



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 18, 2006

OPEC stated in its monthly report that fundamentals of the world oil market showed signs of weakening in 2007 as economic growth slows and supply from non-OPEC countries increases faster than world demand. It held its forecast for world demand growth at 1.3 million bpd or year on year growth of 1.57% and said weakening US economy posed risks to the outlook. It said world oil demand is expected to increase to 85.59 million bpd next year, unchanged from its previous estimate and 1.33 million bpd above this year's demand level. It also reported that the ten OPEC members, excluding Iraq, cut its production to 26.86 million bpd in November. It was down 552,000 bpd from October and well above OPEC's target for November of 26.3 million bpd. Total OPEC production stood at 28.84 million bpd. OPEC

Market Watch

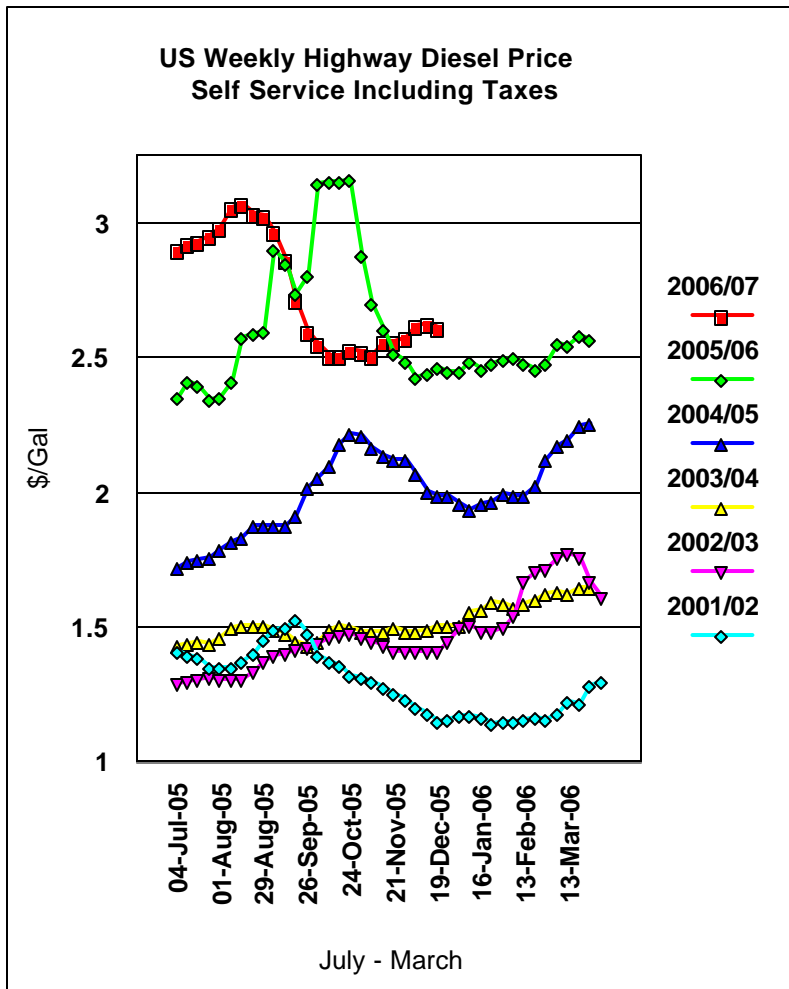
An Iranian official said Iran was calculating its revenues in euros not dollars and was making changes to reflect this in its currency reserves abroad. The Iranian central bank is expected to convert the country's foreign dollar assets into euros and use the euro for foreign transactions. Separately, the European Commission said it lacked a clear idea of what Iran was intending to do after the Iranian government said it was calculating revenues in euros not dollars. It reiterated its position that it did not encourage countries outside the European Union to use euros.

The Washington Times reported that Iran has effectively created a Shi'ite state within a state in Iraq providing both logistical support of armed groups and funds for social programs. A security report commissioned by the Saudi government said Iranian military forces were providing Shi'ite militias with weapons and training and that Iran was actively supporting pro-Iranian Iraqi politicians. The report described the Badr organization, the armed wing of the largest party in Iraq's government SCIRI, as the main vehicle Iran was using to achieve its military security and intelligence aims. The report also provided details on the Sunni insurgency. It cites Iraqi tribal leaders as saying that the insurgency is run mainly by former commanders and high level military officers of the Ba'athist regime. The report recommended that the Saudi government prepare a strategy to deal with the worst case scenario of full blown civil war and to share the report with the US.

Iran's largest reformist party said President Mahmoud Ahmadinejad suffered a decisive defeat in nationwide elections last week due to his government's authoritarian and inefficient methods. However Iran's Interior Ministry suggested that the winners were mostly moderate conservatives opposed to the hardline president, rather than reformists. The government's spokesman countered that by saying the government had no favored candidates in Friday's vote for local councils and a clerical body known as the Assembly of Experts and was happy to work with the winners. Turnout overall was more than 60%.

According to a Dow Jones Newswire survey, US light, sweet crude prices in the first three months of 2007 were increased to \$63/barrel, up slightly from last month's forecast of \$62.60/barrel. For the rest of next year, however the average price forecast for the second, third and fourth quarters was \$61/barrel.

US President George W. Bush signed into law a bill to open India's civilian nuclear energy market to technology and fuel from the US. President Bush said the measure would enable India to help meet its increasing demand for electricity. As part of the agreement, India also agreed to open its civilian nuclear facilities to international inspection.



increased its call on its crude oil for 2007 to 28.29 million bpd, up from its previous estimate of 28.15 million bpd.

A senior Iranian oil official said OPEC needed to plan for the second quarter to prevent world oil stocks from increasing due to increasing non-OPEC supplies. He said the increase of non-OPEC oil production in the second quarter of 2007 could decrease demand for OPEC crude and increase world oil stocks, which would create problems in the oil market.

India's Petroleum and Natural Gas Minister Murli Deora said India was unhappy with OPEC for announcing a cut in production of crude oil.

An oil industry source said two car bombs exploded on Monday at oil company compounds in Nigeria's Port Harcourt. The blasts occurred in the car park of a residential compound of Royal Dutch Shell while the other was on a perimeter wall of a compound of Italy's Agip. There was no immediate impact on oil production. The explosions followed a warning by the

Movement for the Emancipation of the Niger Delta that it was about to detonate three car bombs in strategic locations across the Niger Delta. The MEND is still holding four foreign oil workers captured last week from the Brass export terminal. It has stated that it planned to keep the hostages over Christmas in the pursuit of demands including greater regional control over the delta's energy resources.

China, which hosted its first major energy summit on Saturday, urged the US, India, Japan and South Korea to unite in the face of resurgent producer power. China's top energy policy maker Ma Kai said they would promote conservation of oil, improvement of energy efficiency, strong development of oil alternatives and reduce reliance on oil. US Energy Secretary Sam Bodman echoed calls for greater cooperation but also highlighted US concerns about subsidized prices and a world race for assets.

The DOE reported that the US average retail price of diesel fell by 1.5 cents to \$2.606/gallon in the week ending December 18. It also reported that the US average retail price of gasoline increased by 2.7 cents to \$2.32/gallon on the week.

Refinery News

The US Coast Guard said vessel traffic on the Houston Ship Channel was halted once again Sunday night due to fog, extending four days of intermittent delays. There were 45 ships waiting to move in and out. Shipping traffic resumed for a few hours each day since Friday after dense fog started interrupting traffic early Thursday. Forecasts show the fog could lift early this week. The prolonged fog

delays along the Houston Ship Channel has led some refiners in the area to warn they may need to slow fuel production but so far no Gulf Coast refinery has announced production cuts as a result of delayed crude oil shipments. Forecasters said fog would persist along the Gulf Coast through Thursday morning. The heavy fog has also caused the closure of the Sabine Neches Waterway in the Port Arthur-Beaumont area. Seven crude tankers were waiting to enter the Sabine channel. The Calcasieu ship channel was also closed due to fog. Two or three tankers were waiting on both the outbound and inbound sides of the channel.

Valero Energy Corp said its two refineries near the Houston Ship Channel have not been affected by the delays in vessel traffic due to the fog.

Shell said the intermittent closure of the Houston Ship Channel was having minimal impact on rates at its 340,000 bpd refinery in Deer Park, Texas.

The US Pipeline and Hazardous Materials Safety Administration has ordered BP Plc to submit more details about its plans to replace corroded pipelines at Prudhoe Bay. The information would help determine the need for additional corrective action.

Enbridge Inc said it received industry support for its \$1.3 billion Southern Lights pipeline project between the US Midwest and Western Canada. The company said it was still subject to regulatory approvals and receipt of various permits in Canada and the US. The Southern Lights line would by 2010 carry 180,000 barrels of ultra light oil from the Chicago area to Canada's oil sands. To ensure there is still adequate pipeline capacity for increasing Canadian exports to the US, Enbridge agreed to build a light oil line from Cromer, Manitoba to Clearbrook, Wisconsin and expand space on an existing line to carry 45,000 bpd.

Oman's Ministry of Oil and Gas said Oman would carry out repairs next month on its new 116,000 bpd Sohar refinery which has yet to fully start due to technical problems. The refinery is expected to be closed for two weeks in mid-January. Separately, Oman Refinery Co is also expected to shut its 85,000 bpd refinery in Muscat in January for more than two months.

Production News

Norway's Statoil has agreed to acquire the oil and gas activities of Norsk Hydro for about \$30 billion. The new group's output would be 1.9 million bpd in 2007, with proven oil and gas reserves of 6.3 billion barrels of oil equivalents. The proposed merger is subject to approval by the general shareholder meetings of the two companies and by regulatory authorities, including the European Commission.

Azerbaijan's Socar has announced a tender for 620,000 barrels of Russian Urals crude for loading at the Russian Black Sea port of Novorossiisk on January 23-24.

OPEC's news agency reported that OPEC's basket of crudes increased by 96 cents/barrel to \$58.39/barrel on Friday. It also reported that OPEC's basket of crudes fell by \$1.47/barrel to \$57.59/barrel in the week ending December 15.

Market Commentary

The oil market opened lower 48 cents lower at 62.95 and quickly posted a high of 63.00. The market retraced its previous gains in light of forecasts calling for above normal temperatures for most of the US during the remainder of December. The market shrugged off the news that the Houston Ship Channel was still closed due to fog and the reports of car bomb attacks in Nigeria's city of Port Harcourt. The market, which was holding some support above 62.50, later breached that level as it retraced almost 50% of its move from a low of 60.65 to a high of 63.50 and posted a low of 62.10. The crude market settled in a sideways trading pattern ahead of the close and settled down \$1.22 at 62.21. Volume in the crude market was light with 122,000 lots booked on the day. The heating oil market gapped lower from 175.90 to 175.50 in light of the weather forecasts. The market posted a high of 175.60 and settled in a sideways trading pattern before it breached its support at 174.00 and sold off to a low of 172.00 in a late bout of selling ahead of the close. It settled down 6.1 cents at 172.07. The RBOB market posted an inside trading day as it failed to breach its previous trading range. The market posted a high of 170.75 and sold off sharply to a low of 167.25 ahead of the close. It settled down 2.9 cents at 167.49. Volumes in the product markets were light with 25,000 lots booked in the heating oil market and 19,700 lots booked in the RBOB market.

The oil market is seen continuing to trade in a sideways pattern after it retraced some of its previous gains. The market will likely await the weekly petroleum stock report for further direction after it shrugged off any supportive news. The market is seen finding support at 62.10 followed by its gap from 62.05 to 61.85 and 61.74. Meanwhile further support is seen at 60.80 and 60.65. Meanwhile resistance is seen at its high of 63.00 followed by 63.50, 63.65 and 63.75. More distant resistance is seen at 64.70.

Technical levels		
	Levels	Explanation
CL 62.21, down \$1.22	Resistance 63.50, 63.65, 63.75, 64.70	Previous highs
	Support 62.10	Monday's high
HO 172.07, down 6.1 cents	Resistance 174.00, 175.60-175.90	Monday's low
	Support 172.00	Remaining gap (December 14), 62% (60.65 and 63.50), Previous lows
RB 167.49, down 2.9 cents	Resistance 179.20, 181.04, 181.90	Previous high, 62% (187.25 and 171.00), Previous high
	Support 167.25	Opening gap (December 18)
	170.90, 171.00, 172.00	Monday's low
	169.00, 170.75	Previous lows
	167.00, 165.00 to 163.25, 160.00	Previous high, Double top, Previous high
		Monday's high
		Monday's low
		Previous low, Opening gap (December 14), Previous low