



## ***ENERGY RISK MANAGEMENT***

Howard Rennell, Pat Shigueta &  
Zachariah Yurch

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

**www.e-windham.com**

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### **ENERGY MARKET REPORT FOR AUGUST 2, 2006**

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Iran's Vice President Isfandiar Rahim Mashaei said Iran was still considering an incentive package offered to Iran in June in exchange for suspending its uranium enrichment. However he accused the west of using pressure, not dialogue to try to deny Iran its rights.

Hezbollah guerrillas attacked northern Israel with rockets and fought up to 6,000 Israeli troops in southern Lebanon after Israel vowed to pursue the war until a strong international force arrived. Israel's Prime Minister Ehud Olmert said he wanted the international force to be mandated to enforce a UN resolution calling for Hezbollah to be disarmed. He said Israel would continue fighting until an international force was on the ground in south Lebanon.

#### **DOE Stocks**

**Crude** – down 1.8 million barrels  
**Distillate** – up 700,000 barrels  
**Gasoline** – down 100,000 barrels  
**Refinery runs** – down 1.84%, at 90.8%

#### **Refinery News**

Deer Park Refining LP's 67,000 bpd fluid catalytic cracking unit, which was shut on Tuesday, is expected to restart on Wednesday and return to normal rates by early Thursday. Feed to the unit was diverted Tuesday to repair a leak in a pipe.

#### **Market Watch**

BP Plc has submitted plans to US regulators to drain an oil pipeline that leaked in Alaska in March. However it stated that it must get approval to proceed from the US Justice Department. BP was ordered last week by the Pipeline and Hazardous Materials Safety Administration to submit plans by August 1 to remove 17,000 barrels of crude from the OT-21 oil transit line before the winter set in. BP has proposed to remove the crude by the August 22 deadline.

US Energy Secretary, Samuel Bodman said the US Department of Energy has proposed to spend \$250 million over the next five years on two centers that would compete for research and development of advanced biofuels. He said the centers would eventually help ease the US dependence on foreign sources of oil.

Venezuela's President Hugo Chavez has started talking about combining several of South America's largest armies to counter US influence. He said a defensive military pact between the armies of the region with a common doctrine and organization must be formed. Venezuela's President has called the US the greatest threat to the world when he announced the purchase of fighter jets and helicopters from Russia last week. The long term deal provides for a total of \$3 billion worth of arms for Venezuela. Meanwhile, Mercosur officials have publicly rejected the idea of turning their common market into a military alliance.

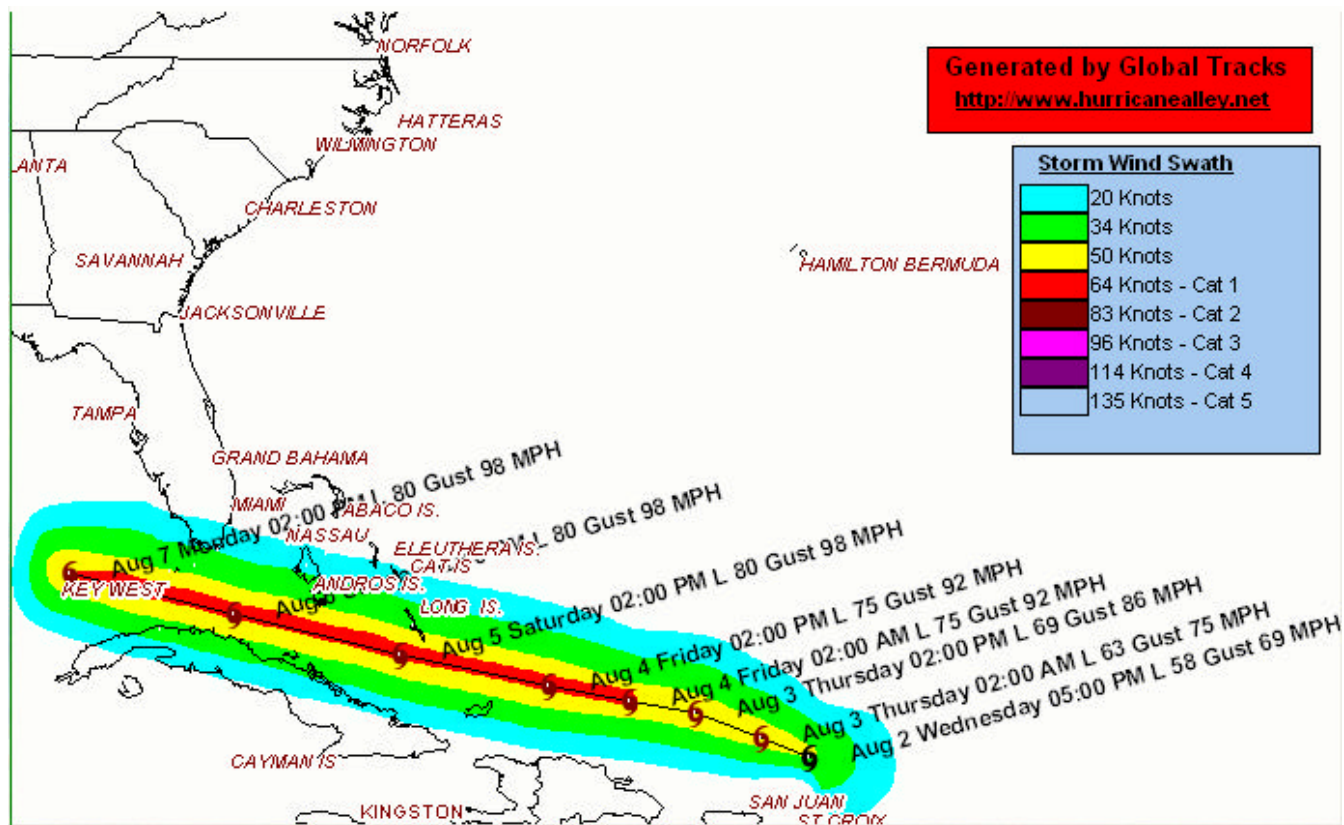
The NYMEX and ICE reported today that open interest in the WTI contracts reached new records on Tuesday. The NYMEX's WTI contract from open outcry, Globex and E-Mini reached a combined 1,156,926 contracts. The ICE saw open interest in its Wti contract reach 283,048 lots or 19.66% of the total WTI contracts traded. ICE's share of the WTI market has remained fairly constant for the past several weeks.

Big West's 66,000 bpd Bakersfield, California refinery was shutdown on Wednesday following a power failure. It was not known when the refinery could be put into restart mode.

Lyondell Chemical Co reached an agreement to purchase Citgo Petroleum Corp's minority interest in the 268,000 bpd Houston refinery.

Iran has sold 12 million barrels of heavy crude oil from its Soroush and Nowrouz oil field it stored in tankers off its southern coast. It is expected to sell the remainder by the end of August. India and Shell were the main buyers of the crude.

Russia's Transneft said the reduction of pressure on an export spur of the Druzhba pipeline following a spill would not affect overall levels of oil exports from Russia. It stated that the company has taken all necessary measures to maintain its throughput. Russia's Transneft may take one year to repair its pipeline to Lithuania. An official at Russia's Resource Ministry said Transneft need to replace at least 70 km of oil pipelines. Meanwhile, Lithuania's 190,000 bpd Mazeikiu Nafta refinery has not been receiving any oil supplies from Russia via the Druzhba pipeline.



Former Soviet Union July gas oil exports from the Black Sea fell to 2.39 million tons from 2.42 million tons in June.

ExxonMobil Corp plans to launch its De Kastri oil terminal, which is part of the Sakhalin-1 project, on October 4. Construction of the terminal would be completed in early October while a pipeline from the field to De Kastri has already been laid across Sakhalin Island. Sakhalin-1 has reserves of over 2.3 billion barrels of oil. Production is expected to peak at 250,000 bpd of oil.

The Shetland Island Council reported that Brent crude liftings increased to 378,877 tons in the week ending August 1 to 345,442 tons in the previous week.

According to the Petroleum Association of Japan, Japan's gasoline stocks fell by 0.83% or 16,000 kiloliters on the week to 1.94 million kl or 12.2 million barrels in the week ending July 29. It showed that gasoline sales fell by 2.9% on the year to 1.04 million bpd. Refinery operations increased to an average of 86% of capacity in the week ending July 29 from 81.8% in the previous week. It also reported that commercial crude stocks increased by 0.63% to 18.58 million kl or 116.86 million barrels while inventories of kerosene increased by 3.75% to 2.97 million kl or 18.68 million barrels on the week.

**Production News**

Russia's Energy Ministry reported that the country's oil production fell in July to 9.68 million bpd after reaching a high of 9.69 million bpd the previous month. It reported that oil exports via Transneft fell to 4.56 million bpd from 4.68 million bpd in June, mainly due to a 42% fall in deliveries to Lithuania. Russia's oil exports via Lithuania's Butinge export terminal fell by 31% on the month while exports via Russia's port of Primorsk fell by 5.1% on the month.

Pemex expects to produce about 3.35 million bpd of oil in the second half of 2006, despite declining output from the Cantarell oil field. In the first half of the year, Pemex produced an average of 3.34 million bpd of crude oil, of which 2.35 million bpd was heavy crude.

Indonesia's crude oil production fell to 887,000 bpd in July, down from 900,000 bpd in June due to production problems and maintenance at several oilfields.

Germany's producers association, WEG stated that the country's oil production increased by 4% on the year to 1.8 million tons or 36,000 bpd in the first six months of 2006. The increase in production resulted from the start of a new pipeline linking the mainland and Germany's North Sea field, Mittelplate, last October.

**Market Commentary**

The oil market gapped higher once again from 75.45 to 75.55, its low, in light of forecasts stating that Tropical Storm Chris could become a hurricane and head into the Gulf of Mexico. Meanwhile, tension in the Middle East continued as Israel stated that it would continue fighting Lebanon until an international peacekeeping force was in place in southern Lebanon. The crude market, which traded to a high of 76.30, quickly gave up its gains and traded back below the 76.00 level as the weekly petroleum

stocks reports helped pressure the markets. The DOE showed a smaller than expected draw in gasoline stocks while the API reported an

Technical Analysis			
		Levels	Explanation
CL	<b>Resistance</b>	76.91, 78.15, 78.50, 79.45	62% retracement (79.45 and 72.80), Previous highs Wednesday's high
	75.81, up 90 cents	76.50	
	<b>Support</b>	75.55 to 75.45	Gap (August 2nd)
		74.45, 72.95, 72.80, 72.55-72.50	Previous lows
HO	<b>Resistance</b>	215.25, 216.25, 218.40	Previous highs
	212.94, up 4.90 cents	213.30	Wednesday's high
	<b>Support</b>	210.00 to 209.00	Gap (August 2nd)
		205.00 to 204.80, 200.00	Remaining gap (August 1), Previous low
HU	<b>Resistance</b>	235.00, 237.00	Previous highs
	233.77, up 6.15 cents	234.75	Wednesday's high
	<b>Support</b>	231.50, 230.50 to 228.50	Gap (August 2nd)
		224.00 to 223.40, 218.25	Remaining gap (August 1), Previous low

unexpected build in gasoline stocks. The crude market however retraced its losses and posted a high of 76.50 as it remained supported by the tropical storm forecast. The market later retraced its gains once again and settled in a sideways trading pattern ahead of the close. The oil market settled up 90 cents at 75.81. Volume in the crude market was better with over 210,000 lots booked on the day. The gasoline market also gapped higher from 228.50 to 230.50 as it continued to trend higher. The market quickly rallied to 233.75 before it retraced its gains following the release of the DOE report, which showed a draw of 100,000 barrels in gasoline stocks. The market however bounced off its low and posted a high of 234.75 and remained range bound ahead of the close. It settled up 6.15 cents at 233.77. Similarly, the heating oil market gapped higher from 209.00 to 210.00 and rallied to a high of 213.30 amid the strength in the crude market. It settled up 4.90 cents at 212.94. Volumes in the product markets were good with 31,000 lots booked in the gasoline market and 47,000 lots booked in the heating oil market.

The oil market on Thursday will remain supported as Tropical Storm Chris, which was moving west northwest, could strength into a hurricane in the next 12 to 24 hours. The storm is expected to move into the Gulf of Mexico early next week and head towards the Texas coast, posing the first serious threat to oil and gas facilities. The oil market is seen finding support at its gap from 75.55 to 75.45 and 74.45. More distant support is seen at 72.95, 72.80 and 72.50. Meanwhile resistance is seen at its high of 76.50 followed by 76.91, its 62% retracement level. More distant resistance is seen its highs of 78.15, 78.50 and 79.45.

NYMEX Most Active Petroleum Options for August 2, 2006									
Contract	Month	Year	Call/Put	Strike	Exp Date	Settle	Prev Settle	Volume	IV
LO	12	6	P	65	11/14/2006	0.6	0.6	2,865	28.68
LO	12	7	P	50	11/13/2007	0.9	0.88	2,800	30.98
LO	12	7	P	60	11/13/2007	2.4	2.3	2,750	29.51
LO	12	6	C	85	11/14/2006	2.36	2.1	2,613	29.72
LO	6	7	P	60	05/17/2007	1.36	1.34	2,600	30.43
LO	11	6	C	82	10/17/2006	2.34	2.06	2,571	29.16
LO	9	6	C	76	08/17/2006	1.66	1.21	2,538	28.66
LO	9	6	P	73	08/17/2006	0.67	0.88	2,483	28.68
LO	9	6	C	80	08/17/2006	0.44	0.33	2,232	28.86
LO	12	6	C	47	11/14/2006	31.08	30.51	2,000	66.21
LO	6	7	P	55	05/17/2007	0.77	0.75	2,000	31.51
LO	6	7	P	70	05/17/2007	3.5	3.49	2,000	28.42
LO	12	6	C	100	11/14/2006	0.68	0.58	1,976	34.80
GO	9	6	P	2.25	08/28/2006	0.0592	0.076	277	39.80
GO	9	6	P	2.1	08/28/2006	0.0191	0.0249	250	39.76
GO	9	6	C	2.45	08/28/2006	0.0572	0.0338	224	40.91
GO	9	6	C	2.32	08/28/2006	0.1072	0.0706	222	39.84
GO	9	6	P	2.22	08/28/2006	0.0486	0.0627	210	39.80
OH	3	7	C	2.5	02/23/2007	0.1458	0.1389	400	32.32
OH	9	6	P	1.9	08/28/2006	0.006	0.0103	315	30.61
OH	9	6	C	2.35	08/28/2006	0.015	0.0065	210	34.61
OH	3	7	C	1.6	02/23/2007	0.7245		200	43.45
OH	10	6	C	2.18	09/26/2006	0.1049	0.087	153	30.95