



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta &  
Zachariah Yurch

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

**www.e-windham.com**

---

### **ENERGY MARKET REPORT FOR NOVEMBER 14, 2006**

---

Kuwait's Oil Undersecretary Issa Al-Oun said Kuwait would consider a further cut in production and planned to address the issue at the next OPEC meeting if oil prices remain at current levels. He said Oil Ministers of the six Gulf Cooperation Council countries decided it was necessary to reassess oil prices at its recent meeting. He said the GCC countries considered \$55-\$60/barrel as a reasonable price range. He said if prices started to decline below the range, then there should be action. Meanwhile, Saudi oil adviser Ibrahim al-Muhanna said Saudi Arabia was cutting its oil production by 380,000 bpd in November and December in line with OPEC's agreement. He also stated that world oil demand was likely to grow at an annual rate of 1.1 million to 1.2 million bpd. He said he was confident oil supplies would be sufficient to meet new demand. Traders said

#### Market Watch

A source at Nigeria's Pengassan oil union said the oil unions were concerned about plans by militants to start new attacks on the industry this month. He said if the attacks were carried out, they would worsen the problem in the Niger Delta. Nigeria's oil unions, Pengassan and Nupeng have threatened to resume a suspended strike they started two months ago in protest over the high level of risk in the Niger Delta.

The Cambridge Energy Research Associates stated that the theory that world oil production is at or near its peak, is flawed and misleading. It said the theory also underestimated the role of technology and supply growth. In a report, it acknowledged that the world's oil resources are limited and that production would eventually slow down. It estimated world oil reserves at 3.74 trillion barrels, three times as large as Peak oil proponents estimate. It said expected oil production to continue to increase through 2030 before reaching a plateau for one or more decades.

Oman said it would abandon its retroactive oil export price mechanism and use the new Dubai Mercantile Exchange crude futures contract instead when it is launched. By switching to the DME, Oman would provide an incentive for trading on the exchange to traders, refiners and producers who buy about 700,000 bpd of Omani crude based on the Ministry of Oil and Gas price. Oman's Oil Minister, Mohammed Hamed al-Rumhy said the crude contract was set to launch in the first quarter of 2007.

According to report by the EIA, the amount of US greenhouse gas emissions released into the air increased by 0.6% last year to 7.147 billion metric tons of carbon dioxide equivalent. It said that about 83% of those emissions were made of up carbon dioxide from burning petroleum, coal and natural gas.

Venezuela's tax agency Seniat said the local units of Chevron Corp and ConocoPhillips, two oil companies operating in the Orinoco oil belt, owe about \$11.3 million combined in unpaid taxes. It said the companies have 15 days to pay what is owed and a 10% fine or face further penalties.

Saudi Arabia has kept its December crude allocations to US customers steady following November's lower volumes.

Iran's President Mahmoud Ahmadinejad said Iran would soon complete its nuclear fuel program. He said Iran would be able to celebrate the completion of its nuclear program in the current Iranian year, which ends March 20. He also claimed the international community was caving in to Iran's demand to continue its nuclear program. He said Iran would talk to the US if it behaved correctly. While he did not state any conditions for US-Iranian talks, he accused President George W. Bush's administration of pursuing a foreign policy based on aggression, oppression and disrespect for other countries. However the White House responded that Iran must end its uranium enrichment.

Meanwhile, US officials and independent experts stated that a US military strike against Iran would set back Iran's suspected quest for nuclear weapons by less than four years. They stated that Iran has hidden enough centrifuge components and fissile material to revive its nuclear aims. An official denied that the office of US intelligence chief John Negroponte had prepared a formal assessment that specifically addressed the potential impact of a US military strike against Iran. Intelligence officials believe military action could delay Iran from obtaining nuclear weapons, creating a new opportunity for democratic reform to take hold in the country ruled by a small circle of Islamic clerics.

According to an IAEA report, experts found unexplained plutonium and enriched uranium traces in a nuclear waste facility in Iran. The IAEA has requested an explanation from Iran. The report also accused Iran of not cooperating with the agency's attempts to investigate suspicious aspects of the country's nuclear program that have led to fears over its nuclear program. It said it would be unable to make further progress in its efforts to verify the absence of undeclared nuclear material and activities in Iran without additional cooperation from Iran.

The IEA's director Claude Mandil called for urgent action to be taken on energy efficiency.

### **Refinery News**

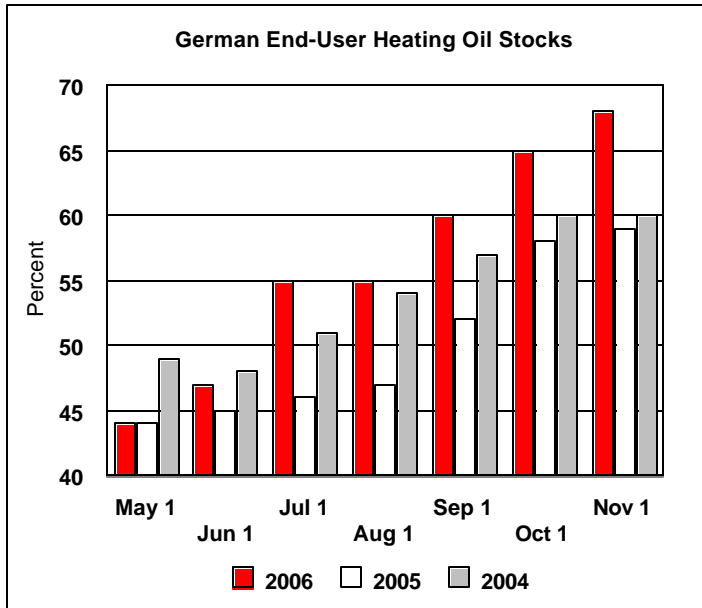
A cold front is expected to reach Louisiana on Wednesday threatening to recreate the conditions that forced the Louisiana Offshore Oil Port to suspend tanker offloadings last month. A LOOP official said the port was watching the front, however so far workers were not predicting delays in the next few days.

BP is expected to restart a 36,000 bpd alkylation unit at its 420,000 bpd refinery in Whiting, Indiana later this week following a shutdown of more than four weeks. The unit should be fully operational by early next week.

ExxonMobil Corp said operations were normal at its 150,000 bpd refinery in Torrance, California following a minor problem on an alkylation unit early Tuesday.

An analyst said US ethanol production would likely increase by at least 50% within the next five years to 7.5 billion gallons from 5 billion gallons.

Saudi Arabia's Oil Minister Ali al-Naimi said Saudi Arabia was aiming to become a major refining center with a capacity of over 3 million bpd by 2010. Saudi Aramco currently has five domestic refineries with a combined capacity of about 1.4 million bpd. Its two domestic joint venture refineries with ExxonMobil in Yanbu and Shell in Jubail, increase its total refining capacity of about 1.9 million bpd. He stated that Saudi Arabia planned to spend about \$150 billion in total on its energy sector over the next five years. Meanwhile, Saudi oil adviser Ibrahim al-Muhanna said Saudi Arabia was studying the possibility of building a crude oil refinery at Jizan on the Red Sea.



Russia's main Black Sea port of Novorossiisk was closed for a third day on Tuesday due to bad weather conditions. A shipping source said the port may reopen on Wednesday afternoon.

Trade sources stated that German heating oil stocks increased to 68% of capacity on November 1, up from 65% of capacity on October 1.

According to Germany's MWV, total sales of oil products in Germany increased by 2.8% on the year in October to 7.36 million tons. Its heating oil sales increased by 9.5% on the year to 2.41 million tons while its diesel sales increased by 3.1% to 2.55 million tons. Its gasoline sales fell by 3.8% to 1.9 million tons.

Gas oil exports from the former Soviet Union via Baltic and Black Sea ports fell by 427,000 tons on the month to 2.67 million tons in October. Its fuel oil exports however increased by 480,000 tons on the month to 3.67 million tons while gasoline exports also increased by 92,000 tons to 549,000 tons in October.

Russia's Rosneft has increased its options for breaking into China's downstream by expanding its alliance with Sinopec Group. The deal, which was signed during Russia's Prime Minister Mikhail Fradkov's visit to China, followed a similar agreement Rosneft signed in March with China National Petroleum Corp.

### **Production News**

Petro-Canada said that production has resumed at its Terra Nova oilfield off the coast of Newfoundland after repairs were completed on the production vessel. Production resumed on November 12, six months after production was shut in due to problems with the production vessel. It is expected to ramp up to full output of 110,000 bpd over the fourth quarter.

Norway's Norsk Hydro ASA said it halted oil production at its 30,000 bpd Njord A platform in the North Sea following a collision between a shuttle tanker and an oil storage vessel.

Norway's DNO said its oil discovery in north Iraq was larger than expected and confirmed production would begin in early 2007. It said it was planning to start two of three wells with daily production of close to 10,000 bpd. The company said its Tawke field in Iraq's Kurdish controlled north had the facilities to produce 50,000 bpd and added that it planned to build a pipeline to help transport the oil to Turkey.

PDVSA reported that development of the Carabobo 1 block is expected to cost \$9 billion. PDVSA and Brazil's Petrobras have yet to agree on a development plan to extract, upgrade and refine Orinoco tar oil from the Carabobo 1 block. The Carabobo field is expected to eventually produce 200,000 bpd.

**NYMEX Petroleum Options Most Active Strikes for November 14, 2006**

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
GO	12	6	C	1.8	11/27/2006	0.0009	35	39.38
GO	12	6	P	1.3	11/27/2006	0.0002	10	36.91
LO	2	7	C	70	01/17/2007	0.5	5,417	27.43
LO	4	7	P	55	03/15/2007	0.99	5,000	28.27
LO	3	7	C	100	02/14/2007	0.01	4,600	33.34
LO	6	7	P	60	05/17/2007	2.67	4,071	26.71
LO	3	7	C	85	02/14/2007	0.03	3,500	25.97
LO	1	7	C	61	12/14/2006	1.58	3,446	28.48
LO	6	7	P	55	05/17/2007	1.39	3,150	28.30
LO	7	7	P	55	06/15/2007	1.51	2,600	27.97
LO	4	7	P	60	03/15/2007	2.28	2,500	26.78
LO	12	7	C	80	11/13/2007	1.88	2,270	23.26
LO	12	7	P	50	11/13/2007	1.28	2,251	28.71
LO	6	7	C	67	05/17/2007	3.45	2,250	25.40
LO	6	7	P	50	05/17/2007	0.65	1,801	29.97
LO	6	7	C	50	05/17/2007	14.97	1,500	34.40
LO	7	7	C	65.5	06/15/2007	4.61	1,450	25.60
LO	7	7	P	65.5	06/15/2007	5.1	1,450	25.61
LO	6	7	C	65	05/17/2007	4.3	1,225	25.70
LO	6	7	P	65	05/17/2007	4.76	1,225	25.75
LO	1	7	P	77	12/14/2006	16.82	1,100	46.26
LO	1	7	P	76	12/14/2006	15.82	1,100	43.81
LO	1	7	C	65	12/14/2006	0.47	1,082	28.48
LO	6	8	C	75	05/15/2008	3.84	1,000	21.99
LO	1	7	P	56	12/14/2006	0.53	940	29.39
LO	3	7	P	63.5	02/14/2007	3.75	900	26.69
LO	1	7	P	50	12/14/2006	0.05	813	33.13
LO	1	7	C	63	12/14/2006	0.89	784	28.36
LO	4	7	C	64	03/15/2007	3.43	760	26.20
OB	12	6	P	1.5	11/27/2006	0.017	116	34.15
OB	4	7	C	2	03/27/2007	0.0758	90	34.38
OB	4	7	P	1.4	03/27/2007	0.012	90	31.22
OH	1	7	C	1.9	12/26/2006	0.0237	329	35.26
OH	12	6	P	1.9	11/27/2006	0.2374	200	36.91
OH	1	7	P	1.84	12/26/2006	0.1578	200	34.91
OH	3	7	C	1.9	02/23/2007	0.0584	160	30.22
OH	1	7	C	1.7	12/26/2006	0.0858	100	33.61
OH	2	7	C	1.83	01/26/2007	0.06	100	30.15
OH	3	7	C	1.77	02/23/2007	0.1011	100	29.03
OH	2	7	P	1.7	01/26/2007	0.0669	100	29.34
OH	3	7	P	1.77	02/23/2007	0.1093	100	29.05
OH	4	7	C	1.9	03/27/2007	0.07	90	29.42
OH	3	7	P	1.75	02/23/2007	0.0987	75	28.95

Ecuador's central bank reported that the country's oil exports stood at 11.91 million barrels in September, up 10% on the year. Its oil export revenues totaled \$587.31 million in September, up from \$543.52 million reported last year. It exported 101.81million bpd in the first nine months of the year, up 6% on the year. Separately, Petroecuador said it exported 217,174 bpd of crude in October, up 0.9% from 215,205 bpd in September.

The US Interior Department authorized 10 year leases for Shell Frontier Oil & Gas Co, Chevron USA and EGL Resources Inc for 160 acre parcels for research and development projects in northwest Colorado. The projects could begin as early as next summer. Since 1996, Shell has tested procedures that involved baking shale rock in the ground with electric heating rods, then pumping the melted oil to the surface.

Russia's top economist Arkady Dvorkovich said Shell's Sakhalin-2 oil and gas project failed to spur Russia's economy because supply orders went to foreign not

domestic companies.

Oleg Mitvol, the deputy head of Russia's environmental agency, RosPrirodNadzor said the possible claim on Shell was the start of new strict environmental enforcement aimed at all firms. He said even Russia's Gazprom could face inspections similar to those conducted at Shell's Sakhalin-2 project. He

said the agency would check the Sakhalin-1 project. It would also inspect TNK-BP's Samotlor field as well as fields run by Russia's Lukoil and Gazprom's oil arm, Gazprom Neft.

OPEC's news agency reported that OPEC's basket of crudes fell to \$55.42/barrel on Monday, down from Friday's \$56.57/barrel.

**Market Commentary**

The oil market opened in positive territory and retraced some of Monday's losses amid some supportive news. The crude market was supported following statements made by Kuwait's Oil Minister, who stated that Kuwait would consider a further production cut in December, if prices remained at current levels. The market was also buoyed by the reports that Saudi Arabia was cutting its production by 380,000 bpd, in line with OPEC's agreement to cut production by 1.2 million bpd. Also, Iran's President Mahmoud Ahmadinejad stated Iran would soon complete its nuclear program, bringing the Iranian issue to the forefront. The market posted a high of 59.15 early in the session. However as it failed to breach its previous high, the market settled in a sideways trading range after it erased its gains and traded to 58.45 in light trading. The market later breached its support and sold off to a low of 58.15 on the close and settled down 30 cents at 58.28. Volume was light with 185,000 lots booked on the day. Volume on Globex was better with about 220,000 lots booked during the open outcry session. Open interest in the crude market built by a total of 11,408 contracts. Open interest in the December contract fell by 17,225 contracts while open interest in the January contract built by 19,808

contracts as traders rolled their positions ahead of its expiration on Friday. Similarly, the heating oil market rallied to a high of 168.30 early in the

		Levels	Explanation
<b>CL</b>	<b>Resistance</b>	60.70, 61.33, 61.70, 61.90	Previous highs
	58.28, down 30 cents	59.15, 59.20 to 59.45	Tuesday's high, Remaining gap (November 13th)
	<b>Support</b>	58.15	Tuesday's low
<b>HO</b>	<b>Resistance</b>	173.50, 175.70	Previous highs
	166.32, up 32 points	167.00, 168.30 to 169.50	Remaining gap (November 13th)
	<b>Support</b>	165.90	Tuesday's low
<b>RB</b>	<b>Resistance</b>	158.50, 162.00, 163.50	Previous highs
	155.77, up 1.06 cents	156.25	Tuesday's high
	<b>Support</b>	154.50	Tuesday's low
		152.50, 149.50	Previous lows

session as it retraced some of its previous losses. The market however settled in a sideways trading pattern from 166.80 to 168.00 for most of the session. The heating oil market later sold off to a low of 165.90 in a late bout of selling. It settled up 32 points at 166.32. The RBOB market also traded higher early in the session. It traded to 156.20 and later retraced some of its gains as it traded to 154.70 and remained rangebound for most the session. The market posted a high of 156.25 before it sold off to a low of 154.50 ahead of the close. It settled up 1.06 cents at 155.77. Volumes in the product markets remained light with 22,500 lots booked in the heating oil market and 18,500 lots booked in the RBOB market.

The crude market, which surprisingly sold off ahead of the close, is seen holding support as the market awaits the release of the weekly petroleum stock reports. The reports are expected to show small builds in crude stocks of less than 1 million barrels and small draws in each distillate and gasoline stocks of less than 500,000 barrels. If the reports once again show larger than expected draws in product stocks, the market is seen remaining in its range. Support is seen at 58.15 followed by 57.60 and 57.05. Meanwhile resistance is seen at 59.15 followed by its gap from 59.20 to 59.45. More distant resistance is seen at its highs of 60.70, 61.33, 61.70 and 61.90.

