



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 4, 2006

Kuwait's Oil Minister Sheikh Ali al-Jarrah al-Sabah said the country may join Nigeria and Venezuela in cutting its production if prices continue to fall. He said Kuwait may voluntarily lower its production in order to maintain the market's stability. He said OPEC ministers agreed that any output cuts for now would be voluntary rather than across the board. He said \$60/barrel for US crude was a comfortable price but added that crude at \$50/barrel was a concern. Meanwhile, an OPEC source said other OPEC members were unlikely to join Nigeria and Venezuela in publicly pledging to cut its oil supply.

Market Watch

An industry pundit stated that ethanol biofuel programs should be flexible to guard against volatile feedstock prices and added that global over capacity was a risk. He said the current production cost of a gallon of ethanol derived from cane juice in Brazil was about \$0.70 compared with \$1.10 for ethanol derived from corn in the US and \$1.45 for ethanol derived from corn in China. He stated that if oil prices ease relative to ethanol, ethanol may appear less attractive as an investment but added that oil and ethanol policy would be key to determining demand and supply.

A panelist at a commodities conference said exchange traded commodity funds, ETF, should be used by institutions and retail investors who understand the complexities of the underlying market.

A Pennsylvania man was charged by a federal grand jury of attempting to conspire with al Qaeda to destroy major US oil and gas pipelines. The FBI arrested the suspect in December 2005 when he was traveling to Idaho in an attempt to collect \$40,000 he believed was payment for helping to blow up sections of the Transcontinental Pipeline. The alleged plot also included a plan to detonate propane trucks along the Alaska pipeline and to blow up refineries in New Jersey and Wyoming.

The head of Libya's National Oil Corp, Shokri Ghanem said no decision was reached yet on whether OPEC would hold an emergency meeting. He said OPEC members were still watching the market and consulting with each other. He stated that Libya would comply with any official OPEC agreement. Meanwhile, Saudi Arabia's ambassador to the US, Prince Turki said the countries aim within OPEC

DOE Stocks

Crude – up 3.3 million barrels
Distillate – up 200,000 barrels
Gasoline – up 1.2 million barrels
Refinery runs – down 2.71%, at 89.9%

was to stabilize oil prices to reasonable levels in order to cushion the impact of high energy costs on developing countries. He also stated that he did not expect OPEC to hold an emergency meeting to discuss the recent fall in oil prices ahead of its scheduled meeting on December 14. In regards to Iran, he said the US should open up negotiations

with Iran over its nuclear program. During a visit to Saudi Arabia this week, US Secretary of State Condoleezza Rice stated that the international community had to choose but to impose sanctions on Iran if it failed to suspend its uranium enrichment.

Venezuela's President Hugo Chavez said oil prices should not fall below \$60/barrel. He said he ordered Venezuela's cut of 50,000 bpd after oil prices fell to \$65/barrel. He said \$60/barrel was a fair price for oil.

European Union foreign policy chief Javier Solana said the talks with Iran over its nuclear program failed to make any progress. He said Iran had to decide on whether it wanted to continue its nuclear talks and added that talks could not continue forever. On Tuesday, senior UN diplomats stated that the UN Security Council would start focusing on sanctions against the country next week.

Iran's President Mahmoud Ahmadinejad ordered authorities to open the doors of Iran's nuclear facilities to foreign tourists to prove that the country's nuclear program is peaceful. He also stated that Iran wanted talks to continue to remove the West's concerns over its nuclear program. However he said Iran would not abandon its right to enrich uranium. He warned that any possible sanctions would not stop Iran from enriching uranium.

Nigerian militants and troops clashed near an oil pumping station operated by Royal Dutch Shell in the eastern part of the Niger Delta. The Movement for the Emancipation of the Niger Delta said nine Nigerian army boats and a helicopter gunship were battling its fighters near the Ekulama flow station. It said it was considering attacking several oil installations as well as lifting the embargo it placed on hostage takings. Earlier, the US Consulate in Nigeria said Nigerian militants may target Bonny Island, a major oil and gas export hub, which ships about 400,000 bpd of crude oil. Separately, Royal Dutch Shell said all the contractors taken hostage on Monday have been freed by the militants. It said no money had been paid to secure the release of the hostages. It said no production was affected by the militants' raid on a convoy of boats supplying oilfields in the Niger Delta. In a separate attack, suspected militants invaded a residential compound for ExxonMobil's foreign oil workers on Tuesday, killing two guards and kidnapping at least three British and two Malaysian workers.

According to the EIA, the average US price heating oil was \$2.39/gallon this week, down 30 cents on the year. It said heating fuel prices could fall further as the recent fall in wholesale heating oil prices have not yet been completely passed on to consumers. Wholesale heating oil prices averaged \$1.77/gallon, down 47 cents on the year. It estimated that Northeast heating oil prices would average \$2.65/gallon in the current quarter and \$2.70/gallon in the fourth quarter as well as the first quarter of 2007.

The DOE reported that US inventories of propane increased by 1.043 million barrels to 69.993 million barrels in the week ending September 29. It reported that inventories in the East Coast fell by 131,000 barrels to 4.816 million barrels while inventories in the Midwest fell by 94,000 barrels to 26.176 million barrels and inventories in the Gulf Coast increased by 1.17 million barrels on the week.

Refinery News

Valero Energy Corp said it was conducting additional maintenance at its Houston, Texas refinery and has decided to shut the entire refinery for about 40 days. The refinery was already conducting maintenance on a gasoline producing unit, which was expected to take 28 days.

ExxonMobil Corp shut a processing unit at its Torrance, California refinery on Wednesday following the release of some oil from equipment. Separately, ExxonMobil said a fluid catalytic cracking unit at its

188,000 bpd Chalmette, Louisiana refinery was successfully restarted. The unit was shut on September 25 following a fire.

Flint Hills said it planned to restart its gas oil hydrotreater at its 288,000 bpd Corpus Christi, Texas refinery following the completion of work on the recycle hydrogen compressor. It is expected to begin restarting the unit on Wednesday.

The US Coast Guard reported that a sulfuric acid spill from Valero's refinery prompted a warning for resident to seek shelter. The refinery was in the process of shutting down for maintenance. It said the spill did not cause the closure of the Houston Ship Channel.

Irving Oil is expected to build a second oil refinery in St. James, New Brunswick. An official said the new refinery would have the capacity to process 300,000 bpd. Its existing refinery processes about 250,000 bpd of oil.

Japan's Showa Shell Sekiyu KK is scheduled to shut its crude distillation unit at its Yokkaichi refinery on Thursday for planned maintenance. The 75,000 bpd unit is scheduled to restart on November 7.

South Korea's SK Corp is expected to increase its crude runs in October to about 800,000 bpd or 95.2% as refining margins have improved. In September, SK processed about 790,000 bpd of crude oil.

Kazakhstan's KazMunaiGas denied that it had agreed to supply crude oil to Lithuania's Mazeikiu Nafta by rail after Russia cut deliveries by pipeline. Last month sources stated that KazMunaiGas and Mazeikiu signed a deal under which KazMunaiGas would supply 350,000 tons by rail to the refinery over eight weeks.

Georgia's Black Sea port of Batumi cut crude and refined products shipments in September as some volumes were rerouted to the Baku-Ceyhan oil pipeline. Oil and product shipments fell to 733,500 tons in September from 932,000 tons in August and from 945,300 tons last year.

Production News

Saudi Arabia increased its November official selling price for its crude to Europe at Sidi Kerir. It increased the price of Arab Heavy by \$2.35 on the month to BWAVE minus \$8.15. It also increased the price of Arab Medium by \$1.65 to BWAVE minus \$6.40 and Arab Light by \$1.05 to BWAVE minus \$4.50.

BP Plc said it expected its oil and gas production to have fallen by 0.6% to 3.8 million bpd of oil equivalent in the third quarter as losses at its Alaskan operations and sales of oilfields outweigh gains from new start-ups and a light hurricane season. BP also stated that its refining margins fell sharply in the third quarter compared with the second quarter and last year.

According to the Aberdeen Petroleum report, UK oil production in July increased to 1.421 million bpd.

Kyodo News agency reported that Japan would likely lose its rights to a \$2 billion project to develop Iran's Azadegan oilfield. Media reports have stated that talks have stalled after the US urged Japan to freeze the project over Iran's nuclear program.

Officials stated that Kazakhstan was seeking to proceed with the development of new oil and gas fields in its sector of the Caspian Sea and hoped to complete several deals with foreign partners by the end of next year. The new projects should help increase Kazakhstan's offshore oil production to 89.2

million tons by 2015 from just 3 million tons last year. However an official warned that delays to Kashagan, which Kazakh officials said may not pump its first oil before 2009, could push back that timetable. Separately, Kazakhstan's Energy Minister Baktykozha Izmukhambetov said the country's oil and gas condensate production is expected to total 62.5 million tons or 1.255 million bpd in 2006. The Energy Minister stated that production in the first nine months of the year reached 47.5 million tons, up 3.5% on the year.

A Kremlin official said Russia was not seeking to oust foreign oil companies operating production sharing agreements. However he said Russia would not agree to large cost overruns at the projects. The official said Russia was particularly concerned by Royal Dutch Shell's request to allow it to double costs to \$20 billion at its Sakhalin-2 oil and gas project. He said it would not allow the project to increase costs and as a result cut Russia's share of profits.

OPEC's news agency reported that OPEC's basket of crudes fell by \$1.92/barrel to \$55.27/barrel on Tuesday.

Market Commentary

The oil market opened 22 cents higher at 58.90 in follow through buying seen overnight. The market was buoyed in light of Kuwait's Oil Minister Sheikh Ali al-Jarrah al-Sabah stating that the country may join Nigeria and Venezuela in cutting its production if prices continued to fall. The market was also supported by a statement made by the US Consulate in Nigeria that militants may target Bonny Island, an export hub which ships 400,000 bpd of oil. The market posted an early high of 59.05. However the market erased its gains and sold off to a low of 57.75 following the release of the DOE report, which showed an unexpected build in crude stocks of over 3 million barrels. The market later retraced its losses and traded back above the 59.00 level and settled in a range. The market later rallied to a high of 59.75 amid reports of Nigerian militants and troops clashing near Royal Dutch Shell's Ekulama flow station. The militants also threatened to attack several oil installations. The market remained well supported and settled up 73 cents at 59.41. Volume in the crude market was good with over 200,000 lots booked on the day. Similarly, the gasoline market traded to 148.00 before it quickly sold off to a low of 144.35 in light of the mostly bearish weekly petroleum stock reports. The DOE reported a slightly higher than expected build in gasoline stocks. The market however bounced off its low and backfilled its previous gap as it rallied to a high of 150.50 ahead of the close. The market settled up 4.11 cents at 149.78. The heating oil market also settled up 2.31 cents at 167.70 after it retraced its earlier losses. Early in the session, the heating oil market sold off to a low of 163.60 amid the weakness in the rest of the complex. Volumes in the product markets remained light with 8,000 lots booked in the gasoline and 25,000 lots booked in the heating oil market.

If the market retraces some of its today's sharp gains following the mostly bearish weekly petroleum stock reports, its losses are seen limited

| | | Levels | Explanation |
|-----------|-----------------------|------------------------|--|
| CL | Resistance | 60.10 to 60.90, 62.70 | Remaining gap (October 3rd), Previous high Wednesday's high |
| | 59.41, up 73 cents | 59.75 | |
| | Support | 58.85, 58.35, 57.75 | Wednesday's low |
| HO | | 175.40 | Previous high |
| | Resistance | 168.00 to 170.00 | Remaining gap (October 3rd) |
| | 167.70, up 2.31 cents | 166.00, 163.60 | Wednesday's low |
| HU | Support | 163.20, 159.70 | Previous lows |
| | | 156.00, 156.50, 156.90 | Previous highs, Double top Wednesday's high |
| | Resistance | 150.50 | |
| | 149.78, up 4.11 cents | 147.50, 146.00, 144.35 | Wednesday's low |
| | Support | 143.40, 138.50 | Previous lows |

amid the renewed violence in Nigeria. Nigeria's militants clashed with troops and stated that they were considering attacking oil installations. The market will also remain concerned over the Iranian situation as the EU foreign policy chief suggested that the UN Security Council should begin work on a resolution if Iran was not halting its uranium enrichments. He said they failed to make any progress in their talks. The market is seen finding support at 58.85, 58.35 and its low of 57.75. More distant support is seen at 57.55, 57.30 and 56.90. Meanwhile resistance is seen at 59.75 followed by its gap from 60.10 to 60.90.