



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta &
Zachariah Yurch

(212) 624-1132 (888) 885-6100

www.e-windham.com

ENERGY MARKET REPORT FOR AUGUST 30, 2006

Iran faces the risk of sanctions, as the UN's IAEA report on Thursday is likely to show that Iran has defied its August 31 deadline to halt its uranium enrichment. Iran has vowed to never halt its nuclear program. The head of the IAEA, Mohamed ElBaradei's assessment that Iran has not suspended its uranium enrichment would provide a basis for the US, UK and France to argue in favor of imposing sanctions. However Iran has likely decided to continue its program, calculating that the Security Council is incapable of reaching agreement on economic sanctions and that sanctions outside the UN would not be effective, as Russia and China have called for a return to talks. The permanent members of the UN Security Council and Germany are expected to meet next week to begin discussing an Iran sanctions resolution. However even after discussions on a resolution begin, Iran could still halt its nuclear program and trigger broader negotiations on a package of incentives. Meanwhile China's foreign ministry stated that Iran and China agreed on favoring a diplomatic solution to international confrontation over Iran's nuclear plans at a meeting on Wednesday.

Market Watch

The volume of tankers booked to ship European gasoline to the US has fallen for the first days of September. Traders stated that tankers holding 1.74 million tons of gasoline were booked for shipment to the US between August 12 and September 12 but only 512,000 tons was for September loading. Northwest European, Baltic and Mediterranean ports were shipping about 1.8 million to 1.9 million tons/month of gasoline to the US during June and July.

The Commerce Department stated that US economy grew at a faster pace in the second quarter and inflation was slower than originally reported. It said the US grew at a 2.9% annual rate in the second quarter, faster than the 2.5% initially reported. Meanwhile inflation was revised to 2.8%, down from the initial estimate of 2.9%.

Venezuela's President Hugo Chavez said that Venezuela and Syria would build a new world free of US domination. His comments followed a meeting with Syria's President Bashar Assad. He said both countries agreed to stand up to the US.

OPEC's President Edmund Daukoru said the current price of oil at \$70/barrel was satisfactory to OPEC and was not impacting world economic growth. He said the priority of OPEC is to reduce volatility rather than target a specific price range, declining to specify a price level at which OPEC would cut production.

DOE Stocks

Crude – up 2.4 million barrels
Distillate – up 1.3 million barrels
Gasoline – up 400,000 barrels
Refinery runs – up 0.11%, at 92.9%

Nigeria's oil unions decided on Wednesday to stage a warning strike next Wednesday lasting two to three days to protest against the deteriorating security in the Niger Delta. The deputy Secretary General of PENGASSAN said unions

were concerned by the recent increase in violence and kidnappings of workers in Nigeria.

The EIA said US oil prices are unlikely to fall much below the \$70/barrel. It said strong demand for distillate fuels may lend support to the market as well as geopolitical issues

Refinery News

Valero Energy Corp performed unexpected online maintenance on the main air blower of complex 1 at its 130,000 bpd Houston, Texas refinery on Wednesday.

According to a report filed with the Texas Commission on Environmental Quality, a suspected bed coil leak in a regenerator associated with fluid catalytic cracking unit 3 at ConocoPhillips' Sweeny refinery has caused a condition of excess opacity on three separate occasions since Saturday.

Orion Ethanol said it was planning to build two ethanol plants in northwest Oklahoma. It said it would begin construction on the first plant next month and begin building another plant in about three months.

An Iraqi oil official said Iraq pumped about 400,000 barrels of Kirkuk crude to the port of Ceyhan since it resumed operations on Tuesday.

Nippon Oil Corp is expected to process 4.1% less crude in August due to the shutdown of its 145,000 bpd Sendai refinery. It is expected to process 4.7 million kl of crude, down from the originally planned 4.9 million kl. Separately, Nippon Oil also reported that it scheduled to shut a crude distillation unit at its Negishi plant from September 16 to October 24 for maintenance. It is also scheduled to shut a crude distillation unit at its Mizuhima refinery from September 18 to October 25 for maintenance.

Nigeria is scheduled to export 2.18 million bpd of crude in October, the largest volume so far this year as new fields replace production losses caused by militant attacks. Nigeria's three refineries continued to run at about 220,000 bpd, implying Nigerian oil production in October at 2.4 million bpd.

The Shetland Island Council reported that Brent crude liftings from Sullom Voe fell to 373,986 tons in the week ending August 30 from 379,559 tons reported the previous week.

The Petroleum Association of Japan reported that kerosene stocks increased by 386,5165 kiloliters or 10.1% on the week to 4.22 million kl or 26.54 million barrels in the week ending August 26. It reported that kerosene output increased by 107,958 kl to 505,000 kl or 454,000 bpd while gasoline production was cut by 106,850 kl to 1.165 million kl on the week. Gasoline stocks totaled 1.97 million kl or 12.39 million barrels, up 4.5% on the week. Refiners operated their facilities at an average 87.95 of total capacity of 4.78 million bpd compared with 88.7% the week before. Crude throughput fell by 45,951 kl to 4.68 million kl or 4.2 million bpd. Crude stocks stood at 17.65 million kl or 111.01 million barrels, up 6.8% from the previous week.

Azerbaijan's Socar is scheduled to launch its oil trading branch early next year and sell its crude directly to refiners and scrapping the current system of tenders. The main reason behind the move was the increasing volume of crude that Socar was producing under its Caspian Sea production sharing deal with BP and other oil majors. Socar currently tenders its crude from three Black Sea ports and the Ceyhan terminal in Turkey.

An official at Kuwait Petroleum Corp said Kuwait was seeking to store its surplus crude in South Korea. It plans to store about 2 million barrels of crude oil in South Korean storage tanks. Under a preliminary agreement, South Korea would have the right to use Kuwait' crude in an emergency, while Kuwait could also take the crude out for its own purposes. Separately, Kuwait Petroleum Corp said Kuwait is

expected to start operating its fourth oil refinery around 2010-2011. The refinery would have a refining capacity of 615,000 bpd, increasing the country's total refining capacity to 1.34 million bpd.

Production News

The Texas Railroad Commission said new drilling permits and well completions in Texas increased in July and the long term fall in oil and gas production in the state has moderated. It reported that original drilling permits in July increased to 1,547, up from 1,313 last year. Well completions for January through July totaled 7,482, up from 5,841 reported last year. Total oil production in 2006 as of June totaled 26,560,960 barrels, down from 26,845,369 barrels reported last year.

A spokesman for Chad's President Idriss Deby said the country would not unilaterally take over 60% of the producing consortium in a tax dispute with two of its members. It instead would seek to negotiate a state share. He stated that if Chevron and Petronas agree to pay their back taxes, they would be included in the renegotiations of the oil consortium headed by ExxonMobil.

OPEC's news agency reported that OPEC's basket of crudes fell by 52 cents to \$65.51/barrel on Tuesday from \$66.03/barrel on Monday.

Saudi Aramco set its September contract prices for propane at \$563/ton, up \$16/ton on the month. It also increased its butane price by \$13/ton to \$560/ton.

BP said late Tuesday that it has completed ultrasonic inspections of nearly 8,000 feet of pipeline at its Prudhoe Bay oil field in Alaska without finding any more serious problems with corrosion. The company has now completed inspection of 2500 feet of pipeline in the eastern operating area and about

5300 feet in the western operating area. The company noted it has stripped 15,000 feet of insulation material from

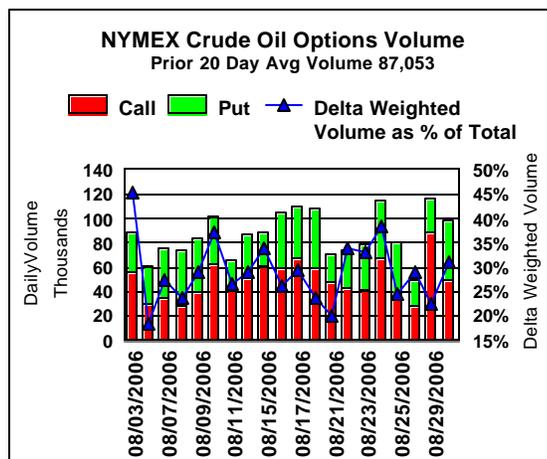
Technical Analysis		
	Levels	Explanation
CL 69.71, down 90 cents	Resistance 70.25, 71.20 to 72.40	Previous high, Remaining gap (August 28th) Wednesday's high
	Support 69.50, 68.65	
	Resistance 68.55, 68.30, 67.55	Wednesday's low Double bottoms, Previous low
HO 194.96, up 64 points	Resistance 195.70 - 196.25, 199.50 - 202.50	Remaining gaps (August 29th and August 28th) Wednesday's high
	Support 193.00, 191.25	
	Resistance 189.10, 188.70	Wednesday's low Previous lows
HU 180.19, up 1.27 cents	Resistance 184.50 to 188.25	Remaining gap (August 28th) Wednesday's high
	Support 181.00	
	Resistance 178.00, 175.25	Wednesday's low
	174.75, 174.13, 172.60	Previous low, 62% retracement (136.75 and 234.60), Previous low

pipelines on the eastern side to facilitate ultrasound inspections, but insulation removal on the western side has remained suspended following the discovery of asbestos in some material. The chairman of the Alaska Oil and Gas Conservation Commission said he has been told by BP that the company has so far found no loss of pipeline wall thickness greater than 40% in the eastern area of Prudhoe pipelines beyond the one pipeline from Flow Station 2 where 75% loss of wall thickness was discovered earlier in the month.

Market Commentary

The oil market opened relatively unchanged and held some support at 69.50 ahead of the release of the weekly petroleum stock reports. The market however sold off to a low of 68.65 in light of the bearish DOE and API reports, which showed builds across the board. The stock reports showed unexpected builds in both crude and gasoline stocks. The crude market however bounced off its low

and erased its previous losses in light of the news that Nigeria's oil unions would stage a warning



strike on next Wednesday lasting two to three days to protest the deteriorating security in the Niger Delta. The market rallied to a high of 70.12 ahead of the close and settled up 32 cents at 70.03. Volume in the crude market was better with 80,000 lots booked on the day. Meanwhile, the product markets also settled in a positive territory as they erased their earlier losses amid the strength in the oil market. The gasoline market sold off to a low of 175.25 following the release of the DOE and API reports showing unexpected builds in gasoline stocks. The market however bounced off its low and erased its losses as it rallied to a high of 181.00 ahead of the close. It settled up 1.27 cents at 180.19. The heating oil market opened 68 points higher at 195.00 and quickly posted a high of 195.50. However the market sold off to a low of

191.25 in light of the builds reported in distillate stocks. Similar to the rest of the complex, the heating oil market bounced off its low and traded back towards its high ahead of the close. Volumes in the product markets were also better today, with 30,000 lots booked in the gasoline market and 61,000

NYMEX Petroelum Options Most Active Strikes Traded on August 30, 2006									
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Prev Settle	Volume	IV
GO	10		6 C	2.15	09/26/2006	0.0113	0.0106	150	49.37
GO	10		6 C	1.8	09/26/2006	0.0748	0.0677	113	38.80
GO	10		6 P	2.13	09/26/2006	0.3425	0.3609	100	49.91
GO	10		6 C	2.5	09/26/2006	0.0028	0.0028	75	59.99
GO	10		6 C	2	09/26/2006	0.0244	0.0225	66	44.84
LO	10		6 P	67	09/15/2006	0.47	0.58	3,950	26.80
LO	12		6 P	60	11/14/2006	0.31	0.3	3,806	28.47
LO	12		6 P	65	11/14/2006	0.95	0.99	3,739	26.93
LO	3		7 P	62	02/14/2007	1.31	1.35	3,350	28.81
LO	3		7 P	70	02/14/2007	3.5	3.56	3,350	27.19
LO	12		6 C	75	11/14/2006	2.23	2.19	2,980	26.91
LO	12		6 C	80	11/14/2006	1.09	1.15	2,838	28.10
LO	12		6 C	100	11/14/2006	0.15	0.19	2,742	37.62
LO	6		7 P	60	05/17/2007	1.69	1.69	2,250	29.84
LO	12		6 C	60	11/14/2006	12.16	11.96	2,000	30.91
LO	10		6 C	71	09/15/2006	1.15	1.08	1,712	27.04
LO	12		6 C	47	11/14/2006	24.93	24.74	1,600	60.31
OB	1		7 C	1.96	12/26/2006	0.0986		260	33.41
OB	1		7 P	1.93	12/26/2006	0.1748		100	33.34
OB	10		6 C	1.93	09/26/2006	0.0384		30	39.84
OB	4		7 C	2.09	03/27/2007	0.1896		25	29.17
OB	4		7 P	2.09	03/27/2007	0.1635		25	29.07
OH	10		6 C	2.08	09/26/2006	0.0324	0.0272	160	30.15
OH	10		6 C	2.1	09/26/2006	0.0272	0.0226	145	30.26
OH	10		6 C	2.2	09/26/2006	0.0107	0.0083	133	30.99
OH	1		7 C	2.28	12/26/2006	0.0849	0.0798	115	30.40
OH	1		7 C	2.22	12/26/2006	0.103	0.0969	115	30.01

lots booked in the heating oil market.

The crude options market continued to see good trading interest today. While the December \$100 call again saw good interest, with over 2700 lots traded it is nowhere near the volume recorded on Tuesday when it traded over 27,000 times. Instead today the five most active strikes were puts that relatively close to being in the money.

The oil complex on Thursday will likely continue to retrace its sharp

losses ahead of the product market expiration. The crude market will remain supported amid the news

that Nigeria's oil unions are expected to stage a warning strike in Nigeria next week. It will also be supported as Iran is expected to continue defying the UN Security Council deadline on Thursday for it to halt its nuclear program. The market is seen finding support at 69.50 followed by its low of 68.65. Resistance is however seen at its high of 70.12 followed by 70.25. More distant resistance is seen its gap from 71.20 to 72.40.