



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR DECEMBER 21, 2006

Iran's Supreme National Security Council secretary, Ali Larijani said a planned UN sanctions resolution would not force Iran to halt its nuclear program. However he said it would affect its cooperation with the UN's IAEA. Later, diplomats stated that Iran gave UN nuclear inspectors operational records for its Natanz uranium enrichment plant. The news comes a day before the UN Security Council is expected to vote on whether to impose sanctions on Iran. In a further show of transparency, Iran has agreed to allow agency inspectors to take environmental samples of equipment from a former research institute to test for traces of nuclear material. The diplomats however stated that if the permanent members of the UN Security Council and Germany reach an agreement on a resolution imposing sanctions against Iran, the country may once again reduce its cooperation.

According to Oil Movements, OPEC's crude oil exports are expected to fall to 24.48 million bpd in the four weeks ending January 6 from 24.5 million bpd in the four weeks ending December 9. It estimated that OPEC crude supplies have fallen by between 600,000 bpd to 800,000 bpd since the group announced its production cut in late October.

The final results announced by Iran's Interior Ministry showed that Iran's

Market Watch

The National Weather Service forecasted warmer than normal weather in the US Northeast and Midwest from December through January. It said there was equal chance of warmer or colder than normal weather in the Northeast from February through April. The Climate Prediction Center said the northern half of the US would experience warmer than normal weather from January through March as an El Nino weather pattern peaks. Earthsat previously stated that warmer than normal temperatures could persist in much of the country into at least early January. Accuweather however stated that a colder than normal winter was expected along the US East Coast, particularly in January and early February. WSI Corp also stated that colder than normal temperatures were expected along the US East Coast from December through February.

The NYMEX said it would launch its first energy index futures contract called 3-2-1 Plus starting January 21. The contract, part of a planned series of energy and metals index futures contracts, would enable traders to manage risk across their energy portfolios with a single contract. It would be available for trading on the NYMEX trading floor and the CME Globex electronic trading platform and for exchange of futures for swaps transactions on Clearport. The contract would be cash settled and comprised of three light sweet crude contracts, two RBOB gasoline contracts, one heating oil contract and one natural gas contract. The total value would then be divided by a factor of 10 to obtain the index value.

The EIA's and API's weekly petroleum stock reports will be delayed by one day to Thursday, December 28 due to the Christmas Day holiday.

President Mahmoud Ahmadinejad's opponents won last Friday's elections for local councils. Iran's Interior Ministry stated that moderate conservatives won a majority of the council seats followed by reformists, who were suppressed by ultraconservatives loyal to Iran's President in 2004. The vote has been seen as a sign of public discontent with his fights with the West. Some conservatives feel he has spent too much time confronting the US and its allies and failed to deal with Iran's economy. The election is not expected to directly affect Ahmadinejad's administration and is not expected to bring immediate policy changes. The results are expected to pressure him to change his anti-Western tone and focus more on Iran's high unemployment and economic problems.

DEBKAfile reported that US Middle East Commander General John Abizaid has requested another carrier in the Gulf region as a warning to Syria and Iran. Its sources stated that the request was an indication that the Bush administration was heading for a major operation against two key threats to Iraq's stability, the Sunni insurgents supported by Syria and the Shi'ite militias, which receive arms, intelligence and funding from Iran. The Defense Department has accused Iran and Syria of undermining the Iraqi government by providing both active and passive support to anti-government and anti-coalition forces.

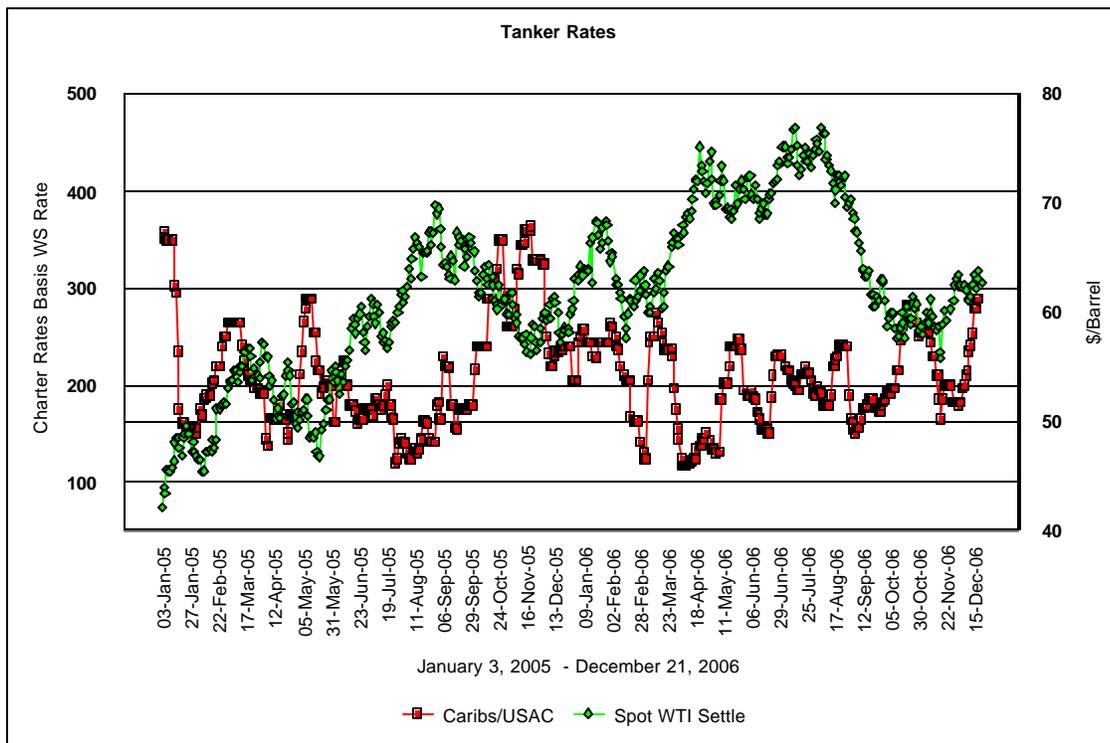
Refinery News

Traffic on the Houston Ship Channel was returning to normal as clear weather allowed the waterway to remain open overnight. Ships started moving in both directions late Wednesday. The number of vessels waiting to enter the channel fell to 15 from 35 on Wednesday. Meanwhile the Sabine Neches Waterway reopened early Thursday. There were about 9 outbound and 9 inbound ships backlogged.

The Shell Deer Park refinery on the Houston Ship Channel is expected to resume normal operations on Friday after operations were reduced earlier this week due to heavy fog, which was preventing the arrival of crude oil supplies.

According to a report filed with Texas environmental regulators, a power dip at BP's Texas City, Texas refinery caused some unspecified units to go offline. An industry source said the outage would not

have an impact on operations.



A processing unit at Tesoro's Anacortes, Washington refinery failed during planned restart on Wednesday due to a leak. The company shut a fluid catalytic cracking

unit for planned maintenance in the fourth quarter but it was not immediately clear if this was the unit that failed to restart.

Canada's Suncor Energy Inc's diesel hydrotreating unit at its Commerce City, Colorado refinery is expected to restart sometime next week. The furnace in the unit failed and it was shutdown on December 15. Production of ultra low sulfur diesel was cut to 5,000 bpd from 20,000 bpd, forcing the company to cover the shortfall from the spot market. It cut the operating rate at its 95,000 bpd refinery to 75,000 bpd or 79% of its capacity. Suncor Energy also stated that the refinery would undergo planned turnaround on a 30,000 bpd crude unit for two weeks at the end of January while another crude unit would be shut for two weeks at the end of October 2007.

ConocoPhillips was cutting runs at its 275,000 bpd Wilhelmshaven refinery in Germany by about 10% due to weak profit margins.

Euroilstock reported that total European refinery utilization stood at 93.52% of capacity in November compared with 91.39% in October. It reported that total production increased by 2.2% or 283,000 bpd to 13.425 million bpd in November. It also reported that gasoline production increased by 2.5% or 84,000 bpd to 3.448 million bpd while middle distillate production increased by 3.2% to 6.295 million bpd in November.

Gas oil stocks in independent storage tanks in Amsterdam-Rotterdam-Antwerp increased by 27,000 tons on the week to 1.757 million tons in the week ending December 21. It is however down from last year's level of 1.82 million tons. ARA gasoline stocks fell by 25,000 tons to 820,000 tons while fuel oil stocks increased by 2,000 tons to 592,000 tons on the week. Naphtha stocks increased by 8,000 tons to 80,000 tons while jet fuel stocks fell by 67,000 tons to 330,000 tons on the week.

According to official data, India's domestic oil product sales in November increased by 12.6% on the year to 10.11 million tons. India's diesel sales increased by 10.4% on the year to 3.72 million tons in November.

Singapore's International Enterprise stated that Singapore's residual fuel stocks fell by 402,000 barrels to 11.227 million barrels in the week ending December 21. Its light distillate stocks built by 263,000 barrels to 8.495 million barrels while its middle distillate stocks fell by 225,000 barrels to 8.331 million barrels.

Production News

Royal Dutch Shell evacuated the families of its expatriate staff from the Niger Delta following the car bomb attack in a residential compound earlier in the week. The decision to evacuate the families followed another attack, in which armed men stormed an oil facility operated by Total on Thursday. The latest attack hit Total's oil facility in Rivers state, where three police officers were killed. About 400 family members were evacuated by Shell to Lagos. Company official said Shell staff members would remain and oil and gas production would not be affected. Total also stated that it started to repatriate dependents in the wake of the car bombs. Total said despite the attack, its 35,000 bpd Obagi field in Rivers State was unaffected.

An Iraqi oil ministry source said Iraq's SOMO was waiting for another million barrels of Kirkuk crude to flow into tanks in Turkey before issuing a sell tender. There are about 3 million barrels in storage in the Turkish terminal of Ceyhan. The pipeline from the northern oilfields to Ceyhan stopped pumping on December 18 after oil flowed for one day.

OPEC's news agency reported that OPEC's basket of crudes increased by 76 cents/barrel to \$58.20/barrel on Wednesday.

Market Commentary

The oil market opened down 47 cents at 63.25 as it erased some of its previous gains after the market posted a mostly neutral trading session on Wednesday. The market was also pressured in light of a National Weather Service forecast calling for above normal temperatures for most of the US from December 26 through December 30. The crude market quickly posted a high of 63.35 before it continued to trend lower. The market breached its previous low and sold off to a low of 62.30 amid the profit taking. The oil market however bounced off its low and settled in a sideways trading pattern during the remainder of the session. It settled down \$1.06 at 62.66. Volume in the crude market was light with 72,000 lots booked on the day. Meanwhile, the product markets also settled sharply lower as the weather forecast limited the markets' gains. The heating oil market posted a high of 172.90 early in the session before it continued to trade lower. The market sold off to 170.00, where it held some support. The heating oil market retraced some of its losses and traded above 172.00 before a late bout of selling pushed the market to a low of 169.85 ahead of the close. It settled down 2.87 cents at 170.17. The RBOB market also settled down 4.41 cents at 164.89 after the market gapped lower on the opening from 168.25 to 167.55. The market partially backfilled the gap as it posted a high of 168.00. However the market sold off to a low of 164.00. It later bounced off its low and traded mostly sideways with light volume trading ahead of the close. Volumes in the product markets were also light with 25,000 lots booked in the heating oil market and 19,400 lots booked in the gasoline market.

The oil market is seen retracing some of today's sharp losses ahead of the Christmas holiday weekend. If the oil complex remains pressured amid the weather forecast, the markets' losses are seen limited as traders position themselves ahead of the long weekend. The crude market is seen finding support at 62.30 followed by more distant support at 61.65, 61.50 and 61.05. Meanwhile resistance is seen at 62.95 and its high of 63.35. More distant resistance is seen at 64.15, 64.25, 64.70 and 65.05.

Technical levels		
	Levels	Explanation
CL 62.66, down \$1.06	Resistance 64.15, 64.25, 64.70, 65.05 62.95, 63.35	Previous highs Thursday's high
	Support 62.30 61.65, 61.50, 61.05	Thursday's low Previous lows
HO 170.17, down 2.87 cents	Resistance 175.10, 175.60 to 175.90 172.25, 172.90	Previous high, Opening gap (December 18) Thursday's high
	Support 169.85 169.15, 168.80	Thursday's low Previous lows
RB 164.89, down 4.41 cents	Resistance 171.50, 173.00, 175.00, 176.75 167.50, 168.00 to 168.25	Previous highs Remaining gap (December 21)
	Support 164.00 163.25, 160.00, 158.25	Thursday's low Backfills gap (December 14), Previous lows