



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta &  
Zachariah Yurch

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

**www.e-windham.com**

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### **ENERGY MARKET REPORT FOR NOVEMBER 1, 2006**

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The UAE's Energy Minister Mohammed bin Dhaen al-Hamli said the country has implemented its OPEC pledge to cut its production by 100,000 bpd. He stated that it was too early to say whether a further cut was needed in December. He said OPEC was more concerned about market supply and demand than the drop in oil prices. Meanwhile, an official of the National Iranian Oil Co, Hojjatollah Ghanimifard confirmed it was cutting oil production by 176,000 bpd on Wednesday in line with OPEC's decision to cut production by 1.2 million bpd. It however stated that exports would fall by about 120,000 bpd, while about 55,000 bpd would be cut from supplies to Iranian refineries. Separately, an official familiar with Iran's oil policy said Iran started notifying its customers that it would not have any spot crude cargoes available from November 1. A senior Iranian Oil Ministry official however stated that Iran was capable of producing 4.2 million bpd of oil, exceeding its output quota of 4.11 million bpd.

Venezuela's Oil Minister Rafael Ramirez reiterated that the country would call for an additional oil production cut when OPEC meets

#### **Market Watch**

The head of the CFTC on Tuesday said the over the counter futures markets were transparent enough for secure market regulation. He stated that tightening of oversight was likely unnecessary.

DEBKAFfile reported that the nuclear powered aircraft carrier USS Eisenhower and its accompanying carrier strike group arrived in the Red Sea on Tuesday. It is off the coast of Saudi Arabia.

The head of the Revolutionary Guards in Iran announced that it would hold military maneuvers in the Gulf this week. He said the 10 day maneuvers, named Great Prophet, is scheduled to take place in the Gulf and Sea of Oman, starting on Thursday.

Iran's parliament voted on Wednesday to add \$2.5 billion to this year's budget to finance more gasoline imports. Lawmakers in Iran had originally cut the budget for fuel imports to \$2.5 billion from \$4 billion for the financial year ending March 2007.

Dominion Resources Inc said it was seeking to sell most of its oil and natural gas exploration and production assets to bring its risk profile more in line with its peer utilities. Following the sale, it would focus on its electric utilities as well as its energy pipeline, storage and retail businesses.

Ethanol in the US is primarily made from corn however industry experts have stated that waste materials from agriculture or forestry could be a less expensive alternative in the future. However the high production costs and lack of easy access to those materials have slowed the technology's move to widespread commercial use. The US DOE has estimated the cost of producing a gallon of cellulosic ethanol is about \$2.20/gallon, about twice the cost of producing ethanol from corn. Investors have been hesitant to build the high cost cellulosic facilities until large scale plants are proven to be profitable.

in December. Last week he stated that Venezuela would like OPEC to agree to a further 300,000 bpd output cut by year end.

According to the Centre for Global Energy Studies, OPEC has cut less than half of the 1.2 million bpd production cut agreed to. It stated that some countries may instead produce more crude as prices remain near \$60/barrel at the expense of the other OPEC members. Saudi Arabia has informed its customers of cuts amounting to 380,000 bpd while the UAE has also notified its customers of its 100,000 bpd cut. Kuwait is also expected to cut its production. However Nigeria, which called for the output cut, is expected to increase its exports in December. Meanwhile, buyers of Libyan and Algerian crude have not yet received any notice of cuts while Indonesia has stated that it would not cut its production.

Russia's Foreign Minister Sergey Lavrov said the European draft resolution imposing sanctions on Iran would isolate Iran. He said Russia could not support measures that in essence are aimed at isolating Iran from the outside world. He added that the draft resolution went beyond existing agreements among the permanent members of the UN Security Council.

According to an EIA analyst, US demand for petroleum products has been increasing despite relatively high oil prices and a slowing economy. In the four weeks ending October 27, US demand for gasoline, jet fuel and distillate fuel averaged 15.5 million bpd, up from 14.9 million bpd in 2004 and 14.6 million bpd in 2003. Demand estimates for 2005 were left out of the analysis because supply disruptions last year due to Hurricanes Katrina and Rita led to sharp increases in the rate of demand growth.

The DOE reported that US inventories of propane totaled 72.241 million barrels in the week ending October 27, up 280,000 barrels on the week. It reported that inventories in the East Coast fell by 22,000 barrels to 5.31 million barrels while inventories in the Midwest fell by 361,000 barrels to 25.548 million barrels and inventories in the Gulf Coast increased by 560,000 barrels to 38.447 million barrels on the week.

### **Refinery News**

According to a report filed with the Texas Commission on Environmental Quality, Flint Hills Resources planned to shut a sulfur recovery unit incinerator at its Corpus Christi, Texas refinery on Wednesday. If it is not repaired, restrictions could potentially limit process rates and could eventually lead to a unit shutdown. Separately, Flint Hills started planned maintenance at its 280,000 bpd refinery in Pine Bend, Minnesota. According to traders, its three crude units with capacities of 130,000 bpd, 100,000 bpd and 50,000 bpd are expected to remain down for about a month.

A compressor was shut at ConocoPhillips's Santa Maria, California refinery on Wednesday as the company started maintenance on a 45,000 bpd crude unit and 24,000 bpd coker unit. The maintenance is in conjunction with planned maintenance that started October 26 at its 75,000 bpd refinery in Rodeo, California, involving a 38,000 bpd hydrocracker and 33,000 bpd reformer unit.

Total Petrochemicals USA shut a sulfur recovery unit at its Port Arthur, Texas refinery for emergency maintenance on Wednesday. Problems with heater tubes in the sulfur recovery unit prompted the shutdown.

Kuwait's 270,000 bpd Mina Abdullah refinery has been shut for planned maintenance. The maintenance is expected to last 10 days. It shut two crude units with capacities of 190,000 bpd and 80,000 bpd.

Sinopec Corp is expected to begin building a 1 million ton/year naphtha cracker next week in Ningbo. It is expected to be completed by the end of 2009. Similar to a newly expanded cracker in Maoming, Sinopec aimed to minimize the impact on the regional naphtha market by sourcing the feedstock locally, requiring an expansion in crude refining capacity.

Iraq's Oil Minister Hussain al-Shahristani said the country's crude exports in October totaled between 1.6 and 1.7 million bpd. Iraq exported 1.64 million bpd in September. Meanwhile, an Iraqi oil official said Iraq resumed its southern crude oil exports on Wednesday following a suspension of two days due to bad weather conditions. The official also stated that Iraq's oil exports in October fell by 7% to 1.498 million bpd, contrary to the estimate reported by Iraq's Oil Minister.

The Caspian Pipeline Consortium, a Chevron led group pumping oil from Kazakhstan to the Black Sea, said its exports increased by 4% on the month to 641,000 bpd in October. Russia's Energy Ministry reported that total crude runs in the in January-September period increased by 5.6% to 161.26 million tons. Russian refineries processed 4.4 million bpd in September, down from 4.46 million bpd in August. Runs fell due to plant maintenance. Russia's gasoline production increased by 6.7% on the year to 25.27 million tons in the January-September period while gas oil production increased by 7% to 47.11 million tons and fuel oil production increased by 4.2% to 43.21 million tons.

China is expected to add up to 4 million barrels of crude oil to its strategic storage tanks by mid-December. The new crude would be in addition to the crude stored at China's first state reserves facility near Ningbo. The cargoes include a 950,000 barrel shipment due for discharge in mid-November. The incoming crude follows the storage's first fill in August of about 3 million barrels of Russian Urals crude.

Brazil's ethanol shipments in October reached 544.8 million liters, up 91% from 285.5 million liters reported last year.

### **Production News**

Nigerian unions have called off a strike against Agip after the company agreed to start talks over payment of a security bonus. The strike shut Agip's offices in Port Harcourt since Monday. Union leaders has threatened to extend the strike to the company's oilfields across the Niger Delta unless it agreed to pay a bonus to reflect the increasing risks of working the region.

BP Plc was shutting down production and has halted drilling operations at its Valhall field in the North Sea following damaged lifeboat equipment due to bad weather on Wednesday. The field was producing about 80,000-90,000 bpd of crude and 20,000 barrels of oil equivalent/day of associated gas.

Norsk Hydro started production at the Fram East field in the Troll area in the North Sea. At peak production expected in 2008, Fram East would contribute to a 50,000 bpd increase in oil production from the Troll C platform.

Nexen said a North Sea divers strike has not yet affected work to bring new production on stream from the Buzzard oilfield. It still aimed to begin production from the 210,000 bpd field before the end of the year. More than 900 UK oil and gas industry divers and support crew went on strike over pay. Meanwhile, other oil majors with operations in the North Sea said that oil and gas production was not impacted by the strike.

**NYMEX Petroleum Options Most Active Strikes for November 1, 2006**

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
GO	12	6	C	1.54	11/27/2006	0.0268	10	35.91
GO	12	6	C	1.49	11/27/2006	0.0426	10	35.18
GO	12	6	P	1.38	11/27/2006	0.0215	10	35.07
LO	12	6	P	55	11/14/2006	0.28	5,942	33.48
LO	12	6	C	60	11/14/2006	0.85	5,533	31.43
LO	2	7	P	60	01/17/2007	2.18	3,235	27.34
LO	12	6	C	61	11/14/2006	0.56	3,001	31.59
LO	6	7	C	66	05/17/2007	4.14	2,800	25.55
LO	12	6	C	59	11/14/2006	1.25	2,693	31.46
LO	12	6	C	62	11/14/2006	0.35	2,541	31.57
LO	1	7	C	61.5	12/14/2006	1.89	2,420	28.16
LO	12	6	P	54	11/14/2006	0.18	2,322	34.93
LO	2	7	P	45	01/17/2007	0.06	2,118	33.80
LO	4	7	P	45	03/15/2007	0.12	2,100	30.83
LO	12	6	P	56	11/14/2006	0.45	2,076	32.69
LO	12	6	C	64	11/14/2006	0.14	1,718	32.77
LO	3	7	P	45	02/14/2007	0.11	1,651	33.27
LO	1	7	C	70	12/14/2006	0.23	1,536	29.73
LO	12	6	P	77	11/14/2006	18.29	1,500	67.71
LO	12	6	P	76	11/14/2006	17.29	1,500	64.45
LO	12	6	P	75	11/14/2006	16.29	1,500	61.12
LO	12	6	P	74	11/14/2006	15.29	1,500	57.77
LO	12	6	P	58	11/14/2006	1.05	1,181	31.39
LO	12	6	P	58.5	11/14/2006	1.28	1,167	31.42
LO	12	6	C	63	11/14/2006	0.22	1,106	32.03
LO	12	6	P	53	11/14/2006	0.11	1,050	36.06
LO	1	7	C	65	12/14/2006	0.82	1,047	28.32
LO	12	6	C	65	11/14/2006	0.09	1,039	33.63
OB	12	6	P	1.45	11/27/2006	0.0411	200	38.99
OB	1	7	C	1.7	12/26/2006	0.0326	150	35.91
OB	12	6	P	1.4	11/27/2006	0.0244	104	39.30
OB	1	7	P	1.5	12/26/2006	0.0588	100	33.95
OH	1	7	C	1.75	12/26/2006	0.0608	400	29.49
OH	12	6	P	1.5	11/27/2006	0.0095	300	32.84
OH	2	7	C	1.9	01/26/2007	0.0408	208	28.30
OH	12	6	P	1.9	11/27/2006	0.2524	203	35.84
OH	2	7	C	1.82	01/26/2007	0.062	200	27.53
OH	12	6	P	1.92	11/27/2006	0.2715	200	36.45
OH	1	7	P	1.87	12/26/2006	0.1861	200	31.68
OH	1	7	P	1.85	12/26/2006	0.17	200	31.30
OH	2	7	C	1.92	01/26/2007	0.0367	181	28.49
OH	12	6	C	1.66	11/27/2006	0.0524	125	32.26
OH	1	7	C	1.71	12/26/2006	0.0767	125	28.88
OH	12	6	P	1.66	11/27/2006	0.0609	125	32.26
OH	1	7	P	1.71	12/26/2006	0.0746	125	28.92
OH	12	6	C	1.65	11/27/2006	0.057	121	32.22
OH	2	7	C	1.85	01/26/2007	0.0531	102	27.80
OH	12	6	C	1.9	11/27/2006	0.0046	100	34.61
OH	12	6	C	1.75	11/27/2006	0.023	100	33.15

A Norwegian oil rig was in a controlled drift in the North Sea on Wednesday after its two lines broke loose during an overnight storm. The Bredford Dolphin semi-submersible drilling rig was being tugged out of Norwegian waters at the time of the accident and was not producing oil or gas. The rig is bound for the Baltic Sea port of Gdansk for repairs, which are expected to last about 90 days.

An official stated that Indonesia's crude oil production fell to 854,697 bpd in October, down from 862,900 bpd in September after several wells were shut for maintenance.

Saudi Aramco said it planned to bring the Dammam oilfield back into production after carrying out seismic studies. Saudi Arabia's Oil Minister Ali al-Naimi has stated that Saudi Arabia would invest about \$70 billion in its oil and gas sector in the next five years. About \$18 billion would be invested to increase crude production capacity to 12.5 million bpd by 2009.

Exxon Mobil Corp said it hoped to increase oil recovery rates by at least 50% at the Upper Zakum oilfield in the UAE. Its current output capacity is about 550,000 bpd.

Russia's Natural Resources Minister, Yuri

Trutnev said a final decision on whether to allow a Royal Dutch Shell Plc led consortium to continue working on the Sakhalin-2 project would be made in the third week of November. Last month, he threatened to revoke a permit that would effectively halt work at the project over environmental concerns. He stated that he has given the consortium's operator, Sakhalin Energy, another week to provide its plan to rectify the ecological violations.

Shell Canada Ltd has decided to proceed with the Athabasca Oil Sands Project Expansion 1, a 100,000 bpd expansion of oil sands mining and upgrading facilities.

### **Market Commentary**

The oil market opened down 13 cents at 58.60 as the market retraced some of Tuesday's late rally ahead of the weekly petroleum stocks reports, which were expected to show builds in crude stocks. The market however rallied to 59.00 following the release of the DOE report, which showed larger than expected draws in product stocks and a draw of over 3 million barrels in total petroleum stocks. The market, which failed to breach the 59.00 level, retraced its gains and sold off to a low of 57.80. The crude market however bounced off its low in choppy trading and rallied to a high of 59.45 late in the session before it once again gave up some of its gains ahead of the close. It settled down 2 cents at 58.71. Volume in the crude market was light with 127,000 lots booked on the day while better volume was seen on Globex, with over 184,000 lots booked at the close of the open outcry session. The heating oil market, which opened down 1.2 cents at 165.50, quickly breached its previous high as it rallied over the 167.00 level. The market was well supported in light of the DOE report showing a

larger than expected distillate stock draw of 2.7 million barrels. The heating oil market however erased its gains and sold off sharply to a low of 163.00. The

		Levels	Explanation
<b>CL</b>	<b>Resistance</b>	59.65-59.90, 61.00	Remaining gap, Previous high
	58.71, down 2 cents	59.45	Wednesday's high
	<b>Support</b>	58.50, 57.80	Wednesday's low
<b>HO</b>	<b>Resistance</b>	170.00 to 171.90	Remaining gap (October 30th)
	165.15, down 1.55 cents	167.15	Wednesday's high
	<b>Support</b>	164.80, 163.00	Wednesday's low
<b>RB</b>	<b>Resistance</b>	153.00 to 154.75	Remaining gap (October 30th)
	149.48, up 60 points	150.50	Wednesday's high
	<b>Support</b>	149.00, 146.00, 145.50	Wednesday's low
		144.25	Previous low

market later bounced off its low and rallied to a high of 167.15 late in the session before a late bout of selling pushed it towards the 165.00 level on the close. It settled down 1.55 cents at 165.15. The RBOB market also posted an early high of 150.00 following the release of the DOE report, which showed a larger than expected draw in gasoline stocks of 2.8 million barrels. The market however erased its gains and sold off to a low of 145.50. It later bounced off its low and rallied to a high of 150.50 late in the session. It settled up 60 points at 149.48. Volumes were light 29,000 lots booked in the heating oil market, 19,400 lots booked in the RBOB gasoline market and 2,100 lots booked in the gasoline market.

The oil market is seen trading mostly sideways in light of the supportive weekly petroleum stock reports. If the market does continue to retrace its sharp gains despite the mostly supportive report, the market's losses are seen limited. The market is seen finding support at 58.50 followed its low of 57.80. More distant support is seen at 57.05 and 56.55. Meanwhile, resistance is seen at 59.45 followed by 59.65-59.90 and 61.00.

