



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 8, 2006

The EIA stated that BP's Prudhoe Bay oil field could return to full production by January. In its short term energy outlook, the EIA said Alaskan crude production would be reduced by 300,000 bpd in August, and 400,000 bpd in September and October. In November, production could begin restarting slowly with full recovery seen by January. It estimates production would be down 300,000 bpd in November, down 200,000 bpd in December and down 100,000 bpd in January before returning to full production. Meanwhile, US Energy Secretary Sam Bodman said the US government and BP have discussed scenarios where half of Alaska's Prudhoe Bay field could continue to pump oil. He said BP was considering maintaining oil production at the western part of the Prudhoe Bay oil field while it repaired the pipeline on the eastern half of the Prudhoe Bay field. He said a complete shutdown of the Prudhoe Bay system may not be necessary. BP's President Bob Malone said repairs to the transit line infrastructure would take months. US Energy Secretary also stated that tankers could be diverted from countries like Saudi Arabia, Ecuador, Colombia and Mexico to the US West Coast to fill any shortfalls. Meanwhile, White House spokesman Tony Snow said Saudi Arabia and Mexico have pledged to help fill shortages in the US oil supply. He however did not have details about how much oil the countries may be willing to provide. He stated that the Bush administration was willing to tap into the SPR is necessary to fill gaps in the US supply but said so far refineries have not made any such request.

Market Watch

Saudi Arabia has increased its VLCC charters to the US in August to eight, increasing total spot shipments for the month to 16.4 million barrels. It has provisionally booked the Tenyo to carry 275,000 to the US Gulf, loading on August 29. In July, Saudi Arabia booked 10 VLCCs to carry 20.5 million barrels of crude oil to US shores.

JP Morgan stated that oil refining margins may come under pressure from active hedging as soon as the middle of next year. It said some refining companies and investors have already locked in future profit margins, reflecting fears that the market would revert to its cyclical nature. It said the pressure could worsen if major hedging programs coincide with a mild winter following an anti climatic hurricane season.

US Energy Secretary Sam Bodman also stated that halting Iran's nuclear program was more important than preventing high oil prices. He was quoted as saying that "we are as prepared as we can be" for a disruption of Iranian oil exports.

Iran's governor to OPEC, Hossein Kazempour Ardebili said OPEC crude production was the wrong type of oil to make up for the shortfall in BP's Alaskan production. He played down OPEC's ability to make a difference at this time.

The EIA stated in its short term energy outlook that the WTI crude spot price in 2006 and 2007 is expected to average \$70/barrel, up from its previous estimate of \$69/barrel. Retail gasoline prices are estimated to average \$2.72/gallon in 2006 and \$2.67/gallon in 2007, up from its previous estimates of \$2.67/gallon and \$2.60/gallon, respectively. Summer gasoline prices are expected to average \$2.92/gallon, up from \$2.88/gallon. It stated that fuel prices are projected to be higher in August, particularly on the West Coast following BP's decision to shut production at Prudhoe Bay. The EIA reported that world petroleum consumption growth remains strong at 1.3 million bpd in 2006 and 1.8 million bpd in 2007. World petroleum demand in 2006 is estimated at 85.1 million bpd while demand in 2007 is estimated at 86.8 million bpd, down from the previous estimates of 85.6 million bpd and 87.4 million bpd, respectively. Meanwhile, China's demand is expected to average 7.4 million bpd in 2006 and then increase to 7.9 million bpd on average in 2007. It stated that average domestic oil production is expected to fall by 93,000 bpd or 1.8% in 2006 to 5.03 million bpd. For 2007, a 9.9% increase is expected and result in an average production rate of 5.53 million bpd. The EIA reported that total US petroleum demand is estimated at 20.67 million bpd for 2006 and 21.07 bpd for 2007, down from previous estimates of 20.74 million bpd and 21.18 million bpd, respectively. Gasoline demand is estimated at 9.2 million bpd in 2006 and 9.29 million bpd in 2007, up 100,000 bpd from its previous estimate. Meanwhile distillate demand is estimated at 4.21 million bpd in 2006 and 4.3 million bpd in 2007, compared with its previous estimates of 4.2 million bpd and 4.31 million bpd. In regards to OPEC's production, it stated that OPEC's production fell by 125,000 bpd on the month to 29.45 million bpd in July.

The IEA stated that Saudi Arabia could offset any prolonged shutdown of crude oil production. The head of the IEA's oil industry and markets division, Lawrence Eagles said the spare capacity would cushion the impact of BP's decision to shut its Prudhoe Bay production.

Refinery News

BP stated that in the worst case scenario it could take weeks or months to replace the pipelines. However the company said it would try to put portions of the pipeline network back into operation as they are repaired.

Flint Hills' refinery in Fairbanks, Alaska anticipates a crude shortage following BP's decision to shut its production facilities at Prudhoe Bay. It is requesting help from other Alaskan refiners for assistance with an impending jet fuel shortage. The refiner however said it was too early to speculate as to whether rates at the refinery would be cut.

The California Energy Commission said output at California's 14 motor fuels refineries should not be affected by a 50% cut in Alaska crude oil production for at least two weeks. It said 5 of the 14 refineries use Alaskan North Slope crude.

ConocoPhillips' reformer unit at its 190,000 bpd refinery in Trainer, Pennsylvania was in restart on Tuesday. The unit was shut on July 26.

Citgo Petroleum Corp said it suffered an upset at the sulfur recovery unit at its 165,000 bpd Corpus Christi, Texas refinery.

According to a report filed with the Texas Natural Resource Conservation Commission, ConocoPhillips' 247,000 bpd Sweeny refinery is expected to undergo some maintenance on Tuesday. It said rappers located on the electrostatic precipitator at its fluid catalytic cracking unit 3 would be manually operated to aid in the removal of additional catalyst particles.

Sinopec Corp aims to start an expanded naphtha cracker at its south China unit in the next few weeks, a month ahead of schedule. Steam cracking units were ready for start up with a capacity of 640,000 tons per year which would increase Sinopec's ethylene capacity at Maoming to 1 million tpy. Sinopec Maoming aimed to increase operations to 800,000 tpy by the end of the year.

According to a survey by China's Ministry of Commerce, the country's oil demand is forecast to increase by more than 5% this year to 320 million tons.

Production News

Nigeria's Bonny Light crude stream is expected to load 253,000 bpd in September, down from 306,000 bpd planned for the previous month after a pipeline leak disrupted production last month.

Japan may be forced to abandon the Azadegan project as the country is under pressure to side with the US and isolate Iran. The UN Security Council resolution has given Iran until August 31 to stop its uranium enrichment activities or face sanctions. Japan's foreign minister Taro Aso said Japan does not intend to change its stance regarding its stake in the Azadegan oilfield but added that the priority was the nuclear issue.

Ecuador's Central Bank reported that the country's average oil production increased by 2% to 544,375 bpd in January-June, from 532,182 bpd in the same period last year.

Cambridge Energy Research Associates said worldwide capacity should increase to 110 million bpd in 2015 from 88.7 million bpd currently. It said the capacity growth would accommodate rising world oil demand so long as there were no major disruptions in the actual flow of oil for political or other reasons. It found that contrary to conventional wisdom, production of lighter crudes was growing faster than heavy grades. CERA estimated that OPEC operators would add 7.6 million bpd and non-OPEC producers 5.7 million bpd to 2010. OPEC producers would add 5.3 million bpd from 2010 to 2015 while non-OPEC producers would add 2.7 million bpd.

OPEC's news agency reported that OPEC's basket of crudes increased sharply to \$72.12/barrel on Monday from a revised price of \$71.08/barrel on Friday.

Market Commentary

The oil market opened down 33 cents at 76.65 on profit taking following Monday's sharp rally on the news that BP was shutting in the Prudhoe Bay oilfield. The market held support at 76.40 and retraced its losses as it rallied to a high of 77.45 in light of the EIA stating that production at Prudhoe Bay would not return to normal until January. It was also well supported amid the sharp rally in the natural gas market, which quickly rallied to a high of 7.24 in light of the

Technical Analysis		
	Levels	Explanation
CL 76.31, down 67 cents	Resistance 78.15, 78.50, 79.45 76.95, 77.45	Previous high, 62% retracement (79.45 and 72.80), Previous high Tuesday's high
	Support 76.15, 76.05 to 75.40 74.15, 72.95, 72.80, 72.55-72.50	Tuesday's low, Remaining gap (August 7th) Previous lows
	Resistance 217.00, 218.40, 221.00 214.00, 215.90	Previous highs Tuesday's high
HO 211.64, down 2.71 cents	Support 211.10 207.10, 205.00 to 204.80	Tuesday's low Previous low, Remaining gap (August 1)
	Resistance 228.50, 230.25-230.50, 234.75 224.00	Double top, Remaining gap (August 3rd), Previous high Tuesday's high
HU 222.63, down 2.53 cents	Support 219.50, 218.50 218.25, 218.00, 216.00	Tuesday's low Previous lows

EIA's short term energy outlook stating that US inventory of natural gas at the end of the third quarter would be an estimated 3.24 tcf, lower than its previous forecast. The crude market however gave up its gains and traded back towards its low amid the statements made by US Energy Secretary Sam Bodman that BP may be able to maintain some production at the Prudhoe Bay oilfield. The market posted a low of 76.15 ahead of the close and settled down 67 cents at 76.31. Volume in the crude market was excellent with 239,000 lots booked on the day. The product markets also settled in negative territory. The gasoline market gapped down from 223.25 to 219.00 and traded to a low of 218.50. The gasoline market later backfilled its gap as it retraced its early losses and posted a high of 224.00 amid the rally in the crude. The market however gave up some of its gains and settled in a sideways trading pattern ahead of the close. It settled down 2.53 cents at 222.63. The heating oil market opened down 1.05 cents at 213.30 and rallied to a high of 215.90 early in the session. The market however erased its gains and sold off to a low of 211.10 ahead of the close. It settled down 2.71 cents at 211.64. Volumes in the product markets were good with 36,000 lots booked in the gasoline market and 45,000 lots booked in the heating oil market.

NYMEX Most Active Petroleum Options for August 8, 2006									
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Prev Settle	Volume	IV
GO	9		6 C	2.23	08/28/2006	0.0768	0.0911	237	37.952
GO	9		6 P	2.14	08/28/2006	0.0415	0.0349	183	37.914
GO	9		6 C	2.22	08/28/2006	0.0817	0.0964	167	37.991
GO	9		6 C	2.2	08/28/2006	0.0919	0.1077	145	37.991
GO	9		6 P	2.1	08/28/2006	0.0293	0.0243	142	37.914
LO	12		7 P	60	11/13/2007	2.5	2.35	5900	30.481
LO	10		6 P	70	09/15/2006	0.52	0.46	3280	30.3
LO	10		6 P	63	09/15/2006	0.04	0.04	3042	30.473
LO	10		6 C	98	09/15/2006	0.19	0.21	3042	41.262
LO	10		6 P	75	09/15/2006	1.77	1.59	2884	29.999
LO	9		6 C	80	08/17/2006	0.32	0.48	2406	30.517
LO	9		6 C	85	08/17/2006	0.08	0.11	1812	39.24
LO	12		6 P	69	11/14/2006	1.15	1.03	1675	29.413
LO	9		6 P	75	08/17/2006	0.82	0.7	1499	29.094
LO	12		6 C	85	11/14/2006	2.57	2.84	1354	30.258
LO	12		7 C	100	11/13/2007	2.87	2.95	1300	26.159
LO	12		6 P	77.5	11/14/2006	4.01	3.71	1200	29.423
LO	12		6 P	72.5	11/14/2006	2.04	1.86	1200	29.332
OH	2		7 P	2.2	01/26/2007	0.1359	0.1313	360	31.608
OH	2		7 P	2.34	01/26/2007	0.2021	0.1951	240	31.339
OH	9		6 P	1.9	08/28/2006	0.0036	0.0027	235	29.839
OH	9		6 C	2.21	08/28/2006	0.0255	0.035	155	30.377
OH	9		6 P	1.85	08/28/2006	0.0014	0.001	120	29.531
OH	11		6 C	2.26	10/26/2006	0.1095	0.1233	100	30.339

The oil market on Wednesday will likely retrace today's losses. The market is seen supported by the weekly petroleum stock reports, which are expected to show draws in crude stocks and gasoline stocks of over 1 million barrels each and a build of close to 1 million barrels in distillate stocks. The market will also continue to seek

direction from the reports regarding BP's Prudhoe Bay oilfield as well as the geopolitical problems that have continued to support the market. The market is seen finding support at 76.15, 76.05 to 75.40 followed by 74.15. Meanwhile resistance is seen at 76.95, 77.45 followed by 78.15, 78.50 and 79.45.