



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR MARCH 20, 2006**

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Italy's Eni SpA estimated that Nigeria's production would fall by 67,000 bpd while it repairs a pipeline damaged in an explosion March 17. Production was immediately shut in after the attack on the Tebidaba-Brass pipeline. It said it expected full output to be back on stream from Nigeria by the end of March. Nigeria's total shut in oil production stood at 622,000 bpd.

Iran's OPEC governor, Hossein Kazempour Ardebili said the use of oil as a weapon in a dispute over Iran's nuclear ambitions would not be in the interest of either side. He said if Iran decided to halt its exports, the price of oil may increase to as high as \$100/barrel, however the higher price would not benefit Iran. He said if Iran withdrew its oil from the market, other oil producers would sell their oil at a higher price and improve their chances of building production capacity. Likewise, if consuming countries decided to boycott its oil, the oil consuming

#### **Market Watch**

Iran's acceptance of direct talks with the US over Iraq is regarded among Iranians as a major foreign policy development. A hard line daily newspaper, Kayhan warned that America's objective in inviting Iran for talks is to send a message to Islamic movements throughout the world that Iran gave in to Washington after 27 years of resistance. The editorial said Iran should announce as soon as possible that it would not have any dialogue with the US and avoid entering a destructive trap that has been prepared for Islamic Iran. No dates have been set for the talks. The head of Iran's parliament's national security and foreign affairs committee said although the talks would focus on Iraq, the talks would have certain impacts on other regional developments and also on nuclear diplomacy. Other analysts described the opening as a first step toward reducing Iran's estrangement from the West.

Venezuela's President Hugo Chavez called US President George W. Bush a "donkey" and "drunkard" in response to a White House report branding Venezuela's President a demagogue, who used the country's oil wealth to destabilize democracy in the region. His comments came after Venezuela's El Universal newspaper printed an interview with US Ambassador to Venezuela William Brownfield, who reiterated the US' concern over growing ties between Venezuela and Iran. Tensions between the US and Venezuela increased in January after Venezuela expelled a US naval attaché on espionage charges and the US State Department responded by removing a top Venezuelan diplomat from Washington.

A consortium of energy consultants, Gulf Energy, and Qatar Financial Center Authority signed an agreement to set up and jointly operate the International Mercantile Exchange. Qatar's Economy and Trade Minister Sheikh Mohamed bin Ahmed al-Thani said the exchange would trade liquid natural gas and crude contracts.

Open interest on the InterContinentalExchange's US light crude futures contract has increased to more than 100,000 lots as it gains ground on the NYMEX's contract. Last week, open interest on the ICE WTI contract reached 123,000 lots compared with 973,931 lots on the NYMEX WTI futures contract.

US Interior Secretary Gail Norton, Agriculture Secretary Mike Johanns and Secretary of Health and Human Services Michael Leavitt said it was likely that the bird flu would be detected in the US as early as this year. The Interior Secretary said the early detection plan would prioritize sampling in Alaska and the Pacific Island, where scientists believe the strain of H5N1 virus currently affecting Southeast Asia would most likely arrive. Agriculture Secretary however said the discovery of bird flu in the US would not be any reason to panic. Meanwhile, the Secretary of Health and Human Services said should US domestic poultry become infected, the Agriculture Department would act quickly to quarantine an affected area and destroy the infected flock.

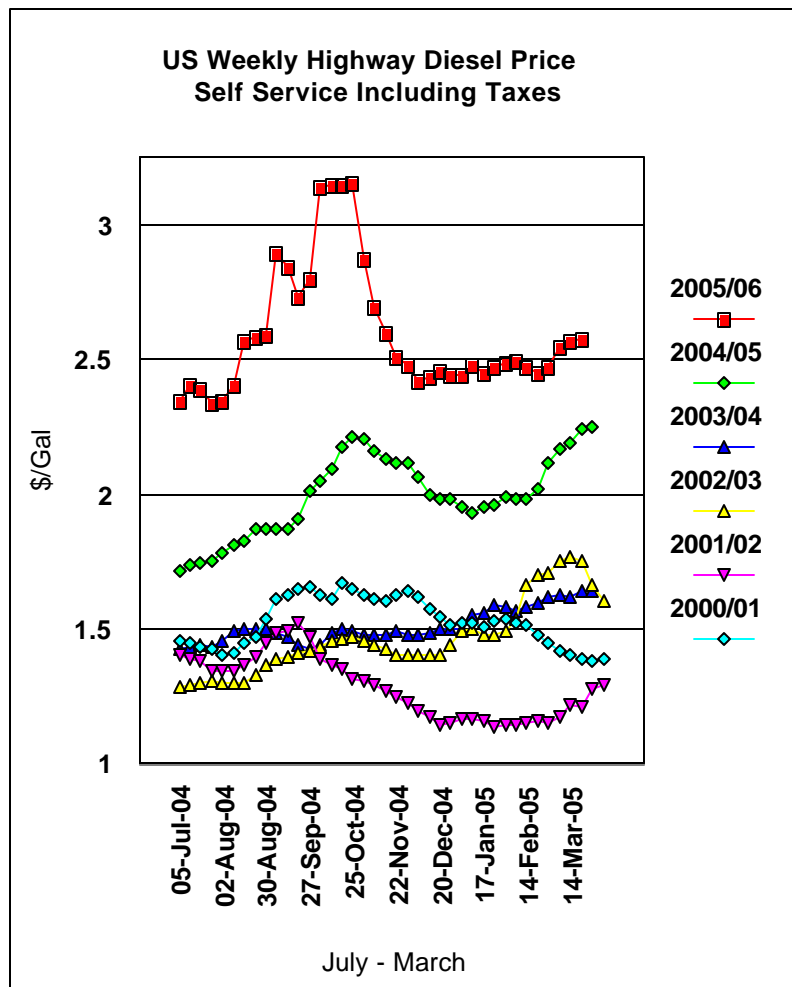
nations would lose access to safe supply of oil from Iran.

Algeria's Oil Minister Chakib Khelil expects OPEC to leave its current output policy unchanged at its next meeting on June 1. He said he expected oil prices to remain above \$50/barrel this summer.

Kuwait's Energy Minister Sheikh Ahmad al-Fahd al-Sabah said he hoped rising crude oil stocks would help stabilize high oil prices. Meanwhile, Saudi Arabia's Oil Minister Ali al-Naimi said he was not concerned about a build in US crude oil stocks and that current oil prices were not harming world economic growth.

The EIA stated that the US would have enough supply of gasoline components RBOB and ethanol to support demand this year as imports are expected to increase. Ethanol demand is expected to grow 130,000 bpd when MTBE is completely phased out. An analyst for the EIA however did not rule out local supply disruptions and temporary price issues. The EIA also stated that US refining capacity is expected to grow at a faster pace in the coming years due to increased investment. EIA analyst, Joanne Shore said an additional 1.7 million bpd of US refining capacity was expected between 2005 and 2010. She said the increase of capacity additions could allow US capacity to keep up with demand growth for a while.

According to the Defense Energy Support Center the US military consumed 128.3 million of fuel in 2005, spending \$8.8 billion as the average price per barrel increased to more than \$68/barrel. It said



the US consumed 144.8 million barrels of fuel in 2004 and spent \$6.7 billion. For 2006, the Defense Energy Support Center estimates that the military would need 130.6 million barrels and pay more than \$10 billion, at a price of more than \$77/barrel. However Pentagon is trying harder to conserve. Fears of shortages following Hurricane Katrina prompted Deputy Secretary of Defense Gordon England to send a memo asking all military departments, defense agencies and employees to conserve fuel.

The EIA reported that US retail diesel prices increased by 3.8 cents/gallon to \$2.581/gallon in the week ending March 20<sup>th</sup>. The EIA also reported that gasoline prices increased by 13.8 cents/gallon to \$2.504/gallon on the week.

### Refinery News

Repairs to damage suffered during a fire last November and a seasonal maintenance turnaround at Giant Industries' oil refinery in Yorktown, Virginia are seen completed by April 5.

Valero Energy Corp said a 75,000 bpd expansion of its Port Arthur, Texas refinery is not expected to finish until the fourth quarter of 2006, a delay of three months. A six week long restoration of the 250,000 bpd refinery after Hurricane Rita struck Port Arthur and continuing labor shortages forced the delay.

The Texas Natural Resource Conservation Commission reported that the Sweeny refinery will undergo maintenance on Tuesday.

US refining margins surged last week amid concerns that suppliers may struggle to meet the required volume of new cleaner burning fuels ahead of the peak summer driving season. The NYMEX gasoline/US light crude spread widened to \$15.35/barrel at Friday's close from \$10.94/barrel a week earlier.

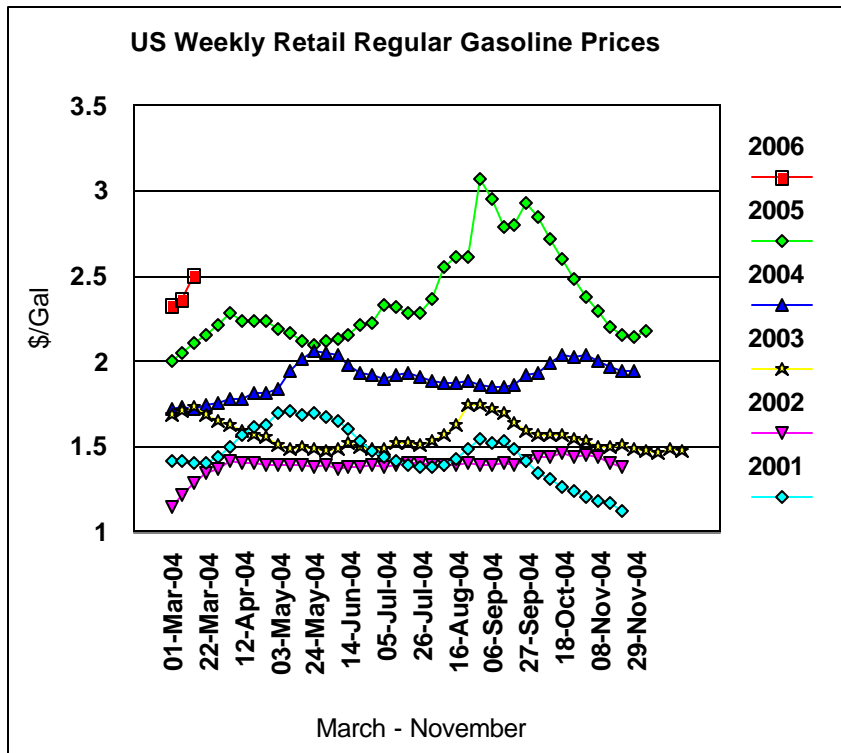
However Rotterdam refineries fared worse than they had previously, with traders blaming high European gasoline stocks as a major factor behind that. Complex refineries in Rotterdam saw their profit margins fall to \$5.56/barrel last week from \$6.35/barrel previously.

Marathon Oil Corp is studying investments at three US refineries to take advantage of Canadian oil sands production. Marathon's conceptual studies could yield expansions of heavy crude processing capacity at plants in Robinson, Illinois, Catlettsburg, Kentucky and Detroit, Michigan totaling 420,000 bpd. Marathon has already proposed a \$2.2 billion expansion of its Garyville, Louisiana refinery that would increase production by 180,000 bpd to 425,000 bpd in late 2009.

Nippon Oil Corp is planning to process 3.6% less crude in March than it had initially planned due to higher than expected kerosene inventories. It would limit processing to 5.3 million kiloliters. Separately, Nippon Oil said it would resume crude distillation at its Mizushima refinery on Tuesday. Its 140,000 bpd crude distillation unit was shut on Friday due to maintenance of a heat exchanger.

Taiwan's Chinese Petroleum Corp is expected to shut its Ta-Lin refinery for two months of partial maintenance starting in late June. The company has halted all gasoline exports from March onwards to build stocks ahead of the partial maintenance shutdown.

Angola's Finance Ministry said it partnered with China to move ahead with construction of a \$3 billion oil refinery in the port of Lobito. China is keen on oil from West Africa to fuel its rapid economic expansion. The new refinery would permit Angola to reduce imports and start to export value added petroleum goods. The Ministry of Petroleum estimates that 80% of Lobito's production would be for export.



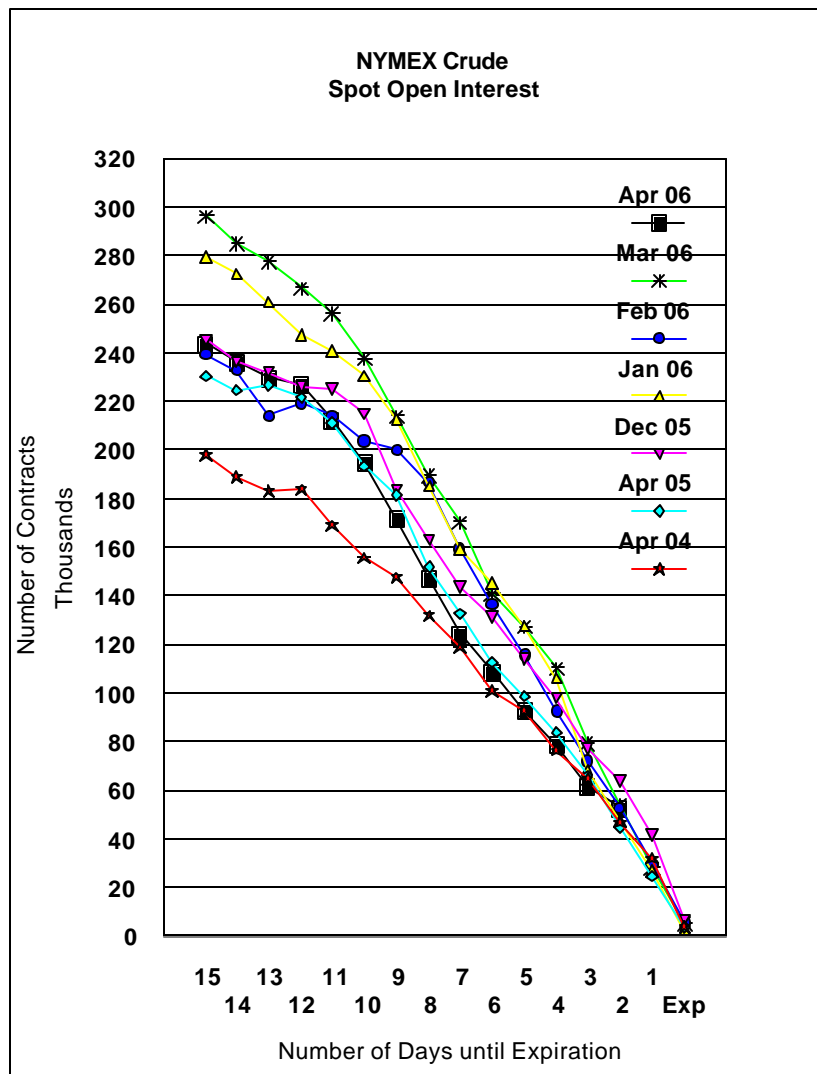
**Production News**

ConocoPhillips resumed oil production at its 400,000 bpd Ekofisk system ahead of schedule. The system was shut late Thursday for maintenance work. Total gross production affected by the closure was estimated at 1.6 million bpd of oil equivalent.

Separately, Norsk Hydro said its 130,000 bpd Troll C system was restarted on Saturday after it was shut last Thursday for removal of a deflector plate from the flare system. It said gas export capacity from the Oseberg Field Center in the North Sea returned to a normal production level of 30 million cubic meters, following successful cleaning of its gas dehydration facilities.

Suncor Energy Inc said crude oil developed from the Canadian oil sands could be shipped to the US Gulf of Mexico, the West Coast or Asia. Suncor has been producing 260,000 bpd of oil from oil sands and expects production to increase to 3 million barrels by 2015 and 5 million bpd by 2030. Suncor said that while the Midwest and Rocky Mountain markets should continue to benefit from stable supplies from Canada, it would have to consider shipping oil to the US Gulf of Mexico as new barrels come on stream. Gulf connections could be made by extending existing pipelines while California could be reached by building pipelines to terminals for tankers to run from Canada's west coast to refineries in California.

Mexico's Cantarell oilfield is facing a production decline, a prospect that could heighten US dependence on Middle East oil. A Pemex internal report said water and gas were seeping into Cantarell oilfield in the southern Gulf of Mexico, which could reduce Mexico's oil production. The threat of accelerated decline in Mexico's oil production means other suppliers would have to make up the shortfall, with the world's largest oil reserve remaining in the Middle East. However the saving grace for Mexico's oil production is that much may still be undiscovered.



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Chevron and its partners in Nigerian deep water oil exploration block 250 have agreed to relinquish the acreage after failing to find commercial quantities of oil. The companies' withdrawal from the block was a blow for Nigeria which hoped to increase its 2.4 million bpd crude oil production.

PetroChina Co. Ltd aims to expand oil and gas production from both domestic and international operations by 5% a year until 2010.

Taiwan's Finance Ministry said it is considering whether to cut its

gasoline import duties to 5% from 10% amid market concerns about the impact of high oil prices on Taiwan's economy. An official said a decision on import duties, including whether to impose a duty on crude oil imports would be made in a few weeks.

Kazakhstan has deferred plans to call tenders for new offshore oil blocks in the Caspian Sea this year. The country's annual output would be around 62-63 million tons or 1.3 million bpd this year and increase to about 64-65 million tons in 2007. Kazakhstan's Energy Minister Baktykozha Izmukhambetov said the country hoped to hold final talks with Azerbaijan in April on its participation in the Baku-Ceyhan pipeline.

OPEC reported that OPEC's basket of crudes increased to \$58.47/barrel on Friday, up from \$57.45/barrel on Thursday. It reported that OPEC's basket of crudes fell by an average of \$0.18/barrel to \$57.21/barrel in the week ending March 16.

The U.S. Department of Transportation, the agency responsible for overseeing pipeline safety, said Friday that BP has been informed that it could not restart the damaged section of the North Slope gathering pipeline that had suffered a leak earlier this month, The agency would not allow the pipeline to restart until the company had thoroughly inspected the line, internally and externally, repaired it, and given the agency a corrosion monitoring plan

**Market Commentary**

The NYMEX oil market gapped lower from 62.70 to 62.25 on the opening as it continued to trade lower following Friday's late sell off on the close. The market partially backfilled its gap as it traded to a high of 62.35 but quickly continued to trend lower. The crude market settled in a range and held some support at 61.80. However the market later found further selling pressure. It breached its support levels and extended its losses to more than \$2.50 as it posted a low of 60.25 ahead of the close. The market shrugged off the news that an oil pipeline was sabotaged in Nigeria, increasing the country's total shut in oil production to 622,000 bpd. The market instead continued to focus on the reports that Iran would meet with the US for talks over Iraq. The market traded lower even though the talks would not include Iran's nuclear ambitions. Volume in the crude market was much better today with over 234,000 lots booked on the day. Meanwhile, the gasoline market continued to trade within last Thursday's trading range. The market opened about 2 cents lower at 184.00 and traded to an early low of 183.00. The market retraced some of its losses and posted an intraday high of 186.50. However the market, which failed to test its previous high, retraced its gains and sold off to a low of 180.80 ahead of the close. It settled down 3 cents at 183.01. The heating oil market gapped lower from

177.50 to 176.50, which it later backfilled as it posted a high of 177.70. The market however erased its gains and sold off to

Technical Analysis		
	Levels	Explanation
CL 60.42, down \$2.35	<b>Resistance</b> 62.35 to 62.70, 63.70, 63.90 60.95, 61.70	Remaining Gap (March 20th), Previous high
	<b>Support</b> 60.25 59.95, 59.70, 59.55, 59.25	Monday's low Previous lows
HO 174.17, down 3.96 cents	<b>Resistance</b> 177.70, 181.60, 181.80 175.00, 176.70	Monday's high, Previous highs
	<b>Support</b> 173.50 168.60	Monday's low Previous low
HU 183.01, down 3 cents	<b>Resistance</b> 186.50, 187.50, 188.00 183.50, 185.20	Monday's high, Previous highs
	<b>Support</b> 180.80 177.00 to 175.00	Monday's low Remaining gap (March 16th)

a low of 173.50 on the close. The market settled down 3.96 cents at 174.17. Volumes in the product markets were light with 38,000 lots booked in the gasoline market and 34,000 lots booked in the heating oil market.

The market on Tuesday will be driven by the expiring April crude contract. Technically, the market is seen trading lower after it ended the day near its low. Its stochastics are also seen trending lower after they crossed down. The market is seen finding support at its low of 60.25 followed by 59.95, 59.70, 59.55 and 59.25. Meanwhile resistance is seen at 60.95, 61.70 and its gap from 62.35-62.70. More distant resistance is seen at 63.70 to 63.90.