



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 28, 2006

Iran said it was not concerned about the UN's deadline on August 31 demanding it halt its uranium enrichment or face political and economic sanctions. However the head of the Iranian parliament's National Security and Foreign Policy Commission, Alaeddin Boroujerdi said Iran was ready to work with Western countries to clear up any ambiguities ahead of deadline set by the UN Security Council. He also said Indonesia should cooperate with Iran on nuclear enrichment projects for peaceful purposes. The official called on Indonesia to help defend Iran against mounting pressure from the West. Last week, Iranian officials stated that the country did not agree to halt its uranium enrichment before engaging in further talks. An Iranian official said a US threat to form an independent coalition to impose sanctions if the UN Security Council failed to act was an insult to the council's work. The Los Angeles Times reported that the US ambassador to the UN, John Bolton, said the US was prepared to act independently with allies to freeze Iranian assets and restrict trade if the council did not act. Iran on Sunday fired a missile from a submarine in the

Market Watch

A corrosion test on the Trans-Alaska Pipeline System scheduled for early September could be in jeopardy due to the latest production problems at BP's Prudhoe Bay oilfield. A smart pig requires a flow of 600,000 bpd to make its journey through the pipeline. However the throughput at the Trans-Alaska Pipeline System is down to about 530,000 bpd after BP shut in an additional 90,000 bpd in the western portion of the Prudhoe Bay oilfield due to a faulty gas compressor. BP later stated on Monday that it restored production in the western portion of the Prudhoe Bay oilfield to more than 200,000 bpd.

Separately, the facilities behind problems that forced BP to cut its crude production again at its troubled Prudhoe Bay oilfield have been subject to complaints from workers about practices that threaten their safety and the environment. Workers have raised concerns about the operation of turbines at the facilities. They stated that an explosion at the facilities could have dire consequences for Prudhoe Bay. Workers have stated that BP supervisors were operating the turbines at speeds greater than those specified by the manufacturers, without additional oversight necessary to prevent a turbine failure.

Saudi Arabia released over 700 suspected militants after clerics corrected their thinking in a program aimed at stemming violence by al Qaeda. An official said the men had believed in takfiri ideology, which permits branding Muslim governments or ordinary Muslims as infidels because of policies, behavior or beliefs. They use the ideology to justify attacks on governments, foreigners and civilians. Interior Ministry spokesman said detainees believed to have links to militant attacks were being prepared for trial.

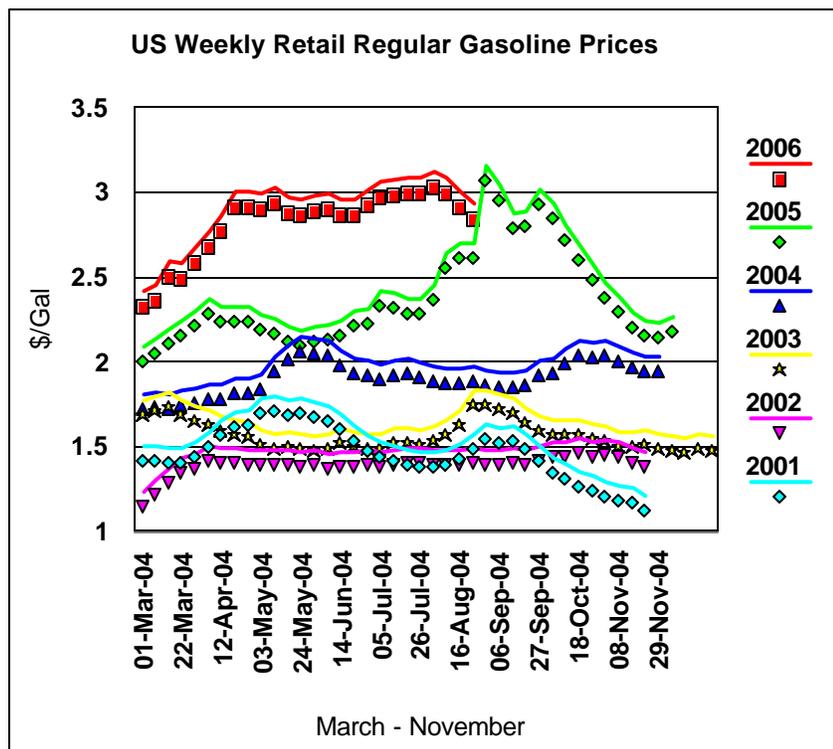
Kinder Morgan Inc said it had agreed to be purchased by an investor group that includes Kinder Morgan management, Goldman Sachs Capital Partners, American International Group Inc, Carlyle Group and Riverstone Holdings Inc for \$15 billion in cash. Kinder Morgan said its board approved the agreement and would recommend that stockholders vote for the merger. It is expected to complete the deal by early 2007, subject to stockholder and regulatory approvals.

Gulf as part of war games, which analysts viewed as a signal that Iran could disrupt oil shipping in the area.

UN Secretary General Kofi Annan said the Lebanese government assured him it would implement the UN ceasefire resolution. He also stated that he saw an opportunity for long term peace in the country. He demanded that Hezbollah release the captured Israeli soldiers to the Red Cross and that Israel lift its air and sea blockade of Lebanon. Meanwhile, French President Jacques Chirac urged Israel to lift its air and sea blockade of Lebanon and called for an urgent meeting of international negotiators to discuss broader peace in the Middle East. EU governments on Friday agreed to send a contingent of up to 6,900 peacekeeping troops, nearly half of the 15,000 soldiers called for in the UN resolution to expand the force. However French President Jacques Chirac said he regretted that the EU did not play a larger role from the start in the fighting. He said it was up to UN Secretary General Kofi Annan to launch a political peace process.

The US EIA reported that total oil demand in June increased slightly to 20.875 million bpd from 20.839 million bpd. During the first half of the year, total demand was 0.6% below a year ago at 20.441 million bpd. It reported that US demand for gasoline in June increased by 0.6% on the year to 9.44 million bpd. However its demand estimate was down 0.7% from its previous estimate. Gasoline demand in the January-June period averaged 9.099 million bpd, up 0.5% on the year. Meanwhile, distillate demand was 2.1% below its previous estimate at 4.007 million bpd. It was also 0.4% below last year's level. Distillate demand during the first six months of the year was 0.4% below its previous estimate at 4.199 million bpd, up 0.6% above last year's level.

The EIA reported that the US average retail price of gasoline continued to fall. It reported that the price of gasoline fell by 7.4 cents/gallon to \$2.85/gallon in the week ending August 28th. It said if no hurricanes threaten the Gulf energy infrastructure in the next few weeks, there were no major supply interruptions internationally and no major refinery outages, another fall of 15 cents over the next three to four weeks is possible. The EIA also showed that the US average retail price of diesel fell by 0.6 cents to \$3.027/gallon on the week.



Refinery News

ConocoPhillips started maintenance at its 229,000 bpd Sweeny refinery in Texas on Saturday morning that required shutting down and emptying a benzene column associated with unit 7. A report filed with the Texas Commission on Environmental Quality did not state unit 7's function. It was unclear whether the maintenance would have any impact on production or when the maintenance would end.

China's Sinopec Group's 160,000 bpd refinery in southern Hainan province started trial operations in mid-August. The refinery had postponed its startup since the end of June due to a technical problem.

An Iranian Oil Ministry official said there was no change in the overall volume of the Iranian crude oil exports to Japan. This was in response to statements by the Japanese Energy and Natural Resources Agency that Japan's imports from Iran had fallen substantially in June. The official said the fall in Iranian crude imports in June was due to seasonal maintenance by some Japanese refineries.

Production News

ConocoPhillips said it planned to remobilize about 45 offshore workers on Tuesday if Tropical Storm Ernesto continues along its present path away from the Gulf of Mexico. ConocoPhillips and several other energy companies evacuated staff of the weekend, when the storm was projected to veer into the producing region of the Gulf. Also, Chevron Corp may return evacuated staff to its US Gulf of Mexico operations early Tuesday. It evacuated 500 non-essential workers during the weekend. Meanwhile, BP has halted the evacuation of its staff working in the Gulf of Mexico. It had evacuated 1,100 non-essential workers out of 2,400 workers by the end of Sunday. The evacuations have not impacted production. It is expected to return the workers when the threat has passed. Shell also evacuated 524 workers from the US Gulf of Mexico on Sunday. It said a few deep sea wells in the Gulf of Mexico had been shut, reducing production by minimal amounts. It is expected to restart its production as it prepares to redeploy nonessential workers that were evacuated over the weekend.

Niger Delta militants fighting for regional control of oil and gas resources warned they would retaliate recent attacks by government forces on them and their communities. The attacks on the militants came as part of the government's efforts to end their siege of Nigerian oil and gas resources.

Russia's Finance Ministry stated that the country may increase its crude oil export duty to \$239/ton starting October 1, up from the current duty of \$216.40/ton.

OPEC's news agency reported that OPEC's basket of crudes increased by 96 cents/barrel to \$67.96/barrel on Friday. It also reported that OPEC's basket of crudes fell by 48 cents/barrel to \$67.64/barrel in the week ending August 25.

Petrobras estimated that its Nigerian oil production would reach 70,000 bpd in 2009. Petrobras has a 16% stake in the Akpo field, which is operated by Total SA. The field is currently being developed and is projected to reach a maximum output capacity of 225,000 barrels of oil equivalent/day. Petrobras also has a stake in the Agbami field off the Nigerian coast that is operated by ChevronTexaco Corp.

Market Commentary

The oil market gapped lower from 72.40 to 71.10 after Tropical Storm Ernesto was downgraded from a hurricane and its forecast track veered eastward away from the producing area of the Gulf of Mexico. The storm was forecast to move through Florida towards the US East Coast. The market immediately

posted a high of 71.20 before it continued to sell off. The market extended its losses to over \$2.30 as it posted a low of 70.15 early in the

Technical Analysis		
	Levels	Explanation
CL	Resistance	73.75 Previous high
	70.61, down \$1.90	71.20 to 72.40 Remaining gap (August 28th)
	Support	70.15 Monday's low
HO	Resistance	208.50 Previous high
	196.59, down 6.39 cents	199.50 to 202.50 Remaining gap (August 28th)
	Support	196.25 Double bottom
HU	Resistance	193.90 Previous low
	178.31, down 11.20 cents	181.25, 184.50 to 188.25 Previous high
	Support	177.10 Remaining gap(August 28th)
		174.13, 172.60 Monday's low 62%(136.75 and 234.60), Previous low

session. The market settled in a sideways trading range, with light volume trading after the market held its support above the 70.00 level. The October crude contract settled down \$1.90 at 70.61. Volume in the crude market remained light with 144,000 lots booked on the day. The gasoline market also settled sharply lower after the market gapped lower from 188.25 to 182.50 amid the losses posted in the oil market. The market sold off amid some fund liquidation. The market partially backfilled its gap as it posted a high of 184.50. However the market continued to sell off and extended its losses to over 12.4 cents as it posted a low of 177.10 ahead of the close. The market settled down 11.20 cents at 178.31. Meanwhile, the heating oil market also gapped lower from 202.50 to 198.00 amid the losses in the rest of the energy complex. The market partially backfilled its gap as it posted a high of 199.50. However it continued to sell off before it settled in a sideways trading pattern as it held some support at 196.60. The market later breached that level amid some further selling ahead of the close and posted a low of 196.25. It settled down 6.39 cents at 196.59. Volume in the gasoline market remained light with 28,000 lots booked on the day while volume in the heating oil was better today with 60,000 lots booked on the day.

The oil market on Tuesday will likely retrace some of its sharp losses as the market is seen turning its attention to Thursday's UN Security Council deadline for Iran to halt its uranium enrichment. The market is still seen holding its support above the 70.00 level as traders await Iran's decision as its deadline approaches. The market is seen finding further support at its previous lows of 69.70 and 69.80. The market will also be supported by threats of more violence in the Niger Delta by militants at the end of the month. Meanwhile resistance is seen at its gap from 71.20 to 72.40. More distant resistance is seen at a previous high of 73.75.