



ENERGY RISK MANAGEMENT

Howard Rennell & Pat Shigueta
(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR DECEMBER 7, 2005

In a report by the BBC earlier Wednesday, Al-Qaeda's deputy leader, Ayman al-Zawahri, urged attacks on oil facilities in Islamic countries. Al-Qaeda's deputy leader stated that Osama bin Laden was still leading its holy war and called on resistance factions in Iraq to unit and urged Arabs, Kurds and Turkmen to form a political entity to liberate Iraq. Meanwhile, OPEC officials played down a threat by a top Al-Qaeda figure calling for attacks on oil installations in Islamic countries. Separately, an OPEC Gulf source said Saudi Arabia's oil installations are well protected and added that the country is not concerned by threats made by Al-Qaeda. A UAE official also said that the country's oil facilities are well protected.

IEA's chief economist Fatih Birol said he does not expect any surplus of crude oil in the first quarter of 2006.

The EIA reported that US inventories of propane totaled 71.532 million barrels in the week ending December 2, up 708,000 barrels on the week. It

reported that propane inventories in the East Coast fell by 192,000 barrels to 5.322 million barrels while inventories in the Midwest fell by 875,000 barrels to 23.582 million barrels and inventories in the Gulf Coast increased by 1.761 million barrels to 39.985 million barrels on the week.

Market Watch

Royal Dutch Shell dismissed the possibility of international oil field development deals in Iraq any time soon, although Iraqi officials hope the elections next week will prompt swift foreign investment. Iraq has been talking with multinationals such as Shell about developing the country's largest fields while acknowledging that only a permanent parliament due to be elected on December 15 has the authority to sign production sharing deals the market favors. Shell's vice president for strategy said auctions for the rights to develop oilfields in Iraq are unlikely to held before 2007.

A senior consultant with Cambridge Energy Research Associates said the world is not running out of crude in the near term and world oil production capacity could increase by 25% by 2015. World oil production capacity has the potential to increase from the current 87 million bpd to as much as 108 million bpd by 2015. Between 2005 and 2010, expansion of world oil production capacity will be split between OPEC and non-OPEC countries.

The head of Deloitte Consulting LLP's US oil and gas practice said current high oil prices are sustainable for the foreseeable future. He said crude prices are expected to remain above \$40/barrel in the long term.

Germany's chemicals industry body VCI expects the oil price to be \$55/barrel on average in 2006 and the euro at \$1.25.

Glencore has signed a one year contract to lease storage space in South Korea for about 3 million barrels of oil. South Korea has been actively seeking oil storage leasing deals or joint oil stockpiling deals to secure wider sources of supplies in an effort to head off any sudden supply outages.

Refinery News

Shell Oil began to restart several units at its 340,000 bpd refinery in Deer Park, Texas after an unplanned shutdown on Monday. Shell started its distilling unit 2, vacuum flashers 3 and 4 and hydro distilling unit 2 after an emergency shutdown. The company expects to return to normal rates by Friday.

Production News

The MMS reported that a total of 476,035 bpd of crude production remained shut in as of Wednesday, down from 503,187 bpd reported on Tuesday.

The Louisiana Offshore Oil Port is not allowing offloading of a certain type of sweet crude due to full storage for that crude grade. Tankers carrying cargoes of that sweet crude grade may be forced to anchor in the Gulf of Mexico until the LOOP has storage available for the crude.

The Louisiana Department of Natural Resources reported no change in the amount of oil and natural gas production restored. It stated that restored oil production stood at 114,034 bpd or 56.1% of production capacity.

Husky Energy said the first shipment of crude from the White Rose field offshore eastern Canada has taken place. Production from the White Rose field started on November 12. Its second and third shipments of crude are scheduled to be delivered to the US Gulf Coast and Irving Oil's terminal near St. John, New Brunswick, respectively. The field is currently producing 75,000 bpd but is expected to reach peak production of 100,000 bpd in the first half of 2006.

According to a Dow Jones Newswires survey, OPEC's crude production fell by 90,000 bpd to 30.07 million bpd in November. The ten OPEC members with a quota produced 28.38 million bpd in November, up 50,000 bpd on the month. Saudi Arabia's production fell by 50,000 bpd to 9.4 million bpd due to maintenance at a large refinery. Meanwhile, Iraq's production fell by 140,000 bpd to 1.69 million bpd as bad weather, power outages and technical problems cut exports from southern oil terminals.

The Aberdeen Petroleum Report stated that UK oil production in September increased by 16% on the month to 1.515 million bpd.

The Shetland Island Council reported that Brent crude liftings from Sullom Voe increased to 403,398 tons in the week ending December 6th, up from 159,108 tons in the previous week.

Norway's Norsk Hydro said it made an oil discovery in western Iran, near the border with Iraq, that could be one of the most significant finds of recent years. Norsk Hydro made the Anaran discovery in April in an exploration partnership with Russia's Lukoil. In August, it said the Anaran discovery could be developed into a field that could produce 100,000 bpd by 2010. Norsk Hydro on Saturday filed a business plan on the field with the National Iranian Oil Co and now has an exclusive right to negotiate a development plan.

Shipping companies stated that Rhine water levels in Germany increased for the second consecutive day. However southern sectors of the river have not been restored to normal shipping. In the north, levels at Cologne and Duisburg, used to calculate low water surcharges, have returned to normal. However water at the key point of Kaub was still below the level vessels can sail fully loaded, restricting navigation to south Germany. Water levels at the southern points of Mainz and Maxau also remained below minimum levels.

The Petroleum Association of Japan reported that kerosene stocks totaled 4.72 million kiloliters or 29.69 million barrels in the week ending December 3 compared with 4.76 million kl in the previous week. Meanwhile, Japan's gas oil stocks stood at 1.824 million kl, relatively unchanged from the previous week's 1.825 million kl. Gasoline stocks stood at 2.23 million kl, down 1.4% on the week while its commercial crude stocks fell by 0.4% to 17.71 million kl. The average operating rate of Japanese oil refineries was 90.5% in the week ending December 3 compared with 88.5% in the previous week.

Qatar Petroleum has reduced its retroactive official selling price of Qatar Land crude oil to \$54.60/barrel for November term supply. The November Qatar Marine official selling price was posted at \$52/barrel, down \$2.50 while the differential to Oman crude increased to a 20 cent/barrel premium, up 9 cents.

Brazil's Petrobras and Venezuela's PDVSA plan to jointly build a crude upgrading plant in Venezuela that would cost about \$1 billion. The plant would convert tar oil from Venezuela's Orinoco belt into crude that can be refined at a yet to be built heavy crude refinery in Brazil's Northeast. The unit would treat oil from new production in a jointly operated field that is scheduled to start pumping up to 200,000 bpd starting in 2009.

Meanwhile, Brazil's Petrobras said it would invest 38.54 billion reais or \$17.76 billion in 2006. It said 19 billion reais of that amount would go to production and exploration in Brazil. Average crude production next year is expected to increase to 2.5 million bpd. It said that with four new oil platforms scheduled to come on line in 2006, daily capacity should increase by 360,000 bpd.

French energy demand in October fell 5% from a year ago to 20.94 million tons of oil equivalent due to record high prices and mild weather. France's Energy Ministry reported that the country's oil product consumption in October fell by 5.1% year on year to 7.69 million tons as high prices and mild weather cut heating oil sales. When seasonally adjusted, refined oil consumption in October fell by 3.9% from last year to 7.87 million tons.

OPEC's news agency reported that OPEC's basket of crudes increased by 13 cents/barrel to \$52.85/barrel on Tuesday.

Singapore based bunker supplier, Ignition Point, has temporarily halted its bunkering operations due to financial problems linked to losses in the fuel oil derivatives market. The company, which supplied about 60,000-70,000 tons of bunkers per month on a delivered basis, suspended operations in late October.

Market Commentary

The oil complex settled in negative territory following the release of the weekly petroleum stock reports, which helped limit the markets' early gains. The crude market, which posted an outside trading day, settled down 73 cents at 59.21. The oil market opened 51 cents higher at 60.45 and posted a high of 60.55 in follow through buying seen in overnight trading on Access. The market was well supported by the news that Al-Qaeda's deputy leader, Ayman al-Zawahri, urged attacks on oil facilities in Islamic countries. The market however later sold off in light of the DOE and API reports, which showed unexpected builds in crude stocks. The market extended its losses to over 70 cents as it traded to a low of 59.20. It held some support at that level and retraced some of its losses before further selling ahead of the close pushed the market to a low of 59.11. Volume in the crude was excellent with over 264,000 lots booked on the day. Meanwhile the heating oil market also settled down 3.54 cents at 173.66. The market posted a high of 178.30 early in the session before it was

pressured by the larger than expected builds reported in product stocks. The market sold off to a low of 173.25 following the reports. It later retraced some of its losses and settled in a sideways trading pattern ahead of the close. The gasoline market similarly, posted its intraday high of 159.90 early in the session before it sold off to a low of 156.50. The market was also pressured following the release of the DOE and API reports, which showed larger than expected builds in gasoline stocks. It settled down 1.59 cents at 156.76. Volumes in the product market were good with 68,000 lots booked in the heating oil market and 57,000 lots booked in the gasoline market.

The crude market may continue to trade lower following today's sharp sell off amid the builds in stocks. The oil complex may seek further direction from Thursday's release of the EIA natural gas report. Technically, the crude market is seen finding support at 59.11 followed by 58.97, 58.50, 58.40 and 57.83.

Meanwhile support is seen at 59.75 and 60.55. More distant resistance is seen at 60.80 and its gap from 61.25 to 61.40.

Technical Analysis		
	Levels	Explanation
CL 59.21, down 73 cents	Resistance 60.80, 61.25 to 61.40 59.75, 60.55	Monday's high, Remaining gap Wednesday's high
	Support 59.11 58.97, 58.50, 58.40, 57.83	Wednesday's low 38% (56.00 and 60.80), Previous low, 50%, 62%
HO 173.66, down 3.54 cents	Resistance 183.30, 183.50, 188.25 175.25, 178.50	Monday's high, Previous highs Wednesday's high
	Support 173.25 172.15, 168.25, 165.25	Wednesday's low 62% (165.25 and 183.30), Previous lows
HU 156.76, down 1.59 cents	Resistance 163.90, 164.80, 167.00, 168.00 159.90	Previous highs Wednesday's high
	Support 156.50, 155.70 154.35, 152.10, 150.00	Wednesday's low, Tuesday's low 50% and 62% (144.80 and 163.90), Previous low