



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 14, 2006

OPEC's President Edmund Daukoru said OPEC is aiming to keep US crude oil between the upper \$50s to lower \$60s. He said the group would hold talks if prices breached that range. He said OPEC could meet soon if prices remain low, leaving open the possibility of holding a meeting in April. Separately, Venezuela's Oil Minister Rafael Ramirez said current oil prices are fair. He also stated that it did not contemplate an OPEC price limit or price band among its proposals.

The IEA warned in its monthly report that the rate of world oil demand growth is expected to be weaker this year. The IEA said 2006 oil demand would likely top last year's consumption amid strong US and Chinese economic growth but it cut its forecasts for world oil demand growth. The IEA cut its oil demand growth estimate for 2006 by 16% to 1.49 million

Market Watch

Iran's Oil Minister Kazem Hamaneh said Iran would revise its oil deals with foreign international companies if necessary. However he said any decision to amend contracts with foreign oil companies must be approved by the Islamic government. A joint government-Parliament task force has been studying a plan to modify the buyback contract used for many years by Iran in its oil deals with foreign companies. The review has come in response to the perceived necessity of safeguarding the country's oil wealth.

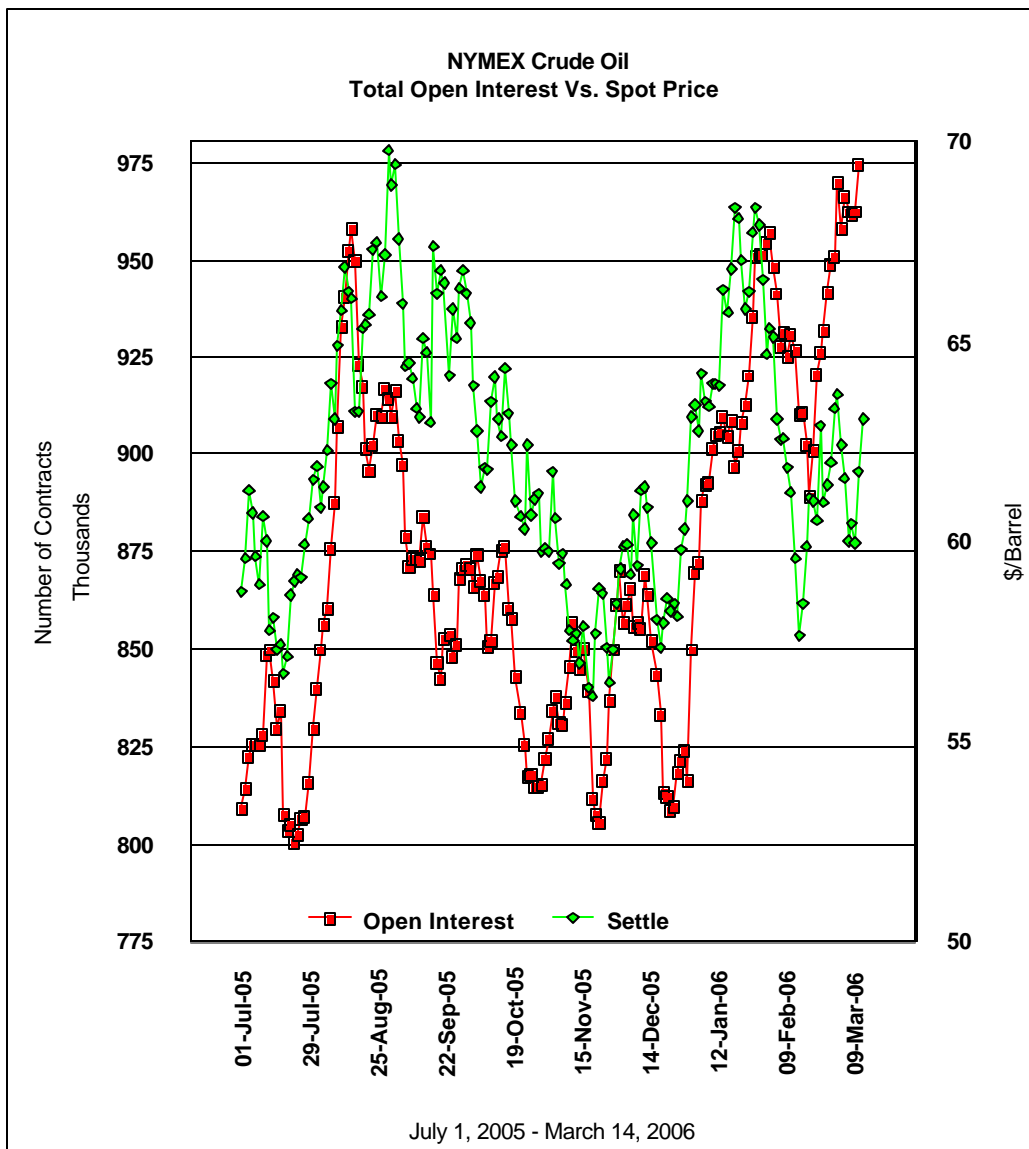
The official Islamic Republic news agency reported that Iran's oil income would reach \$55 billion for the fiscal 2005-2006 year ending March 20. Iran has so far produced 4.039 million barrels of crude oil.

Venezuela is expected to hold talks with France's Total to resolve a tax dispute. Venezuela's Seniat tax agency said it would give Total 24 hours to settle the tax bill or face consequences. Venezuelan officials allege that Total owes \$107.6 million in back taxes. Last week, Venezuela's tax chief Jose Vielma Mora threatened to close Total's offices if the company did not approach the government over settling the matter.

The Chicago Mercantile Exchange has been speaking with gasoline traders about a US Gulf Coast conventional gasoline futures contract aimed at competing against the NYMEX's gasoline futures contract. A CME official said last week that a US Gulf Coast conventional unleaded gasoline futures contract could be launched in the second half of June. Traders said the contract would be tied to the Colonial Pipeline and the contract would trade in 25,000 barrel lots on Chicago's electronic trading platform.

BP Plc earned \$2.8 billion from trading oil, gas and power derivative instruments on international financial markets in 2005, up \$800 million on the year. BP made a net gain of \$1.55 billion from trading oil products and derivatives and \$1.31 billion from trading natural gas. The company lost \$64 million in trading power derivatives.

Chevron Corp plans to spend \$3.3 billion this year in the US to explore and produce crude oil and natural gas and additional \$1 billion in US refining and marketing of petroleum products. Its total planned capital spending worldwide this year would be nearly \$15 billion, up 33% on the year.



bpd from its previous estimate of 1.78 million bpd. An IEA analyst said the demand growth revisions could deepen if oil prices around \$60/barrel continue. He said there are concerns that the longer \$60/barrel oil persists, the greater pressure will be on Asian governments to cut their subsidies. Its 2006 total world oil demand estimate was cut by 300,000 bpd to 84.7 million bpd. In regards to OPEC, the IEA said OPEC's spare capacity increased 380,000 bpd in February due to new output from Saudi Arabia and Libya. However it is still not enough to bring prices down for a while and was inadequate to fill any

big supply disruptions. OPEC produced 29.6 million bpd in February, up 220,000 bpd on the month. The IEA also reported that world oil supply in February increased by 490,000 bpd to 84.6 million bpd.

Iran's supreme leader said that Iran's nuclear program was irreversible warning that any retreat by Iran over its program would be breaking the country's independence. Meanwhile, Russia and China remained at odds with the US, UK and France over the UN Security Council statement. The draft would demand that Iran halt all of its uranium enrichment and call for a report to be issued and submitted in the coming weeks on Iran's progress toward answering questions about its nuclear program. The UK and France were expected to outline their proposed statement Tuesday afternoon.

The Washington Times reported that Iran's clerical and business establishments, concerned by the reckless spending and aggressive foreign policies, are turning against President Mahmoud Ahmadinejad. Many of them see Iran's dispute with the international community over its nuclear program as an attempt to demonize the west and distract the Iranian public from pressing domestic problems. Senior Iranian clerics believe Iran's President is isolating Iran internationally and putting its economy at risk. His detractors say the broad coalition against his is attracting many of the regime's

powerful officials and may include even the supreme leader, despite his statements in support of the president.

Refinery News

Amerada Hess reported that a fluid catalytic cracking unit at its 495,000 bpd St. Croix refinery was shut on Saturday for unplanned maintenance. Repairs to the unit are expected to take 10-14 days.

Western Refining said it expected its sulfur recovery unit at its 113,000 bpd refinery in El Paso, Texas to return to service on Tuesday. The company started maintenance at the North Plant of its refinery on March 7.

Turnaround maintenance was completed at Sunoco's Philadelphia refinery. A 200,000 bpd crude distillation unit, which was shut on February 19, was restarted over the weekend.

According to Wood Mackenzie, the world refining market should remain tight for the foreseeable future because many of the proposals to add capacity will not materialize. As of January 2006, refiners proposed 500 projects but Wood Mackenzie rated less than half the additional capacity as realistic.

Egypt's Petroleum Minister Sameh Fahmi said Egypt is expected to build a new 300,000 bpd refinery in Kafr el-Sheikh. The plant is one of three new refineries planned by Egypt to add to existing units with a total crude distillation capacity of 720,000 bpd.

Production News

Nigeria shut in a total of 556,000 bpd of crude production, revising the amount of production affected by the militant attacks by 100,000 bpd.

According to Reuters, the average daily loading rate of the nine main North Sea crude oil systems is scheduled to fall by 9% in April to 78.2 million barrels or 2.606 million bpd.

The April loading plan for North Sea Troll crude fell by 3,000 bpd to 267,000 bpd. Separately, the UK's North Sea Flotta crude system plans to load 65,000 bpd in April, down 5,000 bpd from March.

ConocoPhillips' Ekofisk system is scheduled to begin a four day shutdown for unscheduled maintenance work. Total gross production affected by the shutdown was estimated at 1.6 million barrels of oil equivalent.

A.P. Moeller-Maersk said Danish Underground Consortium's oil production from its 14 fields in the Danish part of the North Sea in February fell 6.1% year on year but was up 1.3% on the month at 296,500 bpd.

Russia's Energy Ministry reported that Russia's crude runs in January increased by 4.7% on the year to 18.08 million tons. It stated that Russia's gasoline production increased by 11.4% on the year to 2.74 million tons while gas oil production increased by 3.8% on the year to 5.32 million tons and fuel oil production increased by 6.4% on the year to 5.28 million tons. It reported that fuel oil exports fell by 21% on the month to 2.53 million tons in January. Russia's Energy Ministry also reported that gas oil exports fell by about 4% while shipments of gasoline increased by 10.5% on the month.

Russia's anti-monopoly agency said it wanted the government to set duties on exports of gasoil and gasoline at levels much higher than planned from April to meet domestic demand. The government agency said it requested the Economy Ministry to set export duties for light products at \$167.80/ton from April 1 until May 31 to avoid spikes in domestic gasoline prices.

The head of the Caspian Pipeline Consortium said talks on expanding the capacity of a pipeline from Kazakhstan to Russia's Black Sea coast must be completed in the next two to three months if the plans are to proceed. The owners of the CPC pipeline would like to double its capacity to about 1.5 million bpd. However Russia has blocked those plans, arguing several conditions must first be met.

BP stated that the first cargo of crude from the Baku-Tbilisi-Ceyhan pipeline would be loaded at Turkey's port of Ceyhan in early summer. The first cargo was previously expected to load in May. The delay was caused by testing of the pipeline and was necessary to ensure safety.

According to official data, China's imports of crude oil increased by 7.9% on the year in February to 11.17 million tons or 2.91 million bpd. Net product imports fell to 1.37 million tons from 1.67 million tons in January while exports increased to 1.13 million tons from 950,000 tons a month before.

India's domestic sales of oil products increased by 3% in February to 9.04 million tons, with the growth attributed to heavy buying by dealers who expected the government to increase fuel prices. Diesel sales grew 11.3% on the year to 3.43 million tons while petrol sales grew 8.4% to 720,000 tons.

ExxonMobil's Erha oilfield in Nigeria is expected to start pumping at 50,000 bpd next week and reach 180,000 bpd by the third quarter.

The head of Russia's state railway Vladimir Yakunin said Russia is unwilling to invest in expanding its oil supplies to China since Russia is also planning a pipeline along the same route. It is the first time the railway company has stated that it may cancel plans to increase supplies to China to at least 300,000 bpd from the current 180,000 bpd.

OPEC's news agency reported that OPEC's basket of crudes increased by 23 cents/barrel to \$56.41/barrel on Monday.

The chief executive of Pemex, Luis Ramirez, said a deep water well drilled in the Gulf of Mexico shows potential reserves of 10 billion barrels of crude oil equivalent.

Nigeria and Sao Tome signed production sharing contracts with oil companies on two of the deep water exploration blocks the two countries jointly administer in the Gulf of Guinea. The Joint Development Authority signed a production sharing contract for block 3 with a consortium led by Anadarko Petroleum Corp.

PetroCanada and Russia's Gazprom agreed to proceed with initial engineering on a liquefied natural gas plant near St. Petersburg, Russia that would supply a PetroCanada facility in Quebec.

Market Commentary

The oil complex was well supported by the strength in the gasoline market in light of the refinery news. Hess reported that a fluid catalytic cracking unit at its St. Croix refinery was shut for two weeks of unplanned maintenance starting on Saturday. The crude market gapped higher from 61.90 to 62.00 and quickly backfilled its gap as it posted a low of 61.40. However the market later bounced off its low and never looked back as it was well supported by the gasoline market. The market rallied over \$1.60 and breached the 63.000 level as it traded to a high of 63.37 ahead of the close. It settled up \$1.33 at 63.10. Volume in the crude market was excellent with over 257,000 lots booked on the day. Open interest in the crude market built by a total of 12,250 lots amid the market's rally. Open interest in the April contract fell by 16,036 contracts while open interest in the May contract built by 23,055 contracts. The gasoline market, which led the complex sharply higher, settled up 12.27 cents at 186.60. The

market gapped higher from 175.00 to 178.00, its intraday low, in light of the refinery news. The market held some resistance at 180.00 early in the session but later breached that level and soared to a high of 187.00, up more than 12.6 cents. The market was supported by concerns over supplies following the report of the unplanned maintenance shutdown of a catcracker unit at the St. Croix refinery. Meanwhile the heating oil market also settled up 8.34 cents at 182.12 following the strength in the gasoline market. It gapped higher from 174.70 to 175.75 and quickly found support at a low of 175.25. The heating oil market bounced off that and never looked back as it rallied to a high of 182.50 on the close. Volumes in the product markets were good with over 61,000 lots booked in the gasoline market and over 54,000 lots booked in the heating oil market.

The oil market may retrace some its sharp gains early in the session. However its losses will be limited amid the expected draws in product stocks. The weekly petroleum stock reports are expected to show builds in crude stocks of about 1.5 million barrels and draws in product stocks of more than 1.5 million barrels in gasoline and distillate stocks. The market's losses will also be limited amid continuing concerns over the Iranian situation. Also problems in Nigeria will continue to support the market. The market is seen finding support at 63.00, 61.90 and 61.40. More distant support is seen at its lows of 59.95, 59.70, 59.55 and 59.25. Meanwhile, resistance is seen at 63.37, 63.75 and 63.95.

Technical Analysis		
	Levels	Explanation
CL 63.10, up \$1.33	Resistance 63.75, 63.95, 64.49, 65.74 63.37	Previous highs, 50% and 62% retracement (69.78 and 59.20) Tuesday's high
	Support 63.00, 61.90, 61.40 59.95, 59.70, 59.55, 59.25	Tuesday's low Previous lows
HO 182.12, up 8.34 cents	Resistance 184.00, 184.80, 191.60 182.50	Previous highs Tuesday's high
	Support 180.00, 177.25 175.25 to 174.70	Gap (March 14th)
HU 186.60, up 12.27 cents	Resistance 187.50 to 187.75, 195.40 187.00	Gap (February 2nd), Previous high Tuesday's high
	Support 185.00, 180.00 178.00 to 175.00	Gap (March 14th)

More distant resistance is seen at 64.49 and 65.74.