



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 18, 2006

Iran's top nuclear negotiator, Ali Larijani insisted that continuing talks with EU foreign policy chief Javier Solana was still possible. He warned that any likely UN Security Council resolution for imposing sanctions against Iran would ruin any possibility for a compromise to resolve a standoff over the country's nuclear program. He threatened

Market Watch

Accuweather.com said that unlike the National Weather Service forecast, it does not see the winter being warmer than normal across the majority of the country. Accuweather's Joe Bastardi said the government's weather service is overplaying the effects of El Nino, which he expects to remain at its current weak to moderate level and may even weaken as the winter progresses. He forecast a cooler than normal winter in the Northeast.

European Energy Commissioner Andris Piebalgs said Russia needs to lay out its rules for energy projects so that they are clear to foreign investors. The European Union said it planned to raise concerns over energy investment and dependability of long term oil and gas supplies in a meeting with Russian President Vladimir Putin on Friday.

Ford Motor Co said the high price of bio-ethanol is a constraint for vehicle manufacturers.

retaliation if the UN imposed sanctions against Iran. He stopped short of stating that IAEA inspections would be halted if sanctions were imposed on the country. EU foreign policy chief Javier Solana said he spoke with Iran's top nuclear negotiator on Monday but added that the situation had not changed and Iran continued to refuse to suspend its nuclear enrichment program. Meanwhile, EU foreign ministers said they supported a decision by the UN's five permanent Security Council members and Germany to pursue limited sanctions against Iran. France has stated that a sanctions resolution would likely be circulated at the council by the end of the week.

OPEC's Secretary General Mohamed Barkindo said consensus was building within OPEC on how to spread a one million bpd cut in oil production. Kuwait's Oil Minister Sheikh al-Jarrah al-Sabah said he expected full OPEC participation in a 1 million bpd cut set to be finalized during Thursday's meeting. He said OPEC was near consensus on cutting its output by 1 million bpd from its actual production. He however stated that there was a possibility that the final cut agreed could be less than 1 million bpd. He also stated that OPEC's main concern was oil price stability rather than the actual price level.

DOE Stocks

Crude – up 5.1 million barrels
Distillate – down 4.5 million barrels
Gasoline – down 5.2 million barrels
Refinery runs – down 3.25% , at 86.3%

Meanwhile, Libya's Oil Minister Shokri Ghanem said OPEC ministers have agreed to cut their production by 1 million bpd but have yet to reach an agreement on apportioning the planned cut into their quotas. He also suggested that OPEC ministers intended to cut production from the effective production rather than their ceiling. Algeria's Oil Minister Chakib Khelil said OPEC's plan to cut production was driven by an anticipated slowdown in second quarter demand in 2007 and increasing supplies from producers outside of OPEC. He said he expected OPEC to cut its output by 1 million bpd. Unlike most OPEC ministers, Venezuela and Iran, struggling to meet their quotas, do not favor a cut based on actual supply that would see them ceding market share to other producers. Qatar's Oil Minister Abdullah bin Hamad al-Attiyah said any output cut by OPEC would be temporary. He said the production cut may take effect in November. Separately, OPEC's director of research, Hassan Qabazard said OPEC may need to cut production once again by the second quarter of next year when the world oil market could be oversupplied by 2.5 million bpd.

A PDVSA official said Venezuela cut its output by a further 500,000 bpd from October 15 following a cut of the same amount on October 1. Separately, Indonesia's OPEC governor Maizar Rahman said Indonesia hoped to avoid cutting its own oil production under the deal expected on Thursday to ratify OPEC's first production cut in two and a half years. Indonesia has been producing less oil than its OPEC quota calls for. In September, its quota stood at 1.451 million bpd while its production stood at 865,000 bpd.

The DOE reported that with refinery utilization at its lowest level since April, finished gasoline producers last week drew on blending components to meet gasoline demand which reached its highest level ever for this time of the year. It said blending components made up most of the 5.2 million draw in gasoline stocks, with a draw of 4.3 million barrels while conventional gasoline accounted for a fall of just 300,000 barrels.

The DOE reported that US inventories of propane totaled 72.001 million barrels in the week ending October 13, up 1.194 million barrels on the week. It reported that propane inventories in the East Coast fell by 279,000 barrels to 5.167 million barrels, inventories in the Midwest fell by 16,000 barrels to 26.421 million barrels and inventories in the Gulf Coast increased by 1.572 million barrels to 37.578 million barrels on the week.

The API reported that gasoline demand in September increased by 2% on the year due to falling prices. It reported that gasoline production totaled 9.1 million bpd while distillate production also increased to a record level of 4.4 million bpd. It stated that nearly 2.6 million bpd of the production was ultralow sulfur diesel. Meanwhile crude stocks fell by 2.3% on the month to 325.5 million barrels.

Refinery News

BP Plc shut an alkylation unit at its 460,000 bpd Texas City, Texas refinery to repair a leak in the heat exchanger.

Chevron Corp said its 54,000 bpd Honolulu, Hawaii refinery was expected to finish its restart by the end of the week. The refinery was shut after Sunday's earthquake caused power outages.

Venezuela's 140,000 bpd El Palito refinery was currently processing at normal capacity following a brief power outage on Tuesday.

China's major oil refineries cut crude throughput by about 4% on the month in October to 2.12 million bpd.

NYMEX Petroleum Options Most Active Strike for October 18, 2006									
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Prev Settle	Volume	IV
GO	11	6	C	1.55	10/26/2006	0.0105	0.0105	414	42.30
GO	11	6	C	1.5	10/26/2006	0.0236	0.0229	26	41.68
GO	11	6	P	1.4	10/26/2006	0.0108	0.0137	26	41.84
LO	12	7	P	60	11/13/2007	3.63	3.48	6,175	26.56
LO	4	7	P	50	03/15/2007	0.61	0.49	5,900	31.32
LO	12	6	C	65	11/14/2006	0.42	0.65	5,500	32.45
LO	12	7	P	55	11/13/2007	2.33	2.23	4,500	27.91
LO	12	6	P	79	11/14/2006	19.7	18.34	4,200	55.75
LO	12	6	P	79.5	11/14/2006	20.2	18.84	4,200	56.98
LO	12	6	P	77	11/14/2006	17.7	16.34	3,700	50.75
LO	12	6	P	77.5	11/14/2006	18.2	16.84	3,700	52.02
LO	12	6	C	61	11/14/2006	1.35	2.02	3,511	32.18
LO	12	6	C	60	11/14/2006	1.74	2.41	3,349	32.17
LO	12	6	C	70	11/14/2006	0.09	0.13	3,331	34.30
LO	12	6	P	56	11/14/2006	0.78	0.5	3,193	32.31
LO	12	6	P	60	11/14/2006	2.44	1.75	2,425	32.24
LO	12	6	P	58	11/14/2006	1.45	0.97	2,229	32.12
LO	12	6	C	63	11/14/2006	0.77	1.15	1,984	32.17
LO	12	6	P	61	11/14/2006	3.04	2.14	1,612	32.18
LO	12	6	C	64	11/14/2006	0.58	0.87	1,333	32.47
LO	1	7	P	60	12/14/2006	2.42	1.91	1,320	29.63
LO	12	6	C	80	11/14/2006	0.01	0.01	1,316	41.72
LO	12	6	C	73	11/14/2006	0.03	0.05	1,305	34.70
LO	3	7	C	70	02/14/2007	1.45	1.78	1,055	27.45
LO	1	7	C	67	12/14/2006	0.85	1.18	1,052	29.84
LO	1	7	C	78	12/14/2006	0.08	0.12	1,029	32.12
LO	1	7	P	48	12/14/2006	0.13	0.1	1,025	34.86
LO	12	6	P	53	11/14/2006	0.28	0.18	1,008	33.99
LO	1	7	C	76	12/14/2006	0.12	0.18	1,000	31.49
LO	2	7	P	56	01/17/2007	1.3	1.06	1,000	29.95
LO	1	7	P	50	12/14/2006	0.24	0.18	1,000	34.05
OB	2	7	C	1.8	01/26/2007	0.0489	0.0557	424	35.53
OB	12	6	C	1.61	11/27/2006	0.0441	0.0499	116	39.91
OH	2	7	C	2.65	01/26/2007	0.0042	0.0035	525	37.84
OH	11	6	C	1.73	10/26/2006	0.0212	0.0396	102	35.30
OH	12	6	C	1.8	11/27/2006	0.0461	0.0623	100	32.53
OH	3	7	C	1.96	02/23/2007	0.0697	0.0822	56	30.42
OH	3	7	C	2.02	02/23/2007	0.0556	0.0661	56	30.78
OH	11	6	C	1.85	10/26/2006	0.0022	0.0063	51	36.61
OH	12	6	C	1.7	11/27/2006	0.088		50	31.68

South Korea's SK Corp said it planned to increase the November crude processing rate to 810,000 bpd from the current level of 750,000 bpd.

The Petroleum Association of Japan reported that the country's kerosene stocks increased by 151,361 kiloliters or 2.8% on the week to 5.4 million kl or 33.96 million barrels in the week ending October 14. It is the highest level since the end of November 1997, when Japan had 5.42 million kl of kerosene stocks. It also reported that gasoline stocks totaled 2.04 million kl or 12.83 million barrels, down 0.48% from the previous week while crude stocks totaled 19.2 million kl or 120.76 million barrels, up 7.61% on the week. The Petroleum Association of Japan also reported that Japanese refiners ran their facilities at an average 72% of total capacity of 4.78 million bpd, down from

74.8% the previous week.

Indonesia is expected to import a total of 7.65 million barrels of crude in December, of which it purchased 3 million barrels through its spot tender and 4.65 million barrels via term contracts. The total volume is expected to be unchanged on the month. Indonesia is also expected to purchase 10.42 million barrels of oil products for November, unchanged on the month. Gasoline imports are expected to increase by 23.6% to 4.72 million barrels while gas oil imports are estimated at 4.8 million barrels,

down 11.1% on the month. Indonesia is also expected to import 300,000 barrels of kerosene and 600,000 barrels of fuel oil.

Poland's PKN Orlen said it was committed to sealing a takeover deal for Lithuania's Mazeikiu Nafta as soon as possible. It stated that a financial signing ceremony for the takeover, originally scheduled for Wednesday, has been postponed pending the results of inquiries into last week's fire. Mazeikiu Nafta said it would take six to nine months to restore operations to full refining capacity of 27,400 tons/day or 200,000 bpd. Damage from the fire, which caused damage and the immediate shutdown of a vacuum distillation unit, is seen costing between \$22.5 million and \$47.5 million.

Production News

Norway's Statoil decided to halt oil and gas production at its Heidrun field in the North Sea as a safety precaution amid rough seas due to lifeboat restrictions. The field was producing about 140,000 bpd of oil and about 23 million standard cubic meters/day of gas. There was no estimate on when output would resume. The Heidrun field was one of eight Norwegian offshore oil platforms using free fall lifeboats that were found defective in an industry study last week. Statoil's total shut in oil production stood at 340,000 bpd.

Separately, Norway's Statoil said it would increase production at its Norne field in the North Sea by 10 million barrels over the lifetime of the field by installing new subsea technology. Statoil's aim is to maintain a production level of 1 million barrels of oil equivalent/day on the Norwegian continental shelf until 2015. According to Norway's Petroleum Directorate, Norne is expected to produce 76,000 bpd of oil and 1.2 million standard cubic meters of natural gas in 2006.

The Shetland Island Council reported that Brent crude liftings from Sullom Voe increased to 263,173 tons in the week ending October 17, up from 179,483 tons in the previous week.

BP said crude production and export operations in Azerbaijan were normal. Trade and shipping sources stated earlier that pipeline problems were delaying Azeri oil exports from the Black Sea port of Supsa.

KazMunaiGAs E&P said it increased its oil production to 7.123 million tons in the first nine months of 2006 from 6.969 million tons last year.

Occidental Petroleum Corp said it would produce between 610,000 and 620,000 barrels of oil equivalent/day on average in the fourth quarter, up 4% to 5.6% on the quarter.

Russia's Lukoil unveiled a plan that would double its total oil and gas output to 4 million barrels of oil equivalent/day by 2016 from 2.1 million boe/d in the second quarter.

ConocoPhillips said an oil production venture jointly operated by ConocoPhillips and Lukoil Holdings was progressing as planned. The companies have been developing the Yuzhno-Khylchuyuskoye field, which produces 10,000-11,000 bpd.

Brazil's Petrobras said it may take a decade before it may start production at a recently discovered light oil area in the ultra deep waters in the Santos Basin. Production tests at the well showed a flow of 4,900 bpd of oil and 150,000 meters/day of natural gas. Separately, it stated that it planned to invest between \$5 billion and \$6 billion in its Latin American operations by 2011.

OPEC's news agency reported that OPEC's basket of crudes increased further to \$56.17/barrel on Tuesday from \$55.34/barrel on Monday.

Market Commentary

The crude market opened down 13 cents at 58.80 and quickly sold off to a low of 58.50 in light of the large build reported in crude stocks. However the market bounced off its low and rallied to a high of 59.50 amid the strength in the product markets. The product markets were well supported by the larger than expected draws reported in distillate and gasoline stocks. The DOE also reported that total petroleum stocks fell by 5.8 million barrels on the week. The crude market's gains were however limited as the market seemed to shrug off the mostly bullish report. The market erased its gains and extended its losses to \$1.53 as it sold off to a low of 57.40 ahead of the close. The crude market settled down \$1.28 at 57.65. Volume in the crude market was light with 192,000 lots booked on the day. The product markets ended mixed with the heating oil market settling down 3.79 cents at 169.59 and the gasoline market settling up 70 points at 147.03. The heating oil market traded to a low of 173.00 early in the session. However the market quickly bounced off that level and rallied to a high of 176.80 in light of the supportive weekly petroleum stock reports. The DOE and API reported draws in distillate stocks of 4.5 million barrels and 2.564 million barrels, respectively. The market however surprisingly retraced its gains and extended its losses to over 4.5 cents as it posted a low of 168.80 ahead of the close. The gasoline market, which posted an inside trading day, quickly rallied to a high of 150.50 in light of the unexpected draws in gasoline stocks. The DOE and API reports showed gasoline stock draws of 5.2 million barrels and 6.064 million barrels, respectively. The market however erased its gains and sold off to a low of 145.25 late in the session before it saw some short covering, which

pushed it into positive territory. Meanwhile, the RBOB market settled down 1.68 cents at 150.03 after it sold off to a low of 149.00. Volumes in the product

		Levels	Explanation
CL	Resistance	60.25, 61.30	Previous highs
	57.65, down \$1.28	58.40, 58.90, 59.50	Wednesday's high
	Support	57.40	Wednesday's low
		57.30, 56.90	Previous lows
HO	Resistance	178.10, 179.10, 181.80	Previous highs
	169.59, down 3.79 cents	172.00, 174.00, 176.80	Wednesday's high
	Support	168.80	Wednesday's low
		167.00, 166.80, 166.10	Previous lows
RB	Resistance	156.50, 157.00 & 160.70	Previous highs
	150.03, down 1.68 cents	155.00	Double top
	Support	149.00, 148.50	Wednesday's low, Tuesday's low
		147.50, 147.00	Previous lows

markets were light with 42,000 lots booked in the heating oil, 8,200 lots booked in the gasoline market and 16,600 lots booked in the RBOB market.

The oil market, which was unable to sustain its gains in light of the mostly bullish weekly petroleum stock reports, will likely remain pressured. Even if OPEC decides to cut its output by the expected 1 million bpd during its meeting on Thursday, the market's gains are seen limited. The market is not seen trading much higher as the market has been expecting a cut in production for the past two weeks. It is yet to be seen whether Saudi Arabia will join its fellow OPEC ministers and cut its output as Saudi Arabia has failed to publicly support the cut. The market is seen finding support at its low of 57.40 followed by 57.30 and 56.90. Meanwhile resistance is seen at 58.40, 58.90 and 59.50. More distant resistance is seen at 60.25 and 61.30.