The Windham Group
Energy Futures Brokerage

ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 16, 2005

According to OPEC's monthly report, OPEC raised its forecast for demand for its oil in 2006, as the world economy remains robust. It raised projected world demand for its crude next year to 28.7 million bpd, up 134,000 bpd from its previous forecast. During the second quarter, the required demand for OPEC oil is expected to fall to 27.7 million bpd, thus requiring reduced supply from OPEC to balance the market. The demand for OPEC crude in 2005 was forecast at 28.8 million bpd, unchanged from earlier estimates. OPEC also said it expected world oil demand in 2006 to increase by 1.6 million bpd or 1.9% with China playing a leading role as its consumption increases to more than one fifth of the world's total. Its forecast for oil demand next year was revised up by 100,000 bpd to 84.9 million bpd. It said there would be a higher call on OPEC crude as the pace of demand next year is expected to outstrip growth in non-OPEC supplies. Non-OPEC supply in 2006 is expected to average 51.6 million bpd, up 1.4 million bpd from 2005. It also reported that total OPEC production stood at 29.965 million bpd in November, down from 29.994 million bpd in October.

Refinery News

Market Watch

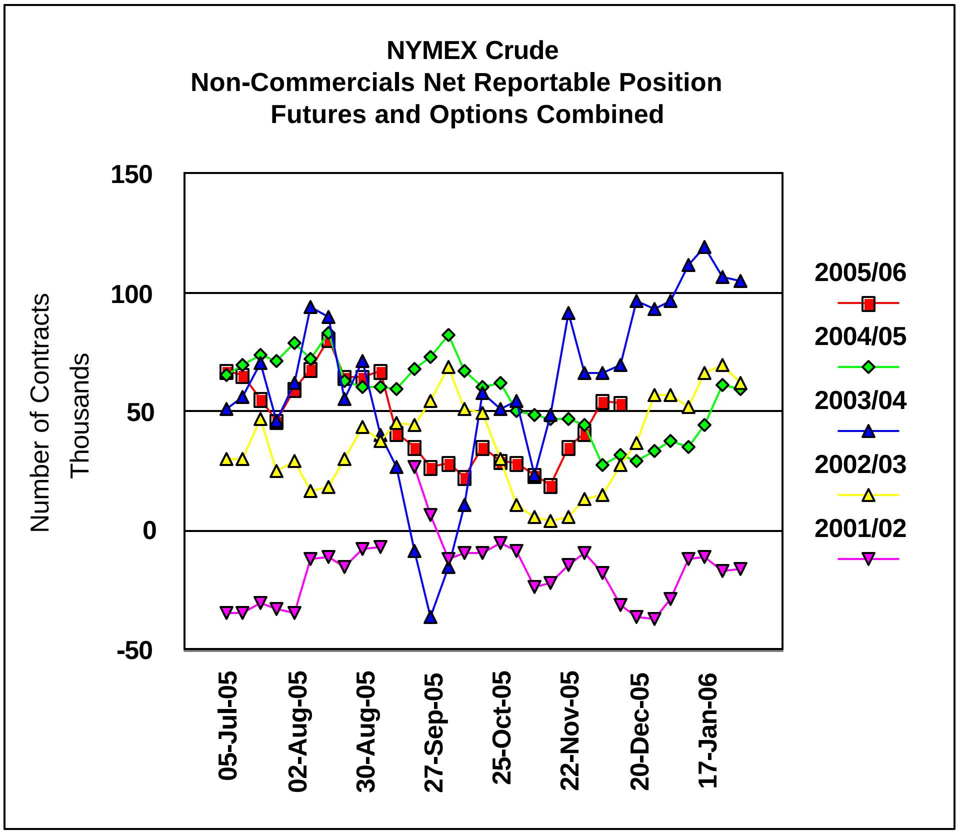
The MMS issued a final rule that would allow oil and gas operators more time to drill ultra deep water wells in the Outer Continental Shelf. The rule is designed to increase drilling of ultra deep water wells and subsequently increase US production. The final rule authorizes MMS to extend the life of a five or eight year lease on which ultra deep exploration is being conducted even if the lease is not yet producing.

According to a Dow Jones Newswires oil price survey, the average price for US light, sweet crude futures next year was revised downward by $1 to $58/barrel with Brent crude futures revised down by 3.5% to $55/barrel.

The Alaska Department of Revenue said prices for Alaska North Slope crude oil are expected to remain relatively high over the next year. It estimated that prices for North Slope crude delivered to the West Coast will average $57.30/barrel for fiscal 2006, which ends next June 30. However the price would fall to $40.95 for fiscal 2007 and to $25.50 for fiscal 2009. It also reported that production is expected to average 865,000 bpd for the current fiscal year, down 5.6% on the year. Production is expected to fall to 843,000 bpd in fiscal 2007.

Venezuela on Friday demanded a joint venture formed by Argentina's Tecpetrol, French firm Coparex and US company CMS Oil and Gas pay about $30 million in back taxes as part of a broad tax probe on the energy sector. The SENIAT tax authority said the back taxes were related to income tax for the 2001-2004 period and the companies had 15 days to present new details or pay the back tax.

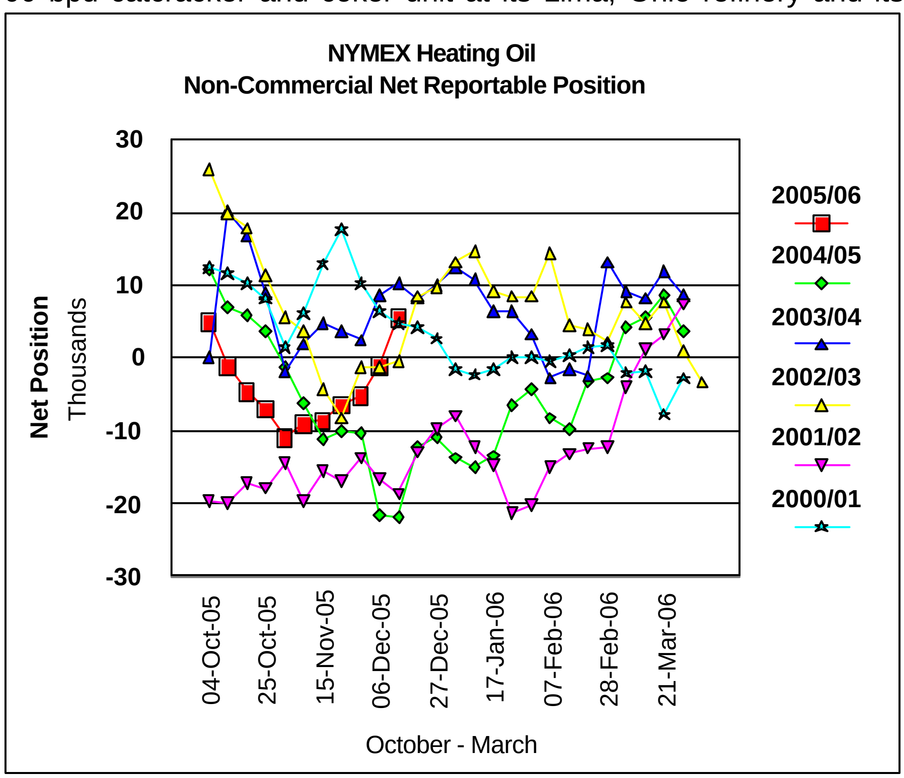
Separately, Chevron Corp has agreed to convert two Venezuelan oil field contracts into joint ventures, in which PDVSA would hold majority stake. It plans to sign a preliminary deal next week. Chevron produces about 120,000 bpd at the two fields.

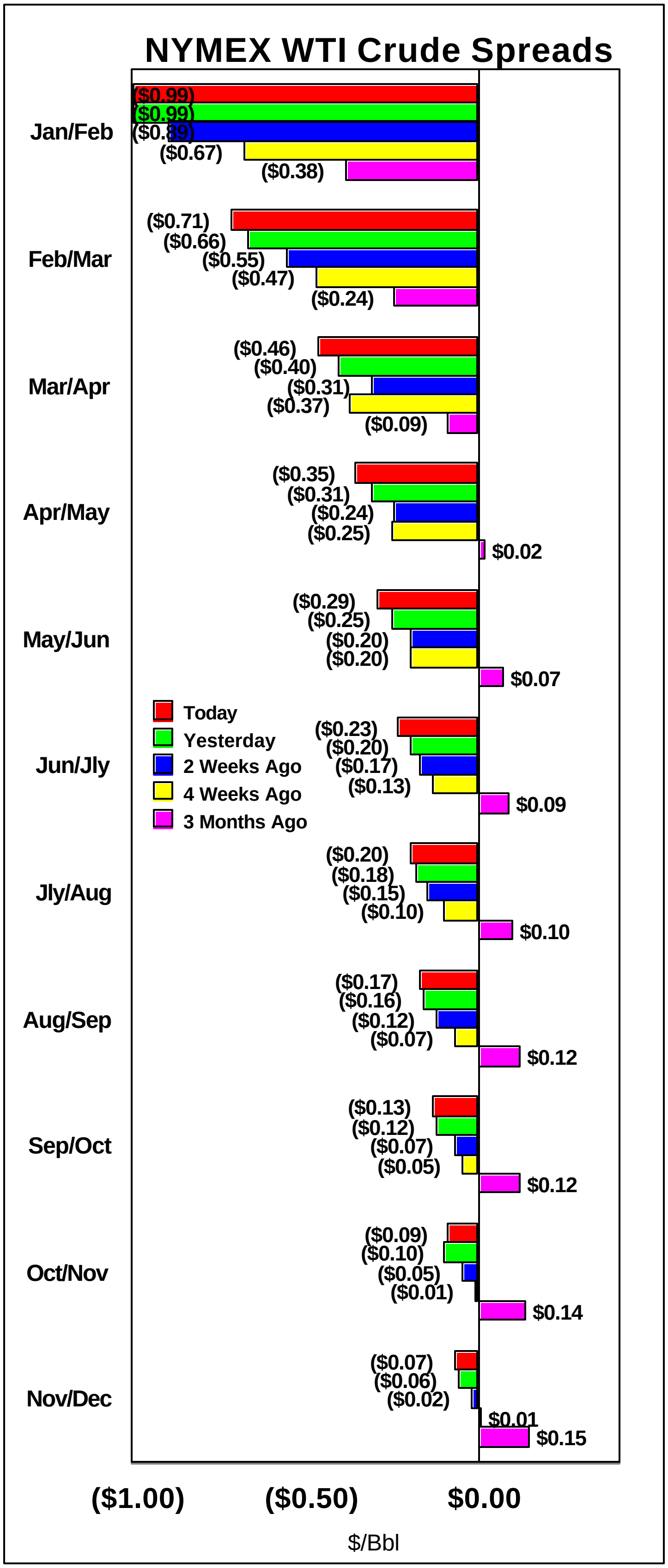


Valero Energy Corp said it would perform maintenance at nine of its refineries during the first quarter of 2006. Valero is scheduled to perform maintenance on its #2 coker unit at its Aruba refinery in January, a 100,000 bpd crude unit, an 18,000 bpd coker unit and 13,000 bpd hydrocracker unit at its Corpus Christi, Texas refinery in January. In February, it is scheduled to perform maintenance on its 35,000 bpd hydrocracker unit at its Benicia, California refinery and its 190,000 bpd Memphis, Tennessee refinery. In March, it is scheduled to perform maintenance on its 20,000 bpd catcracker unit at its Corpus Christi, Texas refinery, its 80,000 bpd crude unit and its 30,000 bpd catcracker at its Krotz Springs, Texas refinery, its 40,000 bpd catcracker and coker unit at its Lima, Ohio refinery and its 30,000 bpd hydrocracker unit at its McKee, Texas refinery.

Giant Industries said it would restart the crude unit at its fire damaged refinery in Yorktown, Virginia on January 15. The fluid catalytic cracker at the 62,000 bpd refinery will be restarted around March 30. It is expected to process crude at a reduced rate of 40,000 bpd between January 15 and March 30.

Vitol SA put its Canadian East Coast refinery up for sale in light of the high cost of refurbishing the refinery to meet modern standards. There is no timetable set yet to divest the 105,000 bpd Come-By-Chance refinery in Newfoundland.





Brazil's President Luiz Inacio and his Venezuelan counterpart laid the cornerstone for a joint heavy crude oil refinery to be built in Brazil. The construction of the refinery is expected to start in 2008 with production seen starting in 2011. Petrobras and PDVSA said they would each contribute half of the investment but need to work out details of the refinery project before signing a binding deal on its construction. The refinery is expected to produce 200,000 bpd of diesel, liquefied petroleum and naphtha.

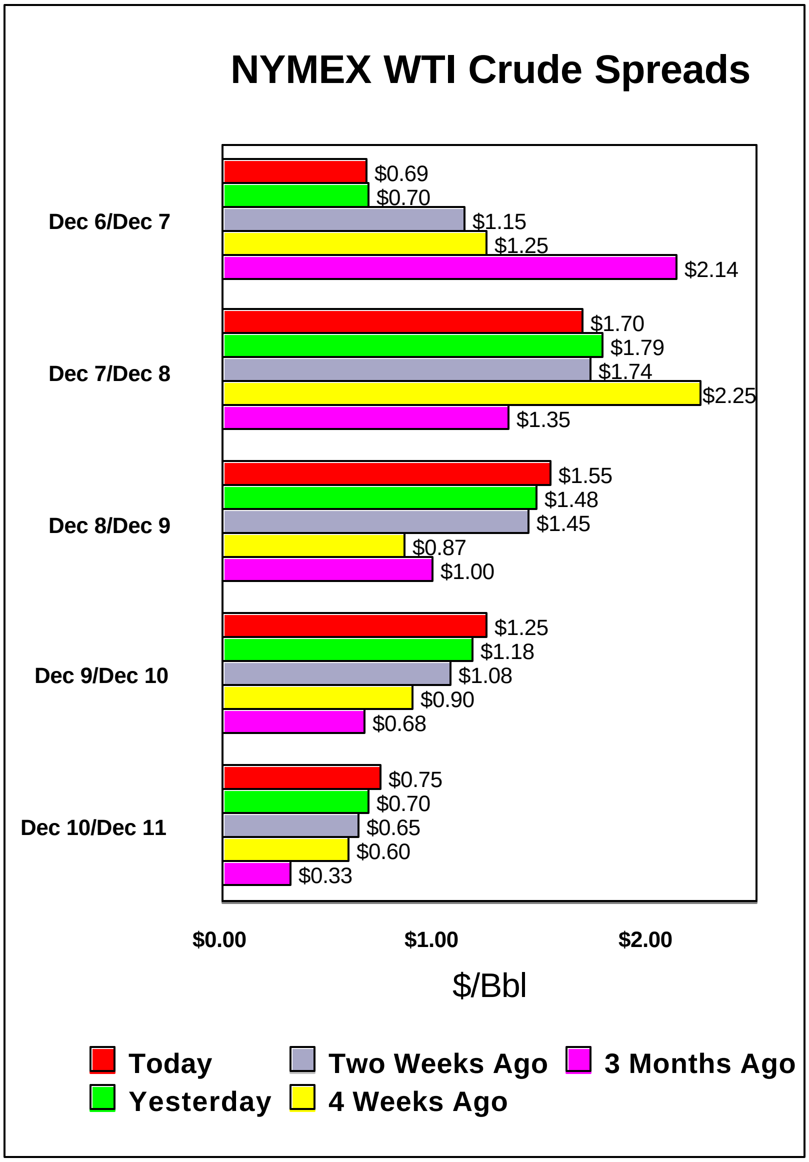
Production News

Colonial Pipeline said it was extending the allocation on its main distillate line for the first cycle of 2006.

Baker Hughes reported that the number of rigs searching for oil and natural gas in the US fell by 20 to 1,463 in the week ending December 16th. It reported that 237 rigs were searching for oil.

According to an analyst, stocks of gas oil held in independent Amsterdam-Rotterdam-Antwerp storage tanks fell by 125,000 tons to 1.875 million tons in the week ending December 16th as colder weather triggered more demand. Traders said seasonally higher demand for heating oil from countries like Germany and some cargo arbitrage exports from the Baltic to the US had cut stocks, although they were still comfortable ahead of the coldest winter months. Gasoline stocks fell to 715,000 tons on Friday compared with 730,000 tons a week ago. Fuel oil stocks were also slightly lower at 500,000 tons from 505,000 tons in the previous week. Meanwhile naphtha stocks increased by 25,000 tons to 45,000 tons on the week while jet fuel stocks increased by 5,000 tons to 360,000 tons on the week.

Traders stated that arbitrage gas oil flows to the US have increased gas oil differentials in the Baltic. Gas oil cargoes sources from the former Soviet Union are trading around January IPE gas oil minus $3/ton fob Ventspils compared with minus $6/minus $8



a week ago, when cold US weather and high inventories triggered the opening of the transatlantic arbitrage.

Russia's Federal State Statistics Service stated that the country's oil production increased by 2.2% on the year to 389.6 million tons in January-October. Russia's oil exports fell by 2% on the year to 208.4 million tons in January-October. In October, Russia's oil production stood at 40.5 million tons, up 1.6% on the year while its exports stood at 19.8 million tons, down 6.7% on the year. It also reported that crude oil refining in January-October increased by 6.3% on the year to 171.3 million tons.

Russia's Tatneft said it expects its oil production to fall to 25.1 million tons in 2006 from 25.3 million tons this year.

The newly opened Kazakh-China crude pipeline will pump at a reduced rate until late 2007, when a new refinery starts using the oil and selling more fuel to China. An industry official said the pipeline, which has a maximum capacity of 200,000 barrels will pump about half of the amount next year as the line is filled and demand in China's western region remains muted. The company is aiming for full operations around the end of 2007 or early 2008 to match the start up of the Dushanzi project. The refinery and petrochemical plant being built in Dushanzi will have a capacity of 200,000 bpd. Until the new refinery is completed, Kazakh and Russian crude imported via the pipeline will be used to ramp up operations at the region's existing refineries.

Port officials stated that strong winds and high waves closed three ports at the northern end of the Gulf of Suez on Friday.

OPEC's news agency reported that OPEC's basket of crudes fell to $54.44/barrel on Thursday compared with $54.62 reported on Wednesday.

China's National Bureau of Statistics reported that China's crude oil production in November increased by 2.4% on the year to 14.84 million tons. Its gasoline production increased by 4.5% to 4.66 million tons while its diesel production increased by 9.6% to 9.39 million tons. However its kerosene production fell by 10% to 730,000 tons.

China's gasoline exports in January are expected to increase, partly due to stronger demand for imports from key buyers in Indonesia and Vietnam. Exports from Chinaoil, China Petroleum & Chemical Corp and Sinochem Corp are estimated at 200,000 metric tons or 54,500 bpd of January, up from 175,000 tons in December.

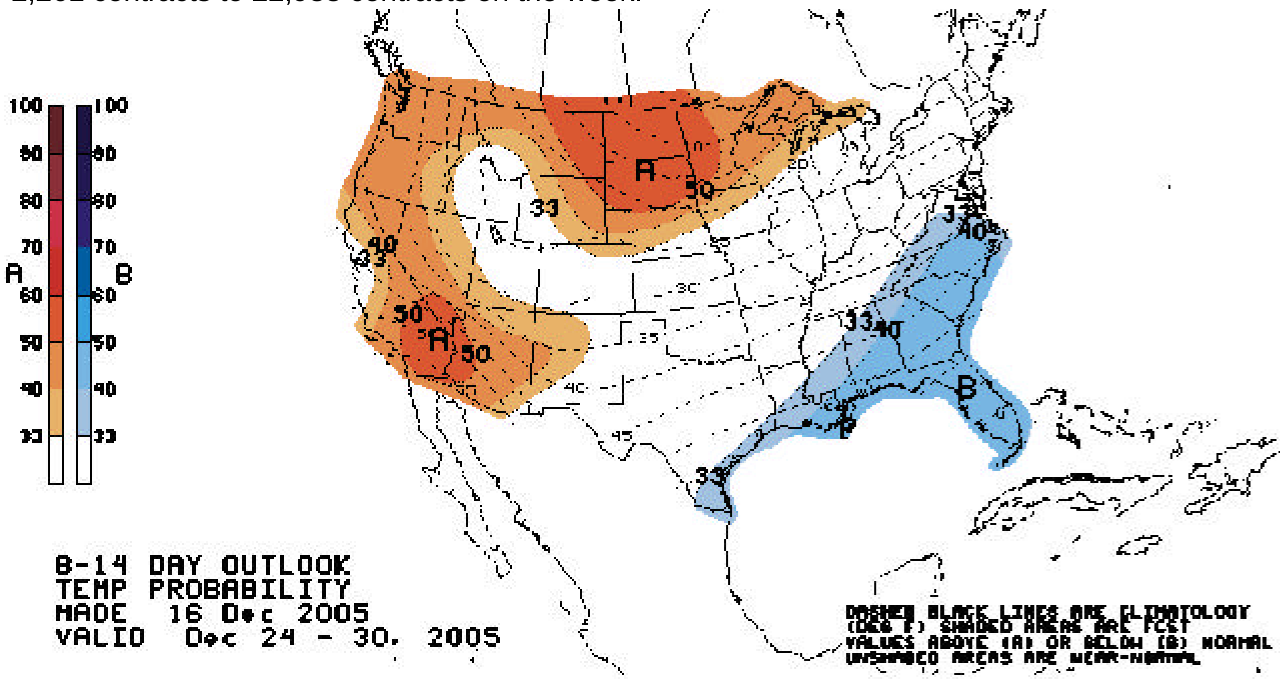
Japan's refiners are expected to cut imports of kerosene to 20,000-25,000 kiloliters or 126,000-157,000 barrels in December amid high inventories following a warm start to winter. However temperatures have dropped, causing an increase in kerosene consumption so far in the month. Kerosene stocks fell for a third consecutive week to 4.48 million kl or 28.18 million barrels, down 5.1% on the week. Meanwhile, Japanese refiners are expected to export 120,000 kl or 755,000 barrels of gas oil in December amid declining margins.

Market Commentary

The oil complex settled sharply lower after it continued to sell off amid the moderating weather forecasts. The oil market gapped lower from 59.95 to 59.55 in follow through selling seen in overnight trading. The market partially backfilled its gap as it posted a high of 59.75. The market however erased its gains and retraced more than 62% of its move from a low of 58.00 to a high of 61.90. The market extended its losses to almost $2 as it posted a low of 58.00 ahead of the close. It settled down $1.93 at 58.06. Volume in the crude market was good with over 222,000 lots booked on the day. The product markets also ended the session sharply lower, with the heating oil market settling down 5.53 cents at 173.20 and the gasoline market settling down 4.79 cents at 156.89. The heating oil market also gapped lower from 178.50 to 175.75 amid the moderating weather forecasts. It partially backfilled its gap as it posted a high of 176.50. However the market, which failed to completely backfill its gap, traded to an early low of 173.25, where it held some support. However the heating oil market later breached that level and retraced more than 62% of its move from a low of 165.25 to a high of 186.00 as it traded to a low of 172.90 on the close. Similarly, the gasoline market gapped lower from 160.75 to 159.00, which it partially backfilled as it posted a high of 160.20. However, the market retraced its gains and sold off to a low of 154.50 late in the session. Volumes in the product markets were good with 49,000 lots booked in the heating oil and 42,000 lots booked in the gasoline market.

Technical Analysis			
		Levels	**Explanation**
		61.20, 61.75, 61.90	Thursday's high, Previous highs
	Resistance	59.00, 59.75 to 59.95	Remaining gap (December 16th)
CL	58.06, down $1.93		
	Support	58.00	Friday's low
		57.10, 56.00	Previous lows
		176.50 to 178.50	Remaining gap (December 16th)
	Resistance	175.00	
HO	173.20, down 5.53 cents		
	Support	172.90	Friday's low
		171.00, 168.25	Previous lows
		160.20 to 160.75	Remaining gap (December 16th)
	Resistance	158.00, 159.50	
HU	156.89, down 4.79 cents		
	Support	154.50	Friday's low
		153.32, 150.00	62% retracement (144.80 and 167.10), Previous low

According to the latest Commitment of Traders report, non-commercials in the crude market slightly increased their net short positions by just 441 contracts to 29,941 contracts in the week ending December 13th. The combined futures and options report also showed that non-commercials cut their net short positions by 880 contracts to 54,077 contracts on the week. Meanwhile, non-commercials in the heating oil market reversed their position from a net short position of 909 contracts to a net long position of 5,521 contracts as it was well supported by the weather forecasts. The non-commercials in the gasoline market continued to increase their net long positions by 2,261 contracts to 22,983 contracts on the week.



The oil market will likely continue to trade lower after it settled near its low and its stochastics are still trending lower. However its losses may be limited if the natural gas market which was driving the oil complex lower in the past few trading sessions finds its support. It will seek further direction from the weather forecasts, which were still showing temperatures moderating. The market is seen finding resistance at 59.00 followed by its gap from 59.75 to 59.95. More distant resistance is seen at its previous highs of 61.20, 61.75 and 61.90. Meanwhile support is seen at its low of 58.00 followed by 57.10 and 56.00.