



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR OCTOBER 26, 2006

The executive director of the IEA, Claude Mandil said current oil prices of over \$60/barrel were too high and harmful for the world economy. He played down the importance of the US stock decline, attributing it to the 3 day closure of the

Louisiana Offshore Oil Port last week. He also stated that he was concerned Russia was not investing enough in energy production despite having reserves. The IEA has previously stated that Russia would be unable to meet its Western client's gas needs by the end of the decade unless it invests more and reforms its energy markets.

A source at Kuwait Petroleum Corp said Kuwait would cut its production by 100,000 bpd starting November 1 in line with OPEC's decision to cut its production by a total of 1.2 million bpd. So far, Saudi Arabia, Iran and the UAE have also informed their customers of reduced November supplies. Libya has also disclosed production cuts while Nigeria said it would extend the 5% cut its imports voluntarily this month. Meanwhile, traders said Nigeria's crude shipments have remained steady despite its pledge to cut its production by 100,000 bpd under an OPEC deal. Traders however said Nigerian lifters were receiving about 5% less under their contractual agreements.

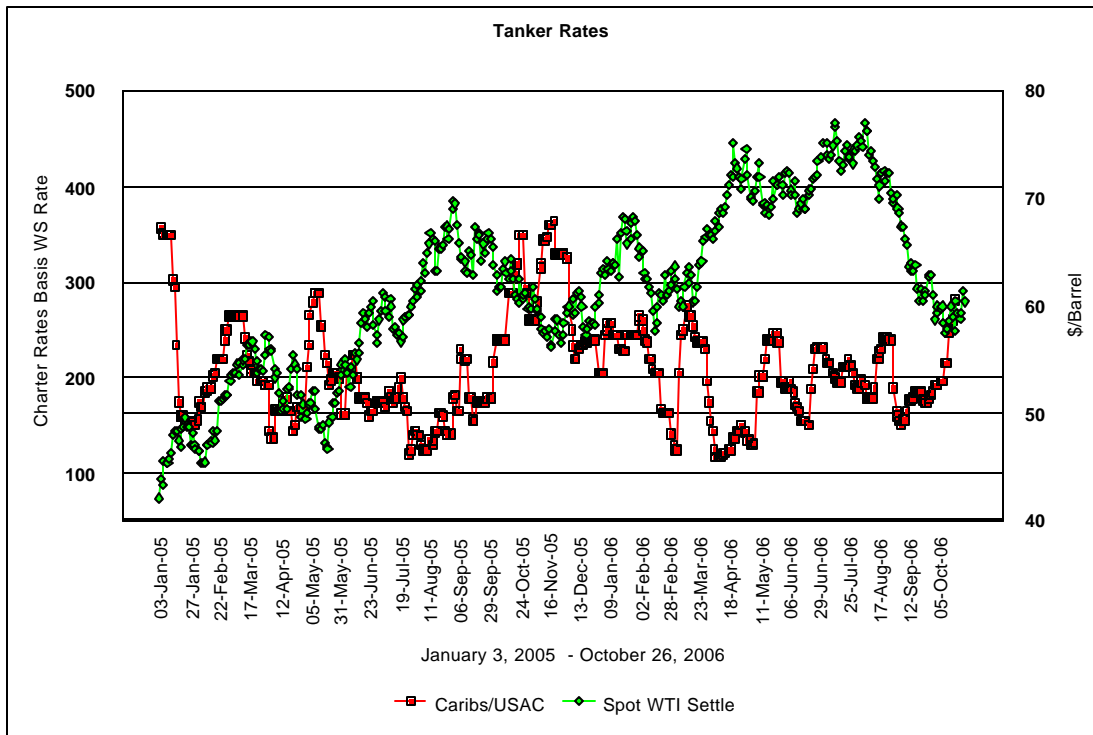
Traders stated that the UAE may fail to meet its full 100,000 bpd OPEC output cut unless Abu Dhabi National Oil Co widens this week's restraints to include Upper Zakum and Lower Zakum crudes. Abu Dhabi notified producers and lifters this week that it would cut exports from its main Murban field and at smaller Umm Shaif but it made no mention of Upper and Lower Zakum, which account for about a third of its production. Without a cut to those grades, Abu Dhabi would be about 35,000-45,000 bpd short of its OPEC commitment to cut by 100,000 bpd.

Meanwhile, Venezuela's Oil Minister Rafael Ramirez said that OPEC should cut an additional 300,000 bpd of crude production at its next meeting in December. He said Venezuela would cut 138,000 bpd

Market Watch

The NYMEX announced that margins on its Unleaded Gasoline, New York Harbor Gasoline Calendar Swap, New York Harbor Gasoline Blendstock Futures Contract, RBOB Gasoline financial contract and RBOB Calendar Swap contract are expected to fall from \$6,750 to \$6,075 at the close of business on Friday, October 27.

The US Commerce Department reported a 7.8% increase in durable goods orders in September following a 0.1% decline in August. Excluding transportation equipment, orders increased 0.1%.



of domestic production. He said Venezuela has already cut 50,000 bpd of the 138,000 bpd. Venezuela has ordered private firms working in the Orinoco Belt to join its output cut.

According to Oil Movements, OPEC's crude oil exports are expected to fall by 500,000 bpd to 24.5 million bpd in the four

weeks ending November 11, down from 25 million bpd in the four weeks ending October 14 amid the output cuts. Oil Movements estimated oil in transit was also falling fast when it should be increasing sharply. It said the volume of OPEC oil on the water was 23 million barrels below last year.

The UN Security Council's five permanent members and Germany have been meeting to discuss imposing sanctions against Iran over its failure to halt its nuclear program. A new resolution was drafted by the UK, France and Germany, however Russia's foreign minister Sergei Lavrov said the draft did not appear to match positions agreed within the council. The draft resolution would ban the sale of missile and atomic technology to Iran and end most of the UN's help for its nuclear programs. It would also commit UN member nations to deny entry to Iranian officials involved in developing missiles or nuclear systems.

Ahead of a meeting with the EU's foreign policy chief Javier Solana, Israeli Vice Premier Shimon Peres accused the international community Thursday of responding weakly to Iran. He said Iran has been steadily building long range missiles and must be stopped in its quest to achieve nuclear arms. In a separate appearance with the EU's foreign policy chief, Israel's Foreign Minister Tzipi Livni called on the international community to stop Iran from getting the technological know-how necessary to build nuclear weapons. Israeli defense officials have estimated Iran could have the knowledge within two years.

The EIA reported that total US oil demand in August increased 3.5% on the month to 21.322 million bpd. Total oil demand was down 1.6% on the year from 21.666 million bpd reported last year. It reported that gasoline demand in August was the highest recorded for any month at 9.585 million bpd, up from 9.583 million bpd in July. Meanwhile, distillate demand set a record for August at 4.215 million bpd, up 4.9% on the year. The EIA also reported that the US imported a record amount of ethanol in August of 3.203 million barrels. The majority of the ethanol imports came from Brazil, which exported 2.601 million barrels to the US. The majority of the imports, 1.759 million barrels, were bound for New Jersey ports.

Refinery News

The Louisiana Offshore Oil Port was shut for 71 hours last week due to bad weather conditions. A LOOP official said the US has caught up with unloading tankers.

A fire broke out at a motor oil storage facility owned by Stern Oil in Council Bluffs, Iowa. The cause of the fire was not immediately known.

Citgo Petroleum Corp has delayed the restart of a reformer unit at its 425,000 bpd Lake Charles, Louisiana refinery. The unit was expected to resume operations at the end of October but is now expected to return to service in mid-November.

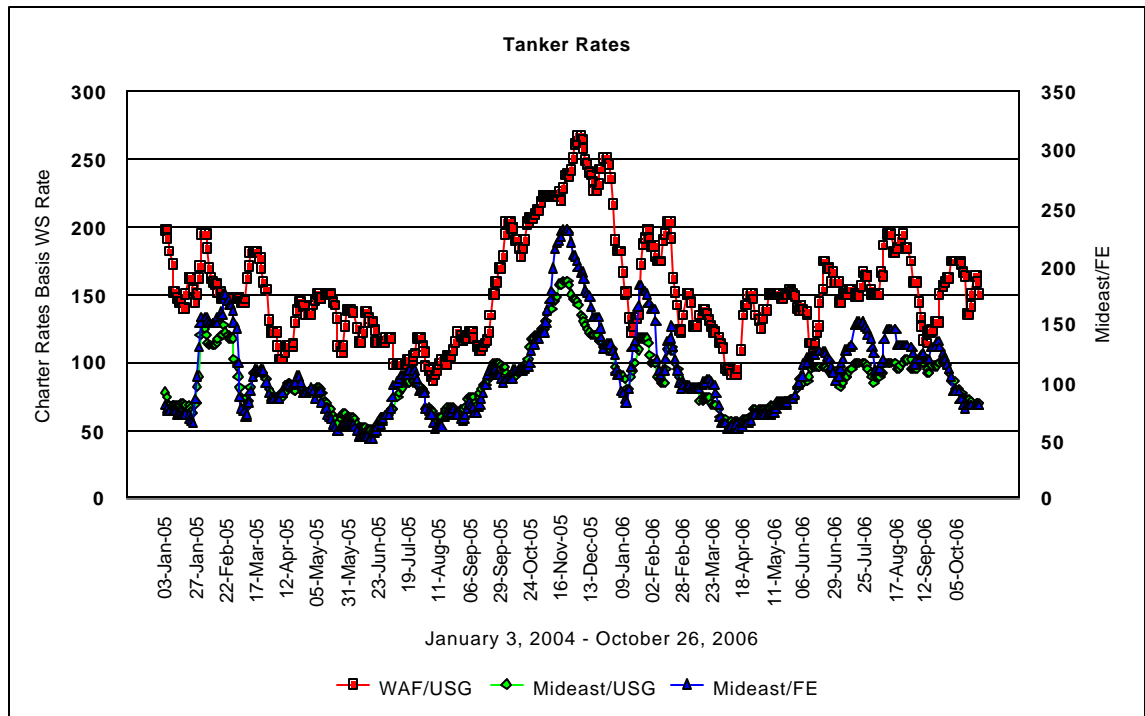
Lyondell Chemical Corp said it planned to shut a fluid catalytic cracking unit at its 283,000 bpd Houston, Texas refinery for work in January.

India's Reliance Industries Ltd said it was operating its 660,000 bpd refinery at full capacity. However it stated that its fire hit vacuum gas oil hydrotreater unit remained shut. A company official said the refinery had a spare hydrotreating unit and added that Reliance had not suffered any production or financial losses due to the accident. It is expected to meet all of its sales commitments.

Venezuela's Oil Minister said PDVSA's distillation unit at its 640,000 bpd Amuay refinery resumed operations following a fire in July. Separately, a PDVSA official said the Amuay refinery is scheduled to complete repairs to a 100,000 bpd fluid catalytic cracking unit by mid-November. It shut the unit in mid-September for planned work. Meanwhile, a marketing source at PDVSA said the company had to purchase blending components to compensate for the extended work on the unit.

Japan's Cosmo Oil Co said it would restart its Sakai plant on Friday following unplanned repair work. The 80,000 bpd refinery in western Japan is expected to operate at about 55,000 bpd or 70% of its capacity. It shut the refinery on August 30 for unplanned repairs and safety checks.

Canada's Suncor Energy said the upgrade to its 70,000 bpd Sarnia refinery would likely cost more than expected due to labor shortages and material supply issues. The upgrade would allow the refinery to process sour crude oil from the Canadian oil sands and is expected to be completed in 2007.



NYMEX Petroleum Options Most Active Strikes for October 26, 2006								
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
GO	12	6	C	1.56	11/27/2006	0.0561	25	35.76
GO	12	6	P	1.45	11/27/2006	0.025	24	34.07
LO	12	6	P	50	11/14/2006	0.02	5,090	36.84
LO	12	6	P	60	11/14/2006	1.44	3,623	29.57
LO	12	6	P	77	11/14/2006	16.64	3,420	53.26
LO	12	6	P	75	11/14/2006	14.64	3,110	47.48
LO	2	7	P	58	01/17/2007	1.2	2,920	27.29
LO	3	7	P	56	02/14/2007	0.93	2,750	27.51
LO	12	6	C	40	11/14/2006	20.36	2,642	90.08
LO	6	7	P	55	05/17/2007	1.32	2,451	28.07
LO	12	6	C	43.5	11/14/2006	16.86	2,050	71.67
LO	12	6	C	37	11/14/2006	23.36	1,800	107.22
LO	12	7	C	75	11/13/2007	3.48	1,600	23.75
LO	5	7	C	70	04/17/2007	2.54	1,600	25.04
LO	12	6	P	76	11/14/2006	15.64	1,600	50.39
LO	12	6	C	60	11/14/2006	1.8	1,572	29.60
LO	12	6	C	65	11/14/2006	0.3	1,534	29.89
LO	12	6	P	76.5	11/14/2006	16.14	1,500	51.82
LO	6	7	C	70	05/17/2007	3.05	1,400	25.04
LO	12	7	P	45	11/13/2007	0.67	1,400	29.95
LO	1	7	P	58	12/14/2006	0.94	1,362	27.90
LO	9	7	P	67.5	08/16/2007	5.96	1,250	25.05
LO	9	7	P	65.5	08/16/2007	4.98	1,250	25.16
LO	1	7	C	80	12/14/2006	0.02	1,221	28.99
LO	1	7	C	65	12/14/2006	1.27	1,204	27.02
LO	6	7	C	66.5	05/17/2007	4.42	1,200	25.49
LO	6	7	P	66.5	05/17/2007	5.19	1,200	25.57
LO	3	7	P	45	02/14/2007	0.08	1,150	32.00
LO	3	7	C	65	02/14/2007	3.06	1,127	25.66
LO	4	7	C	70	03/15/2007	1.98	1,125	25.21
LO	12	7	P	50	11/13/2007	1.27	1,100	28.87
LO	12	6	C	64	11/14/2006	0.45	1,063	29.71
LO	12	6	P	62	11/14/2006	2.59	1,055	29.69
LO	12	6	C	62	11/14/2006	0.95	1,028	29.56
LO	3	7	C	77	02/14/2007	0.44	1,000	25.83
LO	3	7	C	70	02/14/2007	1.45	1,000	25.57
LO	12	6	C	62.5	11/14/2006	0.8	1,000	29.67
OB	6	7	C	2.2	05/25/2007	0.0796	100	34.30
OB	6	7	C	2	05/25/2007	0.1208	100	32.01
OH	12	6	C	1.76	11/27/2006	0.047	753	27.45
OH	12	6	P	1.76	11/27/2006	0.0655	750	26.76
OH	2	7	C	1.95	01/26/2007	0.0602	213	30.65
OH	5	7	P	1.68	04/25/2007	0.0756	200	27.05
OH	12	6	P	1.91	11/27/2006	0.1829	160	31.53
OH	1	7	C	1.9	12/26/2006	0.0477	105	30.95
OH	12	6	P	1.9	11/27/2006	0.1742	100	31.30

An Iraqi oil official said Iraq's crude oil exports from its southern oil terminal were halted on Thursday due to bad weather conditions. The official said strong wind had brought berthing operations at the southern Basra terminal to a standstill. Exports from the south are also expected to be halted for the first four to five days of November due to maintenance. The loading rate stood at 1.6 million bpd ahead of the suspension. Meanwhile exports from the northern oil fields remained suspended since Friday.

Gas oil stocks in the Amsterdam-Rotterdam-Antwerp storage tanks fell by 130,000 tons to 1.89 million tons in the week ending October 25. Gasoline stocks fell by 50,000 tons to 695,000 tons on the week. An analyst said gasoline had come into the tanks from Eastern Europe, France and Britain and flowed out across the Atlantic and to Africa. Meanwhile fuel oil stocks increased by 24,000 tons to 549,000 tons while jet fuel stocks increased by 42,000 tons to 412,000 tons on the week. Naphtha stocks fell by 45,000 tons to 46,000 tons on the week.

Singapore's International Enterprise said the country's residual fuel stocks fell by 2.692 million barrels to 9.774 million barrels in the

week ending October 25. It reported that Singapore's light distillate stocks increased by 373,000

barrels to 6.782 million barrels while middle distillate stocks increased by 229,000 barrels to 8.462 million barrels on the week.

Production News

Villagers who invaded four oil pumping stations in Nigeria were set to leave after securing promises of more benefits from Western oil companies. The invasion forced Royal Dutch Shell and Chevron to shut three facilities. Shell and Chevron were pumping about 62,000 bpd from the Ekulama II, Belema and Robertkiri facilities. A fourth facility, the 9,000 bpd Ekulama I, was already closed by fighting between militants and troops earlier in the month.

Royal Dutch Shell Plc said it was proceeding with plans to develop several new fields in the Gulf of Mexico that would add 130,000 barrels of oil equivalent/day early in the next decade. The planned Perdido Regional Hub would produce 100,000 bpd and 200 mmcf/d of natural gas from several fields, including the Great White, Tobago and Silvertip Fields. It is expected to produce oil and gas for at least 20 years.

Separately, Royal Dutch Shell Plc's chief executive, Jeroen van der Veer said the company expected to remain the operator of the Sakhalin-2 oil and gas venture. He said he wanted talks to resolve problems at its Sakhalin-2 project as Russia moved to investigate the environmental record of the project. This followed statements made by Russia's Natural Resources Minister Yuri Trutnev that he wanted criminal prosecutors to investigate the project. In regards to its production in Nigeria, it said its Nigerian production halted due to militant violence was unlikely to be restored this year. Shell's share of production in Nigeria in the third quarter was 185,000 bpd lower than a year ago.

ExxonMobil Corp reported that net income in the third quarter increased to \$10.49 billion from \$9.92 billion last year. It said production in the third quarter increased by 7.2% on the year to 4.007 million barrels of oil equivalent/day. However production was down 3.7% from 4.162 million barrels of oil equivalent/day reported last quarter, mainly due to operational problems at the Prudhoe Bay oil field operated by BP. US crude oil production fell by 13% to 377,000 bpd in the third quarter. ExxonMobil also stated that it was seeing evidence in the market of the production cuts agreed to by OPEC members last week.

Ecuador's central bank reported that the country exported 11.21 million barrels of crude oil in August, up 9% on the year. Its oil export revenue totaled \$664.43 million in August, up 25% on the year.

GE Energy Financial Services and Sunland Resources LLC said they acquired natural gas and oil reserves in northern Louisiana for \$101 million.

Petro-Canada said further capital investment in the Buzzard oil field may be required to bring the field to peak production.

Market Commentary

The oil market opened 10 cents lower at 61.30 and quickly rallied to a high of 61.70 amid reports that Kuwait was cutting its output by 100,000 bpd. The market also remained buoyed by the supportive inventory reports released on Wednesday as well as the reports of renewed violence in Nigeria, which forced the shut in of three oil pumping stations. The market however erased its gains and settled in a sideways trading pattern from 61.70 to 60.80. It later extended its losses to \$1.25 as it sold off to a low of 60.15 as traders continued taking profits. The market was pressured amid reports that the Nigerian villagers who invaded the pumping stations were expected to leave after securing a deal with oil companies. The crude market settled down \$1.04 at 60.36. Volume in the crude market remained light with only 105,000 lots booked on the day. Meanwhile, the heating oil market opened down 90

points at 173.00 and quickly posted a double top at 174.30 amid the rally in the natural gas market following the release of the EIA natural gas storage report. However the market erased its gains and sold off sharply to a low of 169.50 ahead of the close in follow through selling seen in the natural gas market. The heating oil market settled down 3.9 cents at 170.00. The gasoline market, which posted an inside trading day, settled down 2.86 cents at 156.37. It traded to a high of 158.25 on the opening and quickly sold off to its low of 155.00. The market later retraced some of its losses and settled in a sideways trading range ahead of the close. The RBOB market also posted an inside trading day as it failed to breach Wednesday trading range. The market opened at a high of 157.25 and continued to sell off throughout the session. It posted a low of 153.50 ahead of the close and settled down 4.53 cents at 154.22. Volumes in the product markets remained light, with 35,000 lots booked in the heating oil market, 5,400 lots booked in the gasoline market and 18,000 lots booked in the RBOB market.

The oil market will likely retrace some of its sharp losses ahead of the weekend. The market is seen holding its support amid the market's growing

		Levels	Explanation
CL	Resistance	61.90, 62.75	Previous highs
	60.36, down \$1.04	60.50, 61.70	Thursday's high
	Support	60.15	Thursday's low
HO	Resistance	176.80, 178.10	Previous highs
	170.00, down 3.90 cents	171.50, 172.30, 174.30	Thursday's high
	Support	169.50	Thursday's low
RB	Resistance	159.00, 160.00, 160.70	Previous highs
	154.22, down 4.53 cents	155.00, 157.25	Thursday's high
	Support	153.50	Double bottom
		150.50, 147.50, 147.00	Previous lows

perception that OPEC would implement its output cuts as OPEC members continue to notify their customers of the output cuts. Technically, the market is also seen trending higher as it stochastics still have room to the upside. The market is seen finding support at 60.15 followed by more distant support at 59.40, 58.55 and 58.15. Meanwhile resistance is seen at 60.50, 61.70 and 61.90. More distant resistance is seen at 62.75.