



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR AUGUST 31, 2006

Iran vowed on Thursday to never halt its nuclear program, defying the UN's Security Council August 31 deadline. Iran's President Mahmoud Ahmadinejad said Iran would never abandon its right to peaceful nuclear technology. Meanwhile, Iran's Deputy Foreign Minister, Abbas Araghchi said Iran was still open to negotiations over its nuclear program and added that the issue could be resolved as long as other countries also negotiate with good intentions. A top aid to Iran's National Security council also stated that Iran was ready for talks on Iran's nuclear program. However a Foreign Ministry official shrugged off the possibility of sanctions being imposed on the country, stating that Iran would find a way to avoid pressure eventually. European Union's foreign policy chief Javier Solana and Iran's chief nuclear negotiator, Ali Larijani agreed by telephone on Thursday to meet soon to discuss Iran's response to the incentive package aimed at halting Iran's nuclear program. The US stated that the UN Security Council could meet to discuss sanctions against Iran as early as next week.

Market Watch

Gasoline prices have fallen and could continue to fall for months, according to some analysts. The end of summer, sluggish demand and the selling by traders has been behind the fall in prices.

A Nigerian oil union leader said a planned strike by the oil unions is aimed at pressuring the government into doing more to quell the violence in the Niger Delta. The strike is likely to have a limited impact on production. Union chapters within oil companies were preparing to hold meetings over the next few days to follow up on a decision by PENGASSAN and NUPENG to call a three day warning strike starting September 13. The leaders of the union would meet on the third day of the strike to decide whether to extend it, however a union official did not state any demands that the government would have to meet to stall an extension.

The US government has been criticized for granting a visa to former Iranian President Mohammad Khatami. The US state department said there were no plans for him to meet government officials. The US granted the visa on Tuesday. Iran's former president is expected to give a speech at Washington's National Cathedral on Thursday, September 7 on the role that Islam, Judaism and Christianity can play in shaping peace. He is also scheduled to attend a conference at the UN on promoting dialogue. The Washington Post reported that former President Jimmy Carter had agreed in principle to meeting Iran's former president.

The EIA and the API have both delayed the release of their weekly petroleum stock reports by one day to Thursday, September 7 due to the Labor Day holiday.

The IAEA reported that there was no sign that Iran was ceasing its uranium enrichment. The report, which opens the way for UN Security Council sanctions against Iran did not make a judgment on what Iran was enriching, saying only that it started work on a new batch on Thursday. The report also documented the stalemate between agency inspectors trying to determine if Iran was seeking to develop weapons as well as repeated instances of Iranian officials refusing to provide information sought by IAEA inspectors. In response to the report, the deputy head of Iran's Atomic Energy Organization, Mohammad Saeedi said the report showed the dispute could be solved by the IAEA and added that the report gave no indication Iran was pursuing atomic bombs.

Indonesia's OPEC governor said the country would propose that OPEC maintain its 28 million bpd quota at its next ministerial meeting on September 11 to help push prices below the \$70/barrel level.

Israeli troops transferred control over a portion of the border to Lebanese and international troops for the first time on Thursday.

Refinery News

Shell Oil Co said its 285,000 bpd refinery in Port Arthur, Texas resumed operations after losing power on Wednesday. The refinery lost power for a short time after a lightning storm early Wednesday.

In a filing with the Texas Natural Resource Conservation Commission, Flint Hills Resources stated that it would briefly shut its flare gas recovery unit at its Corpus Christi, Texas refinery on Thursday morning for maintenance.

Valero Energy Corp started maintenance late Wednesday on a conversion unit at its Texas City, Texas refinery.

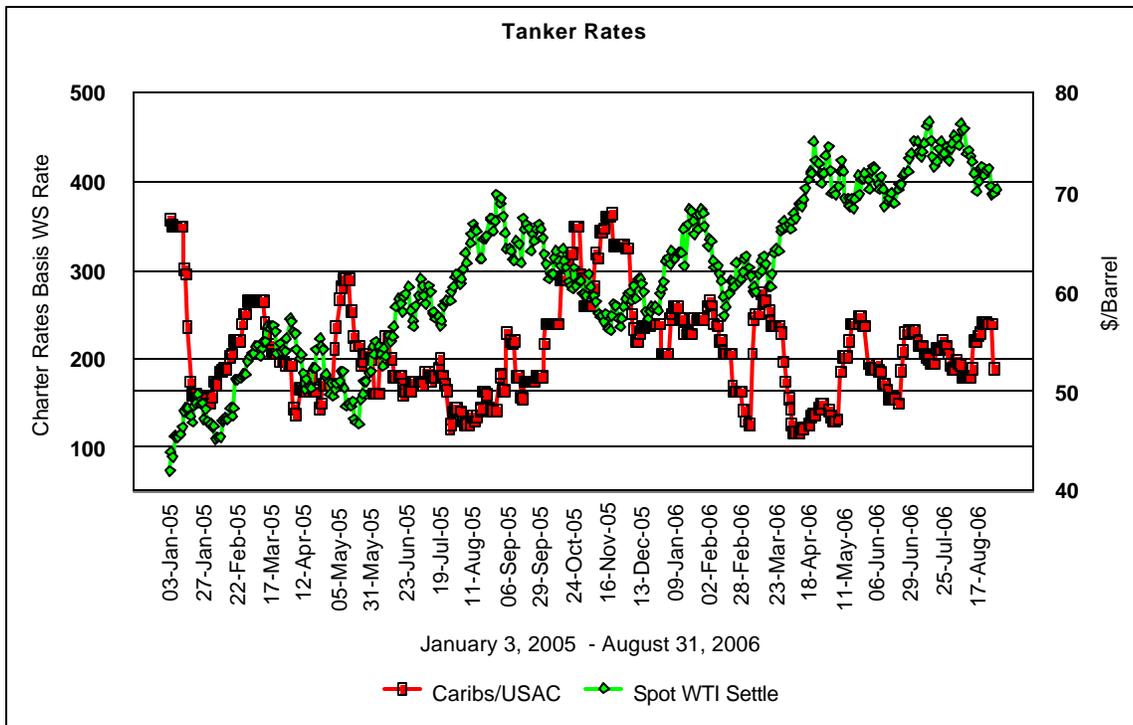
According to Reuters, 5.4% of refining capacity in the northwest European fuels trading hub would be shut in September for planned maintenance work. Chevron's 210,000 bpd Pembroke refinery is scheduled to undergo maintenance work in September and October. The 400,000 bpd Nerefco refinery is also set for work in September and October, as is ExxonMobil's 246,000 bpd refinery in Antwerp and ConocoPhillips' 275,000 bpd Wilhelmshaven refinery in Germany.

Oil Movements reported that OPEC's exports were expected to increase by 0.5% or 130,000 bpd to 25.21 million bpd in the four weeks ending September 16. The increase in shipments was mainly due to an increase in westbound exports following the loss of production from the Prudhoe Bay oilfield. Shipments are expected to ease in the next couple of weeks due to the end of the summer driving season. Also demand for OPEC oil is expected to fall as refiners in the US begin fall maintenance at refining facilities.

An Iraqi oil official said Iraq continued to pump crude from the country's northern fields to the Mediterranean port of Ceyhan for the third consecutive day, increasing stores in the terminal up to 1 million barrels. The official said more than 900,000 barrels have been pumped to Iraq's crude storage facility in Ceyhan. Separately, Iraq's southern Khor al-Zubair oil terminal has been closed since late Tuesday due to a collision between two ships.

Taiyo Oil Co has not set a date to restart its Kikuma refinery in western Japan following a fire late on Wednesday.

Japanese refiners are operating their refineries normally in eastern Japan after an earthquake hit the region on Thursday. About 1.89 million bpd of refining capacity is located in eastern Japan.



Russia's environmental agency, RosPrirodNadzor said it expected Russia's crude oil pipeline to Lithuania, shut since the end of July due to a leak, to remain idle at least until the end of January 2007. The stoppage has cut Russian oil

supply to the Lithuania's Mazeikiu refinery and could cause the refinery's sale to Polish oil company PKN Orlen to unravel.

Singapore's International Enterprise stated that the country's residual fuel stocks fell by 462,000 barrels to 13.389 million barrels in the week ending August 31. It also reported that its light distillate stocks increased by 509,000 barrels to 8.164 million barrels while its middle distillate stocks fell by 266,000 barrels to 9.015 million barrels on the week.

Japan's Ministry of Economy, Trade and Industry said the country's crude imports in July fell by 2.1% on the year to 19.88 million kiloliters or 4.03 million bpd. It stated that Japan's crude oil throughput totaled 19.39 million kl in July, down 1.4% on the year as more refineries suspended operations for regular maintenance compared to a year ago period. Crude oil inventories fell 3.2% on the year to 18.51 million kl or 116.44 million barrels at the end of July. The METI also reported that Japan's overall oil product output fell 3.1% on the year to 17.9 million kl, with gasoline production down 2.7% on the year at 4.9 million kl. It reported that Japan's gasoline sales in July increased by 1.4% on the year to 5.48 million kl while gasoline stocks fell by 7.8% to 1.919 million kl.

France's Energy Ministry stated that the country's oil product consumption in July increased by 0.7% on the year to 7.76 million tons. Gasoline demand however fell by 6.9% to 950,000 tons.

Sinopec Shanghai Petrochemical Co said it planned to process 4% less crude than it had previously aimed for this year because domestic oil product price increases are not likely to catch up with increasing crude costs. It planned to process 9.1 million tons of crude this year, down from its previous target of 9.5 million tons.

Vitol and Reoc Ltd have each won tenders by Azerbaijan's Socar for 85,000 tons of Urals crude loading in September. Reoc's cargo is scheduled to load on September 24-25 while Vitol's cargo is scheduled to load on September 29-30.

Production News

Sources stated that BP was aiming to restart its oil production at the eastern half of the Prudhoe Bay oilfield by the end of September. The plans for a partial restart call for the pipeline connecting Flow Station 1 with the Trans-Alaska pipeline to be returned to service, allowing up to half of the 200,000 bpd of shut in production on the eastern portion of the field to restart. A BP spokesman would not confirm or deny the end of September restart date. The DOT's Pipeline and Hazardous Materials Safety Administration said it was reviewing BP's plans to restart some of the shut in production in the eastern portion of the Prudhoe Bay oilfield. BP is required to submit its plans for the eastern oil transit lines by September 9 under a corrective action order issued by the US Department of Transportation. It is also required to submit plans to remove the oil from any pipeline it decides not to return to service on that date ahead of the winter.

NYMEX Petroleum Options Most Active for August 31, 2006									
Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Prev Settle	Volume	IV
GO	10	6	P	1.55	09/26/2006	0.0078	0.0071	104	39.99
GO	10	6	C	2.45	09/26/2006	0.0027	0.0033	30	59.063
GO	12	6	C	2.1	11/27/2006	0.0367	0.038	21	36.837
GO	10	6	C	1.9	09/26/2006	0.0372	0.0426	21	42.451
GO	12	6	C	2.18	11/27/2006	0.0271	0.0281	21	37.645
LO	6	7	P	55	05/17/2007	0.95	0.95	6276	31.423
LO	12	6	C	100	11/14/2006	0.17	0.15	6206	38.154
LO	12	6	C	47	11/14/2006	25.3	24.93	4550	61.269
LO	12	6	C	43.5	11/14/2006	28.8	28.43	3500	72.372
LO	6	7	P	60	05/17/2007	1.75	1.69	3200	30.674
LO	6	7	C	100	05/17/2007	0.96	1.03	3101	27.424
LO	12	6	C	29.5	11/14/2006	42.8	42.43	3000	128.92
LO	12	6	C	37	11/14/2006	35.3	34.93	2500	95.741
LO	11	6	C	100	10/17/2006	0.08	0.07	2078	44.076
LO	1	7	P	55	12/14/2006	0.15	0.17	1750	29.772
LO	2	7	P	50	01/17/2007	0.1	0.11	1750	31.526
LO	12	6	C	75	11/14/2006	2.35	2.23	1613	26.884
LO	12	6	C	45	11/14/2006	27.3	26.93	1550	67.503
LO	12	6	C	40	11/14/2006	32.3	31.93	1500	84.455
LO	12	6	C	40.5	11/14/2006	31.8	31.43	1500	82.663
LO	12	6	C	31	11/14/2006	41.3	40.93	1300	121.6
OB	4	7	P	2	03/27/2007	0.1238		200	29.397
OB	4	7	C	2.15	03/27/2007	0.1633	0.1639	150	29.214
OB	10	6	P	1.82	09/26/2006	0.0835		100	39.067
OB	12	6	C	1.87	11/27/2006	0.1085		100	33.646
OH	10	6	C	2.12	09/26/2006	0.024	0.0228	200	29.339
OH	12	6	C	3.2	11/27/2006	0.013	0.0016	90	51.218
OH	12	6	C	2.8	11/27/2006	0.0213	0.0068	90	43.143
OH	10	6	P	1.89	09/26/2006	0.0198	0.0242	70	30.223
OH	1	7	C	2.31	12/26/2006	0.0924	0.077	50	32.588
OH	1	7	C	2.25	12/26/2006	0.1066	0.0936	50	31.396

Separately, BP stated that its well at a deep water Kaskida prospect in the Gulf of Mexico has resulted in a discovery. The Kaskida prospect located at Keathley Canyon encountered 800 net feet of hydrocarbon bearing sands.

Iranian National Oil said crude production could reach 4.5 million bpd by the end of its fourth five year development plan between 2005 and 2010, well under its original target of 5 million bpd. The country's oil production stood at 4.08 million bpd.

Iran's main challenge is the maintenance of oil reservoirs or increasing the recovery rate. Another problems stems from the standoff over Iran's nuclear program.

Iraq's Oil Minister Hussain al-Shahristani said Iraq planned to increase its oil production to 3 million bpd before the end of 2006. He stated that Iraq's oil production would increase each year by 500,000 bpd in later years.

ExxonMobil Corp is concerned over a tax increase on its heavy oil operations imposed by the Venezuelan National Assembly. ExxonMobil's Mobil Cerro Negro subsidiary is concerned with the unilateral decisions taken by the Venezuelan government to change the fiscal terms of the Cerro Negro strategic association agreement, which the National Assembly approved. ExxonMobil holds a 41.7% stake in the 120,000 bpd Cerro Negro project.

Libya's National Oil Corp said it expected international oil companies to invest more than \$7 billion and help find an extra 20 billion barrels of oil equivalent under a 10 year exploration plan. The exploration plan would call for the drilling of 50 exploration wells a year. Separately, Libya's new ENI operated Elephant field was pumping between 30,000 and 40,000 bpd. An official stated that as production increases further towards an eventual 300,000 bpd a pipeline would be built to transport the increasing volumes of crude to export terminals.

Chad is expected to review all its oil exploration and production contracts to ensure a national share of output following its decision to renegotiate the terms of a foreign consortium.

OPEC's news agency reported that OPEC's basket of crudes fell by 34 cents/barrel to \$65.06/barrel on Wednesday.

Market Commentary

The oil market opened down 38 cents at 69.65 as it remained pressured following the selling seen in the last hour of the overnight session. The market posted a high of 70.82 overnight before it sold off on news that BP was aiming to restart its Prudhoe Bay oilfield earlier than expected. Sources stated that BP was aiming to restart its oil production at the eastern half of the Prudhoe Bay oilfield by the end of September. The market was also pressured in light of the news that Iran's chief nuclear negotiator agreed to meet with the EU's foreign policy chief to discuss Iran's response to the incentive package. The market held resistance at 70.05 and sold off to a low of 69.35 early in the session. However the market bounced off its low and settled in a sideways trading pattern with light volume trading ahead of Friday's shortened trading session due to the Labor Day holiday. The market later rallied to a high of 70.35 on the close as the UN standoff with Iran continued to support the market. This followed the release of the IAEA report, which stated that Iran had not ceased its nuclear program. The crude market settled up 23 cents at 70.26. Volume was light in the crude with 194,000 lots booked the day.

The product markets ended mixed with the gasoline market settling down 5.15 cents at 175.04 and the heating oil market settling up 46 points at 195.42 on

Technical Analysis		
	Levels	Explanation
CL 70.26, up 23 cents	Resistance 71.20 to 72.40	Remaining gap (August 28th)
	70.35	Thursday's high
	Support 70.00, 69.35	Thursday's low
	68.65, 68.55, 68.30, 67.55	Previous low, Double bottoms, Previous low
HO 201.11, up 1.61 cents	Resistance 202.75 to 206.00	Remaining gap (August 28th)
	201.40	Thursday's high
	Support 200.00, 197.80	Thursday's low
	195.90	Previous low
HU 178.31, down 1.59 cents	Resistance 181.00, 183.50 to 186.75	Previous high, Remaining gap (August 28th)
	180.00	Thursday's high
	Support 175.50	Thursday's low
	174.80, 174.10	Previous lows

expiration. The gasoline market opened 90 points lower at 178.00 and settled in a sideways trading pattern for much of the day before it sold off to a low of 169.50. However the market quickly bounced off its low and rallied ahead of its expiration at the close. The October gasoline contract settled down 1.59 cents at 178.31. Meanwhile, the September heating oil contract sold off to a low of 193.00 early in the session. However the market bounced off its low and held some resistance at 195.80. The market later rallied to a high of 196.50 ahead of its expiration. The October heating oil contracts also settled in positive territory at 201.11, up 1.61 cents. Volume in the product markets were better today with 30,000 lots booked in the gasoline and 50,000 lots booked in the heating oil market.

The oil market during Friday's shortened trading session is seen remaining supported. Its losses will be limited ahead of the Labor Day holiday weekend amid the continuing standoff over Iran's nuclear program. The market is seen finding support at 70.00 followed by its low of 69.35. Meanwhile resistance is seen at its high of 70.35 followed by its gap from 71.20 to 72.40.

Please note that the NYMEX will close early on Friday at 1pm and resume trading on Tuesday, September 5 due to the Labor Day holiday. The NYMEX products on CME Globex will trade from 1:45 pm to 5:15 pm on Friday and reopen on Sunday, September 3 at 6 pm. The NYMEX products on CME Globex will trade until trading halt at 1:30 pm on Monday, September 4 and reopen at 6 pm for September 5th trade date.