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ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 8, 2006

OPEC's President Edmund Daukoru said he would support a further production cut when the group meets next week. He said the price of oil at around \$63/barrel was too low. OPEC ministers have stated that they favor an additional cut of between 500,000 bpd and 1 million bpd. A senior OPEC delegate said there was a strong possibility the group would cut again next week to prevent a supply overhang in the second quarter. He said the further cut would be made regardless of the price. In contrast, a senior governor to OPEC said OPEC would leave its output unchanged when it meets on December 14, unless prices start falling towards \$60.00/barrel. He said it would be hard to justify the need for a cut in light of the current oil prices. U.S. Energy Secretary Bodman called on OPEC to take a long term view on the world crude markets and refrain from short term price interests in cutting production at its meeting next week.

Saudi Arabia's ambassador to the US, Prince Turki al-Faisal said Saudi Arabia's Oil Minister Ali al-Naimi is satisfied with an oil price around the current level of \$60/barrel. He said Saudi Arabia was opposed to any dramatic fluctuations in the price of oil and added that Saudi policy always emphasized the need for gradual price movements for the sake of producers and consumers.

Market Watch

The US EPA said it planned to overhaul the process it uses to set national air-quality standards for emissions from power plants, petroleum refineries and other industrial sources. It said the changes would make the process more timely, transparent and consistent with the best available science. One of the most significant changes involves the staff papers the EPA has generated when it sets out to update air-quality standards. The staff papers have been written by EPA scientists to render science based recommendations on how stringent to set various air quality standards. Under the new approach, the papers would be replaced with a more narrowly focused policy assessment.

European Union Commissioner for Energy Andris Piebalgs said Russia would continue to meet its natural gas export commitments to Europe. However he stated that Russia faced problems in meeting its increasing domestic demand. He said he had no doubts that Russia's Gazprom would meet its contractual commitments.

Woodside Petroleum has approved the spending of up to A\$1.4 billion or \$1.1 billion on site preparation and long lead time items for its Pluto liquefied natural gas project in Western Australia. The funding has been approved ahead of the final investment decision, which is scheduled to be made by mid-2007.

EarthSat reported today that while its overall winter temperature outlook remains unchanged calling for a slightly warmer than normal winter but one that is colder than last year for the U.S. northeast. The private forecaster though now sees the El Nino weather pattern weakening and as a result could allow temperatures in February to turn colder than normal.

According to Iraqi officials, private Saudi citizens have been funding Sunni insurgents in Iraq. They stated that the money is used to buy weapons. The US Iraq Study Group report also stated that Saudi Arabia was a source of funding for Sunni Arab insurgents. Most of the Saudi money comes for private donations collected for Islamic causes and charities. Saudi Arabia's government officials have denied that any money from their country is being sent to Iraqis fighting the government and the US-led coalition. Saudi officials said they have cracked down on zakat abuses, under pressure from the US. However the Iraqi officials said some funding goes to Iraq's Sunni Arab political leadership, who then disburse it. Money is also funneled directly to insurgents, with the use of Iraqi truck and bus drivers. Meanwhile UN Secretary general Kofi Annan warned that the worsening conflict in Iraq is increasing the odds of a regional war in the Middle East.

Refinery News

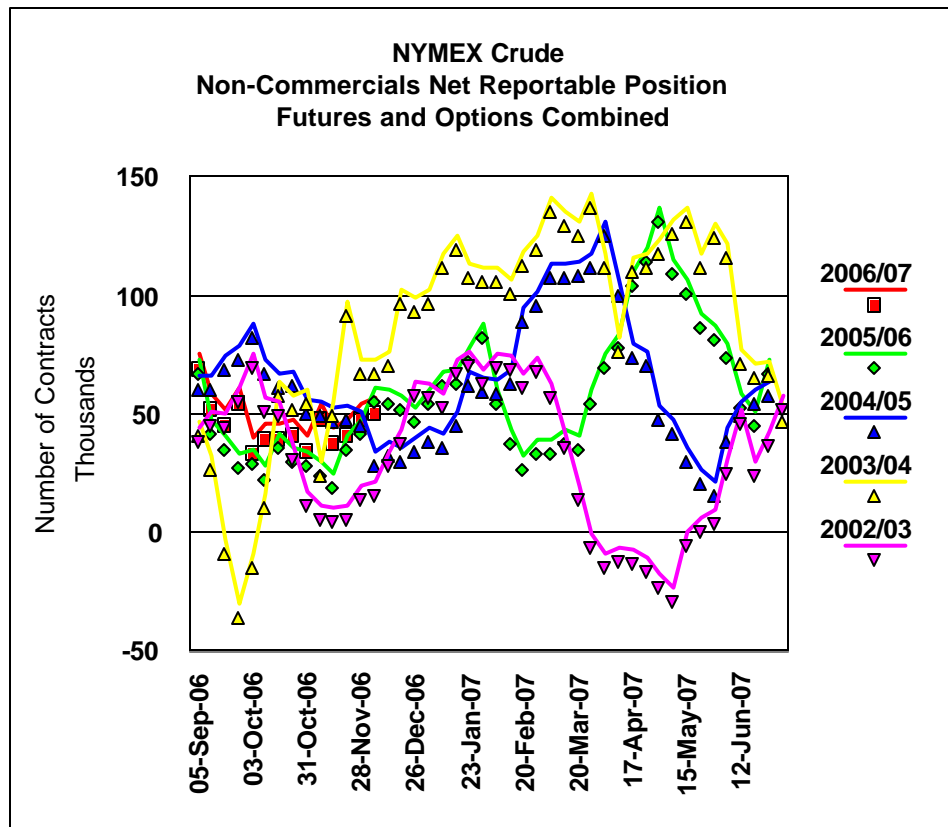
Shell Oil's 340,000 b/d Deer Park refinery is expected to see the 67,000 FCC unit back in operation by Monday. The unit, which just was restarted was expected to be back online by late Sunday or Monday. The unit was taken out of service back on November 4th for repairs.

According to a notice filed with California pollution regulations agencies, a sulfur recovery unit at Valero Energy Corp's 81,000 bpd refinery in Wilmington, California tripped offline on Thursday.

According to a notice filed with the Texas Commission on Environmental Quality, a unit malfunctioned at ConocoPhillips' 247,000 bpd refinery in Sweeny, Texas on Thursday. The problem lasted about two hours.

Valero's Port Arthur, Texas refinery experienced an equipment problem in its delayed coking unit.

ExxonMobil's Beaumont refinery also reported problems late Thursday at a coking unit, as a crack was reported in a coking unit drum that had resulted in a leak.



Crude throughput at China's top oil refineries is expected to increase slightly in the final month of the year. Its 12 major refineries are expected to process 2.32 million bpd of crude in December, up from 2.312 million bpd in November. It represents 88.2% of their total capacity, up from 87.9% in November.

Russia's Deputy Natural Resources Minister Anatoly Tyomkin said slow growth in East Siberia's oil production was undermining Russia's planned pipeline to China

and the Pacific. The first stage of the pipeline is expected to start operations at the end of 2008, with annual supplies of 30 million tons or 600,000 bpd of East Siberian oil going to China. A second stage, scheduled for completion in 2015, would run to the Pacific, supplying buyers in South Korea and Japan with 50 million tons or 1 million bpd. However analysts have questioned whether there is enough oil in East Siberia to justify building the pipeline all the way to the Pacific and suspect it may not go beyond China.

Enbridge reported that it has prorated two of its crude oil pipelines linking Cushing, OK with the Midwest by 35%. As a result shippers will only be able to move 65% of their nominations on the 1215,000 Spearhead line between Chicago and Cushing as well as only 65% of their nominations on the Ozark line between Cushing and Wood River. crude oil pipeline from Cushing to Wood River, IL has been prorated by 35%.

CFTC Bi-Weekly Commitment of Traders Report

Futures Only

Futures & Options Combined

	<u>Commercial</u>	<u>Non Commercial</u>	<u>Non-Reportable</u>	<u>Commercial</u>	<u>Non Commercial</u>	<u>Non-Reportable</u>
<u>Crude Oil</u>						
21-Nov-06	-10702	12437	-1735	-38992	41301	-2309
28-Nov-06	-2614	11814	-9200	-38180	48622	-10442
05-Dec-06	1729	19011	-20740	-30679	51235	-20555
<u>Heating Oil</u>						
21-Nov-06	6831	-5891	-940	6327	-6613	287
28-Nov-06	6840	-6248	-592	6177	-6694	516
05-Dec-06	-3444	906	2538	-4157	667	3490
<u>Gasoline</u>						
21-Nov-06	152	-266	114	-246	112	134
28-Nov-06	-332	418	-86	-419	517	-97
05-Dec-06	633	-396	-237	562	-307	-256
<u>Natural Gas</u>						
21-Nov-06	-65634	43478	22156	-48073	24098	23975
28-Nov-06	-69692	51544	18148	-47937	27749	20188
05-Dec-06	-69160	49080	20080	-51759	30024	21736
<u>RBOB</u>						
21-Nov-06	-10205	10297	-92	-9773	9799	-26
28-Nov-06	-10648	8907	1741	-10591	9018	1573
05-Dec-06	-14751	12295	2456	-14761	12116	2644

Production News

The Movement of the Emancipation of the Niger Delta claimed responsibility for the raid on Agip's Brass oil export terminal on Thursday. It said it destroyed the terminal however Agip has stated that operations there were unaffected. The militant group threatened to launch further raids in the coming days. It said it would release the four captives only in exchange for captives of Niger Delta origin held by Nigeria's government. It has warned the Nigerian staff attached to the Agip terminal not to return to the facility or face execution.

The North Sea Brent crude oil system is scheduled to load 139,000 bpd in January, down sharply from 268,000 bpd in December.

The North Sea Oseberg crude system is scheduled to load 219,000 bpd in January, up from 213,000 bpd in December.

Azerbaijan's Socar has shut in 200,000 bpd of Azeri crude production for at least 10 days following mechanical problems in three out of the four turbines working at the offshore Central field, which produces 260,000 bpd. A source at Socar said there would be a shortage of 2-3 million barrels at the end of December and early January. He said force majeure would not be announced, as the lost barrels would be cut from unsold December cargoes or by using the operational tolerance down to 5%.

Russia's Natural Resources Minister Yuri Trutnev said more than 10% of crude production in Russia is extracted in excess of the numbers agreed in license terms. He has led a crackdown on environmental and licensing violations that has mainly targeted projects runs by foreign oil firms such as Royal Dutch Shell, ExxonMobil and TNK-BP.

Petrovietnam has won approval to establish a joint venture with Venezuela's PDVSA to conduct exploration and produce oil and gas in the Orinoco heavy oil belt. The companies are expected to work at the Junin-2 block.

An official at Indonesia's BPMIGAS said Indonesia wanted Australian oil and gas producer, Santos Ltd to keep developing its Jeruk field offshore East Java despite lower reserves forecasts. Santos stated that the latest tests at the Jeruk-3 appraisal well showed that recoverable oil resources for the offshore field were most likely less than 50 million barrels compared with its previous forecast of 170 million barrels.

OPEC's news agency reported that OPEC's basket of crudes fell by 44 cents/barrel to \$58.66/barrel on Thursday from \$59.10/barrel on Wednesday.

U.S. Energy Secretary Bodman said China should use its new emergency crude oil stockpiles only in the event of a severe supply disruption and not as a price lever. He noted that the U.S. wants to work with China in defining rules for releasing its oil stockpile that specify it can only be used for a "physical disruption of supply".

The U.S. Department of Energy announced it has decided to add a new storage site in Mississippi to hold some 160 million barrels of SPR crude. The government also wants to expand the reserves existing storage sites in Texas and Louisiana to bring the SPR current capacity from 727 million barrels to 1 billion barrels.

Market Commentary

The news this morning of another Nigerian militant attack, coupled with news reports of short term production cutbacks in Azerbaijan and planned reductions in Brent loading next month, gave the bulls a reason to smile to start the day as the market opened higher. But despite some news reports of OPEC support for another production cutback next week, this market failed to breach this week's highs and as a result began to see profit taking in the afternoon that sent prices spiraling downward and resulted in crude oil prices settling down on the day but also posting the lowest settlement price since November 28th. Volume was excellent on the day with over 492,000 crude contracts changing hands with Globex accounting for 67% of the day's total volume. Heating oil activity was also excellent with 77, 264 lots traded half of which was booked via spreads. RBOB trading was a bit more subdued with 45,232 lots traded.

The crude oil option market saw puts account for the majority of the trading interest for the seventh consecutive trading session today. The June \$60 put saw the most activity with over 7,000 lots booked on the day via spreads.

We would look for this market to still be very choppy next week as traders nervously await the outcome of OPEC ministers meeting scheduled for December 14. But we feel that given the weak finish to trading this week that this market will challenge support initially at \$61.53-\$61.49 followed by \$60.78 and \$60.08 the 50% and 62% retracement of the mid November-December rally.

NYMEX Petroleum Options Most Active Strikes for December 8, 2006								
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	6	7	P	60	05/17/2007	2.29	7,060	28.21
LO	1	7	P	60	12/14/2006	0.23	2,780	29.02
LO	1	7	P	62	12/14/2006	0.89	2,624	28.57
LO	1	7	P	61.5	12/14/2006	0.66	2,601	28.53
LO	5	7	P	60	04/17/2007	1.97	2,500	27.57
LO	7	7	P	60	06/15/2007	2.52	2,500	28.36
LO	1	7	C	64	12/14/2006	0.25	2,400	28.49
LO	4	7	P	60	03/15/2007	1.65	2,100	27.44
LO	2	7	C	66	01/17/2007	1.1	2,089	26.70
LO	1	7	C	63.5	12/14/2006	0.36	2,066	28.45
LO	12	7	P	35	11/13/2007	0.13	2,000	34.40
LO	1	7	C	65	12/14/2006	0.11	1,796	28.49
LO	1	7	P	61	12/14/2006	0.48	1,616	28.72
LO	1	7	P	62.5	12/14/2006	1.16	1,508	28.49
LO	2	7	C	67.5	01/17/2007	0.73	1,500	26.68
LO	2	7	C	65	01/17/2007	1.42	1,405	26.73
LO	3	7	P	56	02/14/2007	0.54	1,230	28.80
LO	1	7	P	63	12/14/2006	1.48	1,216	28.66
LO	3	7	P	62	02/14/2007	2.05	1,203	27.11
LO	2	7	P	64	01/17/2007	2.7	1,200	26.69
LO	6	7	C	80	05/17/2007	0.76	1,073	26.08
LO	6	7	P	62	05/17/2007	2.92	1,030	27.52
LO	6	7	P	58	05/17/2007	1.77	1,030	28.92
LO	1	7	P	58	12/14/2006	0.04	872	30.36
LO	3	7	P	54	02/14/2007	0.32	855	29.53
LO	3	7	P	55	02/14/2007	0.42	752	29.20
LO	6	7	P	56	05/17/2007	1.34	750	29.57
LO	1	7	P	59	12/14/2006	0.1	727	29.59
LO	5	7	C	80	04/17/2007	0.58	700	27.49
OB	1	7	P	1.6	12/26/2006	0.036	100	30.99
OB	2	7	P	1.68	01/26/2007	0.0993	75	33.84
OB	1	7	P	1.59	12/26/2006	0.0317	40	30.99
OB	1	7	C	1.65	12/26/2006	0.0304	35	31.15
OB	1	7	C	1.75	12/26/2006	0.0081	30	32.15
OB	1	7	P	1.55	12/26/2006	0.0181	30	31.22
OH	1	7	P	1.95	12/26/2006	0.1967	350	33.07
OH	2	7	P	1.88	01/26/2007	0.1288	350	30.49
OH	1	7	P	1.73	12/26/2006	0.0353	300	30.99
OH	2	7	C	2.1	01/26/2007	0.0113	200	33.38
OH	2	7	C	1.9	01/26/2007	0.0425	200	31.42
OH	3	7	C	1.92	02/23/2007	0.054	152	28.72
OH	1	7	C	1.85	12/26/2006	0.017	110	31.61
OH	2	7	C	1.93	01/26/2007	0.0351	100	31.68
OH	3	7	C	1.96	02/23/2007	0.0441	100	29.19

This afternoon's Commitment of Traders Report showed that the non commercial sector of the market increase their net length in all the energy market during the week ending December 5th, with the biggest gains coming in the heating oil market, where non-commercials are now net long this market for the first time since the week of September 12th.