



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 23, 2006

The five permanent members of the UN Security Council, Britain, China, France, Russia and the US in addition to Germany were studying Iran's offer of more talks to resolve the nuclear impasse and determine if Iran's response went far enough to avert the threat of UN sanctions. On Tuesday, Iran said its reply to the incentive package contained ideas that would allow serious talks about its standoff to start immediately. There were no signs that Iran had agreed to a UN Security Council demand that it halt its uranium enrichment by August 31. The Bush administration said that an offer by Iran fell short of UN demands. The US said it would need time to study the Iranian response but promised to continue its efforts to impose economic sanctions against Iran if it failed to meet the Security Council deadline to halt its nuclear program. The Washington Post quoted unidentified officials from countries involved saying Iran was willing to consider halting its nuclear program but not as a precondition for talks. Separately, Russia's Foreign Ministry said it would be premature to discuss imposing sanctions against Iran over its nuclear program because the UN Security Council's August 31 deadline has not passed. A ministry official said Russia would continue to seek a political resolution to the dispute.

Market Watch

Japan's Finance Minister Sadakazu Tanigaki expressed caution against including oil in economic sanctions that the international community may impose on Iran if it refuses to halt its nuclear program.

According to a study by UBS, oil production is set to peak in the mid to late 2020s. However it stated that the decline would be offset as high fuel costs accelerate the quest for alternative energy sources. It said that the fact that consumption was outstripping new discoveries by more than 400% suggested that further increases in world reserves may be nearing an end. Oil consumption is expected to remain strong in the near term. It also predicted that natural gas would eclipse oil production by 2030 or even sooner.

The IEA's director general, Claude Mandil said the IEA would look to Iran's fellow OPEC states to increase their oil production if Iran decided to cut its oil exports due to the standoff over its nuclear program. He said the IEA would prefer to see OPEC exhaust its 2 million bpd of spare capacity rather than tap the IEA's emergency stockpiles. He said the government of the 26 IEA member countries owned about 1.5 million barrels of oil in strategic reserves.

DOE Stocks

Crude – down 600,000 barrels
Distillate – up 2.3 million barrels
Gasoline – up 400,000 barrels
Refinery runs – up 1.42%, at 92.8%

Syria threatened to close its border with Lebanon if UN peacekeeping forces are deployed along the border. Syria's President Bashar Assad has rejected any deployment of UN troops along the border, stating such a move would create animosity between the two countries.

Meanwhile, UN Secretary General Kofi Annan is scheduled to travel to the Middle East in the coming days, with stops in Israel, Lebanon, Iran and Syria to help enforce the ceasefire. He is also expected to visit the Palestinian Authority, Qatar, Turkey, Saudi Arabia, Egypt and Jordan.

Refinery News

ConocoPhillips is expected to shut its 275,000 bpd refinery at Wilhelmshaven, Germany for three weeks of maintenance work from mid-September. Work on the refinery would include preparation for plant upgrading, aimed at increasing output of higher value products like gasoline and diesel at the expense of loss making products like fuel oil. The shutdown adds to the program of autumn turnarounds at northwest European refineries from late August to October that would cut fuel supply both within Europe and the export markets, including the US.

Taiwan's Formosa Petrochemical Corp is expected to shutdown its No. 1 73,000 bpd residual fluid catalytic cracker unit for less than 15 days in September to repair a mechanical problem. The shutdown, in line with the closure of its 70,000 bpd residual desulphurizing unit that provides feedstock for the RFCC, would force it to skip its 30,000 ton spot gasoline export for September loading.

BP officials said they hoped to repair an undersea oil well valve off the coast of Louisiana that has been leaking oil and gas after it was damaged during last year's hurricane season. The damaged valve has released an estimated 93 barrels of oil since last year. BP officials said regulators have been informed of all of the leaks.

The Shetland Island Council stated that Brent crude liftings increased to 379,559 tons in the week ending August 22 from 88,323 tons in the previous week.

Japan's Ministry of Japan reported that the country's crude oil imports fell by 6% on the year in July to 19.134 million kiloliters or 3.88 million bpd. Its gasoline imports increased by 26.2% on the year to 2.687 million kl. Separately, the Petroleum Association of Japan reported that the country's crude stocks fell by 783,418 kl or 4.53% on the week to 16.53 million kl. It also reported that Japan's crude throughput increased by 107,537 kl to 4.721 million kl. Its gasoline stocks increased by 18,348 kl to 1.89 million kl while its gasoline production increased by 90,223 kl to 1.271 million kl. Its gasoline imports increased by 6,426 kl to 40,599 kl on the week.

India's Petroleum Ministry reported that the country's oil product exports increased by 109% on the year to 2.8 million tons in July.

Indonesia's Pertamina is expected to increase its oil refining capacity by 20% by 2012. The company said total investments in the next five years would be \$18 billion.

Production News

Nigeria's oil workers' unions may pull out all members from the Niger Delta over safety fears following several abductions by militants and a military crackdown. The two oil unions have called an emergency meeting following a clash between troops and militants during a botched attempt to free a Nigerian hostage in the delta. PENGASSAN and NUPENG are scheduled to vote on August 30 on whether to call on their members to leave the Niger Delta.

Romanian oil company, Grup Servicii Petroliere said the Orizont rig in the Gulf, involved in a legal dispute, was fired upon and then occupied by Iranian troops. Romania has asked Iran to investigate the rig incident. Authorities said workers from the rig were safe. An Iranian oil official however denied the reports, saying its military force was not used against the Orizont platform. The 13,000 ton Orizont rig has 26 workers on board and has been in Iranian waters since October of last year.

A senior Iraqi oil official said southern Iraqi oil workers ended their one day strike that shut a pipeline supplying Baghdad with oil products. The General Company for Oil Lines and Pipes workers decided to end their strike after an official at the Oil Ministry promised to meet their demands, of higher wages, better accommodations and a share in the company's profits. However the workers have given the ministry a three day ultimatum to meet their demands otherwise they would call for another strike. Oil Ministry and union officials said the strike action on Tuesday did not impact oil exports.

Venezuela's President Hugo Chavez said the country aimed to become a top supplier to China and planned to increase its oil sales to 500,000 bpd in 2009, up from its current sales of 150,000 bpd. Venezuela is expected to double its sales to 300,000 bpd next year. Venezuela's President is also expected to sign an agreement to buy up to 18 crude transport vessels and 24 oil drilling rigs from China. The two countries also plan an oil joint venture to operate in Venezuela.

The Abu Dhabi National Oil Co has completed projects to expand its crude oil production capacity to about 2.8 million bpd. Its production is expected to reach 4 million bpd by 2010.

Japan's Nippon Oil Corp purchased an October delivery cargo of 700,000 barrels of Russia's light sweet Sokol. The cargo from the Sakhalin-1 project on Russia's Pacific Coast would be delivered to Nippon Oil's terminal in Kagoshima in October. Oil traders said it would be the second cargo, with operator ExxonMobil Corp lifting the first stem in September for its Japanese refining unit. Sakhalin-1 is expected to pump about 250,000 bpd by the middle of next year.

OPEC's news agency reported that OPEC's basket of crudes increased 6 cents to \$67.98/barrel on Tuesday.

Libya is scheduled to start its third licensing round on Thursday. Officials are expected to invite foreign executives to examine technical data on 41 blocks offered by state owned NOC under its exploration and production sharing formula. A similar event would be held in London on August 31.

Nigeria raised its September official selling price for Bonny Light and Qua Iboe crudes to a premium of \$2.10 over BFO. Its

Technical Analysis			
	Levels	Explanation	
CL	Resistance 71.76, down \$1.34	73.35, 74.25 71.90, 72.15, 72.67	Double top, Previous high Wednesday's high
	Support	71.10 71.00, 70.20, 70.10, 69.70	Wednesday's low Previous lows
HO	Resistance 200.26, down 3.40 cents	205.70, 207.30 to 210.00 201.00, 203.50	Previous high, Remaining gap (August 10th) Wednesday's high
	Support	198.25 196.50, 196.25	Wednesday's low Previous lows
HU	Resistance 185.94, down 7.99 cents	196.50, 197.00, 202.25, 203.20 186.50, 190.00, 193.75	Previous high, Double top, Previous highs Wednesday's high
	Support	183.00 182.28, 178.50, 174.13	Wednesday's low Backfills gap, Previous low, 62%(136.75 and 234.60)continuation chart

Escravos crude price was set at BFO plus \$1.40/barrel while its Brass blend crude price was set at BFO plus \$2.20/barrel. Its Pennington crude price was set at BFO plus \$4.40/barrel while its Forcados crude price was set at BFO plus \$2.00/barrel.

Market Commentary

The oil market gapped lower from 72.60 to 72.45 amid some profit taking as traders awaited the UN Security Council's response to Iran's offer of more talks. The market however seemed to have

shrugged off the reports that Nigeria's oil unions may call a strike later this month due to safety concerns following several abductions in recent weeks. The market backfilled its gap and posted a high of 72.67 early in the session. The crude market however sold off sharply following the release of the bearish DOE report, which showed a smaller than expected draw in crude stocks. The market extended its losses to \$2.00 as it posted a low of 71.10, with light volume trading. It however bounced off its low and traded back towards the 72.00 level ahead of the close. The October crude contract settled down \$1.34 at 71.76. Volume in the crude market was light with 183,000 lots booked on the day. The gasoline market, which led the products lower, settled down 7.99 cents at 185.94. The market posted a high of 193.75 early in the session but quickly sold off amid the unexpected build reported in gasoline stocks. The market extended its losses to 10.93 cents as it posted a low of 183.00 late in the session.

The gasoline market later erased some of its losses ahead of the close.

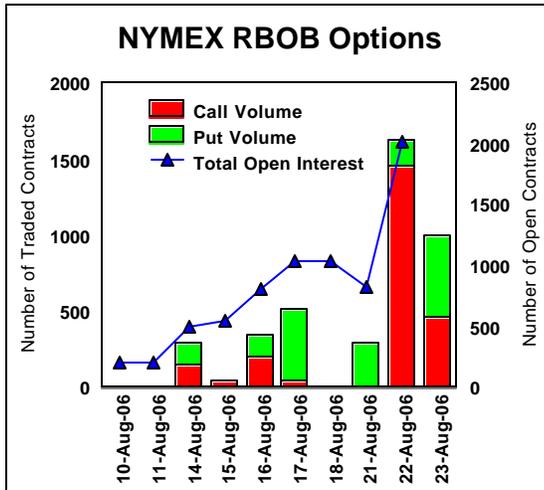
Similarly, the heating oil market also sold off its high of 203.50 to a low of 198.25, in light of the DOE reporting a larger than expected build in distillate stocks of 2.3 million barrels. The market later erased some of its losses and settled down 3.40 cents at 200.26.

Volumes in the product markets were light with 27,000 lots booked in the gasoline market and 49,000 lots booked in the heating oil market.

NYMEX Petroleum Options Most Actively Traded for August 23, 2006									
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Prev Settle	Volume	IV
GO	1	7	C	2.2	12/26/2006	0.0435	0.0502	810	36.645
GO	10	6	C	3	09/26/2006	0.003	0.0042	410	73.828
GO	9	6	P	1.85	08/28/2006	0.0343	0.0122	206	44.912
GO	9	6	C	1.9	08/28/2006	0.0227	0.0659	116	45.374
GO	10	6	C	2.01	09/26/2006	0.0418	0.06	115	43.528
GO	9	6	P	1.95	08/28/2006	0.1011	0.0497	115	45.989
GO	9	6	P	1.8	08/28/2006	0.0157	0.0047	109	44.758
LO	12	6	P	70	11/14/2006	2.02	1.81	5269	26.302
LO	12	6	C	100	11/14/2006	0.23	0.27	3631	36.429
LO	10	6	C	85	09/15/2006	0.08	0.14	3323	35.77
LO	10	6	P	70	09/15/2006	1.1	0.77	2357	26.127
LO	10	6	P	71.5	09/15/2006	1.74	1.26	2268	26.156
LO	10	6	C	75	09/15/2006	0.76	1.23	2231	26.891
LO	10	6	C	73	09/15/2006	1.33	2.03	1984	26.114
LO	12	7	P	60	11/13/2007	2.45	2.38	1900	28.232
LO	6	7	P	65	05/17/2007	2.52	2.38	1400	28.319
LO	11	6	P	70	10/17/2006	1.68	1.4	1328	26.317
LO	12	6	C	74	11/14/2006	3.46	4.18	1322	26.333
LO	12	8	P	75	11/17/2008	8.94	8.82	1300	23.504
LO	12	8	P	50	11/17/2008	1.87	1.86	1300	27.706
LO	12	6	P	74	11/14/2006	3.81	3.41	1300	26.378
LO	12	6	C	85	11/14/2006	0.84	1.07	1253	29.075
LO	1	7	C	75	12/14/2006	3.93	4.59	1225	26.363
LO	10	6	P	69	09/15/2006	0.77	0.53	1033	26.01
LO	10	6	P	72	09/15/2006	1.99	1.46	1017	26.089
LO	12	6	C	40.5	11/14/2006	33.15	34.28	1000	82.982
LO	12	6	C	40	11/14/2006	33.65	34.78	1000	84.729
OB	4	7	P	2.1	03/27/2007	0.1635	0.1563	335	29.128
OB	4	7	C	2.15	03/27/2007	0.1755		210	29.07
OB	4	7	P	2.15	03/27/2007	0.1895		210	29.204
OB	4	7	C	2.1	03/27/2007	0.1989		150	29.281
OB	12	6	C	2.08	11/27/2006	0.0465		100	32.607
OH	2	7	P	2.24	01/26/2007	0.1988	0.1835	650	30.608
OH	9	6	P	1.95	08/28/2006	0.0087	0.0045	229	29.531
OH	9	6	C	2.05	08/28/2006	0.0108	0.0243	219	30.07
OH	9	6	P	2	08/28/2006	0.0263	0.0153	205	29.531
OH	2	7	P	2.28	01/26/2007	0.2242	0.2079	185	30.954
OH	9	6	P	1.9	08/28/2006	0.0019	0.0009	175	29.531

The oil market will likely retrace some of its losses as the market awaits the UN Security Council's response to Iran's call for more talks on its nuclear program. Even though the market has traded sharply lower, its losses are seen limited as it holds support above the 70.00 level. The market will also be driven by the news regarding Nigeria's oil unions, who have stated that they may strike due to safety concerns in the Niger Delta. The market is seen finding support at its low of 71.10 followed by

71.00 and its previous lows of 70.20 and 70.10. Meanwhile, resistance is seen at 71.90, 72.15 followed by its high of 72.67. More distant resistance is seen at its previous highs of 73.35 and 74.25.



While overall option volume remained rather restrained in the oil markets today, traders continued to look towards the December \$100 calls which traded over 3600 times on the day. But more interesting has been the significant jump in interest in the RBOB options market which finally have shown signs of life especially over the past two days. Much of today's interest was focused surprisingly in the April contract which is a good long term healthy sign for this market we believe.