



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR MARCH 22, 2006

Saudi Arabia's Oil Minister Ali al-Naimi said the country is committed to maintaining 1.5 million bpd in spare capacity. To fulfill that aim Saudi Arabia completed its Haradh oilfield project, which is pumping about 300,000 bpd. Saudi Arabia's Oil Minister said new oil from Haradh has increased production capacity to 11.3 million bpd. The project was part of Saudi Arabia's plan to increase its production capacity to 12.5 million by 2009. He stated that the Khursaniyah oil field is on track to add 500,000 bpd to output by 2007, Shaybah and Nuayyim are expected to add 300,000 bpd in 2008 and the Khurais oilfield is expected to add a further 1.2 million bpd by 2009. In regards to prices, Saudi Arabia's Oil Minister said current high oil prices were not harming the world economy.

Market Watch

The head of the IEA, Claude Mandil, said Russia must invest in its gas sector to prevent a supply shortfall. Russia holds the world's largest gas reserves and supplies 70% of Europe's demand. The IEA estimated that Russia must invest about \$11 billion a year in its gas sector to meet production and export goals. He warned that failure to spend enough on new production and transport infrastructure could lead to even higher prices for consumers and gas shortages.

Morgan Stanley has proposed acquiring TransMontaigne, which markets and transports oil products, for \$8.50 per share. It said it conducted a due diligence investigation and would propose acquiring 100% of the company's equity securities. A TransMontaigne spokesperson said the company received a letter from Morgan Stanley and would review it. The company however would not comment until the review was complete.

US ambassador to the IAEA, Gregory Schulte said the US believed the UN Security Council could reach agreement on a statement calling on Iran to suspend its uranium enrichment activities in the coming days. Security Council members are scheduled to meet on Wednesday for talks. The Security Council failed to reach an agreement on a text on Tuesday after days of intensive negotiation amid resistance from Russia and China. Meanwhile, Russia's Foreign Minister Sergei Lavrov said efforts to resolve the international crisis over Iran's nuclear ambitions should focus on keeping the Non-Proliferation Treaty intact.

Venezuela's Oil Minister Rafael Ramirez said OPEC would make important decisions on oil production levels at its June 1st meeting in Caracas. He said a production cut was justified but added that OPEC would wait to have more precise studies in June about the performance of the market in the second quarter to make a decision about production.

DOE Stocks

Crude – down 1.3 million barrels
Distillate – down 800,000 barrels
Gasoline – down 2.3 million barrels
Refinery runs – up 1.17%, at 86.7%

The EIA said retail gasoline prices may have reached a

short term peak. It said that a recent fall in wholesale prices suggests that pump prices should begin to stabilize after last week's increase of 13.8 cents to \$2.504/gallon.

US Energy Secretary Sam Bodman said US ethanol supplies appear to be adequate to compensate for oil refineries phasing out their use of MTBE. However it said there still could be some supply shortages during that process. He said there could be some gasoline supply dislocations during the transition period.

According to a sugar consultancy, US ethanol imports could increase to between 500 million and 1 billion liter in 2006, up from about 450 million liters the US imported from Brazil in 2005. However it stated that ethanol imports could fall back to between 200 million and 300 million liters as more ethanol production in the US comes online and the phase out of MTBE ends.

Refinery News

Citgo shut a fluid catalytic cracking unit at its 165,000 bpd refinery in Corpus Christi, Texas to replace an exchanger bundle on Tuesday. The unit was expected to be down two to three days.

The Texas Natural Resource Conservation Commission reported that the Sweeny refinery in Texas is scheduled to perform maintenance to improve the operation of the electrostatic precipitator. The maintenance is scheduled to start Wednesday morning until Friday evening.

BP said it was in the process of restarting its Texas City, Texas refinery after it was shut ahead of Hurricane Rita. The refinery is expected to continue ramping up into the second quarter. The refinery was kept shut in order to upgrade its safety systems.

Repairs at PDVSA's refinery in St. Croix are seen finished by Saturday. A company official declined to specify when full production would resume, saying that output would return to its maximum throughput of 495,000 bpd when the catalytic cracking unit was operating. The refinery's fluid catalytic cracking unit was shut on March 11.

Total has shut a crude desulfurization unit at its 360,000 bpd Antwerp refinery for regular maintenance. It also shut an atmospheric residual desulfurization unit for maintenance.

Cape Town's 112,000 bpd refinery resumed normal operations after two shutdowns in February. The refinery was shut on February 18 and again on February 28 due to power outages. South Africa's six refineries suffered unexpected problems after shifting to cleaner fuels. The government banned leaded petrol from 2006 and demanded significant cuts in the level of sulfur in diesel.

PetroChina and Sinopec are expected to jointly build a \$1.5 billion refinery by 2010, under the government's mandate to merge two proposed plants. Officials expect the refinery's capacity to total about 200,000 bpd. PetroChina and Sinopec had each planned to erect a 160,000 bpd refinery in Guangxi province by 2010.

Production News

The MMS reported that US Gulf of Mexico oil and natural gas production remained largely unchanged over the past two weeks at 343,172 bpd. It saw a recovery of 5,081 bpd of oil production.

Chevron Corp said it expected its Gulf oil and gas production to increase 25% to 200 million barrels of oil equivalent per day in the first quarter, up from 160 million bpd in the previous quarter.

Petrologistics reported that OPEC is expected to produce 300,000 bpd less crude oil in March than February due to a fall in Nigeria's production. OPEC's total production is estimated at 29.7 million bpd. It reported that Nigeria's output fell to about 2.05 million bpd in March, down from 2.25 million bpd in February. Meanwhile, Iraq's output also fell to 1.65 million bpd from 1.83 million bpd in February.

According to the Shetland Island Council, Brent crude liftings from Sullom Voe increased to 355,583 tons in the week ending March 21 from 331,547 tons during the previous week.

Russia's Transneft said oil would start flowing through a planned Russia-China pipeline towards the end of 2008.

Total plans to perform maintenance work at its 200,000 bpd Girassol field in May. However a company spokeswoman was unable to provide details on how long the work would last or how much crude production would be lost during the maintenance period. Traders in the West African crude market said the field would be shut for the last two weeks in May.

Oil traders stated that refiners in China bought less crude from West Africa in April than in March. China purchased 26 cargoes or 823,000 bpd of West African crude for loading in April. Total West African crude exports to Asia were set to fall in April to 1.49 million bpd, down from 1.68 million bpd in March. Separately, traders stated that the first cargo of Africa's newest oil producer Mauritania would begin loading on Wednesday and is destined for China.

Japan's energy council said the country should more than double its crude oil imports from its equity oilfields in the next 25 years to improve energy security. It recommended that Japan should increase imports of crude produced at fields where domestic companies have upstream stakes to 40% of its total imports by 2030 from about 15% of the country's current crude purchases.

India's Petroleum Ministry reported that India's state run oil companies' February oil product sales fell to 7.62 million tons from 7.63 million tons last year. Diesel sales increased by 5.55% on the year in February to 3.04 million tons while gasoline sales increased to 673,000 tons from 650,000 tons last year. The fall in oil product sales was mainly due to a sharp fall in naphtha sales to 411,000 tons from 520,000 tons.

OPEC's news agency reported that OPEC's basket of crudes fell by \$1.18/barrel to \$56.14/barrel on Tuesday.

The Nigeria National Petroleum Corp increased the official selling price for all its crude grades for April loading. The price of its Bonny Light crude and Qua Iboe crude was increased by 20 cents on the month to BFO plus \$1.25. Its Escravos crude was increased by 20 cents to BFO plus \$.85 while its Forcados crude was increased by 20 cents to BFO plus \$1.25.

Chad's Oil Minister Mahamat Nasser Hassan said the country hopes to triple its oil production to 500,000 bpd by 2010. It believes that an oil revenue dispute with the World Bank would not deter investors from helping it achieve its goal. The Oil Minister said the country's current production stood at 160,000 to 170,000 bpd, which is pumped through a 250,000 bpd pipeline to the Cameroon coast. He said as new oil fields are discovered, the pipeline could be expanded and additional pumping stations installed to increase its overall capacity with the help of foreign investments. The World Bank suspended all loans to Chad after the country's parliament approved legislation that altered a World Bank supported oil revenue law in a move to access more profits from the Chad-Cameroon pipeline.

Market Commentary

The oil market opened 34 cents lower at 62.00 in follow through selling seen in overnight trading amid expectations that the weekly petroleum stock reports would show crude stocks built by 2.5 million barrels. The market rallied above the 62.50 level following release of the DOE report, which showed that crude stocks fell by 1.3 million barrels on the week. The market quickly gave up its gains as the gasoline market shrugged off the DOE report showing a draw of 2.3 million barrels in gasoline stocks. The May crude contract bounced off its support at 61.95 and rallied to a high of 62.85 later in the session. However the market was once again pressured by the sharp sell off in the gasoline market and erased all of its gains. It traded to a low of 61.61 and settled down 57 cents at 61.77. Volume in the crude market was lighter today with 186,000 lots booked on the day. The gasoline market, which weighed on the complex, sold off sharply despite the draw reported in gasoline stocks. The market traded to a high of 180.75 and extended its losses to 10.95 cents as it sold off to a low of 173.00 ahead of the close. The market settled down 10.3 cents at 173.65. The market was pressured amid talk that fresh fuel cargoes would arrive shortly. Meanwhile, the heating oil market posted an inside trading day. It traded to 175.35 early in the session amid the sell off in the gasoline market before it bounced off its low and rallied to a high of 178.00. However as the market failed to test its previous resistance at 178.30, it erased its gains once again and sold off to a low of 174.10 as the gasoline market pressured the complex. The heating oil market settled down 2.71 cents at 174.51. Volumes in the product markets were good with 45,000 lots booked in the gasoline market and 32,000 lots booked in the heating oil.

The oil complex on Thursday is seen retracing some of today's sharp losses. The crude market is seen

Technical Analysis		
	Levels	Explanation
CL 61.77, down 57 cents	Resistance 63.80 to 64.10 62.00, 62.85	Remaining gap (March 20th) Wednesday's high
	Support 61.61 61.25, 61.00, 60.40, 60.25	Wednesday's low Previous lows
HO 174.51, down 2.71 cents	Resistance 178.30, 181.60, 181.80, 183.10 176.60, 178.00	Tuesday's high, Previous highs Wednesday's high
	Support 174.10 172.50, 168.60	Wednesday's low Tuesday's low, Previous low
HU 173.65, down 10.3 cents	Resistance 180.75, 186.90 175.00, 179.50	Wednesday's high, Previous high
	Support 173.00 169.15, 167.50, 167.00-165.40	Wednesday's low 50% (150 and 188.30), Previous low, Gap (March 9th)

holding support at its low of 61.61. More distant support is found at its previous lows of 61.25, 61.00, 60.40 and 60.25. However resistance is seen at 62.00 followed by its high of 62.85. More distant resistance is seen at its gap from 63.80 to 64.10.