



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 25, 2006

Iran's OPEC governor, Hossein Kazempour Ardebili said Iran informed its customers that it would cut its output of 4.17 million bpd by 176,000 bpd starting in November in line with OPEC's agreement to cut its output by a total of 1.2 million bpd. The UAE is expected to cut its November crude supplies by about 5%, in line with OPEC's pledge. An industry source said some of the UAE's customers had already been advised of the cuts.

Market Watch

Trade between Russia and China is expected to increase to \$36 billion this year, mainly due to increasing energy cooperation between the two countries and high world oil prices. Trade between the two countries totaled \$30 billion last year, a figure that is likely to more than double by 2010 as gas and crude oil pipeline deals come onstream. However Russia's ambassador to China gave no firm timeline for a planned crude pipeline agreed to during a visit to China by Russia's President Vladimir Putin in March. Russia's Transneft and China National Petroleum Corp have been studying the construction of a branch oil pipeline, which would run from the Russian city of Skovorodino into China. Meanwhile, Russia is expected to ship 15 million tons of crude oil to China through railways in 2006. Also, Russia's Gazprom is in a project to construct two gas pipelines to supply China with 60-80 billion cubic meters of gas a year. The pipelines are expected to come onstream in 2011.

Iran's official news agency quoted an Iranian official as that the US naval exercises it is expected to hold at the end of the month with Bahrain, Kuwait, France and Britain were dangerous and suspicious. Meanwhile, Iran's supreme leader Ayatollah Khamenei called for Muslim unity to deal with what he called the "dirty aims" of the US and Israel. He stressed the importance of unity among Palestinian factions.

Saudi Aramco is expected to mostly reduce its exports of Arab Medium and Arab Heavy grades to Asian customers in November. Saudi Aramco is expected to cut exports of its Arab Heavy by more than 20% and Arab Light oil shipments by about 5% below contracted volumes to some refiners. Meanwhile, US Energy Secretary Sam Bodman said he expected OPEC members to carry out their pledge to cut production by 1.2 million bpd. The US Energy Secretary also stated that he was not concerned that US crude oil stocks have declined. He said the fall in oil inventories says nothing about OPEC's recent decision to cut its production.

DOE Stocks

Crude – down 3.3 million barrels
Distillate – down 1.4 million barrels
Gasoline – down 2.8 million barrels
Refinery runs – down 0.12%, at 86.2%

Iran's student news agency, ISNA reported that Iran

installed a second cascade for uranium enrichment two weeks ago and is scheduled to begin injecting uranium gas into it within days. On Monday, Iran's President Mahmoud Ahmadinejad said that western power were wrong if they believed Iran would not continue with its nuclear program due to the political pressure. The news of the second cascade for uranium enrichment came as world powers moved towards introducing a UN Security Council resolution. UK's Prime Minister Tony Blair said the UK was working closely with the permanent members of the UN Security Council and Germany to ensure that a proper, binding resolution on Iran's nuclear program is approved. China and Russia have agreed in principle to imposing sanctions against Iran. However the two countries have continued to push for talks instead of sanctions. A US spokesman at the UN said the US was seeking tougher sanctions on Iran than the measures in a UN resolution drafted by the UK, France and Germany. European diplomats said the proposed sanctions of banning the sale of missile and atomic technology to Iran and ending most of the UN's help for its nuclear programs were focused on hopes of winning Russian and Chinese support. The draft would also commit UN member nations to deny entry to Iranian officials involved in developing missiles or nuclear systems.

Separately, Russia said technical factors have delayed the launch of the Bushehr nuclear power plant in Iran. Last month, Russia agreed to ship fuel to Bushehr by March 2007 and open the facility in September.

The DOE reported that US inventories of propane totaled 71.961 million barrels in the week ending October 20, down 40,000 barrels on the week. It reported that propane inventories in the East Coast increased by 165,000 barrels to 5.332 million barrels, while inventories in the Midwest fell by 512,000 barrels to 25.909 million barrels and inventories in the Gulf Coast increased by 309,000 barrels to 37.887 million barrels on the week.

Refinery News

The Louisiana Offshore Oil Port was closed for about one day last week due to bad weather. A spokeswoman for the LOOP however did not state what day the port was closed. The tankers there were unable to discharge as scheduled waited out the bad weather.

Murphy Oil Corp is scheduled to shut a fluid catalytic cracking unit at its 120,000 bpd Meraux, Louisiana refinery for one week in November. The turnaround would allow the refinery to address some problems with its sulfur recovery units.

Shell Canada said its 772,000 bpd Sarnia refinery would undergo a major turnaround between mid-October and mid-November.

India's Reliance Industries Ltd shut a desulphuring unit at its 660,000 bpd refinery following a fire on Wednesday. It said the rest of the refinery was largely unaffected. Reliance said the fire was brought under control within two hours and that the damage was minimal at the 100,00 bpd vacuum gas oil hydrotreater. The company gave no estimate on when the unit would resume or say to what degree the outage would affect production. A company spokesman however said that feedstock for the fire hit unit would be diverted to other units. He also stated that the refinery had enough product stocks to last until November 5.

Sources stated that PDVSA is not expected to restart its fluid catalytic cracking unit and crude distillation unit at its Amuay refinery until mid-November. It shut its 100,000 bpd catcracker in mid-September for 45 days of planned work, along with related units such as a catalytic conversion and alkylation units. It also shut its 190,000 bpd crude unit on July 17 following a fire. It was expected to restart the unit by the second half of September. However it has delayed the restart as work on the unit continues.

South Korea's SK Corp is expected to continue running its 620,000 ton per year No. 2 naphtha cracker at half capacity until it can repair the unit during a one week closure in December. The unit was shut for about a week in mid-October to address an unexpected technical problem and continued running at low rates as the problem persisted.

NYMEX Petroleum Options Most Active Strikes for October 25, 2006

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
GO	11	6	P	1.58	10/26/2006	0.0128	415	55.37
GO	12	6	P	1.5	11/27/2006	0.0337	25	36.03
GO	11	6	C	1.6	10/26/2006	0.0149	22	55.37
GO	11	6	P	1.56	10/26/2006	0.0064	20	55.37
LO	12	6	C	65	11/14/2006	0.55	3,993	30.70
LO	6	7	C	66.5	05/17/2007	5.08	3,950	26.03
LO	6	7	C	75	05/17/2007	2.12	3,850	25.37
LO	12	6	C	75	11/14/2006	0.01	3,300	33.88
LO	12	6	C	62	11/14/2006	1.47	2,679	30.56
LO	12	6	C	72	11/14/2006	0.03	2,550	32.03
LO	12	6	P	60	11/14/2006	1.12	2,324	30.63
LO	12	6	P	56.5	11/14/2006	0.3	2,204	32.16
LO	12	6	P	55	11/14/2006	0.17	2,083	33.75
LO	12	6	P	59	11/14/2006	0.77	1,947	30.47
LO	12	6	C	61	11/14/2006	1.95	1,871	30.65
LO	1	7	C	65	12/14/2006	1.78	1,793	28.08
LO	12	6	P	61	11/14/2006	1.55	1,612	30.62
LO	12	6	C	64	11/14/2006	0.78	1,493	30.60
LO	12	6	P	58	11/14/2006	0.53	1,419	30.95
LO	2	7	P	63	01/17/2007	2.68	1,275	27.09
LO	1	7	P	55	12/14/2006	0.36	1,193	30.52
LO	1	7	C	75	12/14/2006	0.17	1,152	29.22
LO	12	6	C	65.5	11/14/2006	0.46	1,105	30.80
LO	3	7	C	70	02/14/2007	1.84	1,059	26.00
LO	12	6	C	73	11/14/2006	0.02	1,022	32.51
LO	12	6	P	60.5	11/14/2006	1.32	1,002	30.56
OB	2	7	C	1.75	01/26/2007	0.0725	100	32.61
OB	1	7	C	1.7	12/26/2006	0.0599	75	33.41
OB	11	6	P	1.8	10/26/2006	0.2125	75	78.75
OB	12	6	P	1.75	11/27/2006	0.1772	75	40.99
OB	11	6	P	1.7	10/26/2006	0.1127	50	59.06
OB	12	6	P	1.63	11/27/2006	0.0921	50	39.53
OH	11	6	P	2.1	10/26/2006	0.361	300	127.97
OH	12	6	P	2.04	11/27/2006	0.271	300	36.45
OH	1	7	C	1.9	12/26/2006	0.0598	272	30.65
OH	12	6	C	1.85	11/27/2006	0.0401	202	32.61
OH	11	6	C	1.76	10/26/2006	0.0091	120	48.30
OH	12	6	C	2.42	11/27/2006	0.0005	92	40.61
OH	12	6	C	2.48	11/27/2006	0.0004	92	43.07
OH	4	7	C	2.1	03/27/2007	0.0535	81	29.65
OH	12	6	C	2	11/27/2006	0.0128	75	34.91
OH	11	6	C	1.78	10/26/2006	0.0044	75	48.60

Iraq's oil exports through its northern pipeline were still on hold after pumping was halted over the weekend. A shipping source said about 3.5 million-4 million barrels of oil were in storage at Turkey's Ceyhan terminal.

The Shetland Island Council reported that Brent crude liftings from Sullom Voe increased to 456,778 tons in the week ending October 24, up from 263,173 tons reported last week.

China has imported four cargoes or 120,000 tons of diesel in October, the highest import level this year. Traders however stated that they did not see the need to import for November due to increased stocks. Meanwhile, China exported 300,000 tons of gasoline in October, 50% above earlier estimates. Exports in November are expected to increase further to 330,000 tons.

The Petroleum Association of Japan stated that the country's kerosene stocks fell by 0.19% on the week to 5.39 million kl or 33.9 million barrels in the week ending October 21 as cold temperatures descended on northern Hokkaido. It reported that gasoline stocks totaled 2.04 million kl or

12.83 million barrels, up 0.43% on the week. Crude stocks fell by 3.61% to 18.51 million kl or 116.42

million barrels over the same period. It reported that Japanese refiners ran their facilities at an average 72.4% of total capacity of 4.78 million bpd. It was up from 72% reported in the previous week.

Russia's President Vladimir Putin said Russia may cut its oil supplies to Belarus if the country continues using the crude for profitable oil product exports to third countries. Russian crude supplies to Belarus amounted to 4.5 million tons in the third quarter of this year.

Production News

Royal Dutch Shell said villagers stormed and seized three Shell oil platforms in Nigeria on Wednesday in the Niger Delta, forcing the shut in of oil production at the platforms. Shell said members of the Kula community invaded the facilities, accusing Shell of failing to meet the terms of an agreement to provide them with aid. Separately, Royal Dutch Shell said three oil pumping stations in Nigeria were attacked on Tuesday. It said community unrest in the Delta region west of Port Harcourt appeared to be the cause of the attacks. The official said the impact on oil production was not clear as throughput at one of the pumping stations was already shut in due to a previous attack.

ConocoPhillips said its crude oil and natural gas production in the third quarter averaged 2.04 million barrels of oil equivalent/day, down 4.2% on the quarter. Crude oil capacity utilization at ConocoPhillips' refineries averaged 95% in the third quarter compared with 91% in the second quarter. Us crude oil capacity improved in the third quarter as normal operations resumed at its refineries in Trainer, Pennsylvania and Lake Charles, Louisiana. Its fourth quarter refining runs are expected to remain at third quarter levels. ConocoPhillips' chief executive Jim Mulva said it may defer some projects due to escalating capital costs. He estimated capital expenditure in 2007 to be \$15 billion-\$16 billion. Meanwhile, it said it is in talks with Venezuela's government and PDVSA on increasing output from two Orinoco Faja extra heavy oil projects.

Russia's Natural Resources Minister Yuri Trutnev said Russia has prolonged an environmental inspection of Royal Dutch Shell's Sakhalin oil and gas project. He said the inspection would last an additional month. He also stated that breaches at the Sakhalin-2 project fell under five articles of the criminal code. Meanwhile, the chief executive of Sakhalin Energy, Ian Craig said the company was committed to resolving any breaches. There was no comment from Shell or its Japanese partners.

OPEC's news agency reported that OPEC's basket of crudes increased to \$53.89/barrel on Tuesday from \$53.52/barrel on Monday.

Market Commentary

The oil complex traded sharply higher in light of the supportive weekly petroleum stock reports. The oil market posted a low of 59.40 early in the session and never looked back as it continued to trend higher. The market rallied following the release of the DOE and API reports, which showed unexpected draws of over 3 million barrels in crude stocks. The DOE also reported a large draw of over 11 million barrels in total petroleum stocks on the week, which helped support the complex. The crude market held some resistance at 61.00 before further buying later in the session pushed the market to its high of 61.50 on the close. It settled up \$2.05 at 61.40. Volume in the crude market was light with 152,000 lots booked on the day while volume on Globex was better with over 190,000 lots traded in the crude at the close of the open outcry session. The heating oil market settled up 4.38 cents at 173.90 after it rallied in light of the draws reported in distillate stocks. The market gapped higher from 170.90 to 171.25 and quickly rallied following the release of the supportive inventory reports. The market posted a high of 174.30 before it settled in a sideways trading pattern during the remainder of the session. The gasoline market also bounced off its low of 153.75 on the opening and quickly rallied in light of the larger than expected draws reported in gasoline stocks. The market rallied to 159.25, where it held some resistance, before further buying ahead of the close pushed the market

to a high of 159.50. The market settled up 5.43 cents at 159.23. The RBOB market also settled up 5.53 cents at 158.75 after it rallied to a high of 159.00 ahead of the close. Volumes in the product markets were light with 38,000 lots booked in the heating oil, 7,500 lots booked in the gasoline and 22,400 lots booked in the RBOB market.

The oil market, which ended at its highs, is seen continuing to trend higher following the supportive DOE report. The market will also be seen finding support amid the reports that the permanent members of the UN Security Council were working on a draft resolution that would impose sanctions on Iran while renewed violence in Nigeria has forced the shut in of three oil platforms. The market is seen finding support at 60.55 followed by its low of 59.40. More distant support is seen at 58.55 and 58.15.

Meanwhile resistance is seen at 61.50 followed by 61.90 and 62.75.

		Levels	Explanation
CL	Resistance	61.90, 62.75	Previous highs
	61.40, up \$2.05	61.50	Wednesday's high
	Support	60.55, 59.40	Wednesday's low
HO	Resistance	176.80, 178.10	Previous highs
	173.90, up 4.38 cents	174.30	Wednesday's high
	Support	172.50, 171.25 to 170.90	Remaining gap (October 25)
RB	Resistance	160.00, 160.70, 166.00	Previous highs
	158.75, up 5.53 cents	159.00	Wednesday's high
	Support	156.50, 153.50	Wednesday's low
		150.50, 147.50, 147.00	Previous lows