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ENERGY MARKET REPORT FOR AUGUST 21, 2006

Iran's supreme leader Ayatollah Ali Khamenei said Iran would continue to pursue its nuclear technology. He accused the US of putting pressure on Iran despite Iran's assertions that it was not seeking nuclear weapons. Iran stated that it would offer a multifaceted response on Tuesday on the package but insisted it would not suspend uranium enrichment altogether. Meanwhile, Germany's Chancellor Angela Merkel called for a solid answer from Iran to the package of incentives aimed at persuading the country to halt its nuclear program. Also, US President George W. Bush stated that the US was getting an inkling of Iran's response. Separately, diplomats and UN officials said Iran had turned away UN inspectors seeking to examine its underground nuclear site in an apparent violation of the Nonproliferation Treaty. They stated that Iran's unprecedented refusal to allow access to the facility at Natanz could seriously hamper international attempts to ensure Iran was not attempting to produce nuclear weapons.

UN Secretary General, Kofi Annan said an Israeli raid in Lebanon on Saturday violated the UN backed truce. He said he was concerned about the violation. Israel said the attack on a Hezbollah stronghold in

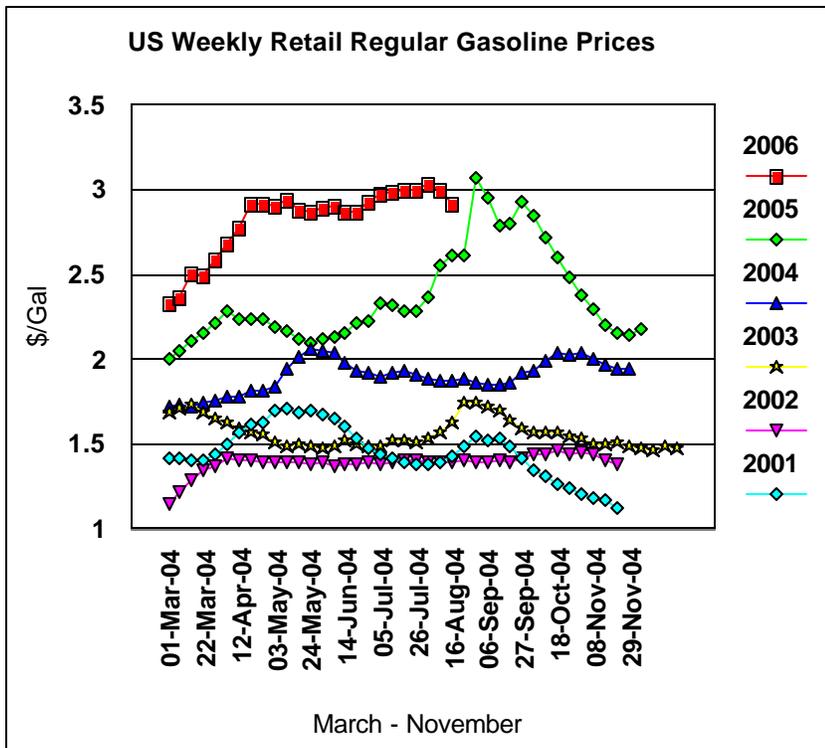
Market Watch

The director of the US National Hurricane Center, Max Mayfield, said there were signs of increased activity near the west coast of Africa. He said there was nothing that he knew of that was unfavorable to hurricane development in the eastern Atlantic.

According to Matthew Simmons, chairman of energy investment bank, Simmons & Co International said BP's shutdown of the Prudhoe Bay oilfield may be the first of many. He said the chance that the leaks and corrosion found at Prudhoe Bay was an isolated occurrence was zero. Analysts and government officials said the current system of producing and transporting oil would be unable to deliver the energy needed in the next 10 years. Barclays Capital estimated that repairs and replacement of pipes, valves and refineries would help push oil prices to \$93/barrel by 2015. According to the US Department of Transportation's Office of Pipeline Safety, internal corrosion was the biggest reason for pipeline spills in the US this year, causing 16% of all accidents through August 9. Meanwhile, Statoil ASA said production this year may be as much as 25,000 bpd below forecast due to extensive maintenance and lower output from older North Sea fields.

Alaska Governor Frank Murkowski signed the state's new oil and gas production tax into law, increasing the taxes on the industry by \$1.4 billion to \$1.6 billion/year, depending on oil prices. The new tax law, signed August 19 and retroactive to April 1, contains a progressive formula that raises the tax rate as crude oil prices increase. He said despite the loss of production from the partial shutdown of the Prudhoe Bay oilfield, Alaska is expected to have a \$2 billion revenue surplus next year due to the new tax. Oil producers would pay 22.5% tax on net production revenues with the progressive formula increasing the tax rate at 0.25% for every dollar crude oil prices increase above \$40/barrel.

eastern Lebanon was defensive and was designed to disrupt



weapons supplies to Hezbollah from Syria and Iran. Meanwhile, Venezuela's President Hugo Chavez called on the UN to assure the enforcement of the Middle East ceasefire. President Hugo Chavez has built close alliances with several Middle East nations, including Iran and Qatar, as part of an effort to reduce ties to the US.

Saudi Arabian security forces surrounded a building holding suspected militants in the city of Jeddah. BBC News reported that there were gunfights in Jeddah's al-Jamea area.

US President George W. Bush said high gasoline prices was a tax on US citizens and said it was all the more reason to diversify away from crude oil. He noted the passage of

legislation to encourage consumption through different purchasing habits, such as hybrid vehicles. He also cited what he said was the need for more US refining capacity but added that diversifying away from oil was not going to happen overnight.

The Center for Global Energy Studies said oil market fundamentals point to a weaker crude market but concerns about potential supply disruptions mean that oil prices continue to push prices higher. It said an easing of geopolitical tensions coupled with rising inventory cover would cause a major price correction. It also forecast much healthier supply growth from non-OPEC producers of 1.1 million bpd, which meant a 700,000 bpd reduction in demand for OPEC oil this year.

The EIA reported that the US average retail price of gasoline fell by 7.6 cents to \$2.924/gallon in the week ending August 21. It also reported that the US average retail price of diesel fell by 3.2 cents to \$3.033/gallon on the week.

Refinery News

Flint Hills Resources started a turnaround of the West Plant of its Corpus Christi, Texas refinery on Monday. During the turnaround, Flint Hills is expected to shut an isomerization unit at the plant to perform turnaround activities. Additionally, maintenance would be completed on the continuous catalytic reformer. It is expected to undergo maintenance through September 12.

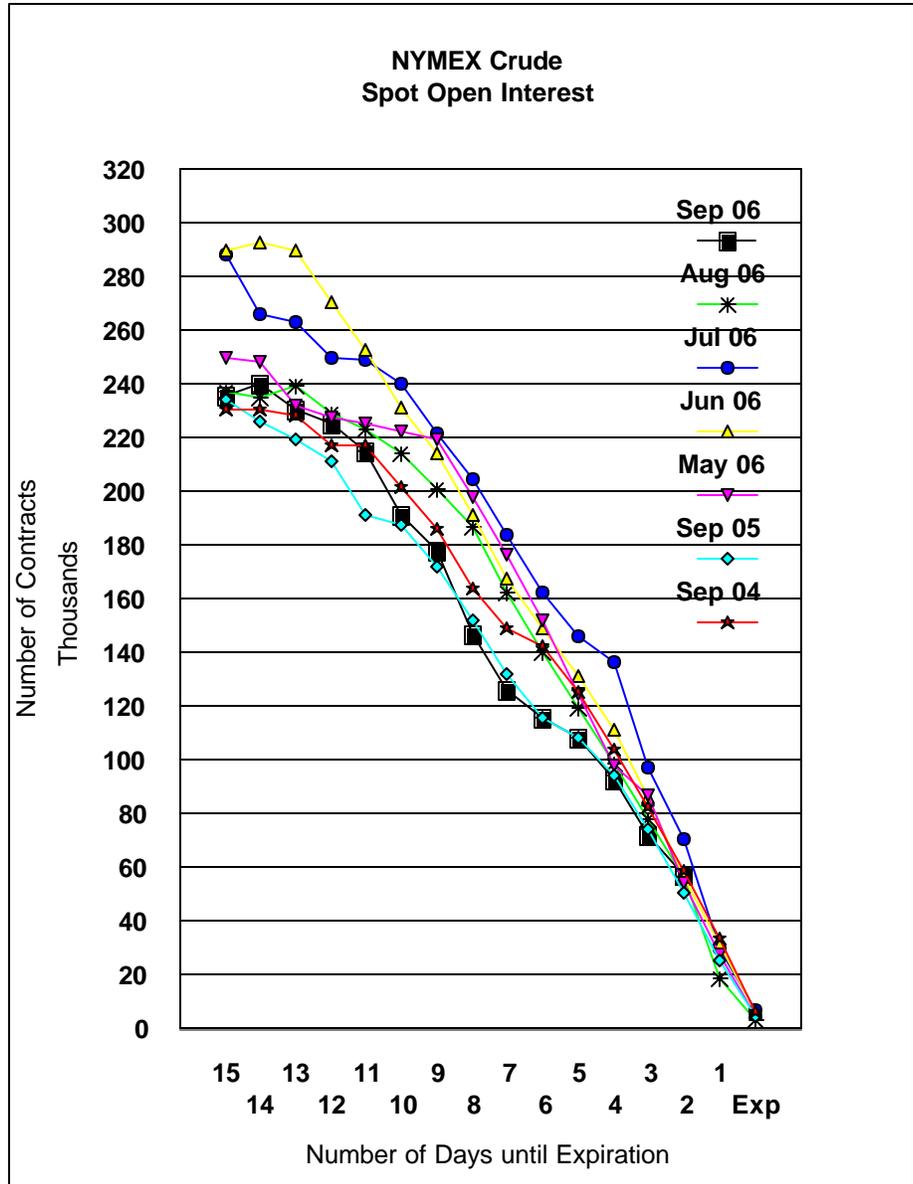
ConocoPhillips planned to make repairs this week on a fluid catalytic cracking unit at its 247,000 bpd refinery in Sweeny, Texas. The unit was shut on Saturday and is expected to remain down through Thursday.

Valero Energy Corp said its Texas City, Texas refinery was unaffected by a power outage following heavy rain in the region. It also reported equipment failure and excess opacity at its Houston, Texas refinery. It said the complex one regenerator electrostatic precipitator control device suffered electrical

failure on Saturday. Reports filed with the Texas Commission on Environmental Quality did not indicate whether the events disrupted unit operation or fuel production.

Credit Suisse reported that refining margins in most US markets fell last week. US Gulf Coast margins fell \$1.23 to \$13.29/barrel while margins in the West Coast fell \$1.14 to \$22.99/barrel. Northeast margins fell 74 cents to \$8.23/barrel while Midwest margins fell 22 cents to \$19.25/barrel. Meanwhile, margins in the Rockies market increased by \$2.73 to \$38.77/barrel on the low sulfur diesel crack.

According to Euroilstock, total European refinery output fell by 72,000 bpd or 0.5% on the month in July to 13.26 million bpd as crude throughput fell by 1.2% to 92.7%. It reported that gasoline production fell 0.7% on the month to 3.36 million bpd while fuel oil output also fell by 4.6% to 1.8 million bpd. It stated that distillate production increased by 0.7% or 40,000 bpd on the month to 6.16 million bpd.



The 220,000 bpd PCK refinery in Schwedt, Germany is scheduled to undergo maintenance for about a month starting in May 2007. The refinery is expected to shut 50% of its operation.

Iran's Deputy Oil Minister Mohammad Reza Nematzadeh said the country would cut its budget for gasoline imports gradually over two to three years to allow time to develop better public transportation as an alternative to cars.

South Korea's SK Corp said it cancelled a 13 day maintenance at its 260,000 bpd crude distillation unit that had been planned to start on Monday. The company said it planned to maintain its September crude processing rate at 750,000 bpd. Separately, it shut a 620,000 ton per year naphtha cracker from Monday for a 34 day planned maintenance period to expand its capacity by 30,000 tons.

Thailand's Commerce Ministry stated that the country's crude oil imports increased by 5.36% in July on the year to 4.53 billion liters or 918,700 bpd. Meanwhile, Thailand's Energy Minister Viset Choopiban said the country's 2006 crude imports are expected to fall 5% on the year due to high prices. In the first seven months of the year, Thailand imported 28.38 billion liters worth \$11.68 billion.

Production News

The US Minerals Management Service said it sold 8.5 million barrels of royalty-in-kind Gulf of Mexico and Pacific Ocean oil to seven companies. It stated that starting October 1, the oil would be delivered in six month contracts to units of Chevron Corp, Royal Dutch Shell Plc, ExxonMobil Corp, Marathon Petroleum Corp, ConocoPhillips, Plains All American LP and Citadel Energy Products LLC. The auctioned crude comes from in kind crude royalties collected by the MMS in lieu of cash payments from offshore oil leases.

Norway's Statoil said it would perform a feasibility study on whether to start oil production at its Snoehvit natural gas field in the Barents Sea. It said it was pursuing 15 such projects on the Norwegian Continental Shelf to maintain its output goal of 1 million barrels of oil equivalent until 2015.

A Nigerian government spokesman said a German oil worker taken hostage about two weeks ago was freed overnight. Separately, authorities stated that up to 10 militants who were trying to free a hostage in Nigeria were killed in a shootout with troops when they ran into a military convoy in the Niger Delta. A gunfight broke out when militants ran into a heavily armed convoy escorting supplies to an oilfield in the Brass Creek area of Bayelsa state. It was not clear whether the hostage, a Nigerian community development worker employed by Royal Dutch Shell, survived the gunfight.

According to a Reuters survey, analysts have trimmed their output forecasts for oil producers outside the OPEC group this year after BP shutdown its Prudhoe Bay oilfield. The forecast for non-OPEC oil output growth this year now stands at 920,000 bpd, down 200,000 bpd from a previous survey in June. Total non-OPEC supply is estimated at 50.33 million bpd in 2006. Its production is expected to increase by 1.48 million bpd to 51.74 million bpd.

The exploration bureau of China's Daqing oilfield has found 250 million tons or 1.8 billion barrels of proven new reserves. A report did not say if the deposits were part of the Daqing oilfield or separate finds in surrounding areas.

Japan's INPEX Holdings said it did not plan to sign any more contracts on Tuesday regarding development of the Azadegan oilfield in Iran, although Iran has stated that the two countries would finalize the deal by then. A date to start developing the field, which is estimated to hold 26 billion barrels of oil has not been set because work to remove landmines in the area is still going on. INPEX still plans to develop the field when all the landmines are removed and is conducting other preparatory work. Meanwhile, Japan's Yomiuri Shimbun reported that the country would propose that oil be left out from initial economic sanctions the UN may impose on Iran if the country refuses to suspend uranium enrichment.

OPEC's news agency reported that OPEC's basket of crudes increased by 14 cents/barrel to \$66.99/barrel on Friday. It also reported that OPEC's basket of crudes fell by \$3.60/barrel to \$68.12/barrel in the week ending August 18th.

A Nigerian oil official stated that the country planned to offer 50 blocks to companies in its next licensing round, expected to be held in October.

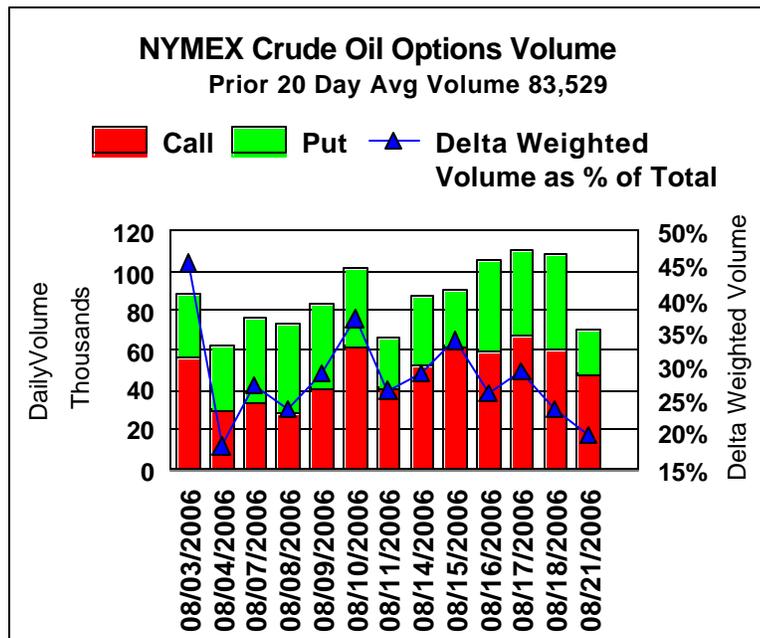
Market Commentary

The oil market gapped higher from 71.19 to 71.70 on indications that Iran would likely defy its deadline to suspend its uranium enrichment. Iran stated that it would offer a response on Tuesday to the incentive package but added that it would not suspend its nuclear program. Iran's Supreme Leader Ayatollah Ali Khamenei said it would continue to pursue its nuclear technology. Iran also turned away UN inspectors seeking to examine its underground nuclear site. The market partially backfilled its gap as it posted a low of 71.45. However the market held good support at that level and traded mostly sideways in a 50 cent trading range from 71.50 to 72.00 before it rallied to its high ahead of the close.

The market posted a high of 72.50 as it was further supported by the expectation that Iran would defy a looming deadline to suspend its uranium enrichment.

Technical Analysis		
	Levels	Explanation
CL	Resistance 72.45, up \$1.31	73.15, 73.90 72.50 Previous highs Monday's high
	Support	72.00, 71.45 to 71.19 69.60 to 69.30, 68.80 Remaining gap (August 21st) Friday's low, Previous lows
		204.05, 205.00, 207.30 to 210.00 204.00 Previous highs, Remaining gap (August 10th) Monday's high
HO	Resistance 203.27, up 4.32 cents	201.00, 200.55 196.50, 196.25 Monday's low Previous lows
	Support	202.25, 203.20, 206.80 194.50, 196.25, 197.00 Previous highs Monday's high
		191.55 191.50, 191.00, 189.50, 185.00 Monday's low Previous lows

The market settled up \$1.31 at 72.45. Volume in the crude market was good with 203,000 lots booked on the day. Open interest continued to fall by a total of 6,805 contracts as of Friday's session. Open interest in the September contract fell by 15,175 contracts as traders continued to liquidate their positions ahead of its expiration on Tuesday. Meanwhile, the product markets ended mixed with the gasoline market settling down 3.03 cents at 193.66 and the heating oil market settling up 4.32 cents at 203.27. The gasoline market opened down 69 points at 196.00 and quickly posted a high of 197.00.



However the market gave up its gains and settled in a sideways trading pattern. The market later breached its support and sold off to a low of 191.55 before it retraced some of its losses ahead of the close. Similar to the crude market, the heating oil market gapped higher from 200.60 to 201.50, which it backfilled as it posted a low of 200.55. The market later bounced off its low and held some resistance at 203.00 before further buying ahead of the close pushed the market to a high of 204.00 on the close. Volume in the product markets were light with 23,000 lots booked in the gasoline market and 38,000 lots booked on the heating oil market.

The oil market will likely remain supported as Iran is expected to defy the deadline and continue with its nuclear program. The market will also be driven by the September crude contract expiration on Tuesday. The oil market is seen finding support at 72.00 followed by its

remaining gap from 71.45 to 71.19. More distant support is seen at 69.60 to 69.30 and 68.80. Meanwhile resistance is seen at its high of 72.50 followed by 73.15 and 73.90.

NYMEX oil options while seeing substantially lighter trading volumes today continued to see the limited interest focused in far out of the money calls. Today the two most active were the crude \$90 and \$100 calls in the December 06 contract.

NYMEX Petroleum Options Most Actively Traded Options for August 21, 2006											
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Prev Settle	Volume	High	Low	IV
GO	12	6	C	1.88	11/27/2006	0.1265		350	0	0	34.107
GO	9	6	P	1.9	08/28/2006	0.0304	0.0278	203	0.021	0.021	43.835
GO	9	6	P	1.88	08/28/2006	0.0233	0.0218	200	0.015	0.015	43.835
GO	9	6	P	2.1	08/28/2006	0.1692	0.1481	110	0	0	45.835
GO	10	6	P	1.9	09/26/2006	0.0838	0.0836	100	0	0	38.76
LO	12	6	C	90	11/14/2006	0.69	0.6	10877	0.7	0.65	31.622
LO	12	6	C	100	11/14/2006	0.3	0.25	7250	0.31	0.25	36.078
LO	12	6	P	60	11/14/2006	0.21	0.33	3205	0.3	0.3	28.748
LO	12	6	C	95	11/14/2006	0.44	0.37	3150	0	0	33.819
LO	12	6	P	65	11/14/2006	0.71	0.87	2851	0.9	0.9	28.211
LO	10	6	C	85	09/15/2006	0.17	0.16	2319	0.17	0.16	35.419
LO	10	6	P	72.5	09/15/2006	1.71	2.33	2132	2.1	1.9	27.532
LO	10	6	C	75	09/15/2006	1.4	1.07	1884	1.3	1.08	27.801
LO	10	6	C	77	09/15/2006	0.86	0.65	1755	0.8	0.68	28.644
LO	12	6	C	80	11/14/2006	2.05	1.75	1519	1.95	1.8	27.732
LO	10	6	C	72.5	09/15/2006	2.51	1.93	1316	2.18	2	27.592
OH	9	6	P	2	08/28/2006	0.0184	0.0428	535	0.025	0.02	28.839
OH	10	6	P	2	09/26/2006	0.039	0.0559	202	0.045	0.04	28.378
OH	9	6	P	2.03	08/28/2006	0.031	0.0616	150	0	0	28.839
OH	9	6	P	1.93	08/28/2006	0.0036	0.0143	150	0	0	28.762
OH	9	6	C	2.1	08/28/2006	0.0102	0.0066	54	0.0075	0.006	29.531