



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta &
Zachariah Yurch

(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR OCTOBER 30, 2006

A spokesman for the British embassy in Dubai said there was no new information to suggest an attack against Gulf oil installations was imminent or that the threat level had changed.

An official of the National Iranian Oil Co said Iran would cut its European spot crude sales by about 125,000 bpd from November 1 and cut 55,000 bpd of supply to domestic refiners to comply with an OPEC agreement to cut production. He said exports are expected to fall to about 2.38 million bpd in November from 2.5 million bpd in October. The official said the cuts to Europe would come primarily from Iranian Heavy crude while Iranian Light

Market Watch

A US led naval training exercise aimed at testing procedures to block smuggling of nuclear weapons started in the Persian Gulf. The US Navy said the exercise was taking place under the US led Proliferation Security Initiative.

DEBKAFfile reported that hundreds of US and allied war ships gathered in the strategic seas of the Middle East and India in the last days of October to prepare for a US led military strike against Iran and measures to fend off al Qaeda threats to oil targets.

According to the National Weather Service, US demand for heating oil was expected to be 2.3% above normal this week. Total US heating demand for all fuels was forecast to be 1.1% below normal amid moderate mid-autumn temperatures.

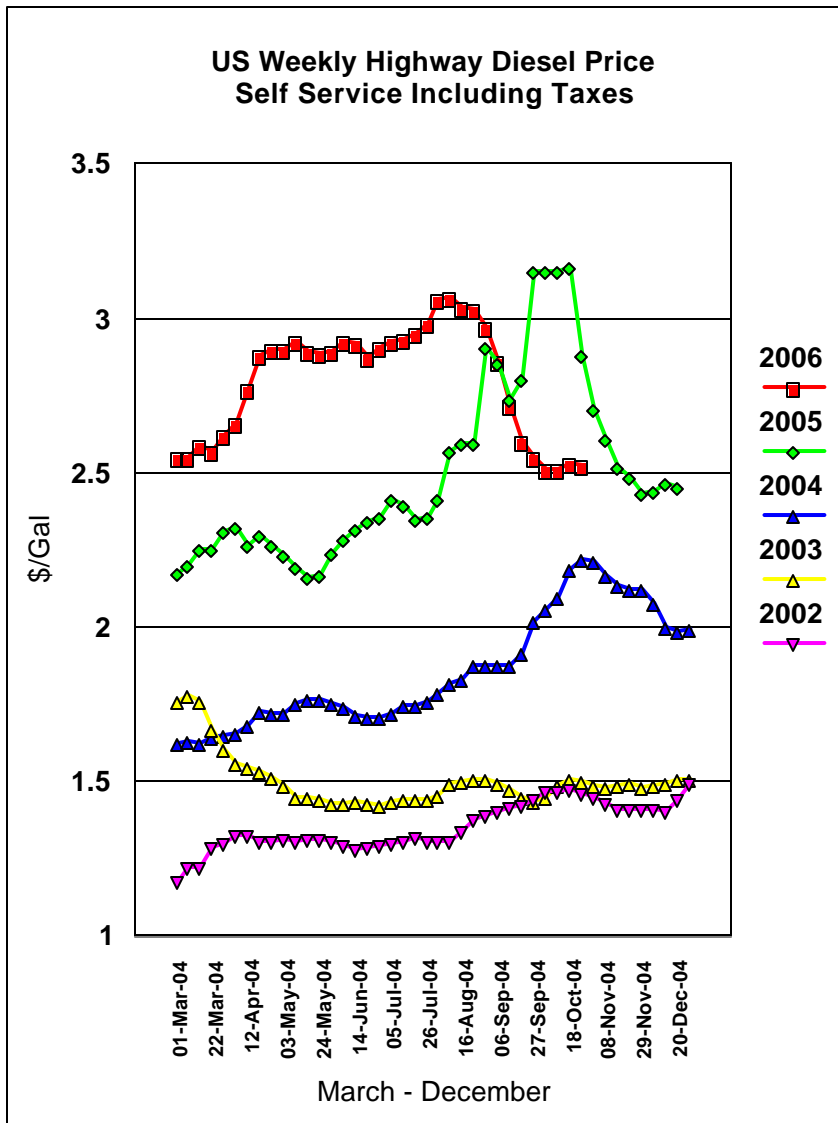
European refiners shipped about 410,000 bpd of spot gasoline to North America in October, down from 540,000 bpd shipped in September.

A Saudi Aramco official stated that the quest for US energy independence was unachievable because the country's capacity to produce oil continued to fall and oil use would remain dominant in the years ahead.

Russia's Finance Ministry reported that Russia would cut its crude export duties by 24% to about \$181/ton in December following the sharp decline in oil prices. The duties on refined products would also be reduced to about \$134/ton for light products and to \$72.30/ton for heavy products starting December 1.

Kuwait's leader, Sheikh Sabah Al Ahmed Al Sabah urged Kuwaitis to put aside any sectarian tensions that could endanger the security of the country. There has been no violence between Kuwait's Sunnis and its Shiite minority, but there are increasing worries that sectarian fighting in Iraq could spill over to Kuwait.

Saudi Arabia's ambassador to the US, Prince Turki al-Faisal said the partition of Iraq would lead to ethnic cleansing and sectarian killing. He warned the US against leaving Iraq abruptly.



crude would be withheld from some of the country's refineries, where maintenance was taking place. The head of OPEC affairs at Iran's Oil Ministry, Javad Yarjani, said OPEC would need to consider a new step if a recently agreed production cut did not stem the increase in world crude stocks and result in a more balanced market. Iran's Oil Minister Kazem Vaziri-Hamaneh said Iran's production reached 4.2 million bpd, which is above its existing OPEC quota of 4.11 million bpd. He said any crude oil price of less than \$60/barrel was not acceptable due to the cost of production. Meanwhile, a Saudi Aramco official said Saudi Arabia definitely planned to proceed with the oil production cut of 380,000 bpd. Separately, Algeria's Energy and Mines Minister Chakib Khelil said Algeria would cut its production by 59,000 bpd starting November 1. Qatar's Energy Minister Abdullah bin Hamad al-Attiyah also stated that Qatar has notified its customers that it would cut its production by 35,000 bpd in line with an OPEC agreement. Libya's National Oil Corporation said it did not rule out further OPEC output

cuts if the market remained unbalanced. Kuwait's Energy Minister Sheikh Ali al-Jarrah al-Sabah said the full impact of OPEC's decision to cut its production by 1.2 million bpd would not be felt until mid or late November. He also stated that any further cuts by OPEC would be discussed when the group meets in December. He said some OPEC members would implement their share of the cut gradually due to customer commitments. He reiterated that Kuwait was committed to cutting its production by 100,000 bpd.

Indonesia publicly broke ranks with its fellow OPEC members, saying that it should be spared from the group's decision to cut production because of its falling production. Indonesia was expected to cut its production by 39,000 bpd.

NYMEX Petroleum Options Most Active Strikes for October 30, 2006

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
GO	12	6	C	1.56	11/27/2006	0.0234	10	36.15
GO	12	6	C	1.52	11/27/2006	0.0338	10	35.53
LO	7	7	P	50	06/15/2007	0.9	6,700	30.26
LO	12	6	P	77	11/14/2006	18.64	5,300	65.81
LO	12	6	P	75	11/14/2006	16.64	5,300	59.54
LO	12	6	P	55	11/14/2006	0.43	4,196	34.32
LO	1	7	P	55	12/14/2006	0.64	3,813	29.94
LO	1	7	C	65	12/14/2006	0.85	3,478	29.28
LO	12	7	C	100	11/13/2007	0.54	3,450	26.18
LO	12	6	P	58	11/14/2006	1.33	3,436	32.05
LO	12	6	C	59	11/14/2006	1.22	3,230	32.09
LO	2	7	P	45	01/17/2007	0.08	3,190	34.45
LO	4	7	P	45	03/15/2007	0.13	3,185	30.61
LO	6	7	P	55	05/17/2007	1.58	2,700	28.65
LO	1	7	P	60	12/14/2006	2.32	2,099	29.24
LO	12	6	P	57	11/14/2006	0.92	2,030	32.30
LO	4	7	P	58	03/15/2007	1.89	1,900	27.44
LO	12	6	C	61	11/14/2006	0.57	1,885	32.05
LO	4	7	C	70	03/15/2007	1.61	1,875	25.91
LO	12	6	P	61	11/14/2006	3.21	1,640	32.28
LO	1	7	P	52	12/14/2006	0.28	1,507	32.07
LO	5	7	P	58	04/17/2007	2.12	1,500	27.59
LO	1	7	P	78.5	12/14/2006	18.26	1,400	43.71
LO	1	7	P	80	12/14/2006	19.76	1,400	46.83
LO	6	7	P	65	05/17/2007	5.03	1,350	26.11
LO	12	6	C	60	11/14/2006	0.85	1,323	32.09
LO	1	7	C	61	12/14/2006	2.1	1,315	29.25
LO	1	7	C	69	12/14/2006	0.33	1,295	30.43
LO	12	6	P	76.5	11/14/2006	18.14	1,200	64.25
LO	12	6	P	77.5	11/14/2006	19.14	1,200	67.34
LO	12	7	C	80	11/13/2007	2.06	1,151	23.77
LO	12	6	C	71	11/14/2006	0.01	1,073	38.64
LO	12	6	P	56	11/14/2006	0.63	1,047	33.13
OB	12	6	P	1.51	11/27/2006	0.0802	100	39.14
OB	12	6	C	1.52	11/27/2006	0.0465	24	39.14
OB	3	7	C	2.2	02/23/2007	0.013	13	38.84
OH	6	7	C	2.4	05/25/2007	0.0206	650	31.65
OH	7	7	C	2.4	06/26/2007	0.0274	250	31.38
OH	12	6	C	1.84	11/27/2006	0.0097	210	32.38
OH	1	7	C	1.78	12/26/2006	0.0538	200	29.92
OH	2	7	P	1.87	01/26/2007	0.1731	200	29.88
OH	12	6	P	1.9	11/27/2006	0.2443	200	34.15
OH	1	7	C	1.88	12/26/2006	0.0297	105	31.42
OH	12	6	P	1.6	11/27/2006	0.0305	100	30.88
OH	3	7	C	1.93	02/23/2007	0.0526	70	29.49

Iran's President Mahmoud Ahmadinejad said Iran would make an appropriate and firm response to any sanctions imposed by the UN Security Council. He said efforts by the big powers would only increase anger and hatred. He stated that Iran would prefer to endure sanctions rather than bow to western pressure. Meanwhile, Iran's Foreign Minister Manouchehr Mottaki said Iran hoped that Russia and China would support Iran in the Security Council deliberations. He also urged the UN Security Council to avoid illegal and incorrect decisions. Separately, Russia's President Vladimir Putin told his Iranian counterpart that Russia strongly favored further negotiations. It was the latest indication that Russia opposed sanctions and believed the international community should try to defuse tension through talks.

The EIA reported that the US average retail price of diesel fell by 0.7 cents to \$2.517/gallon in the week ending October 30. It also reported that the US average retail price of gasoline increased by 1 cent to \$2.218/gallon on the week.

Refinery News

Valero Energy reduced rates at its 245,000 bpd refinery in Texas City, Texas following a problem with the boiler

over the weekend. Separately, traders stated that Valero Energy shut a 68,000 bpd fluid catalytic cracking unit at its 195,000 bpd refinery in Memphis, Tennessee. The unit was shut due to some unspecified mechanical failure late Sunday. The unit is expected to resume operation by Thursday.

Equipment at Chevron Corp's El Segundo, California refinery tripped off line on Saturday.

Shell said the smaller of two crude units at its Deer Park, Texas refinery resumed operations as scheduled. The 70,000 bpd crude unit was shut on October 9 for 21 days of planned work.

Total said a new diesel making hydrocracker at its 328,000 bpd Gonfreville refinery in France was set to start production in the coming weeks. It had previously stated that it would start production at the end of October.

Newfoundland and Labrador Refining Corp is about a month from finishing a feasibility study for a plan to build a 300,000 bpd refinery at Placentia Bay. The refinery is expected to cost more than \$4 billion, up from a February estimate of \$2 billion. However the group is not the only one planning a new refinery in Eastern Canada to serve the US Northeast. Irving Oil Ltd has also stated that it planned to build a second refinery in Saint John, New Brunswick. It would also have a capacity of 300,000 bpd. Placentia Bay is also the site of the 115,000 bpd Come By Chance refinery, which Harvest Energy Trust acquired from Vitol SA with the aim of eventual expansion.

Federal investigators examining a 2005 explosion at BP's Texas City refinery said the company knew of significant safety issues at the refinery and 34 other locations around the world in the years leading up to the incident. The US Chemical Safety and Hazard Investigation Board said BP responded to the problems with measures focused on reducing occupational injury rates, without removing safety risks. In addition to the CSB's review, the company faces an investigation by the US Environmental Protection Agency and Department of Justice, which are looking into a potential criminal case related to the Texas City explosion.

Sinopec's Zhenhai Refining & Chemical Co said it was adding 60,000 bpd of crude distillation capacity during an ongoing one month plant maintenance that is scheduled to end in mid-November. Separately, Sinopec stated that it is expected to import 120 million tons of crude oil this year or an average of 2.41 million bpd. If achieved, the level of crude imports would be 21% higher than the 99.13 million tons imported last year.

Oil exports via Iraq's northern pipeline to Turkey remained suspended for the ninth consecutive day. A shipping agent said there was about 3 million barrels of oil stored at the terminal. Meanwhile, Iraq's southern oil exports were halted due to bad weather conditions.

Official customs data showed that China's implied oil demand increased by 3% in September to 6.76 million bpd. It was the slowest growth since February. Crude throughput increased by 1.6% on the year to 6.1 million bpd in September. The General Administration of Customs reported that crude oil imports increased by 24% to 13.46 million tons or 3.28 million bpd. China did not export any crude to North Korea in September amid tension between the two countries over North Korea's nuclear weapons program. North Korea relies on China for up to 90% of its oil. China's 125,184 tons of crude exports in September was bound for the US. China's General Administration of Customs said China's light diesel imports increased by 99.2% to 47,280 tons while jet kerosene imports increased by 80.1% to 580,717 tons and fuel oil imports increased by 19.5% on the year to 2.66 million tons in September. It also reported that gasoline exports fell by 30.5% on the year to 182,103 tons.

India is expected to receive the first shipment of crude oil from the Sakhalin oil and gas project in December. An official statement did not disclose how much crude India would receive.

Germany's total primary energy use increased by 1.5% on the year in the first nine months of 2006 to 359.5 million tons of coal equivalent.

Production News

BP Plc said its Prudhoe Bay output has increased to over 400,000 bpd. The company said it intended to spend an extra \$1 billion, in addition to the \$6 billion already earmarked, to upgrade its Alaska production facilities and its US refineries.

A Nigerian community leader said Nigerian villagers vacated two of four oil pumping stations they were occupying in a dispute with oil companies. Company sources said protest by the Kula community against Chevron and Royal Dutch Shell is not yet resolved and about 60,000 bpd of output is still shut in.

A union leader in Nigeria stated that oil unions would shutdown all Agip oilfields in the country if the company refused to pay its Nigerian workforce a security bonus to reflect the higher risks of working in the Niger Delta. The oil unions threatened to close all 200,000 bpd of crude produced by Agip on Tuesday unless the company agreed to the extra pay. At Agip offices in Port Harcourt, many workers began a strike on Monday to pressure the management. In a separate incident, youths in Bayelsa state invaded an oil pumping station at Clough Creek on Saturday night and were occupying it. A company spokesperson said there was practically no impact on the company's production.

According to Petrologistics, OPEC's oil production in October is expected to increase slightly to 30.18 million bpd from 30.15 million bpd reported in September. It reported that the ten OPEC members are expected to produce 28.2 million bpd, up 150,000 bpd on the month as Nigeria's production recovered to 2.35 million bpd.

The BP led Azeri oil group said it resumed full production at the Chirag platform in the Azeri sector of the Caspian Sea after it was shut in for planned maintenance on October 19. It said exports via the Georgian port of Supsa is expected to resume shortly.

OPEC's news agency reported that OPEC's basket of crudes fell to \$55.53/barrel on Friday, down from Thursday's \$56.12/barrel level. It also reported that OPEC's basket of crudes fell by 52 cents/barrel to \$54.76/barrel in the week ending October 27.

Market Commentary

The oil market gapped lower from 59.90 to 59.55 as concerns over possible threats to Saudi Arabia oil infrastructure eased. The market posted a high of 59.65 before it continued to sell off sharply. The market's gains were also limited as BP announced that its production at Prudhoe Bay returned to 400,000 bpd while reports indicated slower demand growth in China. The crude market traded to 58.60 and held some support at that level, as it settled in a sideways trading pattern. However the market later breached that level and extended its losses to \$2.50 as it posted a low of 58.25 ahead of the close. It settled down \$2.39 at 58.36. Volume was light with over 138,000 lots booked on the day. However the crude market saw better volume of 185,000 lots booked on Globex, as of the close of the open outcry session. Meanwhile, the heating oil market settled down 9.29 cents at 160.15 as it sold off sharply in light of the weather forecasts showing above normal temperatures. The market gapped lower from 168.10 to 165.25 and quickly posted a high of 165.40. The heating oil market, which failed to backfill its gap, extended its losses to 9.44 cents as it posted a low of 160.00 on the close. The gasoline market also gapped lower from 155.40 to 152.00 and sold off close to 11 cents as it posted a

low of 145.00 on the close. The RBOB contract also sold off more than 10 cents as it posted a low of 145.50 on the close after it gapped down from 153.40 to 152.00 on the opening. It settled down 9.63 cents at 146.00. Volumes in the product markets were light with over 44,000 lots booked in the heating oil market, 4,800 lots booked in the gasoline market and over 21,000 lots booked in the RBOB market.

The oil market will likely retrace some of its sharp losses and remain range bound as it awaits the release of the weekly petroleum stock reports on Wednesday. The market's gains are seen limited as OPEC members continue to announce their output cuts in line with the agreement to cut production by a total of 1.2 million bpd. The market is seen finding support at 58.25 followed by 58.15. More distant support is seen at 56.55. Meanwhile resistance is seen at 59.00 followed by its gap from 59.65 to 59.90. More distant resistance is seen at 61.00, 61.70 and 61.90.

		Levels	Explanation
CL	Resistance	61.00, 61.70, 61.90	Previous highs
	58.36, down \$2.39	59.00, 59.65 to 59.90	Remaining gap (October 30th)
	Support	58.25	Monday's low
		58.15, 56.55	Previous lows
HO	Resistance	170.50, 174.30	Previous high, Double top
	160.15, down 9.29 cents	163.50, 165.40 to 168.10	Remaining gap (October 30th)
	Support	160.00	Monday's low
		167.20, 165.30, 163.60	Previous lows
RB	Resistance	156.50, 158.75, 159.00, 160.00	Previous highs
	146.00, down 9.63 cents	150.00, 152.50 to 153.40	Remaining gap (October 30th)
	Support	145.50	Monday's low
		140.00	