



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 7, 2006

The European Union said talks with Iran's chief nuclear negotiator, Ali Larijani on Thursday were constructive and laid the groundwork for a response by Iran during a second meeting next week. A spokeswoman for EU foreign policy

chief Javier Solana did not give any details on the content of the talks, saying only that the EU foreign policy chief stressed the benefit to Iran of accepting the offer. The EU is due to host Iran for second round of talks on July 11 with the countries behind the offer. Meanwhile, US Secretary of State Condoleezza Rice said the Iran had failed to present long awaited answer to the international offer. Iran's chief nuclear negotiator Ali Larijani said time limits and deadlines in nuclear talks with major powers were undermining confidence on both sides. He also stated that the European Union could increase Iran's confidence in the talks by lifting restrictions it has placed on exports of some industrial goods to Iran.

The head of the IAEA Mohamed ElBaradei said Iran could spark a nuclear arms race if it proceeded with its uranium enrichment. He said Iran needed to understand the need to demonstrate their program is for peaceful purposes. He urged Iran to try to reach a negotiated settlement to the standoff.

Shipping sources stated that Iraq stopped pumping Kirkuk crude along the northern pipeline to Turkey on Thursday but is expected to restart the flow soon. Iraq halted the pumping of crude as it waited to store enough crude to send through the next batch of a million barrels. Iraq's SOMO issued a fourth quarter tender on Thursday, offering 6 million barrels of crude for loading during July. Royal Dutch Shell was loading two million barrels onto a vessel on Friday and was expected to complete loading on Saturday. Vitol's North Atlantic Refining unit has also started loading 1 million barrels onto another vessel. Turkish refiner Tupras was due to start receiving 1 million barrels through another pipeline from Ceyhan to its Kirikkale refinery soon.

Market Watch

According to a Reuters survey, WTI crude is expected to average \$66.32 in 2006, up from previous estimates of \$64.04/barrel. It stated that WTI crude is expected to average \$62.59/barrel in 2007.

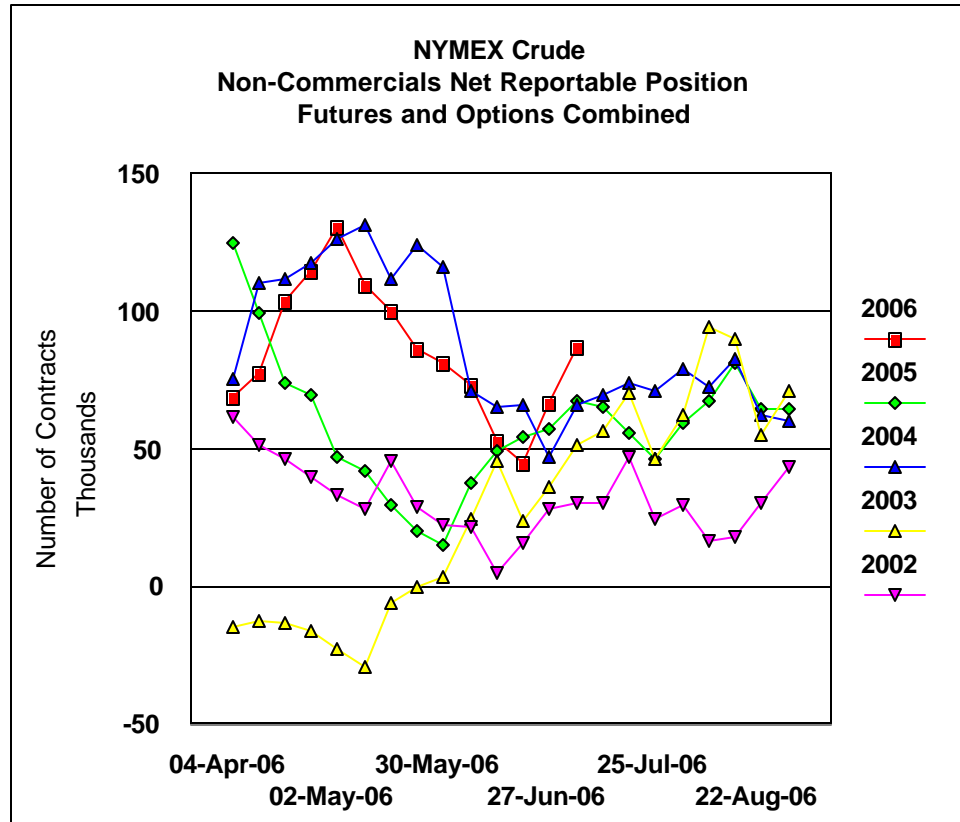
US motorists have not been discouraged by the high energy costs. According to the AAA, motor travel around the US Independence Day holiday increased by 1.3% on the year. Gasoline prices averaged \$2.93/gallon last week causing some consumers to cut costs elsewhere to counter higher fuel costs.

The NYMEX is scheduled to start trading a Brent crude oil contract on July 24 on CME Globex. The contract would be listed on July 23 and trade the following day.

Refinery News

Citgo's Petroleum Corp's 156,000 bpd Corpus Christi, Texas refinery experienced a fire on Thursday evening causing a unit to shutdown. The fire started when a gasket failed on a pipe, causing a hydrogen gas leak on a tower at the plant. Traders stated a reformer unit was shutdown. Citgo said it would move up planned maintenance on a reformer unit which was originally scheduled for next week. The unit is expected to restart next week following a brief maintenance period.

Delek US Holdings Inc's 60,000 bpd Tyler, Texas refinery reported flaring from equipment associated with a gasoline unit and sulfur unit on Thursday. No unit shutdowns or other major impacts resulted from the incident.



A reformer unit at Total's 104,000 bpd Milford Haven refinery suffered a brief problem on Thursday. The unit resumed operations once the problem was resolved.

Pertamina's 120,000 bpd Dumai refinery was operating at 70% of capacity due to lingering problems at its vacuum unit which should be resolved by Saturday.

South Korea's S-Oil Corp is expected to maintain its crude processing rate for August at 565,000 bpd from July levels.

South Korea's SK Incheon Oil Ltd is expected to restart a 75,000 bpd crude oil unit in 2007 after idling it for the past five years. The unit was shut in late 2001 due to financial troubles and a fall in profit margins.

European gasoline prices reached its highest level yet this year on Friday on supply concerns. The benchmark Amsterdam-Rotterdam-Antwerp barge market peaked at \$785/ton or \$2.2365/gallon. Swaps markets also reflected a widening gap between July and August prices, suggesting a supply crunch this month. Meanwhile, about 1 million tons or 835,000-845,000 bpd are scheduled to move across the Atlantic in the first 10 days of July.

An analyst reported that fuel oil stocks in the independent Amsterdam-Rotterdam-Antwerp storage tanks increased by 125,000 tons to 660,000 tons in the week ending July 7 amid increasing Russian exports via Baltic ports and a lack of arbitrage exports to Asia. It also reported that gas oil stocks increased by 20,000 tons to 1.785 million tons while jet fuel stocks increased by 15,000 tons to

365,000 tons on the week. Meanwhile, gasoline stocks fell by 20,000 tons to 770,000 tons while naphtha stocks fell by 5,000 tons to 70,000 tons.

Azerbaijan's SOCAR tendered to sell a 60,000 ton or 440,000 barrel cargo of Urals crude for loading at Russia's Black Sea port of Novorossiisk on July 29.

The head of China's National Development and Reform Commission said China should strengthen and accelerate the build up of its oil reserves. However he did not give any new clues as to when it would begin building its reserves. China finished building the first tanks at its first strategic reserve site in Ningbo nearly a year ago but has yet to pump any crude into the facility.

Oil exports from ExxonMobil Corp's Sakhalin-1 project via the main DeKastri terminal are expected to begin in September or early October, later than previously expected.

Production News

Nigerian officials said they made contact with militants who kidnapped a Dutch oil worker in the country's Niger Delta and hope to secure his release soon.

Total SA reaffirmed its production could be slightly higher next year after a slowdown in 2005 and 2006 as a number of projects start up in Angola and Qatar. It expects a 4% average output growth per year out to 2010.

Russia's lower house of parliament voted on Friday to approve the second of three readings of a law to give tax breaks to firms developing new oil deposits or trying to extract the last drops from old wells. The law aimed to increase exploration by setting a zero rate of mineral extraction tax on certain sites, giving oil companies an incentive to develop resources that have previously been too remote or complex to be economically viable. Fields that are more than 80% depleted would also pay a lower rate. The bill would set a base rate of mineral extraction tax at 419 rubles or \$15.57/ton from January 1, 2007 to the end of 2016, although it would fluctuate monthly to reflect changes in world oil prices.

OPEC's news agency reported that OPEC's basket of crudes set a new record at \$68.74/barrel on Thursday, up 82 cents from Wednesday's \$67.92/barrel.

Market Commentary

The oil market gapped higher from 75.35-75.45 after the market posted a high of 75.58 in overnight trading as it continued to trend higher. The oil market was well supported amid the reports of a problem at Citgo's Corpus Christi, Texas refinery. The market quickly posted a high of 75.55. The market, which failed to test its overnight high, erased its gains and extended its losses to \$1.29 as it posted a low of 73.85 late in the session. It settled down \$1.05 at 74.09 as traders took profits ahead of the weekend. Volume in the crude market remained light with 178,000 lots booked on the day. The product markets also settled in negative territory, with the gasoline market settling down 1.96 cents at 223.94 and the heating oil market settling down 5.12 cents at 201.04. The gasoline market posted an inside trading day as it failed to breach Thursday's trading range. The market posted a high of 226.90 early in the session in light of the refinery news. However the market later retraced its gains and posted a double bottom at 223.25 ahead of the close. Meanwhile, the heating oil market posted an outside trading day as it rallied to a high of 208.50 early in the session before it erased its gains and tumbled to a low of 200.50 ahead of the close. It retraced more than 50% of its move from a low of 193.00 to its high of 208.50. Volume in the gasoline market remained light with 26,000 lots booked on the day while volume in the heating oil market was better with 41,000 lots booked on the day.

The latest Commitment of Traders report showed that non-commercials in the crude market continue to increase their net long position, by 8464 contracts to 45,278 contracts in the week ending July 3. The combined futures and options report showed an increase in their net long positions of 20,835 contracts to 87,384 contracts amid the market's continuing uptrend. Meanwhile, non-commercials in the gasoline market increased their net longs by 5,626 contracts to 19,262 contracts while non-commercials in the heating oil market also increased their net long positions slightly by 740 contracts to 14,230 contracts on the week.

Barring any bullish news over the weekend, the market is technically seen trading lower. The market which traded to a high of 75.55, failed to test its overnight high and its stochastics look ready to cross

to the downside. Later in the week, the market will seek further direction from a second round of talks between the EU and Iran on the incentive

Technical Analysis		
	Levels	Explanation
CL 74.09, down \$1.05	Resistance 74.50, 75.00	Friday's high, Previous high
	Support 73.85	Friday's low
	73.55, 72.95, 72.50, 72.15	Previous low, 38% (68.75 and 75.55), Previous low, 50%
HO 201.04, down 5.12 cents	Resistance 204.00, 206.00	Friday's high, Previous highs
	Support 200.50	Friday's low
	199.00, 198.80, 198.00	Previous lows
HU 223.94, down 1.96 cents	Resistance 225.00	Friday's high, Previous highs
	Support 223.25	Friday's low
	220.50 to 219.50, 214.00	Remaining gap (June 29th), Previous low

proposal. The market is seen finding resistance at 74.50, 75.00 followed by its highs of 75.55 and 75.85. Support is however seen at its low of 73.85, 73.55 and 72.95. More distant support is seen at 72.50 followed by 72.15.