



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 13, 2005

Saudi Arabia's Oil Minister Ali al-Naimi said the country would continue to pump oil at current levels and respond to demand in the market. He sought to reassure consumers that their oil needs would be met despite the OPEC deal that builds a case for an output cut in spring. Earlier, OPEC's President and Kuwait's Oil Minister Sheikh Ahmad Fahad Al-Sabah said that his country has no intention of cutting its production level.

The IEA said in its monthly oil report that world energy demand growth in 2006 would increase to 1.79 million bpd, up from 1.18 million bpd in 2005. Its revised up its growth forecast for 2006 by 130,000 bpd from its last monthly report as it expected growth to recover from temporary factors that have slowed consumption in the second half of 2005. The majority of the increase in world oil demand growth next year is

forecast for the second half of the year with the US showing the sharpest increases. In the first half of 2006, US oil demand growth is seen averaging 200,000 bpd before increasing to 500,000 bpd in the second half. The IEA also stated that demand would grow at an average of 1.8 million to 2 million bpd through 2010. In regards to supply, it stated that world oil supply increased to 85 million bpd in November, up 1.3 million bpd from October as US production recovered from hurricane disruptions. Non-OPEC supply growth is forecast at 1.4 million bpd in 2006 compared with just 110,000 bpd in 2005. The IEA also increased its call on OPEC crude next year by 200,000 bpd to 28.5 million bpd. OPEC's spare capacity is forecast to increase to about 3.1 million bpd in the fourth quarter of next

Market Watch

Goldman Sachs analysts stated that oil prices have entered a super spike phase that could last for four more years as world demand increases and supply growth slows. Goldman Sachs' Global Investment Research said oil demand remained resilient and supply growth lackluster, prompting the analysts to keep their US average crude price forecast for next year unchanged at \$68/barrel. They predicted that oil prices could surge to as high as \$105/barrel during this period. Goldman Sachs expressed doubt that OPEC producers would be able to meet increasing demand.

Exxon Mobil Corp forecast in its annual energy outlook that world energy consumption would increase 60% over the next 25 years. Energy demand is expected to grow to 334 million barrels of oil equivalent/day in 2030. To meet demand, OPEC would have to produce more than 47 million bpd by 2030. It said that the remaining crude oil resource base of about 2.2 trillion barrels could support that growth.

The MMS said it would release its updates on the recovery of oil and gas from the Gulf of Mexico twice a week instead of daily. The data is scheduled to be released each Monday and Thursday at 2 pm EST. The MMS also stated that it is considering requiring more detailed reports from offshore oil and gas producers for future tropical storm production outages. Additional requirements could concern a detailed operational explanation of the outage and a timeframe for restoring output.

year, up from an average of 2.2 million bpd in November and 600,000 bpd in the fourth quarter of 2004.

Refinery News

Marathon Petroleum Co reported that the smaller of two crude units at its St. Paul, Minnesota refinery was shutdown following a fire early Tuesday. The crude unit that was shutdown normally processes about 30,000 bpd. Neither the cause nor repair time have been determined.

Alon USA said it plans to begin work on a fuel gas treater at its Big Spring, Texas refinery on December 22. The company said it plans to work on the unit due to a potential leak.

Mexico agreed to supply crude oil to a refinery that would be built in Central America as part of the sweeping energy plan approved Tuesday by regional leaders. Mexico's President Vicente Fox, hosting a meeting with representatives from Colombia, the Dominican Republic and all of Central America said the refinery would reduce the region's dependency on foreign oil. The Cancun Declaration signed Tuesday by the summit's participants calls for construction of the refinery as well as a plant for liquefied natural gas, a hydroelectric dam and a pipeline stretching from Mexico to Panama. The refinery is expected to have a capacity to process up to 300,000 bpd. Mexican authorities have listed Guatemala, Costa Rica and Panama as likely sites for the refinery.

Production News

Louisiana's Department of Natural Resources stated that restored crude production in Louisiana stood at 58.8% of normal capacity on Tuesday, up from 57.9% on Monday. In terms of volume, DNR said production was 119,451 bpd, up from 117,535 bpd on Monday.

UK firefighters extinguished the last of 20 burning tanks in an oil depot fire they had been battling for three days. Authorities said they believed the explosion was an accident but that they would examine other possible causes.

Saudi Arabia's crude oil allocations to refiners in Europe will remain unchanged in January. European companies have been receiving 70% of their contractual volume since reducing the intake at the beginning of the year.

Norway's North Sea Gullfaks stream is scheduled to load 13 cargoes or 11.115 million barrels in January. Meanwhile, Norway's North Sea Troll crude stream is scheduled to load 265,000 bpd in January, down from 297,000 bpd in December.

Traders stated that German consumer stocks of heating oil fell to 58% of storage capacity on December 1 as high prices discouraged buyers from filling up storage tanks. Heating oil stocks were down from 59% both last month and last year.

According to Euroilstock, total oil and product stocks increased to 1.131 billion barrels in November, down 1.2% on the month but up 2% on the year. It reported that European crude stocks fell by 2.9% to 469.97 million barrels as refiners increased runs to meet winter heating needs while gasoline inventories fell by 0.9% to 140 million barrels. Its middle distillate stocks fell by 0.6% on the month but increased by 9.8% on the year to 380.48 million barrels. Refiners were using 97.13% of capacity compared with 95.13% in October and 91.89% a year ago.

The National Iranian Oil Co said Iran cut its January light crude official selling price to Asia in tandem with Saudi Arabia while it lifted prices of heavier grades as well as prices to the West. Iran cut the Asian bound light crude by 15 cents to parity. Its Iran Heavy grade bound to Asia was priced at the

Oman/Dubai average minus \$2.07 while its Forozan crude was priced at the Oman/Dubai average minus \$2.00. Its Iranian Light bound to Europe was priced at BWAVE minus \$4.80, while its Iran Heavy was priced at BWAVE minus \$6.30 and its Forozan crude was priced at BWAVE minus \$6.20/barrel.

Oil firms operating 32 Venezuelan fields under contract produced 461,000 bpd in October, down 3.7% from the start of the year as companies halted new drilling amid difficult contract talks. An industry source said output at these fields peaked in April 2004 at slightly more than 500,000 bpd and production is expected to continue declining due to minimum drilling until an ongoing contract revision is completed. Many firms are unwilling to go forward with drilling programs until the legal uncertainties surrounding new mixed companies with PDVSA are resolved.

Russian Energy Ministry data showed that refining runs stood at 4.24 million bpd in October as a low refined products export duty prompted firms to process more crude and export more refined products. Oil traders said October was probably the last record month in terms of refining and exports and that figures would be more modest in November and December following an increase in the products export duty from October 29 to match record high crude duties. It reported that throughput in January through October totaled 107.64 million tons while gasoline production in the period stood at 26.37 million tons. Russia's gas oil production stood at 49.21 million tons while fuel oil production stood at 46.42 million tons. Its gasoline exports totaled 4.59 million tons while gas oil exports totaled 26.66 million tons and fuel oil exports totaled 29.85 million tons.

Russia's Economy Minister said Russia will begin setting export duties for crude oil and refined products simultaneously from the second quarter of 2006 to avoid the current one month time lag between the two. The current oil export duty was set at \$179.60/ton as of December 1 while its export duty on light oil products was set at \$133.50/ton and its duty on heavy oil products was set at \$71.90/ton.

Russia's Federal Tariff Service approved a 9.7% increase in oil transportation tariffs for pipeline operator OAO Transneft. The increase will be higher than the 7.4% initially envisaged, due to Transneft's need for capital to construct a proposed pipeline from eastern Siberia to the Pacific Ocean.

Ukraine's State Statistics Committee reported that Ukrainian companies' crude oil imports increased by 3.45% on the year to \$3.984 billion in January-October.

Kazakhstan's Energy and Mineral Resources Minister, Vladimir Shkolnik, said an oil pipeline linking China and Kazakhstan is expected to be built by the end of the year. The pipeline is expected to transport Russian and Kazakh oil to China starting in mid-2006. The pipeline's annual throughput capacity is expected to amount to 10 million tons initially and is projected to double by 2011.

OPEC's news agency reported that OPEC's basket of crudes fell to \$53.50/barrel on Monday, down from Friday's \$53.95/barrel.

Petroecuador exported 48.13 million barrels of crude in the first 11 months of the year, up 4% from 46.29 million barrels reported last year.

Market Commentary

The oil market gapped higher from 61.35 to 61.50 in follow through buying seen in overnight trading. The oil complex was well supported by the strength in the natural gas market in light of the short term weather forecasts calling for colder temperatures than previously forecast. The crude market traded to an early high of 61.80 before it retraced its gains and backfilled its gap as it posted a low of 61.15. The

market however bounced off its low and rallied to a high of 61.90 ahead of the close. It retraced some of its gains late in the session and settled up just 7 cents at 61.37. Volume in the crude market was excellent with over 217,000 lots booked on the day. Meanwhile, the heating oil market gapped higher from 177.80 to 181.50 and quickly traded to 183.00 in follow through strength seen on Access. The market later retraced some of its gains and partially backfilled its gap as it posted a low of 179.70. However as the market failed to completely backfill its gap, the heating oil market continued to trend higher and never looked back. It rallied to a high of 184.25 late in the session and settled up 6.4 cents at 183.65. The gasoline market, which continued to trade within Friday's trading range, also gapped higher on the opening from 165.00 to 165.25. The market erased its gains and backfilled its gap as it posted a low of 162.90. The market later bounced off its low and rallied to its high of 166.20 late in the day. It however erased some of its late gains and settled down 9 points at 164.59. There seemed to be good buying of the heat-gasoline spreads as that widened out to over 19 cents after settling at about 12.5 cents on Monday. Volumes in the product markets were good with over 61,000 lots booked in the gasoline and 55,000 lots booked in the heating oil market.

The crude market, which may retrace some of its gains early in the session, will seek further direction from the weekly petroleum stock reports. The reports are expected to show that crude stocks fell by about 1 million barrels while distillate stocks built by less than 500,000 barrels and gasoline stocks built by 1 million barrels. If the market once again shows larger than expected builds in product stocks, the complex will retrace its gains and remain pressured. The market is seen finding resistance at its high of 61.90 followed by 62.50 and 62.70. Meanwhile support is seen at 61.25 and its low of 61.15. More distant

support is seen at 59.70, 59.65, 59.03 and 58.95.

Technical Analysis		
	Levels	Explanation
CL 61.37, up 7 cents	Resistance 62.50, 62.70 61.90	Previous highs Tuesday's high
	Support 61.25, 61.15 59.70, 59.65, 59.03, 58.95	Tuesday's low Monday's low, 38% (56.00 and 61.90), Previous low, 50%
HO 183.65, up 6.4 cents	Resistance 188.25, 188.50 184.25	Previous highs Tuesday's high
	Support 179.70 to 177.80 173.25, 171.00	Remaining gap (December 13th) Monday's low, Previous low
HU 164.59, down 9 points	Resistance 167.10, 168.00, 170.00 166.20	Previous highs Tuesday's high
	Support 163.50, 162.90 161.15, 159.70, 157.10	Tuesday's low Previous lows