



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta &  
Zachariah Yurch

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

**www.e-windham.com**

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### **ENERGY MARKET REPORT FOR OCTOBER 12, 2006**

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An OPEC governor said OPEC ministers were considering holding an emergency meeting in late October or early November. He said some members were insisting on a meeting before any action is taken to cut supplies. Analysts stated that oil prices may remain under pressure until OPEC formally cut its production. OPEC members continued to discuss the details of a 1 million bpd cut. OPEC members have yet to decide whether the cut would come from official quotas or from actual production.

Iran's OPEC governor, Hussein Kazempour Ardebili said that non-OPEC countries should back OPEC efforts to stabilize oil prices. Separately, US Energy Secretary Sam Bodman said that non-OPEC oil producing countries may seek to replace any crude supplies that OPEC members may cut and gain market share. He said that while there is some excess oil supply in the market, heating oil demand may increase this winter and demand for OPEC's oil would increase. He said OPEC

#### **Market Watch**

Goldman Sachs said it was maintaining its \$68/barrel US oil price forecast for 2007, despite the recent fall in prices. It said under its base case scenario, world demand growth would continue to exceed non-OPEC supply growth, lending support to prices.

The Bush administration said it would allow Iran purchase spare parts for commercial aircrafts as a humanitarian gesture despite its concerns about the country. The US and five other major powers agreed that the UN Security Council would start drafting a list of sanctions against Iran next week following Iran's failure to halt its uranium enrichment program. The State Department said all repairs to Iran's commercial aircraft would be performed in third countries and no exports would go directly to Iran.

US officials stated that the US, Bahrain, Kuwait, France, Britain, Canada and other allies would conduct a naval exercise in the Persian Gulf starting October 31. They said the exercise would practice interdicting ships carrying weapons of mass destruction and missiles. US naval, air and marine forces have been concentrating in the Persian Gulf, Gulf of Oman and eastern Mediterranean opposite Lebanon and Syria.

A chief economist at the US Agriculture Department said cellulosic ethanol made from corn husks, wood chips and other material may be the best way to reduce the US' crude imports. He said cellulosic ethanol appeared to be the best alternative for reducing crude imports but added that making the ethanol commercially feasible was a challenge. He said the US produced about 5 billion gallons of ethanol a year, mostly from corn. The ethanol meets about 3.3% of the country's gasoline needs.

ICE said physical delivery against the expired October ICE gas oil contract increased to 1,101 contracts or 110,100 tons.

The NYMEX announced that it would launch the NYMEX Russian Export Blend Crude Oil futures and calendar spreads on the CME Globex platform on Sunday, October 22. The contract features physical delivery of REBCO on a free on board basis at the port of Primorsk, Russia on the Baltic Sea. The contract size is 1,000 barrels.

An expected shift in China towards the consumption of services and away from manufacturing may mean lower commodity prices over the coming years as demand slows.

### DOE Stocks

**Crude** – up 2.4 million barrels  
**Distillate** – down 1.6 million barrels  
**Gasoline** – up 300,000 barrels  
**Refinery runs** – down 0.78%, at 89.2%

should not cut its production. He said large distillate inventories do not ensure that there would be adequate heating oil supplies this winter because the weather could be much colder than forecast.

According to Oil Movements, OPEC's oil exports are expected to fall to 24.82 million bpd in the four week ending October 28, down from 25.04 million bpd in the four weeks ending September 30. It said that if the planned OPEC cuts had already been implemented ahead of a formal agreement, then it was possible that the fall in exports was already reflected.

### Refinery News

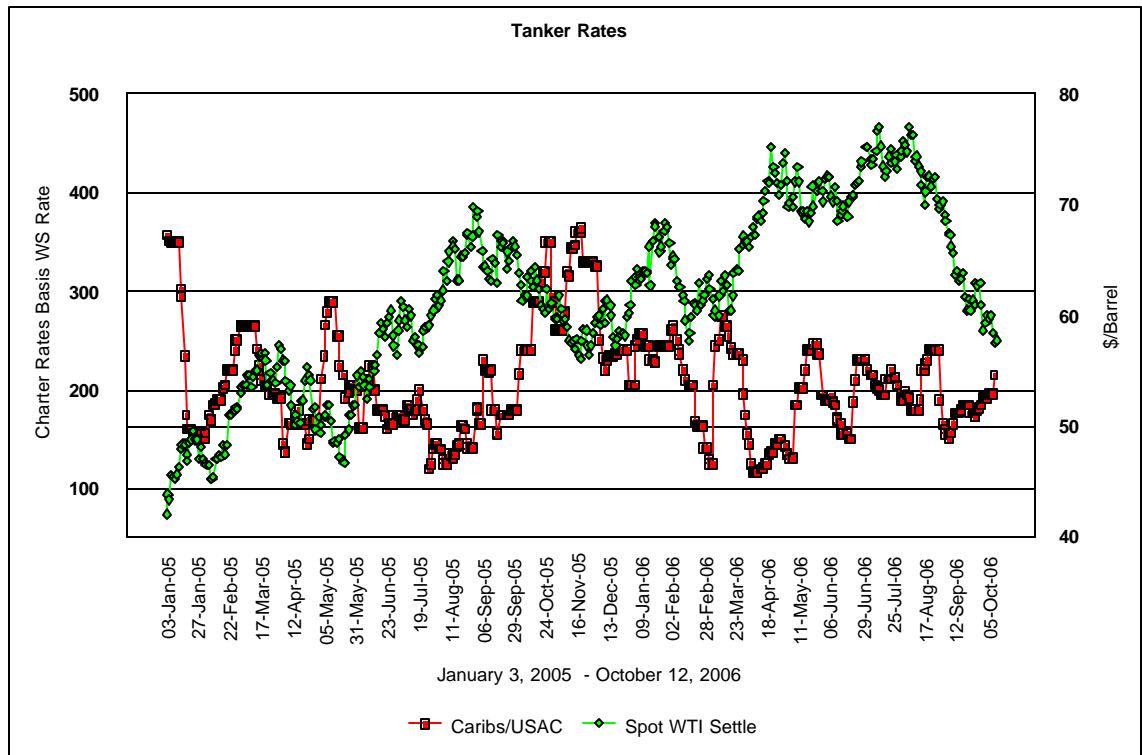
Valero Energy Corp cut its crude runs at its Port Arthur, Texas refinery late Wednesday following problems with a coker and hydrocracker. Traders were not sure how long the reduction would last.

Magellan Pipeline has almost completed the transition of its terminals to handle the new ultra low sulfur diesel. It said the out of the 45 terminals on the system, all but two were ready to receive the cleaner burning diesel ahead of the October 15 deadline.

A fire started at Lithuania's Mazeikiu Nafta refinery on Thursday after crude oil products spilled at a vacuum distillation unit. Production was halted at one of the three production units. The other two units were operating at minimum rates.

Gas oil stocks in independent Amsterdam-Rotterdam-Antwerp storage tanks fell amid pre-winter buying. ARA gas oil stocks fell by 80,000 tons to 1.86 million tons in the week ending October 12. Meanwhile, gasoline stocks in ARA storage tanks increased by 105,000 tons to 750,000 tons on the week. Fuel oil stocks in ARA storage tanks fell by 50,000 tons to 500,000 tons while naphtha stocks fell by 15,000 tons to 85,000 tons and jet fuel stocks increased by 45,000 tons to 370,000 tons on the week.

Germany's MWV said the country's oil product sales in September totaled 7.45 million tons, up 1.4% on the year. It reported that gasoline demand fell by 1.1% on the year to 1.89 million tons while diesel fuel sales increased by 3.2% to 2.62 million tons. It reported that



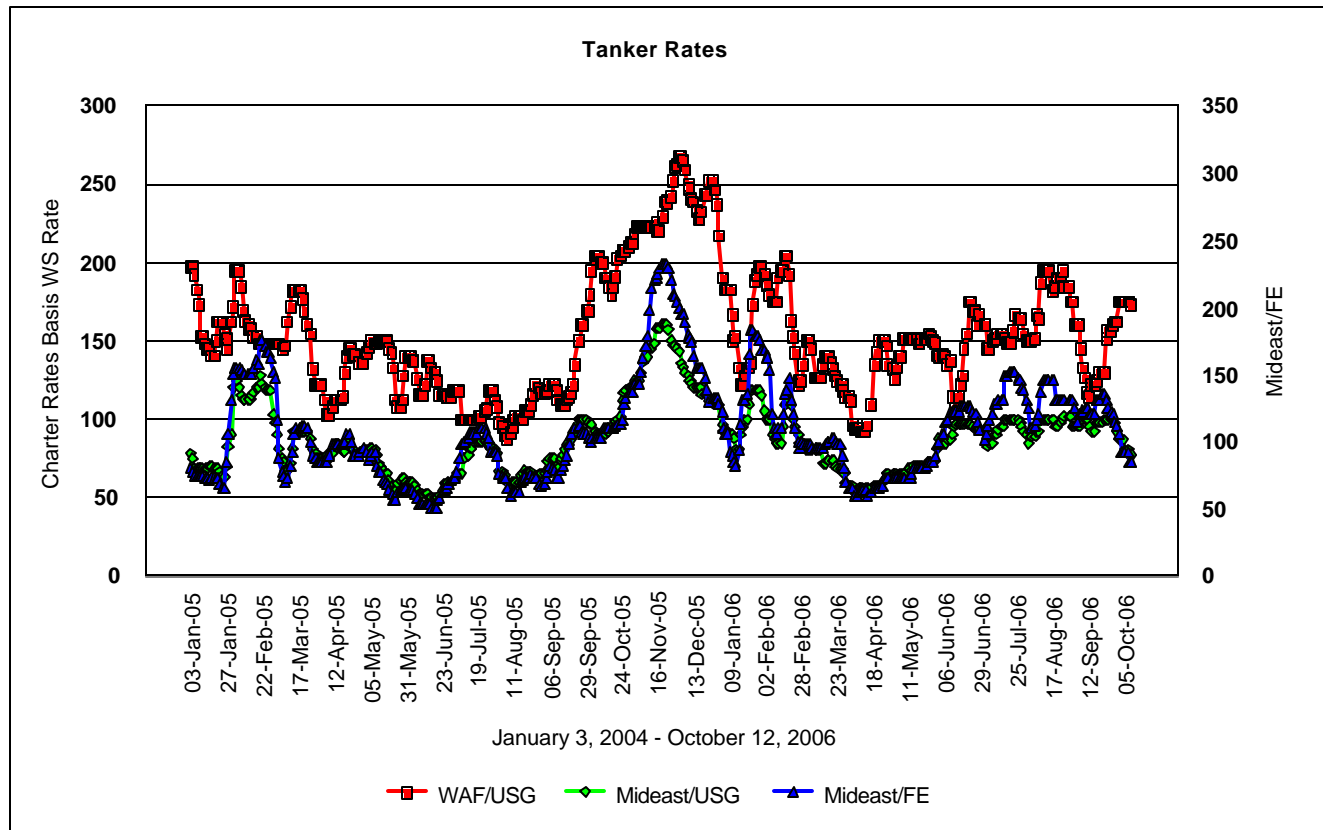
heating oil sales increased by 3.7% on the year to 2.5 million tons while fuel oil sales fell by 9.4% on the year to 440,000 tons. Meanwhile, traders stated that German heating oil consumers were likely to slow their pre-winter buying in the coming weeks after increasing their inventory earlier than usual. A 21% decline in European heating oil prices since early August, low German heating oil stock levels and the imminent increase in sales tax in Germany starting next January have encouraged consumers to stock up early.

According to the Petroleum Association of Japan, Japan's kerosene stocks increased by 104,000 kiloliters or 2% on the week to 5.25 million kl or 33 million barrels in the week ending October 7. It reported that crude stocks increased by 0.6% at 17.84 million kl or 112.21 million barrels while gasoline stocks fell by 5.8% on the week to 2.05 million kl or 12.89 million barrels. The Petroleum Association of Japan also reported that refiners operated their facilities at an average of 74.8% of total capacity of 4.78 million bpd.

China's crude imports in September increased by 24% on the year to 3.28 million bpd, according to customs data. In the first nine months, crude imports into China increased by 16.3% on the year to 109.25 million tons or 2.92 million bpd.

Singapore's International Enterprise reported that residual fuel stocks built by 2.183 million barrels to 13.024 million barrels in the week ending October 12. It reported that light distillate stocks fell by 771,000 barrels to 7.24 million barrels while middle distillate stocks increased by 786,000 barrels to 8.383 million barrels on the week.

Exports of gas oil from the former Soviet Union via Baltic and Black Sea ports fell by 23,000 tons on the month to 3.09 million tons in September. Exports were however up 522,000 tons or 20% higher on the year. Fuel oil exports fell by 580,000 tons or 15.4% on the month to 3.19 million tons. It was also



down 803,000 tons or 20% from last year's total of 4 million tons. Meanwhile gasoline exports from the Baltic and Black Sea ports fell by 511,000 tons or 53% on the month to 457,000 tons in September.

Taiwan's Bureau of Energy reported that Taiwan consumed 821,149 bpd of oil products in August, down 1.91% on the year. Gasoline demand fell by 4.9% to 179,000 bpd while fuel oil demand fell by 6.6% on the year to 104,000 bpd. It also reported that distillate demand in August increased by 1.5% to 105,000 bpd.

The head of Iraq's State Oil Marketing Organization, Falah Alamri said Iraq would start delivering 10,000 bpd of Kirkuk oil to Jordan's al-Zarqa refinery in the next few days. He said the amount would increase to 30,000 bpd at the start of the year.

Indonesia purchased 3 million barrels of sweet crude in its tender for December arrivals, its highest purchase in five months.

Algeria's Sonatrach said it intended to fill all its scheduled berths for the coming winter at the UK's only liquefied natural gas terminal to help ensure maximum imports of the fuel. Sonatrach shares berths with BP Plc at the Isle of Grain, the UK's LNG terminal. The port is capable of receiving one tanker a week and handle about 4% of the UK's gas demand.

Libya plans to build two liquefied natural gas plants after 2010 as it aims to take part in the growing international LNG market. Libya produces about 20 billion cubic meters of natural gas a year and exports about 8-10 bcm to Italy via the Greenstream pipeline and 1 bcm of LNG to Spain under a long term contract.

### **Production News**

BP said it would take several days to restore its Prudhoe Bay production to 350,000 bpd following a power outage. BP's production stood at about 50,000 bpd. A BP spokesman said workers were conducting a systematic washing of substations and high voltage power lines to remove dust and debris.

Canada's Rainbow Pipe Line Co plans to restart its 200,000 bpd crude pipeline that links northwestern Alberta with pipeline hubs around Edmonton on Sunday morning.

The Nigerian National Petroleum Corp said Nigeria was currently producing 2.3 million-2.4 million bpd. A company official said at full capacity it would have been producing 3 million bpd, however Shell reduced production by 500,000 bpd and 100,000 bpd was shut in due to militant activity.

A Nigerian government official said Nigerian villagers who overran a Royal Dutch Shell facility released all of the oil workers and troops they held hostage. Armed youths from the Oporoma community had invaded the facility on Tuesday, forcing Shell to shut the Nun River flow station, which produces 12,000 bpd of crude further cutting the country's oil production. The first group of hostages were freed on Tuesday while the remaining group of eight troops were released late on Wednesday following the intervention of the regional authorities.

Norway's Petroleum Safety Authority said it would halt production on the Snorre and Draugen oilfields on the Norwegian continental shelf due to inadequate lifeboat standards. Shell and Norway's Statoil said no final decision has been made and added that they wanted to continue production while upgrading the lifeboats. Shell said its Draugen oilfield was still producing and stated that it would meet safety demands on lifeboats. Meanwhile Statoil said it would meet safety officials on Friday and

present their plan to compensate for the lifeboat deficiency at Snorre with additional helicopter and boat capabilities.

The head of Germany's foreign intelligence agency said attacks on energy facilities worldwide to hinder the delivery of gas and oil have been increasing. He said Iraq's oil infrastructure had become a preferred target for insurgents, who have launched over 300 attacks on such infrastructure.

Mexico's newspaper, El Universal said Mexico's crude oil production and exports are expected to fall next year as yields decline at the country's Cantarell oilfield. Oil exports are expected to fall to about 1.6 million bpd next year from an average of 1.8 million bpd in 2006. However, Pemex's Exploration and Production head, Carlos Morales said that Mexico's oil production was set to stagnate between 3.1 million and 3.3 million bpd for the next 10 years. The company said it hoped increased output at its Ku-Maloob-Zaap oilfield would help compensate for falling output at Cantarell.

Kazakhstan's State Statistics Agency reported that Kazakhstan increased its oil and gas condensate production by 4.5% on the year to 47.56 million tons in January-September 2006. It also reported that the country's oil production alone increased by 6.7% to 40.02 million tons in the period. It reported that Kazakhstan's crude oil exports fell to 35.45 million tons in January-August, down 2% on the year.

An Iranian newspaper, citing a report by Iran's central bank, reported that Iran earned \$28.8 billion from oil exports in the six months to September 22. It said the income figure was more than double the amount which was ratified in the budget for the Iranian financial year which started on March 21.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$54.25/barrel on Wednesday from \$55.31/barrel on Tuesday.

Crude oil freight markets fell on leading export routes on Thursday as planned OPEC cuts, an oversupply of tankers and bearish signals on future oil demand growth pressured prices. Most leading world crude exports routes, out of West Africa and the Mediterranean, fell heavily this week as OPEC discussed the details of a 1 million bpd cut.

### **Market Commentary**

The oil market opened slightly higher at 57.70 and quickly rallied to 58.20 following the release of the weekly petroleum stocks reports. The complex was initially supported by the unexpected draw in distillate stocks of 1.6 million barrels reported by the DOE. The crude market just as quickly erased its gains and sold off to a low of 57.30 as its gains were limited by the larger than expected build reported in crude

stocks of 2.4 million barrels. The market later bounced off its low and rallied to a high of 58.40. However the market once again

		<b>Levels</b>	<b>Explanation</b>
<b>CL</b>	<b>Resistance</b>	59.10, 59.65 to 59.95, 61.30	Previous high, Remaining gap, Previous high
	57.86, up 27 cents	58.40	Thursday's high
	<b>Support</b>	57.30	Thursday's low
<b>HO</b>	<b>Resistance</b>	56.90, 56.00	Previous lows
		170.50, 171.10 to 172.35	Previous high, Remaining gap (October 10th)
	<b>Support</b>	170.20	Thursday's high
		167.00	Thursday's low
<b>HU</b>	<b>Resistance</b>	166.80, 166.10, 163.60, 163.20	Previous lows
		149.25, 149.75, 155.20	Previous highs
	<b>Support</b>	146.00, 147.50	Thursday's high
144.00		Thursday's low	
		143.40, 138.50	Previous low

erased its gains and settled in a mostly sideways trading pattern during the remainder of the session. The crude market settled up 27 cents at 57.86. Volume in the crude market was good with over 203,000 lots booked on the day. Meanwhile, the gasoline market gapped lower from 144.70 to 144.50 and quickly backfilled its gap as it rallied to a high of 147.50 following the release of the weekly petroleum stock reports. The market however erased its gains and traded mostly sideways before a late bout of selling pushed the market to a low of 144.00 ahead of the close. It settled up just 6 points at 145.09. The heating oil market settled up 1.57 cents at 168.77 in light of the supportive DOE report showing an unexpected draw in distillate stocks. The market, which posted an inside trading day, sold off to a low of 167.00 early in the session before it rallied to a high of 170.20 in light of the supportive report. The market later retraced some of its gains. Volumes in the product markets were light with 6,400 lots traded in the gasoline market and 48,000 lots traded in the heating oil market.

**NYMEX Petroleum Options Most Active Strikes for October 12, 2006**

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Prev Settle	Volume	IV
GO	12	6	C	1.6	11/27/2006	0.0305	0.0315	14	36.45
LO	12	6	C	60	11/14/2006	2.12	2.04	6,266	31.94
LO	12	6	P	50	11/14/2006	0.14	0.16	4,589	36.82
LO	2	7	P	45	01/17/2007	0.09	0.11	3,685	32.52
LO	12	6	P	55	11/14/2006	0.67	0.74	2,970	33.39
LO	1	7	P	60	12/14/2006	2.43	2.58	2,910	29.65
LO	12	6	C	65	11/14/2006	0.61	0.59	2,860	31.98
LO	6	7	C	80.5	05/17/2007	1.04	0.96	2,700	26.74
LO	12	7	P	40	11/13/2007	0.46	0.47	2,450	32.35
LO	6	7	P	40	05/17/2007	0.18	0.19	2,001	34.47
LO	6	7	P	55	05/17/2007	1.78	1.87	1,800	29.28
LO	11	6	P	55	10/17/2006	0.12	0.24	1,698	35.02
LO	12	6	C	73	11/14/2006	0.06	0.06	1,575	33.87
LO	6	7	C	70.5	05/17/2007	2.85	2.69	1,550	26.15
LO	12	6	C	29.5	11/14/2006	30.18	29.95	1,450	128.94
LO	12	7	P	50	11/13/2007	1.54	1.58	1,375	29.39
LO	12	6	C	75	11/14/2006	0.03	0.03	1,355	34.00
LO	6	7	C	64.5	05/17/2007	5.13	4.9	1,350	26.78
LO	6	7	P	64.5	05/17/2007	5	5.19	1,350	26.80
LO	12	6	C	71	11/14/2006	0.11	0.11	1,320	33.38
OB	2	7	C	1.8	01/26/2007	0.0527		450	35.55
OB	4	7	C	2.08	03/27/2007	0.0663	0.064	25	35.07
OB	4	7	C	2	03/27/2007	0.0817	0.079	25	34.30
OB	2	7	C	1.96	01/26/2007	0.0283	0.0267	11	37.14
OH	12	6	C	1.77	11/27/2006	0.0615	0.0569	200	32.07
OH	1	7	C	2	12/26/2006	0.0319	0.03	178	32.03
OH	12	6	C	1.61	11/27/2006	0.1512	0.142	57	32.30
OH	6	7	C	1.9	05/25/2007	0.1084	0.105	50	28.32
OH	6	7	P	1.7	05/25/2007	0.1069	0.1104	50	28.03
OH	2	7	C	2.07	01/26/2007	0.0375	0.0363	29	31.11
OH	2	7	C	2.22	01/26/2007	0.0195	0.0189	28	32.15
OH	11	6	C	1.78	10/26/2006	0.0149	0.0129	25	35.07
OH	11	6	C	1.72	10/26/2006	0.0315	0.0272	25	34.53

The oil market on Friday is likely to remain support ahead of the weekend. However its gains will be limited until there is some formal announcement on OPEC's 1 million bpd output cut. Even though OPEC ministers have stated that there is an agreement, the market has mostly shrugged off the news as OPEC continues to discuss the details of the cut. The market is seen finding support at its low of 57.30 followed by 56.90 and 56.00. Meanwhile resistance is seen at 58.40 followed by 59.10 and its gap from 59.65 to 59.95. More distant resistance is seen at 61.30.

