



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR OCTOBER 9, 2006**

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According to a letter sent to OPEC members, OPEC's President Edmund Daukoru was proposing the group should cut 1 million bpd from current output rather than from the official quota of 28 million bpd. He has requested for responses by October 10

#### **Market Watch**

The head of the IEA, Claude Mandil said importing ethanol made from sugar cane is more cost effective and environmentally clean than producing the alternative fuel from maize and sugar beet. He added that it was important to develop second generation biofuels using plant matter that would emit less carbon dioxide.

on his plan to make the cut from OPEC's output of about 27.5 million bpd. Meanwhile, Kuwait's Energy Minister Sheikh Ali Jarrah al Sabah said OPEC was considering cutting its output by 700,000 bpd to 1 million bpd. He said the disagreement was over whether the cuts should come from the quota or the production level. Earlier reports stated that OPEC oil ministers were united on the need to reduce production by 1 million bpd but are still divided over whether they need to meet to formalize a deal. OPEC members were still discussing the possibility of holding an emergency meeting on October 18-19.

Iran's Foreign Ministry insisted on Sunday that it would not suspend its uranium enrichment despite signs that the permanent members of the UN Security Council and Germany were close to agreeing on sanctions against Iran. He dismissed reports of Iran temporarily halting its nuclear program. Iran's President Mahmoud Ahmadinejad said Iran was interested in talks to resolve its nuclear issue. On Friday, the US, UK, France, Russia, China and Germany agreed to discuss possible UN sanctions to punish Iran for failing to heed demand to halt its uranium enrichment.

US President George W. Bush said the US was working to confirm North Korea's claim that it has conducted a nuclear test. He said North Korea's action pose a threat to global peace and security. He stated the country's action was unacceptable and added that the action deserved an immediate response from the UN Security Council. Meanwhile the head of the UN's IAEA, Mohamed ElBaradei said North Korea's reported nuclear test represented serious security challenges and a setback to preventing the spread of nuclear weapons. US Ambassador John Bolton said members of the UN Security Council unanimously condemned North Korea's claim of a nuclear test during an emergency meeting on Monday. He said the US would seek UN sanctions to curb North Korea's import and export of material that could be used to make and deliver weapons of mass destruction. It would also seek to impose sanctions on what it says are illicit financial activities.

According to the Lundberg survey, US retail gasoline prices continued to fall by 15 cents/gallon to \$2.28/gallon in the two weeks ending October 6.

### **Refinery News**

BP Plc started shutting units on Monday at its 260,000 bpd refinery in Carson, California as part of a planned overhaul of several units including a crude unit. In addition to the crude unit, a coking unit, a gasoil hydrotreater and other units at the refinery would be overhauled over 30 days. A vapor release was reported by BP's Carson, California refinery on Monday during the shutdown.

According to a report filed with the Texas Commission on Environmental Quality, a sulfur recovery unit was shut at Valero Energy's Port Arthur, Texas refinery following a power outage.

Shell's 334,000 bpd Deer Park refinery in Texas reported an emission event on Sunday while it was shutting down a crude distillation unit for planned turnaround. It stated that associated compressor plant unit tripped and flared. The crude distillation unit, which has a capacity of 70,000 bpd, is expected to remain down for 21 days.

Pasadena Refinery Systems started the process of restarting a fluid catalytic cracking unit on Saturday at its 100,000 bpd Pasadena, Texas refinery following about six days of preventive maintenance on a related blower train. Emissions associated with the restart of the catcracker unit are expected to last about 48 hours starting at midnight on Saturday.

A crude unit at ExxonMobil's 563,000 bpd Baytown, Texas refinery resumed normal operation following a problem last week. Separately, ExxonMobil continued to struggle with keeping the 100,000 bpd fluid catalytic cracking unit at its 150,000 bpd Torrance, California refinery operating.

ExxonMobil Corp's 246,000 bpd Antwerp refinery is scheduled to shutdown in November for planned maintenance. Traders stated that the refinery would be offline for about four to six weeks.

PDVSA said it continued to export gasoline to international customers despite maintenance work at two of its domestic refineries. A PDVSA spokeswoman denied news reports that the company was forced to curtail fuel shipments to customers due to a shortage of gasoline. She said the shutdowns were planned for and added that PDVSA had enough fuel inventories to supply its clients. PDVSA has been performing maintenance on its 100,000 bpd fluid catalytic cracking unit at its Amuay refinery. The unit is expected to remain shut until late October or early November. It has also been performing maintenance on a catalytic cracking unit at its El Palito refinery. The unit, currently operating at about 30,000 bpd, half of its capacity, should be fully restored early next week.

Oman's new Sohar oil refinery is expected to start commercial operations at the end of October following the completion of the performance tests. Officials previously stated that the refinery, which has a crude unit with a capacity of 116,400 bpd and a residue fluid catalytic cracking unit with a capacity of 75,260 bpd, would start commercial operations in September.

### **Production News**

Trade sources stated that Saudi Arabia is expected to cut about 5% of its contracted crude supply to world majors in November. The cuts mean Saudi Arabia would supply about 70% of contracted volumes to majors, down from about 75% in the previous months.

Royal Dutch Shell Plc restarted an 18,000 bpd oil flow station in the Niger Delta. Meanwhile the 9,000 bpd Ekulama-1 flow station near the Cawthorne Channel remained shut. The flow station that feeds

into the Bonny Terminal was shutdown on Friday. Separately, Shell said it still had 477,000 bpd of crude production shut in the western Niger Delta.

Iraq resumed its oil exports from its southern Basra terminal late on Friday after bad weather conditions forced operators to suspend berthing operations earlier that day. Its loading operations continued at about 70,000-75,000 barrels/hour.

According to a Dow Jones Newswire survey, OPEC's crude production fell by 160,000 bpd in September to 29.6 million bpd. The OPEC ten produced 27.55 million bpd, down 160,000 bpd on the month. It reported that Nigeria's production fell by 70,000 bpd to 2.18 million bpd. Iraq's production remained unchanged at 2.05 million bpd.

Denmark's North Sea DUC oil stream is scheduled to load 220,000 bpd in November, up from 213,000 bpd in October.

Iraq's Oil Minister Hussein al-Shahristani said his ministry planned to develop the Kifl oilfield in southern Iraq with a capacity of 40,000 bpd. He said that crude from the field, with proven oil reserves of 150 million barrels, would help supply oil to nearby small refineries. He also stated that Iraq would need a new oil and gas law before contracts could be signed with foreign companies to develop oil fields.

Oil production from the ExxonMobil led Sakhalin-1 project is expected to peak in 2007 and start to decline immediately afterwards partly because it failed to agree with Russia to extend the field's territory. The failure to agree to the extension of license territory would cut the projected output by about 10%.

OPEC's news agency reported that OPEC's basket of crudes fell to \$55.13/barrel on Friday from \$55.27/barrel on Thursday. It reported that OPEC's basket of crudes fell by \$1/barrel to \$55.33/barrel in the week ending October 6.

### **Market Commentary**

The oil market gapped higher from 60.15 to 60.45 on expectations that OPEC would formally announce an agreement to cut production by 1 million bpd. The market was also supported by the geopolitical concerns returning to the forefront of the market's focus amid the news that North Korea conducted its first nuclear test. The market quickly rallied to a high of 61.05. The crude market retraced some of its gains and sold off to 60.25 as the market awaited for confirmation from OPEC on its

production cut. In choppy trading, the market bounced off its low and rallied to a high of 61.30 in afternoon trading. However the market

		Levels	Explanation
CL	<b>Resistance</b>	62.70, 63.10, 64.00	Previous highs
	59.96, up 20 cents	61.30	Monday's high
	<b>Support</b>	59.95	Monday's low
HO	<b>Resistance</b>	58.85, 57.75-57.55, 57.30, 56.90	Previous lows
		179.10	Previous high
	172.97, up 3.57 cents	175.50, 176.50	Monday's high
	<b>Support</b>	172.35 to 170.30	Remaining gap (October 9th)
HU	<b>Resistance</b>	166.10, 163.60, 163.20	Previous lows
		156.00, 156.50, 156.90	Previous highs, Double top
	149.49, down 93 points	153.25, 155.20	Monday's high
	<b>Support</b>	148.50	Monday's low
		147.00, 144.35, 143.40	Previous lows

erased its gains and sold off to a low of 59.95 ahead of the close amid the uncertainty over OPEC's production cuts. The market settled up just 20 cents at 59.96. Volume in the crude market was lighter with 193,000 lots booked on the day. The gasoline market opened up 1.08 cents at 151.50 and quickly rallied to 153.95 before it retraced some of its gains. The market later breached its resistance and posted a high of 155.20 amid the strength in the crude market. However the market sold off to a low of 148.50 amid a late bout of selling ahead of the close. It settled down 93 points at 149.49. Meanwhile, the heating oil market gapped higher from 170.30 to 173.00 in follow through buying seen in overnight trading. The market partially backfilled its gap as it posted a low of 172.35. It bounced off its low and rallied to a high of 176.50. However the market erased its gains and traded back towards its low ahead of the close. It settled up 3.57 cents at 172.97. Volume in the gasoline market was light with 6,000 lots booked while volume in the heating oil market was good with 50,000 lots booked on the day.

The crude market on Tuesday will likely continue to retrace its gains as the market waits for confirmation on OPEC's output cuts. If OPEC does cut their production by less than 1 million bpd following the statement's by Kuwait's Oil Minister, the market is seen retracing its gains and testing its lows once again, barring any geopolitical concerns. The market, which settled near its low of 59.95, is seen finding support at 58.85 followed by more distant support at 57.75 to 57.55, 57.30 and 56.90. Meanwhile resistance is seen at 61.30 followed by 62.70, 63.10 and 64.00.