



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 4, 2006

OPEC's President Edmund Daukoru said the supply of crude oil continued to outpace demand despite the cut in OPEC's production, reaffirming recent comments by other oil ministers that further cuts could be made at its meeting on December 14. He said the cushion for OPEC members was somewhere around 2 million bpd in terms of excess capacity due to the reduced call on OPEC. In addition to excess supply, he said the falling value of the US dollar was responsible for the rising oil price. He added that OPEC would take a weaker dollar into account when it meets next weeks. OPEC has been concerned over the fall in the dollar as it has eroded its purchasing power. Meanwhile, OPEC's Secretary General Mohammed Barkindo said the oil market supply situation was growing increasingly unbalanced.

Market Watch

The National Weather Service forecast that US heating demand is expected to be just over 11% above normal this week. Demand for heating oil would be about 7.8% above normal. Meanwhile, Meteorlogix said temperatures in the Northeast are expected to average between 1 and 5 degrees Fahrenheit below normal through Friday.

The IntercontinentalExchange said that average daily volumes and commissions more than doubled in November on the year. Average daily volume for ICE futures was 451,676 contracts, up 144.9% on the year while average daily commissions in the over the counter segment reached \$723,323, up 101.3% on the year.

Venezuela's President Hugo Chavez, who won his reelection on Sunday, told his supporters that his victory was a blow to US President George W. Bush's administration. Venezuela's President is the fourth leftist to win an election in Latin America in the past five weeks. His victory is expected to increase worries of him destabilizing Latin America neighbors and Venezuela's ties with Cuba and Iran. The National Electoral Council said he won 61% of the vote while his rival Manuel Rosales won 38% of the vote. Venezuela's President has vowed to use his mandate to scrap presidential term limits and create a single party out of the array of groups that support him. Meanwhile, his opposition acknowledged defeat but promised to keep fighting. Separately, analysts stated Venezuela's President's nationalist foreign policy could hamper regional integration efforts.

A Lehman Brothers economist said oil prices are likely to increase sharply next year due to capacity constraints while the US may face tight gasoline supplies next spring. Lehman's chief economist Edward Morse said WTI oil prices should increase by an average of \$8/barrel in 2007 to about \$74/barrel as production capacity fails to increase. Demand is expected to increase by 1.7 million bpd to 86.5 million bpd next year while production is expected to increase by 1.9 million bpd to 86.6 million bpd. The tight balance should lift oil prices over the next two years.

Iran's Oil Minister Kazem Vaziri Hamaneh said OPEC would have to cut its output further at its meeting next week because some members were not adhering to the production cuts agreed upon in October. However he said it was still too early to estimate the size of such a cut. Iran has previously stated that it would have to cut production by 500,000 to 1 million bpd at its next meeting to restore stability in the market. Iran's OPEC Governor Hussein Kazempour Ardebili said the fall in world economic growth, a fall in oil demand and the accumulation of oil reserves and products, indicated that the oil market needed a new output cut. He said Iran's decision to cut production by 1.2 million bpd did not have the desired impact. In regards to new OPEC members, he stated that OPEC would view requests for new membership favorably since it would help OPEC to better serve oil consuming countries. Meanwhile, Qatar's Oil Minister Abdullah bin Hamad al Attiyah said that an opinion by Saudi Arabia's Oil Minister Ali al Naimi, that oil inventories held by OECD member countries needed to fall about 100 million barrels was a good proposal. He said OPEC would discuss it at its meeting on December 14. Saudi Arabia's Oil Minister reiterated on Saturday that OPEC needed to cut 100 million barrels to balance the market. Separately, the head of Libya's oil policy, Shokri Ghanem said inventories were somewhat high but added that the market looked like it was getting balanced. Kuwait's Oil Minister Sheikh Ali al Sabah said it was too early to know whether OPEC should agree to cut production further at its upcoming meeting. However he added that he would not oppose the group if it wanted another cut. He previously stated that he did not believe that there was a need to cut production further by 500,000 bpd.

The EIA reported that the US average retail price of diesel increased by 5.1 cents/gallon to \$2.618/gallon in the week ending December 4. It also reported that the US average retail price of gasoline increased by 5.1 cents/gallon to \$2.297/gallon.

Refinery News

Valero Energy Corp said its 83,000 bpd Houston, Texas refinery was operating normally after cutting crude oil intake on Thursday. It reduced its crude unit intake due to a saturated gas compressor shutdown. The cutback in crude intake did not have a material impact on production at the refinery. Valero also stated that there was no material impact on production at its 142,000 bpd refining complex in Corpus Christi, Texas due to a heater out of compliance in West Plant Complex 1 on Friday.

Delek US Holdings Inc started work on its sulfur recovery unit's tail gas treating unit at its 60,000 bpd refinery in Tyler, Texas on Monday.

Citgo Petroleum shut a sulfur recovery unit in the west plant of its 156,000 bpd refining complex in Corpus Christi, Texas. The unit was shut for a boiler inspection. Meanwhile, Citgo began the restart of its 167,000 bpd refinery in Lemont, Illinois after several weeks of planned maintenance.

Credit Suisse said US refining margins in all regions fell last week on higher crude prices and as more units returned from maintenance. Refining margins in the US Northeast fell by 93 cents/barrel to \$7.50/barrel while margins in the Midwest fell by \$2.70/barrel to \$11.12/barrel. West Coast margins fell by \$1.33/barrel to \$24.19/barrel while margins in the Rockies fell by \$4.08/barrel to \$16.86/barrel.

Canada's Enbridge Pipeline pumped an average of 1.678 million bpd of crude on its four pipelines that connect oil producers in Alberta with the Superior, Wisconsin pipeline hub in November. Flows through the system were slowed in mid-November as extensive maintenance shutdowns at Midwestern refineries led to a temporary oversupply of crude at some terminals.

The EIA reported that between August 30 and the end of September, ethanol production fell by 193,000 barrels or 1.9% to 9.992 million barrels. It is 27% higher than last year's total of 7.841 million

barrels. Meanwhile inventories in September increased by 567,000 barrels or 6.2% to 9.727 million barrels. Ethanol imports were revised lower to 2.171 million bpd from the 2.194 million barrels reported in preliminary data in mid-November.

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	9	7	P	59	08/16/2007	2.39	3200	28.99
LO	3	7	C	75	02/14/2007	0.52	3139	27.53
LO	1	7	C	65	12/14/2006	0.33	2389	28.55
LO	2	7	C	80	01/17/2007	0.03	2350	28.55
LO	1	7	P	60	12/14/2006	0.34	1598	29.22
LO	1	7	P	73	12/14/2006	10.56	1500	42.84
LO	1	7	P	74	12/14/2006	11.56	1500	46.57
LO	1	7	C	63	12/14/2006	0.92	1494	28.52
LO	1	7	P	61.5	12/14/2006	0.76	1488	28.65
LO	1	7	P	61	12/14/2006	0.59	1365	28.79
LO	1	7	P	57	12/14/2006	0.05	1267	31.45
LO	1	7	P	62	12/14/2006	0.97	1182	28.70
LO	4	7	P	53	03/15/2007	0.37	1050	30.59
LO	4	7	P	60	03/15/2007	1.44	1050	28.23
LO	1	7	P	75	12/14/2006	12.56	1000	50.26
LO	1	7	P	76	12/14/2006	13.56	1000	53.91
LO	2	7	P	53	01/17/2007	0.13	1000	32.69
LO	2	7	C	72	01/17/2007	0.33	978	27.29
LO	12	7	C	69	11/13/2007	6.67	975	26.41
LO	12	7	P	69	11/13/2007	6.4	975	26.36
LO	5	7	P	64	04/17/2007	3.01	950	27.24
LO	1	7	P	63	12/14/2006	1.48	938	28.55
LO	3	7	P	55	02/14/2007	0.37	910	29.80
LO	3	7	C	70	02/14/2007	1.34	865	26.94
LO	2	7	C	65	01/17/2007	1.95	861	27.13
LO	1	7	C	62	12/14/2006	1.41	821	28.72
LO	1	7	P	65	12/14/2006	2.89	735	28.74
LO	5	7	C	66.5	04/17/2007	4.26	734	26.82
LO	1	7	P	62.5	12/14/2006	1.21	723	28.67
LO	3	7	P	63	02/14/2007	2.13	661	27.52
LO	1	7	C	62.5	12/14/2006	1.15	653	28.66
LO	1	7	P	68	12/14/2006	5.6	600	29.55
OB	1	7	C	1.65	12/26/2006	0.0613	280	33.76
OB	2	7	C	1.83	01/26/2007	0.0396	253	34.68
OB	5	7	C	1.9	04/25/2007	0.1468	252	32.11
OB	3	7	C	1.95	02/23/2007	0.0396	200	35.03
OB	5	7	P	1.9	04/25/2007	0.1469	170	32.11
OB	3	7	P	1.63	02/23/2007	0.0629	140	33.38
OB	3	7	C	1.8	02/23/2007	0.0767	140	33.61
OB	6	7	C	1.92	05/25/2007	0.1611	125	31.68
OH	1	7	P	1.82	12/26/2006	0.0593	500	30.34
OH	2	7	P	1.85	01/26/2007	0.0939	500	32.61
OH	1	7	C	2.02	12/26/2006	0.0056	200	32.30
OH	2	7	C	1.85	01/26/2007	0.0868	100	32.57

Venezuela's PDVSA has issued 2007 term supply tenders offering low sulfur diesel to Europe and residual fuel to China. PDVSA offered a monthly 30,000 ton cargo of low sulfur diesel with sulfur content of 50 ppm for export to Europe only. It has offered a monthly 1.8 million barrel high sulfur fuel oil cargo to China.

The Caspian Pipeline Consortium said its exports from Kazakhstan to the Black Sea increased by 15% on the month in November to 740,000 bpd.

Azerbaijan is likely to ask Russia to cut oil shipping fees on a pipeline to the Black Sea port of Novorossiisk from January. It followed a statement by Azerbaijan's President Ilham Aliyev that Baku would reduce or suspend oil exports via the Baku-Norovorossiisk pipeline in response to Russia's promise to cut gas supplies to Baku.

Japan's oil companies are expected to start their seasonal import of kerosene this month. Japan is set to import

about 80,000 kiloliters or 500,000 barrels of distillates in December. However its exports of distillates may not exceed 120,000 kl or 755,000 barrels, down from the 4.4 million barrels exported last year.

Production News

Venezuela's Oil Minister Rafael Ramirez said oil operations were normal amid the presidential elections on Sunday. In regards to OPEC, he said the group's recent decision to cut 1.2 million bpd of output in November has had a positive impact on prices. He also stated that he believed there could be a consensus for an oil output cut of 500,000 bpd. Venezuela's Oil Minister also stated that the administration of President Hugo Chavez would continue pressing OPEC to defend high prices.

The head of Iraq's State Oil Marketing Organization, Falah Alamri said Iraq has increased its Basra crude oil term contracts by 3% for the first half of 2007. He said Iraq would increase sales contracts with foreign companies by 50,000 bpd to 1.65 million bpd. He said Basra Light crude draft term contracts have been submitted to Iraqi Oil Minister Hussein al-Shahristani for approval. However SOMO does not expect any term contracts for northern oil exports due to persistent acts of sabotage to the export pipeline between Kirkuk and the export terminal in Ceyhan. According to the Iraqi government, revenues from Iraq's crude oil sales in 2006 are expected to reach \$35 billion, up from last year's \$30 billion.

The head of Petroecuador said the country was considering hiring a private administrator to run the oil fields once operated by Occidental Petroleum. A temporary unit of Petroecuador currently operates the former Occidental fields, which were taken over in May after its contract was terminated over accusations that the company sold part of the block without authorization. Left wing economist Rafael Correa won November's presidential vote and has pledged to renegotiate foreign oil contracts to increase the volume of crude received by the state.

According to the Norwegian Oil Industry Association, annual investment in Norway's petroleum sector would peak at about 108 billion Norwegian crowns or \$17.62 billion in 2008. It said oil and gas industry investment in Norway would fall by about 11-12 billion crowns in 2009 and by a further 17 billion in 2010.

OPEC's news agency reported that OPEC's basket of crudes increased by 95 cents/barrel to \$59.66/barrel on Friday. It also reported that OPEC's basket of crudes increased by \$2.70/barrel to an average of \$57.59/barrel in the week ending December 1.

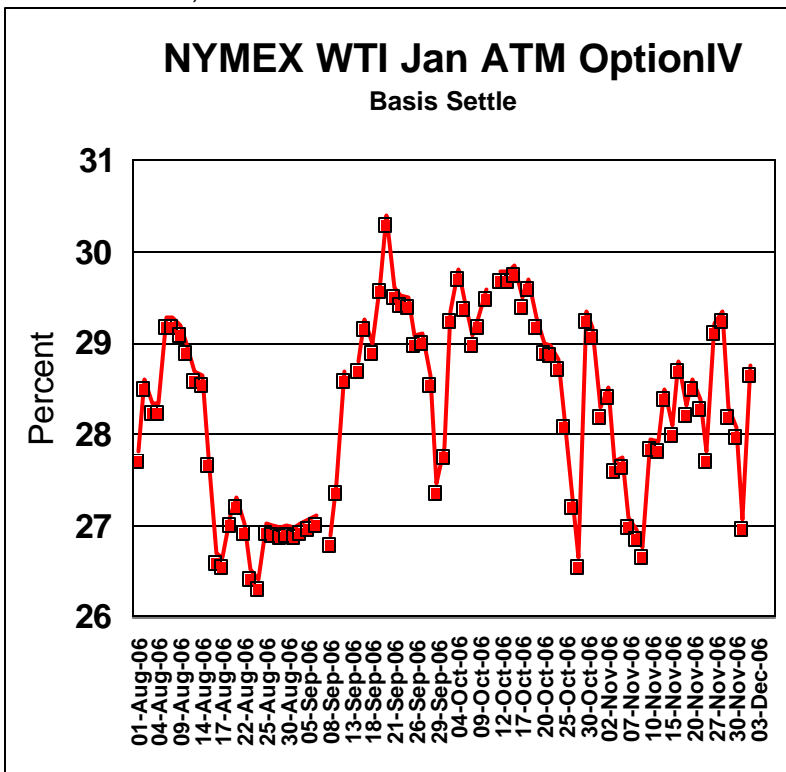
Market Commentary

The oil market opened down 78 cents as it continued to give up some of its recent gains. The market's losses were attributed to the National Weather Service's forecast calling for above normal temperatures next week following this week's cold spell. The US is expected to warm to above normal temperatures by this weekend

and remain above normal for at least the next two weeks. The crude market, which posted a high of 62.80 on the

		Levels	Explanation
CL	Resistance	63.50, 63.75, 64.70	Previous highs
	62.44, down 99 cents	62.80	Monday's high
	Support	62.30, 61.90	Monday's low
HO	Resistance	61.55, 61.20, 60.88, 60.35	38% retracement (58.00 and 63.75), Previous low, 50%, Previous low
	180.89, down 3.88 cents	185.10, 187.25, 188.50	Previous highs
	Support	182.80	Monday's high
RB	Resistance	180.30	Monday's low
	166.31, down 3.90 cents	178.45, 178.20	Previous low, 50% (169.15 and 187.25)
	Support	171.00, 172.00, 173.00	Double top, Previous highs
RB	Resistance	167.50, 168.50	Monday's high
	166.31, down 3.90 cents	165.50, 165.10	Monday's low
	Support	164.25 to 164.00, 161.00	Opening gap (November 29th), Previous low

opening, quickly sold off to a low of 61.90. However the market bounced off its low as its losses were limited by the expectations that OPEC would cut its production further during its meeting next week. The market later settled in a 40 cent trading pattern during the remainder of the session. The crude market settled down 99 cents at 62.44. Volume in the crude market was light with 105,000 lots on the day. Crude volume on Globex was better with 163,500 lots booked during the open outcry session. Meanwhile, the heating oil market opened down 2.77 cents at 182.00 and sold off to a low of 180.30 as traders continued to book profits following its recent rally. The market was pressured by the weather forecasts. However the heating oil market bounced off its low and rallied to a high of 182.80 later in the session before it retraced some of its gains once again ahead of the close. It settled down 3.88 cents at 180.89. The RBOB market opened down about 2 cents at 168.20 and quickly posted a high of 168.50. However the market sold off to a low of 165.10. Similar to the crude market, the RBOB market retraced some of its losses and settled in a sideways trading pattern. It settled down 3.90 cents at 166.31. Volumes in the product markets were light with 20,500 lots booked in the heating oil market and 14,600 lots booked in the RBOB market.



The crude option market, despite the rather sizeable sell off, saw a relatively quiet trading session with only 63,452 lots changing hands. This was the smallest volume option day since October 20th. Puts for the third consecutive session accounted for over 60% of the days activity, as implied volatility for the January at the money option rebounded after declining from the prior three trading sessions.

The crude market will continue to trade sideways ahead of Wednesday's release of the weekly petroleum stock reports. If the market continues to retrace its gains, its losses will be limited ahead of next week's OPEC meeting. The market will hold its support amid expectations that OPEC members will cut their production further. The market is seen finding

support at its low of 61.90 followed by 61.55 and 61.20. More distant support is seen at 60.88 and 60.35. Meanwhile resistance is seen at 62.80 followed by 63.50, 63.75 and 64.70.