



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR OCTOBER 20, 2006**

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OPEC agreed to cut its production by 1.2 million bpd to 26.3 million bpd effective November 1. The cut, amounting to 4.3% of OPEC's September production, was larger than anticipated. Some OPEC ministers stated that a further cut of 500,000 bpd could follow when OPEC meets on December 14 to address high fuel stocks in consumer countries and a projected drop in demand for OPEC oil in 2007. Algeria's Energy and Mines Minister Chakib Khelil said all ten OPEC members subject to quotas

#### Market Watch

According to traders, Saudi Arabia's pledge to cut oil production by 380,000 bpd as part of the OPEC cut has already been factored into volumes seen headed to the US for November.

Royal Dutch Shell's joint venture with Russia's Sibir Energy, Salym Petroleum Development, said it had received a back tax claim from Russian authorities. It said the back tax claim was for the 2002-2004 period. Russia's business daily, Vedomosti, said that the claim was worth more than \$10 million.

Russia's Ministry of Industry and Energy said it was in talks with investors of the international energy consortium Sakhalin Energy Ltd on the possibility of changing the company's business model.

Schlumberger Ltd said OPEC's plan to cut its production is not expected to affect the services industry. The company's chief executive said he did not believe there was a danger of a price collapse. He also stated that US drilling activity has not shown any signs of a slowdown, despite a recent fall in Canada.

Crude oil freight futures markets fell on Friday and spot physical freight softened as OPEC agreed to cut its production by 1.2 million bpd. The benchmark Gulf to Japan VLCC route for November fell 12 Worldscale points to W102 on Norway's International Maritime Exchange. Shipping brokers said that physical spot freight was also softening on the news as charterers held off booking vessels.

The CEO of Italy's Enel said European countries should encourage local communities to accept the building of LNG infrastructure, using tax breaks as an incentive. He also stated that LNG was the key for turning the gas market from a seller's market to a buyer's market as it diversifies the sources of gas to more producer countries.

would participate in the cut. Saudi Arabia is expected to shoulder about 32% of the cut, amounting to 380,000 bpd. OPEC's President Edmund Daukoru said the output cut was aimed at stabilizing the oil market and added that any possible further cut would depend on whether stability is maintained. Meanwhile, Iran's Oil Minister Kazem Vaziri said a further output cut OPEC's December meeting may

Member Countries	Production (Sep)	Output Cut	Quotas
Algeria	1,370,000	59,000	894,000
Indonesia	880,000	39,000	1,451,000
Iran	3,870,000	176,000	4,110,000
Kuwait	2,510,000	100,000	2,247,000
Libya	1,720,000	72,000	1,500,000
Nigeria	2,200,000	100,000	2,306,000
Qatar	830,000	35,000	726,000
Saudi Arabia	9,080,000	380,000	9,099,000
UAE	2,570,000	101,000	2,444,000
Venezuela	2,550,000	138,000	3,223,000
Total	27,580,000	1,200,000	28,000,000

not be needed but added that OPEC would monitor the situation. He said the aim of OPEC's 1.2 million bpd cut was to balance and stabilize the market. Venezuela's Energy and Mines Minister Rafael Ramirez said Venezuela was set to inform its customers of a cut in their supplies in line with OPEC's agreement. He confirmed that Venezuela's share in the OPEC cut was 138,000 bpd.

The head of the IEA, Claude Mandil said the timing of OPEC's output cut was the worst as the northern hemisphere heads into the peak demand season and the risk of supply tightness remains. He was concerned that OPEC had send a signal it wanted to maintain prices around current levels, which he said were still very high. He also stated that another cut may not be a wise move as it would add to price volatility.

The head of the EIA's petroleum division, John Cook said the EIA was skeptical OPEC would actually implement a full 1.2 million bpd production cut, especially after several members have already reduced production.

Russia's Ministry for Industry and Energy said the country would not cut its output following OPEC's decision to cut its production by 1.2 million bpd. Russia produced 9.75 million bpd in September, up 2.6% or 340,000 bpd on the year.

Oil Movements reported that OPEC's exports are expected to fall by 560,000 bpd to 24.45 million bpd in the four weeks ending November 4. Westbound shipments from the Middle East are expected to fall by 4.9% on the year to 4.9 million bpd while eastbound shipments are expected to fall 3.3% to 12.3 million bpd. Overall Middle East shipments are expected to fall 3.8% to 17.2 million bpd.

Iran's President Mahmoud Ahmadinejad called the UN Security Council and its decisions illegitimate. A draft resolution on Iran is expected to be introduced in the UN Security Council early next week and diplomats have stated that they would seek sanctions against Iran for refusing to suspend its uranium enrichment. Iran's President also vowed that Iran would produce nuclear fuel within five years and offered to sell it to the West at a 50% discount. He accused the US and its European allies of undermining the Nuclear Nonproliferation Treaty by making up demands on Iran but not on Israel, which is assumed to have nuclear weapons but has never disclosed their existence. Iran's President also warned European countries not to harm Iran and added that if anger in the region increased, Europe would get hurt due to its support for Israel. He stated that there was no reason for Israel to exist and added that it would soon disappear. He predicted Israel would collapse.

Israeli Prime Minister Ehud Olmert said Israel may be forced to take action if efforts to compromise on Iran's nuclear program are rejected. He did not specifically threaten to destroy Iran's nuclear program in a military strike but added that Iran had to be afraid of the consequences. He said Iran had to understand that if it objected to every compromise, there would be a price to pay. Israel has stated that it would not lead a campaign against Iran's nuclear program but would act in concert with world powers.

## **Refinery News**

Valero Energy Corp was restoring normal operations on Thursday at its 260,000 bpd Port Arthur, Texas refinery following a power interruption on Wednesday. According to a report filed with the Texas Commission on Environmental Quality, the power outage affected operations at its catalytic reforming, fluid catalytic cracking, gasoline treating units and its sulfur recovery system.

ExxonMobil Corp shut a conversion unit at its Baytown, Texas refinery on Friday for scheduled maintenance. A report filed with the Texas Commission on Environmental Quality did not state how long the maintenance would last.

On Friday, BP began the process of restarting its fluid catalytic cracking unit at its Texas City, Texas refinery following seven days of unplanned maintenance on associated equipment. The duration of the startup is expected to be 48 hours, with the unit returning to normal operations by Sunday afternoon.

Lyondell Chemical Co stated that its refinery in Houston was not affected by a fire that broke out near the facility. A hydrogen pipeline at a metering station was believed to be the source of the fire.

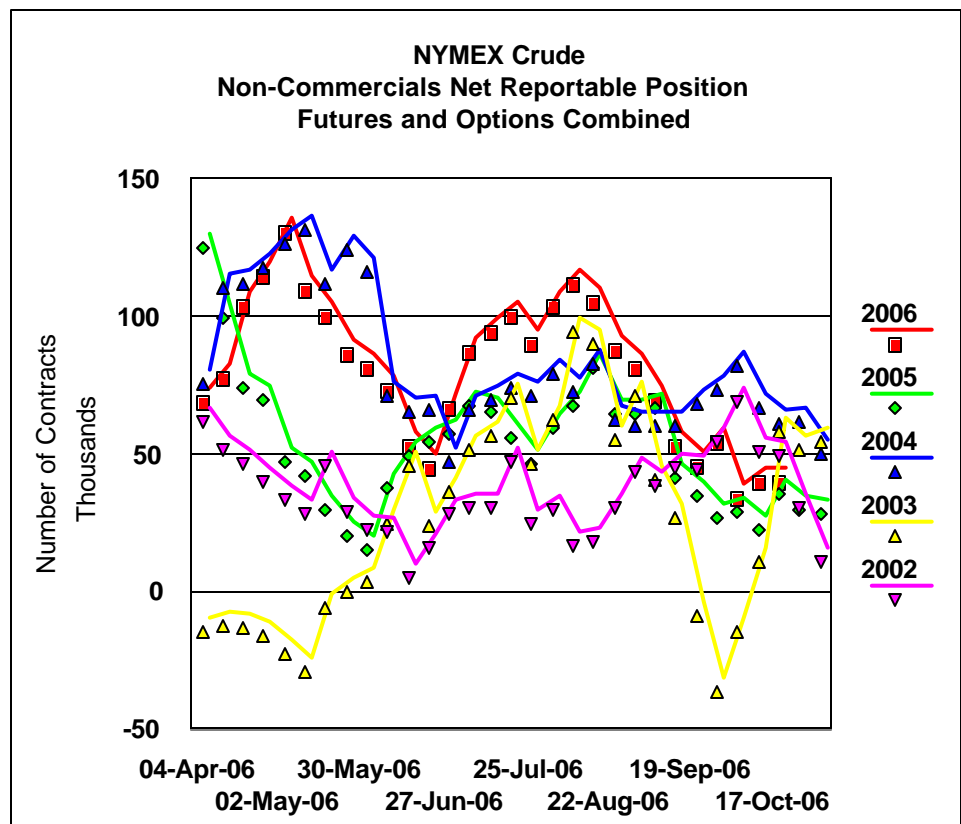
The restart of Neste Oil's Naantali refinery was delayed by about a week due to prolonged automation testing after it was shut on October 16 due to a fire. The refinery is expected to restart over the weekend.

Japan's Idemitsu Kosan Co restarted its No. 2 naphtha cracker at its Tokuyama plant on schedule following the completion of planned maintenance. The company is expected to restart its No. 1 cracker from Tuesday.

Iraq's crude oil pumping via its northern oil export pipeline from Kirkuk to the port of Ceyhan continued on Friday, increasing inventories at the Turkish terminal up to 2.5 million barrels. It was pumping 15,000-20,000 barrels/hour. A shipping agent said Iraq's State Oil Marketing Organization is expected to announce a new tender to sell Kirkuk crude when stocks at Ceyhan reach 6 million or 7 million barrels.

Indonesia's Pertamina said it would import 10 million barrels of oil products a month in November and December. The imports include 5.4 million-6 million barrels of diesel and 2.4 million-3 million barrels of gasoline each month.

Indian Oil Corp purchased



1.1 million barrels of Malaysian crude and about 2 million barrels of West African crude in its latest tender. In its last tender awarded in mid-September, IOC had purchased 1 million barrels of November Azeri Light crude from BP.

**NYMEX Petroleum Options Most Active Strikes for October 20, 2006**

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
GO	12	6	P	1.3	11/27/2006	0.0106	57	36.45
GO	11	6	C	1.48	10/26/2006	0.0258	15	42.22
GO	11	6	C	1.5	10/26/2006	0.0184	13	42.45
GO	12	6	P	1.5	11/27/2006	0.0765	12	35.76
GO	11	6	C	1.55	10/26/2006	0.007	11	43.07
GO	11	6	C	1.47	10/26/2006	0.0302	10	42.14
GO	11	6	C	1.51	10/26/2006	0.0154	10	42.60
LO	12	6	C	60	11/14/2006	1.6	2,477	30.91
LO	12	6	P	60	11/14/2006	2.26	2,248	30.81
LO	12	6	P	56.5	11/14/2006	0.79	2,175	31.11
LO	2	7	P	45	01/17/2007	0.09	2,100	33.87
LO	1	7	P	50	12/14/2006	0.18	2,004	32.76
LO	1	7	C	62	12/14/2006	2.21	1,997	28.88
LO	1	7	P	60	12/14/2006	2.25	1,575	28.94
LO	12	6	P	77.5	11/14/2006	18.17	1,500	53.26
LO	12	6	P	77	11/14/2006	17.67	1,500	51.97
LO	4	7	P	55	03/15/2007	1.29	1,400	29.19
LO	12	6	P	58	11/14/2006	1.29	1,284	30.83
LO	1	7	C	65	12/14/2006	1.21	1,189	28.83
LO	12	6	C	62	11/14/2006	0.9	1,152	30.91
LO	12	6	P	55	11/14/2006	0.48	1,147	32.17
LO	1	7	C	61	12/14/2006	2.65	1,131	28.90
LO	2	7	C	73	01/17/2007	0.53	1,083	27.84
LO	12	6	C	63	11/14/2006	0.66	1,065	31.04
OB	2	7	C	2	01/26/2007	0.0228	300	37.53
OB	4	7	C	2.1	03/27/2007	0.0608	50	34.47
OB	6	7	C	2.1	05/25/2007	0.0878	50	31.84
OB	2	7	P	1.68	01/26/2007	0.1521	40	34.65
OB	11	6	P	1.7	10/26/2006	0.1912	40	46.76
OB	1	7	C	1.65	12/26/2006	0.0628	35	35.41
OH	11	6	P	1.65	10/26/2006	0.0186	408	36.91
OH	12	6	C	2.29	11/27/2006	0.0012	200	39.99
OH	12	6	P	1.84	11/27/2006	0.1483	166	33.57
OH	11	6	P	1.88	10/26/2006	0.2003	165	41.84
OH	1	7	C	1.84	12/26/2006	0.0634	150	30.57
OH	11	6	C	1.75	10/26/2006	0.0091	58	37.53
OH	11	6	P	1.67	10/26/2006	0.0267	50	36.76

South Korea's Korea National Oil Corp said the country's private oil stocks increased by 14.9% on the year to 76.32 million barrels at the end of September. Crude imports into South Korea increased by 2.4% on the year to 73.61 million barrels in September. Meanwhile, South Korea's crude runs increased to 73.37 million barrels in September, up 4.6% on the year. It also reported that South Korea's oil product demand increased by 0.2% to 59.88 million barrels in September from 59.74 million barrels last year.

Thailand's Commerce Ministry said the country's crude oil imports increased by 6.18% on the year in September to 3.77 billion liters valued at \$1.68 billion, up 22.86% on the year.

China National Petroleum Corp said it aimed to fill its largest crude storage facility with 12 million metric tons or 88 million barrels of crude of Russian crude a year when construction is completed in a year's time.

**Production News**

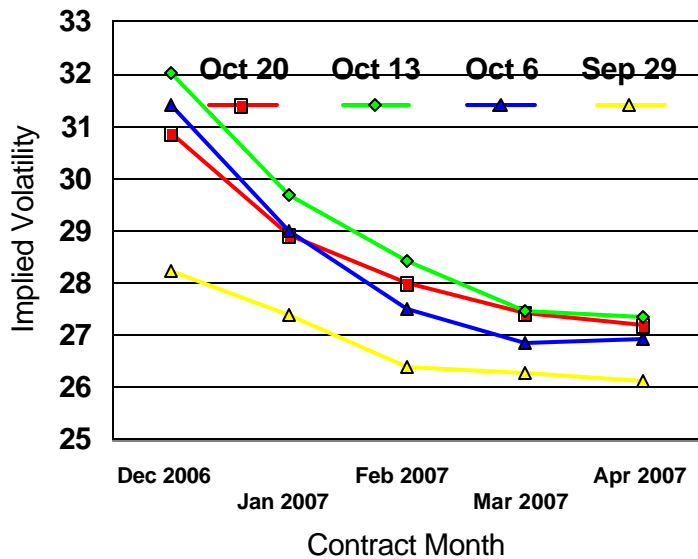
The Norwegian Petroleum

Directorate reported that Norway's oil production fell to 2.25 million bpd in September from 2.38 million bpd in August.

OPEC's news agency reported that OPEC's basket of crudes fell further to \$54.56/barrel on Thursday from \$55.27/barrel on Wednesday.

**Market Commentary**

## NYMEX WTI Crude ATM Options IV Basis Settlement



The oil market ended in negative territory as traders shrugged off the larger than expected OPEC output cut. OPEC announced that it was cutting its production by 1.2 million bpd starting November 1. The market, which traded to 59.40 in overnight trading, opened down 15 cents at 58.35 and quickly posted a high of 58.45. However the market continued to trend lower despite the larger than expected output cut by OPEC and the possibility that it could cut its production further in December. The November crude contract extended its losses to \$1.95 as it sold off to a low of 56.55 ahead of its expiration at the close. It settled down \$1.68 at 56.82 after it retraced some of its losses ahead of the close. The December crude contract also settled down \$1.17 at 59.33 after it sold off to a low of 59.10 late in the session. Volume in

the crude market was light with 175,000 lots booked in the open outcry session while volume on Globex totaled 182,000 lots at the close of the day session. The product markets also settled sharply lower. The heating oil market settled down 4.01 cents at 168.00 after it posted an inside trading day. The market opened down about 2 cents at 170.00 and quickly posted a high of 170.30. However the market erased its gains and traded to 167.50, where it held some support. It later extended its losses to a low of

167.20 ahead of the close. The gasoline market also posted an inside trading day as it failed to breach its previous

		Levels	Explanation
<b>CL</b>	<b>Resistance</b>	61.00, 61.25, 61.90	Previous highs
	59.33, down \$1.17	59.90, 60.40	Friday's high
	<b>Support</b>	59.10	Friday's low
<b>HO</b>	<b>Resistance</b>	172.50, 176.80, 178.10	Previous highs
	168.00, down 4.01 cents	169.00, 170.30	Friday's high
	<b>Support</b>	167.20, 166.80	Friday's low, Thursday's low
<b>RB</b>	<b>Resistance</b>	154.80, 155.00, 156.50, 157.00	Previous highs
	150.70, down 2.58 cents	152.50	Friday's high
	<b>Support</b>	149.75, 149.00	Friday's low, Double bottom
		148.50, 147.50, 147.00	Previous lows

trading range. The market posted a high of 149.50 before it sold off to a low of 146.00 ahead of the close. It settled down 2.22 cents at 146.72, as it remained pressured amid the losses seen in the crude market. The RBOB contract also settled down 2.58 cents at 150.70. Volume in the product markets remained light with 32,000 lots booked in the heating oil, 6,600 lots in the gasoline and 15,500 lots in the RBOB market.

The Commitment of Traders report showed that non-commercials in the crude market switched from a net long position of 301 contracts to a net short position of 2,696 contracts in the week ending October 17<sup>th</sup>, as the crude market remained pressured. The combined futures and options report showed that

non-commercials in the crude market increased their net long position slightly by 122 contracts to 39,928 contracts on the week. Meanwhile, non-commercials in the heating oil market cut their net short position by 1,118 contracts to a net short position of 4,234 contracts while non-commercials in the gasoline market increased their net short positions by 926 contracts to 4,024 contracts on the week.

The oil market will likely continue to trade lower and test its lows after it failed to sustain its overnight gains, despite the larger than expected output cuts. The market will seek confirmation on how OPEC members comply with their latest output agreement. The market is seen finding support at 59.10 followed by 59.05 and 56.55. Meanwhile resistance is seen at 59.90 and 60.40. More distant resistance is seen at 61.00, 61.25 and 61.90.