



ENERGY RISK MANAGEMENT

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ENERGY MARKET REPORT FOR JULY 27, 2006

Israel's government decided against expanding its offensive against Hezbollah but called up at least 30,000 troops to begin training for duty in Lebanon. The Israeli decision came as Israel's Justice Minister said that world leaders, in failing to call for an immediate ceasefire during their summit in Rome, had given Israel approval to continue with its operation. Meanwhile, al-Qaeda threatened new attacks in response to Israel's offensive. Separately, Iran's President Mahmoud Ahmadinejad said Israel ordained its own destruction by invading Lebanon.

Market Watch

Chevron Corp executives are scheduled to meet on Friday with government officials to discuss concerns over 1998 and 1999 leases that do not require oil companies to pay royalties on oil produced in the Gulf of Mexico's deepwaters. The leases do not require royalty payments from oil companies even in times of high energy prices.

Iran's Oil Minister Kazem Vaziri Hamaneh said Iran expects OPEC to roll over its output at its September meeting. He said if oil prices maintain its current trend, he does not believe there would be a new decision regarding OPEC's production. He said oil prices were unlikely to fall. Meanwhile stated that Iran was not planning to cut its exports as a political gesture if Israel were to expand its Lebanese offensive to Syria. He also reiterated that Iran would not impose an oil embargo if the UN Security Council took a tough stance over the country's nuclear ambitions.

Separately, OPEC President Edmund Daukoru arrived in Iran on Thursday to discuss how OPEC should deal with high prices and how to solve a dispute between Iran and Kuwait over the post of Secretary General. He reiterated that oil prices have been well supported by refining shortages and political tensions rather than a lack of crude supply.

Refinery News

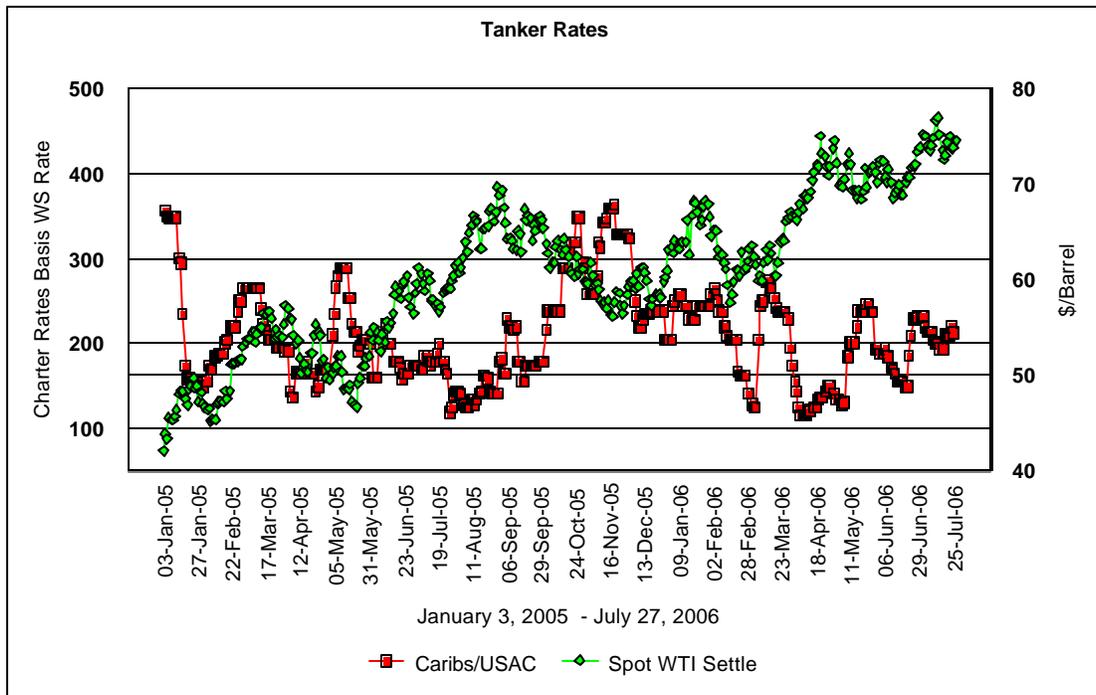
Sources stated that the larger of two platformer units at Citgo Petroleum Corp's 157,000 bpd refinery in Corpus Christi, Texas was operating at normal rates after it was shutdown due to a fire on July 7. The fire had limited impact on the refinery's gasoline production as its other units continued to operate normally.

A sulfur recovery unit in Complex one at Valero Energy Corp's 130,000 bpd Houston, Texas refinery was shutdown on Thursday. The reason for the shutdown was unknown.

ConocoPhillips Corp's 206,000 bpd Wood River refinery in Illinois is not expected to reach full rates for another two weeks. The refinery was previous expected to begin its restart process in the week of July 31. Separately, ConocoPhillips said it had a problem with a reformer unit at its 190,000 bpd Trainer

refinery in Philadelphia. Traders stated that ConocoPhillips was seen as a large buyer of gasoline in the New York Harbor on Wednesday.

BP Products reported a brief emissions event when a propylene pump at a fluid catalytic cracking unit tripped offline at its Texas City, Texas refinery.



Nippon Oil Corp is expected to refine more oil for August to meet peak summer demand for gasoline following heavy maintenance shutdowns and unexpected production problems tightened gasoline supplies. It is expected to process 4.9 million kiloliters or 994,000 bpd of crude in August, up 9% on the year.

Azerbaijan's Socar has tendered to sell 209,000 tons or 1.532 million barrels of Urals crude for loading at Russia's Black Sea port of Novorossiisk. The shipment is expected to load in two cargoes of 131,000 tons on August 28-29 and the remaining 78,000 tons on August 30-31.

Gas oil stocks held in independent Amsterdam-Rotterdam-Antwerp storage tanks increased for a seventh week amid inflows from the US and Asia. Gas oil stocks increased by 20,000 tons to 1.84 million tons in the week ending July 27. Gasoline stocks fell by 105,000 tons to 680,000 tons on the week while fuel oil stocks fell by 5,000 tons to 635,000 tons. Jet fuel stocks increased by 40,000 tons to 355,000 tons while naphtha stocks increased by 25,000 tons to 95,000 tons on the week.

The Shetland Island Council reported that Brent crude loadings increased to 345,442 tons in the week ending July 25 from 80,414 tons in the previous week.

Singapore's International Enterprise reported that the country's residual fuel oil stocks increased to a record high of 13.956 million barrels, up 716,000 barrels on the week. It reported that light distillate stocks increased by 829,000 barrels to 7.837 million barrels while middle distillate stocks increased by 152,000 barrels to 8.003 million barrels on the week.

India's Petroleum Ministry reported that the country's oil product exports increased by 52% on the year to 2.57 million tons in June.

Production News

Royal Dutch Shell said that clean up operations of a leaking Nigerian pipeline were underway. However it gave no indication of when a force majeure on 203,000 bpd of Bonny Light crude would be lifted. It said the force majeure also affected scheduled cargoes for August. It canceled a Very Large Crude Carrier that was scheduled to load crude on August 28. Shell has a total of 653,000 bpd of Nigerian production shut following militant attacks and pipeline leaks. Shell stated that its supply losses may keep it from reaching its oil and gas production target this year. It reported that its second quarter results on Thursday that its 2006 production would be about 3.4 million barrels of oil equivalent/day, down from its 3.5 million to 3.6 million boe/d target.

Separately, Shell stated that its Mars platform in the Gulf of Mexico recovered from hurricane damage ahead of schedule.

An official stated that attackers who shutdown an Agip oil pumping station in southern Nigeria on Tuesday night were still occupying the facility. However he stated that talks were underway to persuade them to leave. Agip's parent company, Eni, said the attack on the Ogbainbiri station in Bayelsa state had resulted in a significant decrease in output.

Army sources in Colombia stated that Marxist rebels on Wednesday killed two soldiers and two workers trying to repair the Cano Limon-Covenas pipeline. The pipeline stopped pumping oil on Sunday after a series of attacks by leftist rebels. The pipeline pumps oil extracted from the 60,000 bpd Cano Limon field. An Ecopetrol official said oil production and exports were not affected by the shutdown and the pipeline is expected to be fully repaired in a couple of days.

Shell Canada Ltd said it aimed to more than double its output of bitumen from its steam driven oil sands operations in Alberta in the next two years following its acquisition of BlackRock Ventures. It is expected to pump 50,000 bpd of extra heavy crude, up from its current production of less than 20,000 bpd.

Libya set its August official selling price of Essider crude at dated BFO minus \$1.70/barrel, unchanged on the month.

OPEC's news agency reported that OPEC's basket of crudes fell to \$68.27/barrel on Wednesday from \$68.71/barrel on Tuesday.

Market Commentary

The oil market opened up 61 cents at 74.55 and posted a mostly neutral session as it settled at 74.54. The market quickly rallied to a high of 74.85 amid the sharp rally in the natural gas market following the release of the EIA natural gas storage report showing an unexpected draw of 7 bcf. The natural gas market rallied about 30 cents on the report

Technical Analysis		
	Levels	Explanation
CL 74.54, up 60 cents	Resistance 75.30, 75.55, 75.78, 76.48, 77.18	Double top, Previous high, 38%, 50% and 62% (79.45 and 73.51) Thursday's high
	Support 74.05	
	73.60-73.55, 73.51, 72.55	
HO 197.96, up 1.98 cents	Resistance 203.61, 207.00	62% (211.10 and 191.50), Previous high Thursday's high
	Support 197.00	
	193.90-193.30, 192.80, 191.50	
HU 229.60, down 2 points	Resistance 232.80, 233.00, 234.60, 235.00	Previous highs Thursday's high, Wednesday's high
	Support 231.50, 231.75	
	227.25, 226.00 225.00, 223.25, 219.75	

and lent further support to the oil complex, which was well supported by the supply problems in Nigeria and the situation in the Middle East. The crude market however held its resistance and erased its gains as it sold off to a low of 74.05. The market later bounced off its low and settled in a sideways trading range during the remainder of the session. The heating oil market also settled in positive territory, up 1.98 cents at 197.96. The heating oil market opened about 1 cent higher at 197.00, its low, and quickly rallied to a high of 201.50 amid the strength in the natural gas market. The market however erased its gains and traded back towards the 198.50 level, where it held support. The heating oil market traded mostly sideways before it found some selling pressure ahead of the close and further retraced its earlier gains. Meanwhile, the gasoline market posted an inside trading day and settled down 2 points at 229.60. It rallied to a high of 231.50 amid the strength in the rest of the complex. However it retraced its gains and sold off to a low of 227.25. Volumes were light with 169,000 lots booked in crude, 43,000 lots booked in heating oil and 27,000 lots booked in the gasoline market.

The oil market on Friday will continue to hold its support amid the continuing supply problems in Nigeria and the situation in the Middle East. The market, which has failed to breach the 73.50 level on several attempts, is seen holding its support as stochastics look ready to cross to upside. Support is seen at its low of 74.05 followed by its previous lows of 73.60-73.55 and 73.51. Resistance is seen at 74.85 followed by 75.30, 75.55 and 75.78. More distant resistance is seen at 76.48 and 77.18.