



ENERGY RISK MANAGEMENT

Howard Rennell, Pat Shigueta &
Zachariah Yurch

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

www.e-windham.com

ENERGY MARKET REPORT FOR SEPTEMBER 5, 2006

A top aide to Russia's President Vladimir Putin said sanctions against Iran could be counterproductive.

However he did not rule out the possibility of Russia supporting them. Also, China stated that it wanted the permanent members of the Security Council and Germany to negotiate with Iran even after Iran defied a UN deadline to stop enriching uranium. China's stance underlined obstacles to a US led push for consideration of sanctions against Iran in the UN Security Council. The remarks came as the EU, also hesitant about sanctions, is scheduled to hold talks with Iran this week. EU foreign policy chief Javier Solana is expected to meet with Iran's chief nuclear negotiator Ali Larijani on Wednesday. US

Undersecretary of State, R. Nicholas Burns is expected to meet on Thursday with diplomats from Britain, China, France, Russia and Germany to discuss which sanctions to impose on

Market Watch

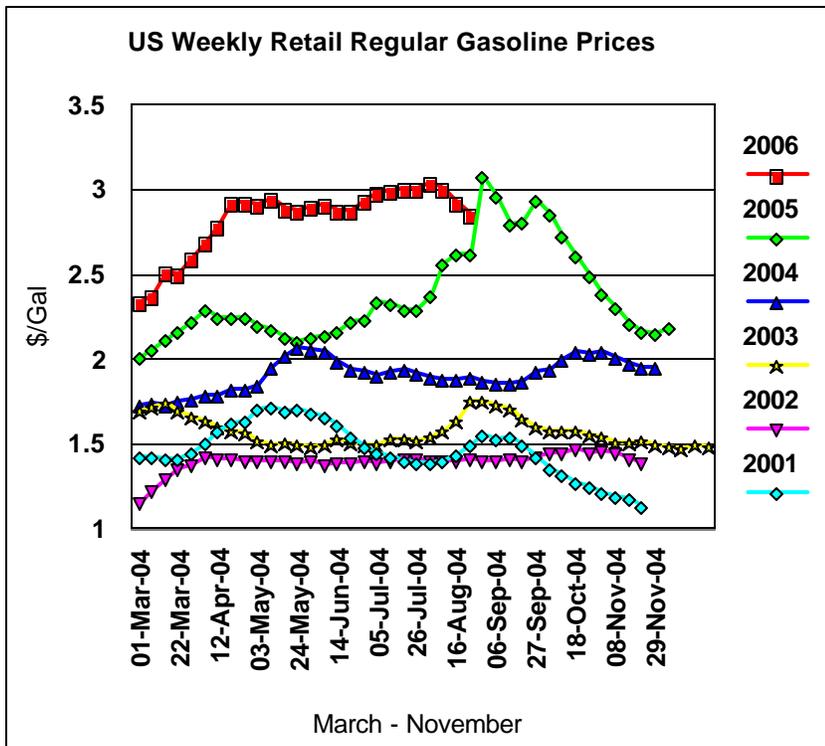
Nigeria's Ministry of Labor and Productivity and the Nigerian National Petroleum Corp have been reaching out to the country's two oil unions in a bid to avert their planned strike action. The ministry has requested a meeting with leaders of PENGASSAN and NUPENG while NNPC has planned another meeting for Friday. The oil unions threatened to start a three day warning strike on September 13 over the rising insecurity in the Niger Delta.

Libya's government has set up a council to oversee and direct all policy on oil and gas, including deals with foreign companies and pricing strategy. The government stated that the board of the Council for Oil and Gas Affairs, chaired by Prime Minister al-Baghdadi Ali al-Mahmoudi, comprises the trade, employment, industry and finance ministers as well as the central bank governor and the head of the National Oil Corporation.

The buildup of European naval and military strength in and around Lebanon's shores is out of proportion for the task the European contingents of the expanded UNIFIL has undertaken. DEBKAF's military and intelligence sources disclosed that Lebanese security and peacemaking is not the object of the exercise. It said it is linked to the anticipation of a clash between the US and Israel, on one side and Iran and possibly Syria on the other, sometime from now until November. However it reported that the force's main weakness is that it lacks a single unified command. A sudden flare up in Lebanon, Syria or Iran could throw the entire force into confusion.

An adviser to Russia's President Vladimir Putin, Igor Shuvalov said that any fall in oil prices, even to as low as \$25/barrel, would not hurt the Russian economy and would in fact be beneficial.

The IMF stated that world economy should maintain a healthy pace this year, with growth likely to reach 5% in 2006 led by growth in China and India. It stated that growth in the US should moderate to a more sustainable level, due to the slowdown in the housing market and the impact from higher interest rates. The managing director of the IMF, Rodrigo Rato said energy prices would likely remain high. He called for increased competition in the ownership of oil production facilities and more investments by oil importing countries in refineries.



Iran. State Department spokesman Sean McCormack said the Bush administration stood firm on seeking UN sanctions against Iran cut acknowledged that weeks of diplomacy would be required. Also, the chief US delegate to the IAEA called for sanctions, a day before the EU-Iran meeting. Meanwhile, Iran's President Mahmoud Ahmadinejad told visiting UN Secretary General Kofi Annan that Iran wanted to find a negotiated solution to the standoff over its nuclear program.

Separately, Israeli lawmaker Jacob Edri said a US military strike against Iran was unavoidable and would likely occur during George W. Bush's presidency. He said an attack would be limited to destroying parts of the nuclear

program.

Iran's former President Mohammad Khatami arrived in Washington to give a major address on Thursday at the Washington National Cathedral. His visit has been controversial in the US as well as in Iran, where a newspaper called the US visa suspicious. Many Iranian exiles in Iran were also enraged, with some threatening protests. However Iran's Supreme leader and Iran's President did not attempt to block the visit.

The EIA reported that the US average retail price of gasoline fell by 11.8 cents to \$2.727/gallon in the week ending September 5. It also reported that the US average retail price of diesel fell by 6 cents to \$2.967/gallon on the week.

Refinery News

Citgo Petroleum Corp said a small fire broke out on Sunday at its 425,000 bpd Lake Charles, Louisiana refinery. The fire started in its gas oil hydrotreater unit. The outage is expected to impact about 100,000 bpd of throughput at the refinery.

According to a report filed with the Texas Commission on Environmental Quality, a problem in switching feed to a Unibon unit located in the East Plant at Citgo Petroleum Corp's 156,000 bpd Corpus Christi, Texas refinery caused a brief emissions event on Friday. The report did not state whether the incident impacted production.

Deer Park Refining LP started the process of shutting down its catalytic reformer unit 3 at its Deer Park, Texas refinery for about five days of scheduled maintenance. Its restart is scheduled for Saturday.

China's Sinopec Zhenhai Refining & Chemical Co Ltd is expected to cut its crude runs by 1.9% in September to 365,000 bpd.

Japan's Taiyo Oil Co is expected to restart its Kikuma refinery early next week after completing unplanned safety checks. It is expected to restart operations at its No. 2 crude distillation unit on Monday and at its No. 1 unit on Tuesday following a fire.

NYMEX Petroleum Options Most Actively Traded for September 5, 2006

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Prev Settle	Volume	IV
GO	10	6	P	1.99	09/26/2006	0.3487	0.2696	300	52.91
GO	10	6	P	1.52	09/26/2006	0.0189		125	41.68
GO	10	6	P	1.5	09/26/2006	0.0148	0.0063	58	41.68
GO	10	6	C	2.15	09/26/2006	0.0023	0.0062	32	56.29
LO	12	6	P	70	11/14/2006	2.95	2.79	5,572	26.96
LO	11	6	C	95	10/17/2006	0.09	0.13	5,251	44.39
LO	11	6	C	100	10/17/2006	0.05	0.07	4,959	46.47
LO	10	6	P	70	09/15/2006	2.11	1.87	4,589	28.33
LO	11	6	P	65	10/17/2006	0.84	0.77	3,496	28.04
LO	12	6	C	80	11/14/2006	0.8	0.94	2,367	28.82
LO	12	6	P	65	11/14/2006	1.11	1.04	2,231	26.92
LO	11	6	C	75	10/17/2006	0.84	1.06	1,884	27.51
LO	12	6	C	100	11/14/2006	0.11	0.16	1,870	39.05
LO	11	6	P	63	10/17/2006	0.5	0.45	1,804	28.99
LO	12	6	P	66	11/14/2006	1.38	1.3	1,762	26.86
LO	12	6	C	75	11/14/2006	1.68	1.93	1,741	27.17
LO	10	6	P	67	09/15/2006	0.61	0.57	1,706	27.97
LO	12	6	C	41.5	11/14/2006	29.15	29.71	1,300	77.31
LO	12	6	P	60	11/14/2006	0.34	0.32	1,291	28.14
LO	10	6	C	80	09/15/2006	0.02	0.08	1,146	40.91
LO	10	6	P	61	09/15/2006	0.01	0.02	1,050	30.15
LO	12	6	P	64	11/14/2006	0.89	0.84	1,016	27.10
LO	11	6	C	85	10/17/2006	0.2	0.26	1,000	35.72
LO	12	6	C	39.5	11/14/2006	31.15	31.71	1,000	84.56
LO	12	6	C	40	11/14/2006	30.65	31.21	1,000	82.71
LO	12	6	C	40.5	11/14/2006	30.15	30.71	1,000	80.88
LO	12	6	C	37	11/14/2006	33.65	34.21	1,000	94.20
OB	4	7	C	2.08	03/27/2007	0.1542	0.1861	300	29.30
OB	4	7	P	2	03/27/2007	0.1474	0.1273	150	29.09
OB	4	7	P	2.08	03/27/2007	0.1909	0.1629	150	29.44
OH	2	7	C	2.2	01/26/2007	0.1153	0.1302	375	30.43
OH	12	6	C	2.06	11/27/2006	0.1058	0.1209	255	29.80
OH	12	6	P	2.06	11/27/2006	0.123	0.1116	255	29.84
OH	12	6	C	2.1	11/27/2006	0.0922	0.105	200	30.57
OH	12	6	C	2.3	11/27/2006	0.0483	0.0561	200	34.53
OH	12	6	P	2.04	11/27/2006	0.1108	0.102	200	29.44

Russia's Energy Ministry stated that the country's refined products exports increased in July on higher refining runs in June. It reported that Russia exported 3.179 million tons of fuel oil in July, up from 2.864 million tons in June. Gasoline exports increased by 17% while shipments of gas oil increased by 12.7%. The increase was due to higher refining runs, which increased to 4.23 million bpd in June from 4.15 million bpd in May. In July, runs reached a record high of 4.48 million bpd, which should further increase exports in August.

Iran's parliament debated a bill on Tuesday that would add \$3.5 billion to the budget to pay off

more gasoline imports and avoid politically sensitive rationing. However parliamentarians are not expected to vote for at least two weeks. Iran had cut the budget to \$2.5 billion to finance imports for the financial year ending March 2007 from an originally proposed budget of \$4 billion. Meanwhile, an Iranian energy official said Iran could withstand any sanctions that cut the country's gasoline imports. Iran's Deputy oil minister Mohammad Reza Nematzadeh said Iran has a contingency plan, which includes fuel rationing.

Separately, Iran's Oil Ministry stated that Iran has added 1.5 million liters per day to its gasoline production by upgrading its southwestern Abadan refinery.

Brazil's Petrobras is expected to invest \$1 billion in ethanol export infrastructure through 2015. The company, in its first stage, plans to buy 2.5 billion liters of ethanol a year from Brazilian millers. By 2015, that volume is expected to increase to 12 billion liters/year. The ethanol slated for export would be shipped by river vessels and through a pipeline to an ethanol port in Rio de Janeiro.

Production News

Three oil companies, led by Chevron Corp successfully drilling for oil in the Gulf of Mexico's deep waters. Chevron stated that during the test, the Jack No. 2 well flowed at rate of more than 6,000 bpd of crude. Chevron officials estimated the lower tertiary region could hold 3 billion to 15 billion barrels of oil and gas reserves. The higher end of the range would increase US reserves by 50%. The discovery is 270 miles southwest of New Orleans and 175 miles offshore. Chevron said it is the largest lease holder in the deepwater Gulf of Mexico and is currently developing a \$3.5 billion Tahiti project, scheduled to commence production in 2008.

Norsk Hydro shut production at its Oseberg South oil platform after a fire broke out in a transformer room Tuesday morning. Production is expected to resume when the relevant equipment in the transformer room has been checked and found in order.

Eni SpA said it halted about 50,000 bpd of Nigerian production due to pipeline sabotage.

According to a Reuters survey, OPEC's oil production increased by 60,000 bpd on the month in August to 29.92 million bpd, led by production increases in Nigeria, Venezuela and Saudi Arabia. It reported that the ten OPEC members, excluding Iraq, produced 27.88 million bpd, up 120,000 bpd on the month. It reported that Nigeria's production increased by 120,000 bpd to 2.28 million bpd while Venezuela's production increased by 80,000 bpd to 2.52 million bpd and Saudi Arabia's production increased by 100,000 bpd to 9.3 million bpd. Iraq's production fell by 60,000 bpd to 2.04 million bpd.

Iraq on Sunday issued a tender for 6 million barrels of Kirkuk crude, the fifth tender since June. Iraq's SOMO sold 8.6 million barrels in total in the first three tenders issued since June 19. Separately, Iraq's Oil Minister Hussein al-Shahristani said Iraq's cabinet has allocated \$800 million to cover the country's imports of oil products for the rest of 2006 to curb the fuel shortage.

Indian oil workers called off an indefinite strike, which was due to start on Tuesday, after the government promised to look into their demands for higher wages.

An Iranian oil official said Total has joined Iran's National Iranian Oil Co and a consortium of Japanese firms led by Inpex in the development of its Azadegan oilfields. Total has a 12% to 15% stake in the project. The official also stated that the Japanese consortium and the NIOC have reached an agreement on increasing investment in the project to \$1.943 billion from \$1.026 billion.

Russia's environmental agency increased its pressure on Royal Dutch/Shell-led Sakhalin-2 project, saying on Tuesday it would seek to overturn its own decision to recognize the project as ecologically safe. It has asked a Moscow court to recognize that the liquefied natural gas project was not complying with ecological rules. Sakhalin-2 has been producing 70,000 bpd of crude oil for about six months and is expected to double its production when its platforms and pipelines are fully up and running. In response, the international investment consortium said that the environmental problems were minor and should not be cause for halting construction of the liquefied natural gas export project.

Chad's President Idriss Deby said he expected the dispute with Chevron and Petronas to be resolved through negotiations. His comments appeared to backtrack his previous order to Chevron and Petronas to halt operations and leave Chad for refusing to pay taxes the government says they owe.

Saudi Arabia cut its October official selling price for its crude bound to the US. Its Arab Extra Light was cut by 95 cents to WTI minus \$3.00 while its Arab Light was cut by 85 cents to WTI minus \$6.60. Its Arab Medium was cut by 85 cents to WTI minus \$9.00 and its Arab Heavy was cut by 50 cents to WTI minus \$11.70. Meanwhile its Arab Extra Light bound for Europe was unchanged at BWAVE minus \$1.65, its Arab Light was increased by 20 cents to BWAVE minus \$5.55, its Arab Medium was increased by 15 cents to BWAVE minus \$8.05 and its Arab Heavy was increased by 45 cents to BWAVE minus \$10.50. Its Arab Extra Light crude bound for Asia was increased by 30 cents to the Oman/Dubai average plus \$4.00, its Arab Light was increased by 10 cents to the Oman/Dubai average plus 45 cents, its Arab Medium was cut by 37 cents to the Oman/Dubai average minus \$3.17 and its Arab Heavy was cut by 50 cents to the Oman/Dubai average minus \$6.35.

OPEC's news agency reported that OPEC's basket of crudes fell sharply to \$64.38/barrel on Monday from \$65.37/barrel on Friday.

Meanwhile, OPEC reported in its Annual Statistical Bulletin that the value of OPEC's oil exports increased by 44.8% in 2005 to a record \$513 billion. It said the value of its reference crude oil basket averaged \$50.64/barrel, up 40.5% on the year. Crude oil production averaged 30.673 million bpd, up 3.8% on the year while crude oil exports increased by 5.5% on the year to 22.774 million bpd.

Market Commentary

The oil market gapped lower from 69.05 to 68.70 as it remained under pressure following the Labor Day holiday weekend. It seemed to be catching up with the ICE Brent market, which sold off sharply on Monday. The market was also pressured by the news that Chevron successfully tested production from a deepwater region in the Gulf of Mexico estimated to hold up to 15 billion barrels of crude oil and natural gas reserves. The market quickly backfilled its gap before it continued to trend lower. The market sold off to a low of 68.25 before it settled in a sideways trading pattern amid the light volume trading. The market settled down 59 cents at 68.60, the lowest settlement seen since mid-May. Volume was light with only 131,000 lots booked on the day. The product markets also settled in negative territory, with the gasoline market settling down 8.79 cents at 164.65 and the heating oil market settling down 3.12 cents at 193.62. The gasoline market gapped lower from 172.65 to 172.00 and quickly backfilled its gap as it posted a high of 173.50. The market however retraced its gains and continued to sell off. The market extended its losses to over 9.9 cents as it posted a low of 163.50

ahead of the close. The heating oil market also gapped lower from 196.40 to 196.20 on the opening. The market also

Technical Analysis		
	Levels	Explanation
CL 68.60, down 59 cents	Resistance	70.40, 71.20 to 72.40
	Support	69.05
		68.25
HO 193.62, down 3.12 cents	Resistance	200.50, 201.40, 202.75 to 206.00
	Support	194.00, 196.00, 197.00
		193.10
HU 164.65, down 8.79 cents	Resistance	177.80, 180.00, 181.00
	Support	170.75, 173.50
		163.50
		159.80, 157.55

backfilled its gap as it posted a high of 197.00. However the market erased its slight gains and sold off to a low of 193.10 ahead of the close. Volumes in the product markets were light with 20,000 lots booked in the gasoline market and 37,000 lots booked in the heating oil market.

The oil market is seen remaining range bound as the market awaits the outcome of the meeting between the EU and Iran followed by a meeting between the permanent members of the UN Security Council and Germany over Iran's continuing defiance. The market will also remain range bound ahead of Thursday release of the weekly petroleum stock reports which are expected to show draws in crude stocks of about 1 million barrels, draws of less than 1 million barrels in gasoline stocks and builds of about 1 million barrels in distillate stocks. The market is seen finding support at its low of 68.25 followed by more distant support at 67.55 and 66.65. Meanwhile resistance is seen at its high of 69.05 followed by 70.40 and its gap from 71.20 to 72.40.