



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta &  
Zachariah Yurch

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

**[www.e-windham.com](http://www.e-windham.com)**

---

### **ENERGY MARKET REPORT FOR OCTOBER 11, 2006**

---

OPEC's President and Nigeria's Oil Minister, Edmund Daukoru, said OPEC has agreed to cut its production by 1 million bpd. He said the cut would begin at the end of the month. However stated that the OPEC members were still discussing how to share the cut. The OPEC

#### **Market Watch**

US ambassador John Bolton said the US hoped to circulate a revised UN resolution on North Korea soon. He said the US was still at odds with China over how strong sanctions against North Korea should be for conducting a nuclear test. North Korea said that increased US pressure would be considered an act of war and claimed it was committed to eliminating the nuclear program in the Korean peninsula despite its reported nuclear test.

members that have been producing over their quota have stated that actual production should be the starting point of any cuts. However the members producing less than their quotas would be hard hit if OPEC agreed to cut production from its members' actual production levels. Iran and Venezuela would be greatly impacted as they have been producing below their quota. Meanwhile, a senior Iranian official said Iran's share of a 1 million bpd cut would be 140,000 bpd. Qatar's Oil Minister Abdullah bin Hamad al-Attiyah said OPEC would soon announce a formal agreement to cut production by 1 million bpd, either in a statement within two or three days or at a meeting that could be held between October 16-18. He said he expected the cut to come from actual OPEC production.

US Energy Secretary Samuel Bodman said the government had continued to pressure OPEC member to keep oil sales high to meet the market needs. He also stated that he expected the government to make additional purchases to add to the nearly 700 million barrels in the SPR. He later stated that he was unsure whether a 1 million bpd cut in oil production by OPEC was likely and that he expected to discuss the issue with Saudi Arabia's Oil Minister.

The IEA cut its forecast for world oil demand growth in 2007 from its previous estimate of 1.57 million bpd to 1.45 million bpd, predicting lighter US demand and an easing demand for OPEC crude. The IEA said world oil demand for 2007 was seen at 86 million bpd. It left the demand for OPEC crude for the fourth quarter unchanged at 29.5 million bpd and for the first quarter at 29 million bpd. It reported that OPEC's production in September fell by 155,000 bpd to 29.81 million bpd. It also cut its forecast for non-OPEC supply growth by 120,000 bpd to 1.68 million bpd. In regards to refinery capacity, the IEA revised up its estimates of world offline refinery capacity in October following run cuts in Asia and a recent increase in the amount of scheduled maintenance. It forecast that world offline capacity would reach 2.8 million bpd in October, up 300,000 bpd from its previous estimate. It also revised October's offline capacity among OECD countries by 300,000 bpd to 2.2 million bpd.

Iran's supreme leader, Ayatollah Ali Khamenei said the country would continue to develop its nuclear technology. He stated that while Iran had previously suspended its enrichment program, it would not do so again. Meanwhile, Iran's President Mahmoud Ahmadinejad as saying the country would continue to negotiate and cooperate in the nuclear energy field. Iran's President said he would declare a day of celebration if sanctions were imposed on the country. Diplomats and officials have stated that the five permanent members of the UN Security council plan to start working on UN sanctions against Iran next week.

### **Refinery News**

According to a report filed with the Texas Commission on Environmental Quality said a fire started early Tuesday at Flint Hills Resources' Corpus Christi, Texas refinery when a hydrocarbon hose ruptured during the decommissioning of the West Plant's hydrocracking unit.

Venezuela's El Palito refinery restored operations on its fluid catalytic cracking unit at its 140,000 bpd El Palito refinery. PDVSA said an obstruction to some valves forced the company to shut down the unit in September.

A compressor at a fluid catalytic cracking unit tripped Tuesday at Pasadena Refining Systems' Pasadena, Texas refinery due to a controller malfunction. A company spokesman said the incident had no impact on operations.

The Texas Natural Resource Conservation Commission reported that the external steam supplier to the Shell Deer Park chemical plant would begin planned maintenance that could result in the loss of steam. It could potentially affect some production areas in the chemical plant and result in flaring of hydrocarbons. The maintenance is scheduled to start on Wednesday and end on Monday, October 16.

Japan's Nippon Oil Corp said it would cut its refinery runs further in October. It has lowered its refining plan for October by a further 300,000 kiloliters or 60,000 bpd to 3.6 million kl or 22.6 million barrels.

Cosmo Oil Co said that local authorities are expected to conduct final checks on repairs on its Sakai refinery by the end of the month. Cosmo Oil shut its 80,000 bpd refinery on August 30 for unplanned repairs and safety checks.

South Korea's SK Corp is expected to maintain its October crude runs at 750,000 bpd, despite a rebound in margins.

TNK-BP said it was considering building a refinery in Russia's Sverdlovsk region, although it has no concrete plans on the project yet.

The 200,000 bpd Rainbow crude pipeline in Alberta, Canada would remain shut for a few more days while workers clean an oil spill and replace a segment of the pipeline. The pipeline was shut on Tuesday following a drop in pressure.

Trade unions at Polish pipeline operator PERN threatened a two hour halt next week to the flow of crude oil through a branch of the Druzhba pipeline that runs from Russia to Germany. PERN said it had enough storage capacity to ensure steady flows of crude through the Druzhba pipeline in the case of a strike. The unions were protesting against the conservative government's plans to separate PERN's crude oil and refined products businesses.

The Shetland Island Council reported that Brent crude liftings from Sullom Voe fell to 179,483 tons in the week ending October 10, down from 354,214 tons in the previous week.

### **Production News**

BP Plc said it was resuming production at its Prudhoe Bay oilfield after a power outage caused by bad weather shut production. It also stated that the Trans Alaska Pipeline System restarted late Tuesday after it was closed earlier in the day when heavy rains short circuited a communications system. Production at Prudhoe Bay fell to about 20,000 bpd on Tuesday from 350,000 bpd.

Separately, an engineer at Alyeska Pipeline Service Co said reduced flow of oil through the Trans Alaska pipeline in August caused the pipeline to vibrate, creating a new concern for pipeline managers. He said the intermittent vibrations were not severe enough to immediately threaten the integrity of the line or its support but could cause the steel to rupture in a decade if not controlled. He said that while vibrations ceased as flow resumed from the Prudhoe Bay field, they could be a sign of things to come as the massive Prudhoe Bay field continues its slow decline. The problem has prompted Alyeska to investigate long term fixes to prevent metal fatigue.

European refiners and world oil majors said that Saudi Arabia's crude oil allocations in November were kept mostly steady compared with the previous month. Saudi Aramco has kept supplies to refiners in Europe unchanged at 70% of the contracted volumes. World oil majors received a negligible reduction in November. Meanwhile, a trading source said Saudi Arabia has moved to rebalance crude supplies to a Japanese customer by cutting sales of Arab Heavy and increasing its sales of Arab Light to compensate.

An Iraqi oil official said Iraq resumed its oil exports through its northern pipeline to Turkey following a five week suspension on Tuesday. Iraq pumped 18,000 barrels per hour through the northern pipeline. The official said about 300,000 barrels were in storage at Ceyhan before deliveries resumed on Tuesday.

Nigeria's President Olusegun Obasanjo said Nigeria's oil production loss of 600,000 bpd in the Niger Delta due to militant attacks is likely to last until the end of the year. He also stated that Nigeria's 2007 budget proposal expected spending to increase by 21% to 2.3 trillion naira based on a higher \$40/barrel oil prices and 10% economic growth. He stated that Nigeria's crude oil production for 2007 is expected to reach 2.5 million bpd.

Troops and oil workers taken hostage in a raid on a navy base and oil facility in southern Nigeria were released. The police commissioner of Bayelsa state said the eight remaining hostages should be freed within hours. Militants held about 60 oil workers and an unknown number of troops hostage.

An Iranian oil official said Iran expected non-OPEC oil supply to increase faster in 2007 than this year and growth in demand for crude next year to be less than in 2006.

The UK's North Sea Flotta crude oil system is scheduled to load 87,000 bpd in November, up from 63,000 bpd in October. Meanwhile, the North Sea Forties crude system is scheduled to load 503,000 bpd in November, up from 468,000 bpd in October. The North Sea Oseberg crude stream is scheduled to load 245,700 bpd in November, up from 213,000 bpd in October.

Nexen is expected to start production at its 210,000 bpd Buzzard oilfield in the UK's North Sea soon and ship its first crude cargoes in November. Traders said at least two cargoes of 600,000 barrels of oil from Buzzard were scheduled for export in November.

A.P. Moeller-Maersk said Danish Underground Consortium's oil production from its 14 fields in the Danish part of the North Sea fell by 32.4% year on year in September to 205,300 bpd.

Russian authorities are still checking the new Pacific DeKastri oil terminal built by the ExxonMobil led Sakhalin-1 group. It may take two months before full operations are allowed. Project members said full scale oil production of 250,000 bpd could be delayed to the first quarter of 2007 from the initial target of the end of the year. The terminal was expected to obtain the necessary permission in September or October but Russia's authorities delayed the approval as it said the newly built facility should undergo more checks.

Azerbaijan's oil production increased by 49.6% on the year in the first nine months of the year to 23.08 million tons or 620,000 bpd. The BP led Azerbaijan International Operating Co said its Chirag and Azeri fields produced 16.34 million tons or 440,000 bpd in January-September compared with 8.71 million tons last year. Azerbaijan's exports totaled 15.58 million tons or 418,000 bpd in January-September compared with 8.74 million tons last year. Exports of refined products increased to 2.34 million tons from 1.6 million tons last year.

OPEC's news agency reported that OPEC's basket of crudes fell to \$55.31/barrel on Tuesday from a revised \$55.70/barrel on Monday.

### **Market Commentary**

The crude market opened slightly higher at 58.60 and traded to 58.15 as OPEC continued to discuss the details of an output cut. OPEC's President stated that OPEC had agreed to cut production by a total of 1 million bpd but were still discussing whether the cut would come from their actual production level or from their quota. The market traded lower amid speculation that Saudi Arabia would not cut its output as its customers were reporting that their crude allocations were remaining unchanged on the month. Meanwhile, the IEA cut its oil demand growth forecast in its latest monthly report. The market traded to a high of 59.10 early in the session before it retraced its gains and sold off sharply to a low of 57.50, the lowest level seen since December 27 when it posted a low of 57.30. It settled down 93 cents at 57.59. Volume was good with over 227,000 lots booked on the day. The product markets also settled in negative territory, with the gasoline market settling down 1.65 cents at 145.03 and the heating oil market settling down 89 points at 167.20. The gasoline market traded to an early low of 146.25 and quickly posted a high of 149.25. The market however erased its gains and extended its losses to more than 2.5 cents as it sold off to a low of 144.70 ahead of the close. Similarly, the heating oil market opened about 91 points higher at 169.00 and traded to a high of 170.50. However the market

erased its gains and sold off amid the weakness in the crude market. It sold off to a low of 166.80 in a late bout of selling ahead of

|           |                   | <b>Levels</b>          | <b>Explanation</b>           |
|-----------|-------------------|------------------------|------------------------------|
| <b>CL</b> | <b>Resistance</b> | 59.65 to 59.95, 61.30  | Remaining gap, Previous high |
|           |                   | 58.00, 58.70, 59.10    | Wednesday's high             |
|           | <b>Support</b>    | 57.50                  | Wednesday's low              |
|           |                   | 57.30, 56.90           | Previous lows                |
| <b>HO</b> | <b>Resistance</b> | 171.10, 176.50, 179.10 | Previous highs               |
|           |                   | 169.00, 170.50         | Wednesday's high             |
|           | <b>Support</b>    | 166.80                 | Wednesday's low              |
|           |                   | 166.10, 163.60, 163.20 | Previous lows                |
| <b>HU</b> | <b>Resistance</b> | 149.75, 155.20         | Previous highs               |
|           |                   | 147.00, 148.00, 149.25 | Wednesday's high             |
|           | <b>Support</b>    | 144.70                 | Wednesday's low              |
|           |                   | 144.35, 143.40         | Previous lows                |

the close. Volume in the gasoline market was light with 5,900 lots booked on the day while volume in the heating oil market was lighter today with 49,000 lots booked on the day.

| NYMEX Petroleum Options Most Active Strikes for October 11,2006 |       |      |          |        |            |        |             |        |       |
|---|-------|------|----------|--------|------------|--------|-------------|--------|-------|
| Symbol  | Month | Year | Call/Put | Strike | Exp Date   | Settle | Prev Settle | Volume | IV    |
| GO  | 12    | 6    | C        | 2.3    | 11/27/2006 | 0.0002 |             | 100    | 44.30 |
| GO  | 11    | 6    | C        | 1.54   | 10/26/2006 | 0.0228 | 0.0335      | 50     | 47.07 |
| GO  | 12    | 6    | C        | 2.1    | 11/27/2006 | 0.001  | 0.0022      | 50     | 43.07 |
| LO  | 12    | 7    | C        | 85     | 11/13/2007 | 1.54   | 1.66        | 4,826  | 24.91 |
| LO  | 12    | 6    | P        | 50     | 11/14/2006 | 0.14   | 0.11        | 4,678  | 35.67 |
| LO  | 12    | 6    | C        | 70     | 11/14/2006 | 0.19   | 0.31        | 4,531  | 35.11 |
| LO  | 12    | 6    | P        | 58.5   | 11/14/2006 | 1.55   | 1.2         | 4,200  | 27.87 |
| LO  | 12    | 7    | P        | 60     | 11/13/2007 | 3.88   | 3.8         | 2,600  | 25.95 |
| LO  | 12    | 6    | C        | 64.5   | 11/14/2006 | 0.88   | 1.26        | 2,500  | 35.69 |
| LO  | 12    | 7    | P        | 65     | 11/13/2007 | 5.79   | 5.65        | 2,500  | 24.86 |
| LO  | 1     | 7    | C        | 63     | 12/14/2006 | 2.4    | 2.86        | 2,300  | 33.21 |
| LO  | 2     | 7    | C        | 75     | 01/17/2007 | 0.49   | 0.59        | 2,270  | 29.44 |
| LO  | 2     | 7    | C        | 66     | 01/17/2007 | 2.16   | 2.52        | 2,250  | 30.09 |
| LO  | 1     | 7    | C        | 68     | 12/14/2006 | 0.96   | 1.21        | 2,201  | 32.08 |
| LO  | 1     | 7    | P        | 58     | 12/14/2006 | 1.59   | 1.3         | 2,110  | 28.09 |
| LO  | 4     | 7    | P        | 55     | 03/15/2007 | 1.37   | 1.23        | 1,710  | 28.33 |
| LO  | 12    | 6    | C        | 63.5   | 11/14/2006 | 1.13   | 1.58        | 1,700  | 36.01 |
| LO  | 12    | 6    | P        | 60.5   | 11/14/2006 | 2.47   | 1.94        | 1,625  | 26.27 |
| LO  | 11    | 6    | C        | 60     | 10/17/2006 | 0.57   | 1.23        | 1,570  | 48.98 |
| LO  | 12    | 7    | C        | 70     | 11/13/2007 | 4.82   | 5.1         | 1,500  | 25.24 |
| LO  | 2     | 7    | P        | 55     | 01/17/2007 | 1.03   | 0.89        | 1,400  | 28.43 |
| LO  | 12    | 6    | P        | 58     | 11/14/2006 | 1.37   | 1.05        | 1,392  | 28.30 |
| OB  | 12    | 6    | C        | 1.75   | 11/27/2006 | 0.024  | 0.0289      | 350    | 43.84 |
| OB  | 12    | 6    | P        | 1.45   | 11/27/2006 | 0.0467 |             | 350    | 34.99 |
| OB  | 12    | 6    | C        | 1.65   | 11/27/2006 | 0.0439 | 0.0524      | 327    | 43.53 |
| OB  | 2     | 7    | C        | 2      | 01/26/2007 | 0.0264 | 0.029       | 300    | 39.22 |
| OB  | 12    | 6    | P        | 1.47   | 11/27/2006 | 0.0542 |             | 200    | 34.65 |
| OH  | 2     | 7    | C        | 2.65   | 01/26/2007 | 0.0036 | 0.0049      | 200    | 35.84 |
| OH  | 11    | 6    | P        | 1.64   | 10/26/2006 | 0.0297 | 0.0151      | 52     | 32.84 |
| OH  | 2     | 7    | P        | 1.69   | 01/26/2007 | 0.0607 |             | 50     | 28.80 |

The crude market on Thursday will seek further direction from the weekly petroleum stock reports, which are expected to show small builds in crude stocks of 500,000 barrels, small draws in gasoline stocks of about 500,000 barrels and builds in distillate stocks of about 500,000 barrels on the week. If the market continues to see builds in product stocks, the complex will remain pressured. The market will also remain pressured as long as OPEC ministers fail to formally announce their output cut. The market is seen finding support at

its low of 57.50 followed by 57.30 and 56.90. Meanwhile resistance is seen at 58.00, 58.70 and its high of 59.10. More distant resistance is seen at its gap from 59.65 to 59.95.