



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR NOVEMBER 7, 2006

Ahead of Wednesday's scheduled meeting of Gulf oil ministers, Saudi Arabia's Oil Minister Ali al-Naimi reiterated that there was a high probability that OPEC would take further steps to rebalance the market beyond the 1.2 million bpd output cut agreed to in late October. A Saudi Aramco official said Saudi Arabia has fully implemented its share of OPEC's supply cuts. Meanwhile, Kuwait's Oil Minister Sheikh Ali al-Jarrah al-Sabah said OPEC's decision to cut production by 1.2 million bpd has restored balance in the market. He said the current market situation would not require further production cuts. Iran's Oil Minister Kazem Vaziri Hamaneh also said a further cut in production would not be needed if prices stabilized. He added that OPEC members, except Indonesia, were fulfilling the current commitment to cut production. Iran's

Market Watch

Al Qaeda claimed responsibility for the attacks on oil facilities in Yemen on September 15. It also vowed more strikes against the US and its allies. Yemen has stated that four bombers were killed on September 15, when security forces blew up four rigged cars before they reached oil and gas facilities in the eastern provinces of Marib and Hadarmout.

The Chicago Board of Trade announced it would launch two new ethanol over the counter calendar swap contracts on December 4. The new products would be based on the price of CBOT ethanol futures and include forward and previous month calendar swaps. It said that for each listed ethanol futures contract, there would be a corresponding previous and forward month OTC ethanol swap contract.

Venezuela's President Hugo Chavez has a 22 point lead over his rival in his bid for reelections next month. A poll by Evans /McDonough Co showed President Hugo Chavez had 57% of the vote while his opponent Manuel Rosales had 35% of the vote. Analysts have praised President Hugo Chavez' opponent for keeping a fragmented opposition united and delivering a disciplined campaign message focused on Chavez' s main weaknesses, which include unemployment and crime.

Goldman Sachs said the estimated level of investment in commodity indexes would increase to \$110 billion as of January from \$70 billion. It said the increase in its Investment Support Level reflected an increase in the general level of investment in the Goldman Sachs Commodity Index and other indexes.

NYMEX Holdings said its net income increased by 81.7% to \$40.7 million in the third quarter compared with \$22.4 million in the same period last year and net revenues increased by 45.5% to \$142.4 million. It stated that daily average contracts traded increased to 1,323,527 in the quarter, up 41.6% over the 934,472 daily average volume traded last year.

The NYMEX also announced that its electronic trading platform, Globex was posting increased volumes. It said more than 1.4 million lots or 56.7% of the 2.5 million contracts traded were traded through Globex. According to Citigroup's Energy Futures Research data, Globex traded 187,281 crude oil futures or 62.3% of the total 300,487 lots traded on Friday. The NYMEX pit handled 113,206 lots or 37.7%. On Friday, Globex also cornered 52% of the NYMEX RBOB gasoline futures market, 61% of natural gas and 42% of heating oil. An analyst predicted that it would take a year or more for floor trading volumes to decline naturally to the point where the NYMEX would force the complete move to Globex.

OPEC governor, Hossein Kazempour Ardebili also stated that Iran was complying with its 176,000 bpd cut by halting spot sales and supplying 5% less in some term contracts. However the managing director of the National Iranian Oil Co, Gholam Hussein said Iran has not cut its oil production yet. Separately, Qatar's Oil Minister Abdullah al-Attiyah said world oil markets were still oversupplied and added that OPEC may need to cut its production further in December. In regards to the price of oil, OPEC's President Edmund Daukoru said OPEC did not formally set an oil price floor, despite comments made by Venezuela that OPEC wanted to keep prices above \$60/barrel. Venezuela's Oil Minister Rafael Ramirez said last week that OPEC's strategy was to maintain at least a \$60/barrel price and that it needed to cut production by a further 300,000 bpd in December. The UAE's Oil Minister Mohamed Al Hamli said the current level of oil prices should not be a cause for panic. He said prices were reasonable and added that OPEC was watching the oil supply and demand balance closely. He also stated that all OPEC members were committed to the decision to cut production by 1.2 million bpd. He said the UAE has implemented its 100,000 bpd cut.

In its Short Term Energy Outlook, the EIA estimated world petroleum consumption would grow by 1 million bpd in 2006 and by 1.5 million bpd in 2007 to 85 million bpd and 86.5 million bpd, respectively. Its demand growth estimate for 2006 was cut by 200,000 bpd from its previous outlook. It stated that world oil inventories in the Organization for Economic Cooperation and Development countries during the first half of 2006 increased. It however estimated that OECD inventories would decline during the fourth quarter of 2006 and during 2007. By the end of 2007, days of forward supply of OECD inventories are estimated to finish at the bottom of the normal range for that time of year. It stated that petroleum demand in the US is expected to increase by 300,000 bpd in 2007 following another year of relatively flat consumption. Total demand in the US is estimated at 20.7 million bpd in 2006 and 21 million bpd in 2007. The EIA increased its gasoline demand estimate by 200,000 bpd for 2006 and 2007 to 9.25 million bpd and 9.36 million bpd, respectively. Gasoline demand in the fourth quarter is estimated at 9.34 million bpd in the fourth quarter, up 90,000 bpd from its previous estimate. Its distillate demand estimates for 2006 and 2007 were also increased by 400,000 bpd and 300,000 bpd from its previous estimate to 4.2 million bpd and 4.28 million bpd, respectively. Distillate demand in the fourth quarter is estimated at 4.34 million bpd, up 110,000 bpd from its previous estimate. Meanwhile domestic oil production is expected to average 5.2 million bpd in 2006 and 5.4 million bpd in 2007. In regards to inventories, it stated that distillate inventories were expected to be adequate during the heating season. Total distillate stocks stood at 151 million barrels as of September 30. It is up 24 million barrels above the average over the previous 5 years. Total distillate inventories at the end of the winter are estimated to total 118 million barrels, 2 million barrels below last season's levels but 8 million barrels higher than the previous 5 year average. The EIA also stated that OPEC is expected to cut its oil production in November by just 745,000 bpd, far short of a promised 1.2 million bpd output cut. It estimated that Saudi Arabia would cut 350,000 bpd of its 380,000 bpd output cut target while Iran would cut 50,000 bpd of its 176,000 bpd cut. Kuwait and the UAE are expected to meet their output cut targets, with cuts of 100,000 bpd each. Meanwhile, Indonesia, Nigeria and Venezuela are not expected to meet any of their output cut targets. The EIA however stated that the agreement to cut production by 1.2 million bpd would increase US oil prices by about \$2/barrel each month through the winter.

The IEA's executive director Claude Mandil said the IEA saw a moderate oil price at \$60/barrel. He said consumers would face higher oil prices in the coming decades because investment was lagging growing demand. In its annual World Energy Outlook, the IEA estimated that crude may cost a nominal \$57.79/barrel in 2010 or \$51.50/barrel in real terms, up from a respective \$40 and \$35 expected last year. The nominal price may reach \$97.30/barrel in 2030, up from \$65/barrel expected last year. It added that it could even reach \$130.30 by 2030 if investment fell short. It estimated that an investment of \$4.3 trillion in oilfields and refineries would be needed by 2030 to meet world demand. It said the required investment of \$164 billion a year is almost double actual spending of

more than \$100 billion a year in the first half of the decade. It said resource nationalism is among the factors that may restrain investment.

The US accused Russia of backing away from earlier commitments by its foreign minister in drafting the international response to Iran's nuclear program. US Ambassador John Bolton said changes sought by Moscow in a UN draft resolution conflicted with commitments by Russian Foreign Minister Sergei Lavrov. Last Friday, Russia, supported by China, proposed several amendments to the drafted UN Security Council resolution that would soften some of the proposed sanctions and delete others.

Refinery News

The Louisiana Offshore Oil Port resumed tanker offloadings on Tuesday and expected to receive its first cargo since Sunday on Tuesday afternoon. A LOOP spokeswoman said rough seas made it unsafe to attempt to moor tankers on Sunday and Monday. She said all tanker cargoes scheduled to be received by the LOOP this week would be taken in by Saturday.

Shell said it shut a 67,000 bpd fluid catalytic cracking unit at its Deer Park, Texas refinery for two weeks due to a mechanical problem in the unit's regeneration section. An alkylation unit was also shut and crude runs were reduced slightly.

Alon USA Inc reduced the feed to a sulfur recovery unit at its 70,000 bpd refinery in Big Spring, Texas on Tuesday morning after a portion of the unit shutdown. The sulfur recovery unit's scot unit was shut early Tuesday.

Marathon Oil Corp said its board of directors approved a \$3.2 billion project to expand the refining capacity its Garyville, Louisiana refinery by 180,000 bpd to 425,000 bpd. The project would also add a new crude and vacuum distillation unit as well as 44,000 bpd delayed coker, a 70,000 bpd heavy gas oil hydrocracker, a 65,000 bpd reformer and a 47,000 bpd kerosene hydrotreater unit. The increased capacity would be operational in the fourth quarter of 2009.

Motiva Enterprises said it planned to increase the railcar handling of its ethanol terminal in Sewaren, New Jersey. The expanded railyard would be capable of handling two 80-100 railcar unit trains daily. The ethanol terminal in Sewaren is the largest terminal in the New York Harbor area with a capacity of 2 million gallon/day. Motiva said it hoped to complete the expansion in 2007 after acquiring board approval.

Canadian Natural said it planned to increase its tar like bitumen production to as much as 300,000 bpd over the next 15 years. Much of the crude would be turned into synthetic light oil by an upgrading plant to be built at one of its northern Alberta producing fields or in the Edmonton area. Canadian Natural has stated that it planned to have its upgrader in service sometime between 2010 and 2013. It could have an initial capacity of 110,000-150,000 bpd.

Kuwait's Shuaiba oil refinery has increased its runs to about 170,000 bpd and is expected to reach its full 200,000 bpd capacity on Wednesday. It had cut production to 130,000 bpd after a blast and fire in a residue processing unit on Saturday.

Japan Energy Corp said it planned to shut its 110,000 bpd No. 3 crude distillation unit at its Mizushima refinery in 2007 for planned maintenance. The unit is expected to be shut for about a month in the second quarter of 2007. However specific dates have not been set.

South Korea's S-Oil said it would expand its production capacity to 1 million bpd by 2010.

Lithuania's Mazeikiu Nafta said there would be major delays to replace a unit destroyed by a fire which has cut refining runs. An official said the replacement of the vacuum distillation unit would take up to 1 year, up from the previous estimates of 6-9 months made by the company immediately after the mid-October fire. Its refining levels were cut from 20,000 tons a day to 12,000 tons immediately. It was planning in the interim to install a mothballed vacuum distillation unit. However it would only increase current refining levels marginally.

NYMEX Petroleum Options Most Active Strikes for November 7, 2006

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
GO	12	6	P	1.55	11/27/2006	0.0645	50	35.38
GO	12	6	C	1.58	11/27/2006	0.0285	20	35.76
GO	12	6	C	1.56	11/27/2006	0.035	10	35.53
LO	12	6	C	62	11/14/2006	0.14	5,467	30.36
LO	12	6	C	60	11/14/2006	0.55	5,188	30.31
LO	12	6	P	60	11/14/2006	1.62	3,690	30.37
LO	12	6	C	61	11/14/2006	0.29	3,481	30.30
LO	12	6	C	64	11/14/2006	0.03	2,885	31.47
LO	12	6	P	59	11/14/2006	1.03	2,867	30.58
LO	12	6	C	59	11/14/2006	0.96	2,524	30.58
LO	12	6	C	63	11/14/2006	0.07	2,186	31.26
LO	1	7	P	60	12/14/2006	1.76	2,172	27.02
LO	6	7	P	58	05/17/2007	1.97	2,150	26.42
LO	12	6	P	77.5	11/14/2006	18.57	2,100	85.67
LO	12	6	P	74	11/14/2006	15.07	2,000	71.17
LO	12	6	C	62.5	11/14/2006	0.1	1,950	30.86
LO	1	7	P	78.5	12/14/2006	17.88	1,800	45.35
LO	1	7	P	77	12/14/2006	16.38	1,800	41.97
LO	12	6	C	60.5	11/14/2006	0.41	1,535	30.52
LO	6	7	C	65	05/17/2007	4.34	1,190	24.92
LO	6	7	P	65	05/17/2007	4.61	1,190	24.99
LO	6	7	C	75	05/17/2007	1.33	1,103	24.39
LO	12	8	C	90	11/17/2008	1.65	1,100	20.64
LO	12	8	C	80	11/17/2008	3.1	1,100	20.49
LO	6	7	C	68	05/17/2007	3.09	1,100	24.45
LO	12	7	C	80	11/13/2007	1.91	1,003	23.03
LO	1	7	C	79	12/14/2006	0.01	1,000	31.92
OB	12	6	C	1.52	11/27/2006	0.0637	20	39.14
OH	12	6	C	1.7	11/27/2006	0.0375	1,012	29.69
OH	12	6	C	1.9	11/27/2006	0.0038	454	34.15
OH	12	6	C	1.88	11/27/2006	0.0049	279	33.84
OH	12	6	C	1.8	11/27/2006	0.0137	80	33.07
OH	12	6	C	1.71	11/27/2006	0.036	70	31.34
OH	12	6	C	1.77	11/27/2006	0.0195	70	32.76
OH	2	7	P	1.8	01/26/2007	0.1135	52	29.38
OH	2	7	C	1.8	01/26/2007	0.0801	50	29.28

India's Petroleum Secretary M.S. Srinivasan said the country could review retail petrol and diesel prices if world oil prices fell below \$52/barrel.

Russia's Federal Tariff Service said Transneft was seeking a 5.7% increase in its average shipping fees from 2007. The Federal Tariff Service is expected to make a decision in late November or early December.

Production News

A Nigerian government official said two oil workers, a British and American, taken hostage from a ship off the Nigerian coast in Nigeria last week were released on Tuesday. Their release was expected on Sunday, however negotiators said their release was held up by increasing ransom demands and the community in which the hostages were being held.

Russia's Deputy Prime Minister Alexander

Zhukov said Russia had no plans to follow OPEC and cut its oil production. He said Russia would continue its efforts to increase hydrocarbon production growth in the future but admitted that the country's output would not expand as quickly as it previously did.

A Russian official said Russia's technical standards agency, Rostekhnadzor is not expected to clear the US ExxonMobil led Sakhalin-1 project for full scale oil exports at least until December. This represents at least a 15 day delay from the agency's previous plan. It is expected to continue low level shipments for another month or more despite healthy demand from Asian consumers.

Saudi Aramco said it was ahead of schedule on a project to upgrade North Safaniya oilfield to increase production by 150,000 to 450,000 bpd. It however did not state when the project was expected to be completed.

ExxonMobil said Venezuela informed private partners that it planned to convert the Cerro Negro heavy crude project to a state majority joint venture. BP owns a share of 41.7% in the project, while BP owns 16.6% and PDVSA owns the remaining 41.7% stake in the venture. Venezuela has stated that by the end of the year, it wanted PDVSA to hold a majority interest in four joint ventures with private companies that upgrade about 600,000 bpd of heavy Orinoco crude.

The European Commission has signed an agreement to create an energy partnership with Azerbaijan as part of the EU's efforts to secure its gas and oil imports. The EU has sought to diversify its supplies since last winter when a pricing dispute between Russia and Ukraine disrupted supplies to Europe.

OPEC's news agency reported that OPEC's basket of crudes increased to \$54.91/barrel on Monday from \$54.07/barrel on Friday.

Market Commentary

The oil market opened slightly lower as it continued to retrace some of Monday's gains. It traded to 59.25 before it bounced higher to a high of 60.15. The market seemed to have been supported by comments made by Saudi Arabia's Oil Minister Ali al-Naimi, who reiterated that there was a high possibility that OPEC would cut its output further. The market however erased its gains and sold off to a low of 58.90 in light of the EIA's estimate that OPEC would cut its production by just 745,000 bpd in November, 455,000 bpd below its promised 1.2 million bpd output cut. The market was also pressured as Kuwait's Oil Minister stated that it was unlikely that OPEC would cut its output further. The market settled down \$1.09 at 58.93. Volume in the crude market remained light with 147,500 lots booked on the day.

Crude volume on Globex was better with about 200,000 lots booked during the open outcry session. The heating oil

		Levels	Explanation
CL	Resistance	60.55, 61.00, 61.70	Previous highs
	58.93, down \$1.09	59.60, 60.15	Tuesday's high
	Support	58.90	Tuesday's low
		58.30, 57.60, 57.05	Previous lows
HO	Resistance	173.70, 174.70, 178.20	Previous highs
	168.03, down 3.81 cents	171.20	Tuesday's high
	Support	167.80	Tuesday's low
		165.50, 162.40	Previous lows
RB	Resistance	156.50, 157.50, 159.75, 160.00	Previous highs
	153.56, down 77 points	155.00	Tuesday's high
	Support	152.75	Tuesday's low
		149.50, 145.50, 144.25	Previous low, Double bottom, Previous low

market remained in negative territory throughout the session as it continued to retrace its previous gains. It posted a high of 171.20 on the opening before it traded to 169.00 and settled in a sideways trading range. It however sold off to a low of 167.80 ahead of the close. It settled down 3.81 cents at 168.03. Meanwhile, the RBOB market also settled down 77 points at 153.56 as it remained pressured and sold off to a low of 152.75 early in the session. However the market later traded in a range from

155.00 to 152.75 ahead of the close. Volumes in the product markets were light with 37,000 lots booked in the heating oil market and 15,000 lots booked in the RBOB market.

The oil market on Wednesday will likely trade lower as the weekly petroleum stock reports are expected to show small builds in crude stocks of 500,000 barrels, draws in distillate stocks of less than 500,000 barrels and builds in gasoline stocks of about 500,000 barrels. The market will also remain headline driven as Gulf oil ministers are expected to meet on Wednesday to discuss the world oil market. The market is seen find some support at its low of 58.90 followed by 58.30. More distant support is seen at 57.60 and 57.05. Meanwhile resistance is seen at 59.60 followed by 60.15 and 60.55. More distant resistance is seen at 61.00 and 61.70.