



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR NOVEMBER 28, 2006**

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The IEA's chief economist Fatih Birol said WTI crude is likely to remain above \$50/barrel for the next few years as spare capacity remains tight. He said even if all upstream projects currently being planned start operations by 2010, current spare capacity of 2 million bpd would only reach 3 million bpd. At the same time, non-OPEC production is expected to peak within the next ten years or so. He also added that the investment framework and geopolitical environment currently made him uncomfortable.

#### **Refinery News**

Colonial Pipeline allocated the 68<sup>th</sup> cycle of its main distillate line from Collins, Mississippi.

Valero Energy Corp was investigating a pipeline leak on a delayed coking unit at its 260,000 bpd Port Arthur, Texas refinery.

Flint Hills Resources LP shut a hydrogen

#### **Market Watch**

Leftist Rafael Correa, who won Ecuador's presidential run off election, said he would renegotiate foreign oil contracts to increase the share of crude volume received by the state. The state currently receives 20% of the crude extracted from its soil and his government is expected to seek an increase to 85%. He also said he may seek to increase the share of extra oil revenue that private companies are forced to give the state under a recent law to 85%. The hydrocarbons law demands companies share at least 50% of extra revenue above a set benchmark with the government. He won Sunday's presidential run off election after winning 57% of votes. Election judges confirmed that the trend favoring Correa could not be reversed but added the candidate would not be officially named president elect until tallies were completed. An official announcement is expected on Thursday.

Meanwhile, Brazil's Energy Minister Silas Rondeau played down a threat by Ecuador President elect Rafael Correa to review contracts with oil companies working in the country.

Freight brokers stated that the crude freight derivatives markets reached fresh lows on leading export routes with the Gulf of Japan route falling to a four year low. Derivatives markets have echoed weakness in physical export routes for crude amid the increasing tanker supply, OPEC cuts and high stock levels.

India's Oil Minister Murli Deora is scheduled to meet Prime Minister Manmohan Singh to consider a possible cut in retail fuel prices. In June, the government raised petrol prices by 9.2% and diesel prices by 6.6% to reduce the losses of state run retailers. India's Oil Minister said that any decision to cut retail fuel prices would be announced in parliament on Wednesday.

Traders stated that European high sulfur fuel oil prices are expected to fall further as traders seek to open an export arbitrage to Asia in their search for an outlet for surplus Russian barrels.

desulfurization unit at the west plant of its 288,000 bpd Corpus Christi, Texas refinery on Monday to repair a leak.

According to a report filed with the Texas Commission for Environmental Quality, Total cut rates to the wet gas compressor feeding the fluid catalytic cracking unit on Sunday at its 240,000 bpd Port Arthur, Texas refinery. It said the wet gas compressor malfunctioned, causing an emissions event.

BP said it could face fines of about \$384,000 for several workplace violations at its 420,000 bpd refinery in Whiting, Indiana. The Indiana Occupational Safety and Health Administration found a series of violations during a routine inspection of the refinery.

Total said a new hydrocracker at its 328,000 bpd Gonfreville refinery started operations on Sunday following a two month delay.

An official at Oman Refinery Co said Oman was considering merging the operations of the country's two state owned oil refineries. Oman Refinery Co is expected to increase the throughput capacity by 25% to 106,000 bpd by April at its Muscat plant while a new refinery, the 116,400 bpd Sohar is expected to start operations this year.

Japan's refiners Idemitsu Kosan Co and Cosmo Oil Co and trading houses Mitsui & Co and Marubeni Corp have agreed to join a new Qatari refinery project. Idemitsu and Kosan would each take a 10% stake and Mitsui and Marubeni would each take a 4.5% stake in Qatar Petroleum's Laffan refinery. The refinery is expected to have a capacity of 146,000 bpd. The new refinery is expected to come onstream in 2008 and use condensate as a feedstock.

Russia's Transneft confirmed a record oil shipment plan for December following a decline in export duties. Overall Russian seaborne exports of Urals crude oil from the Baltic and Black Sea are scheduled to increase by over 10% from November to 12.59 million tons or 2.98 million bpd. The Baltic Sea port of Primorsk is expected to load 6.4 million tons while the Black Sea port of Novorossiisk is scheduled to load 3.945 million tons.

An official at China's National Development and Reform Commission said China was aiming to fill its strategic oil reserves when world oil prices are relatively low. The official however did not state what China would consider a lower price. In August, the first crude flowed into the tanks. However it was only a small portion of the 100 million barrels China is expected to store in the first phase of its oil stockpile.

Taiwan's Chinese Petroleum Corp purchased two Very Large Crude Carriers of West African crude for January loading via its monthly tender.

### **Production News**

Royal Dutch Shell said it would soon take the first step to resume 500,000 bpd of oil production in Nigeria by sending inspectors to assess pollution and damage to facilities in the western Niger Delta. Shell officials attended a meeting with government officials and a militant group. The militant group attending the meeting was the Federated Niger Delta Ijaw Communities, which has been linked to the Movement for the Emancipation of the Niger Delta, the group that claimed responsibility for the attacks. A militant spokesman said Shell had agreed to provide power generators while the government had promised water, roads and hospitals to communities around the facilities. Some of the lost production, including the 115,000 bpd EA field could resume operations within weeks after inspections.

**NYMEX Petroleum Options Most Active Strike for November 28, 2006**

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	1	7	C	61	12/14/2006	1.48	4,034	29.25
LO	1	7	C	65	12/14/2006	0.29	3,295	29.04
LO	1	7	P	76	12/14/2006	15.01	3,200	51.05
LO	5	7	C	65	04/17/2007	4.22	3,120	27.92
LO	2	7	P	45	01/17/2007	0.02	2,850	36.93
LO	6	7	P	55	05/17/2007	1.46	2,614	31.32
LO	1	7	C	62	12/14/2006	1.04	2,520	29.10
LO	1	7	P	75	12/14/2006	14.01	2,450	47.97
LO	6	7	C	65	05/17/2007	4.99	2,306	28.20
LO	1	7	C	66	12/14/2006	0.18	2,204	29.23
LO	9	7	P	57	08/16/2007	2.36	1,850	29.89
LO	3	7	C	75	02/14/2007	0.44	1,812	28.84
LO	1	7	C	63	12/14/2006	0.71	1,722	29.16
LO	1	7	P	55	12/14/2006	0.1	1,656	31.82
LO	7	7	P	55	06/15/2007	1.63	1,653	31.18
LO	6	7	C	70	05/17/2007	2.95	1,554	27.44
LO	5	7	P	55	04/17/2007	1.23	1,503	31.13
LO	6	7	C	100	05/17/2007	0.13	1,460	30.80
LO	2	7	P	59	01/17/2007	1.26	1,436	29.35
LO	1	7	P	77	12/14/2006	16.01	1,340	54.08
LO	4	7	P	45	03/15/2007	0.13	1,250	35.53
LO	1	7	C	64	12/14/2006	0.47	1,216	29.27
LO	1	7	P	59	12/14/2006	0.68	1,099	29.30
LO	1	7	C	61.5	12/14/2006	1.25	1,055	29.24
LO	12	7	C	68	11/13/2007	6.46	1,025	26.79
LO	12	7	P	68	11/13/2007	6.67	1,025	26.81
LO	6	7	P	65	05/17/2007	4.64	1,015	28.18
LO	1	7	P	74	12/14/2006	13.01	1,000	44.85
LO	1	7	P	73	12/14/2006	12.01	1,000	41.70
OB	4	7	C	2	03/27/2007	0.0802	1,000	33.99
OB	2	7	P	1.63	01/26/2007	0.0686	1,000	31.53
OB	1	7	P	1.52	12/26/2006	0.0146	150	31.22
OB	1	7	C	1.7	12/26/2006	0.0313	117	31.18
OB	7	7	C	1.84	06/26/2007	0.1964	100	30.47
OB	5	7	P	1.9	04/25/2007	0.1646	100	32.17
OH	1	7	C	1.78	12/26/2006	0.0562	776	28.80
OH	1	7	P	1.78	12/26/2006	0.0563	776	28.76
OH	2	7	C	1.75	01/26/2007	0.1223	252	31.53
OH	1	7	C	1.8	12/26/2006	0.049	201	29.76
OH	2	7	C	1.83	01/26/2007	0.0822	200	31.65
OH	2	7	P	1.77	01/26/2007	0.0701	200	31.42
OH	1	7	C	2	12/26/2006	0.0071	160	31.76
OH	1	7	C	1.75	12/26/2006	0.0736	150	29.72
OH	1	7	C	1.9	12/26/2006	0.0198	106	30.76

Royal Dutch Shell's Shearwater oil and gas field in the UK's Central North Sea has been shut since Sunday for planned work and could be down for several more days.

According to the Aberdeen Petroleum report, the UK's oil production in September increased by about 5% on the month to 1,318,027 bpd

Iraq's South Oil Co said it hoped to start tackling rising water levels in its Rumaila oilfield soon. However a company official said it was hampered by a lack of equipment. Water incursion has plagued North and South Rumaila, the main contributors to the Basra Light export stream. Meanwhile, South Oil Co said exports from the south reached 1.7 million bpd. An official said it aimed to increase production to 3 million bpd from 2.3 million bpd and increase its exports by the beginning of next year.

Alaska's Governor Frank Murkowski said the state planned to strip oil companies of their leases on the Point Thomson oil and gas field after finding the primary lease holder, ExxonMobil Corp failed to come up with a viable plan for developing the field's reserves. He said

ExxonMobil failed to make good on its obligations as operator of the field. An ExxonMobil spokeswoman expressed disappointment in the state's decision. ExxonMobil said it had not yet decided whether it would appeal the decision.

A judge in Brazil suspended an auction of oil and gas exploration and production licenses that was already in progress in Rio de Janeiro. A spokesman for the National Petroleum Agency said it was working with a federal court in Brasilia to overturn the decision and expected the two day auction to resume soon.

Kazakhstan's Energy Minister Baktykozha Izumkhambetov said the government favored Royal Dutch Shell to explore the Nursultan oil block in the Caspian Sea. He said ConocoPhillips also approached the ministry over the project, which is attractive to Western oil majors because it is close to Kuryk, where Kazakhstan plans to build a port. Nursultan's hydrocarbon reserves are estimated at 349 million tons.

OPEC's news agency reported that OPEC's basket of crudes increased to \$55.76/barrel on Monday, up from Friday's \$55.29/barrel level.

### **Market Commentary**

The oil market gapped higher from 60.37 to 60.70 as it remained well supported following its sharp gains seen on Monday. The market remained supported amid the forecasts calling for colder than normal weather across the US next week as well as expectations that OPEC would cut its production further during its December 14 meeting. Early in the session, the market partially backfilled its gap as it traded to 60.55 before it traded to a high of 61.20. It settled in a sideways trading pattern amid the light volume. The market however erased its gains and backfilled its gap as it sold off to a low of 60.35. The crude market later bounced off its low and traded back towards its high ahead of the close. It settled up 67 cents at 60.99. Volume in the crude market was light with only 82,000 lots booked on the day. Crude volume on Globex was better with over 160,000 lots booked during the open outcry session. The product markets also settled in positive territory amid the expectations of colder than normal temperatures in the US Northeast this weekend. The heating oil market opened up 88 points at 171.40 and rallied towards 173.00 as the market found support at 171.00. The market erased its gains and once again found support at 171.00 before it rallied to a high of 173.20 ahead of the close. It settled up 2.31 cents at 172.83. The RBOB market opened at its low of 160.50 and quickly traded to 163.50, where it held some resistance. However the market later breached that level and rallied to a high of 164.50 on further buying ahead of the close. It settled up 3.96 cents at 163.71. Volumes in the product markets were light with 30,000 lots booked in the heating oil market and 25,000 lots booked in the RBOB market.

CL 60.99, up 67 cents  
 HO 172.83, up 2.31 cents  
 RB 163.71, up 3.96 cents

	Levels	Explanation
<b>Resistance</b>	61.40, 62.60, 63.20	Previous highs
	61.20	Tuesday's high
	60.35	Tuesday's low
<b>Support</b>	59.55, 58.40, 58.00	Previous lows
	173.45, 173.90, 175.70	Previous highs
	173.20	Tuesday's high
<b>Resistance</b>	171.00	Tuesday's low
	168.50, 166.30, 164.10	Previous lows
	168.50	Previous high
<b>Support</b>	164.50	Tuesday's high
	161.70, 160.50	Tuesday's low
	158.50, 158.00 to 156.75	Previous low, Remaining gap (November 21st)

The oil market on Wednesday will seek further direction from the weekly petroleum stock reports after the market continued to trade within its recent trading range amid the lack of any news. The DOE report is expected to show a slight draw of 100,000 barrels in crude stocks while product stocks are expected to show small builds of about 500,000 barrels in each distillate and gasoline stocks. The

market is seen finding support at its low of 60.35 followed by 59.55. More distant support is seen at 58.40 and 58.00. Meanwhile, resistance is seen at 61.20, 61.40 and 62.60. More distant resistance is seen at 63.20.