



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR DECEMBER 12, 2005**

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OPEC ministers agreed to rein in actual production to adhere to its official 28 million bpd ceiling. OPEC said its 28 million bpd ceiling will be adequate, if fully observed, to balance the market for the first quarter of the year. However it decided to convene an extraordinary meeting on January 31 in order to review the situation and take the appropriate decisions on production levels for the second and third quarters of the year. The conference also reconfirmed that its next ordinary meeting will convene on March 8. OPEC's President Sheikh Ahmad al-Fahd al-Sabah said OPEC members with greater output capacity could help fellow members producing under quota to fill the shortfall in their output. He also stated that he was skeptical OPEC would adhere strictly to its 28 million bpd official ceiling. OPEC's President said OPEC must ready itself for a near 9% fall in the demand for OPEC oil in the April-June period. The call on OPEC oil is expected to be 27.8 million bpd. Libya's Energy Minister Fathi Omar Bin Shatwan said the deal

#### Market Watch

Total SA said it expects to fulfill its contracts to deliver fuels around the UK after explosions yesterday engulfed its Buncefield oil depot. The depot is one of the largest fuel suppliers to Britain's Heathrow airport.

The US National Weather Service reported that US demand for heating oil is expected to be about 7% above normal this week as colder weather lingers in the Northeast. Total US heating demand for all fuels was forecast to be 1.6% above normal.

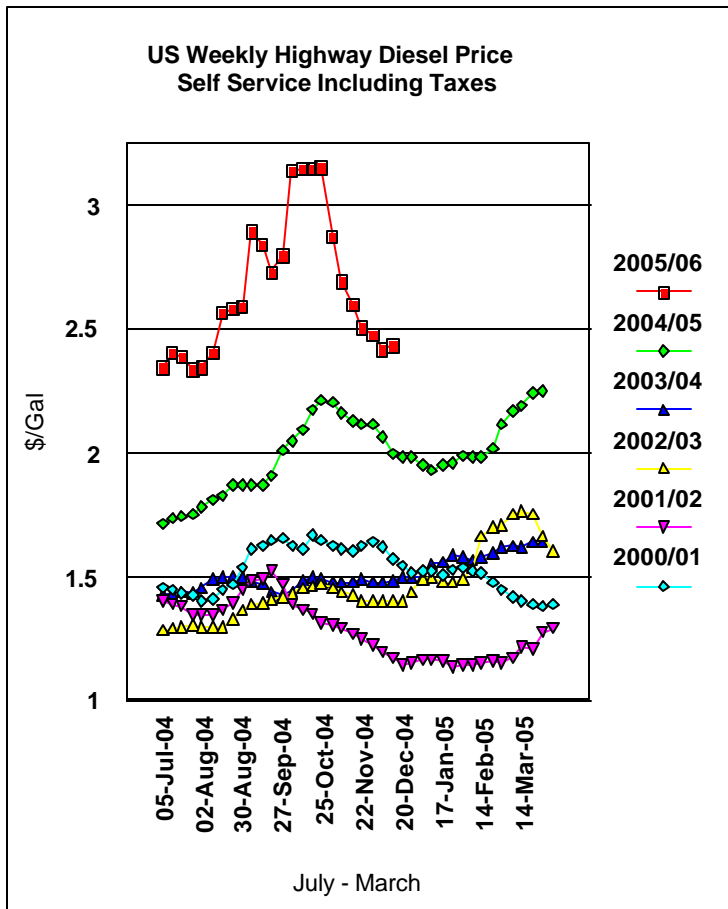
Enbridge Inc said it would buy a 65% stake in the Olympic Pipe Line Co from a unit of BP Plc. The deal is expected to close by the year end.

The head of the API, Red Cavey, agrees with Saudi Arabia's Oil Minister Ali al-Naimi that a roadmap of likely demand from oil consuming countries would be useful. Saudi Arabia last month called on consuming countries to provide a clearer demand picture to justify future projects to expand production capacity.

According to a survey by Lehman Brothers, worldwide exploration and production capital expenditure in the oil and gas industry is expected to increase to 14.7% in 2006 to \$238 billion. It estimated a 16% increase in US spending to \$1.8 billion.

The NYMEX announced it would offer small size heating oil and gasoline futures contracts on its ClearPort online-trading platform starting January 17. The NYMEX miNY heating oil and miNY gasoline contract will represent 21,000 gallons each and will be financially settled based on the price of its corresponding pit trading contract. It said it will first list a February 2006 contract for heating oil and gasoline.

The IPE said physical delivery against the expired December IPE gas oil futures contract fell to 966 lots or 96,600 tons compared with 119,700 tons in November.



would mean a reduction of 200,000-300,000 bpd.

The head of the IEA, Claude Mandil, said the world oil market is well supplied and added that the IEA is not planning a further emergency release of its members' stocks. The IEA board of governors will hold a regular meeting on Tuesday that will include a review of its first coordinated release in 15 years. In response to OPEC's decision, he stated that it was a wise decision given the IEA's market report on Tuesday will show that world oil demand is improving.

In the 2006 Annual Energy Outlook, the EIA raised its crude oil basket reference price to \$54/barrel for the year ending 2025, up \$21 from its 2005 outlook. The EIA was prompted to raise its long term price projection due to strong demand growth and supply constraints resulting from inadequate investments. The EIA expects OPEC to increase its oil production to 36.9 million bpd by 2010, up from its previous estimate of 35.8 million bpd. However it estimated that OPEC would produce 44 million bpd of oil in 2025, down 11 million bpd from its

previous forecast. Meanwhile non-OPEC production is estimated at 67 million bpd in 2025 compared with 65 million bpd reported in its 2005 outlook.

An Iraqi oil official said Iraq's exports remain well below average at 1.22 million bpd. Iraq's southern oil exports totaled 13.4 million barrels in the first 11 days of December. The official said Iraq's lifting schedule requires the export of a further 51.32 million bpd during the remainder of the month but the likely inability of meeting this means that Iraq will have to defer some December liftings until January. Meanwhile, Iraq's Oil Minister Ibrahim Bahr al-Uloum said current oil production from the Kirkuk region stands at about 300,000 bpd. He said production is expected to increase as security improves.

The EIA reported that the US retail average price of diesel increased by 1.1 cents to \$2.436/gallon in the week ending December 12. It also reported that US retail gasoline prices increased by 3.8 cents/gallon to \$2.185/gallon on the week.

### **Production News**

The MMS reported a slight improvement in the amount of oil production still shut in the Gulf of Mexico following the hurricanes. It reported that a total of 441,394 bpd of crude production remained shut, down from 447,425 reported on Friday.

Louisiana's Department of Natural Resources stated that restored crude oil production in the state remained at 57.9% of normal capacity on Monday. In terms of volume, output remained unchanged at 117,535 bpd.

The January loading program for North Sea Forties crude scheduled the loading of 16.05 million barrels, down from 17.2 million barrels in December. The January loading program for Statfjord crude totaled 9.41 million barrels, down from 10.26 million barrels in December.

Azerbaijan's SOCAR revised up its estimate of recoverable oil reserves at the Guneshli oil and natural gas field on the Caspian Sea shelf by 33% to 180 million tons. It increased its estimation following additional exploration at the field.

Crude oil exports from Russia's Black Sea port of Novorossisk increased to 1.05 million tons in the week ending December 10, up from 814,000 tons the previous week. Shipments from the CPC loading terminal increased to 660,000 tons, up from 590,000 tons the previous week.

China's General Administration of Customs said China exported 6.76 million tons of crude oil in the January-November period, up 44.7% on the year. It also reported that China's oil product exports totaled 13.02 million tons during January-November, up 28.7% on the year. Meanwhile, China imported 120 million tons of crude oil during the period, up 4.4% on the year.

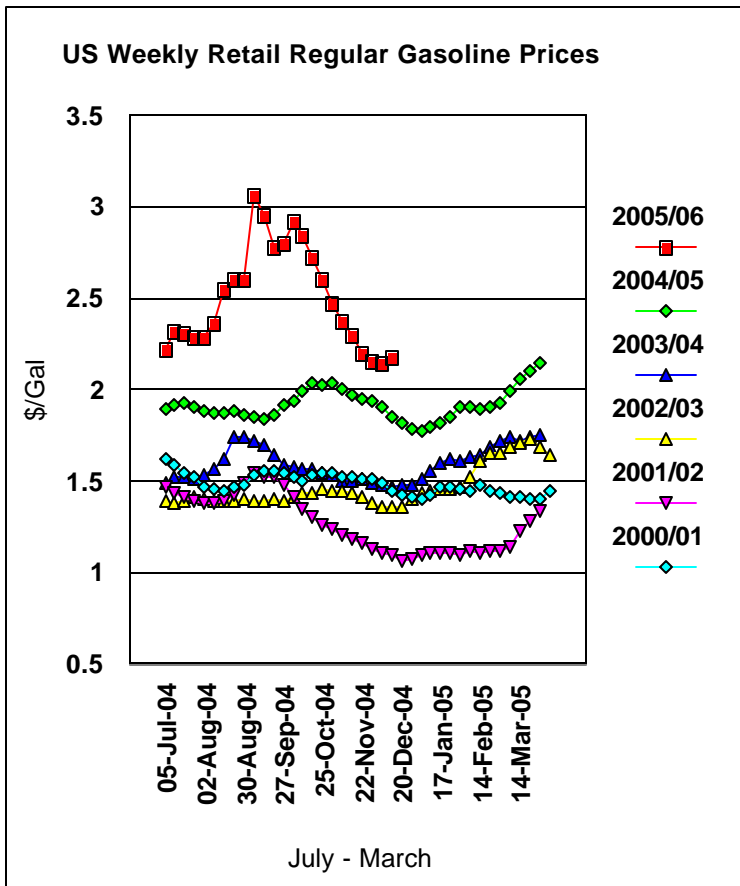
Kazakhstan's State Statistics Agency reported that its crude oil and gas condensate production increased by 4.3% to 56.336 million tons in January-November. It also reported that Kazakhstan's crude oil and gas condensate exports reached 43.993 million tons or 1.1 million bpd in January to October, up 3.5% on the year.

A joint venture between Norway's Norsk Hydro and Russia's Lukoil has discovered a new oil field in Iran, which may contain up to 1 billion barrels.

OPEC's news agency reported that OPEC's basket of crudes increased by \$1.01/barrel to \$53.95/barrel on Friday from \$52.94/barrel on Thursday. It also reported that OPEC's basket of crudes increased by \$2.52/barrel to \$52.65/barrel in the week ending December 8<sup>th</sup>.

Cosmo Oil Co will start pumping about 5,000 bpd of crude in Qatar by early January through a local subsidiary. Production will begin at an oil field off the coast of east Qatar that Cosmo acquired in 1997.

**Market Commentary**



The oil complex erased Friday's losses amid the news that OPEC decided to rein in production and comply with its output ceiling of 28 million bpd. The market was also buoyed by the news of an explosion at a fuel depot north of London. The crude market opened 76 cents higher at 60.15 and quickly retraced its gains as it posted a low of 59.70. However the oil market bounced off that level and never looked back. It traded to a high of 60.50, where it held some good resistance for most of the session. The market later breached that level and rallied to a high of 61.35. It settled up \$1.91 at 61.30. Volume in the crude was good with 196,000 lots booked on the day. The product markets also settled sharply higher, with the heating oil market settling up 4.07 cents at 177.25 and the gasoline market settling up 4.19 cents at 164.68. The heating oil market posted an inside trading day after failing to breach Friday's trading range. The market opened 1.3 cents higher at 174.50 and quickly posted a low of 173.25. However the market retraced its losses and rallied to a high of 177.80 ahead of the close. Similarly, the gasoline market also posted an inside trading day. The market opened 2.5 cents higher in follow through buying seen in overnight trading before it erased some of its early gains and posted a low of 161.15. However the market bounced off that level and settled in a sideways trading range. It later breached its resistance and rallied to its high of 165.00 on the close. Volumes in the product markets were moderate with 49,000 lots booked in the heating oil market and 39,000 lots

booked in the gasoline market.

The oil market may remain supported after settling near its highs. The stochastics in the crude market are also still trending

Technical Analysis		
	Levels	Explanation
CL 61.30, up \$1.91	<b>Resistance</b> 62.50, 62.70 61.35 to 61.40	Previous highs Remaining gap
	<b>Support</b> 59.70, 59.03 58.68, 58.50, 58.04	Monday's low, Previous low 50% retracement (56.00 and 61.35), Previous low, 62%
HO 177.25, up 4.07 cents	<b>Resistance</b> 180.25, 183.30 177.80	Friday's high, Previous high Monday's high
	<b>Support</b> 176.00, 173.90, 173.25 171.00, 168.25, 165.25	Monday's low Previous lows
HU 164.68, up 4.19 cents	<b>Resistance</b> 167.10, 168.00, 170.00 165.00	Previous highs Monday's high
	<b>Support</b> 161.15, 159.70 158.58, 157.10, 156.50, 155.95	Monday's low, Friday's low 38% retracement(144.80 and 167.10), Previous lows, 50%

higher. The market is seen finding support at 59.70, 59.03 followed by more distant support at 58.68, 58.50 and 58.04. Meanwhile, resistance is seen at its remaining gap from 61.35 to 61.40 followed by its highs of 62.50 and 62.70. The market may also remain supported amid the weather forecasts still calling for below normal temperatures while private weather forecaster, Accuweather was predicting a cold and stormy lead up to the Christmas holiday.