



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR OCTOBER 17, 2006**

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An OPEC delegate said OPEC ministers reached a consensus to cut production by 1 million bpd from actual production instead of from its 28 million bpd ceiling. Earlier, an OPEC official said OPEC ministers are scheduled to hold a three hour consultative meeting Thursday in Doha. The official however did not rule out the possibility the meeting could continue on Friday.

Meanwhile, Iran's OPEC Governor Hossein Kazempour Ardebili said OPEC believed non-OPEC producers should cut their supply growth. He said it was necessary for OPEC and non-OPEC producers to negotiate how to

#### Market Watch

Officials at ExxonMobil Corp, ConocoPhillips and Royal Dutch Shell, said the companies planned to hold their spending plan steady despite a fall in crude oil prices. The chief executive of ExxonMobil said the company's capital expenditures would hold at about \$20 billion for the next two to three years. ConocoPhillips' capital expenditures would fall to about \$15 billion in coming years from \$18 billion this year. However the fall is due to ConocoPhillips completing the purchase of its planned 20% stake in Russian oil firm Lukoil by the end of the year. The head of Shell Oil Co said the company would continue with its planned energy projects, including expensive drilling in the deep waters of the Gulf of Mexico, even if oil prices were half the current level.

Tesoro Corp said oil prices were unlikely to fall much below recent lows. A Tesoro Corp official said it was working with a crude oil price assumption of \$50/barrel for 2007, up \$10/barrel on the year. Tesoro executives also stated that they had not seen any change in crude supplies to the US from Saudi Arabia despite reports that several oil producing countries have been cutting back output.

The CEO of Italy's ENI said he believed oil prices would continue to fall.

The official Saudi Press Agency reported that Saudi Arabia opposed the new law that would divide Iraq into federal regions. Saudi Arabia said it supported those Iraqi politicians who seek a united country. As sectarian fighting continued in Iraq, King Abdullah met Saturday with prominent Iraqi clerics from both the Shiite and Sunni communities in the Islamic holy city of Mecca. He urged them to seek an end to the violence. Saudi Arabia has previously stated that it planned to build a fence along its border with Iraq to prevent extremists from entering the country. The country has a small Shiite minority and worries that the violence could spill over.

Venezuela's Finance Minister Nelson Merentes said Venezuela calculated its 2007 national budget with \$53.5 billion in total spending. The spending plan also includes more funds for social spending programs and assumes an average oil price of \$29/barrel, considerably lower than the \$58/barrel average so far this year. Oil revenue for 2007 is estimated at \$22.3 billion. The government estimated GDP growth at 5-6% next year, with a 6% expansion in the oil sector and a 5% growth in non-oil activities.

The Labor Department reported that while the Producer Price Index fell by 1.3% in September, the core PPI, excluding energy and food, increased by 0.6%.

divide the 1.5 million bpd in extra demand for oil next year. He said non-OPEC producers were pumping crude without restraint and it would put pressure on OPEC's share over the long run. He said non-OPEC producers could not continue producing unlimited amounts of crude.

### **Refinery News**

BP Plc was shutting down an alkylation unit at its Texas City, Texas refinery Tuesday night following the discovery of a leak in associated equipment. A report filed with the Texas Commission on Environmental Quality stated that the refinery was shutting alkylation unit 3 to allow for the repair of a leak found in a heat exchanger. The refinery was still operating at about half its normal 463,000 bpd capacity after it was shut last year due to Hurricane Rita.

According to a report filed with the Office of Emergency Services, ExxonMobil Corp's oil refinery in Torrance, California flared on Monday as it was shutting down a hydrogen unit for maintenance. The shutdown was continuing on Tuesday morning.

Sunoco Inc's refineries in Philadelphia were operating normally Tuesday as workers cleaned 5,600 barrels of oil that spilled from a storage tank on Sunday.

The Arkansas Department of Environmental Quality issued an emergency order involving a gasoline spill of about 67,000 gallons at TransMontaigne Partners' subsidiary in Arkansas. The spill occurred during a tank filling operation at the facility on October 3. An official said the cleanup process was ongoing on Tuesday and added that it may take months to complete.

The Renewable Fuels Association said construction started on two new ethanol plants in Ohio and Indiana. The ethanol plant in Ohio would have a production capacity of 60 million gallons per year when completed while the ethanol plant in Indiana would have a production capacity of 100 million gallons per year when complete. According to the Renewable Fuels Association, 106 ethanol plants have a capacity of produce more than 5 billion gallons annually. Construction of 44 new plants and the expansion of seven plants would add about 3.5 billion gallons of capacity when complete.

Canada's 200,000 bpd Rainbow crude oil pipeline in northern Alberta was restarted on Monday after it was shut on October 10 due to a leak. The pipeline is expected to gradually return to full capacity. The Rainbow pipeline supplies both Imperial Oil's 180,000 bpd Edmonton refinery and Petro-Canada's 125,000 bpd Edmonton refinery as well as crude pipeline systems that deliver crude to western and eastern Canada. Shippers have been asked to lower their nominations to facilitate downstream of the Rainbow pipeline by 25% while producers have also been asked to lower their forecasts of crude flows through the pipeline by 25%.

Colonial Pipeline Co is on track to bring a \$1 billion expansion plan into service in 2010 as planned which would allow more gasoline and other refined products to flow from Gulf Coast refineries to East Coast markets. In July, the FERC told Colonial it could recover from its customers, costs for building a new line between Baton Rouge, Louisiana and Atlanta, Georgia. The expansion would add about 800,000 bpd of capacity to Colonial, an increase of about 30%.

South Korea's refiners are expected to lift operating levels next month to meet higher winter demand. However the 45,000 bpd increase would leave runs below full capacity. GS Caltex is expected to increase its crude processing rate for November to 615,000 bpd from 600,000 bpd in October. Hyundai Oilbank Corp is expected to increase its processing rate for November to 330,000 bpd from the current rate of 320,000 bpd. SK Incheon Oil is expected to increase its runs by 20,000 bpd to 190,000 bpd in November. SK Corp has yet to set its runs while S-Oil Corp said it would maintain

operations at 565,000 bpd. S-Oil Corp said it would keep its crude oil processing rate for November at 565,000 bpd, unchanged on the month.

Russia's Transneft said it would likely cut exports from its Baltic Sea port of Primorsk by about 5 cargoes in November due to pipeline maintenance. Exports are expected to total 5.2 million tons in November, down from 5.7 million tons in October while shipments from the Black Sea port of Novorossiisk would increase to about 4 million tons from 3.8 million tons in October.

Separately, Russia's Transneft said it planned to complete a project to increase the capacity of the Baltic Pipeline System by the end of the year. The pipeline would be able to carry 1.4 million bpd, up from the current 1.3 million bpd.

A Pemex gasoline tanker ship exploded Tuesday as it was unloading fuel at a port in the Gulf state of Veracruz. Authorities evacuated 400 workers from the site of the explosion. At least six people were killed and 11 injured. The cause of the explosion was not immediately known. Authorities were investigating whether a soldering project near where the gasoline was being discharged had provoked the explosion.

### **Production News**

Royal Dutch Shell has resumed pumping about 12,000 bpd at a Nigerian oil pumping station that was shut down last week. Nigerian villagers from the Oporoma community seized the Nun River flow station on October 10.

According to a port official, Iraq halted its oil exports from its southern Basra terminal late on Monday as strong winds forced port operators to suspend berthing operations. Loading operations at the terminal were continuing at about 50,000 barrels/hour. There was no immediate indication when operations would resume at the terminal.

Canada's Nexen said it expected its Buzzard oilfield to pump 210,000 bpd at its peak. It would add 20% to the million barrels a day that make up the Dated Brent, Forties and Oseberg, used by oil producers to value about 20 million bpd of crude. Buzzard would flow into the BP operated Forties pipeline, which brings oil into Scotland's Hound Point terminal.

A senior official of China's National Development and Reform Commission confirmed China started pumping crude into newly built strategic oil reserve tanks. However he did not state how much had been filled or when the reserve tanks would be filled. Last week, port sources stated that China pumped Russian crude into its first strategic oil reserve facility in August. Sources stated that as much as 3 million barrels of crude has been delivered. As previously reported, China's second oil reserve facility should be ready by the end of the year, with a capacity of 1.2 million cubic meters or about 7.548 million barrels. Two more reserve tank facilities are planned as part of its first phase of a reserve plan, due for completion in 2008 which would have a total capacity of 16.2 million cubic meters or 101.895 million barrels. Oil traders fear China would have to increase imports by as much as 100,000 bpd in order to fill the reserves. It would represent a 3.4% increase from current import levels.

Royal Dutch Shell said it was confident it would resolve all the environmental issues around its Russian Sakhalin-2 project within a week. Shell said the firm had already dealt with 97% of claimed breaches of environmental rules and would have resolved 100% of the issues by October 24, the date of an inspection by Russian Natural Resource Minister Yuri Trutnev. Russia has threatened Shell with sanctions if it failed to address environmental violations at Sakhalin-2.

Russia's Viktor Khristenko said he saw no grounds to scrap existing production sharing deals with foreign majors amid increasing pressure on projects led by Royal Dutch Shell and ExxonMobil.

Russia's Lukoil said it planned to more than double its production to 210 million tons of oil equivalent within 10 years. The company has also planned to increase processing volumes to 100 million tons of oil equivalent per year by 2016 and increase its capitalization to \$150-\$200 billion from the current \$67 billion. This year, Lukoil is expected to produce 95 million tons of oil or 1.9 million bpd and 8.5 billion cubic meters of gas.

Norway's Statoil has ended drilling on the Brugdan prospect off the Faroe Islands after finding no commercially viable oil or gas volumes in an exploration well. Statoil said it would not drill other wells off the Faroe Islands at present and would evaluate the Brugdan findings before deciding whether to apply in the third Faroese licensing round, due to be announced in the autumn of 2007.

India's oil product sales increased to 9.05 million tons in August, up from 8.98 million tons in July. However it was down from 9.36 million tons reported last year. India's refined product imports increased to 1.44 million tons in August from 1.21 million tons in July and from 1.25 million tons last year. Meanwhile its oil product exports increased to 2.9 million tons in August from 2.78 million tons in July and 1.8 million tons last year. Meanwhile India's crude imports in August fell to 9.05 million tons from 9.5 million tons in July. Its imports were however up from last year's level of 8.45 million tons.

OPEC's news agency reported that OPEC's basket of crudes increased to \$55.34/barrel on Monday, up 44 cents from \$54.90/barrel on Friday.

### **Market Commentary**

The oil market opened down 24 cents at 59.70 but quickly breached its resistance at 60.00 and posted a high of 60.25. The market was supported amid the strength in the heating oil market and natural gas market in light of the weather forecasts showing below normal temperatures. The crude market however failed to sustain its early gains and sold off sharply. The market extended its losses to \$1.29 as it posted a low of 58.65 late in the session. The market later bounced off its low and retraced some of its losses ahead of the close. It settled down \$1.01 at 58.93. Volume in the crude market was light with 193,000 lots booked on the day. Meanwhile, the gasoline market, which posted an outside trading day, settled down 2.84 cents at 146.33. It quickly rallied to a high of 152.00 on the opening before it retraced its gains and sold off. The market breached its support level as it extended its losses to more than 6 cents and posted a low of 143.00. The gasoline market later retraced some of its losses ahead of the close. The RBOB contract also posted an outside trading day as it traded in a range from 155.00 to 148.50. It settled down 1.51 cents at 151.71. The heating oil market gapped

higher from 175.80 to 176.50 amid the supportive weather forecasts and traded to a high of 178.10. The market however backfilled its opening

		Levels	Explanation
<b>CL</b>	<b>Resistance</b>	61.30, 62.70, 63.10	Previous highs
	58.93, down \$1.01	59.50, 60.25	Tuesday's high
	<b>Support</b>	58.65	Tuesday's low
<b>HO</b>	<b>Resistance</b>	179.10, 181.80	Previous highs
	173.38, down 2.27 cents	174.50, 176.00, 178.10	Tuesday's high
	<b>Support</b>	172.80	Tuesday's low
<b>RB</b>	<b>Resistance</b>	156.50, 157.00 & 160.70	Previous highs
	151.71, down 1.51 cents	155.00	Tuesday's high
	<b>Support</b>	148.50	Tuesday's low
		147.50, 147.00	Previous lows

gap, as it sold off to a low of 172.80 late in the session. The heating oil market settled down 2.27 cents at 173.38. Volumes in the product markets were light with 6,600 lots booked in the gasoline, 16,000 lots in the RBOB market and 37,000 lots in the heating oil market.

The oil market will seek further direction from the weekly petroleum stock reports. The reports are expected to show builds in crude stocks of 1 million barrels and draws in distillate stocks of close to 1 million barrels on the week. Gasoline stocks are estimated to remain unchanged on the week. If the reports fail to show a draw in product stocks, the market is seen testing its previous low. The market is also seen remaining pressured as the market awaits for the outcome of OPEC's meeting on Thursday. An OPEC delegate stated that OPEC would cut its output by 1 million bpd from its actual production level, while another OPEC official said it was yet to be decided whether it would cut its output from its actual production level or from its quota. The market is seen finding support at 58.65, 58.10, 57.50 and 57.30. Meanwhile resistance is seen at 59.50, 60.25 followed by 61.30. More distant resistance is seen at 62.70 and 63.10.