The Windham Group
Energy Futures Brokerage

ENERGY RISK MANAGEMENT

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

www.e-windham.com

ENERGY MARKET REPORT FOR DECEMBER 14, 2006

OPEC agreed to cut 500,000 bpd or 2% from its 26.3 million bpd production target set during their October meeting starting February 1. OPEC's 500,000 bpd cut would be shared on a pro rata basis. Qatar's Oil Minister Abdullah al-Attiyah said the additional 500,000 bpd cut would be implemented in February irrespective of the price of oil at that time. He also stated that OPEC would meet next in March. Algeria's Energy and Mines Minister Chakib Khelil confirmed OPEC had no plans for an emergency meeting in January. Saudi Arabia's Oil Minister Ali al-Naimi said OPEC ministers did not discuss oil prices during their deliberations on Thursday. Iran's Oil Minister Kazem Vaziri-Hamaneh said Iran hoped that OPEC's deal to cut oil production by 500,000 bpd from February 1 would help stabilize oil prices above $60/barrel. Iran is

<u>Market Watch</u>

The AAA said OPEC's decision to cut world oil supplies would keep US retail gasoline prices above $2/gallon for the foreseeable future and could trigger further increases if supplies did not meet growing demand for energy. US retail gasoline prices averaged $2.21/gallon on Thursday, up 6 cents on the month.

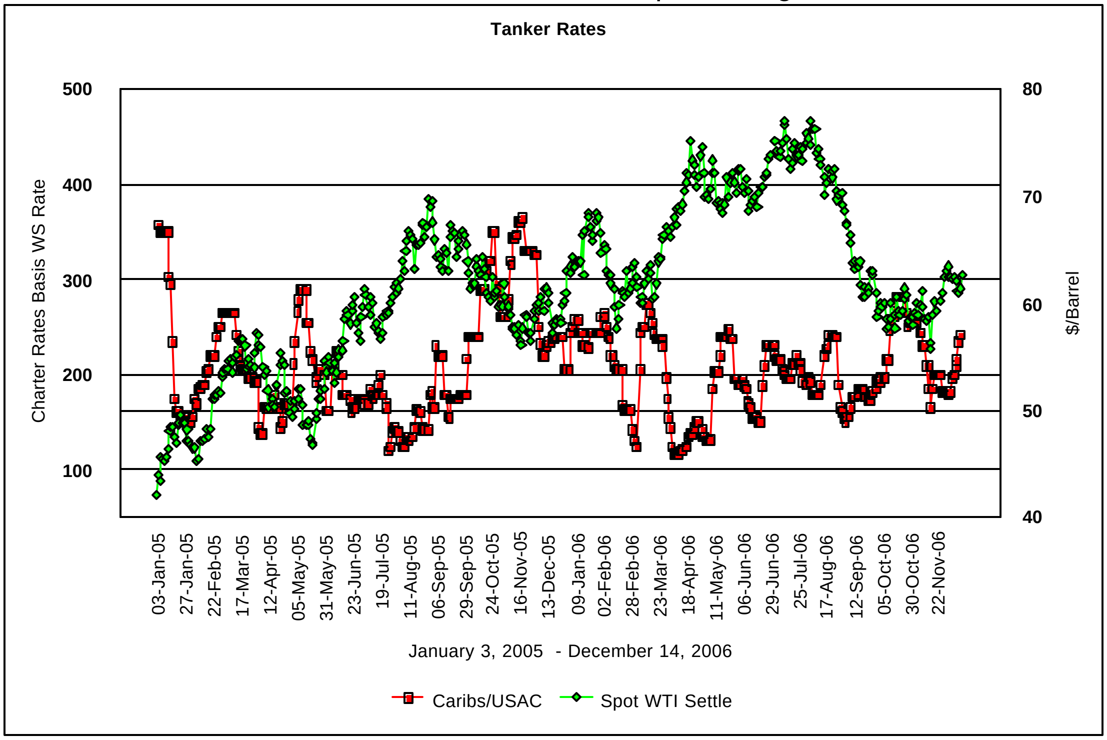
First quarter 2007 crude oil prices may challenge the $70/barrel level. According to a Dow Jones report, in each of the past five years, NYMEX front month crude prices have increased by an average of 11.6% in the first quarter from their December average, regardless of the action taken by OPEC. Whether the historical patterns hold true depends on several factors, mainly the severity of winter temperatures in the Northern Hemisphere and the levels of inventory. A price increase however may prompt OPEC to overturn or quietly ignore its February cut, despite Qatar's Oil Minister's contention that it would be implemented irrespective of the price of crude at that time.

Iraq's Oil Minister Hussein al-Shahristani said Iraq could tender Kirkuk crude on the spot oil market in January, provided pipeline repairs are completed. He also stated that Iraqi officials are expected to meet representatives from Iran later this month and then Kuwait to discuss sharing oil production contracts in cross border fields. He also stated that he expected a new hydrocarbon law to be enacted in January. He said all contracts signed under Saddam Hussein and since would be reviewed. The new contracts would be overseen by an Iraq Petroleum Council that would define the rule of licensing qualifications as well as which companies could prequalify. Separately, he stated that about $1 billion of a $1.6 billion loan granted by the Japan Bank for International Cooperation would be invested in a new fluid catalytic unit at Basra's refinery.

The head of Venezuela's tax agency, Jose Vielma said it has demanded $98 million in back taxes from an Orinoco heavy crude project that includes ConocoPhillips.

The National Oceanic and Atmospheric Administration said this year is poised to be the third warmest. It said the average temperature would be about 2 degrees Fahrenheit above the average temperatures recorded from 1901 to the end of 2000. The warmer than average conditions reduced residential energy demand in the US with NOAA estimating consumption about 9% less during the winter and 13% higher during the summer than would have occurred under otherwise normal conditions.

expected to cut 73,000 bpd of oil production under OPEC's latest deal. Venezuela's Energy and Mines Minister Rafael Ramirez said OPEC's output cut agreement would stabilize oil prices above $60/barrel. The UAE is expected to cut 40,000 bpd of its production while Qatar is expected to cut 15,000 bpd of its production.



Algeria's Energy and Mines Minister Chakib Khelil said Angola would join OPEC on March 1, becoming the group's 12th member. Separately, OPEC announced that it appointed the former head of Libya's National Oil Corp, Abdullah al-Badri, as its new Secretary General, ending an impasse over the position. He would replace acting Secretary General Mohammed Barkindo.

An analyst at the EIA stated that there was no need for OPEC to cut its production by an additional 500,000 bpd starting in February as demand growth is expected to more than offset non-OPEC production growth next year. The EIA forecast that demand growth would increase an average of 1.5 million bpd while non-OPEC production would increase only 1 million bpd. Separately, the IEA said OPEC's announcement of a further cut of 500,00 bpd is unwelcome as the oil market is already tightening.

According to Oil Movements, OPEC's crude oil exports are forecast to fall by 190,000 bpd in the four weeks ending December 30 to 24.4 million bpd. It estimated that OPEC supplies have fallen a total of about 800,000 bpd since the group announced its production cut in late October. It also reported that oil in transit fell about 44 million barrels from the end of September to the end of December.

The EIA reported that US crude oil imports in October fell by 5.3% or 571,000 bpd on the month to 10.132 million bpd. Canada maintained its ranking as the largest oil supplier to the US, however shipments fell by 43,000 bpd to an average of 1.704 million bpd in October. Mexico was the second largest supplier to the US, with exports of 1.481 million bpd, up 40,000 bpd on the month. Saudi Arabia was the third largest supplier to the US, with 1.322 million bpd, down 224,00 bpd. Venezuela kept its fourth place ranking, with exports to the US of 1.125 million bpd, down 4,000 bpd. Separately, the EIA reported that ethanol imports to the US in October fell for a second consecutive month to 1.505 million barrels, down from 2.194 million barrels in September and down from a record high of 3.203 million barrels in August. Brazil provided 824,000 barrels, down from 1.318 million barrels in September.

Refinery News

The US Coast Guard said shipping traffic on the Houston Ship Channel was halted on Thursday due to dense fog. No time has been set for resuming ship movements.

Imperial Oil Ltd reported an explosion at its refinery in Sarnia, Ontario late Wednesday. It said the fire at one of the refinery's upgrader units had been contained. The company said the fire would be allowed to burn itself out but could not say how long the fire would continue.

A Bulgarian official stated that Russia would hold a majority stake in a new $924.4 million trans-Balkan pipeline that it planned to build along with Greece and Bulgaria. The pipeline is expected to carry Urals and Caspian crude from Bulgaria's Black Sea port of Bourgas to the Greek port of Alexandroupolis on the Aegean.

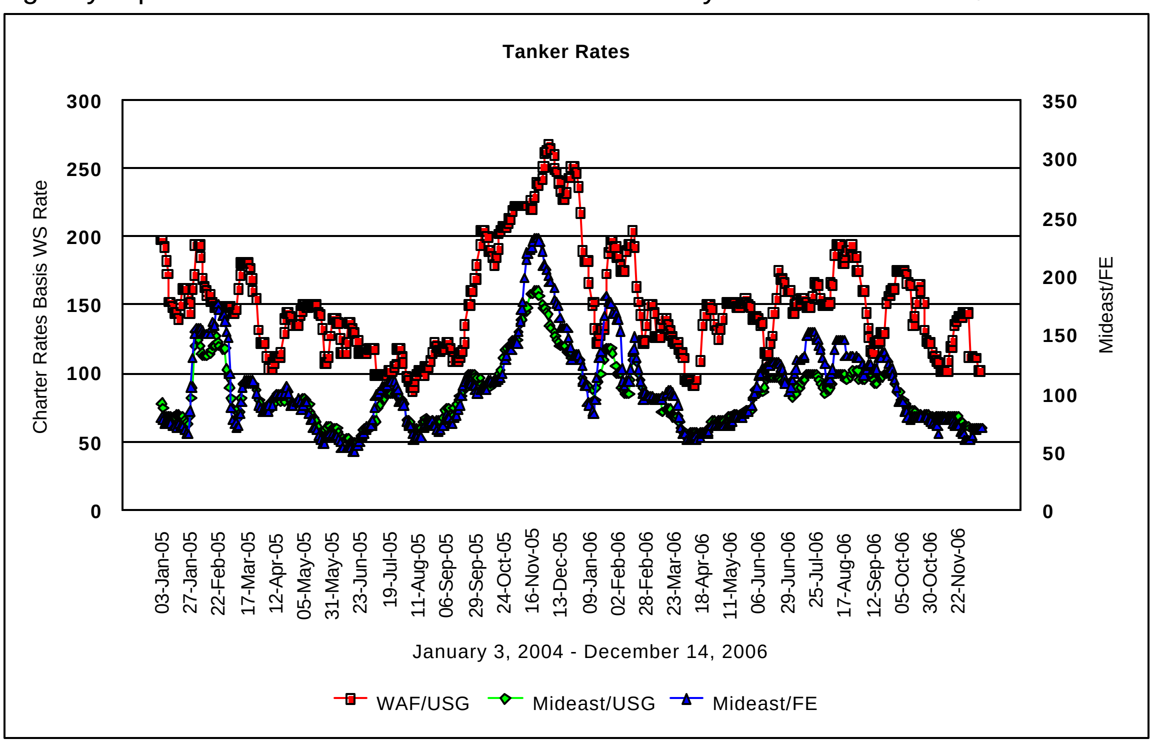
Japan's Institute of Energy Economics said Japan's oil demand is expected to fall by 2.4% in the fiscal year starting April. Oil product sales are expected to total 222.43 million kiloliters or 1.4 billion barrels in the 2007/08 fiscal year. Sales in the current fiscal year to March 2007 are set to fall by 3.5% on the year to 228 million kl.

Singapore's International Enterprise said the country's residual fuel stocks fell by 2.769 million barrels to 11.629 million barrels in the week ending December 14. It reported that light distillate stocks fell by 473,000 barrels to 8.232 million barrels while middle distillate stocks built by 183,000 barrels to 8.556 million barrels on the week.

Production News

Saudi Aramco has kept its crude oil allocations to the US unchanged for January. A trader said allocations for December were about 70% of full year contracts. In Europe, traders stated that some of their January allocations were cut by about 5%, cutting volumes to about 65% of full year contract volumes while others stated that their allocations were unchanged.

OPEC's news agency reported that OPEC's basket of crudes fell by 41 cents/barrel to $57/barrel on Wednesday.



The National Iranian Oil Co said it raised the price of Iranian Light to Asian buyers in January to a premium of 20 cents to the Oman/Dubai average, up from parity to the average in December. It cut its Iranian Heavy price by 45 cents to the Oman/Dubai average minus $3.45 while its Forozan crude price was cut by 50 cents to the Oman/Dubai average minus $3.45. Its Iranian Light crude price for its NW Europe buyers was cut by 20 cents to BWAVE minus $5.70, its Iranian Heavy price was cut by 60 cents to BWAVE minus $7.55 and its Forozan crude was cut by 60 cents to BWAVE minus $7.50. It however increased the price of its Iranian Light crude for its Mediterranean buyers by 35 cents to BWAVE minus $7.00. Its Iranian Heavy crude price was cut by 5 cents to BWAVE minus $8.85 and its Forozan crude was cut by 5 cents to BWAVE minus $8.80/barrel.

NYMEX Petroleum Options Most Active Strike for December 14, 2006

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	6	7	P	55	05/17/2007	0.95	2,350	28.68
LO	5	7	C	75	04/17/2007	1.07	2,145	26.34
LO	3	7	C	80	02/14/2007	0.08	2,100	27.50
LO	3	7	C	85	02/14/2007	0.02	2,100	27.86
LO	5	7	C	67.5	04/17/2007	2.96	2,100	25.85
LO	2	7	P	55	01/17/2007	0.14	1,685	29.85
LO	12	10	C	75	11/16/2010	6.04	1,500	20.53
LO	12	10	P	50	11/16/2010	3.08	1,500	23.78
LO	8	7	C	66.5	07/17/2007	5.24	1,441	26.27
LO	8	7	P	66.5	07/17/2007	4.97	1,441	26.26
LO	6	7	P	65	05/17/2007	3.86	1,100	26.19
LO	6	7	P	60	05/17/2007	2.02	1,000	27.24
LO	12	7	P	50	11/13/2007	1.16	850	30.32
LO	5	7	P	65	04/17/2007	3.65	825	26.15
LO	2	7	P	58	01/17/2007	0.4	791	27.88
LO	2	7	C	67	01/17/2007	0.7	762	25.66
LO	4	7	P	61	03/15/2007	1.76	750	27.02
LO	4	7	P	65	03/15/2007	3.39	750	26.25
LO	2	7	C	84	01/17/2007	0.01	720	35.07
LO	3	7	P	55	02/14/2007	0.32	714	28.98
LO	2	7	C	65	01/17/2007	1.28	701	25.80
LO	2	7	P	63	01/17/2007	1.82	678	25.94
LO	2	7	P	59	01/17/2007	0.56	606	27.39
LO	12	7	P	65	11/13/2007	4.95	600	26.54
LO	2	7	P	62	01/17/2007	1.39	555	26.16
LO	2	7	P	50	01/17/2007	0.02	520	33.45
LO	3	7	C	95	02/14/2007	0.01	500	34.61
OB	2	7	C	1.67	01/26/2007	0.0847	225	33.11
OB	2	7	C	1.78	01/26/2007	0.0422	125	33.84
OB	2	7	P	1.75	01/26/2007	0.113	125	33.72
OB	1	7	P	1.8	12/26/2006	0.1341	125	31.68
OB	1	7	P	1.83	12/26/2006	0.1621	100	32.30
OB	2	7	P	1.76	01/26/2007	0.1197	100	33.84
OB	2	7	P	1.56	01/26/2007	0.0272	100	33.61
OB	4	7	P	1.7	03/27/2007	0.0564	100	32.11
OH	1	7	P	1.88	12/26/2006	0.1102	210	29.22
OH	2	7	P	1.82	01/26/2007	0.0758	210	29.07
OH	4	7	C	1.88	03/27/2007	0.085	100	27.19

Market Commentary

The oil market gapped higher from 61.85 to 62.10 following OPEC's announcement that it decided to cut its production by an additional 500,000 bpd starting February 1. OPEC's production cut underscored the group's determination to keep prices above $60/barrel. The crude market continued to trend higher and extended its gains to over $1.40 as it posted a high of 62.80 in afternoon trading. It however retraced some of its gains and partially backfilled its gap as it posted a low of 62.05. The market later bounced off that level and rallied back above the 62.50 level ahead of the close on some late short covering. It settled up $1.14 at 62.51. Volume in the crude market was light with 111,000 lots booked on the day. The product markets also settled in positive territory, with the heating oil market settling up 4.45 cents at 177.65 and the RBOB market settling up 4.8 cents at 167.01. The heating oil market also gapped higher from 175.20 to 175.30 amid the strength in the crude market. The market retraced close to 50% of its move from a high of 187.25 to a low of 171.00 as it posted a high of 178.75. The heating oil market however retraced some of its gains and found support at 176.00 before it traded higher ahead of the close. The RBOB market also gapped higher from 163.25 to 165.00 and quickly posted a double top at 168.00 in follow through strength seen in the crude market. The RBOB market later retraced some of its gains and settled in a sideways trading pattern during the remainder of the session as it held support at 166.30. Volumes in the product markets were light with 30,400 lots booked in the heating oil market and 27,500 lots booked in the RBOB market.

Technical levels			
		Levels	**Explanation**
		63.65, 63.75	Previous highs
	Resistance	62.80	Thursday's high
CL	62.51, up $1.14		
	Support	62.05 to 61.85	Remaining gap (December 14)
		60.80, 60.65, 60.35, 60.20	Previous lows, 62% (58.00 and 63.75)
		179.12, 181.04, 181.90	50% retracement (187.25 and 171.00), 62%, Previous high
	Resistance	178.75	Thursday's high
HO	177.65, up 4.45 cents		
	Support	176.00, 175.30 to 175.20	Remaining gap (December 14)
		171.60	Previous low
		168.50, 171.00	Previous high
	Resistance	168.00	Double top
RB	167.01, up 4.8 cents		
	Support	166.00, 165.00 to 163.25	Opening gap (December 14)
		160.00	Previous low

The oil market is seen retracing some of its gains and remaining in its recent trading range amid the lack of any further bullish developments after it rallied on the OPEC announcement. It remains to be seen if OPEC would actually cut its production in February given the fact that it has cut about 800,000 bpd out of its 1.2 million bpd cut agreed to in October, according to estimates. The market is seen finding support at its gap from 62.05 to 61.85. More distant support is seen at 60.80, 60.65, 60.35 and 60.20. The market is however seen finding resistance at its high of 62.80 followed by 63.65 and 63.75.