



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 10, 2006

An OPEC minister said OPEC has agreed to reduce production by 1 million bpd but added that the OPEC ministers were still debating how the cut should be implemented. OPEC ministers were discussing whether the cut should come from the group's official ceiling of 28 million bpd or actual production. The dispute is significant because a cut from actual output would involve all members, even the members struggling to produce their full entitlement under official quotas. Aside from sorting out how to implement the cut, OPEC ministers were also divided over whether they should meet ahead of their scheduled meeting in December.

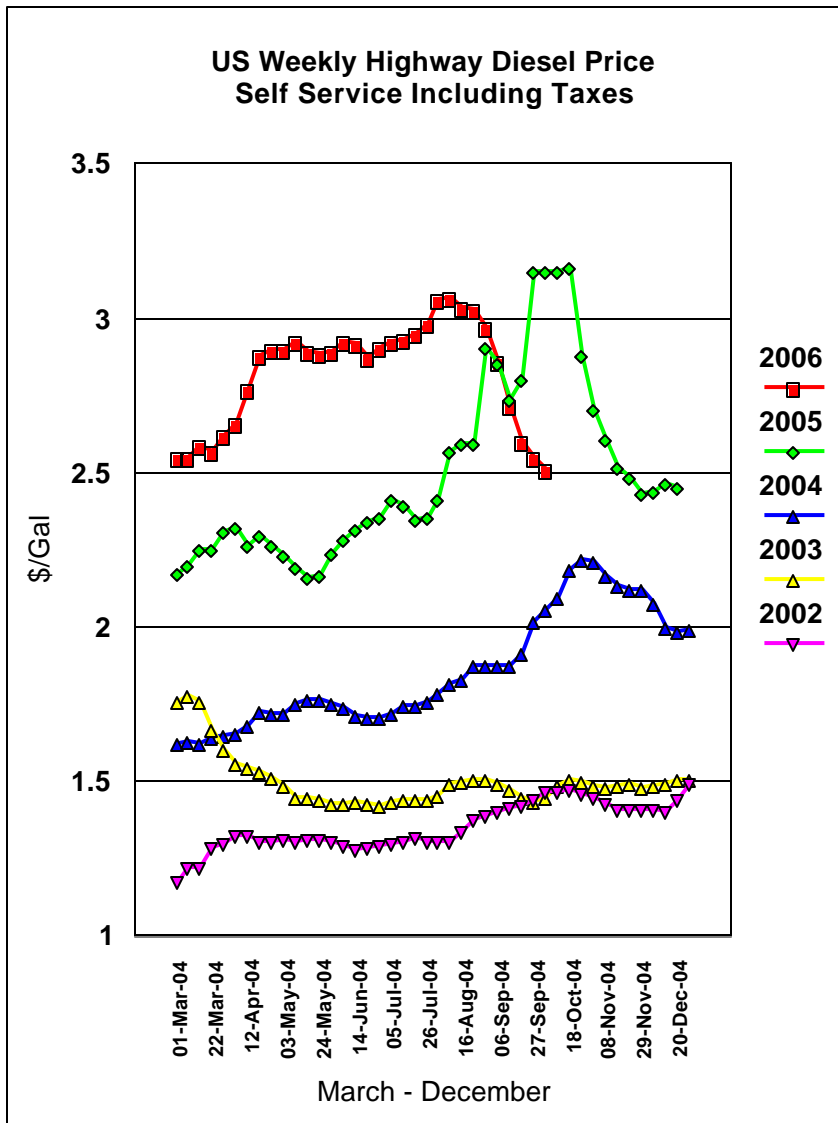
Market Watch

According to a Reuters survey, WTI crude is expected to average \$67.82/barrel in 2006 and fall to \$64.22/barrel in 2007. The average price of crude is expected to fall further to \$59.12/barrel in 2008 and to \$49.98 in 2010.

The API's chief economist, John Felmy, said oil companies have not yet shown any signs that they plan to cut capital spending amid the fall in oil prices. He said the first signs of any such plans could come as soon as earning reports are released later in October.

The EPA said October 15 marks the retail launch of ultra low sulfur diesel fuel. At 15 parts per million, the fuel has 97% less sulfur than low sulfur diesel. The EPA said it was satisfied that ULSD production of 2.4 million bpd was sufficient to meet demand. The amount totals 90% of on road diesel consumption, more than the initial 80% threshold mandated by the agency.

In its latest Short Term Energy Outlook, the EIA stated that world petroleum demand is estimated to grow by 1.2 million bpd in 2006 and by 1.5 million bpd in 2007 to 85 million bpd and 86.5 million bpd, respectively. Its total demand estimate for 2006 was unchanged on the month while its 2007 demand estimate was cut by 200,000 bpd from its previous estimate of 86.7 million bpd. Demand growth in the US is estimated at 100,000 bpd in 2006 while demand is growth in 2007 is estimated at 400,000 bpd. Total demand in the US is estimated at 20.6 million bpd in 2006 and 21 million bpd in 2007. The EIA stated that as of September 30, distillate inventories stood at 151.4 million barrels, up 23.7 million barrels on the year. Total end of winter distillate inventories are expected to total 117.8 million barrels, 2.7 million barrels below this past March but still above the upper bound of the normal range. Diesel fuel prices are expected to average \$2.73/gallon in 2006 and \$2.66/gallon in 2007. Meanwhile, gasoline inventories as of September 30 were estimated at 215 million barrels, up 18 million barrels on the year. The inventories are expected to remain ample during the heating season. At the start of the second quarter, total inventories are expected to total 207 million barrels, down 2 million barrels on the year but within the normal range for the start of the driving season. However colder weather would



reduce gasoline production, bringing inventories at the beginning of summer closer to the lower bound of the normal range. Gasoline prices are expected to average \$2.58/gallon in 2006 and \$2.51/gallon in 2007. The EIA also stated that households heating primarily with heating oil could expect to pay on average \$91 or 6% more this winter. The EIA also stated that the switch over to new ultra low diesel fuel was proceeding smoothly and supplies should be readily available at the retail level this month. In regards to OPEC, the EIA reported that the ten OPEC members produced 27.64 million bpd in September, down 80,000 bpd on the month. Total OPEC production stood at 29.64 million bpd, down 280,000 bpd on the month. It stated that OPEC's actual production cuts by OPEC would be less than stated because OPEC quota cuts are prorated and several of its members are already producing below existing quota levels.

Meanwhile, the head of the EIA, Guy Caruso stated that an OPEC cut of 1 million bpd would likely support the crude futures markets.

However he stated that the extent of the impact would depend on the nature of the cut.

The EIA reported that the US average retail price of gasoline fell by 4.9 cents/gallon to \$2.261 in the week ending October 9. It also reported that the US retail price of diesel fell by 4 cents/gallon to \$2.506/gallon.

Refinery News

According to a report filed with the Texas Commission on Environmental Quality, a relief valve failure at Valero Energy Corp's Three Rivers, Texas refinery resulted in unit flaring and low pressure vent system flaring. Valero cut rates at its fluid catalytic cracking unit late Monday for up to two days.

Japan's Cosmo Oil Co shut an 80,000 bpd crude distillation unit at its Yokkaichi refinery for regular maintenance, cutting its operating rate to about 78% of its 595,000 bpd capacity. Separately, Cosmo Oil recently resumed normal operations at its 120,000 bpd Sakaide refinery.

South Korean refiners are expected to keep their crude processing rates steady in October, maintaining production cuts, as margins remain low. Refiners increased crude runs by 2.5% last

month against August levels upon the completion of regular maintenance. However rates remain around 88% of capacity despite initial plans to increase them to higher levels. SK Corp said it planned to keep run rates unchanged at 750,000 bpd or 89% of capacity in October. Hyundai Oilbank Corp is also expected to maintain its crude runs for October at 320,000 bpd after cutting runs by 20,000 bpd in September. SK Inchoen Oil Ltd is also expected to maintain its runs at 170,000 bpd due to poor margins.

Euroilstock reported that total oil and oil product stocks in Europe fell to 1.141 billion barrels in September, down from 1.147 billion barrels in August. It reported that crude stocks fell to 487.20 million barrels in September, down from 494.66 million barrels the previous month while gasoline stocks built by 2.55 million barrels to 132.52 million barrels. It reported that distillate stocks fell by 2.85 million barrels to 384 million barrels in September. Refinery runs were lower in September at 92.19% of capacity due to heavy scheduled maintenance.

Port sources stated that China started filling its first strategic oil reserves at the Zhenhai National Strategic Petroleum Reserve Base by pumping at least 1 million barrels of Russian crude into newly built tanks in August. Port sources stated that as much as 3 million barrels of crude oil were diverted to the tanks, filling nearly a tenth of their capacity even before China announced that construction at the facility was completed in late September.

Production News

BP Plc said production was shutdown early Tuesday at the Prudhoe Bay oilfield after operators lost power due to high winds. BP said it expected power to be back later Tuesday and anticipated that it would resume production. It said layers of dust and dirt blown by high winds built up on high voltage insulators on power lines in the field, causing a short.

Meanwhile, the Trans Alaska Pipeline System, which carries 700,000 bpd of crude across the state for export, was shutdown Tuesday morning after heavy rain short circuited the pipeline's communications system. An official stated that North Slope production would not necessarily stop, as producers can divert crude into on-site storage tanks until the Trans Alaska Pipeline System resumes operations.

Royal Dutch Shell said about 12,000 bpd of production has been shut in at a Nigerian oil facility occupied early Tuesday. A spokesman said about 60 staff members on the facility were also taken hostage. Early Tuesday, attackers overran a Nigerian navy base and occupied a nearby oil facility also taking several troops hostage. Meanwhile, Royal Dutch Shell said it restarted pumping 18,000 bpd of production at its Cawthorne 2 flow station. Production was shut following the June 7 attack by dozens of armed militants on the Cawthorne Channel gas installation in the Niger Delta.

Kuwait Petroleum Corp is expected to keep its November crude oil supply to term lifters in Asia within contractual limits, which would allow for cuts of between 5% and 10% of agreed volumes. This follows Saudi Aramco's notification to its Asian term crude buyers that its would supply full contractual volumes in November. Meanwhile traders from two world majors in Europe said their allocations from Saudi Aramco remained unchanged in November at about 70% of contracted volumes.

An Iraqi oil official stated that Iraq's crude oil exports for the first 10 days of October fell to 1.43 million bpd from 1.5 million bpd in the same period in September.

The North Sea Brent crude oil system is scheduled to load an average of 222,000 bpd in November, up from 213,000 bpd in October.

The North Sea Gullfaks crude system is scheduled to load 9.405 million barrels in November, up from 9.4 million barrels in October. Meanwhile, the North Sea Statfjord crude system is scheduled to load 9.41 million barrels in November, down from 10.26 million barrels in October. The North Sea Ekofisk crude system is scheduled to load 16.8 million barrels in November, down from 17.1 million barrels in October.

The Norwegian Petroleum Directorate said Norway's oil production stood at 2.25 million bpd in September, unchanged from August.

Iraq's State Oil Marketing Organization has increased the November official selling price for its Basra Light crude bound for Europe by \$1.30 to Dated Brent minus \$5.95/barrel. The November official selling price for its Basra Light crude bound for the US was set at second month WTI minus \$8.90/barrel, down 10 cents on the month while Basra Light bound for Asia was set at the Oman/Dubai average minus \$2.80/barrel, up 50 cents on the month.

OPEC's news agency reported that OPEC's basket of crudes increased to \$55.52/barrel on Monday from a revised \$55.05/barrel on Friday.

Market Commentary

The oil market gapped lower from 59.95 to 59.20, as the market continued to await OPEC's formal announcement on its expected production cut of 1 million bpd. The market partially backfilled its gap as it posted a high of 59.65 early in the session. However the market stopped short of completely backfilling its gap, as the market remained wary ahead of any official confirmation of OPEC's output cut as the ministers continued discussing whether the cut would be implemented from their quotas or actual production. The market erased its gains and traded to 58.55 before it settled in a sideways trading pattern for most of the session, holding some resistance at 59.20. The market however sold off to a low of 58.45 in a late bout of selling ahead of the close. The market seemed to have shrugged off the news that BP shut production at the Prudhoe Bay oilfield due to a power outage and that the Trans Alaska Pipeline System was shutdown early Tuesday due to heavy rains shorting its communications system. The crude market settled down \$1.44 at 58.52. Volume in the crude market was better with 217,000 lots booked on the day. The gasoline market also gapped lower from 148.50 to 148.00 on the opening but quickly backfilled its gap as it traded to a high of 149.75. The market sold off to 146.75 and settled in a sideways trading range, with light volume trading. The gasoline market however breached its earlier low and sold off to a low of 146.25 ahead of the close. It settled down 2.81 cents at 146.68. The heating oil market also settled sharply lower, down 4.88 cents at 168.09 amid a late bout of selling. The market gapped lower from 172.35 to 169.70 and partially backfilled its gap as it

posted a high of 171.10. The market however erased its gains and continued to sell off, posting a low of 168.60. The heating oil market sold off even

		Levels	Explanation
CL	Resistance	62.70, 63.10, 64.00	Previous highs
	58.52, down \$1.44	59.10, 59.65 to 59.95	Remaining gap (October 10th)
	Support	58.45	Tuesday's low
HO	Resistance	176.50, 179.10	Previous highs
	168.09, down 4.88 cents	169.60, 171.10 to 172.35	Remaining gap (October 10th)
	Support	167.90	Tuesday's low
HU	Resistance	155.20, 156.00, 156.50, 156.90	Previous highs, Double top
	146.68, down 2.81 cents	148.00, 149.75	Tuesday's high
	Support	146.25	Tuesday's low
		144.35, 143.40	Previous lows

further ahead of the close as it traded to a low of 167.90. Volume in the gasoline market was light with only 7,600 lots booked on the day while volume in the heating oil market was better with over 59,000 lots booked on the day.

The crude market is seen remaining pressured as the market awaits for OPEC's formal announcement on its production cut. OPEC has yet to decide whether it would cut its production from its quota or from its actual production. It is likely that even if OPEC announces a 1 million bpd cut, the cut would actually be less than that amount, limiting the market's gains. Meanwhile, the market will seek further developments on the BP announcements that it shutdown production at the Prudhoe Bay oilfield and the Trans Alaska Pipeline System was also shutdown on Tuesday. Technically, the crude market is seen testing its support at its low of 58.45 followed by more distant support at 57.75-57.55, 57.30 and 56.90. Meanwhile resistance is seen at 59.10, 59.65 to 59.95 followed by 62.70, 63.10 and 64.00.