



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR DECEMBER 6, 2010**

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The IEA's Executive Director Nobuo Tanaka said that while the world has sufficient oil to meet demand, OPEC has to remain flexible should conditions change.

Nigerian militants claimed responsibility for an attack on a pipeline in Delta State on Sunday night. The Niger Delta Liberation Force said it attacked a pipeline operated by Nigerian National Petroleum Co near the Batan flow station

in Niger State. Spokesmen for the military and the state petroleum company said they had no information on the alleged pipeline attack.

Iraq's Oil Minister Hussain al-Shahristani said a dispute between Iraq's northern Kurdish region and the central government is expected to be resolved and added that the region should start pumping oil for export in early 2011. The semi-autonomous northern area could produce 150,000 bpd next year.

A Western official said the first day of negotiations between world powers and Iran over Iran's nuclear program ended on Monday and will resume on Tuesday. A source said the talks were constructive and held in a good atmosphere.

Iran has filed a grievance with the International Civil Aviation Organization over several European Union countries' refusal to refuel its airliners. At least five countries, the UK, Germany, Denmark, Switzerland and the Netherlands, suspended refueling of IranAir jetliners some weeks ago. The decision was taken in support of UN sanctions against Iran over its nuclear program, even though sanctions adopted by the EU do not include such measures.

#### **Market Watch**

The National Weather Service forecast that US heating demand this week is expected to be more than 16.3% above normal. Demand for heating oil this week will average 16.1% above normal, while heating demand for natural gas this week will average 12.8% above normal. Heating oil demand last week was 0.5% below normal.

According to an annual economic forecast compiled by the Federal Reserve Bank of Chicago, the US economy will grow 3% next year. The survey predicted real GDP will increase 3% in 2011 from expectations for 2.4% growth this year. The Chicago Fed survey also estimates the country's jobless rate will fall to 9.2% in 2011 from 9.6% in 2010. It also estimates personal consumption expenditures up 2.5% next year from an estimated 2.3% increase in 2010. Industrial production is expected to register a 4.3% gain next year, down from 5.4% expected growth in 2010. Survey participants predict an increase in oil prices next year, with WTI crude oil reaching \$85.30/barrel by the end of next year, up from \$82.67/barrel expected this year.

Investment bank Raymond James said budgets for US independent oil and gas companies are expected to increase about 2% next year, as weak natural gas prices prompt a slowdown in drilling.

**December  
Calendar Averages**  
**CL – \$88.33**  
**HO – \$2.4558**  
**RB – \$2.3374**

The EIA reported that the US average retail price of diesel increased by 3.5 cents to \$3.197/gallon in the week ending December 6<sup>th</sup>. The price of diesel is 15.3% or 42.5 cents above a year ago. The EIA also reported that the US average retail price of gasoline increased by 10.2 cents to \$2.958/gallon on the week. The price of gasoline is up 32.4 cents or 12.3% on the year.

**Refinery News**

Sunoco Inc reported a leak in a crude oil pipeline in Kilgore, Texas over the weekend. The Kilgore-to-Houston pipeline was undergoing scheduled maintenance at the time of the release and the line was not currently in service.

ExxonMobil Corp said it sees a slight impact on production due to maintenance underway at one of its process units in its 192,500 bpd Chalmette, Louisiana refinery. The maintenance which started on December 4<sup>th</sup> is expected to last for a couple of weeks.

Citgo Petroleum Corp’s 167,000 bpd refinery in Lemont, Illinois reported emissions of sulfur dioxide due to instrumentation issues late on Sunday.

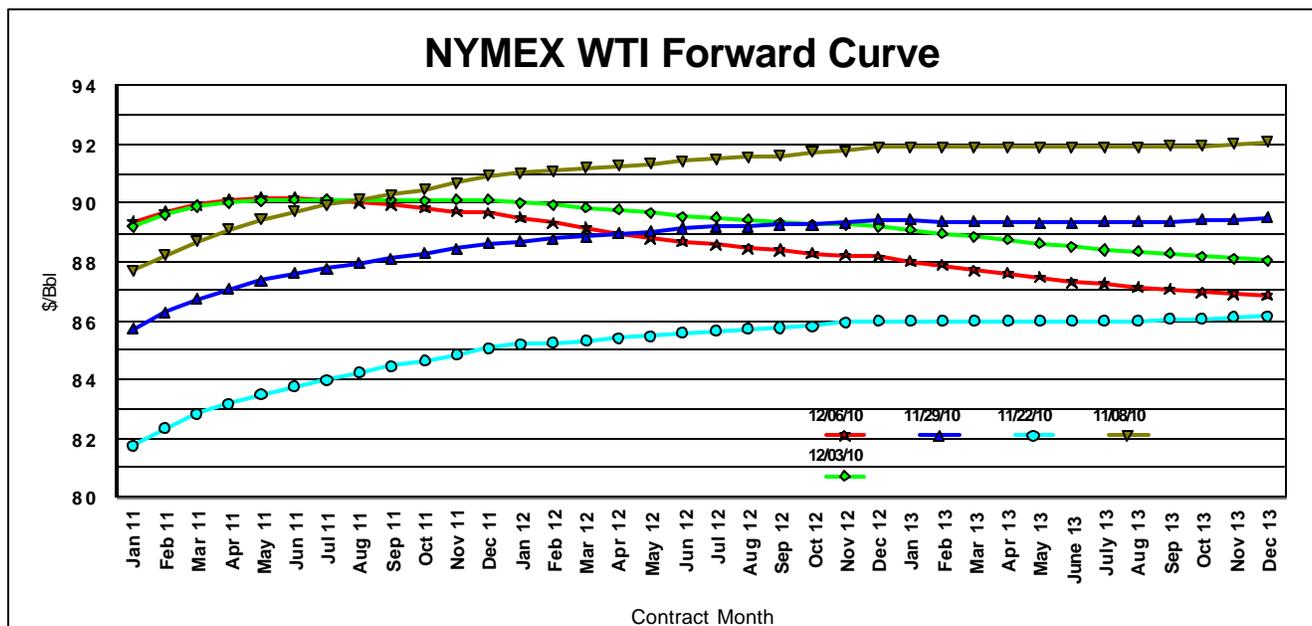
Valero Energy Corp restarted a fluid catalytic cracking unit at its 180,000 bpd refinery in Memphis, Tennessee and was bringing the unit up to planned rates on Monday. The unit was shut on November 28<sup>th</sup> to fix a wet gas compressor.

A problem with an air compressor at ConocoPhillips’ 247,000 bpd refinery in Sweeny, Texas on Sunday resulted in benzene emissions.

Irving Oil completed maintenance on its residual fluid catalytic cracking unit at its 300,000 bpd St. John, New Brunswick refinery. The unit is fully operational.

Crude oil throughput at China’s 12 refineries in December is expected to fall about 5% on the month to 2.8 million bpd, the lowest level in nine months due to maintenance work.

PetroChina Co is building a crude oil storage depot in Chengdu city in southwestern Sichuan province with 1 million cubic meters of combined storage capacity or about 6.3 million barrels. PetroChina recently started pumping crude into its newly built tanks at the Wangjiagou oil depot in the



northwestern Xinjiang Uyghur Autonomous Region with a combined storage capacity of 450,000 cubic meters.

Japan's Cosmo Oil Co purchased a test cargo of heavy sour Napo crude from Ecuador for its 100,000 bpd Sakai refinery. The cargo was loaded onto an Aframax-class oil tanker, which can carry up to 80,000 metric tons or 586,000 barrels of crude.

### **Production News**

Forest Oil said it shut in a well in the area of White Lake, Louisiana on Sunday after a pipeline leak was discovered. Corrosion along a flow line caused a mixture of crude oil, water and natural gas to be released.

Occidental Petroleum said its consortium in Iraq increased production at the Zubair field by 10% to more than 200,000 bpd. This will allow the consortium to receive a cost recovery of \$2/barrel on the incremental oil production. The companies expect output at the field to reach 1.2 million bpd in the next six years.

Azerbaijan's Statistics Committee said the country's oil and condensate production increased by 1.6% on the year in January-October to 42.3 million tons from 41.7 million tons last year. The BP-led group operating at Chirag, Azeri and Guneshli oilfields in the Caspian Sea and the Shah Deniz gasfield produced 35 million tons of oil and condensate, down from 35.2 million tons produced in January-October 2009.

Kazakhstan's Oil Minister Sauat Mynbayev said the country's Kashagan oilfield should start production by the end of 2012. He added that the country's oil production in 2011 was expected to be 82 million tons.

Georgia's Black Sea port of Batumi shipped 15.4% less crude and oil products in November compared with October and 39.5% less than in the same month a year ago. The terminal shipped 385,553 tons of crude and refined products in November, down from 455,954 tons in October and 639,400 tons exported in November last year.

OPEC's news agency reported OPEC's basket of crudes increased by 99 cents to \$87.13/barrel on Friday from \$86.14/barrel on Thursday. It also reported that the OPEC's basket of crudes increased by \$3.47/barrel to \$84.90/barrel in the week ending December 3<sup>rd</sup>.

Bashneft will pay around 5 billion roubles more in 2011 taxes after an excise tax increase on gasoline and fuel oil. It said the excise tax for gasoline will increase by 1.5 times while the duty for diesel fuel will increase by about 2.23 times next year.

### **Market Commentary**

The oil market continued its upward trend after US Federal Reserve Chairman Ben Bernanke raised the possibility of further quantitative easing. He said the Fed may expand its bond purchases beyond the \$600 billion announced last month. The crude market posted a high of \$89.76 in overnight trading before it erased its gains and posted a low of \$88.56 in early morning trading. It however bounced off that level and traded in a sideways trading pattern. The market traded back to \$89.65 ahead of the close and settled up 19 cents at \$89.38, the highest level since October 7, 2008. The December 11/December 12 crude spread continued to widen, with the spread gaining another 43 cents and settling at \$1.43 after trading as high as \$1.84. Unlike the crude market, the product markets ended the session in negative territory with the heating oil market settling down 1.17 cents at \$2.4757 and the RBOB market settling down 1.04 cents at \$2.3417. The crude market is seen retracing some of its gains before it continues to trend higher. Technically, it is seen finding support at its low of \$88.56,

\$87.14, \$86.27 followed by \$86.14, its 38% retracement level from a low of 80.28 and a high of \$89.76 and \$85.02, its 50% retracement level. Meanwhile resistance is seen at its high of \$89.76, \$90.50 and \$91.00.

Crude oil: Jan 11 313,833 -2,576 Feb 11 143,702 +8,338 Mar 11 134,550 +7,646 Totals 1,386,058 +13,388 Heating oil: Jan 11 106,000 +4,336 Feb 11 49,442 +3,342 Mar 11 34,005 -1,673 Totals 314,123 +9,389 Rbob: Jan 11 92,726 -2,338 Feb 11 44,288 +1,641 Mar 11 32,823 +998 Totals 270,146 +2,098.

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
8856	8976	24671	25067	23261	23699
8714	9050	24378	26590	22942	24000
8627	9100	24328		22506	
8614	9385	24100		22138	
8502		23872		21770	
8390					

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