



## ***ENERGY RISK MANAGEMENT***

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### **ENERGY MARKET REPORT FOR AUGUST 11, 2006**

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Israeli Prime Minister Ehud Olmert has indicated that he would be willing to call off a massive ground offensive in southern Lebanon if Israel's basis demands were met. This followed Israel's announcement that it would carry out a massive ground offensive in south Lebanon because it was dissatisfied with an emerging ceasefire deal being worked by the UN Security Council. The France and US reached an agreement on a draft resolution aimed at halting the conflict. The UN Security Council is expected to

vote on the resolution on Friday. The final draft of the resolution would give a UN peacekeeping force in Lebanon an enhanced mandate to help coordinate the eventual withdrawal of Israeli troops. Under the resolution, the Lebanese army would disarm Hezbollah and it also called for the release of two Israeli soldiers. Israel's Prime Minister later on Friday accepted the resolution and said he would recommend his government approve the deal, when it meets on Sunday. Israel's ground offensive is expected to continue until Israel's cabinet votes on the resolution on Sunday.

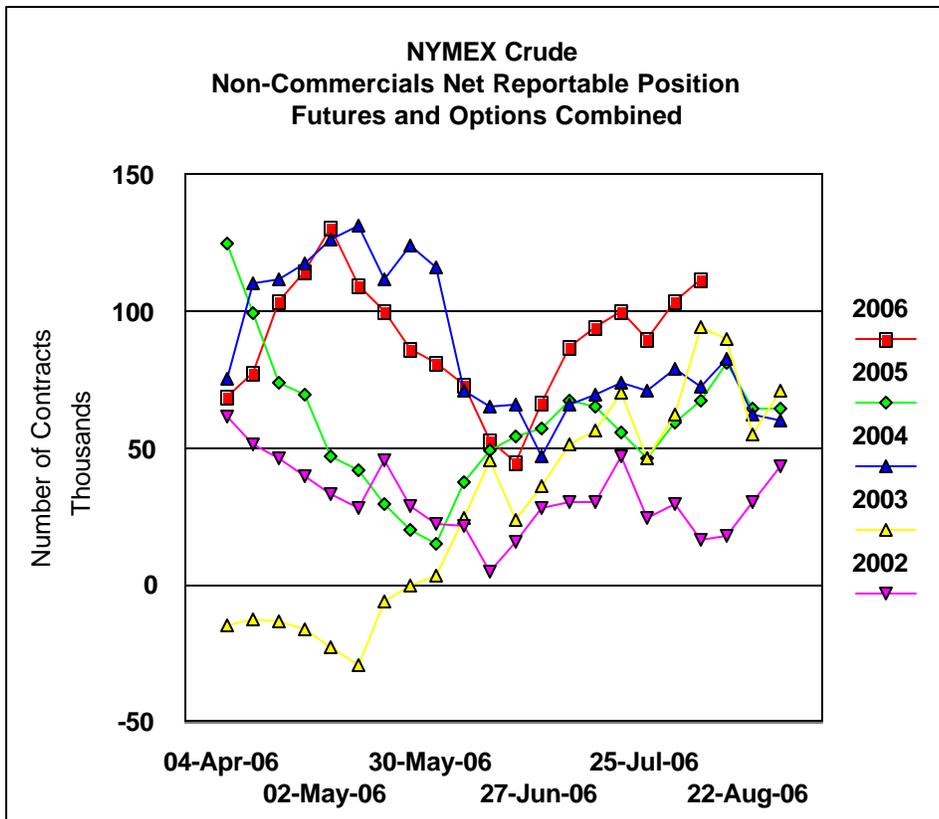
#### **Market Watch**

The US embassy in India warned of possible terror attacks in Delhi and Mumbai in the coming days, ahead of India's Independence Day celebrations on Tuesday. The embassy said it had information that foreign terrorists were planning to carry out bomb attacks around the two cities. The advisory warned that terrorists were likely to target major airports, key central Indian government offices and major gathering places such as hotels and markets.

The IEA cut its world oil demand growth estimate for 2006 to its lowest level since it started its forecasts, led by declining demand in OECD nations. It lowered world oil demand growth to 1.19 million bpd. Its estimates for world demand in 2006 and 2007 were relatively unchanged at 84.78 million bpd and 86.38 million bpd, respectively. It stated that China's demand growth was increased to 6.5% from 6.1% to 7.1 million bpd. The IEA stated that the world could cope for now with the loss of about 1 million bpd of oil from Alaska and Nigeria. It however increased the demand for OPEC's oil by 600,000 bpd in the third quarter and by 200,000 bpd in the fourth quarter. The loss of output from BP's Prudhoe Bay oilfield prompted the IEA to cut its 2006 forecast for non-OPEC supply growth by 280,000 bpd to 860,000 bpd. It increased 2007 growth by 190,000 bpd to 1.89 million bpd. The IEA stated that it expected the Prudhoe Bay oilfield to resume operations next March following repairs to the pipeline. The IEA also stated that world economic growth may slow significantly if oil prices remain at current high levels for another year.

#### **Refinery News**

BP Plc has suspended its shutdown of the western portion of the Prudhoe Bay oilfield pending a firm decision on whether to keep it open. BP is expected to decide by late Friday on the status of the western portion of the field. BP said its executives would meet with state and federal regulators late



Friday to assess the testing data gathered so far and evaluate potential options for continuing and restoring Prudhoe Bay production. Its current production was about 155,000 bpd. Late Thursday, the US Department of Transportation stated that it was not aware of any data that would require the shutdown of the western half of the field. Meanwhile, BP purchased a large supply of crude oil from the open market in recent days to feed its West Coast refineries following the oilfield shutin. BP also stated that it was not declaring force majeure on deliveries of oil. Meanwhile,

ExxonMobil said it declared force majeure on crude oil supplies from the Prudhoe Bay oil field.

Citgo Petroleum shut its crude unit at its 165,000 bpd refinery in Corpus Christi, Texas following problems with a turbine in its unibon unit.

The head of refining for PDVSA said Citgo Petroleum Corp was very interested in selling its stake in the Lyondell refinery to its partner, Lyondell Chemical Co. It is expected to make a decision shortly.

Showa Shell Sekiyu K.K. said it restarted a 61,000 bpd residual fluid catalytic cracking unit at its Yokkaichi refinery on Thursday. The unit was shut on July 30 following a technical problem. It also stated that it planned to shut its 75,000 bpd crude distillation unit at its Yokkaichi refinery for about a month of planned maintenance starting October 5. The refinery is expected to import gasoline to cover the drop in production.

Indonesia's 120,000 bpd Dumai refinery resumed full operations after operating at reduced rates since late June due to technical problems.

### **Production News**

Petrologistics stated that Saudi Arabia was likely to increase its crude oil production within days to make up for a shortfall in oil following BP's decision to shut the Prudhoe Bay oilfield. It said Saudi Arabia would likely increase its production by 200,000 bpd.

Shell Petroleum Development Co of Nigeria said the force majeure declared last month on 180,000 bpd of Bonny Light crude production was still in place. On Thursday, Shell confirmed oil had started flowing again through a Nigerian pipeline. Chevron Corp also stated that it resumed its operations on the pipeline.

The average daily loading rate for the nine North Sea crude oil streams is scheduled to increase by about 5% on the month in September to 2.5 million bpd. The North Sea loading plans for Brent, Forties and Oseberg showed loadings would increase by 123,000 bpd to 864,000 bpd in September. The UK North Sea Forties crude system is scheduled to load 443,000 bpd in September, up from 294,000 bpd in August. Norway's North Sea Troll crude system is expected to load 271,000 bpd in September, up from 224,000 bpd in August.

Total began restarting Britain's North Sea Elgin-Franklin oil and gas fields on Friday afternoon following a two week outage. It produced an average of 115,000 bpd of oil and 13.85 million cubic meters/day of gas in the 12 months to the end of April.

According to Dow Jones, OPEC's crude oil production fell by 290,000 bpd on the month in July to 29.56 million bpd. The fall was led by a fall in Venezuelan output due to deferred maintenance and more outages in Nigeria. Venezuela's production fell to 2.4 million bpd in July from 2.52 million bpd in June. Saudi Arabia's oil production also fell slightly to 9.1 million bpd in July from 9.22 million bpd in June. It reported that Iraq's production fell to 2.08 million bpd from 2.1 million bpd in June.

A PDVSA official said Venezuela was negotiating with major US and European oil companies to increase extra heavy oil production at four projects in the Orinoco river basin over the next few months. The official said it would help compensate oil companies for accepting smaller equity stakes in these ventures. The four projects currently pump 600,000 bpd of oil.

Kazakhstan's State Statistics agency stated that Kazakhstan's oil production in July increased by 9.6% on the month. It stated that in year on year terms, its oil production increased by 18%.

Iraq increased its official selling price of its Basra Light crude loading in September for customers in Europe and the US. Iraq's SOMO set the September price for its Basrah Light crude bound for Europe at dated BFO minus \$7.25, up from the August price of dated BFO minus \$7.95. Its price for crude bound for the US was set at a discount of \$7.80 to the second month contract of WTI. Meanwhile, it set the price for its Basrah Light crude bound for Asia at the Oman/Dubai average minus \$2.80, unchanged on the month.

OPEC's news agency reported that OPEC's basket of crudes fell sharply to \$70.94/barrel on Thursday, down from \$72.53/barrel reported on Wednesday.

### **Market Commentary**

The oil market ended the session higher on Friday as the market recovered from Thursday's sharp sell off. The market opened up 15 cents at 74.15 and settled in a sideways trading range from 74.30 to its low of 73.75. The crude market however bounced off its low and continued to retrace its previous losses as it traded to a high of 74.55. The market's gains were however limited by the news that France and the US reached an agreement on a draft resolution aimed at halting the conflict between Israel and Hezbollah in Lebanon while Israel said it would be willing to call off its expanded offensive if its demands were met. The market's gains were also limited by news that BP suspended the shutdown of the western portion of the Prudhoe Bay oilfield pending its final decision on whether it would continue to operate that portion of the field while it replaced part of its pipeline. The market, which traded back towards its low following the headlines, bounced back into positive territory on some late short covering ahead of the weekend. It settled up 35 cents at 74.35. Volume in the crude market was good with over 250,000 lots booked on the day. Meanwhile, the gasoline market also recovered from its previous losses as it settled up 7.54 cents at 206.43. The market, which posted an inside trading day, bounced off its low of 200.50 and rallied above the 205.00 level before its gains were

limited by the headlines. The market however saw some short covering and posted a high of 206.80 ahead of the close. The heating oil market also

Technical Analysis		
	Levels	Explanation
CL 74.35, up 35 cents	<b>Resistance</b> 74.55	Remaining gap (August 10th), Previous highs Friday's high
	<b>Support</b> 73.75	
	72.95, 72.80	
HO 204.06, up 1.56 cents	<b>Resistance</b> 205.00	Remaining gap (August 10th), Previous high Friday's high
	<b>Support</b> 202.00	
	200.50, 200.00, 197.70, 197.60	
HU 206.43, up 7.54 cents	<b>Resistance</b> 206.80	Remaining gap (August 10th) Friday's high
	<b>Support</b> 202.00, 200.50	
	198.00, 197.30, 195.80, 195.00	

settled up 1.56 cents at 204.06 after it sold off to a low of 202.00 and recovered some of its losses ahead of the close. Volumes in the product markets were good with 40,000 lots booked in the gasoline market and 51,000 lots booked in the heating oil market.

The Commitment of Traders report showed that non-commercials in the crude market continued to increase their net long positions, by 4,435 contracts to 70,530 contracts in the week ending August 8<sup>th</sup>. The combined futures and options report also showed that non-commercials in the crude market increased their net long positions by 7,662 contracts to 111,778 contracts on the week. The non-commercials continued to add to their net long positions as open interest saw a large increase of over 48,000 lots on Wednesday ahead of its sharp sell off on Thursday. The non-commercials in the gasoline market cut their net long positions by 4,339 contracts to 14,799 contracts while non-commercials in the heating oil market increased their net long positions by 2,239 contracts to 17,675 contracts.

The oil market on Monday will be driven by the developments concerning the UN draft resolution. Israel stated that it would continue its ground offensive until Israel's cabinet voted on whether to accept the resolution on Sunday. If the resolution is passed and the cabinet accepts the resolution under the recommendation of Israel's Prime Minister, the market on Monday is seen trading lower. The market will also be driven by BP's decision of whether it would shutdown its western portion of the Prudhoe Bay oilfield. Technically, the market is seen trading lower as stochastics are still trending lower. The market is seen finding support at its low of 73.75 followed by 72.95 and 72.80. Resistance is however seen at 74.55 followed by 75.60 to 76.20. More distant resistance is seen at 77.40 and 77.45.