



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR DECEMBER 19, 2005**

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Iraq's Oil Minister Ibrahim Bahr al-Uloum said he would resign if the government did not overturn Sunday's decision to increase fuel prices five to nine times. He said the government should stick to its decision in October, when it decided to implement a two to three fold increase in gasoline prices from IQD50. The cabinet approved increasing the price of imported and super gasoline to 250 Iraqi dinars or 17 cents/liter from IQD50. Gas oil prices were increased to IQD90/liter from IQD10 while kerosene prices were increased to IQD25 from IQD5.

The EIA reported that the average US retail diesel price increased by 2.6 cents/gallon to \$2.462/gallon in the week ending December 19. The EIA also reported that the average retail price of gasoline increased by 2.6 cents/gallon to \$2.211/gallon on the week.

#### **Refinery News**

Marathon Petroleum Co expects to have a timeline next week on the restart of a crude unit at its 70,000 bpd Minnesota refinery. The 30,000 bpd unit has not been operating normally since a 45 minute fire last Tuesday.

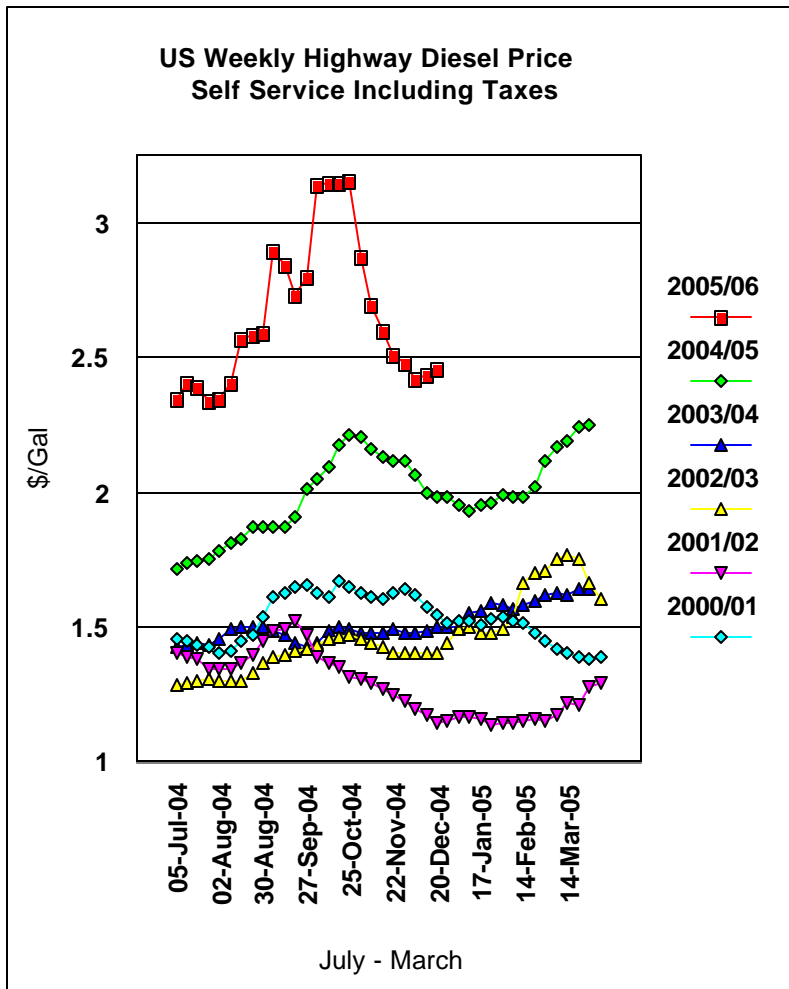
#### **Market Watch**

The US National Weather Service stated that US demand for heating fuels is expected to be normal this week. Total US demand for heating oil was expected to run less than 1% above the normal level during the week ending December 24. Total US heating demand for all fuels was forecast to be less than 3% below normal. In the week ending December 17, total US heating fuel demand was 13% above normal. Meanwhile a private forecaster, Meteorlogix said temperatures in the Northeast are expected to average near to slightly below normal much of the week and into next week.

The US House of Representatives approved opening Alaska's Arctic National Wildlife Refuge to oil drilling. The House approved the measure when it voted 308-106 in favor of a defense spending bill that contained the ANWR drilling language. The initiative is expected to be debated by the Senate this week, where it is likely to face stiff opposition from pro-environmental Democrats and possibly some moderate Republicans. If the Senate votes to allow the provision to remain on the bill, Sen. John Kerry and other Democrats have promised to attempt a filibuster to try to block the bill. According to the EIA, there is considerable uncertainty regarding both the size and quality of oil resources that exist in the refuge. A 1998 US Geological Survey assessment concluded its almost certain that there is about 5.6 billion barrels of recoverable oil and possibly as much as 16 billion barrels in the refuge.

According to Trilby Lundberg, US consumers recovering from record high gasoline costs last summer may face a 60 cent price surge next year due to stricter environmental regulations. The analyst said the introduction of lower sulfur requirements for gasoline and diesel combined with a shift in gasoline additives could reduce supplies and create problems for refiners trying to produce fuel to meet the new specifications. Starting in January 1, refiners are expected to start cutting sulfur content in gasoline. It would be followed by the gradual phasing in of ultra low sulfur diesel requirements starting in June. She said adding to the market pressures will be a government mandated increase in the production of ethanol.

The office of New York state Attorney General Eliot Spitzer said 15 NY gas stations have been fined a total of \$63,500 to settle charges they gouged prices in the wake of Hurricane Katrina. The 15 stations all raised their mark-up on retail gas prices by at least 25% following Hurricane Katrina. Last month, Amerada Hess Corp settled a post Katrina pricing suit with the state of New Jersey after it violated a statute that prohibits gasoline sellers from raising prices more than once in a single day.



Suncor Energy USA said a 30,000 bpd sweet crude unit at a refinery in Commerce City, Colorado should return early next week after a fire over the weekend. The company does not expect much of an impact to fuel production at the refinery.

Officials were cleaning up about 84,000 gallons of heating fuel along the shore of the Rahway River after a pipe at an oil refinery burst on Friday. Authorities said Conoco Phillips Bayway Refinery, which owns the tank, immediately shutdown the pipeline.

**Production News**

The MMS reported that a total of 414,495 bpd of crude production remained shut in as of Monday, down from 426,282 bpd reported on Thursday.

Louisiana's Department of Natural Resources stated that restored oil production in hurricane stricken areas of Louisiana was 59.5% of normal capacity as of Monday. It said production stood at 120,818 bpd, up from 120,381 bpd on Friday.

Petrologistics revised down its November estimate of OPEC production to 30.2 million bpd, down from its original estimate of 30.5 million bpd. It reported that its estimate for Saudi Arabia's production was cut by 240,000 bpd to 9.4 million bpd from an original estimate of 9.64 million bpd. Its estimate for Iraq's production also fell by about 150,000 bpd to 1.75 million bpd.

Statoil ASA's 150,000 bpd Heidrun crude oil field is seen back at full production Tuesday following unplanned maintenance. Production at the field was reduced to 40% since early last week after problems on the platform were discovered.

Crude oil exports from Russia's Black Sea port of Novorossiisk fell last week from the previous week after stormy weather forced a halt to berthing. Crude oil shipments fell to 974,000 tons in the week ending December 17, down from 1.05 million tons the previous week. Shipments from the CPC loading terminal fell to 569,000 tons compared with 660,000 tons the previous week. Crude oil loadings for several vessels were suspended on Saturday after the Novorossiisk and CPC terminals were shut due to strong winds and high sea swells.

Shipping agents stated that oil tankers are expected to wait 15 days to load crude at Iraq's Basra oil terminal. They stated that even though loading flow rates were normal, up to 12 Very Large Crude Carriers were anchored and waiting to berth at the terminal after a large number of vessels arrived at

the same time. Meanwhile, traders said Vitol was considering sending Urals crude to its Canadian refinery instead of Basra light barrels due to the congestion.

Venezuela's Energy Minister Rafael Ramirez said private petroleum companies with 32 oilfield operating contracts in Venezuela have agreed to switch to new joint ventures with PDVSA. The government demanded 22 foreign and local companies with operating contracts migrate to the joint ventures, which would give PDVSA a majority stake. Total and ENI agreed to convert Venezuelan oil field contracts into joint ventures controlled by PDVSA. Chevron Corp and West Falcon Samson Hydrocarbons also signed agreements on Monday to form joint ventures with PDVSA to operate their oil fields. Venezuela's Energy Minister said Exxon Mobile Corp is the only company resisting the change in the contract. He said the standoff could hurt the company's future investments.

Oman's Oil Minister Mohammad bin Hamad al-Rumhy said its oil production fell to an estimated average of 750,000 bpd this year, down 29,700 bpd on the year. Oman is expected to sustain this year's production in 2006 due to condensate production.

Mexico's Pemex said it produced 3.31 million bpd of crude oil in November, down slightly from 3.36 million bpd last year. Its crude oil exports totaled 1.91 million bpd down from 1.95 million bpd last year. It exported 1.68 million bpd to the US and other parts of the Americas, 165,000 bpd to Europe and 64,000 bpd to Asia.

Indian Oil Corp denied media reports that said the company is in talks with Sinopec for a joint venture to build a refinery and petrochemical plant in Shanghai. Reports stated that Indian Oil Corp aimed to buy a 26% stake in Sinopec's proposed \$4 billion refinery. An IOC official said it is in talks with Chinese companies for collaboration in various projects including refineries, exploration and research and development.

OPEC's news agency reported that OPEC's basket of crudes fell by \$1.19/barrel to \$53.25/barrel on Friday from \$54.44/barrel on Thursday.

Technical Analysis		
	Levels	Explanation
<b>CL</b> 57.34, down 72 cents	<b>Resistance</b> 59.75 to 59.95 57.50, 58.00, 58.39	Remaining gap Monday's high
	<b>Support</b> 56.90 56.00	Monday's low Previous low
	<b>Resistance</b> 173.80, 176.50 to 178.50 171.50, 172.00	Monday's high, Remaining gap (December 16th)
	<b>Support</b> 170.00, 169.60 168.25, 165.25	Monday's low Previous lows
<b>HU</b> 152.69, down 4.20 cents	<b>Resistance</b> 160.20 to 160.75 154.00, 156.50	Remaining gap (December 16th) Monday's high
	<b>Support</b> 152.50 150.00, 144.80	Monday's low Previous lows

It also reported that OPEC's basket of crudes increased by \$1.54/barrel to \$54.19/barrel in the week ending December 15<sup>th</sup>.

Thailand's Commerce Ministry reported that the country's crude oil imports increased nearly 15% in November from a year ago to 3.765 billion liters or 789,308 bpd.

## Market Commentary

The oil market settled in negative territory for the fourth consecutive session amid the moderating forecasts. The oil complex was pressured as forecasters were calling for warmer weather into early January. The crude market opened 24 cents higher at 58.30 and quickly traded to a high of 58.39. However the market erased its gains and extended its losses to \$1.16 as it sold off to a low of 56.90. The market later bounced off its low and settled in a sideways trading pattern from 57.00 to 57.60. It settled down 72 cents at 57.34. Volume in the crude was good with 199,000 lots booked on the day. Meanwhile, the product markets also ended the session in negative territory. It was surprising to see the gasoline market led the sell off as it settled down 4.20 cents at 152.69 while the heating oil market settled down 2.87 cents at 170.33. The gasoline market posted its intraday high of 156.50 on the opening before it sold off to a low of 152.50. The market later settled in a sideways trading pattern as it held good resistance at 154.00. Similarly, the heating oil market posted its high of 173.80 early in the session and never looked back as it continued to trend lower. The market traded to a low of 169.60. However the market later retraced some of its losses and traded sideways. The market's losses were limited by the late recovery in the natural gas market, which posted its high of 14.20 on the close. The heating oil market held its support despite the moderating weather forecasts. Volumes in the product markets were good with 48,000 lots booked in the gasoline and 33,000 lots booked in the heating oil market.

The crude market on Tuesday will likely trade sideways as it retraces some of its losses as the markets seemed to have found support despite the moderating weather forecasts. The market is also seen trading sideways as traders await the release of the weekly petroleum stock reports. Technically, the crude market is seen finding support at its low of 56.90 followed by 56.00. Meanwhile, resistance is seen at 57.50, 58.00, 58.39. More distant resistance is seen at 59.75 to 59.95.