359,000 bpd in March.

The April loading program for North Sea Flotta crude scheduled a total of 1.95 million barrels, down from 2.6 million barrels in March.

According to an analyst, gas oil stocks held in the Amsterdam-Rotterdam-Antwerp hub fell despite the imports of gas oil from Norway, Saudi Arabia and the Baltic. Stocks of gas oil fell by 75,000 tons to 1.725 million tons in the week ending March 10th. Meanwhile gasoline stocks increased by 20,000 tons to 890,000 tons. Naphtha stocks fell by 5,000 tons to 70,000 tons while fuel oil stocks fell by 90,000 tons to 380,000 tons and jet fuel stocks fell by 20,000 tons to 415,000 tons on the week.

Norsk Hydro ASA said oil production at the Terra Nova oil field offshore Canada would be lower than expected in the first and second quarters. It said the reduced production is due to a delay of production from a new well resulting from an unexpected shutdown and repairs to a generator aboard the production vessel. The work is expected to be completed by the end of the second quarter. Terra Nova's gross production is expected to average about 77,000 bpd in the first quarter of 2006 about 42,000 bpd lower than originally expected. Production during the second quarter is expected to average about 83,000 bpd, down about 32,000 bpd.

Baker Hughes reported that the number of rigs searching for oil and gas in the US increased by 1 to 1,532 in the week ending March 10. It reported that the number of rigs searching for oil in the US increased by 12 to 238.

Brazil's Petrobras said its new P-50 oil rig is heading to the Albacora Leste field in Campos Basin where it is expected to start production in April.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$55.73/barrel on Thursday, down from \$56.04/barrel on Wednesday.

Traders stated that Indian Oil Corp bought via tender about 2 million barrels of sweet Nigerian crude and 1 million barrels of sour Dubai crude. It purchased a Very Large Crude Carrier cargo of Bonny Light and Escravos crude from Chevron. It also purchased 1 million barrels of Dubai crude from BP. A total of 6 million barrels of Nigerian crude has been purchased for May loadings so far, despite continued supply disruptions in the country.

India's Petroleum Secretary M.S. Srinivasan said the country's domestic oil product sales are likely to increase to 118 million tons in the year ending March 2007 from 112 million tons in the current year.

South Korea's gas oil exports in April are expected to fall to 570,000 tons from 595,000 tons in March and 720,000 tons in February.

Kuwait Petroleum Corp set its official selling price for its crude at the average Oman/Dubai price minus \$2.10/barrel for April supply to Asia.

Libya's National Oil Co left the price of its Essider crude unchanged on the month at Dated Brent minus 95 cents/barrel.

Italy's Eni SpA said it expects supplies of Russian gas to fall 6.8% on Saturday. It said supplies of gas were 8.1% below requested volumes on Friday.

Market Commentary

The oil complex ended in negative territory for the fifth day in six sessions as the markets gave up some of Thursday's gains. The crude market posted another inside trading day after it once again failed to breach its previous trading range. The market opened down 57 cents at 59.90 as it retraced Thursday's gains and sold off to a low of 59.70. The market bounced off its low and posted a high of 60.65. However as it failed to find further upside momentum, the market erased its gains and settled

in a sideways trading range from 60.20 to 59.80 during the remainder of the session. The crude market settled down 51 cents at 59.96. Volume in the crude

Technical Analysis		
	Levels	Explanation
CL 59.96, down 51 cents	Resistance	60.90, 61.25, 62.50, 63.50
		60.20, 60.65
	Support	59.70, 59.55
		Friday's low, Thursday's low
		Previous low, Remaining gap, Previous lows
HO 168.46, down 3.54 cents	Resistance	173.30, 174.75 to 175.55, 179.50
		170.25
	Support	167.25
		Friday's low
		Previous lows
HU 168.81, down 3.20 cents	Resistance	174.75, 175.50, 178.90
		172.25, 172.50
	Support	167.50
		Friday's low
		Remaining gap (March 9th)

was lighter today, with 189,000 lots booked on the day. Meanwhile, the gasoline market also posted an inside trading day as it failed to breach Thursday's range. The market posted a high of 172.25 early in the session but quickly sold off. The market traded to 167.50 where it held good support. The market bounced off its low and traded mostly sideways ahead of the close. It settled down 3.20 cents at 168.81. The heating oil market also settled down 3.54 cents at 168.46. The market gapped lower from 169.50 to 169.00 and quickly backfilled its gap before it continued to trade lower. The market traded mostly sideways before it traded to a low of 167.25 ahead of the close. Volumes in the product markets were good with 46,000 lots booked in the gasoline market and 44,000 lots booked in the heating oil market.

The oil market, which has continued to post inside trading days, on Monday will be driven by any headlines as it seeks further direction. The market will remain concerned over the Iranian situation, as Iran continues to state that it would not compromise. Technically, the crude market is seen finding support at its lows of 59.70 followed by 59.55, 59.25 and its gap from 59.20 to 59.12. More distant support is seen at 58.50 followed by 58.00. Meanwhile resistance is seen at 60.20, its high of 60.65 followed by 60.90 and 61.25. More distant resistance is seen at 61.25, 62.50 and 63.50.

The Commitment of Traders report showed that non-commercials cut their net short positions by 6,525 contracts to 19,126 contracts in the week ending March 7th amid the market's rally earlier in the week. The combined futures and options report meanwhile showed that non-commercials cut their net long positions by just 433 contracts to 33,076 contracts on the week. The report also showed that non-commercials in the gasoline market cut their net long positions by 2,892 contracts to 10,828 contracts while non-commercials in the heating oil market switched from a net short position of 782 contracts to a net long position of 2,651 contracts on the week.