



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR OCTOBER 2, 2006**

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US Secretary of State Condoleezza Rice said Iran has not stated anything yet to suggest its plans to suspend its uranium enrichment program. She said the foreign ministers of the five permanent members of the UN Security Council and Germany may meet later this week to discuss Iran's nuclear program. The foreign ministers held a conference call over the

weekend to discuss European Union foreign policy chief Javier Solana's efforts to convince Iran into suspending its nuclear program. EU foreign policy chief Javier Solana said he was resuming his talks with Iran's top nuclear negotiator, Ali Larijani, on Monday and warned the time for continuing negotiations on its nuclear program was limited. On Sunday, Iran's President Mahmoud Ahmadinejad said Iran was determined to expand its uranium enrichment program and announced a plan to produce more nuclear fuel.

Iran's OPEC Governor, Hossein Kazempour Ardebili said Iran would support any OPEC move to bring crude oil prices back to acceptable levels following a recent fall.

Meanwhile, an OPEC official said OPEC had no plans to issue an oil market statement after the group on Friday considered releasing a press statement linked to output cuts by some of its members.

The EIA reported that the US average retail price of diesel continued to fall by 4.9 cents/gallon to \$2.546/gallon in the week ending October 2. It reported that the US average retail price of gasoline fell by 6.8 cents to \$2.31/gallon on the week.

#### **Refinery News**

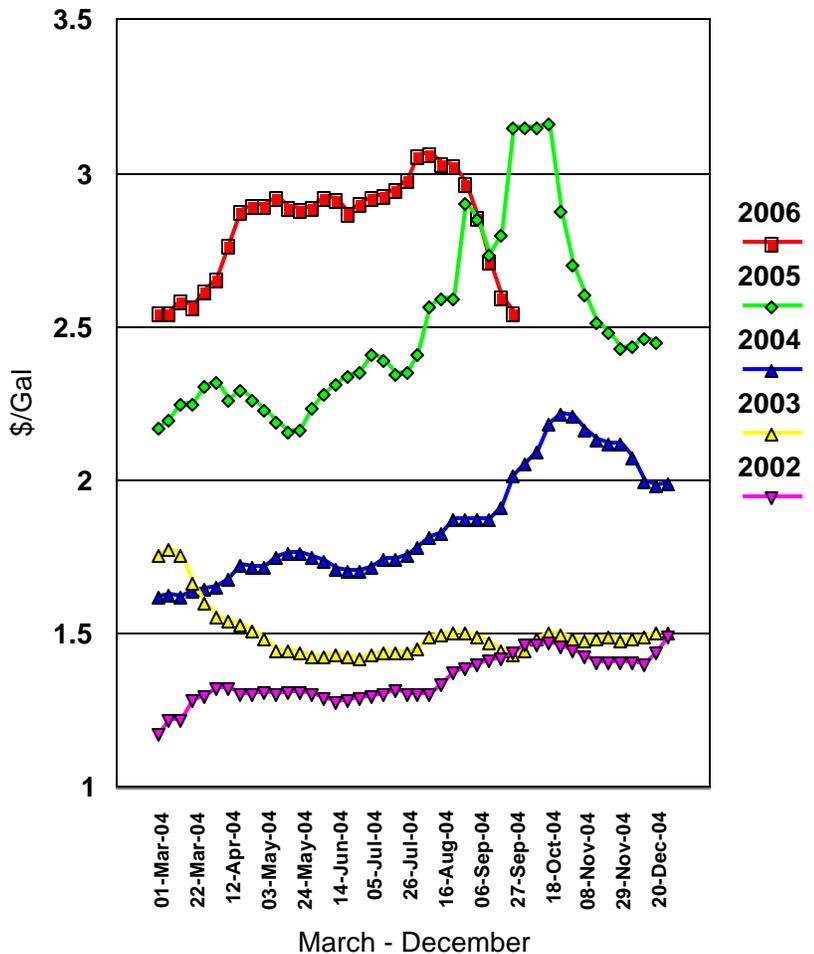
Flint Hills Resources started planned maintenance on Monday that would remove solids built up in exchangers associated with sulfur recovery plant operations. The work would improve the flow rate to MDEA exchangers at the East Sulfur Recover Plant No. 1. The MDEA exchangers and the scot trail

#### **Market Watch**

The US Energy Department said it would hold off buying replacement oil for the SPR through the winter heating season in order to keep more supplies in the market. The DOE needs to replace 11 million barrels of oil that is sold last year for \$600 million to oil companies following Hurricane Katrina.

Iraq's Prime Minister Nouri al-Maliki announced a new four point plan aimed at uniting the Shi'ite and Sunni parties in his government and avoid a crisis over the sectarian violence. Under the plan, local commissions would be formed in each district of Baghdad, made up of representatives of each party, to oversee security forces' efforts against violence. A central committee comprising all the parties would coordinate with the armed forces.

**US Weekly Highway Diesel Price  
Self Service Including Taxes**



gas treating unit are expected to be shut. The sulfur recovery plant No. 1 may be shut to facilitate its maintenance.

Pasadena Refining shut a fluid catalytic cracking unit at its Texas refinery on Sunday for planned work.

In a report filed with the Texas Commission on Environmental Quality, Valero Energy Corp said an exchanger at its Corpus Christi, Texas refinery suffered a problem on Friday causing a release of several contaminants. Meanwhile work being performed at Complex 1 at its 130,000 bpd Houston, Texas refinery resulted in a brief emission event on Saturday.

A 60,000 bpd distillation unit at PDVSA's 200,000 bpd Puerto La Cruz refinery has restarted operations. It is expected to be fully operational by Tuesday. The unit was shutdown for maintenance about a month ago. Meanwhile, PDVSA was still completing repairs to a 190,000 bpd crude distillation unit at its Amuay refinery. The unit was shut on July 17 following a fire.

Kuwait National Petroleum Co said it brought under control an incident that resulted in smoke rising from sulfur processing facilities at its 460,000 bpd Mina al-Ahmadi refinery. It said it was investigating the cause of the incident.

Total said its hydrocracker at its 328,000 bpd Gonfreville refinery in France was likely to start production around mid-October.

Japan's Taiyo Oil Co said it would cut its October crude refining volume by about 10% on the year.

Construction of a wheat based ethanol plant in south central Saskatchewan started in early September. The 150 million liter per year facility is expected to be operational by late 2007.

Shipping sources stated that Iraq exported 1.64 million bpd of crude oil in September, unchanged from August. It sold a total of 1.6 million barrels that it pumped through the northern pipeline to Turkey. Kirkuk oil from Iraq's northern fields, in storage at Ceyhan, stood at about 300,000 barrels.

Jordan's Prime Minister Marouf al-Bakhit said it plans to resume importing oil from Iraq. He said the oil would be purchased at a preferential price, which analysts believe may be as much as \$10 less than on the international market. Jordan is expected to import 10,000 bpd.

Nigeria is scheduled to export 2.04 million bpd of crude oil in November, down 140,000 bpd on the month. Its November export schedule showed planned loadings of about 61.11 million barrels, down 6.44 million barrels on the month. Nigeria's three refineries continued to operate at about 220,000 bpd, implying Nigerian output of 2.26 million bpd.

Russia's Lukoil is close to buying Kuwait Petroleum International's Europort refinery in Rotterdam. An industry source said Lukoil would sign the deal this month. Kuwait Petroleum International received 15 bids for the 80,000 bpd refinery.

The Organization for Security and Cooperation in Europe called on Russia to decrease tension caused by a crisis over the arrest of four Russian officers, accused of spying. The Russian officers were released by Georgian authorities and were headed back to Russia. The OSCE chairman called on Russia to re-establish transport links with Georgia, which earlier Russia said were suspended. Earlier, Russia's Transport Ministry ordered air, rail, land and sea links to Georgia to be suspended.

Russia's seaborne crude oil exports via Transneft's pipeline system fell by 1.7% in September to 2.71 million bpd from 2.76 million bpd in August. Total seaborne exports fell to 11.081 million tons in September from 11.65 million tons in the previous month.

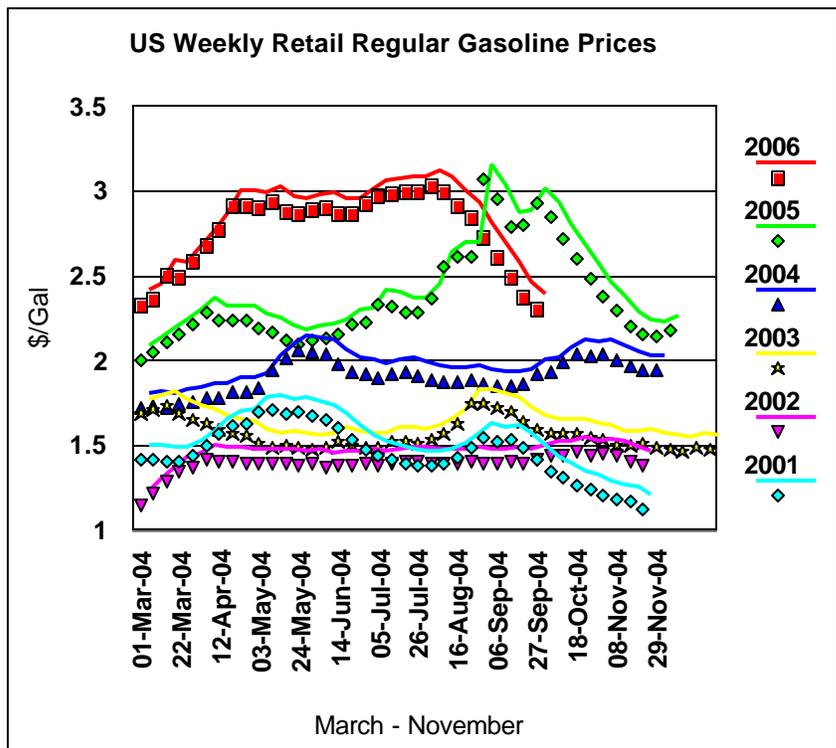
The Caspian Pipeline Consortium said its exports fell by 13% on the month in September to 617,000 bpd.

According to a Colombian newspaper, El Tiempo, officials from Ecopetrol SA and PDVSA evaluated the construction of a Venezuelan crude oil pipeline that would cross Colombia from east to west, reaching a Colombian port on the Pacific Coast.

**Production News**

BP Plc restored 25,000-30,000 bpd of production at the Lisburne oilfield near Prudhoe Bay on Sunday. It was shutdown on Thursday due to a natural gas leak. Meanwhile, over the weekend BP started the pigging process of the east Prudhoe Bay pipeline that is expected to last two weeks. Once the pigging is complete and it finishes a bypass to the section of pipeline worst hit by corrosion, the remaining shut in production would be restored. BP expects to return Prudhoe Bay to full production by the end of October. Its production stood at 350,000 bpd.

Nigerian militants attacked an oil pumping station operated by Royal Dutch/Shell in southern Nigeria on



Monday. A spokesman for Shell said it was checking reports of an attack on the facility.

Iran's government said that Japan's INPEX Holding Inc had a day or two to express its commitment in negotiations over a project to develop Iran's Azadegan field or Iran would turn to other firms. This followed statements made by Iran's state media on Sunday that Iran had extended negotiations with Japan's INPEX Holding Inc on the development of the field. Meanwhile, Japan's government said it would refrain from extending loans or guarantees on debts for development of the Azadegan field by INPEX if the UN Security Council imposes economic sanctions on Iran. Japan said it would comply with the UN if the Security Council decided to include Iran's Azadegan field in economic sanctions against Iran.

Russia's Energy Ministry reported that the country's oil production fell to 9.75 million bpd in September from 9.76 million bpd in August. Russia's exports totaled 4.49 million bpd in September, up from 4.44 million bpd in August.

Saudi Aramco said it would start developing the Moneefa oilfield in the first quarter of 2007 to add 900,000 bpd of Arab Heavy crude by mid-2011. Saudi Arabia is expected to increase its crude oil production capacity to 12.5 million bpd by 2009 from 11.3 million bpd.

OPEC's news agency reported that OPEC's basket of crudes fell to \$57.49/barrel on Friday from \$57.57/barrel on Thursday. It also reported that OPEC's basket of crudes fell by 81 cents/barrel to \$56.35/barrel in the week ending September 29 from \$57.16/barrel the previous week.

### **Market Commentary**

The oil complex settled in negative territory amid the lack of any supportive news over the weekend. The crude market opened down 36 cents at 62.55 as the market discounted OPEC talk of production cuts. Doubts about the nature of the cuts by Nigeria and Venezuela weighed on the market. The market posted a high of 62.70 on the opening and continued to retrace its previous gains on light volume due to the Yom Kippur holiday. The market traded to 61.25 and settled in a sideways trading pattern before further selling pushed the market to a low of 60.90 ahead of the close. It settled down \$1.88 at 61.03. The market was further pressured late in the session amid the news that BP restarted production at the Lisburne oilfield over the weekend. Volume in the crude market was light with only 97,000 lots booked on the day. The gasoline market opened slightly higher at 155.50 and rallied to a high of 175.40. However the market erased its gains and sold off to a low of 152.00, where it held support for much of the session. However the market breached that level and sold off to a low of 150.50 in a late bout of selling. It settled down 4.52 cents at 150.87. The heating oil market also settled down 5.17 cents at 170.18 after it too sold off to a low of 170.00 on the close. The market

posted a high of 175.40 on the opening before it continued to retrace its previous gains. Volumes in the product

Technical Analysis		
	Levels	Explanation
<b>CL</b> 61.03, down \$1.88	<b>Resistance</b> 63.10, 64.00, 65.15, 65.20 61.70, 62.70	Previous highs Monday's high
	<b>Support</b> 60.90 60.10, 59.65-59.55, 59.25	Monday's low Previous lows
	<b>Resistance</b> 176.00, 179.10, 181.80 172.00, 175.40	Previous highs Monday's high
	<b>Support</b> 170.00 168.00, 167.60	Monday's low Previous lows
<b>HU</b> 150.87, down 4.52 cents	<b>Resistance</b> 156.50, 156.90, 163.00, 164.75 153.00, 156.00	Double top, Previous highs Monday's high
	<b>Support</b> 150.50 148.85, 148.60	Monday's low Previous lows

markets were light with 6,500 contracts traded in the gasoline market and 31,000 contracts traded in the heating oil market.

The oil market is seen remaining in a sideways trading pattern ahead of the weekly petroleum stock reports on Wednesday. The market is seen trading in its recent range amid the lack of any new developments on the Iranian issue. The lack of urgency to impose sanctions against Iran is likely to keep the market pressured. The market is seen testing its support at 60.90 followed by 60.10. More distant support is seen at 59.65-59.55 and 59.25. Meanwhile, resistance is seen at 61.70 and its high of 62.70. More distant resistance is seen at 63.10, 64.00, 65.15 and 65.20.