



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR SEPTEMBER 7, 2006

Iran's Foreign Minister Manouchehr Mottaki said negotiations were the only way to resolve the standoff over Iran's nuclear program. Meanwhile, a senior Iranian official said oil prices would rise if the West imposed new obstacles to investing in Iran's oil sector. Iran's deputy oil minister Mohammed Hadi Nejad Hosseinian said he did not believe the UN Security Council would impose sanctions against Iran's oil and gas industry. Separately, Iran's deputy oil minister also stated that OPEC was likely to maintain its oil production steady when it meets on Monday, September 11.

The EU's foreign policy chief Javier Solana said a meeting with Iran's chief nuclear negotiator, Ali Larijani, has been scheduled for Saturday. EU diplomats said the aim was to find out if there was a chance Iran may halt enrichment work and begin negotiations on an offer of economic and political

Market Watch

US Energy Secretary Sam Bodman said the first facility to produce ethanol from cellulosic plants could be operating within five years. However he stated that more work needs to be done to lower its manufacturing costs and make it competitive with fuel made from corn. The production of cellulosic ethanol costs about \$2.20/gallon, nearly double the cost of making ethanol from corn. He said the Energy Department is on track to provide loan guarantees for construction of some of these plants by the first half of 2007.

The US EPA proposed new clean fuel rules to comply with a 2005 energy law that directs refiners and marketers to increase biofuel production from 4 billion gallons this year to 7.5 billion gallons in 2012. It is proposing that 3.71% of all US gasoline sold next year be a renewable fuel. Currently the standard is 2.78% of all gasoline sales.

Representatives of Nigeria's two oil unions, Pengassan and Nupeng, were meeting on Thursday with officials of the Ministry of Labor and other stakeholders in the oil industry, over threats by the unions to start a three day strike from September 13. A source however stated that the outcome of the meeting would not change the workers' decision to embark a warning strike.

Mexico's oil workers's union pledged support and cooperation for President elect Felipe Calderon, whose July 2 election victory was confirmed following two months of protests and legal challenges. The Federal Electoral Tribunal on Tuesday ratified the result. The President elect is scheduled to take office on December 1 for a six year term. He has pledged not to privatize either Pemex or the state electricity company Comision Federal de Electricidad. However he is expected to seek more investment openings in the energy sector. He also favors joint public-private investment in refining in Mexico.

Europe's largest airlines have hedged against higher prices for much of their jet fuel needs well into next year. British Airways has hedged 65% of its fuel needs through to March 2007 at a price of \$62/barrel while Air France has hedged 81% of its fuel needs at a price of \$51/barrel. Lufthansa has hedged 90% through the end of this year at a price of \$66.60/barrel and 60% through the end of 2007 at a price of \$71.80. Ryanair has hedged 90% of its fuel needs through the end of the year at a price of \$70/barrel and last month said it would look to hedge through to the end of March if prices fell.

DOE Stocks

Crude – down 2.2 million barrels
Distillate – up 3.1 million barrels
Gasoline – up 700,000 barrels
Refinery runs – up 0.75%, at 93.6%

incentives. Meanwhile, a US State Department official said the five UN Security Council permanent members and Germany made substantial progress in discussions on UN sanctions against Iran. Earlier, China stated that it hoped the crisis over Iran's nuclear program could be resolved through talks. Separately, according to a document

obtained by the Associated Press, key European countries are warning that Iran is attempting to weaken the international consensus against its nuclear program by stalling in its response to terms for negotiations. The document stated that Iran was seeking to split the international community.

US Energy Secretary Sam Bodman said OPEC was unlikely to increase its production at its meeting on Monday because it was already pumping as much as it could. He said he has not talked with OPEC ministers ahead of next week's meeting.

Analysts stated that OPEC producers were likely to maintain their production unchanged. However they stated that some OPEC members were concerned by the outlook for 2007, when demand for their oil could fall sharply if independent producers bring on projects for new crude. OPEC economists estimate that demand for OPEC's oil would fall by 800,000 bpd. Also slowing economic growth would further erode demand for OPEC oil and increase the prospect for a price collapse.

Qatar's Oil Minister Sheikh Abdullah bin Hamad al-Attiyah said that OPEC may not be able to fill a supply gap if Iran halted oil exports due to any sanctions.

Oil Movements reported that OPEC's oil exports are expected to fall 100,000 bpd to 25.11 million bpd in the four weeks ending September 23 due to easing demand.

The Energy Department reported that US inventories of propane totaled 63.761 million barrels in the week ending September 2, up 430,000 barrels on the week. It reported that propane inventories in the East Coast fell by 128,000 barrels to 5 million barrels while inventories in the Midwest built by 82,000 barrels to 25.514 million barrels and inventories in the Gulf Coast increased by 122,000 barrels to 30.554 million barrels on the week.

Refinery News

Total said it planned to restart eight units at its 232,000 bpd Port Arthur, Texas refinery following emergency repairs.

Valero Energy Corp has planned a lighter than average refinery maintenance schedule for the fourth quarter. Valero's 90,000 bpd Houston refinery is scheduled to undergo maintenance on its fluid catalytic cracking unit in late September, early October. Its Lima, Ohio refinery is also scheduled to undergo maintenance on its 40,000 bpd fluid catalytic cracking unit and 23,000 bpd coker unit in late September.

Royal Dutch Shell said its Stanlow oil refinery in England was operating normally after a fire broke out about a kilometer away.

Total's newly built hydrocracker unit at its 328,000 bpd Gonfreville refinery in France is set to start production on October 1.

Colonial Pipeline said it was allocating space on its Line 25 spur line into Roanoke, Virginia for cycles 49 and 50.

Gas oil inventories in independent Amsterdam-Rotterdam-Antwerp storage tanks fell once again by 95,000 tons to 1.95 million tons in the week ending September 7. Gasoline stocks however increased by 40,000 tons to 685,000 tons while fuel oil stocks fell by 55,000 tons to 515,000 tons on the week. Naphtha stocks increased by 5,000 tons to 100,000 tons while jet fuel stocks fell by 20,000 tons to 350,000 tons on the week.

Singapore's International Enterprise stated that the country's residual fuel stocks fell by 505,000 barrels to 12.884 million barrels in the week ending September 6. It also stated that light distillate

stocks increased by 156,000 barrels to 8.32 million barrels while middle distillate stocks fell by 754,000 barrels to 8.261 million barrels on the week.

Exports of gas oil, gasoline and fuel oil from the former Soviet Union via Baltic and Black Sea ports increased sharply in August. Export flows of FSU gas oil reached 3.12 million tons in August, up 231,000 tons on the month. Total gasoline exports via Baltic and Black Sea ports increased by 311,000 tons on the month while fuel oil exports increased by 283,000 tons to 3.77 million tons.

Production News
BP Plc said it was evaluating options to increase Prudhoe Bay production

NYMEX Petroleum Options Most Active for September 7, 2006

Symbol	Month	Year	Type	Strike	Exp Date	Settle	Prev Settle	Volume	IV
GO	12	6	C	2	11/27/2006	0.0314	0.0297	175	37.34
GO	10	6	C	1.8	09/26/2006	0.0188	0.0196	67	45.99
GO	10	6	C	1.82	09/26/2006	0.0161	0.017	50	46.60
GO	10	6	P	1.6	09/26/2006	0.0421	0.0442	44	41.22
GO	10	6	C	1.7	09/26/2006	0.04	0.0409	33	42.91
LO	1	7	P	54	12/14/2006	0.16	0.16	6,000	29.47
LO	12	6	C	37	11/14/2006	32.43	32.6	5,725	92.38
LO	10	6	P	66	09/15/2006	0.55	0.57	4,493	27.58
LO	10	6	P	67	09/15/2006	0.94	0.94	4,378	27.59
LO	10	6	C	85	09/15/2006	0.01	0.01	3,750	60.68
LO	12	6	P	60	11/14/2006	0.45	0.4	3,473	28.49
LO	12	6	C	70	11/14/2006	2.88	3.02	3,410	26.67
LO	10	6	C	70	09/15/2006	0.27	0.37	3,372	28.23
LO	12	7	P	60	11/13/2007	2.95	2.82	3,325	28.76
LO	12	6	C	40	11/14/2006	29.43	29.6	3,225	80.81
LO	10	6	P	65	09/15/2006	0.3	0.32	3,155	27.88
LO	1	7	P	59	12/14/2006	0.54	0.55	3,000	28.44
LO	10	6	C	80	09/15/2006	0.01	0.02	2,897	46.57
LO	11	6	C	75	10/17/2006	0.55	0.63	2,761	27.63
LO	12	6	C	29.5	11/14/2006	39.93	40.1	2,690	126.34
LO	12	6	C	100	11/14/2006	0.08	0.09	2,660	39.44
LO	12	6	C	90	11/14/2006	0.18	0.2	2,651	34.13
LO	11	6	C	70	10/17/2006	1.76	1.9	2,608	26.83
OB	4	7	C	2.4	03/27/2007	0.0749	0.0767	597	33.47
OB	4	7	C	2.3	03/27/2007	0.0919	0.0942	375	32.51
OB	4	7	C	2	03/27/2007	0.1802		246	30.13
OB	4	7	P	2	03/27/2007	0.1619	0.1595	246	30.05
OB	4	7	C	2.1	03/27/2007	0.1423	0.1454	33	30.67
OH	2	7	P	2.2	01/26/2007	0.2362	0.227	283	30.84
OH	12	6	C	2.18	11/27/2006	0.0547	0.0602	225	32.38
OH	4	7	C	2.08	03/27/2007	0.1402	0.1591	125	27.94
OH	4	7	P	2	03/27/2007	0.1437	0.1501	125	27.76
OH	10	6	P	2.02	09/26/2006	0.1458	0.1281	103	32.45
OH	11	6	C	2.02	10/26/2006	0.0602	0.0688	100	31.84
OH	12	6	C	2	11/27/2006	0.1067	0.1178	100	29.42
OH	10	6	C	2.13	09/26/2006	0.0036	0.0056	100	33.22
OH	11	6	P	1.97	10/26/2006	0.0985	0.0876	100	30.84
OH	12	6	P	2	11/27/2006	0.1102	0.1025	100	29.42

beyond the current 220,000 bpd. However there is no time frame for restoring the remaining shut in

production. It has been evaluating several alternatives to restore the production, including the use of the Endicott pipeline, which is operating well below capacity. It said some work on the Endicott strategy would be done by the end of October.

Royal Dutch Shell lifted a force majeure on its Bonny Light crude exports. It said all nine flow stations in the eastern region resumed operations and flows through the pipeline were restored to 180,000 bpd. It declared a force majeure on July 20 following a construction accident that damaged a key pipeline.

Nigeria's Central Bank reported that the country's crude oil production increased marginally in the second quarter to 2.3 million bpd, up from 2.2 million bpd in the preceding quarter. It said crude exports stood at 1.8 million bpd, while 450,000 bpd was delivered to local refineries for domestic use. It however reported that revenue from crude in the second quarter fell by 26.2% to \$8.944 billion.

Traders stated that a production problem has cut oil production from BP's 120,000 bpd North Sea Schiehallion field. Oil traders were unable to give details on the problem or how much it has reduced output. Meanwhile, BP declined to comment on its operations.

According to Dow Jones, OPEC's crude oil production in August increased by 200,000 bpd on the month to 29.76 million bpd. It reported that Nigeria's production averaged 2.25 million bpd, up from 2.1 million bpd in July. Iran's oil production also increased by 100,000 bpd to 4 million bpd in August while Venezuela's oil production also increased by 100,000 bpd to 2.5 million bpd. Saudi Arabia's oil production remained unchanged at 9.1 million bpd. Meanwhile Iraq's oil production fell slightly to 2.05 million bpd from 2.08 million bpd in July.

An analyst stated that substantial increases in oil production in Africa and the former Soviet Union, along with slowing demand would affect OPEC's ability to raise production without driving down prices.

ExxonMobil Corp said it started the process of exporting oil from its Sakhalin-1 project in Russia. First oil started flowing into the export system on August 29 and the first tanker is expected to begin loading at the newly built DeKastri terminal this month. Oil production from the project should increase to a peak rate of 250,000 bpd by the end of 2006.

OPEC's news agency reported that OPEC's basket of crudes fell by 18 cents/barrel to \$63.36/barrel on Wednesday.

Norway's statistics agency cut its forecast for total investment in oil and gas extraction and pipeline transport for 2006 to 99.5 billion Norwegian crowns or \$15.57 billion, down from a previous forecast of 102.3 billion crowns. It estimated 2007 investment in the Norwegian oil and gas sector at 88.5 billion crowns, up from a previous estimate of

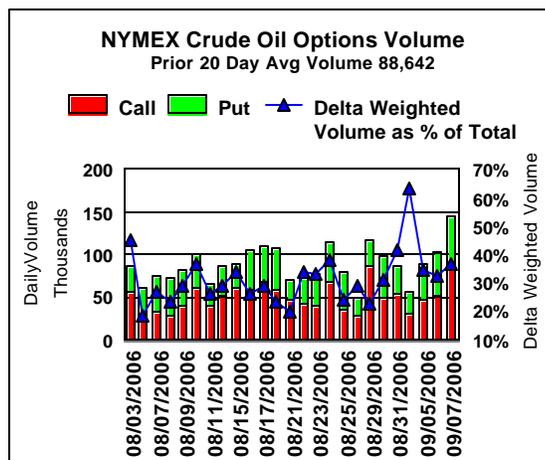
Technical Analysis			
		Levels	Explanation
CL	Resistance	68.85, 69.05, 70.40	Previous highs
		67.65, 67.98	Thursday's high
	Support	66.76	Thursday's low
		66.65, 66.23, 65.60	Previous lows
HO	Resistance	194.40, 197.00, 200.50, 201.40	Previous highs
		189.10, 192.36	Thursday's high
	Support	187.50	Thursday's low
		185.75, 185.60, 183.90, 182.30	Previous lows
HU	Resistance	168.00, 173.50, 177.80	Previous highs
		165.00, 166.25	Thursday's high
	Support	162.00	Thursday's low
		159.80, 157.55	Previous lows

crowns or \$15.57 billion, down from a previous forecast of 102.3 billion crowns. It estimated 2007 investment in the Norwegian oil and gas sector at 88.5 billion crowns, up from a previous estimate of

68.3 billion crowns. Investment in exploration is now estimated at 13.4 billion crowns for 2006 and at 19.6 billion crowns for 2007.

Market Commentary

The oil market ended in negative territory once again as it remain pressured following the release of the DOE reports, which showed a larger than expected build in distillate stocks and an unexpected build in gasoline stocks. The market was also pressured amid the reports that BP was considering several alternatives to increase its production at the Prudhoe Bay oilfield. The crude market sold off following the release of the weekly petroleum stocks reports. However it held some support above the 67.00 as the larger than expected draw in crude stocks of over 2 million barrels helped limit its losses. It posted a high of 67.98 and traded mostly sideways before it sold off to a low of 66.76 late in the session. The crude market later bounced off its low and retraced some of its losses ahead of the close. It settled down 18 cents at 67.32. Volume in the crude market remained light with 177,000 lots booked on the day. The gasoline market sold off early in the session to a low of 162.00 following the release of the DOE report, which showed an unexpected build of 700,000 barrels in gasoline stocks. The market however bounced off its low and rallied to a high of 166.25. The market later settled in a sideways trading range and settled up 17 points at 164.17. Meanwhile, the heating oil market posted a high of 192.36 early in the session ahead of the release of the stock reports. The market however erased its gains in light of the larger than expected build in distillate stocks. It extended its losses to over 3.60 cents as it sold off to a low of 187.50 late in the session. The market later erased some of its losses and settled down 2.34 cents at 188.76. Volumes in the product markets were light with 20,000 lots booked in the gasoline market and 43,000 lots booked in the heating oil market.



The while the futures market activity remained rather subdued again today, crude oil option volumes grew by 40% over yesterday and stood at over 140,000 lots traded, the highest level since July 13th. Call activity remains the majority of the trading for the eighth consecutive session, with the December \$100 call continuing to attract attention despite the bear trend in prices remaining in place. The most active strike in the oil complex today though was the Jan \$54 put which traded 6,000 times as part of a 2:1 ratio put spread with the January \$59 put.

The crude market, which technically looks oversold, is seen retracing some of its losses ahead of the weekend.

The market's losses are seen limited as the market awaits for further developments on the standoff over Iran's nuclear program. A meeting between Iran and the EU is scheduled for Saturday. The crude market is seen finding support at its low of 66.76 followed by 66.65, 66.23 and 65.60. Meanwhile resistance is seen at 67.65 followed by 67.98. More distant resistance is seen at its highs of 68.85, 69.05 and 70.40.