



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta &
Zachariah Yurch

(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR OCTOBER 6, 2006

OPEC's President Edmund Daukoru said OPEC members were still in consultations on the need for an emergency meeting to discuss a supply cut. He said consensus was building for an output cut of 1 million bpd and added that the cuts would be implemented soon. He said he aimed to secure an output cut deal by Monday. Indonesia's OPEC governor Maizar Rahman also stated that OPEC had not yet planned an emergency meeting. However he reiterated OPEC's Indonesia's support for an OPEC cut to stabilize oil prices. The Al Hayat newspaper said Saudi Arabia was not opposed to an emergency meeting that would consider a cut of 1 million bpd. It said Saudi Arabia would support any decision agreed by all OPEC members. On Thursday, an OPEC delegate stated that OPEC decided to cut its output by 1 million bpd, with Saudi Arabia cutting its output by 300,000 bpd. Earlier this week, Saudi

Market Watch

Venezuela's President Hugo Chavez said oil would likely increase in the next few months due to winter heating demand.

OECD chief economist Jean-Philippe Cotis said a fall in oil prices is welcome but stated that it was too soon to say whether lower prices would persist. The European Central Bank on Thursday also warned that oil prices could increase again.

Crude oil freight rates fell further on the world's leading export routes on Friday. An OPEC cut of 1 million bpd translates into one extra VLCC seeking to lift oil every two days, adding to increasing supply at a time when crude and tanker demand peaks.

Deutsche Bank reported that non-OPEC supply is expected to grow by an estimated 1.5-1.6 million bpd in 2007 while demand growth is estimated at 1-1.5 million bpd. It stated that even if demand grew by as much as 1.5 million bpd, non-OPEC growth may still result in a lower call on OPEC and an increase in spare capacity, especially if OPEC capacity increased by 1 million bpd. It said OPEC would need to cut its output by at least 1 million bpd and closer to 1.6 million bpd. It noted that in its worst case scenario, the oil market was oversupplied by 1.6 million bpd, which would imply Saudi production needs to be cut towards 8 million bpd, with 2 million bpd of Saudi spare capacity.

Shell said the recent 25% fall in oil prices has not cut into its North American investment plans. Shell said it planned to proceed with its massive planned investment in Canada's oil sands and a joint venture project that could create the largest oil refinery in the US. Shell Canada is expected to invest \$8.8 billion to \$11.3 billion to increase its production by 100,000 bpd at its Athabasca Oil Sands Project. IN the US, Shell was considering investing in production from its Great White field in the Gulf of Mexico, which could eventually produce 130,000 bpd of oil equivalent. It said it was proceeding with its plan to double the size of joint venture oil refinery in Port Arthur, Texas to 600,000 bpd by 2010.

The European Commission said European Union energy experts were not concerned about gas supply in the region over the coming months. However they could not rule out problems if the winter is extremely cold. The EU's Gas Coordination Group met with energy representatives from Russia and Ukraine on Thursday, when both countries assured the EU that gas supplies would flow uninterrupted this winter.

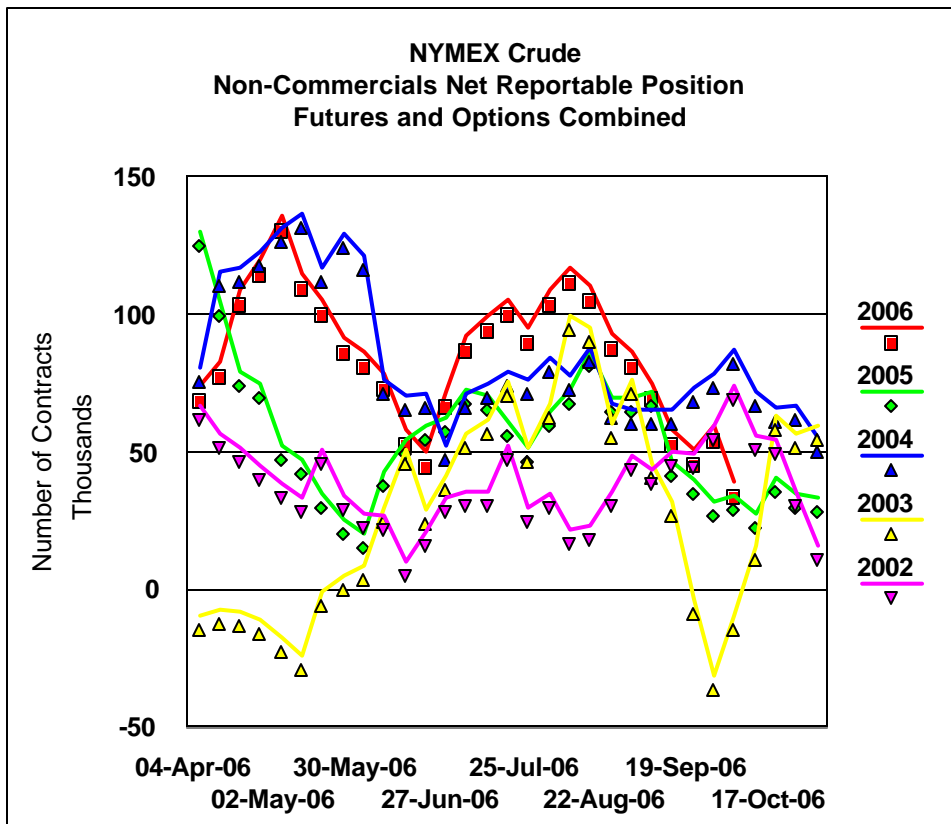
The DOE announced that it would delay the release of the weekly petroleum stock report for the week ending October 6 by one day to October 12 due to the Columbus Day holiday.

Arabia increased its prices for its European customers, a move that could limit shipments to the region. Saudi Aramco however cut its oil prices for oil bound to the US. Its Arab Extra Light crude bound for the US was cut by 65 cents to WTI minus \$3.65 and its Arab Light crude was set at WTI minus \$7.00, down 40 cents on the month. Its Arab Medium price was cut by 20 cents to WTI minus \$9.20 and its Arab Heavy was unchanged at WTI minus \$11.70.

A senior US State Department official announced that an unexpected travel delay has forced the US and its diplomatic partners to postpone until early next week a decision about what punitive actions to take against Iran over its nuclear program. US officials said the decision would likely be made in a conference call among the foreign ministers on Monday or Tuesday. Meanwhile, a US official said the world powers are likely to agree on the principle of imposing sanctions on Iran over its nuclear program but not to approve specific language. EU foreign policy chief Javier Solana said he hoped that the foreign ministers of the US, UK, France, Russia, China and Germany meeting to discuss the standoff over Iran's nuclear program would adopt a common approach. However he cautioned against expecting a breakthrough. He said negotiations with Iran would still be possible even as the major powers prepared to discuss the possibility of imposing sanctions against Iran. He also stated that cooperation with Iran was fundamental, suggesting that Europe could not afford to isolate an important country in a troubled region. The talk of sanctions is likely face resistance from Russia and China. Russia's Foreign Minister, Sergey Lavrov said the international community should work on efforts to get Iran back to the negotiating table over its disputed nuclear program. He said Russia did not rule out new measures to persuade Iran to respond to international demands to halt its nuclear program.

Refinery News

TonenGeneral Sekiyu KK may be allowed to restart a fire stricken crude distillation unit at its Kawasaki refinery as early as next week. The 185,000 bpd crude unit was shut on Thursday.



Vitol has purchased most of the Latvian government's 38.6% stake in oil terminal operator Ventspils Nafta. Analysts said the purchase could lead to the reopening of a key oil pipeline. Ventspils Nafta was once a major Russian crude export terminal however Russia cut its supplies of oil by pipeline in 2003.

Russian Railways is expected to deliver at least 8.9 million metric tons of oil to China in 2007. This year, oil exports to China by rail are expected to total 11.8 million tons.

Production News

Royal Dutch Shell has shutdown the 9,000 bpd Ekulama-1 crude oil flow

station in the Niger Delta as fighting in the region continued. The flow station feeds into the Bonny Terminal. The total shut in production in Nigeria increased to 602,000 bpd.

Mexico's Energy Ministry said the country would not alter its production levels in reaction to the reports that was cutting its output by 1 million bpd. It said Mexico had no plans to cut or increase its production.

Iraq halted its oil exports from its southern Basra terminal late on Thursday as bad weather conditions forced operators to suspend berthing operations. There was no indication when operations would resume at the terminal.

Norway's Oil Minister projected in its 2007 budget draft a 7.4% increase in total oil and gas production next year to 268 million standard cubic meters of oil equivalent. It forecast oil and natural gas liquids production to increase to 3 million bpd in 2007 from 2.8 million bpd in 2006 as more projects come on stream.

Japan's INPEX Holdings Inc has lost its right to lead the development of Iran's Azadegan oilfield. Its stake in the project has been cut to 10% from the 75% shared agreed in 2004. The operational responsibility for Azadegan would be transferred to Iran. The lowering of the stake in the oil field would allow the Japanese government to suspend assistance to the development project that has been planned such as soft loans by the Japan Bank for International Cooperation. At the same time, keeping a 10% stake in the project would allow Japan to maintain the right to import crude oil produced from the field in the future.

Russia's Rosneft is expected to remain the country's fastest growing oil company next year as it foresees production growth of at least 7% following 8.4% growth this year. Its production in 2006 is estimated to total 80.5 million tons or 1.61 million bpd.

Russia's Lukoil said it would increase its oil production by over 50% within the next 10 years to 150 million tons or 3 million bpd. This year, Lukoil is expected to produce 95 million tons of oil or 1.9 million bpd.

ExxonMobil Corp said it was still seeking to develop the La Ceiba field with PDVSA, despite the oil nationalism under President

		Levels	Explanation
CL	Resistance	60.90, 62.70, 63.10, 64.00	Previous highs
	59.76, down 27 cents	60.15	Friday's high
	Support	59.50, 58.85	Friday's low
		57.75, 57.55, 57.30, 56.90	Previous lows
HO	Resistance	172.50, 175.40, 176.00	Previous highs
	169.40, up 20 points	170.30	Friday's high
	Support	169.00, 168.00, 166.10	Friday's low
		163.60, 163.20, 159.70	Previous lows
HU	Resistance	154.25, 156.00, 156.50, 156.90	Previous highs, Double top
	150.42, down 1.23 cents	152.25	Friday's high
	Support	149.50, 147.00	Friday's low
		144.35, 143.40, 138.50	Previous lows

Hugo Chavez. It said it was working with PDVSA and the Oil Ministry on a development plan for La Ceiba, a field estimated to have initial production of about 40,000 bpd of medium grade crude oil.

China has recently started filling its strategic oil reserves in Zhenhai. An official at China's State Energy Office did not specify how much oil has been pumped into the tanks and declined to specify when the tanks would be completely filled. Meanwhile, an official at CNOOC said China had been

collecting some crude oil produced at offshore fields for its strategic reserves since the start of the year. The official gave no estimates on how much production was being diverted to the reserves.

Ecuador's Petroecuador exported 215,205 bpd of oil in September, up 0.4% on the month.

Market

Commentary

The crude market opened 40 cents lower at 59.60 as the market awaited further clarity on a possible OPEC output cut. Even though an OPEC delegate announced on Thursday that OPEC had agreed to cut its output by 1 million bpd, OPEC's President Olusegun Obasanjo said that OPEC was still considering having an extraordinary meeting. He said consensus was building for an output cut of 1 million bpd and added that he aimed to secure an output cut agreement by Monday. The market rallied to a high of 60.15 before it continued to retrace its previous gains. The crude market

NYMEX Petroleum Options Most Active Strikes for October 6, 2006									
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Prev Settle	Volume	IV
GO	11	6	C	1.7	10/26/2006	0.008	0.0101	70	41.99
GO	11	6	P	1.4	10/26/2006	0.0177	0.0163	25	40.45
LO	6	7	P	60	05/17/2007	3.01	3.05	6,700	27.64
LO	12	7	P	40	11/13/2007	0.45	0.45	4,135	32.14
LO	12	7	P	50	11/13/2007	1.51	1.52	2,835	29.21
LO	11	6	P	59	10/17/2006	1.08	1.03	1,956	34.79
LO	12	6	P	55	11/14/2006	0.57	0.6	1,902	33.85
LO	6	7	P	72	05/17/2007	9.24	9.24	1,900	26.72
LO	11	6	P	55	10/17/2006	0.18	0.18	1,894	37.57
LO	12	6	P	58	11/14/2006	1.2	1.21	1,854	31.93
LO	1	7	P	60	12/14/2006	2.07	2.1	1,678	29.16
LO	1	7	P	52	12/14/2006	0.39	0.42	1,676	32.67
LO	12	6	C	66	11/14/2006	0.87	0.95	1,652	31.53
LO	1	7	C	76	12/14/2006	0.26	0.29	1,450	30.54
LO	2	7	C	70	01/17/2007	1.3	1.39	1,275	27.36
LO	12	6	P	50	11/14/2006	0.14	0.15	1,101	37.49
LO	12	6	C	72	11/14/2006	0.18	0.21	1,100	32.15
LO	6	7	P	55	05/17/2007	1.71	1.75	1,050	29.24
LO	2	7	P	58	01/17/2007	1.63	1.65	1,010	28.48
LO	1	7	C	75	12/14/2006	0.32	0.35	1,001	30.47
LO	1	7	C	66.5	12/14/2006	1.52	1.62	1,000	29.05
LO	12	7	P	60	11/13/2007	3.81	3.81	1,000	26.46
LO	6	7	C	70	05/17/2007	3.22	3.37	1,000	25.80
OB	5	7	C	1.8	04/25/2007	0.1796	0.1866	125	29.15
OB	11	6	C	1.7	10/26/2006	0.0112	0.0148	95	41.68
OH	11	6	C	1.77	10/26/2006	0.0231	0.0236	600	32.61
OH	3	7	P	1.75	02/23/2007	0.0883	0.0902	525	29.88
OH	3	7	C	2	02/23/2007	0.0769	0.0758	525	30.49
OH	12	6	C	1.83	11/27/2006	0.0541	0.0528	320	32.65
OH	12	6	C	1.8	11/27/2006	0.0638	0.0623	290	32.18
OH	12	6	P	1.65	11/27/2006	0.0398	0.042	250	31.84
OH	1	7	C	1.93	12/26/2006	0.0593	0.0582	160	32.07
OH	1	7	P	1.67	12/26/2006	0.0456	0.0474	160	30.45
OH	4	7	C	1.84	03/27/2007	0.1328	0.1312	125	28.17
OH	1	7	C	1.89	12/26/2006	0.0699		120	31.38
OH	11	6	P	1.99	10/26/2006	0.2969	0.299	100	37.84
OH	12	6	C	1.95	11/27/2006	0.0275	0.0269	100	34.41
OH	12	6	P	1.9	11/27/2006	0.1827	0.1872	100	33.99

extended its losses to \$1.18 as it posted a low of 58.85 early in the session amid the doubts that OPEC would cut its output. The market however later bounced off its low and retraced its losses as it traded back towards the 60.00 level ahead of the close. The crude market settled down 27 cents at 59.76. Volume in the crude market was good with 200,000 lots booked on the day. The gasoline market also settled in negative territory, down 1.23 cents at 150.42 after it gapped lower from 149.50

to 149.00. The market quickly backfilled its gap as it traded to a high of 152.25 early in the session. However the market retraced its gains and sold off to a low of 147.00 amid the weakness in the oil market. It later settled in a sideways trading pattern before it rallied back towards its high ahead of the close. The market settled lower amid some profit taking ahead of the weekend. Unlike the crude and gasoline market, the heating oil market settled in positive territory. The market sold off to a low of 166.10 early in the session before it retraced its losses and rallied to a high of 170.30 ahead of the close. It settled up 20 points at 169.40. Volumes in the product markets were better with 12,000 lots booked in the gasoline and 40,000 lots booked in the heating oil market.

The Commitment of Traders report showed that non-commercials cut their net long positions by 13,554 contracts to 131 contracts in the week ending October 3 as the market continued to sell off. The combined futures and options report also showed that non-commercials cut their net long positions by 20,569 contracts to 34,152 contracts on the week. Meanwhile, the non-commercials in the product markets increased their net short positions. Non-commercials in the gasoline market increased their net short position by 1,696 contracts to 4,061 contracts while non-commercials in the heating oil market increased their net short position by 6,456 contracts to 6,705 contracts on the week.

The oil market on Monday will be headline driven as the market awaits for confirmation on whether OPEC agrees to cut its production by 1 million bpd. The market will also remain concerned about the standoff with Iran as the foreign ministers from the US, UK, France, Russia, China and Germany are expected to make a decision early in the week about what punitive actions to take against Iran over its nuclear program. The decision would likely be made in a conference call among the foreign ministers on Monday or Tuesday after Friday's meeting in London was postponed. If OPEC does confirm an output cut of 1 million bpd, the market is seen holding support at its recent low of 57.75. Meanwhile, resistance is seen at 60.15 followed by its previous highs of 60.90. More distant resistance is seen at 62.70, 63.10 and 64.00.