



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 15, 2006

Iran's Foreign Ministry spokesman Hamid Reza Asefi said Iran would not stop its uranium research even if it were instructed to do so by the UN Security Council. Western diplomats have been urging the UN Security Council to insist upon a full suspension of Iran's nuclear fuel activities, including research. The spokesman said talks between Iran and Russia were continuing, however it was unclear whether they were discussing a Russian compromise deal under which Russia would enrich uranium for Iran.

US Energy Secretary Sam Bodman said the US is expected to remain a strong market for oil and gas imports in the near term. He said the demand reduction measures were planned with a 20 year horizon. He sought to assure producers that its would need even more of their oil and gas, despite a longer term aim to cut dependence on imports. During his visit to Russia,

Market Watch

The head of Valero, Bill Klesse said the US government could ease looming regulations for ultra low sulfur diesel this summer to help the transition to the new fuel blend. Under the new rules, refiners and importers must cut sulfur content in highway diesel from the current 500 parts per million to 15 ppm starting in June. An EPA spokesman confirmed that the agency does not plan to change the schedule for low sulfur diesel to be available on October 15. However he did not comment on whether the EPA could give refiners leeway to meet new rules as Valero suggested. Diesel meeting the new specifications would be required at terminals by July and at retail stations and wholesalers by October. Under a temporary compliance option, up to 20% of highway diesel fuel produced may continue to meet the current 500 ppm sulfur limit through May 2010.

The NYMEX announced that it would increase margins on its Reformulated Blendstock for Oxygen Blending gasoline contract. Margins for the first month of the RBOB contract would increase to \$7,425 from \$6,075 for customers. Margins for the second through fifth months would increase to \$6,750 from \$6,075 for customers. The intra-commodity spread margins for the first month would decrease to \$338 from \$675 for customers while margin on the second through fifth months would decrease to \$338 from \$405 for customers.

Nippon Oil Corp said it would cut its imports of Iranian crude by 15% this year. It said it was starting to reduce the percentage of Iranian crude and was shifting to other grades. Nippon is expected to cut its Iranian crude imports by an average of 22,000 bpd to 120,000 bpd this year. Its crude imports via traders would be reduced while its purchases through direct long term contracts with Iran remain unchanged.

Calyon plans to expand its energy trading worldwide. It plans to double its commodities trading team of 45 by adding a gas and power trading desk to its oil and metals derivatives operations. Operating mainly in London, New York and Singapore, Calyon is also expected to expand its trading operations in Japan and in Hong Kong. In the US, Calyon aims to expand to power trade by the beginning of the summer and start physical gas trade by the fourth quarter. In Europe, Calyon is expected to start financial power and gas trading at the start of the summer and physical trade by the fourth quarter.

DOE Stocks

Crude – up 4.8 million barrels
Distillate – down 3.9 million barrels
Gasoline – down 900,000 barrels
Refinery runs – up 3.25%, at 85.7%

the US Energy Secretary stated that he would urge Russia to proceed with foreign investment in the Arctic Shtokman gas field, which would supply LNG to US markets for 50 years. He also stated that he would lobby for Russia to finally approve the Caspian Pipeline Consortium's expansion of its capacity and bring more Kazakh oil to the

world markets. He would also encourage Russian companies to own liquefied natural gas terminals in the US as part of their plan to increase trans-Atlantic deliveries of the product.

The Movement for the Emancipation of the Niger Delta said it had separated three foreign oil workers in their captivity for strategic reasons. However the militants said the hostages would not be killed without good reason. The militants said the government did not meet their demands and talks to secure the hostages' release had not started. The group has promised another large scale attack on oil facilities in another area of the delta and reiterated the threat on Wednesday, advising foreign workers to leave.

The EIA said US crude and gasoline imports remain strong as buyers may expect future supply disruptions and higher prices. It said buyers may expect prices to increase further due to supply problems caused by geopolitical problems in Nigeria and Iran, US refineries switching from fuel additive, MTBE to ethanol, new US ultra low sulfur diesel fuel rules and continued strong petroleum demand.

According to the API, US crude oil inventories at the end of February stood at 334.3 million barrels, the highest level in almost seven years. Crude stocks were up 3.9% on the month and 10.1% on the year. Refinery utilization stood at 87.1% in February, down from 90.6% last year. Gasoline production in February fell to 8.403 million bpd, down 1% on the year while distillate production increased by 0.3% on the year to 3.795 million bpd. Jet fuel production fell by 8.2% while residual fuel production fell by 9.5% on the year. The API reported that distillate demand increased by 5.3% on the month and 2.4% on the year while gasoline demand increased by 3.4% on the month and 3% on the year. Distillate inventories in February fell to 130.5 million barrels while gasoline stocks fell by 1.6 million barrels.

Refinery News

Total Petrochemical is expected to return its hydrotreaters to service at its 233,500 bpd Port Arthur, Texas refinery on Wednesday. In a filing with the Texas Commission for Environmental Quality, Total said it would shut units 805 and 813 on April 5 through April 8 for catalyst change and conversion to ultra low sulfur diesel.

Alon USA is scheduled to perform maintenance on an off gas compressor at its Big Spring refinery in Texas on Wednesday through Thursday.

Finland's Neste Oil is expected to shut a fluid catalytic cracking unit at its 200,000 bpd Porvoo refinery for five days due to technical problems starting March 19. The alkylation unit is also expected to shutdown for about six weeks.

Production News

Norway's crude oil production will be down by about 30% on Thursday as two oil fields are scheduled to be shut for repairs. Norsk Hydro is expected to shut the Troll C oil and gas platform in the North Sea for 72 hours of maintenance starting on Thursday. The platform usually produces about 130,000 bpd of oil and 12 million cubic meters of gas. Also, ConocoPhillips' 400,000 bpd Ekofisk platform is scheduled to be shut for three to four days to replace gas flare drum units.

According to Statistics Norway, Norway's crude oil exports in February were down about 16% on the year at 58.9 million barrels as bad weather prevented loadings.

The Shetland Island Council stated that Brent oil liftings from Sullom Voe fell to 331,547 tons in the week ending March 14, down from 447,408 tons in the previous week.

Russia's Energy Ministry said the country's oil production recovered slightly in the first half of March but was still down 100,000 bpd from December's record levels. It said production increased by 90,000 bpd in the first 15 days of March to 9.55 million bpd.

China's General Administration of Customs reported that oil imports in January and February increased 34.3% on the year to 24.4 million tons or 3.03 million bpd. Net imports of refined products in January-February stood at an estimated 3.05 million tons, down 18.9% on the year. Separately, China processed 48.48 million tons or 6 million bpd of oil in January and February, up 3.9% on the year. In February alone refinery processing increased by 6.4% on the year to 6.16 million bpd.

The Petroleum Association of Japan reported that total petroleum stocks increased by 8,794 kiloliters to 11.079 million kl in the week ending March 11th. It reported that gasoline stocks increased by 37,187 kl to 2.249 million kl while kerosene stocks fell by 84,706 kl to 2.501 million kl. Jet fuel stocks fell by 8,574 kl to 925,307 kl while gas oil stocks increased by 70,109 kl to 1.571 million kl. Crude runs in Japan stood at 5.02 million kl, up 76,016 kl on the week.

Taiwan's Bureau of Energy reported that Taiwan consumed 802,584 bpd of oil products in January, up 1% on the year. Gasoline demand increased by 6.9% to 189,065 bpd in January while diesel demand fell by 1.5% to 102,466 bpd. Total throughput at Taiwan's refineries in January fell by 5.2% on the year to 961,721 bpd with crude imports increasing by 2.3% to 880,935 bpd.

OPEC's news agency reported that OPEC's basket of crudes increased by \$1.28/barrel to \$57.69/barrel on Tuesday.

Indonesia's Mines and Energy Ministry reported that Indonesia's crude production increased to 918,500 bpd in February from 916,000 bpd in January. It exported 366,100 bpd of crude in February, up from 322,600 bpd in January while it imported 166,600 bpd of crude in February, down from 234,000 bpd in the previous month.

Mexico's President Vicente Fox announced a new deep water oil discovery which could yield 10 billion barrels of oil. According to government estimates, the find could exceed reserves at the Cantarell field. Separately, Pemex said it would invest about \$37.5 billion over the next 20 years to develop the Chicontepec onshore oilfield. Mexico's President said investments in the oil field would allow Chicontepec to produce 1 million bpd in six years.

Market Commentary

The oil market opened 50 cents lower at 62.60 as it retraced Tuesday's gasoline driven gains. The crude market quickly posted a low of 62.25 following the release of the DOE and API reports, which showed larger than expected builds in crude stocks of 4.8 million barrels and 2.195 million barrels, respectively. However the market bounced off its low and traded to a high of 63.20. The oil market, which failed to test its previous high, quickly sold off once again and posted a low of 62.00. The market posted an inside trading day as its losses were limited by the draws reported in product stocks by the DOE. It settled down 93 cents at 62.17. Volume in the crude market was good with over 248,000 lots booked on the day. The product markets settled in negative territory, with the gasoline market settling down 3.69 cents at 182.91 and the heating oil market settling down 3.95 cents at

178.17. The gasoline market opened down 1.6 cents at 185.00 and traded to a high of 188.30 following the release of the DOE report, which showed a draw of 900,000 barrels. The market however erased its gains and settled in a sideways trading range before it traded to a low of 182.30 on the close. The heating oil market opened down 2.12 cents at 180.00 and held good support at that level amid the draws reported by the DOE and API. The market traded to a high of 183.10 before it retraced its gains and sold off to a low of 177.50 ahead of the close. Volumes in the product markets were good with 60,000 lots booked in the gasoline market and 57,000 lots booked in the heating oil market.

The market may continue to retrace its previous gains after the market ended near its lows. However its losses are seen limited as the market remains concerned over the geopolitical issues, including the situation with Iran and the threats of militant attacks in Nigeria. The market is seen finding support at 62.00 followed by 61.40. More distant support is seen at its previous lows of 59.95, 59.70, 59.55 and 59.25. Meanwhile resistance is seen at 63.20, 63.37, 63.75 and 63.95. More distant resistance is seen at 64.49 and 65.74.

Technical Analysis		
	Levels	Explanation
CL 62.17, down 93 cents	Resistance 63.75, 63.95, 64.49, 65.74 63.20, 63.37	Previous highs, 50% and 62% retracement (69.78 and 59.20) Wednesday's high, Tuesday's high
	Support 62.00, 61.40 59.95, 59.70, 59.55, 59.25	Wednesday's low, Tuesday's low Previous lows
HO 178.17, down 3.95 cents	Resistance 184.00, 184.80, 191.60 181.00, 183.10	Previous highs Wednesday's high
	Support 177.50 175.25 to 174.70, 168.60	Wednesday's low Gap (March 14th), Previous low
HU 182.91, down 3.69 cents	Resistance 188.30, 195.40 184.25, 186.00	Wednesday's high, Previous high
	Support 182.30 178.00 to 175.00, 169.00	Wednesday's low Gap (March 14th), Previous low